



NO ALOHA FOR THE ADB

**Destructive Asian Development Bank
Projects from Around the Region**

Briefing Kit

ADB Annual Meeting, Honolulu, Hawai'i, May 2001

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The ADB – Poverty Reduction or Poverty Creation?

Throughout Asia and the Pacific, communities are mobilizing against the social, environmental and economic devastation caused by Asian Development Bank (ADB) policies and projects. At the ADB's Annual Meeting last year in Chiang Mai, Thailand, 5,000 villagers protested against the Bank's support for a controversial wastewater treatment plant and agriculture sector reform program. In January 2001, 150 people were arrested in India during a march opposing a power sector restructuring loan imposed by the ADB. This May, Hawaiian activists are continuing the struggle, declaring that there will be *No Aloha for the ADB* in Hawai'i.

Why so much criticism for an institution that recently declared its overarching goal to be poverty reduction? Because, despite the change in rhetoric heralded by the 1999 ADB Poverty Reduction Strategy, very little has changed on the ground. The ADB continues to promote a development model based on rapid economic growth and free market reforms—a model which fails to recognize the value of subsistence livelihoods and their contributions to national economies.

The briefing papers in this packet contain case studies from Asia of ADB projects and policies which are having a very real impact on the livelihoods of hundreds of thousands of people. From a wastewater treatment plant in Thailand, to a dam in Laos, an irrigation project in Pakistan and an agricultural development project in the Philippines, the ADB's projects are failing and it is the poor who are paying the price. Increasingly, people are saying no to the ADB and its particular model of poverty reduction.

The Asian Development Bank

The Manila-based Asian Development Bank was created in 1966 to provide loans and technical assistance to so-called “developing” countries in the Asia-Pacific region. The Bank has lent billions of dollars to governments and private companies, mainly for large-scale resource exploitation and infrastructure development projects, such as roads, dams and coal-fired power stations. Together with the World Bank and Japanese government, the ADB has also played a major role in promoting deregulation, economic liberalization and privatization in the region.

A board of 12 Executive Directors governs the operations of the ADB and its 2000-person staff. Japan and the US are the two largest shareholders in the ADB, together controlling about 32 percent of shares within the Bank. (See Briefing Paper #4, “The Role of the US and Japan in the ADB.”)

Increasing poverty in Asia and the Pacific

Poverty is a vivid reality for millions living in Asia. Although the ADB declares “poverty reduction” as its most important mission, its projects often further impoverish the poor. The

ADB imposes a development model based on rapid economic growth and free market reforms—a model which fails to recognize the value of subsistence livelihoods and their contributions to national economies.

As a result of ADB policies and projects, local communities and indigenous peoples have been forcibly evicted from their homes and land; commercial logging has deforested vast areas; people who once relied on their rivers for sustenance and livelihoods now face diminishing fisheries and a future of doubt. The poorest communities have been those most severely affected by development projects—often paying the price for, but completely missing out on, benefits accrued from economic development of their countries.

In late 1999, the ADB declared “poverty reduction” as its overarching goal and stated that all Bank objectives and operations would be carried out to reflect this goal. The ADB's Poverty Reduction Strategy represents a change in rhetoric only. The Strategy reiterates the ADB's firm belief in markets as the primary source of assets and opportunities that the poor need in order to develop. According to the ADB, market-distorting interventions such as public service and credit subsidies, pricing controls, state-owned enterprises, import-export restrictions and overvalued exchange rates must be removed. The Bank advocates expanding the role of the private sector beyond physical infrastructure projects into the domain of basic services, such as education, health, sanitation, water and electricity.

In the Philippines, India and Indonesia, ADB support for energy sector privatization and reform programs has led to escalating energy costs for consumers, increased debt burdens for the government and increasing windfalls for the private sector. (See Briefing Paper #10, “An Overview of the ADB's Support for Energy Sector Reform.”)

For the poor, the policy reforms insisted upon by the ADB have only heightened their misery. The withdrawal of governments from the provision of social infrastructure and the dismantling of government subsidies for basic services has severely constrained the poor's access to food, water, basic education, healthcare and sanitation.

One of the Bank's special focuses is restructuring agricultural sectors to be more market- and export-oriented. A project in the Cordillera region of the Philippines is already having a disastrous impact on local communities, pushing them further into debt and promoting competitiveness amongst formerly cooperative communities. In Thailand, thousands have protested against an ADB loan, which calls for the government to introduce water user fees and cut subsidies to local farmers. (See Briefing Paper #8, "Cordillera Highland Agricultural Resource Management Project, Philippines" and Briefing Paper #9, "Agriculture Sector Program Loan, Thailand.")

Taking from the poor to give to the rich

ADB projects and policies have served to transfer money and resources into the hands of local elite and foreign corporations. In several donor countries the income received by private companies through project contracts with the ADB is equal to, or greater than, the amount contributed to the ADB by these countries. The ADB is being used as a mechanism for donor governments to subsidize their own domestic private sector.

ADB loans have added to the staggering debt burden of borrowing countries, while lining the pockets of project proponents and government officials. Today, the poor are sending more money to the rich than the other way around, and all in the name of poverty reduction.

Unaccountable and undemocratic

The ADB operates in a secretive and undemocratic manner and is unaccountable to those whose lives and livelihoods it affects. Decisions on large projects are made in remote offices at the central government or international level with little input from members of civil society or the local communities who are the intended "beneficiaries" of the project.

Project development studies and environmental and social impact assessments of ADB-funded projects and programs are not subject to public hearings or independent peer review and are often undertaken by consultants who have a vested interest in the implementation of these projects.

By its own analysis, more than 40 percent of ADB projects fail to achieve their stated objectives. Neither the ADB as an institution nor its highly-paid staff accept legal, financial or moral responsibility for these failures.

Increasing opposition

Criticism of the ADB's projects and policies is growing steadily. In January 2001, about 150 people from Madhya Pradesh state, India, were arrested during a march opposing a power sector restructuring loan imposed by the ADB. At the 2000 Annual Meeting in Chiang Mai, Thailand, 5,000 Thai villagers and farmers protested for three days against water user fees and the ill-conceived Samut Prakarn Wastewater Treatment Plant being imposed by the ADB. The protests had a significant impact on the institution, which had not faced such opposition at its Annual Meeting before.

In response, the ADB hastily moved its scheduled 2001 Annual Meeting from Seattle to Honolulu to avoid the kind of protests that had characterized the Seattle meetings of the World Trade Organization. The ADB is relying on heavy-handed measures taken by the Honolulu city and Hawai'i state governments to control and marginalize protests and opposition to the Bank. (See Briefing Paper #3, "The ADB's Impact on Hawai'i.")

