Infopack

NOVEMBER, 2004

EDITORIAL

ADB : Poverty Alleviation or Poor's Elimination?

They are sharks waiting to strike at the opportune moment. In the global sea of economic reforms, the multilateral financial institutions like the IMF, World Bank and Asian Development Bank (ADB) first let the nations of the developing world bog down by the compulsions of reforms (an agenda set by a few biggies) and sink deeper under the economic burden since they do not have enough capital to back up their efforts to pursue the global agenda of economic reforms. Having, thus, put them in quandary, these institutions then come to their resue by offering hefty packages of financial aids, provided these nations agree to toe their line and their model of development — a model heavily loaded in favour of the intersts of the upper echelons of the developing nation societies and the multinationals; a model based on rapid economic growth and free market reforms and which fails to recognise the value of subsistance livelihoods and their contribution to national economies.

Of late, the 'poverty' in the developing world has become the 'chanting mantra' of these multilateral financial institutions. They are shrewd enough to comprehend that without talking about the poverty and the poor in Asia and the Pacific, they can't have a foothold in the region. The Asian Development Bank is no exception to this.

In fact all the policy documents of ADB are full with the rehtoric on poverty alleviation and pro-poor reforms. But this apparent concern for the poor is just rehtoric and nothing else.

Towards the end of 1999, "Poverty Reduction" was declared its overarching goal by ADB. It was said that all bank objectives and activities would be carried out to reflect this goal only. But a look at ADB's Poverty Reduction Strategy clearly reveals its firm belief in markets as the primary source of assets and opportunties that the poor need in order to develop. It says - "market-distorting interventions such as public service and credit subsidies, pricing controls, state-owned enterprises, import-export restrictions and overvalued exchange rates must be removed". Not only this, its advocacy of private sector at the cost of the public sector exposes its pro-poor rhetoric. Such intense is ADB's love for private sector that it vouches for wide expansion of the role of private sector, stretching it beyond physical infrastructure projects into domain of basic services such as edcuation, health, sanitation, water and electricity.

The stark reality is that ADB formulated policies, programmes and strategies have not only pushed the poor of Asian and Pacific region countries to further impoverishment but has even put the governments of these countries in a bind. Every time the Asian Development Bank lends money on a project it creates a problem for the governments receiving the loan. The project must made money in order that the government can pay the Bank back. Therefore, the projects which guarantee the rights of people and communities to access natural resources become less popular with governments as they are less likely to contribute large sums of money to government coffers. Thus voluntarily or involuntarily a nexus develops between the multilateral agencies like ADB and the governments to look after each other's interests thereby relegating the interests of the poor to the backburner. In fact, ADB loans have added to the debt burden of borrowing countries while filling the pockets of project promoters and government officials.

Things have come to such a pass that the poor are sending more money to the rich than the other way around. And all this is happening in the name of 'poverty reduction'.

Almost all the borrowing countires in the Asian and the Pacific region have been witness to the fact that ADB projects and policies have only served to transfer money and resources into the hands of local elite and foreign corporations. Their experiences do support the critical remark that 'ADB is being used as a mechanism for donor governmetns to subsidize their own domestic private sector'.

Be it water, agriculture or energy sector, Asian Development Bank's policies and projects are playing havoc with the interests of the common man. Take the case of India, Indonesia and the Philippines - the ADB's advice has led to escalating energy costs for consumers, increased debt burdens for the governments, and increasing profits for the private players. That's why resistance is increasingly building up in these countries against ADB and its projects. In the year 2000 at the annual meeting of the ADB in Chiang Mai, Thailand 5000 Thai villagers and farmers protested for three days against water user fees and the ill-conceived Samut Prakarn Wastewater Treatment Plant being imposed by the ADB. Similarly in January 2001 hundreds of people of Madhya Pradesh in India staged a protest march opposing a power sector restructuring loan imposed by the ADB.

This issue of ***Infopack*** peeps into the operations and designs of the high profiled multilateral financial institution called the **Asian Development Bank**.

- Piyush Pant

Popular Information Centre

Asain Development Bank Country Strategy and Programme Update 2005-07

September 2004

Bird's Eye View

The recently released document takes a look at the emerging political and social developments in India and ADB's formulation of its country strategy and programme in the emerging context.

Sketching the current political scenario in India, the document says that there have been significant political developments in India since the finalisation of the Country Strategy and Programme : 2003-2006 (2003 CSP) in April 2003. How happy ADB feels with the formation of UPA government at the centre can be gauged from these sentences written in the document - 'The architect of India's economic reforms since 1991 has been appointed the current Prime Minister. Together with the Finance Minister, the Deputy Chairman of Planning Commission and the Governor of the Reserve Bank of India, this constitutes a strong team of committed and highly experienced reformers at the helm of economic affairs. This is good for the economy'.

Under the heading 'Socio-Economic Assessment and Outlook' the document says that the macro-economic performance during the past year (2003) has been impressive. The economy grew by 8.2 % in FY 2003, making India one of the world's fastest growing economies. It says that high growth in FY 2003 is the culmination of nearly 15 years of reforms and reflects the broad-based upswing of a business cycle, led by both investment and consumption demand, that is riding on an underlying long-term trend of accelerating growth. Thus, high growth is likely to be sustained during 2005-2007, unless there are major shocks. The document says that this expectation is reinforced by other macro-economic and sectoral indicators. Foreign exchange reserve rose, resulting in accelerated monetary expansion. Growth in money supply rose from 11% earlier in the year to 15.8% by 19th March 2004. It further says that performance in the external sector has also been robust. Merchandise exports grew at 19.9% while inputes grew at 21.8% driven by strong domestic absorption.

Referring to the implications for country strategy and programme, the document says that the political and economic developments since finalisation of the 2003 CSP indicate that its assistance strategy remains valid, especially the mainstreaming of poverty reduction, and the core strategy of poverty reduction through infrastructure - led growth, supported by social development and good governance. But, the document says, some aspects of the strategy should be strengthened, namely, ADB's operations in agriculture and rural development, and shift in the focus of state-level operations to poorer states and less-developed regions, especially the northeastern states. An important breakthrough in the 2003 CSP, it says, was the introduction of an ADB programme for agriculture, irrigation, and rural development. Since 75% of India's poorer citizens are in the rural sector, ADB is stepping up and consolidating its assistance for the sector. Assistance to ADB's component of diversification of state-level operations to poorer states to contain inter-regional disparities is also being enhanced.

The document also expresses satisfaction over macro-economic performance and feels that progress on poverty reduction and the MDGs has been mixed, despite significant gains in many MDGs. It says that portfolio performance was also good during the year.

Under the heading 'implementation' of the Country Strategy and

Programme', the document says that accomplishment of the MDGs will depend largely on India's success in attaining these goals because of its large share of the global poor. It says that a strong coordination between growth and poverty suggests that poverty has declined significantly during the past year (FY2003). Regarding performance on human poverty related MDGs, the latest available data suggest significant improvement in several education and health indicators, though India lags behind in other indicators, especially gender - sensitive indicators such as maternal mortality or the gender gap in secondary education and high incidence of HIV/AIDS and other infectious diseases. The document further says that unless the social development efforts are stepped up, several human development indicators may fall short of target. In this context, it praises the UPA government's resolve through Common Minimum Programme (CMP).

Further, the document talks about the progress in the country strategy and programme focus areas and says that pro-poor growth is being promoted through assistance for fiscal consolidation, private sector development, infrastructure development and agriculture and rural development. It says that strong governance components and introduction of international best practices across all sectors are essential to leverage and maximize the development impact of ADB's financial assistance through increased efficiency. It, then, discusses the developments since 2003 CSP on specific aspects of the strategy.

Commenting on the private sector development, it says that despite growing rapidly over the past two decades, the private sector in India is still constrained by poor infrastructure, policy distortions in many markets, bureaucratic controls, and corruption. It says that ADB's strategy to support private sector development is designed to selectively address these constraints, seamlessly blending direct investment in the private sector with assistance for the public sector to promote a market friendly environment. In implementing this strategy, ADB continues to invest heavily in infrastructure, provides assistance for infrastructure-related policy reforms, and promote innovative approaches to public-private partnerships. It has also provided significant assistance for capacity building and reforms in the financial sector. Accordingly ADB floated the first domestic currency bond issue in early 2004.

The document further says that in addition to continuing focus on rationalizing capital market regulations and deepening of the securities market, the private sector development programme will also include interventions for poverty reductions which include pensions reforms for the informal sector, rural finance, finance for small and medium enterprises, and agri-business developments. I**t further says that India is now a priority destination for ADB's private sector operations. With 177 million dollars invested in four projects, ADB's direct private sector investments have increased significantly since 2003. ADB intends to take it forward.**

As far as infrastructure development in concerned, the **transport sector** is the largest and most successful component of ADB's assistance programme. ADB's organizing theme for the sector is strong connectivity to link poor rural families to social services and markets in cities, towns and ports. In the national highway sub-sector, ADB is pursuing a programmatic approach, together with the World Bank and the Indian Government. The main programme goals are to further strengthen project development and implementation, capability, enhance private sector participation, strengthen operation and maintenance (O & M), and reform the organisational structure of the National Highway Authority.

The facts made available by the document amply demonstrate how well-entrenched ADB has become in almost all the sectors in India. Note the following :

In the state roads sub-sector, several loans are programmed for 2005-2007 in additions to ongoing projects in Madhya Pradesh and Chhattisgarh. In the rural roads development programme, the first loan is proceeding well, and a second loan is scheduled for 2004. In the railway sub-sector, progress on the first project approved in 2003 is satisfactory. In fact ADB has formulated a medium-term framework for ADB support to the Indian Railway Reform Programme 2002-2010. Inland waterways is a new sub-sector for ADB operations in India, and there have been start-up delays. The first loan has been postponed until 2005. ADB's intervention has been registered in the Indian Power sector as well. The document says that ADB's power sector strategy and operations will continue to be implemented through both national and state-level interventions, particularly in poor states that are committed to reform. It further says that at the national level, ADB has provided support for nationwide sector reforms in the past through assistance to national entities. Further assistance will focus on strengthening the national transmission grid through agencies such as the National Thermal Power Corporation and technical assistance for clean development. State-level assistance will focus on sector restructuring, including private sector participation, and critical investment to support improvement of efficiency, system reliability and increased distribution coverage including rural electrification. The document says that following up on past assistance for power sector reforms and investments in Gujarat, Madhya Pradesh and Assam, future interventions will include West Bengal, Uttaranchal, the North Eastern states and possibly Kerala. In the gas sub-sector, a planned public sector gas distribution project has been converted to a private sector project to be implemented by joint venture companies. ADB will continue its association with both the private sector and the public sector, especially to develop the national gas transmission grid.

