Creating Poverty:

The ADB in Asia

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The ADB: Shape Up or Ship Out

By: *Shalmali Guttal**

What's New at the ADB?

The Asian Development Bank (ADB) now asserts that poverty reduction is its overarching institutional goal. It claims that all its other strategic objectives—economic growth, human development, sound environmental management and improving the status of women—will henceforth be pursued in such a way that they directly contribute to poverty reduction.[1]

But the ADB has no clue how to reduce poverty. In adopting the poverty reduction rhetoric, it is merely following the lead of the World Bank and its other multilateral peers who successfully negotiated the transition in *their* rhetoric a long time ago. A relative "laggard" in the development business, the ADB is the last of the multilateral institutions to declare full and complete dedication to the reduction of poverty. And in so doing, it hopes to divert attention away from emerging evidence and criticism of its abysmal failure as a bank as well as a development institution. It now talks about sustainable human development, gender equality, environmental protection and participation, but it is clearly at a loss as to how these terms can be translated into action.

The ADB's Poverty Reduction Strategy proposes nothing new in terms of understanding, or tackling poverty. What it does is use poverty rhetoric to dress up the only business it knows: market based economic growth, liberalisation of trade and investment; deregulation, or minimising the role of the State in governing the economy and privatisation, with an ever expanding role for the private sector in the production and delivery of goods and services. The strategic goal of these initiatives has not been poverty reduction, but the rapid integration of local and national economic activities into the global market economy. Far from reducing poverty, the ADB's version of development has contributed greatly towards the impoverishment of people in the Asia and Pacific.

The poverty rhetoric is important to the ADB from the point of view of institutional survival. The ADB needs the discourse of poverty. By committing itself to research and documentation about poverty ("expanding the knowledge base")[2] it attempts to sets itself up as a poverty expert, and the key producer and disseminator of knowledge about poverty and development in the region. Through such a discourse it can exercise influence about how poverty is perceived and approached, and in the design of anti-poverty programs. The poverty discourse thus serves the ADB in two critical ways. One, it provides a moral-ethical cloak for it's poorly conceived and destructive development policies and practices. Second, it ensures that there will always be a steady supply of "poor" to keep it in business.

The ADB defines poverty as a state of deprivation of essential assets and opportunities which arise from a shortage of capital by which these assets and opportunities can either be produced or purchased.[3] Accordingly, poverty reduction calls for the creation of a situation in which the poor are enabled to acquire the assets required to achieve a "minimally acceptable level of existence. But this too is not new. Set into motion more than fifty years ago by the United States, Great Britain, the Bretton Woods Institutions and the United Nations, the "shortage of capital" approach to development has so completely dominated anti-poverty programs that today, the theory has become a morbid reality: the poor are indeed deprived of assets and opportunities; there is a perpetual shortage of capital investment in areas critical to the poor; and worst of all, despite the billions of dollars that have been channeled into so-called poverty reduction programs, the poor do not appear to be in a better position than before to acquire those assets and opportunities they need to redeem their condition of deprivation.

The picture is indeed dismal. The 1999 UNDP Human Development Report reveals that worldwide, an estimated 1.3 billion people live on incomes of less than $1 a day. More than a quarter of the 4.5 billion people in developing countries still do not have what the world considers some of life's most basic choices such as survival beyond the age of 40, access to knowledge and minimum public services. More than 880 million people lack access to health services, nearly 1.3 billion people do not have access to clean water, and 2.6 billion people lack access to basic sanitation. About 840 million people in the world are malnourished and the richest fifth of the world consume 16 times more than the poorest fifth.[4]

Close to 900 million of the world's poor (i.e., those who survive on less than US $1 a day) live in the Asia and Pacific region, and nearly one in three Asians are poor using this same standard.[5] More than half of world poverty is concentrated in the Asia and Pacific region. And the ADB—along with its mentors, the World Bank and the International Monetary Fund (IMF)—has played a significant role in bringing this situation about. The combined policy demands of these three institutions have entrenched social, economic and political inequalities, increased absolute poverty for many, weakened the economic sovereignty of countries by increasing dependency on external financing, and led to widespread environmental degradation in the region. Further, the increasing domination of their neo-liberal vision of the world has narrowed opportunities for the emergence of local, national and regional development alternatives.

An Institution for Asia and the Pacific

The Asian Development Bank (ADB) was established in 1966 as a regional Multilateral Development Bank (MDB) to finance activities that would foster economic growth, development and cooperation in the Asia-Pacific Region. Although its primary founding members were Japan and the United States, it now consists of 57 member countries—41 from Asia and the Pacific, and 16 non-regional. The ADB's top stockholders are Japan, the United States, the Peoples' Republic of China, India, Australia, Indonesia, Canada and Korea.[6] Interestingly, the majority of the ADB's members—Developing Member Countries [DMCs] are debtors to the ADB. The ADB is a public sector institution supported by taxpayers in *all* its member countries, either in the form of direct financing of the institution's portfolios, or in the form of debt repayment.

Established in the image of the World Bank, the ADB currently enjoys unprecedented economic and political power in Asia. Between 1996 and 1998, the ADB's commitment to assistance in the region was US$ 20.6 billion, second only to the World Bank at US$ 28.7 billion.[7] Since the start of its operations in 1966, the ADB has poured more than US$ 111 billion into the region, of which at least US$82 billion are in direct credits from the Bank itself, and another US$ 30 billion through co-financed capital, much in the form of non-concessionary loans. In 1997, the total accumulated external debt in the Asia Pacific region was US$ 805.4 billion.[8] Compared against the total ADB lending and co-financing to date of US$ 111.9 billion, it can be assumed that more than ten percent of the total external debt of the Asia Pacific is owed to the ADB.[9]

The eight largest debtor countries to the ADB are Indonesia (US$ 16,008 million), Pakistan (US$ 9,471 million), China (US$ 8,166 million), The Philippines (US$ 7,286 million), India (US$ 7,253.3 million), Thailand (US$ 4,984 million), Malaysia (US$ 1,987 million) and Vietnam (US$ 1,655 million). The top eight countries with more than a third of their total external debt owed to the ADB are Bhutan (73 %), Nepal (68 %), Samoa (62 %), Mongolia (52 %), Solomons (51 %), Bangladesh (37 %), Malaysia (33 %) and Pakistan (32 %).[10]

The ADB's activities range from providing loans (concessional and ordinary), facilitating capital investment, and technical assistance to governments and private companies in its developing member countries (DMCs). Its approach to development is based on a fundamental belief in rapid modernisation, market capitalism, and the integration of all economic activity into the global marketplace. While these beliefs are no different from the neo-liberal agendas promoted by other International Financial Institutions (IFIs), the ADB has sought to promote an "Asian" identity for itself by claiming to be rooted in the region, and by claiming to advance regional understanding and cooperation through programs designed to respond to the particularities of the region.

The ADB has mobilised both public and private capital for financing development activities through co-financing schemes with multilateral, bilateral and private financial institutions. Central to this has been the promotion of public-private "partnerships" between governments and private companies in physical infrastructure projects in which the ADB has provided loans for government equity and partial risk guarantees to the private investors. Another notable feature of the ADB has been its role in facilitating technical assistance to its DMCs through multilateral and bilateral funds. However, the majority of the ABD's "assistance" to its DMCs has been in the form of loans and even pre-paid technical assistance is usually contingent upon concurrent loan regimens.

Whose Interests?

The ADB insists that it has always been concerned with poverty alleviation and that its approach to development encompasses a wide range of social and environmental concerns, including women's empowerment, civil society participation and environmental protection.[11] However, in the footsteps of its institutional peers—the World Bank and IMF—financing from the ADB, whether in the form of grants or loans, is generally accompanied by conditionalities that undermine the very issues it claims concern for.

ADB conditionalities range from the introduction of new policies and laws to protect specific investments (as in infrastructure projects) to reforms of entire sectors (as in the case of the agriculture sector in Thailand and the energy sector in Indonesia). Some of the more common elements of these conditionalities are: liberalisation of trade and investment; increased control by the private sector over the production and delivery of goods and services; full cost recovery of all investments whether public or private; dismantling of state subsidies for public goods and services; privatisation of state enterprises; transfer of resource use and tenure rights from public and common pool to private ownership; deregulation of pricing and markets; and an overall withdrawal of the state in direct economic activity and governance. Reforms of the financial and legal sectors, and the introduction of new, market-friendly regulatory mechanisms have been particularly important to the ADB's strategy of increasing foreign and domestic private investment in infrastructure, economic and social development.

Until the early nineties, the ADB was quite successful in avoiding public scrutiny about its policies and operations. Unlike the World Bank or the IMF, the ADB's sphere of influence is regionally limited. And the Asia-Pacific region is a geographically, economically, culturally and politically diverse region. While intense pockets of poverty exist in its different sub-regions, it is also overall a region of significant wealth accumulated through generations of capital and resource appropriation, and a buildup of domestic savings. Asian countries have pursued distinctly different paths towards modernisation and development which have been financed through a multitude of sources ranging from domestic and foreign private investments to bilateral, and multilateral development assistance and credits. Consequently, the influence of MDBs on the various countries in the region has also been varied owing to differences in their respective political and economic capacities.

But as more evidence emerges about the destructive impacts of its projects and interventions, the ADB is facing growing region-wide criticism of its policies and operations, as well as of the manner in which it does business. Despite its claims to the contrary, the ADB is a highly centralised and unaccountable institution which does not serve broad-based public interest. At an institutional level, the Bank's key policy and program decisions are taken by its Governors and Board of Directors, who also determine the direction of its operations and relations with borrowing countries. At the country level, Bank and government negotiations about programs proceed without broad based, inclusive, public input and participation.

Neither the Board of Directors nor ADB staff represent the interests of majority of the region's people. ADB policies also have little to do with addressing the problems or challenges faced by the poor in borrowing countries. On the contrary, these policies reflect a gross and undifferentiated view of diverse conditions, and further the interests of its wealthy Asian and non-Asian stockholders and financial contributors. The ADB pays no penalty for bad decisions on loans or projects. These impacts are disproportionately borne by the very people who the Bank is not responsible to but uses to justify its existence, i.e. the poor.

It fact, it is difficult to understand what the ADB means when it refers to "gender and development" and "participation."[12] The urban or rural poor certainly did not participate in the design of programs or policies that have led to the displacement and dispersion of families, environmental degradation, the alienation of entire communities from natural resources and livelihood means, increased household and public debt, decreased access by vulnerable populations to clean water, sanitation and basic healthcare, and exacerbation of physical, economic and social hardships on women.

"Thinking Poverty"

By its own admission, the ADB is moving away from its former project oriented role towards becoming a broad based development institution that promotes policy and institutional reform, regional cooperation and private sector development.[13] These policies provide the broad framework for operationalising its poverty reduction strategy which consists of "pro-poor" sustainable economic growth, social development and good governance.

A noteworthy aspect of the ADB's poverty reduction strategy is its commitment to strengthen its own knowledge, capacity and skills, and to ensure that all its departments acquire the requisite expertise in anti-poverty activities.

Just as salesmen are encouraged to think "sales" at all times, ADB staff shall "think poverty" at all times. New staff and consultants shall be hired and training will be provided for all personnel in poverty reduction methodologies and techniques. Country and region wide studies on poverty will be undertaken, poverty research indicators and data will be developed, handbooks and manuals on poverty interventions will be produced, and conferences and fora on poverty reduction will be organised. New policy tools and lending instruments to finance poverty operations will be developed, and of course, new lending targets will be established.[14]

There will also be new partnerships in this endeavour. The ADB claims that in more than fifty percent of its past loans, it has used NGOs to implement specific initiatives or projects. Its current poverty reduction strategy is also based on consultations with NGOs and other civil society organisations in selected countries. Such collaboration will be strengthened so that future ADB loans and projects (all pro-poor, of course) will have the endorsement and support not only of governments, but also of civil society.

In other words, by setting itself up as *the* expert institution on poverty in the region, the ADB will consolidate its power on the discourse of poverty and development in the Asia and Pacific. It will then be better positioned to shield itself from critiques of its methods of operation, projects and lending practices, and also have a new platform from which to solicit funds to finance its future existence.

The Poverty Reduction Strategy: New Packaging for an Old Product

The poverty reduction strategy reiterates the ADB's firm belief in markets as the primary source of assets and opportunities that the poor, and in fact all in society, need in order to grow towards a better future. According to the ADB, markets must be nurtured and allowed to reach their full potential by the removal of market distorting interventions such as public service and credit subsidies, pricing controls, state owned enterprises, import-export restrictions and overvalued exchange rates. It claims that competitive markets can do better what governments have attempted to do in the past: the production of public goods and services. Liberalising markets and dismantling all forms of control or regulation over market operations (as the assertion goes) would increase efficiency of production and stimulate economic growth, which in turn would provide employment and incomes, and eventually reduce poverty.

Private sector development (PSD) is central to the poverty reduction strategy and will receive renewed support.[15] The ADB claims that given the limited capacity and mixed track record of the public sector, the private sector must become the "engine of growth." PSD is, of course, not new to the ADB and encompasses a range of activities from support for domestic entrepreneurs to region wide economic cooperation programs. Many PSD efforts are couched in the language of public-private partnerships, whereby public funds are used to provide sufficient incentives and guarantees and ensure an appropriate "comfort level" for private sector expansion

The ADB advocates expanding the role of the private sector from its present involvement in physical infrastructure projects (such as energy, water, transport and telecommunication) into the domain of public goods and services, economic and social infrastructure, and basic services such as education, health, nutrition, water and sanitation. The ADB plans to use its private sector assistance window to strengthen the financial, institutional and managerial capacity of the private sector through activities such as co-financing, technical assistance and capacity building. At the same time, the ADB will use its public sector assistance window to enforce a hospitable macroeconomic, policy, legal and regulatory environment (an "enabling environment") for the "flourishing" of the private sector, such as more open trade and investment policies, deregulation of pricing, and other market favouring interventions. The agriculture sector will receive special attention. According to the ADB, increasing the market orientation of agriculture, all the way from pricing of inputs to management of natural resources will have tremendous impact on poverty reduction since the majority of Asia's poor derive their livelihood from agricultural production

And what of governments? The ADB has a role for them too as outlined in their policy of "good governance." Good governance in ADB parlance means re-orienting the work, capacity and resources of government to support economic restructuring and the private sector. This would be achieved through the development of new legal, regulatory and institutional frameworks for the development of markets, competition, market pricing, predictability, stability of operations, etc. The commercialisation and privatisation of state enterprises are highlighted in the ADB's idea of good governance. The argument goes that a combination of privatised property rights and competitive markets will lead to the efficient utilisation and redirection of assets. This will also miraculously reduce corruption. Since full cost recovery and profits will replace public service and responsibility as motivating factors, privatised enterprises will necessarily create more goods and services for public consumption, and the poor will of course benefit. But here too, the ADB is quick to point out that these gains can only be possible within a wider institutional setting which in turn can only be achieved through the neo-liberal reforms that it has proposed all along.

The majority of the ADB's policy experiments are brought together in its program for sub-regional economic cooperation. Central to its core mandate of fostering regional economic development, sub- and regional economic cooperation was unable to take off in the ADB's early years for a number of reasons. Deep rooted political-ideological divisions within Asia and the prevalence of nation-building sentiments resulted in countries focusing efforts on strengthening their respective national political and economic spheres. Given geopolitical conflicts and limited opportunities for trade within the region, neighboring countries often viewed each other as economic competitors or security threats. This situation changed considerably in the eighties as socialist countries started to open up, export oriented economic models gained favour in East and Southeast Asia, and new opportunities for trade and investment started to emerge within the region. Intra-regional economic cooperation started to elicit particular interest among industrialising countries, since it was seen as offering countries wider markets close to home which would allow Asian corporations to become stronger and compete more successfully in global markets. There was also the hope that as the region became less dependant on trade and investments from the West, opportunities to strengthen regional peace, security and stability would increase.[16]

Well positioned to respond to these changes, by the end of the eighties, the ADB launched its strategy for regional economic cooperation and development. Thus far, this strategy has largely consisted of two elements: 1) loans and grants for Regional Technical Assistance (RETA) for project/program feasibility studies, project/program preparation, training of project/program personnel and regional conferences to promote project/programs; and 2) direct loans and co-financing for specific projects such as dams, roads and telecommunications through programs such as the Greater Mekong Subregion (GMS) and the BIMP EAGA.[17] Interestingly, the original idea of regional growth "polygons" was not entirely an ADB invention, but was developed by early Asian Tigers such as Singapore and Malaysia. The ADB subsequently adopted and expanded the idea to the level of sub-regional "masterplans," which involve huge financial outlays, technical inputs, management capacity and regulatory frameworks.[18] The ADB also reserved for itself the role of a catalyst or third party facilitator of private capital by reducing the risks to investors through co-financing, direct loan guarantees and the facilitation of government guarantees for returns on investments.

The GMS brings together the countries of Myanmar, the Lao PDR, Thailand, Cambodia, Vietnam and the province of Yunnan in Southern China in a masterplan of cooperation on transport, energy, tourism, human resource development, telecommunications, trade and investment, and environment projects. A primary attraction of the GMS for planners and investors is the vast and as yet unexploited potential of natural resources in the region ranging from water, fisheries and forests to coal, gas and petroleum reserves. The BIMP EAGA brings together the countries of Brunei, Indonesia, Malaysia and Indonesia (BIMP) in an East ASEAN Growth Area (EAGA). Initiatives under this masterplan range from policy frameworks to facilitate cross border movement of goods, capital, technology and labour, and commercial investments in agriculture, fisheries, agro-processing, skills development, tourism and export oriented manufacturing. In both cases, the exploitation of natural resources are central motifs and the exports of timber, forest resources, raw materials and energy have priority.[19]

The ADB proudly touts the advantages of the sub-regional cooperation models that make them more attractive to private investors and accelerate business opportunities: lower risks and costs to the investors, no discrimination against sources of capital (i.e., foreign firms get at least the same privileges as domestic firms), no cumbersome national laws or regulations to hamper investment opportunities, participating countries agree to essential infrastructure and special policies that are more liberal than national policies to attract capital, and natural resources are used not to contribute towards national self-sufficiency, but to respond to regional imperatives.[20] According to the ADB, the above will accelerate development through increased trade and investment, and since many of these programs involve "lagging parts" of national economies, they could "potentially" contribute directly to poverty reduction.[21]

Keeping the Poor in their Place

The ADB claims that it has learned much from its past efforts about how to address the various dimensions of poverty. With all the billions spent and parallel debt incurred, someone certainly should have learned something, but what are these lessons? And how have they informed the Bank's future plans?