Urgent calls for change

Non-governmental organizations and peoples' organizations from around the Asia-Pacific region are challenging the Bank's "poverty reduction" rhetoric and continued promotion of projects that lead to impoverishment and environmental degradation. Many question whether the Bank can actually be reformed, or whether it should simply be dismantled.

As Shalmali Guttal of Focus on the Global South puts it, "The true experts on poverty are not the ADB and their cohorts, but the ordinary people of Asia and the Pacific who have survived despite mainstream development and poverty reduction programs... They have argued and showed through their actions that solutions to modern poverty lie not in increased consumption of material riches by a few, but in political, social and economic justice, and in fair and equitable access to resources and knowledge by all."

Should the ADB be dismantled? Surely we should ask the experts.

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Basic Facts About the ADB

What is the ADB?

The ADB is a Multilateral Development Bank (MDB) established in 1966 to “foster economic growth and cooperation in the region of Asia and Far East ... and to contribute to the ... economic development of the developing member countries [DMCs] in the region ...” In 1999, the ADB adopted a new “poverty reduction” strategy as its overarching goal and declared that all strategic objectives and all aspects of operations would be “pursued in ways that contribute most effectively to poverty reduction.”

What does the ADB do?

The ADB provides loans, investments, guarantees and technical assistance to governments and private companies in DMCs for the preparation and implementation of development projects. The ADB also promotes investment of public and private capital for development.

Who pays for the ADB's operations?

The ADB is funded by contributions and subscriptions from the member countries, and borrowings from international capital markets.

What is the ADB's fund structure?

The bulk of ADB loans are provided from the Bank's Ordinary Capital Resources (OCR), which is comprised of subscribed capital and reserves, as well as borrowings from capital markets. Additional resources are financed by contributions from donor member countries and include the Asian Development Fund (ADF), the Technical Assistance Special Fund (TASF) and the Japan Special Fund (JSF). The ADF, replenished about every three years, provides loans to the poorest member countries at a highly concessional rate. ADF loans are interest-free, have a grace period of ten years and are payable over a term of 40 years. The TASF provides grants for technical assistance. The JSF, funded exclusively by Japan, provides technical assistance and equity investments for private sector development projects.

Who are the member countries?

As of April 2001, the ADB has a total of 59 member countries, including 43 from the Asia-Pacific region and 16 from Europe and North America.

Who are the top shareholders?

The top ten shareholders, in order, are Japan (15.9 percent), United States (15.9 percent), the People's Republic of China (6.6

percent), India (6.5 percent), Australia (5.9 percent), Indonesia (5.5 percent), Canada (5.3 percent), the Republic of Korea (5.1 percent), Germany (4.4 percent) and Malaysia (2.8 percent).

Who are the top donors to the ADF?

In September 2000, donor countries agreed to a \$5.6 billion replenishment of ADF funds. The top five donors to the ADF are Japan (\$1.0 billion), the United States (\$412 million), Australia (\$185 million), Germany (\$165 million) and Canada (\$137 million).

Who are the top borrowers?

The top ten borrowers from the ADB in 1999, in order, were the People's Republic of China (\$1.3 billion, 25.3 percent), Indonesia (\$1.0 billion, 20.5 percent), India (\$625 million, 12.5 percent), Pakistan (\$403 million, 8.1 percent), Thailand (\$364 million, 7.3 percent), Bangladesh (\$332 million, 6.7 percent), Vietnam (\$195 million, 3.9 percent), Sri Lanka (\$184 million, 3.7 percent), Papua New Guinea (\$169 million, 2.2 percent) and the Philippines (\$88 million, 1.8 percent). The top five borrowers from OCR between 1998-1999, in order, were Indonesia, the People's Republic of China, Thailand, the Philippines and India. The top five borrowers from the ADF between 1998-1999, in order, were Bangladesh, Vietnam, Sri Lanka, Nepal and Kyrgyz Republic.

What is the ADB's decision-making structure?

The Board of Governors, which meets formally once a year, is the highest decision-making body within the ADB. The Board consists of one Governor and Alternate Governor from each member country. The Board of Governors delegates their authority to a 12-member Board of Directors, which is chaired by the President of the ADB. Under the President are three Vice-Presidents, management, principal officers and senior staff. The ADB categorizes DMCs into two non-geographic regions, East and West, which are both headed by a Vice-President. The third Vice-President is in charge of finance and administration.

What is the role of the Board of Directors?

The ADB Board of Directors is composed of 12 members, eight from the region and four from outside the region. Representation on the Board is determined by how much capital each country subscribes in the Bank. The largest donor countries subscribe enough capital to designate their own Directors, while other countries must share a seat on the Board with other member countries and agree on one representative.

The Board meets every week and makes all major decisions, including decisions on specific projects and policies. Each Director's vote is weighted according to the financial contributions to the Bank made by the countries he or she represents. However, most decisions are made by consensus and votes are rarely taken. The Japanese and United States governments are the Bank's largest contributors, and therefore wield substantial power within the Bank. They each have voting shares of 13.1 percent, and together control more than 25 percent of votes on the Board. (See Briefing Paper #4, "The Role of the US and Japan in the ADB.")

How much does the ADB provide in loans?

Since its establishment, the ADB has provided \$82 billion for 1,550 projects. In 1999, the ADB spent \$3.9 billion in OCR loans and \$1.1 billion in ADF loans for a total of about \$5 billion for 52 projects.

What is the sectoral distribution of ADB loans?

In 1999, Social Infrastructure Sector loans comprised 27.9 percent of all lending, followed by Transportation and Communications (20 percent), Energy (14.4 percent), Multi-sectors (13.9 percent) and Agriculture and Natural Resources (8.6 percent). During 1997-98, the ADB's support to the financial sector exceeded 50 percent of total lending due to contributions for bailout packages for countries affected by the Asian economic crisis.

Does the ADB provide technical assistance?

The ADB provides technical assistance loans and grants. Loans are provided using OCR or ADF resources. The funds for technical assistance grants come from TASF, JSF and other sources,

such as the United Nations Development Program and bilateral or multilateral sources. In 1999, the ADB approved 315 technical assistance grants at a cost of \$172.9 million.

Does the ADB invest in the private sector?

Since its establishment, the ADB has provided guarantees to DMC financial intermediaries and loans to small and medium-size businesses in conjunction with government guarantees. In 1999, the ADB provided \$146 million for five loan projects in the private sector.

Does the ADB co-finance projects with other donors?

The ADB actively co-finances projects with other international institutions, donor governments, export credit agencies, and private companies to encourage investment in the region by other public and private sources. Through these co-financing activities, the ADB serves as a catalyst for increasing capital flow into the region.

Financing by MDBs, such as the ADB, increases a project's credibility, and thus attracts financing from other capital sources. In 1999, \$1 of ADB financing is said to have attracted \$0.60 in financing from commercial banks or foreign finance institutions. This means that the \$5 billion in loans from ADB's Ordinary Capital Resources mobilized an additional \$3 billion through co-financing.