ADB has also spread its tentacles in the **Urban Sector**. For instance, in Karnataka, ADB contributed to the development of the Karnataka Urban Infrastructure Development Finance Corporation (KVIDFC) as a model agency in municipal financing. KVIDFC has now planned to leverage strong private sector involvement in basic urban services through a new loan modality. ADB's urban sector projects generally combine infrastructure development with targeted poverty reduction components and strong elements of municipal governance and policy reforms. The 2005-2007 programme will continue with such projects in several less-developed states in the North-East, Uttaranchal and Jammu and Kashmir.

The document says that the key agendas of ADB's support to the Agriculture sector are : i) water resources management for irrigation; and ii) agri-business development. In particular, ADB operations will facilitate implementations of the National Water Policy 2002 through integrated water resources management for sustainable utilization of water resources at the river basin level. **Another strategic priority is development of agri-business as a major source of rural non-farm employment and income. This will include post harvest handling, processing, marketing, and related commercial activities, apart from creating an enabling environment for agricultural development led by the private sector. ADB assistance programme also includes other rural development projects such as services of rural roads projects, and rural finance.**

The document also talks about ADB's state-level operations; its focus on the North-East region and governance and fiscal consolidation.

The document reveals that the cooperation is particularly close between ADB and the World Bank, the two largest providers of external assistance to India. The World Bank's 2004 draft country assistance strategy reflects many approaches in common with ADB's 2003 CSP, and many sectors and areas of shared interest. Besides, ADB's focus for grant cofinancing in the 2005-2007 programme will be with DFID, through the United Kingdom Cooperation Fund for India, which will be replenished in 2004.

Under 'Portfolio Management Issues' the document mentions ADB's Portfolio Performance and says that as of 31st December 2003, ADB's India portfolio included 27 ongoing loans for 5.2 billion dollars with 2.4 billion dollars (47%) in the transport sector, 1.1 billion dollars in urban infrastructure, 1 billion dollars in the energy sector, and 0.7 billion dollars in multi-sector loans. The undisbursed balance was 4.3 billion dollars of which only 1 billion dollar was accounted for by loans that had been effective for more than 2 years. Loans worth 1.6 billion dollar are yet to be made effective. The document says that portfolio performance during 2003 was generally good. It says that the disbursement and contract award ratios for India portfolio are close to the ADB-wide averages of 21.75% and 17.31% respectively. Based on the projected lending pipeline for 2005-2007, and the age structure of the portfolio, disbursements should reach 850 million dollars by 2005, and exceed 1 billion dollar from 2006 onward.

As for the performance, the document says that of the 10 loans from 1996 to 2003 that the Operations Evaluation Department (OED) evaluated, one was rated highly successful, six were rated successful, one partly successful, and two as unsuccessful.

As for India's outstanding debt to ADB (including public and private sector loans), it was 2.3 billion dollars on 31st May 2004, which is 10% of ADB's total debt outstanding. As per current projections, the programmed level of assistance will raise ADB's India exposure to about 18% by 2007.

The lending programme will be supported by non-lending assistance amounting to 27.85 million dollars (excluding sub-regional) over the period 2005-2007. ADB will provide 15.75 million dollars of this, while the rest will be through cofinancing.

Appendix 1 of the document contains a number of tables highlighting ADB's as well as other development partners' strategy and activities in various sectors and thematic areas of India. These tables are quite informative and revealing.

'Water for All'

The Water Policy of the Asian Development Bank

October 2000

Bird's Eye View

This Asian Development Bank document sketches the roadmap for water sector reforms in Developing Member Countries (DMCs) with an intention to make these countries open up the sector for the private players. Before stating in details the formulation of ADB's water policy, the document dwells into the context and need for a comprehensive water policy. The 30-page document also has three appendices containing regional trends and projections in water sector, major international and regional initiatives in water and over three decades' portrait of ADB and water. Besides, the document also has four boxes containing the text supplementing to the broader conceptualisation.

The first chapter, on context, highlights the importance of water for human existence and expounds the relationships among water, poverty and the environment. Underlining the importance of water, the document says that 'The Asian and Pacific Region is home to almost a billion of the World's poorest people; accessing adequate clean water is one of their principal concerns. For many, finding water for their crops is a life-threatening issue. In fact, difficulties encountered in accessing water, frequently determine the position of the poor on the poverty ladder'. The document further says that 'in Asia the relationship between water, poverty and the environment is complex. While admitting that about 40 per cent of Asia's cropland is irrigated and helps produce about 70 per cent of its food, the document puts the blame on poorly conceived irrigation for salinization, waterlogging, deterioration of surface and ground water quality, loss of bio-diversity (through drainage of wastelands, destruction of wildlife habitats, monocropping and excessive use of agro-chemicals), increased water shortages, increased incidence of pest outbreaks, destruction of soil structure, and loss of natural fertility. Similarly, the document makes the urban water supply system a culprit when it says - "water supplies to Asia's cities have helped quench the thirst of millions but insufficient attention to wastewater treatment and disposal is causing serious environmental problems".

While pointing towards the increasing pressures on Asia's water resources due to continuous growth in population, the document finds it getting further compounded by Asia's limited fresh water endowments. The document records - "South Asia has lowest level of water resources per capita. Its per capita availability has dropped by 70 per cent since 1950. ....This decline has mainly corresponded to rapid population increase at rates previously not experienced. ....Industrialization, too, has been responsible for higher water consumption with correspondingly higher levels of waste." The document further says that in 2025 water availability per capita in the Asian region will be between 35 and 15 per cent less than the level in 1950 and by 2025 half of Asia's projected population of 4.2 billion is expected to live in urban centres where factors of increasing urbanization, industrialization, and profligacy are likely to put severe pressure on water availability. It points out that regional food production needs in 2025 are assumed to be met by - i) expanding irrigated areas to 230 million hectares; and ii) increasing productivity. But the limited water resources and current irrigation practices present difficulties on both counts. Summing up the scenario, the document says that water stress levels are high and demand will continue to outstrip supply. Water security has become a key issue for survival of not only the poor, but also of others whose lives depend critically on water. Already, cities are reaching out to more distant sources of water supply and today stakeholders are seeming it more clearly that the future will be more concerned with managing a dwindling resources and mitigating the adverse impacts of a profligate past.

Thus after sketching the background, the document moves on to stressing the need for a comprehensive policy on water. But before elucidating on Asian Development Bank's perspective, the document briefly mentions the perspective of the stakeholders. **It says that the stakeholders across the region are beginning to demonstrate an increasingly acute awareness of the issues that determine the availability and management of water. Their participation in the regional water policy consultations facilitated by the ADB has demonstrated a sense of urgency among stakeholders to avoid a crisis of scarcity, pollution, and environmental degradation by adopting a more holistic and integrated approach to future investments in water and its management.** The consultations also showed that institutional reforms are key to effectively addressing the technical, economic, social and environmental issues concerning water. Such reforms need to be carefully planned and aggressively pursued. The document further says that it is widely recognised by water users that most of their governments have got to adopt effective policies to regulate water allocation and conservation. Legislation to grant users rights to water, and to empower users to protect and advance their rights is commonly absent in most DMCs. Responsibilities for managing water are frequently fragmented and overlapping. Both rural and urban communities are rarely involved in resource planning and management. Women who are often more concerned with managing water are scarcely consulted. There is also a general dearth of institutional capacity to deliver services and manage water resources efficiently. The document says that legislation, holistic and integrated resource management, and community involvement need to be the cornerstone of a renewed process for improved resource use. It further notes down that apart from Marrakech and the Hague Water Forum, the international initiatives are also reflected in the policies and approaches for the water sector adopted by several international agencies like The World Bank and the European Union. The European Union Water Policy has a strong environmental and ecological focus and requires member states to establish river basin management authorities. Further the Organization of Economic Cooperation and Development (OECD) in 1998 adopted the integrated water resource management model in its analysis on the performance and challenges of water management in its member countries. It asserts that there is broad global agreement on the approaches to improved water resources management.

Now the document moves on to talk about ADB's perspective on water sector and states that ADB's perspective on water issues derives from a review of lessons learned from previous interventions in the sector, the distillation of good practices in the region and elsewhere, and current contexts. **It points out that over 15 billion dollars, or about 19 per cent of ADB's total lending has been invested in water sector projects. Technical assistance worth 280 million dollars has been provided to prepare projects, research sector issues, formulate sector solutions, and build institutional capacities. However, the document points out, over the years ADB's lending for water projects, relative to its total lending, has declined from an annual average of 30 per cent in the early 1980's to 16 per cent in the 1990's. In dollar terms, however, annual lending for water over**

the eight-year blocks from 1968 has increased from 74 million dollars during 1968-75 to 875 million dollars during 1992-99. Moreover, while lending for other social sectors such as health, education, and rural development has increased during recent years (implying lower lending levels for water), the nature of lending for water has altered.

The document says that the principal lesson learned from investments in the water sector, and from a review of the sector's current context in the DMCs is that ADB, like its DMCs, needs to move rapidly from an era of disaggregated water sector investments aimed primarily at creating assets to an era of holistic, integrated investments to promote efficient water use. It says that investments in water supply and sanitation, irrigation and drainage, hydro-power, flood control and watershed management should be set in the context of managing water resources within river basins. At the same time the creation of assets in each sub-sector, and water use within that sector, has impact on other sectors that need to be factored into investment decisions to optimize project designs. Advocating a people-friendly role, the document says that the competition for use of a dwindling natural resources requires ADB to support the development of an effective legislative framework that gives users rights to water and provides a mechanism for dispute resolution. But at the same time it advocates that ADB needs to promote efficiencies in water use by supporting demand management, including water pricing. It further says that with the stakeholders and ADB seeing the need to act urgently and in concert to avert the clearly disastrous consequences of a business-as-usual approach to water development and management, the requirement for ADB to articulate a clearly focused policy to support regional water initiatives is pressing. Moreover, it will provide ADB with a means to more effectively meet the development challenge.

