



March 11, 2008

**MR. SEBASTIAN PAUST**

Executive Director

Austria, Germany, Luxembourg, Turkey and United Kingdom

Asian Development Bank

Dear **Mr. Paust**:

The NGO Forum has steadfastly engaged with the ADB in the most constructive manner possible in the hope that our efforts would be reciprocated by stronger and honest commitment on the Bank's part to pursue a truly democratic, sustainable and equitable development process for the poor citizens of its Developing Member Countries (DMCs). In this light, we wish to present to you our position on the Asian Development Fund X replenishment that is currently undergoing a round of discussions. We would also like to share our comments on the Operations Evaluation Department (OED) study on the ADF VIII and IX.

Foremost, we view the ADF X replenishment in the context of the proposed weakening of ADB environmental and social safeguards through the on-going Safeguards Update Process as documented in the draft Safeguard Policy Statement (SPS) released in October 2007. Further, we have conducted and contributed analyses of the SPS draft<sup>1</sup> that illustrates in details the dramatic dilution of environmental and social policies currently proposed by the Bank.

**Thus, we remain deeply concerned about the replenishment of funds until and unless the Bank returns safeguard protections to their existing levels and meets best international practices at peer institutions.**

**I. ADF X Replenishment vis-à-vis the Safeguard Policies Update**

The draft SPS proposes to replace policy implementation measures that are currently mandatory with "General Requirements" for Environment, Involuntary Resettlement, and Indigenous Peoples (IP) safeguards and which are far weaker, for the most part, than existing safeguard implementation requirements. One glaring example pertains to the strong language regarding "safeguards compliance" that has been replaced with language assuring borrowers that failure to comply with requirements will not necessarily result in penalties. This sends a clear signal to borrowing countries that they need not be overly concerned about compliance with the newly weakened ADB social and environmental safeguards.

Our position has been echoed by senior ADB officials who are deeply concerned about the direction of the SPU process. They have indicated to us that effectively nothing is mandatory as the draft allows for undue flexibility in how principles will be operationalized. Moreover, they feel the draft SPS dramatically compromises the ADB's ability to ensure compliance because of its lack of specificity, vague language, and unclear statements about exactly what is required and how requirements will be put into effect. The lack of enforceable safeguards implementation measures represents a complete reversal of ADB's core safeguards requirements, and is potentially devastating blow to the environment, project-affected communities and poverty-alleviation goals.<sup>2</sup>

We also find that the SPS proposes to weaken implementation requirements in ADB operations such as project loans, program loans, sector loans, corporate investments, financial intermediaries, and co-financing. The current mandatory Environmental Assessment for "all project components whether financed by ADB, co-

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<sup>1</sup>See detailed reports by International Accountability Project on proposed weakening of Involuntary Resettlement Safeguards <http://www.bicusa.org/en/Article.2851.aspx> ; See detailed reports on proposed Indigenous Peoples' safeguards by Forest Peoples Programme at [http://www.forestpeoples.org/documents/ifi\\_igo/bases/adb.shtml](http://www.forestpeoples.org/documents/ifi_igo/bases/adb.shtml); See detailed reports by Environmental Defense, [stephg99@gmail.com](mailto:stephg99@gmail.com) or <http://www.bicusa.org/en/Article.2851.aspx>; For a detailed comparison of IFC and ADB standards (clearly demonstrating the fact that the proposed ADB standards fall far short of even IFC standards), see report by S. Herz for Bank Information Center at <http://www.bicusa.org/en/Article.2851.aspx>; Suzanna Dennis, "Failing to Safeguard Gender Equality: Comments on the ADB Consultation Draft of Safeguard Policy Statement", Gender Action, December 2007; Titi Soentoro, SPS Gender Analysis, February 2008.