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The ADB's Impact on Hawai'i:

Threats to Hawai'i's legal system, abuse of tax dollars and increasing militarization

The Asian Development Bank's decision to hold its 2001 Annual Meeting in Honolulu is having serious repercussions for the people of Hawai'i. In a mad rush to stifle dissent and demonstrate that Honolulu should be a prime location for international financial meetings, the city and state governments have introduced a series of measures to curtail basic freedoms and to heavily arm the police force. In addition, local government agencies—including the City of Honolulu, \$1 billion in debt—are providing a wide range of subsidies for the ADB.

The ADB's decision to relocate its Annual Meeting to Hawai'i is part of a pattern set by the World Trade Organization (WTO) which, still reeling from the aftermath of its disastrous Seattle meeting, has decided to hold its next meeting in the desert kingdom of Qatar.¹ According to the US State Department, the Qatari government "severely limits freedom of assembly" and prohibits workers from organizing unions. Steve Porter, senior attorney for the Center for International Environmental Law says that "the decision to hold the next WTO meeting in Qatar certainly creates the appearance of an organization that is unwilling or unable to face its critics."² ADB officials privately concede that they picked Honolulu because it is in the middle of the Pacific Ocean surrounded by large military bases, which should keep away protesters such as the thousands of "beneficiaries" of their projects who appeared at their last Annual Meeting in Thailand. Hosting the ADB comes at a considerable price to Hawaiian citizens.

Permanent changes in Hawai'i's laws

The ADB has worked with state officials to ensure changes in Hawai'i's laws in order to provide "protection" for its May 2001 meeting. The Honolulu Police Department and the Honolulu City Council have introduced an "ADB Package" of laws. Three of the ADB laws passed quickly, with little discussion. In a blow which will affect the increasingly well-organized and vocal Kanaka Maoli (indigenous Hawaiian) community—a fourth law was aimed at severely restricting camping rights, including allowing the use of police dogs and horses for citations and arrests for "sleeping activities," such as the laying down of "sleeping materials," and for "using any tents, shelter or vehicle for sleeping" on beaches and in parks. The City Council has claimed that these laws will only be enforced against anti-ADB protestors—not against Hawaiian and other families who traditionally go fishing and camping, not against tourists lying on beach mats and not against the homeless. Such selective enforcement, however, is unconstitutional. As of early April 2001, advocates for the homeless had, so far, succeeded in postponing the vote on the camping law. The Honolulu Police Department has continued to attempt to introduce additional laws and changes to existing laws that it intends to see in place before the ADB meeting. In March, for example, the Honolulu

Police Department introduced a bill in the State legislature to allow police use of stun guns, currently outlawed in Hawai'i.

Massive militarization

Although groups mobilizing against the ADB have agreed to a non-violence pledge, the ADB and the Hawai'i state government have encouraged a massive militarization of an already heavily militarized state.³ The Honolulu Police Department has announced that it will burden the city and state with between \$6.5 million to \$7 million in expenses for "security arrangements" including "equipment" and "training" for jittery local security forces during the ADB meeting. According to City Council Members, Honolulu is currently \$1 billion in debt. The City Council recently approved an emergency request for \$750,000 for Honolulu Police Department's "security equipment" expenses after claims that the state would reimburse \$500,000 of this amount via the Hawai'i Tourism Authority. A few days later, Hawai'i Tourism Authority Board members representing some of Hawai'i's largest hotels stated that they were "unclear whether the purchase of equipment such as protective masks and riot gear is part of their mission to promote and support Hawai'i's tourism industry," thereby calling into question the state's ability to reimburse the bankrupt city for these expenses.⁴ On top of security costs, the state is being asked to provide an additional \$1.4 to \$2 million in subsidies for the ADB meeting.

According to a January 31, 2001 Syracuse University report, the State of Hawai'i has the highest debt levels in the country and 13% of general fund resources are consumed by debt service. The report gave Hawai'i a grade C in financial management, stating that "for a long time, Hawai'i financial management was predicated on the philosophy that it was OK to eat chicken today, even if that meant eating feathers tomorrow."

A free ride for the ADB

The ADB is attempting to obtain a range of subsidies from Hawai'i's overburdened taxpayers, including an exemption from paying the State's hotel tax and an exemption from paying for any expenses, including rental and remodeling costs, associated with use of the State's convention center.

Remodeling costs alone have been estimated at over \$250,000. These subsidies come from a population mired in economic difficulties as a gift to one of the world's richest institutions. The ADB has an administrative budget of \$200 million per year and on average, generates a profit of \$450 million per year. In April 2001, Hawai'i's schoolteachers went on strike as a result of low wages and a lack of funds for basic school supplies like textbooks. Special loopholes, gifts and tax cuts for the ADB from Hawai'i translate into less money for education, school books, environmental protection, health care and other social services.

Criminalization of Hawaiian culture

In a sign of what may be expected at the ADB Annual Meeting, security forces severely restricted the rights of Kanaka Maoli activists at a demonstration at the Kahului, Maui airport in February 2001. Activists organized the demonstration to educate tourists and residents about recent legal challenges to Native Hawaiian rights, lands, and entitlements. Security forces

announced a ban on hula, chanting and prayer during the demonstration, essentially criminalizing the expression of Hawaiian culture. Protesters who wished to distribute brochures were confined to small designated areas located far from the crowds of tourists.

The ADB's Annual Meeting will only last a few days. The changes in Hawai'i's laws and regulations, the misuse of tax dollars, and the overly militarized security forces will impact citizens of Hawai'i for years to come.

Contributed by Stephanie Fried, Environmental Defense.

1 "A quiet round in Qatar?" *Washington Post*, 1/31/01

2 *ibid*

3 "Extra security for bank meeting to cost taxpayers millions," *Honolulu Star Bulletin*, 2/1/01, "Council considers cost of security for bank meeting,"

Honolulu Advertiser, 2/8/01, "Send in the goons," *Honolulu Weekly*, 2/7/01

4 "Security costs of bank meeting at issue," *Honolulu Advertiser*, 2/24/01

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The Role of the US and Japan in the ADB

The ADB and the United States

The US is one of the largest donors to the ADB and therefore wields significant influence in the Bank's operations. The US benefits greatly from this close relationship and has received billions of dollars in contracts for US companies since the Bank's founding in 1966. Despite considerable US influence at the Bank, the ADB remains an enigma to the American public and has faced little scrutiny over its destructive policies and closed decision-making processes.

Leading financial contributor

As a leading contributor to the ADB, the US has a significant voice at the Bank. The US controls 13.1 percent of voting shares and is equal with Japan in voting power. The overall capital subscription of the US is \$7.6 billion, of which the paid-in amount is \$531 million. Since representation on the 12-member ADB Board of Directors is based on contributions to the Bank, the US is one of the few countries that has its own Executive Director. The decisions of the Executive Director are largely influenced by officials in the US Treasury Department.