As far as the ADB's water sector policy is concerned, the document declares that it is premised on the Asian and Pacific Region's urgent need to formulate and implement integrated, cross-sectoral approaches to water management and development. It seeks to promote the concept of water as a socially vital economic good that needs increasingly careful management to sustain equitable economic growth and to reduce poverty. The document stresses that conservation and protection of water resources in the region through a participatory approach are at the heart of the policy.

The water policy of ADB has the following principal elements:

I. To promote a national focus on water sector reform: DMCs will be supported to adopt effective national water policies, water laws, and sector coordination arrangements; improve institutional capacities and information management; and develop a national action agenda for the water sector. Throughout, the needs of the poor will be specifically factored into legal, institutional, and administrative frameworks.

II. To foster the integrated management of water resources: Integrated management will be based on conducting comprehensive water resource assessments, and concentrating on inter-linked water investments in river basins.

III. To improve and expand the delivery of water services: Focusing on water supply and sanitation (both rural and urban), irrigation and drainage, and other sub-sectors, support will be provided for autonomous and accountable service providers, private sector participation, and public-private partnerships, emphasizing equity in access to water for the poor and underserved.

IV. To foster the conservation of water and increase system efficiencies: Packages that combine water use and resource management charges to recover costs, improved regulation and increased public awareness, and provisions to ensure that the poor are not excluded will be supported.

V. To promote regional cooperation and increase the mutually beneficial use of shared water resources within and between countries: The primary focus will be on the exchange of information and experiences in water sector reform. Support will be provided to enhance awareness of the benefits of shared water resources, create sound hydrologic and socio-environmental data-basis relevant to the management of transboundary water resources, and implement joint projects between riparian countries.

VI. To facilitate the exchange of water sector information and experience: Socially inclusive development principles will be supported to promote stakeholder consultation and participation at all levels, increase access to basic water services by poor consumers, and enhance water investments in the DMCs through public-private-community-NGO partnerships.

VII. To improve governance: This will be accomplished by promoting decentralization, building capacity, and strengthening monitoring, evaluations, research, and learning at all levels, particularly in public sector institutions.

The document, then, goes on explaining the above mentioned policy components. Regarding water allocations component, it says that ADB will encourage the DMCs to adopt participatory and negotiated approaches for water allocation. It will support the evolution of water allocation through markets of transferable water rights once the necessary policy, legal, and institutional framework for IWRM in a river basin context have been put in place.

As for improving the water service, the policy vouches for decentralization of these services, private sector participation and public-private partnerships with more emphasis on private sector participations, giving illustrative examples in its support in a box.

The document also talks about reforms. It says that where necessary, ADB will help the DMCs review existing policies and bring them in line with good international practice. Assistance for undertaking water sector assessments will be provided to ensure that policy formulation and sector reforms are well grounded. It also says that effective water policy will involve several reforms. Because project planning and implementation are commonly fragmented among many institutions, ADB will support the optimization of agency functions for planning and implementations. Support will be provided for the review and revision of water legislation particularly in the areas of water rights and allocation among competing uses, water quality standards, groundwater use, demand management, resource conservations, private participation, and institutional responsibilities for water sector functions at national, regional or basin, local, and community levels.

The document also talks about fostering participation and says that ADB will promote participation in the management of water resources at all levels and collaborate in fashioning partnerships between governments, private agencies, NGOs, and communities. Getting the poor to participate, and mainstreaming them to the community thought and action, will be a key area of ADB work.

Regarding the strategy, it says that ADB will seek to draw private enterprise into participating in a higher quality of water service provision. Water projects supported by ADB will incorporate carefully designed components that promote the participation of civil society in identifying needs and issues, designing solutions, and establishing mechanisms for monitoring and dispute resolutions. Tools including guidelines for the design and implementation of successful participatory process in water sector activities, will be developed.

Touching upon the gender issue, the document says that to ensure that water sector activities are gender-responsive at policy and institutional levels, ADB will promote the integration of gender concerns in policies, plans, programmes, and projects. It says that the key elements in a gender approach to planning, implementing, and evaluating water sector activities are - i) including a gender analysis at the design stage,; ii) incorporating explicit gender equity provisions in the objectives and scope of the activity; and iii) desegregating data in monitoring and management information systems along gender lines. These elements will be incorporated in ADB's water sector operations.

The document also talks about improving governance, building capacity and developing synergy. 'The policy and ADB's poverty reductions strategy' section of the document says that the key elements of the strategy's framework for poverty reduction are - i) pro-poor sustainable growth; ii) social development; and iii) good governance. A long term objective is to empower the poor and develop institutional arrangements that foster participations and accountability at the local level. It says that in operational terms, the policy will enable ADB to help the DMCs undertake comprehensive water sector assessments and develop national water policies and programmes.

The last sections of the document is about 'Getting the Policy to Work'. It says that the policy will be linked to country operational strategies. To the extent that water is recognised as a prime development issue in a DMC and the country strategy requires ADB to address water sector issues, the policy will support identification of issues and development of approaches to tackle them. Three principal factors will govern policy implementation. Integrated packages of policy support, capacity building, sector reform, and investment support set in a long-term framework will be provided by ADB. Investments in the sector will be catalysed by promoting policy, legal, and institutional reform to create an environment where enhanced levels of public-private partnerships become possible and where higher private investments are leveraged. Since water transcends national boudnaries, the case for regional cooperation is strong. ADB will promote the regional and sub-regional exchange of information and experiences in water sector reform, and support regional water partnerships, programmes of comparative analysis and research that effectively underpin national policies and plans. Whenever requested jointly by riparian countries concerned, and based on a prioritized assessment of resources, ADB will support the coordinated management of water as a shared natural resource among the DMCs.

ADB's Private Sector Development Strategy (PSDS)

Private Sector as the Engine of Growth

Vol. 1; No. 2

By:

Violeta Q. Perez-Corial
NGO Forum on the ADB

April 2001

NGO Guidebook on ADB Series

Bird's Eye View

The Asian Development Bank unveiled in March 2000 its new Private Sector Development Strategy (PSDS) aimed at strengthening the role of the private sector as the engine of growth in Asia with an elan that a robust private sector can play a key role in poverty reduction. The new strategy was hailed as 'the instrument by which ADB will harness the private sector's contribution to its vision of an Asian and Pacific Region free of poverty'. This guidebook is all about presenting how ADB implements this new strategy, as well as some of the more fundamental concerns raised by local communities and citizen groups around the region about the potential and actual impacts of the new PSDS being implemented by ADB.

The guidebook reveals that the new PSDS has three main thrusts namely : a) creating enabling conditions for business to flourish and an environment conducive to pro-poor growth; b) generating business opportunities; and c) catalysing private investments. Whereas the areas of operation are fourfold - Governance in the public and private sectors; financial intermediation; public-private partnerships; and regional and sub-regional cooperation, the kind of public-private partnership advocated by ADB is designed on the following:

- Public-private partnership should be formed through government design of concessions that call for bidders to provide services where it will not otherwise provide to the poor.
- Private utilities should be effectively regulated to make sure the poor get better access to services at lower prices.
- Responsible corporate citizenship must be encouraged.
- Privatization and divestiture should be linked to poverty reduction, as for instance, when state-owned assets are sold to investors and some of the proceeds could be shared with the poor.

Pointing towards ADB's corporate connections, the guidebook says that since its inception in 1996, private sector corporations based in donor countries have benefited immensely from Goods Related Services and Civil Works (GRSCW) contracts of ADB-funded projects in the region. It says that in 1996-99, ADB awarded contracts worth 54.3 billion dollars for goods and services; 37 per cent ($ 20.1 billion) went to companies from donor countries, particularly Japan, US and Germany. Private companies from Japan and America - the top two donors with highest voting rights in the Bank - have between them won ADB contracts worth more than all ADB lending to the thirteen LDCs (Least Developed Countries) in the region.

Many of those companies awarded assistance are the biggest companies in the world. Moreover, many are involved in large-scale infrastructure projects using technologies that are either no longer politically acceptable or commercially viable in developed countries.

Thus private companies, large engineering and construction companies in donor countries (particularly Japan, US, Germany and UK) and consulting companies are some of the immediate beneficiaries of ADB lending over the last 34 years (the guidebook shows the beneficiaries through a chart). ADB uses a range of instruments - such as policy dialogue and advice, programme lending and technical assistance - to help address problems that impede private sector growth in its DMCs (Developing Member Countries).

The document says that in its public sector operations, ADB will help shift the governments 'role from owner-producer' to 'facilitator-regulator' of private sector activities; freeing public resources for use in basic education, health services and promoting social safety nets. ADB will ensure that its public sector investments do not 'crowd out' the private sector, and that it takes all possible opportunity to 'crowd in' private sector participation. Keeping this in mind ADB will continue

to provide direct loans to private sector projects with focus on infrastructure and finance sectors.

The document also talks about the concerns raised by the civil society groups regarding conflict of interest issues when the Bank would now have increased dealings with the private sector alongside its traditional public sector clients. For instance, this may happen in cases where ADB, through its public sector operations, advises a government on how to privatize state-owned utilities while at the same time the Bank gives direct lending assistance or equity investments to the private sector bidders and/or winners through its private sector operations. Or, privileged information between the Bank and its government agency client may be unwittingly disclosed to private sector clients that deal with these agencies directly. The document asks, how will the Bank play a 'neutral' role or balance the sometime conflicting interests of its private (e.g. confidentiality clauses) and public sector clients (e.g. transparency)? It stresses that this grey area in Bank operations needs to be addressed directly, rather than be left to the discretion of individual Bank staff or management.

Drawing our attention towards the question of Governance, the guidebook points out that Private Sector Development Strategy considers effective governance essential for encouraging private sector investment. So in the private sector, ADB will help member governments promote 'good corporate governance' through various means such as reviews of commercial laws and regulations and establishment of credible accounting and auditing standards. As an 'activist investor' ADB will also actively pursue the introduction of best corporate governance practice in its existing and potential private sector investee companies and through investment funds it supports.