<sup>2</sup>For details, see S. Fried, "Elimination of Mandatory Implementation Requirements for Safeguards?" January 2008

financiers, or the borrower” has been eliminated. Likewise, the existing requirement for the assessment of “indirect and cumulative impacts” and the requirement for a 120-day public comment period have been dropped. Alarmingly, the SPS fails to cite specified minimum public comment period. Similarly, there has also been a direct weakening of the following: (i) ADB's role and responsibilities, (ii) borrower obligations, (iii) public consultation and participation requirements, (iv) information disclosure requirements, (v) due diligence, (vi) review requirements, and (vii) definition of “external experts” (to avoid conflict of interest problems), etc.

### Framework Approach and Multitranche Financing Facility (MFF)

In terms of the proposed Framework Approach and MFF we firmly believe that these modalities would create giant loopholes since they avoid rigorous application of environmental and social safeguards. Both would allow the ADB -- prior to the development of any environment, resettlement or IP plans -- to commit to financing an entire sector or multiple tranches of a large project at a “national level,” with potential hazardous implications. The only safeguard requirements would be those selected and agreed upon by the ADB and the borrower instead of unambiguous and universal standards.

The SPS states that “*frameworks could be agreed upstream with borrowers for sectors at sub-national and national levels, and then tailored to the specificities of individual projects.*” Implementation commitments would be developed, apparently by the borrower, *only during project implementation after the finance has already been approved.* **This represents a tremendous reduction in leverage by ADB and project-affected peoples over project outcome and impacts, given the massive disbursement of finance for an entire project or an entire sector at one time.** This would mean that there would be little oversight over multiple phases of a given large-scale project since each phase would no longer have to be approved for release of funds. In addition, the SPS fails to integrate gender concerns as required by ADB policy.

## **II. ADF X Roles and Priorities**

Given the failure of 70 percent of ADF countries in their efforts to meet the Millennium Development Goals (MDGs) and confronted with the phenomenon of rising inequalities among these countries per the Bank’s own admission,<sup>3</sup> ADF X’s over-all priority is predictably hinged on preserving the very relevance of ADB aid money. By ADB’s own reckoning, is the declining share of ADF countries in Official Development Aid, which according to the Bank pose dire effects on its development assistance and policy (or even political) leverage. To address these complex issues, the Bank has calibrated ADF X’s directions towards “*maintaining adequate volume of ADF assistance combined with greater operations selectivity; efficient allocation of assistance; and continuing reforms*” (ibid.).

### Growth vs. Inequality

We accept that accelerating growth rate and per capita income, which for the longest time has been ADB’s prescribed antidote to poverty, are twin barometers of rapid development. But, clearly, these measures do not present the entire picture as evidenced by the 100 million people in ADF countries who still live less than \$1 a day in ADF countries, or the 300 million that survive on less than \$2 a day. These troubling figures supplied by the Bank are further compounded by the increasing inequality both in terms of their income and access to social services. We view the “*large-scale persistence of income poverty and high prevalence of non-income poverty (para. 4)*” despite robust growth as firmly rooted to the skewed and problematic distribution of the benefits of growth by corrupt and inept governance systems.

We have long argued that poverty can still thrive in the face of high growth should the benefits be inequitably distributed among the people (i.e. as evidenced by the poverty situation in “ADF graduate” the Philippines). Despite the realization that growth in ADF countries and non-ADF countries alike, most notably in India and China, has not resulted in poverty reduction,<sup>4</sup> the ADB still holds on to the premise that infrastructure-based growth is the main vehicle for poverty reduction (ibid.). This seems an inconsistent conclusion in light of socio-economic realities of most Asian countries. Therefore, the dismissal of OED (in its review of ADF VIII and IX) of the significance of projects with direct poverty reduction components appears counterproductive.