The US is also one of the largest contributors to the Asian Development Fund (ADF), the ADB's mechanism for providing loans at highly concessional rates to low-income countries. As of January 2000, the US had contributed \$2.65 billion to the ADF. In September 2000, the US pledged to contribute \$412 million for the latest ADF replenishment, which occurs every three to four years.

The ADB also co-finances projects using bilateral, multilateral and commercial sources. American sources for co-financing ADB loans and grants include the US Trade and Development Agency, US Department of Interior, US Agency for International Development and commercial banks. Between 1995 and 1999, the co-financing amounted to \$96.9 million in loans, \$92.3 million in commercial financing and \$4.6 million in bilateral financing.

ADB financing equals contracts for US companies

US financial support of the ADB translates into a plethora of contracts for US companies. Each year, the ADB offers several billion dollars worth of contracts to procure goods, works and consulting services. From the ADB's inception in 1966 through 1999, US firms were awarded \$4.6 billion in total procurement. This is compared to the total US paid-in contribution of nearly \$3.2 billion to the ADB's Ordinary Capital Resources (OCR) and the ADF.

Some of the US companies awarded contracts between 1995 and 1999 include Cooper Rolls (energy, \$90.6 million), Westinghouse International (energy, \$82.3 million) and AT&T World Services (transport and communications, \$17.3 million).

US holds key senior positions

US citizens make up 13.2 percent of the ADB's total professional staff. Key senior positions at the Bank are held by Americans, including Vice-President (Region East), Director of Infrastructure, Energy and Financial Sectors Department (Region West), Head of Private Sector Group and General Counsel.

Lack of accountability to the US

Despite strong US influence in the Bank, the ADB has managed to escape scrutiny by the American public. The primary oversight of the ADB has been carried out by officials at the US Treasury Department.

However, there is a growing movement to hold the ADB accountable for its destructive policies and projects in the Asia-Pacific region. US non-governmental organizations (NGOs) are planning to target US funding of the Bank to push for greater accountability and an end to the Bank's promotion of socially and environmentally devastating projects. Replenishment of ADB funds occurs periodically and requires congressional approval. Negotiations over the replenishment of the ADB's OCR, expected to begin in 2003, will be a prime opportunity to hold the Bank accountable.

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The ADB and Japan

As the ADB's top donor, the Japanese government exerts tremendous influence over the operations of the Bank. The Japanese government controls 15.9 percent of total shares and 13.1 percent of voting rights at the ADB. The Japanese Ministry of Finance, in particular, enjoys unsurpassed access to ADB decision-makers. Despite this influence, Japanese citizens have little access to information or decisions taken by the Japanese government regarding the ADB. Japanese groups are calling for increased accountability of the Japanese government and a stop to the ADB's promotion of socially and environmentally destructive projects.

Leading contributor to ADB Special Funds

Japan is the leading financial contributor to the ADB's Special Funds, including the ADF, the ADB Institute Special Fund and the Japan Special Fund (JSF). The ADF provides low-interest concessional loans primarily to developing countries. Japan contributes 38 percent of ADF income, compared with 17 percent from the United States. Last September the Japanese government pledged to contribute over \$1 billion to the replenishment of the ADF.

Strong control by Ministry of Finance

Many of the ADB's high-ranking officials come from Japan's Ministry of Finance. All Presidents, including the current President Tadao Chino, have been former high-ranking officials of the Ministry of Finance. The Executive Directors for Japan are typically former bureaucrats of the Ministry of Finance. Key senior officials of the ADB are Japanese, including the current Directors of the Strategic Planning, Budget and Personnel and Program Departments.

The Japanese Executive Director at the ADB is required to consult closely with the Ministry of Finance in Tokyo. Most materials prepared for ADB Board meetings are sent to Tokyo, in advance, for scrutiny and comment by members of the Ministry.

Japan Special Fund paves way for problematic projects

The JSF is the largest grant arm of the ADB and provides low-income countries with grants for preparatory studies and technical assistance. In 1998, JSF grants accounted for 55 percent of all ADB technical assistance grants, and in 1999, they accounted for 35 percent. From the JSF's establishment in 1988 through 1999, Japan provided \$745 million. As JSF grants require the approval of the Japanese government, the JSF effectively operates as another arm of bilateral Japanese aid.

Japan's establishment and exclusive funding of the JSF has enabled problematic projects to proceed. JSF grants are typically used to fund feasibility studies of large-scale infrastructure, human resource development or finance sector reform projects. Flawed baseline data collection at the preparatory stage has led

to serious social and environmental impacts. Therefore, focusing greater scrutiny on JSF grants is critical to ensure that ill-conceived ADB projects do not go ahead.

Controversial projects funded by the JSF in the Mekong region include the Stung Chinit Water Resource Development Project in Cambodia, the Nam Song and Nam Leuk dams in Laos, the Ho Chi Minh City to Phnom Penh Highway and the Samut Prakarn Wastewater Treatment Plant in Thailand. (See Briefing Paper #5, "Samut Prakarn Wastewater Management Project, Thailand.")

Call for accountability of Japanese government

Japan has contributed more than \$14 billion to the lending arms of the ADB and about \$800 million to the grant arms of the ADB since the institution was established in 1966. Despite such huge public expenditures, there are no mechanisms that hold the Bank accountable to Japanese lawmakers. For instance, the Japanese Executive Director is not required to report to the Diet, nor is legislation required to determine new contributions to replenish ADB's funds. The only mechanism to influence Japan's financial contribution to the ADB is to amend the national budget bill.

To stop the ADB from financing socially and environmentally destructive projects, Japanese NGOs are seeking the cooperation of the international community in forcing the Japanese government to be more accountable and transparent. In 1998, Japanese NGOs won a huge victory when the Japanese government passed a national "information disclosure" law that created a legally enforceable right of access to Japanese national government files. The effectiveness of the law, which came into force in April 2001, in disclosing ADB-related information for public scrutiny will soon be tested.

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Samut Prakarn Wastewater Management Project, Thailand

The Samut Prakarn Wastewater Management Project in Thailand—funded by the ADB and the Japan Bank for International Cooperation (JBIC)—has faced intense opposition over the past five years. Roughly 60,000 villagers depend on the rich natural resources of the area for their livelihoods. If the project is completed as planned, the coastal ecosystem would be damaged and livelihoods destroyed. Allegations of high-level corruption, abuse of bidding processes and violations of laws and policies have been leveled against the ADB, the Thai government and other project proponents. Affected communities are calling for the immediate suspension of construction while investigations are conducted.

