

ADB and the Non-SASEC Countries

E. PAKISTAN

INTRODUCTION

Non-SASEC countries refer to four (4) countries, two (2) within the Indian subcontinent—Afghanistan and Pakistan—and the two Island countries in the Indian Ocean—Maldives and Sri Lanka. Trading-wise or economic cooperation through corridors is hindered by natural and physical barriers with the SASEC countries, not to mention, the political barriers existed between Pakistan and India.

1. PAKISTAN: A POLITICALLY-TROUBLED ISLAMIC COUNTRY

The Islamic Republic of Pakistan is a country established in 1947 after the partition of British India. The country is located in South Asia that overlaps onto Central Asia and the Greater Middle East, bordering Afghanistan⁸⁶ and Iran⁸⁷ to the west, China⁸⁸ in the far northeast, with long frontier with India⁸⁹ to the east including a disputed territory in the northerly Kashmir. It has a 1,046 kilometers (650 miles) coastline along the Arabian Sea. It has a total land area of 803,940 square kilometers⁹⁰ (other estimates is 880,245 kilometers, or 340,022 square miles), with a land and water areas of 778,720 sq km and 25,220 sq km, respectively. The country's eastern regions are located on the Indian tectonic plate (making the areas prone to earthquakes) and the western and northern regions on the Iranian plateau and Eurasian landplate.

The name **Pakistan** means “*Land of the Pure*” in Urdu and Persian. The name also believed to have been coined by Choudhary Rahmat Ali⁹¹ who saw Pakistan as an acronym formed from the names of the “homelands” of Muslims in western South Asia (**P** for Punjab, **A** for *Afghania* (the Afghan areas of the region), **K** for Kashmir, **S** for Sindh and **tan** for Baluchistan.⁹²

⁸⁶ The land border with Afghanistan is 430 km (1,510 mi).

⁸⁷ The land border with Iran is 909 km.

⁸⁸ The land border with China is 523 km (325 mi).

⁸⁹ The land border with India is 2,912 km (1,809 mi).

⁹⁰ Equivalent to combined France and the United Kingdom land areas.

⁹¹ From his pamphlet *Now or Never* first published on January 28, 1933.

⁹² An **i** was later added to ease pronunciation, producing Pakistan.

Pakistan's terrain consists of icy peaks of Himalaya, Karakoram and Hindu Kush mountain ranges.⁹³ In northern Pakistan there are many areas of preserved moist temperate forest. Linking these two areas and running the length of the country is the Indus River and its many tributaries. Opposite to the mountainous areas are the flat, southern coast, with sandy beaches, lagoons and mangrove swamps. To the west and east of Indus are desert areas—the dry, hilly deserts of Balochistan (west), and the rolling sand dunes of the Thar Desert (east). Most areas of Punjab and parts of Sindh, are fertile plains where agriculture is of great importance.

Pakistan's climate also varies from one area to another and from one period to another. In the mountainous areas of the north, it has very cold winters often falling below freezing point. In the south, it has mild maritime-influenced climate. In the central areas it has extremely hot summers, with temperatures rising to 45°C (113°F). However, most of Pakistan areas receives a very little rain⁹⁴ mostly brought by the south-westerly monsoon⁹⁵ winds during the late summer.

Pakistan is the 6th most populous country in the world and 2nd only among Muslim countries. In 2005, the population of Pakistan reached to 162,419,946 million. The 2006 estimated Pakistan's population is 163,985,373 million, with a density of 186 persons per square kilometer. There are several ethnic groups in Pakistan, the Punjabi, Sindhi, Pushtun, Baloch, Muhajir⁹⁶, Saraiki and Hazara.

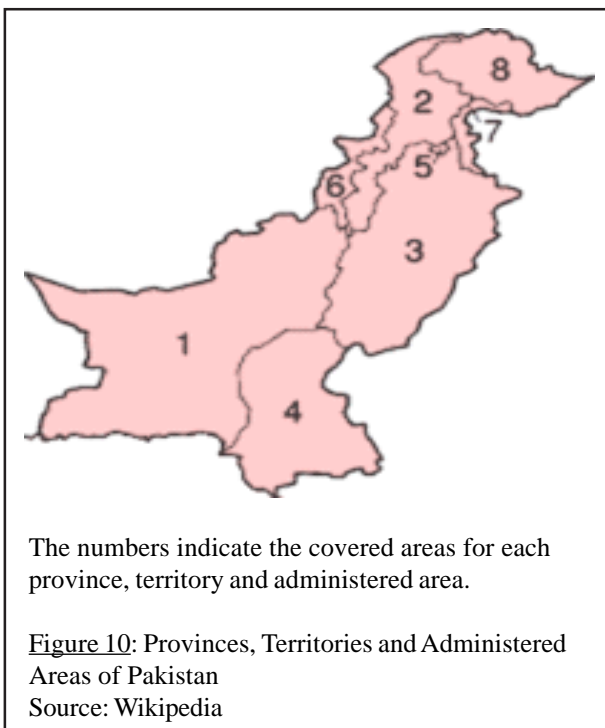
Although Urdu is the official language of Pakistan, it is spoken as a first language by only 8% of the population. Forty eight percent (48%) speak Punjabi, 12% Sindhi, 10% Saraiki, 8% Pushtu, 3% Baloch, and the remaining 3% speak other languages. Urdu, Punjabi, Pushtu and Baloch are Indo-European languages. English is the other official language of Pakistan, and widely used in government, military officers, and in many institutions of higher learning. Majority of Pakistanis are Muslim, comprising 97% of the population; the rest are small minorities of Christians, Hindus and others.

⁹³ Many of these mountains are over 7,000-meter high (23,000 ft) and covered with snow and glaciers, including K2 and Nanga Parbat.

⁹⁴ Ranging from less than 250 millimetres to more than 1,250 millimetres (9.8 - 49.2 inches).

⁹⁵ Monsoons are not reliable because in some years they bring a lot of rain and in other years very little. Much of the rain is lost through evaporation because it falls during the hottest time, resulting in water shortage for crops. Dams were constructed on the rivers to solve the shortage by storing them and release to the farmers in the fields. In many drier areas, water wells have been sunk.

⁹⁶ i.e., Urdu speaking immigrants from India and their descendants immigrants at the time of partition.



For administrative purposes, Pakistan is a federation composed of four provinces, a capital territory and federally-administered tribal areas⁹⁷. The country also exercises *de facto* jurisdiction over the western parts of the Kashmir region which are organized as two separate political entities (Azad Kashmir and Northern Areas). In 2001, the federal government abolished the third tier of government (administrative divisions) in favor of the former fourth-tier districts. The provinces and the capital territory are subdivided into 107 districts which contain numerous *tehsils* and local governments. The tribal areas comprise seven tribal agencies and six small frontier regions detached from neighboring districts while Azad Kashmir comprises seven districts and Northern areas comprise six districts (**Figure 10**).

2. THE INDEPENDENT PAKISTAN

a. Rough Road to Independence and Beyond

Pakistan started with two Pakistans—east and west— geographically separated by over a thousand miles with India in between. Moving from a colony into an independent country is a rough road for Pakistan. Since independence, east and west do not have very good relations. Pakistan has also been in constant dispute with India over Kashmir, complicating the relation of the two countries leading to two Indo-Pakistan Wars (1948 and 1965) over Kashmir, and another one in 1971, over west Pakistan. In addition, Pakistan has been at odds with Afghanistan over the Pashtunistan. The rebellious Balochistan is also an internal problem of Pakistan. However, during these periods Pakistan's relations with the United States of America grew, and became a buffer or a frontline for Afghanistan against Soviet expansionism. Political instability and economic difficulty characterized post-independence Pakistan.

b. Alternating Military-Civilian Rule

Pakistani political history is divided into alternating periods of authoritarian military–government and democratic civilian-parliamentary rule. A military rule (covering 1958-1971 periods) started on October 7, 1958 when **President Iskander Mirza**, with the support of the army, suspended the 1956 Constitution, imposed martial law and canceled the elections scheduled for January 1959. Twenty days later, the military, under the command of **Field Marshall Ayub Khan**, exiled Mirza in UK and imposed military dictatorship in Pakistan. After losing in Indo-Pakistan war over Kashmir and the mass protests, Ayub Khan stepped down and **General Yahya Khan** took over the Presidency. It was during the time of Khan when west Pakistan (Bangladesh) erupted following Yahya Khan's blocking Awami League⁹⁸ to Pakistan's National Assembly and the central government's poor response to west Pakistan following the 1970-massive cyclone. India intervened siding west Pakistan (Indo-Pakistani War of 1971). Pakistan lost the war. Yahya Khan stepped down and Bangladesh became an independent nation in 1971.

⁹⁷ **The Provinces:** (1) Balochistan; (2) North-West Frontier Province (NWFP); (3) Punjab; (4) Sindh (Balochistan and NWFP also have Provincially Administered Tribal Areas [PATA], which will be developed into regular districts). **The Territories:** (5) Islamabad Capital Territory; (6) Federally- Administered Tribal Areas. **Pakistani-administered portions of the Kashmir region,** (7) Azad Kashmir, (8) Northern Areas.

⁹⁸ Awami League won the majority seats in the in the 1970-1971 elections.

A civilian rule resume in Pakistan under **Sulfikar Ali Bhutto**. But, it was a short-lived one—from 1972 to 1977. **General Zia-ul-Haq succeeded**. Under Zia-ul-Haq, Pakistan was once again ruled by the military. However, with the increasing anti-government unrest, the army grew restive. On July 5, 1977, the military, under the command of Chief of Army Staff Gen. Muhammad Zia ul-Haq, Bhutto was stripped of power and was arrested. Gen. Muhammad Zia ul-Haq declared martial law and suspended portions of the 1973 Constitution, but promised to hold new elections within three months. On April 6, 1979, despite international appeals on his behalf, Bhutto was convicted and hanged to death.

President Zia died in a plane crash in August 17, 1988, with American Ambassador Arnold Raphael, U.S. Brig. General Herbert Wassom, and 28 Pakistani military officers. An election was held in November 1988, and the **President Muhammad Khan** asked Pakistan Peoples Party (PPP) Co-chairperson **Benazir Bhutto** to form a government. Bhutto succeeded in forming a government. In August 1990, President Khan dismissed the Bhutto government and dissolved the national and provincial assemblies. New elections was held in October 1990, making Islamic Democratic Alliance (IJI) dominant⁹⁹. Muhammad Nawaz Sharif—a leader of PML, the most prominent party in the IJI—became the prime minister and emerged as the most secure and powerful Pakistani prime minister since the mid-1970s. In April, 1993, Sharif was accused by President Khan of “maladministration, corruption, and nepotism” and espousal of political violence, and dismissed the Sharif’s government. The Pakistan Supreme Court reinstated the National Assembly and Sharif government. The tension between Sharif and Khan resulted in governmental gridlock and the Chief of Army Staff brokered an arrangement under which both the President and the Prime Minister relinquished their posts in July 1993.

After an interim government, **Benazir Bhutto** (became prime minister), once again, asked to form a government, and **Farooq Leghari**, her ally, became the President in November 1993. In November 1996, President Leghari dismissed the Bhutto government, charging it with corruption, mismanagement of the economy, and implication in extrajudicial killings in Karachi. Following the February 1997 elections, President Leghari called upon **Nawaz Sharif** to form a government. In March 1997 Sharif amended the Constitution, stripping the President of the power to dismiss the government. In December 1997, Sharif engineered the dismissal of the Chief Justice¹⁰⁰ and the resignation of President Leghari. Sharif made a miscalculated move when he attempted to replace **Army Chief General Pervez Musharraf**. On October 12, 1999, **Lt. Gen. Ziauddin**, Director General of the Interservice Intelligence Directorate and family loyalist, moved quickly to depose Sharif. General **Pervez Musharraf** became the President after the resignation of President Rafiq Tarar in 2001. **Pervez Musharraf**¹⁰¹ remains the President of Pakistan and continues to enjoy the support from the US government.

⁹⁹ In addition to a two-thirds majority in the National Assembly, the alliance won control of all four provincial parliaments and enjoyed the support of the military and of President Khan.

¹⁰⁰ The Sharif government engaged in a protracted dispute with the judiciary, culminating in the storming of the Supreme Court by ruling party loyalists.

¹⁰¹ A prolonged confrontation over authority between Parliament and the President ended in December 2002 with a compromise of permitting the passage of the Legal Framework Order (LFO) of 2002. Under the terms, President Musharraf pledged to resign as Commander-in-Chief. But, in 2004 General Musharraf announced that he would retain his military role.

c. Pakistan's Political System

Pakistan is a federal republic with a semi-presidential system with four autonomous provinces, two territories, and *de facto* control of two regions in the northernmost part of the country. The bicameral legislature comprises a 100-member Senate and a 342-member National Assembly. The president¹⁰² is the Head of State and the Commander in Chief of the Armed Forces. The prime minister is usually the leader of the largest party in the National Assembly. Each province has a similar system of government with directly-elected Provincial Assembly. In this system, the leader of the largest party-alliance becomes the Chief Minister. The Provincial Governors are selected by the Provincial Assemblies on the advice of the Chief Minister.

d. Pakistan's Economy

Pakistan's principal natural resources are arable land, water, hydroelectric potential, and natural gas reserves. Pakistan, like Bangladesh—after the 1947 partition—has followed more capitalistic, market-oriented economic policies. In the 1960s, Harvard economists proclaimed Pakistan as a model of economic development because in each of its first four decades, its economic growth rate was better than the global average. During the 1980s and early 1990s, the economy averaged a growth rate of 6% per year. But, due to imprudent policies, this led to a slowdown in the late 1990s¹⁰³ until 2002.

In Fiscal Year, 2003-2004, Pakistan's economy grew by 6.1%, equivalent to PPP\$347.3 billion. In Fiscal Year, 2004-2005, the GDP grew by 8%, which is the second-highest, following China. As a low-income country, it has US\$600 per capita income (World Bank, 2005), equivalent to PPP\$2,200.00.

Agriculture accounts for about 23% of GDP and employs about 42% of the labor force. The most important crops are cotton, wheat, rice, sugarcane, fruits, vegetables, milk, beef and mutton which combined, account for more than 75% of the value of total crop output. About 28% of Pakistan's total land area is under cultivation, and watered by one of the largest irrigation systems in the world.

Pakistan's **manufacturing sector** accounts for about 24% of its GDP. The **largest industries** in Pakistan are cotton textile production and apparel manufacturing, accounting for about 70% of total exports. **Other major industries** include food processing, beverages, pharmaceuticals, fertilizer, construction materials, clothing, paper products and shrimp. As technology improves in the industrial sector, it continues to grow. In 2001, the industrial production growth rate was 7%.

In Fiscal Year 2004-2005, Pakistan's **service sector** accounts for 53% of the country's GDP with **wholesale and retail trade** contributed 30%. The growth of the non-agricultural sectors has changed the structure of the economy, and agriculture now only accounts for roughly 20% of the GDP.

In terms of trade, Pakistan's **exports earning** in 2004 amounted to US\$15.07 billion from textiles (garments, bed linen, cotton cloth, and yarn), rice, leather goods, sports goods, carpets, rugs, chemicals and manufactures. Its major destinations are countries of U.S. (21.3%), United Arab Emirates (9.8%), U.K. (7.1%), Germany (5.2%),

¹⁰² Elections for the president are determined by the outcome of an electoral college.

¹⁰³ Average real GDP growth from 1992 to 1998 dipped to 4.1% annually.

Hong Kong (4.2%) and Saudi Arabia (4.1%). Pakistan's **imports** in 2004 worth US\$14.01 billion of products such as petroleum, petroleum products, machinery, plastics, paper and paper board, transportation equipment, edible oils, pulses, iron and steel and tea. The importer-countries are China (10.8%), U.S. (10.2%), United Arab Emirates (9.3%), Saudi Arabia (9.0%), Japan (7.0%), Kuwait (5.3%) and Germany (4.2%).

It was claimed that US assistance was responsible for moving Pakistan's economy from the brink of collapse. When President Musharaff, after 9/11 attack, declared his commitment to fight terrorism, many international sanctions, particularly those imposed by the United States, were lifted. In 2002, the United States led Paris Club efforts to reschedule Pakistan's debt on generous terms, and in April 2003, the United States reduced Pakistan's bilateral official debt by \$1 billion. Pakistan was able to attain high levels of foreign reserves (an all-time high of US\$12.3 billion) and exports, thus, dramatically lowering levels of solid debt. In 2004, approximately \$500 million more in bilateral debt was granted. The US alone accounted for the 21.3% of Pakistan's exports.

