Dear Mr. Chairman:

Because of your interest in the status of the proposed Asian Development Bank, I wanted to bring you up to date on developments. I am including a summary of the Administration's position which guided Mr. Eugene Black, the President's Advisor on the Southeast Asian Regional Development Program, in his discussions with Asian experts in Bangkok on June 28 and 29, 1965, and which reflects certain refinements or clarifications resulting from his discussions with the Asian experts. I am also enclosing a copy of the statement made by Mr. Black in Bangkok on June 28 at the meeting of the Consultative Committee of Experts on the Asian Development Bank.

The Asian experts who composed the Consultative Committee of Experts are visiting a number of countries -- Asian and non-regional members of ECAFE as well as some European countries who might be potential subscribers to the Bank -- in order to inform these governments about the formative discussions held in Bangkok. The Asian experts are dividing into several groups to visit the various countries, using as their terms of reference the conclusions or findings they tentatively reached in Bangkok. The Asian experts group visiting the U.S. will meet with American officials on July 23 and July 26, 1965. Following their visits to the various capitals, the Asian experts will meet in Bangkok in August, where they will consider again their conclusions or findings in the light of their consultations in the various capitals. This is to lead to the preparation of a draft charter which will be circulated to interested governments prior to an inter-governmental
meeting in the fall, probably in October 1965, for negotiations on the draft charter. Subsequently, of course, approval of the Congress will be sought regarding U.S. participation in the proposed Asian Development Bank.

Set forth below is the Administration's present thinking regarding the Asian Development Bank.

1. Initial Capitalization. The U.S. agrees with the Asian export's proposal for an initial capitalization of $1 billion. The U.S. is prepared to subscribe 20 percent of the total capitalization up to a maximum of $200 million. Asian regional countries, including Japan, Australia and New Zealand, are expected to subscribe another 60 percent of the capital, and non-regional countries other than the U.S. the remaining 20 percent. Japan has already pledged $200 million.

2. Paid-in Capital. The U.S. would be prepared to accept between 50 percent and 75 percent of the total as paid-in capital with the remainder subject to call. The final position will depend on the views of other subscribing members. The proposed 50 percent for paid-in capital calls for the payments to be made in five installments, with 20 percent of the subscription paid initially on the establishment of the Bank and the balance in four yearly installments of 20 percent each, thus completing payment on the capital subscriptions in four years. Paid-in capital amounting to 50 percent of a U.S. subscription of $200 million would mean five annual installments over four years of $20 million per installment; paid-in capital of 75 percent of a total subscription of $200 million would mean six annual installments of $25 million each over a five year period.

3. Form of Payment. The U.S. would agree that all of the paid-in capital of the developed countries would be convertible, and that procurement be made only in countries which are members of the Bank. For the developing countries,
50 percent of their paid-in subscriptions would be convertible and 50 percent paid in their national currencies.

4. Voting Rights. The U.S. believes that the large bulk of total votes should be allocated in accordance with the size of subscriptions. In Bangkok, Mr. Block indicated that the U.S. would like to see about 90 percent of the total votes of Bank shareholders allocated in proportion to subscriptions and the remainder allocated equally among members.

5. Lending Terms. The U.S. agrees with the Asian countries that the bulk of the Bank's regular capital should be used for lending on hard terms similar to those of IBRD (5 1/2 percent interest, up to six years grace, up to 30 years repayment). The U.S. would be willing to have a small amount of the paid-in capital used for "soft" loans on IDA-type terms (3/4 of 1 percent interest, ten year grace period on amortization, 50 years repayment).

6. Management of the Bank. The U.S. strongly emphasizes the importance of choosing a highly qualified person as President of the Bank, presumably to be an Asian. The U.S. is passive on the choice for President except for stress on qualifications. The U.S. would be pleased to provide a Vice President for the Bank.

7. Board of Directors. As a major subscriber, the U.S. would expect to have a U.S. Executive Director on the Board of the Bank.

