

**THE ASIAN DEVELOPMENT BANK: IN ITS OWN WORDS**  
**An Analysis of Project Audit Reports for**  
**Indonesia, Pakistan, and Sri Lanka**

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## Executive Summary

Between 1966 and 2002, the Asian Development Bank (ADB or Bank) provided approximately \$99 billion dollars in loans for 1,752 projects in 38 countries throughout the Asia-Pacific region.<sup>1</sup> This report examines the ADB's track record – *in the Bank's own words, based entirely on the Bank's own documents* – in Indonesia, Pakistan, and Sri Lanka.

Indonesia and Pakistan are, respectively, the ADB's first and second biggest cumulative borrowers. Together, they have received more than one-third of total ADB funds disbursed during the Bank's thirty-six year history. During the 1990s, Sri Lanka was one of the top borrowers from the Bank's concessionary lending window, the Asian Development Fund (ADF) and is currently among the "reconstructing nations" targeted by the ADB for post-conflict loans.<sup>2</sup> ADB loans to Sri Lanka, although relatively small compared to those made to Indonesia and Pakistan, currently comprise approximately 20 percent of the country's public external debt.<sup>3</sup>

In its 2000 assessment of multilateral development finance, the bi-partisan U.S. Congressional International Financial Institution Advisory Commission (the Meltzer Commission) found project sustainability— whether or not a project provides lasting, long-term economic and social benefits – to be the key indicator for judging the performance of multilateral development banks such as the ADB. The Meltzer Commission considered a lack of project sustainability to be synonymous with project failure.

**If we utilize the standard of project sustainability as an indicator of project success, the shocking conclusion of this report – based on data presented in the ADB's own audit documents – is that over 70 percent of ADB projects in these countries are unlikely to provide long-term social and economic benefits.**

## Indonesia

Indonesia is, by far, the Asian Development Bank's biggest borrower. In 1969, the ADB made its first loans to Indonesia for an irrigation project and an oil palm plantation project.<sup>4</sup> By 2002, the ADB had approved 268 loans to Indonesia, totaling \$18.3 billion, including a \$2.8 billion "crisis management intervention" loan package made in 1998-1999. This report examines the ADB's record in Indonesia, including assessments and summaries from the ADB evaluations department's Project Performance Audit Reports (PPARs) of \$1.6 billion worth of loans – over 10 percent by value, of all ADB loans to Indonesia made prior to the crisis intervention package. **These audit reports indicate that at least 70 percent of Indonesia's ADB projects are not likely to produce lasting economic or social benefits for the country – a disaster for heavily indebted Indonesia.**

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\*This report represents an update and expansion of S.G. Fried. "Evaluating the ADB in Indonesia: The Operation was a Success, but the Patient Died," Environmental Defense, May 8, 2001.

<sup>1</sup> Asian Development Bank. *2002 Annual Report*.

<sup>2</sup> Asian Development Bank. "Board of Directors' Report: Reconstructing Nations," *2002 Annual Report*.

<sup>3</sup> International Monetary Fund. "Sri Lanka: Selected Issues and Statistical Appendix." September 26, 2002.

<sup>4</sup> Asian Development Bank Post-Evaluation Office. "Country Synthesis of Post-Evaluation Findings in Indonesia." December 1993.

In 2000, ADB's Operations Evaluation Department (OED)<sup>5</sup> found that half of all audited projects rated "successful" by the Bank in the preceding year (see Appendix B) were of questionable sustainability. In the case of Indonesia, for example, "successful" projects included those with massive unmonitored resettlement components, were (according to OED auditors) patently unsustainable, included projects where "record keeping also seems to have been abandoned" and could be (according to the OED) so poorly structured that rapid deterioration of project infrastructure was inevitable.<sup>6</sup>

The ADB's "partly successful" project category appears to be a euphemism for "largely unsuccessful" or "troubled." In the case of Indonesia, this category includes projects such as a \$250 million Food Crop Sector loan where auditors found that the Bank had failed to carry out the most basic analyses of the implications or impacts of its policy recommendations, and had failed to identify "intended beneficiaries" of the policy changes. Auditors noted that "the overall impact of the Program Loan is not clear" because "there were no performance indicators against which Program impact could be assessed."<sup>7</sup>

The "partly successful" category also includes a \$38 million health project where OED found that "user demand, actual needs, and operating capacities of the hospitals" funded by the project had never been analyzed by the Bank or by the Indonesian implementing agencies, leading to a failure to supply badly need medical equipment to the hospitals.<sup>8</sup> Auditors discovered that it wasn't until six years into the project that the establishment of a system for "benefit monitoring and evaluation," including the collection of baseline data, was discussed.<sup>9</sup>

