

Failure to Deliver

The ADB's Policies, Projects and Governance

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The Asian Development Bank (ADB) is the second largest source of development finance in the Asia-Pacific region, next to the World Bank Group. It provides loans (at concessional and near market rates), partial risk guarantees, equity investments and technical assistance (TA) grants to governments and private enterprises in its Developing Member Countries (DMCs). Every year, the ADB moves huge amounts of money across the Asia-Pacific region in a bid to foster economic growth and trade integration among countries in the region.

As a multilateral development bank (MDB), the ADB provides financing and TA grants to governments and private sector enterprises in a range of sectors from agriculture, rural development, transport and energy, to water, health, education, law and public finance. Since early this year, it has also moved into post-tsunami rehabilitation and reconstruction in India, Indonesia and Sri Lanka. The ADB's approach to development is based on the belief that rapid economic growth is the best path to development; that free and open markets are the most efficient allocators of resources and opportunities; and that the private sector is the best avenue for delivering goods and services. The appropriate role of government is to shift from "owner-producer" to "facilitator-regulator," and to create an "enabling environment for private sector participation" in all areas of economic activity. All of ADB's policies, projects and programmes reflect this ideology. In 2003, the ADB approved loans totaling US\$ 6.1 billion, compared with loans and equity investments of US\$ 5.7 billion in 2002. Also in 2003, the ADB approved a total of 315 technical assistance (TA) projects amounting to US\$ 177 million, compared with 324 TAs valued at US\$ 179 million in the previous year.ⁱ In 2004, ADB lending operations stood at US\$ 5.3 billion, which was used for 80 loans for 64 projects in the public and private sectors. The average loan size in 2004 was US\$ 66 million compared to US\$ 72 million in 2003. In this, the transport and communications sector received the largest share of lending at US\$ 2 billion followed by energy at US\$ 761.8 million, and law, economic management and public policy at US\$ 584.4 million. There was also US\$ 807.2 million in approved assistance for the private sector - a 49 percent increase over 2003 - while technical assistance grants were approved for US\$ 196.6 million. The largest borrowers in 2004 were the People's Republic of China and India, each receiving US\$ 1.3 billion, or about 24 percent of the total lending. The other top borrowers were Pakistan (US\$ 709 million) and the Philippines (US\$ 446 million).ⁱⁱ

In February 2005, the ADB established an Asian Tsunami Fund (ATF). Earlier this month, the ADB approved a US\$ 300-million emergency assistance grant – ADB's biggest ever single grant – from the ATF for Indonesia's tsunami-related rehabilitation and reconstruction efforts. It also plans to reallocate about US\$ 65 million in surplus funds from ongoing projects to tsunami-related assistance and expand the scope of projects already being processed to cover tsunami-affected areas.ⁱⁱⁱ In India, the ADB has approved a US\$ 200 million loan and grant assistance package towards post-tsunami rehabilitation and reconstruction. This comprises of a US \$100 million grant from the ATF and a US\$ 100 million loan from the ADB's ordinary capital resources.^{iv} In Sri Lanka, the ADB has approved a US\$ 197 million grant and loan package for two projects for tsunami related

reconstruction that will also cover conflict-affected areas of Sri Lanka. The grant is from the ATF and the loan from the ADB's concessionary financing arm.^v

Given its expanding areas of operations and increasing economic and policy influence in the Asia Pacific region, it is worth taking a look at the ADB's track record in project performance, policy and programme impacts, and governance, and assessing whether the institution is capable of delivering benefits to the people and communities of the region.

STRUGGLING WITH POVERTY REDUCTION

In its first twenty odd years of operation, the ADB was better known for project-based lending, mostly for large physical infrastructure projects such as roads, highways, dams, power plants, ports, water and sewage treatment plants, etc. By the end of the 1980s, the ADB expanded to policy-based lending, which requires borrowing governments to put in place systemic reforms in their economic, financial, social and environment sectors, much like the World Bank's structural adjustment programmes. Since then, ADB loan agreements are routinely accompanied by policy matrices that outline the policy measures or conditionalities that a borrowing government must agree to in order to get a loan. These include: passing laws and regulations that favour private sector involvement in key economic sectors and services (such as energy, transport, water and urban basic services); market-friendly restructuring and reforms in all sectors for which loans are sought (for example, banking and finance, agriculture, energy, water, justice, etc.); corporatisation and privatisation of public enterprises and utilities which in turn demand measures such as market rates for the costs of services and utility tariffs, full cost recovery through user fees, the elimination of cross-subsidies, etc.; creating a "flexible" labour force (which means workers can be hired and fired at will, minimum wages are kept low, etc.); commercialisation of agricultural production; and trade and investment liberalisation. In sum, ADB policy reforms are designed to catapult a borrowing country's economy into an unprotected, unregulated market system in order to facilitate rapid economic growth.

