AN ARAB DEVELOPMENT BANK:
ITS PRACTICAL AND THEORETICAL FEASIBILITY

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Thesis submitted in partial fulfillment for the requirements of the degree Master of Arts in the Economics Department of the American University of Beirut.
Beirut, Lebanon,
June, 1958.

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PREFACE

Finance constitutes an important limiting factor in the implementation of economic development in the various Arab Middle Eastern countries. During the past decade, foreign aid has not been of major importance in the rapid progress achieved by these countries, and is not likely to assume a more significant role in the future development of the region. Therefore, in their efforts to accelerate economic growth, the Arab countries should depend primarily on internal and inter-regional sources of financing.

The spectacular growth of oil revenue in recent years has provided the major oil producing countries with ample capital, and put them in a position not only to meet their own requirements but also to provide a substantial portion of the growing capital needs of the other less privileged countries of the region.

So far, the Arab countries have not been getting any substantial benefit from their huge oil royalties. Marked progress can be achieved only if the financial resources derived from oil are properly and fully utilized in the oil, as well as the non-oil countries.

Several plans, both official and private, have been put forward for the establishment of an inter-regional financial institution, through which the oil countries would be able to invest a portion of their surplus capital in the non-oil neighbouring countries.

This dissertation presents the major proposals submitted for the creation of an Arab Development Bank, and attempts to evaluate its practical and theoretical feasibility.

The topic is divided into two parts. The first part discusses the need for the establishment of the Bank. A brief survey of the Middle Eastern economy is given, in which the main stress is laid on the method adopted by the various countries in financing their development programs.

Despite the recent political developments, Egypt, Syria and Yemen, on the one hand, and Iraq and Jordan, on the other, have been treated individually rather than collectively. On February 1, 1958, Egypt and Syria merged to form the United Arab Republic. Thirteen days later, Iraq joined with Jordan to form the Arab Federal Union. Finally, on March 8, 1958, under the terms of a convention signed in Damascus, the United Arab States, a federal union of the United Arab Republic and the Yemen, was established.

The second part is devoted to a presentation and evaluation of the three major proposals.

The author wishes to express his deep gratitude to his advisor Professor Paul J. Klat, whose sound criticisms, advice and constant encouragement have been of invaluable help in the writing of this dissertation.

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June 2, 1958

ABSTRACT

Even though the Middle Eastern countries have developed rapidly during the post-war years, the problem of the lack of capital to finance economic development has become a major preoccupation of all the governments of the area. If the plans contemplated by the non-oil countries are to be realized within the time schedules, additional funds will be required. Quick action should be taken to build up the productive capacity of these economies; otherwise, the progress achieved so far, as reflected by higher standards of living, will be caught up with by the tremendous population increase.

One important source of financing, open to the Arab countries, but not yet employed, is the creation of an Arab Development Bank, whose capital would be largely contributed to by the oil countries.

This idea was first advanced by the British and American Governments in 1945. Since then, several noteworthy proposals have been presented. Professor Himadeh was the first to submit a complete draft of the proposed Arab Development Bank to the Lebanese Government on May 25, 1953, which in its turn submitted it to the Arab League.

The IBRD[1] commented on Himadeh's proposal in a memorandum dated November 28, 1953 and later in 1957 presented a complete draft to the Arab League.

The Economic Council of the Arab League took notice of such a project in 1953. The Secretariat General was asked to

1- The International Bank for Reconstruction and Development prepare a draft of the project after consultation with the various member states. Finally, during the fourth ordinary session (May 1957) of the Economic Council a resolution was taken to create an Arab Development Bank, with an authorized capital of ₤E 20 million. However, this institution has not yet come into being.

The idea of creating a joint financial institution is in itself basically sound, since all the financial ingredients are available. The theoretical obstacles to be encountered are not insurmountable.

The most serious obstacle arises from the method adopted in the distribution of capital among participating countries, namely, according to budget revenues. Egypt, under such a scheme becomes the leading subscriber. It seems doubtful whether Egypt could pay such large sums without endangering its own development plans.

Despite this weakness, the project is theoretically feasible. However, from a practical point of view, the Bank is not feasible, at least for the time being. Aside from the difficulties which would be created as a result of the limited convertibility of the sterling and the possible reluctance of the three sheikhdoms (Kuwait, Qatar and Bahrein) to participate, the prevalent political situation in the Arab world does not seem to warrant at present the launching of such an ambitious project. For success, an inter-regional financial institution requires, above everything else, a more favourable political climate.

TABLE OF CONTENTS

CHAPTER | Page

CHAPTER | Page

LIST OF TABLES

CHAPTER I

INTRODUCTION

Prior to World War I, the development of a country's resources was left almost entirely to private initiative. Economic thought had been largely dominated for over a century by the so-called classical school which favoured individual initiative and which believed that that government governed best which governed least. To the classicists, the functions of the state were restricted to administration, defence and public works.

The same principle prevailed for the international movements of capital; traditionally, foreign investment was primarily a private function except in the case of war or other emergency. Private capital seeking profit moved to countries which offered highest returns and participated in the development of these countries. It is undoubtedly true that, on some international investments, substantial losses had been sustained especially in South America; nevertheless, foreign investment under private patronage had shown great accomplishments in building up nations and developing the new world, a striking example being the United States, and for the most part, had proved profitable to investors.

To a certain extent, foreign investment before 1914 had been influenced by other than economic considerations.

"The charge was frequently made that foreign powers ... [particularly the French and British] and including U.S.A. with its so-called 'dollar diplomacy' were guilty of infringing on local sovereignty in connection with their overseas investments."(1) Whatever the veracity of this charge, however, the greatest incentive for the movement of foreign capital was always the profit motive.

The international financial structure which made possible the achievements of private capital in foreign development rested on two principal foundations.(2) The first was the international gold standard, whose most attractive feature was its assumed automatism. The gold standard depended more than was generally realized on the preservation of certain practices and attitudes on the part of participating countries. It provided continued stability of exchange rates, within a narrow range, and a considerable degree of freedom in foreign exchange transactions only if the monetary authorities were attentive in taking steps to adjust the economy to changes in the international economic position of the country.(3)

The second pillar was the institution of foreign lending, based primarily upon a tradition of private profit and individual initiative. The freedom accorded by almost all

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(1) Whittlesey, Principles and Practices of Money and Banking (New York: Macmillan Co., 1948), p. 651.

(2) Ibid., p. 652.

(3) E.M. Bernstein, "A Practical International Monetary Policy", American Economic Review, Vol. XXXIV, (1944), p. 772.

nations to the movement of capital and payments and consequently the relative freedom of world trade were contributary factors.

The international financial structure was partly shaken, partly shattered by the war of 1914-1918, at the end of which the U.S. found itself transformed almost overnight from a debtor to a creditor nation. For a period after the war, the international economic system saw the appearance of a substantial improvement in the economic and financial conditions, despite the big reparations problem, due to the liberal injection of credit resulting from the floatation of foreign loans in the U.S. However, the drying up of the loans, and the stock market boom of 1929 finally led to the Great Depression.

"The great fault with international financial reconstruction after World War I was that it looked backward rather than forward ... Consequently the whole international financial structure collapsed, carrying with it the international gold standard system and a substantial proportion of postwar foreign investments."(1) During the 1920's, the great trading countries did not take the positive measures necessary to restore the world economy, and the fundamental international economic problems of the pre-war decade were never solved.

The Great Depression resulted in the shrinking of international trade, due in part to the imposition of restric-

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(1) Whittlesey, op.cit., p. 654.

tions, the almost complete cessation of the flow of international investment, and the universal default on war and commercial debts. Many countries reverted to economic isolation. They embarked on nationalistic monetary policies and established complicated and disorderly, restrictive and discriminatory, exchange practices. Restrictions were imposed on the movements of capital and payments. Moreover, the heavy losses incurred by the foreign investors became a further deterrent to international capital movements.

As long as free enterprise was effective in the development of a country's resources, either by the utilization of local savings or by foreign capital, or both, the need for public planning or the international regulation of capital movements, was not greatly felt. However, certain factors and trends called for a gradual change in this approach to the financing of development.

An important trend was the spread of the idea of government control or planning, especially after World War II. The General Theory (1936) of Lord Keynes had revolutionized economic thought and contributed largely toward the spreading of the idea of more government spending, since Keynes believed that if private investment is left alone unaided by public investment, it will not maintain a state of full employment.

The spread of socialistic ideas and later on, the urgently felt need to reconstruct as quickly as possible economies which had been devastated by the war, were the main reasons for the penetration of the idea of government control in developed countries. As to the underdeveloped countries, the idea came as a result of a feeling that private initiative was insufficient by itself to achieve rapid growth. Moreover, some of the projects were by their nature of the type that could be carried out by the state only.(1)

The trend of control in the function and policy of governments necessarily had a counterpart on the international level. Governments found it very difficult to tap directly the resources of foreign money markets, and private capital was even more reluctant to provide loans.

The breakdown of the private system of international lending and investment created a need for the establishment of a new system, if international lending and investment were to be made possible. The world could not afford to repeat the experience of the 1920's and 1930's. A new practical international monetary policy was needed, capable of dealing with the immediate problems of post-war adjustment and the longer-range problems of an ever-expanding world economy.

The emergence of the United States as the only country with substantial surplus capital had quite a bearing on the outcome. The newly established financial system inevitably

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(1) Burhan Dajani, Unpublished Report on "An Arab Development Bank" (AUB), p. 2.

tended more towards financial cooperation, since it was realized that it was the only solution to avoid the disastrous experience of the previous decades. The international system was thus deeply influenced by American thought, economic need and general policy.(1)

The most interesting feature of the American system is the gradation of the terms of credit from the ordinary grant to the loan which is contracted on purely economic considerations.(2)

For our purposes, the terms of credit can be divided into three categories. The first consists of aid grants under such plans as the European Aid Program and others. The second consists of loans with easy terms and without full investigation into their application, but with the expectation of proper servicing. The U.S. Treasury loan to Great Britain in 1946 totalling $3.75 billion, with interest of 2 per cent starting in 1952, is a typical example of easy loans. The United States provided others loans of the same nature in the post-war period, primarily to South American countries, through the Export-Import Bank(3) whose resources were substantially increased for this purpose.

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(1) Ibid., p. 3.

(2) Ibid.

(3) The activities of the Export-Import Bank, which was established in 1934, were originally confined to financing U.S. exporters, but since then, specially after the war, its operations have been broadened to include fostering public works and industrial development.

These two categories of financing, which are governmental with no private sharing, were considered, more or less, of a temporary nature, since they primarily formed an attempt to bridge the gap between war-time devastation and peace-time economy.

It would seem logical, therefore, to assume that these investments would decrease in the future. However, the recent Foreign Aid Program with its accompanying grants, is a case against such point of view. This program is aimed at the strengthening of democracy in the world, and appears as a long term venture. It may even become a permanent feature of the American economy which calls for an ever-increasing public expenditure and investment, in order to equate saving and investment at the level of full employment.

Furthermore, the prevailing belief that the developed countries should take interest in the economic progress of underdeveloped areas, is a contributory factor towards maintaining such kind of investment. Such a policy would result in an increase of the purchasing power of the underdeveloped countries, and consequently, their import requirements. But as long as it is closely tied up with American policy and economic peculiarities, it should not be looked upon as the most dependable source of international investment.

The third category of credit consists of the purely economic loans, which are chiefly channelled through the International Bank for Reconstruction and Development (IBRD), popularly referred to as the World Bank.

During the early part of World War II, America and her allies realized that at the conclusion of hostilities they would be faced by huge economic problems. "There would be a pressing need for international capital to finance both the reconstruction of productive facilities destroyed by war and an increase in productivity and living standards in the under-developed areas of the world. The requirements were recognized as being so great and the risk so large, that private capital would be unable to fulfill them without some form of governmental guarantee."(1)

Consequently, monetary and financial plans for the creation of a new type of international investment institutions began to be elaborated as early as 1941, and after three strenuous years of consultations and conferences, the outlines of two complementary financial institutions emerged at the Bretton Woods Conference, namely, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD).

These two institutions are related in that they are both formed to contribute to world stability and development, but they differ in their methods to attain that aim. The IMF "was to provide for international currency stability by helping to finance its members' temporary balance of payments deficits and by providing for the progressive elimination of

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(1) "The International Bank for Reconstruction and Development 1946-1953" prepared by the staff of the Bank (Johns Hopkins Press, Baltimore, 1954), p. 4.

exchange restrictions and the observance of accepted rules of international financial conduct"[1] while the IBRD's chief contribution was to help finance the reconstruction and development of its member countries through long-term investment.

The immediate purpose of IBRD is to assist in the reconstruction of the territories of member countries which had been disrupted by war. The second main purpose is to assist in the development of productive facilities in the less developed territories. The actual financial needs for reconstruction proved to be more than was envisaged at Bretton Woods, and consequently, the IBRD could not concentrate its activities on development loans until the European Recovery Program was well under way in 1948.[2]

The objective of IBRD was to complement and promote private foreign investment rather than to compete with it. Therefore, it either promoted private investment or extended direct loans, but only in cases where private capital was not available on reasonable terms.[3]

IBRD is to some extent paralleled by the Export-Import Bank, which extends loans for development purposes, but there exists one main difference between these two institutions. Whereas the operations of the latter are closely related to the promotion of U.S. trade and hence all loan contracts normally contain a tying clause regarding purchases of machinery

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(1) Ibid.

(2) Ibid., p. 8.

(3) Ibid., p. 7.

and materials, the IBRD loans do not entail tying provisions; the IBRD imposes no conditions requiring the preceeds of its loans to be spent in the territories of any particular member or members, and hence is better equipped to contribute toward achieving world equilibrium by assisting "...in rectifying the disequilibrating factors that... hamper world trade."(1)

Despite its obvious contribution to world development, IBRD has its own limitations which prevent it, or render its task more difficult, in covering the whole field of international investment.(2) In the first place, it has been presented with certain problems in supplementing private investment in industry. "In underdeveloped areas, industry often develops through a variety of small projects; and it is extremely difficult for the Bank to assess the economic merits and feasibility of these enterprises."(3)

In addition, the Articles of Agreement state that direct loans to private enterprises should be guaranteed by the government, the central bank or its equivalent. This statutory requirement has discouraged private borrowers because they fear that a government guarantee might lead to

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(1) Arthur Smithies, "The International Bank for Reconstruction and Development", American Economic Review, (1944) p. 794.

(2) International Bank for Reconstruction and Development, The Proposed International Finance Corporation (pamphlet) (May, 1955), p.5.

(3) International Bank for Reconstruction and Development, Tenth Annual Report 1954-1955, (Washington 25, D.C.) p.31.

its interference in the concern. On the other hand, governments hesitated to place their guarantee on loans for private concerns for fear of being charged with favoritism.(1) A further limitation is that IBRD does not engage in equity financing.

Attempts have been made, on the part of the IBRD, to overcome these limitations and, in some cases, it has succeeded in making funds available to industry through intermediary institutions.(2)

IBRD has developed rather rapidly, and rightfully shares part of the credit for the achievement of postwar rapid economic progress all over the world, due to its contribution to the flow of international private investment. At the close of its twelfth year of operations,(June 30, 1957), it had 60 members and a subscribed capital of $ 9,268.4 million.(3)

IBRD started operations having only its members' subscriptions to lend, but since its main purpose was to

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(1) Ibid., pp. 31-32.

(2) Ibid., p. 32.

(3) By October, 1957, Ireland, Saudi Arabia, Sudan and Ghana had respectively joined the IBRD, thus bringing up the number of members to 64 and increasing the subscribed capital to $ 9,333.4 million.
International Bank for Reconstruction and Development, Twelfth Annual Report 1956-1957 (Washington 25, D.C.) p.50
and
International Monetary Fund, Financial News Survey, (Washington 25, D.C.), Vol. X, No. 7 , August 16, 1957
No. 9 , August 30, 1957
No. 11 , September 18, 1957
No. 14 , October 4, 1957.

encourage the international investment of private capital, rather than to deploy government funds, it realized that "before it could go far in its lending [and come to command the resources with which the founders at Bretton Woods had hoped to equip it] it would have to test its ability to borrow."(1) The character of the only market (the U.S.) capable of providing funds to the IBRD in its early years, presented many difficulties. "The financial community distrusted any investment connected with international lending and the Bank, although possessing the advantage of its large uncalled capital subscriptions, suffered the disadvantage of being new and little known."(2)

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(1) The Articles of Agreement stipulated that 2 percent of the members' subscriptions were payable in gold or United States dollars and 80 percent were callable in gold or appropriate currencies if the Bank should need it to meet obligations rising from guarantees or borrowings, while the remaining 18 percent were payable in the members' own currency. However, as a protection against undue strains on the subscribers, the 18 percent could be used for lending only when the members consented.

At first, apart from the 2 percent of the total subscribed capital, the IBRD had access to only the share of the United States of America (its entire 18 percent share released in April 1947), and consequently, was obliged to seek sources, other than governmental, for pooling funds for lending.

Later on, Canada released all its 18 percent share (1952) and recently much progress has been made by member governments in freeing their subscribed capital for use through complete or partial releases, bringing the total paid-in capital, on June 30, 1957, to $ 1210 million (of which $ 182.8 million represented the 2 percent of the subscription of each member country). Even then, $ 643.7 million of the members' subscriptions were still untapped.
International Bank for Reconstruction and Development, Tenth Annual Report 1954-1955, p.36.
Twelfth Annual Report 1956-1957, op.cit., pp.12-13 & p.37.

(2) Ibid., p.37.

As early as 1947, the IBRD launched a wide program to acquaint investors and officials with facts about it, to create as wide a market for its bonds as possible, and to qualify them for institutional investment. The outcome was extremely encouraging. Out of $ 3108 million,(1) the total amount of loans extended by the IBRD from its inception date till June 30, 1957, $ 1613 or nearly 52 percent can be traced to private sources, either in the form of bond issues ($1280) purchased by pension and trust funds, insurance companies, savings banks, commercial banks, and other private holders, or through the sales of part of its loans ($133).(2)

While the issue of bonds is apt to remain "the chief vehicle" through which the IBRD will mobilize international investment,(3) the additional course open to it, the sales of its funds to private investors, would increase its lending funds. The IBRD can either transfer its own loans to private investors to participate directly in the loans at the time they are made, or can later sell borrowers' obligations out of its own portfolio. "These transactions would be a step

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(1) Made up of 170 loans in 45 member countries and territories. IBRD, Twelfth Annual Report 1956-1957, op.cit., p. 6.

(2) For the figure of total sales of loans see, IBRD, Twelfth Annual Report 1956-1957, p. 14. The total figure for bond issues has been calculated from the Twelve Annual Reports (1946-1957).

(3) At first, the U.S. was the only market for the IBRD's bonds, but in 1951 bonds were floated elsewhere, in Great Britain and later in Switzerland, Canada and Netherlands. Of the total of $1280 million of bonds issued, $610 million (47.6 percent) were sold in the U.S. while the remaining part, $670 million

toward enabling borrowers to establish their own credit in the private market."(1)

For a number of years, the IBRD continued to guarantee the loans it placed with other investors, but from 1953 onward the great majority of these transactions did not carry its guarantee, an evidence of a greater readiness on the part of private capital to enter the field of international investments.(2)

Despite the substantial growth of the IBRD in a relatively short period and its contribution to economic development, there is no doubt that a gap remained in the international system of investment, partly due to the limitations set in the Articles of Agreement. At any rate, when the global needs for development are compared with the total lending capacity of the IBRD, it is soon realized that it has relatively limited resources.(3)

(52.4 percent) was purchased by investors all over the world. (Figures computed from the Twelve Annual Reports 1946-1957).

The impressive growth of this kind of financing is evidenced by the recent floatation of an additional $200 million in the U.S. and outside. International Monetary Fund, <u>Financial News Survey</u>, Vol. X, No. 17, October 25,1957.

(1) IBRD, <u>Tenth Annual Report 1954-1955</u>, <u>op.cit</u>., p.38.

(2) By June 30, 1957, $122 million of the $333 total sales of loans, had already been repaid at maturity or prepaid to the purchasers, leaving a total of $211 million still outstanding of which only $23 million carried the IBRD's guarantee. IBRD, <u>Twelfth Annual Report 1956-1957</u>, <u>op.cit.</u>, p. 14.

(3) It has been estimated that $ 10 billion will be needed an-

In order to fill in this gap, the United States international Development Advisory Board published a report entitled "Partners in Progress", which had been prepared after consultation with the IBRD. The Board proposed, among other things, the creation of an International Finance Corporation (IFC), as an affiliate of the IBRD. The purpose of such an institution would be to help finance productive private enterprise, especially in the less developed countries, without governmental guarantee and to make equity investment in participation with private investment.(1)

The IBRD felt that the proposal deserved careful study and a second report was published in 1952 pointing out the advantages of such an institution, the role that it will play in creating an atmosphere conducive to the flow of private investment, and the chances of its success.

For several years following publication of the IBRD's report, the proposal was discussed, in business as well as governmental circles, and the general feeling was that almost all the underdeveloped countries favored such an institution, while the countries with surplus capital, on whom would fall

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nually to raise national income 2 percent percapita per annum in the under-developed areas. U.N. Department of Economic Affairs, Measures for the Economic Development of Under-developed Countries, (New York, 1951), pp. 75-80.

(1) IBRD, The International Bank for Reconstruction and Development 1946-1953, (Johns Hopkins Press:Baltimore,1954) p. 113.

the greater part of the funds, were not ready, for one reason or another, to commit themselves.(1)

Slowly, however, the idea gained grounds in business and financial centers as well as with the important creditor countries, and a third report was published in April, 1955 by the IBRD.

Finally, the IFC came into being in July 1956, with an authorized capital of U.S. $ 100 million. By September 27, 1957, it had 53 members and a subscribed capital of nearly $ 93 million.(2)

The IFC intends to further economic development by encouraging the growth of productive enterprise in its member countries, particularly in the less developed areas by:

"(1) Investing in productive private enterprises in association with private investors and without government guarantee of repayment, in cases where sufficient private capital is not available on reasonable terms.

(2) Serving as a clearing house to bring together investment opportunities, private capital (both foreign and domestic) and experienced management; and

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(1) Ibid., p. 115.

(2) IFC, First Annual Meeting of the Board of Governors (Washington, D.C., Sept. 27, 1957) p. 2.

(3) Helping to stimulate the productive investment of private capital both domestic and foreign."[1]

Under the Articles of Agreement, the IFC has much room for filling the gap in international investment, but its capacity to give a substantial stimulus to the growth of private enterprise is greatly reduced by its limited financial resources in relation to global needs.[2]

A new source of financing for economic development was made available by the Congress of the United States of America when it provided for a Development Loan Fund (DLF) in the Mutual Security Act of 1957.

The DLF was set up, partly to counteract the easy term loans extended by the Soviet Union to the underdeveloped areas of the world,[3] and partly to reinforce the Export-Import Bank, the IBRD, and the IFC in assisting "... on a basis of self-help and mutual cooperation, the efforts of free

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(1) IFC, The International Finance Corporation (pamphlet), (Washington, D.C.: 1956) p. 2.

(2) Although it is too early to pass a final judgement on the capacity of the IFC in stimulating private investment and hence on its success, yet the size of its total commitments during the first fourteen months of its operations (five commitments totalling \$5,980,000), certainly gives an idea of the magnitude of its contribution and form a temporary basis for extrapolating its future role. IFC, First Annual Report 1956-1957 (Washington, D.C.: September 10, 1957), p. 7. IFC, First Annual Meeting of the Board of Governors (Washington, D.C.: September 27, 1957), p. 3.

(3) It is reported that promised Soviet aid to underdeveloped areas (of which around 10% has already been dispersed)

peoples to develop their economic resources and to increase their productive capacities.[1]

The Congress authorized the appropriation of up to \$500 million during the DLF's first year of existence (\$300 million have been allocated for the 1958 fiscal year, which expires June 30), and additional funds, up to \$625 million, have been authorized for 1959.[2] However, since one of the purposes of the DLF is to provide a continuity of resources available for economic development, the Congress did not require that the funds appropriated be used within any time limit, but allowed them to remain available until used. Furthermore, authority was granted for the re-use of funds, as loans are repaid.

Financing from the DLF will take the form of loans (government guarantee is not necessarily required), credits, guarantees that loans made by other institutions will be repaid, and other operations with the exception of grants and direct purchases of equity securities. Arrangement for such financing could be made by persons, private corporations, organizations, nations and other entities.

Most enterprises, i.e., industrial, agricultural, financial, commercial, extractive, power, transport, com-

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amounts to \$1500 million. Middle East Business Digest (Beirut: January 27, 1958), p. 3.

(1) Pamphlet published by the Development Loan Fund (Washington 25, D.C.: December 1957), p. 2.

(2) Ibid., p. 3. It is reported that the additional \$625 million were also made available for the first year. Middle East Business Digest (Beirut: March 24, 1958), p. 6.

munications, and others are eligible for financing from the DLF provided that proposals for operations give reasonable promise of contributing to the economic growth of the country. The DLF especially welcomes proposals which contribute to increased private investment.