Moreover, it goes without saying that growth and equity are not mutually exclusive because the primacy of sustaining development gains rests on the delivery of goods, resources and services to the widest spectrum

<sup>3</sup> Asian Development Bank, ADF X (2009-2012) Role and Priorities, August 2007, Executive Summary

<sup>4</sup> Asian Development Bank, Demand for ADF X Assistance, November 2007, Page 1

possible. Growth and equity must be synergized for the general well-being of the impoverished populations in ADF countries.

We urge the ADB through ADF X to correct this anomaly. We ask the Bank to bias its lending operations more towards social development programs to arrest the inequalities. However, we caution the ADB in promoting the fallacy that high, inclusive growth levels (best represented by glowing macroeconomic figures) - would automatically result to better lives for impoverished populations. Perhaps in measuring and interpreting the depth and severity of poverty as well as in tracking the distribution of growth in ADF countries, the Bank should also look into and consider the relative importance of the so-called soft indicators of development like well-being and life satisfaction apart from human development indicators.

### Environmental Sustainability

As regards environmental sustainability, the ADB says “*economic and demographic growth have taken a heavy toll on the environment of ADF countries. Considerable strengthening of environmental protection programs is urgently needed to ensure that growth is sustainable (para. 2, executive summary).*”<sup>5</sup> Similarly, the document “Demand for ADF X Assistance” also emphasizes the need for preventing adverse impacts of growth on the environment as strategic priority. We are pleased to see this recognition which has been long overdue.

However, given the massive weakening of environmental safeguards proposed in the SPS, we are deeply concerned that the ongoing SPU will undermine environmental and social safeguards further rather than strengthening them. Our collective apprehension stems from the Bank’s dubious track record on safeguards implementation. Projects in former or current ADF clients such as the Marinduque (Marcopper) Mining Project in the Philippines, Kirindi Oya Irrigation and Settlement Project in Sri Lanka to the more recent ones such as Khulna Jessore Drainage Rehabilitation Project in Bangladesh and the Chashma Right Bank Irrigation Project in Pakistan are only some examples of how prioritizing high speed but unsustainable growth can be injurious to the environment, natural resources, and resource-dependent communities.

Thus, we respectfully urge you to carefully consider the disbursement of any ADF funds unless the proposed SPS has been re-drafted to retain the current level of environmental and social safeguards and meet international practice among similar financial institutions.

Moreover, while the Bank continues to laud the virtues of environmental sustainability as envisioned in the MDGs it is, in reality, also drastically watering down its operational policy on energy. The ADB’s energy strategy paper continues to promote country reliance on fossil fuels such as coal and large hydropower instead of clean and renewable energy sources. In the face of worsening global warming that is most harmful to the poorest regions of Asia and the Pacific, the protection of the environment and conservation of precious resources are a centrally important core mission that the Bank cannot credibly postpone.

### ADF’s X Commitment to Realization of MDGs

The Bank’s justification for the replenishment of ADF X rests on “*accelerating poverty reduction and achieving MDGs by 2015 remain the greatest challenges facing countries eligible for loans on concessional terms and grants from the Asian Development Fund.*”<sup>6</sup>

But our ultimate question and challenge to the ADB remain: Has the ADF significantly made a dent along these MDG commitments? What have been the progress and accomplishments? According to a recent paper by the OED as part of the review of the LTSF has confirmed that health indicators and water sanitation targets appear at risk of not being met. Given the increasing inequality in various ADF countries, the Bank has stated that there is a prima facie case for continuing and expanding the ADF up to at least 2015 in order to achieve the MDGs.

Neither the OED evaluation study of ADF VIII and IX nor the ADF X Demand paper contain specific recommendations as how to ensure that the ADF will be better targeted towards achievement of the MDGs, although both papers concede that so far growth has not resulted in equitable poverty reduction. In addition, it is extremely difficult to discern from the OED study what progress has in fact been made in terms of targeted

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<sup>5</sup>Asian Development Bank, ADF X (2009-2012) Role and Priorities, August 2007, Executive Summary

<sup>6</sup>Asian Development Bank, Demand for ADF X Assistance, November 2007, Executive Summary

poverty reduction, particularly since the ADB has had different methods for classifying what projects fall under poverty reduction under time. In order to achieve real outcomes in terms of progress towards the MDGs, so ADB should lay out a detailed proposal of pipeline projects and demonstrate how the projects will contribute to the achievement of specific MDGs. Further, ADF reports to donors should contain a narrative on how ADF resources have contributed towards MDG achievement in specific countries.