In the aftermath of the Asian economic crisis, the ADB joined the International Monetary Fund (IMF), the World Bank and bilateral donors in claiming that the crisis was brought about primarily by "crony capitalism" and non-transparent, inefficient and corrupt government and corporate practices in the crisis affected countries. The Asian crisis provided the MDBs and bilateral donors with a convenient opportunity to expand their demands for policy reforms into national judicial, legal and regulatory systems under the banner of "good governance."

In 1999, in step with the World Bank and the IMF, the ADB announced its Poverty Reduction Strategy (PRS) and proclaimed that from hereon, poverty reduction would be the "overarching objective" of all its projects, programmes, and TAs. The strategic "pillars" of the PRS are pro-poor sustainable economic growth, social development, and good governance. These elements would be operationalised through a strategy that involves poverty analyses, country strategies based on logical frameworks, new tools, instruments and targets, monitoring mechanisms, stake-holder participation, partnerships with Non-Governmental Organisations (NGOs), poverty partnership agreements (another term for loan agreements) with governments and most important, a sharply increased role of the private sector in all development projects and programmes.^{vi} In addition to the three strategic pillars, the PRS also has five thematic priorities: private sector development, environment, gender equity, regional cooperation and capacity building.

But despite its elaborate framework, many pages of matrices and schematic diagrams, and impressive lexicon of descriptions and definitions, the PRS has been unable to move away from its narrow focus on rapid economic growth. Demands for policy and sectoral reforms and good governance now come in the name of poverty reduction. In its early articulation of the PRS the ADB stated, “Pro-poor growth interventions will seek to address impediments to broad-based economic growth. Policy-based lending will be used to correct policy and institutional weaknesses.”^{vii}

ADB insiders admit that a major bottleneck in implementing the PRS are its own staff, who are clueless about how to reduce poverty and are either reluctant or unable to move beyond the standard growth paradigm. Country programme staff are also unable to show positive links between the macroeconomic policies and sectoral reforms they favour and poverty reduction; often, the poverty reduction components of projects/programmes involve sudden infusions of capital into local areas through micro-credit projects, agricultural loans, etc. As it is, the ADB suffers from “goal congestion”^{viii} where new goals are constantly heaped on old ones with little thought, analyses, or strategy for meeting them. Faced with an overload of goals and expectations, the default for confused ADB staff then is to stay with the business they know best: pushing loans.

PROMOTING THE PRIVATE OVER THE PUBLIC

Private sector development is at the heart of all ADB operations. The ADB’s Private Sector Development Strategy (PSD) empowers it to promote private capital investment in the region, provide and guarantee loans to the private sector, mitigate private sector risks, invest in equity, and facilitate financing to private enterprises operating in its DMCs. Most of its private sector operations have been in infrastructure development, with some investments in the financial sector and capital markets (such as in commercial and national development banks and financing for small and medium enterprises). PSD operations are gradually expanding into social sectors as well, such as health, education, water and environmental management.

Financing for private sector operations comes through direct financing from the ADB’s private sector window and complimentary financing with bilateral and commercial co-financers. The ADB provides a range of financial “products” to the private sector independent of its agreements with borrowing governments.^{ix} In an interview with the Financial Times in 2004, Robert Bestani, head of the ADB’s private sector department said that, “We’ve finally figured out what our product is, how to package it and how to sell it.” The “product”, which Mr. Bestani said was “flying off the shelves,” includes traditional infrastructure projects as well as a range of new financial services to develop emerging capital markets and financial systems. According to Mr. Bestani, what his department can offer above all is risk mitigation and development of an economy’s private sector.^x

Central to the ADB’s mission of mobilizing private capital for development is the promotion of public-private partnerships between governments and private companies under Build-Own-Operate (BOO) and Build-Own-Transfer (BOT) arrangements in which the ADB provides loans for government equity and partial credit and risk guarantees to private investors. Partial risk guarantees cover sovereign and political risk and generally require counter-guarantees from the host government. Governments also have to guarantee the purchase of a specified amount of output from the project, often in hard currency. The ADB

claims that its financing and risk mitigation schemes have provided significant “comfort” to commercial lenders and investors in public-private partnerships. Governments and the public in borrowing countries, however, receive no such comfort. They are left with foreign exchange risks, heavy debt repayment burdens, rising utility costs and poorer quality services.