An examination of publicly available ADB evaluation documents indicates that the ADB's "unsuccessful" project category appears to mean "abysmal failure" and often indicates project-related damage to the environment, the economic structure, and/or human health.<sup>10</sup> In the case of Indonesia, unsuccessful projects include the \$29.5 million Agro-Industries Credit Project which provided capital to an Indonesian agricultural bank, Bank Bumi Daya, to enable it to make loans for "agro-industry" subprojects. This project bankrolled environmentally destructive shrimp farms ("all discharges from the shrimp ponds were directly diverted to the sea without any treatment") and an "environmentally unsound" animal feed factory.<sup>11</sup> In addition, according to auditors, three-fifths of the subprojects failed and 90 percent of the projects with outstanding loans defaulted.<sup>12</sup> The project also significantly and negatively affected the "creditworthiness," such as it was, of Bank Bumi Daya itself.

## **Pakistan**

Since 1968, Pakistan has received more than \$12.6 billion in loans from the ADB, making it the second largest cumulative borrower, after Indonesia. At the end of 2001 – to manage the

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<sup>5</sup> In this report, "OED," "ADB auditors" and "auditors" are used interchangeably.

<sup>6</sup> Asian Development Bank Operations Evaluation Office. "Report of the President to the Board of Directors on 1998 Evaluation Activities and the Twenty-First Annual Review of Evaluation Reports." March 2000, p. 27.

<sup>7</sup> Asian Development Bank Post-Evaluation Office. "Project Performance Audit Report on the Food Crop Sector Program in Indonesia." December 1997, p. 6.

<sup>8</sup> Asian Development Bank Post-Evaluation Office. "Project Performance Audit Report on the Health and Population Project in Indonesia." June 1997, p. 6.

<sup>9</sup> Ibid, p. 4.

<sup>10</sup> Note that projects linked to socioeconomic or environmental damage are not, however, confined to the "unsuccessful" category.

<sup>11</sup> Asian Development Bank Post-Evaluation Office. "Project Performance Audit Report on the Agro-Industries Credit Project in Indonesia." January 1996, p. 16.

<sup>12</sup> Ibid, p. 18.

repercussions of September 11 terrorist attacks and in recognition of Pakistan's key role in the global "war on terror"– ADB funding for Pakistan increased by 148 percent (from the 1997-2000 average) to \$957 million.<sup>13</sup> In 2002, Pakistan received more than \$1 billion from ADB and was the top client of ADB's concessional lending window.<sup>14</sup> According to ADB's Pakistan Country Strategy and Program released in May 2002, \$2.4 billion in assistance is planned for Pakistan from 2003 through 2005.<sup>15</sup>

This report evaluates over \$900 million of ADB loans to Pakistan made over a thirty-four year period. **Our analysis of OED reviews – utilizing "sustainability" as the standard of project success – indicates that perhaps as much as 70 percent of ADB projects in Pakistan are unlikely to produce lasting economic or social benefits.**

An examination of OED evaluation documents for Pakistan reveals a disturbing pattern of systematic failure on the part of the Bank. A striking number of ADB-financed projects in Pakistan suffer from design flaws and lack of attention to thorough project preparation. The absence of Benefit Monitoring and Evaluation (BME) systems and baseline data necessary for measuring success is repeatedly noted. A number of audit reports reveal a persistent lack of consultation with prospective beneficiaries and user groups, as well as a lack of community participation throughout project preparation and implementation. Perhaps most alarmingly, according to OED audits, adverse impacts on social equity and income equality that have fostered ethnic instability were reported in certain ADB projects in Pakistan.

Surprisingly, these deficiencies did not necessarily lead to a rating of "unsuccessful" or even "partly successful" from auditors at OED. In fact, projects considered to be "successful" have benefited large landholders at the expense of small farmers and terminated five years behind schedule (South Rohri Fresh Groundwater Irrigation Project);<sup>16</sup> ignored local customs and preferences in project design while failing to account for obvious environmental impacts (Balochistan Fisheries Development Project);<sup>17</sup> and failed to assess the impact of the project or ensure that benefit monitoring and evaluation systems were implemented as required by loan covenants (Third Health and Population Project).<sup>18</sup>