True, ADF X is being geared towards greater selectivity in allocating assistance to its clients. But again, we urge the Bank to ascertain whether the demand for ADF replenishment would simply increase the financial leverage of the ADB over already heavily-indebted recipient countries. We call on the ADB to improve the lending modalities of the ADF by making it more responsive to and inclusive of the poorest populations in Asia and the Pacific through a comprehensive review of ADF assistance criteria and graduation policy. We challenge the ADB to respect its poverty reduction mission by ensuring that ADF replenishment does not serve as a device to assist the dilution of existing Safeguard Policies and to ensnare countries into a bottomless pit of environmentally and socially unsound projects, poverty and debt.

### **III. OED Study on ADF VIII and IX**

#### Poverty Reduction Strategy of the ADB

The OED study states that ADF countries only include 113 million (18 percent) of the 620 million poor people in Asia and the Pacific region. Eighty percent of the absolute poor now live in countries that are no longer eligible for ADF assistance such as the Philippines, India and China. In the future, Indonesia will “graduate” from being part of Group B2 (countries that borrow largely from Ordinary Capital Resources but with limited access to ADF) into Group C (OCR countries only) “*Due to their economic growth over the years, ADB’s graduation policy has rendered some other populous ADF countries ineligible for ADF, although their poor populations remain sizeable (para 31).*”<sup>7</sup>

Unless the ADB revises/revisits the set of criteria and indicators for ADF eligibility and review its graduation policy to make it more responsive to and more inclusive of the poor population, the ADF will continue to fall short of achieving its poverty reduction goals thereby eroding the ADF’s very relevance. Aside from per capita income and population, the ADB should also consider poverty incidence, depth of poverty gap and severity of poverty in determining which countries should be eligible for ADF assistance. By doing so, poor populations in non-ADF countries may be covered by ADF assistance, which could be a good start in determining which vulnerable groups could be targeted for ADF support, instead of simply targeting countries with low overall per capita income.

According to the OED (figure 7 and para. 45), the abandonment of the ADB-wide poverty reduction target led to the decrease in the number of operations having special pro-poor components in ADF IX; from 70 percent (ADF poverty intervention) for the period 2001-2003 to only 51 percent (ADF targeted intervention) for the period 2004-2006. This is a clear manifestation that the Bank has actively moved away from ADF’s primary goal --- providing allocations for operations that would directly reduce the incidence of poverty in recipient countries.

#### Safeguards

The OED has claimed that “*the assessments are positive, especially for outcomes of safeguard enforcement (para. 143).*” This statement stands in sharp contrast to the actual track record of the ADB, where outcomes of ADB’s implementation of its Environment, Involuntary Resettlement and Indigenous Peoples policies have been extremely problematic and plagued by a lack of appropriate staffing levels sufficient to ensure implementation. Case studies, articles and reports that have been prepared by our network and allied organizations on disastrous projects like Southern Transport Development Project in Sri Lanka, Mae Moh Coal Power Plant in Thailand, and Nam Theun II Hydropower Project in Laos, to name a few, point to safeguards policy violations committed by ADB staff and borrowers. Likewise, the draft SPS clearly proposes a substantial weakening of existing protection, despite repeated claims by ADB Management that there would be no dilution of Safeguard Policies. Such a move shows not only the failure of the Bank to implement its own policies, but a new attempt to abrogate responsibility and accountability for Safeguards implementation and monitoring. In the same sentence and paragraph, the OED says that involvement of civil society organizations in operations has been successfully achieved. We are astonished at this assertion and have provided ample

<sup>7</sup> Operations Evaluation Department, Asian Development Fund VIII and IX Operations, December 2007

documentation of the current lack of the implementation of the Bank’s own consultation and public information requirements. The recent SPS consultations have been a failure: as a result of the ADB’s refusal to maintain existing levels of safeguard protections – despite explicit written and verbal promises to do so – many civil society organizations working with local communities affected by ADB projects have – after 2 years of good faith negotiations – walked away from the process.

