Infopack

October, 2001

In this issue of Infopack, we take a peep inside that edifice called the **Asian Development Bank (ADB)**. And we find that though emerging fast as the leading multilateral organisation catering to the financial needs of Asian nations, the approach and working style of ADB is not much different from that of the World Bank. Despite trying hard to spin a new image for itself by using the language of poverty, it has not been able to extricate itself from under the shadow of the World Bank.

It is a common knowledge that multilateral institutions like World Bank, International Monetary Fund and Asian Development Bank take advantage of the economic mess created by the member countries and then, in the name of economic recovery, they put these countries in an intricate web of money lending. They first provide loans in the name of Social Security Net Programmes (SSNP) which invariably fail in their targets. They, then, extend the debt-trap by further providing loans to new programmes. This way the country's foreign debt mounts manifolds, thus tightening the debt noose further. These multilateral institutions, then, advocate the idea of reviving their economies through deregulation, liberalisation and privatization of state owned enterprises, thus, laying the ground for taking over the Nation's economy by Trans/Multinational Corporations.

Take, for instance, the case of Indonesia. In Indonesia, ADB implemented SSNP which was a loan to help the poor affected by the economic crisis. But the SSNP as well as other poverty alleviation programmes, financially backed up by ADB, that have been implemented in Indonesia since the crisis in 1997 have not reduced the number of people living in poverty. Before the crisis, the number of poor in Indonesia stood at about 22.5 million. By 1999, a government survey indicated that an additional 21 million people have fallen below the poverty line. The scenario is best summed up by the statement of the UNICEF Jakarta Office - "due to its serious debt burden, Indonesia would sustain a lost generation, a weak and feeble-minded generation resulting from malnutrition, lack of education and unhealthiness".

In this issue, we have given summaries of both the documents pertaining to the programmes and policies of the ADB and the views expressed by the critics regarding the actual functioning of the Bank. You can select the documents relevant to your field of work and send us the request for the same either by post or Email.

Popular Information Centre

ADB's Private Sector Operations

Catalyzing Private Investments Across Asia and the Pacific

Published by :
Asian Development Bank

July, 2001

A Summary

The mask of 'Poverty Reduction' so carefully put on by the Asian Development Bank (ADB) lies threadbared the moment you objectively assess the funding and lending mechanism of this multilateral organisation in some of its Developing Member Countries (DMCs). It reveals that behind the mask is hidden a face which champions the cause of promoting the private sector, thereby benefiting the private contractors and multinational corporations. This agenda of ADB is implemented through its Private Sector Group (PSG), whose policies and programmes are given in this document.

The document contains, in detail, the broad policy framework of ADB's private sector operations. It has been divided into different sub-heads like - 1) Mobilizing private capital; 2) Assistance to private enterprises; 3) Eligibility for ADB assistance; 4) Advantages of working with ADB; 5) Extent of ADB assistance; 6) Appraisal criteria; 7) Loan terms; 8) Security; 9) Procurement; 10) Corporate governance; 11) Environmental Considerations; 12) Role of ADB in supervising investments; 13) Sale of ADB equity investment; 14) Commercial cofinancing; 15) Complementary financing scheme; 16) Guarantees; 17) Export credit agency cofinancing; 18) Applying for ADB assistance and 19) Processing procedures

It also contains details of private sector projects funded by ADB, besides indexes on private sector loan terms, ADB's member countries, risk principles for investment funds and application information requirements.

In its opening section, the document attributes the growing role of ADB in helping private sector as a response to the growing emphasis on private enterprise in its developing member countries. It says - "through its involvement, ADB helps make more private projects happen, thus promoting the efficient use of resources, accelerating economic development, reducing poverty and raising the standards of business."

The document, prepared by the ADB itself, also cites the increasing demand for private capital to finance large infrastructure development programmes by DMC governments as one of the reasons for its increasing pro-private sector stance. And it carries out its private sector operations through its Private Sector Group established in January 1995.

In its next section pertaining to assistance to private enterprises, the document clearly states that 'ADB directly supports private enterprises, private equity funds and financial institutions; its traditional modes of financing being equity investment and hard currency loans.

ADB private sector operations focus primarily on two areas : financial sector and infrastructures. Financial sector or capital markets projects assist private financial intermediaries in diverse sectors, while infrastructure includes telecommunications, power and energy, water supply and sanitation, ports, airports and toll roads. Projects may involve various forms of risk-sharing and ownership arrangements including build-own-operate (BOO) and build-operate-transfer (BOT) structures.

