Profiting from Poverty

The ADB, Private Sector and Development in Asia

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The Emperor's New Clothes
The Asian Development Bank's Poverty Reduction Strategy

*By Shalmali Guttal**

More than eighteen months ago, the Asian Development Bank (ADB) publicly declared poverty reduction to be its overarching goal and committed that from then on, all ADB programmes – whether grants, loans or technical assistance – would be poverty focussed. The ADB paraded this committment across the region, much like the Emperor in the folk tale who paraded through the streets of his kingdom to show the public his new clothes. All went well until a child, with both clarity and innocence, pointed out that the Emperor had *no* clothes on, let alone new clothes. In a similar vein, many across the Asia-Pacific region-call them critics, anti-globalisers, protestors, or even children – are asking, *what and where* is the ADB's poverty reduction strategy?

Answers to these questions are elusive. The institution has tried hard to use poverty language to spin a new image for itself. ADB management and staff are vehement in their insistence that the institution is changing and that poverty reduction is at the heart of all their programmes. However, experience from country and regional programme levels contradicts this rhetoric as the ADB's loan portfolios and project priorities show little success in addressing the diverse needs of those identified as "poor."

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What is clear though is that the poverty reduction strategy has been enormously beneficial to the ADB in shoring up its own financial resources. The Asian Development Fund (ADF) – the concessionary financing arm of the ADB that many staff call "cheap money" – has increased significantly. By the end of the year 2000, the ADF VIII replenishment was the highest ever in ADF history. Financing for "poverty focussed" technical assistance grants has also increased. For example, the new Spanish Cooperation Fund for Technical Assistance will provide untied money for project preparation, advisory services and project implementation. Japan and Europe have also contributed additional resources into special anti-poverty programmes, giving the institution much more capital to play around with. Notable among these is the Japan Fund for poverty reduction (initial contribution, US $ 90 million) through which, the ADB apparently finances projects that countries would not borrow for, such as children's shelters, social development activities, etc.

Mired in the past

According to a senior ADB staff person in the poverty reduction unit, the centrality of poverty reduction in the ADB's operations is demonstrated by changes in the institution's staffing, programme priorities and overall approach. He claims that the fact that ADB staff can have open discussions with outsiders about the organisation, is itself evidence of positive change resulting from the poverty reduction strategy.[1] At the same time, it appears that the adoption of anti-poverty rhetoric is resulting in growing dissatisfaction within the organisation's ranks as its long-standing and rigid institutional structures prove to be increasingly incapable of accommodating new ideas.

For example, over the past year or so, the ADB has apparently hired sixteen "poverty experts" and re-deployed other staff with "poverty expertise" in key positions within the organisation. However, according to an ADB staff person, most of these "young and dynamic" recruits are located in project divisions rather than at country or programme levels. He identifies this as a serious strategic mistake since staff with poverty expertise are generally too junior to influence project designs, or country and regional programmes. Also, there are too few senior level "poverty experts" in the organisation, and majority of the senior positions and career opportunities continue to be dominated by those with hard technical qualifications.[2]

According to a source within the ADB, a major bottleneck in the ADB's poverty reduction strategy appears to be its own senior programme staff, majority of who are economists, have been in the institution for far too long, are convinced that they know all they need to about poverty and are reluctant to accept change or new ideas. Those in the infrastructure divisions are trying to change, "to become poverty focussed because they are always under pressure," whereas those in education, health and agriculture divisions "think they are already poverty oriented, but they are not." When put under pressure to "produce something on poverty," programme staff come up with "window dressing," which they then "ram down peoples' throats."

According to the same source, it has been equally difficult to change the mindset of country programme staff, who simply cannot understand why things must be done differently. In general, "the ADB is not great on personnel," and this shortcoming is evident in continuing conflict between a majority that favour the project approach (making loans) and a minority that advocate a programme approach (developing more overall analysis).

Problems with personnel aside, a more fundamental bottleneck in the ADB's poverty reduction strategy is the organisation's understanding of poverty itself. Although ADB staff insist that poverty analyses and poverty "partnership agreements" have become de-rigeur in many countries, they are hard put to show how these analyses result in responsive projects or programmes. The ADB's much proclaimed poverty analyses continue to be based on standard economic models that calculate poverty head count ratios, consumption and income trends, poverty gap and severity indices, and inequality co-efficients. While such arithmetic has its uses, it does not advance an understanding of the diverse forms of poverty that exist in the region, or of the different strategies by which families and communities combat adversity.

Karti Sandilya, the outgoing manager of the poverty reduction recently said, "We need to see what makes people poor, what keeps them poor, and what we can do to help them escape the poverty."[3] Clearly the ADB has not had much success with this. For the most part, the organisation continues to identify "the poor" as an undifferentiated mass of people who consume less than a certain amount of fixed goods in a given time. And the solution, (of course) lies in ensuring that they acquire the means to consume more of these fixed goods through (no need to hold your breath) pro-poor economic growth! There is, however, little analysis of the effects of broader policy environments, political and social structures, external economic and financial forces, or even the impacts of the ADB's own loan programmes on the incidence and perpetuation of poverty.

Participatory Poverty Assessments (PPAs) are gaining popularity with the ADB in order to show the "human face" of poverty. However, they do not inform the ADB's overall poverty analysis or country assistance strategies in any noticeable manner. In both Cambodia and the Lao PDR, PPAs were conducted by ADB appointed experts, ostensibly to get inputs "from the poor" towards developing "pro-poor" national programmes. In both countries, however, the ADB's Resident Representatives

were unable to provide even a single example of what the organisation would do different from previous years.
According to a senior ADB staff person in the poverty reduction unit, a positive example of how poverty analysis has influenced a country programme is the People's Republic of China. Now, after the poverty analyses have been conducted, *in addition* to financing super expressways, large-scale power projects and other large infrastructure, the ADB is *also* providing loans for rural roads, de-centralised power and social protection.[4]

The heart of the institution

"The voices of the poor moved many of us, specially those of us who have soft hearts," said the ADB's Resident Representative in Cambodia about the PPA process recently carried out in the country.[5] That may be so, but an unflagging support for markets as the principle avenue of development remains at the heart of the ADB's poverty reduction strategy.

As a senior ADB staff person in the poverty reduction unit put it, " market means competition, so better ideas win." He later also admitted that markets exploit poor people and that "land and capital markets are distorted, only two percent of total credits go to poor people." And so, "ADB wants a real market that works for the poor, and not a distorted market that works for the rich."[6] It should be noted though that the ADB's approach to making the market work for the poor is not through support for domestic regulation and protection, or through ensuring adequate opportunities, access and services for the poor, but rather, by expanding the private sector's share in physical, financial and social infrastructure.

For example, in the Lao PDR, an important question for the ADB appears to be "How do you focus on poverty reduction without skewing investments?"[7] According to the ADB Resident Representative, poverty reduction requires grant assistance in social sectors, where there are already other donors. Instead, the ADB is looking at "hard sectors" where it can support investment for increased revenues. Likely sectors are: hydro-power development for export, rural electrification, road networks, and basic infrastructure in civil aviation to further open up areas for tourism, more private investments and services. All these sectors necessitate private sector involvement, with the ADB pushing for public-private "partnerships" with the Lao Government as equity holder.

According to the Resident Representative, the Lao Government has no choice regarding private sector involvement if it wants to meet its development targets. The ADB's strategy in the Lao PDR is to boost private sector involvement in service delivery (including financial and social services) as well as support private sector development in general. The ADB feels that it has an "important advisory and supportive role" in expanding private sector involvement in such diverse areas as banking, hydropower, mining, forest plantations and value-added agricultural production. How would this reduce poverty? His response: "without private sector involvement, rural people will be subjected to "ordinary standards of living;" and also, private sector development will "reduce economic pressures on the government while increasing their capacity".[8]

This approach is also mirrored in the ADB's regional approach to poverty reduction. A region-wide project aimed at poverty reduction in remote watersheds in the Greater Mekong Subregion clearly emphasises the importance of private sector led, bankable investment projects in remote watershed areas in the Lao PDR, Cambodia, Yunan, Vietnam and Myanmar, all of which are rich in natural resources. A recent project report states, "In particular, ADB will give greater emphasis to development of agro-climatic areas that have been bypassed by green revolution technology. ...Likewise, ADB will vigorously seek new ways to promote private sector activity in rural areas."[9] The report identifies a number of activities in areas such as irrigation, health, water, agricultural inputs, roads and market infrastructure, all of which are identified as bankable investment projects for private sector providers with ADB financing.

The ADB's private sector development strategy is a window for undisciplined foreign investment that does not necessarily respond to national trade and industry priorities. The strategy does little to develop robust and internationally competitive domestic private sectors among its poorer borrowing countries. This is especially the case among smaller countries in transition from centrally planned to free market economies, and those that have undergone protracted periods of violent conflict. In many of these countries the necessary expertise for key revenue generating sectors such as energy, industry, mining and plantations is often not available nationally. Private sector involvement in these sectors, more often than not, means opening up the country to foreign companies, who bring with them their own experts, personnel, know-how, technology and demands. Domestic private sector actors usually serve as local gateways for external/foreign investors, with little guarantee that these investments will contribute meaningfully towards developing the technical, institutional and financial capacities required for a strong, domestic private sector.

Going further afield, the ADB has committed US $ 16 billion in investments and US $ 340 million in technical assistance grants towards the South Asia Growth Quadrangle (SAGQ), which includes Bangladesh, Bhutan, India and Nepal.[10] The ADB investment programme for the SAGQ will involve an "economic corridor" around the four countries, which includes a combination of highways, railroads and other related infrastructure for ports, toll-ways, etc. The SAGQ is the private sector's delight with the sub-region's "huge force of hardworking and disciplined workers at relatively' low wages."

The ADB is projecting the South Asia sub-region as "the largest concentration of poor people in the world," or, about 500 million out of 900 million persons living in poverty. In the name of poverty reduction in the various countries of the sub-region (including Pakistan and Sri Lanka), the ADB is already supporting physical infrastructure in transportation, energy, water resources utilisation and natural resource extraction (with significant private sector involvement in construction, operation and management); financial sector reforms; privatisation of power and water utilities, and; increasing the proportion of private sector providers and actors through overall restructuring and divestment of public enterprises.

Among the newly independent countries of Central Asia, the ADB has supported the Central Asian Regional Economic Cooperation (CAREC) programme, as well as provided individual in-country support for broad based economic and institutional reforms that encourage private sector development. In October, 2000, the ADB approved a loan for US $ 70 million to rehabilitate part of the old "Silk Road" that connects Europe to the People's Republic of China. In order to encourage private sector involvement, the project will establish a pool of equipment that private sector companies can rent out for road construction and maintenance. In November, 2000, the ADB provided a US $ 45 million loan to Kazakhstan to restructure already privatised farms. New reforms would include agricultural taxation, water fees, new agricultural inputs and encouragement of private investment in agriculture.[11]

The Pacific Islands too have their share of the ADB's "pro-poor," market development efforts. In March 2001, the ADB approved a new, Pacific strategy that focuses on streamlining the countries' public sectors and increasing private investment. Across the Pacific islands, the strategy would include differing levels of policy and public sector reforms, governance activities (which generally involve the restructuring of legal and administrative sectors) and boosting private investment in social and physical infrastructure.[12]

Despite this continuing flurry of private sector activity, a question still remains unanswered: how do these projects create markets that work for the poor, or reduce poverty? The answer is not quite that simple after all. An ADB staff person in the poverty reduction unit admitted that "the ADB still needs to come up with creative ideas of how the private sector and poverty reduction go together," and also about "how the private sector can be used to work with the public sector."[13]

The second point is more easily explained through an example of ADB supported public-private partnership for oil exploration in Azerbaijistan. The private company gets the funds for exploration, while the government is responsible for environmental clean up. Why does the polluter not pay? Well, in this case, according to the ADB, the polluter was the government, although under the former Soviet Union. And what about new pollution through exploration and resource extraction? Well, environmental clean up and protection is public responsibility after all so the government must take that on.

So how exactly does this public-private partnership help the poor? Using the example of water privatisation in the Philippines an ADB staff person explained that the private sector goes to rich areas for profit, while the public sector (with an ADB loan) goes to the poor areas.

The big unknown

A key component of the ADB's poverty reduction strategy and private sector development efforts is good governance. Good governance includes a range of issues such as corruption, accountability, compliance to operational guidelines for the environment, resettlement and indigenous peoples, etc. But like a number of other labels that the organisation has recently adopted, putting good governance into practice remains a big unknown among ADB staff and management.

An ADB source admitted that the organisation has "not done much about governance in the past" and "has no interest in these issues." At the same time, it needs to have governance in its strategy. According to the same source, the political aspects of governance such as human rights are definitely out. Instead the ADB is concentrating on the "functional aspects of governance," for example, audit systems, legal and administrative systems, adherence to environmental and social policies, and misuse of project funds. But the organisation has not had much success with these either, going by examples of ADB supported projects that violate both existing national laws as well as its own guidelines.

The US $ 750 million Samut Prakarn Wastewater Treatment Project in Thailand is one of the more recent and better known examples of malpractice, corruption and poor compliance. Local residents have demonstrated that no environmental and social impact assessments, and no public consultations were conducted before project construction began. The site is expected to produce 50 tons of sludge everyday, which would flow into the sea and destroy local fisheries and mussel farming, resulting in a serious decline in living standards of people in and around the area. Equally serious are charges that the land for the wastewater plant was acquired by less than legal means. Despite complaints filed by local residents to the ADB's senior management and requests by Thai senators to the ADB to review the project, the ADB has steadfastly defended the project and claimed that local residents' charges are unfounded. Instead, the ADB has speeded up construction on the project and claims that since more than 40 percent of construction has been completed, the project cannot be halted.[14]

Another example of poor operations and governance is the Theun Hinboun Hydroelectric project in the Lao PDR, which has, from its very inception, been characterised by poor decision making processes, inadequate environmental impact assessments, conflicts of interest, and a general refusal on the part of the ADB to accept the project's potential for severe socio-economic impacts. In late 1998, following overwhelming evidence gathered by outside sources and the ADB's own consultants, the organisation finally acknowledged that the project was seriously harming local residents and promised timely and adequate compensation to negatively affected families. What followed, however, were more delays and procrastination, and the recently announced compensation plan is a shocking example of negligence and irresponsibility. Three quarters of the amount earmarked for the compensation package will be spent on further studies, assessments and monitoring, which will no doubt be conducted by the ADB's usual coterie of consultants. The plan fails to provide direct compensation for loss of livelihoods and instead proposes so-called development activities with benefits that are neither guaranteed nor timely. Only US $ 137,500 (in a package that totals more than US $ 3 million) has been allocated as direct compensation and that too, for the purchase of water pumps for gardens![15]

Both the Samut Prakarn and the Theun Hinboun projects contradict the ADB's lending guidelines that local citizens should not be left worse off by ADB financed projects. They also contradict some of the key operational principles in its new environment policy (currently being drafted), for example, "No significant, unmitigated environmental harm," and "Costs of environmental measures to take into account benefits of mitigation." And finally, both projects demand closer scrutiny of decision-making processes, and the allocation and use of funds. So much for anti-corruption, compliance with environmental guidelines and reducing poverty!

Most ADB old-timers, however, are insistent that ADB operational guidelines are good, thorough and generally adhered to. According to a senior ADB staff person, the ADB's policies on environment and resettlement are "too progressive" and the main problem is that they "water down the real issue of poverty."[16]

The ADB is generally quick to point out that actual decision-making and implementation in most controversial projects is in the hands of project implementers and national governments, and not the direct responsibility of the organisation itself. At the same time, however, the organisation continues to finance projects and programmes that are poorly conceived, badly managed, undemocratic, and violate even its own (minimal) guidelines.