Some of the most egregious examples of failures can be found in "partly successful" projects, such as the Chashma Command Area Development Project and Chashma Right Bank Irrigation Project (CRBIP). The OED audit report laments ADB's failure to conduct any comprehensive analysis of socioeconomic and sociocultural conditions in the nearly thirty-year implementation of various stages of the project.<sup>19</sup> According to recent estimates from organizations working with communities in the project area, more than 50,000 people have been or will be negatively

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<sup>13</sup> Asian Development Bank. "Annual Report on Loan and Technical Assistance Portfolio Performance for the Period Ending December 2001." April 2002. The excerpt from the 2001 Annual Report provided on ADB's website under Pakistan and the ADB notes: "ADB's 2001 loan program for Pakistan was a record \$957 million in the aftermath of the 11 September attacks. ADB's commitment to help mitigate the impact of the post-11 September events on the Pakistan was reiterated by ADB President Tadao Chino."

<sup>14</sup> Asian Development Bank. *2002 Annual Report*.

<sup>15</sup> Asian Development Bank. "ADB Plans to Provide Pakistan with US\$2.4 Billion Over Three-Year Period," press release, 31 May 2002.

<sup>16</sup> Asian Development Bank Operations Evaluation Office. "Project Performance Audit Report on the South Rohri Groundwater Irrigation Project in Pakistan." March 2000.

<sup>17</sup> Asian Development Bank Post-Evaluation Office. "Project Performance Audit Report on the Balochistan Fisheries Development Project in Pakistan." November 1995.

<sup>18</sup> Asian Development Bank Post-Evaluation Office. "Project Performance Audit Report on the Second Health and Population Project in Pakistan." December 1998.

<sup>19</sup> Asian Development Bank Post-Evaluation Office. "Project Performance Audit Report on the Chashma Command Area Development Project in Pakistan." December 1998, p. 1.

impacted by this extensive irrigation project.<sup>20</sup> While more than 20 villages are expected to be involuntarily resettled, no participatory resettlement plan has been prepared as required by ADB policies.<sup>21</sup> Traditional irrigation systems were destroyed<sup>22</sup> and “there was no explicit consideration of the resources, needs, and objectives of the farmers, whose financial status and objectives decide which crops they will plant and which cultural practices they will apply.”<sup>23</sup> While the ADB appraisal report noted the project’s contribution to “a Pashtun tribal migration of possibly historic proportions,” no references were made to the impacts of this migration and no measures were incorporated to address the situation.<sup>24</sup> ADB auditors cited “possible ethnic tensions as a result of the project.”<sup>25</sup> As predicted, minority Siraiki-speaking people are now facing in-migration of majority Pashtun, threatening the “politically sensitive” demographic balance.<sup>26</sup>

## Sri Lanka

Sri Lanka has been an ADB client since 1968, borrowing nearly \$3 billion from the Bank in the past three decades. During the 1990s, Sri Lanka was one of the top borrowers from ADB’s concessional lending window, along with Pakistan, Bangladesh and Vietnam. In 2002, the ADB provided \$236.5 million in new loan commitments to Sri Lanka.<sup>27</sup> For 2003 through 2005, \$600 million is proposed for twelve loan projects in Sri Lanka.<sup>28</sup> With new hope for peace after nearly two decades of civil war, Sri Lanka is likely to receive more loans from the ADB and other international financial institutions in the coming years.

As of December 2002, the ADB had provided 112 loans to Sri Lanka to support projects in sectors such as agriculture and natural resources, social infrastructure, finance, and transport. The ADB’s record in Sri Lanka is apparently even more dismal than its performance in Indonesia or Pakistan. **It appears that as much as 78 percent of ADB projects in Sri Lanka may be considered unsustainable or failures – the equivalent of \$1.2 billion of Sri Lanka’s debt to the ADB.**

OED Project Performance Audit Reports for completed ADB projects in Sri Lanka reveal disturbingly consistent failures, such as inappropriate project design; cost overruns and time overruns of more than 100 percent; the absence of Benefit Monitoring and Evaluation systems and baseline data necessary for measuring success; policies and projects that exacerbate poverty and increase social inequity and ethnic tension; lack of consultation with prospective beneficiaries and local communities; severe operation and maintenance deficiencies and substandard

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<sup>20</sup> Japan Center for a Sustainable Environment and Society (JACES). “Report on Facts and Concerns Regarding Chashma Right Bank Irrigation Project- Stage III (CRBIP-III) and Grievance Redress and Settlement Committee (GRSC).” 7 May 2003, p. 13.