The ADB demands that borrowing governments “create an enabling environment for private sector participation” by enacting laws that permit BOT, BOO and similar schemes; putting in place private sector-friendly legal and regulatory frameworks; and preparing private sector friendly projects. The PSD strategy supports the eventual privatization of key public sectors and enterprises. As the ADB aggressively pushes for privatization of a public enterprise such as a state power utility, it also provides financing to private companies who have an interest in the privatized utilities/assets, thus ensuring the transfer of public assets and wealth into private hands.^{xi} The ADB seems unconcerned about conflicts of interest in these dual roles, nor does it recognize that it encourages moral hazard by assuring financial returns and mitigating risks for private investors.

This is clearly evident in the ADB’s push for restructuring of the electricity/ power sectors, as in Indonesia, Philippines, India and Pakistan. Restructuring involves unbundling the three main components of the power sector: generation, transmission and distribution. The next step is corporatisation, i.e. each of the unbundled utilities functions as a private company would in its pricing and operations, even as it is still owned by the state and supported by public money. The final step would be the outright sale of the utility to a private company.

The ADB’s rationale for aggressive private sector promotion is that the private sector ostensibly relieves the financial pressure on poorly resourced and inefficient public sectors and enables governments to redirect resources freed up from utility and infrastructure costs towards spending in social sectors. Also, “...since well designed private sector projects within sound regulatory environments typically operate more efficiently than public sector projects,”^{xii} they often result in lowered prices, improved quality, increased access to goods and services for the poor, and even accelerated economic growth.^{xiii} However, experiences across the Asia-Pacific of ADB-supported private sector projects show the opposite.

In India, the ADB has approved loans totaling US\$ 350 million to help restructure the power sector in the state of Madhya Pradesh. The Madhya Pradesh state government and state electricity board are to provide US\$ 118.9 million equivalent in local currency. Restructuring started in 2000-2001, and by 2002, electricity tariffs were up by 20 percent. By 2003-2004, tariffs further increased by 150 percent. And in 2005, more tariff increases are expected for different categories of users. Exacerbating the situation are pronouncements by the State Electricity Board that they will put an end to subsidies that benefit farmers and low-income groups. Rising electricity costs will severely limit the abilities of farmers—majority of who work on small-hold family plots—to pump water into their fields and use other machinery as needed, thus hitting at the very heart of their livelihoods. These reforms will exacerbate the agricultural crisis already present in the country (which has already resulted in numerous farmers committing suicide) and increase the long-term costs of social and economic mitigation. Contrary to the ADB’s claims, power sector restructuring has sharply increased the state government’s debt burden and inhibited the government’s ability to spend on basic social services. Reforms are making electricity unaffordable for low- income communities and threaten to further impoverish those who are most economically vulnerable in society.

In the early nineties in the Philippines, the ADB repeatedly raised the example of the National Power Corporation (NPC) as a model of energy sector liberalization through BOT-type investments. What the ADB conveniently ignored was NPC's exposure to foreign exchange risk since it had guaranteed payments and made Power Purchase Agreements to (mostly foreign-owned) private companies in US dollars. The Asian financial crisis left NPC with multiple disasters of a huge foreign debt burden, devaluated currency, and increasing retail prices which resulted in greatly decreased energy demand. The ADB's response to this crisis in 1998 was to aggressively push the Philippines Government to unbundle and privatise NPC, which in turn was marked by a massive corruption scandal in mid-2000 and huge social unrest.^{xiv} The winners in this case were private companies who walked away with a disproportionate share of profits while economic risks were transferred to consumers who had neither the benefits of state subsidies nor legal recourse.

Similar examples of faulty policy advice by the ADB can be found in other power and water sector projects in Vietnam, the Lao PDR, Cambodia, Philippines, Indonesia, India and Pakistan. The ADB's rush towards sectoral restructuring and privatization is based on flimsy data, and sketchy and incomplete analysis. Despite disastrous experiences with past BOT projects, the ADB continues to provide private sector loans for infrastructure projects that actually raise utility prices and place considerable risks on governments who have no way to recoup their costs except by raising tariffs and levies on their own citizens and dismantling cross-subsidies for those who are economically marginalized or vulnerable. Far from freeing up resources to redirect to social sector spending, every government that has entered into an ADB designed public-private partnership is now faced with increased debt and financial liabilities, and no legal recourse.

GOVERNANCE: DOUBLE STANDARDS AND HYPOCRISY

The ADB has identified four elements of “good governance” for its operations: Accountability, Participation, Predictability, and Transparency. All four elements are operationalised by policy and sectoral reform programmes that promote private sector needs over public interest priorities. For example, “The litmus test [for Accountability] is whether private actors in the economy have procedurally simple and swift recourse for redress of unfair actions or incompetence of the executive authority.”^{xv} And, “Access to accurate and timely information about the economy and government policies can be vital for economic decision making by the private sector.”^{xvi} Predictability is—predictably—all about developing legal frameworks, especially to support private sector development.

