

Why Reform of the ADB is the Wrong Agenda

Walden Bello, Focus on the Global South (April 2001) *

In the wake of the large-scale protests from civil society that marred its 33rd annual general meeting in Chiang Mai, the Asian Development Bank (ADB) decided to hold this year's meeting in what the Bank's leadership sees as a protest-free zone--Honolulu, Hawaii. The Bank also constituted what is billed as a high-powered inter-departmental team at the vice presidential level to formulate what is characterized as a "strategic response" to the criticisms and demands raised by civil society.

All I can say is that it will take more than the constitution of a public relations team to mend the problems of the ADB with civil society. For the problems lie deep in the approach, methodology, structure, and behavior of the Bank.

Power Scandal in Manila

Emblematic of the Bank's crisis is the continuing saga of what is probably the biggest scandal to hit an ADB-supported project: the wholesale bribery of the Philippines House of Representatives to push through the privatization of the National Power Corporation (Napocor). The events that have shaken the Philippines in recent months, resulting in the ouster of President Joseph Estrada, have overshadowed the Napocor bribery scandal. But that it took place is unquestionable.

The scandal illustrates the ways that the technocratic designs of multilateral agencies and the corrupt practices of governments are often symbiotic rather than contradictory.

That the Power Sector Program loan had required some arm-twisting of the Philippine government is not denied by the ADB. The corruption and strong-arming that has been so stark in the case of the Napocor privatization is, however, merely one manifestation of a many-sided crisis that is now gripping the ADB. The Bank is very confused in terms

security problem, not in providing more and more physical infrastructure. The Bank may have made a strategic mistake."

Good Governance: Hype and Hypocrisy

Among the new considerations that donors want to bring into lending decisions is "good governance" on the part of the borrower. The ADB prides itself with being the first multilateral lending agency to have a Board-approved policy statement on

of direction, burdened with high project failure rates, marked by low transparency, and low in morale.

"Goal Congestion"

For staff members, the days of funding and implementing physical infrastructure projects that could be subjected to narrow cost-benefit analysis are over. People in the field are suffering from "goal congestion," that is, trying unsuccessfully to integrate the various objectives that donor governments have attached to lending in the last few years, namely: poverty reduction, social development, sustainable development, promoting women's welfare, and good governance. "People are lost and bewildered, and most have no clue of how to even begin," he said.

High Project Failure Rates

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--that is well known within the Bank. Indeed, only 36% of ADF projects in the Agriculture and Natural Resources Sector are rated "generally successful." But this is not as bad as the record in the Social Infrastructure Sector (33%) and the Finance Sector (15.2%). In most instances...operational performance was far short of projections. This was due to "weaknesses in project design, particularly in the absence of appropriate policies and where institutional capacity was weak."

The poor record of agricultural projects reflects the fact that the ADB has been trying to get out of agriculture lending. This is because cost-and-benefit assessment and project management for agricultural projects are not as simple and straightforward as in energy and infrastructure programs. The resulting lack of a track record in agriculture poses a major problem, he commented, since "the future of Asia lies in solving the food

* EXCERPTS from: *Why reform of the ADB is the wrong agenda, April 2001*. EXCERPTS prepared by the NGO FORUM ON ADB (FORUM), a network of diverse non-governmental organizations (NGOs), peoples' organizations (POs), community-based organizations and other public interest groups with advocacy and campaigns relating to the Asian Development Bank (ADB). The Manila-based Secretariat can be reached at: Room 402, 107-A Kalayaan Avenue, Diliman, 1101 Quezon City, Philippines; Telefax: +632 9297987; E-mail: forum@pacific.net.ph. Visit our homepage: www15.brinkster.com/ngoforum. [Dr. Bello is the Executive Director of Focus on the Global South based in Bangkok, Thailand.]

good governance, which it defines as governance marked by “accountability, participation, predictability, and transparency.” This policy was meant for client governments. Many Bank staff members are, however, very cynical about the new policy. Says one senior person, “It’s a question of practising what you preach. There’s a lot of discontent inside the Bank, precisely because it is one of the most non-accountable, non-participatory.”