One of the keynotes of the operation of the DLF is flexibility, and hence not many conditions have been established. However, it is necessary to set certain criteria according to which the proposals will be judged. No proposal will be approved unless it is economically sound and technically feasible, and unless prospects for repayment of the loan are reasonable. Moreover, the project must be unable to obtain financing (or is able to secure only part of its financial needs) on reasonable terms from other world sources including private investment, the Export-Import Bank, the IBRD, and the IFC.

Since the DLF has been established on a revolving basis, its ability to make a substantial contribution to economic development in the future will depend, in large part, on the amounts of loan repayments. Hence, ability to repay within a reasonable period will be an important factor in decisions on applications. Preference will also be given to proposals in which assistance is required to cover the foreign exchange costs of projects whose local costs are largely covered from other sources.(1)

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(1) Development Loan Fund, op.cit., pp. 7-8.

The response of the underdeveloped countries to this new type of financing has been very quick. In a few weeks, applications for $ 1400 million had been received, a quarter of which came from the Middle East, and so far $ 122 million have been granted in loans to seven countries.(1)

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The next section will be devoted to an investigation of the magnitude of the role played, in the past, by the international investment system in helping the Arab countries raise their living standards. An attempt will also be made to evaluate the benefits that will accrue to the Arab countries in the future, from foreign capital (i.e., private foreign investors, government grants and loans, the Export-Import Bank, the IBRD and the IFC) in relation to their global needs for promoting economic development.

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(1) Middle East Business Digest (Beirut: March 24, 1958), p. 6.

CHAPTER II

THE ARAB MIDDLE EASTERN ECONOMY

I. Features and Extent of Underdevelopment

The majority of the world's population lives in squalor and poverty under conditions very near to subsistence level. It is estimated that over two-thirds of the world's inhabitants, including the whole Arab Middle Eastern population, belong to underdeveloped countries.(1)

The interpretation of the term "under-developed" creates some difficulty since it has been used in various ways, sometimes loosely, to mean or explain different phenomena. The concept in itself is a comparative one, i.e., the distinction between more developed and less developed countries is one of degree, and hence adds to the difficulty of framing a standard definition.

A country is qualified as "under-developed" when its economic performance is poor, that is, when it is far from maximizing the utilization of the various factors of production. In other words, the country is in a state of chronic mass poverty.

A simple and clear criterion for the measurement "... of a country's economic development may be taken to be

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(1) Eugene Staley, The Future of Underdeveloped Countries (New York: Harper and Brothers, 1954), p. 14.

the people's standard of living (or material welfare)"[1] as reflected by both monetary and non-monetary indicators. The most frequently used monetary indicator or index of the people's material well-being is the per capita income,[2] while the non-monetary indices which indicate the extent of human prosperity include food consumption, life expectancy, mortality rates, levels of literacy, general health conditions, clothing and shelter standards and other social factors.

National income statistics are not available for all the Arab Middle Eastern countries. They are almost lacking for the oil producing countries, while for the others the information is scanty. The country studies already undertaken are, at best, rough estimates, the only possible exception being Lebanon.[3] According to Dr. Badre, the per capita income of Lebanon, in 1950, was around LL. 800 ($ 250),[4] while

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(1) Paul Klat, "The Future of Economic Development in the Arab World", Middle East Economic Papers (Economic Research Institute, American University of Beirut: 1956) p. 51.

(2) United Nations experts use the term underdeveloped countries "to mean countries in which per capita real income is low when compared with the per capita real incomes of the United States of America, Canada, Australia and Western Europe." See, U.N., Measures for Underdeveloped Countries (New York: May 1951) p. 3.

(3) Albert Badre, "The National Income of Lebanon", Middle East Economic Papers (Economic Research Institute, American University of Beirut: 1956) pp. 1-37.

(4) In the race between population and production, production is drawing ahead in Lebanon. The national income in 1957 amounted to LL. 1580 million, while the population increased to 1,525,000, giving a per capita income of LL. 1036 (or roughly $ 325). When changes in the cost of

in the other states per capita income ranges from around $148 in Iraq in 1956, to $ 40 in Saudi Arabia.(1)

There is no need to look for statistics on other indicators, be it monetary or non-monetary, to conclude that the Arab Middle East is still underdeveloped,(2) despite the great progress achieved during the last decade. However, it can no longer be said "that the Middle East suffers from poverty in the extreme."(3) The statement needs some qualification; a distinction has to be made between oil and non-oil countries.

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living index are accounted for (an increase of 12 percent during the same period), the increase in real per capita income amounts to 16 percent, instead of 30 percent. See, Le Commerce du Levant (Beirut: No. 369, February 26, 1958) and IMF, International Financial Statistics Vol. Xl, No. 2 (February 1958) p. 160.

(1) The per capita income in Syria was around $ 125 in 1954, $ 115 in Egypt in 1956. Prof. Klat gives the rounded figure of $ 100 for Jordan. He also points out that the per capita incomes of Bahrein, Qatar and Kuwait are extremely high due to the increasing oil royalties on the one hand and the small population on the other. But he goes on to explain that these figures are exceedingly misleading in the sense that they do not show the actual well-being of the whole population, since the wealth is concentrated in the hands of the few rulers of the territories in question. See, Paul Klat, op.cit., p. 52. For figures on Iraq, Syria and Egypt, see IMF, Financial News Survey (Washington: vol. X, No. 19, November 8, 1957); United Nations, Department of Economic and Social Affairs, Economic Development in the Middle East 1954-1955 (New York: 1956) Appendix Table A; IMF, International Financial Statistics, Vol. X, No. 12 (December 1957) p. 98; Post Office Savings Bank Report 1956 (Cairo: 1957) p. 3.

(2) It suffices to compare the per capita income of Lebanon ($325), the most developed Arab country, with that of U.S.A. ($2043), Canada (Canadian $1433), or Australia (£A488) to find out how primitive the Arab economies are. United Nations, Monthly Bulletin of Statistics (October 1957). All figures are for 1956.

(3) United Nations, Economic Survey Mission to the Middle East, Final Report (Lake Success, N.Y.: 1949) p. 34.

Despite the lack of adequate national income statistics, it is evident that as a result of the continuous increase in oil production and better terms of payment, income has risen regularly in the former group of countries, while the rate of increase, excluding some sharp declines, has been both less marked and steady in the latter group.

The rate at which oil revenues are accruing to the oil countries exceeds the rate at which money can be effectively spent at present in fostering economic development and in some countries the actual revenues even "outstrip the total foreseeable potentialities of development".[1] On the other side of the scale, the lack of proper funds constitutes the primary limiting factor in the implementation of development plans in the other less fortunate states.

The income disparities arise to a certain extent "from the wide diversity in physical, human, and institutional conditions which prevail in the different parts of the region under consideration."[2] As a result, there are wide differences in the state of primitiveness of the various Arab countries. It follows that the reasons for the backwardness are not altogether the same, and that every country faces different obstacles in its endeavour to raise its people's standards of

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(1) United Nations, Economic Developments in the Middle East 1954-55, op.cit., p. 5.

(2) Albert Badre, "The Economy of the Contemporary Arab World", Middle East Economic Papers (Economic Research Institute, American University of Beirut: 1955) p. 18.

living which require particular solutions. Consequently, any generalization on the region as a whole should be made with utmost care since hasty conclusions can be very erroneous and misleading.

On the other hand, there are political, geographic, cultural, historical, social and economic ties which bring the Arab countries together. "Each country of the Middle East will, sooner or later, learn that the resources of its neighbours have an important and frequently determining influence upon the economic growth of each individual country. And, where physical resources, especially water, are not abundant to start with [oil being an exception], the interdependence of the countries of a geographic region is an elementary fact which cannot be evaded indefinitely."[1]

It is evident also "... that there exist some economic problems which are common to all [Arab countries]... A proper solution to some of these problems cannot be found except by close co-operation among the various existing political units."[2] Therefore, it seems useful to give an over-all picture of the Middle Eastern economy, pointing out the main obstacles to economic development, as well as recent developments, with a major stress on its financial aspect.

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(1) United Nations, Economic Survey Mission for the Middle East, <u>Final Report</u>, p. viii.

(2) Paul Klat, "The Future of Economic Development in the Arab World", <u>op.cit</u>., p. 53.

II. Problems of Economic Development

The low income prevalent in most of the Arab countries is a result of low productivity which is caused by the interaction of a number of factors, both human and natural.(1) The major problems of economic development can be classified under two headings: Production problems (i.e. problems in agriculture and industry,(2) and saving and investment problems.

A. Production Problems

The Arab Middle East is predominantly an agricultural region, the majority of the population depending for their livelihood on the produce of the land. Agriculture forms the largest sector of the national income in all countries in question with the exception of Iraq and Lebanon.(3)

Agricultural productivity is very low as compared to the developed countries. The main impediments to its rapid

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(1) Burhan Dajani, "A Rounded Picture of Middle East Economy", The Economy of Lebanon and the Arab World No. 32 (Beirut: February 1955) p. 8.

(2) Paul Klat, op.cit., p. 53. The trade sector will not be discussed below since it is quite developed. However, inter-regional trade can be expanded, but that depends primarily on the willingness of the Arab countries to cooperate.

(3) The agricultural sector is the most important sector in the Syrian and Egyptian economies, while it becomes second in both Iraq and Lebanon. It is estimated that 65 percent of the national income of Syria (1954 figures) and 36 percent of Egypt (1954 figures) stem from agriculture. In Iraq, the oil sector comes first accounting for 27 percent, followed by agriculture, 24 percent (1956 figures), while in Lebanon, the trade and financial sector comes first, with 31 percent, as opposed to 16 percent for

progress are probably institutional, of which the land tenure system is the most acute, and technical.(1)

It should be noted that during the last decade notable progress has been made in several countries in removing the above obstacles. A larger proportion of the cultivated area is now irrigated and modern farm technology is more widely applied, resulting in a steady increase in total agricultural output.(2) Nevertheless, the level of production is still largely dependent on climatic conditions, which vary considerably from country to country and over time, but are on the whole rather unfavourable.

The industrial sector is the most rapidly developing sector in the Arab economies. Active steps have been taken to

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agriculture (1957 figures). See, U.N., Economic Development in the Middle East 1954-1955, op.cit., Appendix Table A; IMF, Financial News Survey, op.cit.; Le Commerce du Levant (Beirut, No. 369, February 26, 1958); The Egyptian Economic and Political Review (Cairo: June-July 1956) p. 34.

(1) For further details see D. Warriner, Land Reform and Development in the Middle East (London: 1957) and Land and Poverty in the Middle East (London: 1948); George Hakim, "Land Tenure Reforms in the Arab World", Middle East Economic Papers 1955; Land Reform Defects in Agrarian Structure as Obstacles to Economic Development (U.N., New York: 1951).

(2) It is estimated that agricultural production has increased by roughly 40 percent during the last decade, but due to population increase the change in output per capita was less marked passing from 100 in 1934-38 to 110 in 1956-57. U.N., Economic Developments in the Middle East 1945 to 1954 (New York: 1955) p. 7 and Paul Klat, "Structural Obstacles

promote this development, and the results are quite satisfactory, industrial production increasing at a rapid rate. Although industry is still in its early stages, it accounts for 14 percent of the national income of Lebanon.(1) At any rate, industrial productivity compares more favourably than agriculture with the advanced countries mainly because the capital investment per worker is larger in industry than in agriculture. The per capita income is much higher in industry than in agriculture. For example, the available estimates show that in Egypt the per capita income for agriculture is £E 50 against £E 126 for industry.(2)

However, industry in the Arab world is faced by a serious problem, the lack of raw materials, which necessarily limits its scope of growth. Except for oil and some iron ore, sulphur, and phosphate, all mineral products are lacking or are not found in commercial quantities. Heavy industry is almost completely lacking (except in Egypt), and all future effort should be concentrated on the mechanization of agricultural products and on petrochemical industries.

B. Saving and Investment Problems

The low per capita national incomes in the Arab countries are accompanied by low levels of savings. The region

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to Economic Development in Arab Asia with Particular Reference to Lebanon", Paper presented at the Seminar on the Contribution of the Social Sciences to Economic Development (Beirut: 9-20 December, 1957).

(1) Le Commerce du Levant, No. 369 (Beirut: February 26, 1958).

(2) Charles Issawi, Egypt at Mid-Century (London: Royal Institute of International Affairs, 1954) p. 83.

has been invariably described as a "hand-to-mouth economy" since consumption absorbs almost all output. The level of savings depends not only on the level of national incomes, but also on their distribution among individuals, tending to be higher in those countries where the distribution of income is more unequal. The maldistribution of income in the Arab countries, especially the oil countries, has not resulted in a substantial increase in savings, since a large part of the income is being wasted on conspicuous consumption, and "the productive system is deprived of a considerable part of its lifeblood in the form of import leakages.[1] The level of savings is furthermore affected by "the extent to which economic activity is controlled by foreign corporations",[2] which, in this case, adds another obstacle to capital formation.

The absolute amount of savings is small, yet only a relatively small percentage of this amount is being mobilized into productive channels. It is reported that in most under-developed countries net capital formation is not as high as 5 percent of the national income, even when foreign investment is included, whereas in developed countries, the net capital formation exceeds 10 percent of the national income.[3]

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(1) Paul Klat, "The Future of Economic Development in the Arab World", op.cit., p. 59.

(2) U.N., Measures for Underdeveloped Countries, op.cit.,p.36.

(3) A.D.Knox, "Some Economic Aspects of Growth", Paper presented at the Seminar on the Contribution of the Social Sciences to Economic Development, (Beirut, 9-20 December,1957)p.2.

The chief reasons for the low rate of domestic capital formation are: the habit of hoarding, the deficiency of the banking systems, the lack of efficient saving institutions, the lack of bonds or securities markets (except in Egypt), and the lack of confidence in national currencies.

III. Consciousness for Development and Recent Economic Developments

There has been recently a distinct change in the attitude of most of the Arab governments toward long-range economic development. Evidently, the degree of this change varies among the various political units, in accordance with the social development and the particular economic problems of each state, but the need for better standards of living is recognized everywhere.

"Two strong forces now pervading the contemporary Arab World" have enhanced the creation of the present consciousness for development: "On the one hand there is the common struggle of Arab countries to free themselves from foreign political and military domination and on the other there is the common fear of Zionism."[1] It is fully realized that unless the Arab Countries consciously try to modernize their economies as quickly as is efficiently possible, real political independence cannot be achieved and the danger of a Zionist expansion will persist.

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(1) Albert Badre, "The Economy of the Contemporary Arab World", op.cit., p. 23.

The awareness of the Arab governments to the urgency for development has been expressed in many ways: by the important reforms introduced in the financial systems of several countries, by the formation of central banks or by granting of greater powers to existing banks which had performed some of the functions of central banks,by the creation of autonomous development boards, both for planning and execution, by the establishment of industrial, agricultural and other banks, partly or wholly owned by the governments, or by the enlargement of existing ones in order to meet part of the medium-term and long-term credit needs of the region, and finally by the formulation of development programmes to which bigger funds have been allocated.

A. Monetary Reforms and the Banking Systems

Since financing is the backbone for the possibility of investment and development, the credit structure has important bearing on the degree of development of a country.

The efficiency of the banking system varies rather widely between the various Arab countries, the credit structure being relatively well-developed in Egypt and Lebanon, but little developed in Saudi Arabia and Jordan. Despite such differences, there are certain common trends and features to most, if not all, the countries.

Central banking was nonexistent in the Middle East a decade ago. Since then, Egypt, Iraq and Syria have established central banks empowered with wide regulatory powers over the commercial banks. These institutions were formed, not only to control and direct the commercial banks, but also "to complement, whenever necessary, inadequate banking facilities."(1) Even Ṣaudi Arabia has taken certain measures at organizing currency affairs with a view of achieving a stable monetary and banking system, by establishing an independent currency through the creation of the Monetary Agency in 1952.(2) However, both Jordan and Lebanon do not have a real central bank, some of the powers of a central bank being delegated to the Ottoman Bank (Jordan) and to the Banque de Syrie et du Liban (Lebanon). The fact that both banks exercise dual functions in the sense that they are primarily commercial institutions, results in a considerable reduction in rediscount operations. The whole banking system is rendered rather rigid and lacks harmony and co-ordination.

One important common feature is the inadequacy of the banking systems to pool all the financial resources of the community. This deficiency is due partly to the lack of confidence, on the part of the public, in paper legal tender and in banks, partly to the inherent belief that interest is pro-

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(1) Paul Klat, Business Legislation in Syria (Economic Research Institute, 1956), p.4.

(2) Paul Klat, Business Legislation in Saudi Arabia (Economic Research Institute, 1956), p.29.

hibited by religious law (this is confined to certain areas and its effects are gradually diminishing), and partly to the lack of efficient saving institutions, bonds or securities markets, and branch banking. As a result, total bank deposits form ohly a part of total savings, the leakage being in the form of hoarding, mostly gold.(1)

Most of the countries' currencies were previously closely linked with either the franc or the sterling area. However, Egypt left the sterling area in July, 1947, while Syria and Lebanon left the franc area in 1948, thus minimizing the losses incurred as a result of the devaluations of 1949. This move has proved to be wise, since the respective national currencies have gained in stability, especially the Lebanese Pound, and gold hoarding has been considerably reduced.

Another inherent weakness of the banking system is the lack of laws for the effective regulation of banking systems and practices. Until very recently, the machinery for supervision was completely lacking, but with the formation of government owned central banks the situation has been improved. Commercial banks are extremely individualistic, and as a consequence very little intra-banks relations exist.

For our purposes, the most important weakness of the system is the non-existence of long-term credit for industry

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(1) Although no official figures are available, it is estimated that in some cases hoarding amounts to 10 percent of the national income. U.N. Measures for Underdeveloped Countries, op.cit., p. 35.

and agriculture. Private banking is primarlily commercial, most of the loans being extended on short term basis. Banks rarely venture into agricultural and industrial enterprises except with government guarantee. What aggravates the situation is the fact that foreign banks are very dominant. These institutions are primarily interested in financing international trade, and hence render almost no service to the industrial and agricultural sectors. Long-term loans form a very small percentage of total loans.(1)

B. The Growth of Specialized Credit Institutions

In order to fill in the gap in the banking systems, the Arab governments have established agricultural, industrial and other banks, and have enlarged the existing ones. These institutions are important; their formation is a bold attempt at filling a big gap in the Arab economy, but up till now only a small part of the region's needs for medium-term and long-term credit has been met. A stumbling block has been the small resources available to these banks, which were forced in a way to be very reserved in their early operations. In a sense, this limitation was beneficial, since the lack of funds is not the only obstacle. There would have been much

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(1) Long-term loans form around 4% of total loans in Egypt. Paul Klat, Business Legislation in Egypt, (Economic Research Institute), p. 6.

more waste, had there been larger funds at the disposal of the newly-established banks, since the Arab countries do not have much experience in this type of banking. They are gradually acquiring the necessary experience, and along with the extra captital allocated to such ventures, they are now better equipped to serve their purpose efficiently. The change in the role played by such institutions in the development of the Arab economy is clearly reflected by the changes in institutional credit.

Even though it is too early to pass a final judgment on the efficiency and contribution of such institutions, yet the recent trend and developments cannot pass unnoticed.

Table I below compares the value of the total outstanding loans in five Arab states in 1955 with the respective figures for 1951. In four of them, there has been an increase. However, the picture is not clear, a complicating factor being the average maturity of the loans extended. The increase in agricultural credit cannot be properly gauged unless we take into consideration the proportion of long and medium term loans to short term loans. For example, Table I gives the misleading impression that agricultural credit has increased more rapidly in Iraq than in any other country (total outstanding loans have increased more than five-fold in four years, while in Syria they have not even doubled).

Table II gives a better picture of the changes in

Table I

Increases in Institutional Agricultural Credit by Country

(Millions of national currency of each country)

Country	Value of Loans 1951	Value of Loans 1955	Type of Institution
Egypt	11.9	18.2	Agricultural Bank
Iraq	0.3	1.6	Agricultural Bank
Jordan	0.1	0.1	Agricultural Bank
Syria	23.6	43.5	Agricultural Bank
Lebanon	--	3.5	Agricultural, Industrial and Real Estate Credit Bank (BCAIF).

Source: Reproduced from U.N. Economic Developments in the Middle East 1955-56, p. 18.

Original Source: Food and Agricultural Organization of the United Nations; Banque Libanaise pour le Commerce; Economic Review (Beirut, Sept.1956).

institutional credit during the years 1950-56. It clearly shows that in Syria there has been a steady increase while in Iraq there are ups and downs and the increase is less marked. The explanation is that in Iraq, long-term credit forms a higher proportion of total credit than in Syria. In Iraq, during 1950 and 1951, 99% and 90% of all agricultural loans were extended for periods ranging from 4 to 5 years.[1] In Syria

(1) Agricultural Bank, Annual Report, 1950 and 1951 (Baghdad, 1951 and 1952).

Table II

Institutional Agricultural Credit by Country

(Millions of national currency of each country)

Country	Value of Loans						
	1950	1951	1952	1953	1954	1955	1956
Egypt	13.56	13.42	15.96	16.01		17.1	14.1
Iraq[a]	0.14	0.26	0.66	1.90	0.88	0.95	
Jordan[a]	0.11	0.33	0.34	0.15	0.06	0.22	0.10
Lebanon	-	--	--	--	--	3.49[1]	5.40
Syria	6.94	10.55	14.33	12.47	15.35	29.53	38.16

(a) Fiscal year begins April 1.

(1) Loans extended during the last four months (Sept. - Dec.).

Sources: Egypt: Agricultural Credit and Co-operative Bank, Annual Reports, 1951 and 1952 (Cairo); N.B.E., Economic Bulletin (vol. X, No. 2, 1957) p.112.

Iraq: Agricultural Bank, Annual Reports, 1951 and 1952 (Baghdad); Bank of Iraq, Annual Report 1954 (Baghdad); Statistical Abstract of Iraq (Baghdad, 1953).

Jordan: Annual Statistical Yearbook, 1950-56 (Amman).

Lebanon: BCAIF, Annual Report 1955 and 1956 (Beirut, 1956-1957).

Syria: Statistical Abstract of Syria (Damascus, 1955).

although all loans extended in 1950 and 1951 were long-term, the percentage dropped to 26 percent in 1952, 33 percent in 1953, and 16 percent in 1954[1]. In other words, loans are being repaid more rapidly in Syria than in Iraq.

On the whole, however, there is a gradual increase in agricultural credit, Jordan being the exception.[2]

The slowing down of the bank's activities in case of Jordan is mostly due to the defaults and delays in re-payments of outstanding loans, and partly due to the limited resources of the government-owned bank. However, it should be noted that agricultural credit in Jordan is also available from sources other than the Agricultural Bank.

The Jordan Development Board (established in April 1952) contributes to the extension of agricultural credit in two ways:[3] First, it lends money to the agricultural co-operative societies at low rates (usually 4 percent), and these societies, in turn, extend to their members short-term seasonal loans. The growth of these societies was slow at the beginning, but the benefits were quickly recognized

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(1) Statistical Abstract of Syria (Damascus, 1955).

(2) In Egypt there has been a steady increase from 1950 to 1955 but due to the political instability which followed the nationalization of the Suez Canal and the aggression on Egypt, the activities of the Bank were reduced, but it is expected that in 1957, or at the utmost, in 1958, the 1955 optimum level will be reached, if not surpassed.

(3) IBRD, The Economic Development of Jordan (Baltimore:1957), p. 143.

everywhere. The rate at which these societies are presently increasing is tremendous, the number jumping from 42 in 1953 to 133 in 1956.(1) Secondly, the Board extends credit largely for terracing and land development projects, including irrigation schemes, through the Village Loans Scheme, which was started in October 1952. By March 31, 1956, the total loans granted amounted to JD 991,974, of which JD 775,036 went chiefly for terracing and JD 153,035 for irrigation.(2)

The Development Bank of Jordan was established under an agreement between the Jordan Government and UNRWA, dated June 8, 1951. The Bank, whose authorized capital was fixed at JD 500,000 (JD 400,000 was subscribed by UNRWA, JD 50,000 by the Government of Jordan, and JD 50,000 by commercial banks), began operations in November 1951. It extends both agricultural and industrial loans, mostly long-term (5 to 10 years). On June 1, 1956, total outstanding agricultural loans, 160 in number, amounted to JD 239,284.(3)

In addition to the above sources, one of the commercial banks in Jordan, the Arab Bank, extends agricultural loans guaranteed by funds provided by the United States-Jordan Joint Fund for Economic Development.

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(1) The amount of loans/more than five-fold in three years. have increased In 1956, the total amount loaned reached JD 229,051 as compared with JD 42,052 in 1953. Annual Statistical Yearbook, 1953 and 1956 (Amman).

(2) UNRWA, Bulletin of Economic Development (Beirut, No. 14, July 1956) p. 132.

(3) Ibid., pp. 191-192.