The model of development promoted and financed by the ADB has not reduced poverty in any absolute sense. On the contrary, it has served to perpetuate the fiction that poverty can be reduced by the infusion of large amounts of capital along the lines prescribed by the ADB and other believers in market solutions to poverty. As some groups of people succeed in raising their incomes to survive above the minimum standard of US$1 a day, more take their place. And what of those who cross the line anyway? Are they able to exercise their "right to be reasonably rewarded, as well as have some protection from external shocks?"[22] Recent experience in the region does not bear this out.

The policy reforms insisted upon by the ADB have contributed to serious setbacks for the poor in borrowing countries. The withdrawal of the State from the provision of social infrastructure and the dismantling of government subsidies for basic services have severely constrained the access of the poor to food, basic education, healthcare and sanitation, and with current policy trends, this will likely get worse. Privatisation and corporatisation of state enterprises have led to the retrenchment of workers whose opportunities for re-employment are curtailed by simultaneous downsizing of other enterprises in order to keep production streamlined and efficient. The burden of external debt repayments and the need to maintain upward growth figures have further restricted governments' abilities to provide and maintain safety nets for the most vulnerable populations.

The rush to orient domestic agricultural production towards export markets, the removal of pricing controls for agricultural products, and the infusion of local markets with external goods have reduced the competitiveness and stability of local agricultural producers in their own societies. Their ability to benefit from the so-called "economic vibrancy" of market based production has been weakened rather than strengthened by deteriorating terms of trade resulting from sudden shifts to unregulated, open markets, and lack of domestic supports for production and distribution. With rising production costs resulting from dependence on external (and often costly) agricultural inputs, as well as new levies and taxes on resources such as water and land, small farming and fishing families in countries such as Thailand, India, the Philippines and South Korea have grown deeper in debt and in many instances, have lost their assets altogether. Rural to urban migration has increased as impoverished farming and fishing families are displaced from traditional occupations.

In a number of Asian countries (India, Bangladesh, Thailand, Cambodia, and the Philippines are only some examples), rapid liberalisation of trade and investment, and the obsession with economic growth have led to the establishment of sub-contract factories and sweatshops where workers are paid less than the minimum wage and work 12 to15 hour work-days. It is often to these factories that rural migrants and family members of retrenched workers come to find the employment that results from the "pro-poor" economic growth that the ADB promotes. Children drop out of school—if they had enrolled to begin with—because their labour is essential for their families to be able to inch towards that invisible poverty line. Governments withhold increases in minimum wages, workers' insurance and welfare benefits since the extra costs of protecting this "human capital" would make economic growth more expensive, thus reducing revenues and discouraging investors.

The ADB's promotion of private sector expansion has generated its own special problems. In support of public-private partnerships, the ADB has argued that through the involvement of the private sector, economic risks can be better distributed among those who can best absorb them. A win-win situation in which capital deficit governments can access resources to build, operate and maintain infrastructure and production capacity without its attendant challenges or risks. But in practice, the opposite has happened. In order to attract private capital, governments have entered into agreements through which economic risks and responsibility are unevenly borne by governments and eventually by the public through levys, taxes, price increases, debt repayments, etc. The private sector, in most cases, has got away with a disproportionate share of profits and privileges. Infrastructure projects such as roads, dams, energy production units and waste management plants have externalised social and environmental costs, which again have been transferred onto the public realm in the form of social, environmental and long term economic mitigation. The conflicting role of governments as owners/investors as well as regulators in public-private partnership schemes have resulted in governmental inability to protect the public interest in an effort to recoup investments. In many instances (such as energy projects in Thailand, Malaysia, Indonesia, Vietnam, the Lao PDR and Peoples' Republic of China), land, water and forest rights of local residents have been violated without adequate compensation or legal redress.

The sub-regional economic polygons promoted by the ADB are essentially large scale export processing zones, where private companies have disproportionately more power than the participating governments about the nature and direction of investments. At the heart of these zones are the most coveted resources of the region—land, mineral, coal and natural gas deposits, water, forests and biodiversity—which offer numerous profits for outside investors and those countries that are economically powerful enough to promote and protect their own interests (A major road project in the East West Corridor of the GMS that links Vietnam, the Lao PDR and Thailand has already been sharply criticised by Lao officials as heaping costs on the Lao PDR while providing benefits to Vietnam and Thailand). These models also widen internal disparities among the participating territories, and disrupt national economic and social cohesion by creating pockets of high capital and infrastructure investment in an otherwise under-serviced region.[23]

Under the special rules that operate in these sub-regional economic zones, the rights of local populations to natural resources such as land, water, fish and forests have been critically threatened. Customary resource tenure and use systems have been frequently over-ridden by governments in favour of privatised ownership leading to decreased food and economic security among local communities. Large scale energy projects and clearing of forests for commercial logging, plantations, roads, mining, industry and commercial agriculture have displaced subsistence farmers and indigenous communities, usually with little compensation. The Mekong river basin is a vast, complex and rich ecological system that provides sustenance for millions of people in the sub-region. But under the GMS cooperation program, natural resources and people are reduced to little more than raw materials and cheap, dispensable labour.

The ADB's conceptualisation of good governance has and certainly will be good for large private interests and national elites who will benefit from easy access to natural resources and cheap labour, and the transference of commercial risks to the public at large. But this conceptualisation will not address deeply rooted economic and social inequities, or support for basic human rights to resources, safe environments and freedom of expression, the rights of labour to organise and negotiate better deals for workers, the rights of indigenous peoples to self determination, the rights of peasant farmers to own and protect the land they farm, and the rights of women to a safe social environment. Good governance will do little for the poor, particularly women, as governments are increasingly unable (and often unwilling) to protect and ensure their rights to decent livelihoods, social services and economic security.

Admittedly, the ADB is not single-handedly responsible for the creation or entrenchment of poverty in the region. It has had plenty of help from the World Bank, the IMF and country governments both within and outside the region. And a lesson that none of them seem to have learnt is that the private sector is not the messiah of development, nor do benefits necessarily accrue to all from open, deregulated, private sector led and market based development. The private sector has its role, and an important one, granted. But without strong public oversight and the counter-veiling power of civil society, such a model serves to entrench inequity, injustice and poverty. The Asian economic crisis was a crisis of gross mismanagement of the private sector, the result of which has been the transference of private sector risks and financial burdens on to the public at large and increased public debt.

One lesson that the ADB seems to have learnt only too well is that it needs the poor as much, if not more than the poor need the ADB. The magic of the marketplace works best for the magicians themselves. For the ADB, this magic is contingent on ensuring that despite the vast amounts of financial resources that are poured into poverty reduction programs, there will always be a significant number of poor in the region.

Shape Up or Ship Out

The true experts on poverty are not the ADB and their cohorts, but the ordinary people of Asia and the Pacific who have survived despite mainstream development and poverty reduction programs. Rooted in diverse and complex realities, people in the region have been able to develop their own ethical, cultural and political solutions to imposed forms of material poverty. They have attempted to rebuild their social and political fabric through solidarity movements, sharing, protection and re-generation of common resources, and revival of diverse, traditional forms of livelihoods. They have argued and showed through their actions that solutions to modern poverty lie not in increased consumption of material riches by a few, but in political, social and economic justice, and in fair and equitable access to resources and knowledge by all.

There is a lot that the ADB can learn about poverty from these other discourses, which are far more advanced, progressive and sophisticated than what the ADB is capable of producing. But the ADB's commitment to learning is driven by the imperative of institutional immortality, and not by a desire to understand or address the conditions that cause poverty to begin with. Its reason for existence is to keep itself in business and poverty provides it with an effective justification.

Unless it can radically restructure its own ideology, principles and practices, the ADB should put an end to this expensive pretence that it calls poverty reduction and just let people get on with their lives.

*	*Shalmali Guttal is Coordinator of the Micro-Macro Issues Linking Programme at Focus on the Global South, a program of research, analysis and advocacy based at Chulalonkorn Unviversity in Bangkok. She works on development policy issues in South East Asia.*

ADB 2000: Senior Officials and Internal Documents Paint Institution in Confusion

By: *Walden Bello**

The Asian Development Bank approaches its Year 2000 meeting in the highland city of Chiang Mai, Thailand, fearful of protesters, dogged by scandal, beset with confusion, burdened with an unimpressive record, and with relations with the Bretton Woods institutions at an all-time low.

The Bank has quietly abandoned plans to make Seattle as the site of next year's meeting, fearful of provoking the same sort of protests that did the World Trade Organization (WTO) in. But it cannot do anything about changing this year's venue, which will certainly be filled with hundreds of demonstrators from Thailand and the rest of the region.

Scandal

Trailing the Manila-based Bank to Chiang Mai is probably the biggest scandal that has hit an ADB-supported project: the wholesale bribery of the Philippines House of Representatives to push through the privatization of the National Power Corporation (Napocor). Two representatives of Congress revealed that they each received 500,000 pesos ($12,500) despite their having voted against the bill, leading to strong suspicions that the majority that voted for the bill each received a greater payoff.

Critics of the privatization initiative are looking at a $1 million technical assistance grant from the ADB earmarked for lobbying the Philippine government for privatization of state enterprises as a possible source of funds. This is not preposterous since the Bank has admitted to investigating 55 allegations of corruption involving its staff and executing agencies in the Asia Pacific region as of December 1999.

But the main accusation being laid at the doorstep of the Bank is that its pressure on the government to rush privatization might have prompted the administration of President Joseph Estrada to take short cuts to gather the necessary votes. The ADB had conditioned further disbursements of its energy loan and an associated Miyazawa loan to the Philippines on passage of the Napocor privatization bill. Indeed, to push through its whole program of privatization, liberalization, and deregulation, the ADB reduced loan disbursements to the Philippines in 1999 to nearly zero—certainly a far cry from the $300 to $500 million annual outlay usually earmarked for the country.

"Goal Congestion"

It is, however, not only scandal that dogs the ADB but confusion in the ranks. For staff members, the days of funding and implementing physical infrastructure projects that could be subjected to narrow cost-benefit analysis are over. According to a senior staff member who spoke on condition of anonymity, people in the field are suffering from "goal congestion," that is, trying unsuccessfully to integrate the various objectives that donor governments have attached to lending in the last few years: poverty reduction, social development, sustainable development, promoting women's welfare, and good governance. "People are lost and bewildered, and most have no clue of how to even begin," he said.

"The problem is very real," he continued. "You have all these new goals, but the old baggage, the old goals, have not disappeared. You've somehow to get 'women and development' into the project design, and you get scolded if you don't know how to sneak it in. The result is incoherence."

The confusion and failure to integrate goals into project and program design is reflected in internal evaluations. Thus the Draft Asian Development Fund Report to the Donors states that although poverty reduction has been a central concern and is now the "overarching vision and goal," "few projects have been designed specifically to address this objective." Moreover, "there has been little lending directly targetted at women or the environment."

High Project Failure Rates

Failure to integrate stated goals into the so-called "country operational strategies" (COS) is part of a broader pattern of failure. "Almost all forestry projects have failed—that is well known within the Bank," noted one official knowledgeable of the Bank's environmental projects. Indeed, only 36 per cent of projects in the Agriculture and Natural Resources Sector are rated "generally successful." But this is not as bad as the record in the Social Infrastructure Sector (33 per cent) and the Finance Sector (15.2 per cent).

While the success rates in the Energy, Industry, and Transportation and Communications Sectors are high, an assessment by the Strategy and Policy Department says that across the board, "in most instances…operational performance was far short of projections." This was due to "weaknesses in project design, particularly where there was weak institutional capacity and there were inappropriate policies. Implementation of most projects tended to focus on completion of their physical infrastructure components rather than institutional development and support service components and policy reforms."

The poor record in agricultural projects reflects the fact that the ADB, according to another senior staff member who refused to be identified, has been trying to get out of agriculture lending. The reason for this was that assessment of costs and benefits and project management were not as simple and straightforward as in energy and infrastructure programs. The resulting lack of a track record in agriculture poses a major problem, he commented, since "the future of Asia lies in solving the food security problem, not in providing more and more physical infrastructure. The Bank may have made a strategic mistake."

Good Governance: More Hype than Substance

Among the new considerations that donors want to bring into lending decisions is "good governance" on the part of the borrower. The ADB prides itself with being the first multilateral lending agency to have a Board-approved policy statement on good governance, which it defines as governance marked by "accountability, participation, predictability, and transparency." Many Bank staff members are, however, very cynical about the new policy. Says one senior person, "It's a question of practising what you preach. There's a lot of discontent inside the Bank, precisely because it is one of the most non-accountable, non-participatory, and non-transparent institutions around."

As an example, she pointed to informal rules that reserve certain positions to the dominant countries, in particular the US and Japan. The US speaks loudest when it comes to good governance, she said, but it considers key positions in the Bank "its private property, and no talk about democracy and transparency will change that." A good case is the position the General Counsel of the Bank. The US has locked up this position, an attitude that has brought it criticism from the Board for "lack of transparency." Mindful of criticism, the US last year pushed to have a US citizen continue to fill the post but chose a US citizen from Hawaii who has a Japanese name.

MOF Colony?

While the US may be the most vocal when it comes to promoting new policies from poverty reduction to good governance, it is Japan that controls the institution. "The ADB is an institution funded by the Japanese, controlled by the Japanese, and run by the Japanese" was the way one country representative to the Executive Board put it. Japan in this case means Japan's Ministry of Finance (MOF). The Ministry of Finance virtually determines who will be president—the current chief Tadao Chino is a graduate of the MOF—and who fills the key position of head of Budget and Staffing.

The MOF's control of strategy is said to have had detrimental consequences for innovation for two reasons. One is ideological: the MOF is probably the most conservative of Japan's economic agencies. The other is structural: the chief of the Budget and Staffing Department, for instance, is replaced every three years by the MOF, "which means the occupant has no incentive to innovate and all the incentive to carry on as usual."

Ironically, Japanese control of the Bank has not resulted in the adoption of the bottom-up, participatory management that Japanese firms are noted for. Instead, the ADB has reproduced the over-centralized, hierarchic structures of the MOF. Said one senior informant: "The hiring of the lowliest programmer for a small project of the Bank must be approved by the president. And any travel by any Bank staff out of the [the Asia-Pacific] region must have the personal approval of the president." Said another official: "Hierarchy is everywhere; quality control is nowhere. This is, let's face it, a mediocre organization."

Proliferating Conditionalities

Despite its Jurassic characteristics, the Bank has not been immune to internal pressures and external events. For instance, pressure from some donor countries has pushed the Bank to devote more of its lending portfolio to program or "adjustment" lending, where loans for individual projects are made contingent on macroeconomic policy changes, like accelerated privatization, deregulation, and liberalization.

However, an internal review of the Bank's program lending dated Nov. 22, 1999, decries the "proliferation of policy conditionalities" in program loans, noting that the average number of conditionalities per program loan is 32! Practically admitting the failure of the Bank's conditionality-burdened program lending, the document states that "besides the issue of proliferation of conditionalities is the more basic issue of the efficacy of the policy conditionality approach."

It moves on to list the "shortcomings" of the conditionality approach: "(i) undermining ownership by the recipient government; (ii) a tendency to compensate for perceived lack of commitment/weak administrative, technical, and institution [sic] by increasing the detail and number of conditions in adjustment operations; (iii) an incentive for borrowers to exaggerate the difficulty of undertaking reforms; and (iv) partial reform syndrome—reform is acceptably implemented only at the expense of watering down the original requirements."

Conditionalities have alienated most client governments. The most controversial has been the case of Malaysia. After the outbreak of the Asian financial crisis, the ADB offered to lend to Malaysia, but only if that country undertook policy reforms demanded by the IMF. Malaysia refused and followed its own strategy to surmount the crisis, which was the exact opposite of the fiscal and monetary repression promoted by the IMF. Now that Malaysia has proven both the IMF and ADB wrong with its successful effort to bring about a vigorous recovery, ADB officials are wondering if Malaysia will ever again borrow from the Bank.

Resenting the Fund

The subordination of the ADB's approach to the IMF's overall strategy to deal with the Asian financial crisis still rankles within the Bank. Staff members resent the way that under IMF pressure, the ADB leadership in 1998 disregarded the usual loan approval process, which usually takes a year, to push through a massive $1 billion loan for Korea in less than a week! This might have been tolerated had the ADB contribution been part of a program that succeeded. Yet the IMF's harsh monetary and fiscal approach merely made the Korean financial crisis worse in 1998, leading many in the ADB staff and leadership to seriously question the relevance of the Fund's paradigm and the Fund itself as an institution.

The ADB's Japanese elite, in particular, is said to be particularly resentful of the way the IMF, with US support, killed the Japanese-initiated proposal to set up an Asian Monetary Fund (AMF) to deal with the crisis in late 1997. Now that the IMF has been proven wrong, there is strong support from within the Bank and its member governments in Asia to revive the AMF proposal, according to a senior official. "And if it is set up," she noted, "it will be a Fund that will look into each country's particular situation instead of applying a standard blueprint to all countries like the IMF does."

Competing with the World Bank

If relations with the Fund are bad, the ADB's relations with the World Bank are "fiercely competitive," says a member of the Programs Department. It was not always so, since for years the World Bank was regarded as some sort of "Big Brother," whose programs, projects, and organization were models for the ADB. What changed the relationship was World Bank President James Wolfensohn's articulation of the "Comprehensive Development Framework," which ADB officials saw as an effort to subordinate the ADB and the other regional development banks to the World Bank, both organizationally and agenda-wise.

When Wolfensohn proposed moving the whole East Asia-Pacific Division of the World Bank to Singapore in 1999, the ADB saw that as an effort on the part of the World Bank to marginalize it or make it irrelevant. From then on, the World Bank has been perceived as a threat. Which is why, according to several staffers, the ADB was cheered by the recommendation of the International Financial Advisory Commission (the "Meltzer Commission") appointed by the US Congress that the World Bank devolve most of its functions to the regional development banks.

All these developments are creating strong pressures from the Asian member countries of the ADB for the institution to define and structure itself as an institution that is really responsive to the needs of the region. "One school of thought gaining momentum questions whether we really need the US and Europe in the Bank," said one official. "Unlike the other regional development banks, the ADB derives the major part of its resources from the region itself, particularly Japan. The idea is to bring in resources from Taiwan and China to replace that now contributed by the Americans and Europeans." The problem with this approach, he noted, was the apprehension of some members about Japan's agenda once the countervailing power of the US and Europe is removed.