But, the document points out, NGOs are largely critical of the facilitating role that multilateral development banks like the ADB and World Bank play in the development agenda of poor countries in the region. These roles coupled with conditionality-laden loans, result in restructuring the national policies and programmes of sovereign countries and outright meddling in their political processes, which these Banks, through their own charters have been explicitly prohibited from interfering. It further points out that 'Good Governance' policies which the ADB will advise to governments in the region will reflect many of the old worn-out paradigms that it had given in the past - liberalization, deregulation and privatization - which have time and again brought further impoverishment to the poor.

Again drawing our attention towards ADB's Private Sector Operations (PSO), the Guideline points out that it had created a private sector strategy in 1995 that reaffirmed the role of the private sector in promoting development. Accordingly a Private Sector Group (PSG) was created to focus on five key activities namely - a) infrastructure investment; b) capital markets; c) privatization; d) large, complex industrial deals; and e) small projects, manufacturing and commercial deals through an ADB financial subsidiary - 'the ill-fated Asian Finance and Investment Corporation Ltd. (AFIC)'. Two months after the creation of the PSG to consolidate private sector operations (PSO), ADB approved a focused operational strategy for PSO which accorded high priority to two sectors - infrastructure and finance. Under the new Private Sector Development Strategy, the PSG is responsible for all of ADB's unguaranteed, enterprise - level private sector operations. The PSG uses certain 'filters' in the selection of its private sector projects : a) project should fit with country strategy; b) project should fit sectorial strategy; c) governance components are in place; and d) economics of the project.

The document says that ADB justifies its direct participation in private sector projects by saying that this helps mitigate perceived sovereign risks and provides 'comfort and confidence' to investors, particularly by demonstrating the feasibility of pioneering transactions in client countries. However, the document also points out, through box no.2 that the Bank's AFIC misadventure resulted in a commercial fiasco with the onslaught of the Asian crisis and AFIC was among the financial intermediaries nearly-collapsed despite successive bailout packages led by the ADB. It further points out that ADB's private sector operations accounted for roughly 3% of the Bank's total portfolio in 1999; and of the total lending of 5 billion dollars, four loans (total $146 million) without government guarantee went to the private sector. In 2000, ADB's participation in PSO projects catalysed a total of 1.6 billion dollars of investment commitments. **The guidebook also notes that ADB's charter grants the Bank immunity from all kinds of suits. Some legal analysts believe, however, that the Bank - in its private sector operations (specifically, ADB equity investments) may be held liable for any wrongdoing, as with any commercial or private entity.**

Talking about Partial Risk Guarantee (PRG) scheme, the guidebook says that this scheme is one of ADB's instruments to promote financial flows to developing countries. It is aimed at providing loan default protection against political risks that may arise in connection with the project. **However, in February 2001, the Bank revamped its political risk guarantee policy by making it more 'userfriendly and transparent'. The scope of coverage for lenders to private sector projects has also been expanded and made more explicit. Areas of political risk coverage now include expropriation, currency inconvertibility and/or non-transfer, political violence, and breach of contract.**

However, the guidebook observes that ADB guarantees and counter-guarantees provided to DMC governments are defector subsidies given to the private sector which unjustly shifts the burden to taxpayers of already poor DMC countries.

Likewise, the critics have also made the allegation that donor country governments are using ADB to deliver taxpayer-funded subsidies to the private sector. The document points out that though the Bank promotes privatization as a vehicle for improving efficiency and creating 'fiscal space'; it does not see privatization as a panacea because 'a private monopoly can be worse than a public one'. The Bank also recognizes the many drawbacks experienced in privatization and private provision of service. In some cases, public institutions that have been privatized have been put to some other use or have entered into monopolistic contracts for service delivery, increasing fees while allowing services to deteriorate.

The guidebook observes that certain concerns have been raised by the Civil Society groups in Philippines, Indonesia and Pakistan regarding privatization of SOEs and these concerns relate to the original intent of setting up publically-owned or controlled enterprises with the objectives of providing essential services, regulating the economy and promoting the public interest. These are vested with public welfare interests and need to remain in the hands of the state. Through privatizations, public enterprises with combined 'social' and income-generating functions would be transformed into purely profit-oriented enterprises. The losses would be in the 'social', subsidized functions where lie support mechanism and subsidies for the poorer sections of society. Moreover, women are disproportionately burdened as public sector workers of privatized enterprises are more likely to be displaced and as household managers would bear the brunt of steadily increasing prices of privatized goods and services.

The guidebook draws our attention towards the crisis generated by the privatization of public enterprises in Indonesia and points out that government's plan to privatize 144 units faced massive oppositions and in November 2000 civil society groups in Indonesia called strongly for the rejection of SOE privatization, along with demands for greater transparency, accountability and participation in the government transactions with the international financial institutions like ADB.

The guidebook also talks about the ADB's belief that the private sector alone cannot deliver efficient public services and that 'public-private partnerships' can balance development goals with commercial interests. The Bank says that the public and private sectors must work together to inject greater competition, increase efficiency, and avert market failures. Then the guidebook moves on to describing the loans provided by ADB for restructuring the power, water and sanitation, transport sectors to benefit the private players in the countries of South Asia like India, Pakistan, Nepal and Sri Lanka.

At the same time, the guidebook looks critically at the ADB's game plan and says that the much-wanted competition in the private sector is a myth, particularly in the globalized arena where only a handful of multinational corporations have emerged as 'capable strategic investors', with much financial and advisory support from international financial institutions like the World Bank and ADB to dominate privatized public utilities wherever they take place around the World. Their stakes in private water companies in the Asia-Pacific region run up to 100% in the privatized water companies. However, their emerging track record worldwide is beset with labour woes, failed performances, allegations of corruption and water rate increases.

The document says that to ADB, well-functioning financial systems are important for private sector development, especially in the aftermath of the Asian crisis. That's why ADB pushed unusually large bailout packages in support of reforms in the banking and financial sector - 1.2 billion dollars to Thailand in August 1997, 4 billion dollars to Korea in December 1997 and 1.5 billion dollars to Indonesia in 1998. What is to be noted is the fact that these policy-based loans typically include the restructuring of state-owned banks and improving the legal and regulatory environment 'to facilitate debt recovery'. That's why the guidebook quotes the suggestion of some US based NGOs that financial sector programmes showed more fully incorporate the lessons learned from the Asian crisis. One of these suggestions, recognised even by the mainstream economists, is that the costs of capital market liberalization have outweighed the benefits.

The document also talks about ADB's Pension reform agenda. It quotes former ADB Vice-President Peter Sullivan's emphasis on the need to reform Pension systems to avert a 'looming social security crisis' and to develop financial markets. According to him pensions offer a large pool of savings and provide an impetus to the development of debt and equity markets. He also pointed out that in the transition economies, there was need to 'restructure and tighten the welfare systems by enhancing contributions while allowing for market forces to determine the use of resources'. In 1999, ADB co-organised a 'capacity-building conference to explore appropriate strategies to reform pension systems in South Asia.

Earlier in 1995, former ADB President Mitsuo Sato set the tone of the public-private partnerships in health when he cited the urgency to develop concerted policy reform to address problems of access, high costs and diminishing resources for health care in Asia, a key element in the strategy being the encouragement of greater private sector involvement in health care provision.

The document also cites major lessons learned in privatizing social services (particularly health) believing the so-called 'consensus' on 'public-private sector partnerships'. For instance, in Nicaragua the institution of privatised health services disenfranchised citizens, resulting in the reversal to a biomedical emphasis rather than a 'broad based, inter-sectorial and integral concept' of primary health care. **In Cambodia, official user-fee schemes resulted in poor people being further denied access to health services. Similarly, in the privatized health care system of the US, consumers felt powerless against the monolith of profit-seeking doctors, hospitals**

and insurers. Perverse incentives like unnecessary surgical procedures including caesarians, hysterectomies and tonsillectomies have been created.

Further, the document records that the increasing commercialization of agriculture will be intensified with ADB's PSD strategy in its public sector operations, particularly in the agriculture and natural resources sector: Look at these: In November 2000, ADB approved a 45 million dollar loan to restructure already privatized farm in Kazakshtan. The same year ADB approved a 11 million dollar loan to Nepal's Crop Diversification Project that will use private service providers, including NGOs, to assist groups of farmers - especially women how best to grow and market cash crops.

The guidebook informs us that ADB's mandate to promote regional cooperation was translated into policy in 1994. The Bank has since supported several sub-regional cooperation programmes in Southeast Asia, Central Asia, and more recently in South Asia. In these schemes, ADB plays a coordinating role cum 'honest broker' between governments and the private sector.

The guidebook further informs that ADB promotes South Asia as the region accounting for the 'single largest concentration of poor people in the world' or about 500 million out of a total 900 million persons living in poverty. It says that to ADB, several factors signal the growing momentum for cooperation in South Asia. These factors are -

- Chukha Hydel Project for power delivery from Bhutan to India;
- Signing of Mahakali treaty between India and Nepal;
- Enhancement of transit facility from Nepal to Bangladesh through the eastern corridor in India;
- Signing of Ganga water - sharing agreement between India and Bangladesh;
- Signing of India-Sri Lanka free trade agreement;
- Activities initiated under the Bangladesh, India, Myammar, Sri Lanka, Thailand Economic Cooperation initiative (BIMSTEC); and
- Formation of the South Asia Growth Quadrangle (SAGQ).

The first Private Sector Forum on SASEC in Calcutta (India) brought together public and private sector representatives and was seen as a major step towards identifying an investment programme to develop the SAGB. The event was attended by a large ADB delegation.

Towards the end, the guidebook talks about what should be done to challenge the ADB's contentions, operations and premises. It remarks that ADB's Private Sector Development Strategy (PSDS) is the embodiment of a neo-liberal ideology that puts blind faith in the supremacy of the private sector as the all-knowing and all-efficient determinant of a country's development, which premises, among others, that:

- Private ownership always ensures incentives to maximize efficiency;
- Private management is intrinsically more efficient than public management;
- The market always allocates resources where they are most needed;
- Public investment 'crowds out' private investment;
- People will pay for what they need and do not need what they can not pay for; and
- Collective provision of welfare services promotes a 'dependency culture'.