The ADB claims that its “bread-and-butter business” is assisting the public sector in the DMCs. With regard to good governance, this assistance is geared primarily towards the reform of public sectors/enterprises and the reconstruction of the public domain with an “appropriate” role for the State in a market-friendly economy. The main concerns that guide ADB assistance to the public sector in operationalising “good governance” are: maximising profits and minimising costs for the private sector, preserving markets, promoting market-friendly policy reforms and market mechanisms in services provision, creating competitive operating environments, enhancing cost recovery, divestiture and privatization.

Although the ADB claims to eschew involvement in the political aspects of governance, its core mandate—promoting economic development and growth—is deeply political. Economic development determines the distribution of a society’s wealth and opportunities, who gains and loses, and how power is realigned or entrenched. It is thus both delusional and self-

serving for the ADB to project that the political and economic dimensions of governance can be separated in policy and reality.

Since the ADB's good governance policies do not discuss the political dimensions of governance, it shows little interest in the fact that its own projects and programmes can violate the constitutional rights and democratic spaces of citizens. Too often, reform regimes imposed by the ADB have acted as barriers to the accountability of governments to their own citizens. The transformation of public sectors to serve corporate and market interests in the guise of "efficient management of public resources" undermines the ability of states to meet their obligations to their citizens.

Strangely enough, the ADB's policy on good governance offers no prescriptions for its own institutional governance. Accountability, Participation, Predictability and Transparency are the buzzwords for governments, but appear not to apply to the ADB's own conduct or operations. The ADB is protected by its founding Charter from judicial proceedings under national laws and against financial liability for material harm resulting from its projects and programmes.^{xvii}

ADB insiders have revealed that the institution is increasingly plagued by poor and irresponsible performance by Bank staff and Management, a lack of clarity among staff about operational policies and procedures, and a noticeable absence of disciplinary processes within the institution. Questions have been raised in meetings of the ADB's Board of Directors about the appropriateness of Bank staff conduct in formulating, processing, and implementing projects. Controversies surrounding a number of ADB projects and programmes – from the Chashma Right Bank Irrigation Project in Pakistan to reform programmes in the Pacific Island States—reveal that the ADB's commitment to "good governance" is antagonistic to nationally meaningful and accountable governance structures and mechanisms.

This is evident in the ADB-financed Karnataka Urban Development and Coastal Environment Management (KUDCEM) and Karnataka Urban Infrastructure Development (KUID) projects in the state of Karnataka in India. In order to ensure efficient and independent (i.e. free from "political interference") implementation of the projects, the ADB demanded that a special Project Implementation Unit (PIU) be set up. Thus was established the Karnataka Urban Infrastructure Development and Finance Corporation Limited (KUIDFC), which works directly with the ADB in all aspects of project development, financing and implementation. KUIDFC officials, who are mid- to senior level bureaucrats in the Indian Administrative Service, claim that they have no control over project design and components, over procurement policies, and even over identification of international consultants since these are determined by the ADB. In the words of a senior KUIDFC official who requested not to be named, "Since the ADB provides the money, they make most of these decisions. We are just implementers." At the same time, democratically elected councilors in the towns where project implementation has started claim that they were not consulted by either ADB or KUIDFC officials on any aspect of the project, and the project was not discussed in city council meetings before project agreements were signed. When they raised concerns about project costs, quality or management, councilors were told by KUIDFC officials that if they complain, the officials will ensure that no other projects come to their towns. According to Ms. Vidya Pandit, a councilor of Sirsi town, "The ADB project has resulted in the bureaucratisation of development where democratically elected officials have no voice."^{xviii}

INFORMATION DISCLOSURE

Particularly contentious in the ADB's operations are its approach to information disclosure and the near-absence of public participation in policy formulation, project and programme development, monitoring, and evaluation. By any acceptable international standard, the ADB is completely unaccountable to the public, non-transparent in its decision-making and policy, project and programme formulation, and irresponsible in its stated commitment to promote public participation and access to information. The ADB's information disclosure practices are characterized by their irrelevance to decision-making, the selective nature of what is chosen to be disclosed to the public, and the dubious quality of whatever information is eventually disclosed. The most important policy and operational decisions in the ADB are made according to its institutional and political interests, and not according to what is good for the public.