The region is changing, and the ADB is being buffeted by the pressures of change. Will it succeed in adapting itself to the changing needs of the countries and peoples in the Asian region?

Most of the senior staff members interviewed were skeptical.

"The projects will continue to be really traditional in approach, though there will be the necessary icing of pro-poor rhetoric to get the donors to loosen the purse-strings," commented one. Another laughed, saying, "This is really a conservative institution. Asking it to change is like asking Japan's Ministry of Finance to change."

* Walden Bello, PhD, is Professor of Sociology and Public Administration at the University of the Philippines as well as the Executive Director of Focus on the Global South, a program of research, analysis and advocacy

based at Chulalongkorn University in Bangkok. He is the author or co-author of 10 books and numerous articles on global and Asian economics and politics.

Coopting Cooperation: The Asian Development Bank And Sub-regional Economic Zones

By *Jenina Joy Chavez-Malaluan**

In Asia, subregional economic zones (SREZs) have gained currency as a mode of international economic cooperation. SREZs represent an attempt by neighbor countries to initiate deeper economic cooperation at a subregional level, a mechanism that has proven expedient when integration of entire economies and regions proves limited and fraught with difficulties. Through SREZs governments of neighbor countries work together to make a particular transnational but contiguous area, also known as growth polygons[24] ,

attractive platforms for enhanced economic activity. Jointly they design incentives – in the form of policies that are more liberal than national policies, the coordination of such policies, and the provision of essential infrastructure – to attract investments into the polygons. Particularly, ASEAN governments have embraced the SREZ concept as a way of promoting regional integration without having to change national trade policies.[25] SREZs can also serve as testing grounds for policies that imply political risk for possible national implementation.[26]

In Asia, there are close to a dozen growth polygons in existence, with more triangles being thought up. Following are some of the more popular ones:

(1) South China Triangle which connects Hong Kong, Taipei and Southern China.

(2) Tumen River Delta Triangle which integrates the capital and technology of Japan and South Korea with the natural resources of Northern China, Siberia in Russia and North Korea.

(3) Northern Growth Triangle (now called the Indonesia-Malaysia-Thailand or the IMT GT) involving Southern Thailand, northwestern Malaysia, northern Sumatra.

(4) Southern Growth Triangle, also known as SIJORI links Singapore with the Johor State of Malaysia, and Riau and West Sumatra of Indonesia.

(5) BIMP-EAGA Polygon which joins Brunei; Kalimantan and Sulawesi provinces of Indonesia; Sabah, Sarawak and Labuan in Malaysia; and Mindanao and Palawan in the Philippines.

(6) Golden Quadrilateral which groups Northern Thailand, Myanmar, Laos, and the Yunnan Province of China. This polygon has since evolved into the Greater Mekong Sub-Region, and now includes Vietnam and Cambodia.

(7) South Asia Growth Quadrangle (SAGQ) which involves Bangladesh, Bhutan, India and Nepal.

(8) Central Asian Republics (CARs) Regional Cooperation Program, grouping together former Soviet Central Asian republics of Kazakstan, Kyrgyz Republic, Uzbekistan, and (upon their membership in the ADB) Tajikistan and Turkmenistan, and Xinjiang PRC; and the

(9) South Pacific Regional Cooperation Program which groups the Pacific Islands DMCs.

The success of SREZs is said to be contingent upon three related factors[27] : a highly developed city (area) that has run out of land and labor, a surrounding area plentiful in both land and labor, and political will to reduce the visible and invisible barriers separating the city from the other areas. In SIJORI, for example, Singapore is the land- and labor-scarce city, and Johor and Riau the complements. To illustrate the importance of land and labor in the triangle, consider this: Tourism and real estate projects accounted for more than half of the over $500 million in foreign investments in Batam between 1980 and 1990, and nearly all of this originated from Singapore. Johor is a favored host location for labor-intensive manufacturing investments from Singapore, given its close proximity, land-bridge connection, infrastructure, and long established close historical, cultural and business ties.

SREZs satisfy real needs at the same time that they minimize occasions of potential tension. The different growth triangles have facilitated more open discussion and adjustment of economic policies, albeit on a limited scale. This is a necessary step in tackling difficult trans-border issues the resolution of which has proven difficult in the past.

Enter the Asian Development Bank

In the 90s the dynamics of growth polygons changed considerably. Whereas before, a lead economy took the challenge of selling the polygon idea, today multilateral development banks have come into the picture. The Asian Development Bank is the most prominent player in this respect. It has taken the lead in the masterplan for three SREZs: the GMS, the IMT GT and the BIMP-EAGA. It has also supported initial studies for the SAGQ, the CARs, and the Pacific Cooperation Program. The prominent role now being played by ADB in determining the direction SREZs take presents new issues that undermine the integrity of SREZs as a potential socially relevant development tool.

First, while there is agreement even within the ADB that "regional cooperation studies are relatively expensive and complex"[28], there is little, if at all, attempt to make them more inclusive. Development and cooperation are not the exclusive mandate of the ADB, or any multilateral institution for that matter. It is not something way above the heads of local peoples and communities, and local thinkers and activists – a fact that is conspicuously under-recognized in giant development institutions.

The participation of communities and non-government organizations in the drawing up of sub-regional plans is nil. No space is left for them to occupy in the supporting structures that were set up to implement, monitor and plan SREZ efforts. Issues raised by communities and NGOs are dealt with, case by case, using different yet still limited ADB policies on Cooperation with NGOs, Inspection Function, and Resettlement.

Second, the ADB's involvement has produced very expensive SREZ plans exhibiting glaring imbalance in sector focus. Masterplans ultimately make for more ambitious programs and huge financial requirements, way beyond the need and the reach of local populations. For the Greater Mekong Sub-Region, costs figure in the order of (more than) 200 billion dollars for energy development alone.[29] In the Indonesia-Malaysia-Thailand Growth Triangle, immediate projects and policies are laid out, and are expected to generate $20 billion in business opportunities for private investors.[30] Thirteen energy projects in Central Asia total $12 billion in potential investments. The same trend holds true for the other SREZs.

The seemingly integrated approach to development facilitation is proving to be little more than pretensions. Tackling the social sectors in the masterplans is nothing if not matched by equal emphasis in practice. The ADB sticks to its project finance, particularly infrastructure and intensive agriculture, mentality. For the GMS, SAGQ and the CARs focus is on energy development. For BIMP-EAGA and the Pacific, it is transportation.

The heavy slant toward infrastructure demonstrates how very limited the ADB's idea of sub-regional cooperation is. Certainly, infrastructure is the biggest need and the peskiest bottleneck in most sub-regional arrangements ADB supports. While it is true that at least for the three earlier masterplans (IMT-GT, GMS, and BIMP-EAGA) other sectors are given space, in practice most funding efforts (and almost all of cofinancing) go to infrastructure.

The continued emphasis on hardware projects can be explained by an underlying motivation known as 'project pushing'. Regional and sub-regional cooperation programs supported by the ADB depend on its cofinancing activities, done mostly with rich member governments. More than sixty percent of Bank cofinancing in the 1990s was taken up by energy projects. And since cofinancing is almost always tied money, the heavy concentration on infrastructure project indicates similar heavy subsidies to domestic industries of contributing countries. Note for example the substantial exposure of Nordic and Australian companies in ADB supported hydroelectric power generation projects. Closer examination will reveal that their governments are big contributors to ADB cofinancing funds.

A graver concern yet is ADB's record of supporting infrastructure projects that performed poorly in terms of social sensitivity as exemplified by resettlement of affected communities under poor conditions (Phnom Pehn to Ho Chi Minh City Highway Project), sub-standard environmental impact assessment (Nam Leuk Hydropower Project), and unmitigated environmental impacts (Theun Hinboun Hydropower Project), all resulting in the varying degrees of displacement and impoverishment of affected communities. Moreover, even with a supposed strict policy against corruption, the ADB nevertheless continues to deal with private entities that were involved in controversial transactions.[31]

Third, what is being downplayed in all this is the huge debt expected to be created in the pursuit of SREZ projects. For instance, by ADB's projection, the realization of the Kyrgyz Republic's hydropower potential depends on the Government or any buyer country ability to shoulder a $3.5 billion debt. Obviously the governments of the participating countries do not have enough funds to support SREZ initiatives. The ADB is there to help these governments attract the funds, a big chunk of which is being provided through different loan financing schemes.

Another way by which the ADB mobilizes funds is through the Complementary Financing Scheme (CFS) where commercial banks provide the funds but the ADB is the lender of record. A borrower under the CFS has to pay the ADB a flat fee of $10,000-$30,000 (for public sector borrower) or ½ -¾ percent of loan amount or $20,000 minimum (for private sector borrower) per loan, and an annual administration fee of $5,000-$10,000. On top of this, the borrower has to pay the participating commercial financial institutions a management fee, underwriting fee and agency fee. Not to mention the debt has to be repaid too.[32]

The basic issue is not whether or not governments or private companies should contract debts, but whether the amount of loan is considerably pushed up by less than judicious project design. Must SREZ projects always be big?

Fourth, it is quite clear that the ADB wants to steer policy direction in the region, getting tired perhaps of playing second fiddle to more established institutions like the World Bank and the International Monetary Fund. Nothing describes the ADB's move away from merely project financing better than its pronouncement that its "influence over policy and the reform process is more readily effective when a loan is being processed" because "when a loan is given, policy and institutional reform will be included as a substantive component of the loan."[33] The policy piloting role of the ADB is oriented towards the attraction of foreign investments and trade via an enhanced (read: liberalized) policy environment. The ADB's philosophy therefore follows the same vein as that of the World Bank's or the IMF's. The major difference is that unlike the other two, the ADB has claimed a niche in pushing for this agenda even at the sub-national level. This is possible because SREZs do not necessarily involve whole countries and hence, national policies need not be re-oriented immediately, giving rise to fewer conflicts.

Fifth, even as the ADB is positioning itself for more prominent development policy role, it does not have enough resources to bankroll the different sub-regional initiatives. It had to redefine its role from direct fund provision to facilitation, much like acting as a sales manager for the sub-regional programs.

In line with its new role and the belief that private creditors will be most encouraged by lending to similar private entities, the ADB also enhanced its private sector operations with a new strategy to promote private sector development. This means making sure that "in its public sector projects, business opportunities will be generated for the private sector."[34] Heavy reliance is placed on cofinancing and CFS for the ADB's private sector operations. Non-traditional schemes like the BOOT (build-own-operate-transfer) are also vigorously promoted, with the ADB providing economic and political risk guarantees to BOOT investors.

The privatization ideology is being extensively pushed in the SREZs of transition economies in Asia (the Greater Mekong and the Central Asian Republics). This brings forth apprehensions over the absorptive capacity and efficacy of the private sector in the transitioning economies, assuming emphasis is placed on the development of the domestic private sector. Particularly for the CARs, the ADB encourages fast-track privatization even as there is admission that the culture of private enterprise in the sub-region is very weak if not virtually non-existent.[35]

Other Concerns

Yet it was not just the ADB's involvement that gave rise to uncertainties in the SREZ model. Even at the onset, there were already glaring concerns surrounding SREZs.

The **first concern** has to do with the centrality of hub points that pull the SREZ together. This hub point represents either a source of funds and investments or a market for the SREZs' exports.

The SIJORI triangle is strongest because of Singapore. In Johor and Batam, more labor-intensive investments were located since 1990, but investors are mainly Singapore companies (including government linked companies), Hong Kong and Taiwan companies, and some multinationals with long-established operations in Singapore. So dominant is the position of Singapore that the SIJORI triangle is touted to constitute "borrowed economic space" and may even become a "mega resort" for Singapore.[36]

The GMS attracts considerable interest because of Thailand as a focal point. For BIMP-EAGA, Brunei and Labuan are being developed as the transport and financial hubs. We could only expect India to be a key factor in the SAGQ. The natural tendency is that SREZs identify the most advanced areas as the hubs.

The centrality of a hub is problematic because the pace of progress in less developed areas of the SREZs is hinged almost undeservedly upon the hubs. Designs of projects/programs are greatly influenced by the hubs' priorities, and that any fluctuations in the hubs' economies and/or internal affairs affect the programs/projects even if they do not directly involve the hubs. Thailand and the GMS, especially in light of the Asian financial crisis, is a case in point. Thailand is expected to be the main energy export destination in the sub-region. Energy projections for the country have already been downscaled by more than ten percent, thereby affecting newly completed energy projects and those which are in the pipeline. The crisis has also effectively dimmed the chance of growing Thai investments focused on the Mekong, at least in the short- to medium-term.

A **second issue** is the centrality of natural resource exploitation. In SIJORI, it is land and tourism for Singapore. It is also water. Singapore has long been dependent on Johor for its water supply. In 1990-91, Indonesia and Singapore agreed to the joint development of water resources in Riau.[37] Thus said G. Naidu: "By providing a pretext for an agreement with Indonesia to obtain water from the Riau islands, the triangle has enabled Singapore to diversify its water sources."[38]

The GMS and the CARs Program are organized around the joint exploitation and development of the two sub-regions vast energy potentials. The still nascent SAGQ, whose members agreed to use a project-based 'building block' approach, is starting work on the possibilities of energy and power linkages.

The Pacific is targeted for intensive fisheries development. Both the GMS and the

BIMP-EAGA gives priority to the export of timber and wood resources. Indeed foreign currency earnings may prove significant, but net earnings (correcting for the cost to the environment and the payments made for imported machinery and consultants, not to mention debt payments) may be way below gross receipts. Unfortunately, mainstream calculation of benefits fails to fully recognize the cost to the environment and human displacement.

The **third** and most complex issue revolves around the distributional conflicts unleashed by the SREZs. These conflicts are experienced between points in the SREZs, and internally by local populations in areas included in the SREZ.

Uneven distribution of benefits is unavoidable even if there are no hubs that take primary roles. Distributional conflicts among points of SREZs are bound to happen and affect their position in and support to the SREZs. For instance, because of the perceived disparity in the gains within the SIJORI, support from members is uneven. It is strongest in Singapore, and weakest in Malaysia.

The triangle picture also misleads because there is no real link between Johor and Riau. There is little interaction between the two points, except for an Indonesian proposal to develop tourism facilities in Johor, and the proposal for Indonesian and Malaysian interests to jointly explore palm oil plantation possibilities in the Indonesian sub-region. Thus, while Singapore is able to overcome its problem of resource scarcity by exploiting its links with both Johor and Riau, Johor and Riau still compete with each other.

Moreover, the influence of Singapore exerts upward pressure on the cost of living in Johor and Riau. This is made possible by the migration of skilled labor to Singapore, pushing up wages, and the increase in Singaporean tourists on shopping trips to Johor and Riau. Naturally, it is the local populace who are most affected.

In the GMS, the entry of Thai and Chinese goods are big concerns for domestic farmers and producers. The increase in human traffic and the ease in transport facilitated by trans-border road projects also exert pressure on prostitution and related concerns like the spread of HIV/AIDS.

Internally, growth polygons might widen regional disparities within member territories and reduce national economic integration. They may also give rise to political conflict between different levels of governments. They can cause conflicts between national/federal and provincial/state governments over granting of concessions that might be at odds with national policies or inimical to the interests of other states/provinces. Concentration of development on areas included in growth polygons might also affect the level of public and private investments that go into these and other areas.

The distribution of costs and benefits internally between sub-regions of the polygon viz. the country represents a major challenge. For instance, employment gains and income increases may be limited to the sub-regions included in growth polygons even as said sub-regions receive inordinately large amounts of public investment from the national or federal government.

Rising costs of living and migration also lead to income disparities within the sub-regions. Slum communities develop or grow. Of course, there are also those who are directly affected by projects and programs implemented under the growth polygon concept. This includes people displaced and dislocated by energy, plantation or tourism projects.

Lastly, because sub-regional economic zones imply conferring of benefits and privileges in terms of policy and access to financing, there are valid concerns about the monopolization of economic opportunities by a few interests. For instance in Indonesia, the Salim and Bimantara business groups, both closely tied to the Suharto family, have vast interests in the SIJORI, particularly in the Batam duty free zone. The same concern is valid in all the other growth polygons.

Conclusion

Even in their simplest form, SREZs are already faced with many issues that need to be addressed. The ADB's entry has not made the resolution of these issues easier. Instead it has made them even more complicated.

As a principle regional economic cooperation is a noteworthy exercise. It is when factors such as differential motivations viz. costs, balancing of stakeholders interests, scope and scale, and control come in that the whole picture becomes muddled.

Asia has contributed a lot in development thinking. Notwithstanding the late-90s crisis, its experience, including the impressive string of miracle economies, is an indictment of traditional western economic thinking. There is more to growth and development than just merely opening up.

The growth polygon concept is yet another product of Asian ingenuity, albeit also of its fierce competitive nature. But when big institutions like the ADB enter the picture, with big private investors in tow, one gets the uncomfortable feeling that a vehicle toward limited cooperation is being co-opted to blindly serve the paradigm of liberalization, privatization, and big business interest.

* *Jenina Joy Chavez-Malaluan is a Research Associate at Focus on the Global South, a program of research, analysis and advocacy based at*

Chulalonkorn Unviversity in Bangkok. She works on regional economic initiatives in South East Asia.

Why Consumers and Citizens Should Pull the Plug on the Asian Development Bank

A critique of the ADB's role in the electricity sector

By: *Grainne Ryder**

Summary

The Asian Development Bank should exit from the electricity business. Without market discipline or public oversight, the ADB is a financial and environmental menace, providing a breeding ground for electricity investments that destroy the environment, create poverty, sink Asian citizens in debt, cost taxpayers in donor countries money, and deprive consumers of cheaper, better generating options. The Bank promotes electricity investments without responsibility by transferring the risks associated with electricity investments onto the public sector. It has no enforceable standards for promoting sound investments because it does not respect the rights of citizens and consumers.

The Legacy of Electricity Aid

The electricity systems that generate and distribute electricity in much of Southeast Asia are a product of three decades of foreign aid. Publicly-funded lending institutions, particularly the Asian Development Bank and the World Bank, teamed up with governments to finance large centrally-operated power plants and transmission networks. They advised governments on the policies, laws, and institutions needed to govern electricity production, transmission, electricity prices, on the fuels and technologies to develop, and created the monopoly powers and privileged state utilities mandated to provide cheap and reliable electricity supplies to consumers, whatever the real costs of generation were. The conventional economic wisdom at the time was that governments were best placed to provide the cheapest and most reliable electricity supplies to fuel industrialization and stimulate rural development.