Pakistan has received significant loan/grant assistance from international financial institutions (e.g. International Monetary Fund, World Bank, and Asian Development Bank) and bilateral donors, particularly after it began using its military-financial resources in the war on terror. The United States recently pledged US\$3 billion for FY 2005 to FY 2009 in economic and military aid to Pakistan. In addition, IMF and World Bank have pledged US\$1 billion in loans to Pakistan. In 2004 to 2007 alone, the World Bank has pledged over US\$500 million in investment projects.

IMF recently lauded Pakistan for its commitment in meeting lender requirements for a \$1.3 billion IMF Poverty Reduction and Growth Facility loan, which it completed in 2004, forgoing the final permitted tranche. The Government of Pakistan has been successful in issuing sovereign bonds, and has issued \$600 million in Islamic bonds, putting Pakistan back on the investment map.

d.1. Pakistan's Move Towards a More Liberalized Economy

The government started pursuing market-based economic reform policies in the early 1980s. These reforms began to take hold in 1988, when the government launched an ambitious IMF-assisted structural adjustment program in response to chronic and unsustainable fiscal and external account deficits. The government began to remove barriers to foreign trade and investment, reform the financial system, ease foreign exchange controls, and privatize dozens of state-owned enterprises.

Although the economy became more structurally sound, it remained vulnerable to external and internal shocks, such as in 1992 and 1993, when devastating floods and political uncertainty depressed the economic growth. The Asian financial crisis seriously affected Pakistan's major markets for its textile exports. During the 1980s and early 1990s, the economy averaged a growth rate of 6% per year, but afterwards growth dwindled until 2002. For example, average real GDP growth from 1992 to 1998 dipped to 4.1% annually. Economic reform was also set back by Pakistan's nuclear tests in May 1998, and the subsequent economic sanctions

imposed by the G-7. International default was narrowly averted by the partial waiver of sanctions and the subsequent reinstatement of Pakistan's IMF enhanced structural adjustment facility/extended fund facility in early 1999, followed by Paris Club and London Club re-scheduling. After taking power in late 1999, President Musharraf instituted policies to stabilize Pakistan's macro-economic situation. Pakistan continues to struggle with these reforms, having mixed success, especially in reducing its budget and current account deficits.

In 2000, the government made significant macro-economic reforms. Privatizing Pakistan's state-subsidized utilities, instituting world-class anti-money laundering law, cracking down on piracy of intellectual property, and quickly resolving investor disputes aided Pakistan's efforts in improving its investment climate.

Despite its economic and political difficulties, Pakistan has taken steps to liberalize its trade and investment regimes, either unilaterally, or, in the context of commitments made with the World Trade Organization (WTO), IMF, and the World Bank. Over the past two years, efforts in several crucial areas have seemingly intensified, resulting in Pakistan becoming a more open and secure market for its trading partners.

The Karachi Stock Exchange (KSE) enjoyed strong growth from 2003 to early 2005, before undergoing a market correction of close to 20% of market capitalization in early 2005. KSE's market capitalization rebounded to an all-time high in mid-2005. Regulations have been targeted at the speculative margins-purchasing that was blamed for volatility in early 2005.

d.2. Economy's Handicap and Concerns

■ Pakistan's search for additional **foreign direct investment** has been hampered by concerns about the security situation, domestic and regional political uncertainties, and questions about judicial transparency. In the face of an **increasing trade deficit**, the government seeks to diversify the country's industrial base and bolster export industries. **Net foreign investment** in Pakistani industries is only 0.5% of GDP. In **agriculture**, despite intensive farming practices, Pakistan remains a net food importer. Pakistan imports vegetable oil, wheat, cotton (net importer), pulses and consumer foods. In the second half of 2004 and first half of 2005 **inflation has been rising** above the historic lows for inflation in 2004.

Despite government efforts to privatize large-scale parastatal units, the public sector continues to account for a significant proportion of industry.

■ Pakistan's extreme poverty and underdevelopment are key concerns. Low levels of spending in the social services and high population growth have contributed to persistent poverty and unequal income distribution. The trends of resources being devoted to socio-economic development and infrastructure projects have been improving since 2002, but expenditures remain below global averages. The government has reigned in the fiscal mismanagement that produced massive foreign debt, and officials have committed to using international assistance—including a major part of the US\$3 billion five-year U.S. assistance package—to address Pakistan's long-term needs in the health and education sectors.

3. ADB's INVOLVEMENT IN PAKISTAN

ADB's involvement in Pakistan started from the date when Pakistan joined ADB in 1966 as one of the 31 founding members. Pakistan is the ninth largest shareholder in ADB among its regional members. Overall, including non-regional members, Pakistan is the 13th largest shareholder.¹⁰⁴

Number of shares held:	77,080 (2.203% of total shares)
Votes:	90,965 (2.08% of total membership, 3.21% of total regional membership)
Overall capital subscription:	US\$1.19 billion
Paid-in capital subscription:	US\$83.55 million
<i>Source: ADB</i>	

3.1. Project Loans. The first project loan extended to Pakistan was on December 12, 1968, the "First Industrial Development Bank of Pakistan", under Trade and Industry Sector, amounting to US\$10 million. There was a lull between 1968 and 1970, there was no assistance extended to Pakistan. The next project loans were extended in 1970, and there were four projects. Two of which were both under Trade and Industry Sector, the "Cotton Spinning Mills" (December 17, 1970), and "Second Industrial Development Bank of Pakistan" (December 22, 1970), amounting to US\$12 million and US\$15 million respectively. The other loans were under Agriculture and Natural Resources sector, the "Rice Milling" (August 25, 1970) amounting to US\$3.120 million, and "Fisheries Development" (December 22, 1970) amounting to US\$6.730 million. Among South Asian countries, and next to only to India, Pakistan is the second largest recipient of ADB lending. Total Project Loans extended to Pakistan from 1968 to 2005 is US\$14.073 billion.

Sector	1968-78 (in US\$)	1979-88 (in US\$)	1989-98 (in US\$)	1999-present (in US\$)	TOTAL (in US\$)
I. Industry and Trade	222,600,000.00	250,000,000.00	---	627,000,000.00	1,099,600,000.00
II. Agriculture and Natural Resources	41,350,000.00	1,233,000,000.00	1,260,963,000.00	429,800,000.00	3,008,113,000.00
III. Energy	273,370,000.00	1,207,650,000.00	1,550,000,000.00	355,000,000.00	3,030,020,000.00
IV. Finance	67,000,000.00	540,000,000.00	605,000,000.00	666,000,000.00	1,878,000,000.00
V. Water Supply, Sanitation and Waste Management	61,500,000.00	---	273,000,000.00	50,000,000.00	384,500,000.00
VI. Transport and Communications	48,600,000.00	234,000,000.00	465,400,000.00	837,900,000.00	1,585,900,000.00
VII. Education	---	59,800,000.00	339,310,000.00	102,000,000.00	501,110,000.00
VIII. Multisector	---	92,700,000.00	571,000,000.00	705,800,000.00	1,369,500,000.00
IX. Health, Nutrition and Social Protection	---	61,400,000.00	85,000,000.00	83,000,000.00	229,400,000.00
X. Law, Economic Management and Public Policy	---	---	---	987,000,000.00	987,000,000.00
TOTAL	714,420,000.00	3,428,550,000.00	5,149,673,000.00	4,843,500,000.00	14,073,143,000.00
<i>Source: ADB</i>					

¹⁰⁴ Pakistan has contributed to the Technical Assistance Special Fund (TASF), which provides grants to borrowing members to help prepare projects and undertake technical or policy studies.

By **periodic basis**, there were more project loans extended to Pakistan during the 1989-98 periods amounting to US\$5.149 billion, followed by the 1999-2005 periods amounting to US\$4.843 billion. (Table 25).

3.2. Technical Assistance. On December 17, 1973, the “Mangla Hydropower”, the first technical assistance extended to Pakistan was approved in the amount of US\$150,000.00. The second and third TAs were both approved in July 2, 1974, seven months after the first TA. One is under Energy sector, the “KESC Generation and Transmission Feasibility Study”, amounting to US\$200,000.00; The other one is under Water Supply, Sanitation and Waste Management, the “Lyalipur Water supply, Sewerage and Drainage Development”, amounting to US\$150,000.00.

Total Technical Assistance extended to Pakistan from 1973 to 2005 was US\$286 million. Pakistan is the number one recipient of ADB’s technical assistance among South Asian countries.

On **periodic basis**, there were more technical assistance extended to Pakistan during the 1999-2005 periods amounting to US\$71.039 million, followed by the 1989-1998 periods amounting to US\$51.200 million.

Table 26: Technical Assistance Extended to Pakistan (1973 – 2005)

Sector	1968-78 (in US\$)	1979-88 (in US\$)	1989-98 (in US\$)	1999-present (in US\$)	TOTAL (in US\$)
I. Energy	500,000.00	2,481,000.00	5,283,000.00	4,450,000.00	12,714,000.00
II. Water Supply, Sanitation and Waste Management	300,000.00	550,000.00	3,090,400.00	1,890,000.00	5,830,400.00
III. Industry and Trade	150,000.00	1,589,000.00	1,315,000.00	3,700,000.00	6,754,000.00
IV. Agriculture and Natural Resources	720,000.00	10,872,150.00	15,344,800.00	4,792,000.00	31,728,950.00
V. Health, Nutrition and Social Protection		1,339,000.00	1,750,000.00	2,400,000.00	5,489,000.00
VI. Education		1,117,000.00	2,870,000.00	700,000.00	4,687,000.00
VII. Transport and Communications		1,855,000.00	2,483,500.00	2,280,000.00	6,618,500.00
VIII. Multisector		1,875,000.00	9,507,000.00	30,070,000.00	180,931,700.00
IX. Finance		828,000.00	4,510,000.00	1,700,000.00	7,038,000.00
X. Law, Economic Management and Public Policy			5,046,550.00	19,057,000.00	24,103,550.00
TOTAL	1,670,000.00	22,506,150.00	51,200,250.00	71,039,000.00	285,895,100.00

Source: ADB

3.3. By sector, in terms of **project loans**, ADB was extending more money to Energy sector from 1979 to 2005, amounting to US\$3.030 billion. This was followed by Agriculture and Natural Resources (US\$3.006 billion) and Finance (US\$1.878 billion). The sectors that received the lowest amount were Health, Nutrition and Social Protection, amounting to US\$229.4 million, and Water Supply, Sanitation and Waste Management amounting to US\$384.5 million. In terms of **technical assistance**, more assistance were extended to Multisector amounting to US\$180.931 million, followed by Agriculture and Natural Resources (US\$31.728 million) and Law, Economic Management and Public Policy (US\$24.103 million). The sectors that received the lowest technical assistance are Education (US\$4.687 million) and Health, Nutrition and Social Services (US\$5.489 million) (**Table 27**).

Sector	Project Loans (in US\$)	Rank	Technical Assistance (in US\$)	Rank
I. Energy	3,030,020,000.00	1	12,714,000.00	4
II. Water Supply, Sanitation and Waste Management	384,500,000.00	9	5,830,400.00	8
III. Industry and Trade	1,099,600,000.00	6	6,754,000.00	6
IV. Agriculture and Natural Resources	3,008,113,000.00	2	31,728,950.00	2
V. Health, Nutrition and Social Protection	229,400,000.00	10	5,489,000.00	9
VI. Education	501,110,000.00	8	4,687,000.00	10
VII. Transport and Communications	1,585,900,000.00	4	6,618,500.00	7
VIII. Multisector	1,369,500,000.00	5	180,931,700.00	1
IX. Finance	1,878,000,000.00	3	7,038,000.00	5
X. Law, Economic Management and Public Policy	987,000,000.00	7	24,103,550.00	3
TOTAL	14,073,143,000.00		285,895,100.00	

Source: ADB

4. ADB's AGENDA IN PAKISTAN

ADB's intervention in Pakistan are largely on policy reforms in the following areas of macro-economic management, structural reform, sectoral reform and portfolio management. Translating these into country program loans will be in the following sectors: (1) Agriculture and rural development; (2) Energy, in the gas subsector and renewable energy; (3) Transport, for strengthening linkages and market access; (4) Finance (including microfinance); (5) Health and education; and (6) Water and supply sanitation in both rural and urban areas. Technical assistance will focus on: (1) Gender development; (2) Good governance; and (3) Environment protection.

By thematic priorities (CSP: 2002-2004), ADB's support to the Pakistan government are in the following thematic areas: (1) Economic Growth; (2) Human Development; (3) Gender and Development; (4) Good Governance; (5) Private Sector Development; (6) Environment Protection; and (7) Regional Cooperation. Still, these themes were coated under **poverty reduction strategy** of ADB, with strong emphasis on the role of **private sector participation**. In short, all projects and technical assistance under the seven themes should lead to poverty reduction in Pakistan.

4.1. Economic Growth. There are no concrete actions (CSP: 2002-2004) under this theme except the recognition of the need for an accelerated economic growth that is broad-based to create more employment. These are in the areas of agriculture and the promotion of small and medium industries, because both are employment generating. Policy-wise, there are no concrete suggested actions.

4.2. Private Sector Development. ADB's intervention in private sector development of Pakistan will be in the area of privatization of state-owned enterprises (SOE) in the energy sector, microfinance sector, development of capital markets and reforms and improvement of trade and trade related financing. ADB will continue to support the promotion of private sector participation through providing incentives and legal framework for greater private sector participation in the productive sector including small and medium enterprises.

4.3. Human Development. There are no concrete actions except the recognition of the need to improve the delivery of social services through upgrading the quality of social workers (such as health workers and teachers), as well as institutional capacity building. With this, ADB's operational program will continue to prioritise to social intervention that will improve human development for Pakistani, and that include the devolution of power to the district levels for effective delivery of social services.

4.4. Gender and Development. As usual, like most CSPs, ADB is committed in mainstreaming their gender and development policy into their operational strategy and activities (programs and projects) that include: (1) Policy reform; (2) Institutional strengthening; and (3) Legal reforms and literacy.

4.5. Good Governance. The areas where ADB will intervene on Pakistan's Good Governance program will be on decentralization, devolution and governmental restructuring. Concretely, ADB will support the devolution of power to districts (local) levels. Decentralization and restructuring are closely link to the improvement of legal and judicial services (to improve access to civil, criminal, administrative and social justice).

4.6. Environmental Protection. ADB's assistance will be focusing on mainstreaming environmental concerns into its operations program. ADB will also support capacity building to undertake and coordinate policy initiatives and monitor and minimize environmental damage.

4.7. Regional Cooperation. For many reasons, Pakistan is not integrated with South Asia Subregional Economic Cooperation (SASEC). However, ADB will link Pakistan's economy to Central Asia Regional Economic Cooperation (CAREC) via Afghanistan and neighboring Central Asian republics due to its strategic locations. These are in the areas of energy—oil, gas and electricity. India is also considered by ADB to link with Pakistan despite the existing political tensions with the two countries.

In the CSP 2005-2006, ADB will provide assistance for infrastructure projects that would have the greatest impact on **economic growth** and **poverty reduction**. ADB will maintain its support for the improvement on governance and the decentralization of the delivery of social services. The list of loans and technical assistance shows what projects the ADB supports and will be supported.

F. SRI LANKA

1. SRI LANKA: THE SHIFTING LEFT-RIGHT POLITICS

Sri Lanka is an Island-nation of South Asia. It lies in the Indian Ocean southwest of the Bay of Bengal and about 28 kilometers (18 mi.) nestling off the southern tip of India. Sri Lanka, with an area of 65,610 sq km (25,332 sq mi, about the size of West Virginia), lies in the Indian Ocean, southwest of the Bay of Bengal. It is separated from the Indian subcontinent by the Gulf of Mannar and the Palk Strait.

Sri Lanka was known to be as Ceylon¹⁰⁵, changed twice, first in 1972, as Free, Sovereign and Independent Republic of Sri Lanka, then in 1978 as Democratic Socialist Republic of Sri Lanka.

Sri Lanka, the pear-shaped island consists mostly of flat-to-rolling coastal plains in the northern third of the country, with hills and mountains rising only in the south-central part and rise to more than 2,133 meters (7,000 ft.). Among these are Sri Pada and the highest point Pidurutalaga (also known as Mt Pedro), at 2,524 m.

Sri Lanka has a tropical climate. Rainy seasons—light in northeast, fall and winter, with average rainfall of 50 in.; heavy in southwest, summer and fall, with average rainfall of 200 in.