As for the eligibility for ADB assistance, the proposed investment should be in the private sector of a DMC and owned by local or foreign private sector entities. An enterprise owned jointly by private interest and the government of the DMC may be eligible for ADB assistance, provided the majority of its equity is privately owned and it is controlled by private investors. This clearly shows how the ADB assistance is heavily loaded in favour of private sector. The document specifically says, 'when selecting projects to support, priority is given to projects that expand the role of the private sector or improve the quality of private sector participation, thereby improving the environment for private sector development'. This favours projects that constitute an important step towards more effective privatization. The document also says, 'infrastructure projects that are part of a well conceived privatization strategy are clearly favoured'. ADB also favours projects that promote a better financial environment for the private sector by providing new sources of debt and equity financing and building institutions that promote more stable and liquid capital markets.

When evaluating projects, ADB ensures that the cost of the project is reasonable and the sharing of risks and rewards between stakeholders is fair for both the country and the sponsors.

In the section titled, 'Advantages of Working with ADB' various reasons have been given as to what motivates sponsors of financial sector projects to work with ADB. These include ADB's presence in the region for 35 years and its 18-year record of private financial sector operations.

This document can be of much use equally to those corporations keen on doing business at the cost of poor, and those individuals or organisations interested to know the real designs of multilateral organisations like ADB.

Best Practices for Facilitating

Private Sector Participation in Infrastructure Development

Published by:
Asian Development Bank

Bird's Eye View

The document, prepared by the Asian Development Bank, highlights the role of ADB's Regional Technical Assistance (RETA) in identifying and assessing best practices in five key infrastructure sectors. It also analyses the impact of Asian financial crisis on infrastructure investment and reviews the Voluntary Principles and Best Practices in the light of the crisis.

While pointing out that the financial crisis did hit the flow of non-public funds into infrastructure projects in nine East Asian Economies, declining from as high as $ 41 billion in 1996 to as low as $ 12 billion in 1998, it nevertheless asserts that the region's investment requirements for infrastructure still remains well above $ 100 billion per annum. And to meet this huge demand for investment, ADB's prescription is : 'Get substantial private sector involvement or participation'.

Under the head 'Post-Crisis Challenge', the document says that a shift from a focus on quantity to that on quality of investment will not only deliver better outcomes for consumers and facilitate increased growth, but it will also conserve scarce public and private capital. Simply increasing infrastructure investment should not be seen as a panacea for economic development in East Asia. It says, "a higher priority should be attached to restructuring, which creates market-based incentives to adequately maintain assets and maximize their efficiency and utilization".

The document also points out that the volatility of private sector investment as a result of the crisis and the magnitude of the demand projection underline the need for member economies to review their privatization approaches and upgrade their restructuring and monitoring roles in order to maximize the participation of the private sector in achieving adequate and efficient infrastructure development. Private sector participation in infrastructure development can be facilitated only through certain voluntary principles adopted by the APEC Finance Ministers meeting in April 1997. These principles fall into five broad categories - i) Sound macro-economic environment; ii) Stable and transparent legal framework and regulatory system; iii) Sectorial policies that promote competition; iv) Availability of long-term capital and v) Risk sharing mechanisms.

The financial crisis, insists the document, has not undermined any of these voluntary principles. Rather it has underscored the urgency for their wide application and has also brought to the fore some additional aspects, like the role of governments, institutional reforms, strategic planning, legal and regulatory framework etc.

In the name of the lessons to be learnt from the financial crisis, the document clearly recommends the curtailment of the role of government in the infrastructure sectors. It says that within the infrastructure sectors, government should concentrate on planning, policy and regulation and leave, to the extent possible ,financing, construction, operation and maintenance of projects and provision of services to the private sector.

After vouching for the greater role for the private sector in the infrastructure sectors, the document further pushes the cause of private sector by advocating institutional reforms. It says, the weakness of existing institutional structures have limited the effectiveness of the private sector initiatives. In most emerging economies, the piecemeal transfer of infrastructure components has proceeded strongly and the controlling bureaucracies that add overhead costs and often limit improvements in the infrastructure performance, have remained relatively unchanged. The financial crisis has highlighted the importance of fundamental changes in the structure, size and responsibilities of public entities.