The ADB's governance efforts are directed primarily at reforming government policies and structures so that they provide "enabling environments" for private sector development and greater involvement of market actors in all manner of services, from health and education to banks, roads and power plants. In fact, the organisation has introduced new performance criteria by which those countries that perform well on poverty and governance get more ADF (concessional) financing and those that perform poorly get less.

Not surprisingly, the ADB has not developed any procedures by which to assess its own governance, accountability and internal decision making processes for projects and programmes. It has shown no interest in examining conflicts of interest arising from its simultaneous roles as policy "advisor", project financier and credit provider. A close look at its project contracts shows a relatively small group of private companies and consultants, who move from project to project, country to country. But no need to worry. As a senior ADB staff put it "the poverty reduction strategy helps to create more open dialogue."[17]

Doing the right thing

The ADB seems to see little contradiction between its operations and its stated poverty reduction goals. In the eyes of senior ADB staff the ADB is a development institution that makes loans and given today's economic climate, it is simply not possible for the ADB to function as a grant making institution. "No-one is giving grants anymore, but with the poverty reduction strategy, we are getting lots of resources. Our problem is to do the right thing."[18] According to the same staff, if the ADB changes from a loan making to a grant making institution, its resources will go down from $ 6 billion a year to just about $ 2-3 billion a year. But at the same time, it must maintain its anti-poverty focus in order to keep the cash coming in.

The same staff person also pointed out that a significant shift from loan making to grant making is not in the hands of the management, but must be taken up with the Japanese, Americans and Europeans who finance the ADB. Instead, the main questions the ADB should be asking itself are: 1) "Are we making loans that help poor people and that bring down the incidence of poverty," and; 2) "Do we have the right analysis at the country programme level to do the right thing?"[19]

Many ADB staff seem confident that, they are doing the right things and making the right loans. In the run-up to the 34th Annual General Meeting to be held in Honolulu, senior management have made numerous statements in the media about how the ADB is a shy, well-intentioned and misunderstood group with the goal of stamping out poverty, unlike the picture painted by its critics. When addressing a gathering of Honolulu City Council Members, Bindu Lohani from the ADB said, " If you really travel in the countries where we work, you'll have a totally different perception."[20]

In the eyes of ADB staff, the poverty reduction strategy appears to have influenced the institution in the way it relates to the outside world as well. Two years ago, ADB staff could not openly talk with press and NGOs, but now, because of the poverty reduction strategy, the organisation even has an NGO Centre managed and supervised by senior staff and management. The Office of External Relations (OER) too has changed the way it now deals with the media and other outsiders. In preparation for the upcoming Annual General Meeting, senior management and staff are doing a lot more media outreach than in previous years, and publicising their commitment to poverty reduction through workshops and panel discussions, most notably in Honolulu.

That said, senior ADB staff at country and regional levels are usually unable to explain how their respective programmes have been re-worked to reflect a poverty focus. Nor are they able to discuss how they will monitor their respective programmes for impacts on the decrease or increase in poverty. Most of them cannot even show clear links between the policy reforms they demand of borrowing countries and benefits for specific populations identified as poor. The default assumption remains that economic growth will in one way or another benefit the poor and if it is made "pro-poor" it will benefit the poor more than if it is "pro-rich."

Manila based staff say that they are currently in the process of developing a poverty impact instrument that is different from previous beneficiary assessment instruments. But for now, we have only the word of the ADB itself that it is doing the right thing.

Standing up to big brother

An important element in the ADB's new positioning as an anti-poverty institution is the assertion of its "Asian" identity, in contrast to its Big Brother, the World Bank. Senior ADB staff in country programmes as well as the Head Office in Manila claim that governments feel closer to the ADB [than to the World Bank] because the ADB is "an organisation with a heart." And also because, "the ADB does not push any particular ideology, but has the country's best interests at heart."[21] The World Bank, on the other hand, "puts up a structure that everyone must follow."[22]

As an example, a senior ADB staff person brought up a disagreement between the World Bank and the ADB regarding operations in Uzbekistan. Since the World Bank and the International Monetary Fund (IMF) decided to pull out of the country, they insisted that the ADB do so as well. But the ADB decided to stay on and broaden its portfolio. As a result, the ADB is now closer to the government of Uzbekistan and has developed better understanding and policy dialogue with them.

According to the same staff person, the Uzbekistan Government finds the World Bank too "Americanised" and "harsh," and resents the manner in which the World Bank "rams its ideas down their throats." In contrast, the ADB as an "Asian" institution has a "softer approach," and is incrementalist in its operations – it proceeds "step-by-step."

This conflict is particularly evident in the struggle for supremacy regarding poverty reduction strategies. According to an ADB source, World Bank staff "fly in with their experts, walk into the statistics departments and tell them what to do." This approach apparently resulted in the World Bank being thrown out of Uzbekistan. The ADB, on the other hand, located its staff within government research centres and within three months, it was able to produce a study on living standards. In Cambodia, the World Bank and the ADB are embroiled in a test of wills regarding which of their respective documents the Royal Cambodian Government should accept as the national poverty reduction strategy. Each claims that its own document is the better one in terms of national ownership, quality and participation.

Despite open denials of conflicts with the World Bank, senior ADB staff are extremely proud of the few acts of resistance that they have been able to mount against their Big Brother. All policy conditionalities and reforms in the Asia-Pacific region must be jointly discussed among the World Bank, the IMF, the ADB and the Japanese Government. Previously, the ADB had by and large toed the line of the Big Brother(s) from Washington DC. But now, with their new poverty reduction strategy, and a newfound energy provided by the Meltzer Commission Report, the institution feels confident of taking more independent positions.

Perhaps the ADB is too quick in being lulled into the false sense of security provided by its "Asian-ness." Growing, region-wide critiques of its operations, decision-making structures and projects show that one does not necessarily need another Meltzer Commission to challenge the institution's relevance and legitimacy.

What was that about poverty?

According to an ADB source, the ADB's adoption of the poverty reduction strategy was an accident. One fine day, based on his own personal interest, ADB President Tadao Chino said, "let's go poverty, and then it was out there."

Apparently, neither the ADB, nor the Japanese Ministry of Finance were prepared for this. But once President Chino's words were out there, both the ADB and the Japanese Ministry of Finance had to quickly follow through with it. And of course, all the donors were extremely happy as well and kept up the pressure on the ADB to develop a poverty reduction strategy. Within three months of the announcement, even the Japanese Bank for International Cooperation (JBIC) had a poverty reduction strategy – they copied the ADB's strategy.

The same ADB source happily declared, "President Chino threw a ball in the air and it was a good ball to put in the air; after all, who could be against poverty reduction?" But surely, the ADB is familiar with the laws of gravity—what goes up must come down. And the ball is coming down fast. Like the Emperor's new clothes, the ADB's poverty reduction strategy is proving itself to be an institutional delusion and people across the region are saying, "but look, the ADB has no poverty reduction strategy at all!"

[1] Telephone Discussion with Mr. Armin Bauer, ADB Manila office, April 19, 2001.
[2] Ibid.
[3] Asian Development Bank is Misunderstood, its Leaders Say, in the Honolulu Star Bulletin, Wednesday, March 21, 2001.
[4] Ibid.
[5] Meeting with Mr. Urooj Malik, Phnom Penh, March 19, 2001.
[6] Telephone Discussion with Mr. Armin Bauer, ADB Manila office, April 19, 2001.
[7] Meeting with Mr. Paul Turner, Vientiane, April 4, 2001.
[8] Ibid.
[9] Poverty Reduction and Environmental Management in Remote Greater Mekong Sub-region Watersheds, Phase II, Interim Report, Volume I: Project Progress and Summary of Findings, Draft, July 2000, Margules Poyry, in association with ANZDEC Limited, New Zealand and GFA-Agrar, Germany.
[10] Subregional Cooperation Galore in Asia-Pacific, Violeta Perez-Coral, NGO Forum on The ADB, April, 2001.
[11] Ibid.
[12] Ibid.
[13] Telephone Discussion with Mr. Armin Bauer, ADB Manila office, April 19, 2001.
[14] For more information about the project, see for example, papers and updates by the Bank Information Centre (BIC) in Washington DC, USA, and by TERRA (Towards Ecological Recovery and Regional Alliance) in Bangkok, Thailand. Contact information for representatives from affected communities in Klong Dan can also be obtained from these organisations.
[15] Theun Hinboun Update: A Review of the Theun-Hinboun Power Company's Mitigation and Compensation Programme, Bruce Shoemaker, December, 2000.
[16] Telephone Discussion with Mr. Armin Bauer, ADB Manila office, April 19, 2001.
[17] Ibid.
[18] Ibid.
[19] Ibid.
[20] Asian Development Bank is Misunderstood, its Leaders Say, in the Honolulu Star Bulletin, Wednesday, March 21, 2001
[21] Meeting with Mr. Paul Turner, Vientiane, April 4, 2001.
[22] Telephone Discussion with Mr. Armin Bauer, ADB Manila office, April 19, 2001.

The Asian Development Bank, Capital Flows and the Privatization of Infrastructure Projects in the South

*By Chris Adams**

Introduction

The development of infrastructure in Asia has traditionally been initiated, managed and owned by the state. Governments have financed infrastructure development by using tax revenues or by borrowing money from commercial banks and international financial institutions such as the Asian Development Bank (ADB). Whilst the private sector has often been sub-contracted to carry out construction work, governments have retained control over the resulting assets and revenue stream and have borne virtually all project costs and associated risks.[1]

The demand for infrastructure investment in the region has increased dramatically over the last two decades in response to rapid industrialization and urbanization in Southeast Asia and the gradual transition from centrally planned to market economies in the Mekong sub-region. Governments are no longer able to finance infrastructure development predominantly from the public purse. Governments are also reducing their involvement in the design, construction and management of infrastructure in response to the prevailing emphasis on privatization and private sector development in both development discourse and in the policy prescriptions of multilateral agencies such as the World Bank (WB) and the International Monetary Fund (IMF).

Despite large increases in private capital flows to developing countries over the last decade, the private sector remains reluctant to invest in infrastructure projects in emerging market economies such as the Lao PDR, Cambodia and Vietnam because of the political and commercial risks involved. These include: long lead times for project feasibility, design and approval processes; large up-front costs; frequent cost overruns and construction delays; a high frequency of disputes;[2] restricted and relatively inflexible markets for project outputs; problems with currency exchange and profit repatriation; vulnerability to regulatory and policy change and weak legal and dispute resolution systems. As a result, only seven per cent of infrastructure spending in Southeast and East Asia in 1995 was financed from commercial sources – predominantly Japanese banks - and most of this was concentrated in middle income countries. In post crisis Asia, private capital flows are being used to fund mergers and acquisitions by

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transnational corporations or to restructure external debt rather then invest in new plant and equipment.

The multilateral development banks (MDBs) have tried to increase the level of private sector involvement in infrastructure projects in emerging market economies through the extensive promotion of turn-key contracts and build-own-transfer (BOT) projects. MDBs have tried to reduce the risks faced by private investors in BOT projects in a number of ways. These include: contributing their own funds to the project; helping investors mobilize finance from other sources such as export credit agencies and commercial banks; providing political risk insurance and by extending partial credit guarantees. In addition, the MDBs have used their substantial political leverage over governments to create a policy, regulatory and institutional environment that favors private sector interests overall.

Risks and the contingent liabilities in BOT projects are rarely, if ever, removed however. They are more often reallocated between the various stakeholders involved in the project. Institutional capacity, ideology and economic and political power – rather then the public good - are often the key determining factors in this zero sum game. Reducing the risk to private sector investors and their multilateral supporters typically means increasing the risk to borrowing governments, taxpayers, consumers and communities affected by the development of large-scale infrastructure.

This expanded support from the MDBs to the private sector is part of a larger reconfiguration of their role that began in the early 1990s, initially with the WB. In response to declining donor support and the dramatic increase in private capital flows, the WB refocused on providing strategic policy advice and mobilizing private capital flows to developing countries. Both are now done in the name of poverty reduction. However, the macro-economic framework for the ostensibly nationally owned but WB and IMF Board approved poverty reduction strategies remains largely unchanged however. Most poverty strategies retain the neo-liberal emphasis on privatization, deregulation and liberalization that characterized WB/IMF structural adjustment programs and emergency lending in the 1980s and 1990s.

Other bilateral and multilateral agencies are now following suit. The ADB has recently adopted poverty reduction as its overarching objective. It has also adopted a private sector policy and strategy that entreats Bank staff "to think private sector at all times". Like the World Bank, the ADB has expanded its role in strategic policy advice, increased program as opposed to project lending and increased its involvement in privatization programs and BOT projects.

This articles examines the changing role of the ADB in infrastructure provision with a particular focus on trends in project finance and its support for build-operate-transfer schemes such as the Theun-Hinboun hydropower project in the Lao PDR. In particular it examines the reallocation of risks, contingent liabilities – and profits – associated with the transition from public to private sector provision of infrastructure.

The Asian Development Bank and project finance

Since it was founded in 1966, the ADB has approved $82 million in loans to its developing member countries (DMCs). Project lending grew rapidly in the 1980s, from approximately $1 billion per annum in the late 1970s to $5 billion in 1992. Since then, lending has stagnated with the exception of a spike in 1997 due to unprecedented lending to crisis-affected countries in Southeast Asia.

The ADB's ordinary capital resources (OCR) are raised through bond issues on global capital markets using the callable component of member government subscriptions as collateral. The Asian Development Fund (ADF) is replenished approximately every four years by grants from member governments and by an annual transfer of the Bank's operating profits. The ADB is gradually increasing the proportion of OCR relative to ADF lending i.e. the proportion of non-concessional or hard loans relative to concessional or soft loans.

The ADB is also expanding its role in co-financing i.e. mobilizing funds from other sources for ADB supported projects. These funds usually come from bilateral and multilateral institutions, export credit agencies (ECAs) and private banks. Cofinancing is mostly used for traditional infrastructure projects, particularly in the "bankable" energy, transport, agribusiness and resource exploitation sectors. These three sectors account for 75% of the funds mobilized by the Bank using cofinancing arrangements between 1970 and 1998. Cofinancing has more then doubled over the last five years, increasing from $1.5 billion in 1994 to $3 billion in 1999, equivalent to 61% of the ADB's total lending in that year. The ADB is also gradually increasing the proportion of commercial co-financing relative to official co-financing. Commercial cofinancing exceeded official co-financing for the first time in 1998.

The increase in OCR relative to ADF lending and the increase in commercial relative to official cofinancing will have a particular impact on low-income countries that have little or no access to global capital markets and depend on soft loans for the provision of basic social infrastructure. It is also likely to reinforce an existing bias in the ADB towards "bankable" projects i.e. projects in the profitable energy, telecommunications and transport sub-sectors that generate hard currency receipts which can be used to repay ADB hard loans and other commercial cofinancing. In more general terms, it will reinforce the export orientated, capital and resource intensive development model that has been traditionally supported by the MDBs and their bilateral and corporate backers.

To add salt to the wound, the cost of ADB loans has increased significantly over the last two years. The scale of the Bank's emergency assistance to crisis-affected countries in 1997 significantly weakened its financial position. In response, borrowing countries asked donor countries to increase their capital subscriptions and replenish the ADF. Whilst agreement was reached on the replenishment of the ADF in late 2000, an increase in OCR now appears unlikely because of opposition from the US and European member countries. Donors also forced the ADB to increase its service charges and interest rates, reduce the term of loans to crisis-affected countries and temporarily halt the transfer of Bank operating profits to the ADF in order to shore up the Bank's financial position. This effectively transferred the burden of refinancing the ADB from donor to borrower governments.