Although the total of all agricultural loans is rapidly increasing, it still falls short of long-term needs.(1) However, agricultural credit is expected to increase considerably in the future, since a Co-operative Bank is to be established in Jordan shortly, together with a branch of the Iraqi Agricultural Bank which is due to open in Amman sometime in 1958.(2)

Table II gives the impression that institutional agricultural credit was nonexistent in Lebanon before 1955. In reality, a quasi-governmental institution extended agricultural credit as early as 1939. "The insufficiency of credit for industry and agriculture led the Lebanese Government to consider seriously the possibility of creating a specialized credit institution to finance agriculture and industry. In 1937 an agreement was concluded between the government and BSL, whereby the latter sponsored the creation of a society which would undertake the issue of agricultural and industrial long and medium term loans for development. Scail [Societe de Credit Agricole et Industriel du Liban] was established for a period of 25 years, starting in 1939 and ending with the concessionary period of BSL in 1964".(3)

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(1) The IBRD states that in 1954-1955, agricultural credit totalled JD 500,000, while annual needs are estimated at JD 1 million. IBRD, <u>The Economic Development of Jordan</u>, (Baltimore, 1957) p. 154.

(2) <u>Middle East Business Digest</u>, (Beirut, March 24, 1958) p.29.

(3) Nadim Khalaf, "Long-Term Credit in Lebanon" (unpublished M.A. thesis at the American University of Beirut, 1957), p.76.

In November 1942, the Lebanese government concluded an agreement with Scail for a period of five years under the terms of which the government undertook to guarantee agricultural and industrial loans extended by Scail. It was also decided to set up at the Ministry of Finance a specialized Government Agency, known as the Agricultural, Industrial and Hotel Credit Service, whose function was to study and approve all guaranteed loans. Later, in 1945, another agreement was reached between the government and Scail to extend the period of the 1942 agreement, as from December 1945, for ten more years (till December 1955).(1)

Loans extended by Scail, through the Government Agency, amounted to LL 18.78 million during 1948-1952, mostly in medium-term form.(2)

"As a result of the government's decision in 1953 to establish an Agricultural, Industrial and Real Estate Bank, and of the expiration of the agreement with Scail in 1955, the operations of Scail through the Government Agency were first

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(1) Ibid., pp. 77-78.

(2) The breakdown is the following: LL.5.40 million in 1948, LL.3.88 million in 1949, LL. 2.44 million in 1950, LL.2.93 million in 1951, LL.4.13 million in 1952. Scail also operated (and still operates) directly, since it had funds apart from those of the government. In addition to its capital, Scail was able to obtain credit facilities from BSL and from other commercial banks. Scail's direct loans during 1948-1952 amounted to LL. 13.44 million. Scail, Annual Reports 1948-1952 (Beirut).

greatly reduced and later abrogated and at present Scail operates only directly."[1]

Institutional industrial credit is a more recent development than agricultural credit. Except in Iraq, domestic private capital provided the bulk of investment in the Arab countries. Foreign capital continues to play a minor part in the industrial development (excluding the petroleum industry) of the region.[2]

Table III shows the growth of institutional industrial credit

Table III

Institutional Industrial Credit by Country

(Millions of National Currency of each country)

Country	Type of Institution	Value of Loans 1950	1951	1952	1953	1954	1955	1956
Egypt (a)	Industrial Bank	0.61	0.60	0.29	0.34	1.04	1.84	0.72
Iraq	Industrial Bank	0.13	0.28	0.66	0.73	1.37	0.74	0.75
Lebanon	BCAIF	--	--	--	--	--	0.98 (b)	0.40

(a) Fiscal year begins April 1.

(b) Loans extended during the last four months (September-December).

Sources: Egypt; The Industrial Bank, The Development of Industrial Credit in Egypt (Cairo: 1956) p. 18.

Iraq; Industrial Bank of Iraq, Annual Reports, 1951-1952-1953-1956 (Baghdad); Statistical Abstract of Iraq, 1955 (Baghdad: 1956).

Lebanon: Bcaif, Annual Reports, 1955-1956 (Beirut).

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(1) Nadim Khalaf, op.cit., p. 83.

(2) U.N., Economic Developments in the Middle East 1955-1956, op.cit., p. 3.

in Egypt, Iraq and Lebanon, during the period 1950-1956. In Egypt, the Industrial Bank passed a critical stage (1952-1954) frequently referred to as the "caution" period, during which the Bank was reluctant to grant easy credit. The reorganization of the Bank in 1954 resulted in an immediate enhancement of its activities, which were later checked in 1956, by the political disturbances in Egypt. However, the restrictive effects of these disturbances on the loan policy of the Industrial Bank, as well as the other banks, seem to have been overcome.

Prior to the formation of the Industrial Bank in 1949, Bank Misr, a commercial institution, attempted to foster local industry in two ways: by direct participation in industrial enterprises, and extension of industrial loans. The government provided Bank Misr with funds to be used as loans to industry, but this method of financing industry was criticized in the business circles. At the outbreak of World War II, a run on the Bank compelled it to appeal to the government for financial help. During the war boom years, Bank Misr was able to repay the government, but it was generally recognized even by the Bank itself, that the institution was not well equipped to supply the growing need for industrial credit, and as a result the Industrial Bank was established.(1)

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(1) Charles Issawi, op.cit., pp. 225-226.

Some of the new industrial credit institutions, those of Egypt and Iraq, perform, in promoting industry, other activities than extending loans. They undertake studies for setting up new industries, make these studies available to industrialists, and even participate in the capital of new undertakings. In Egypt, the bank's investments in industrial enterprises stood at £E 1,393,000 in 1955 as against £E 50,000 in 1953.(1) In 1956 alone, they amounted to £E 1,500,000.(2)

In Iraq, the growth of industrial credit has been steady. In view of the large requirements of industry for long and medium-term credit, in relation to the small capital availabilities of the Industrial Bank, the Bank is allowed to borrow from the Central Bank on easy terms, when the need arises. Moreover, the Development Board can assist the bank in extending credit to semi-governmental undertakings.(3) The bank's participations in the setting up of industrial enterprises are quite considerable, having totalled ID 2,143,467 in March 31, 1957.(4)

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(1) U.N., Economic Developments in the Middle East, 1955-56, op.cit., p. 24.

(2) The Industrial Bank, The Development of Industrial Credit in Egypt (Cairo: 1956), p. 18.

(3) Paul Klat, Business Legislation in Iraq (Beirut: 1956), pp. 41 and 57.

(4) Industrial Bank of Iraq, Annual Report 1956 (Baghdad: 1957).

Despite the fact that since the establishment of BCAIF the growth of industrial credit has increased, institutional credit still plays a minor role in the development of industry in Lebanon. Institutional industrial credit is growing at a slower rate than the whole industrial sector of the Lebanese economy. Table IV indicates that from 1949 to 1957, the capital invested in industry increased by 247 percent, while institutional industrial credit increased by 159 percent from 1949 to 1956 (LL 5.40 million in 1956 against LL 3.40 million in 1949).(1)

Jordan has not been included in Table III because, although the Development Bank has been established to grant industrial loans (along with agricultural ones), its activities have been mainly concentrated on agriculture. The funds allocated to industry are meagre. On June 1, 1956, total industrial outstanding loans numbered 16, and amounted to JD 107,096.(2)

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(1) The industrial loans extended by Scail in Lebanon through the Government Agency have not been included in Table III. The total value of loans extended by Scail during 1948-1952 amounted to LL 12.92 million (LL 4.05 m. in 1948, LL 3.40 m. in 1949, LL 2.34 m. in 1950, LL 1.68 m. in 1951 and LL 1.45 m. in 1952). Scail, Annual Reports, 1948-1952 (Beirut).

(2) UNRWA, Bulletin of Economic Development, op.cit., p. 192.

Table IV

Indicatiors of Industrial Development

in Lebanon, 1949-1957

Year	Capital Invested (Millions of LL)
1949	120
1950	117
1951	135
1952	165
1953	175
1954	185
1955	213
1956	232
1957	297

Source: U.N., Statistical Yearbook and Monthly Bulletin of Statistics.

Le Commerce du Levant (Beirut: March 6, 1957; February 26, 1958).

Recently, the Arab Bank Ltd., started providing credit to small firms which were unable to obtain it elsewhere, because of the lack of acceptable collateral. The bank's loans are guaranteed by funds provided by the United States-Jordan Joint Fund for Economic Development. The scheme was begun early in 1955; through June 1956, 40 loans were made totalling JD 37,075.(1)

(1) Ibid., p. 176.

Despite this and other schemes, like the Jerusalem City Loans Scheme,[1] institutional industrial credit is still very deficient in Jordan. The opening of a branch of the Industrial Bank of Iraq in Amman is a positive step at reducing the existing deficiency in industrial credit in Jordan.

Institutional industrial credit is completely lacking in Syria. The Ministry of Finance attempted in 1949 to reduce the deficiency by guaranteeing loans that were extended by commercial banks to large industrial enterprises at reduced interest rates. The scheme was stopped in 1952, after the total amount of such loans reached £S16.9 million, but was revived in January 1954. However, in practice such loans are at present extended to hotels only. At any rate, the Ministry seems to be less liberal in its attitude; total loans have hardly amounted to £S15 million since the revival of the scheme.[2]

Summing up, specialized institutional credit is developing in the Arab Middle East, but at present existing

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(1) Loans extended for repair of buildings and development of light industries for periods ranging between 5 to 10 years. By March, 1956, total loans amounted to JD 153,035. Ibid., p. 132.

(2) Paul Klat, Business Legislation in Syria, op.cit., p. 49; and U.N., Economic Developments in the Middle East, 1945 to 1954, op.cit., p. 189.

banks satisfy only part of the needs. Agriculture seems to be at a relative disadvantage, agricultural credit falling much short of needs. This deficiency can be remedied by enlarging the financial resources of the existing institutions as well as by creating new ones.(1)

As to industrial credit, although still in its infancy, it has developed more rapidly in some countries, but is still very deficient in Jordan and Syria. The latter is planning to establish an Industrial Bank which will specialize in long-term loans to industry.

C. The Financing of Development Programs

Although finance constitutes an important limiting factor in the implementation of economic development plans now being formulated in most of the Middle Eastern countries, there exists an equally important problem, which in some cases might overshadow the first one; that of shortage of technical skills.(2) Awareness of this problem, on the

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(1) Various governments are planning to establish new institutions. For example, in Iraq, a Cooperative Loan Bank, with a capital of ID 250,000 has been authorized. In Syria, aside from the proposal of raising the capital of the existing Agricultural Bank, the formation of an Agricultural Credit Corporation is being seriously considered.

(2) A perfect example in Iraq, where the economy cannot absorb capital as rapidly as oil royalties are flowing in. During 1951-56, actual expenditures of the Development Board have fallen short of the authorized expenditure due to the lack of plans, labour and technical skill. Annual Report of the Central Bank of Iraq (Baghdad, 1956).

part of the Arab governments, has been reflected by the creation of Ministries of Planning, and of permament development boards for the formulation, and in some cases, the execution of development programs. Egypt, Syria and Lebanon have Ministries of Planning,(1) Iraq has a Development Board (established in 1950) with executive powers, while Jordan has a Development Board (established in 1951) which enjoys advisory powers only.

Despite the increasing expenditure on defence, investment in development projects, and in social services was intensified in a number of Arab countries, the major emphasis being placed on agriculture, irrigation, and transport.(2)

Table V shows the Budgeted Development Expenditures in the various Arab Countries during the period 1955-1957. Capital outlays and development expenditures increased in most countries in 1955, and the allocations for development in the budget estimates for 1956 and 1957 appear, on the whole to be even greater in 1955. These expenditures are

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(1) In April 1958, a High Council for Planning was established in the United Arab Republic enjoying advisory powers only. Executive powers are still vested in the Ministries of Planning of the two provinces of the Republic. In Lebanon, a Development Board, with advisory powers, was established in 1953. Two years later, a Ministry of Planning was created.

(2) U.N., Economic Development in the Middle East 1955-1956, op.cit., p. 1.

usually financed through extraordinary budget receipts.[1]

In Egypt, the projected expenditure in 1957 was less than the previous year due to the following reason: some of the development expenditures for 1957, as well as expenditures of the Social Services Council, have been transferred to the ordinary budget.[2]

However, the decrease in 1957 will not be felt as the actual expenditures in 1956 fell short of projected expenditures.[3]

In Egypt, development outlays have been covered only partly from the ordinary budget. The government had recourse

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(1) Ibid., p. 90.

(2) Some of the 1957 development expenditures were transferred to the ordinary budget in order to reduce the dependence on loans for financing capital expenditures. The reason for transferring the expenditures of the Social Services Council to the ordinary budget is different. The Council was established in Egypt in 1953 to "... plan the over-all policy for social reform; draw up health, educational, social, and town planning projects; and to supervise and participate in the execution of these projects which aim at the provision of a self-respecting and fruitful life for all." Its funds were derived from the proceeds of sales of confiscated properties of the former royal family. Since expenditure on welfare services require a continuous source of income, while the above proceeds were not of a recurrent nature, the projects of the Social Services Council were transferred to the various government departments. UNRWA, Quarterly Bulletin of Economic Development (Beirut: No. 13, 1956), p. 29; Ministry of Finance and Economy, Egypt, Budget Message for 1956-1957 Fiscal Year (Cairo: 1956).

(3) National Bank of Egypt, Report of the Fifty-Seventh Ordinary General Meeting (Cairo: 1956).

Table V.

Budgeted Development Expenditures[a] by Country

(Millions of national currency units)

Country, Currency and item	1955	1956	1957
Egypt (Egyptian Pound)			
Capital Works	19.9	21.6	28.7
National Production Council	42.9	54.2	45.7
Public Services Council	16.4	22.7	---
Iraq (Iraqi Dinar)			
Development Board	46.6[b]	61.0	75.0
Jordan (Jordan Dinar)			
Capital works & Development expenditures	3.5	3.2	---
Lebanon (Lebanese Pound)			
Capital Works	22.6[b]	27.4)	39.0
Development Expenditures	14.2	8.3)	
Syria (Syrian Pound)			
Capital Works	23.1	16.3	14.8
Development Expenditures	9.6.	3.9	39.1

Note: Fiscal years: Iraq ends 30 April, Egypt 30 June, Jordan 31 March, Syria and Lebanon 31 December.
(a) Including capital works expenditure in the ordinary budget.
(b) Actual expenditure.

Sources: United Nations, Statistical Yearbook, 1956; Iraq: National Bank of Iraq, Annual Report (Jan.-December 1955); Lebanon: Le Commerce du Levant (9 February 1957); Syria: Bureau of Documents for Syria and other Arab Countries, Etude Sur la Syrie économique, 1955; Etude mensuelle sur l'économie et le marché Syriens (No.79, 25 March 1957).

to internal loans, of which three were floated in December, 1954,[1] and were covered with surprising rapidity. Sixteen months later, in March 1956, the government issued two new production loans to the value of £E 25 million, which met with even greater success than the previous ones.[2]

Egypt's need for foreign exchange in the implementation of its economic development plans were partly, but not adequately, met by foreign aid. As a result of a basic agreement made in November, 1954, the U.S. made available to Egypt $ 40 million ($ 32.5 million in grants and $ 7.5 was a 40-year loan which could be repaid in local currency at Egypt's option).[3] In addition to development assistance funds, the U.S. has also given technical aid. Based on an agreement concluded in May 1951, such aid amounted to $20,446,165 between 1952 and 1955.[4] In all, Egypt received between July 1945 and June 1957, $64 million in grants and $ 8 in loans from the U.S.[5]

Despite these grants, the participation of additional foreign capital in financing the contemplated schemes is essen-

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(1) The loans are a 5-year issue of £E 5 million at 2.5%, a 10-year issue at 3%, of £E 10 million, and a 15-year issue at 3.5% of £E 10 million, adding all up to £E 25 million. UNRWA, op.cit., p. 25,

(2) The loans are a 5-year issue of £E 5 million at 2.5%, and a 15-year issue of £E 20 million at 3.5%. The new issue raised the total outstanding loans from £E 133 million to £E 158 million. The Egyptian Economic and Political Review (Cairo: April 1956) p. 24.

(3) Country Survey Series, Egypt (Human Relations Area Files, New Haven: 1957) p. 257.

(4) Ibid.,

(5) IMF, Financial News Survey, Vol. X, No. 27 (January 17,

tial; otherwise, the population problem is apt to become more acute.

The Soviet-Egyptian economic agreement included an interesting item: the extension of a loan of 700 million roubles (around $ 200 million) to Egypt for purchasing machinery and equipment needed for its 5-year industrial plan. The loan, which bears a 2.5 percent interest rate and which will be repaid over a period of 12-15 years out of industrial products, will inevitably assist Egypt in its industrial development.(1)

Iraq seems to be the country with the least financial problems, with development outlays showing a sharp increase. The new five-year plan (1955-1960) envisages total expenditures of ID 304 million,(2) a sum which exceeds by roughly ID 50 million the expected share of oil revenues which is earmarked for development (70 percent of the oil revenues in Iraq are allotted to the Development Board). This will not create any financial problem, since the Development Board has accumulated a considerable reserve fund, due to two reasons. First, the revenues of the Board invariably exceeded expenditures. Secondly, actual expenditures are always lower than budgeted ones,

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1958). Egypt has also received technical assistance from the U.N., which in 1955 amounted to a meagre $ 720,000. Country Survey Series, <u>Egypt</u>, <u>op.cit</u>., p. 257.

(1) <u>Al-Ahram</u> (Cairo: No. 25914, November 21, 1957; No. 25919, November 26, 1957). The agreement negotiated in November was finally signed on January 29, 1958. It is also reported that Czechoslovakia has offered to grant a credit of £E 20 million to finance Egyptian purchases of Czech industrial equipment and goods, on terms similar to those of the Russian credit. <u>Middle East Economic Digest</u> (London: November 29, 1957, p. 1; December 6, 1957, p. 5; January 31, 1958, p. 3).

(2) UNRWA, <u>op. cit</u>., p. 71.

as is indicated in Table VI. Between 1951 and 1956, actual expenditures fell short of authorized expenditures by ID 91 million.

Table VI

Expenditures of the Development Board of Iraq

(Millions of Iraqi Dinars)

Financial Year	Authorized Expenditure	Actual Expenditure	Saving
1951	9.4	3.1	6.3
1952	20.5	12.8	7.7
1953	28.4	12.3	16.1
1954	31.6	20.9	10.7
1955	46.6	34.0	12.6
1956	82.0	45.0	37.7

Source: *Annual Report of the Central Bank of Iraq* (Baghdad: 1956).

Iraq has enough foreign exchange for its development purposes. Only $ 6.3 million of the $ 12.5 million loan contracted in 1951 from IBRD for the Wadi Tharthar Project was used, and the loan was entirely repaid by the Development Board in 1955.[1]

Of all the Arab countries surveyed, Jordan is most dependable on foreign capital since the ordinary receipts of the general

(1) *Ibid.*, p. 71.

budget are insufficient to cover the total of current and development expenditures. During the five years ending March 1955, domestic revenue accounted for only 40 percent of total government receipts, the remainder consisting of grants (52 percent) and loans (8 percent).[1]

The official grants were mainly from the United Kingdom, and more recently from the U.S., as well as from UNRWA, the U.N. Expanded Technical Assistance Programme, and the Arab League countries.

Table VII

Jordan: Official Foreign Grants

Year	Grants (in millions of Jordan Dinars)
1950-51	4.90
1951-52	7.20
1952-53	7.31
1953-54	8.98
1954-55	9.10
1955-56[a]	8.70
1956-57[a]	11.20
Total	57.39

(a) Estimates

Source: IBRD, The Economic Development of Jordan (Baltimore: 1957) p. 384.

U.N., Statistical Yearbook, 1956 (New York: 1956) p. 521.

U.N., The Economic Developments in the Middle East, 1955-56, pp. 92-93.

(1) IBRD, The Economic Development of Jordan, op.cit., p. 385.

Table VII shows the magnitude of the official grants to Jordan. Between April 1, 1950 and March 31, 1957, these grants amounted to JD 57.39 million, or an annual average of JD 8.20 million.

Most of the amounts shown in Table VII were furnished by the United Kingdom in the form of subsidies the greater part of which was earmarked for defence.(1)

After the British subsidy was suspended, as a result of the abrogation of the Anglo-Jordan Treaty, the United States increased its financial aid to Jordan. At present, global U.S. aid is running at a higher rate than the previous U.K. subsidy. During the 1957-58 fiscal year, the U.S. supplied to Jordan $ 48.7 million ($ 20 million to meet the budget deficit, $ 10 million in military assistance, $ 3.75 in technical assistance, and $ 15 million for development projects).(2)

An important reason for the relatively large budget deficits incurred by Jordan during the past two years is the default of the Egyptian and Syria governments to supply the financial aid agreed upon under the Arab Solidarity Pact of

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(1) Between 1950 and 1956 Jordan spent JD 54.59 million on defence. Allocations for this purpose were made, not only from grants, but also from the ordinary budget. IBRD, The Economic Development of Jordan, op.cit., p. 384.

(2) Middle East Economic Digest (London: January 17, 1958, p. 7; March 14, 1958, p. 4). Also, Middle East Business Digest (Beirut: March 12, 1958) p. 26.

Table VIII

British Loans to the Development Board of Jordan

Year		JD Millions
1952-1953		1.50
1953-1954		0.50
1954-1955		1.60
1955-1956		1.75
1956-1957[(a)]		2.25
	Total	7.60

(a) Not all the sums allocated for the year 1956-1957 were paid, when the Anglo-Jordan Treaty was abrogated by Jordan. However, the United Kingdom consented to make two payments, amounting to £1,130,000, representing the balance of the loan of £2,250,000 which had already been offered and accepted. £500,000 were paid in February 1958, and the remaining £630,000 are expected during the 1957-1958 financial year. Middle East Economic Digest (London: August 16, 1957) p. 6; Middle East Business Digest (Beirut: January 27, 1958, p. 23; April 8, 1958, p. 28).

Source: UNRWA, Bulletin of Economic Development (Beirut: No. 14, 1956) p. 125.

in order to ascertain whether the country was capable of repaying any loans which might be made for development projects.[(1)]

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(1) Middle East Business Digest (Beirut: December 16, 1957) p. 37.

January 1956 (the annual Egyptian and Syrian payments were to be £5 million and £2.5 million respectively.[1] Saudi Arabia paid in 1957 £5 million, as its first annual payment under the pact, but it was reported lately that no future payments will be made.[2]

Before the U.S. started giving grants for development projects,[3] the expenditures of the Development Board of Jordan were entirely financed by the United Kingdom loans, which amounted, from 1952 to 1957, to JD 7.60 million, as shown in Table VIII.

Since future receipts under the ordinary budget are not apt to increase substantially, Jordan would, undoubtedly, still depend to a large extent, on foreign capital. It is expected that economic aid will be mostly forthcoming from the U.S., and to a larger extent than in the past, from Iraq. Since the union of Iraq and Jordan was declared on February 14, 1958, Iraq has not taken an specific action as regards Jordan's budget deficits and development plans and needs.

In order to alleviate part of the financial pressure, Jordan applied for a \$50 million loan from the IBRD, whose representative visited Jordan late in 1957 and carried out a survey of the financial and economic situation of the country

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(1) Middle East Economic Digest (London: January 17, 1958) p. 8.

(2) L'Orient (Beirut: April 5, 1958).

(3) Iraq extended to Jordan loans totalling £1,125,000 during the financial year 1957-1958, to be spent on development projects. Middle East Economic Digest (London: February 14, 1958) p. 8.

In Lebanon, capital works and development expenditure have increased steadily. These expenditures are financed through the extraordinary budgets, as well as the ordinary and special budgets. The large projects are financed through the Development Works Fund created on April 5, 1944. This fund is financed from allocations from the Reserve Fund by special Acts of Parliament. Between 1944 and the end of 1957, that is, during a span of almost fourteen years, these allocations totalled LL 306.5 million,[1] while the Reserve Fund still showed a surplus of LL 65,892,243.[2]

A part of the foreign exchange component of development expenditures has been met by the U.S. aid. During the period 1952-1957, the U.S. have granted Lebanon a total of $ 38,111,000 in various ways: expenditure on agriculture and industry, reconstruction, and finally Eisenhower Doctrine ($ 10 million for 1957 only).[3]

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(1) Of the LL306.5 million allocated for development projects, only LL171 million were actually spent by December 31, 1957. Of the remaining LL135.5 million, LL80 million are already committed for use in 1958 and the coming years, while LL55.5 million still remained free. Report Submitted to Parliament on January 30, 1958, by Mr. Joseph Chader, then Chairman of the Financial Parliamentary Committee, p. 6.

(2) However, when all committments against the Reserve Fund are accounted for, namely, LL215,563,911 in all, of which LL108,563,000 are due in 1958, then it is clear that all the surplus in the Reserve Fund is wiped out. Ibid., pp. 10-14.