Hence the document recommends that in the line with the shift in their responsibilities, governments should restructure and downsize their public institutions and utilities in the infrastructure sectors.

Next, the document talks about the need for a stable and transparent legal and regulatory framework, in the light of the effectiveness of private sector participation having suffered due to the lack of adequate regulatory structures to control both technical and economic performance. It says that the emphasis on greater private sector participation without a well-developed legal and regulatory framework increases the level of risk to investors. It also encourages investors to rely on special situation and political relationships rather than their merits as a means for securing and implementing contracts. It, therefore, recommends emerging economies to strengthen their efforts to establish legal and regulatory regimes for infrastructure services with clear objectives and roles. At the same time ,over- regulation should be avoided by leaving the regulation of competitive activities to market forces, to the extent possible.

In order to facilitate the growth of private sector in developing nations, the document recommends that emerging economies should unbundle the infrastructure sectors and introduce private sector competition to ensure improved efficiency, lower prices and better services for the consumers. And to combat corruption, international competitive bidding based on transparent procedures should be adopted both for asset sales in the privatisation process and the selection of sponsors for new projects.

While pointing out that the Build-Operate-Transfer (BOT) approach has been one of the most popular financing modalities in the East Asia, particularly in power generation since it has helped attract private sector investment and remove infrastructure bottleneck that were impending growth in a number of member economies in the first half of the 1990s, the document recommends that emerging economies should continue to consider the BOT approach as one of the possible options for infrastructure projects of natural monopoly character such as expressways and water supply systems, provided the project sponsors are selected through international competitive bidding and a significant portion of the investment requirements is met from domestic sources.

The document also makes recommendations in the fields of project financing, risk sharing and sectorial best practices

It also contains appendixes with relevant data and graphs on infrastructure investment in East Asia, Voluntary Principles for facilitating private sector participation in infrastructure and Sector-specific Best Practices. In the last appendix Dos and Don'ts are given for various sectors like power, water supply, port, road, airport etc.

New Challenges for Social Development

Published by :

Office of Environment and Social Development, Asian Development Bank

Bird's Eye View

This document is the outcome of the meeting of Regional Social Development Advisors held on 23-24 November, 2000 at ADB's headquarters in Manila. The objective of the meeting was to provide a forum for regional social development advisors in Asia and the Pacific where they can discuss current and future Social Development Challenges and Opportunities, and lay the groundwork for future collaborations in the region.

During the meeting the differences and variances between countries of the region were identified as a challenge for regional social development strategies. At the same time , similarities in such areas as socio-cultural traditions of hierarchy and social dimensions of governance were also recognised. The discussions held during two-day meeting also discovered that other common issues facing the region were relations between government and civil society, governance, traditional patron-client relationships and dependencies, gender discrimination, and challenges of dealing with cultural diversity. Besides, countries in the pacific were found to be facing unique problems such as the conflict and tensions between traditional and post-colonial structures of society and the impact of structural adjustment programmes.

During the deliberations, it emerged that the common themes throughout the Asian and the Pacific region which need to be addressed by social development professionals are :-

* Relationship between governing elites and the people;
* Complexity of civil society, its constituency and responsibilities;
* Conflicts, peace and disasters;
* Voice, choice and accountability of the poor;
* Effects of globalization and need for re-orientation of national and regional focus;
* Role of Human Rights and its relationship to social development;
* Equity - social, economic and political
* Weak or inadequate donor collaboration among funding agencies; and
* Potential role of people's participation in the budget and empowerment processes.

The two-day meet, where papers were also presented by few delegates, made the following recommendations :-

* There is need to market in a better way the skills of social development advisors. Their strength lies in the multidimensional approach. Donor institutions must be convinced of the value of their skills.
* Institutional arrangements vis-a-vis social development are often fragmented and lack focus. There is a need, therefore, to develop a set of indicators and to operationalize power and empowerment dimensions e.g. social equivalent of 'dollar a day' measure of poverty, for example, by the use of a proxy indicator such as

level of violence against women.