Like global capital flows, ADB lending is geographically skewed in favor of larger DMCs. Just 8 of the 39 DMCs account for $69.1 billion of the $82 billion lent by the ADB since its founding in 1966. These include Indonesia, Pakistan, Philippines and Thailand, all of which were key strategic allies of the US during the Cold War and/or were important sources of natural resources and primary commodities for Japan during the 1960s and 1970s, and investment sites for Japanese industry in the 1980s and 1990s.

Large-scale lending to non-aligned or former Soviet bloc countries such as China, India and Vietnam has either been a relatively recent phenomenon or has been periodically suspended due to US opposition. Only one of the top eight recipients – Bangladesh - is classified as a Least Developing Country (LDC). The other 12 LDCs which are members of the ADB have received less then 3% of total ADB lending to date. This concentration is likely to be reinforced by the emphasis on non-concessionary lending, commercial co-financing and private-sector led development.

In summary, the key trends in ADB project financing over the last decade have been: a) an increase in the proportion of hard, relative to soft loans; b) an increase in cofinancing in both relative and absolute terms; c) an increase in the proportion of commercial cofinancing; d) an increase in the cost of both soft and hard loans; e) an expanded geographic focus albeit from a very narrow base determined largely by geopolitical and commercial interests.

The ADB and neoliberalism

These trends are complemented by the shift in bank lending from project to program loans, the unprecedented participation in crisis lending in 1997 and increasing policy coherence and collaboration – at least at senior management level - between the WB, IMF, regional development banks and bilateral donors. As a result, the ADB is now playing a much greater role in macro-economic and sectoral policy formulation and is expanding the scope and number of conditions attached to Bank lending. Not only is Bank lending becoming more expensive, it comes with more strings attached.

Despite a brief flirtation with an Asian, particularly Japanese development model, the ADB has largely fallen into line with the Anglo-American neo-liberal orthodoxy that has held sway in the WB and the IMF since the early 1980s. Japan's preference for project lending, investment in public infrastructure, protection for infant industries and a strong regulatory role for the state has given way to the US emphasis on private sector development, private capital flows as an alternative to ODA, a reduced role for the state, policy based lending and structural adjustment.

For example, attempts by the ADB to establish an Asian Monetary Fund that would have provided quick disbursing loan to crisis affected countries without the harsh conditions attached to IMF loans was blocked by the US. Similarly the proposed currency swap arrangements between central banks in the ASEAN Plus 3[3] grouping have only been allowed to proceed under IMF supervision.

These changes have occurred despite declining US financial contributions and protracted delays in payment. This reflects the preeminence given to the maintenance of the US relationship by Japan and the slow-down in the Japanese economy over the last decade, undermining the appeal of the Japanese model. It also reflects the high degree of integration between regional economies and the US economy, and lingering concerns held by smaller Asian states about a Japanese dominated ADB.

The transnational corporate sector has been a principal beneficiary of ADB lending since its was founded in 1966. To date, the ADB has financed contracts worth more then $54 billion from OCR and ADF sources combined. Thirty seven percent of contracts for goods, related services and civil works (GRSCW) have gone to companies from donor countries. Sixty nine percent of consulting contracts have gone to companies from donor countries, particularly from Japan, the US, Australia, Canada and Germany. Whilst the percentage of GRSCW contracts going to developed country companies has fallen over the last decade, the percentage of consulting contracts going to developed country companies has actually increased.

This is of particular concern because of the ADB's expanding involvement in macro-economic policy advice, public sector reform and the development of sector specific strategies and policies. Many of the consulting companies bidding for ADB contracts were established in the 1970s and 1980s in order to benefit from the ideologically driven processes of privatization and deregulation initiated by conservative governments in the US, the UK, Canada and New Zealand. This severely proscribes the range of policy alternatives offered to DMCs.

The ADB and the private sector

This pre-existing emphasis on the private sector in Bank lending has now been codified and institutionalized through the Bank's private sector strategy. This argues that "a strong and dynamic private sector is crucial to long-term, rapid economic growth, a necessary condition for sustained poverty reduction".[4] It also argues in favor of "creating the enabling environment for domestic and private foreign investors and shifting the role of government from owner-producer to facilitator-regulator".[5] The public provision of infrastructure is seen as inherently inefficient, returning low or negative yields on capital investment, resistant to technological or methodological innovation, providing low quality service and "crowding out" the private sector.

According to the ADB, the privatization of state-owned enterprises and/or the unbundling and corporatization of public utilities will improve efficiency, end cross-subsidization and reap windfall profits for the state that can – theoretically at least - be reallocated to social infrastructure and poverty reduction. The contracting out of government services will reduce the cost and enhance the scope and quality of service provision through enhanced competition and responsiveness to consumer demand. It will, in addition, stimulate the development of the private sector, boost private sector employment (replacing jobs lost in the public sector) and enhance GDP growth, a necessary precondition for poverty reduction.

The key strategic thrusts in the strategy are: a) supporting DMC governments in creating enabling conditions for business; b) generating business opportunities in ADB-financed public sector projects; c) catalyzing private investment through direct financing, credit enhancements and risk mitigation instruments.

Key components of the strategy include:

a) support for private sector involvement in infrastructure development particularly through: contracting out the design, construction, supply and management of public sector projects; supporting privatization programs; the provision of partial risk and partial credit guarantees; support for Build-Operate-Transfer schemes (BOT) schemes; and cofinancing including catalyzing investment from ECAs and commercial banks.

b) creating enabling conditions for private sector development through changes in macro-economic policy and sector approaches with a particular emphasis on: investment, trade and price liberalization; reduced barriers to competition; flexible land and labor markets; a credible and transparent legal framework, particularly in relation to contract law and private property rights; protection against nationalization; provisions for currency exchange and the repatriation of local currency profits; the commercialization of government services, particularly the introduction of full cost recovery and user fees; and the unbundling, commercialization and privatization of public utilities.

c) catalyzing private investments through: support for pilot projects with significant demonstration effects; equity investments; cofinancing; partial risk guarantees and partial credit guarantees.

The changing role of the ADB in the Mekong sub-region is illustrated through the following introduction to BOT projects and the accompanying case study on the Theun-Hinboun hydropower project in the Lao PDR.

BOT infrastructure projects

BOT projects have been promoted by the WB, ADB, IFC, ECAs, international financiers and specialist BOT project developers since the mid 1980s. In a typical BOT project, the project sponsor – usually a consortium of companies - is granted a concession by the state to design, finance, build and operate an infrastructure asset for a set period, usually between 25 and 55 years. During the concession period, the company is allowed to sell its production e.g. power from a hydropower plant at a rate high enough to repay debt over 10 to 15 years and to generate profit at an internal rate of return greater then the industry standard of 15%. At the end of the concession period, ownership of the asset is transferred to the state at no cost.

Proponents argue that BOT schemes introduce private sector efficiency and innovation into the design, financing, construction and management of infrastructure projects; introduce competition through competitive tendering and allow governments to obtain high quality infrastructure assets with minimal financial obligations and risks.

BOT projects are highly complex in finance and management terms. They typically involve many players, including the host government, commercial banks, export credit agencies, multilateral and bilateral development agencies, the project sponsor (which may be a consortium of companies), construction and engineering companies which tender for and win subcontracts let by the project sponsor, legal and financial intermediaries, consulting companies, research institutes and NGOs.

As noted previously, investors are often reluctant to invest in large-scale infrastructure projects in developing countries because of the high –whether real or perceived - commercial and political risks involved. As a result, the allocation of risks and contingent liabilities between the many parties involved in BOT projects is the key factor in deciding whether a project will proceed or not. Key features of risk management in BOT projects include:

- Projects are usually financed on a non-recourse basis i.e. in the event of default, financiers do not have access to the assets of the sponsoring companies, only the assets and the revenue stream of the project itself

- BOT projects are usually highly geared with a debt to equity ratio of 70:30 i.e. they are largely financed by borrowing money from commercial banks, development agencies and export credit agencies.
- Project consortia usually involve a number of international companies with complementary expertise in, for example, construction, management and finance. It may also include the host government or its intermediary e.g. Electricity de Lao.
- MDBs and ECAs provide concessional finance, partial risk and enclave guarantees and political leverage over host governments. The guarantees provide comfort to commercial financiers and lower the cost of borrowing for project sponsors.
- A complex web of interlocking contractual agreements, incorporating incentives and penalties, guarantees, withdrawal options, buyout clauses etc.

The rights and responsibilities of the participants, together with the associated risks and liabilities, are allocated to the different parties through this complex set of contracts. These typically include: concession agreements between the host government and the project sponsor; a shareholder agreement between the companies sponsoring the project; construction contracts between the project sponsor and construction companies; loan agreements between financiers and the project sponsor; loan and project agreements between multilateral, bilateral and export credit agencies and the host government, etc.

The Theun-Hinboun hydropower project

The Theun-Hinboun hydropower project was the first of several planned hydropower projects to be completed in the Theun-Kading River Basin in central Lao PDR. A feasibility study was conducted in 1992, construction commenced in 1994 and the dam began commercial operation in March 1998. The Theun-Hinboun is a trans-basin diversion scheme. The 25 meter high dam diverts water from the Theun River through a 5.2 km tunnel to a 210 MW power plant in the Nam Hai catchment, a tributary of the Hinboun River.

Although initially conceived as a public sector project, the dam was designed, financed and built by the Theun Hinboun Power Company (THPC). This is a Lao registered, joint venture company with a paid up capital of $110 million. The shareholders are the Lao state electricity utility Electricite de Lao (66%), Nordic Hydropower (22%) and MDX Lao (22%). The THPC will own, operate and maintain the dam for 30 years before handing it over to the Lao government. As this was the first joint venture in the power sector in the Lao PDR, the ADB provided technical assistance to the Lao government to develop the necessary legislative framework. Almost all of the electricity generated by the Theun Hinboun is sold under a 25 year contract to the Electricity Generating Authority of Thailand (EGAT).

Nordic Hydropower (NH) was established in 1993 by the two largest Nordic hydro utilities, Sweden's Vattenfal and Norway's Statkraft. Both utilities faced widespread opposition to further hydropower development in the Nordic region and, with the support of Nordic aid and export credit agencies, have aggressively sought out new investment sites in developing countries. MDX Lao is owned by GMS Power and the Crown Property Bureau of Thailand. GMS Power is a subsidiary of the Bangkok-based real estate and infrastructure company MDX Public Company Ltd. Both MDX and SEATEC, a Bangkok-based consulting company, were established by Dr. Subin Pinkayan, a former employee of the Mekong Committee and former foreign minister and commerce minister in the Chatichai administration in Thailand.

The design and construction of the Theun Hinboun hydropower project cost $240.2 million. The THPC used its own capital of $110 million and borrowed a further $130.2 million from a combination of Thai-based commercial banks ($64.8 million), Nordic export credit agencies ($58.6 million) and the Lao PDR Ministry of Finance ($6.9 million).[6] Hence the ADB claims that the project has a conservative debt:equity ratio of 54:46. However, Electricity de Lao borrowed $51.5 million from the Lao Ministry of Finance to finance most of its equity share in the THPC, with the balance coming from a combination of grant aid from the

Norwegian Agency for Development Cooperation (NORAD) and a soft loan from the Nordic Investment Bank. The Ministry of Finance in turn borrowed $57.7 million from the Asian Development Fund, the soft loan facility of the ADB, to cover both the loan to EdL and the loan to the THPC. If EdL's equity in the THPC is treated as debt, then the THPC's debt to equity ratio jumps to 81:19.

The THPC, with financial support from NORAD and the Nordic Development Fund, contracted Norconsult, a Norwegian consulting company, to undertake a project survey (including an environmental impact assessment), develop the detailed design and to supervise the construction of the power plant. Supplementary environmental studies were sub-contracted to a number of research institutes, consulting companies and NGOs including the Wildlife Conservation Society, MIDAS and the Norwegian Institute for Nature Research. The THPC, with the support of Nordic export credit agencies, subsequently contracted some of the largest hydropower companies in Europe to undertake civil, mechanical and steel works. These included ABB Generation, based in Sweden and Switzerland, for electrical works ($36.7 million) and Kvaerner Energy A.S. of Norway for mechanical works including the supply of turbines ($13.6 million).[7] No Lao-owned consulting or construction companies were awarded contracts.

The rights and obligations of the various parties involved in the Theun Hinboun project are outlined in six primary contracts that were drafted with the assistance of the ADB and its financial advisor Citibank.[8] These include the completion guarantee, the shareholder agreement, the power purchase agreement, the license agreement, the ADB loan agreement and the ADB project agreement. Contracts such as the shareholder agreement, which defines the relationship between shareholders and their responsibilities, are not justicable in the Lao PDR but rather in Singapore under the UN Commission on International Trade Law.

Under the terms of the power purchase agreement (PPA), EGAT agrees to purchase 95% of the power produced by the THPC on a take-or-pay[9] basis at a fixed price for the next 25 years, with an option to renegotiate the tariff after 10 years. The tariff is set in US $, payable half in US$ and half in Thai baht. EGAT has, in effect, agreed to purchase the power regardless of falling demand in post-crisis Thailand and regardless of cheaper generating alternatives now available in Thailand. Without such an agreement guaranteeing a long-term revenue stream, Thai commercial banks would not have provided loans for the project.

The license agreement authorizes the THPC to plan, finance, construct, own and operate the project for a period of 30 years at which point ownership is transferred to the Lao government. It grants the THPC access to land and to the Nam Theun River without attributing a value to either of these resources. If this had been the case, the Lao Government could have used both as equity in the THPC rather then borrowing from the ADB. It protects the THPC from any detrimental upstream development (with the exception of the Nam Theun II). It waives taxes and duties on capital equipment and grants the THPC a tax holiday for the first five years of commercial operation. It transfers responsibility for environmental impacts, including compensation, to the Lao government, although the THPC is required to cover the cost of mitigation and compensation.

The ADB loan agreement requires the Lao Government to uphold all obligations under the license agreement, bringing comfort to the THPC. If the Lao government breaches the license agreement then it puts at risk future lending from the ADB and other bilateral and multilateral institutions.

Project revenues i.e. payments from EGAT are paid into an off-shore or escrow account managed by Indosuez Bank . Every six months, Indosuez distributes the revenues, first to the THPC for operation and maintenance costs, then to the commercial lenders for interest and principal repayments, then to the Lao Government for taxes and royalties and finally to the shareholders as dividends based on their equity share in the THPC. The balance is retained by the THPC. As the principal shareholder in the THPC, the Lao Government has a vested interest in maximizing dividends, which (unless one assumes that private profit is always in the public interest), conflicts with its role as regulator of the power industry in the Lao PDR.

The THPC commenced sales to EGAT in 1999. Sales were on average 16% lower then that projected in ADB loan documents, due largely to lower then anticipated water flows. This problem will be exacerbated by the anticipated construction of another trans-basin diversion project, the Nam Theun II, upstream from the Theun-Hinboun. Power production would then fall to the equivalent of that generated by a much smaller 91 MW power station, significantly below that “guaranteed” in the PPA with EGAT.

The THPC’s mitigation and compensation report acknowledges that post-project flows are inadequate to prevent profound environmental damage from taking place in the downstream Nam Kading. The original Norplan study recommended a minimum dry season flow past the dam of 10 cubic meters per second but only 5 cubic meters per second is currently being released. The mitigation and compensation report acknowledges that a flow of 40 cubic meters per second (50% of the dry season flow in the driest year every 20 years) is in fact necessary to prevent significant environmental damage but notes that this would cost in excess of $8 million per year in lost revenue. It would also reduce the power generation capacity of the Theun-Hinboun to such an extent that EGAT could insist on renegotiating the PPA at a much lower tariff, threatening the financial viability of the THPC.[10] The report goes on to recommend abandoning any minimum dry season flow what-so-ever.