Sri Lanka has a population (UN, 2005) of 19.4 million. Density is highest in the southwest where Colombo (pop. est. 1.3 million), the country's main port and industrial center, is located. The country is ethnically, linguistically and religiously diverse.

Sinhalese ethnic group make up 74% of Sri Lanka population and are concentrated in the densely populated southwest. Ceylon and Indian Tamils make up the 18%. Ceylon Tamils (12%) are from South Indian descent who have lived on the island for centuries, live predominantly in the north and east. Indian Tamils (5%), on the other hand, a distinct ethnic group, were brought by the British to Sri Lanka in the 19th century as tea and rubber plantation workers, and they remain concentrated in the “tea country” of south-central Sri Lanka. Indian Tamils¹⁰⁶, a distinct ethnic group, represent about 5% of the population. The British brought them to Sri Lanka in the 19th century as tea and rubber plantation workers, and they remain concentrated in the “tea country” of south-central Sri Lanka. The Muslims (both Moors and Malays) make up about 7% of the population. Other ethnic groups are the Burghers—descendants of European colonists, principally from the Netherlands and the United Kingdom (U.K.)—and aboriginal Veddahs.

Most Sinhalese are Buddhist; most Tamils are Hindu. The majority of Sri Lanka's Muslims practice Sunni Islam. Sizable minorities of both Sinhalese and Tamils are Christians, most of whom are Roman Catholic. The 1978 constitution, while assuring freedom of religion, grants primacy to Buddhism.

¹⁰⁵ As Ceylon, it became a dominion in the British Commonwealth in 1948. The first prime minister was Don Stephen Senanayake, while Sir Henry Monck-Mason Moore became Governor-General, the Queen's nominal representative.

¹⁰⁶ In accordance with a 1964 agreement with India, Sri Lanka granted citizenship to 230,000 “stateless” Indian Tamils in 1988. Under the pact, India granted citizenship to the remainder, some 200,000 of whom now live in India. Another 75,000 Indian Tamils, who themselves or whose parents once applied for Indian citizenship, now wish to remain in Sri Lanka. The government has stated that these Tamils would not be forced to return to India, although technically, they are not citizens of Sri Lanka. In October of 2003, an act of Parliament granted citizenship to several thousand of these “tea estate” Tamils.

Sinhala, an Indo-European language, is the native tongue of the Sinhalese. Tamils and most Muslims speak Tamil, part of the South Indian Dravidian linguistic group. Both Sinhala and Tamil are official languages. The use of English has declined since independence, but it continues to be spoken by many in the middle and upper middle classes, particularly in Colombo. The government is seeking to reverse the decline in the use of English, not only for economic but also for political reasons.

For administrative purposes, Sri Lanka is politically divided into eight provinces, namely: Central, North Central, North Eastern, North Western, Sabaragamuwa, Southern, Uva and Western (**Figure 11**).

2. THE INDEPENDENT SRI LANKA

a. Sri Lanka's Political System

The 1978 constitution clearly envisaged a system where the president and the prime minister were from the same party. The President is elected for a 6-year term. The same holds true for the chief of state, head of government, and commander in chief of the armed forces. The President appoints and heads a Cabinet of Ministers. The Cabinet is responsible to the elected Parliament. A vote-of-no-confidence by the Parliamentary can dissolve the Cabinet. The President's deputy is the Prime Minister, who leads the ruling party in the Parliament. The President may be removed from office by a two-thirds vote of Parliament with the concurrence of the Supreme Court.

Sri Lankan Parliament (legislature) is a unicameral with 225 members elected by universal suffrage and a proportional representation to a 6-year term. The primary modification is that the party that receives the largest number of valid votes in each constituency gains a unique "bonus seat" (see Hickman, 1999). The President may summon, suspend or end a legislative session and dissolve Parliament.

Sri Lanka's judiciary consists of a Supreme Court, Court of Appeal, High Court and a number of subordinate courts. Sri Lanka's legal system reflects diverse cultural influences. Criminal law is fundamentally British. Basic civil law is Roman-Dutch. Laws pertaining to marriage, divorce and inheritance are communal.

Under the Indo-Sri Lankan Accord of July 1987—and the result of 13th amendment to the constitution—the Government of Sri Lanka agreed to devolve significant authority to the provinces. Provincial councils are directly elected for a 5-year term. The leader of the council majority serves as the province's Chief Minister; a Provincial Governor is appointed by the President. The councils possess limited powers in education, health, rural development, social services, agriculture, security and local taxation. Many of these powers are shared or



Sri Lanka lies in the Southern tips of India.

Figure 11: Map of Sri Lanka
Source: Wikipedia

subjected to central government oversight. Predating the accord are municipal, urban and rural councils with limited powers.

Since its independence in 1948, Sri Lanka has remained a member of the Commonwealth of Nations.

b. Sri Lanka's Economy

Sri Lanka, from a statist economic policies and import substitution trade policy, has move to market-oriented policies and export-oriented trade. However, results from this shift was hampered by severe and unfavorable political conditions, such as the on-going war with Tamil Tigers. GDP grew at an average annual rate of 5.5% in the early 1990s until a drought and a deteriorating security situation lowered the growth to 3.8% in 1996. The economy rebounded in 1997-2000 with average growth of 5.3%, but 2001 saw the first contraction in the country's history, one point four percent (1.4%) due to a combination of power shortages, severe budgetary problems, the global slowdown, and continuing civil strife.

In 2004, the country's GDP grew by 5.4% (equivalent to US\$1.031 billion) from 6% in 2003. By sectoral performance, agriculture posted a negative growth of 0.7 (from 1.6%), while industry registered 5.2% (from 5.5%) and services posted 7.6% (from 7.9%). From 1995 to 2004 levels, the trend has mixed signals. While generally it slowed down, the share of services is getting bigger, from 4.9% in 1995 to 7.6% in 2004 fueled primarily by strong growth in telecom, tourism and financial services. Agriculture had continued in losing its relevance, from 3.3% in 1995 to -0.3% in 2004. Industry had continued to slip down to 5.2% from 7.8% in 1995.

Despite the trend in agriculture, 38% of the total Sri Lankan labor force works in agriculture sector, next only to services with 45% share of total workforce (1998 estimate). Industry sector's share is 17%. Sri Lanka has the highest per capita income in South Asia to US\$4,000 (2004 est.). The percentage of population below poverty line is also relatively low (22%, 1997 estimate). In 2004, the country's labor force estimated to have reached to 7.26 million. About 800,000 Sri Lankans work abroad, 90% in the Middle East. They send home about US\$1 billion a year.

The major agriculture products of Sri Lanka are rice, sugarcane, grains, pulses, oilseed, spices, tea, rubber, coconuts, milk, eggs, hides and beef; services are tourism, transport, telecom, banking and finance; and industry products are garments and leather goods, food processing, chemicals, refined petroleum, wood products, basic metal products and paper products.

In terms of trade, the country's exports are worth US\$5.1 billion from garments and footwear, tea, rubber products, jewelry and gems, refined petroleum and coconuts, with its destination in U.S. (US\$1.8 billion), U.K., Germany, Japan and Belgium. Sri Lanka imports textile fabrics, mineral products, petroleum, foodstuffs, machinery and transportation equipment (worth US\$ 6.4. billion) from India, Hong Kong, Singapore, Japan, Taiwan, South Korea, U.K. and U.S. (US\$155 million).

b.1. Sri Lanka's Move Towards Market-oriented Economy

In 1977, Sri Lanka's economy departed from a socialist orientation. The government is deregulating, privatising state enterprises and public utilities, and opening the economy to international competition and stressing the export-orientation. The ethnic disputes of 1983,

leading to a civil war, precipitated a slowdown in economic diversification and liberalization. The JVP uprising in the late 1980s caused extensive upheavals and economic uncertainty. Soon after, the UNP government started to reform the economy along market-orientation.

The economic policy promoted by the UNP was reversed after Wickremesinghe of UNP was defeated in 2004 by a coalition called the United People's Freedom Alliance made up of Sri Lanka Freedom Party and the left-nationalist Janatha Vimukthi Peramuna. The new government stopped the privatization of state enterprises, reformed state utilities such as power and petroleum, and embarked on an unprecedented subsidy program called the Rata Perata economic program. Its main theme was to support the rural and suburban SMEs and protect the domestic economy from external influences, such as oil prices, the World Bank and the International Monetary Fund.

b.2. Economy's Handicap and Concerns

■ **Shifting and unpredictability.** The periodic shift of political leadership—Left to Right, and vice versa—in the government, along with respective economic policies (statist or market-oriented), creates unpredictability as to where the economic direction the country is going. In fact, the shifting along with political turmoil and ethnic violence, as well as global contraction, resulted in slowdown in the economy.

The Left government's policy of subsidizing imported commodities (fuel¹⁰⁷, fertilizer and wheat) affected the fiscal sector leading to a budget deficit. In 2004 alone, Sri Lanka spent approximately US\$190 million on a fuel subsidy to fix fuel prices. To address the budget deficit the government printed 65 billion Sri Lankan Rupees (US\$ 650 million) or around 3% of GDP. This expansionary fiscal policy, coupled with loose monetary policy, eventually drove the inflation rate up to 18% by January 2005. IMF intervened, and in September 2005, IMF called for an end to "fiscal domination" of monetary policy and more independence for the Central Bank so that inflation could be contained.

■ **Fiscal crisis.** By December 2004, the country was heading for a balance of payments crisis, as the currency depreciated and reserves dwindled (US\$2.475 billion—includes foreign reserves and gold). Sri Lanka already has a huge public debt equivalent to 104.3% (2004 estimate) of its GDP, of which US\$10.85 billion is external debt.

■ **Negative rating.** In December 2005, Sri Lanka received its first international credit rating from Fitch Ratings assigning BB- to Sri Lanka (a rating held by Brazil and Indonesia among others). Ratings like this undermine a country's economic viability from the point of view of investors.

■ **Tsunami Disaster.** The December 26, 2004 Indian Ocean earthquake and tsunami caused enormous and extensive human and environmental damage to Sri Lanka. It affected infrastructures and people's livelihood. This is reminiscent of the mid-2003 worst-floods-in-50 years that caused extensive damage in south and southwestern parts of the country.

■ **Highly dependent on foreign assistance.** Sri Lanka is highly dependent on foreign assistance. Institutions like the World Bank (WB), Asian Development Bank (ADB), Japan, European Union and the United States of America are its major lending entities.

¹⁰⁷ In 2004 alone, Sri Lanka spent approximately US\$190 million on a fuel subsidy to fix fuel prices.

3. ADB's INVOLVEMENT IN SRI LANKA

ADB's involvement in Sri Lanka started two years after Pakistan joined ADB in 1966 as one of the 31 founding members. Pakistan is the 16th largest shareholder in ADB among its regional members. Overall, including non-regional members, Pakistan is the 24th largest shareholder.¹⁰⁸

Number of shares held:	20,520 (0.586% of total shares)
Votes:	34,405 (0.79% of total membership, 1.21% of total regional membership)
Overall capital subscription:	US\$317.62 million
Paid-in capital subscription:	US\$22.24 million
<i>Source: ADB</i>	

3.1. Project Loans. The first project loan extended to Sri Lanka was on July 2, 1968, two years after the country joined ADB, under Agriculture and Natural Resources sector, the "First Modernization of Tea Factories", amounting to US\$2 million. The next loans were both under agriculture sector, approved on the same year in October 23, 1969, the "Walawe Development", amounting to US\$ 7.705 million and US\$885,000.00, respectively.

Total Project Loans extended to Sri Lanka from 1968 to 2005 is US\$3.411 billion. Sri Lanka is the 4th largest recipient of ADB lending among South Asian countries.

By periodic basis, there were more project loans extended to Sri Lanka during the 1989-98 periods amounting to US\$1.384 billion, followed by the 1999-2005 periods amounting to US\$1.243 billion. **(Table 29).**

Sector	1968-78 (in US\$)	1979-88 (in US\$)	1989-98 (in US\$)	1999-present (in US\$)	TOTAL (in US\$)
I. Agriculture and Natural Resource	53,890,000.00	199,670,000.00	375,393,000.00	193,700,000.00	822,653,000.00
II. Transport and Communications	7,700,000.00	88,500,000.00	206,100,000.00	171,500,000.00	473,000,000.00
III. Industry and Trade	35,150,000.00	18,000,000.00	54,000,000.00	86,000,000.00	193,150,000.00
IV. Energy	25,500,000.00	61,950,000.00	154,300,000.00	130,000,000.00	371,750,000.00
V. Finance	5,000,000.00	80,000,000.00	225,000,000.00	135,000,000.00	445,000,000.00
VI. Multisector	24,000,000.00	77,300,000.00	165,000,000.00	148,000,000.00	414,300,000.00
VII. Health, Nutrition and Social Protection	---	9,300,000.00	26,100,000.00		26,100,000.00
VIII. Education	---	67,100,000.00	51,000,000.00	148,800,000.00	266,900,000.00
IX. Water Supply, Sanitation and Waste Management		30,000,000.00	115,000,000.00	60,292,000.00	205,292,000.00
X. Law, Economic Management and Public Policy	---	---	13,000,000.00	170,000,000.00	183,000,000.00
TOTAL	151,240,000.00	631,820,000.00	1,384,893,000.00	1,243,292,000.00	3,401,145,000.00
<i>Source: ADB</i>					

¹⁰⁸ Sri Lanka has contributed to the Technical Assistance Special Fund (TASF) of US\$6,000.00, which provides grants to borrowing members to help prepare projects and undertake technical or policy studies.

3.2. Technical Assistance. The first TA extended to Sri Lanka was approved in October 2, 1969, under Agriculture and Natural Resources sector, the “Ceylon Fisheries Corporation”, (US\$165,000.00). The second TA was approved on the same year, October 23, 1969, under the same sector, the “Walawe Development”, amounting to US\$400,000.00.

Total TA extended to Sri Lanka from 1969 to 2005 was US\$157.780 million. Sri Lanka is the 4th largest recipient of ADB’s technical assistance among South Asian countries. On periodic basis, there were more technical TA extended to Sri Lanka during the 1989-1998 period (US\$44.076 million). This is followed by the 1999-2005 periods (US\$33.727 million).

Table 30: Technical Assistance Extended to Sri Lanka (1969 – 2005)

Sector	1968-78 (in US\$)	1979-88 (in US\$)	1989-98 (in US\$)	1999-present (in US\$)	TOTAL (in US\$)
I. Agriculture and Natural Resources	1,218,000.00	3,726,500.00	15,903,600.00	4,680,000.00	25,528,100.00
II. Industry and Trade	240,300.00	481,000.00	1,447,000.00	3,500,000.00	5,668,300.00
III. Law, Economic Management and Public Policy	7,000.00	158,000.00	3,064,000.00	7,600,000.00	10,829,000.00
IV. Energy	236,000.00	760,000.00	2,370,000.00	2,475,000.00	5,841,000.00
V. Finance	166,200.00	500,000.00	4,667,000.00	2,250,000.00	75,832,000.00
VI. Transport and Communications		1,398,000.00	5,775,000.00	6,410,000.00	13,583,000.00
VII. Education		1,007,000.00	3,371,000.00	2,000,000.00	6,378,000.00
VIII. Multisector		1,620,000.00	4,852,000.00	1,471,500.00	8,078,500.00
IX. Water Supply, Sanitation and Waste Management		75,000.00	2,102,000.00	2,385,000.00	4,562,000.00
X. Health, Nutrition and Social Protection			525,000.00	956,000.00	1,481,000.00
TOTAL	1,867,500.00	9,725,500.00	44,076,600.00	33,727,500.00	157,780,900.00

Source: ADB

3.3. By sector, in terms of **project loans**, more money from ADB flows to Agriculture and Natural Resources sector from 1968 2005 (US\$822.653 million). This was followed by Transport and Communications sector (US\$473 million) and Finance sector (US\$445 million). The sectors that received the lowest amount are Health, Nutrition and Social Protection (US\$26.1 million) and Law, Economic Management and Public Policy amounting to US\$183 million. In terms of **technical assistance**, more assistance were extended to Finance sector amounting to US\$75.832 million, followed by Agriculture and Natural Resources (US\$25.528 million) and Transport and Communications (US\$13.583 million). The sectors that received the lowest technical assistance are Health, Nutrition and Social Protection (US\$1.481 million) and Water Supply, Sanitation and Waste Management (US\$4.562 million) (**Table 31**).