* Mechanisms, which promote further mutual accountability to the poor, should be identified and developed.
* Decentralisation should not be thought of as a panacea as it can also lead to corruption.
* There is a need for judicial reforms, both at the top and the grassroots levels.
* The public need to be informed and engaged in development related policies.
* All Social development-related staff should have skills regularly upgraded.
* There should be a focus on country poverty strategies, which create opportunities for donors to collaborate both formally and informally. Funding agencies should give signals to their DMCs.
* It is important not to hijack local processes; national and community ownership is more important than getting donor formats and requirements right.
* Social Development indicators, including self-rating of poverty by the poor and reflecting multidimensionality of poverty need to be developed with a cross-regional application. Resources should be pooled by donors to achieve this.
* The key tools to promote equity - labour standards, child rights, capacity building and governance ;claims, functional literacy - should be linked with indicators of poverty and other approaches related to well-being and promoting gender equality. They should reflect the complexity of poverty and be culturally sensitive.
* NGOs need to be supported in monitoring government performance and linking of micro and macro level strategies with the promotion of policy literacy for all stakeholders, which would, in turn, strengthen the claim-making capacity of the people.
* There should be a focus on IDTs, strengthening community based definitions of rights with needs and good quality of life.
* Rights should also be used as a tool by governments to gain commitments from funding agencies. Peer pressure among the governments in fora such as the Association of South East Asian Nations (ASEAN) and South Asian Association Regional Cooperation (SAARC) should be promoted.

Appendixes attached to the documents carry the text of the papers presented by ADB's officials. While appendix 2 contains the opening address of Mr. Basudev Dahal, officer -in-charge of Bank's office of Environment and Social Development, Appendix 3 comprises of a detailed paper presented by Anita Kelles-Vittanen, Manager in the office of Environment and Social Development of Asian Development Bank. Titled "Social Development: Goal And Challenges", the paper seeks to explain the meaning , interventions and goals of social development, recognising it to be the third pillar of poverty reduction efforts in ADBs new Poverty Reduction Strategy. Appendix 4 attached to the document carries the details of Participation in Poverty Reduction Strategy.

The Emperor's New Clothes

The Asian Development Bank's Poverty Reduction Strategy

By Shalmali Guttal

(Shalmali Guttal is the Coordinator of State, Market and Civil Society Programme at Focus on the Global South)

A Summary of the Critique

In this write-up, Shalmali Guttal scoffs at the pro-poor image-building exercise being undertaken by the Asian Development Bank (ADB) of itself. The writer compares this exercise with the one undertaken by the King, of a Chinese folklore, who paraded through the streets of his kingdom to publicly show his new clothes while, in reality, he was having no clothes on. In the similar fashion, says the writer, the pro-poor rhetoric of ADB gets exposed since its loan portfolios and project priorities have shown little success in addressing the diverse needs of those identified as 'poor'.

On the contrary, says Shalmali, the mask of "Poverty Reduction Strategy" has been enormously beneficial to the ADB in shoring up its own resources. For instance, the concessionary financing arm of the ADB known as the Asian Development Fund (ADF) has increased significantly. By the end of the year 2000, the ADF VII replenishment was highest ever in ADF history. Similarly, financing for "poverty focused" technical assistance grants has also increased. Besides, Japan and Europe have also contributed additional resources to the special anti-poverty programmes, giving the organisation much more capital to play around with.

Moreover, the mindset of the Bank's staff involved with the 'Poverty Reduction Strategy' is still mired in the past. They simply can not understand why things must be done differently. Quoting a source within ADB, the writer says that a major bottleneck in the ADB's 'Poverty Reduction Strategy (PRS)' appears to be its own senior programme staff. Majority of them are economists and have been in the institution for far too long. They are convinced that they know all they need to about poverty and are reluclant to accept change or new ideas. When put under pressure to "produce something on poverty" programme staff come up with "window dressing" which they then 'ram down peoples' throats. The same mindset governs the country programme staff as well. And this shortcoming is evident in continuing conflict between a majority that favours the project approach (making loans) and a minority that advocates a programme approach (developing more overall analysis).

A more fundamental bottleneck in the ADB's poverty reduction strategy, says the author, is the organisation's understanding of poverty itself. The Asian Development Bank's much proclaimed poverty analyses continue to be based on standard economic models that calculate poverty head count ratios, consumption and income trends, poverty gap and severity indices, and inequality coefficients. While such arithmetic has its uses, it does not advance an understanding of the diverse forms of poverty that exist in the region, or of the different strategies by which families and communities combat adversity. For the most part, the organisation continues to identify "the poor" as an undifferentiated mass of people who consume less than a certain amount of fixed goods in a given time. And the solution offered is to ensure that they consume more of these fixed goods through pro-poor economic growth.