The guidebook asserts that these assumed premises of the Bank must be challenged in a major way. It says that 'privatization' in its broadest sense should not be reduced to merely the question of inefficiency and

graft and corruption of state enterprises - the public sector's trilogy of sins. It is also about the role of government in providing social goods, its capacity to act as a social agent, and about employees in these public enterprises. Moreover, the spectre of the big business conglomerates controlling strategic sectors in society cannot be swept under the mantel of a much improved service delivery. If government is deemed to be inefficient and corrupt, then the answer is not privatization, but rather to replace the government.

It also notes that multilateral development banks like the ADB and World Bank have often cited empirical evidence of the primacy of the private sector. But most of these studies show that the 'superiority' of privatized SOEs are limited to narrow efficiency criteria such as : increased sales, increased earnings, increased average salary per worker, and decline in both short-term and long term debts. Moreover, these so-called evidence should be continually challenged based on the perspective of poorer segments of society who should be the primary beneficiaries of development and improved delivery of services.

More importantly civil society groups should monitor the private sector. The concept of 'corporate citizenship' should translate in monitorable corporate responsibility to people and the environment.

• •

The Asian Development Bank and the Privatization of Power Services

By:

Fabby Tumiwa
Working Group on Power Sector Restructuring

Indonesia
December 12, 2003

Bird's Eye View

The document states that power sectors in many developing countries are undergoing enormous fundamental changes. It says that across the world, electricity reform or restructuring is taking place. In developing countries rapid growth in population, process of modernization and industrialization has resulted in huge demand of electricity which the government owned utilities are unable to generate and meet due to its poor performance and poor maintenance of the machineries. The governments, in these countries, are being pushed to privatize and transfer ownership of public utilities in the power sector by various international financial institutions and development agencies. **But, the document says, power sector reforms in Asia has resulted in increase in the debt stocks of countries because of the huge costs backing up reform programme.**

As far as ADB's role in the asian region is concerned, the document says that, the Asian Development Bank(ADB) plays a major role in proposing and supporting "power sector restructuring programmes" along with the World Bank, IMF and other development agencies like USAID and DFID. ADB's role in "power sector reforms" among Developing Member Countries(DMC) started in early 1980s with the release of its first "Energy Policy Paper" in March 1981 focusing mainly on development of energy infrastructure and on creation of incentives to bring foreign investment. In 1995, the ADB had also released a "Second Energy Policy Paper" focusing on how the power sectors in the developing countries were becoming unmanageable and ineffective under monopolistic government . Following are the objectives set by the ADB for the power sector reforms:

- Introduction of competition;
- Allocation of a greater role for private sector;
- Separation of the roles of owning and regulation;
- Provision for fair, objective, stable and transparent regulation;

- Broadening the financing lease;

The document further says that ADB advocates power sector restructuring in the medium-term, involving unbundling the mix of generation, transmission and distribution, introducing elements of market competition and minimizing monopolistic segments of the power sector by the state to enable greater private sector participation.

It says that the ADB has been promoting corporatization and commercialization of government owned utilities as a prelude to the entry of private sector through BOO/BOOT (build-own-operate/build-own-operate-transfer) options putting private profit before public interest.

In November 2000, ADB released the **Energy 2000: Review of the Energy Policy of the ADB**, a review of the 1995 Energy Policy. The Energy 2000 listed four operational priorities for ADB, namely (1) Poverty reduction by creating energy infrastructure for sustainable energy growth; (2) Increasing private sector involvement by restructuring energy sector and creating enabling environment for private sector; (3) Addressing the regional and global environmental impact by use of clean energy, and Kyoto Protocol Mechanism for GHG abatement and financing renewable energy projects and; (4) Promoting regional cooperation by identifying and implementing export-oriented hydropower, natural gas-based generation and transmission projects.

According to the document the review affirmed the soundness of the policy. It emphasized the following issues: continuous support for private sector participation in the energy sector; allocation of funds to DMCs willing to restructure their energy sub sector (oil, gas, coal and power) for purposes of attracting private investment; support for the build-operate-transfer project types and the Bank's partnership with utilities and private investors to encourage private investment; use of market prices to increase private sector participation. **Thus the ADB loan is directly linked to the process of reform.**

The document mentions that in the year 2000, the total energy sector ADB loan stood at $1.017 billion or 18% of $5,676 million total lending.

After throwing light on ADB's Asian region Power sector reform policies and strategies, the document goes on highlighting some of the electricity reforms and privatization that have taken place in various Asian Countries.

It says that in **India** the ADB supported power sector reform started in 2000 in the states of Gujarat and Madhya Pradesh. The objective of the reform in Madhya Pradesh is to unbundle the Madhya Pradesh Electricity Board (MPEB) with only one generating company comprised of previously separate generation plants running as a profit center; a transmission company, a dispatch company and several distributions companies. Both the states have introduced corporatization and commercialization principles in their power sectors. In 2002, ADB awarded the Indian Government with $150 millions for its implementation of the state power sector reform programme.

Similarly, in **Bangladesh**, the ADB has funded power sector restructuring programme through three loans totaling $340 millions, six technical assistance grants and one private sector involvement since 1994. Before the initiation of reform , Bangladesh Power Development Board (BPDP) used to generate, transmit and distribute electricity in the country. The initial step towards reform started in 1991 when the government established Dhaka Electricity Supply Authority (DESA). In the mid-90s, ADB and the World Bank interventions under the reform programme paved the way for creation of Bangladesh Power Grid Company in 1996 to take over the transmission business from BPDP. ADB awarded $850,000 Technical Assistance grant for project preparation activities related to the corporatization of DESA.

In **Philippines**, the ADB lending in power sector already reached $2,297.6 billion i.e. 28.59% of total lending by 2002. The World Bank, JBIC and USAID provided the additional funding in order to implement the reform programme.

To support this power restructuring, all these financial institutions urged the Philippines Government to pass an enabling law - the Electric Power Industry Restructuring Act (EPIRA) in 2001, as a condition to loan disbursement. EPIRA facilitated the privatization of the National Power Company (Napocor) comprising of several new power companies.

The document states that by 1995 the lease obligation to IPPs (Independent Power Producers) amounted to p35 billion only while by 2002 the amount had increased 20 times due to the government's contractual obligations with independent power producers whose revenues it guaranteed, regardless whether the contracted electricity was actually generated or used. The government will cover this cost by passing the burden on to electricity consumers.

The document further says that privatizing the transmission asset is a key element in the power privatization programme. However, the Power Sector Assets and Liabilities Management Corp.(PSALM) has already failed twice to bid out Napocor's transmission asset. It recently announced plans to enter into negotiations with lone bidder Singapore Power (SP).The total financial assistance of the ADB to the vital power sector reform is more than $1billion (ADB 2003).

In **Indonesia,** the document reports, the ADB had approved a $400 million power sector restructuring programme. The objective of this restructuring programme is to establish a competitive market for electricity in Java-Bali to increase economic efficiency of the power sector. Restructuring also involves changing the legal framework that will become the basis for structural changes and privatization of state-owned electric power company(PLN) including adjusting electricity tariffs starting from the year 2000 up to the year 2005.

The document says that in order to increase private sector participation, the ADB strongly urged the Indonesian government to renegotiate and rationalize the contracts of Independent Power Producers (IPP's).The problem however was that 27 of the power purchase agreement (PPA) contracts made between 1994 and 1997 had been cancelled by the government in 1998. An ADB official denied to support any contract cancellation and put the government in a bind because of the corrupt and onerous nature that these PPA contracts were mostly forged.

The document further says that the PPAs have burdened the PLN greatly and contributed to PLN's financial crisis even after 1998. It further points out that the concluded renegotiations of government with IPPs in June

2003 resulted in the continuation of PPA contracts with 15 IPPs which would cost PLN at least $ 2-2.5 billion per year for 30-40 years long and the costly PPA will be subsidized by consumers through high electricity rates.

The document also states that the ADB has also been pushing for power sector reforms in other DMCs through loan funding or technical assistance. For example, **China** has received $ 500,000 in technical assistance loans from the ADB for advisory services and operations. ADB gave $1,050,000 for phase II of the **Sri Lankan** Restructuring Power Sector Programme. Efforts are also going on in **Maldives** and some **Pacific nations** and countries in **Central Asia**.

However, the document states that the experiences of **New Zealand,** the **USA** and countries in **Latin America** and **Asia** regarding power sector reforms have shown <u>how privatization of power sector has failed to ensure public benefit as promised</u>. Instead the reform programme has created more problems for the sector itself, the consumers and the whole communities.

Towards the end, the document presents a critique of ADB's Power Privatization Programme and says that the reform promoted by the ADB and the World Bank renders the public vulnerable to high electricity rates, the profit motive of private power firms resulting in reduction of consumer protection and transfer of corporate debts to public hands.

It further says that the ADB has not only limited itself as loan provider but also many times intervened in the substance of law, as well as government policies and regulatory regimes. ADB practically drafted the Electricity Reform Bill of Bangladesh and worked with World Bank to draw up the Power Sector Restructuring Policy of Indonesia in 1998. Same is the case with Philippines. Privatization of 'Napocor' was carried out under tremendous pressure from the donor ADB.

The ADB suggested the governments to remove subsidies for electricity which would definitely increase power tariffs and burden poor and small consumers.

The document claims that the ADB's idea for contracts with IPPs, in which the private investors would always want to limit their losses, would insist on 'government guarantees' for their revenues and to cover most of the risks. Partial Risk Guarantee (PRG) serves to transfer much of the project risks from private sector to the public.In this context it points out the case of Philippines, where Napocor claimed that they are paying about $1.5 million a month to the Department of Finance to guarantee IPP projects started in 1990s. In Indonesia, developers of Tanjung Jati B power plant required government to guarantee their revenues over 30-year long contract.