Project description

The Samut Prakarn project involves construction of a 200-kilometer pipe system and a central wastewater treatment plant in Bang Po district in Samut Prakarn province to treat industrial wastewater from nearly 4,000 factories in Bangkok. The plant will release 525,000 cubic meters per day of treated effluents into the sea near Klong Daan subdistrict in Samut Prakarn province and Songklong subdistrict in Chachaoengsaio province. The ADB provided \$230 million in financing for the project, which was approved by the Thai government in 1995. Since then, project costs have soared to an estimated \$750 million.

Project not economically viable

The overall effectiveness and efficiency of the project is being challenged. During the project's implementation, the project site was hastily relocated to Klong Daan, 20 kilometers away from the original site. Since this time, project costs have escalated 75 percent. This is due, in part, to the greater distance between the source of the wastewater and the treatment location. More pipes will be needed to channel the water to Klong Daan at additional cost to the government. Moreover, existing reports suggest that using the collective wastewater treatment system will be more costly for a firm than operating its own treatment facility. As a result, many local industries have expressed their unwillingness to pay for wastewater treatment.

Further, the project site is essentially a large bed of soft mud that is believed to be too soft to support a project of this size. Located 100 meters from the sea, the site is subject to regular flooding and erosion of a few meters per year. Land subsides at the rate of about 10 centimeters per year. The land may be unable to support the plant, seriously reducing its life span.

Serious social and environmental impacts

Residents of Klong Daan, who depend on marine resources for their livelihoods, are concerned that the plant will damage the coastal ecosystem and their community. Already, local people have been denied access to the 11,800-hectare project area that was previously used to breed shrimp and shellfish. Despite the

serious potential impacts on communities, the Thai government did not complete an environmental or social impact assessment and did not hold public hearings on the project. The people of Klong Daan had no knowledge of the project until after construction began even though it was approved in 1995. The lack of transparency in the project design and location has not only created serious apprehension amongst the affected communities, but has shut them out of the project's decision-making process.

There are serious concerns about the project's effectiveness in safely and adequately treating the wastewater. The treated water is expected to contain five percent of the heavy metals and hazardous chemicals originally present. The daily release of highly toxic chemicals and heavy metal sludge into the coastal areas of Klong Daan will poison the area's fisheries, cause irreparable long-term damage to the coastal ecosystem and adversely affect the fishing livelihoods of hundreds of families. People are also concerned about the potential health and environmental risks posed by channeling wastewater through a 20-kilometer pipeline and filling an existing drainage canal.

Corruption allegations

Allegations of corruption surround the purchase of land for the project site. Critics charge that the project site was changed to bail out private corporations that purchased land to build resorts in Klong Daan but were left stranded with undeveloped property after the crippling Asian economic crisis. Land for the site was purchased at more than twice the official rate of the Land Department Office (\$167,000 per hectare versus \$78,000 per hectare), and more land was paid for than was actually acquired. In addition, close ties between ADB staff and bureaucrats in the Thai Ministry of Science, Technology and Environment may explain why the project was pushed forward in spite of its social and environmental impacts.

Violations of Thai laws and ADB policies

The project has violated several Thai laws and ADB policies. It appears that the 1992 National Environmental Quality Act, the 1992 Factory Act and the 1997 Constitution were disregarded in matters relating to genuine public consultation and participa-

tion and on the requirements of an Environmental Impact Assessment (EIA).

The relocation of the project to Klong Daan resulted in violations of several ADB policies, including the Bank's policies on Environmental Assessment, Involuntary Resettlement, Anticorruption and Economic Analysis. For more information on the ADB's policy violations, go to www.bicusa.org.

Affected communities fight for their rights

Project-affected communities have been actively campaigning against the project. During the ADB's Annual Meeting in May 2000, thousands of affected people protested in Chiang Mai, Thailand. In November and December 2000, more than 500 villagers rallied at the project site calling for a stop to construction. Villagers have also sent petitions to the government calling for more transparency on the project and have submitted a complaint to the National Counter Corruption Commission.

Call for ADB accountability

In addition to staging protests at the local and national levels, community members are bringing their charges before the ADB's Inspection Function. This internal mechanism allows project-affected communities to file grievance on project impacts caused by the ADB's violation of its own policies. The villagers sent a complaint letter to the ADB President in late 2000 and filed an inspection request on April 5, 2001. The ADB Inspection Function has never been tested, and the fair process of the inspection remains to be seen.

The affected communities have also filed an allegation of corruption to the ADB Anticorruption Unit (AU). An investigator for the Unit met with the villagers and other parties in November 2000. However, the AU process is a closed, internal process, which has previously been ineffective in addressing existing corruption problems in ongoing projects.

In March 2001, without consultation with affected communities, the ADB launched an independent review to investigate the technical aspects of Samut Prakarn. The Bank solicited public comment on the Terms of Reference for the independent review in early 2001 but failed to incorporate the comments received and ignored the affected communities' demands for consultation. As a result, the independent review lacks credibility.

Call for Japanese accountability

The Japanese government has expressed serious concerns with Samut Prakarn. Following a visit to affected communities in January 2001, Member of Parliament Toshimasa Yamada expressed concern that the project was larger and more costly than necessary because of its distance from the sources of pollution. He advised that a third party conduct an EIA. In late February 2001, in response to a letter from affected communities, Finance Minister Kiichi Miyazawa stated that Japan might review its 7-billion-yen (\$7 million) loan for the project.

Affected communities demand stop to project

Although construction on the project is 22 percent complete, affected communities have yet to receive adequate responses on how adverse project impacts will be mitigated. The people of Klong Daan have called for the suspension of construction and project financing while assessments on social, environmental and economic impacts, and investigations on corruption and policy violations are conducted. The ADB, Thai government and JBIC have all failed to respond to this call. Affected communities are fearful that once construction has been completed and funding has been disbursed, they will have no option but to accept the project and bear its impacts.

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Theun-Hinboun Hydropower Project, Laos

The ADB-financed Theun-Hinboun Hydropower Project in Laos has been plagued with controversy and problems from its inception. The project, completed in 1998, has affected the livelihoods of around 25,000 Lao villagers—resulting in reduced fish catches, the destruction of vegetable gardens and dry season drinking water sources, and increased difficulties with transportation. For three years, international NGOs have been pushing the ADB to take responsibility for the impacts at Theun-Hinboun. Yet despite sustained lobbying by non-governmental organizations (NGOs) and numerous promises from the ADB, affected communities have still not received adequate compensation.

Project description

The project is a joint venture between the Lao utility Electricité du Laos, Thai company GMS-Thailand, and Nordic state-owned utilities Vattenfall of Sweden and Statkraft of Norway. The project is owned and operated by the Theun-Hinboun Power Company (THPC). The ADB gave a loan of \$60 million to finance the Lao government's 60 percent equity share and the Norwegian aid agency NORAD gave a grant of \$7 million for the project. The remainder of the financing came from export credit agencies in Norway and Sweden, and a consortium of Thai commercial banks.