### Environment

The evaluation study said ADB has classified more ADF IX operations as addressing environment. Based on figure 6, loans classified as addressing environment have increased from 12 percent (ADF VIII) to 21 percent (ADF IX). However, the Bank continuously funds category A and climate change-inducing projects. Hence, more funds should be geared towards addressing environmental sustainability especially in the Pacific region which is presently most vulnerable to the effects of climate change. The proposed dramatic weakening of environmental safeguards in the draft SPS is likely to usher in a period of project and sectoral finance with serious negative climate impacts.

### Performance Based Allocation (PBA)

As stipulated in the ADF X Demand paper, 79 percent of the estimated \$11billion (case 1), or \$10.3 billion (case 2) is allocated to PBA. According to the Bank, the policy supports poverty reduction and sustainable development by allocating ADF resources based on country performance along with country needs. We believe that this policy sidesteps PBA-related issues as mutual accountability (removal of conditions based on good performance) and consistency (incentives programs should be consistent with the development priorities of recipient countries). In addition, the OED study contains findings that question the validity of the current PBA system. Laos for instance had the best results in a study of sample operations even though it has the lowest Country Performance Assessment (CPA) rating.<sup>8</sup> The current PBA policy should be opened for review so that rankings become consistent and correspond to on the ground realities.

As an alternative to the present PBA policy, the OED has suggested “*using the World Bank’s Country Performance and Institutional Assessment to allocate ADF (para. 120),*” especially for countries receiving more International Development Assistance than ADF assistance. However, on footnote 93, it admits that the IDA assessment suffers from the same shortcomings as the country performance assessment. It says that, “*at least ADB would not be paying for the cost of producing it [CPA].*” We object to this particular recommendation of the OED because we believe that it should be the Bank’s role to look for appropriate and efficient solutions to effectively resolve issues and challenges in its own operations, rather than, adopting World Bank’s (and other multilateral institutions) systems that have been proven to be ineffective.

### Efficiency

“*ADB has not always been able to provide sufficient numbers of technically qualified staff for project processing and administration (para. 145).*” We find it alarming, if not deplorable, that several ADF VIII operations were delayed for years due to reasons that are very much within the Bank’s capacity to resolve such as: insufficient follow-up, change of project officers, late transfer of administration to resident missions, etc. There should be no room for such incompetence and inefficiency in the Bank, especially in terms of the quality and quantity of project staffing requirements. Only the most qualified individuals should be allowed to handle projects, particularly highly-sensitive ones, to avoid both operational delays as well as poorly-implemented projects that lead to social and environmental damage. The budgeting and utilization of sufficient resources to address the human resource limitations of the Bank is urgent and paramount. Likewise, there is a need to further improve the hiring process in the ADB to address the issue of lack of technical capacity, as pointed by national government authorities.

In closing, we would like to reiterate our position that the ADF should serve its very purpose: a tool to ensure the successful implementation of poverty reduction measures. **Likewise, we underscore the need for stringent environmental and social safeguards to be front-and-center of the ADF in fulfilling its anti-poverty goal.** We sincerely hope that you would consider the aforementioned comments as informed and relevant discussion points in the succeeding Donor’s Meetings on ADF X.

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<sup>8</sup> Operations Evaluation Department, Asian Development Fund VIII and IX Operations, December 2007, Para. 91

Thank you.

Very truly yours,

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