Finally, the document concludes that the reforms and privatization of power sector are not for the benefits of the local people but for the benefit of the multinational companies, regional and local business groups, and the international financial institutions. It says, reform has been often meant laying off thousands of public utilities employees. Hence, it stresses the need for formulating alternatives to Power sector reforms.

A Guide to ADB Transparency: Key Questions About the ADB's Draft Public Communications Policy

BIC (Bank Information Centre)

February 28, 2004

Bird's Eye View

On March 1, 2004, the Asian Development Bank (ADB) had released the first draft of its new Public Communications Policy (PCP), known as the proposed new information disclosure policy of ADB. The document under review contains the details of this proposed policy.

The document states that the proposed draft will enable the citizen to acquire some required information about ADB's operations. The public were invited to comment on the draft as well as any other dimension of ADB's transparency within a stipulated period of time on the basis of which the Bank will redraft and re-release the PCP for public review.

The document is called "Guide" and has been prepared and updated in April 2004 by the Bank Information Centre (BIC), an independent non-governmental organization to help interested individuals and organizations better understand the ADB's proposed new policy. The Guide outlines the draft PCP and poses questions that citizens may want to consider while preparing comments of their own or participating in face-to-face consultations as all the citizens have right to information about the projects and policies that affect their lives and about the transparency of public institutions like ADB in dealings with the public.

This Guide consists of nine sections including the *Board of Executive Directors, the Policy and Strategy Formulation Process, Country Specific Strategies, the Project Cycle, Private Sector Lending, Lending to Financial Intermediaries, Accessibility of Information, Translation, Disclosure Policy Compliance and Process Guarantees,* each outlining different disclosure requirements proposed in the ADB's draft Public Communications Policy dated 28 February 2004.

The guide says that the ADB is governed by the **Board of Executive Directors** consisting of 12 Executive Directors representing the ADB's 61 member countries and is responsible for approving all Bank policies, strategies, operations and projects.

The Draft Public Communications Policy proposes two specific recommendations. They are: 1) Three weeks before a Board meeting, the tentative schedule and topics and 2) 60 days after the Board meeting, minutes are disclosed to improve the transparency of the Board. But despite these improvements, *the draft PCP proposes to maintain a high level of secrecy about the operations of the Board. For instance, it proposes that transcripts and summaries of the Board meetings will not be disclosed. Also the final drafts of proposed projects or country strategies will only be disclosed after they have been approved by the Board.*

The Guide says that over the years, the Board of Directors has proposed a number of policies, guidelines and strategies which dictate how the ADB should function and describes the institution's objectives, priorities and goals.

It also says that ADB policies include specific topics such as Information Disclosure or Resettlement and specific sectors such as Forestry or Education Policy. It has a wide range of strategies including Private Sector Development Strategies and the Strategy on Micro-finance Development.

ADB's draft PCP recommends the disclosure of the draft policies " when external consultations are envisioned as deemed appropriate *by ADB" and it also states that all policies under review will not be disclosed in the draft form. The draft PCP states that a summery of the Board Discussion on policy or strategy paper " may be available, as appropriate."*

The Guide says that ADB prepares a "master plan" or "country strategy" that is formally called the **Country Strategy and Programme (CSP)** for every borrowing country depending on its economic as well as social conditions. These CSPs establish the ADB's goals and priorities in a given country. Every project and programme financed by the ADB in a given country fits under one of the goals or priorities in the ADB's country strategy.

The Guide states that the draft PCP proposes that the ADB would disclose a list of all new CSPs scheduled to be prepared for the next year but will not disclose draft or final draft country strategies. *Only "information" about the Country Strategy will be available to in-country stakeholders before it is approved by the ADB's Board of Directors. So the civil society organizations may not have access to the proposed strategy until after it is finalized and approved. It shows that Civil Society's active participation through consultation is only in name.*

The document points out that principal function of ADB, which is a large publicly-owned bank, is to lend money to governments and private corporations. The procedure of lending money to a given project has a **"project cycle"** including several phases. The first phase of the cycle is project **identification** which indicates that the Bank and the borrowing country identify an idea for a project. The second phase of the cycle is the project **preparation** where the details of the project with background analysis and documentation are prepared. Once this is complete, the ADB carries out a project **appraisal** which usually consists of ADB staff visiting the country and meeting with their government counterparts to prepare the project for final **loan negotiations** and after the eventual **approval** by the Bank's Board of Directors the **implementation** phase of the project begins, which involves disbursing the loan and implementing the project. After the implementation of the project , an **evaluation** team from the ADB reviews various aspects of the project's preparation and implementation.

The Guide also mentions that the draft PCP of ADB proposes that during 'project cycle' a Project Information Document (PID) describing key aspects of the project and several environmental and social assessments will be made publicly available containing Initial Poverty and Social Assessment Report, The Environmental Assessment, Resettlement Framework or Plan, and Indigenous Peoples Planning Documents will be disclosed by the ADB. A detailed report on a project, the Report and Recommendation of the President(RRP), is recommended to be disclosed no later than upon approval by the Board of Directors.

But the Guide also points out that despite this seemingly extensive list of information disclosed during the project cycle, much project information is kept confidential. Many project documents are only available in final form, not as drafts for public opinion.

It mentions that ADB lends money to both governments and private companies. The project cycle is generally same for both public and private sector loans, but less information is disclosed about **private sector**

lending.

According to the ADB draft PCP, detailed project report is not required for private sector lending. RRPs for private sector projects will only be available with the consent of the project sponsor or after business sensitive information has been withdrawn.

The Guide also informs that sometimes the ADB lends money to other banks which then use the money to directly finance other projects. This process of money lending is called **Financial Intermediary Lending,** since the ADB first lends money to an 'Intermediary' rather than supporting the projects directly and the money passes through two project cycles. *Very little information about the loans given to private sector projects is made public by ADB, the same is the case for Financial Intermediary (FI). Practically , no information is available about loans that the FIs make to third parties, and about what the FIs are doing with the borrowed money.*

However, the Guide says, the transparency depends not only on which types of informations are available, but also where and to whom that information is available. The ADB does not always proactively disseminate information regarding projects. Transparency means ensuring that those people affected by projects have the right to request information or make general inquiries about the Bank's activities.

In the report, the draft PCP proposes how the ADB will deal with **Access to Information.** The draft PCP names the mediums and modes of delivery the Bank will use to disseminate information. And these are the internet, local television, bulletin and speech in public places. However, in the draft PCP, the ADB does not specify how it will disseminate information to the public in borrowing counties.

The Guide mentions about the necessity of **Translation** for access to information. If documents are not available in local language then the ADB is not transparent in disclosing its information. The draft PCP makes very little recommendation regarding translation. It states that only final Country Strategy Papers and Updates will be translated into one official language of the country concerned.

The document states that any **Disclosure Policy** is meaningless unless the ADB is held responsible for its implementation and the public can be assured of accurate and timely responses to requests for documents. It has been mentioned in the draft PCP that the fundamental principle in the ADB's Disclosure Policy is a "presumption in favour of disclosure of information. However, the draft policy does not describe how this principle will be implemented. Instead, it talks about establishing a new management committee, called the Public Communications Advisory Committee(PCAC) which is not sufficiently independent to make unbiased opinions on how the presumption in favour of disclosure is being applied in practice.

Besides the above mentioned points, the document also has few boxes containing the questions and inquiries regarding ADB's disclosure of information on a project that individuals and organizations may want to consider.

The Local Currency Financing Revolution

By:

Robert Bestani and
Ajay Sagar
Asian Development Bank

April 2004

Bird's Eye View

This is a paper written by persons occupying high offices in ADB. While Robert Bestani is Director General in the ADB's private sector department, Ajay Sagar is a senior structured finance specialist at the bank. Though the paper mentions that the views expressed in it do not necessarily reflect the views or policies of the Asian Development Bank, it is hard to believe that the officials of the bank can have their independent thinking.

The paper talks about ADB's recently introduced innovative local currency swap mechanism aimed at providing relief or the exchange risk to the cross border investments. The need arose as many investors in emerging countries have sunk millions of dollars in hard currencies into various projects only to watch their investments eroded by currency depreciations. The paper further highlights the need by underlying that one of the principal characteristics of emerging country currencies is their volatility and susceptibility to devaluation. As investors see the volatility of a particular currency, they become hesitant to invest.

But, says the paper, in the coming years the developing countries will need to invest billions of dollars in their local currency equivalent to build a strong infrastructure including roads, power, ports and water supply to spark an investment boom. These countries also need to strengthen their financial sectors a prerequisite for achieving even slow growth. So the real challenge is to minimize the risk to attract capital. The paper says that most potential investors would prefer to invest in local currency for at least a part of their funding needs. It further says that a mixed funding package, using local and hard currency, provides a measure of protection against market volatility. However, it says, that in most emerging countries the capital markets are not sufficiently well developed to provide long term loans in the local currency. At best, only short-term local currency denominated loans are available and these are subject to refinancing risks, interest rate volatility, etc. The higher risk premium in turn leads to a higher price to the consumer.

Hence, the paper says, the Asian Development Bank recently introduced an innovative local currency swap mechanism, which has the potential to dramatically change the situation concerning unhedged exchange rate and tenor mismatch risk. It is designed to bridge the gap between the needs of investors and emerging markets. This initiative has the potential for changing not only the profile of private sector financing in Asia but in most emerging economics.

The paper further says that other multilateral institutions, including the IMF, have taken a keen interest in this approach, arguing that, had this instrument been available earlier, it might have prevented or at least contained the crisis that engulfed the Argentinian and Asian economies during the late 1990s.

ADB's initiative involves it undertaking a local currency swap with a developing member country (DMC), and using the local currency proceeds to provide long-term lending to private sector financial intermediaries for on-lending to local borrowers. ADB will thus swap a given amount to the DMC (say 100 million dollars in exchange for the equivalent in local currency). At the end of 10 years (as per the agreement) the transaction will be unwound and the ADB will repay the local currency in exchange for dollars. In the meantime, ADB will lend the local currency to creditworthy financial institutions in the county at a fixed interest rate. Thus local currency loans are well-crafted agreements to ensure the funds are on-lent to "developmentally friendly" investments and projects. The expectation is that this new funding approach will attract fresh capital to emerging countries.