The livelihoods of between four and five thousand households in both the Theun-Kading and Hai-Hinboun river basins have been moderately to severely affected by the project, through a combination of loss of fisheries, flooded vegetable gardens, loss of drinking water supply, lowered water tables, impaired boat and pedestrian access, inundation of agricultural lands, bank erosion and loss of fishing equipment.[11] As noted above, the initial license agreement, brokered by the ADB, limited the THPC’s responsibility for mitigation and compensation to $1 million, almost all of which was spent on project infrastructure, consultants, government training and similar activities. The severity of projects impacts was at first denied by both the ADB and the THPC but in response to sustained pressure from international agencies and following further investigation by fisheries experts engaged by the ADB, the THPC designed a new mitigation and compensation program (MCP). The MCP acknowledges the extent of the social and environmental impact of the project and proposes a 10 year program costing between $2.74 and $4.65 million. However the plan has been criticized because of limited participation by local villagers in its formulation; it underestimates project impacts in the lower Nam Kading watershed and it allocates the bulk of the confirmed mitigation budget to further studies, assessments, plans and monitoring with only $137,500 allocated for direct compensation to villagers.

The ADB estimates that total revenue for the first twelve years of operation will reach $736.6 million and net income[12] will be $407.6 million. This will allow the THPC to pay dividends of $393.9 million to shareholders, including $260 million to EdL and $89 million each to MDX Lao and NH. All shareholders are projected to recover their equity through dividend payments by the 6th year of operation and all debts to be repaid by the 12th year of operation. Profitability will increase significantly once the commercial debts are repaid, subject to the renegotiation of the power tariff with EGAT in the 10th year of commercial operation. On this basis, the project can be considered a financial success, at least in narrow commercial terms. Not so for the three to four thousand households whose livelihoods have been negatively affected by the project. As noted above, the MCP will cost the THPC between $2.74 and $4.65 million spread over ten years, less then 1% of project revenues over the same period.

Proponents of the Theun-Hinboun argue that the dividends will enable the Lao government to finance poverty reduction programs. However, dividends payable to EdL are usually transferred immediately to Lao Government bank accounts and credited against EdL’s debts to the government, including debt service payments, export royalties and arrears of sales and income taxes.[13] EdL has borrowed heavily from multilateral agencies to fund its investment program. These loans are denominated in foreign currencies and debt servicing costs have increased dramatically with the collapse in the value of the Lao kip. This suggests that hard currency revenue from the ADB-financed Theun Hinboun will be used to repay other multilateral debt. Furthermore, EdL heavily subsidizes the domestic market and export revenues have declined as domestic demand has increased, putting further strains on EdL's financial position.[14] Given this, the claim that project revenues can be used for poverty reduction are highly questionable.

Furthermore, the power tariff is higher then that now being paid by EGAT for electricity generated by independent power producers (IPPs) in Thailand using combined-cycle technology. The THPC tariff is protected under contract from such competitive pressure until 2008. In effect, Thai consumers are subsidizing the THPC and its commercial and multilateral lenders.

In summary, THPC profits accrue at the expense of irreversible damage to the Nam Kading downstream of the project site and moderate to severe damage to the livelihoods of four to five thousand households in the Theun-Kading and Hai-Hinboun river basins. The THPC profits by both externalizing these social and environmental costs and by over-charging Thai electricity consumers.

The principal beneficiaries of the Theun-Hinboun power project are: the plethora of predominantly European and principally Nordic construction, engineering, consulting, legal, financial, research and non-government organizations that assisted with the feasibility studies, design and construction of the project, who have already been paid $240 million up-front and will benefit from the legislative changes in favor of private sector development engineered by the ADB; the commercial banks and export credit agencies that provided high interest loans to the THPC and are guaranteed first payment from project revenues; MDX, Vattenfal, Statkraft and EdL, the shareholders in the THPC, who will receive $394 million in dividends in the first 12 years of project operation; and finally the multilateral agencies, including the ADB, that have financed EdL's past expansion and will be repaid from EdL's dividend stream as it is appropriated by the Lao Ministry of Finance.

And what about the three to four thousand households whose livelihoods have been severely affected by the Theun-Hinboun project? They get to fight over $134,000 for water pumps….

Private profits at public cost

As the Theun-Hinboun case study shows, private sector participation in the design, financing, management and ownership of infrastructure produces winners and losers. Risk and contingent liabilities are not removed but rather identified, often artificially or unrealistically priced and then reallocated through mechanisms such as: fixed price turn-key contracts; "off-take" agreements which require government agencies to purchase project outputs at a fixed price on a take-or-pay basis; linking tariffs to inflation and debt servicing costs; use of third country law in the event of disputes etc. All too often the risks and liabilities are reallocated to affected communities and the host government.

In addition, most infrastructure projects in emerging market countries have very little in the way of pure non-recourse financing. In most cases, private finance is publicly guaranteed through political risk and partial credit guarantees which lower effective interest rates and guarantee repayment by publicly financed institutions, invalidating claims by BOT proponents that BOT projects free governments from commercial risk.

In summary, the key problems associated with the growing dependence of developing countries on private sector finance and private sector involvement in infrastructure provision are:

- Private sector flows, particularly portfolio investment and commercial lending, are very susceptible to investor confidence and are highly volatile as a result.
- The cost of commercial lending has increased in the wake of the financial crisis

and is being used to restructure existing debt liabilities rather then invest in new plant and equipment.
- FDI flows are increasingly skewed: they are concentrated in relatively few middle income countries in northeast Asia and then in only a few “bankable” sectors.
- FDI flows are increasingly being used to fund mergers and acquisitions by transnational corporations rather then investment in new plant and equipment.
- The private sector is unlikely to invest in poorer countries, particularly in rural areas and in sectors with low rates of return.
- The regulatory and policy changes required for BOT projects are often initiated and drafted by the project sponsors and their multilateral backers and are promulgated without democratic participation or oversight.
- BOT contracts preclude subsequent policy and regulatory change that would have a negative impact on project revenues for the life of the concession agreement, further reducing sovereignty in policy making.
- The contracts governing the allocation of risks and contingent liabilities are usually regarded as “commercial in confidence”, reducing transparency and participation by affected communities in critical issues such as the allocation of land and water rights and compensation.
- The feasibility and design studies for infrastructure projects are often undertaken by international consulting companies with limited local knowledge or experience and/or with close links to the project sponsors which precludes objectivity in, for example, environmental impact assessments (EIAs).
- The legal, financial and managerial complexity of BOT projects work in favor of the project sponsors (that often specialize in BOT projects), particularly in least developed countries with limited institutional capacity and limited if any experience with BOT projects.
- The high cost and complexity of large-scale infrastructure projects, particularly in least developed countries, may skew development priorities, staff and resource allocation and institutional capacity in favor of the project and import and capital intensive development models in general.
- The contracting out of infrastructure projects to the private sector reduces the institutional capacity of the state to design and deliver public goods.
- The high levels of debt financing, imported equipment and profit repatriation involved in BOT projects exacerbates balance of payments problems, increases a country’s debt stock and reinforces the often pre-existing emphasis on export-orientated industrialization in order to generate sufficient hard currency to meet debt service commitments.
- The provision of guarantees by MDBs and ECAs, backed by taxpayers or funded by contributions from member governments, protects project sponsors from market risk and encourages moral hazard. This may allow commercially non-viable projects to proceed because project sponsors know they can recoup losses from taxpayer funded agencies or the host government.
- Governments typically grant access to resources such as land and water to the project sponsor at no cost. In many countries in the Mekong sub-region, collective property rights to these resources are poorly codified, if at all, and hence easily repudiated without compensation.
- Many large-scale infrastructure projects involve involuntary resettlement programs that have high failure rates.
- Governments often grant substantial tax and royalty exemptions to the project sponsors in order to attract foreign investment, reducing government revenue available for direct poverty alleviation programs.
- Companies involved in the sponsoring consortia are often able to recoup their investment up-front through profits on construction, financial services and management contracts. This reduces their commitment to the long-term viability of the project.
- If governments hold equity in a BOT project then they have a vested interest in maximizing revenues in order to increase dividend payments. This can conflict with their role as independent regulators acting in the public interest or as advocates for affected communities.

- Off-take agreements i.e. a commitment to purchase a fixed quanity of project outputs e.g. electricity at a fixed price for a fixed period by government agencies such as EGAT disadvantages consumers through maintaining an artificially high price.
- Revenue flows are typically allocated in order of priority to the project sponsor for operation and maintenance costs, then to commercial and bilateral and multilateral financiers, then to the host government for taxes and royalties (if any) and finally to the project sponsor for the distribution of dividends.
- Governments may be asked to forgo dividends in the event of declining profitability due, for example, to reduced water flows to a hydropower plant.
- Government dividends, royalties and taxes may be appropriated for debt servicing rather then being sequestered for poverty alleviation.
- Governments are required to provide counter-guarantees to participating MDBs and ECAs without any corresponding guarantee from the project company. If for example the sponsor defaults on payment for imports then the debt is added to the stock of bilateral debt owed by the host government to the ECAs home government.
- ECAs generally do not adhere to internationally recognized social, environmental, political and human rights standards. They are highly secretive and intensively competitive, often bidding for projects that have been rejected by bilateral and multilateral agencies on social and environmental grounds. This encourages a race to the bottom in project design.
- The provision of export credit finance is conditional on the project sponsor purchasing from a particular supplier in the ECA home country. This drives up project costs and reinforces dependence on imported and potentially inappropriate or outmoded technology.
- Governments are typically required to assume responsibility for open-ended environmental and social impacts. The financial liability of the project sponsor for remedial action is often capped in advance. This means that social and environmental costs are externalized.
- Social and environmental programs are often poorly designed by international consulting agencies with little or no participation by affected communities.
- Severe environmental damage – a key concern for intergenerational equity – is either ignored or consistently undervalued.

Conclusion

The uncritical privileging of the role of the private sector and private capital in development discourse, in MDB policy development and programs and in the delivery of public goods by national governments has had disastrous consequences for the poor. The processes that this has unleashed - privatization, the introduction of user fees, the contracting out of public services, BOT projects, reduced transparency and participation in project design and policy formulation, increased external indebtedness, the diversion of MDB and bilateral funds into non-concessionary lending and into middle income countries and “bankable” sectors - have all profited the private sector at public cost.

Furthermore it has undermined the capacity of socially progressive and activist states to design, finance and deliver high quality public goods and instead reinforced a model of dependent development. Progressive taxation reform and the redistribution of productive assets in order to expand the domestic market and expand the tax base are part of the solution to financing such public goods, as is increased grant aid and a much greater reliance on endogenous technologies and expertise in their design and delivery. As Keynes once said, let sources of finance be national. Let the design and delivery of public goods be likewise.

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[1] Jonathan Cornford and Michael Simon, *Breaking the Banks: The Impact of the Asian Development Bank and Australia’s Role in the Mekong Region*, Oxfam Community Aid Abroad, 2001, p. 30

[2] Build-operate-transfer projects are often disparagingly referred to as build-operate-litigate projects.

[3] ASEAN plus South Korea, Japan and China

[4] ADB, Private Sector Development Strategy, March 2000 p.1

[5] ibid.
[6] The terms of the ADB loan to Lao PDR Ministry of Finance are 1% service charge p.a. with a repayment period of 40 years and a grace period of 10 years. The Ministry of Finance then re-lent funds to EdL at an interest rate of 6.5% with a repayment period of 25 years and a grace period of 5 years. It also re-lent ADB funds to THPC at an interest rate of 10% with a repayment period of 16 years and a grace period of 4 years. The commercial interest rates provided by Thai banks are assumed to be between 10 and 12% with a 12 year term.
[7] Other contractors included: Vianini Lavori and Vianini Thai Construction and Development Company Joint Venture ($12.7 million); Recchi S.p.A – CMC of Italy ($63.9 million); ATB Caldereria S.p.A. of Italy ($19.01 million); John Holland Lao ($3.03 million), TEDA Company ($12.7 million).
[8] Citibank, America's largest financial institution and number six in the Fortune 500 list, is the target of a global campaign by student activists and the Rainforest Action Network, for its involvement in environmentally destructive projects such as the World Bank funded Chad Cameroon pipeline and the Three Gorges Dam in China, as well as for predatory lending and "red-lining" i.e. under-serving disadvantaged communities. Robert Rubin, former US Secretary of Treasury, is the co-chair of Citibank.
[9] Under a take-or-pay agreement, the buyer agrees to purchase a fixed quantity of project outputs at a fixed price, regardless of need.
[10] Wayne White, *Theun Hinboun: An Assessment of Early Project Performance*, March 2001.
[11] Bruce Shoemaker, *A Review of the Theun-Hinboun Power Company's Mitigation and Compensation Program*, December 2000.
[12] After payments to THC for operation and maintenance, interest and principal repayments and royalties and taxes to the Lao government are deducted.
[13] *Hydropower Development Strategy Study*, January 2000, p. 43.
[14] Ibid, p. 28

Taking Stock of the Motives and Interests in ADB's Private Sector Operations

*By Jenina Joy Chavez - Malaluan**

While embracing the new mantra of poverty reduction, development institutions have not abandoned the push towards openness and privatization. Multilateral organizations like the Asian Development Bank put emphasis on the role of the private sector in growth and poverty reduction. To date, however, the private sector is still narrowly defined to include those private entities able to participate in bank project activities. Knowing the predilection of the ADB for large-scale infrastructure projects, only big contractors and suppliers – in short, big business— qualify as private sector.

In March 2000, the ADB updated its Private Sector Development Strategy (PSDS). Partly in recognition of the Bank's dwindling resources, the PSDS signals a reorientation of the Bank's role from project fund provider to a facilitator of resources, with the private sector as both targets and clients. This role is also in keeping with the changed roles they assigned to government. The ADB is in effect encouraging governments to shift from "owner-producer" to "facilitator-regulator" of private activities.[1]

Instruments for private sector operation may take the form of direct loan, equity investments, or complementary financing. Direct loans are those made to the private sector entity. Equity investments are when the ADB owns part of the enterprise, to a maximum of 25 percent and only if it is not the largest single investor. Complementary financing schemes (CFS) are when the ADB acts as the "lender of record". CFS loans are funded by commercial lenders. As a service to lenders, the ADB provides partial credit and partial risk guarantees. Partial credit guarantees are comprehensive guarantees of principal and/or interest for long-term maturities beyond the normal tenure for commercial lenders. Partial risk guarantees cover sovereign and political risk.[2]

Table 1 shows the trend in ADB private sector approvals. Loans take up bulk (47%) of cumulative approvals. From the mid-1990s, complementary loans have been increasing both in absolute and relative terms. In 1999, they represented 55 percent of total cumulative approvals. A total of 122 private sector projects have been approved since 1983.

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Table 1
Cumulative private sector approvals by country, 1983-1999
in million US dollars

	No. of Projects a/	Loan	Equity Investments b/	Total ADB Funds	Complementary Loan	Total ADB Approvals a/
1983 - 1995	96	716.41	374.51	1,090.92	180.73	1,271.65
1996	8	123.50	97.15	220.65	191.50	412.15
1997	6	45.00	59.50	104.50		104.50
1998	8	136.12	62.44	198.56	151.08	349.64
1999	4	146.50	7.40	153.90	187.50	341.40
1983 - 1999	122	1,167.53	601.00	1,768.53	710.81	2,479.34

a/ net of cancellations
b/ includes equity investments, lines of equity, and equity underwritings
Source: *Asian Development Bank, Annual Report 1999.*

Hitting both ways

At the same time that the ADB aggressively pushes for privatization in key economic sectors, it also funds private companies that are interested in the privatized assets/utilities. While this may seem a logical follow-up to privatization, it is not difficult to see how the ADB can face situations of conflict of interest.

In the energy sector, for instance, the ADB sees the restructuring of the electric power industry as a major objective.[3] It is involved in some of the major power sector restructuring in Asia, such as those in Pakistan and the Philippines.