The world expected that with billions of dollars worth of aid capital, free technical assistance, training, and policy guidance, these publicly-owned utilities would be shining examples of sustainable development, in sound financial shape, providing high-quality service to all consumers, large and small, urban and rural, using state-of-the-art generating technologies, operating to the highest environmental standards, and charging reasonable rates for service. But that is not the case.

Instead, these utilities are debt-ridden, owing billions of dollars to their international patrons, the Asian Development Bank, the World Bank, and the Japanese government,. and having difficulty servicing those debts. These utilities have built or made commitments to billion-dollar power schemes that consumers either don't need, don't want, or can't afford. Electricity service, in many places, is crippled by aging, polluting, and inefficient power plants. Expansion plans are opposed by local communities and environmental groups who object to environmentally-damaging power projects. Consumers are being hit with rate increases yet they have no control over the services they pay for, or their source of power and how much they pay for it.

Governments have also allowed state utilities to take away people's resources without consent or fair compensation. Citizens whose health, resources, and livelihoods have been harmed or destroyed by polluting power plants are powerless to hold power producers accountable or liable for damages. Rural communities are powerless to stop governments and utilities from taking their resources without their consent or fair compensation. In the last decade or so, unable to finance the uneconomic mega-projects they have become famous for, governments in the region have struck secret deals with Western utilities and companies – extending to them the same powers and privileges that state utilities have always had – allowing *them* access to other people's resources without local consent, to pollute with impunity, and to profit from electricity production without taking responsibility for the real costs and risks of their schemes. Some Asian utilities now allow large or politically connected consumers to generate their own power using clean and small-scale generating technologies that can be financed and operated independent of the state-owned system. But millions of ordinary household consumers, meanwhile, remain consigned to buy electricity from costly, massive-scale, and polluting coal plants, or large hydro dams that drown land, destroy fisheries, and impoverish riverine communities. Tens of millions of people still have no electricity service at all.

How did the electricity sector get into such a mess, creating private fortunes for some while draining public finances and impoverishing others? The Asian Development Bank and the World Bank (MDBs) will tell you that there will always be winners and losers in development. They will tell you that past mistakes will be avoided in future. They will tell you that the debt-ridden electricity sector is the result of government incompetence and corruption. They may even tell you that the problem is Asian culture.

But the problems in the electricity sector are much more fundamental and have little to do with Asian culture. Utilities around the world have experienced the same problems but it has only been in the last decade or so that consumers and citizens have begun to understand why and demand changes.

The Asian Development Bank is Part of the Problem, Not the Solution

The problem is investment without responsibility. Electric utilities and their international financiers, such as the Asian Development Bank and the World Bank, are not subject to market discipline or public oversight. Unaccountable aid institutions have lent money to unaccountable governments that, in turn, have given electric utilities extraordinary privileges and powers in the name of public service. The result has been financial and environmental wreckage, costly and unreliable electricity service, and citizens sunk in public debt.

For years, citizens groups and rural communities across Asia have urged the ADB to stop financing environmentally damaging power plants and hydro dams that flood people off their land, create poverty, and destroy people's resources and livelihoods. They have demanded that the Bank take its share of responsibility for the damages inflicted on communities and environments by ADB-backed power producers.

Citizens groups in the Philippines have also argued that ADB lending for obsolete and uneconomic power projects has discouraged private investment in cleaner, lower-cost generating technologies such as small-scale renewable energy systems (i.e. fuel cells, solar, and biogas systems) that are commercially viable and ideally suited for rural communities and islands (i.e. in Indonesia, Malaysia, Lao PDR, Philippines, and Tibet). They argue that the ADB and other multilateral development banks (MDBs) should direct funds away from the massive-scale power projects that governments have long favoured to the new technologies that provide greater benefits to consumers and the environment.

This assumes that the ADB would do the right thing if only it received proper guidance about which technologies to support. But the real obstacle to productive electricity investments is the institution itself: the ADB is incapable of promoting sound investments in the energy sector (or any other sector) because it is not subject to market discipline or public oversight. Nor does it respect the rights of citizens to decide the fate of resources upon which they depend.

The Bank is incapable of evaluating which power projects are productive investments because its clients externalize costs and fail to respect the rights of citizens. For example, the ADB financed an $80 million waste water treatment plant in Thailand that, if completed, would collect industrial waste water from factories near Bangkok and release treated water into the sea. The ADB and its client government consider this to be an environmentally acceptable project while local communities want the project scrapped because it threatens coastal mangrove forests and hundreds of fishing-based livelihoods.

The ADB is a government-run institution that borrows money on the good faith and credit of taxpayers in donor nations and lends it to governments in Asia. It is protected from lawsuits and court injunctions so there is no way that citizens can stop its activities or seek compensation for damages caused by projects it has financed. It is not subject to democratic political controls although its investment decisions are often politically motivated and have little to do with economic viability. Its appearance of profitability comes not from its funding of successful projects – which is the measure of any commercial bank's success – but from the fact that its loans are guaranteed by governments in the North while its borrowers in the South are propped up by an endless stream of new loans.

Unlike a commercial bank, when an ADB project fails, the Bank itself suffers no penalty. Its borrowers, on the other hand, not only have to repay the project loans but they usually borrow more money to do so and also to correct project failures. Taxpayers in the borrowing countries, not only suffer the consequences of the failed project, but eventually they have to pay back all the debts incurred by their governments.

Despite the Bank's stated commitments to the principles of market economies, private enterprise, and competition, the Bank knows monopolies and cronyism best. It dispenses loans and grants to governments in the South to create friends abroad and in the North to award contracts to favoured companies in order to win votes at home. The borrowing governments, in turn, used ADB money to setup state utilities and a host of other state enterprises. So while the ADB champions the private sector, it has more in common with Asian governments operating centrally planned economies than with private enterprises. It knows nothing of commercial risk-taking, self-reliance, technological innovation or accountability to shareholders. The ADB has promoted electricity investments without responsibility, thus providing a breeding ground for unproductive investments that have destroyed the environment, victimized rural communities, sunk Asian citizens in debt, and cost taxpayers in donor countries money.

Monopoly Power

The utilities the Asian Development Bank financed suffer from the same debilitating condition. Without market discipline or public oversight, utilities across Asia have become bastions of cronyism and inefficiency. Investment decisions were driven by central planning and political patronage rather than the needs of ordinary citizens.

As British energy expert Walt Patterson writes, Third World electricity structures "echoed the political power structure, and the financial implications were likewise profound. Patronage, influence, and corruption figured significantly in staff appointments, investment, and procurement decisions, permits, licences and tariffs. Central-station electricity was a potent lever to steer political processes to the advantage of those in power. In due course the legacy of these beginnings was to prove crippling."

Insulated from the scrutiny of credit markets, utilities were able to ignore many of the financial and technical risks associated with the investments they undertook, and borrowed excessively from multilateral development banks (MDBs), including the ADB. Because they did not depend on consumers to finance their investment budgets, investment proposals were not subject to local or national scrutiny. With easy access to other people's money (foreign aid) and captive customers, the utilities became reckless spenders and borrowers. Those responsible for planning and operating the system were insulated from the risks of failure, of ill-advised investments, under-performing technologies, overpriced contracts with suppliers, or system breakdowns.

Unlike a commercial entity, electric utilities were never required to recover costs from consumers and they could always count on taxpayers at home or in donor countries to bail them out. Just like the ADB, if a project failed, the utility and its project managers suffered no penalty. Profitability was not determined by successful investments or customer satisfaction but by the ability of utilities to capture foreign aid and ever larger shares of the state investment budget.

One of the most destructive and discredited policies upon which all MDB lending for the electricity sector rested was the idea that selling electricity for less than its worth was essential for stimulating economic growth and rural development. Keeping rates below the actual cost of production – as a way of stimulating investment and electricity demand – has been the undoing of utilities across North and South America, not just in Asia. While governments saw this as a way of currying favour with business cronies and the general electorate, in the end it thwarted economic efficiency in the electricity sector and undermined the long-term interests of citizens. It encouraged wasteful consumption of electricity which, in turn, drove up demand for new power plants, thus inflicting more environmental damages upon rural communities.

In the name of providing cheap power, governments conferred on the utilities sweeping powers of the state which forced costs and risks onto others. They expropriated resources (i.e. land, water) upon which local communities depended, without local consent or compensation. They destroyed resources and livelihoods with impunity.

Governments used the state utilities as a one-company industrial strategy, promoting industrial expansion in certain regions by offering discount electricity or investing in large-scale power projects to stimulate economic growth and create jobs in others. The ADB would finance large capital-intensive hydro schemes and coal plants that provided 'cheap' electricity to consumers, often hundreds of kilometers away, but provided little or no benefit to local communities. Large or politically favoured groups of consumers benefited from this policy while the needs of the politically weakest or poorest communities were often overlooked. The combined effect of these powers and privileges has been wasteful electricity consumption by some while others went without basic service, environmental degradation, and over-expansion of supply. For a time, the aid-financed utilities were able to conceal their real costs from consumers and taxpayers but inevitably, inefficiency pervaded the utilities and public support for electricity monopolies began to crumble.

Utilities in Crisis

By the late 1980s, after a decade of rapid expansion in many parts of Southeast Asia, state utilities owed billions of dollars to the MDBs, governments were on the hook because they had guaranteed the utilities' borrowings, electricity rates were not covering costs, and utilities didn't have the capital needed to upgrade and maintain their systems. The ADB expected the region's electricity demand to double during the 1990s, requiring an additional 300,000 megawatts –

equal to about 500 large power plants – at a cost of roughly $50 billion a year until 2000. China, Malaysia, Philippines and Thailand all had ambitious investment programs but didn't have the capital reserves they needed to finance the projects themselves, nor were they considered creditworthy by commercial lenders.

The MDBs, by this time, were worried about the excessive borrowing and spending habits of state utilities which put an enormous strain on public finances. The specter of utilities across Asia defaulting on their loan payments loomed large. At the same time, the MDBs were under pressure to launch privatization in borrowing countries when experience in donor countries (i.e., Great Britain and the United States) was demonstrating that the private sector was capable of raising capital for electricity investments and lowering costs.

The Introduction of Private Power

The MDBs began promoting private investment in power plants as a fast way to get new generating capacity "when the lights are going out, incumbent power enterprises are financially unviable, and the public purse is nearly empty," according to Karl Jechoutek and Ranjit Lamech, energy finance experts at the World Bank.

A typical private power deal would involve a local company, usually set up and owned by foreign investors, that would sign a contract with the host government under which the company would then agree to finance, build, own and operate a power project. The host government in return would agree to pay or guarantee revenues to the local company sufficient to repay the capital costs and provide a reasonable rate of return to the investors. In theory, the government gets the much-needed power project without having to borrow or drain its own limited foreign currency reserves to build it.

Private Profit at Public Risk

So advised by the MDBs, state utilities began licensing private power producers to supply the state-owned grid while keeping their position as monopoly buyers of electricity, controlling all sales, deciding which power producers would have access to the state grid, which fuels and technologies would be used, where, and at what price. To cajole private investment, state utilities accepted certain risks on behalf of the private power producers supplying electricity to the state grid. For example, utilities would often assume "demand risk" which obliged the utilities to pay the private power suppliers even if the utility had no customers or market for the power produced. The National Power Corporation of the Philippines, for example, accepted political risks and foreign currency risk on behalf of private power producers, which meant that the state would have to compensate private investors if any such problems arose.

By assuming financial risks that private investors would not assume, the utilities undermined the very reason for introducing private power in the first place – to cap public debt and force private power producers to take the financial risks instead of governments. Private power deals that were supposed to relieve the host country of many of the liabilities associated with financing and building power projects did just the opposite. As project finance expert Kent Rowey explained in the *Financial Times*, "The reality is that many of the risks of the project remain with the host government under the support contracts they enter into."

Utilities allowed private power producers to externalize environmental costs and liabilities, which encouraged investment proposals for oversized power plants that use the cheapest available fuel (usually coal). And because utilities guaranteed revenues and negotiated deals without an open and competitive bidding process, the private power producers had little or no incentive to keep costs down. The first so-called Independent Power Producers (IPPs) in Asia could mark up costs because they didn't have to worry about finding enough customers to buy their output or the risk that customers would opt for cheaper power elsewhere. They knew that the state utilities would be there to force their uncompetitively priced power onto captive consumers and force other risks and costs onto taxpayers and rural communities. Nor did private investors have to worry about winning public approval for their schemes or controlling pollution because they were supplying electricity to utilities empowered to making decisions without public scrutiny or consent.

Under such terms, the response from the private sector was overwhelming. Giant state-owned utilities and multinational energy companies from the industrialized countries flocked to the region in search of new business opportunities. Thailand, Indonesia, and the Philippines quickly approved a string of oversized and polluting coal-fired plants, to be developed mostly by American and Japanese companies and their local counterparts.

- Before the region's economic collapse in 1997, the Indonesian utility, PLN, signed 26 overpriced and politically-linked deals with American power companies, including a 4,000 MW coal-fired complex on the East Java coast. Most of these deals were canceled or shelved indefinitely in the wake of the economic crisis.
- The first private power deal approved by EGAT, Thailand's utility, was the $1.2 billion 1400-MW coal-fired Hin Krut power project to

be developed by a politically connected Thai company, Union Power, and two major energy companies from Finland and the United States. The private proponents assumed that the buyer, EGAT, would be able to externalize environmental costs (i.e., pollution of air and water, destruction of marine resources, and local tourist-based economies). But the environmental protests provoked by the project have caused delays and made it difficult for the companies to attract commercial financing. According to Thailand's National Energy Policy Office, potential investors are also nervous about EGAT's ability to honour its commitments to buy private power, given its financial woes and the country's electricity demand slowdown.

· In the Philippines, the National Power Corporation, a state-owned utility, approved a 345-MW hydro scheme to be built by a consortium led by Marubeni of Japan and Sithe Energy of the United States. With guaranteed revenues from the state utility and loans totaling $702 million from Japan's Export-Import Bank, developers are preparing to build the 195-metre high San Roque dam on Luzon Island. If completed, the dam will destroy the river-based livelihoods of thousands of indigenous Ibaloi people while generating power that is at least twice as expensive as power from combined cycle gas plants. The developers have refused to take responsibility for environmental and other risks (i.e., drought, siltation, and earthquakes) that could cause the project to fail.

· After a decade of excessive borrowing from MDBs, China approved its first privately-financed power project in 1987, a 700-MW coal-fired project in Guangdong province which was developed by the Hong Kong-based company Hopewell (now known as Consolidated Electric Power Asia (CEPA)). CEPA later financed an even larger coal-fired plant (1980 MW) in Guangdong province for $1.87 billion.

New Generation Technology

With few exceptions, the first wave of private power deals in the early 1990s were for oversized, outmoded, and polluting power plants that the MDBs have traditionally financed. Elsewhere in the world, wherever competition and private power producers have been introduced, big hydro dams, along with nuclear power stations, and big coal plants, are being replaced by a new breed of power plant: clean and efficient combined cycle gas turbine plants and small-scale renewable energy systems. Technological advances have made it possible to profitably generate electricity on a smaller scale at lower costs, making the old-style megaprojects and long-distance transmission lines obsolete and uncompetitive.

Private investors prefer combined cycle plants because an average sized plant (50 to 200 MW) can be installed in under a year for one-third to half the capital cost of a conventional power plant. They can be installed close to consumers so they don't require additional investments in transmission lines. They burn low-cost natural gas which produces no smog or acid rain. And they can be easily switched on and off, generating electricity and heat, depending on the customers' needs.

Some utilities in Asia have granted licenses to industrial and municipal power consumers with large electricity and heat requirements, allowing them to take advantage of this generating technology. By installing and operating their own combined cycle plants (in sizes ranging from 5 to 50 MW, and 100 to 200 MW range), sugar mills, pharmaceutical companies, oil companies, and fertilizer factories have been able to lower their production costs while reducing demand on the state-owned grid.

In Thailand, for example, a semi-conductor manufacturer, Alphatech Electronics, set up its own power generating company and installed a 210-MW combined cycle plant that supplies electricity and steam on-site and to housing and commercial facilities in the vicinity, and sells its surplus to EGAT. By generating its own electricity, Alphatech expects to save approximately US$40 million a year on its electricity bill. The plant also includes a gas-fired cooling system to produce chilled bottle water as a byproduct. (Alpha Power is 20 percent owned by the U.S.-based power company Sight, and it bought the plant technology from France, Japan, and Switzerland.)

The main constraint on these high-efficiency, cost-effective, cleaner power plants are the monopoly utilities themselves. The utilities decide who can become "self-generators" while licensing other small power producers as supplemental suppliers to the grid. Small power producers are not allowed to bypass the utility and enter into contracts with consumers directly. In fact, more small-scale power producers could be displacing costly and inefficient power plants (utility-owned and private) if only they were allowed direct access to consumers.

The ADB knows that private investors prefer combined cycle plants to large hydro schemes. In its 1995 study of hydropower potential in the six-country Mekong region, the ADB described the first private power deal in the Philippines – a 210-MW combined cycle plant built and financed by the Hong Kong-based Hopewell (now CEPA) for $41 million within a twelve month period. Compare that to the ADB's newest hydro dam in Lao PDR, the 210-MW Theun Hinboun project, which was financed by the ADB, Nordic state utilities, and Nordic export credit agencies, cost $260 million, and took six years to build. As for the payback period, the dam's developers are hoping they will break even after 10 years of operation (weather permitting). Unlike Hopewell's plant, the Theun Hinboun dam in Lao PDR took almost a decade of planning that cost the Norwegian government more than $12 million worth of aid grants.

The Alternative Electricity Model: Competition in a Decentralized Market

If all consumers are to have access to cheaper and better generating technologies, a new institutional structure is required. Now that new generating technologies (i.e., combined cycle plants, micro-turbines, fuel cells, and small-scale solar systems) have made decentralized power production commercially viable, there is no longer any reason to have a monopoly entity controlling the electricity system. Only the transmission and distribution networks, which are natural monopolies, need a central coordinator to maintain grid stability and allow power producers access to the grid. Transmission lines can be operated much like a public highway, that is, open to anyone, provided users pay an access fee, and conform to basic rules of the road. In this way, a diversity of power producers can use the grid to sell power directly to customers or setup small power plants to supply customers independent of the state grid.