The trans-basin diversion project consists of a 25-meter high dam on the Theun-Kading River. Almost all the water is diverted through a powerhouse and into the Hai and Hinboun Rivers. The \$260 million project generates 210 MW of power, of which 95 percent is exported to Thailand.

Flawed from the outset

Concerns raised by outside groups during the project approval process—over its poor decision-making process, inadequate environmental impact assessment, conflicts of interest and potential for severe environmental and socio-economic impacts—were downplayed or ignored by the ADB. In violation of the ADB's own guidelines, affected villagers were not consulted prior to construction nor were they informed about potential negative impacts arising from the project.

At the time of its official opening in April 1998, the ADB praised Theun-Hinboun as a "model project" with almost no negative environmental or socio-economic impacts. No provisions were made in the project contract to hold the developers responsible for any negative impacts from the project nor to provide meaningful compensation to villagers who might experience losses from the dam.

Destruction of livelihoods

Shortly after the closure of the dam in early 1998, villagers began facing increasingly severe impacts to their livelihoods. This included declines in fisheries of between 30-90 percent,

flooded vegetable gardens, loss of drinking water supply and transportation difficulties. This has created great hardships for thousands of local people, reducing their food security, cash income and overall quality of life. The ADB and THPC's initial response was to refuse to acknowledge project impacts and attempt to discredit them.

In 1998, the power company commissioned a study on fisheries which was carried out by fisheries specialist Terry Warren. Although Warren's detailed report was submitted to the power company in June 1999, to date neither the company nor the ADB have released the report publicly, nor have any of the recommendations in the report been acted upon. Terry Warren's findings confirm what many already suspected—that the project has resulted in long-term reduced fish catches both in the reservoir area and downstream of the dam. Warren's report called for further monitoring and an increase in minimum downstream flows from the current five cubic meters per second to 10 cubic meters per second.

Destroying ecosystems and livelihoods in the Greater Mekong Subregion

Since 1992, the ADB has been a key player in the push to build dams, roads, railways and other infrastructure in the Greater Mekong Subregion, which covers the six countries of Thailand, Laos, Vietnam, Cambodia, Burma and Yunnan Province of China. Bank-financed studies in the region have identified the potential for over fifty large and medium scale dams on the Mekong river and its tributaries.

The Mekong river basin is a lifeline for the communities who depend on it. The 4,500-kilometer long river provides food, water, transport and economic sustenance to more than 50 million people, and supports a unique and rich ecosystem. Dams and other river infrastructure projects funded by the ADB are already having a negative impact on the rich biodiversity of the river.

The ADB has financed three dam projects on tributaries of the Mekong in Laos: the Nam Song, Nam Leuk and Theun-Hinboun Hydropower Projects.

Broken promises of compensation

Three years after the project was completed, the ADB has failed to provide compensation for thousands of villagers affected by Theun-Hinboun. In November 1998, following sustained pressure from NGOs, the ADB finally acknowledged that serious impacts were occurring and that the area affected was larger than previously recognized. The ADB promised speedy action to further investigate and respond to local concerns. However, what followed was a series of delays and broken promises made to affected villagers.

Said one villager in August 1999:

“So many people have come to our village to ask us so many questions about things like how many pigs and chickens we have. Each group came and asked the same questions, but after they asked us a lot of questions they just left and there has been no action...Nobody has ever discussed the impacts of the dam with us openly and in detail.

“We want to know what sort of compensation we can expect to receive for our losses. Our lives are in ruins and if something is not done to improve the situation, we may not be able to survive in the village for more than about three years.”

In September 2000, nearly a year and a half late, the THPC released its Mitigation and Compensation Program (MCP). The MCP was prepared as part of the company's obligations under its loan and concession agreements with the ADB and Lao government.

According to independent researcher Bruce Shoemaker, the program “actually represents a step backwards in efforts to gain redress and justice for those Lao citizens suffering impacts from the project.” Shoemaker, who first documented the impacts of the project in early 1998, conducted an analysis of the MCP which reveals many serious inadequacies with the program.

Despite Warren's recommendations that minimum downstream flows should be increased, the MCP proposes to reduce the minimum dry season downstream flows. Eliminating the minimum flow can be expected to further harm the ecology of the Nam Kading (the river downstream of the dam) and would exacerbate all of the negative impacts being experienced by villagers, creating the need for yet more compensation and mitigation.

The World Commission on Dams

The World Commission on Dams (WCD) was an independent body established in 1998 to review the development effectiveness of large dams and recommend criteria and guidelines for future dam construction. The WCD final report, *Dams and Development*, was released in November 2000. The final report recognizes that the environmental and social costs of large dams have been unreasonably high, and that dams have often failed to deliver their projected benefits. These findings have led the WCD to make a number of important recommendations for future dam projects. The recommendations state that no dam should be built without the consent or acceptance of affected communities; comprehensive and participatory assessments of the needs to be met and alternatives for meeting these needs should be developed before proceeding with any new project; and mechanisms should be developed to restore damaged ecosystems and provide reparations for those suffering the impacts of large dams.

NGOs are demanding that the ADB impose a moratorium on all future dam construction until the problems with existing projects have been resolved and until the recommendations of the WCD have been fully implemented.

In addition, villagers were not given sufficient opportunity to provide input into proposed mitigation and compensation measures or to formally approve of the program. The program also fails to provide any direct financial compensation to villagers who have suffered from lost food security and cash income due to the destruction of their fisheries. Instead, villagers must wait for unclear benefits to materialize from fish ponds and other development initiatives proposed by the MCP, to make up for the harm inflicted on their livelihoods.

A recent visit to the project site by Shoemaker confirms that villagers have yet to receive compensation for their losses. The Theun-Hinboun Hydropower Project has pushed affected communities into deeper poverty, while its shareholders, including utilities from Norway and Sweden, are reaping the rewards.

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Chashma Right Bank Irrigation Project, Pakistan

The Chashma Right Bank Irrigation Project (CRBIP) is proceeding despite serious problems with resettlement and compensation for affected people. The ADB-financed project involves construction of a 274-kilometer-long irrigation canal and extensive distribution system along the Indus River. Contrary to ADB policy, there is no resettlement plan in place for the 2,000 people who will be displaced. Adequate compensation is not being provided. The project also poses serious environmental threats through its promotion of commercial agriculture. Traditional irrigation systems that are more environmentally and socially appropriate have not been considered. Villagers are demanding a comprehensive independent review of the project and the development of a resettlement plan with the full participation of affected people.