Table 31: Summary of Project Loans and Technical Assistance Extended to Sri Lanka (1968-2005)

Sector	Project Loans (in US\$)	Rank	Technical Assistance (in US\$)	Rank
I. Agriculture and Natural Resource	822,653,000.00	1	25,528,100.00	2
II. Transport and Communications	473,000,000.00	2	13,583,000.00	3
III. Industry and Trade	193,150,000.00	8	5,668,300.00	8
IV. Energy	371,750,000.00	5	5,841,000.00	7
V. Finance	445,000,000.00	3	75,832,000.00	1
VI. Multisector	414,300,000.00	4	8,078,500.00	5
VII. Health, Nutrition and social Protection	26,100,000.00	10	1,481,000.00	10
VIII. Education	266,900,000.00	6	6,378,000.00	6
IX. Water Supply, Sanitation and Waste Management	205,292,000.00	7	4,562,000.00	9
X. Law, Economic Management and Public Policy	183,000,000.00	9	10,829,000.00	4
TOTAL	3,401,145,000.00		157,780,900.00	

Source: ADB

4. ADB's AGENDA IN SRI LANKA

ADB's intervention in Sri Lanka (CSP: 2002-2004) is "aimed at achieving sustainable reduction in poverty through: (1) Broad-based pro-poor growth to generate employment opportunities and increase rural income; (2) Social development focused on enhancing the quality of and access to education and increasing nutrition awareness; (3) Promotion of community-based natural resources management; (4) Good governance to make the public service more accountable and responsive to the needs of the poor; and (5) Reduction of conflict-related poverty." These interventions focus on seven sectors: (1) Agriculture and rural development; (2) Transport (i.e. ports and roads); (3) Energy (i.e. power and petroleum); (4) Finance; (5) Education (including informal education); (6) Water supply and sanitation and urban development with strategic regional focus; and (7) Environment and natural resources management.

By thematic priorities (CSP: 2002-2004), ADB's support to Sri Lanka was carefully segregated into themes: (1) Economic Growth; (2) Human Development; (3) Gender and Development; (4) Good Governance; (5) Private Sector Development; (6) Environment Protection; and (7) Regional Cooperation. Still, these themes were coated under **poverty reduction strategy** of ADB with strong emphasis on the role of **private sector participation**. In short, all projects and technical assistance under the seven themes should lead to poverty reduction in Sri Lanka.

4.1. Economic Growth. ADB's emphasis is the need to have a faster and broad based economic growth in order to achieve sustainable poverty reduction through the generation of productive employment opportunities (such as small and medium-scale enterprise [SME] development), and increased rural income. ADB believes that this can be attained through institutional and policy changes to enhance employment opportunity (in agriculture, both investment and policy reforms are required to increase productivity), and investment on strategic infrastructure that will link less developed areas to growing regions.

4.2. Human Development¹⁰⁹. ADB is pointing out the need for a substantial improvement on the quality of education, despite the Bank's recognition on the decline on the quality of the delivery for health care services. To improve the quality, educational institutions will need to become demand driven, especially from the private sector. It is also necessary to strengthen regional training centers to improve relevant education and skills, particularly for the rural poor.

4.3. Gender and Development.¹¹⁰ As usual, ADB will promote the mainstreaming of their gender and development policy to all of their operations. However, ADB's intervention on Sri Lankan women is more concrete than the others. A specific loan component targeting women is planned for inclusion in the Post-secondary Education Development Project (2002). In Northern and Eastern provinces where women's poverty is estimated to be highest, the

¹⁰⁹ Sri Lanka ranked 84th among 174 countries in terms of the human development index (HDI) in 2000. In the 1990s, the maternal mortality rate declined from 80 to 30 per 100,000 live births; access of the rural population to safe water increased from 29 to 65 percent, and that to sanitation from 39 to 60 percent.

¹¹⁰ Sri Lanka ranks 84th among 174 countries on the gender development index. Sri Lankan women have a life expectancy of 76 years, surpassing that of men (71 years). Female literacy is high at 88 percent, but still trails male literacy (94 percent). There is wide disparity in income and employment. Male per capita GDP (purchasing power parity) is over twice that of females, and the female unemployment rate is more than double than that for males. Female labor force participation in the formal sector is about 35 percent—mainly in lower-skilled jobs—and their wages are significantly below those of men. Plantation women are a disadvantaged group in terms of both economic and social development.

proposed Eastern Province Coastal Community Development Project (2003) is expected to have a positive impact on households headed by females in conflict-affected areas. Efforts will be made to explore assistance to reduce women's poverty through microfinance schemes under the Rural Finance Sector Development Project (2003). In addition, specific project components targeting gender and poverty will be assessed for possible funding by the Japan Fund for Poverty Reduction mechanism during project formulations.

4.4. Good Governance. Along the shifting of Sri Lankan economy from statist to a market-oriented one, ADB will prioritize, in terms of assistance, on the creation of a policy environment conducive to private sector growth, and a shift in the role of the Government from direct producer and service provider to regulator in many areas and sectors. ADB will continue to assist the Sri Lankan government by supporting policy and institutional reforms in the sectors where ADB operations are focused (e.g. road, power, port, education, water supply and sanitation, environmental and natural resources management and rural finance). ADB will further help to strengthen the capacity and performance of public sector management, including support for implementing new procurement practices and procedures and improving public expenditure management at both central and local levels. In addition, ADB will continue to support the Government's decentralization process, which will bring the Government closer to the needs of the local population and give the poor a "voice" in public decisions that affect their lives.

4.5. Private Sector Development. ADB will promote an enabling environment for private sector activities through its public sector operations, and provide direct investment in private sector companies through operations of its Private Sector Group, to support key private sector initiatives. In areas where ADB operations are focused, ADB will assist in assessing specific investment opportunities for private sector participation in public sector projects that demonstrate commercial viability and have significant development impact. Similarly, ADB's Private Sector Group operations will continue to focus mainly on infrastructure projects where large funding is required, and where ADB can play a catalytic role in attracting co-financing.

4.6. Environmental Protection. Broadly, ADB's commitment to Environmental Protection is limited to assisting Sri Lanka in environmental and natural resource management. ADB's strategy on the green issue will still take a programmatic, long-term, sector development approach.

4.7. Regional Cooperation. As an island-nation separated from the rest, Sri Lanka¹¹¹ is not part of the ADB-initiated SASEC. ADB has no concrete plans for Sri Lanka's potential integration with SASEC. Following the signing of the India-Lanka Free Trade Agreement (SIFTA) in 2000, the Government is looking into the possibility of a similar trade agreement with Pakistan. ADB, in its specific TA for SME development in 2001, is to assist the Government to rationalize its fiscal incentive structure to encourage domestic enterprises to benefit from the free trade agreement with India.

¹¹¹ Sri Lanka looks to regional organizations such as the South Asian Association for Regional Cooperation (SAARC); Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation (BIMSTEC) and the Indian Ocean Rim Association for Regional Cooperation (IRO-ARC) as potential avenues to expand markets for its products.

GDP of SRI LANKA GDP						
	1995	1996	1997	1998	1999	2000
GNP Per Capita (\$, current prices)	710	748	804	823	813	841
GDP Growth (%)	5.5	3.8	6.3	4.7	4.3	6.0
Agriculture	3.3	-4.6	3.0	2.5	4.5	1.2
Industry	7.8	5.6	7.7	5.9	4.8	8.2
Services	4.9	6.0	7.1	5.1	4.0	6.9
		2000	2001	2002	2003	2004
GDP Per Capita (\$, current prices)		899	841	870	948	1,031
GDP Growth (% in constant prices)		6.0	(1.5)	4.0	6.0	5.4
a. Agriculture		1.8	(3.4)	2.5	1.6	(0.7)
b. Industry		7.5	(2.1)	1.0	5.5	5.2
c. Services		7.0	(0.5)	6.1	7.9	7.6
Source: Asian Development Bank						

G. AFGHANISTAN

1. AFGHANISTAN: A TROUBLED COUNTRY

The Islamic Republic of Afghanistan is a landlocked country—sandwiched between the Middle East, Central Asia and the Indian subcontinent along the ancient “Silk Route”—and established in August 19, 1919. It has a total land area of 647,500 sq. km. (249,935 sq. mi.) and a 5,529 km border with its neighboring countries; with Iran is 936 km (west); with Pakistan is 2,430 km (south and east); with Turkmenistan is 744 km, Uzbekistan is 137 km, and Tajikistan is 1,206 km (north); and China is 76 km (east). As a crossroad of Asia, Afghanistan has cultural, ethno-linguistic, and geographic links with most of its neighbors. Afghanistan is generally considered as part of Central Asia, it is sometimes ascribed to a regional bloc in either South Asia or the Middle East.

The name of Afghanistan is derived from the word *Afghan*. Literally, it means “land of the Afghans”.¹¹² But, a plethora of other names have been applied to its general location in the past. The Pushtuns appear to have begun using the term *Afghan* as a name for themselves from the Islamic period onwards. There are numerous views, regarding the origin of the name Afghan but most of them are purely speculative.

Afghanistan is a mountainous country, with plains in the north and southwest. The highest point is Nowshak, at 7485 m (24,557 ft) above sea level. Large parts of the country are dry, and fresh water supplies are limited. Afghanistan has a continental climate, with hot summers and cold winters. The country is frequently subjected to earthquakes.

The population of Afghanistan is 28,513,677 (July 2004 estimate). However, its annual growth of 4.92% does not take into consideration the recent war and its continuing impact.¹¹³ The Afghans are divided into a wide variety of ethnic groups largely composed of Iranian and Turkic peoples. The main ethnic groups are the following: Pashtun (38%), Tajik (25%), Hazara (22%), Uzbek (11%), Aimak (5%), Turkmen ((3%), Baloch (2%), and others, including sikhs (4%). The official languages of Afgjhanistan are Persian (local name: Dari) 50%, and Pashtu 35%. Other languages include Turkic languages (primarily Uzbek and Turkmen) 11%, 30 minor languages (primarily Balochi and Pashai) 4%. Bilingualism is common. The majority of Afghans are Muslims (80% are Sunni and 19% are Shi’a). There are small Hindu and Sikhs minorities. The Jews¹¹⁴ fled the country after the 1979 Soviet invasion.

For administrative purposes, Afghanistan is a divided into 34 provinces¹¹⁵ (*velayat*), which are further divided into districts (Figure 12).

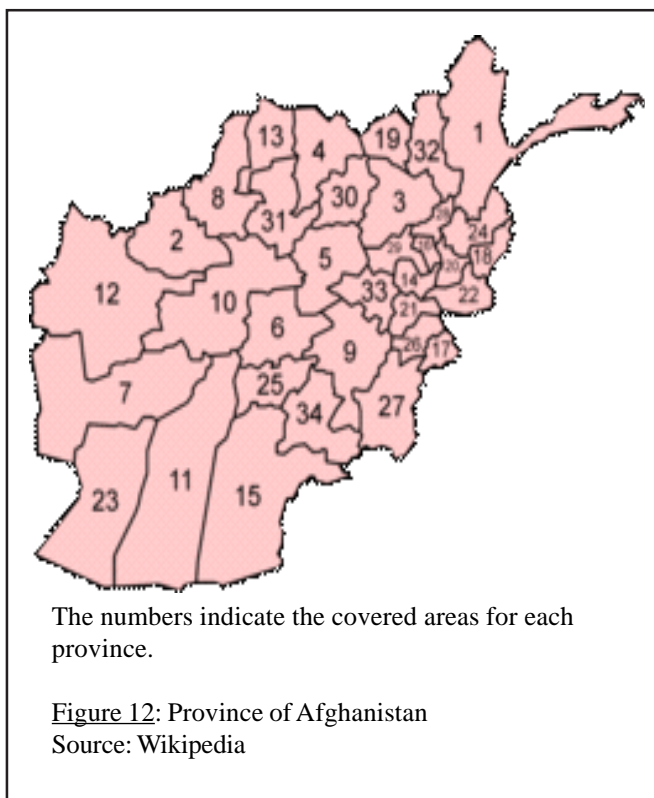
¹¹² The last part of the name *Afghanistan* originates from the Persian word *stân* (*country* or *land*). The English word *Afghanland* that appeared in various treaties between Qajar-Persia and the United Kingdom dealing with the Eastern lands of the Persian kingdom (modern Afghanistan) was adopted by the Afghans and became *Afghanistan*. According to W.K. Frazier Tyler, M.C. Gillet and several other scholars, “*The word Afghan first appears in history in the Hudud-al-Alam in 982 AD.*”

¹¹³ More than 4 million Afghans live outside the country, mainly in Pakistan and Iran, although over two and a half million have returned since the removal of the Taliban. With the fall of the Taliban a number of Sikhs have returned to the Ghazni, Nangarhar, Kandahar and Kabul Provinces of Afghanistan.

¹¹⁴ Afghanistan was once home to many-centuries-old Jewish minority, numbering approximately 5,000 in 1948.

2. THE NEW ISLAMIC AFGHANISTAN

The new Afghanistan, while it is Islamic, departed from the Taliban type of Islamic state. The road for reconstruction is more difficult than the ousting of Taliban. Afghanistan has a long history of fighting between invaders and among themselves. Since 1900, eleven monarchs and rulers have been unseated through undemocratic means: Assassination in 1919; Abdication in 1929; Execution in 1929; Assassination in 1933; Deposition in 1973; Execution in 1978 and 1979; Removal in 1987; Overthrow in 1992, 1996 and 2001.



The numbers indicate the covered areas for each province.

Figure 12: Province of Afghanistan
Source: Wikipedia

a. Political System

Afghanistan is an Islamic Republic. The President is the chief of state and head of government. The President and two Vice Presidents are elected by direct vote for a five-year term (if no candidate receives 50% or more of the vote in the first round of voting, the two candidates with the most votes will participate in a second round). A President can only be elected for two terms. Former King Zahir Shah holds the honorific,¹¹⁶ "Father of the Country," and presides symbolically over certain occasions, but lacks any governing authority. The Cabinets consist of 27 ministers. Under the new constitutions, ministers are appointed by the President and approved by the National Assembly

It has a bicameral legislature, the House of the *Wolesi Jirga* (the National Assembly or House of People) with 249 seats, and the *Meshrano Jirga*¹¹⁷ (the House of Elders) with 102 seats.

The new constitution establishes a nine-member *Stera Mahkama* or Supreme Court (its nine justices are appointed for 10-year terms by the president with approval of the *Wolesi Jirga*) and subordinate High Courts and Appeals Courts. There is also a Minister of Justice and a separate Afghan Independent Human Rights Commission established by the Bonn Agreement is charged with investigating human rights abuses and war crimes.

¹¹⁵ (1) Badakhshan, (2) Badghis, (3) Baghlan, (4) Balkh, (5) Bamiyan, (6) Daikondi, (7) Farah, (8) Faryab, (9) Ghazni, (10) Ghowr, (11) Helmand, (12) Herat, (13) Jowzjan, (14) Kabul, (15) Kandahar, (16) Kapisa, (17) Khost, (18) Konar, (19) Kunduz, (20) Laghman, (21) Lowgar, (22) Nangarhar, (23) Nimruz, (24) Nurestan, (25) Oruzgan, (26) Paktia, (27) Paktika, (28) Panjshir, (29) Parvan, (30) Samangan, (31) Sar-e Pol, (32) Takhar, (33) Vardak and (34) Zabol.

¹¹⁶ The honorific role or function is not hereditary.

¹¹⁷ One third elected from provincial councils for a four-year term, one third elected from local district councils for a three-year term, and one third presidential appointees for a five-year term; the presidential appointees will include two representatives of Kuchis and two representatives of the disabled; half of the presidential appointees will be women

The new constitution was drafted after the fall of Taliban in 2001 from December 14, 2003 up to January 4, 2004, and subsequently signed on January 16, 2004. Afghanistan has 34 administrative provinces. Hamid Karzai, the new elected President, is the choice of US President George W. Bush. Warlordism still rules in Afghanistan today.

b. Afghan Social Structure

Ethnic classification in Afghanistan is not simple. It is complex because it has never been static within fixed boundaries and it has been drawn and re-drawn throughout the course of its history. Every group of Afghan people uses the identification they termed as *qawm* to explain a complexity of affiliations, a network, of families or occupations. Every individual Afghan belongs to a *qawm* which provides protection from outside encroachments¹¹⁸, cooperation, support, security and assistance, either social, political or economic. In a tribal area¹¹⁹ a *qawm* refers to a common genealogy from an extended family, or a clan, to a tribe to a tribal confederation. In a more limited sense, *qawm* refers to descent groups, from a family kin to an ethnic group. In a simple sense, *qawm* defines an individual's identity in his social world.