Finance Minister, Pierre Edde stated recently that "... all money reserves in the Treasury had been exhausted as a result of the Government's obligations drawn on these funds. He urged a policy of economy to save the country's finances. He said only important and well-studied schemes should be carried out. All schemes will now be referred to the Council of Ministers to study their implementation in the light of the country's financial position." Middle East Business Digest (April 22, 1958), p. 72. Even though Minister Edde is planning a cut in public spending, it is believed that he will follow a policy of giving priority to development plans.

(3) D. Mizrahi, "Aide Americaine", Le Commerce du Levant (Beirut: February 26, 1958).

Apart from the Litani $27 million 4.75 percent interest bearing loan, contracted from the IBRD in 1955 (of which a first payment of $3 million was received on April 3, 1958), the Lebanese public debt is small and internal.(1)

The Planning Board submitted to the Cabinet a LL.800 million 5-year plan for development, with over LL.300 million already voted for by the Chamber of Deputies. The plan envisages the spending of LL.180 million in 1958, LL.170 million in 1959, LL.152 million in 1960, LL.146 million in 1961, and LL.152 million in 1962.(2)

In order to go through with such a plan, the Lebanese government would have to depend to a larger extent than in the past on U.S. economic aid. The Foreign Affairs Parliamentary Committee recently examined the question of

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(1) Middle East Business Digest (Beirut: April 8, 1958) p. 24.

(2) Expenditure is divided under ten main headings:

1.	Surveys and Census	LL 7.5 million
2.	Water Utilization	277.5 million
3.	Agriculture	33.2 million
4.	Industry	19.6 million
5.	Tourism	35.0 million
6.	Major Works	304.6 million
7.	Important Social Projects	101.0 million
8.	Statistics	5.4 million
9.	Financial and Banking	12.7 million
10.	Administration	3.0 million

Paul Klat, "Un Plan Quinquennal pour le Développement de l'économie Libanaise", Le Commerce du Levant (Beirut: March 26, 1958).

U.S. aid to Lebanon, "... and adopted a recommendation to exhort the government to obtain an increase in American Aid."(1)

At any rate, the dependence on foreign exchange will be reduced appreciably if the government succeeds in obtaining favourable terms from the current negotiations which are taking place with the oil companies, IPC and Tapline.(2)

According to Table V, Syria's projected development expenditures for 1956 were less than those of 1955, but are expected to increase substantially in 1957.

Previously, development expenditures in Syria were financed from three sources: ordinary budget appropriations, available Treasury Funds, and loans from the Bank of Issue. During the years 1945-1952, total expenditures on development projects amounted to LS 301 million.(3)

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(1) L'Orient (Beirut: April 25, 1958). In fact, the question of U.S. economic aid has been discussed in governmental circles during the past few months. When Mr. James H. Smith, director of the International Cooperation Administration, paid a two-day visit to Lebanon in January 1958, the Lebanese Minister of Public Works submitted to him a programme of public works (including irrigation, power, water, and road projects) to be carried out with U.S. financial aid during 1958-1959 totalling LL 101 million. Up till now, nothing has materialized, but negotiations are still going on between the two governments. Middle East Economic Digest (London: February 7, 1958) p. 8.

(2) The dispute between the Lebanese government and the oil companies is over the magnitude of the pipeline royalties to be paid to Lebanon for letting oil transit through its territory.

(3) Awad Barakat, "Recent Economic Development in Syria", Middle East Economic Papers (Economic Research Institute,

At the request of the Syrian government, the IBRD undertook an economic study of the Syrian economy and its potentialities for development. The Mission estimated total expenditures of the central government for economic and social development in 1953 at LS 88.3 million. It recommended a six-year Development Plan (1954-1960) totaling LS 986.1 million, that would step up developmental expenditures to an annual average of LS 164.3 million.(1) The Plan was to be financed from various sources, namely, additional taxes and improved tax administration, internal borrowing (LS 102 million) and foreign borrowing (LS 195 million).(2)

The Syrian government readily established the proper machinery to carry out the IBRD proposal. In August 1955, the Syrian Parliament approved a Seven Year Plan (1954-1961) calling for a total expenditure of LS 660 million, or an average of LS 94 million annually.(3) The total outlay was to be derived partly from ordinary sources, partly through some sort of deficit financing, and partly through an external loan.

Syria looked first to the IBRD as a source of the external loan needed, but nothing came out of the negotiations.

AUB: 1954), p. 10. The actual distribution was the following:

From Budget appropriations	LS	115,000,000
From available Treasury Funds		59,537,000
From the Bank of Issue		126,825,000
Total	LS	301,362,000

(1) IBRD, Economic Development of Syria (Baltimore: Johns Hopkins Press, 1955) p. 175.

(2) Ibid., p. 177.

(3) UNRWA, op.cit., p. 298.

The late 1955 agreement with IPC, which entailed a considerable increase in Syria's foreign currency revenue, brightened the country's prospects of being able to carry out the Seven Year Plan on the scale contemplated. With such increase in magnitude, most, if not all, of the country's need for foreign currency could have been met without recourse to any external borrowing.(1)

The Suez crisis was, in a sense, detrimental to the Syrian economy, as all revenues destined for development purposes were spent on defence. The country faced a more serious "financial bottleneck" than that of 1955, since the strains of the last years "... have slowed down the rate of Syrian investment -- and may have caused a temporary flight of capital."(2)

The Soviet-Syrian economic agreement, signed on October 28, 1957, stipulated that Russia will supply long-term loans for Syria's immediate projects, which are all but one (nitrate factory) in the nature of public utilities. The loans, which will be used to import the material needed for the projects, will be supplied in roubles during a 7-year period, (at a 2.5 percent interest) after which re-payments will be made in 12 annual installments. The mode

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(1) Aside from the £8.5 million in back payments, Syria received LS 65 million in 1956, but only LS 27 million in 1957, due to the blowing up of the pumping stations late in 1956. It is expected that in 1958, the oil revenues would exceed those received in 1956. Middle East Economic Digest (London: March 21, 1958) p. 11.

(2) Burhan Dajani, "The Soviet-Syrian Economic Agreement", Middle East Forum (Beirut: December 1957) p. 37.

of repayment, be it in merchandise or any free transferable currency, will be the subject of a special agreement between the Soviet and Syrian Central Banks.(1)

It is expected that with this cheap financial help, along with the projected increase in oil royalties, the "financial bottleneck" will be resolved, and Syria would be able to accelerate its economic development plans.(2)

Saudi Arabia and the Sheikhdoms do not possess the proper machinery for development, but are aware of the need for accelerating the rate of progress. Consequently, certain amounts have been allocated to that end.

Table IX shows the magnitude of these allotments in Saudi Arabia in relation to total expenditures, while Table X shows that of Kuwait. In Saudi Arabia, expenditures on development accounted for 12 to 27 percent of total expenditures, as opposed to 28 to 51 percent in Kuwait.

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(1) Ibid., p. 37. The full text of the agreement was published in The Economy of Lebanon and the Arab World (Beirut: No. 60, December 1957) pp. 17-20.

(2) It has been reported that the first projects to be carried out under the loan agreement with the USSR will start soon. The Syrian Cabinet has approved an allocation of £S 40,550,000 for development projects; about half this amount represents local expenses on projects to be carried out with Soviet financial aid. Middle East Economic Digest (London: March 7, 1958) p. 10.

Table IX

Saudi Arabia: Development Expenditures

(Millions of Saudi Riyals)

Year (a)	Expenditure on Development	Total Expenditure	Percentage
1370-71	116 (c)	490	24%
1371-72	144 (c)	758	19%
1374	160 (c)	1335	12%
1375 (b)	500	1750	27%
1376 (b)	460	1700	27%

(a) The fiscal years covered these periods:

1370-71	April 8, 1951 - March 27, 1952
1371-72	March 27, 1952 - March 16, 1953
1374	August 30, 1954 - August 19, 1955
1375	August 19, 1955 - August 8, 1956
1376	August 8, 1956 - July 27, 1957

(b) Estimates

(c) Expenditure on public works.

Source: UNRWA, Quarterly Bulletin of Economic Development (Beirut: No. 13, 1956) pp. 324-325. Statements of the Minister of Finance, Saudi Budgets 1375 and 1376 A.H.

Table X

Kuwait; Development Expenditures

(Millions of US$)

Year (a)	Development Expenditures	Total Expenditures	Percentage
1952-53	24	51	47%
1953-54	56	110	51%
1954-55	33	116	28%
1955-56 (b)	40	129	31%

(a) Fiscal year begins April 1.

(b) Estimate

Source: UNRWA, Quarterly Bulletin of Economic Development (Beirut: No. 13, 1956) pp. 322-323.

In both Saudi Arabia and Kuwait, total outlays are quite large, but not all these expenditures can be strictly considered as developmental. For example, in Kuwait, a ten-year town planning scheme was drawn in 1951 which will cost something like £100 million. In Saudi Arabia, as well as in Qatar and Bahrein, most expenditures have been on public utilities and social services and royal palaces. It should be noted that the extent of development is limited in all the region, but that should not stand in the way of these countries to establish the necessary machinery for fostering economic development. The present expenditures are too costly, being undertaken in a haphazard and uncoordinated way.

The oil revenues of these countries are enormous. Saudi Arabia and Kuwait, the two leading producing countries, together received more than \$ 500 million annually in 1955, 1956 and 1957, and expect to receive still more for many years to come.

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This survey of the Middle Eastern economy can be best summarized by the following: Even though the Middle Eastern countries have developed rapidly during the past decade, the problem of the lack of capital to finance economic development has become a major pre-occupation of all the governments of the area. Foreign aid, at the rate that it is presently given, is not sufficient in relation to the area's needs, but the total oil resources, if properly managed and distributed, would certainly do away with the existing poverty in the midst of plenty.

At present, the Middle East as a region, is not getting the utmost benefit from its huge oil royalties. The countries concerned are trying to find solutions to this problem, but to date no comprehensive regional plan has yet been followed up seriously. The schemes are not lacking however; many have been put forward at official levels and on private initiatives, but none has yet materialized. If any lasting benefits are to be reaped, by all the Arab countries, from the discovery of Middle Eastern oil, some sort of inter-regional financial institution should be set up.

Chapter III

PROSPECTS OF FINANCING OF ECONOMIC DEVELOPMENT

The brief survey of the Arab Middle Eastern economy has shown that the non-oil countries have formulated lately economic and social development goals calling for more finance than these countries are now spending for new development. This is a necessary step for any government that desires to accelerate its economic development. However, if the plans are to be realized within the time schedules desired by the respective governments, additional funds will be necessary.

The survey also showed that, except for Iraq, the oil countries' potentialities for development are meagre. And that unless better use is made out of the enormous oil revenues in the future, the oil countries would not obtain lasting benefits of the present prosperity.

The various sources of funds open to the non-oil countries for the future financing of their programs may be divided into two broad classes, the internal and the external sources of financing. The first part of the present chapter discusses three methods of foreign financing, namely, private investment, grants and aids, and external loans. An attempt is made at evaluating the expected future role of each of the three methods of foreign financing in the economic development of the Arab countries.

"The role of foreign finance in economic development can only be of a subordinate character".[1] Underdeveloped countries, and the Arab countries are no exception, should finance at least a substantial and, in normal cases, the major part of their economic development needs from domestic sources. It will be found out that, unless the oil countries participate directly in the development of the Arab World, through the projected Arab Development Bank or any similar institution, these non-oil countries cannot realize their plans at the contemplated rate, and the whole Arab World will not be able to raise its standard of living substantially, and hence become a better place for life and living.

I. External Financing.

A. Private Investment.

It was explained in Chapter I how and why private investment played a predominant role in the external financing of world economic development in the past, particularly up to the outbreak of World War I, and later in the early post-war period (early 1920's). It was further explained how after the depression of the 1930's private investment failed to be resumed on a significant scale, and how the years follwing World War II have witnessed a substantial

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(1) Norman Buckanan and Howard Ellis, Approaches to Economic Development (New York, The Twenthieth Century Fund, 1955) p. 301.

revival of private foreign investment, especially direct investment.(1)

Despite this revival, and except for the extractive industries which are working mainly for export to the advanced industrial centers, private foreign capital has not actively participated in the development of under-developed countries. As far as the Arab Middle Eastern countries are concerned, the chief characteristic of private direct investment is its current tendency to concentrate on petroleum.

Aside from legal, cultural, and political obstacles,(2) there are two general economic reasons which might "...explain why even the traditional type of foreign investment is virtually non-existent today... First, there is little or no incentive for private business capital to go to low-income countries. Secondly, even for the expansion of raw-material supplies for export,

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(1) Those investments which involve foreign control of the enterprises in which the investments are made.

(2) The chief impedements to the flow of private foreign investment are found on both the demand and supply sides. Some under-developed countries do not look favourably upon private foreign investment; they fear foreign control of important sectors of their economy. On the other hand, some foreign investors are held back by fear of arbitrary acts by the governments of capital-importing countries (namely the fear of expropriation). A still further obstacle is the possible occurrence of double taxation. U.N., Measures for Under-developed Countries, op.cit., p. 81. A good detailed discussion of the numerous administrative and technical obstacles to private foreign investment is presented in: U.N., Methods of Financing Economic Development in Under-developed Countries, op.cit., p. 97.

private business funds will not want to have out in any steady or sizeable flow unless there is a confident expectation of steady and sizeable expansion of demand for such commodities." (1)

It is generally believed that the magnitude of capital influx to the Arab countries will undoubtedly not change drastically in the future partly due to the continuing tension in the Middle East. In fact, private western capital is steadily leaving the Middle East, except for oil companies, whose returns are great enough to justify putting up with the existing problems.

A new source of financing the industrial development of the region through private means has been recently introduced. On March 17, 1958, the Middle East Industrial Development Projects Corporation (MIDEC) was officially registered in Luxembourg by a cosmopolitan group of businessmen from the U.S., Canada and ten European countries. The newly formed corporation is seeking the direct participation

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(1) Ragnar Nurkse, Problems of Capital Formation in Underdeveloped Countries, (Oxford, Basil Blackwell, 1955), p. 88. The same argument is made in: U.N., Methods of Financing Economic Development in Under-developed Countries, op.cit., p. 96.

(2) France, U.K., West Germany, Italy, Sweden, Norway, Denmark, Switzerland, Holland, and Belgium. Le Commerce du Levant (Beirut, March 26, 1956; Middle East Business Digest (Beirut, March 24, 1958), pp. 2-4.

of nine Middle Eastern countries[1] in its initial capital making a total of twenty-one participants.[2] The formation of MIDEC is the first serious and practical attempt to solve Middle East economic problems through other than government channels. MIDEC's main object will be to develop new industries, with emphasis on small businesses, through private means and on a strictly commercial basis. It is significant that there is neither governmental nor oil company participation or representation in MIDEC.

MIDEC's basic function will be to bring together Arab businessmen with capital to invest and western corporations with capital and know-how who are willing to accept a minority interest.[3] For its services, it will receive 5 percent participation in the equity capital of any company in the establishment of which it has been instrumental.

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(1) Lebanon, Egypt, Sudan, Saudi Arabia, Jordan, Syria, Iraq, Kuwait and Iran.

(2) The initial capital, equivalent to Sw. Fr. 1 million, is divided into "A" and "B" shares, the former only carrying voting rights. The "A" shares amounting to Sw. Fr. 420,000 are equally divided between the participants (Sw. Fr. 20,000 per participant), while the "B" shares, amounting to Sw. Fr. 580,000, are subscribed to by the western participants only.

(3) It is expected that the Arab businessmen will supply the local currency needs of the businesses they run, while the foreign corporations will supply the necessary foreign exchange. The upper ceiling for western financial participation has been tentatively set at 40 percent of the capital of the concern financed.

Since some projects might demand substantial amounts of capital, MIDEC envisages the possibility of borrowing from international financial sources, such as the International Financial Corporation. At any rate, at the time of its formation, MIDEC's associated members comprised over eighty companies and institutions in all types of industrial and commercial activity (among which are important American, British, French and German banks). Therefore, the financial capacities of MIDEC seem to be quite substantial. MIDEC might prove, if properly managed, to be a good catalyst for the inflow of foreign capital into the Middle East, and might play an important role in the future industrial development of the region.

Whatever may be the underlying economic and non-economic causes of the current stagnation of international private investment, it is generally recognized that a significant increase in the flow of private investments to under-developed countries would require substantially greater incentives than now exist. The Arab countries should use every possible means to attract foreign capital by providing a better climate through such measures as "... granting a convertibility right and authorizing without any delays or restrictions, the remittability of profits."[1] Private capital moves on a sound business basis of mutual profit and hence provides a firmer long-run foundation than any other source of external financing. Private capital investment, which is nowadays almost altogether in the form of direct investment, brings with it managerial and technical skill, apart from having the advantage of going directly into capital formation.

B. Grants and Aids

The Arab countries need huge sums of money to spend in improving the human factor, on schools, university training, technical education, public health, and on agricultural extension services. Capital is also needed in order to improve the administration and to be spent on basic social needs.

All these requirements which are indispensable for economic development cannot readily be expected to yield a direct return. Some of the Arab countries, namely the non-oil countries, do not have the capital needed to finance such expenditures. Moreover, some of the basic economy projects,

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(1) Paul Klat, "The Future of Economic Development in the Arab World", Middle East Economic Papers (Beirut: 1956) p. 67. Proposals for reducing or eliminating deterrents to private direct investments may be conveniently grouped into three meausres: (1) to increase their yeilds (tax relief); (2) to increase the opportunity of transferring yields to the capital-exporting countries (through agreements); (3) to increase the security of investments against risks not normally associated with domestic

Table XI

U.S. Foreign Grants, July 1, 1945 - June 30, 1957

(in millions of U.S. dollars)

Country	Grants
Egypt	64
Iran	222
Iraq	11
Israel	265
Jordan	38
Lebanon	22
Saudi Arabia	4
Syria	1
Turkey	381
	1,008

Source: Council for Middle Eastern Affairs, Inc., *Middle Eastern Affairs*. Vol. III, No. 11 (Elmont, N.Y.: November, 1957) p. 385.

Original Source: U.S. Department of Commerce, Office of Business Economics, *Foreign Grants and Credits*, by the United States Government, June 1957 Quarter, Fiscal Year 1957 Review (Washington: October 1957).

a time, every government should look at it as a catalyst, since it cannot by itself solve the chronic problem. "Foreign aid will undoubtedly help to relieve the 'dollar shortage', but will it relieve the shortage of capital?"(1)

Unless an international body is created with power to make grants to the governments of under-developed countries for the purpose of helping them in raising their standards of living, the Arab countries cannot depend on foreign aid without taking the risk of being subject to political interference.

C. Loans

Another source of financing open to the Arab countries is through external loans, which include both bilateral and multilateral financing.(2)

Some Arab countries have benefited from bilateral agreements such as Jordan, which financed all its development program from British loans, and recently Egypt and Syria have resorted to such a device in order to cover the greater part of their foreign exchange needs in the implementation of their respective development programs.

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(1) R. Nurkse, op.cit., p. 93.

(2) Bilateral financing means that only two parties participate in the transaction or agreement, while multilateral financing means that more than two parties participate.

The U.S. extends loans with easy terms for development through its Export-Import Bank. Up to the present time, only four Arab countries (Egypt, Iraq, Saudi Arabia and Syria) have secured loans totalling $22.7 million from this Bank, which were devoted mostly to non-developmental purposes.

Table XII indicates some particulars of the four loans extended by the Export-Import Bank. By June 30, 1957, $22.4 million were utilized by the Arab countries, while the outstanding sums amounted to $6.95 million.

Late in 1957, a new source of bilateral financing for economic development was made available by the U.S. through the Development Loan Fund (DLF). Within a few months, applications from the Middle Eastern countries reached $225 million, but it has not been known yet what proportion of these applications has been approved. At any rate, even though the financial capacities of the DLF seem to be limited to roughly $925 million, its ability to make contribution to economic development in the Arab region is unquestioned.

As far as the multilateral financing is concerned, IBRD and its affiliate, IFC,(1) are the main specialized agencies. Up till now, IBRD's attitude toward the under-

(1) IFC was established in August, 1956. Up to the present time none of the Arab countries has yet applied for a loan.

Table XII

Export-Import Bank Loans to the Arab Countries

(in millions of dollars)

Country	Authorized	Utilized	Principal Collected	Outstanding on June 30, 1957
Egypt	7.3	7.3	5.1	2.2
Iraq	0.5	0.2	0.02	0.1
Saudi Arabia	14.8	14.8	10.1	4.6
Syria	0.1	0.1	0.05	0.05
Total	22.7	22.4	15.27	6.95

Source: Council for Middle Eastern Affairs, Inc., Middle Eastern Affairs. Vol. III (Elmont, N.Y. November 1957) p. 388.

Original Source: U.S. Department of Commerce, Office of Business Economics, Foreign Grants and Credits by the United States Government, June 1957 Quarter, Fiscal Year 1957 Review (Washington: October 1957).

developed countries has been rather reserved. For the last few years, the Bank has allotted a sum not exceeding $300 million annually to underdeveloped countries, which falls short of total needs.

Of all the Arab countries, only Iraq and Lebanon have obtained loans from IBRD so far. Syria, Egypt and Jordan have applied for loans but with negative results. It is believed in some circles that, despite its being an international body, political factors have been a setback on the success of some of its operations.[1]

IBRD seems to attach excessive importance to the foreign currency aspects of development. Instead of that, it should attempt at building up the capacity of underdeveloped countries which would later on facilitate the transfer problem of meeting the debt charges.[2]

However, it should be noted that an important obstacle to greater lending by the IBRD has been the unpreparedness of some governments. Even when all the good intentions for rapid progress prevailed, some countries lacked the facility of absorbing capital rapidly due to the lack of technical staff to undertake surveys and to prepare concrete over-all plans.

IBRD has sent several missions to Arab countries and as a result of the reports submitted by the individual missions most of the governments concerned have elaborated development plans, and hence are better equipped to absorb capital constructively. It might, therefore, be expected that the Arab countries would benefit more from such a source in the future, especially if the IBRD decides to allot more capital to underdeveloped areas. However, it would be more realistic to assume that the policy of the IBRD will not

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(1) Burhan Dajani, "An Arab Development Bank", op.cit., p. 12.

(2) U.N., Measures for Underdeveloped Countries, op.cit., p. 83.

change drastically towards the underdeveloped areas of the world. The reasons for expressing such point of view are clearly pointed out in the following quotation:

"The gap between the needs of the Middle East and its importance, and the insignificance of the loans granted for its development, indicates a fundamental problem inherent in the functioning of the Bank ....

In a certain sense the International Bank is handicapped by a kind of banking conservatism which cannot meet the needs and aspirations of underdeveloped countries. It naturally tends to recommend a rather slow and organic development procedure and to avoid the risk of financial overstrain. The underdeveloped countries want to make big strides. Their governments are under internal social pressure, and externally they are exposed to the East-West competition for economic preponderance... The peoples of the Middle East want to see tangible results in terms of higher standards of living for their rapidly increasing populations... At the present pace of development, the gulf between the underdeveloped countries of the East and the developed countries of the West is widening. Countries like Egypt, Syria, Lebanon and Jordan prefer to take risks and endure certain financial strains to accelerate progress. This is bound to conflict with the principles of the International Bank."(1)

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(1) Alfred Michaelis, "International Bank Activities in the Middle East", Middle Eastern Affairs, Vol. VIII, No. 5 (New York: May 1957) pp. 184-185.

II. The Need for an Arab Development Bank (ADB)

It follows from the preceding discussion that foreign financing will undoubtedly assist the Arab countries in their endeavour of raising their standards of living. But foreign financing will not be enough by itself. "Unless the habits of consumption and saving, the institutions and legal framework for accumulation, lending and investing can be adapted to the building and maintenance of capital, foreign aid can bring only transitory benefits. A permanent basis for higher living standards must be created within the society; indeed, this is the very meaning of economic development. Unless the chief nurture of growth is indigenous, the society is constantly exposed to retrogression."(1)

The Arab countries should depend to a large extent on domestic financing. In order to increase resources available for the domestic financing of economic development, recourse may be had to a variety of methods: voluntary savings, fiscal measures, inflationary methods and direct control. None of the methods will be taken up in this discussion, because such matters fall beyond the scope of this dissertation. However, one important source of financing, of an inter-regional nature, open to the Arab countries, but which has not yet been employed, will be discussed in some detail.

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(1) Norman Buchanan and Howard Ellis, Approaches to Economic Development, op.cit., p. 301.

The Arab Middle East has occupied lately a prominent role in Western European industrial development as a result of the striking of oil. However, the mere abundance of oil and the wealth accruing to the Arabs have not been "unconditional blessings." Aside from the disruption and the foreign domination that it has entailed, oil cannot be a blessing unless a large proportion of royalties is devoted to the development of the entire region.

Although actual production forms a very small part of total proven oil reserves,(1) these reserves are liable to exhaustion within the foreseeable future or even oil might be substituted for by atomic power. Consequently, unless quick action is taken to build up the productive capacity of the Arab economy, the progress achieved so far, as reflected by higher standards of living, will be soon caught up by the tremendous population increase. The whole region will become a poverty-stricken economy, and again will fall into that vicious circle.