There is, however, points out the author, little analysis of the effects of broader policy environments, political and social structures, external economic and financial forces, or even the impact of the ADB's own loan programmes on the incidence and perpetuation of poverty.

Though Participatory Poverty Assessments (PPAS) are gaining popularity with the ADB in order to show the "human face" of poverty, they, however, do not inform the ADB's overall poverty analysis or country assistance strategies in any noticeable manner. For instance, in both Cambodia and Lao PDR, Participatory Poverty Assessments were conducted by ADB appointed experts, ostensibly to get inputs "from the poor" towards developing "pro-poor" national programmes. In both countries, however, the ADB's Resident representatives were unable to provide even a single example of how the organisation would be different from previous years.

Despite its much hyped "human face", an unflagging support for markets as the principal avenue of development remains at the heart of the ADB's poverty reduction strategy, says the writer. And the ADB's approach to making the market work for the poor is not through support for domestic regulation and protection, or through ensuring adequate opportunities, access and services for the poor, but rather, by expanding the private sector's share in physical, financial and social infrastructure. For example, ADB's strategy in the Lao PDR is to boost private sector involvement in service delivery (including financial and social services) as well as support private sector development in general. And this is so because ADB feels that it has an "important advising and supportive role" in expanding private sector involvement in such diverse areas as banking, hydro-power, mining, forest plantations and value-added agricultural production.

But, then, how would this private sector involvement reduce poverty? To this, the organisation has ready-made answer : "without private sector involvement", rural people will be subjected to "ordinary standards of living", and also private sector development will "reduce economic pressures on the government while increasing their capacity".

This thinking of ADB is also reflected in its regional approach to poverty reduction and is evident in the projects undertaken in remote watershed areas in the Lao PDR, Cambodia, Yunan, Vietnam and Myanmar. A recent project report further supports this approach. It says, "...in particular, ADB will give greater emphasis to development of agro-climatic areas that have been bypassed by green revolution technology. ...Likewise, ADB will vigorously seek new ways to promote private sector activity in rural areas.:

Thus it is clear that the ADB's private sector development strategy is a window for undisciplined foreign investment that does not necessarily respond to national trade and industry priorities. The strategy does little to develop robust and internationally competitive domestic private sectors among its poor borrowing countries. On the contrary, it opens up the country to foreign companies who bring with them their own experts, personnel, know-how, technology and demands. Whereas domestic private sector actors only serve as local gateways for foreign investors, with little guarantee that these investments will contribute meaningfully towards developing the technical, institutional and financial capacities required for a strong domestic private sector.

It has been a ploy of ADB, says the writer, to push the private sector into the developing countries by committing millions and billions US dollars in the name of 'poverty reduction'. This can be easily seen in the context of the South Asia Growth Quadrangle (SAGQ) which includes Bangladesh, Bhutan, India and Nepal. The SAGQ is the private sector's delight with the sub-region's "huge force of hard-working and disciplined workers at relatively low wages". And ADB has committed US $ 16 billion in investments and US $ 340 million in technical assistance grants towards the SAGQ. **In fact, in the name of poverty reduction, the ADB serves the interests of the private sector by supporting privatisation of power and water utilities and increasing the proportion of private sector providers and actors through overall structuring and disinvestment of public enterprises.**

The Pacific Islands too have their share of the ADB's 'pro-poor' market development efforts. In March 2001, the ADB approved a new Pacific strategy that 'focuses on streamlining the countries' public sectors and increasing private investment.

But despite this continuing flurry of private sector activities, the question still remains unanswered as to how do these projects create markets that work for the poor or to reduce the poverty? The Asian Development Bank has no convincing answer to that nor do its projects provide any clue.

A key component of the ADB's poverty reduction strategy and private sector development efforts is good governance. But here also, feels the writer, the ADB's record has been dismal. An example of its poor operation and governance can be seen in the Theun Hinboun Hydroelectric project in the Lao PDR, which has ,from its very inception, been characterised by poor decision making processes, inadequate environmental impact assessments, conflicts of interest, and a general refusal on the part of ADB to accept the projects' potential for severe socio-economic impacts.

The ADB is quick to point out that actual decision- making and implementation in most controversial projects is in the hands of project implementors and national governments, and not the direct responsibility of the organisation itself..