As the number of self-generating consumers and private power companies offering credible alternatives increases, the market uncertainty for the utilities' traditional large-scale power plants increases. As such, there is no valid public policy reason to risk public funds in the electricity sector any longer or to support monopolies in electricity generation. This does not mean that governments must give up control of the electricity sector, but rather that the public interest can be more effectively safeguarded through regulation than through public ownership. (If governments want to provide assistance to low-income or rural consumers for electricity services then they should do so by giving them a direct subsidy rather than subsidizing electricity rates and power producers. Deciding whether and how to protect the poor and provide subsidies to them should be the responsibility of governments not power producers.)

Peddling an Obsolete Electricity Model

The institutional alternative for cheaper, cleaner power is competition in a decentralized market. The ADB knows this. In Vietnam earlier this year, Mike Bristol, an ADB project engineer, told the World Commission on Dams (partly financed by the ADB) that the introduction of combined cycle plants in Thailand, and the growing availability of low-cost natural gas in the Mekong region, is driving electricity prices down, leaving hydro schemes less competitive, and a regional transmission grid unnecessary. In other words, the ADB's vision of giant hydro schemes connected by a six-country transmission grid to serve Thailand's electricity market – a vision the Bank has promoted for the last decade – no longer makes economic sense now that decentralized power production is commercially viable.

Bristol also reported that investments in large-scale power plants and long distance transmission lines are increasingly at risk of becoming stranded – that is, the investment cost is unrecoverable from ratepayers as cheaper and better generating options become more available in the region. Yet the ADB will continue to finance large hydro schemes in the region, he said, as long as governments want to build them.

Shortly after the World Commission on Dams meeting in Hanoi, the ADB announced an $80 million loan to the Vietnamese government for its first public-private partnership in dam building. The 260-MW Se San 3 dam on the Se San river – a Mekong tributary flowing from Vietnam's central highlands down through Cambodia – is expected to cost $300 million. If completed, Se San 3 will be the second dam on this river blocking the seasonal migration of dozens of fish species that move back and forth between the Mekong mainstream, Cambodia's Great Lake, and other tributaries. Prior to the Se San 3 loan, the ADB provided a $1.2 million grant to the Vietnamese government for packaging Se San 3 as a "model project" and another $150,000 grant for developing procedures for forced resettlement ("Strengthening of Resettlement Management Capacity in the Ministry of Agriculture and Rural Development").

In a recent policy announcement, the ADB claimed that such private-public partnerships "balance development goals with commercial interests." But the truth is that public-private partnerships are designed to protect private investors from the real costs and risks associated with their schemes. They do not serve electricity consumers or citizens well because they are based on monopoly deals between state utilities and private investors that put their own interests before those of consumers and citizens. The ADB is simply cajoling private capital into uneconomic hydro ventures with uncreditworthy governments, allowing investors to secure the profitability of their schemes by forcing costs and risks onto taxpayers and ratepayers. The ADB is encouraging governments to risk public funds on hydro dams that make for unreliable and uncompetitive power providers.

Creating Moral Hazard

By promoting power deals between governments and the private sector, multilateral lenders, such as the ADB, have created a fatal condition economists call "moral hazard." The ADB works with governments and state utilities to convince private investors to take risks they otherwise would not – by relieving them of the financial and environmental risks associated with their schemes. With captive markets, predetermined rates of returns, prices set by decree, and guaranteed revenues, private investors were able to take financial risks with little fear of a loss. This weakens the integrity of investment decisions and the scrutiny that contracting parties would otherwise apply to each other. The ADB encourages private investors and power producers to proceed with schemes that are uneconomic because they know that if the utility can't pay for the power, governments would bailout the utilities, and the governments would, in turn, be bailed out with loans from the ADB and the World Bank (called "Public Sector Reform Loans" and "Power Sector Restructuring Loans.") By protecting investors from the risks of doing business, instead of encouraging effective regulation, the MDBs have reinforced or bankrolled inefficient electricity systems.

Setting the Rules for Sustainable Electricity Investments

After a decade of public-private power debacles in Asia, energy analysts (at Canada's Energy Probe Research Foundation, China's Energy Research Institute, the World Energy Council, Britain's Royal Institute of International Affairs, the Bangkok-based International Institute for Energy Conservation, and the Lawrence Berkeley National Laboratory at the University of California, to name a few) agree that the majority of consumers won't have access to high-efficiency, low-cost generating technologies and renewable energy systems until monopolies are dismantled, competition is introduced, and electricity markets are designed to safeguard the rights of consumers and citizens through open and accountable regulation.

The institutional alternative for cheaper, cleaner power is competition in a decentralized market. To this end, Probe International recommends the following principles for restructuring the electricity sector:

1. Internalize costs and risks
2. Dismantle electricity monopolies
3. Introduce customer choice
4. Enforce property rights
5. Establish regulation that is subject to legislative and judicial review
6. Establish public oversight of the electricity reform process

· **Internalize costs and risks.** Power producers must be forced to take responsibility for their actions. They must internalize the health, social, environmental, financial, and political costs and risks associated with their schemes, and negotiate fair deals for the resources they wish to use. In this way, destructive investments would quickly be replaced with productive ones, and economies would thrive. The ADB and its client governments do not understand that externalizing costs is an economically inefficient strategy for development. They do not believe that citizens are entitled to fair compensation for their losses. If they did, fair compensation would be built into power projects, either making them uneconomic, and therefore not worth investment, or acceptable to those who must live with the project's consequences.

· **Dismantle electricity monopolies.** This is necessary to allow all power producers fair and open access to the state transmission grid and to eliminate the government's conflict of interest position as an investor and a regulator which has prevented effective regulation of power producers (state and private).

· **Introduce customer choice.** Giving consumers direct responsibility for electricity purchases – that is, giving consumers the right to generate their own power or buy from the supplier of their choice – will improve investment decisions by creating accountability between the producers and consumers. Similarly, the distribution companies or municipal utilities that supply electricity to small or household consumers, in urban and rural areas, should be allowed to choose their own supplier.

· **Enforce property rights.** Citizens need effective laws that recognize private ownership (individual and community) and uphold property rights (i.e. customary rights to land, water, fisheries, and forests). Citizens also need equitable access to a judicial system that will uphold their property rights. If property rights were enforced, the onus would be on hydropower developers to win the approval of all potential victims rather than on potential victims to defend themselves against environmental aggressors. Only when citizens have their rights to water, land, fisheries, forests, and clean air protected by enforceable laws will power project developers be obliged to make fair deals for the resources they use. Enforcing property rights would put the onus on project proponents to properly internalize costs and win the approval of potential victims, or risk court action and higher costs later on. Property rights holders should have the right to stop a project (i.e., by getting an injunction from a court) before or after the project has been approved. They should also have the right to sue power producers (public or private) for damages to their health, property, resources, and livelihoods.

· **Establish regulation that is subject to legislative and judicial review.** Citizens need a system of regulation that formalizes and makes public the rights and responsibilities of electricity investors, consumers, power producers, and the role of the regulator in enforcing those rights and responsibilities. Citizens need a regulatory body to license power producers, to specify power producers' rights and obligations, enforce standards (i.e., for transmission and distribution service, service quality, operating codes, and environmental performance), and to protect consumers from monopoly pricing. The regulator should be empowered by law to enforce a licensing procedure to ensure, for example, that licence applicants invite all potentially affected individuals and communities to voice their opinions and concerns to the regulator and the proponents. Proponents should have to demonstrate to the regulator that, for example, they have met with potentially affected individuals and communities to determine whether or not they were likely to achieve informed local consent or if there were insurmountable obstacles to the project (i.e., opposition from local residents and resource users, refusal from property rights holders to sell their land, bear other project risks, or to negotiate compensation).

To ensure that all potential victims are able to obtain justice, the powers of the regulator and the licensing procedure itself must not override or extinguish citizens' property rights (individual or communal). All rules pertaining to power producers should, at a minimum, recognize that citizens retain their right to recover full damages in the event of harm to their resources, property, and livelihoods. With strong property rights, the licensing procedure is likely to proceed smoothly because citizens will know their interests are protected and that they have several avenues for protecting those interests. Once notified, they may let the proponents and the regulator know they do not want to sell their land or negotiate compensation for other losses and risks. Or they can decide to participate in the licensing procedure and negotiate a compensation package to their satisfaction.

Not all citizens will be protected by the regulatory procedures. There may be people who feel that, even after mitigation and compensation, the power project imposes unacceptable risks on them. There may be people who are wrongly excluded from the decision-making process. There may also be people who voted for the project but experience unforeseen – and thus uncompensated – problems with it. Or, problems may arise, conditions might change, or unexpected events might occur. The practice of the power producer might deteriorate or the regulator might fail to enforce its own operating and environmental standards. As such, citizens must have the right to appeal to the courts for damages. Knowing that citizens are protected by law will give licence applicants the incentive they need to reach agreement with all affected citizens or face the risk of costly delays, injunctions, and court-assessed damages later on.

· **Establish public oversight of the electricity reform process**. Establishing new rules for power producers, particularly ones that threaten old vested interests, has proven to be a technically and politically demanding task elsewhere in the world. It requires good democratic procedures and public oversight. It requires a well-functioning legal system that can uphold contracts and respect the property rights of all citizens. And it requires honest and open government. Such conditions for reform simply don't exist in many parts of Asia in part because governments have relied on aid institutions for financing and policy direction for so long that they are unaccustomed to accounting to citizens when they set new policy directions.

Certainly, the ADB has no credibility for advising governments in the region about shaping an open, accountable, and competitive electricity market. It is an institution above the law, it is not part of any local economies, cultures, or political systems, and it has a track record of setting policies and rules that protect private investors and power producers at the expense of consumers and taxpayers. An institution that knows no market discipline or public oversight is not well placed to preach to Asian governments or power producers about such practice.

It is time for the ADB and other aid institutions to exit the electricity sector so that consumers and citizens can drive the reform process.

**Grainne Rdyer is the Policy Director of Probe International. She has lived and worked in mainland Southeast Asia for several years with a particular focus on water resources and energy. For more information see http://www.ProbeInternational.org*

Appendix A: ADB-Financed Power Projects That Have Created Poverty and Destroyed the Environment

1970 - 1999 Mahaweli Hydro and Irrigation Project, Sri Lanka

The ADB and a host of other aid institutions financed the five-dam multi-billion dollar Mahaweli hydro and irrigation scheme which displaced and impoverished 60,000 families since it began in 1970. In 1999, the ADB approved a $250,000 grant to the Sri Lankan government for developing “a policy applicable to involuntary resettlement in public and private sector development projects,” based on the rationale that past resettlement schemes have failed. In its description of the proposed grant, the ADB notes that the current rate of suicide among people resettled by the Mahaweli scheme is four times higher than the world average.

1998 – Meizhou Wan Coal-Fired Power Plant, Fujian province, China.

The ADB loaned $50 million to the state-owned Fujian Pacific Electric Company for a 720-MW coal-fired project now under construction on the Zhongmen Peninsula. Co-financed by French and Spanish export credit agencies, and four commercial banks, the project cost $828.5 million. The ADB reports that Meizhou is expected to alleviate chronic power shortages in Fujian province due to inadequate investment and an over-dependence on unreliable hydrodams that depend on seasonal rainfall.

1975 –1996 Nam Ngum Hydro Dam, Lao PDR

The ADB loaned $24 million to Thailand’s state utility, EGAT, for the transmission line from the Nam Ngum dam in Lao PDR to Thailand. The bank also partly financed construction of the 150-MW Nam Ngum dam which flooded several hundred square kilometers of forest, wiped out riverine fish stocks, and opened up the watershed to logging. The bulk of the dam’s electricity is sold cheap to Thailand because drought and siltation in the dam’s reservoir have reduced the dam’s generating capacity by one-third, making it an unreliable source of power. Dozens of communities displaced by Nam Ngum are still impoverished, trying to eke out an existence on surrounding hillsides, without access to safe drinking water, schools, and other basic facilities. In the last five years, the ADB has financed construction of two smaller dams, Nam Song and Nam Leuk, designed to divert water to the depleted Nam Ngum reservoir.

1995 – Masinloc Coal-Fired Power Station, Philippines

The ADB loaned the National Power Corporation $254 million for transmission lines and a second 300-MW generating unit at Masinloc coal-fired power station. The first unit was financed by the World Bank in 1990 despite opposition from local communities and environmental groups who fear that the project will poison century-old mango orchards, fisheries, and farmland upon which nearby communities depend.

1994 – Theun Hinboun Hydro Project, Lao PDR

The ADB loaned $60 million to the state utility, Electricity du Laos, for its 60 percent stake in the Theun Hinboun Power Company which owns and operates a 210-MW dam for exporting electricity to Thailand. The project is 20 percent owned by Nordic utilities, Statkraft and Vattenfall, and 20 percent owned by MDX, a Thai real estate developer. Completed in 1998, the $260 million dam destroyed riverine fisheries in two rivers upon which dozens of rural communities – or about 6,000 people – depended for their livelihoods. The ADB approved the dam contracts which have restricted the power company’s obligation to pay for compensation and environmental mitigation. Villagers are still waiting for compensation and environmental mitigation measures promised by the power company and the ADB.

The ADB’s commitment to defending dam investors from the real costs of their schemes is evident from its handling of the Theun-Hinboun project. When citizens’ groups exposed the fact that the Theun Hinboun Power Company in Lao PDR had ignored and underestimated environmental costs in order to inflate the company’s profitability, and failed to provide compensation to people harmed by the company’s dams, they demanded that the company take responsibility for these costs. The ADB responded with a warning that efforts to force its client, the Theun Hinboun Power Company, to pay additional costs would damage the confidence of foreign lenders and investors in Lao PDR. The ADB also insisted that it is up to the Lao government, not the company, to either use its revenues or seek out new aid sources to pay for long-term environmental costs. As for the ADB's responsibility, project engineer Mike Bristol explained recently in Hanoi, the ADB "is not a social and environmental agency," and as such it has "little influence over project outcomes."

1994 – Lingjintan Hydro Dam in Hunan Province, China

The ADB loaned $116 million to the state-owned Hunan Electric Power Company for a 240-MW hydro dam which is also expected to regulate releases from the 1,200 MW Wuqiangxi hydro scheme, situated 41 kilometers upstream on the Yuanshi river. Still under construction, the dam is expected to cost $367 million. Displaced 4,060 people not compensated. ADB reported last year that people are still waiting for compensation. nearby communities were forced by the authorities to share their rice land with the people displaced, reducing their rice harvests by half; blocked fish migrations in the Yuanshui river which could also adversely affect fish stocks in Lake Dong Ting; displaced people were promised income from plantations but it could take five to 20 years before the plantations generate any income; people have less land to produce food and no income to buy food; people have left the area to find jobs elsewhere.

1990 – Singkarak Hydropower Project, West Sumatra, Indonesia

The ADB loaned $185.8 million to Indonesia's state utility, PLN, for a 175-MW hydro dam. Completed eight years later, the dam devastated fisheries and fishing communities around the Singkarak lake and Ombilin river, disrupted water supplies in two river systems. It also opened up the project area to logging, threatening local wildlife populations, including the endangered Sumatran tiger; the dam also wiped out fish stocks and drastically reduced flows which led to increased incidence of skin and intestinal sickness, and waterborne disease.

1981 – Batang Ai Hydropower Project, Sarawak, Malaysia

The ADB loaned $40.4 million to the Sarawak Electricity Supply Corporation, a state-owned utility, for a 108-MW hydro dam. Completed in 1986, the Batang Ai dam displaced 21 Iban longhouse communities, close to 4,000 people. Fourteen years later, many of those people are still waiting for replacement land or cash compensation promised them by the authorities. Some left without land or enough replacement income to survive have left their once self-sufficient communities to find jobs in Kuching or at industrial sites elsewhere in the country.

1977 – Mae Moh Power Project, Thailand

ADB loaned about $150 million for lignite mine expansion, transmission lines, and the first generating units at this lignite-fired power station in the 1970s. And since 1980, the Bank has loaned EGAT another $390 million for new generating units at Mae Moh, one of the largest point-sources of poisonous sulphur dioxide emissions in Southeast Asia. The Bangkok-based environmental group, TERRA, has described Mae Moh as "one of the most serious public health disasters in Thailand's history." At least 42,000 people near the plant suffer chronic respiratory diseases, breathing problems, and skin disorders; livestock regularly fall ill and die; large orchards, vegetable gardens and rice crops wilt from acid rain; streams and waterways are blackened by the emissions as well as by the run-off from the lignite mining operations nearby. In 1996, six villagers from the Mao Moh valley died of blood poisoning, suspected to be caused by sulphur dioxide emissions from the Mae Moh plant.

References available upon request from
GrainneRyder@nextcity.com
Probe International
225 Brunswick Ave
Toronto, Ontario, M5S 2M6 CANADA
www.ProbeInternational.org

Philippine Power Scandal Illustrates Flaws in ADB's Privatisation Strategy

By: *Walden Bello**

What was supposed to be a milestone in the history of privatisation in the Philippines has now become a massive scandal. In mid-April 2000, two parliamentarians, Etta Rosales and Renato Magtubo, revealed that after the recent vote by the House of Representatives to privatise the National Power Corporation (Napocor), their offices received an unsolicited contribution of 500,000 pesos ($12,500) each.

The two representatives had voted against the privatisation, leading to speculation that those who voted for it received much more in payoffs.

The Napocor scandal cannot, however, be seen as simply another case of corrupt politics. It must be viewed against the background of the tremendous pressure to privatise the state-owned energy enterprise coming from external donors, in particular the Asian Development Bank (ADB).

As a condition to the government's accessing a $300 million energy sector loan from the Bank and a $400 million loan from the Miyazawa Fund, the ADB wanted the state energy enterprise privatised as quickly as possible. The ADB's Power Sector Restructuring Program document dated Nov. 25, 1998, was blunt. Release of the second tranche of the loan was contingent on the condition that the "Borrower shall have enacted a law, the Omnibus Power Industry Law, to govern the power industry." From the ADB's perspective, the government was way behind schedule; it had wanted the law passed by June 1999.

Was the ADB Involved?

Did the administration of President Joseph Estrada resort to short-cuts—that is, buying the votes of Batasan members—to satisfy the ADB? How much did the ADB know about the bribery? In fact, the question must be asked: did ADB staff participate in the bribery attempt to clear away obstacles to its most ambitious program in the Philippines? This question is by no means preposterous since the Bank itself has admitted to investigating 55 allegations of corruption involving its staff and executing agencies in the Asia-Pacific region as of December 1999.

Even if the ADB is cleared of direct complicity in the bribery, it cannot be absolved of creating the situation that led to what now appears to be a wholesale effort to buy Congress. The conditions simply were not there for a clean privatisation to take place. Splitting Napocor into a few private oligopolies ("Generating Companies") in the climate of uncontrolled crony capitalism that now pervades the government-business partnership under Estrada was asking for trouble.