Arab oil revenues are ever-increasing as a result of better payments terms and increased production. In 1955 and 1956, total revenues were $790 and $794 millions

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(1) Emile Bustani, "Sharing Oil Benefits", Middle East Forum (Beirut: January 1958) p. 9. Bustani gives the figure as 1%.

respectively[1] and it is expected that in 1957 both years will be exceeded.

The three largest producing countries, Saudi Arabia, Kuwait, and Iraq accounted for $730.4 million in 1955 and $714.4 million in 1956.[2] Of these huge sums, an insignificant percentage has been spent on new development. Because of the poverty in natural endowments (with the exception of oil) the extent to which Kuwait, Bahrein, Qatar and even Saudi Arabia can be developed is extremely limited. Only Iraq has vast potentialities for development and seems capable of absorbing most if not all its future oil revenues.

The central problem of development in the Middle East is that the oil revenues seem to be mostly used to finance development projects which will raise the national income but nothing more. In order to prevent the population growth from absorbing the increased output, "the oil royalties must be used as a fulcrum by means of which national income can be levered not only to a higher level but to a higher level from which it will continue to grow.[3]

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(1) U.N., <u>Economic Developments in the Middle East, 1955-56, op.cit.</u>, p. 93.

(2) <u>Ibid.</u>,

(3) S.J. Langley, "Oil Royalties and Economic Development in the Middle East", <u>Middle East Economic Papers</u> (Economic Research Institute, AUB) p. 97.

Since development opportunities are completely inadequate in the oil countries, except Iraq, then a strong case exists for transferring part of the wealth to other neighbouring Arab countries, which are better suited for development, but lack the required capital. The productivity of capital is much higher in Lebanon, Syria, Egypt and Jordan than in the Sheikdom's and therefore an influx of capital would set off a cumulative process of economic growth which will insure an adequate income in the future.

A suitable way of transferring this wealth is through the creation of an Arab Development Bank whose capital would be largely contributed to by the oil countries. By doing so, the whole region would obtain unending benefits from its oil wealth.

The creation of an Arab Development Bank is justifiable only if certain conditions prevail. The question naturally arises as to whether those countries which have the available financial resources are willing or can invest them in other countries through such an institution. The problem is by no means easy.

In the first place, some potential lenders have developed consumption habits which leave little or no surplus for any development. Saudi Arabia, despite the fact that only a negligible part of its enormous oil revenues is spent on development, seems to be in the peculiar situation of being constantly indebted to the oil company.(1)

Secondly, some potential lenders do not possess the freedom of action which might enable them to take any appreciable part in investment.(2) For example, in the case of Kuwait, an Advisory Board, with headquarters in London, and entirely composed of British citizens, is responsible for the all-important question of investing Kuwait's surplus capital. Hence, for all practical reasons, it seems logical to assume that a part of these revenues which take the form now of Kuwaiti loans to Great Britain at 2.5% interest rate,(3) is not readily available to Kuwait.

While Saudi Arabia's problem can be easily solved by cutting down conspicuous expenditures, that of Kuwait is of a different nature. The Advisory Board should be made to understand and realize the advantages of such an institution and the role that it can play in the whole region.

It is true that investment in such an undertaking

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(1) Paul Klat, "The Future of Economic Development in the Arab World", op.cit., p. 63.

(2) Burhan Dajani, "An Arab Development Bank", op.cit.,p. 11.

(3) Burhan Dajani, "The Soviet-Syrian Economic Agreement", op.cit., p. 41.

might be somewhat risky in the sense that Arab countries have only recently acquired their independence and hence have limited experience in development. The danger of undertaking projects which might prove to be unprofitable will exist, at least during the first years of operation, but the bad consequences could be limited. The bank can and should take a conservative attitude at first until it feels its way through.

The oil countries should realize that it is more profitable to invest their surplus capital in the Middle East than elsewhere. They should realize that in case of political disturbances or war, it is easier for them to get back their money if it is invested in friendly Arab countries. The aggression on Egypt and the consequent blocking of foreign exchange balances should have opened their eyes to that fact.

It seems realistic therefore, to assume that the oil countries should and will consider seriously an eventual participation in such a bank.

A further possible source of capital would be the oil companies. Much of the present prosperity in the Arab countries is due to the initiative of these foreign oil companies which have provided the funds for financing all operations, the technical knowledge and experience and all the facilities of a world wide organization. They have recently shown their goodwill by offering better terms of payments, but they are still reaping huge profits. It is in their interest to help the Arab countries in every way they can, one way being by investing a proportion of their profits in Middle East development.

By contributing towards a smooth and positive development in the whole region, the oil companies will insure, in a sense, the continuation of their activities. The blocking of the Suez Canal and the blowing up of the Syrian pumping stations (which resulted in the stopping of Iraqi oil to flow across Syria) have shown to what extent Western Europe's industrial plants depend on Middle East oil. Therefore, it is to the benefit of both parties that a stable arrangement be arrived at which "will insure the uninterupted flow of oil, upon which Arab Development Programs as well as the European economy depend."(1)

Once this is fully realized, and the proper approach to the oil companies is made, the results ought not be negative. The past record of the oil companies in lending local governments might be regarded as suggestive of a possible willingness on their part to co-operate.

One point should be stressed: the Arab Development Bank will be a purely business concern; it is neither an aid nor a charitable institution. However, a necessary condition for success is that the rate of interest should be

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(1) Emile Bustani, op.cit., p. 9.

somewhat low, at least lower than the rate of which capital can be obtained from international sources.[1] Otherwise, the high interest burden will impose a further obstacle to development.

This does not mean that the Bank is established to compete with the IBRD. On the contrary, it is with the idea that this institution can complete the gap which can neither be filled by the IBRD nor by its affiliate, IFC, that the suggestion is presented.

An Arab Development Bank can perform many functions which the IBRD is precluded from performing either by its Articles of Agreement or by its practices.[2] For example, the IBRD loans are extended for the purchase of equipment needed for development projects, leaving the burden of all other costs entirely on the local government or institution. This imposes a heavy limitation on development especially on projects which demand a high labor cost component. A serious trap which some governments might fall into in underdeveloped countries is to try and imitate the highly developed countries by applying labor-saving equipment

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(1) This does not mean that the participating countries should not have a fair and secure return, otherwise there will be no sufficient inducement for the potential lenders to participate.

(2) Burhan Dajani, "An Arab Development Bank", op.cit., p. 12.

while the country has surplus labour (This danger is increased when the IBRD is granting a loan for the purchase of equipment. Since by doing so most of the costs would be shouldered by the IBRD).

The other limitations of the IBRD namely that it extends loans only to governments or to private concerns but with government guarantee, and that it does not indulge in equity financing, are supposed to be compensated for by the IFC. However, no matter how successful the latter is in stimulating the productive investment of private capital, its financial resources are limited and consequently its services should be regarded as supplementary to the other sources of financing.

By creating an Arab Development Bank, the participation of the IBRD in Middle East development will be rendered easier. This could be achieved by the granting of a line of credit, over and above the other resources of the Arab Development Bank, along lines similar to those previously adopted with the Turkish Development Bank.

Aside from the above financial considerations there are non-financial, but economic advantages of such a bank. No matter to what extent the IBRD is active and shows interest in the initiation and promotion of projects in the Arab World, a regional bank would be more efficient for our purposes. A bank which is entirely preoccupied with a definite region, will inevitably acquire a more intimate knowledge of the needs of the region and by experience can develop its own technique for promoting private development. A regional bank of this nature can play a very useful economic function and might be able to help in the co-ordination of economic growth for the entire region and, consequently result in the more efficient exploitation of its resources.

There are non-economic advantages too. In an age like ours where political development is closely tied up with economic development, the far reaching economic consequences of such a project are clear. The security of the Arab World depends to a large extent on its economic development, since such development is essential for stability.

Behind such an array of advantages, one cannot but wonder why that institution has not come into being yet. So far the oil countries have shown no real interest in the project. "The whole issue is basically one of co-operation and mutual trust. The oil countries must be made to understand that the economic development of their neighbours can only be to their own long-run economic advantage. Once this oneness of interest is appreciated and close co-operation achieved a good part of the problem of capital would be solved."(1)

(1) Paul Klat, "The Future of Economic Development in the Arab World", op.cit., p. 63. The word Part is used on purpose, since it is believed that the creation of such a bank, will considerably reduce the need for foreign capital, but will not eliminate it completely.

CHAPTER IV

A HISTORICAL SKETCH

Among the first who realized the possibilities and advantages of an Arab Development Bank (ADB), were the British and Américan governments, who in 1945, in consultation with the oil companies operating in the Middle East, "recommended the setting up of a bank for general economic development, covering all the territories concerned, to which the companies would have assigned a proportion of their profits, for investment in long-term development projects."[1] It was fully realized that such a scheme would be the only way of securing that the development of the chief resource of the region would directly promote a general rise in its standard of living.

The proposal which was a part of the general Anglo-American oil agreement (signed in 1945), was not carried out mainly because the general agreement was not ratified.[2] Since then, the interest of both countries, in such a venture, has not been revived.

Soon many Arab politicians and economists became aware of the benefits of such a project, and put forward

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(1) Doreen Warriner, Land and Poverty in the Middle East (London: Royal Institute of International Affairs, 1948) p. 139.

(2) For further details on the agreement, see "Oil Politics", The Economist (January 2, 1947).

their views through the Arab press. It was left to Professor Said Himadeh to present the first definite plan; in an address before the third session of the congress of Arab Chambers of Commerce, Industry and Agriculture, which took place in Damascus on May 8, 1953, he exposed his ideas on the need for such a bank, and the possibilities of its establishment and success.(1)

Professor Himadeh recommended the creation of a bank, with an authorized capital of the equivalent of £E 400 million, half of which would be subscribed to by the Arab governments in proportion to their budgets, the other half being left entirely to the oil countries in proportion to the oil royalties they receive.(2) The first half of the share capital was to be paid in the different local currencies, while the second in the currencies which the governments received from the oil companies, and in the same proportion. That method would ensure to the bank its foreign exchange needs. Furthermore, the bank was to supplement its resources by the issue of interest bearing bonds which would be purchased by the oil companies to the extent of 25 percent of their net operational profits.(3)

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(1) Said Himadeh, "The Financing of Economic Development in the Arab Countries and the creation of an Arab Development Bank", The Economy of Lebanon and the Arab World (Beirut: Nos. 15 and 16, May-June 1953) pp. 39-50.

(2) The proportion of share capital was to be calculated on the basis of 1953 figures, with an adjustment every three years. Ibid., p. 46.

(3) Ibid., p. 47.

At the request of the Lebanese government, Professor Himadeh prepared a complete draft of the proposed Arab Development Bank, and submitted it to the government on May 25, 1953, which in its turn submitted it to the Arab League.(1)

The idea of an ADB took first official notice during the Conference of Arab Ministers of Finance and Economy which was held in Beirut late in May (25-31) 1953. It was decided at the conference, "... that the Arab countries are in great need for the formation of a financial institution for Arab development, and that the best way for establishing this institution is by requesting the Secretariat General of the Arab League to study the project and the possibilities of its execution, taking the advice of experienced banking institutions in technical and organizational matters. The results of the study were to be put before the Economic Council of the Arab League at the earliest possible date."(2)

As a result of the above recommendations, the Secretariat of the Arab League adopted the draft project of Professor Himadeh, after introducing few alterations, and presented it to all the members. The IBRD was requested to comment on Professor Himadeh's plan, and to give its views on the possibility of creating such an institution.

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(1) The complete draft, which contains certain modifications on the original plan, most important of which is the cutting down of the authorized capital in half, from £E 400 million to £E 200 million will be discussed in detail later on. See The Economy of Lebanon and the Arab World (Beirut: No. 25, May 1954) pp. 11-23.

(2) Secretariat General of the Arab League, Economic Section, The Arab Financial Institution for Economic Development (Cairo: 1957) p. 3.

During the first ordinary session of the Economic Council, held in December 1953, the draft project was presented, after which the Council took the resolution to refer the matter to the Financial Sub-Committee for further investigation.

After its first two meetings (held on December 6 and 10, 1953 respectively), the Financial Sub-Committee of the Economic Council, found out that it needed more information on certain aspects of the scheme[1] before it could present a complete draft, and instantly informed the Economic Council about the result of its study.

The Economic Council met on December 10, 1953, and after listening to the report of the Financial Sub-Committee, was convinced of the arguments presented and decided to refer the matter to a sub-committee. The latter was asked to gather the opinions and suggestions of all member countries, and along with its personal study of the project, to embody the whole in a report which will discuss the technical and economic possibilities of creating the proposed institution.

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(1) The Financial Sub-Committee felt that it needed further investigation on problems such as: the fixing of the unit of currency on the basis of which subscription to the authorized capital was to be made; the fixing of the amount of authorized capital and the method of subscription; on estimating the amount that the ADB can get, either through participation or through loans, from the IBRD etc.

The Sub-Committee did not meet on the date scheduled (January 23, 1954) due to the delays of member countries in submitting their suggestions, but the subject was brought up again, when the Economic and Financial Committee was convened in July 1954.

Turn by turn, the draft project prepared by the Secretariat General of the Arab League, the comments of all the member countries, and the memorandum of the IBRD(1) were reviewed. The committee, despite its approval of creating a joint financial institution in principle, believed that the original draft was not practical for execution. It suggested that the IBRD should be contacted, and asked to prepare a different draft, with the help of Arab experts, which will conform more realistically with the economic conditions of the region, and hence have a better chance of success.

The decision reached at the second ordinary session of the Economic Council (December 1954) regarding the financial institution, was "... to ask Dr. Abd Jalil el-Omari to prepare a new draft project, which will be eventually presented to the various governments, and then the Economic Council would be summoned in an extraordinary session at which the final text of the Articles of Agreement of the ADB would be agreed upon."(2)

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(1) The IBRD memorandum was published in <u>The Economy of Lebanon and the Arab World</u> (Beirut: No. 27, Sept. 1954) pp. 32-38.

(2) Secretariat General of the Arab League, Economic Section, <u>The Arab Financial Institution for Economic Development</u>, p. 4.

The Economic Council was not convened in an extraordinary session, but at the end of its third ordinary session (January 25, 1956) a resolution was taken "... to establish an Arab financial institution for economic development with an authorized capital equivalent to £E 20 million fixed in gold at the time of formation. The authorized capital was to be subscribed to by the Arab countries in proportion to their shares in the Arab League Budget, and every country was to pay twenty-five percent of its total subscription as an initial payment, as soon as the institution was established, while the rest was to be decided upon by the institution ... Arab countries, not members in the Arab League, were accepted to participate in the above capital of the institution."(1)

In accordance with the decisions of the Economic Council the Secretariat General prepared the draft project, as well as an explanatory memorandum, and was assisted by Dr. Abd-Jalil el-Omari. In the meantime, having already received the proposal prepared by the IBRD, it compared both drafts in a supplementary explanatory memorandum, and sent copies of all these documents to the member countries.(2)

The Economic Council discussed both projects during its fourth ordinary session (May 1957) and after long

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(1) Ibid., p. 5.

(2) The Arab League and the IBRD drafts will be discussed later on.

deliberations adopted that of the Secretariat General, with slight changes, and unanimously voted to create an ADB in its meeting of May 3, 1957.

Of the nine countries which voted to create an ADB only four, namely, Egypt, Saudi Arabia, Syria and Jordan have so far signed the Agreement.[1]

Since the share in the total subscriptions of these four countries in the stock capital of the ADB (which is roughly 67 to 68 percent)[2] falls short of the minimum percentage required (75 percent) to enable the Agreement to enter into force, the ADB cannot be established unless other countries decide to participate. It is hoped that, during the fifth ordinary session of the Economic Council, the subject will be brought up again. If this long projected Arab Development Bank should ever materialize, a project which has been considered and is still considered by many economists as the most ambitious yet conceived in the Arab World, it might form the launching of a new and bold phase in regional economic organization and co-operation.

Having a seniority right, Professor Himadeh's proposal will be discussed in the first section of Chapter V,

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(1) Letter from the Arab League Council to the various Ministries of Foreign Affairs, dated May 13, 1957.

(2) For further details of the distribution of shares among the individual countries, see Chapter V.

while the second section will be devoted to a comparison of the two other major proposals, those of the Arab League and the IBRD, with that of Professor Himadeh without, however, attempting an evaluation of any of them.

The comments and suggestions forwarded by some Arab League experts and other Arab economists on the above proposals, as well as the discussion of few original, but less detailed, proposals (1) cannot be mentioned in detail. However, reference will be made to the most noteworthy criticisms and suggestions in another chapter, which will deal with the appraisal of the three main schemes.

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(1) The latest original, but sketchy, proposal is that of Mr. Emile Bustani, who proposes to establish an Arab Development Bank, which will be equally financed by the oil-producing countries and oil companies out of a fixed proportion (he suggests 10 percent) of the yearly operational profits of the oil companies, before distributing royalties, taxes and profits to either the oil countries or the companies. For further details, see Emile Bustani, "Sharing Oil Benefits", Middle East Forum (Beirut: January 1958) p. 9.

CHAPTER V

THE MAJOR PROPOSALS

The present chapter is of a descriptive nature. The first section is a resumé of the Articles of Agreement of Professor Himadeh's proposal for the creation of an Arab Development Bank (ADB), which was presented to the Lebanese Government on May 25, 1953.

The second section is devoted to a comparison of the Arab League and the IBRD proposals with that of Professor Himadeh. In this comparison, major stress will be laid on the Arab League proposal, partly because it was adopted by the Arab countries during the Fourth Ordinary Session of the Economic Council of the Arab League (May 1957) and hence deserves more careful investigation; but more so because of the partial inadequacy of the IBRD proposal.(1)

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(1) In Fact, the limitations of the IBRD proposal are readily recognized by its own proposers. In the introductory section of the proposal the IBRD states that "The draft has been prepared without having the benefit of the views of the sponsoring governments in respect of basic problems affecting the Bank's structure, the sources of its funds and the essential nature of its operations. In the absence of policy decisions on such matters, a draft charter can do no more than serve as a basis of discussion and a means of raising questions for consideration. This draft has been prepared to serve those purposes and does not purport to reflect any views of the IBRD on policy issues of the kind mentioned above." IBRD, Articles of Agreement of the Arab Development Bank (Published by the Secretariat General of the Arab League, Cairo: 1957) p.1.

Moreover, the draft is incomplete in the sense that important matters have been left open, such as the amount

It is evident that the discussion cannot include all the provisions of the Articles of Agreement of the three proposals. An attempt has been made at covering the most basic items, as well as the main controversial issues.

I. The Himadeh Proposal (1)

A. Purpose of the ADB

The purpose of the institution is fourfold: (2)

1. To help in the economic development of the Arab member countries by facilitating the pooling of financial resources and their channeling into productive ventures, and also to help in developing the productive means and resources of these countries.

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of authorized capital, the currency in which it is to be expressed, the number and value of the shares, and the currency or currencies in which subscriptions are to be paid.

It is also mentioned in the introduction to the IBRD proposal, that "The IBRD draft follows in general the pattern of the Articles of Agreement of the IFC, which seemed more appropriate as a framework than those of the IBRD, which provide for more restricted activities and contain clauses which seem unnecessary for the purposes of the ADB... It is possible that the approach to the organization and operations of the ADB as reflected in the draft or the language used in particular sections may not always be appropriate for an institution designed to operate in the Middle East which has a background, law and culture differing from that on which the draft is based. Accordingly, it may be necessary to make certain changes on that account." Ibid., p.1.

(1) Said Himadeh, "An Arab Development Bank," The Economy of Lebanon and the Arab World (Beirut: No. 25, May 1954) pp. 11-23. Proposal published in Arabic.

(2) Article 1.

2. To expand the trade relations among member countries by participating in the financing of regional projects, especially those which result in regional specialization of production.

3. To manage its operations in such a way so as to take into consideration the relative financial needs of member countries, and its (the ADB's) impact on the prevailing economic conditions.

4. To co-ordinate the loans it extends with the international loans, priority being given to the most useful projects.

B. Membership

Membership is open to:(1)

1. The Arab states which sign the Agreement (regarded as original member); and

2. Any Arab state that might join later on.

C. Authorized Capital

The authorized capital is set at 200 million Egyptian Pounds, valued in terms of gold, as declared to the International Monetary Fund.(2) The capital is divided into 2000 shares, each of the value of LE 100,000,(3) issued at par.(4)

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(1) Article 2.

(2) On September 19, 1949 the Egyptian Government declared to the International Monetary Fund that the gold content of the Egyptian Pound was equivalent to 2.55187 grams of fine gold.

(3) Article 3, paragraph 1.

(4) Article 5.

The ADB is empowered to increase its capital, if it finds it suitable or necessary, but the increase requires a three-fourths majority of the total voting power.(1)

D. Subscription to the Stock Capital

The share capital is distributed among all participating countries in the following manner: the share of every country is proportional to the magnitude of its 1953 budget revenues (including oil revenues), in relation to the total budget revenues.(2) A member country is entitled to subscribe to a larger part of the capital stock than which is alloted to it, in accordance with the above principle. In such an instance, in order to meet the increase in demand for its shares, the ADB should increase its capital stock.(3) All problems relating to the method of subscription, the kind of shares, and the way of payment, will be decided upon by the ADB.(4)

The capital stock is divided into three parts:

1. The first quarter will be called in in ten annual instalments,(5) the first of which is payable

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(1) Article 3, paragraph 2.

(2) Article 4, paragraph 1.

(3) It is assumed that all the countries will subscribe to the amounts that are alloted to them. Article 4, Paragraph 2.

(4) Article 4, paragraph 3.

(5) Article 6, paragraph 1.

within eight months of signing the agreement, while the remaining nine instalments will be payable in the month of January of every following year.(1) Table XIII shows the amounts of annual subscriptions of member countries during each of the first ten years.

Table XIII

Himadeh Proposal

Subscriptions to the Capital Stock of the ADB

(in millions of Egyptian Pounds)

Country	Budgets(1)	Total Subscription	Annual Subscription
Egypt	200	80	2.000
Iraq	85	34	0.850
Saudi Arabia	80	32	0.800
Kuwait	60	24	0.600
Syria	20	8	0.200
Qatar	15	6	0.150
Lebanon	12	4.8	0.120
Sudan	10	4	0.100
Jordan	10	4	0.100
Lybia	6	2.4	0.060
Bahrein	2	0.8	0.020
	500	200.0	5.000

(1) Figures for the year 1953

Source: Said Himadeh, "An Arab Development Bank," The Economy of Lebanon and the Arab World, (Beirut: No. 25, May 1954) p. 23.

(1) Article 9, paragraph 1.

2. The second quarter will be called when the ADB finds that its funds are short of its requirements.(1) This portion of the stock capital is callable in dates and instalments decided upon by the ADB.(2)

3. The third and fourth quarters are callable only for the settlement of obligations undertaken by the ADB, and to the extent of those obligations, in dates determined by the ADB.(3) The extent of the liability of member countries is limited to the unpaid part of the share capital.(4)

Every member pays its share to the capital stock in the currency or currencies in which it receives its budgetary revenues, and in the same proportions that it receives these currencies.(5)

Equilibrating measures are provided for in order to stabilize any fluctuations in the rate of exchange of member countries. In case of devaluation, the member ought to pay additional amounts of its own currency to bring up the value of its total payments to its original

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(1) Article 6, paragraph 1.

(2) It is not memtioned specifically, whether the second quarter will be called in only after the tenth year, or simply when the ADB finds that the first quarter funds are not sufficient for the development needs of the area. Article 9, paragraph 2.

(3) Article 6, paragraph 1.

(4) Article 7.

(5) Article 8.

level; or, alternatively, the member's contribution ought to be equitably adjusted in case of the overvaluation of its currency by withdrawing part of the original subscription.(1)

The shares of the ADB cannot be pledged or encumbered in any manner whatever, and can only be transferred back to the ADB.(2)

E. Other Financial Resources

The financial resources of the ADB, other than its stock capital, consist of:(3)

1. Amounts borrowed from the IBRD and other banks, or through the floating of bonds; and

2. The reserve capital.

The ADB fixes the conditions under which the bonds are issued. At no time can the value of total bonds issued exceed the subscribed capital and reserve of the ADB.

Ten percent of the annual net operational earnings of the ADB are automatically transferred to the reserve fund. Additional sums, out of profits, could be

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(1) Article 10.

(2) Article 11. No explanation is given on whether member countries can resell or return their shares to the ADB, except when a member loses its membership. When a member is suspended, or when it willingly withdraws its membership, it is obliged to resell its shares to the ADB. Article 39, paragraph 2.

(3) Article 12.

transferred to the reserve fund, the decision being left to the Board of Governers.[1]

F. Functions

The functions of the ADB or the forms of financing are divided into,two broad groups:[2]

1. Extention of loans.

2. Direct equity participation.

Loans are extended to member governments and development boards, or to specialized agricultural and industrial credit institutions, a government guarantee being required in the latter two cases.

The ADB may participate partially in the capital of companies which undertake developmental activities in one or more countries of the region. It also may participate in companies which indulge in trading activities,on a regional basis.