The model proposed is the same, irrespective of prevailing market structures and viability of national and state utility companies. Restructuring basically means unbundling or separating the three power subsectors of generation, transmission and distribution for purposes of operation and pricing. Power transmission and distribution, while open to private operators, remain regulated and would still require franchises to operate. The power generation subsector, however, will be liberalized and largely privatized.

Here is where the ADB sees one of its biggest opportunities for private sector operations. The Bank assists its developing member countries (DMCs) "in creating enabling environment for private sector participation, preparing private sector projects…(and) provid(ing) financing to their developers through its private sector window."[4] With the introduction of Build-Operate-Transfer (BOT) and related schemes in the legal framework of DMCs, private sector participation in infrastructure is assured. It should be noted that the ADB is actively involved in the promotion of legal and regulatory frameworks in its DMCs that are conducive to private sector participation.

The ADB itself recognizes the potential conflict of interest in an increased role in private sector financing. The conflict of interest arises "because the ADB needs to respond to requests for advice on policy reform to attract private investment to a sector, and for direct assistance in catalyzing private investment in the same sector."[5] The areas where the ADB is pushing its perspective the strongest are also those they have identified as key areas for private sector development, specifically the financial sector and infrastructure provision. **Table 2** lists some of the major public and private sector activities supported by the ADB in the power and water sectors. Note that the areas where sectoral reform programs have been supported are the potential areas for increased private sector operation.

For instance in 1999, there were only three projects approved for private sector financing, all of which fell under the infrastructure category. More importantly, 30 percent of the total ADB funds committed, and 50 percent of total approvals, went to a private company that bought into a utility whose privatization the ADB itself supported.[6] An indirect way of providing funds to the private sector is through the setting up of finance facilities through the government or government financial institutions that will in turn re-lend to private companies. The Private Sector Infrastructure Facilities extended to the Industrial Credit and Investment Corporation of India Ltd. and the Industrial Finance Corporation of India Ltd., are examples. These facilities are set up to be conduits of funds for use in private projects in power, telecommunications, roads and ports.[7]

Still, the manager of the ADB's Private Sector Group (PSG) maintains that there need not be any conflict of interest as long as full disclosure is done at the outset. He claims that "the PSG has no real influence on the Policy and Strategy Department."[8] Yet, aside from some mention of the World Bank approach to possible conflict of interest cases, the ADB does not yet have clear guidelines of its own.[9]

Table 2
ADB private sector operations in the water and power sectors
(*viz* Major public sector programs/projects)

	Public Sector	**Private Sector**
POWER		
Bangladesh	*Dhaka Power Systems Upgrade*: US$82M (OCR)	*AES Meghnaghat Limited:* Loan – US$50M (OCR) PRG – US$70M CFS – US$20M December 2000
Sri Lanka		*AES Kelanitissa Limited:* Loan – US$26M (OCR) PRG – US$52M December 2000
India	*Gujarat Power Sector Development Program – Progran Loan:* US$150M (OCR), December 2000 *Gujarat Power Sector Development Program – Project Loan*: US$200M (OCR), December 2000 *Power Transmission Improvement*: US$250M (OCR, with commercial and ECA co-financing), October 2000	*Balagarh Power Company Limited:* Equity - US$15M (OCR) Loan – US$25M (OCR) CFS – US$81.5M December 1996
Pakistan	*Energy Sector Restructuring Program:* US$300M (OCR), US$50M (ADF), December 2000	
Philippines	*Power Sector Restructuring Program*: US$300M, December 1998	
WATER		
Nepal	*Melamchi Water Supply:* US$120M (ADF), December 2000	
China		*Chengdu Generale Des Eaux-Marubeni Waterworks Company Limited:* Loan – US$26.5M (OCR) Co-financing – US$21.5M
Philippines	Various	*Maynilad Water Services Incorporated:* Loan – US$45M (OCR) CFS – US$126M September 1999
Vietnam		*Thu Duc BOT Water Treatment:* September 2000

Betting on private companies: is it really good business?

Even as direct state provision or activity has been criticized as less efficient, the ADB's experience with private sector projects does not really provide enough evidence that the private sector is better. Before the Bank decided to concentrate on infrastructure and the financial sector, it had greater exposure in private agricultural and industrial projects, or projects involving direct production. These projects represented the non-performing part of the ADB's private sector portfolio. The non-performance of the industrial projects became even more acute when the Asian crisis hit.[10] This prompted the Bank to become very cautious about funding industrial projects.

When the crisis hit, one reason cited for the collapse of the financial sector was the less than prudent practices of some private financial entities. They were either too optimistic (making unhedged loans to finance the production of non-tradeables) or too undisciplined (overshooting allowable DOSRI[11] loan ceilings). One would expect that an institution with a triple A credit rating like the ADB would be very careful in this regard, and would be able to detect negative behavior before it actually surfaces. Mr. Bruce Purdue of the ADB Private Sector Group admits at least one case where the ADB had indirect exposure in which the ADB had to expel the management whose behavior "left much to be desired." A new management team was brought in, but it is unlikely that the ADB will be able to recover its investment.

The negative experience in private sector operations (PSO) ought to serve as alarm bells to the ADB, not only with respect to how PSO may be improved, but also with respect to the privatization perspective. Nobody can dispute the need for private sector participation in industrial activity. But beyond that, it also needs to be stressed that the notion that the state cannot efficiently embark on industrial activity has little basis.

What do international financial institutions do when private sector debtors err? Are they punished like countries? Call to mind how very punitive to Asia the International Monetary Fund had been at the height of the financial crisis. The IMF "disciplined" governments with austerity programs that crippled the Asian economies further. Unfortunately, this always means workers being kicked out of jobs, children dropping out of school, and women getting hungry. Or people having to access less of basic services and utilities in the name of restructuring. Everybody has to pay. Yet when a private entity performs below par, the maximum punishment they get is a change in management. Governments can be inefficient, corrupt even, but private corporations can be as corrupt and inefficient.

Finally, if multilateral organizations have disciplining functions, and if they are themselves efficient, how come their debtors – public and private – fail?

Upholding monopolies, assisting domination

In the last five years, the ADB has started to finance private companies involved in BOT and similar mechanisms. Also in the same period, some major international companies started to figure prominently in the ADB's PSO. Two of what the ADB hails as successful water utilities privatization, the Chengdu Generale Des Eaux-Marubeni Waterworks Company Limited in China and the Maynilad Water Services Incorporated in the Philippines, have the Suez Lyonnaise des Eaux France as their major partner.[12] Likewise, the US-based AES Corporation has stakes in two new power projects in Bangladesh (Meghnaghat) and Sri Lanka (Kelanitissa).[13] Both Suez Lyonnaise and AES are known big players in water and power development globally. The ADB envisions more BOT-type financing in infrastructure. One can only speculate how much more prominent multinational contractors will figure in the ADB's PSO portfolio.

In Asia, the deregulation and privatization of utilities have followed a very visible and systematic path of scaling down the scope of government activities beginning in the structural adjustment era in the 1980s. Focus on the power sector coincided with the big glut in the international equipment market in the early 1990s. It is also during this time that power sector reform studies were done almost simultaneously in many countries. The World Bank funded most of these studies. The ADB followed much later and picked up the financing needs for the implementation of power sector reforms.

The uncanny coincidence, and multilateral organizations' combined push towards private sector financing cannot be ignored. Erstwhile public utilities in Asia are being privatized and liberalized, and their investment laws revised (almost every Asian country has enacted some kind of a BOT law). All this accommodates the expanding reach of multinational contractors.

Preference for stability and creditworthiness is not bad at all. The ADB can argue that big multinational contractors can easily avail of their private sector window because they have established reputations and good track records. However, if efficiency via increased competition is a genuine objective – one that is being used to rationalize the privatization push— then the ADB has to explain why it is financing the same contractors in separate private sector projects within the region. While the connection may not be immediate or direct, funding the same contractors in different countries aids these contractors in dominating the regional market. More seriously, it is undermining the viability of the smaller private entities organic in the region.

Lopsided sharing of risk, creating moral hazard

An investor assured of returns no matter what, or protected from most kinds of risks, will take unusual risks he would otherwise be averse to. This incentive is called *moral hazard*. And this is what the ADB creates in some aspects of its PSO.

The granting of the partial credit and partial risk guarantees to lenders jeopardizes the decision to lend. Likewise the complementary financing scheme (CFS) removes the burden of responsibility from the borrower as the ADB allows itself to be the lender of record – a scheme even better than a sovereign guarantee granted by a state. The CFS also exempts the private sponsor from certain taxes. These innovative schemes are highly attractive to private investors, but they place too much emphasis on the mastery of high finance tactics than on the integrity of on-the-ground investment and production decisions.

Promoting power purchase agreements (PPAs) in line with BOT projects in the power sector gives rise to onerous risk allocation in favor of the BOT contractor (or sponsor). Often, the government shoulders most of the reasonable risks (for example, foreign exchange risk, and inflation risks), taxes, and even fuel costs. On top of this it is locked into a minimum off-take agreement that binds it to buy a percentage of capacity or power produce at a fixed price under all circumstances.

The Enron Dabhol power project in India was perhaps the first controversial BOT case that got global attention. Various faults and unfair provisions in the agreement elicited widespread opposition that resulted to its cancellation, revival, re-cancellation, and renegotiation, in a difficult and long-drawn process.[14] When the Philippines was hit by a debilitating power crisis in the early 1990s, the government responded by embarking on so-called fast-track energy projects mostly via the independent power producer (IPP) route. It was found out later that "the average economic cost of the IPP is 11% higher than the estimated base load avoided cost (i.e., cost to the consumer due to the absence of adequate service)" and that the average price of all IPPs is quite high compared to the average bulk energy tariff of the NPC, the public electricity company.[15] The IPPs were the biggest financial burden to the NPC, representing losses of 45 billion pesos a year or nearly $1 billion a year at today's exchange rate. Ironically, only 20 to 40 percent of minimum off-take requirements of IPPs are actually being used or sold by NPC. These same IPPs are now one of the major issues being raised in connection with the Philippine Power Sector Restructuring Program funded by the ADB.

Taking the ADB to task

The ADB is known to wash its hands off many controversies involving its operations. In 1996 the MARCOPPER Mining Corporation instigated an environmental disaster south of Luzon in the Philippines. The company was recipient of two private sector loans from the

ADB in the early 1990s. Up to this day, the cleanup needed for the spill in 1996 has yet to be completed, and various communities around the copper mines have been adversely affected but remain un-compensated. The ADB refused to give any statements nor own up to any responsibility for the accident.
In early 2000, there was an attempt to bribe two members of the Philippine Congress with half a million pesos (ten thousand dollars) each at the time that the Power Reform Bill was heatedly being discussed. When the matter was brought up to the ADB – who incidentally is financing the Power Sector Restructuring Program – it conveniently washed its hands and took cover with the "we do not want to be perceived as meddling" stance. When the deferment of the bill became apparent, however, they announced that they would not release the second tranche of the loan.

In March this year, the Maynilad Water Services asked for a restructuring of its loan from the ADB. Knowing full well that Maynilad is in the middle of a petition for the application of an automatic currency exchange rate adjustment (CERA) to enable it to cope with foreign exchange losses, the ADB had to announce publicly that it is not keen on restructuring the Maynilad loan. Immediately after, the Maynilad announced the postponement of its service improvement/expansion projects, and stressed that the automatic CERA is crucial to put its financial status back on track. Influential as it is, the ADB must take extra care that its statements and actions do not unduly jeopardize the larger interests of its hosts. The ADB's public statement sounded more like an ultimatum (it could have very well said "grant the automatic CERA or else…") than an elaboration of its loan policy. And since Maynilad is a client, it should avoid any perception that it is exerting pressure on the government on behalf of the Maynilad.

Support for private sector activities are welcome. But it should be emphasized that private sector support should not be made an excuse for the neglect of due diligence in project activity. Moreover, it cannot ever replace good policymaking both by government and institutions such as the ADB.

[1] Myoung-Ho Shin, ADB Vice-President, Re-emerging Asia and the Role of Private Sector in Development, Presentation made at the Asia Pacific Foundation of Canada, 8 February 2001.
[2] ADB, Private Sector Operations: Strategy, Policies, Modalities and Procedures, January 2000.
[3] ADB, Energy 2000: Review of the Energy Policy of the Asian Development Bank.
[4] ADB, Energy 2000, ***ibid.***
[5] ADB, Private Sector Development Strategy, March 2000.
[6] In 1999, Maynilad Water Services Inc. got US$45M of the total US$153.9M ADB's own funds committed to the private sector, and US$171M of the US$341.4M total ADB approvals (including complementary loans).
[7] ADB News Release No. 128/96, 7 November 1996. A third Privates Sector Infrastructure Facility, for SCICI Limited was approved in November 1996 but cancelled in November 2000 (ADB. Loans, Technical Assistance and Private Sector Operations Approvals, December 2000).
[8] Interview with Mr. Bruce Purdue, ADB Private Sector Group, 14 February 2001.
[9] ADB, Private Sector Development Strategy, *ibid.*
[10] Interview with Mr. Bruce Purdue, *ibid*.
[11] directors, officers, stockholders and related interests
[12] A.C. McIntosh and C.E. Yniguez, Privatization of Water Utilities in Ten Asian Cities, January 2000.
[13] ADB News Release No. 139/00, 5 December 2000; ADB News Release No. 158/00, 19 December 2000.
[14] Subodh Wagle, The Enron Story: Controversial Issues and the Struggle, PRAYAS Monograph Series (undated).
[15] World Bank, Power Sector Study: Structural Framework for the Power Sector, Philippines, Industrial and Energy Operations Division, November 30, 1994.

*The Paradigm Crisis behind the Power Crisis**

*By Walden Bello***

In many developing nations today, state-owned centralized power systems are mired in mismanagement, corruption, and debt. And in country after country, influential multilateral agencies such as the Asian Development Bank and the World Bank, have come up with a cure-all: privatization and deregulation. This is the case in India, Thailand, and the Philippines. Yet the state ownership versus privatization debate obscures the complexities of the crisis of power generation and delivery in the Third World. For what is behind the troubles of giant agencies such as the Electricity Generating Authority of Thailand (Egat) and the National Power Corporation (Napocor) in the Philippines is not the "natural"inefficiency of state-managed enterprises but the crisis of the paradigm that underpins them: centralized electrification. Centralized technologies are inextricably linked with the politics of domination of our countries by central elites— by technocrats, urban elites, and local and foreign big business. Behind the crisis of these technologies is the unraveling of a longtime developmentalist alliance among technocrats, multilateral agencies, and private corporations dedicated to foisting devastating technologies on developing nations in the name of a vision of modernity and the search for profitability. The power industry, in particular, illustrates this destructive symbiosis of modernity and profitability. One of the earliest expressions of the sense that generation and distribution of power was a central test of modernity was made by Lenin in 1921, when he defined socialism as "Soviet Power plus Electricity." But it was not only Soviet Marxists who equated electric power with the desirable society. Jawaharlal Nehru, the dominant figure in post-World War II India, called dams the " temples of modern India," a statement that, as Indian author Arundhati Roy points out, has made its way into primary school textbooks in every Indian language. Big dams have become an article of faith inextricably linked with nationalism. To question their utility amounts almost to sedition."