The ADB should have heeded its own "Anti-Corruption Policy Memorandum" issued in June 1998: "Particular care must be taken in dealing with issues of privatisation…Preliminary research…indicates that, when done properly, privatisation can…help to lower the level of corruption. However, in many countries the privatisation process has often been fraught with allegations of bribery, theft and embezzlement."

It continued: "To avoid this problem, it is critical that transparent, unbiased and fully contestable procedures be utilised in the sale of state assets. When the sale involves a natural monopoly, it is also important that capable, independent regulatory agencies be established to provide adequate oversight prior to privatisation. Issues of best practice involving corporate governance will also be an important component of Bank loans and TA [technical assistance] grants addressing issues of privatisation, corporatisation and public enterprise management."

None of the above-mentioned anti-corruption safeguards or others were put in place prior to pushing the legislation for privatisation.

The Bigger Picture

The corruption surrounding the Napocor privatisation is, however, merely the tip of the iceberg. According to critics, the whole project was questionable from the very start, for a variety of reasons.

First of all, the planned privatisation was an overreaction to a conjunctural crisis in the agency's finances. Even the ADB admits that Napocor had a good financial management record between 1992 and 1997. The current financial crisis is largely a spin-off of the weakening of the peso owing to the Asian financial crisis, which brought about a deterioration of the agency's foreign debt service burden and a hemorrhage of dollar-denominated payments to independent power producers (IPPs) that had been contracted to co-generate electricity during the power shortages of the late eighties and early nineties.

The IPP contracts, which provided exceedingly good terms to the private sector, had been negotiated as a “quick fix” to the power crisis by the preceding administration of President Fidel Ramos without serious thought as to their long-term financial consequences. Indeed, the ADB played a vital role in bringing about reliance on the IPPs; as one internal document boasts that “ADB efforts to support the Philippines install power generating capacity through private sector participation have been hugely successful...” Now, among the conditions that both the government and the ADB accepted in this “hugely successful” effort was the IPPs’ demand that a considerable portion of future payments to them be denominated in foreign currency. Not surprisingly, when the peso collapsed at the beginning of the Asian financial crisis, Napocor was stuck with skyrocketing debt payments that drove it to the brink of bankruptcy.

Now the Estrada administration is on the verge of making the mistake of administering another quick fix to the Philippines’ energy situation—this time, by privatising Napocor and abdicating the right and duty of government to provide an essential service simply in order to pay off onerous contracts.

Second, the costs of a large part of the planned privatisation will e borne by the taxpayer. This comes from the very candid ADB loan document itself: “Two of the biggest problems facing NPC and the Government are how to deal with the NPC’s existing debt and IPP obligations upon privatisation. The magnitude of NPC’s existing debt is such that it cannot be fully allocated to the companies after privatisation.” It goes on to state that the government’s plan is “to approve a levy on all electricity end-users, which will recover, among other things, NPC’s stranded debt and above market IPP costs.” In other words a levy on all consumers to subsidise the sale of NPC assets to the private sector. It has been estimated that this “universal levy” will amount to 27 to 30 centavos per kilowatt hour until the year 2032.

The third major flaw in the Napocor privatisation is that, amazingly enough, as the ADB document admits, “the impact of the restructuring and privatisation process on electricity consumers has not yet been quantified, nor has the need to retain safety nets to protect the poor and underprivileged.” For an agency that is said to be on top of energy economics, it is amazing that the ADB did not prioritize the conduct of such a study prior to proposing the privatisation of Napocor since many previous efforts to privatise or deregulate power ended up with the consumer being screwed. In California and New England in the US, for instance, residential consumers who were expecting to shave 10 per cent from their bills were outraged to discover that deregulation initiatives turned out to benefit mainly the big private power companies and their large industrial and commercial consumers.

The fact that this rush to privatisation is built on flimsy data and sketchy analysis is hard to deny. As one critic noted, with such a shoddy rationale, no wonder it took such a massive bribe to convince legislators to swallow their hesitations and vote for privatisation!

What is to be Done?

It is ironic that an ADB project is now trapped in a massive corruption scandal since the agency prides itself with being the first multilateral development agency to have a Board-approved policy statement on good governance. The Bank, notes one document, “affirms that corrupt and illicit behavior is a serious brake upon the development process. The Bank rejects the argument that corruption’s beneficial effects outweigh its negative consequences…The Bank welcomes the growing focus upon anti-corruption issues as part of its broader effort to advance the principles of transparency, predictability, accountability, and participation under its governance policy.”

Now is the time for the Asian Development Bank to put its money where its mouth is. It should launch an immediate investigation of its staff to see if they were involved in the bribery of the Philippine Congress.

It should also immediately signal the Philippine government that passage of the power bill will not guarantee delivery of its loan and the Miyazawa loan owing to the gross violation of the Bank’s anti-corruption policy involved in the payoffs.

But equally important, the ADB should cease pressuring the Philippine government to secure immediate passage of the power bill and allow independent agencies to conduct a more comprehensive and thorough investigation of whether or not privatisation will really benefit Filipino consumers or merely deliver state assets at fire-sale prices to well-connected local and foreign monopolists.

This is an attitude that the ADB should also adopt in its relations with other countries in the region. For it is becoming clear by now that the medicine of privatisation may oftentimes be more deadly than the disease of public inefficiency it is meant to cure.

* *Walden Bello, PhD, is Professor of Sociology and Public Administration at the University of the Philippines as well as the Executive Director of Focus on the Global South, a program of research, analysis and advocacy based at Chulalongkorn University in Bangkok. He is the author or co-author of 10 books and numerous articles on global and Asian economics and politics.*

Banking on Women:

The ADB Policy on Gender and Development

*Siriporn Skrobanek and Chanida Chanyapate Bamford**

The Asian Development Bank is definitely a late-comer in the area of gender. The Bank only came out with a Policy on Gender and Development (GAD) last year, in 1998, to replace its Policy on the Role of Women in Development (WID), which had been in operation for 10 years since 1985 . The Bank actually admitted in 1995 that the operationalisation of its WID policy and strategic development objectives in 45 Bank projects in agriculture, education, population, health and sanitation, and industry that were under review needed substantial improvement. Can we expect the new GAD policy to make a difference?

In 1985, the year that the Third World Conference on Women was held in Nairobi, the ADB first adopted a Policy on the Role of Women in Development (WID). It was principally aimed at supporting projects that would directly benefit women or facilitate their participation in development, while at the same time promoting WID awareness among its staff. In 1992, WID was included as one of the Bank's five strategic development objectives alongside economic growth, poverty reduction and human development, including population planning, and sound management of natural resources and the environment.

Between 1992 and 1996, the Bank approved 22 advisory technical assistance grants and 10 regional technical assistance grants focussed exclusively on women and 33 project preparatory technical assistance grants for projects that substantially addressed women's concerns. Technical assistance grants have been provided for capacity and institutional building of the national machinery for women's affairs to many countries such as Cambodia, Indonesia, Pakistan, Fiji and Papua New Guinea. A number of loan projects have included the improvement of women's health, education and economic status as their principal objectives. But like other aid agencies, the ADB's WID approach was to implement a range of activities within its regular operational programme that emphasized women as a special target group.

It seems that the ADB had missed out on the debates concerning the appropriateness of the WID approach that was occurring in the early 1990's. Particularly, it became known at that time that integrating women into the economy through income generating activities, which was what multilateral development banks such as the ADB set out to do, not only did nothing to change women's economic and social status but also worsened their health and their quality of life in general. The ADB review of the WID policy in 1995 prior to the Fourth World Conference on Women in Beijing, however, still recommended that, to improve their WID objectives, more careful analysis be made to ensure that its projects address and respond to the specific needs of women.

The tell-tale part in the review was the acknowledgement that the shortage of women professional staff and gender specialists in higher positions in the Bank's structure was one of the constraints that prevented the Bank from achieving its WID policy objectives. This shortage is probably the reason why it took the ADB more years than other aid agencies to rethink the WID approach and reorient its policy toward gender equity.

The 1998 ADB Policy on Gender and Development (GAD) stated that the overall lending operations aiming at improving the status of women seemed modest when seen in the context of the Bank's project classification system. In 1993, 1994 and 1996 only one project per year was classified with WID as a primary objective. The policy argued that the project system classification does not fully reflect efforts and resources directed to addressing and mainstreaming gender concerns in Bank activities.

The key elements of the current ADB Policy on GAD will include gender sensitivity, gender analysis, gender planning, mainstreaming and agenda setting. To operationalise this policy, the Bank's focus of activities will be to:

· provide assistance to its developing member countries in the areas of policy support, capacity building, GAD awareness, and formulation and implementation of policies and programs directed at improving the status of women;

· facilitate gender analysis of proposed projects, including program and sector loans, and ensure that gender issues are considered at all the appropriate stages of the project cycle, including identification, preparation, appraisal, implementation and evaluation;

· promote increased GAD awareness within the Bank through training workshops and seminars, development of suitable approaches and staff guidelines to implement the policy on GAD;

· assist its Developing Member Countries (DMCs) to implement commitments made at the Beijing World Conference on Women;

· explore opportunities to directly address some of the new and emerging issues for women in the Asia Pacific Rregion.

Operational approaches of the GAD policy will be in two areas: macroeconomic and sector work, and loans and technical assistance. To ensure mainstreaming of gender cconsiderations, a country briefing paper on women will be prepared as a background document to the country operational strategy study and the country assistance plans will specify the means by which the Bank's operational program will address and support the gender strategy. The Bank's loan and technical assistance operations will actively promote gender issues.

To achieve the Bank's policy on GAD, the Bank will establish an umbrella regional technical assistance through which small GAD initiatives of the Bank and those of governments and non-government organizations can be funded on a grant basis. Further the Bank will have two gender specialists to assist in the operation of GAD policy. The Bank also prepares a manual on GAD to provide guidelines for staff and consultants in implementing the policy and designing projects addressing GAD. External fora on gender similar to the one of World Bank will be established to enable the Bank to maintain dialogues with external groups including NGOs.

The Bank's concern for women stems from the belief that investing in women yields economic benefits either directly, through increased participation of women in the formal work-force, or indirectly by women's contributions to "social capital formation." For example it argues that investing in women's health has positive impacts on reducing the country's population growth, improving the health and welfare of children and families; and investing in the education of girls will benefit not only the girls themselves, but also society at large. However, according to the Bank Policy paper on GAD, the allocation of Bank's resources to improve the status of women and girl children in the past decade is limited. Further the Bank's structure, size and scale of loans make it difficult to achieve gender equity. Rather than redesigning the fundamental structure and operations of its programmes to address the root causes of women's inequalities, the ADB has chosen to add on an umbrella regional technical assistance facility to further GAD objectives since it has the potential to provide the Bank with large social returns for a minimal investment.

It might be too early to offer a comprehensive critique on the ADB's GAD policy since it was only recently formulated in 1998. Nonetheless, a few points can be made about the policy using the Thailand Country Assistance Programme (CAP) from 1999-2001 as a case study. In the section on Gender Dimensions of Bank Operations in the Thailand CAP, a "gender equity" concern is to improve the competitiveness of women in the job market particularly in government service or managerial positions and as entrepreneurs/ employers. It also states that gender equity concerns will be a major focus of operations in the social sector programme, which has education components.

The Social Sector programme is financed by a US$ 500 million loan and used to support initiatives in three main areas: education and human resources development, health, labour and social welfare. Eight projects have been approved in April 1999 for a total of four billion baht. Ninety-six per cent of the total loan is allocated to four projects: assistance to students, voluntary health card scheme, employment of new graduates in village crisis centers and new theory agriculture. However, efforts to strengthen the skills of workers in the informal sector, eighty per cent of who are women, receives only 0.5 per cent (15.09 million baht) of the total loan.

The asymmetrical distribution of money among the different elements of the loan and the lack of operational guidelines to ensure that women benefit proportionately from the loan raises the question whether the gender concerns stated in the Thailand CAP and the overall GAD policy can be through the Social Sector Loan. Further, it is questionable whether training by itself can enhance the vulnerable position of women workers in the informal sector who have no labour protection or social security.

Perhaps the most fundamental flaw in the ADB's gender and development strategy is the underlying assumptions of the strategy. Gender inequalities have social, economic and political histories which need to be addressed as much as, if not more than, the lack of basic needs such as job skills and healthcare. How does the ADB propose to increase the "competitiveness of women in the job market" when the market itself discriminates against women? For that matter, how many women have been "competitive" enough to occupy senior decision making positions in the ADB itself (and gender specialists do not count)? And finally, the ADB's GAD policy will definitely not lead to an improvement in the status of women as long as the Bank remains blind to the manner in which its own loans entrench and perpetuate long standing inequalities among women and men.

*Siriporn Skrobanek is the founder of the Foundation for Women, Thailand and the Global Alliance Against Trafficking in Women. She has been a leading organiser and advocate for the rights of women and social and political justice for over 20 years.

*Chanida Chanyapate Bamford: is a Senior Associate at Focus on the Global South, a program of research, analysis and advocacy based at Chulalongkorn University in Bangkok. She coordinates Focus' Thailand program and has many years experience in social development

with a particular focus on gender.

A Critique of The ADB Private Sector Development Strategy[39]

By: *Nurina Widagdo**

Background

On March 30, 2000, the Asian Development Bank (ADB) released a new private sector development strategy. The Bank claims that the strategy will strengthen the role of the private sector as the engine of growth in Asia. According to the ADB, the strategy aims at promoting the Bank's role in helping member governments create enabling conditions for business through its public sector operations. It further claims that the strategy will also guide the Bank to ensure that its public sector activities do not crowd out the private sector; instead, the Bank will take all possible steps to open up and increase opportunities for private sector participation. Through the strategy, the Bank intends to continue to catalyze private investments by the provision of direct financial assistance to private sector projects that have clear development impacts and/or demonstrable effects. From the perspetive of private investors, this catalyzing role is particularly important because the ADB's presence is seen as a "source of comfort" by other lenders and investors.

The facilitation of the private sector by the multilateral development banks (MDBs)[40] is nothing new. The World Bank has been involved in private sector promotion through two of its arms for many years: its private investment agency, the International Finance Corporation (IFC), since 1956 and its political risk guarantee agency, the Multilateral Investment Guarantee Agency (MIGA), since 1988. The ADB has invested in private sector projects for about two decades. The MDBs' investments in private sector projects have been widely criticised for their lack of direct, measurable benefits on development and poverty reduction, as well as problems with adverse social and environmental impacts.

What is new in the MDB - private sector relationship is the increasing importance of MDB private sector facilitation. The most critical roles played by the MDBs are in restructuring country policy and facilitating greater private sector participation rather than the actual financing of private sector projects. In addition to committing their own funds to private sector projects, the MDBs mobilise and provide guarantees for other private financing, and sometimes bail-out problematic loans to secure further investment. The implementation of the recently approved private sector development strategy will further enhance the Bank's capacity to facilitate private sector development through a range of means including: support for good governance and financial sector reform, the opening up new business opportunities, labor market reform, support for small and medium enterprise development and regional cooperation.

There is nothing wrong with the ADB playing a role in strengthening the private sector. However, there are at least two critical areas of concern with the private sector development strategy. First, the assumed beneficial link between private sector development and poverty reduction. This is particularly important as the ADB – together with other MDBs – claims that poverty reduction is its overarching goal and raison d'être. Second, problems with transparency, accountability and participation that must be addressed in all of the ADB's operations and practices, including its work with the private sector. These issues are extremely important as the ADB assumes the private sector will be an increasingly important "pillar of development"

The Private Sector and Poverty Alleviation

The Asian financial crisis resulted in shortages of financial resources, increased poverty and grave social and environmental impacts for the hardest hit countries. While the majority of analysts identified private sector speculation as the trigger for the crisis, there are also underlying problems in the public sector such as corruption, market distortions, weak regulatory frameworks and poor enforcement in the domestic financial market and weak governance that discourage private sector growth and sustainability. As a result, the financially deprived, crisis-hit governments are being advised by the IMF, World Bank and the ADB to turn to the private sector to lead economic development.

For the private sector to assume new or bigger roles in economic recovery and development, there needs to be some adjustment and improvement in the private sector environment at the national level. The ADB, together with other international financial institutions, believes that poverty can only be solved when there is a strong economy with high growth rates, which in turn can only be achieved when there is a strong private sector. The Bank's Poverty Reduction Strategy argues that the private sector can play a key role in pro-poor growth. According to the Bank, the private sector can generate employment and income, which, in turn, addresses poverty indirectly. However, there are examples in many countries where despite significant private sector growth and employment generation, poverty remains and in some cases worsens. In addition, the benefits of economic growth do not necessarily trickle down to the poor. Economic growth does not necessarily lead to a more equitable distribution of income and assets in the absence of specific measures addressing equity issues.

The ADB is also promoting the direct involvement of the private sector in a number of sectors e.g. in the provision of physical and social infrastructure and the provision of basic services that will benefit the poor. In the past, ADB private sector operations have been concentrated in capital-intensive areas, particularly telecommunications, power generation and chemicals. In contrast, the new strategy puts an emphasis on small and medium enterprise (SME) development and catalyzing private sector involvement through public-private partnership in traditionally non-economically viable sectors such as education, health and basic services.

The ADB's vision of fostering pro-poor growth through the private sector necessitates the promotion of economic activity that responds directly to the needs of the most disadvantaged sections of society. Unfortunately, the strategy does not elaborate on how each component will address the overall objective of sustainable poverty alleviation, nor does it detail how the Bank will identify and prioritize those areas where the linkage between private sector development and poverty reduction is strongest. There should be, for example, a screening mechanism to ensure that ADB-facilitated policy reforms or funded projects contribute to environmental, social, and poverty reduction goals rather then the current narrow focus on mitigation. This includes, for example, identifying how poor or marginalised communities can gain access to and benefit from commercially viable projects. The ADB will also need to develop more rigorous means of assessing the environmental and social impact of private sector programs.

Transparency, Accountability and Participation

In spite of business concerns about confidentiality in a competitive commercial environment, the enhancement of private sector involvement in areas traditionally occupied by the public sector should not reduce public transparency and participation. Private sector projects should, at a minimum, comply with the same standards as ADB-supported public sector projects. This includes compliance with Bank policies on information disclosure, participation, and impact assessment. In addition, the ADB will need to develop private sector-specific safeguards as its portfolio and operations shift toward enhancing private sector investment. For example, the ADB will need to develop policies covering the assessment and mitigation of the environmental, labor and social impacts of ADB-mandated or supported privatisation and sectoral adjustment programs.