The narrow confines of mountainous valleys, isolated oases, and tribal lineages kept different Afghan groups separated from each other. Social institutions—distinct religious and social codes, authority structures and economic arrangements—generally reinforced the niche pattern of the forbidding landscape and fostered inward-looking mentalities. This made Afghanistan physically and demographically segmented society. However, this social fragmentation over the past century had already been lessened by non-coercive interactions (travel, trade, resettlement, educational opportunity and economic diversification) that facilitated in opening up social networks beyond the family, lineage, village and valley. In Afghanistan, the large segment of elite and middle class that started to think nationally were gone.

c. Afghan Economy

Afghanistan remains extremely poor and an impoverished country, being one of the world's poorest and least-developed countries. Two-thirds of the population lives on less than US\$2 a day and 53% of its population lives below poverty line (2003 estimates). In the 2004 estimate, country's GDP per capita is US\$164.83. The economy has suffered greatly from the recent political and military unrest since the 1979-80 Soviet invasion and subsequent conflicts, while severe drought added to the nation's difficulties in 1998-2001. The country is highly dependent on foreign aid, farming and trade with neighboring countries. It will probably take the remainder of the decade and continuing donor aid and attention to raise Afghanistan's living standards up from its current status among the lowest in the world.

Much of the population continues to suffer from shortages of housing, clean water, electricity, medical care and jobs. Growing political stability and continued international commitment to Afghan reconstruction create an optimistic outlook for maintaining improvements in the Afghan economy in 2005.

¹¹⁸ Any abrupt political change at the center (Kabul, representing authority) brought sudden, unwelcome interference, the reaction was widespread and varied, but often violent. When the Soviets invaded Afghanistan, the resistance is atomized or localized, widespread and everywhere. This is one reason why the Soviets failed to crush atomized rebellion.

¹¹⁹ Frequently a village corresponds to a *qawm*, but it does not necessarily exist in a precise geographic setting.

In 2004, the economy grew by 7.5%, an equivalent only to US\$4.7 billion. Agriculture is the chief produce of Afghanistan (52% of the GDP) from wheat, corn, barley, rice, cotton, fruit, nuts, karakul pelts, wool and mutton. Agriculture is the main source of livelihood among Afghans, 80% of the 11.8 million Afghan's labor force. The Afghan economy continues to be overwhelmingly agricultural, despite the fact that only 12% of its total land area is arable and less than 6% currently is cultivated. Industry's contribution to GDP is 26% from small-scale production for domestic use of textiles, soap, furniture, shoes, fertilizer and cement; hand-woven carpets for export; natural gas, precious and semi-precious gemstones. Services share to GDP is 22% from transport, retail and telecommunications. In terms of trade, total export earnings of Afghanistan (FY 2002-2003) is US\$100 million from fruits and nuts, hand-woven carpets, wool, cotton, hides and pelts, precious and semiprecious gems, with Central Asian republics, Pakistan, Iran, EU and India are the destinations. If opium exports is included, the amount might be very high. Afghanistan's imports amounted to US\$2.3 billion from food, petroleum products, machinery and consumer goods, with Central Asian republics, Pakistan and Iran are main suppliers.

c.1. Economy's Handicap and Concerns

■ **Agriculture is relatively backward.** Agriculture, as the main source of livelihood among Afghans, is constrained by an almost total dependence on erratic winter snows and spring rains for water. Irrigation is primitive. Relatively, there is little use for machines, chemical fertilizer or pesticides for optimal output. Overall agricultural production dramatically declined due to deteriorated infrastructure, sustained fighting and instability in rural areas. The recent severe drought also contributed to the decline. People opted to go to opium production.¹²⁰ Expanding poppy cultivation and a growing opium trade may account for one-third of GDP and looms as one of Kabul's most serious policy challenges. While wheat production was higher by 58% in 2002. The country still needs to import an estimated one million tons of wheat to meet its requirements for the year 2003. Millions of Afghans, particularly in rural areas, remained dependent on food aid.

■ **Devastated infrastructure.** The war in Afghanistan, since the Soviet occupation up to the fall of Taliban and the continuing fight, destroyed much of the country's limited infrastructure (such as roads and highways¹²¹) and disrupted normal patterns of economic activity. GDP had fallen substantially because of loss of labor and capital and disruption of trade and transport. Continuing internal strife hampered both domestic efforts at reconstruction as well as international aid efforts.

■ **Afghanistan remains highly dependent on foreign assistance.** International assistance, since the fall of Taliban in 2001, reached over US\$2 billion. It will probably take the remainder of the decade and continuing donor aid and attention to raise Afghanistan's living standards up from its current status among the lowest in the world. International pledges, made by more than 60 countries and international financial

¹²⁰ Opium has become a source of cash for many Afghans, especially following the breakdown in central authority after the Soviet withdrawal, and opium-derived revenues probably constituted a major source of income for the two main factions during the civil war in the 1990s. Opium is easy to cultivate and transport and offers a quick source of income for impoverished Afghans. Afghanistan was the world's largest producer of raw opium in 2004. Much of Afghanistan's opium production is refined into heroin and is either consumed by a growing regional addict population or exported, primarily to Western Europe.

¹²¹ More than two decades of war had left the Kabul-Kandahar highway devastated, like much of the country's infrastructure. Little could move along the lifeline that had provided so many Afghans with their means of livelihood and their access to healthcare, education, markets and places of worship.

institutions at the Berlin Donors Conference for Afghan reconstruction in March 2004, reached US\$8.9 billion for years 2004-2009. On the other hand, external debt of Afghanistan is US\$8 billion (mostly to Russia). The country has US\$500 million in debt to Multilateral Development Banks (MDBs), such as WB and ADB. Afghanistan government spends at around US\$609 million annually, but revenue generated is only US\$300 million.

3. ADB's INVOLVEMENT IN AFGHANISTAN

ADB's involvement in Afghanistan started in 1969 (first technical assistance), three years after Afghanistan joined ADB in 1966 as one of the 31 founding members. Pakistan is the 28th largest shareholder in ADB among its regional members. Overall, including non-regional members, Pakistan is the 36th largest shareholder.

3.1. Project Loans. The first project loan extended to Afghanistan was on December 15, 1970, the "Gawargan and Chardarrah Agricultural Development", under Agriculture and Natural Resources sector, amounting to US\$5.150 million. The next project loans were extended almost three later, in April 18, 1970, the "Helmand Valley Development Road", under Transport and Communications, amounting to US\$14.9 million.

Total Project Loans extended to Afghanistan from 1970 to 2005 is US\$488.4 million. Afghanistan is the 6th largest recipient of ADB lending among South Asian countries.

Number of shares held:	1,195 (0.034% of total shares)
Votes:	15,080 (0.35% of total membership, 0.53% of total regional membership)
Overall capital subscription:	US\$18.50 million
Paid-in capital subscription:	US\$5.91 million
<i>Source: ADB</i>	

By periodic basis, more project loans were extended to Afghanistan during the 1999-2005 periods amounting to US\$458.735 billion. In 1979-1988 period Afghanistan received US\$20.1 million, and only under agriculture sector. In 1989-1998 periods, the country received nothing from ADB due to its political situation (**Table 33**).

Sector	1968-78 (in US\$)	1979-88 (in US\$)	1989-98 (in US\$)	1999-present (in US\$)	TOTAL (in US\$)
I. Agriculture and Natural Resources	45,400.00	20,100.00	---	55,000.00	120,500.00
II. Transport and Communications	14,900.00	---	---	110,000,000.00	124,900,000.00
III. Energy	9,000,000.00	---	---	26,500,000.00	35,500,000.00
IV. Industry and Trade	5,700,000.00	---	---	---	5,700,000.00
V. Multisector	---	---	---	322,180,000.00	322,180,000.00
TOTAL	14,760,300.00	20,100.00	0.00	458,735,000.00	488,400,500.00
<i>Source: ADB</i>					

3.2. Technical Assistance. The first technical assistance extended to Afghanistan was approved in July 29, 1969, the "Selected Small Scale Irrigation Projects", under Agriculture and Natural Resources sector, amounting to US\$164,000.00. The second and third TAs were both approved in July 7, 1970 and also under Agriculture and Natural Resources, the "Sectoral Planning on Afghan Agriculture" and "Kajakai Floodgate and Flood Control Scheme", amounting to US\$264,000.00 and US\$160,000.00, respectively. On the same year, another

TA was approved in December 15, also under agriculture, the “Gawargan and Chardarrag Agricultural Development”, amounting US\$370,000.00.

Total Technical Assistance extended to Afghanistan from 1969 to 2005 was US\$43.898 million. Afghanistan is the 6th largest recipient of ADB's technical assistance among South Asian countries.

On periodic basis, there were more technical assistance extended to Afghanistan during the 1999-2005 periods amounting to US\$41.332 million. This is followed by during the 1989-1998 periods amounting to US\$51.200 million. During the 19889-1998 periods the country received US\$100,000.00 and only under Transport and Communications. But, during the 1979-1988 periods, the country received nothing due to the political turmoil.

Sector	1968-78 (in US\$)	1979-88 (in US\$)	1989-98 (in US\$)	1999-present (in US\$)	TOTAL (in US\$)
I. Agriculture and Natural Resources	2,091,000.00	---	---	6,445,000.00	8,536,000.00
II. Industry and Trade	44,000.00	---	---	750,000.00	794,000.00
III. Transport and Communications	48,500.00	---	100,000.00	6,000,000.00	6,148,500.00
VI. Multisector	185,000.00	---	---	15,447,000.00	15,632,000.00
V. Education	97,200.00	---	---	---	97,200.00
VI. Law, Economic Management and Public Policy	---	---	---	7,030,000.00	7,030,000.00
VII. Energy	---	---	---	5,660,000.00	5,660,000.00
TOTAL	2,465,700.00	0.00	100,000.00	41,332,000.00	43,897,700.00

Source: ADB

3.3. By sector, in terms of **project loans**, more money from ADB flows to Multisector amounting to US\$322.180 million. This was followed by Transport and Communications sector amounting to US\$124.9 million. The sectors that received the lowest amount was Agriculture and Natural Resources amounting to US\$120,500.00. In terms of **technical assistance**, more assistance were extended to Multisector amounting to US\$15.832 million, followed by Agriculture and Natural Resources amounting to US\$8.536 million. The sector that received the lowest technical assistance was Industry and Trade amounting to 794,000.00 million.

Sector	Project Loans (in US\$)	Rank	Technical Assistance (in US\$)	Rank
I. Agriculture and Natural Resources	120,500.00	5	8,536,000.00	2
II. Transport and Communications	124,900,000.00	2	6,148,500.00	3
III. Energy	35,500,000.00	3	5,660,000.00	4
IV. Industry and Trade	5,700,000.00	4	794,000.00	5
V. Multisector	322,180,000.00	1	15,632,000.00	1
TOTAL	452,900,500.00		43,897,700.00	

Source: ADB

4. ADB's AGENDA IN AFGHANISTAN

ADB has no documented lessons on how to intervene in Afghanistan through a country strategy program (CSP). However, they draw some lessons from other countries with similar situations like Cambodia, East Timor, Tajikistan and, to some extent, Vietnam, that are relevant to Afghanistan.¹²² From these lessons, ADB came up with an Interim Country Strategy Program (ICSP). National reconstruction is the overall theme of Afghanistan's Interim CSP. ADB's action plan for a war-torn Afghanistan was anchored on the Government's National Development Framework. It seeks to address immediate and urgent needs for recovery and reconstruction, and lastly, to initiate a longer-term rehabilitation phase which will address the need for investments and policy reforms in key sectors.

For **short-term needs**, ADB will focus on: (1) Employment generation, by generating productive, labor intensive employment through the revival of both agriculture and non-agricultural activities and through infrastructure rehabilitation and reconstruction; (2) Stabilization of social and individual personalities, by addressing people's posttraumatic stress disorder, and in many cases outright mental illness, arising from war experiences and personal tragedies; (3) Reintegration of war combatants, the disabled, refugees and internally displaced persons (IDPs); and (4) Dealing with the on-going humanitarian crisis and natural disasters, by gradually merging relief support with rehabilitation and reconstruction.

For **medium-to-longer-term reconstruction and rehabilitation needs**, ADB will focus on: (1) Improving the national road infrastructure to all major highways and roads destroyed by war thus, generating labor-intensive employment; (2) Improving the status of the social sectors, through access to social infrastructure (education, health, water, and sanitation), especially for women and rural folks; (3) Removing gender discrimination, (4) Fostering economic and social progress through Subregional Cooperation, through road transport and energy networks, the country would be a catalyst for closer economic bonds between neighbors (e.g. China; Iran; Pakistan; and the CARs, especially Tajikistan, Turkmenistan and Uzbekistan), (5) Promoting community-based development, through decentralization; and (6) Containing/limiting/extermimating poppy cultivation.

By **thematic focus**, ADB is supporting in the areas of: (i) Capacity building; (ii) Physical infrastructure rehabilitation; (iii) Revitalizing agriculture and rural development; (iv) Private sector development; (v) social development; and (vi) Gender empowerment.

¹²² Lessons are the following: "(i) Assistance should not include components with complicated issues that require long-term preparation; (ii) Assistance should adopt a "process approach" to allow flexible adjustment of project design during implementation; (iii) To ensure expeditious delivery of the assistance, it is necessary to (a) make intensive use of experienced consultants including drawing on the expertise of the expatriate Afghan diaspora, (b) field ADB review missions frequently; and (c) consider ADB financing for most (or even all) project costs including operation and maintenance at least in the early years; (iv) Follow-up projects should be prepared in parallel with the implementation of program assistance and quick-impact pilot projects to provide supplementary support to address policy and institutional issues; (v) Necessary support should be given to overcome government personnel's lack of experience and familiarity with ADB requirements and procedures; (vi) Substantial TA is necessary to strengthen weak institutional capacity, and to ensure effective monitoring and evaluation of implementation and impact; and (vii) post-conflict lending is likely to require a higher level of ADB support and supervision than normal lending activities." (ADB, Initial CSP, Afghanistan [2002-2004])

4.1. Capacity Building. The long-term objective of ADB's capacity-building support for Afghanistan is decentralization. Capacity-building support will be synchronized with efforts of the Government to delineate the respective roles of the key actors (the state, private sector, public enterprises, national NGOs, trade unions) in the management of development. Most of ADB's assistance on capacity-building will be in a form of technical assistance (TA), and in accordance with the respective roles and needs of all actors (the central Government, provincial governments, local governments, local communities, NGOs and the private sector).

4.2. Physical Infrastructure Rehabilitation. ADB's objective is to remove all constraints on physical infrastructure to revive normal economic activities. More specifically, physical constraints requiring priority attention include: (i) Agricultural land and irrigation facilities inaccessible due to presence of mine and unexploded ordnance (UXO) or irrigation systems in disrepair; (ii) Destruction or degradation of economic and social infrastructures; and (iii) Destruction, degradation or inadequate exploitation of natural resources. These are to be addressed by infrastructure rehabilitation, reconstruction and development and mine clearing.

4.3. Revitalizing Agriculture and Rural Development. ADB's intervention is in the strengthening of the forward and backward linkages of agriculture and rural development with other sectors in a manner that it can become the base for a future economy and with a participatory development approach. With the abovementioned intervention, ADB's assistance aim to address key constraints in agriculture sector (including natural disasters), such as the: (1) Purchasing power and access to productive assets such as land, water, and credit; (2) Institutional infrastructure at central and local levels; (3) Policy regulatory framework; (4) Human resource development; (5) Women's participation in agricultural production; (6) Health and nutrition needs; and (6) Incentives for poppy production.

4.4. Private Sector Development. ADB's long-term objective is to establish an appropriate legal and regulatory framework, a stable and predictable policy environment, good governance, and the rule of law in order for private sector to play its role as the linchpin in the economy's development process. With this, ADB's assistance shall aim to provide capacity building, institution building, governance support and the reform and development of the financial system of Afghanistan. The absence of these is considered by ADB as constraints.

