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Key talking point: \$362 million over three years for hard loans and the last \$50 million installment for soft loans. Only about 2 1/2 percent of this \$412 million would be a budget outlay this year, about the same next year, and 70 percent is only guaranteed capital that should never become an actual outlay.





THE SECRETARY OF THE TREASURY
WASHINGTON

September 16, 1974

Dear Congressman:

I understand the leadership intends to bring H.R. 11666, a bill authorizing additional U.S. resources for the Asian Development Bank, to the House floor on Thursday, September 19. Identical legislation, S. 2193, passed the Senate by unanimous consent on August 1, 1974.

As the U.S. Governor of the Asian Development Bank, I would like to be sure that you and other members of the House have information that will be useful in forming your judgments on this legislation. With that in mind, I am attaching a summary sheet on the bill and some questions and answers on the Asian Development Bank itself.

I have also attached a copy of a response President Ford has just sent to Congressman Henry B. Gonzalez, in which the President expresses his full support of H.R. 11666 and his belief that passage of the bill would not be inconsistent with the current need for strict control of government spending.

Needless to say, I share completely the President's view that H.R. 11666 is acceptable legislation in terms of fiscal responsibility. Here is why: of the \$362 million to be made available to the Asian Bank's hard loan window over the next three years, \$289 million (80 percent) is guarantee capital with no probability of expenditure. The bulk of the remainder, together with the \$50 million proposed for contribution to the Bank's concessional loan fund, is to be in the form of non-interest bearing letters of credit that will not be fully drawn down until many years in the future.

U.S. participation in the Asian Development Bank has wide support in the U.S. business community, including particularly the American Chambers of Commerce in all of the countries of the Pacific region. Other countries have



already committed their contributions, and our share -- less than 20 percent -- is modest compared to them.

Passage of this legislation would demonstrate that the United States is prepared to play a constructive role in Asia by addressing the problems of abject poverty that exist there. I hope you will give it your careful consideration.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Bill Simon".

William E. Simon

Attachments



ADB AUTHORIZING LEGISLATION - H.R. 11666

FACT SHEET

Asian Development Bank (ADB) - H.R. 11666

- Authorizes funds for Ordinary Capital (hard window) and Special Funds (concessional loans)

Ordinary Capital

- Authorizes \$362 million over 3 years for U.S. subscription to first replenishment of ADB since establishment in 1965
- Subscription will restore U.S. voting power to 17 percent (parity with Japan). U.S. vote fell to 8 percent as result other of countries going ahead with their subscriptions last year
- Bulk (80 percent) of annual installments of \$121 million each will consist of no-expenditure callable capital to serve as guarantees for private market borrowings.

Special Funds

- Authorizes final \$50 million of U.S. \$150 million contribution (\$100 million authorized March 1972)
- Other developed countries to contribute further \$375 million (beyond \$250-300 million already provided); cumulative U.S. share in special funds after this \$50 million would be under 20 percent
- No appropriation required until FY 1976; outlays will be stretched out still later
- Overall replenishment package accomodates to U.S. position on shares and timing; proposal was carefully explored with Congress from earliest stages
- Identical legislation (S. 2193) passed the Senate by unanimous consent on August 1, 1974.



ADB BASIC INFORMATION

1. What is the ADB?

The Asian Development Bank is an international development finance institution established for the purpose of lending funds, promoting investment and providing technical assistance and generally fostering economic growth and cooperation in the Asian region.

2. How was the ADB established?

The ADB was established in 1966, as a result of Asian countries' initiative in the Economic Commission for Asia and the Far East (ECAFE) to seek the establishment of a regional development bank for Asia. The U.S. is an original member of the ADB. The Bank is located in Manila.

3. Where does ADB get its funds?

The Ordinary Capital of the ADB consists of paid-in capital subscriptions on Bank members, and borrowings in private markets, which are guaranteed by the callable portion of members' capital subscriptions. The Special Funds of the ADB have been voluntarily contributed by member countries, through bilateral arrangements with the ADB. These funds have come from developed member countries of ADB.

4. What is the cumulative U.S. share of ADB's Ordinary Capital?

The U.S. has contributed \$241 million as its original capital subscription. Since the U.S. has not yet participated in the Ordinary Capital increase approved by the ADB Board of Governors in 1972, our share of contributions has dropped from 20 percent to 8 percent.

5. What is the U.S. share of the new ADB Special Funds?

The U.S. share of the new Special Funds, the Asian Development Fund, will be \$150 million out of a total of \$525 million -- a 28 percent share. Taking into account \$250-300 million of earlier contributions by others, the cumulative U.S. share would be under 20 percent.



6. What does the ADB lend for?

The ADB lends principally to finance specific projects -- whether part of national, sub-regional, or regional development programs -- in agriculture, electric power, industry, transport and communications, water supply and education. The ADB also provides technical assistance to member countries for the coordination of economic policies, and the preparation, financing and execution of development projects and programs.

7. What are ADB loan terms?

ADB lending includes Ordinary Capital (conventional) loans and Special Funds (concessional) loans.

Ordinary Capital loan terms are $7\frac{1}{2}$ percent interest per annum; 10-27 year term, and 2-7 years' grace. Concessional loans from Special Funds carry an interest rate from $1\frac{1}{2}$ to 3 percent, with a 15-30 year term and 3-10 year grace period.

8. Who receives ADB loans?

The 23 developing regional member countries are eligible loan recipients; as a policy matter, some do not borrow from ADB.