But this argument holds no ground since the organisation continues to finance projects and programmes that are poorly conceived, badly managed, undemocratic and violate even its own guidelines.

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

By Jenina Joy Chavez-Malaluan

(Jenina Joy Chavez-Malaluam is a Research Associate at Focus on the Global South, based in Manila, Philippines)

A Summary of the Critique

In this article, the writer analyses the interests and motives of Asian Development Bank (ADB) behind pushing up the private sector in the developing member countries. The writer points out that the promotion of the private sector is inherent in the strategies of multilateral organisations like ADB since these organisations put much emphasis on the role of private sector in growth and poverty reduction. Moreover, the private sector also acts as succour to ADB's resource generating efforts.

Behind ADB's penchant for private sector, feels the writer, lies its desire to help "Big Business". And this is done by supporting only large-scale infrastructure projects. For instance, in 1999 there were only three projects approved for private sector financing, all of which fell under the infrastructure category. In fact, in ADB's terminology only big contractors and suppliers qualify as private sector. Consider this : In 1999, 30 per cent of the total ADB funds committed and 50 per cent of total approvals went to a private company that bought into a utility whose privatization the ADB itself supported.

The need to prop-up the private sector, says the writer, also cropped-up due to the resource - crunch faced by the Bank. That's why in March 2000, Bank's Private Sector Development Strategy (PSDS) was updated, re-orienting its role from project fund provider to a facilitator of resources, with the private sector as both targets and clients. And this change in the approach is also reflected in its loan conditionalities asking borrowing governments to shift from "owner producer" to "facilitator-regulator" of private activities. Besides, says the writer, ADB is actively involved in the promotion of legal and regulatory frameworks in its DMCs that are conducive to the private sector participation.

In its enthusiasm to push the privatization, the ADB goes to the extent of providing funds to the private sector through the setting up of finance facilities through the government or government financial institutions that will, in turn, re-lend to private companies.

Despite such a strong support to the private sector, points out the writer, the ADB's experience with it does not really provide enough evidence that the private sector is better. Before the Bank decided to concentrate on infrastructure and the financial sector, it had greater exposure in private agricultural and industrial projects or projects involving direct production. The non-performance of the industrial projects became even more acute during the Asian crisis. Moreover, the multilateral organisations like ADB do not have any mechanism to punish the erring private sector debtors while they do punish the failures of the governments. While the governments are disciplined with austerity programmes resulting into 'workers being kicked out of jobs, children dropping out of schools and women getting hungry, yet when a private entity performs below par, the maximum punishment it gets is a change in the management.

Further, the operations of ADB have not been above the board. But it is known to wash its hands off many controversies involving its operations. For instance, in 1996, the MARCOPPER Mining Corporation, recipient of two private sector loans from the ADB in the early 1990s, had instigated an environmental disaster south of Luzon in the Philippines. But upto this day, the clean up needed for the spill in 1996 has yet to be completed, and various communities around the copper mines have been adversely affected but remain un-compensated. The Asian Development Bank refused to give any statements nor owned up any responsibility for the accident.

The writer discovers that there is another dimension to the motive of ADB in professing the deregulation and privatization followed by the scaling down the scope of government activities. And that is to provide market to the multinationals in the developing countries as a result of the big glut in the international market. For instance, focus on the power sector coincided with the big glut in the international equipment market in the early 1990s.

Subregional Cooperation in the East South Asia Subregion (ESAS)

Facilitating Trade and Investments for Subregional Growth

A Summary

Underlining the need for regional economic cooperation among the countries (India, Bangladesh, Bhutan and Nepal) of East South Asian Sub-region, the document highlights, in detail, wide areas of economic activities having vast potential for cooperative development of cross-border investments including hydropower, hydrocarbons, water, tourism, forestry and agriculture. Current estimates of cross-border investments indicate that projects only worth US dollar 359 million have been undertaken with the average value of such investments being very low at US dollar 1.3 million.

While admitting that a broad strategy consonent with the national priorities of each country is required to unlock the potential existing within each member country, the document asserts that not only are there opportunities to build on large-scale projects but also opportunities to foster a higher degree of trade and investment generated by the small-scale sector. It also points out the benefits accruing to member states in the form of reduction in transport and transaction costs while improving the movement of goods and some services such as tourism and banking. Besides, facilitation of trade by its very nature sets in train opportunities for cross-border investment, which, in turn, can intensify and deepen trade relationships.