4.5. Social Development. ADB will strongly support social development by addressing social constraints, such as: "(i) Fragmentation of society along ethnic lines, which hinders national development efforts; (ii) Violations of basic human rights and entitlements; (iii) A volatile security situation; (iv) A high degree of illiteracy, low school participation, and high drop-out rates, especially among girls; (v) Lack of skills; (vi) Poor child and maternal health, and high incidence of child malnutrition; (vii) High incidence of war-related disabilities – posttraumatic stress disorder, handicapped, widows, orphans and IDPs; and (viii) Lack of old age care and security. In the context of Afghanistan, it is particularly important to emphasize support for and protection of vulnerable groups (returning refugees, IDPs and the disabled)." (ADB, ICSP, Afghanistan [2002-2004])

4.6. Gender Empowerment. ADB's operational approach is to fully mainstream gender components in all its programs and projects and non-lending activities¹⁵, in fostering gender empowerment, such as representation of women in all public and local bodies, and strengthening women's organizations. "Specific financing will be provided for women's activities such as skill development, enterprise development, microfinance activities, social work, and

family and child support, which will empower women, reduce female poverty, narrow the gender gap and stimulate economic and social development.” (ADB, ICSP, Afghanistan [2002-2004])

By **sectoral focus**, ADB will be focusing their assistance on: (1) Agriculture; (2) Social sectors; (3) Infrastructure,;and (4) financial sector. These four sectoral focus are guided by the seven thematic focus of ADB’s lending operations.

In 2004, ADB reiterated its previous commitment to continue supporting Afghanistan’s reconstruction and development by helping build national capacity, by assisting in the establishment of appropriate policy¹⁶ and institutional frameworks, and by rehabilitating essential infrastructure. The Bank’s assistance continued in focusing: (1) Transport (roads and civil aviation)¹⁷; (2) Energy (power and gas); (3) Natural resource management (agriculture, irrigation, and environment); and (4) On governance and the financial sector.

ADB is focusing their private sector interventions on banking and telecommunications. Support from the Bank was for the promotion of private sector activity and to attract foreign direct investment through co-financing an investment guarantee facility for providing political risk guarantees.

¹²³ “Specific interventions in favor of women will cover (i) literacy, (ii) school participation, (iii) maternal and child health care, (iv) family welfare, (v) teacher training, (vi) health care training, (vii) livelihood support through skill training and credit, (viii) agricultural production and marketing support, (ix) livestock production and marketing support, (x) vegetable production, (xi) horticulture production, (xii) women’s professional development, (xiii) women’s mobilization and awareness building, (xiv) home-based processing, (xv) gender sensitivity and awareness raising for government employees, (xvi) transport facilities for women and girls to attend schools, (xvii) social protection program for widows, and (xviii) medical and psychiatric services for chronically depressed women and girls and others that would evolve over time as rehabilitation and reconstruction takes firm root.” (ADB, ICSP, Afghanistan [2002-2004])

¹²⁴ ADB’s policy dialogue was focused on the development of a framework for agricultural investment, improved efficiency of agricultural support services, the restructuring of state-owned enterprises, and improved fiscal management. ADB also helped establish a sound agriculture policy framework and efficient institutions including systems for managing sustainable use of the country’s natural resources.

¹²⁵ According to ADB, their 2004 assistance was directed to rebuilding a key portion of the national road network and rehabilitation of regional airports.

H. MALDIVES

1. MALDIVES: ISLAND FAR FROM THE SUBCONTINENT

The Republic of Maldives is a flat¹²⁶ island-nation consisting of the Maldives group atolls and the Suvadive group of atolls in the Indian Ocean¹²⁷, situated in the south of Lakshadweep group of islands of India and about 700 kilometers south-west of Sri Lanka. It has an area of 298 sq. km. (115 sq. mi.), over 1,192 islets and islands, and roughly 200 of which are inhabited by people.

The name Maldives may stand for “Palace” or “Mountain Islands” (from *al-Mahal* in Arabic, or *malai* in Malayalam / *mala* in Tamil, and *dvipa* in Sanskrit, respectively), or it might mean “a thousand islands” or “garland of islands”.

Maldives has population of 280,000¹²⁸ plus another 31,000 expatriate laborers who are not counted in the census. The Maldivian ethnic identity is a blend of the cultures of peoples who settled on the islands, reinforced by religion and language. The earliest settlers were probably from Southern India. Indo-Aryan speakers, the Sinhalese, followed them from Sri Lanka in the 4th and 5th centuries AD. In the 12th AD, sailors from East Africa and Arab countries came to the islands. Majority of Maldives are Sunni Islam. The official language is Dhivehi, and Indo-European related to Sinhalese of Sri Lanka. The written script is called Thaana and is written from right to left. English is widely used in commerce and the medium of instruction in government schools. Following the introduction of Islam in 1153, the islands later became a Portuguese (1558), Dutch (1654), and British (1796) colonial possession. In 1965, Maldives declared its independence from Britain, and in 1968 the Sultanate was replaced by a Republic.

The climate of Maldives is tropical; hot and humid; dry in northeast monsoon from November to March; and rainy season in southwest monsoon from June to August.

For administrative purposes, Maldives is politically divided into 20 administrative atolls¹²⁹ and one city. Each atoll is administered by an Atoll Chief (*Atholhu Veriyaa*) appointed and directed by the President.

2. THE INDEPENDENT MALDIVES

In 1968, the **Second Republic** was declared following an agreement with the British (retained the use of the Gan and Hitaddu facilities), and following a referendum, the sultanate was abolished. Ibrahim Nasir became the president. Under the new constitution, Nasir was elected indirectly to a four-year presidential term by the Majlis (legislature). He appointed Ahmed Zaki as the new prime minister. But, Zakir, in 1975, was demolished due to his popularity

¹²⁶ Maldives holds the record for being the flattest country in the world, with a maximum altitude of only 2.3 meters.

¹²⁷ The northern most atoll is Haa Alif Atoll and the southern most is Seenu. The smallest atoll is Gnaviyani Aroll with only one island (the largest island in Maldives). The largest atoll in both Maldives and the whole world is Gaafu Alif Atoll which is just south of the One and a Half Degree Channel.

¹²⁸ Based from mid-year of 2002 census.

¹²⁹ The twenty administrative divisions consists of (1) Maale, the first-order administrative division, (2) Alifu, (3) Baa, (4) Dhaalu, (5) Faafu, (6) Gaafu Alifu, (7) Gaafu Dhaalu, (8) Gnaviyani, (9) Haa Alifu, (10) Haa Dhaalu, (11) Kaafu, (12) Laamu, (13) Lhaviyani, (14) Meemu, (15) Noonu, (16) Raa, (17) Seenu, (18) Shaviyani, (19) Thaa, and (20) Vaavu.

that served as threat Nazir's position. In 1978, Nasir's authoritarian rule was ended and forced him to fled to Singapore following an economic crisis hitting Maldives from the collapsed of Sri Lankan market for Maldives dried fish exports and the decision of British government to close its military installations in Gan. A subsequent investigation revealed that Nazir had absconded with millions of dollars from the state treasury.

In 1978, Maumoom Abdul Gayoom replaced Nazir for a five-year presidential term. Tourism flourished in the Island and the local populace benefited from it.¹³⁰ The coup attempts in 1980, 1983 and 1988, did not affect Gayoom's popularity. The third coup¹³¹ attempt (1988) by Tamil mercenaries almost succeeded. The Indian government¹³² intervened militarily after president Gayoom's plead for help.

a. Political System

Maldives, from a British protectorate, became an independent country after they gained their independence from the British in July 26, 1965. Maldives is a republican state headed by a president with a unicameral legislative branch (Majlis) and judiciary composed of the High Court, Civil Court, Criminal Court, Family and Juvenile Court, and 204 general courts.

The President is nominated to a 5-year term by secret balloting of the Majlis (Parliament), and must be confirmed by a national referendum. The President heads the executive branch and appoints his cabinet. Maldives is divided into 20 administrative divisions (19 atolls and a capital city of Male). Each atoll is administered by an Atoll Chief (*Atholhu Veriyaa*) appointed and directed by the President. The Ministry of Atoll Administration and its Northern and Southern Regional Offices, Atoll Offices and Island Offices are collectively responsible to the President for Atolls Administration. Each island has an administrative head, the Island Chief (*Katheeb*), appointed by the President, and directly responsible to the Atoll Chief, as immediate superior.

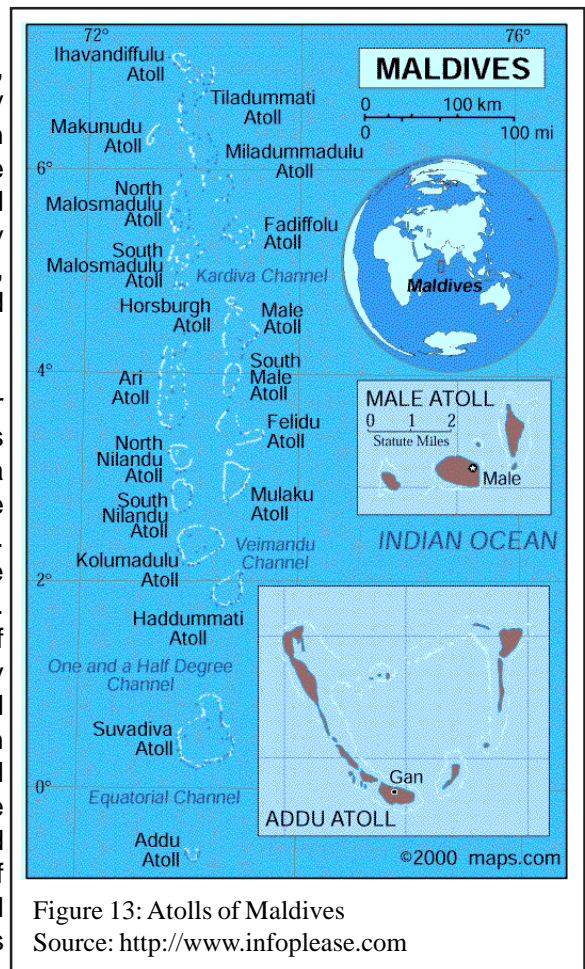


Figure 13: Atolls of Maldives
Source: <http://www.infoplease.com>

¹³⁰ Also in 1978, Maldives joined the International Monetary Fund (IMF) and World Bank (WB).

¹³¹ The 1988 coup was headed by once a prominent Maldivian businessman, Abdullah Luthufi, who was operating a farm in Sri Lanka.

¹³² Indian Prime Minister, Rajiv Gandhi, immediately sent his 1,600 troops by air to restore order in Male. Tamil mercenaries fled to their freighter after the arrival of Indian paratroopers. All of them were arrested in different time and faced trial. Gayoom commuted the death sentences passed against them to life imprisonment. All in all, 19 people reportedly died in the fighting, and several taken hostage also died.

The unicameral parliament (Majlis) is composed of 48 members serving 5-year terms; two members from each atoll and Male' are elected directly by universal suffrage; and eight are appointed by the president.

The Maldivian legal system is derived mainly from traditional Islamic law and administered by secular officials, a chief justice and lesser judges (appointed by the president) on each of the 19 atolls. These functions are under the Ministry of Justice. There is also an attorney general.

Maldives has no organized political parties. Candidates for elective office run as independents on the basis of personal qualifications. However, June 2005 political parties were allowed. The Maldivian Democratic Party (MDP) was the first party to register headed by popular opposition figures such as Mohamed Nasheed (Anni) and Mohamed Latheef (Gogo). The Dhivehi Raiyyithunge Party (DRP), headed by President Gayyoom, was expected to follow suit.

b. Maldives' Economy

The Maldivian economy is primarily based on tourism and fishing. Development has been centered upon the tourism industry and its complementary service sectors, transport, distribution, real estate, construction and government. Taxes on the tourist industry have been plowed into infrastructure and used to improve technology in the agricultural sector. Services sector, where tourism is part, is the biggest employer (60% of the 88,000 country's total labor force). Agriculture and manufacturing continue to play a lesser role in the economy, constrained by the limited availability of cultivable land and the shortage of domestic labor.

Agriculture including fisheries is accounted for 20% of Maldives economy. Agricultural products are limited due to limited lands for cultivation in the island. Chief agricultural products are coconuts, corn, sweet and potatoes. Fish export is the one who lifted this sector. Of the total labor force, the share of agriculture is 22%.

Industry sector is only accounted for 18% of the economy. Industry activities under industry are the following: fish processing, tourism-related, shipping, boat building, coconut processing, garments, woven mats, rope, handicrafts and coral and sand mining. The share of industry's workforce to the total labor force is 18%.

In 1980s, real GDP growth averaged about 10%; expanded by an exceptional 16.2% in 1990; declined to 4% in 1993; it grew to 10% in 1998; and since then it has leveled to 5% to 7% range. In 2003, Maldives' real GDP accelerated to 8.5%, lifting nominal GDP per capita to about US\$2,509 (the highest in South Asia). Tourism led the growth expansion by 15% and accounted for about one-third of the GDP¹³³. Growth in the fisheries sector is estimated at 3% (6% of GDP).¹³⁴

¹³³ Tourist arrivals rose 16.4% to 594,100 in 2003, and 9.4% to 616,700 in 2004. (ADB)

¹³⁴ Although fish landings decreased to 148,400 metric tons in 2004 and 152,200 metric tons in 2003, the value of fish exports rose to \$75.6 million in 2003 and to \$84.4 million in 2004 due to an increase in volume. (ADB)

GDP of MALDIVES (2002-2004)					
	2000	2001	2002	2003	2004
GNP Per Capita (\$, current prices)	2,327	2,265	2,284	2,441	2,601
GDP Growth (%)	4.8	3.5	6.5	8.4	8.8
Agriculture	(0.7)	5.1	15.9	2.6	2.9
Industry	1.6	8.1	10.4	6.9	9.9
Services	6.0	2.4	4.7	9.6	9.4

Until the end of 2004, the GDP growth is encouraging. However, the December 2004 tsunami¹³⁵ had an impact to Maldives economy. The damage is about US\$470 million (about 62% of the country's GDP). The damage in the tourism sector was estimated at around US\$100 million. The loss in the housing sector was estimated at around US\$65 million. Since Maldives tourism accounted for about one third of its GDP, Maldives suffered an economic downturn in 2005. The UN General Assembly endorsed the Maldives' graduation from the list of least developed countries (LDC) on 20 December 2004, 6 days before the tsunami. Under that decision, the Maldives was granted 3 grace years to prepare a transition strategy to adjust to the phasing out of the advantages associated with membership on the LDC list.

In terms of trade, Maldives' total export is US\$90 million (2002) from fish products and clothing. The major trading partners of Maldives are the following: US (40.4%); Thailand (14.6%); Sri Lanka (9.5%); Japan (8.6%); and UK (8.2%) (2004). Total imports, on the other hand, exceeded the Island's exports to US\$392 million (2002 est.) from petroleum products, ships, foodstuffs, textiles, clothing, intermediate and capital goods. Major suppliers are the following: Singapore (32.9%), Sri Lanka (11%), India (8.2%), UAE (7.2%), Malaysia (6.4%) and Thailand (5.2%) (2004).

b.1. Economic Reforms Towards Opening Up

The Maldivian Government began an economic reform program in 1989 initially by lifting import quotas and opening some exports to the private sector. Subsequently, it has liberalized regulations to allow more foreign investment. International shipping to and from the Maldives is mainly operated by the private sector with only a small fraction of the tonnage carried on vessels operated by the national carrier, Maldives Shipping Management Ltd.

b.2. Economy's Handicap and Concerns

Maldives, like any of ADB's DMCs, spends more than the revenues it generates. In 2002 alone, out of US\$224 million generated (excluding grants), the Island spent around US\$282 million, including capital expenditures of US\$80 million. The Maldives has been running a merchandise trade deficit in the range of US\$200 to US\$260 million since 1997. However, the deficit has declined to US\$208 million in 2002 from US\$233 million in 2001.

In the past six years, the country's fiscal deficit, including grants, has been 4–5 % of GDP. ADB explained that the deficit spending of Maldives was due to the Government's expanded provision on public services on the outer atolls (especially in education and health) and developed Hulhumale. On the other hand, according to the Bank, country's public debt, which was 46.5% of GDP in 2003, decreased to 38.5% of GDP in 2004.

¹³⁵ The joint needs assessment report titled *Tsunami: Impact and Recovery* (footnote 5), produced by ADB, the Government, UN System, and World Bank, noted that the most likely effects in 2005 will include (i) a severe economic slowdown, with real GDP growth slowing to about 1%; (ii) an increase in the current account deficit from 12% of pre-tsunami GDP to 25%; and (iii) a significant expansion of the fiscal deficit to about 14% of GDP.

The country's external debt in 2003 was estimated to have reached around US\$281 million. Debt servicing has been manageable, since most external borrowing is contracted on concessional terms. ADB has assisted the Government in widening the revenue base by implementing a business profits tax. In April 2004, the Government increased the bed tax to US\$8 per bed/stay with effect from 1 November 2004.