In response to widespread criticism about its poor information disclosure practices and lack of public participation in decision making about its projects, the ADB proclaimed in late 2003 that it was revamping its information disclosure policies with a draft Public Communications Policy (PCP). The ADB posted the PCP on its website for comments and organised a series of consultation workshops across the region to solicit inputs from "key stakeholders." The draft PCP was uniformly criticized by civil society groups and project-affected communities as inadequate since it limited the scope of public participation in project/ programme formulation to what the ADB chose to selectively disclose. It also failed to demonstrate how the views of various "stakeholders" would actually change the manner in which the ADB conducts business. Particularly objectionable was the ADB's refusal to disclose information about its contracts and agreements with the private sector under the cover of "commercial confidentiality." Critics argued that since most private sector operations supported by the ADB are bolstered by public finance, the public has the right to know about the arrangements being promoted between the public and private sectors.

The consultation workshops were also criticized by civil society and project-affected communities as poorly planned and run. The workshops were not open to the public. Participation in each workshop was restricted to a handful of civil society groups who were identified by the ADB under no logical or justifiable criteria. Invitations to the workshops arrived too close to the workshop dates; documents were not made available well in advance or in local language; and the time allotted for discussions was dismally short. Enraged civil society groups staged a walk-out of the consultation workshop held in July 2004 in the southern Indian city of Bangalore on the grounds that the ADB was not serious in its commitment to information disclosure, accountability, transparency, and public participation. A statement by a broad coalition of South Asian civil society groups in November 2004 stated that the changes in the draft PCP were cosmetic and more oriented to boosting the ADB's image rather than to deepen its commitment to transparency and accountability.^{xx} A leaked copy of the most recent draft of the PCP (the PCP R-Paper) which will be submitted to the ADB Board of Executive Directors for approval on April 22—and which, ironically is not available to the public—is actually a step backward in information disclosure practice. Many important concerns and demands made by civil society organizations and project-affected communities during the consultation process over the past year have been ignored. Most important among the concerns that were ignored is the exclusion of project communities as one of the principle targets of the PCP. In an inexplicable twist of logic, the ADB's public communications policy states that the policy does not directly target the public in developing member countries and aims instead to strengthen partnerships with those who have "business links to the ADB."

REPEATED FAILURES TO DELIVER BENEFITS

Project performance evaluations and audits inside the ADB are conducted by its Operations Evaluations Department (OED) and, according to the ADB website, “emphasize the 3Is: Integrity, Independence and Impartiality.”^{xx} When reporting evaluation results for projects and programmes, the OED rates them according to the following categories: 1) Highly successful, generally successful or successful; 2) Partly successful, and; 3) Unsuccessful. The OED report for 2003 states that although project and portfolio performance in 2002-2003 showed significantly better performance than in 1999-2001, this result is marred by emerging evidence that the project performance report (PPR) is not identifying all projects that should be rated as problem or potential problem projects—only 1 percent of projects was identified as problem projects in 2003.^{xxi}(italics added by author)

An analysis conducted by Stephanie Fried, Shannon Lawrence and Regina Gregory of the ADB’s audit reports for projects in Pakistan, Sri Lanka and Indonesia, three of the ADB’s largest borrowers, shows that by using the standard of project sustainability as an indicator, over 70 percent of ADB supported projects in these countries are not likely to provide long term social and economic benefits to the countries and targeted beneficiaries.^{xxii}

In 2000, the OED found that half of all projects rated “successful” by the ADB in 1999 were found to be of questionable sustainability. According to Fried et al, the ADB’s “partly successful” label appears to be a euphemism for “largely unsuccessful” or “troubled,” and the “unsuccessful” projects category appears to mean “abysmal failure” and often indicates project related damage to the environment, economic structure and/or human health. The data studied across the three countries include projects in such diverse sectors as transport, agriculture, irrigation, water, health, energy and finance/credit. The main problems associated with the projects examined were poor project preparation and structures; design flaws; poor or non-existent record keeping; absence of Benefit Monitoring and Evaluation (BME) and baseline data; lack of consultation with project affected peoples, users and intended beneficiaries; lack of community participation in project preparation; cost and time overruns; operation and maintenance deficiencies; sub-standard construction, and; failure to mitigate severe environmental and social impacts.