The paper mentions that ADB has recently approved a 200 million dollar swap for upto 15 years for Philippines and this is expected to be the first among many such financing across Asia. It also says that ADB anticipates doing similar transactions in most of the 44 countries in which it currently operates.

The paper articulates that the initiative is an alternative to the traditional two-step lending offered by multilateral and bilateral agencies to government-owned development finance institutions. State-owned banks have often been used as instruments of directed lending without employing the requisite economic and financial viability tests. In turn, these state-owned banks often incur losses, requiring them to be funded with taxpayer's money. The old financing patterns made "user pays" based infrastructure projects financially vulnerable. Moreover, local currency financing is considered crucial to the success of both financial and infrastructure sectors, especially for projects with revenues denominated in local currency.

Describing the features of ADB's initiative, the paper points out that it is dictated by market-based pricing mechanisms, thereby avoiding subsidized lending. Another significant feature is that ADB will use only private sector banks - both foreign and domestic as financial intermediaries without requiring sovereign guarantees. And here lies the catch. In undertaking local currency lending, individual developing country markets and regulatory environment will dictate the modality of intervention i.e. currency swap or a bond issue. ADB looks for alternatives best suited for individual circumstances but the idea is to inject long-term local currency funding whenever possible.

The paper further points out that in India, ADB has approved direct financing in Indian rupees for health care, power transmission, and housing mortgage projects to be funded through a recently launched local bond issue. While the bond issue in India is the first step in ADB's strategy to tap domestic bond markets, ADB is examining the potential for undertaking similar issues in People's Republic of China and Thailand. At the same time, ADB is also considering undertaking local currency swaps in Bangladesh, Indonesia and Kazakhistan. Ultimately it is ADB's hope to be able to provide long-term, fixed-rate, local currency funding in all the countries in which the Bank works.

The paper further intimates that attracting private capital is a major strategic objective for ADB and many of its member governments. ADB is working towards alternatives that generate capacity and in structuring its local currency lending through financial intermediaries it is involving both domestic and foreign lenders. Governments in ADB's developing member countries are understandably eager to promote private sector development.

Finally, the paper articulates that the local currency lending is now considered as a better alternative to hard currency lending especially for borrowers who earn their revenues denominated in local currency. Though in some cases the foreign exchange risk can be mitigated through market-based swaps and hedging instruments but the hedge market is still underdeveloped. Long-term funding in local currency could either come through local bond markets - which are still underdeveloped, or through a structure initiative of ADB involving a swap with its developing member country.

The paper ends on a positive note favouring ADB's new initiative when it says that ADB's local currency initiative is timely and provides a unique and innovative solution to address concerns of borrowers and sponsors.

Creating Poverty : The ADB in Asia

By

Focus on the Global South

Bird's Eye View

The document is a compilation of nine papers written by eminent personalities providing a critical insight into ADB, its programmes, strategies and operations.

The first paper titled - 'The ADB : Shape Up or Shape out' and written by Shalmali Guttal, who mainly focuses on development policy issues in South East Asia, exposes the pro-poor stance of Asian Development Bank. It says, 'ADB now asserts that poverty reduction is its overarching institutional goal, and claims that all its other strategic objectives will henceforth be pursued in such a way that they directly contribute to poverty reduction, but, the writer points out, ADB has no clue as to how to reduce the poverty. She says that in adopting the poverty reduction rhetoric, it is merely following the lead of the World Bank and its other multilateral peers who successfully negotiated the transition in their rhetoric a long time ago. Shalmali further says that ADB's poverty reduction strategy proposes nothing new in terms of understanding, or tackling poverty. **What it does, in fact, it uses poverty rhetoric to dress up the only business it knows : market based economic growth, liberalization of trade and investment, deregulations or minimising the role of the in governing the economy and privatization with an ever expending role for the private sector in the production and delivery of goods and services. The writer asserts that far from reducing poverty, the ADB's version of development has contributed greatly torwards the impoverishment of people in Asia and Pacific.**

Shalmali Guttal points out that poverty rhetoric is important to ADB from the point of view of institutional survival, that's why it needs the poverty discourse. The poverty discourse serves the ADB in two critical ways - it provides a moral-ethical cloak for its poorly conceived and destructive development policies and practices. Secondly, it ensures that there will always be a steady supply of 'poor' to keep it in business.

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

The paper says that created in the image of the World Bank, the ADB currently enjoys unprecedented economic and political power in Asia. Between 1996 and 1998, the ADB's commitment to assistance in the region was 20.6 billion US dollars, second only to World Bank at 28.7 billion US dollars. Since the start of its operations in 1966, the ADB has poured more than 111 billion US dollars into the region, of which at least 82 billion US dollars are in direct credits from the financed capital, much in the form of non-concessionary loans. In 1997, the total accumulated external debt in the Asia Pacific region was 805.4 billion US dollars. It further says that ADB has mobilised both public and private capital for financing development activities through co-financing schemes with multilateral, bilateral and private financial institutions. Central to this has been the promotion of public-private "partnerships" between governments and private companies in physical infrastructure projects in which the ADB has provided loans for government equity and partial risk guarantees to the private investors. Another notable feature of the ADB has been its role in facilitating technical assistance to its DMCs through multilateral and bilateral funds. However, the majority of the ADB's 'assistance' to its DMCs has been in the form of loans and even pre-paid technical assistance usually contingent upon concurrent loan regimens.

Shalmali says that ADB's claim of showing concern for poverty alleviation and a wide range of social and environmental concerns is a complete farce. On the contrary, financing from ADB, whether in the form of grants or loans, is generally combined by conditionalities that undermine the very issues it claims concern for. These conditionalities range from the introduction of new policies and laws to protect specific investments (as in infrastructure projects) to reforms of entire sectors (as in the case of the agriculture sector in Thailand and the energy sector in Indonesia). Some of the more common elements of these conditionalities are - liberalisation of trade and investment; increased control by the private sector over the production and delivery of goods and services; full cost recovery of all investments whether public or private. Dismantling of state subsidies for public goods and services; privatization of state enterprises; transfer of resource use and tenure rights from public and common pool to private ownership and overall withdrawal of the state in direct economic activity and governance.

The writer further says that until the early nineties, the ADB was quite successful in avoiding public scrutiny about its policies and operations. But as more evidence emerges about the destructive impacts of its projects and interventions, the ADB is facing growing region-wide criticism of its policies and operations, as well as the manner in which it does the business. Despite its claims to the contrary, the ADB is a highly centralized and unaccountable institution which does not serve broad-based public interest. Neither the Board of Directors nor ADB staff represent the interests of majority of the region's people. In fact, it is difficult to understand what the ADB means when it refers to 'gender and development' and "participation". The urban or rural poor certainly did not participate in the design of programmes or policies that have led to the displacement and dispersions of families, environmental degradation, the allienation of entire communities from natural resources and livelihood means, increased household and public debt, decreased access by vulnerable population to clean water, sanitation and basic health care, and exacerbation of physical, economic and social hardships on women. **The writer notes that a noteworthy aspect of the ADB's poverty reduction strategy is its commitment to strengthen its own knowledge, capacity and skills, and to ensure that all its departments acquire the requisite expertise in anti-poverty activities. She remarks - just as salesman are encouraged to think "sales" at all times, ADB staff shall "think poverty" at all times.**

The writer also says that ADB has used NGOs to implement specific initiatives or projects and has entered into collaborations with NGOs and other civil society organisations in selected countries with the motive of putting itself in a better position to shield itself from critiques of its methods of operation, projects and lending practices, and also have a new platform from which to solicit funds to finance its future existence.

Shalmali Guttal points out that ADB's poverty reduction strategy reiterates its firm belief in markets as the primary source of assets and asserts that markets must be nurtured and allowed to reach their full potential by the removal of market distorting interventions such as public service and credit subsidies, pricing controls, state owned enterprises, import-export restrictions and overvalued exchange rates. It also claims that in the fields of production of goods and services, competitive markets can do far better that what the Governments have been attempting to do in the past. Similarly it claims that given the limited capacity and mixed track record of the public sector, the private sector must become the "engine of growth". The ADB advocates expanding the role of the private sector from its present involvement in physical infrastructure projects (such as energy, water, transport and telecommunication) into the domain of public goods and services, economic and social infrastructure, and basic services such as education, health, nutrition, water and sanitation. **The writer further points out that ADB intends to use its private sector assistance window to strengthen the financial, institutional and managerial capacity of the private sector through activities such as co-financing, technical assistance and capacity building. At the same time ADB will use its public sector assistance window to enforce a hospitable macroeconomic, policy, legal and regulatory environment for the "flourishing" of the private sector.**

For governments of the developing countries also, Shalmali points out, ADB has a role which is outlined in its policy of "good governance". According to it, 'good governance' means re-orienting the work, capacity and resources of government to support economic restructuring and the private sector. The commercialization and privatization of state enterprises are highlighted in the ADB's idea of good governance. The argument goes that a combination of privatised property rights and competitive markets will lead to the efficient utilization and redirection of assets and this will also miraculously reduce corruption.