Over the years, the Maldives has received economic assistance from multilateral development organizations, including the UN Development Program (UNDP), Asian Development Bank (ADB), and the World Bank (WB). Individual donors—including Japan, India, Australia, and European and Arab countries (including Islamic Development Bank and the Kuwaiti Fund)—also have contributed.

Maldivian authorities worry about the impact of erosion and possible global warming on their low-lying country; 80% of the area is one meter or less above sea level. In late December 2004, a major tsunami claimed 82 lives in the Maldives and caused extensive destruction of property.

The population is scattered throughout the country, with the greatest concentration on the capital island, Male'. Limitations on potable water and arable land constrain expansion. Despite of high per capita GDP, there is a wide gap of income between those people who lives in Male and those outside Male—in the Atolls.

3. ADB's INVOLVEMENT IN MALDIVES

ADB's involvement in Maldives started in 1979 (first two technical assistance), a year after Maldives joined ADB in 1978. Maldives is the 34th largest shareholder in ADB among its regional members. Overall, including non-regional members, Pakistan is the 42nd largest shareholder. It shares both positions with Kiribati, Federated States of Micronesia, Nauru and Tonga.

Number of shares held:	142 (0.004% of total shares)
Votes:	14,027 (0.32% of total membership, 0.49% of total regional membership)
Overall capital subscription:	US\$2.20 million
Paid-in capital subscription:	US\$0.15 million
<i>Source: ADB</i>	

3.1. Project Loans. The first project loan extended to Maldives was on June 18, 1981, the "Interisland Transport", under Transport and Communications sector, amounting to US\$1 million. The next project loan was extended three years later, in March 29, 1984, the "Multiproject", under Multisector, amounting to US\$2.380 million.

Total Project Loans extended to Maldives from 1979 to 2005 is US\$199 million. Maldives is the 7th largest recipient of ADB lending among South Asian countries.

By periodic basis, more project loans were extended to Maldives during the 1979-2005 periods amounting to US\$132.8 million. There is no single loan Maldives received from ADB from 1968-1978 periods because the country is not a member of ADB until 1978. (Table 37).

Sector	1968-78 (in US\$)	1979-88 (in US\$)	1989-98 (in US\$)	1999-present (in US\$)	TOTAL (in US\$)
I. Transport and Communications	---	7,400,000.00	8,800,000.00	9,500,000.00	25,700,000.00
II. Multisector	---	2,380,000.00	---	98,000,000.00	121,180,000.00
III. Energy	---	6,100,000.00	16,200,000.00	8,000,000.00	30,300,000.00
IV. Education	---	---	6,300,000.00	6,300,000.00	12,300,000.00
V. Law, Economic Management and Public Policy	---	---	---	5,000,000.00	5,000,000.00
VI. Water Supply, Sanitation and Waste Management	---	---	---	6,000,000.00	5,000,000.00
TOTAL	0.00	15,880,000.00	31,300,000.00	132,800,000.00	199,480,000.00

Source: ADB

3.2. Technical Assistance. The first technical assistance extended to Maldives was approved in April 16, 1979, the “Inter-Island Transport and Related Telecommunications”, under Transport and Communications sector, amounting to US\$98,000.00. The second technical assistance was approved on the same year in October 25, under Law, Economic Management and Public Policy, the “Project Identification, Programming and Planning”, amounting to US\$170,000.00

Total Technical Assistance extended to Maldives from 1979 to 2005 was US\$18.275 million. Maldives is the country among South Asian countries that received the least technical assistance from ADB.

On periodic basis, there were more technical assistance extended to Maldives during the 1989-1998 periods amounting to US\$8.39 million. This is followed by during the 1999-2005 periods amounting to US\$7.652 million.

Sector	1968-78 (in US\$)	1979-88 (in US\$)	1989-98 (in US\$)	1999-present (in US\$)	TOTAL (in US\$)
I. Transport and Communications	---	1,038,000.00	1,140,000.00	730,000.00	2,908,000.00
II. Law, Economic Management and Public Policy	---	170,000.00	4,230,000.00	4,272,000.00	8,672,000.00
III. Multisector	---	215,000.00	---	---	215,000.00
IV. Energy	---	410,000.00	650,000.00	300,000.00	1,360,000.00
V. Agriculture and Natural Resource	---	---	990,000.00	150,000.00	1,140,000.00
VI. Finance	---	---	780,000.00	150,000.00	930,000.00
VII. Education	---	---	600,000.00	1,350,000.00	1,950,000.00
VIII. Industry and Trade	---	---	---	700,000.00	700,000.00
IX. Water Supply, Sanitation and Waste Management	---	---	---	400,000.00	400,000.00
TOTAL	0	1,833,000.00	8,390,000.00	7,652,000.00	18,275,000.00

Source: ADB

3.3. By sector, in terms of **project loans**, ADB was extending more money to Multisector from 1979 to 2005, amounting to US\$121.18 million. This was followed by Energy and Transport and Communications sectors, amounting to US\$30.3 million and US\$25.7 million, respectively. There were no loans extended by ADB to Maldives in the three sectors of Agriculture and Natural Resources, Finance and Industry and Trade. In terms of technical assistance, more assistance were extended to Law, Economic Management and Public Policy sector amounting to US\$8.672 million, followed by Transport and Communications (US\$2.908 million) and Education sectors (US\$1.95 million) (**Table 39**).

Sector	Project Loans (in US\$)	Rank	Technical Assistance (in US\$)	Rank
I. Transport and Communications	25,700,000.00	3	2,908,000.00	2
II. Law, Economic Management and Public Policy	5,000,000.00	5	8,672,000.00	1
III. Multisector	121,180,000.00	1	215,000.00	9
IV. Energy	30,300,000.00	2	1,360,000.00	4
V. Agriculture and Natural Resource	---	NA	1,140,000.00	5
VI. Finance	---	NA	930,000.00	6
VII. Education	12,300,000.00	4	1,950,000.00	3
VIII. Industry and Trade	---	NA	700,000.00	7
IX. Water Supply, Sanitation and Waste Management	5,000,000.00	5	400,000.00	8
TOTAL	199,480,000.00		18,275,000.00	

Source: ADB

4. ADB's AGENDA IN MALDIVES

By **thematic focus**, ADB's support to Maldives is based from seven themes of: (1) Economic Development; (2) Human Development; (3) Gender and Development; (4) Good Governance; (5) Private Sector Development; (6) Environmental Protection; and (7) Regional Cooperation.

4.1. Economic Growth. Since tourism and fisheries are the sectors providing revenues and livelihoods for Maldives, ADB will be supporting and pushing the government to provide an **enabling environment** (laws and policies) so the private sector can invest in the areas of tourism and fisheries. This also includes a range of supports for small-and-medium-sized enterprises (SME) activities and enhancing transport access. Also, another appropriate policy reforms will be pushed in the telecommunications services to improve connectivity (communications access) of people in the atolls.

4.2. Human Development. ADB will be assisting the government of Maldives in upgrading the primary schools of atoll. This includes the strengthening of post-secondary education.

4.3. Gender and Development. ADB, their usual commitment, will "actively" mainstream gender considerations into its loan and technical assistance program support. In the Maldives CSP (2002-2004), "Regional development initiatives will ensure that women are adequately represented in decentralized atoll administrations. Increasing women's access to quality education will improve their social awareness and increase opportunities for productive employment. ADB will ensure that future investments in human resource development assist

the Government to promote gender equality, particularly through an increase in opportunities for higher education and technical training. Expanding access to financing for SMEs in the atolls, and support to SMEs with female heads, will also contribute to gender equality.”

4.4. Good Governance. ADB will assist in building the Maldives government’s capacity to effectively adopt good governance standards through each of ADB’s investment projects and a wide range of advisory technical assistance activities (such as improving public accounting procedures, building Internet connectivity to improve public services, and improving public utility regulation). ADB is seriously looking at decentralization and devolving the responsibilities for planning and management of development to the atoll (at the island level). By increasingly involving island communities in the decision making process, island development will be promoted through a more accountable and responsive governance.

4.5. Private Sector Development. As a result from ADB’s Private Sector Strategy Study for the Maldives in 1999, the Bank “will create an enabling environment for the private sector to flourish in three ways: ADB will (i) Assist the Government to adopt a more facilitative and regulatory role and to be less directly involved in providing commercial services; (ii) Support the strengthening of the financial sector to more effectively mobilize savings and fund long-term development; and (iii) Continue to provide support for improving the legal system so as to improve credibility and gain investor confidence that is necessary to sustain a vibrant private investment environment.”

4.6. Environmental Protection. ADB will be assisting the Maldives’ government to ensure that environmental management concerns are properly mainstreamed and integrated into ADB’s proposed loans and technical assistances (TAs). ADB “will not” undertake any environmental projects, rather the Bank will support sustainable environmental practices in each projects or investments the Bank will be extending.





4.7. Regional Cooperation. Maldives is not part of SASEC but the ADB will support Maldives through the South Asian Cooperation on Environment Program (SACEP) involving other South Asian countries. ADB, through this environmental forum, will continue to foster regional collaboration in tertiary education by helping to forge partnerships between institutions of higher education in the Maldives and in other parts of the region. ADB is assuming that its assistance to Sri Lanka aimed at fostering peace will have a positive spillover effects on Maldives, through greater cross-border investment and increased regional tourism flows.

By **sectoral focus**, the ADB from 2002-2004 (based from CSP), will focus its assistance to three sectors, (1) **Multisectors or Others**, the “Strengthening Public Accounting System”, a capacity building assistance under Good Governance theme; (2) **Social Infrastructure sector**, the “Regional Development (Phase I)” and “Education Development, both under Human Development theme; (3) and **Finance sector**, the “SME Development in the Atolls under Private Sector Development theme.

In the CSP Update (2006-2008), the ADB stated that “The country strategy and program and poverty reduction partnership agreement of 2002 set priorities that are still relevant and should be pursued even in the wake of the tsunami: (i) Improving physical and public infrastructure; (ii) Reducing economic vulnerability by diversifying economic activity; (iii) Creating an enabling environment for private sector development and new sources of employment; (iv) Supporting good governance especially by improving public sector managerial efficiency and promoting legal and judicial reforms; and (v) Raising the level of social development through support to postsecondary education and developing employment skills.”

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REFERENCES (PART FOUR):

-  Asian Development Bank
-  Wikipedia
-  World Factbook
-  British Broadcasting Company

What is ADB "Cooking" for South Asia?

A. WHERE ADB'S MONEY WENT

Since ADB's involvement in South Asia in 1968 until 2005, they lent more money for **physical infrastructure**. From 1968 to 2005, ADB was extending more loans to **Energy sector** amounting to US\$10.332 billion and closely followed by **Transport and Communications sector**, US\$9.008 billion. By providing more loans to energy and transport sectors, this indicates ADB's bias in physical infrastructure. The third sector, which ADB is extending most, is **Agriculture and Natural Resources sector**, with total loans of US\$6.126 billion.

On a **country-specific**, in the case of **India**, these top three sectors are the top two sectors: (1) Transport and communication (US\$4.799 billion); and (2) Energy sector (US\$4.689 billion). The same is true with **Bangladesh**, : (1) Energy sector (US\$1.784billion); (2) Transport and Communication sector (US\$1.650 billion); and (3) Agriculture and Natural Resources sector (US\$1.495 billion). In **Bhutan**, the top two sectors are: (1) Transport and Communications sector (US\$46.6 million); and (2) Energy sector (US\$26.9 million). In **Nepal**, ADB extended more loans to Agriculture and Natural Resources (US\$746 million), Energy sector (US\$364 million), and Transport and Communications sector (US\$302 million). In **Pakistan**, more loans were poured to Energy sector (US\$3.030 billion) and Agriculture and Natural Resources (US\$3.006 billion). In **Sri Lanka**, the top two sectors are: Agriculture and Natural Resources sector (US\$822.653 million); and Transport and Communications sector (US\$473 million). In the war-torn **Afghanistan**, out of the three top sectors, only the Transport and Communications sector (US\$124.9 million) appeared in the top three, a logical sector for reconstruction phase. In **Maldives**, the Energy (US\$30.3 million) and Transport and Communications (US\$25.7 million) sectors are both the top two sectors.

The least-priority sectors for ADB, in terms of lending, are all under **social infrastructure**. Out of ten sectors, the least to receive assistance from ADB was the **Health, Nutrition and Social Protection** sector (US\$429.6 million); followed by **Water Supply, Sanitation and Waste Management** sector (US\$1.062 billion); and the third lowest recipients is **Education** sector (US\$1.657 million). ADB's gender agenda was totally subsumed, hiding underneath in these sectors and projects. This is how ADB vaguely mainstreamed its own Gender Policy.

B. WHAT IS ADB "COOKING" FOR SOUTH ASIA?

Multilateral lending institutions are no similar to foreign conquerors and invaders of yesterdays who subdued these countries to follow their dictates, religion, administrative systems. The only difference is that, these multilateral financial institutions are not using arms or war to bring down sovereign states. Multilateral financial institutions are using their mighty tool—money—to subdue these countries to follow their economic prescriptions and conditionalities.

Andrew Nette observed that “over the last decade, ADB has greatly increased the use of conditionalities across all aspects of its loan operations.” The Bank is using conditionalities attached to its loans “to promote macro-economic, legal and other broader policy changes, a trend that is having far-reaching impacts in its Developing Member Countries (DMCs).” Thus, ADB is moving more in line with the approach advocated by the World Bank (WB) and International Monetary Fund (IMF).¹³⁶ Andrew Nette also observed that ADB is very up-front that just as important as loans are the conditions attached to them, especially in terms of influencing DMC government policy.

How ADB managed to influence DMCs in changing their economic policies is very subtle. There are evidences in every Country Strategy Program (CSP) that the Bank is pushing for policy and institutional changes or reforms along ADB line—regional economic integration through transport corridors to hasten transborder trading with strong emphasis on private sector participation in investments. Concretely, **ADB is using advisory technical assistance (ADTA) as their tool to influence DMCs policies.** The Bank’s influence to change policies also subtly channelled through policy dialogues via regional and national conferences or meetings¹³⁷. These policy changes and institutional reforms towards economic liberalization and private sector participation are very present in each country strategy and programs (CSPs) of South Asian countries.

1. ADB’s Push Towards Privatization and Liberalization

IFIs argue that South Asia needs trade liberalization, with most countries continuing to protect their domestic markets with an anti-export basis in the trade policies. For example, the Indian, Bangladesh and Pakistan economy are still highly protected despite their adherence to market-oriented economy. In the view of the World Bank (2004), there are far too many tariff concessions and exemptions in place that distort the tariff regime and reduce transparency: “South Asia’s long-term economic prospects will also hinge upon much needed reforms in the sectors of banking, power and infrastructure and commitments to improve public spending and reform state enterprises. These factors, combined with improvements in human and capital outcomes, will lead to an increase in productivity. In this scenario, improved governance is a critical challenge for the region if it is to achieve its long-term development goals and its potential for higher growth rates” – World Bank 2004. (Grace Mang 2005)

¹³⁶ *The Asian Development Bank and conditionality – if it's not part of the solution*

¹³⁷ The strategic and medium-term agenda and the sectoral and project priorities are discussed through a series of meetings or conferences. Some RCSPs and CSPs also went through this process.

ADB is subtly pushing for economic liberalization with strong emphasis on private sector participation. ADB's overarching poverty-reduction goal has always been anchored on private sector involvement as an engine of economic growth. ADB believes that economic growth—with multiplier effects to generate employment—is more feasible and possible when business is best left to private sector, leaving regulation as a sole role for the government. This explains why ADB, in all Country Strategy and Programs (CSPs) for South Asian countries, is pushing for the provision of an enabling environment (laws and policies and institutional reforms) conducive for private sector participation. ADB is pushing to open up (liberalized) these economies for private capital—both for foreign and local.

These policy and institutional changes and reforms towards liberalization are quite easy for ADB to some South Asian countries—**India, Bangladesh** and **Pakistan**—that are already moving toward market-oriented economy. It is a matter of further pushing these countries to provide more spaces for private sector to operate, and other institutional reforms to facilitate a market-oriented economy.

India, since 1991, has already started to adopt market-oriented economic reforms that include liberalized foreign investment and exchange regimes; industrial decontrol; significant reductions in tariffs and other trade barriers; reform and modernization of the financial sector; significant adjustments in government monetary and fiscal policies; and privatization of state sectors and safeguard of intellectual property rights. ADB's agenda in **India** (as gleaned from CSP), is to increase private sector's involvement in the economy to attain economic growth by pushing the government to create an **enabling environment** (laws and policies) open for private sector. Under the disguise of "Good Governance" (transparency), ADB is also pushing to decentralize government operations by devolving its functions to local levels. Thus, policy shifts and reforms can be easier, in that, dealing with local officials than federal governments.