Project description

The Chashma Right Bank Irrigation Project (CRBIP) commenced in 1978 and consists of three stages, including construction of a dam and irrigation network. Stages 1 and 2 have already been completed. The work on Stage 3 commenced in 1995 and is scheduled to be completed by 2002. The CRBIP involves the construction of a 274-kilometer-long canal along the Indus River, starting from the existing Chashma Barrage. The project also involves the construction of 72 distribution canals, 68 cross-drainage structures and 91 bridges.

The ADB financed 64 percent of the total cost of Stage 3, while the Pakistani Government and KfW Germany shouldered 22 and 14 percent, respectively. Project costs have ballooned tenfold from \$25.7 million in 1992 to \$278.7 million in 2001. In June 1999, the ADB awarded a Chinese company the contract to build the distribution canals, and construction on Stage 3 commenced in May 2000.

In October 2000, SUNGI Development Foundation and Damaan Development Organization, two local NGOs, conducted a survey of communities affected by the project. The following summarizes the major findings of the survey.

Lack of consultation with affected people

The project has proceeded without consultation or participation of affected communities. According to official documents, nine villages would be affected by possible flooding on the west bank of the main canal. Project officials did not inform nor give advance notice to communities that their lands and assets would be affected. In fact, most people did not find out about the project until contractors began destroying their trees and crops.

Involuntary relocation and resettlement

In violation of ADB policies on resettlement, no resettlement plan has been prepared for the 2,000 villagers living in Mapal and Thobay Waali who will be displaced by the project.

According to villagers in Mapal, the ADB recently sent a resettlement expert to the area to explore the options for resettlement. However, there is no information publicly available on the recommendations of the ADB's resettlement expert.

The government has proposed three options for resettlement: providing cash compensation for villagers to leave and find their own alternative land and housing, allowing villagers to remain provided that the government builds a protective dike around the village to protect it from flooding, or moving the entire village to a resettlement site and providing compensation for land. Some fear that some individuals who already own alternative land or a second house will try to negotiate for individual compensation. This would hurt the poor, who may not have as much bargaining power, and who stand to lose sources of livelihood that may not be compensated by the government. These people would then be left to fend for themselves.

Continued delays in developing a resettlement plan threaten to further undermine communities' means of livelihood. Although local revenue officers are in touch with the villagers, formal negotiations have not yet commenced. Villagers are calling for a resettlement plan to be developed immediately.

Insufficient compensation

The government is underestimating the value of villagers' land and assets. Villagers' estimates of total land lost and number of affected people are more than double the government's estimates. In affected villages, the people estimate their land to be worth about 60,000 rupees (\$1,000) per acre. However, the government is promising to pay less than half that amount.

The villagers doubt that losses to their livelihoods will be compensated. Villagers face loss of forests, fresh water supply, grazing land, traditional employment opportunities and dismantling of social and kinship structures. Furthermore, over the past three years, communities have not been able to use their traditional Hill Torrents irrigation scheme and have been unable to irrigate their land. Neither the government nor the ADB is

planning to compensate for this loss despite the severe impacts on people's livelihoods.

In addition, people have not received the small amounts of compensation they have been promised. For example, only one person interviewed by the survey team received compensation after continually harassing the collector for his due compensation. Still, the money he received was much less than what he was promised.

The lands of many people have been divided by the distribution canals or drainage system and rendered useless until the consolidation of these pieces takes place, which might take years. At this stage there are no plans to compensate villagers for these losses.

Adverse environmental impacts

Excavation and digging for the project will destroy trees, crops and other assets and affect at least 30,000 acres of land. Moreover, the Punjab portion of the 102-kilometer main canal and 52-canal distribution system will divide the land into 53 pieces. The structures, with their high embankments, will likely cause soil erosion and result in greater siltation. This process will degrade large tracts of land and affect the habitat of the riverine area.

Further impacts will likely arise as waterlogging and salinization problems develop and mitigation measures are implemented. Seepage drains could pollute the river and affect aquatic biodiversity. In addition, the cultivation of cash crops and associated use of fertilizers and pesticides pose serious environmental impacts.

Failure to consider locally appropriate alternatives

The CRIP fails to consider indigenous and more environmentally appropriate alternatives, such as "Rowd Kowhee," a traditional irrigation system. Also known as the Hill Torrents system, this irrigation method uses monsoon rainfall from the

Suleman Range, which flows roughly parallel to the main canal at a distance of about 30 kilometers. The Hill Torrents bring huge quantities of muddy, swiftly flowing water to specific areas. The people channel the water to irrigate their fields when needed and allow the water to flow towards the Indus when it is not needed. If the Hill Torrents system had been promoted for irrigation instead of the CRIP, people would not have been displaced, lost their livelihoods, nor natural habitats of animals and plants threatened.

Community demands

Affected communities and NGOs are demanding the following from the ADB and the Pakistani government. Many of these demands should have been carried out prior to project approval.

- Initiate a comprehensive review of the project immediately, examining the technical, environmental, economic and social aspects of the project.
- Establish an information center and share all information with local communities.
- Create a formal role for affected people in the land valuation process.
- Establish formal mechanisms for independent monitoring of project implementation.
- Prepare an environmental management plan and ensure people's participation in the assessment of environmental impacts and development of mitigation measures.
- Prepare a resettlement plan immediately for the nine villages affected by Stages 1-3 of the project. Consultation with the displaced population should take place at all levels, and emphasis should be placed on livelihood restoration.

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Cordillera Highland Agricultural Resource Management Project, Philippines

The ADB-funded Cordillera Highland Agricultural Resource Management (CHARM) Project threatens to undermine community structure and culture and increase poverty in the Cordillera region of the Philippines. Although the project's stated goals are to reduce poverty among smallholder farm families in Abra, Benguet and Mountain Provinces, the project is undermining existing indigenous agricultural practices and further impoverishing farmers. The project is proceeding without proper consultation or participation from affected communities.

Project description

The \$41.4 million CHARM project is the second phase of an ADB-funded agricultural program in the Cordillera that started in 1987. The first phase, the \$26.9 million Highland Agricultural Development Program, was implemented in Benguet and Mountain Provinces. In 1996, the ADB approved \$19 million in financing for the CHARM project. The seven-year project has received additional financing from the International Fund for Agricultural Development and the Philippine government. Target beneficiaries are supposed to contribute six percent of the total project cost.

According to the ADB, the CHARM project is "aimed at reducing poverty among smallholder farm families in Abra, Benguet and Mountain Provinces in northern Philippines by increasing net farm incomes and creating jobs primarily through reforestation and civil works activities." A closer look at the project's implementation and outcomes reveals otherwise.

Promotes unsustainable agriculture

The CHARM project fails to address the serious problems of food security in the Cordillera. Rice production in the region is decreasing due to pestilence and lack of irrigation systems. Instead of addressing these problems, the CHARM project encourages communities to cultivate cash crops, such as cut flowers and commercial vegetables and fruits. This strategy is not sustainable, undermines subsistence farming methods and places communities at the whims of market fluctuations. Cash crop production, which relies on the use of pesticides and fertilizers, poses health and environmental hazards. The project also poses economic risks for communities since cash crops imported by the Philippine government are cheaper than locally produced goods.