Now Shalmali Guttal moves on to ADB's programmes and policies. She assertively says that the model of development promoted and financed by the ADB has not reduced poverty in any absolute sense, rather it has served to perpetuate the fiction that poverty can be reduced by the infusions of large amounts of capital along the lines prescribed by the ADB and other believers in market solutions to poverty. In fact the policy reforms insisted upon by the ADB have contributed to serious setbacks for the poor in borrowing countries. Privatization and corporatization of state enterprises have led to the retrenchment of workers whose opportunities for re-employment are curtailed by simultaneous downsizing of other enterprises in order to keep production streamlined and efficient. **Moreover, the burden of external debt repayments and the need to maintain upward growth figures have further restricted governments abilities to provide and maintain safety nets for the most vulnerable population. Further, the rush to orient domestic agricultural production towards export markets, the removal of pricing controls for agricultural products, and the infusions of local markets with external goods have reduced the competitiveness and saturability of local agricultural produces in their own societies.** With rising protection costs resulting from dependence on external (and often costly) agricultural inputs, as well as new levies and taxes on resources such as water and land, small farming and fishing families in countries such as Thailand, India, the Philippines and South Korea have grown deeper in debt, and in many instances, have lost their assets altogether. Moreover, rural to urban migration has increased as impoverished farming and fishing families are displaced from traditional occupations. **In a number of Asian countries (India, Bangladesh, Thailand, Cambodia, and the Philippines are only some examples), rapid liberalization of trade and investment, and the obsession with economic growth have led to the establishment of sub-contract factories and sweatshops where workers are paid less than the minimum wage and work 12 to 15 hours workdays.**

The writer further points out that ADB's promotion of private sector expansion has generated its own special problems. ADB's oft-repeated argument that through the involvement of the private sector, economic risks can be better distributed among those who can best absorb them holds little water. On the contrary, the opposite has happened. In order to attract private capital, governments have entered into agreements through which economic risks and responsibility are unevenly borne by governments and eventually by the public through levys, taxes, price increases, debt repayments etc. The private sector, in most cases, has got away with a disproportionate share of profits and privileges. Similarly, the sub-regional economic polygons promoted by the ADB are essentially large scale export processing zones, where private companies have disproportionately more power than the participating governments about the nature and direction of investments. At the heart of these zones are the most coveted resources of the region-land, mineral, coal and natural gas deposits, water, forests and bio-diversity - which offer numerous profits for outside investors and those countries that are economically powerful enough to promote and protect their own interests. Under the special rules that operate in these sub-regional economic zones, the rights of local population to natural resources have been critically threatened. This ADB's conceptualisation of good governance has and certainly will be good for large private interests and national elites who will benefit for easy access to national resources and cheap labour and transference of commercial risks to the public at large.

The writer points out that the private sector does have a role and that too an important one, but without strong public oversight and the counter-veiling power of civil society. Such a model serves to entrench inequity, injustice and poverty. **Here it must be remembered that Asian economic crisis was a crisis of gross mismanagement of the private sector, the result of which has been the transference of private sector risks and financial burdens on the public at large and increased public debt.**

Finally, Shalmali points out that one lesson that the ADB seems to have learnt only too well is that it needs the poor as much, if not more than the poor need the ADB. **She says that true experts on poverty are not the ADB and their cohorts, but the ordinary people of Asia and the Pacific who have survived despite mainstream development and poverty reduction programmes. They have attempted to rebuild this social and political fabric through solidarity movements, sharing, protection and re-generation of common resources and revival of diverse, traditional forms of livelihoods. They have argued and shown through their actions that solutions to modern poverty lie not in increased consumption of riches by a few, but in political, social and economic justice, and in fair and equitable access to resources and knowledge by all.** Hence there is a lot that ADB can learn about poverty from these other discourses, which are far more advanced, progressive and sophisticated than what ADB is capable of producing.

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

The second paper in the document written by Walden Bello underlines the scandals and high project failure rate of ADB. He particularly gives the example of the wholesale bribery of the Philippines House of Representatives to push through the privatization of the National Power Corporation (NAPOCOR). It is to be noted that two representatives of Congress revealed that they each received 500,000 pesos ($ 12,500) despite their having voted against the bill, leading to strong suspicions that the majority that voted for the bill each received a greater payoff. But the main accusation being laid at the doorstep of the Bank is that its pressure on the government to rush privatization might have prompted the administration of President Joseph Estrada to take short cuts to gather necessary votes.

In yet another article titled 'Philippine Power Scandal Illustrates Flaws in ADB's Privatisation Strategy' Walden Bello says that what was supposed to be a milestone in the history of privatization in the Philippines has now become a massive scandal. He, however, says that Napocor scandal cannot be seen as simply another case of corrupt politics. It must be viewed against the background of the tremendous pressure to privatise the state-owned energy enterprise coming from external donors, in particular the Asian Development Bank (ADB).

Mr. Bello further points out that failure to integrate stated goals into the so-called "Country Operational Strategies (COS)" is part of a broader pattern of failure. Almost all forestry projects have failed. Only 36 per cent of projects in the Agriculture and National Resources sector are rated "generally successful".

He says that how ADB flexes its muscles can be seen from the fact that as a condition to Philippine government's accessing a 300 million dollar energy sector loan from the Bank and a 400 million dollar loan from the MiyaZawa Fund, the ADB wanted the state energy enterprise to be privatised as quickly as possible. Release of the second tranche of the loan was contingent on the condition that the "borrower shall have enacted a law, the Omunibus Power Industry Law, to govern the power industry". Mr. Bello says that even if the ADB is cleared of direct complicity in the bribery, it cannot be absolved of creating the situations that led to what now appears to be a wholesale effort to buy Congress. The conditions simply were not there for a clean privatization to take place. However, the corruption surrounding the Napocor privatisation is merely the tip of the iceberg. Critics say that the whole project was questionable from the very start, for a variety of reasons. First of all, the planned privatization was an overreaction to a conjunctural crisis in the agency's finances. Even the ADB admits that Napocor had a good financial management record between 1992 and 1997. Second, the costs of a large part of the planned privatization will be borne by the taxpayer. The third major flaw in the Napocor privatization is that, as the ADB document itself admits, "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". For an agency that is said to be on top of energy economies, it is amazing that ADB did not prioritize the conduct of such a study prior to proposing the privatization of Napocor since many previous efforts to privatise or deregulate power ended up with the consumer being screwed. For instance, in California and New England in US residential consumers who were expecting to save 10 per cent from their bills were outraged to discover that deregulation initiatives turned out to benefit mainly the big private power companies and their large industrial and commercial consumers. **The writer observes that the fact that this rush to privatization is built on flimsy data and sketchy analysis is hard to deny. As one critic noted, with such a shoddy rationale, no wonder it took such a massive bribe to convince legislators to swallow their hesitations and vote for privatization.**

Continuing this critique of ADB's role in the power sector, another write up in the document even recommends that the ADB should exit from the electricity business. Written by Grainne Ryder, the Policy Director of Probe International, the write up says that without market discipline or public oversight, the ADB is a financial and environmental menace providing a breeding ground for electricity investments that destroy the environment, create poverty, sinks Asian citizens in debt, cost taxpayers in donor countries money, and deprive consumers of cheaper, better generating options. She says that the Bank promotes electricity investments without responsibility by transferring the risks associated with electricity investments onto the public sector. It has no enforceable standards for promoting sound investments because it does not respect the rights of citizen and consumers.

Grainne Ryder further says that the electricity systems that generate and distribute electricity in much of Southeast Asia are a product of three decades of foreign aid, publicly funded lending institutions, particularly the Asian Development Bank and the World Bank, teamed up with governments to finance large centrally-operated power plants and transmission networks. They advised the governments on the policies, laws and institutions needed to government electricity productions, transmission, electricity prices, on the fuels and technologies to develop, and created the monopoly powers and privileged state utilities mandated to provide cheap and reliable electricity supplies to consumers, whatever the real costs of generation were. She says that the world expected that with billions of dollars worth of aid capital, free technical assistance, training, and policy guidance, these publicly-owned utilities would be shinning examples of sustainable development, in sound financial shape, providing high quality service to all consumers, large and small, urban and rural, using state-of-the art generating technologies, operating to the highest environmental standards, and charging reasonable rates for service but this never happened. Instead, she says, these utilities are debt-ridden, owing billions of dollars to their international patrons - the Asian Development Bank, the World Bank and Japanese government - and having difficulty servicing these debts.

The writer says that the real problem is investment without responsibility i.e. electric utilities and their international financiers are not subject to market discipline or public oversight. **She further points out that unlike a commercial bank, when an ADB project fails, the Bank itself suffers no penalty. It's borrowers, on the other hand, not only have to repay the project loans but they usually borrow more money to do so and also to correct project failures. What happens is that tax payers in the borrowing countries not only suffer the consequences of the failed project, but eventually they have to pay back all the debts incurred by their governments.** She says that despite the Bank's stated commitments to the principles of market economics, private enterprise, and competition, the Bank knows monopolies and cronyism best. It dispenses loans and grants to governments in the South to create friends abroad and in the North to award contracts to favoured companies in order to win votes at home.

The paper titled 'A Critique of the ADB Private Sector Development Strategy' by Bank information Center's Nurina Widagdo points out that there is nothing wrong with the ADB playing a role in strengthening the private sector. However, there are at least two critical areas of concern with the private sector development strategy. First, the assumed beneficial link between private sector development and poverty reduction. This is particularly important, says the writer, as ADB - together with other MDBs - claims that poverty reduction is its overarching goal and raison d'etre. Second, problems with transparency, accountability and participation that must be addressed in all of the ADB's operations and practices, including its work with the private sector.

Towards the end of the paper, the writer concludes that the implementation of the private sector development strategy may benefit a country and particularly the poor if certain conditions are met. These conditions include-

1. The strategy builds on a detailed analysis of the determinants of poverty and marginalisation in each country or region, identifies specific pro-poor interventions which add value to existing poverty alleviation efforts and is integrated in a broad based development strategy in which the private sector plays an important but not necessarily the predominant role in poverty reduction.
2. The development and implementation of redistributive measures which enhance equity and prevent concentrations of power, wealth and decision making.
3. Enhanced monitoring of and participation in private sector development by civil society and enhanced oversight by parliaments. and
4. Ownership of the strategy by borrowing countries.

The last paper of the document is titled 'Cofinancing : Debt and Dependent Development' by Chris Adams, a visiting researcher at Focus on the Global South.

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

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

We will like to receive the copy of the document(s) that are ticked ☑ at our address below:

Pine Code : ☐☐☐☐☐☐

☎

E-mail:

- ☐ Asain Development Bank Country Strategy and Programme Update
- ☐ Water for All
- ☐ ADB's Private Sector Development Strategy (PSDS)
- ☐ The Asian Development Bank and the Privatization of Power Services
- ☐ A Guide to ADB Transparency: Key Questions About the ADB's Draft Public Communications Policy
- ☐ The Local Currency Financing Revolution
- ☐ Creating Poverty: The ADB in Asia

Infopack

Popular Information Centre

peaceact@vsnl.com

Phone & Fax:
(011) 2685 8940
(011) 2696 8121

BOOK - POST

To
Infopack
Popular Information Centre
F-93, I[st] Floor, Katwaria Sarai
NEW DELHI - 110 016