The ADB does not discuss the issue of accountability in its private sector development strategy. When responsibility for the provision of goods and services shifts from the public to the private sector then it is important that the private provider's accountability to the recipients of those goods and services is maintained or strengthened. In cases where the private sector will take over the management of a sector from the government, then it is necessary to establish a regulatory body with clearly defined authority and clear lines of accountability.

Conclusion

The implementation of the private sector development strategy may benefit a country and particularly the poor if the changes mentioned above are made and if certain conditions are met. These conditions include:

· The strategy builds on a detailed analysis of the determinants of poverty and marginalisation in each country or region, identifies specific pro-poor interventions which add value to existing poverty alleviation efforts and is integrated in a broad based development strategy in which the private sector plays an important but not necessarily the predominant role in poverty reduction.

· The development and implementation of redistributive measures which enhance equity and prevent concentrations of power, wealth, and decision making.

· Enhanced monitoring of and participation in private sector development by civil society and enhanced oversight by parliaments. This is particularly important in terms of increasing accountability, promoting equity, ensuring environmental protection and minimising adverse social impacts.

· Ownership of the strategy by borrowing countries. The successful implementation of the strategy will depend on effective action against corruption and enhanced support for good governance and strengthening institutional capacity. This cannot occur if governments and citizens feel that the strategy is being imposed by external actors. As a result, the ADB needs to build a broad-based constituency in support of the strategy. This may prove difficult because governments, the private sector and citizen groups do not necessarily share the same interests nor do they perceive the role of the ADB in the same way.

* *Nurina Widagdo works with the Bank Information Center (BIC), an independent, non-profit, non-governmental organisation that provides information and strategic support to NGOs and social movements throughout the world on the projects, policies and practices of the multilateral development banks (MDBs). BIC advocates for greater transparency, accountability and citizen participation at the MDBs. BIC is not affiliated with any of the MDBs.*

ADB PRIVATE SECTOR OPERATIONS IN THAILAND

The Asian Development Bank (ADB) has a relatively small amount of private sector investment in Thailand. As of October 31, 1999, the ADB has approved $56.98 million for direct financial support for seven private sector projects, compared to a total of $5.3 billion for 80 public sector projects in Thailand. About one-third of the private sector investment was provided in equity and two-thirds in the form of loans without Government guarantees.

Recipients of ADB private sector loans in Thailand in the past include:

1990: Thai Farmers Bank ($2 million)
1990: Bangkok Expressway Co. Ltd. ($40 million)
1993: Thai Petroleum Pipeline Co. Ltd. ($50 million)
1993: Thai Rating and Information Services Co. Ltd. ($0.20 million)
1994: Bangkok Expressway Co. Ltd. ($7.10 million)

However, ADB's support to the private sector development in Thailand is more influential than just its direct financing. Through a number of public sector project and program loans, the ADB has influenced the Government's policies and institutions to provide an environment conducive to opportunities for the private sector. For instance, the recent Agriculture Sector Program Loan ($250 million) covers key reforms in the areas of agricultural research and extension, natural resource management, rural micro-finance, crop diversification, pricing and subsidies, and market reforms. These ADB-mandated agricultural reforms have direct effects – positive and negative - on farmers and agriculture-related small, medium, and large private sector entities in Thailand. ADB loans for the Financial Markets Reform Program ($300 million, approved in December 1997) and Export Financing Facility ($50 million, approved in March 1998) are other examples of public sector loans that facilitate private sector development.

The ADB's Private Sector Group (PSG) is now looking at more possibilities to support the private sector in Thailand. The PSG is proposing a $25 million Small Investment and Restructuring Fund (SIRF) to provide a vehicle to mobilize financial assistance in the form of equity capital and advisory services for the small and medium enterprise sector, and expedite the corporate restructuring process. They also plan to support Thailand's private sector power projects, private banks, wastewater treatment and solid waste management in 2000-2002.

Source: ADB Country Assistance Plan (2000-2002). Thailand. December 1999.

Multilateral Development Banks (MDB) Campaign

By: *Antonio B. Quizon**

What are the Multilateral Development Banks?

A. Brief History

YEAR **EVENTS**

1944 Bretton Woods Conference gives birth to the "twin sisters":

· IBRD: for post-war reconstruction

· IMF: for global monetary stability

1950s Priority shifts from "reconstruction to "development"; lending to developing countries;

1950s-60s Regional Banks are formed

1970s Oil crisis; rising debt issues, start of structural adjustment programs (SAPs)

1990 End of Cold War; rise of market liberalization; privatization

90's & beyond What next?

B. Who are the MDBs?

World Bank Group: the "five fingers"	**Regional Banks**
a) International bank for Reconstruction & Development (IBRD, 1944)*	a) Inter-American Development Bank (IADB, 1959)
b) International Development Association (IDA, 1960)*	b) African Development Bank (AfDB, 1964)
c) International Finance Corporation (IFC, 1956)	c) Asian Development Bank (ADB, 1966)
d) International Center for Settlement of Investment Disputes (ICSID, 1966)	d) European Bank for Reconstruction and Development (EBRD, 1990)
e) Multilateral Investment Guarantee Agency (MIGA, 1988).	

* What is commonly called the "World Bank" refers only to both IBRD and IDA.

C. The Bigger Picture: The "triple alliance"

1) World Bank
2) International Monetary Fund
3) World Trade Organization

Why do we advocate with the MDBs?

A. They are public institutions
1) Use of taxpayers' money
2) Accountability questions
- Tax free operations
- Immunity from suits and liabilities
- Financial liability only to governments & financial corporations, no legal recourse for affected communities.
3) They are outside the United Nation's Legal System
4) Lack of information access

B. They are global financial powers
1) Comparative picture:
- WB: 50 years; $300B; 6,000 projects
- ADB: 27 years; $50B; 1,300 projects
2) Influence and control over development priorities
3) Public funds for private investments

C. They are instruments of North-South domination
1) Control: 1992: 70% of global GDP ($12 trillion out of global $17 trillion) controlled by 7 countries
2) Issues of "tied aid"
- Conditionalities
- Procurement
- Opening new markets

D. They impact on poor communities
1) 800,000 displaced in Indian sub-continent (WB study)
2) numerous examples of social and environmental impacts.

E. They increase long term debt of poor countries
1) "Subsidy for the Rich"? Since 1987, there has been a reverse flow of resources, from South to North
2) Costs: impact on environmental damage, cheap labor
3) Who really pays? All of us. Our children.

What are the characteristics

of the MDBs?

A closer look at the Asian Development Bank (ADB)

A. In the beginning: MDBs were created by governments
1) Role of UN ECAFE (ESCAP), 1966
2) Entry of non-regional (non-Asian) members
3) Public funds: initial capitalization
4) 1960s ADB created to fund rural development, rather than industry

B. Legal Status of ADB
1) Immune from suits and damages (ADB Charter)
2) Exempted from taxes & customs duties
3) Status of "international civil servants"

C. Capital Structure: Where do ADB funds come from?
1) Ordinary Capital Resources (OCR): $54.2B
a) paid in capital : $3.3B (10%)
b) callable capital : $35.2B (90%)
2) Special Funds
a) Asian Development Fund (ADF)
b) Technical Assistant Fund (TASF)
c) Japan Special Fund (JSF)
3) Co-financing with private sector funds & gov't.:
- Ratio: 1 : 1.5

D. Governance and voting structure: who's the real boss?
1) ADB is run like a corporation
2) Voting is according to subscribed capital shares
- "shares of stock", not 'one-nation, one-vote"
- Japan: 16% ; US 16%
- 18 developed countries: 59.8 %
3) How the 12 members of the Board of Directors are elected
- according to voting shares
- geo-politics plays a role
- automatic seats: Japan, US Australia, India, China, Europe (2 seats)
4) Annual Board of Governors: a meeting of stockholders

Three Beginnings of the ADB Campaign

A. Environmentalism
B. Development work of middle-class NGOs
C. People's own struggles against displacement
- 1970s : Struggle against mega-projects eg: Polonoestre Project, Brazil, Chico River Basin, Philippines, Bataan Nuclear Power Plant, Philippines

The ADB Campaign

A. How we began in 1988

- "Debt-for-nature" swap through ADBs small Environment Unit
- ADB commissioned ANGOC to prepare 8 country studies and 2 regional studies, the purpose of which was to seek NGO inputs for implementing the policy framework on ADB-NGO relations in the field of NGO institutional strengthening on environment and natural resource management

B. What issues we raised (see attached sheet, 1989-95)

C. Our approach - the five areas of our campaign:
1) NGO participation in ADB Annual Meetings; bringing stakeholders to confront stockholders;
2) Ongoing dialogues with ADB officials; intervening in ADB policy;
3) Regular information: building public awareness
4) Networking: building a public constituency
5) Policy researches & case studies: sharpening the debate

D. The impact of the campaign?
1) Shifts in Bank-wide lending priorities: 50-50 project mix for review
2) Debt and structural adjustments (no gains made);
- Stronger Social and environmental Impact Assessment guidelines, but still weak social assessments framework;
- Policy on access to information, but fundamental framework and application still very weak
3) Policy on participation but little experience within ADB
4) Creation of an Inspection Function
5) Bank initiative on "Improving Project Quality"
6) Conditionalities attached to the General Capital Increase, 1994
- Seven Sectoral Policies (women in development, energy, agriculture, forestry, involuntary resettlement, indigenous peoples, population)
7) Bank-NGO relations: definite improvements

Concerns raised by NGOs during the seven-year campign (1989-1995)

	1989	1990 to 1991	1992	1993	1994	1995
Macro Issues	Debt Reduction through debt to nature swaps	-Structural transformation rather than adjustment -change economic growth framework	Equity rather than growth -Gap between ADB rhetoric and practice	Flawed ADB development model	Destructive impact of ADB policies & projects - Equity & sustainability - Privatisation -critical position on GCI IV -write off debts through spring clearing	-ADb reforms -Impact of market-oriented economic growth -Asian development fund -Delinking from SAPs -Debt relief & spring clearing
Participation/ Transparency/ Accountability		-Public Participation -Access to ADB documents - Independent monitoring & evaluation process	- Timely access to information -Adequate consultation -Accountability of aid funds	- Engage stakeholders in dialogue -Independent review of 'bad' ADB projects	-Public accountability -Automatic access to information -Consultations with potentially affected people/inspection/a-ppeals mechanism	-Inspection function/ confidentiality & disclosure of information/ people's participation
Sectoral Issues	-Energy loans for end use efficiency -Forestry issues/ Indigenous peoples -Sustainable agriculture	-Forestry issues/ sustainable livelihoods		-Respect IP, customary nd traditional rights -Forest issues	-Community oriented energy generation -commercialisation of forest resources -Chemical free agriculture	-Energy lending towards rural electrification, demand side management and renewable energy -Incorporate agrarian/ aquatic reform program and community based natural resource management/ forest issues
Social/ Environmental Dimensions	Improved project monitoring	-Integrate social/ environmental factors -implementation of environmental policies -GEF like window in ADB -Impact on women and children	-Improved monitoring of projects -Develop bank stategy in crucial global enviornental issues	-Implementation of social/environmental guidelines -Identification of affected communities and damaged ecosystems -Meet global environmental issues	-Meeting global/regional imperatives -Failed resettlement cases/IP rights -Population policy -WID goals -Climate change, biodiversity, ozone depletion	- unacceptable IP draft policy -Bank focus on mitigation measures rather than option for non-resettlement -Support for women and development
Bank/ NGO Relations	Co-operation with NGOs	-Create ADB-NGO focal point -NGO room/ amenities during ADB annual meeting	-More effective ADB-NGO liason -Discriminatory accredition of NGOs to Annual Meetings		NGO accredition to Annual Meetings	Civil Society fund for capacity building

Some practical lessons from experience

· Give primacy to local communities on-the-ground.

· Build a movement, not an organization.

· Include everyone who wants to work.

· Focus on Annual Meetings.

· Have a clear message. Develop communication skills.

· Don't sing to the converted

· Find natural allies within the Bank

· Use information, but respect and protect confidential sources

· Keep a broader view

· Involve the affected communities in the debates.

· Money talks.

· Use governments. Borrow political space.

· Combine a hard and soft approach, when needed.

· Understand the system.

· Present concrete demands, not just complaints.

· Always put everything down in writing.

The ongoing debate: should we work to "abolish" or "reform" the MDBs?

The debate is likely to continue for some more time, and is not likely to be permanently resolved even among those of us already involved in the ADB campaign. There are arguments of how realistic the prospects are on both sides.

In the course of our interventions, we have learned much in particular about how the system works. In the process, we have also realized how in the light of the rapidly changing global economy and institutions, we must find additional means and strategies for empowerment, especially when confronted by "faceless" institutions. And although we have shared some of our lessons here, we are all really just beginning.

Practical Tips for Negotiations with Bank Officials

Note: Corporate cultures are a world apart from NGOs. And Bank negotiations usually center not only on "ideas" but also on underlying issues of "power" relations. Here are some practical tips which I've found useful, based on personal experience. The intention here is not to teach "one-upmanship", but to help NGOs put their message across, and to get their desired responses in meeting.

Dress Up. It is part of corporate culture. Dressing up will help you avoid unnecessary hassles like being stopped by security personnel or being denied appointments by over-protective bank staff. Unless this is precisely the point you'd like to raise, access to officials should the least of your worries.

Set-up Appointments. Be kind to secretaries. They also serve as gatekeepers and confidants. Leave them your calling card or contact address and phone. The boss will likely forget; but secretaries won't. In any case, always be ready for "walk-in" meetings or "corridor-lobbying" Give room for spontaneity. Small informal meetings over lunch or coffee breaks are best, because you will have the officials undivided attention.

Come early for Appointments. It makes the strongest first impression. While waiting review your notes. Keep busy.

Talk about the right issue to the right person. Know who in the Bank is in charge of what, whom you should talk to. No use wasting each other's time. If the Bank official just sends his junior representative, or if you find out that you are talking to the wrong person, just state your message, cut your meeting short, and then leave.

Be clear about your specific purpose, and plan your message well. Are you: searching for information? Protesting a Bank project? Proposing an action plan?

Know how much meeting time you have in advance, and the official you are speaking to. If you are in a group, role-play who will speak first, and act-out what each one will say. Better still prepare a page-written summary of your message, which you can leave behind after the meeting.

Try to emphasize just one central message. Busy bank officials are likely to forget all the details. Introduce yourself and what/whom you represent. Clearly state your purpose, what your issues are, and what you would like the Bank to do.

Know your facts. Bank officials are likely to jump on the smallest wrong detail or statistic you give, and to wrestle you to the ground on this. If you make a mistake, quickly get back to your main message.

If you wish to present a set of documents, include a one-paged summary up-front. Try using colored/tinted paper. With so much paper lying around, busy officials have very short attention spans.

Try to start by saying something that the bank would like to hear, capture their attention. Then proceed to state your issues. For instance: you may start by acknowledging the Bank's effort towards reforms. After that, state your issues, and what you expect the Bank to do. Remember that there is always some initial hesitance on the part of the Bank officials to meet with NGOs.

Speak out loud and clear. Never mind if your English is bad. It is the confidence that counts. sound convinced and convincing. Do not be intimidated.

Present concrete demands, not just complaints. Always pin down your demands to specific follow-up actions, i.e. funding questions, target dates and deadlines, and measures of compliance. Explain how it is in the "best interest" of the Bank to act on the issues. If you can translate your issues into monetary terms, then you are likely to be more convincing. Money is the language that the bank understands. You can point out , for instance, how the Bank could have avoided the costs of a failed project if the Bank had only consulted with the affected local community, in the first place. Or else you could mention how a thoroughly-done EIA could save environmental costs and damage in the longer-run.

Know where to sit. The physical lay-out in a meeting suggests underlying power relations. A desk for instance, is a symbol of power; and so is an official surrounded by his assistants. Try to avoid sitting opposite an official who is positioned behind his desk. If there are options, choose to sit around a neutral table, or place chairs around in a circle.

Never take "no" for an answer. Often, Bank officials will put the blame on governments, and say that it is governments, not the Bank which decides on projects. Or else, they will say that they will "do their best". Don't take these answers at face-value. Always be ready to propose concrete workable solutions. Try not to leave a meeting without a clear next step.

Do not embarrass an official in front of his colleagues or superiors. Try to keep the broader view that Bank officials who are willing to meet with NGOs are also likely to be the more open ones. Other officials may not want to meet with NGOs at all.

Don't accept patronizing statements from Bank officials. Statements that suggests pity for NGOs and locally affected communities have no place in negotiations. You are seeking justice not sympathy.

Put things down in writing. Take notes of your meeting. Bureaucracies value paperwork. Bank officials invariably respond only to written arrangements, and to ignore verbal agreements. To them, what is not written does not exist at all. if the commitments are made through meetings or phone calls, take time to write this down, and send back to the official concerned, as proof of reminder that a commitment has been made. If a commitment is deemed very important, furnish a copy to his colleague or superior.

Toward the end of the meeting, briefly summarize your central message, thank the officials and shake hands. This will leave lasting impression that an agreement has been reached.

** Use of the male pronoun here for Bank officials is deliberate. Most Bank officials are men.

* Mr. Antonio B. Quizon was ANGOC's former Executive Director from 1990 to 1998. This article was written over several years of ANGOC's experience in dealing with MDBs to advocate social equity, people's participation and transparency.

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Cofinancing: Debt and Dependent Development

*By Chris Adams**

1.Introduction

This background briefing paper was prepared for distribution to NGOs and people's organizations in the lead up to the Asian Development Bank Annual General Meeting in Chiang Mai, Thailand in May 2000. The paper provides background information on the definition, scope, rationale and mechanisms for cofinancing which is largely written from the perspective of the ADB. The paper then develops a critique of the ADB's cofinancing operations with a particular focus on the implications of cofinancing for debt, institutional capacity, responsiveness to local needs, indigenous technologies, national development strategies and policy sovereignty.

2. Definition

The ADB is increasingly involved in mobilizing funds from other sources for Bank supported projects. This is known as "*cofinancing*". These funds usually come from bilateral and multilateral aid agencies (*official cofinancing*), export credit agencies and market institutions such as private banks (*commercial cofinancing*). These institutions are known collectively as "*cofinanciers*". The funds may be in the form of loans, grants or equity investment. Funds from different sources can be pooled with cofinanciers agreeing to follow the Bank's procurement guidelines (*joint funding*) or components of a project budget can be divided between cofinanciers who each follow their own procurement and polices and procedures (*parallel* funding). Co-financing from official sources is usually on grant or concessionary terms and is almost exclusively for Developing Member Countries (DMCs) eligible for Asian Development Fund (ADF) lending.