8. Location of the Bank. A number of Asian capitals are candidates for the location of the Asian Development Bank. They are Bangkok, Kuala Lumpur, Manila, Tehran and Tokyo. The U.S. does not wish to become directly involved in this issue and prefers to await a consensus of Asian views before crystallizing its position.
9. Southeast Asia Regional Development Fund. The U.S. proposes that a Southeast Asia Regional Development Fund be set up to be administered by the proposed Asian Development Bank, with up to $100 million put in by the U.S., subject to Congressional approval and reasonable contributions from other members. U.S. contributions to this Fund could be tied to U.S. procurement. The Fund would be used for hard or soft loans or grants for projects of a regional or sub-regional character.

Sincerely yours,

[Signature]

Joseph W. Barr
Acting Secretary

The Honorable
Wright Patman, Chairman
Banking and Currency Committee
United States House of Representatives
Washington, D.C. 20515

Enclosure:
Statement by Mr. Black
Draft Agreement Establishing the Asian Development Bank

THE COUNTRIES on whose behalf this Agreement is signed:

CONSIDERING the importance of closer economic co-operation as an instrument for achieving the most efficient utilization of resources and the rapid economic development of Asia and the Far East;

REALIZING the significance of making additional development finance available for the region by mobilizing such funds and other resources both from within and outside the region, and by seeking to stimulate, and to create conditions conducive to increased domestic savings and greater flow of development funds into the region;

RECOGNIZING the desirability of promoting the harmonious growth of the economies of the region and expansion of the external trade of member countries;

FURTHER RECOGNIZING that the establishment of a regional financial institution would serve these ends;

HAVE AGREED to establish hereby the Asian Development Bank (hereafter called the "Bank") which shall operate in accordance with the following.

Articles of Agreement

CHAPTER I

PURPOSE, FUNCTIONS AND MEMBERSHIP

Article 1

PURPOSE

The purpose of the Bank shall be to contribute to the acceleration of the process of economic development of the member countries in the region of Asia and the Far East (hereafter referred to as the "region"), collectively and individually.
Article 2

FUNCTIONS

1. To implement its purpose, the Bank shall have the following functions:

(i) to promote investment in the region of public and private capital for development purposes;

(ii) to utilize the resources at its disposal for financing development of the member countries in the region, giving priority to those regional, sub-regional as well as national projects and programmes which will contribute most effectively to the harmonious economic growth of the region as a whole;

(iii) to co-operate with member countries in the region in the co-ordination of their development policies and plans with a view to achieving better utilization of their resources, making their economics more complementary and promoting the orderly expansion of their foreign trade, in particular, intra-regional trade;

(iv) to provide technical assistance for study, preparation, financing and execution of development projects and programmes, including the formulation of specific project proposals;

(v) to co-operate with national and international institutions and private sources which invest development funds in the region or provide financial and technical development assistance to the region, and to inform such agencies of new opportunities for investment and assistance;

(vi) to undertake such other activities and provide such other services as may reasonably advance its purpose.

Article 3
Article 3

MEMBERSHIP

1. The original members of the Bank shall be those regional and non-regional members of the United Nations Economic Commission for Asia and the Far East (ECAFE), which are also members of the International Monetary Fund, and which acquire membership in the Bank in accordance with the provisions of Article 62, paragraph (ii) of this Agreement.

2. Membership shall be open to other regional and non-regional sovereign states interested in the development of the region, at such time and in accordance with such terms in respect of subscriptions to its capital stock as may be prescribed by the Bank.

CHAPTER II

CAPITAL

Article 4

AUTHORIZED CAPITAL

1. The authorized capital stock of the Bank shall be one billion dollars ($1,000,000,000) in terms of United States dollars of the weight and fineness in effect on . The dollar wherever referred to in this Agreement shall be understood as being a United States dollar of the above value. The authorized capital stock shall be divided into 100,000 shares having a par value of 10,000 dollars each, which shall be available for subscription only by members in accordance with the provisions of Article 5 of this Agreement.