In the case of Indonesia, such projects included those with large unmonitored resettlement components, projects where record keeping was virtually abandoned and, those that were so poorly structured that rapid deterioration of project infrastructure was inevitable. In Pakistan, ADB projects display a “disturbing pattern of systematic failure on the part of the Bank” (Fried et al, 2003), and adverse project impacts on social equity and income equality have fostered ethnic tensions. In Sri Lanka, as much as 78 percent of ADB-supported projects may be considered unsustainable or failures—the equivalent of US \$ 1.2 billion of Sri Lanka’s debt to the ADB.^{xxiii}

One of the most notorious examples of ADB project failure is the Samut Prakarn Wastewater Management Project (SPWMP) in Thailand. Located at the head of the Gulf of Thailand, the SPWMP was intended to treat wastewater from factories and households located far away from the treatment plant. The project was developed without local participation or site-specific environmental, social and economic impact assessments. Data gathered by local residents and independent researchers showed flaws in the project design and threats of serious environmental contamination since the plant would release toxic sludge and heavy

water into local canals and fishing waters. The data also showed that the project violated Thai laws and justified allegations of corruption, collusion, conflict of interest and even malpractice in the project approval and development processes. This information was repeatedly presented to ADB project staff and managers and even to the ADB President, but the ADB maintained that it saw no evidence of wrongdoing or negative impacts.

Eventually, the SPWMP went through the ADB's official inspection channels in 2001. It was the first project to undergo inspection under the ADB's Inspection Function and soon revealed fundamental flaws in the inspection process as well as the ADB's internal governance structure. The Inspection Panel found that the ADB was not complying with many of its most important policies and procedures, and that the project should have been completely re-appraised at a much earlier stage, well before a supplementary financing loan for the project was made. It did not, however, stop the project. The project was finally halted by the Thai Government in February, 2003, following findings of deep rooted corruption and flawed engineering by the National Counter-Corruption Committee and a special Senate Committee.

A similar scenario has played out in Pakistan since 2001 with the third stage of the Chashma Right Bank Irrigation Project (CRBIP), which threatens the lives and livelihoods of more than 30,000 rural people through project-induced flooding and displacement. Although ADB operational policies require that a suitable resettlement plan that incorporates social development plans be prepared by the project developers in consultation with affected communities, no such plan was in evidence. On the contrary, ADB project staff colluded with local/national bureaucrats and did not provide the affected communities with any information about the project until much later in the project's life-cycle. This project also went into the ADB's inspection process but with far less favourable outcomes than the SPWMP. In 2004, local communities initiated a peoples' tribunal (titled the Lok Sath) to provide a platform for affected peoples to share their testimonies and build wider societal support for the demands of project affected peoples.^{xxiv}

In the state of Karnataka in India, the ADB has provided financing for the Karnataka Urban Development and Coastal Environment Management (KUDCEM) Project which covers 10 towns and which ostensibly builds on the "success" of a similar project—the Karnataka Urban Infrastructure Development (KUID) project--already implemented in 4 towns in another region of the state. In all 14 towns, the project is characterised by design flaws, poor quality construction, prolonged delays in completion, non-disclosure of important project information to the public, non-transparent and non-participatory decision-making, and a refusal to subject project implementation to public scrutiny and supervision. Project managers coerced local municipal authorities into accepting terms and conditions that they are unable to justify to the public. In order to repay the project loans, Municipal Councils are required to hike land taxes and user fees on services covered by the projects. A particularly contentious issue is the ADB's insistence that key operations of the project be contracted out to foreign consulting companies and out-of-state private contractors, whose performance is not assessed by independent third party inspectors, and whose high consultancy fees add to overall debt burden created by the project.

According to Harsha D'Souza from the NGO Task Force on the ADB Loan Project in Mangalore, one of the first target towns of the project, the KUDCEM project is characterized by a complete lack of transparency and was developed without any local input. "No-one knows what procedures were followed by the ADB in the allotment of contracts, fixing of

rates for contract work, or the role of third party inspection agencies. The project is out of the purview of the Karnataka Transparency Act 2000, so we can't ask for information and get it. KUIFDC [the government implementing agency] and ADB are not bothered to see that the benefits of the project go to the people. They say that once a decision is taken, it can't be changed," D'Souza said.^{xxv}

The lack of involvement of local, democratically bodies in the formulation of the KUD and KUDCEM project has been cited as a serious problem in every one of the 14 towns where the projects have been implemented. According to Vidya Dinker, also from the NGO Task Force, the Mangalore City Corporation was not even aware that project financing came as a loan. Municipal Commissioners in at least two towns (Mangalore and Puttur) reportedly signed project agreements that had blank spaces where figures for project costs should have been written. "No-one at the state and local levels has thought about the social and economic impacts of this project. This huge infrastructure being put up through the project is expensive and at our cost, it is a huge burden to tax-payers. We are going to have a city corporation that will be down in debt as never before. How will they pump in enough money to see that the infrastructure works efficiently in addition to paying back the loan?"^{xxvi}