Centralized electrification

The technological blueprint for power development for the post-World War II period was that of creating a limited number of power generators—giant dams, coal or oil-powered plants, or nuclear plants—at strategic points which would generate electricity that would be distributed to every nook and cranny of the country. Traditional or local sources of power that allowed some degree of self-sufficiency

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were considered backward. If you were not hooked up to a central grid, you were backward. Centralized electrification with its big dams, big plants, big nukes became the rage. Indeed, there was an almost religious fervor about this vision among technocrats who defined their life's work as "missionary electrification" or the connection of the most distant village to the central grid. It was, it must be noted, a grand mission that was supported in India, Thailand, South Vietnam and the Philippines by millions of dollars worth of grants from the US Agency for International Development. Not surprisingly, this generosity was not unconnected to the less than salutary mission of pacifying rural areas permeable to communist agitation. In any event, in the name of missionary electrification, India's technocrats, Roy observes in her brilliant essay, "The Cost of Living," not only built "new dams and irrigation schemes…[but also] took control of small, traditional water-harvesting systems that had been managed for thousands of years and allowed them to atrophy." Here Roy expresses an essential truth: that centralized electrification preempted the development of alternative power systems that could have been more decentralized, more people-oriented, more environmentally benign, and less capital intensive. Centralized electrification, like every ideology, served certain interests, and these were definitely not those of the ordinary masses. The key interest groups were: - key bilateral and multilateral development agencies. In Asia, the World Bank and the Asian Development Bank (ADB) became the biggest funders of centralized power technologies for export to Third World countries while, as noted earlier, USAID supported rural electrification. Centralized power development provided a grand rationale for the existence and expansion of these institutions into giant bureaucracies. - big multinational contractors like Bechtel or Enron, which made tremendous profits building dams or providing power consulting services. - exporters of power plants, including nuclear plants, like General Electric and Westinghouse, whose costs were subsidized by government export agencies, like the US Eximbank, with the taxes of citizens in the developed countries. - powerful local coalitions of power technocrats, big business, and urban-industrial elites. Despite the rhetoric about "rural electrification," centralized electrification was essentially biased toward the city and industry. Essentially, especially in the case of dams, it involved expending the natural capital of the countryside and the forests to subsidize the growth urban-based industry. Industry was the future. Industry was what really added value. Industry was synonymous with national power. Agriculture was the past. Aside from being an element in counterinsurgency programs, rural electrification was simply a small concession to the countryside to pacify opposition to city-oriented centralized electrification. Large "multipurpose" dams that allegedly provided countries simultaneously with the benefits of power and irrigation were concerned first and foremost with power for the urban sector.

Costs…

While these interests benefited, others paid the costs. Specifically, it was the rural areas and the environment that absorbed the costs of centralized electrification. Tremendous crimes have been committed in the name of power generation and irrigation, says Roy, but these were hidden because governments never recorded these costs. - In Thailand, for instance, the government has no records on how many communities and rural peoples have been displaced by the score of massive hydroelectric and irrigation dams built since the 1950's. Very few have been paid compensation. Communities relocated, vanished, or were simply absorbed into urban slums. - In India, Roy calculates that large dams have displaced about 33 million people in the last 50 years, about 60 per cent of them being either untouchables or indigenous peoples. Like Thailand, India, in fact, does not have a national resettlement policy for those displaced by dams. Neither does the Philippines. The costs to the environment have been tremendous: in Thailand, hundreds of thousands of hectares of primal forest land were submerged, rivers changed their courses, fishing as a livelihood atrophied among riverine communities, and many species of fish simply vanished. In India, Roy points out, "the evidence against Big Dams is mounting alarmingly—irrigation disasters, dam-induced floods, the fact that there are more drought prone and flood prone areas today than there were in 1947. The fact that not a single river in the plains has potable water."

Meager harvest

Yet what benefits have 50 years or so of centralized electrification really brought? - After imposing such high human and ecological costs, the amount of power generated by the controversial Pak Mun Dam in northeastern Thailand can barely supply the daily electricity needs of a handful of shopping malls in Bangkok. - In India, 22 per cent of power generated is lost in transmission and system inefficiencies. The proportion for the Philippines is at least 25 per cent, which is probably the standard for developing countries. - In the Philippines, after 50 years of massive electrification, over 30 per cent of rural households have no access to electricity. In India, some 70 per cent have no access to electricity.

Beneficiaries

Yet, this is not surprising, since centralized electrification was never really meant principally to deliver affordable power to people in an effective way. What it really meant to deliver were different: - First of all, centralized electrification was geared to deliver a vision of modernity to satisfy the ambitions of technocrats and authoritarian elites like Marcos of the Philippines, who identified his power with the power that was to be delivered by the Bataan Nuclear Power Plant. - It sought to deliver taxpayers-subsidized profits for multinational and local dam contractors and the builders of power plants like the ubiquitous Bechtel. Centralized electrification sought provides a rationale for the maintenance and expansion of giant multilateral bureaucracies like the Asian Development Bank and the World Bank. - Centralized electrification did not aim to provide a program of coherent, balanced development but to trigger a process of destabilizing, lopsided, urban-oriented hyperdevelopment which would leave most of the countryside behind as national resources were focused on building a manufacturing and industrial sector in the manner of the West.

The new panacea

Today, these systems of centralized electrification run by governments have become terribly expensive to maintain. Now the IMF, World Bank, and Asian Development Bank want governments to privatize and deregulate these systems. While governments had to keep electricity prices controlled to justify the existence of expensive generation, transmission, and distribution facilities, the private sector will be expected to raise prices and streamline services—meaning, it will simply eliminate from the rolls of consumers those who cannot pay. After having been taken for a ride by the ideology of centralized electrification, people will now be taken on another, equally dangerous spin by the ideology of privatization—by propaganda about the greater efficiency of the private delivery of essential services.

Footing the bill

Not surprisingly, it is the consumers—rural and urban—who will foot the costs of the transition, for the private sector corporations—many of them transnational firms like Enron or KEPCO—will not be pushed to absorb the full costs of these capital-intensive systems purchased with massive loans by governments. In the Philippines, consumers will subsidize the sale of the National Power Corporation to the private sector by paying a tax designed to collect $10 billion in stranded costs. In country after country today, the physical assets of centralized systems are being divided up among private firms. But this is not among many small and medium firms, which would at least be consistent with philosophy of free enterprise. No, the model for us in the Third World is the system of power deregulation that California initiated in the early 1990's. For we are now told by technocrats and big business that the "economies of scale" dictate that the power facilities should go to a few, so-called efficient generators of energy. Thus, the dream of big centralized power that so many of our technocrats associated with national power has turned out to be a bad dream. It has turned out to be simply a phase in the delivery of electric power to the hands of private monopolies, many of them foreign transnationals. And with the botched California deregulation as a model, it need hardly be stated that we are likely to be headed for a much bigger economic disaster than the crisis of state-run centralized power systems. People are, however, underestimated. For throughout the Third World at this point, in places like Narmada in India, in Pak Mun in Thailand, people are actively engaged in struggles against the implementation of centralized technologies bent on delivering the illusion but not the reality of national progress. These struggles in the distant countryside are beginning to wake up the supposed urban beneficiaries of centralized electrification to the reality that this obsolete and flawed paradigm of national advance is actually turning out to be phase in the delivery of horribly expensive national assets at their expense to the hands of private monopolies, like the power distributor Meralco in the Philippines, a corporation that is the quintessential representative of the incestuous union of electricity, monopoly, and super-profitability. People, in short, are increasingly aware that the struggle for community, for independence, for the future is now inextricably linked to the struggle against bad centralized technologies that simply promote domination, dependence, and dissolution.

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South Asia Growth Quadrangle

Some Developmental and Political Contradictions

By Raghav Narsalay[*]

Introduction

Growth triangles/quadrangles involve cooperation between three or more countries for the development of a geographically contiguous zone consisting of a part, or the whole, of each of the participating countries[1]. The Asian Development Bank (ADB) boasts about not only having conceived the idea of 'Growth Triangles and Quadrangles', but also, of its capacity to implement these programmes with the help of international industry and developed donor countries. The prominent growth triangles/quadrangles are: the South China Growth Triangle, the growth triangle consisting of the Johor state of Malaysia, Singapore and the Riau islands of Indonesia, the Greater Mekong Sub-region Growth Triangle and the Golden Quadrangle covering Thailand, Myanmar, Lao PDR and Southern China.

The proposed South Asian Growth Quadrangle (SAGQ) region is another in this series. SAGQ, consists of Bangladesh, Bhutan, Nepal and the Indian states of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, Sikkim and West Bengal. The SAGQ has a total area of 688.6 thousand sq. kms. and a total population of around 300 million. The SAGQ was conceived and officially endorsed by participating countries during the latter half of the nineties.

Although the concept of growth triangles/quadrangles has been prominent in South East Asia, it is a new phenomenon in South Asia. This particular 'novelty' aspect could be used by the 'few but powerful' beneficiaries of the SAGQ to highlight its economic benefits and completely hide social, environmental and political costs associated with growth triangles and quadrangles.

This paper examines findings from some of these growth polygons and in the particular context of the SAGQ, attempts to address the following questions:

- Who are the actors that are influencing the formation of the SAGQ besides the ADB?
- What are the basic fallacies associated with the ADB's macroeconomic understanding vis-á-vis development?
- Would the SAGQ result in supporting state machineries to improve their quality of political manipulation vis-á-vis resource allocation and entitlement?
- Would SAGQ increase political tensions amongst members of the South Asian Association for Regional Cooperation

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(SAARC), a treaty that enshrines the formation of a regional trading block consisting of South Asian countries?

Actors influencing the formation and operationalisation of the SAGQ

US interests

It is interesting to note that one of the major reasons behind the ADB's growing interest in the formation of the SAGQ, is hectic lobbying from US industry—especially those involved in power generation and generation equipment—through the US government, which is one of the largest donors to the ADB.

For instance, in an article in The Kathmandu Post [2] entitled "Fifty years of Nepal-US friendship looks ahead," the former US Ambassador to Nepal, Sandy Vogelgesang, praised Nepal's role "in promoting a bold proposal for sub-regional cooperation in the development of the Ganges-Meghna-Brahmaputra basin". She was been candid in drawing out the nexus between the hydropower potential of the four-nation growth quadrangle and possible US business investment interest. In her own words, "such potential has caught the eye of US business and the US Government". Further, "In March (1997), my Mission had the privilege of hosting the first trade mission to Nepal of US companies based in India. Six of the fifteen companies that originally signed up for that mission are now considering investments in Nepal."

Basic fallacies vis-á-vis ADB's approach

Peculiar macroeconomic understanding

The ADB's approach is informed by a peculiar macroeconomic understanding based on the assumption that private sector participation in the creation of physical infrastructure results in economic growth, which in turn helps to alleviate poverty. This flawed macroeconomic logic,

- overemphasizes the role of the private sector and reduces the state to a mere "enabler";
- does not delve into "access related" issues pertaining to physical infrastructure; and
- does not adequately appreciate the complementarity of accessible social infrastructure vis-á-vis physical infrastructure.

These limitations are particularly important especially in light of the fact that the ADB has declared "poverty alleviation" as the overarching goal of all its activities including growth quadrangles/triangles.

The SAGQ provides the ADB with yet another opportunity to put its macroeconomic logic into practice in the South Asia region. According to an ADB press release "Large and coordinated investments across a wide front are needed to tap the potential of the region under SAGQ. Private entrepreneurs will be the main instrument of transformation, especially in undertaking infrastructure projects. However coordination is required among governments to create an enabling environment for the private sector, such as forging agreements to facilitate cross-border movement of goods and services."[3]

Although SAGQ documents and proposals acknowledge the high concentration of poverty in the subregion and the urgent need to address poverty, they do not outline specific measures for reducing poverty. Instead the ADB has chosen to focus on national policy processes to facilitate private sector participation in infrastructure creation through "public-private" partnerships.

Though the ADB claims that its approach towards infrastructure development differs from that of the World Bank (WB), the basic tenets of their respective policies remain the same, especially in the area of pricing. Both organisations emphasize 'real pricing' of infrastructure regardless of the disastrous implications of such pricing mechanisms on governments' capacities to subsidize infrastructure use among marginalised populations. Numerous case studies to show how such pricing mechanisms adopted by private power producers have made it unviable for marginalised and poor farmers in India to access even a single unit of electricity.[4]

Going overboard on 'hard' infrastructure

The ADB's macroeconomic prescriptions in growth triangles and quadrangles have increased the debt burden of the countries involved. This debt is incurred mainly to construct large-scale, inflexible and 'hard' infrastructure, the single most important constituent of growth in triangles and quadrangles. A particular point of concern is that the SAGQ is being implemented in countries which are already highly indebted. If SAGQ projects are not able to generate the estimated revenues (and this has happened in many cases[5]), the host countries would find themselves deeper in the debt trap and find it increasingly difficult to retain their economic sovereignty.

Indebtedness at the sub-national level

While Bangladesh, Bhutan and Nepal will be involved in the subregional framework as whole countries, the Indian portion of the SAGQ will entail the involvement of its northeastern states . In India, although states have in the past incurred some foreign currency debts from the debt-pool negotiated by the Centre, there is now a growing trend among states to independently negotiate the provision of credits with international/multilateral financial institutions. Unfortunately, many state governments enter such negotiations without sufficient experience and soon find themselves more deeply entrenched in debt than they had expected. An excellent example of this regard is the southern state of Andhra Pradesh.[6]

Insensitivity to development dimensions

The SAGQ covers Indian states such as Mizoram with extremely high concentrations of scheduled tribes (indigenous peoples' communities) in India, and certain regions of Bangladesh, Bhutan and Nepal with extremely high concentrations of ethnic minority communities. The livelihoods of all these communities are heavily dependent on the sustainable use of natural resources and biodiversity. The ADB and governments in the region have neither initiated any region-specific political and socioeconomic processes to facilitate meaningful participation of people and communities in the SAGQ process, nor attempted to integrate the developmental concerns of scheduled tribes and minority communities, majority of who would be directly (negatively) affected by various SAGQ-projects. There have also been no attempts to assess the negative impacts of the SAGQ projects on regional biodiversity, which literally constitutes a lifeline to many of the communities in the local areas.

The ADB's track record in other subregional programmes clearly show its insensitivity to these issues. For instance, in certain areas of the Mekong Subregion, massive resettlement schemes are being undertaken, aimed at depopulating entire districts in order to allow foreign investors access to the rich natural resources in the area. These resettlement schemes have come under heavy criticism for neglecting crucial livelihood issues and have prompted critics such as Ryder (1993) to say that wealth created through dams and mining in the Mekong Subregion are finding their way "to urban and industrial elite and influential landowners, at the expense of rural communities."[7]

The private sector, state and natural resource exploitation

The ADB's development approach gives undue importance to the private sector and the State in the management of natural resources. This is done at the cost of communities who have been living with these resources for centuries. Communities that have historically protected their natural resources and used them in a sustainable manner have been completely alienated from these resources and have lost their rights to them once the private sector and State have stepped in.

How would this aspect of the ADB's approach affect regions to be covered under the SAGQ? Let us take the example of Bhutan, which has the thickest forest cover in the whole of the SAGQ region. Over the last few years the Bhutanese government has embarked on export oriented growth with timber as a major export item and an increasing number of saw mills are now being established in the forests of Bhutan. This has given rise to unsustainable logging in Bhutan, which in turn has endangered the livelihoods of local tribes who are dependent on these forests. Such excessive logging will only accelerate once SAGQ is fully operationalised. About 49% of the total geographical area of Northeastern India is covered with forests containing over 300 known varieties of plants and herbs, which are used in the manufacture of medicines and cosmetics. Ownership patterns of forests differs in different parts of this region. In the hills, for example, ownership rests with local communities and therefore, the proportion of nationally reserved forests in these areas is small.[8] Similarly, Nepal also houses more than 700 plant varieties, more than half of which have important medicinal value.

Under the garb of facilitating private sector participation, SAGQ would provide pharmaceutical and agrochemical corporations an opportunity to exploit the rich biodiversity, genetic material and traditional knowledge of the region, using the language of the WTO Agreement on Trade Related Intellectual Property Rights (TRIPS). Private sector corporations would be in a position to establish subsidiaries in SAGQ-countries and enjoy special benefits due to their status as 'foreign direct investors'. Furthermore they would now be in a position to legally exploit biodiversity, often without paying any compensation to local communities who are the real owners of this intellectual property.