<sup>21</sup> Hirak Development Center, Damaan Development Organization, Action Aid-Pakistan, Creed Alliance, Chashma Affectees Committee, SUNGI. “Chashma Inspection Request Filed with the Board Inspection Committee Under the Inspection Procedures of the Asian Development Bank.” 19 November 2002.

<sup>22</sup> Ibid.

<sup>23</sup> Asian Development Bank Post-Evaluation Office. “Project Performance Audit Report on the Chashma Command Area Development Project in Pakistan.” December 1998, p. 2.

<sup>24</sup> As quoted in “Chashma Inspection Request Filed with the Board Inspection Committee Under the Inspection Procedures of the Asian Development Bank.” 19 November 2002, p. 27-28.

<sup>25</sup> Asian Development Bank Post-Evaluation Office. “Project Performance Audit Report on the Chashma Command Area Development Project in Pakistan.” December 1998, p. 13.

<sup>26</sup> Hirak Development Center, Damaan Development Organization, Action Aid-Pakistan, Creed Alliance, Chashma Affectees Committee, SUNGI, “Chashma Inspection Request Filed with the Board Inspection Committee Under the Inspection Procedures of the Asian Development Bank,” November 19, 2002, p. 28.

<sup>27</sup> Asian Development Bank. *2002 Annual Report*.

<sup>28</sup> Asian Development Bank, “Country Strategy and Program Update (2003-2005), Sri Lanka,” July 2002.

construction; project preparation based on assumptions instead of facts, analysis, and an understanding of local realities; and a failure to mitigate severe environmental and social impacts.

Some of the most alarming failures are found in ADB-supported irrigation projects in Sri Lanka. For example, the “successful” Walawe Irrigation Improvement Project was supposed to rehabilitate a deteriorating ADB project, but the OED evaluation determined that the benefits under the second project would also be lost within a decade.<sup>29</sup> The “partly successful” Kirindi Oya Irrigation and Settlement Project benefited only a small number of people, despite its high cost, and actually increased income inequality and social tensions in the project area. Local communities were not adequately consulted and more cost-effective alternatives were not considered.<sup>30</sup>

Given the ADB's shockingly poor performance as detailed in this report, it should come as no surprise that recent ADB Annual General Meetings (AGM) have been the site of massive public protests. At the Bank's meeting in Thailand in 2000, over 5,000 villagers, fishers, farmers, teachers and health workers affected by ADB projects surrounded the meeting site, held demonstrations, and built a shanty-town outside of the upscale hotel where the AGM was being held. Tadao Chino, the President of the ADB, refused to leave the hotel to meet with the protestors.

In an effort to avoid protestors at its 2001 meeting, the ADB changed its planned U.S. venue from Seattle to isolated Hawai'i where, despite the state's dismal economic situation, they “bullied local officials for all the financial concessions they could possibly get,” “stoking fears of mass unrest and prompting the largest law-enforcement operation in Hawai'i's history.”<sup>31</sup>

On May 9, 2001, the Honolulu ADB meeting sparked one of the largest mass demonstrations seen in Hawai'i in close to 30 years.<sup>32</sup> As protestors surrounded the Honolulu Convention Center, ADB President Chino, apparently fearing that the Honolulu police would attack them with “clouds of tear gas, creating sizzling, pay-of-the day video clips for the evening news” came out to meet the protestors.<sup>33</sup> A Thai villager affected by an ADB project held President Chino firmly by the arm as a non-governmental organization (NGO) leader read a detailed list of demands,

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<sup>29</sup> Asian Development Bank Operations Evaluations Office. “Project Performance Audit Report on the Walawe Irrigation Improvement Project in Sri Lanka.” December 1999, section III, p. 10-11.

<sup>30</sup> Asian Development Bank Operations Evaluations Office. “Project Performance Audit Report on the Kirindi Oya Irrigation and Settlement Project in Sri Lanka.” December 2000, p. 3, 11-12, 13.