Independent reports from citizen's groups, researchers, peoples' movements and civil society organizations show that the Asia-Pacific region is scarred by ADB- supported projects that are poorly designed, implemented and managed; that block public participation in development planning and the public's right to information about projects and programmes; and that weaken local and national governance through undemocratic, non-transparent and non-consultative methods of operation. ADB- supported infrastructure projects have repeatedly displaced hundreds of thousands of people across the region with little or no compensation and have resulted in negative environmental and social impacts that the ADB has shied away from mitigating. It is hardly surprising then that the ADB has been charged by people's movements, civil society organizations and researchers across the region with creating "development refugees."^{xxvii}

Numerous examples can be found where the access rights of people and communities to crucial resources and opportunities have either been severely restricted or lost altogether as a direct consequence of ADB-supported projects and programmes. Policy prescriptions such as enhanced cost recovery for health, education and public utilities, water user fees in irrigation systems, creating "flexibility" in labour markets, and the privatisation of public sector enterprises, have resulted in the disempowerment and marginalisation of large numbers of people across the region. The ADB's strategy of "pro-poor growth" has encouraged governments to freeze minimum wages and withhold the rights of workers to association, benefits and protection. In countries such as Pakistan, India, Thailand, and the Philippines, protests against ADB projects and programmes have resulted in social unrest and divisions, and at times, even political harassment of those who protest.

Equally worrying is the ADB's unwillingness to assume responsibility for project, programme, and policy failures. The ADB conveniently uses local and national governments as cover. Since all its projects, programmes, and policies are in one way or another built into national and sub-national development plans, the ADB claims that decision making is in the hands of governments and that problems of poor project design and management, flawed policies, corruption, and project failure are symptoms of systemic flaws in national capacity and governance.

WHAT TO DO WITH THE ADB?

A politically balanced and accountable regional institution that is open to new thinking and ideas rather than wedded to the doctrinaire principles of a narrow economic growth paradigm can serve as an effective counterbalance, if not a total replacement, for a global institution such as the World Bank which imposes one-size-fits-all policy prescriptions that have proven disastrous to developing countries. The Asia-Pacific region is diverse in geography, climate, culture, society, politics, natural resource distribution, human capability and economic opportunity. The different countries in the region have, during specific periods in their past, pursued distinct strategies of national development, some of which (such as the miracle tiger economies of Southeast Asia and the mixed economies of China, India and Vietnam) offer important lessons that can be adapted to other countries in the region. While it is true that there is a lot of impoverishment in the region, there is also a great deal of wealth, intellectual capacity, human creativity and opportunities for learning from past successes and mistakes. Local communities across the region have tackled poverty, hunger, natural disasters and environmental challenges through sustainable, cost-effective and replicable strategies. The region needs an institution that is committed to facilitating development finance without tying the region to policy conditionality; that is open to change in the face of emerging realities; that supports the participation of local and national communities in development planning; and that is accountable to the public that it claims to serve. It does not need the ADB.

Given the ADB's track record in project performance, decision-making and governance structures, it is clearly institutionally incapable of becoming an alternative to the World Bank. Governments in the Asia-Pacific region are said to like the ADB better than the World Bank because the ADB is supposedly more flexible and more sensitive to Asian governments' realities than the World Bank. Also, there is arguably greater potential for governments in the region to influence the operations of the ADB than of the World Bank. However, this affinity is likely to be short-lived. The US already has capital shares in the ADB equal to those of Japan, the ADB's largest Asian shareholder. US influence in the ADB is growing and becoming more visible and obvious by the day as its policies, operations, and governance structures increasingly mirror the World Bank and as Washington Consensus 'yes-men' and 'yes-women' continue to fill its technical and management ranks. Worried about the influence of borrowing governments in the ADB, the US Government—backed by some other western countries—has indicated that unless the ADB becomes more conciliatory and responsive to US interests, it will slow down its financial contributions to the ADB.

The capture by neo-liberal planners and politicians of the ADB's policy making, operations planning and governance structures make it doubtful that the institution can be remolded to suit the needs of the Asia-Pacific region. But it cannot be let off the hook either. At the very minimum, the ADB must undergo some fundamental changes in order to minimize the current damage that it is wreaking across the region. These could include:

Alter the ADB's charter so that it is stripped of the high degree of immunity that it currently enjoys; the ADB must be accountable and legally liable to national laws for wrong-doing, faulty policy advice, badly designed projects and programmes, corruption and collusion, etc. We can also think about possibilities to make the ADB liable in an international framework (such as the International Court of Justice) for cross-border or regional misconduct. The ADB must pay for the damage it causes; it cannot be allowed to get away scott-free as it does now.