These problems will be exacerbated by the absence of current, state-of-the-art and accessible domestic intellectual property protection (IPP) mechanisms in the SAGQ host countries. The ADB, along with other financial agencies, will provide loans and technical assistance to these countries to strengthen their IPP infrastructure. However, high transaction costs would effectively block those most in need from being able to access this infrastructure, as in the case of proposed Indian IPP legislation that aims to protect the plant varieties and farmers' rights.[9]

How the SAGQ helps the State and profits to score over people

Political and developmental realities

Most of the Indian states to be covered under the SAGQ are going through substantial political and developmental turbulence. The main reasons for this are continued neglect by successive national governments of the development priorities and political aspirations of local people, especially those from historically disadvantaged communities. Hence, any developmental process that gets initiated by the national government or its implementing arms at the state levels, is perceived by local populations as the 'state's agenda' and not of any use to them.

Poverty alleviation and wrong interventions

Implementation of the SAGQ would provide the state machinery and political coalitions with an avenue by which to develop even more sophisticated ways of manipulating resource allocations and entitlements. The SAGQ has the potential to result in greater centralization vis-_-vis access to resources and to transform existing 'resource owners' into 'labour' to feed the profit mills. This is already becoming evident from some parts of the Greater Mekong Subregion.

It is important to compare such interventions with those proposed by the 'Independent South Asian Commission on Poverty Alleviation' established by the Heads of State of the SAARC countries in 1991. According to these proposals, the centerpiece of a policy framework for ' poverty alleviation' has to be the mobilisation of the poor in order to enable them to participate directly and effectively in the decisions that affect their lives and prospects. The document further points out that social mobilisation efforts for poverty alleviation must be based on entry points that are the key to poverty alleviation, and redressal of problems and obstacles identified by the poor themselves, for example, food security, literacy and primary education, health, shelter, credit, productive infrastructure and employment.

If projects under the SAGQ are implemented without paying heed to such crucial concerns, social and political turmoil in the region can be expected to grow, resulting in greater social and economic costs to all the SAGQ countries. However, the ADB seems uninterested in these issues. In November, 2000, the ADB along with Indian Chamber of Commerce, organised the first private sector forum on South-Asian Subregional Economic Cooperation at Calcutta. As yet, the ADB has not unveiled any plans to hold a peoples' forum to discuss the viability of the SAGQ.

SAARC v/s SAGQ: some political realities

SAGQ and SAARC: from song and dance to a possible divorce

The change in approach towards a newer form of cooperation within the SAARC region was reflected in the meeting of the SAARC Council of Ministers in New Delhi in May 1996, when for the first time, they endorsed the idea of forming a growth triangle consisting of northeastern part of India, Bangladesh, Bhutan and Nepal. The foreign secretaries of these countries in their meeting at Kathmandu in April 1997 drew up a document containing the objectives, principles and plan of action for the growth triangle.

As a sequel to this, the foreign ministers of these countries, in their meeting in Delhi on April 8, 1997, formally launched a sub-regional economic cooperation initiative among the four countries. They approved the objectives, principles and the plan of action developed by the foreign secretaries. They decided that the entire initiative would be outside the SAARC and that development projects to be undertaken would be from six sectors: multi-modal transport and communications, energy, trade and investment facilitation and promotion, tourism, optimum utilisation of natural resources endowment and environment. Work on the projects was to begin in July 1997.

However, the proposal was considerably altered (due to pressure from Sri Lanka and Pakistan) as a result of the decision taken at the SAARC Summit held at Male in May 1997. Sri Lanka and Pakistan expressed concern that over time, SAGQ would have the capacity to sabotage the SAARC initiative and provide India with yet another platform to increase its regional influence. They also argued that SAGQ would initiate a skewed FDI-led development process in the region. Finally, it was decided at Male that the SAARC-governments would only ‘encourage’ the development of “specific projects relevant to the special and individual needs of three or more member states” and that too within the framework of the SAARC.[10]

As a result of this decision, the entire SAGQ-initiative suffered a major setback. In July 1998, foreign secretaries of concerned four (SAGQ) countries met in Kathmandu and started working on the modalities as per the decision taken at the Male Summit. At this meeting “they reaffirmed their commitment to pursue sub-regional economic cooperation for accelerating economic growth, overcoming infrastructural constraints, and developing and making optimal use of complementarities. They decided to constitute working groups to examine and recommend specific projects for sub-regional cooperation.”[11] Following this decision the SAGQ-countries selected Nepal as the coordinating country, and assigned sector responsibilities among themselves as follows: Bangladesh for Energy, Bhutan for Environment, India for Trade and Investment, and Nepal for Transport and Tourism. Besides this Track-I approach a decision was also taken to use the Track-II approach in order to promote sub-regional cooperation.

As a part of the Track-II approach, the Japan Foundation sponsored a study focusing on the ‘prospects’ of the SAGQ. Going by the report, “South Asian Growth Quadrangle: Framework for Multifaceted Cooperation” it appears that study has not dealt with “prospects”, especially the political ones associated with SAGQ. Instead, it reinforces the old notion that links ‘hard’ infrastructure with development in the region.

India develops cold feet…

Interestingly, India is still treading a cautious path when it comes to offering official opinions on the relationship between SAARC and the SAGQ, especially considering the impact its statements would have on the unified position that SAARC usually presents a international fora, including the WTO.[12] Speaking at the first private sector forum on South Asian Sub-regional Economic Cooperation organised by the Indian Chamber of Commerce on November 28, 2000, Ms. Meera Shankar, Joint Secretary for SAARC in the Indian External Affairs Ministry, was clear that the relationship between SAARC and SAGQ is still a grey area and needs to be sorted out. She was categorical that, “SAGQ is more of a project-oriented cooperation, which would benefit the concerned four nations.” Even though “the other members of SAARC are not against such cooperation the Indian government feels that any initiative taken by the SAGQ should be informed to the SAARC members." she said.[13]

Would a growth quadrangle be reduced to a growth zone

Responding to her remark, Mr. Rehman Sobhan of the Centre for Policy Dialogue, Bangladesh said "the political concern within SAGQ and the SAARC could be resolved by emphasizing the concept of growth zone, rather than the proclamation of an economic sub-region". Elaborating on this idea he said, "the growth zone would, by its nature, be built around specific projects designed for promoting joint resource and infrastructure development, with a focus on widening the development horizons and capacity of the less developed countries in the zone."[14]

Thus by pushing the SAGQ, the ADB will increase the political tensions within SAARC. This phenomenon has the potential of jeopardizing the political security of the region when it comes to building bridges within the SAARC on issues at international platforms like the WTO and the UN. If the ADB decides to pursue the path suggested by Rehman Sobhan, it would mean a loss of face for them in terms of politically selling the growth quadrangle idea. Directly or indirectly this would have a negative impact on their potential to sell similar ideas in other parts of the Asia and Pacific. The challenge before the ADB therefore is to make the SAGQ politically palatable across the SAARC leadership.

Conclusion

In conclusion it apparent that

- The SAGQ is being viewed by its initiators and promoters through the narrow lens of commercial and institutional interests. Moreover, the SAGQ as a concept does not capture the political and socioeconomic realities of the region it covers. It needs to be re-emphasized that the SAGQ is just one of several ADB sponsored efforts to push forward its flawed macroeconomic notion linking the creation of 'hard' and 'inflexible' infrastructure with socioeconomic development and poverty alleviation.
- The ADB and the SAGQ governments are clearly not ready to accept the socioeconomic and political lessons emerging from the experiences of other growth polygons such as the Greater Mekong Subregion. More so the ADB and concerned state authorities are busy twisting facts and hiding realities to maintain their investor-friendly image and achieve their short-term political and economic goals which would satiate the demands of a politically influential class in their respective regions.
- The welfare of ordinary people and especially of disadvantaged minorities would always remain a low priority for initiators of the so called 'growth quadrangles' who will strive hard to sell this concept to politically and economically influential beneficiaries.
- Neither the involved governments, nor the ADB have had consultations with people who would be actually impacted once various projects under the SAGQ start rolling. Given the already existing turmoil in the region, a non-transparent programme such as the SAGQ will only exacerbate political, social and economic crises in the SAGQ areas..
- Countries such as India are trying to do a balancing act in expressing their opinions on the relationship between the SAARC and the SAGQ, and would be happy for the SAGQ initiative to become an economic zone covering the concerned areas. Interestingly, India is not under pressure from its South Asian SAGQ partners or its own constituent states to change its position drastically. Hence, the major political challenge before the ADB in the future is to sustain the interest of SAGQ-partners before the SAGQ starts falling apart.

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[1] Dubey, M., L. R. Baral, R. Sobhan (1999): "South Asia Growth Quadrangle – Framework for Multifaceted Cooperation"; Macmillan India Ltd.

[2] The Katmandu Post, April 20, 1997

[3] ADB, Manila (November 22, 2000): "ADB supports Private Sector Forum on South Asia Growth Initiative", News Release

[4] This analysis has been detailed out in the forthcoming publication of Focus-India Programme evaluating the fallacies associated with the Andhra Pradesh Economic Reform Programme being

implemented under the guidance of the WB.
[5] *Op cit* v
[6] *Op cit* iv
[7] Sluiter, Liesbeth (1993): “The Mekong Currency: Lives and Times of a River”; Utrecht International Books
[8] *Op cit* i
[9] Dhar, Biswajit (2000): “Protection of Plant Varieties and Farmers’ Rights Bill, 2000: Some Comments”: Centre for Study of Global Trade System and Development, New Delhi
[10] Male Declaration of the SAARC Summit
[11] *Op cit* i
[12] Interestingly, India had carried out nuclear tests just before the Geneva Ministerial Conference of the WTO. But in spite of this SAARC countries came out with a joint statement at the Geneva Ministerial, which was considered to be a very good gesture of unity, internationally. Given this stand taken by its neighbours and the way India’s own interests are at stake at the WTO, India would not want to jeopardize this unity at a critical juncture.
[13] November 29, 2000: “SAARC-Quadrangle relationship ‘not clear’”; The Hindu Business Line
[14] *Op cit* xvi

Privatizing Power in the Philippines

Cure Worse than the Disease

*By Walden Bello**

The presidency of the Philippines may have passed from Joseph Estrada to Gloria Macapagal-Arroyo, but it is testimony to the power of the Asian Development Bank (ADB) and other multilateral agencies that privatization of the National Power Corporation (Napocor) has been accorded the same top priority status that it had under the old regime.

After announcing that she was shelving the privatization initiative a few days after coming to power in the third week of January 2001, President Macapagal-Arroyo scarcely over two weeks later announced that she wanted the Philippine Congress to complete privatization legislation by June. This decision put the new administration squarely behind a bill that benefits special interests, skewers the consumer, and is guided by a flawed and obsolete economic model.

A doctrinaire solution?

Privatization has been proposed as a solution to the massive debts run up by Napocor, which owes $3.7 billion to official lenders and export credit agencies and is subsidized to the tune of 10 billion pesos ($2 million) annually by the Philippine government. Napocor's crisis, however, is largely conjunctural one, with even the ADB admitting that the agency's financial management record in 1992-97 was good. The jump in indebtedness was largely a spinoff of the Asian financial crisis, which brought about a deterioration of the agency's foreign debt burden and a hemorrhage of dollar-denominated payments to independent power producers (IPPs) that had been contracted, under onerous terms, to co-generate electricity during the country's power crisis in the late eighties and early nineties.

The ADB, World Bank, and IMF took advantage of a conjunctural crisis to effect a a fundamental change in the ownership structure of the Philippine power sector along doctrinal free-market lines. The ADB became the lead external agency dealing with Napocor, and it wanted to move the process as quickly as possible. As a condition for the government's accessing a $300 million energy sector loan from the Bank and a $400 million loan from the Miyazawa Fund of the Japanese government, the ADB wanted the state enterprise privatized 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," preferably by June 1999.

ADB loan disbursements for the Philippines dropped to nearly zero in 1999 as opposition stalled the privatization program. Much of the resistance was well founded. Critics pointed out that the legislative push began without a study of the impact of the social impact of the

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privatization. The ADB, in fact, admitted that "the impact of the restructuring and privatization process on electricity consumers has not yet been quantified, nor has the need to retain safety nets to protect the poor and underprivileged."

Also disconcerting to many was the plan to spare the private sector of much of the actual cost of the assets to be privatized. The reason for this, according to the ADB loan document, was that the "magnitude of NPC's [Napocor] existing debt is such that it cannot be fully allocated to the companies after privatization." The solution was to impose "a levy on all end-users, which will recover, among other things, NPC's stranded debt and above market...costs."

Another concern of critics was that privatization would take place without the presence of a strong regulatory framework in place, a situation that would invite abuse. They cited the fact that the ADB loan document itself had warned that "when the sale involves a natural monopoly, it is...important that capable, independent regulatory agencies be established to provide adequate oversight prior to privatization."

So hesitant was Congress to pass the bill that it took massive bribery to get an affirmative vote, a development that was exposed by two members of the House of Representatives, Etta Rosales and Rene Magtubo, who claimed that they were offered P500,000 each (P10,000) during the final deliberations on the bill. While the absence of an official investigation has failed to establish whether the ADB was involved, critics said that the agency could not escape some responsibility owing to its push to rush a defective bill through the legislative process.

Worst rears realized

The final version of the privatization bill that is now being given final touches by a bicameral committee of Congress embodies the worst fears of pro-consumer advocates. It will stick the consumer with paying, via a universal levy, for P480 billion (close to $10 billion) worth of stranded liabilities of Napocor, the giant electrictiy distributor Meralco, and other influential players in the power sector. [1] Stranded costs refer to the difference between the current market price of electricity and the mandated cost of electricity delivered by independent power producers (IPPs) under onerous contracts, many of which were negotiated during the power crisis of the early 1990's that was referred to earlier.

Billed as being anti-monopoly, the proposed legislation is actually an invitation to monopoly by the private sector.[2] The bill would "unbundle" the function of delivering electricity to the consumer, leaving distribution to private firms and electric cooperatives, creating a state-owned National Transmission Company, and dividing up Napocor's generation assets among a limited number of private producers. But it would allow a private corporation to own up to 40 per cent of the installed capacity of a regional grid and/or 30 per cent of the national installed capacity. That would translate into tremendous market power for a small number of generation companies.

This is especially disturbing in light of the experience of the deregulation fiasco in California, which has been caused by the ability of a small number of power generators. Electricity has special characteristics as a commodity, one being that it takes years to build new power plants to meet a rise in supply, another being that power consumption is "demand inelastic," meaning that industries and residences do not have the option of significantly reducing power use in response to a rise in price. A recent *New York Times* analysis traces the California disaster—which now involves sky-high prices and rolling blackouts—-to the fact that "once the supply of power gets tight, generators can gain almost unlimited power to set prices."[3] As Stanford economics professor Frank Wolak notes, "There's a very good reason this industry has been regulated for 100 years...This is an industry that 's extremely susceptible to market power."[4] Given the centrality of the question of power generation and market power, the core of the bill should have been a detailed specification of the rules and regulations to prevent monopoly or oligopoly by the likely giants of the power generation sector. Instead, it leaves it to a proposed Energy Regulatory Commission

(ERC) to do this at some future date.

Aside from inviting monopoly power owing to its failure to spell out rules for regulating the power generation sector, the bill encourages monopoly via its allowing cross-ownership between the generation and distribution sectors. Since distribution utilities can freely contract with power suppliers, what would prevent a distributor—the biggest of them the Lopez group's Meralco Corporation—from contracting with a sister generation company? As experience with conglomerates in different areas of economic life has shown, companies have a strong propensity to buy from sister suppliers even if a cheaper supply of a commodity is available in the market in order to squeeze out competing suppliers in the long run.