Bangladesh already abandoned the statist economic model in the 1980s and adopted a market-oriented economic model—providing more space for private sector to operate, privatizing some state-owned enterprise. Though the reform process was halted in the 1990s due to political troubles, the recent leadership will continue the process. ADB's agenda (via CSP) in **Bangladesh** is to work to provide more liberal economic (enabling) environment to stimulate private sector (local and foreign) involvement in the economy. ADB believes that Bangladesh needs foreign investors. ADB is pushing for more private sector involvement in infrastructure, such as power generation and transmission, water supply, transport, and telecommunications. To lure more private capital, the emphasis will be on projects that support capital market development for financial intermediation.

Pakistan already started adopting market-oriented policies way back in the 1980s through an IMF-sponsored structural adjustment program (via SAP) by removing barriers to foreign trade and investment, reforming the financial system, easing foreign exchange controls, and privatizing state-owned enterprises. In 2000, Pakistan made significant macroeconomic reforms by privatizing state-subsidized utilities.

In **Pakistan**, ADB's intervention (via CSP) in private sector development will be in the area of privatization of state-owned enterprises (SOE) in the energy sector, microfinance sector, development of capital markets and reforms and improvement of trade and trade related financing. Parallel to this, ADB will continue to push more private sector participation by providing incentives and legal framework in the productive sector including small and medium enterprises.

However, in the case of **Nepal** and **Afghanistan** ADB will find itself in a wait-and-see situation for political stability to come.

Nepal's political situation is hampering its own liberalization process. ADB, as an agent of liberalization, distanced itself from Nepal by suspending aid (except those on-going projects) after King's coup. **In Nepal**, prior to the King's coup, the private sector operations of ADB will be the continuing promotion of an enabling environment for private sector activities through public sector operations, and the generation of opportunities for private sector participation in public sector projects. "ADB will continue to support the Government's efforts to establish transparent policies and basic mechanisms for corporate and financial governance, including for rural finance. Such efforts will require support for: (i) Streamlining legislative and regulatory frameworks; (ii) Capacity building for regulation, supervision, and enforcement; and (iii) Improve information disclosure and accounting and auditing standards." (ADB, CSP Update, 2002-2004, Nepal)

Afghanistan's war-ravaged economy is still in the backwater, no substantial reforms can be realized in the next few years. However, ADB is already pushing for some start-up institutional reforms in Afghanistan along rehabilitation. **In Afghanistan**, while ADB's priorities are more on rehabilitation, the Bank's long-term agenda "is to establish an appropriate legal and regulatory framework, a stable and predictable policy environment, good governance, and the rule of law in order for private sector to play its role as the linchpin in the economy's development process." As of now, the ADB's assistance is aiming at providing capacity and institutional building that will lead to its long-term agenda.

In the case of **Bhutan** and **Maldives**, ADB will be pushing hard on these governments to adopt policies that will open more their respective economies.

Bhutan's accession to the World Trade Organization (WTO) indicates the country's development strategy in gearing towards market-oriented economy, more twisting. **In Bhutan**, ADB will be actively promoting private sector involvement through the: (1) Improvement of policy and more efficient financial intermediation; (2) Improvement of road transport and expanding power transmission and distribution in the public sector; (3) Establishment of necessary legal and institutional framework and examining viable financial modalities for private sector participation in hydropower development; and (4) Strengthening vocational, technical and basic skills. ADB's promotion on private sector participation also aimed at blending (harmonize) with other agencies policy initiatives, particularly the International Monetary Fund (IMF), World Bank and United Nations Development Programme (UNDP). ADB will support "Government's efforts to provide an environment that enables private sector development through the continued: (i) Rationalization and strengthening of banking and financial institutions; (ii) Liberalization of foreign trade, exchange, and investment regulations; (iii) Liberalization of interest rates so that they reflect the true underlying cost of resource mobilization, intermediation, and risk; and (iv) Preparation of transparent legislation and regulatory procedures." (CSP: 2002-2004)

Maldives—whose economy is based on tourism and fishing—has no record yet in moving towards market-oriented reforms. **In Maldives**, ADB' agenda (as a result of its Private Sector Strategy Study for the Maldives [1999]) is to push for an **enabling environment** (laws and policies) for private sector investment in the areas of tourism and fisheries, small-and-medium-sized enterprises (SME) activities, and to enhance transport access. The Maldives government will be confined to its new role (facilitator and regulator) and to be less involved in providing commercial services.

In the case of **Sri Lanka**, where market-oriented economic reforms were reversed by the new government, ADB will find itself in a difficult bargaining position to convince the new government to continue the reform. **Sri Lanka** already abandoned its socialist economic orientation in 1977, started deregulating its economy, privatized state enterprises and public utilities, and opened the economy to international competition and a stressed the export-orientation. However, in 2004, following the victory of United People's Freedom Alliance these market-oriented economic reforms were reversed by stopping privatization and embarking on an unprecedented subsidy program called the *Rata Perata* economic program. **In Sri Lanka**, through ADB's assistance, the Bank will push for more enabling policy environment conducive for private sector involvement, and to shift government's role (through policy and institutional reforms) from direct producer and service provider to regulator in many areas and sectors (e.g. road, power, port, education, water supply and sanitation, environmental and natural resources management, and rural finance). Parallel to this, are ADB's assistance to private sector to invest on some government projects. The Private Sector Group of ADB will focus its operations mainly on infrastructure projects where large funding is required, and where ADB can play a catalytic role in attracting co-financing from other lending agencies.

In the SASEC countries private sector are organized into South Asia Business Forum, a new network of apex chambers of commerce, to come up various sub-regional trade and investment facilitation services.

2. Globalization via Regional Economic Cooperation

Changing economic policies of South Asian countries is geared towards sub-regional economic cooperation and integration. ADB, on its part, made it clear that regional and sub-regional economic cooperation are not economic protectionist blocs. Rather, these are "building blocs" towards a broader and global economic cooperation—that is globalization. The Bank's agenda is for trade liberalization. Discussion about linking each ADB-initiated and supported regional and sub-regional economic cooperation (the GMS, SASEC and CAREC) is already underway.

Afghanistan, though not part of SASEC, is now considered as a link between SASEC (particularly Pakistan and possibly India) and CAREC through SESCOA (Sub-regional Economic Cooperation in South and Central Asia)¹³⁸. To move forward despite natural, physical and political limitations and barriers facing SASEC, ADB made a leapfrogging approach by creating another sub-regional economic cooperation. Under SESCOA, Afghanistan will serve as a hub, linking Central Asian republics and South Asian countries through transport corridors and natural gas projects (Turkmenistan-Afghanistan-Pakistan gas project¹³⁹). In 2003 ADB created the CSATTF (Central and South Asia Transport and Trade Forum), involving several countries from the sub-regions, for transport project. Transport corridors are planned to link from and among Central Asian republics to Russia, to Arabian ports, to China, and other Western and Eastern European markets. Passing through South Asia, these transport corridors will be connected to GMS countries (either via Myanmar [Burma] or China, or both). By harmonizing customs and trade regulations, goods and services will flow from and to in these countries.

¹³⁸ In December 2003, ADB initiated the formation of SESCOA or the Sub-regional Economic Cooperation in South and Central Asia SESCOA, a program to facilitate inter-regional economic cooperation among countries of Afghanistan, Pakistan and some Central Asian countries.

¹³⁹ The gas deposit is in Dovletbad in Turkmenistan and will be transported (33 billion cubic meter of gas annually) through a 1,680-kilometer pipeline (worth US\$3.3 billion).

Possible cooperations have been discussed between GMS and SASEC countries on identified areas and sectors (energy, transport, trade and investments and information technology). SASEC countries, particularly India, wanted to know how GMS works and what sectors or areas of investments and trade they can complement each other.

Another move to broaden the regional and sub-regional cooperation was the establishment of BIMSTEC (Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation)¹⁴⁰ in 2004 to create a greater Asia economic integration. The BIMSTEC, though ADB is not the lead agency but only a supporting role, is geographically broader in scope than SAARC. One reason why ADB is supporting BIMSTEC is because SAARC, to some, is merely a 'talking shop' that can provide nothing more than 'lip service' to the various issues of peace and development in the region. BIMSTEC involves South Asian countries and other Southeast Asian countries (Thailand and Myanmar). By broadening its scope, Asian economic cooperation is getting closer to reality. As a supporting actor, ADB will use its lending and non-lending instruments to hasten the integration of these countries.

ADB, therefore, like any International Financial Institutions (IFIs), is an active promoter of globalization through regional and sub-regional economic cooperation.

C. LINKING THROUGH TRANSPORT: THE OLD WAYS

Infrastructure projects where ADB is promoting to physically link these countries are transport corridors or economic corridors. There will be more roads and highways constructed to link these initiatives. To date, ADB is investing in the following transport projects, such as the: (1) **West Bengal Corridor Development Project** (a north-south transport corridor in India, from Siliguri to Kolkata and Haldia in West Bengal, with links to border points in Bangladesh, Bhutan, and Nepal); (2) **Northwest Road Corridor Improvement Project** in Bangladesh (from Panchagar to Bangla Bandh, which can be linked to Nepal and India); (3) **Fourth Road Improvement (Road Network Development) Project** for Nepal's East-West Road Corridor (links to the road corridors in Bangladesh and India through Kakarbita); and (4) **Improvement of the Rail Links** (between Chittagong-Dakha-Akhaura in Bangladesh to connect to the north-eastern part of India).

Consequently, what will follow (or maybe moving in the same direction) is the harmonizing of customs and trade and investments regulations to allow freer cross-border trading through ADB's technical assistance. ADB is moving towards integrating South Asian countries into many forms. One common way of integration is through transport corridors connecting countries to hasten cross-border trading, intra-regional trading, as well as mobility of people. This infrastructure approach is no different during the British colonialism.

Under British rule, the people and the land of the sub-continent were tied together in many ways. The British built modern means of transportation (railroads, roads, airports, postal networks) to move people and goods (these transportation methods helped to connect and integrate the sub-continent economically). South Asia is served by a well-integrated transportation network. Roads and railways connecting all of India's major cities failed to penetrate the mountainous terrain of the Himalayas.

¹⁴⁰ The BIST-EC (Bangladesh, India, Sri Lanka, Thailand - Economic Cooperation) was formed in June 1997.

The British Empire also “created new institutions (government bureaucracy, universities, civil service and military) along their own system.” ADB—as well as other IFIs—on the other hand, funded institutional-building programs and projects to install a system along the global standards. ADB is pushing Good Governance to decentralize government’s implementation of projects but the real intention is to open their system.

Under the British rule, they “helped the economies of the different areas of the region to become increasingly interdependent.” ADB’s regional and sub-regional economic cooperation also aimed in creating economic interdependence among countries.

To expand further, these transport infrastructures will be constructed to complement several ports in South Asia and other countries close to South Asia. Eventually, this complementation will facilitate international trading (or cross-border trading) between and among South Asian countries and other sub-regions (Central Asia and Mekong Sub-region) close to South Asia. To fuel economic development, ADB is also investing in energy projects in South Asia, such as the: (1) Bangladesh-India **Natural Gas Pipeline**; (2) **Power transmission and trading** (India-Sri Lanka electricity link); (3) **Power transmission and trading** (Interconnecting transmission lines between Bangladesh, Bhutan, India, and Nepal); and (4) **Power transmission and trading**. Development of regional hydropower projects in Bhutan, India and Nepal.

D. BARRIERS TO REGIONAL AND SUB-REGIONAL COOPERATION

The history of South Asian countries’ formation is also a history of formations of kingdoms, dynasties and empires—their rises and falls, of victories and defeats—which define boundaries of each country. Political boundaries from early kingdoms until modern nation-states were drawn and re-drawn again and again by wars, ethnicity, religion and languages. Diplomatic relations among these countries is often dictated by long history of antagonism and ethnic and cultural similarities. Regional cooperation among these countries, its level of success and failure, will be dictated by this antagonism and ethnic and cultural similarities. Transcending from these are challenges to the present and future leaders to attain a level of cooperation—political and economic.

The present regional and sub-regional economic cooperation initiated by ADB for South Asia, if not a wishful thinking, is a half-baked one, and a detached from reality. There are physical and political barriers in achieving integration among South Asian countries. Outside the confines of conference rooms, where sub-regional cooperation are discussed by national leaders, are the real world of tensions between and among nations which is a product of century-old antagonism. The present SASEC (limited only to four countries) reflects the state of economic cooperation in the region.

Political barrier—or political antagonism—is more problematic than physical barriers. India—with its “big brother” complex—has political disputes with all its neighbors, except for Maldives and Bhutan. A case in point is the relation between India and Pakistan. They have a **strained relation** over Kashmir and a **nuclear tension**. Another case in point is that of Bangladesh and Pakistan, they are not in good terms. There is the case of Nepal and Bhutan. They have a continuing heated dispute over Nepalese-speaking Bhutans who were kicked out by Bhutan, and now languishing in refugee camps. These disputes are indirectly restricting

cross-border trading and human mobility. The rise of **global terrorism in Afghanistan** and the corresponding war on terrorism waged by South Asian countries is also restricting the mobility of people.

ADB admitted, that, to attain a higher level of regional economic cooperation in South Asia, there is the need to build mutual trust and confidence in the region which is a critical prerequisite to promote and maintain peace and security in the region.

Aside from the seeming endless political differences and bickerings, is the lack of willingness among South Asian countries to create trade complementarities. This contributed to the current low level of intra-regional trade. Intra-regional trade in South Asia is relatively low compared with other regions in Asia. Intra-regional trade, as a ratio of South Asia's total foreign trade, was only 4.2% in 2002, compared with 19.8% for ASEAN countries, 22.8% among GMS countries (excluding Yunnan Province of the People's Republic of China), and 55% for East Asia. Most of the South Asian nations export similar items and thus compete with each other South Asian countries with the exception of Sri Lanka which has a high right of tariff and non-tariff barriers, which is the most important constraining factor for the expansion of intra-regional trade. (Grace Mang, 2005)

In the case of India, this country is more inclined to bilateral trading arrangements with its neighbors. It has a separate bilateral agreement with Sri Lanka, Nepal, Bhutan and Bangladesh. There is more leverage for India in bilateral arrangements than regional or sub-regional cooperation. Perhaps, India "may" effectively support a regional cooperation as long as it will play a leading role.

E. POVERTY REDUCTION EFFECT

There is no argument that physical infrastructures (energy and transportation and communications), where ADB invested its money, are necessary. Definitely, DMCs need energy, transportation and communications infrastructures for development. Arguably, the real question, (and a debatable issue which merits great consideration), is whether these ADB's assistance for physical infrastructure is genuinely contributing to poverty reduction in these countries. Or to be more precise: ***"Do the physical infrastructures funded by ADB able to reduce the poverty level in South Asia?"*** The absence of indicators or yardsticks to gauge and ascertain positive effects/impacts of these infrastructure projects limits the answers to mere conjectures.

Despite the recent and considerable economic growth in South Asia, the incongruity is evident — the region is still home to about 410 million of the 720 million poor living in the Asia and Pacific region.


Perhaps, what is clearer and can easily be ascertained is that the national debts will continue to build up and bloat as more lending flows to South Asian countries. Packaging poverty reduction will be the main strategy or instrument of ADB to sweet-talk these fund-deficit countries. India, for example, is in a hurry to reach a higher economic status. The government is opening up its economy (since the 1990s) and using foreign assistance to finance its infrastructure. As a result, India's external debt ballooned to US\$123 billion in 2004, up from US\$111 billion in 2003. Bilateral assistance was approximately US\$4 billion in 2004-05, with the United States providing about US\$134.7 million in development assistance. The World Bank plans to double its aid to India to almost US\$3 billion a year, with focus on infrastructure, education, health and rural livelihoods.


One of the determining factors in ADB's development roadmap in South Asia is the reign of elites in South Asia. The few (and yet a force to contend with) elite literally took over the reign and control of political power, as well as the economy, after they gained independence. Literally, this group has the influence in their respective economies.


Undoubtedly, the social movements and civil society organizations striving for popular reforms continue to struggle within this context. It is still a long haul, in that, these countries are finally free from political, economic and cultural interference, and reforms are beneficial for all, if not a wider group of people, The people must continue to assert their inherent right to sovereignty and independence,

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