Re-haul the governance systems and structures in the ADB. Decision-making has to become broad based, open and accountable; the public (not just governments) must be able to participate in shaping development projects and programmes, etc.

ADB staff must pay taxes in the countries they are based proportionate to their incomes and perks. (It might also be a good idea to revise ADB staff's pay-scales while we are at it.)

The ADB must completely separate its private sector and public sector operations. It must not be allowed to transfer public and common-pool wealth into private hands, nor to heap risks and liabilities on the public sectors and provide "comfort" to the private sector. Perhaps we need independent regulatory mechanisms in each country that guard against the conflicts of interest and moral hazard that seem to currently be the norm in ADB private sector operations.

Financing must be separated from policy conditionalities.

Demand that all ADB staff go through a period of "immersion" in the subject and geographic areas they work in. (It is possible that staff just might become more subdued in their enthusiasm for sectoral restructuring and reforms if they have practical, hands-on experience of the impacts of these reforms.

Establish a regional watchdog agency that is supported by governments in the region to assess the quality and effectiveness of the ADB's operations. This agency should be able to censure and penalize the ADB for poor performance, misconduct and faulty policies and practices.

The ADB must be freed from the grips and interests of non-regional actors such as the USA, Canada and the EU. While Asian governments have not displayed particularly progressive stances in the ADB either, citizens within the region would likely be able to exercise a greater measure of influence on their own governments than on those from outside the region.

None of these ideas are intended to reform the ADB. Rather, they are intended to shrink the institution's reach and check its power while peoples and communities in the Asia Pacific region build and put into practice alternative models of development and alternative forms of governance to those imposed by the ADB and the World Bank.

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v www.adb.org/Documents/News/2005/nr2005064.asp

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vii Ibid. Page 20.

viii *ADB 2000: Senior Officials and Internal Documents Paint Institution in Confusion.* Walden Bello in *Creating Poverty, The ADB in Asia*, Focus on the Global South, May, 2000.

ix See, the ADB website for information on ADB financing facilities and products for the private sector.

x *Reformers flex their muscles.* Victor Mallet, Financial Times, February 27, 2004.

xi *Taking Stock of the Motives and Interests in ADB's Private Sector Operations.* Jenina Joy Chavez-Malaluan in *Profiting from Poverty, The ADB, Private Sector and Development in Asia.* Focus on the Global South, April 2001.

xii *Private Sector Operations. Strategic Directions and Review,* Page 12. Asian Development Bank, August, 2001.

xiii *Private Sector Operations. Strategic Directions and Review.* Asian Development Bank, August, 2001.

xiv *BOTs, Governance and the ADB.* Andrew B. Wyatt in *Good Governance or Bad Management, An Overview of the ADB's Decision Making Processes and Policies.* Focus on the Global South, May, 2002. See also, *Privatising Power in the Philippines: Cure Worse than the Disease.* Walden Bello in *Profiting from Poverty, The ADB, Private Sector and Development in Asia.* Focus on the Global South, April 2001.

xv *Governance: Sound Development Management.* Asian Development Bank, August, 1999. Pages 8-13.

xvi Ibid.

xvii See Article 48, *Status, Immunities, Exemptions and Privileges*, in the ADB's Charter, at www.adb.org

xviii Personal conversation with author on June 24, 2004

xix These statements can be obtained by writing to the author at s.guttal@focusweb.org

xx www.adb.org/Evaluation

xxi *Annual Report on Loan and Technical Assistance Portfolio Performance for the Period Ending 31 December, 2003.* Asian Development Bank, Operations Evaluation Department, June, 2004.

xxii *The Asian Development Bank: In its own Words, An Analysis of Project Audit Reports for Indonesia, Pakistan, and Sri Lanka.* Stephanie Gorson Fried, Ph.D and Shannon Lawrence, Environmental Defense with Regina Gregory, ADB Watch. July, 2003.

xxiii *The Asian Development Bank: In its own Words, An Analysis of Project Audit Reports for Indonesia, Pakistan, and Sri Lanka.* Stephanie Gorson Fried, Ph.D and Shannon Lawrence, Environmental Defense with Regina Gregory, ADB Watch. July, 2003.

xxiv *The ADB's Uncivil Engagements: The Experience of Chashma Affectees.* Mushtaq Gadi in *Good Governance or Bad Management, An Overview of the ADB's Decision Making Processes and Policies.* Focus on the Global South, May, 2002. See also the Chashma project website: www.chashma-struggles.net

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xxvi Ibid

xxvii See *Peoples' Challenge to the Asian Development Bank*, a statement prepared and presented to the ADB President by civil society groups during the ADB's Annual General Meeting in Honolulu, Hawaii on May 9, 2001.