MOF Colony?

While the US may be the most vocal when it comes to promoting new policies, e.g., from poverty reduction to good governance, it is Japan that controls the institution. The ADB is an institution funded by the Japanese, controlled by the Japanese, and run by the Japanese. Japan in this case means Japan’s Ministry of Finance (MOF), which virtually determines who will be president and appoints the head of Budget and Staffing.

The MOF’s control of strategic is said to have had detrimental consequences for innovation for two reasons. One is ideological: the MOF is probably the most conservative of Japan’s economic agencies. The other is structural: the chief of the Budget and Staffing Department, for instance, is replaced every three years by the MOF, “which means the occupant has no incentive to innovate and all the incentive to carry on as usual.”

Proliferating Conditionalities

Despite its Jurassic characteristics, the Bank has not been immune to internal pressures and external events. This has, however, pushed it, for the most part, in a questionable direction. For instance, pressure from some donor countries like

the United States has pushed the Bank to devote more of its lending portfolio to program or “adjustment” lending, where loans for individual projects are made contingent on macroeconomic policy changes, like accelerated privatization, deregulation, and liberalization.

An internal review of the Bank’s program lending in November 1999 decries the “proliferation of policy conditionalities” in program loans, noting that the average number of conditionalities per program loan is 32!

Despite doubts about the efficacy of program lending, the ADB nevertheless plans to devote 20% of its public sector portfolio to program loans in 2000-2002.

Conditionalities have alienated most client governments. The most controversial has been the case of Malaysia. After the outbreak of the Asian financial crisis, the ADB offered to lend to Malaysia, but only if that country undertook policy reforms demanded by the IMF. Malaysia refused and followed its own strategy to surmount the crisis, which was the exact opposite of the fiscal and monetary repression promoted by the IMF. Now that Malaysia has proven both the IMF and ADB wrong with its successful

effort to bring about a vigorous recovery, ADB officials are wondering if Malaysia will ever again borrow from the Bank.

Resenting the Fund

The subordination of the ADB’s approach to the IMF’s overall strategy to deal with the Asian financial crisis still rankles within the Bank. Staff members resent the way that under IMF pressure, the ADB leadership in 1998 disregarded the usual loan approval process, which usually takes a year, to push through a massive \$1 billion loan for Korea in less than a week! Now that the IMF has been proven wrong, there is strong support from within the Bank and its member governments in Asia to revive the Japanese initiated Asian Monetary Fund (AMF) proposal, according to a senior official. “And if it is set up,” she noted, “it will be a Fund that will look into each country’s particular situation instead of applying a standard blueprint to all countries like the IMF does.”

Competing with the World Bank

If relations with the Fund are bad, the ADB’s relations with the World Bank are “fiercely competitive.” It was not always so, since for years the World Bank was regarded as some sort of “Big Brother,” whose programs, projects, and organization were models for the ADB. What changed the relationship was World Bank President James Wolfensohn’s articulation of the “Comprehensive Development Framework,” which ADB officials saw as an effort to subordinate the ADB and the other regional development banks to the World Bank, both organizationally and agenda-wise.

When Wolfensohn proposed moving the whole East Asia-Pacific Division of the World Bank to Singapore in 1999, the ADB saw that as an effort on the part of the World Bank to marginalize it or make it irrelevant. From then on, the World Bank has been perceived as a threat.

Let me sum up by saying that the ADB is in crisis. This crisis has many sources, including profound confusion as to vision, goals, and methodologies, a non-transparent organizational structure that breeds alienation among both staff and many member governments, worsening relations with its former Big Brothers, the IMF and the World Bank, and deepening and increasingly rancorous competition among the donor powers, in particular the United States.

Like the World Bank and the IMF, the Asian Development Bank has become part of the problem rather than part of the solution to Asia’s development problems.

Both institutions are like paradigms in crisis, and the solution when a paradigm is in fundamental crisis is not to try to reform it with endless minute adjustments that merely prolong its inevitable demise, but to cut cleanly from it in favor of a simpler, more relevant, and more useful paradigm.