9. What countries have received the most money from the ADB?

As of December 31, 1973, the largest ADB loan recipients were Korea (\$247 million), Philippines (\$184 million), Malaysia (\$139 million), Pakistan (\$138 million) and Thailand (\$122 million).

10. What sectors have received the greatest amount of ADB financing?

Electric power (26.5 percent); industry including development banks (24.9 percent); transport and communications (23.9 percent).

11. How good are ADB projects?

Every ADB project is developed by a Bank team of economists, financial analysts and technical experts who assure that each aspect of the project is technically feasible and economically and financially viable. Close supervision by the Bank and rigorous international bidding ensure both effective and efficient project implementation.



12. Will any ADB funds go for oil imports?

No. The ADB finances only loans for projects, which must be used to procure project associated services and equipment.

13. What are some examples of ADB projects?

In the last year for example the ADB has financed:
Afghanistan: \$14.9 million Special Funds loan for 266 kilometer road, linking fertile agricultural area with the existing national highway system.

Indonesia: \$5.3 million Special Funds loan for electric power system rehabilitation and extension, allowing connections to 20,000 new customers.

Thailand: \$21 million Ordinary Capital loan to Bangkok Electricity Authority for extension of electric power to 100,000 households.

14. How does the U.S. exert its influence on the ADB?

The U.S. is represented on the ADB Board of Directors by a Director who casts 7.5 percent of the votes. The ADB Board reviews all ADB projects and policies developed and proposed by the ADB. The U.S. Director is supported by the National Advisory Council which meets every week to review ADB projects and policies, and by the Treasury's Inspector General for International Finance, who reviews projects in the field.

15. How are ADB projects evaluated?

Largely as a result of U.S. insistence, the ADB in 1973 made its Economic Office responsible for post-project evaluation. This office has submitted two reports to the Board and further evaluations are in process.

16. What has been the impact of ADB on the U.S. balance of payments?

Cumulative ADB procurement in the U.S. was \$34 million at the end of 1973. In addition, an unknown amount of the U.S. contribution returns to the U.S. indirectly through ADB recipients' increased demand for imports from the U.S. because of these borrowers' improved growth rates. After two years of negative impact on the U.S. balance of payments, there was a shift in 1972 to a positive impact. Data for 1973 are not yet available.



17. What is the timing of these proposed contributions to the ADB?

Participation in the Ordinary Capital increase will involve three annual payments of \$121 million, largely of no-cost guarantee capital. The U.S. contribution to ADB Special Funds will be paid in one installment of \$50 million, in the form of a non-interest bearing letter of credit.

18. Does the ADB lend to countries which have expropriated U.S. property?

The issue of lending to countries which have expropriated foreign-owned property without adequate compensation has not arisen in ADB operations. The U.S. expects the Bank will be careful to avoid lending in such situations. The Bank is aware of the practice of other international development institutions of refraining from loans in such situations, unless adequate progress and good faith negotiations have been made towards resolving the disputes. The ADB is also aware of the views of the U.S. Congress and the U.S. Administration in these matters.

19. Does the ADB lend to OPEC countries?

The only member of OPEC which is a member of the ADB -- and thus an eligible recipient -- is Indonesia. Despite increased oil revenues, Indonesia's per capita income remains very low -- \$130 per year. No further soft loan assistance from ADB is foreseen, but Indonesia continues to need assistance on conventional terms to effectively pursue its economic development efforts.

20. Will the OPEC countries contribute to the ADB?

Although no concrete arrangements have yet been made, discussions are under way with OPEC members in many fora to determine ways in which these oil-rich countries can assume a greater role in providing resources for the development efforts of the poor countries of the world.

21. Can the ADB lend to Vietnam?

The Republic of Vietnam is a member of the ADB and thus eligible for assistance from the Bank. Through March 31, 1974 Vietnam had received \$24.2 million in loans from ADB, of which \$20.3 million were concessional funds. These loans, representing only about 2 percent of total ADB lending, were for water supply, telecommunications, fisheries development, irrigation and agricultural development. They are designed to assist the basic economy and the people of Vietnam, and are in no way related to military or political aspects of the Vietnam situation.



THE WHITE HOUSE
WASHINGTON

September 16, 1974

Dear Mr. ^{H. Gonzalez} Gonzalez:

In regard to your letter of August 19, I can assure you of my full support of H. R. 11666, which would authorize further United States resources for the Asian Development Bank.

Like the other international development lending institutions in which the United States participates, the Asian Development Bank supports important international economic and foreign policy objectives of the United States. It does this in a way that permits the financial burden to be shared with other developed countries so that the United States bears only a small share of the cost.

You are correct that I am intensely concerned about Government expenditures. But the proposed legislation need cause no misgivings in that regard. By far the greatest proportion of the authorization is in the form of contingent guarantee authority, with no foreseeable expenditures. Almost all of the balance is in the form of non-interest bearing letters of credit that will not be fully drawn down until many years into the future.

A bill identical to H. R. 11666 has already passed the Senate. I believe H. R. 11666 deserves the strong support of the House so that the United States can join with others who have already contributed to the Bank's



program of assistance for poor nations throughout
the Asian region.

Sincerely,

Gerald R. Ford

The Honorable
Henry B. Gonzalez
Chairman, Subcommittee on
International Finance
Committee on Banking and Currency
House of Representatives
Washington, D. C. 20515