2. The authorized capital stock shall be divided into paid-in shares and callable shares. The equivalent of 500,000,000 dollars shall be paid in, and the equivalent of 500,000,000 dollars shall be callable for the purposes specified in paragraph (5) of Article 6 of this Agreement.

3. The authorized capital stock may be increased when the Board of Governors deems it advisable, and in a manner agreed upon, by a two-thirds majority of the total number of governors, representing not less than three-fourths of the total voting power of the members.
Article 14

OPERATING PRINCIPLES

1. The operations of the Bank shall be conducted in accordance with the following principles:

(i) The operations of the Bank shall provide principally for the financing of specific projects, including those forming part of a national or regional development programme. They may, however, include global loans to, or guarantees of loans made to, national development banks or other suitable entities, in order that the latter may finance specific development projects whose individual financing requirements are not, in the opinion of the Bank, large enough to warrant the direct supervision of the Bank;

(ii) In selecting suitable projects, the Bank shall always be guided by the provisions of paragraph (1) (ii) of Article 2 of this Agreement;

(iii) The Bank shall not finance any undertaking in the territory of a member if that member objects to such financing;

(iv) The applicant for the loan shall have submitted an adequate loan proposal and the President of the Bank shall have presented a written report recommending the proposal on the basis of a staff study;

(v) The Bank shall not provide for financing to the extent that, in the opinion of the Bank, the recipient may obtain financing or facilities elsewhere on terms that the Bank considers are reasonable for the recipient, taking into account all pertinent factors;

(vi) In making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower and its guarantor, if any, will be in a position to meet their obligations under the loan contract;

(vii) In making or guaranteeing a loan, the rate of interest, other charges and the schedule for repayment of principal shall be such as are, in the opinion of the Bank, appropriate for the project concerned.

(viii) In guaranteeing a loan made by other investors, the Bank shall receive suitable compensation for its risk;

(ix) Except as otherwise provided in Articles 13 and 23 of this Agreement, the Bank shall impose no condition that the proceeds of any financing undertaken in its ordinary operations shall be spent in the territory of any particular country nor that they shall not be spent in the territory of any particular country.
(x) In the case of a direct loan made by the Bank, the borrower shall be permitted by the Bank to draw its funds only to meet expenditures in connexion with the project as they are actually incurred;

(xi) The Bank shall take the necessary measures to ensure that the proceeds of any loan made, guaranteed, or participated in by the Bank are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency;

(xii) The Bank shall seek to maintain reasonable diversification in its investments in equity capital; it shall not assume responsibility for managing any entity or enterprise in which it has an investment; and

(xiii) The Bank shall be guided by sound banking principles in its operations.

2. The Bank shall adopt such rules and regulations as are required for the consideration of projects submitted to it.

Article 15

TERMS AND CONDITIONS FOR DIRECT LOANS AND GUARANTEES

1. In the case of direct loans made or participated in by the Bank, the contract shall establish, in conformity with the operating principles set forth in paragraph 1. of Article 14 of this Agreement and subject to the other provisions of this Agreement, all the terms and conditions for the loan or the guarantee concerned, including those relating to payment of principal, interest and other charges, maturities, and dates of payment in respect of the loan, or the fees, commission, and other charges in respect of the guarantee, respectively. In particular, shall provide that, subject to paragraph (3) of this Article, all payments to the Bank under the contract shall be made in the currency loaned, unless, in the case of a direct loan made or a loan guaranteed as part of special operations, the rules and regulations of the Bank provide otherwise. Guarantees by the Bank shall also provide that the Bank may terminate its liability with respect to interest if, upon default by the borrower and the guarantor, if any, the Bank offers to purchase, at par and interest accruing to a date designated in the offer, the bonds or other obligations guaranteed.

/(2) Where