The absence of a ban on cross-ownership, warn advocacy groups like Action for Economic Reform and Freedom from Debt Coalition, will simply increase the Lopez group's interest in an industry where Meralco now owns 60 per cent of the market in the distribution [5]sector. This is a bill that is tailor-made for the Lopezes and the other big players in the industry. Not surprisingly, the two most vocal proponents of the bill are two senators tied by affinity to key players in the power sector: the Osmena cousins. One, Senator Sergio Osmena, Jr., is married to a member of the Lopez clan, and the other, Senator John Osmena, has a sister that is married to a member of the Aboitiz group that owns, among other things, the second and third largest electricity distributors in the country.[6]

End of a panacea

When the concrete proposals to privatize Napocor were first made in the mid-nineties, privatization, deregulation, and liberalization was the fashionable panacea for economic problems. Since then, the weight of the evidence has moved against doctrinaire market solutions in the delivery of public services. The World Bank, IMF, and Asian Development Bank continue to be the strongest external backers of the power bill, yet they themselves have had to concede that market approaches in the form of structural adjustment programs have failed in many parts of the developing world.

Since the mid-nineties, there have been high-profile failures of privatization and deregulation that must be taken seriously in order not to repeat the same mistakes. In addition to the California deregulation disaster, there is the debacle of the British railroad system. The privatization of the British railways has ended up giving Britain the worst rail services in Europe. As one magazine puts it, owing to privatization, the British train system "has gone from being the envy of the world to the laughingstock of Europe: underfunded, overcrowded, grubby, and aging."[7] As in California and in the projected scenario for the Philippine power sector, privatization of the British rail system rested on the unbundling of the services provided by one facility and their passing into the control of a limited number of private sector players.

In contrast to the failure of the privately owned British rail system, the government-managed systems in continental Europe are models of efficiency. In contrast to the near collapse of the giant California private power utilities that deregulated, the publicly-owned Los Angeles Department of Water and Power and the Sacramento Municipal Utility District, which have maintained a unity of generation, transmission, and distribution, have been immune from the state's power crisis. Indeed, as Harvey Wasserman, writing in the Nation, points out, throughout the US, "public-owned power districts supply electricity cheaper and more reliably than private utilities."[8]

Public is not always synonymous with inefficient. In fact, throughout Asia, publicly-owned or publicly-managed firms such as Korea's Pohang Iron and Steel Company, Malaysia's Petronas, and Hong Kong and Singapore's mass transit systems, are models of efficiency and reliable service.

The causes of the power crisis in the Philippines and other countries are complex. The very model of centralized electrification is part of the problem, an issue that is discussed in another essay in this dossier. Given this, privatization could turn out to be a cure worse than the disease. The answer to Napocor's crisis may be a more complex one that involves root-and-branch bureaucratic reform, civil society surveillance that may involve democratizing the ownership of Napocor, and renegotiation of the contracts with the greedy private power producers that took advantage of the power crisis of the late eighties and early nineties to get the government to agree to onerous contracts.

The privatization of a public utility is always a watershed event in any country. It must be remembered that Margaret Thatcher's sweeping privatization and deregulation is now reviled in many quarters as the source of British industry and infrastructure's lagging behind those of many other Western European countries. If privatization is the only solution to the delivery of public services, then it must be adopted. But only after it is shown in fact to be the only solution. And only if privatization is accompanied by a strong regulatory framework that protects consumers and the national interest. The ADB-backed Philippine power sector reform bill is, in this respect, fundamentally flawed, and its imposition on the Philippines invites a worse crisis than now exists.

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[1] Press Statement,. Association of Philippine Electric Cooperatives, Feb. 15, 2001.
[2] The version discussed here is the "Act Ordaining Reforms in the Electric Power Industry, Amending for the Purpose Certain Laws for Other Purposes," dated Feb. 16, 2001.
[3] "Deregulation: A Movement Groping in the Dark," *New York Times,* Feb. 4, 2001.
[4] *Ibid.*
[5] Joint Statement of Organizations Opposed to Privatization Bill, Feb. 15, 2001.
[6] "Power Bill Sparks Heated Debate," *Philippine Daily Inquirer,* Feb. 17, 2001.
[7] "Traveling on the Cheap," *Newsweek*, Dec. 18, 2000, p. 44.
[8] Harvey Wasserman, "California's Deregulation Disaster," *The Nation,* Feb. 12, 2001 (downloaded from Internet)

Dam Misconduct in Lao PDR

Nordic-led power company refuses Lao villagers compensation for lost fishery production

*By Grainne Ryder**

Completing its third year of operation next month, Laos' largest hydro dam is generating healthy revenues for its owners while thousands of villagers are left uncompensated for the destruction of their fisheries.

Judging from its early performance, the Lao government can expect annual profits from the Theun-Hinboun dam in the $25 million range over the next quarter-century, provided that no dams are built upstream and no changes are made to the dam's operation.

Yet the dam's operators, Theun-Hinboun Power Company, have refused villagers compensation claiming it would create a "permanent dependency" and that there is a danger of "misappropriation by agents involved in administering [the money]."

Completed in April 1998, the Asian Development Bank and Nordic aid agencies hailed the 210-MW Theun-Hinboun dam a model for the region – the first hydro dam to be financed as a joint venture between a socialist government and the private sector, and one that would boost economic growth in one of Asia's poorest countries.

Instead, for thousands of families dependent upon the Theun-Hinboun rivers for their livelihoods, the Nordic-built dam has generated only hardship. A report by the Theun-Hinboun Power Company last September confirmed that its dam has caused "more or less permanent" damage to fisheries in the two river systems. About 4,500 households have lost a critical source of food and income. More than 10,000 households are experiencing adverse effects of one kind or another, the company reports.

To cope with damages, the Theun-Hinboun Power Company announced plans to spend up to $4.65 million over a 10-year period, mostly on environmental impact studies, monitoring, and a team of international specialists to make "production system improvements." But critics say the company's plan provides no relief for dam-affected locals in the short-term and offers no guarantees for the future.

Bruce Shoemaker, a former aid worker in Laos who has tracked the Theun-Hinboun Power Company's conduct since 1998, calls the company's failure to provide direct compensation a "step backwards in efforts to gain redress and justice for affected [Lao] citizens."

Defending his company's plan, general manager Edwin Hourihan insists that Theun-Hinboun villagers prefer investments aimed at boosting

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agricultural and fisheries productivity to cash settlements.

Critics, including Probe International, argue that Lao citizens are entitled to both.

According to an agreement the company signed with the Asian Development Bank in 1994, Theun-Hinboun owners are obliged to conform to “sound administrative, financial, engineering, environmental and public utility practices.”

In Thailand, villagers harmed by the World Bank-financed Pak Mun dam set a new standard for ‘sound utility practice’ in 1994 when they won the right to compensation for lost fishing livelihoods. In Nordic countries, dam-affected citizens are legally entitled to at least three forms of financial compensation: cash compensation to individuals for lost property and income – an amount decided by the courts not the power companies; long-term funding for environmental and fisheries mitigation measures; and a share of the company’s earnings or electricity for dam-affected jurisdictions.

Citizens groups outside Laos are pressuring the Asian Development Bank to ensure that its model meets Nordic standards by providing full-scale compensation to Theun-Hinboun residents.

Situated in central Laos, the $280 million dam is being run on a 30-year BOT (built-operate-transfer) basis by the Theun-Hinboun Power Company, which is 60 per cent owned by the Lao government and 40 per cent shared equally between GMS Power (formerly MDX) of Thailand and Nordic Hydropower (a partnership between state-owned utilities, Statkraft of Norway and Vattenfall of Sweden).

ADB in Indonesia

Alleviate Poverty or Enhance Poverty?

*By Nadia Hadad**

Since becoming a member of the Asian Development Bank (ADB) in 1966, Indonesia has been one of the ADB's major clients, borrowing around US$ 1 – 2 billion annually. ADB lending began in 1969. As of 31 December 2000, the ADB had approved 254 loans totaling US$ 17.9 billion, which made Indonesia the largest borrower from the ADB. Of these, 48 loans totaling $ 1 billion are from the Asian Development Fund (ADF) and 206 loans totaling $16.7 billion are from the Ordinary Capital Resources (OCR)[1].

This year the ADB is going to extend about US$1 billion in new loans to Indonesia. The loans are a part of ADB's loan pledge during the CGI (Consultative Group on Indonesia) meeting on the 17th and 18th October 2000 in Tokyo, Japan. The CGI includes the World Bank, the International Monetary Fund (IMF), ADB and 30 donor countries led by Japan, members of the European Union, and the United States. Under the deal with the Indonesian Government, the ADB has committed loans between US$ 600 million and US$ 1.2 billion annually until the year 2004[2].

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In 1999, the amount of loans from the ADB constituted up to 27% of Indonesia's total loan. The other credits were from IBRD (41%), OECF/JBIC (20%) and other sources (12%)[3]. This means that the ADB had significantly contributed to Indonesia's huge foreign debt burden, which accumulated over the years, increasing from US$ 54 billion (23% of GDP) in 1997 prior to the economic crisis, to US$ 142 billion in 2000 (86% of GDP).

However, despite Indonesia's serious problems of economic recovery in the face of its debt burden, the ADB is optimistic that they can meet this year's loan target for Indonesia. According to David J. Green, the ADB Deputy Director for the Indonesia, about 40% of these loans are directed towards social infrastructure or poverty alleviation programs. The rest will be used to finance projects in the energy, finance, industry, agriculture/natural resources, transport and communication sector, and other multi sectors.

However, as in the case of the IMF and the World Bank, the ADB has proceeded with a package of loan conditionalities that are unlikely to overcome poverty or strengthen social infrastructure. In fact, these conditionalities will make the situation worse since they include privatization, deregulation and encouragement of foreign investments.

As is evident from the ADB's new Country Operation Strategy (COS) for Indonesia, the ADB relied on an *Interim Operational Strategy* (IOS) in close cooperation with World Bank and the IMF from the beginning of the Asian crisis. The IOS was intended to support the Government's recovery program, to provide concrete protection to the poor and to arrest environmental deterioration. Regarding the structural causes of the crisis, the financial sector was given priority. Reforms in financial sector governance were supported, and complemented by reforms to restructure key real sectors, including trade, industry, and energy, and particularly the State-Owned Enterprise (SOE/BUMN). The reforms were intended to eliminate constrains and to help restore investor confidence.

Failure of social safety nets

For the poverty reduction part of IOS, together with the World Bank, the ADB implemented the Social Safety Net (SSN) program, which was a loan to help the poor affected by the crisis. The loan was meant to create a safety valve for the crisis but did not provide for the development of a long-term social security system. In this program, the ADB particularly provided support to SSN in health, nutrition and education.

But the SSN and other poverty alleviation programs that have been implemented in Indonesia since the crisis in 1997 have not reduced the number of people living in poverty. Before the crisis, the number of poor in Indonesia stood at about 22.5 million. By 1999, a government survey indicated that an additional have 21 million people has fallen below the poverty line. This still understates the extent of absolute poverty in Indonesia since due to the falling of the rupiah, the Indonesian government uses an extremely low poverty line of about 50 US cents per day[4]. The UNICEF Jakarta office has stated that "due to its serious debt burden Indonesia would sustain a lost generation, a weak and feeble-minded generation resulting from malnutrition, lack of education, and unhealthiness"[5].

Many NGOs in Indonesia rejected the SSN loan program from the start, especially when they found irregularities in the implementation of the SSN program. The program did not have an adequate mechanism to prevent leakage and corruption of SSN funds, and 8.000 trillion rupiahs of the 17.900 trillion rupiahs earmarked for the year 1998/1999 was used for the election campaign in 1998, and to support the militia in East Timor.

But the odd thing was, despite the corruption and the misuse of the SSN fund, the World Bank and the ADB pledged a new SSN loan for the year 1999/2000. The ADB's evaluation of the program stated that, "ADB's assistance had allowed the Government to expand the SSN at a time of serious fiscal stress. Innovative channeling mechanism enabled assistance to reach local levels quickly and efficiently. In the health sector, ADB supported strengthening of services to the poor, especially women and children. ADB assistance to education helped to keep children in school. Surveys by ADB and other groups indicate that assistance was effective in improving access of the poor to basic services. Without assistance of ADB, World Bank, and JBIC, the social impact of the crisis might have been significantly more serious"[6]. Facts show that the SSN loans did not alleviate poverty, did not generate job opportunities for the poor, and the fight against heath problems did not yield significant results. Data collected from surveys found many cases of corruption from the SSN 1999/2000 fund. As an example, 5 billion rupiahs of the *OPK & PDMDKE*[7] fund for agriculture, health and education had been misused. And about 13 billion rupiahs of the education fund for scholarship had not reached students and schools.

Other programs

Instead of canceling misused program loans like the SSN as part of the IOS, the ADB adopted an Anti-Corruption Action Plan for Indonesia. The plan established an Anti-corruption Commission through TA 3381-INO: Establishment of an Anti-corruption Commission, with US$ 1 million, approved on 28 December 1999.

The anti-corruption plan or the commission has not shown any significant results so far, nor have they taken any firm action to prevent corruption. Even in the SSN case, even though much evidence been presented by the media and NGOs, there have not been any firm, transparent and rapid actions to investigate corruption cases and prosecute the corrupters.

Such policies from the ADB (or other IFIs) will not help Indonesia to overcome poverty problem, instead they only will increase Indonesia's foreign debt burden.

Moreover, if ADB's idea of promoting economic recovery is by deregulation, liberalization and privatization of State-Owned Enterprises (SOEs), then there is no doubt that Indonesia will be in serious trouble. In its new COS for Indonesia, the ADB declared their strategy of supporting a more competitive economy by supporting policies to promote industrial efficiency and competitiveness through deregulation, liberalization, corporate restructuring, SOE privatization, sound corporate governance and an improved business environment.

Since the crisis, the ADB has supported the Indonesian Government in bailing out debts of the private sector, both national and foreign, by converting private sector debt to public debt. As a result, pressure on Indonesia's national budget rose sharply so the government had to sell the SOEs. More than 635.000 trillion rupiahs of government bond resulted from taking over the SOEs effected the national budget to rise and posed in a very heavy debt burden[8].

Privatizing SOEs itself is considered controversial. SOEs are national productive assets and mostly sell public goods and services (i.e. power and electricity, water, ports, etc.) that are the basic needs of the people and have a social aspect and function. If privatized, not only there is a loss of social values, but also lay offs and unemployment, prices going up, etc.

Nevertheless, as stated in its poverty assessment, the ADB still feels that "the strategic orientation of ADB programs, and the IOS specifically, were generally appropriate. ADB's assistance directly and indirectly contributed to Indonesia's record of poverty reduction". And as Green said during a press meeting following the US$ 1 billion loan for Indonesia, "There is not a strong signal from our side that we want to delay projects. It's just the opposite, we feel that it is the projects that provide a stronger economy".

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[1] ADB, Country Operational Strategy Study, Indonesia, December 2000
[2] The Jakarta Post, April 20, 2001
[3] Joint Statement by the NGOs on Pre-CGI meeting in Indonesia, April 23-24, 2001
[4] Jacques-Chai Chomthongdi, "The IMF's Asian Legacy", 2000
[5] INFID Background Paper, "Indonesia's Foreign Debt: Imprisoning the people of Indonesia?", 2000
[6] ADB, Country Operational Strategy Study, Indonesia, December 2000
[7] "Special Market Operation & Regional Empowerment to Overcome Crisis Impact", is part of the 1999/2000 new scheme of the SSN program.
[8] Joint Statement by NGOs on Pre-CGI meeting in Indonesia, April 23-24, 2001