Elaborating on the investment scenario in the Sub-region, the document says that the vast resource endowments of the East South Asia Sub-region (ESAS) point to the potential for several large-scale projects that could benefit the Sub-region. Many of these projects require substantial financial and technical resources. They also call for a joint approach within the ESAS because of scale effects, common resource pools, and the need for some form of sharing agreements.

Within the ESAS, the power sector is illustrative of the potential advantages through multi-country cooperation. It is estimated that there exists undeveloped hydropower potential of between 40,000 and 60,000 MW while the expected peak demand in the Sub-region will only be 20,000 MW by the year 2010. In the gas sector, Eastern Bangladesh has estimated reserves of over 25 trillion cubic feet of natural gas, which can last for around 35 years at current domestic consumption levels. There are similar opportunities in transportation, water resource development, eco-tourism and environmental protection. All of these potential projects have significant cross-border impact and need to be addressed in a comprehensive and systematic manner so as to reduce the negative externalities that may arise. The document says that the potential impact of these opportunities could be the transformation of a slow growing region into a dynamic growth area with a rapid reduction in poverty incidence.

But at the same time, the document points out, the Sub-region is not completely devoid of investments. There are already several cross-border investments. These include investments in sectors such as chemicals, cement, electricity generation, textiles, hotels and banking. In the secondary sector, these include fruit processing, soap, metals, handicrafts, carpets, matches and plywood production, jute, leather, edible oils, flour, machinery, pharmaceuticals, tea, marine and dairy products. Each of the ESAS member countries already has the capacity to participate in some or all of these sectors. Within the services sector, there are several opportunities in hotels, tourism-related projects, software development, IT, telecommunications, insurance and setting up retail networks. The changing nature of telecommunications and IT, however, points to the potential for more immediate tie-ups between businesses within the ESAS by harnessing the potential offered through the internet.

While refusing to go into the comprehensive views on the potential of sub-regional cooperation, the document discusses three scenarios for the evolution of the region.

Scenario 1 - With trade facilitation alone, in three years
If various trade facilitation measures such as improvements in customs procedures, unifying days and time of operations at checkpoints, simplifying reporting requirements, reducing labour costs, and improving cross-border financial transactions are instituted over the next three years, then it is estimated that intra-ESAS trade could increase from the current 2.5 per cent to around 3.0 per cent.

Scenario 2 - With trade facilitation and increased investments, in three years
If investment growth doubles within the next three years, while a

programme of trade facilitation is implemented, the growth of intra-ESAS trade is expected to increase form 2.5 per cent today to around 5.0 per cent in that time.

Scenario 3 - With trade facilitation and investments in the power and gas sectors, over three years

The full impact of this strategy will be to raise the overall ESAS GNP to US dollars 199 billion in three years, while increasing labour force participation by around 10 million. Intra-ESAS trade is expected to accelerate to around 6.7 per cent from the current 2.5 per cent.

It is important to note that in scenario 2 and 3, there will be a dampening effect resulting from the need for capital imports and the associated problem of financing them. Nevertheless, this valid concern can best be addressed through the creation of wider market access for products from the Sub-region so that hard currency earnings can be sustained, in addition to the fostering of intra-regional trade.

Conceding that trade facilitation can have an immediate impact on the prospects for growth, employment creation, and alleviating some of the poverty that pervades ESAS, the document also stresses the need for various measures to be undertaken by cooperating countries in this regard. These measures include simplification of sales tax and other fiscal documents, common days and time of operation of border checkpoints, multiple visa for traders, common transfer and transport modes, infrastructure improvements.

As for the measures to be taken to enhance the investment, the document recommends active participation of both the private and public sectors. At the public sector level, there is need to arrive at a common investment framework within the ESAS. This will reduce the need for competition in incentives and alleviate the concerns over impending revenue losses. In order to ensure a common set of goals and a unity of purpose, there is a need for a better information dissemination mechanism relating to investment opportunities, issues and resolutions.

Next, a clear marketing strategy for investments has to be designed and executed with a well-defined time line and performance measurement. There is also the need for human resource development in managing 'one-stop shops', designing and maintaining information database and websites, developing and implementing marketing strategies, and in addressing the concerns of the small and medium scale sector.

Last, but not the least, many of the measures needed to create a viable ESAS require support from different quarters. These include the various central governments, the state administrations, the private sector and non-government organisations such as research bodies.

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

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