All of ADB's financial resources, whether mobilized in the form of loans or in direct participation, should be invested in member countries only.[3]

G. Operational Principles of Financing

The operational policy of any institution of this nature is of prime importance as far as the contribution

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(1) Article 36, paragraph 1.

(2) Article 14.

(3) Article 13.

of such an institution to the economic development of the region is concerned. If the principles adopted are impractical, it follows that the Bank will not be able to serve its purpose. Therefore, great care should be taken in formulating a practical and flexible policy.

Before coming to the operational principles of financing, it should be noted that the ADB and its officers are not allowed to interfere in the political affairs of any member. Nor should the officers be influenced in their decisions by the political character of the member concerned. If the purpose or purposes of the ADB are to be achieved, only economic considerations should be relevant to its decisions.(1)

1. <u>Extension of Loans</u>: The ADB is not allowed to grant any loans to any member country or any institution operating in that country, unless certain conditions are satisfied. In this connection, a distinction has to be made between loans which are extended to finance a specific project, and those advanced to financial developmental institutions, since the criteria for loan approval differ in the two cases.

There are four requirements in the case of loans extended to specific projects.(2) First, if the recipient is not a government, then the government, the

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(1) Article 24.

(2) Article 17, paragraph 1.

central bank, or any similar institution accepted by the ADB, should guarantee the repayment of the loan, the interest charges, and other supplementary costs. An exception to the above rule is allowed when an enterprise, in which the ADB has participated, applies for a loan. The ADB is empowered to approve the loan without demanding any government guarantee.

Secondly, the ADB will not extend any loans, unless it is convinced that the requesting borrower cannot get sufficient money from other sources, on reasonable terms, to finance the project.(1)

Thirdly, a committee of experts should examine the financial, technical, and economic aspects of the projects, and submit a report to the ADB before the loan is approved.(2) The committee is asked to pay special attention to the prospects of recovering the investment. The ADB should be convinced of the recommendations of the committee (in case they are favourable)(3) and of the capacities of the government in fulfilling its obligations as debtor

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(1) It is not mentioned whether the IBRD and the IFC are included among the other sources.

(2) The committee of experts for any project consists of two or more members. The governor who represents the country in which the project is undertaken chooses a technician, while one or more experts will be selected from the regular technical staff of the ADB. Article 31.

(3) In case the committee's recommendations are unfavourable, the ADB would also have to be convinced of the soundness of these recommendations.

or guarantor; otherwise, no loan would be granted.

Fourthly, the ADB will not finance on enterprise in the territories of any member, if such a project will harm the interests of the other members.(1)

A prerequisite for the extension of loans to financial development institutions is that the borrower should be a specialized institution in industrial or agricultural credit or both. Loans should be guaranteed by mortgages or shares acquired through the operations of the borrowing institution, but the loan should not exceed fifty percent of the value of the collateral or shares placed as a guarantee.(2)

The ADB will extend loans in currencies other than the currency of the borrower, except in the case of credit institutions which can borrow of the currency of the country in which they are operating.(3)

The ADB has the right to make arrangements to ensure that the proceeds of any loans extended by it, will be used

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(1) This requirement is ambiguous. Presumably, the committee of experts will determine whether a project is harmful or not. An important question is whether the committee will consider competition harmful.

(2) Article 17, paragraph 2.

(3) Article 22. Since the demand for every currency need not necessarily be proportional to its supply (and will not in all probability be proportional), and since it is not in the advantage of the ADB to have idle resources, the ADB reserves the right to convert the currency of any member, into the currency of any other member or into foreign currencies, according and to the extent of its needs (Article 21).

only for the purpose for which they are made available.[1]

2. Direct Participation: Coming to the operational policy pertaining to the other form of financing, namely, direct participation in enterprises, certain conditions are required if participation is to be obtained.[2]

First, the ADB will not participate except in those enterprises in which private capital or governments are unwilling to invest alone.

Secondly, the ADB should limit its participation to those productive ventures which are apt to yield reasonable returns.[3]

Thirdly, the ADB should be certain of the success of the project. This could be partly achieved by consulting technical institutions as well as economists experienced in the type of project concerned, prior to participation.

Fourthly, there should be an upper ceiling for the participation of the ADB in any single project as well as for its aggregate participations. The participation of the ADB in any single project should not exceed one third

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(1) Article 18, paragraph 1.

(2) Article 19.

(3) Reference is made here to the profits to shareholders, and not to the economy. This requirement would limit the contribution of the ADB, since most public utilities, which yield very little profits, if any, but are extremely useful to the economy, might not be financed, if the above principle is applied.

the capital of the company which is undertaking the project. Moreover, at no time should the participation of the ADB, plus its loans, if any, to anyone of these ventures exceed 10 percent of the paid-in capital and reserve of the ADB. Finally, total participations of the ADB (including the loans extended to those ventures in which it participates) should not exceed 40 percent of its paid-in capital and reserve.(1)

Fifthly, the ADB should be represented in any enterprise in which it invests, in proportion to its participation in the total share capital.

Since the ADB should try to pool private capital, it is advisable that it gives up the shares which it acquires through its investments by sale, whenever possible, to Arab individuals or companies for "reasonable prices"(2) provided such sales do not cause any considerable jeopardy to the other stockholders of the concerns.(3)

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(1) There is also a limit to the total amount of financing of the ADB (all loans and equity participations), which is not to exceed the value of the subscribed capital and reserve of the ADB (Article 16).

(2) It is not specifically mentioned who is to decide on what the "reasonable price" is, but presumably the conditions of sale will be arrived at by mutual agreement between the ADB and the prospective buyers.

(3) Article 20. The selling of obligations has a dual advantage. Other than pooling private capital, it results in an increase in the ADB's lending capacity. However, it might be interpreted at times (by the business community) as reflecting bad financial status of the concern in question. In such instances, the ADB should refrain from selling its shares for safeguarding the interests of the other investors.

3. Loan Repayment: The ADB will formulate its policy regarding loan repayment.[1] It will fix for every loan the interest rate, the commission rate, the maturity date, the method and dates of repayment, and other conditions. Moreover, provision will be made for the currency in which the loan will be repaid. The borrower can settle his account in gold, no matter in which currency the loan was made, or if the ADB approves, in a currency other than the one originally agreed upon.

The ADB may alter the conditions under which a loan was extended at the request of the debtor, if it is convinced of the necessity of such action, or if the suggested change is to the benefit of the borrower, its members and itself.

The ADB may, if it finds it absolutely necessary, accept to receive the repayment of a loan in the borrower's own currency (in case the loan was made in another currency) over a period not exceeding three years. In that case, it is the responsibility of the ADB to fix the way in which the amount of that currency will be disposed of, to maintain the price of the currency, and to make arrangements for the repurchase of the currency, by the borrower, at a later date.

Finally, the ADB may amend the conditions relating

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(1) Article 23.

to the redemption or settlement of loans, or the prolongation of its maturity or both.

H. Administration of the ADB

The ADB shall have a Board of Governors, an Executive Board of Directors, a Director General, a Board of Advisors, and other officers and staff to perform such duties as the ADB may determine.(1)

1. Board of Governors:(2) Each member country will appoint to the Board a Governor and an Alternate Governor, who will elect one of them as Chairman to preside over the Board's meetings. Unless the member country decides to the contrary, each Governor and his Alternate, shall serve for a period of five years, subject to re-appointment.

All the powers of the ADB are vested in the Board of Governors, which may adopt such rules and regulations which are judged necessary or appropriate to conduct the business of the bank. The Board of Governors may delegate to the Executive Board of Directors, authority to exercise any of its powers, except the power to:

(a) Admit new members.

(b) Increase or decrease the capital stock.

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(1) Article 25.

(2) Article 26.

(c) Suspend a member.

(d) Decide any question of interpretation of the provisions of the Agreement.

(e) Make arrangement to cooperate with other international organizations (other than informal arrangements of a temporary or administrative character).

(f) Decide to suspend permanently the operations of the ADB and to distribute its assets; and

(g) Determine the distribution of the net income of the ADB.

The Board of Governors shall hold an annual meeting, and may hold others, either when it feels there is a necessity or at the request of at least five members of the Board of Directors.(1)

Every member will have 200 votes regardless of the amount of stock capital held, plus one vote for each share

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(1) In order to reduce the meetings of the Board of Governors to a minimum (only for important decisions) the Board may, by regulation, establish a procedure whereby the Board of Directors may obtain a vote of the Governors on a specific question without calling a meeting of the Board of Governors. This procedure is time-saving, since every Governor will be in his country, and less expensive, since although the Governors and their Alternates shall serve without compensation from the ADB, yet they are entitled to reasonable reimbursement for expenses incurred by them in attending meetings (Article 26).

of stock held. For any meeting of the Board of Governors, the quorum will be obtained by a majority of the Governors exercising not less than two thirds of total votes.

Table XIV shows the voting power of every member country, and hence of every Governor.

Table XIV

Himadeh Proposal

Board of Governors: Voting Power

Country	Fixed Votes	Share Votes	Total Votes
Egypt	200	800	1000
Iraq	200	340	540
Saudi Arabia	200	320	520
Kuwait	200	240	440
Syria	200	80	280
Qatar	200	60	260
Lebanon	200	48	248
Sudan	200	40	240
Jordan	200	40	240
Libya	200	24	224
Bahrein	200	8	208
	2200	2000	4200

Source: Said Himadeh, "An Arab Development Bank", The Economy of Lebanon and the Arab World, (Beirut: No. 25, May 1954) p. 23.

Except when otherwise expressly provided, all matters before the ADB will be decided by a majority of the votes.

2. Board of Directors:[1] The Board of Directors undertakes the day-to-day operations of the ADB, and hence should exercise all the powers delegated to it by the Board of Governors. It is composed of ten members, elected[2] by the Board of Governors from amongst the Arab experts by a majority vote, for a period of two years and are subject to re-election.

The Directors shall serve at the ADB's principal office[3] and shall meet according to the necessity of their work.

Every Director has the number of votes that he obtained in being elected.[4] For any meeting of the Board of Directors, the quorum may be obtained by a majority of the Directors exercising not less than half the total votes.

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(1) Article 27.

(2) No details are given regarding the method of electing the ten Directors. It would be suitable to follow the method used by the IBRD and the IFC, where the Governors divide themselves in groups, each group being entitled to name a certain number of Directors, depending on its total votes. For example, if the same principle is adopted here and basing the computations on Table XIV, Egypt and Syria would be entitled to be represented by 3 directors, Iraq and Jordan by 2 directors, Kuwait, Qatar and Bahrein by 2 directors, Saudi Arabia and Lebanon by 2 directors, Sudan and Libya by one director.

(3) The Board of Governors will designate where the principal office of the ADB will be located in its first meeting. The Board may further establish other offices or branches in the territories of any member (Article 33).

(4) Article 28, paragraph 2. This provision is impractical;

3. Director General:[1] The Director General, who shall be appointed by the Board of Directors, cannot be a member of either the Board of Governors or Board of Directors,

He is to conduct the ordinary business of the ADB and, subject to the general control of the Directors, is responsible for the organization, appointment and dismissal of the officers and staff. He presides over the Board of Directors, but has no right to vote except in the case of an equality of votes. Furthermore, he may participate in the meetings of the Board of Governors, but has no voting power whatsoever.

4. Board of Advisors:[2] The Board of Advisors is composed of four members, selected by the Board of Governors from an original list of eight members suggested by the IBRD. The Advisors are appointed for a period of two years and are liable to be re-appointed. The Advisors hold full-time jobs at the ADB's principal office.

The Board will offer its advice to the ADB mainly on matters of general policy, and will hold its meetings as often as it sees fit. Its members may attend the meetings of the Board of Directors at the request of the Director General, but have no right of voting.

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it would be both simpler and more logical that all directors have equal votes, say one vote for every director.

(1) Article 29.

(2) Article 30.

I. Legal Status[1]

The ADB will possess full juridical personality, and in particular, the capacity:

1. to contract;
2. to acquire and dispose of immovable and movable property; and
3. to institute legal proceedings.

Actions may be brought against the ADB in a court of competent jurisdiction in the territories of a member in which the ADB has an office, or has extended any loans. However, no action shall be brought by members or any persons acting on their behalf.

The property and assets of the ADB are immune from all forms of seizure, attachment or execution, before the delivery of final judgement against the ADB.[2]

J. Final Provisions[3]

The Agreement shall enter into force when it has been signed on behalf of governments whose subscriptions comprise not less than 65 percent of the total subscriptions set forth in the schedule.

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(1) Article 41.

(2) Being an international body, the ADB as well as its officers and employees are immune from certain things such as seizure and taxation, and enjoy many privileges. For example, the assets of the ADB are free from restrictions, regulations or controls of any nature. (Articles 42-45).

(3) Article 49.

Each member country, signatory of this Agreement, shall deposit at the Secretariat General of the Arab League a document acknowledging thereby that it approved of the said Agreement in conformity of its laws, and that it took all necessary measures to enable it carry out all its obligations resulting from the above Agreement. Each government shall become an effective member as of the date of the filing of such a document.

Each member shall pay to the Secretariat General of the Arab League at the date of signing the Agreement, one percent of its share in the stock capital in order to enable the ADB to meet its initial administrative expenses. This sum will be deducted from the members' first annual instalment, when the latter is due.

II. The Arab League and the IBRD Proposals[1]

A. Purpose of the ADB

The purposes of the ADB are almost identical in both proposals. They are similar to those advanced by Professor Himadeh in that they are stated in general terms, but the context differs slightly. The major purposes are three in number:[2]

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(1) The full text of the Arab League proposal was published in The Economy of Lebanon and the Arab World (Beirut: No. 56, June 1957) pp. 35-48. The IBRD proposal was published by the Secretariat General of the Arab League (Cairo: 1957) pp. 1-18.

(2) Section 1, Article 2 in the Arab League proposal, and Article 1 in that of the IBRD. There is one distinct difference between the Arab League and the IBRD pro-

1. To further the economic development of its members by encouraging governmental as well as corporate and private ventures through facilitating the investment of capital for developmental purposes by means of loans, guarantees, partial participation, and the preparation of technical studies.

2. To mobilize the private capital available in member countries for productive investments in any of those countries, and to seek to stimulate, and to help create conditions conducive to, the flow of other private capital (domestic and foreign) into such investment; and

3. To seek to bring together in member countries investment opportunities, private capital (domestic and foreign), and experienced management.

The ADB will finance those productive ventures which are either newly established or are being enlarged and improved in various ways, but will not undertake any project on its own. This limitation, however, does not prevent it from preparing technical studies for the establishment of new productive enterprises.

It is further assumed that the ADB would be a supplement to, rather than in competition with, private capital to the extent that such capital is available on reasonable terms.

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posals; whereas the former limits (in points 2 and 3 below) the purpose of the ADB to mobilize and induce <u>only private capital</u> (both domestic and foreign) into productive enterprises, the latter includes government funds too.

B. Membership

In the Arab League proposal, unlike that of Professor Himadeh, a distinction is made between Arab League countries and other Arab states as far as membership is concerned.[1] Countries which are affiliated to the Arab League,[2] and signatory of the Agreement, are considered as original members, while the other Arab states can become members only after the approval of the Board of Governors of the ADB.

C. Authorized Capital

In the Arab League proposal, the authorized capital of the ADB is £E 20 million (one-tenth the amount proposed by Professor Himadeh) divided into 2000 shares, each of the value of £E 10,000.[3] However, a provision is made for an increase in the stock capital, whenever judged necessary. In case such addition is necessitated by the adherence of a new Arab country to the ADB, an absolute majority of the total voting power is required. In all other cases, a three-fourths majority is needed.[4]

D. Subscription to the Stock Capital

In the Arab League proposal, a different system (than that provided in the Himadeh plan) has been adopted for the distribution of the share capital among the members.[5]

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(1) Arab League Proposal, Section 2, Article 3.

(2) That is, Jordan, Syria, Sudan, Iraq, Saudi Arabia, Egypt, Lebanon, Libya, Yemen.

(3) Arab League Proposal, Section 2, Article 4.

(4) Ibid., Section 2, Article 5.

(5) Ibid., Section 2, Article 6.

Instead of taking the separate budgets of the various countries as the criterion for the distribution of the capital stock, it was proposed that the share of every original member be proportional to its share in the Arab League budget. Regarding the other members, it was left to the ADB to decide on the magnitude of their participation.

In case an increase in the authorized capital of the ADB is decided upon (due to other reasons than the admission of new members), each member should be given a reasonable opportunity to subscribe to a proportion of such increase equivalent to the proportion which its actual stock bears to the total capital stock of the ADB. While no member should be obligated to subscribe to any part of the increased capital, any member is permitted to subscribe to more than his share, on condition an absolute majority of the voting power approves.(1)

The method of payment of the subscribed capital, and the currency or currencies in which payments are to be made differ in the Arab League proposal from the corresponding provisions in the Himadeh plan. Three-fourths of the total value of the share capital is payable in gold, or at the request of the ADB, in a freely convertible currency, while the last quarter is payable in the respective local currencies, on condition that the ADB has the right, if the need arises, to request the members to convert their local currencies into foreign exchange.

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(1) Ibid., Section 2, Article 5.

The initial subscription of every member is equivalent to one-fourth of the member's share in the stock capital, and is payable in gold or in a freely convertible currency.

Table XV shows the share of every country in the Arab League Budget, its total subscription to the capital stock of the ADB, and the magnitude of its initial subscription (paid-in capital).

Table XV

Arab League Proposal

Subscriptions to the Capital Stock of the ADB

Country	Share in Arab League Budget(1)	Total Subscription (in thousands of £E)	Initial Subscription (in thousands of £E)
Egypt	37.60%	7520	1880
Iraq	15.98%	3196	799
Saudi Arabia	14.57%	2914	728.5
Syria	12.69%	2538	634.5
Sudan	6.00%	1200	300
Lebanon	5.64%	1128	282
Yemen	2.82%	564	141
Jordan	2.82%	564	141
Libya	1.88%	376	94
	100.00%	20000	5000

Source: Secretariat General of the Arab League, Arab League Annual Report (Cairo: 1957).

(1) The percentages pertain to 1957. A change has been made over the previous distribution as a result of the admission of Sudan to the League.

Similar to the Himadeh proposal, that of the Arab League prescribes equilibrating measures in order to stabilize any fluctuations in the rate of exchange of any member country's currency, the only difference being that the latter specifies that no equilibrating measures are necessary unless the change in any currency's rate of exchange exceeds 5 percent.(1)

E. Other Financial Resources

The provisions in the Arab League proposal regarding the financial resources of the ADB, apart from the stock capital, i.e. borrowing, bond issues, reserve capital, differ from the corresponding provisions in the Himadeh plan in one respect, namely, the upper limit set for the total value of bonds issued. The Arab League proposal provides for greater freedom on that specific point; instead of limiting the total value of bonds issued to the amount of subscribed capital and reserve of the ADB, it sets the ceiling at twice the amount of the stock capital.(2)

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(1) Arab League Proposal, Section 3, Article 17. In the IBRD proposal, it is stated that "Any provision for maintenance of value by members would clearly be inappropriate .... In the ADB, members (except for Egypt to the extent that any part of the subscriptions were made payable in Egyptian pounds) would not be paying in their own currency and, therefore, would not logically be expected to maintain the value of the currency of another country. IBRD Proposal, Article 2, Section 2.

(2) It is even stated that the total amount of bonds issued may exceed twice the amount of the stock capital, but that could be done only after a special permission from the Board of Governors is obtained. (Such permission requires a three-fourths majority of the votes cast.) Arab League Proposal, Section 2, Article. 9.

F. Functions

The functions of the ADB, according to the Arab League proposal, are the same as those presented by Professor Himadeh. However, in addition to the main operations specified, the Arab League proposal mentions some miscellaneous operations to be performed by the institution, namely that the ADB shall have the power to:(1)

1. borrow funds from others and determine the collateral or other security , if necessary, in domestic and foreign markets;

2. guarantee the securities in which it has invested in order to facilitate their sale;

3. buy and sell securities it has issued or guaranteed and resell securities in which it has invested;

4. invest funds not needed in its financing operations in the money markets that it chooses, and invest funds held by it for the pension and saving fund of its staff or similar purposes, in any first class marketable securities, all without being subject to the restrictions imposed by other sections of this Article;

5. exercise such other powers incidental to its business as shall be necessary or desirable in furthering its purposes;

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(1) Section 3, Article 11 in the Arab League Proposal. The first five points are mentioned in the IBRD proposal (Article 3, Section 5).

6. establish a research department for undertaking technical and economic problems which will serve the purposes of the ADB and assist the member countries in completing the studies of their economies and co-ordinating their growth.

G. Operational Principles of Financing

The operational principles of financing are stated in more general terms in both the Arab League and the IBRD schemes[1] than in Professor Himadeh's draft project. The two schemes, unlike Himadeh's, do not make any distinction between loans extended to specific projects and those to financial development institutions, all loans being subject to the same general conditions. Many of the conditions laid down were previously advanced by Professor Himadeh,[2] but

(1) Arab League proposal, Section 3, Article 13; and Article 3, Section 3 in the IBRD proposal.

(2) The following five conditions were mentioned in the three proposals:

1. The ADB shall not undertake any financing for which, in its opinion, sufficient private capital could be obtained on reasonable terms;
2. The ADB shall not finance an enterprise in the territories of any member if the member objects to such financing;
3. The ADB has the right to insist that the proceeds of any financing by it shall be used only for the purposes for which they are made available;
4. The ADB shall undertake financing only after examination of the financial, technical and economic aspects of the project to be financed; its financing, moreover, should be undertaken on such terms and conditions as it considers appropriate; and
5. In undertaking any financing, the ADB shall pay due regard to the prospects of recovering its investments and shall act prudently in the interest of the particular member in whose territory the project is located and of the members as a whole.

a few differences of some importance still exist:

1. Both the Arab League and the Himadeh proposals require that all non-governmental lending operations, whether to companies or individuals, be guaranteed by the government in which the project is undertaken.[1] However, in addition to this, it is stipulated in the Arab League scheme that the ADB may, in case of financing a non-governmental project, require "special guarantees", over and above those of the government.[2]

On the subject of guarantees, the IBRD scheme is the most flexible and practical in that a government guarantee is not an absolute necessity. Provisions are made, however, that the ADB may, if it deems advisable, require a guarantee of the member.[3]

2. Apart from the differences in the maximum allowable value of bonds issued noted earlier, a difference exists in connection with the magnitude of the ADB's direct participation in enterprises. While the Himadeh proposal limits the extent of the ADB's participation in every project and in all

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(1) As was stated earlier, the Himadeh proposal provides for an exception to the above rule, namely, that when an enterprise, in which the ADB has invested, applies for a loan, the ADB may approve the loan without requiring any government guarantee.

(2) Arab League Proposal, Section 3, Article 12. The term "special guarantees" is used in a loose way. No details are given to explain what is meant by "special." Therefore, it is necessary to define the term accurately.

(3) IBRD proposal, Article 3, Section 3.

projects in terms of certain percentage of its capital, the Arab League scheme provides no such limits. The only condition, set by the latter, is that the total participations should not exceed in value 20 percent of the total loans extended by the ADB.(1)

As to the IBRD proposal, no limits, whatsoever, are set in connection with either the maximum allowable value of bonds issued (and/or loans contracted), or in connection with the magnitude of the ADB's loans and direct participations. It is stated that "all the foregoing are matters of operational policy to be decided by the Board of Governors, but if desired specific provisions to cover these points could also be made."(2)

3. A third difference is in connection with the currency or currencies in which the loans will be extended. The Arab League scheme, in agreement with the Himadeh proposal, provides that loans may be extended in currencies other than the borrower's. However, whereas the Himadeh plan inserts a proviso which allows credit institutions only to borrow in their national currencies, the Arab League scheme extends this privilege to any borrower, on

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(1) Arab League proposal, Section 3, Article 10.

(2) IBRD proposal, Article 3, Section 3. The IBRD goes as far as stating that it is desirable to set a limit on ADB's indebtedness arising out of its borrowings and guarantees in order to facilitate its borrowing (Article 3, Section 4).

condition that the ADB is convinced of the internal difficulty encountered in raising the desired amount of local currency.(1)

On this point, the IBRD stipulates that the financing should be made in the currency or currencies that the ADB considers appropriate.(2)

H. Structure of the ADB

The framework of the ADB, and the functions of the different Boards are basically the same in the Himadeh and the Arab League proposals, with only minor differences,(3) which are mentioned below:

1. Board of Governors: The main difference between the two proposals is in connection with the distribution of votes. Instead of attributing 200 votes to every member country, apart from a vote for every share held, the Arab League proposal reduces the number to 25 votes.(4)

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(1) Arab League proposal, Section 3, Article 14. In fact, individuals are not expected to borrow in local currencies. It is assumed that businessmen would be able to borrow from their respective local specialized credit institutions. Supplementary Memorandum of the Arab League, The Economy of Lebanon and the Arab World (Beirut: No. 57, September 1957) pp. 17-18.

(2) IBRD proposal, Article 3, Section 3.