<sup>31</sup> “Protests, economic pain cloud Asian financial meet,” Reuters Press. 5/7/01; “ADB: Shanghaied in Honolulu,” Honolulu Magazine; “U.S. to pay half of ADB security tab,” Honolulu Advertiser, 11/3/01. At the time, the state of Hawai'i had the highest debt levels in the United States (with 13 percent of general fund resources consumed by debt service). According to Honolulu Magazine, the ADB forced the state to waive its hotel tax for the duration of the meeting, had all fees waived for use of the gigantic Honolulu Convention Center, “got more than a million dollars in communications, limos, food, 'gratuities' and greeting services donated by local corporations,” “got [the head of the Hawai'i Tourism Authority] to give the Honolulu Police Department \$500,000 for riot toys out of his tourism budget,” and hired an intelligence consultant to “report on ‘the agenda of the locals.’” Hawai'i's state and local police departments spent at least \$3.3 million on security for the ADB meeting, only half of which was refunded by the federal government. Prior to the AGM, a series of “ADB laws” were introduced at the Hawai'i state legislature and Honolulu City Council, designed to severely curtail civil liberties. The ACLU brought a lawsuit alleging an “unlawful conspiracy” to violate First Amendment Constitutional rights of ADBwatch members by the state of Hawai'i, the city of Honolulu, the Tourism Authority, and the Honolulu Police Department in the context of the ADB AGM.

<sup>32</sup> The “ADB AGM story” was voted one of the top ten news stories of the year in Hawai'i by the daily papers. The heavy-handed nature of the ADB's financial demands and security needs for their Honolulu meeting galvanized a wide range of ordinary citizens into taking part in the demonstration at Honolulu Convention Center during the ADB meeting. The public mobilization against the ADB trained a new generation of activists and set the stage for significant anti-war demonstrations in the years to follow.

<sup>33</sup> “ADB: Shanghaied in Honolulu,” Honolulu Magazine, July, 2001.

titled “The People's Challenge to the Asian Development Bank,” signed by 68 NGOs (Appendix A).<sup>34</sup>

In “The People's Challenge to the Asian Development Bank,” groups asserted that the ADB has, “in the name of development, ...destroyed the livelihoods of people, brought about the disintegration of local and indigenous communities, violated ancestral domains, undermined sovereign self-determination, promoted a sharp rise in inequality, deepened poverty, and destabilized the environment.” They deplored “the inconsistency with which the ADB requires good governance, transparency, and accountability from borrowing governments while at the same time, fails to impose the same strict standards upon itself.” Seeking “genuine dialogue with the ADB,” the groups insisted that “development must not be a process that creates refugees” and called upon the Bank to:

- halt controversial/disputed projects and conduct an independent review of projects “that directly threaten people's livelihoods and economic and social security”;
- acknowledge that ADB-financed projects have displaced peoples and created a new class of “development refugees”;;
- “assess the compensation needs of all those people whose livelihoods have been negatively affected, particularly those displaced as a result of past ADB projects, using open, transparent, and participatory processes” and implement adequate compensation measures;
- set up a “rigorous mechanism for reparation for the negative impacts of past and existing projects”;
- implement “appropriate mechanisms to monitor the environmental, social, and economic impacts and costs of all projects”;
- implement “transparent and universally accessible grievance procedures through which the ADB can be held accountable for the violation of its own guidelines”;
- ensure that “review panels for projects, programs, operations and governance” are “equally balanced in their composition among affected peoples, civil society and independent experts” and to ensure that “affected peoples and civil society” have “the right to select their own representatives on these panels”;
- agree to halt, pending independent review, all “sectoral reform processes” and the Bank's “Private Sector Development strategy”;
- “take into consideration political, social and economic realities” such as “distributional disparities that render markets uncompetitive and exclude the poor” and “weak governance structures that render regulation ineffective and incapable of upholding consumer and worker rights”;
- ensure that future ADB policies and practices “emerge from public debates and discussions, and not through closed-door negotiations among elite groups of ADB management, national and government elites and technical ‘experts’”;
- “open to public scrutiny decision making and agreements between the ADB and host governments about programs and projects”;
- agree to the “full and unconditional cancellation of the illegitimate debts of ADB’s borrowing countries, given that “close to 70 percent of its loans to the developing countries will fail to produce lasting economic or social benefits.”

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<sup>34</sup> The ADB held its next Annual General Meeting in Shanghai in 2002, a location perhaps more “secure” than Thailand or Honolulu. In 2003, ADB cancelled the week-long AGM scheduled for Turkey citing security concerns related to the Iraq war. The AGM was moved to a one-day meeting at Bank headquarters in Manila from which villagers and NGOs were excluded.

**These demands are outstanding while protests against the ADB continue. Given the ADB's record in countries such as Indonesia, Pakistan, and Sri Lanka, urgent and far-reaching reforms are needed, in accordance with the NGO demands cited above. Otherwise, it is clear that the ADB will increasingly be an engine for economic failure, environmental destruction, indebtedness, and growing social and political instability throughout the Asia-Pacific region.**