Rationale for Cofinancing

The ADB estimates that infrastructure investments required in the Asia Pacific region are of the order of $13 are unable or unwilling to raise funds on this scale from domestic sources. Official Development Assistance (ODA) is also in decline both in absolute terms and as a proportion of global capital flows. As a result, DMCs are increasingly reliant on private capital inflows to finance infrastructure development. However, private capital flows are unevenly distributed across the region, largely concentrated in middle income countries and in the larger low-income countries such as China and India. Even states with relatively high rates of domestic savings have been unable to translate this into long term investment capital because of weak domestic capital markets[6]. Heightened perceptions of risk have also reduced DMC's access to international capital markets in the aftermath of the financial and economic crises in East Asia in the last three years. As a result of DMC's uneven capacity to attract and manage development finance both from domestic and external sources, the ADB is taking a lead role in mobilizing financial resources to its DMCs through cofinancing and guarantee operations.

DMCs are not only reducing their role in the public financing of physical infrastructure but they are also reducing their role in the implementation and operation of infrastructure projects. This, from the perspective of the Bank, is necessary given the poor performance of the public sector in the development and management of large-scale infrastructure in the past[7]. The Bank is encouraging DMCs to create an enabling environment for private sector-led infrastructure development particularly through public-private partnerships; the commercialization, corporatization and eventual privatization of public utilities; changes in policy and regulatory frameworks which support private sector investment and support for build-operate-own (BOO) or build-operate-transfer (BOT) infrastructure projects.

The Bank's role in catalyzing private investment and in creating both an enabling environment for private sector-led development and specific opportunities for private sector investment in public infrastructure projects are key strategic thrusts in the Bank's private sector development strategy[8]. This aims to create an enabling environment for domestic and foreign private investors and shift the role of government from that of ownerproducer-provider of public goods to that of facilitator-regulator of private and public goods delivered primarily through the private sector.

5. Purpose

The Bank's support for cofinancing is not just about securing adequate funding for specific projects. The objectives of cofinancing according to the ADB are to:

a Assist DMCs and the private sector to secure debt financing for development projects with a particular focus on physical infrastructure.

b Use Bank funds as a catalyst for increasing official and commercial capital flows to DMCs.

c Assist DMCs gain sustained access to international capital markets and to establish and expand domestic capital markets.

6. ADB Strategies

The Bank aims to achieve these objectives through a variety of means:

6.1 Support for private sector involvement in infrastructure development:

More then 50% of the Bank's loans go to public infrastructure projects, particularly in power, communications, water supply and waste disposal. The Bank is increasingly involved in mobilizing official and commercial cofinancing for these projects. In particular, the Bank is promoting commercial cofinancing for the potentially profitable energy and telecommunications sectors. The Bank's role in mobilizing commercial cofinancing involves more then identifying and recruiting cofinanciers. In particular, the Bank offers incentives to investors through *credit enhancement*, particularly the provision of *guarantees* and through the *Complementary Financing Scheme* (see section 5.4 below).

The Bank is also promoting and supporting *Build-Operate-Own (BOO)* and *Build-Operate-Transfer (BOT)* schemes. Under these public-private partnership schemes, the private sector builds and operates infrastructure which would have traditionally been publicly funded and managed e.g. a power station or a toll-way. The private company or consortia is responsible for raising the finance for the project and for debt service. In BOT schemes, the private sector operates the infrastructure for an agreed period, usually between 15 and 30 years, and then transfers ownership to the government. The rights and responsibilities of the various parties involved are set out in a series of contracts and agreements. These allocate risks, costs (including social and environmental costs) and profits between the private and public sector proponents and financiers of the project. The ADB support for BOO/BOT projects includes policy and regulatory reform (see 5.2 below)); assistance with feasibility studies, project design and appraisal; drafting contract and licensing agreements; loans from its own sources and mobilizing commercial cofinancing from banks and export credit agencies.

6.2 Policy Reform

The Bank is assisting DMCs with formulating policies and regulations and with strengthening institutions that will facilitate foreign capital inflows and private sector development. This typically requires changes both at the macro level and in particular sectors. The Bank provides technical assistance grants or loans to support policy reform and/or includes changes in policy and regulatory frameworks as conditions of ADB project/sector loans. The Bank's overarching emphasis is on economic liberalization and allowing market forces to function more freely[9]. Key aspects of the macro-policy framework promoted by the Bank[10] are:

- Stable macro-economic management.
- A strong debt service capacity and acceptable sovereign credit rating
- Investment, trade and price liberalization.
- Reduced barriers to competition
- Flexible labor and land markets
- A credible and transparent legal framework, particularly in relation to land use rights, intellectual property rights, foreign investment rules, contracts and dispute resolution.
- Laws that allow ownership and operation of infrastructure by the private sector.
- Protection against nationalization and provision for the repatriation and free conversion of local currency profits and dividends.

Although sector specific policy reform will vary between sectors and over time and place, the underlying approach usually involves some or all of the following:

- Commercialization of government services, particularly the introduction of full cost recovery and user fees.
- Contracting out of public services.
- The unbundling, commercialization and eventual privatization of public utilities including water, electricity and gas.
- Establishment and strengthening of regulatory frameworks and independent regulators.
- Decentralization of fiscal and administrative functions of government departments.
- Enhanced private sector participation in the design, establishment and management of physical and social infrastructure.
- BOO/BOT policy statements and enhanced DMC capacity in the management of BOO/BOT projects.

6.3 Support for the development of domestic capital markets and enhanced access to international capital markets:

The Bank aims to increase DMC's access to capital not only through cofinancing but also through support for the development of domestic capital markets as well as for policy and regulatory changes that facilitate access to international capital. Key changes supported by the Bank include:

- Introduction of market-based interest rates.
- Strengthening of domestic securities markets and creation of bond markets.
- Reform of pension and insurance systems to develop sources of long-term capital
- Establishment and strengthening of domestic credit rating agencies.
- Recapitalization, commercialization and privatization of state-owned banking systems.
- Establishing adequate legal and institutional infrastructure for the development of capital markets.
- Building DMC capacity in capital market management
- Establishment of regional infrastructure funds.

6.4 Credit Enhancement

The private sector is often reluctant to invest in large-scale infrastructure projects, particularly in least developed countries such as in the Mekong region, because of high costs, long lead times, exchange rate volatility and inadequate legal frameworks[11] as well as the risks of expropriation, nationalization, arbitrary regulatory changes and economic downturn. In addition, infrastructure projects such as hydro-dams are regarded as high-risk, low return investments with a reputation for major cost overruns and delays due to environmental problems and public opposition[12].

Bank guarantees are designed to reduce the investor's exposure to risk. The Bank provides two types of guarantees for private investors: *partial credit guarantees* and *partial risk guarantees*[13]. The Bank's guarantees are irrevocable and unconditional.

A partial credit guarantee covers part of the interest payment and/or repayment of the principal irrespective of the cause of default i.e. lenders are guaranteed partial repayment of the principal and interest regardless of the problems with the project. Partial credit guarantees are provided for both public and private sector projects.

A partial risk guarantee covers specific risks for private sector projects. These risks are defined in advance and are usually referred to as *sovereign risks*. Typical risks include nationalization, currency convertibility and transferability, strikes and civil disturbances and non-performance by government of contractual obligations such as the non-delivery of inputs or non-payment for outputs.

In both cases, the Bank requires a counter-guarantee from the host government.

Lenders can also channel loans through the Bank's Complementary Financing Scheme. The loan to the project proponents is made in the Bank's name but the cofinanciers have no recourse to the Bank for debt service. The advantages to lenders are that these types of loans are free from withholding taxes, provisioning requirements and are covered against sovereign risk. The Bank also acts as a channel for loan administration, including disbursements and debt service payments.

6.5 Export Credit

The Bank assists project proponents with accessing export credit, particularly for large-scale infrastructure projects. Export credit is usually made available to an importer or buyer of exported goods by a commercial bank or syndicate of banks with the benefit of credit and/or political risk insurance from an Export Credit Agency (ECA) from the exporting country. Alternatively, ECAs may make loans themselves. For example, a private company building a hydropower dam in Laos may receive assistance from the ADB in accessing Norwegian export credit for the purchase of turbines from Norway.

ECAs are publicly funded government agencies that have emerged as key players in an increasingly commercialized aid and development industry. Examples of ECAs include the US Overseas Private Investment Corporation (OPIC) and the Australian Export Finance and Insurance Corporation. Internationally, lending by ECAs increased by 400% from US$26 billion to US$105 billion between 1988 and 1996[14]. ECAs may, through public subsidies, charge interest rates or insurance premiums that are below market rates. ECAs loans or insurance are usually guaranteed by governments.

7. A Critique of Cofinancing

Increasing debt: the ADB has lent $82 billion dollars to DMCs between 1966 and 1999 from its own sources on either concessionary or non-concessionary terms. In addition, the ADB has mobilized another $30 billion in cofinancing over the same period[15]. At least $48 billion of the ADB's own loans is outstanding, almost 6% of the Asia Pacific region's total external debt of $808 billion in 1997. The total external debt of developing countries now exceeds two trillion dollars.[16] The escalating dependence of developing countries on debt-financed development has not only resulted in increasing debt servicing requirements (see below). It has also contributed to:

a) The neglect of domestic savings as a source of development finance, particularly in countries where increasing and mobilizing domestic savings for development finance would require the redistribution of productive assets and the institutionalization of progressive tax regimes, both inimical to highly centralized states captured by powerful industrial, military or land owning interests. In such instances, continued access to aid has reduced the domestic impetus for political, economic and social reform.
b) an escalation of export-orientated – and frequently unsustainable - resource extraction to meet debt servicing requirements
c) a reorientation of agriculture from meeting local needs to production for export in highly skewed regional and global markets
d) An increased dependence on imported, capital intensive technologies as a consequence of tied aid.
e) An increased dependence on and influence of international financial institutions, particularly through the imposition of debt-induced structural adjustment programs and the shift to policy-based lending by the MDBs.

Increasing debt servicing: the ADB is increasing the proportion of commercial relative to official cofinancing and increasing its role in non-concessionary lending overall. This is because of:

a) The decline in global ODA both in absolute terms and as a proportion of total capital flows. ODA declined from $50.6 billion in 1990 to $49.8 billion in 1997. In contrast, private capital flows increased from US$43.6 billion in 1990 to US$252 billion in 1997. ODA made up 15.3% whilst private capital flows made up 77.7% of total net resource flows from DAC member countries and multilateral agencies to developing counties in 1997.[17] This shift threatened to undermine the *raison d'etre* and influence of the MDBs if they continued to rely predominantly on concessional financing. As a result, MDBs, including the ADB, have increasingly focused on mobilizing non-concessionary capital and creating "an enabling environment for the private sector", particularly through the provision of policy advice and/or the imposition of loan conditionalities which focus on economic liberalization, privatization and deregulation.
b) The scale of the ADB's emergency assistance for crisis-affected countries has significantly reduced the Bank's Ordinary Capital Resources and forced the Bank to increase its interest rates and other charges on OCR loans as of January 2000. This will also reduce the amount of net income from OCR lending which can be transferred to the Asian Development Fund (ADF)[18].
c) Some bilateral donors have privately been highly critical of the performance of the ADB in general and the ADF in particular. Concerns include the low level of investment in social sectors, poor coordination with other donors, the highly centralized nature of Bank operations, weak quality control and evaluation and inadequate performance-based criteria for ADF resource allocations. This crisis of legitimacy is leading to increased scrutiny of the ADB by bilateral donors and is frustrating the ADB's attempts to quickly finalize negotiations for ADF VIII[19].

This shift from concessionary to non-concessionary lending will have a particular impact on the low-income countries in the Asia Pacific region. These countries have little or no access to international capital markets and will continue to rely on concessionary lending such as that provided by the ADF. The decline in concessionary lending will reinforce the existing inequitable distribution of capital flows between middle-income and low-income countries in the region.[20] This shift will add to debt servicing requirements, particularly in countries such as Indonesia, Thailand, Laos, Vietnam, Mongolia, Bangladesh, Papua New Guinea, India and Pakistan that already have relatively high debt to export ratios in 1997.[21] Taken together with reductions in government revenue and the decline in ODA, debt servicing has and will result in cuts in government outlays for basic social services and basic infrastructure.

Inappropriate development model: the increasing emphasis on commercial cofinancing and non-concessionary lending is likely to reinforce both the Bank's existing emphasis on "bankable" infrastructure projects, particularly those which generate hard currency receipts and, in more general terms, the export-orientated, capital and resource intensive development models that have traditionally been supported by the MDBs and their bilateral backers.

Co-financing will continue to be used to support large-scale infrastructure projects that have resulted in the enclosure and commodification of land and other natural resources, the disruption of local resource management regimes, environmental degradation, declining food security and the large-scale displacement of rural and urban populations.

Large-scale infrastructure projects rely heavily on external financing, technology, knowledge and expertise which reinforce forms of dependant development, particularly in the smaller DMCs. Similar projects and technologies are often no longer acceptable in developed countries due to stringent regulation, technological innovation, diminishing returns from a degraded resource base, higher costs and increased resistance from citizen groups. As a result, bilateral and multilateral agencies have supported the aggressive push by resource and infrastructure companies into developing countries in search of new markets and investment sites. Co-financing is often tied to sourcing equipment and expertise from these companies or from a list of preferred contractors which drives up project costs and leads to weak socio-cultural and political analysis during the project design and appraisal processes. Consultants engaged to undertake pre-project feasibility and social and environmental impact assessments are often closely linked to project proponents, which precludes objectivity.

This combination of aggressive marketing, tied financing, vested interests and imported technologies militate against participatory approaches to project planning which are responsive to local needs, incorporate indigenous technologies and which are consistent with or contribute to building institutional capacity at the sub-national and national level.

Reducing national sovereignty in macro-economic and social policy and planning: The use of Bank guarantees and contract conditions attached to cofinancing operations have significant implications for national sovereignty. The conditions frequently pre-empt established processes for regulatory or policy change at the national level or are used as a catalyst for such changes. The conditions are often not made public because they are subject to commercial-in-confidence provisions. In addition, agreements may only be judicable in third country courts.[22] This reinforces the lack of accountability and transparency that often characterizes negotiations and dispute resolution in relation to large-scale infrastructure projects.

The scale, complexity and cost of large-scale infrastructure projects invariably distort national development priorities and the allocation of human and financial resources in smaller DMCs. Similarly, the doctrinaire emphasis on liberalization, privatization and deregulation that informs the Bank's governance and private sector strategies and which will in turn frame the operationalization of the Bank's new poverty reduction strategy and sectoral strategies severely prescribe the range of policy options open to national governments.

Reduced capacity of governments to deliver accessible, affordable and relevant social and physical infrastructure: the prevailing emphasis on private sector delivery of large scale physical – and increasingly social – infrastructure through the contracting out of government services and the privatization of public utilities has led to a loss of institutional commitment to and expertise in the establishment and delivery of physical and social infrastructure. This is of particular concern in relation to the delivery of basic social services and basic infrastructure particularly in low-income countries and in poorer rural areas that are unlikely to attract private investment. At the same time, the skills, experience, regulatory frameworks and institutions necessary to manage privatized services are weak or non-existent. This is of particular concern in countries where the countervailing power of civil society organizations and democratic institutions is weak or non-existent.

The socialization of risks: the credit and risk guarantees provided by the ADB and export credit agencies to private sector actors are backed by national governments using tax payer funds. This protects private sector actors – and the ADB itself - from market discipline. In addition, ADB guarantees typically require a counter-guarantee that shifts the burden of risk to the host government. Public-private partnership contracts typically accentuate this transfer of risk from the private sector to the public sector, particularly through externalizing social and environmental risks but also where possible shifting market risk to public actors as well. Contract conditions may include shifting responsibility for social and environmental impact mitigation to host governments, limiting a private company's liability for compensation, fixing the price and quantity of project outputs to be purchased by state utilities[23] and prioritizing the distribution of revenues, typically privileging private companies and lenders ahead of host governments and shareholders.

8. Summary

In summary, the increasing emphasis on commercial cofinancing of development projects through multilateral institutions such as the ADB militates against participatory approaches to development which are primarily financed through domestic sources, which are responsive to local needs, which incorporate local technologies and expertise and which are consistent with institutional capacity at the national and sub-national level. Instead, increasing cofinancing is likely to increase indebtedness, reinforce inappropriate development models, enhance dependency, reduce transparency and accountability and reduce institutional capacity, all of which will lead to a further deterioration in human development outcomes, particularly in the smaller developing countries in the region.

** Chris Adams is a Visiting Researcher at Focus on the Global South. He is currently on leave from Community Aid Abroad – Oxfam Australia.*

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12 The Theun-Hinboun Public-Private Partnership: A Critique of the ADB's model Hydropower Venture in Lao PDR, Paper # 3, Power Sector Reform, Probe International, pp. 1-2.

13 Op cit, ADB 1999, pp. 21-22

14 Export Credit Agencies, AIDWATCH Newsletter, July 1999, p. 1

15 ADB Annual Report 1999.

16 Human Development Report 1999, UNDP.

17 Financing Development: Key Issues for the South, South Center, 1999, p. 16.

18 The ADB transferred $230 million of unallocated net income from OCR to the ADF in 1997.

19 The ADF is replenished by donors on average once every four years. The ADF has been replenished six times since it was established in 1973. The last replenishment (ADF VII) runs from 1997 to 2000. Negotiations are now underway for the seventh replenishment which will establish ADF VIII.

20 Twelve countries account for more then 80% of private capital flows to developing countries, particularly Argentina, Brazil, China, Indonesia, Malaysia and Mexico.

21 World Development Report 1998/99, p. 230

22 The shareholders' agreement for the Theun-Hinboun Hydropower project in Lao PDR requires disputes to be submitted to arbitration in Singapore under the UN Commission on International Trade Law. *The Theun-Hinboun Public-Private Partnership: A Critique of the ADB's model Hydropower Venture in Lao PDR*, Paper # 3, Power Sector Reform, Probe International, p. 4.

23 For example, the Electricity Generating Authority of Thailand (EGAT) is bound to purchase a fixed quantity of power at a fixed price from the Theun-Hinboun Power Company for a 25 year period, regardless of need and fluctuations in the market price of an increasingly privatized power industry.