(3) The IBRD proposal differs from both in that it sees no need for a full time Board of Directors, in addition to the Board of Governors, and the Director General, who will be responsible for the day-to-day operations of the ADB. However, the IBRD proposal states that it may be desirable to organize an Executive Committee of the Board of Governors which could meet more often than the Board as a whole. The functions of the Board of Governors and the Director General, as proposed by the IBRD, are very similar to the other proposals (Article 4).

(4) Arab League proposal, Section 4, Article 21.

Table XVI shows the distribution of the total voting power of the Board of Governors as computed by the above principle.

Table XVI

Arab League Proposal

Board of Governors: Voting Power

Country	Fixed Votes	Share Votes	Total Votes
Egypt	25	752	777
Iraq	25	320	345
Saudi Arabia	25	291	316
Syria	25	254	279
Sudan	25	120	145
Lebanon	25	113	138
Yemen	25	56	81
Jordan	25	56	81
Libya	25	38	63
	225	2000	2225

Source: Based on computations in Table XV.

2. Board of Directors: Instead of ten members in the Himadeh proposal, the Board of Directors in that of the Arab League, is composed of four directors (and four co-directors) all elected by the Board of Governors.(1)

(1) The Board of Directors is formed in the following manner: Every Governor will nominate a director and

3. Director General: The only difference between the Himadeh and the Arab League proposals is that in the former the Director General is appointed by the Board of Directors, while in the latter the choice is left to the Board of Governors.(1)

4. Board of Advisors: In the Arab League proposal, the Board of Advisors is composed of three members (the number may be increased if necessary) who shall serve for a period of three years, against four members and two years of service in the Himadeh plan.(2)

I. Legal Status

All the provisions regarding this section, as well as the immunities and privileges enjoyed by the ADB and its officers are identical in the three proposals.(3)

J. Final Provisions

Instead of 65 percent, the Arab League proposal requires that the Agreement be signed on behalf of governments whose total subscriptions comprise at least 75 percent

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a co-director, and out of all the nominees, the Board of Governors elects, by a majority vote, four directors and four co-directors. Arab League Proposal, Section 4, Article 23.

(1) Arab League proposal, Section 4, Article 22.

(2) Ibid., Section 4, Article 24.

(3) Ibid., Section 6, Articles 33-37. IBRD proposal, Article 6.

of the stock capital, before the Agreement enters into force.[1]

The other difference is, that 10 percent of the total subscription of every member (instead of 1 percent in the Himadeh plan) should be paid by every member at the date of signing the Agreement.[2]

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(1) Ibid., Section 8, Article 41. The IBRD proposal gives no figure on this score (Article 9).

(2) Ibid., Section 8, Article 44.

CHAPTER VI

APPRAISAL AND EVALUATION

The subject matter of the present chapter is to appraise and evaluate the three main proposals for the establishment of an Arab Development Bank, which were discussed in Chapter V.

The procedure followed will be different from the one adopted in the presentation of the proposals. The aim of evaluating the proposals is not to assess the relative advantages and disadvantages of each (and hence end up by choosing the best-suited proposal), but rather to point out the special problems which present themselves in the organization of such a bold and pioneering venture.

Consequently, not all the items mentioned in the previous chapter will be taken up in this appraisal. Perhaps the most basic question which will be left out of the discussion is that of the organization and the legal status of the ADB. This does not mean, in the least, that the problem of organization is of minor importance. However, it is believed that there are other more pressing problems, the solution of which is absolutely necessary for the realization of the project. It would be futile to present a detailed charter, until some major issues are resolved.

I. Theoretical Issues

A. Membership

The first issue to be resolved is that of membership. In the three proposals, membership is open only to Arab governments. Abdul-Mun'im Mursi, of the Research Section of the National Bank of Egypt, suggests to open subscription also to private institutions and individuals.[(1)] He suggested this probably as a means of reducing the financial burden on governments.

The suggestion does not seem realistic. First, it is probable that local private capital cannot be induced to take an active part, unless governments place a guarantee of a minimum profit on share capital, which minimum must be high enough to induce this capital to join (Mursi is in favour of such an action). It is obvious that such a guarantee will impose a grave limitation on the ADB's freedom of action and might impair its basic purpose of long-term investment. On the other hand, if the minimum guarantee is put at a low level, it might not form sufficient inducement for private capital, accustomed mostly to commercial undertakings with quick turnover and high return.

Secondly, as far as non-local private capital is concerned (e.g. oil companies), its participation in the equity

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(1) Unpublished memorandum entitled "Views on the Arab Development Bank Project" submitted to the Secretariat General of the Arab League (Cairo: January 25, 1954) p. 2.

capital might be objected to on political grounds by many, if not all, of the governments concerned. It seems more appropriate, therefore, to have the subscriptions of private sources, both local and non-local, in the form of bond rather than share capital.

There is, however, one comment to make regarding the provisions in the Arab League proposal on the subject of membership. As was stated earlier, this proposal makes a distinction between Arab League and non-Arab League states, whereby the governments pertaining to the former group, and who sign the agreement, are considered as original members. This distinction does not seem to be warranted. Some non-Arab League states, for example Kuwait, have enormous amounts of surplus capital. It is obvious that if such states are accepted as original members, and not merely as ordinary members,(1) they would be more induced to join the ADB and take an active part in its initial operations. Their willingness to subscribe to both the share capital, and later on, the bond capital, will be greatly enhanced. Therefore, it seems advisable to amend Section 2, Article 3 of the Arab League proposal. As in the Himadeh provisions, membership should be open to all Arab States which sign the agreement, and to any others which might join later on.

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(1) Actually, there will not be much difference between an original and an ordinary member, except that the delicate problem of evaluating the magnitude of the participation of the ordinary members (Kuwait, Qatar and Bahrein) in the share capital of the ADB, and such related problems, are left to the complete discretion of the original members.

B. <u>Capitalization</u>

In setting up the proposed ADB, the problem of capitalization is of paramount importance. There has been a wide divergence of opinion, among proposers and commentators, regarding the amount of the stock capital, ranging from 20 million Egyptian Pounds in the Arab League proposal to 200 million Egyptian Pounds in Himadeh's.

It seems necessary to lay down certain principles on the basis of which it might be possible to arrive at a reasoned amount of share capital. There are at least three important considerations to bear in mind:

1. the need for development in the region;

2. the ability of the ADB to borrow from the other sources which might be willing to supply it with capital; and

3. the ability and willingness of the participating countries to subscribe.

As far as the first two criteria are concerned, the issue is clear. The region's needs for development are huge. Therefore, the larger the amounts of capital available for development, other things being equal, the better.

Moreover, ADB's chief source of funds, in the long-run, will probably be borrowing. Evidently, in the initial stages, ADB's financial resources will be restricted to its own capital stock, but as it starts commanding the confidence of investors, it will depend more on bond issues. ADB's chances of commanding the required confidence will be greater with a relatively large capital than with a small capital.

However, these two criteria cannot be considered alone without the third criterion, which deals with the financial ability of participating countries to subscribe to the capital of the ADB. It is evidently desirable to have a large capital, but it might be found that such a large capital can be obtained only at an excessive cost.

Therefore, it is necessary to gauge accurately the ability of member countries to participate in such an institution, before deciding on the magnitude of the capital stock. The ability of each of the member countries to participate in the ADB is determined by a multiple of factors, the most important of which are the following:(1)

(a) How share capital is distributed among member countries;

(b) the percentage of share capital which will be called for the normal operation of the ADB, and the period during which it will be called; and

(c) the currency or currencies in which subscriptions will be made.

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(1) Burhan Dajani, "Arab Development Bank", op.cit., p. 2.

Each of these factors will be analyzed separately, after which it will be possible to give a final judgement on the financial ability of each of the participating countries to subscribe to the share capital. The object of the analysis is to investigate whether Himadeh's figure of 200 million Egyptian Pounds is realistic or whether it is excessive in relation to the financial capacities of the member countries.

C. Distribution of Capital Stock

One of the crucial problems is the apportionment of equity capital subscriptions among the various member countries. It is necessary to establish quotas on an equitable basis, i.e. due regard should be given to the varying ability of the prospective members to subscribe in both local currencies and foreign (non-Arab) exchange.(1)

Various criteria have been advanced to serve as a basis for this distribution, some of which can be immediately discarded. The Arab League proposed that the share of every original member be proportional to its share in the Arab League budget. In conformity with the amendment suggested earlier in connection with membership (i.e. to open membership to all Arab countries), it becomes

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(1) IBRD, memorandum entitled "Project for an Arab Development Bank" submitted to the Secretariat General of the Arab League, dated November 28, 1953, p. 7. The memorandum was translated to Arabic and published in, The Economy of Lebanon and the Arab World, (Beirut, No.27 September 1954) pp. 32-38.

necessary to abandon this standard of distribution in favour of a more practical basis.

Abdul-Mu'im Mursi suggests that the best basis for the distribution of shares is the aggregate national income, because it is the real standard for the ability to save. However, in view of the fact that not all the countries have national income estimates (and most of those available are, at best, crude estimates), and since figures for the annual budgets, including oil revenues, are readily available (with few exceptions),(1) it seems more appropriate to adopt Himadeh's formula. The latter suggests that the extent of the annual budget be the standard for the amount of shares to be subscribed by every participant.

Due to the recent depreciation of the Egyptian Pound in the free world markets, a special problem arises with respect to the currency to be used as standard for quoting the value of the stock capital. Both the Himadeh and the Arab League proposals set the authorized capital in terms of Egyptian Pounds. It seems appropriate to replace the Egyptian Pound by an international currency. The main argument in favour of using an international currency, other than the present instability of the Egyptian Pound, is that one of the main purposes of the ADB is to provide foreign exchange for Arab development. In that case, it is more convenient,

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(1) For example Yemen, Qatar, and Bahrein.

in every respect, to use a currency which will rank high among the non-Arab currencies of the ADB, namely the sterling or the dollar. Since the former currency has only limited convertibility, it is preferable to state the capital in terms of gold U.S. dollars.(1)

Table XVII shows the distribution of the capital stock of the ADB among participating members, based on the formula advanced by Himadeh. All figures are 1958 estimates. In countries where budgets are not published, or do not exist at all, for example Qatar, Kuwait and Yemen, rough approximations have been given after consultation with economists familiar with that problem.(2)

In accordance with the provisions in the three proposals, the exchange parities declared by the countries involved to the IMF have been adopted in the conversion of budget estimates from local currencies to dollars, with the exception of Lebanon and Syria.(3) Both these countries have dual or multiple exchange rates. Unless the market rates are adopted, which are more in line with reality than the de jure rates, some members will be discriminated against

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(1) Interview with Professor Said Himadeh, March 18, 1958.

(2) Three experts were interviewed for that purpose: Professor Dajani (March 10, 1958), Professor Himaheh (March 18, 1958), and Mr. R.S. Porter of the British Embassy, Beirut (March 19, 1958).

(3) For countries which are not members of the IMF or which are members but have not yet declared any official parity (like Saudi Arabia), the current market rate has been adopted in the computations.

Table XVII
Subscriptions to the Capital Stock of the ADB

Country	Budget Estimates -- 1958[a] (in millions of dollars)	Percentage	Total Subscription (in millions of dollars)
Egypt	865	36.0	216.0
Saudi Arabia	405	16.9	101.4
Iraq	365	15.2	91.2
Kuwait	310	12.9	77.4
Sudan	135	5.6	33.6
Syria	105	4.4.	26.4
Lebanon	65	2.7	16.2
Qatar	50	2.1	12.6
Lybia	42	1.8	10.8
Jordan	33	1.4	8.4
Yemen	15	0.6	3.6
Bahrein	10	0.4	2.4
Total	2400	100.0	600.0

(a) The figures for Egypt, Saudi Arabia, Iraq, Sudan, Syria, Lebanon, Jordan and Bahrein are based on the budget receipts estimates for 1958. The figure attributed to Jordan refers to the ordinary budget receipts, which form roughly 40 percent of total receipts. In other words, all subsidies and grants given to Jordan from other countries are excluded. The figures for Kuwait, and Qatar are based primarily on oil revenues which are estimated to form a very high percentage of total revenues (roughly 97 percent). As for Lybia and Yemen, the figures advanced are crude estimations based on an interview with Mr. R. S. Porter of the British Embassy, Beirut.

In converting the budget figures from local currencies to dollars, the following exchange rates were used:

Egyptian Pound	= 2.8716 U.S. dollars
Saudi Rial	= 0.2692 U.S. dollars
Iraqi Dinar	= 2.8000 U.S. dollars
Indian Rupee	= 0.2100 U.S. dollars
Sudanese Pound	= 2.8716 U.S. dollars
Syrian Pound	= 0.2709 U.S. dollars
Lebanese Pound	= 0.3164 U.S. dollars
Jordanian Dinar	= 2.8000 U.S. dollars
Lybian Pound	= 2.8000 U.S. dollars

Source: Le Commerce du Levant (Beirut, February 26, 1958).

N.B.E., Economic Bulletin (Vol. X, No. 3, 1957).

Middle East Business Digest (Beirut, January 27, 1958; February 10, 1958).

in relation to others. Consequently, it is absolutely necessary that a clause be inserted in the Articles of Agreement stating that in the case of Lebanon and Syria (and in the case of any country whose declared rate is considerably different from its market rate),(1) the market rate should be taken into consideration, until new and more realistic parities are established in those countries.

In Table XVII, the authorized capital stock has been set at $600 million, instead of the equivalent of £E200 million (around $575 million) proposed by Himadeh, for better presentation and to avoid cumbersome calculations in the apportionment of the share capital among member countries.

Table XVII also shows that Egypt's participation amounts to 36 percent of the total stock capital of the ADB, equivalent to $216 million, a sum that seems excessive in relation to Egypt's financial resources. However, the amount

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(1) The case of Egypt needs some clarification. Egypt has multiple exchange rates. Its official rate is considerably higher than its market rate. In a sense, the Egyptian government has lately devalued the Egyptian Pound, since in order to encourage exports, an export rate has been established at £E = $2.4, or 23 percent lower than the official rate. In Table XVII, the official rate, £E = $2.8716, has been used in the computations. The reason for refraining from using the export rate, even though it is the most realistic one, is that it will involve cumbersome exchange problems. By adopting the official rate for Egypt, the other countries are placed at a relative disadvantage. However, on the other hand, if the export rate is adopted, Egypt's share in the stock capital would be increased considerably, from 36 to 44.3 percent of the stock capital. Egypt simply cannot pay that much.

of the stock capital is not the only criterion for judging whether the participation in the ADB will form any strain on the total budgetary expenditures of the various governments, or on any government in particular. The scheme of payment adopted, e.g; the percentage of normally callable capital, the period during which it will be called, and the currency or currencies in which payment will be made, should be carefully investigated. All variations of these variables should be analyzed before asserting whether each government can, on practical grounds, fulfill its financial obligations without undue strains.

D. Method of Payment

In both the Himadeh and the Arab League schemes, the normally callable capital is 25 percent of the total capital stock. However, in the former proposal that sum is callable in ten-equal annual instalments, whereas in the latter, the whole portion is presumably to be paid as an initial subscription. Since the capital suggested above is over ten times bigger than that proposed by the Arab League, it becomes essential to discard the latter method of subscription. If the Arab League method is adopted, and if the share capital is set at $600 million, the initial subscriptions would become excessive and would exert unnecessary and unjustified strains on the economies of member countries. Some countries would definitely not be able to meet their obligations.

It would be more appropriate to have a large capital, but with small initial payments. Such a scheme would have a double advantage: First, it provides a lighter burden for the subscribing capital, and hence will not exert unnecessary strains on the economies of member countries. Secondly, it builds up the funds of the ADB at a slow pace, thus providing for greater flexibility and allowing the ADB to gain more experience. Therefore, on this score, the Himadeh formula is superior.

Table XVIII shows the amounts of annual subscriptions of member countries during the first ten years. These amounts will form less than 1 percent of the annual public income of the governments concerned (including oil revenues), and therefore, unless governments are pressed in exceptional circumstances, such as war, these amounts need not form any strain on their total budgetary expenditures. In arriving at such an important conclusion, it is assumed that the currencies in which subscriptions will be made are readily available to the various countries. Whether this assumption is valid or not, will be investigated in the next section.

Commenting on the amounts proposed by Professor Himadeh, which are slightly less than those in Table XVIII (see Chapter V, Table XIII), Abdul-Mu'im Mursi remarked that there are grounds for believing that the annual instalments are excessive. To back up his argument, he gave

Table XVIII

Annual Subscriptions to the ADB

Country	Total Subscriptions (in thousands of dollars)	Normal Callable Capital	Annual Subscriptions (in thousnads of dollars)
Egypt	216,000	54,000	5,400
Saudi Arabia	101,400	25,350	2,535
Iraq	91,200	22,800	2,280
Kuwait	77,400	19,350	1,935
Sudan	33,600	8,400	840
Syria	26,400	6,600	660
Lebanon	16,200	4,050	405
Qatar	12,600	3,150	315
Lybia	10,800	2,700	270
Jordan	8,400	2,100	210
Yemen	3,600	900	90
Bahrein	2,400	600	60
Total	600,000	150,000	15,000

Source: Based on the figures in Table XVII.

the example of the Arab Mortgage Company:(1) His view that the bad experience ought to serve a good lesson, "for although shares of every participating member are triflingly small, it is observed that many of them have not fulfilled their obligations", seems to be somewhat justified.(2) Some countries, notably Egypt, will definitely find difficulty in subscribing to such large amounts, especially if most of it is to be paid in gold or foreign exchange.

Consequently, it will be suitable to reduce the burden on member countries. Mursi's remedy is to reduce the capital stock. For reasons already stated, it is better to keep the share capital high. The alternative would be to provide for flexibility either by means of variations in the percentage of normally callable share capital, thus reducing the amounts of annual instalments, or which is equivalent to it, by variations in the period of time during which the callable amount is expected to be paid, or finally a combination of the two.

In accordance with the statutes of the IBRD, it has been suggested(3) to subject 20 percent of the stock

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(1) The Mortgage Company was established in 1947 by the Arab League for providing credit to Palestinian Arab Farmers in order to limit the alienation of Arab lands to Jews. However, the project was not a success, failure due to the lack of interest shown by member governments.

(2) Abdul Muim Mursi, <u>op.cit</u>., p. 3.

(3) B. Dajani, <u>op.cit</u>., p. 4.

capital to normal calling, instead of 25 percent. By doing so, the annual instalments will be reduced by one-fifth as is illustrated in Table III (compare columns 2 and 4).

It has been further suggested that the burden be still reduced by variations in the period of time during which the capital will be paid in.(1) The pattern of instalments might take the following form: 2 percent of the subscribed shares to be paid on participation (the amounts are presented in Table XIX, column 4), and 1 percent in annual instalments for a period of 18 years (half those drawn in Table XIX, column 4). Thus, the callable capital will be subscribed to in 18 years instead of 10, and would, therefore, constitute a much lighter burden on all participating countries.

The above scheme, not only provides a lighter burden for the subscribing capital, but also builds up the funds of the ADB at a slower pace, thus allowing it to gain the experience which is so necessary for its success.

However, the scheme has a weakness. By reducing the financial burden on participating countries, a problem might be created, that of having a small annual paid-in capital, in relation to development needs. "The paid-in capital subscription should be large enough... to enable the

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(1) Ibid., p. 4.

Table XIX

Normal Callable Capital

(in thousands of dollars)

Country	25 Percent Callable (1) Normal Callable Capital	(2) Annual Subs-criptions	20 Percent Callable (3) Normal Callable Capital	(4) Annual Subs-criptions
Egypt	54,000	5,400	43,200	4,320
Saudi Arabia	25,350	2,535	20,280	2,028
Iraq	22,800	2,280	18,240	1,824
Kuwait	19,350	1,935	15,480	1,548
Sudan	8,400	840	6,720	672
Syria	6,600	660	5,280	528
Lebanon	4,050	405	3,240	324
Qatar	3,150	315	2,520	252
Lybia	2,700	270	2,160	216
Jordan	2,100	210	1,680	168
Yemen	900	90	720	72
Bahrein	600	60	480	48
Total...	150,000	15,000	120,000	12,000

Source: Based on Table XVII

Bank (ADB) to operate for a time without raising loan capital. The reason for this is, quite obviously, that it is unlikely that the Bank could raise loan capital either in non-Arab currencies or in local currencies until it had firmly established itself and was able to command the confidence of investors".(1) Taking into due consideration both requirements, the problem becomes one of trying to strike a happy medium.

Therefore, if the annual instalments under the scheme (susbcriptions of normal capital spread over a period of 18 years) are judged to be meagre or not large enough, a way should be found by which payments will be speeded up. A suitable solution would be to empower the ADB to call in more than one percent in any year, if the need for more capital should arise. Such a solution would satisfy both requirements, on condition that the ADB will not resort to such action unless capital is badly needed.

E. Currency Problems

There remains the problem of determining the currency or currencies in which subscriptions to the stock capital will be made. The Himadeh scheme suggests that every country will pay in the currency or currencies in which it receives its budgetary revenues and in the same proportion. The principle behind such a plan is that due account should be

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(1) IBRD, "Project for the Arab Development Bank", op.cit.,p.6.

taken of the ability of the prospective members to subscribe to both local currencies and foreign exchange.

Despite the fairness and validity of the above reasoning, the Himadeh solution raises a few problems:[1] In the first place, by throwing the entire burden of the provision of foreign exchange on countries which receive oil royalties, and by relieving other members from the obligation, present or future, of supplying foreign exchange, the ability of the ADB to borrow foreign exchange from the different sources will be substantially reduced.

If, as one might reasonably expect, the borrowed capital will be, in the long run, the main source of capital and if this borrowed capital is going to be mostly in foreign exchange,[2] it cannot be reasonably expected to be forthcoming unless the foreign exchange component of the unpaid part of the capital is both definite as to type and amount

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(1) B. Dajani, op.cit., pp.8-9.

(2) The extent of the borrowing of the ADB depends on the possibilities of borrowing, both locally and abroad. The possibility of borrowing from local private sources should not be ruled out, but its extent will most probably be limited due to two factors: First, the lack of organized money markets; and secondly, the fact that local governments and businesses are in a better position to tap the local money resources. At any rate, the policy of the ADB should be to supplement, rather than supplant, the local economic endeavour, both private and public.

Borrowing from public funds will normally form an important source of funds for the ADB, because some oil countries are in a position to lend from their oil royalty surpluses. These borrowed funds will be made in foreign currencies, and hence should be covered, by guarantees, in foreign currencies and not in local ones.

of the currency involved. Therefore, it is equally important for the ADB and its participating members to have a well-defined obligation in foreign exchange. Following the principle of "guaranty capital", which is incorporated in its capital structure, the IBRD justly remarked that "All member countries should in effect contribute to guaranteeing the foreign exchange solvency of the Bank (ADB) through the unpaid-up portions of their capital subscriptions. Such unpaid, or guarantee, capital subscriptions would represent a contingent liability to pay up the additional capital in the event the Bank could not otherwise meet its obligations. If ever such capital had to be called up, it should have to be furnished in the currencies required to meet these obligations."(1)

On the basis of the above analysis, it seems necessary to amend the Himadeh formula for the unpaid portion of the capital. The participating states should define accurately their obligations in foreign exchange. It might be permissible to leave the formula as it stands now, but in addition, insert the following clause: that member countries pledge to convert all their unpaid-up subscriptions in local currencies into foreign exchange, at the request of the ADB. If this is done, then member countries would contribute equally to guaranteeing the foreign exchange solvency of the

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(1) IBRD, "Project for an Arab Development Bank", <u>op.cit</u>., p.6.

ADB. However, from a practical point of view, the two plans are indentical, since payments will have to be made mostly in foreign exchange.(1) Therefore, it is simpler and preferable to make all the unpaid-up share capital payable in foreign exchange, rather than adopt an indirect method of guarantee, which might shake the confidence of would-be lenders.

A special problem arises in choosing the foreign currencies which should serve as a guarantee of solvency for the unpaid portions of the share capital.(2) Naturally, the currencies chosen must be those which the member countries usually earn in greatest quantities, namely, sterling and the dollar. Therefore, to be realistic, the greater part of the unpaid capital ought to be quoted in sterling, and the remaining in dollar. The difficulty is that sterling is not freely convertible into gold or hard currencies and there are restrictions on its transferability, whereas the dollar is a convertible currency, readily accepted everywhere. "Consequently, before capital could be subscribed or money borrowed in sterling, there would have to be prior agreement with the British monetary authorities providing for

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(1) It is assumed that the sums borrowed internally in local currencies will form a negligible part of the total sums borrowed by the ADB.

(2) The problem discussed in relation to the unpaid-up portion of the share capital applies equally to the paid-in part of the capital.

the Bank's use of sterling within reasonable limits and adjusted to its gradual requirements."[1] With such an agreement, it would not be difficult anymore for the ADB to raise dollar loans, as well as loans in any other currency.

With respect to the currency problems just mentioned, the Arab League proposal does not suffer from as many deficiencies as that of Himadeh. Two thirds of the unpaid portions of the capital is guaranteed by gold or any freely convertible currency, while the remaining one-third by local currencies. Furthermore, the Articles of Agreement stipulate that the ADB may require the member states to pay their local currency portion in gold or foreign exchange. In reality, the problem of the limited convertibility of the sterling is not solved positively. How can some of the member countries, especially Egypt, guarantee the unpaid portion of their capital subscriptions in freely convertible currencies if they do not have them?

Unless a reasonable agreement with the British monetary authorities is reached, sterling will still have limited convertibility, and there will still be restrictions on its transferability. In other words, unless an agreement is reached, those Arab countries which have sterling as their

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(1) IBRD, "Project for an Arab Development Bank", <u>op.cit.</u>, p.7.

principal reserves will not be able to guarantee the unpaid portion of their capital subscriptions in freely convertible currencies. Therefore, agreement with the British monetary authorities is an unavoidable requirement.

The only alternative, that of demanding from one or more countries, those countries which have considerable dollar earnings,(1) to guarantee the foreign exchange solvency of the ADB, is not feasible. It is unlikely that any of the rich oil countries, which have dollar earnings, would be willing to shoulder such a heavy burden.

The question naturally arises as to whether the liability in foreign currencies ought to be the same under the paid-in part of the capital as under the unpaid-up part. The answer is closely linked with the loan policy that the ADB is expected to follow. If it should follow the loan policy of the IBRD, namely to lend only the foreign currency content of specific projects, then evidently, most, if not all, of the paid-in capital should be in foreign currencies. Otherwise, if the Himadeh plan is adopted, most of the local currencies that ADB will possess will be useless, since "with perhaps one or two exceptions, it would not be possible to invest the local currency components

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(1) The dollar is the only fully convertible international currency which these countries earn in considerable quantities.

of the original capital subscriptions because the securities markets in most of the Arab states are not highly enough developed."[1]

However, it is expected that the ADB will not follow the IBRD loan policy. It is quite true that "the kernel of the problem of capitalization will be the non-Arab foreign exchange component".[2] It is equally true that in almost any loan that the ADB might make a significant amount of foreign exchange will be required, since none of the Arab states is in a position to supply the capital equipment and many of the technical services ordinarily required by development projects (in that respect, the ADB differs from the IBRD, whose surplus states are highly industrialized countries). Therefore, "sufficient supply of these currencies must be an essential ingredient of the Bank's original capitalization."[3]

Yet, the ADB ought to be prepared to finance local currency expenditures as well. It will be operating in a much smaller area and with fewer countries than the IBRD. "Presumably the ADB will make many more small loans and more loans to private enterprise than the IBRD has been in the practice of making. Accordingly, there should be a

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(1) IBRD, "Project for an Arab Development Bank", op.cit.,p.6.

(2) Ibid., p. 5.

(3) Ibid., p. 5.

substantial local currency component in the original capital subscription made by each member country."[1]

Hence, a formula for the paid-in capital should be devised. What currencies should be accepted and in what proportions?

There is a strong argument for rejecting the Himadeh provisions. Even though the proposal provides for the supply of local currencies (which is desirable), the amounts supplied under the above scheme might be excessive in relation to the demand for loans in those currencies.[2] The problem becomes more acute when the deficiency of the existing secu-

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(1) Ibid., pp. 5-6. Some economists argue that member countries should be able to raise their local currency needs internally, rather than resort to the ADB. This argument is only partially correct. In the first place, not all governments are familiar with the method of financing their development projects through the issue of bonds, and hence it is doubtful whether all these states would venture into such an experiment right away. Even if it is assumed that, sooner or later, all local governments would be able to finance the local currency component of the costs of the projects undertaken, some local currencies would still be demanded, and should be supplied, to individuals, private corporations and semi-governmental agencies. In accordance with this suggestion, the practice of the ADB would differ in a fundamental respect from that of the IBRD, whose practice has been primarily to lend the currencies of countries having the capacity to export industrial equipment and technical services. The ADB would perform the additional function of directly mobilizing and channeling domestic capital into productive uses.

(2) Under the Himadeh scheme, Kuwait, Qatar, and Bahrein are expected to subscribe almost entirely in foreign currencies, Iraq and Saudi Arabia would partly pay in their own currencies and partly in foreign exchange, while the other members will pay almost entirely in local currencies. On this basis, it is estimated that over 50-60 percent of the paid-in capital will be in local currencies, even when considering that some of the local currencies can be readily exchanged for foreign currencies on account of a free money market, such as the Beirut market.

rities markets taken into consideration. In adopting such a formula, therefore, there is a persistent danger that a substantial part of the local currency components might remain unused. It is preferable to devise a formula which will provide for a lower local currency component, and which has the additional virtue of being simple. The Arab League corresponding set-up is simple, but does not provide for the supply of local currencies. It stipulates that all the capital should be paid in gold or any freely convertible currency. In accordance with the suggested loan policy of the ADB, it becomes necessary to amend the provisions in the following manner: 75 percent of the capital would be paid in gold or any freely convertible currency, while the remaining 25 percent would be paid in local currencies.

There is still a difficulty in connection with the local currency component of the paid-in portion of the share capital. This is the question of the interchangeability of currencies. Each country has an inconvertible currency which cannot be exchanged into the currencies of the other Arab Countries.(1) In case there is a strong demand on loans in

(1) The fact that there exist many rates which fluctuate continuously in the Arab countries should not form a stumbling block. As was stated earlier, the rates declared to the IMF should be used, with the exception of those countries whose market rates are considerably different from the official rates. In order to reduce the deterrent effects of the continuous fluctuations of the exchange rates, equilibrating measures should be enforced (such as the maintenance of the value of the currencies at a certain level). The measures pertain only to that part of the paid-in capital subscriptions which is payable in local currencies.

one of these currencies and a weak demand on loans in another, the result will be that while ADB's holdings of the former are exhausted, those of the latter remain partly idle.

To meet such a possible difficulty, Mahmud Abu-Su'ud, of the Economic Section of the Arab League, suggests that the local currency component be negotiable in the member states.(1) Under such an arrangement, it will be possible, on the one hand, to buy such marketable securities as exist in some of the Arab countries which have relatively developed money and securities markets, and on the other hand, to provide freedom for the ADB to invest all its local currency component in all the region, rather than to subdivide it into as many currencies as it holds and try to find outlets for everyone of these currencies.

Such a solution is reasonable, and since the Arab states have already undertook by their payments agreement to give priority to the settlement of payments arising from inter Arab dealings, it should not be difficult, on condition that the will to cooperate is present, to make an arrangement whereby the funds of the ADB are made acceptable in all the member states.(2)

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(1) Mahmud Abu-Su'ud, unpublished memorandum entitled "Comments on the Arab Bank Project", dated January 24, 1954. pp. 2-5.

(2) Burhan Dajani, "An Arab Development Bank", op.cit. p. 11.

F. Functions

To be effective, the ADB ought to have relatively broad investing authority. Its functions should not be restricted to the extension of loans and to direct equity participation; it should be authorized to guarantee loans obtained through other lending institutions. Moreover, it should make a worthy contribution in the form of services rendered to both the Arab business community and to individual governments. Such services "would consist of technical, economic, financial and legal advice."(1)

The details concerning the operational policy of the ADB and the differences between the three main proposals, will not be tackled here. The contention is that such matters should be largely decided upon by the Board of Governors. However, one important point needs emphasis: in both the Himadeh and the Arab League schemes, a government guarantee is required in the case of non-governmental loans. Although the ADB will be acting wisely in trying to cover itself from losses, yet, some sound ventures might not be able to get the required government guarantee, and hence be denied the financial help. This might be detrimental to the project in question, the country in which the project is undertaken, and the ADB itself. Therefore, following the provisions of the IBRD proposal, it might be

(1) IBRD, "Project for an Arab Development Bank", op.cit., p. 4.

more practical to leave the question of guarantee up to the ADB itself, rather than make it an absolute necessity.

This suggestion will be objected to on the ground that it is dangerous to give the ADB such powers. Furthermore, it will be argued that there is no reason why the ADB should not demand a government guarantee, when a more established institution, such as the IBRD, does not extend a single loan without securing the government guarantee.

It should be remembered, that the ADB will be operating in a much smaller area than the IBRD, and presumably it will have an intimate knowledge of the area. Moreover, the ADB should make more small loans than the IBRD has been in the practice of making. It is these small businesses which are most in need of financial help that will not be able to secure government guarantee very easily.

At any rate, the ADB should encourage borrowers to secure government guarantees. This inducement could be achieved by charging the guaranteed loans a lower interest rate than non-guaranteed loans, due to the difference in risk involved.

By participating in direct equity investment, the ADB would be breaking new grounds compared to the IBRD. The justification for suggesting such a major departure from the IBRD's charter is that "in a region as underdeveloped as the Arab region, equity participation could assist in mobilizing private capital that otherwise might not be available in adequate quantity to permit the launching or expansion of enterprises."(1)

The ADB would make a more positive contribution to the promotion of private enterprise, and would be able to utilize its funds more effectively. "It would stimulate the formation of new productive businesses in the member countries, encourage private capital formation, and help to build up the sort of managerial group that is essential to economic progress."(2) Furthermore, by making equity investments, the ADB would stimulate the use, throughout the region, of the corporate form of enterprise, whose advantages have been so clearly demonstrated in the highly developed countries.

It is assumed that the ADB should take only minority participations and should not itself operate enterprises, since its object is to stimulate other enterprises rather than supplant it.

Although the guaranteeing of loans by the ADB should not be ruled out as a function, yet its contribution to capital formation is not expected to be substantial. The experience of the IBRD, in its early days, should serve as

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(1) Ibid., p. 3.

(2) Ibid., p. 4.

a lesson to the ADB. Only after the ADB's financial strength has been built up and the confidence in it has been firmly established, which might take some time, could it begin to guarantee loans obtained through other institutions on a wide scale.

The role of the ADB should be regarded as something more than simply supplying money. It should render sound advice to member countries and its staff should study and assess investments carefully and supervise and control the effective spending of the money. In order to do an efficient job, it would be essential, therefore, for the ADB to acquire a highly competent staff.

It is expected that the ADB will make investments in all of the member countries. Any suspicion that the ADB will serve as "... a means by which the non-oil states can appropriate some of the oil revenues for their own benefit only should be scotched from the outset."[1] The surplus countries will benefit directly (apart from the return on their capital subscriptions) by using both the services and resources of the ADB. For them, the ADB will be an additional means for utilizing domestic capital more constructively.

In this respect, the ADB would be unlike the IBRD, which has not been in the habit of making loans or render services to capital surplus countries.

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(1) Ibid., p. 2.

G. Bond Issue

When dealing with the problem of the extent of bond issue, one is faced with a dilemma. Since basically borrowing will, in the long run, be the main source of funds for the ADB, the charter should give the ADB broad borrowing authority. Yet, at the same time, in order to command the confidence of potential investors and establish the ADB's credit thus facilitating its eventual borrowing, a limit should be set on the ADB's indebtedness arising out of its borrowings. The charter should include "... a restriction that will prevent the Bank from increasing its indebtedness too much in relation to its equity capital."[1]

Mursi, referring to the Himadeh provisions, which stipulate that the par value of bonds issued should not exceed the subscribed capital and reserve of the ADB, stated that such restrictions render the system inflexible and might make it impossible for the ADB to operate and achieve its objectives. He demanded more freedom in bond issue.[2]

The Arab League proposal provided for more freedom by setting the upper ceiling at twice the amount of the equity capital. The freedom in bond issue should not be pushed far because the confidence of investors might be shaken. It is suggested that bond issue should be tied up not only with the general limitation of not exceeding twice

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(1) Ibid., p. 7.

(2) Abdul Mu'im Mursi, op.cit., pp. 2-3.

the equity capital, but also with the further limitation of not exceeding a certain multiple (10 or 15) of the actually paid-in capital. At the same time, in order to gain more freedom, the Board of Governors should be allowed to exceed the set limits at any time, if such action is regarded as beneficial or necessary.

II. Practical Issues

The foregoing discussion has dealt with the technical problems to be met in the formation of the ADB, problems relating to membership eligibility, the extent of the share capital, its division into paid and unpaid parts and each member's contribution, the method of subscription, currency or currencies to be used, and the extent of bond issue in relation to capital.

There remains the discussion of the basic practical difficulties that might stand in the way of these members' willingness to join (if such willingness does exist), and the methods of overcoming such difficulties, if possible.

The difficulties could be divided into two parts: financial and political.

A. Financial

The financial difficulties pertaining to the members' ability to subscribe to the ADB have already been treated in detail. It could be concluded that no insurmountable financial difficulties exist in the way of the establishment of the ADB (the basic financial obstacles are in a sense political issues, and hence will be pointed out again in the political section).

B. Political

The political implications involved in the formation of the ADB will be discussed from two angles: the first refers to the relationship between the participating Arab countries themselves, while the second refers to the relationship of the Arab countries with the foreign powers, namely Great Britain and the U.S. This division, however, is highly artificial, since both relationships are interdependent i.e. the political relationships among the Arab countries being greatly affected by the constant manouvearing of the Western powers and Russia.

In its memorandum, the IBRD states that "The idea of the Bank rests on two essential elements; its success will depend upon them.

The first is whether the geographical, cultural, and political affinities of the Arab states will prove a strong enough basis for the degree of economic and financial cooperation necessary to operate a regional development bank.

The second is whether the necessary capital will be forthcoming...

Unless these two element are present, an Arab Development Bank could not be expected to make a significant contribution."(1)

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(1) IBRD, "Project for an Arab Development Bank", op.cit.,p.1.

With respect to the first element, the question is the following: are the unifying forces within the Arab countries strong enough to overcome all difficulties in the way of forming such an institution? While recognizing that there are divisive forces among the Arab states, as among any group of adjacent states, there is an appealing case for greater economic cooperation and a basis for greater unity. The Arab countries "... occupy a contiguous part of the world; they have common bonds of language, religion, culture and race, and they have similar customs and habits of thought ... All can benefit from a more cooperative approach to a variety of economic problems, such as, to cite just a few examples, the regional development of water resources, transportation, and communications, and a more unified approach to common monetary problems. The essential point is that all of the states have human and material resources that can be further developed to provide their peoples with a higher standard of life."[1]

Despite all these common ties, the relatively recent political developments in the region form an insurmountable obstacle in the formation of the projected institution." Within a matter of weeks the would-be brotherhood of the

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(1) Ibid., pp. 1-2.

Arab world has divided into two antagonistic unions (Nasser's United Arab Republic and the Iraqi-Jordanian Arab Federation) each vociferously competing for the adherence of uncommitted brother-states."[1] As long as Cairo and Baghdad are conducting a "slam bang" battle for the leadership of the Arab world, the ADB would remain an unrealizable dream.

The creation of the United Arab Republic (UAR) has not solved the crucial problem that faced each of its two powers, Egypt and Syria, that of the shortage of capital for development purposes; the Iraqi-Jordanian union has superior assets in that respect. It is expected that Iraq would invest part of its oil revenues in poor Jordan in order to alleviate the extreme poverty there. A proposition has already been advanced for the creation of a Development Bank for the financing of big, long-term projects in both provinces. Branches of the state-owned Agricultural and Industrial Banks of Iraq are going to be opened in Jordan. Therefore, for all practical reasons, it seems logical to assume, that given the present political set-up, Iraq would not be willing to join a broader institution. Furthermore, even if it wanted to join, its contribution to the ADB would be greatly reduced, now that it has the additional financial obligation towards Jordan at a time when its oil royalties have recently decreased due to pipeline difficulties.

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(1) "Can Iraq Reply?", Economist (March 29, 1958), p. 1110.

Saudi Arabia is undergoing a period of political instability. The probable effect of the recent (March 22, 1958) constitutional change will be that Saudi Arabia will maintain its policy of neutrality in Arab disputes but "... trended in favor of the UAR instead of the Iraqi-Jordanian Federation."(1)

The financial situation of Saudi Arabia has deteriorated lately, the government being too much involved in debt. Hence, Saudi Arabia seems to be, for the time being, unable and unwilling to invest large amounts of capital in the neighboring Arab countries. Consequently, in all probability there will not be a considerable inflow of Saudi capital into the capital hungry UAR.

The prospective participation of the other oil countries, namely, Kuwait, Qatar and Bahrein, entails with it a discussion of the political relationships of these states with foreign powers. All three are not independent yet; they are Sheikhdoms under British protection. They all have British financial advisers who seem to have quite an influence, if not the final word, on how oil revenues should be spent. The surplus revenues of these sheikhdoms are being held in balances or are invested in London. Therefore, under

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(1) Time (April 7, 1958) p. 19.

the present conditions, and until these countries obtain their independence, it would be necessary to obtain the agreement of the protecting power, before these sheikhdoms can become members in the ADB.

One might be inclined to believe that since the British took the initiative back in 1945 to establish a regional bank, they might be willing now to support such a project. However, one might very easily argue back that the British policy towards the Arabs might have changed since then. At any rate, it is of prime importance that all diplomatic steps be undertaken to enable those states to participate in the ADB, especially Kuwait, which is looked upon as one of the largest suppliers of capital, if not the largest of all the Arab countries.

However, it would be misleading to give the impression that Great Britain is the only obstacle in the way of the participation of the three sheikhdoms. Even though the rates of return tend to be higher in the underdeveloped Arab region than in the developed areas of the world, these sheikhdoms might be reluctant to shift their surplus overseas funds, or even portions of them, to their Arab neighbours, because of the prevalent political instability. They might prefer to earn a small return with relatively small risk than invest them in some Arab states.

The problem created by the limited convertibility of the sterling has been mentioned earlier. Evidently, negotiations between the ADB and Great Britain will be carried on governmental levels. In the politics of today, the outcome is always uncertain. Lack of cooperation on the part of Great Britáin will have disastrous consequences for the ADB. Egypt's capacity to pay in hard currency is next to nil. Therefore, in case the negotiations result in a failure, a new formula should be sought whereby a smaller portion of the stock capital would be allocated to Egypt. Moreover, the ADB would be forced to operate with substantially reduced financial resources, thus limiting its scope of growth.

Finally, there is the problem of the oil companies. It would be encouraging if the oil companies participate, out of their profits, in the bond capital of the ADB. Oil companies have in the past shown signs of cooperation in Iraq and Saudi Arabia by granting loans and advances. It is true that they demanded strong guarantees in return and that the loans were mostly short-term, yet they were advanced with a view to retain the goodwill of these countries.

It is in the interest of the United States and Great Britain, as well as the Arab countries, that such a project be realized. Therefore, all efforts should be exerted to make of such a venture a success. One of the main causes of the present Arab disputes is the unequal distribution of wealth in the region. The western powers should help in the redistribution of income, one way being through the participation of the oil companies. The realization of the ADB will have more far-reaching significance than simply the establishment of a joint financial institution. It might serve as a first step towards Arab cooperation and solidarity. The western powers, on their part, should realize that they "... derive no benefit from an Arab world split into two unequal camps; to encourage such a division is to drive the radical one to lean on Russia. The object of western diplomacy, therefore, should be to bridge the gap between Egypt and Iraq, not to widen it."(1)

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(1) Economist (February 15, 1958), p. 564.

CHAPTER VII

CONCLUSION

The economic growth of the Arab countries has been very marked since World War II. The rate of growth naturally has varied from country to country, but on the whole, rapid progress has been achieved. Despite this, the Arab countries are still underdeveloped in comparison with the advanced Western countries. In fact, it is possible that despite the present pace of development, the gulf between them and the advanced Western countries is widening.

The peoples all over the Arab world are in ferment; they want to see tangible results in terms of higher standards of living for their rapidly increasing populations. The governments being under constant internal social pressure, are now resolved to modernize their economies as quickly as they can. In order to do so, however, these countries need technical assistance and capital.

The central problem of development in the Arab world today is the following: On the one hand, the countries which have the financial means to develop (i.e. the oil countries,) have the smallest capacity to use capital productively (Iraq being the exception). On the other hand, the countries whose potentialities for development are large (i.e. the non-oil countries), lack the required captital to implement their development plans. In their efforts to enhance economic growth, the non-oil countries should depend more on self-help than they did in the past.

The problem created by the dearth of capital in the non-oil countries could be solved without extensive recourse to foreign aid. A strong case exists for transferring part of the wealth of the oil countries to the less privileged neighbours. A suitable way of transferring this wealth is through the creation of the projected Arab Development Bank, whose capital would be largely contributed to by the oil countries. Unless this Bank, or a similar institution, is established, the Arab region will not obtain lasting benefits from its oil wealth.

The creation of an Arab Development Bank is not an easy task; many issues have to be resolved and obstacles faced before such a bold and pioneering venture could materialize. In evaluating the feasibility of an Arab Development Bank, a distinction has to be made between technical and practical issues.

On the basis of the analysis of chapter VI, it could be stated that there are no insurmountable difficulties. The proposal for the establishment of a joint inter-regional financial institution for development is basically sound. Yet, if it is ever to materialize and to be able to contribute to the economic development of the region, certain conditions are required.

The basic requirements can be summarized in four points:

1. Membership in the Bank should be open to all Arab countries, without any distinction between Arab League states and non-Arab League states. The participation of private capital, whether local or non-local, should be in the form of bond rather than share capital.

2. The authorized capital stock should be set at 600 million dollars (or slightly less). It should be distributed among member countries in accordance with this principle: every country's share should be proportional to the percentage of its budget revenues to the sum of budget revenues of all member countries.

3. Only 20 percent of the capital should be normally callable, of which two percent should be paid at the signing of the agreement. The remaining 18 percent should be called in 18 years, at the rate of one percent per year. The remaining 80 percent of the capital should be called only in the event of meeting the obligations of the Bank.

4. Seventy-five percent of the normally callable capital should be paid in gold or any freely convertible currency, and 25 percent in local currency. As to the uncalled part of the capital, it should be guaranteed in gold or any freely convertible currency.

The basic weakness of the above scheme is the method adopted in the distribution of capital among member countries (point 2 above). If the budget revenues are taken as a standard of distribution, then Egypt becomes the major contributor (with 36 percent of the share capital). Egypt cannot pay that much except at the expense of financial strains. Despite this evident defect, this was found to be the best standard for an equitable distribution.

It could be argued that a recourse to the per capita budget revenues as a basis for distribution would yield better results --- a fairer distribution of capital burden. In fact, the use of such a standard would definitely reduce the financial burden on Egypt, but would, on the other hand, create new difficulties. Over 80 percent of the share capital would have to be subscribed by Kuwait and Qatar (since these two sheikhdoms have large oil royalties and very small populations), while the ten other member countries' participation would not amount to 20 percent of the capital. Even though Kuwait and Qatar might be able to meet their obligations under such a scheme, the distribution is not realistic. Such a scheme would not, in all probability, be backed by any of the participants. Therefore, it should be discarded.

It should be noted that the defect arising out of the use of budget revenues as a basis of distribution can be partly corrected. By spreading the period during which the normally callable capital will be paid to 18 years, the financial burden on Egypt is considerably reduced.

The practical issues, three in number, are more difficult to overcome than the theoretical ones. First, the participation of the three Sheikhdoms (Kuwait, Qatar and Bahrein) is not certain. It is believed that the protecting power, Great Britain, has a considerable influence on the decisions of these states concerning their eventual participation. If the protectorates refrain from participating, the financial capacity of the Bank would dwindle considerably.

Secondly, there is the important problem of the convertibility of the sterling. Agreement with the British monetary authorities in this respect is a must. Otherwise, some of the countries, notably Egypt, would not be able to supply the Bank with freely convertible currencies.

Both problems are external, in the sense that the outcome depends largely upon Great Britain. Lack of co-operation on the latter's part will definitely render the scheme unfeasible.

However, the most important obstacle is internal; it lies within the region itself. Even in the best of conditions, when all the ingredients are available, the Arab Development Bank may not work. As long as the Arab world is politically divided into two bitterly antagonistic camps, there will be no room for close cooperation in the economic sphere.

It is clear that Iraq is not interested in an inter-regional plan. The best prospect at the moment is the establishment of a Development Bank to operate in Iraq and Jordan only.

It might be argued that, even without Iraq's participation (and naturally Jordan's), the project would be still feasible. It is stressed that the Sheikhdoms and Saudi Arabia have ample surplus capital to finance such an institution. This point of view, however, is unrealistic. The internal instability and the continuing tension in the non-oil countries do not provide a favourable climate for the inflow of capital from the oil countries. The latter are reluctant to invest their surplus capital in a troubled region; they are ready to forego higher returns for more safety.

The oil countries are beginning to understand that in international or inter-regional finance, when investment capital flows from one country into sound productive enterprises in another, both the importing and the exporting countries gain. The former gains through increased production and higher national income; the latter by earning a return on its investment. The oil countries seem to realize that the economic development of their neighbours can only be to their own long-run economic advantage. Despite this, unless the tension in the Arab world is reduced, and friendly relations restored, the attempt of solving the region's economic problems through a joint inter-regional financial institution is bound to fail. It takes the goodwill and the cooperation of all the Arab countries to create an institution as bold and ambitious as the projected Arab Development Bank.

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