No participation in decision-making processes

Despite claims that people's participation is a key strategy in the implementation and success of the CHARM project, beneficiary

communities have not been consulted about what development they need. This is despite ADB claims that local governments will play a lead role in project implementation. For instance, priorities for building farm-to-market roads are being identified by the Department of Agriculture without consultation with affected communities. In some cases, communities are in more need of irrigation systems than roads. An ADB official has stated that the project has no specific programs that enable indigenous peoples to become managers and decision-makers.

Undermines social fabric of communities

By promoting this project, the ADB is undermining the social fabric of communities that have often worked cooperatively in agricultural fields. By moving towards commodification of agricultural systems, neighbors are less willing to help one another without monetary compensation. Because people have not participated in the project's conceptualization, planning and implementation, they participate mainly because of the income it provides rather than based on the principles of community cooperation and collective benefits. Corruption is also rampant in the implementation of the project by the Provincial Engineers Office. It is commonly known that private contractors bribe officials in order to win construction projects.

Empty promises of employment

The ADB claims that the CHARM project will alleviate poverty by creating jobs for local people in civil works activities, such as the farm-to-market roads. However, in a community in Benguet province, these promises have failed to materialize. While the community agreed to contract the farm-to-market roads for the perceived benefits and promised employment, the government awarded the contract to a private contractor who imported outside labor. The community was not aware of the bidding and awarding of the infrastructure project and was surprised when construction commenced.

Communities call for moratorium

The CHARM project, which aims to reduce poverty and promote sustainable agriculture, is undermining community structures and exacerbating poverty in the Cordillera region. In the project's fifth year of implementation, poverty remains widespread. In fact, the Cordillera provinces are among the 20 poorest provinces in the country. Therefore, communities are calling

for a moratorium on the release of project funds until an independent review of the project has been completed. This review should determine whether the CHARM project has promoted self-reliance, community cooperation and natural resource protection.

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Agriculture Sector Program Loan, Thailand

The ADB's Agriculture Sector Program Loan (ASPL) threatens the livelihoods of thousands of small-scale farmers in Thailand by imposing changes to national farming and irrigation policies. According to the ADB, the ASPL will increase agricultural productivity and promote export-oriented agriculture through policy reforms, such as introducing fees on water use, cutting subsidies for fertilizer and seeds and raising interest rates for credit-extension programs. Small-scale farmers in Thailand are opposed to the ASPL and argue that the reforms will undermine sustainable farming methods, jeopardize food security and promote the expansion of large-scale agribusiness. They are demanding that the Bank stop the project.

Project description

The \$600 million ASPL was approved by the ADB in 1999 to support Thailand's economic recovery program. The main thrust of the ASPL is to reform the Thai rural and agricultural sector towards an increasingly market-driven and export-oriented model. Implementation is expected to be complete by June 2001. The ADB and the Japan Bank for International Cooperation each provided \$300 million in financing.

Disbursement of ASPL funds is conditional on a number of far-reaching and controversial policy reforms. These reforms would:

- Require cost-recovery for irrigation investments by charging farmers water user fees.
- End government subsidies for agricultural inputs and encourage greater private sector involvement in seed promotion and distribution.
- Require farmers to pay market-level interest rates on all credit-extension projects, even those managed through agricultural cooperatives and farmers' groups.
- Require the government to withdraw from procuring farm equipment and from shoring up crop prices.
- Establish a National Agriculture Institute, Commerce Technology Development Fund and Service Center to develop and promote commercial agriculture.
- Restructure the Agriculture Ministry and establish a Private Sector Consultation Council to come up with plans to implement the above reforms.

Impoverishes small-scale farmers

The ASPL threatens to undermine food security, traditional land rights and management systems, social cohesion and community structures in rural communities. Far from contributing to poverty alleviation, the reforms required under the ASPL will undermine the livelihoods of the poorest farmers in Thailand.

The program's introduction of water user fees will place serious financial hardship on small-scale farmers. According to

Thai farmer Wast Kajongklang, "The new costs of investment that we have to pay will bury us, we will get into deeper debt. Why doesn't the government try to help us? Why do they have to collect more money from us?"¹

The proposed program assumes that local farmers waste water and dismisses their wisdom in using water efficiently to cultivate and grow crops. The ADB and Thai government argue that water fees are necessary since resources are not used efficiently when they are free. In reality, local farmers practice efficient and sustainable water use with a traditional irrigation system known as "Muang Fai." In this system, farmers work together cooperatively to maintain water basins, canals and weirs and facilitate equal distribution of water within communities.

Consolidates corporate control over resources

Through water pricing, the ASPL transfers control and ownership of resources from rural communities to cash-rich corporations. Water use charges will ensure that large agribusiness corporations with higher purchasing power can control irrigation systems and dictate the crop varieties and farming methods used by farmers.

Promotes unsustainable agriculture

Farmers are deeply concerned the loan could lead to the destruction of community-based sustainable agriculture and promote ecologically unsustainable practices, including intensive use of fertilizers and pesticides and the introduction of genetically-modified crops. In spite of the program's serious ecological and economic impacts, the loan did not require a full Environmental Impact Assessment.

The ASPL operates under the assumption that water fees will promote efficient resource use and boost economic production. However, farmers' groups argue that water is not the only determinant of productivity on Thai farms. While there are claims that Thai farmers have lower yields than American or Japanese farmers, Thai farms yield other produce that is consumed locally and is not factored into formal economic produc-

tion. However, these commodities will be adversely affected by imposing fees on water use.

Lack of genuine consultation and participation

Although the ASPL poses serious impacts for thousands of farming communities, the process of negotiations between the ADB and the Thai government were non-transparent and provided little space for public participation. The conditions of the loan agreement have not been made public, and the Agricultural Ministry did not distribute details of the reform program until 2000, one year after the project was approved by the Thai Cabinet. In addition, the Thai government and ADB have proceeded with the ASPL despite protests and loan conditionalities that require strengthening of community participation in agricultural planning.

Villagers protest at the 2000 ADB Annual Meeting

At the ADB's Annual Meeting in Chiang Mai, Thailand last year, the Network of 38 Peoples' Organizations was formed to oppose the Thai ASPL, the Samut Prakarn Wastewater Treatment Plant and the ADB's Social Sector Loan for

Thailand. About 5,000 villagers, most of them belonging to the Network, protested outside the meeting for three days demanding that the ADB withdraw from these destructive projects. They also declared that they would reject any decisions made between Thai officials and the ADB.

ADB considering additional financing

To implement the conditionalities of the loan, the ADB is considering financing two advisory technical assistance (TA) grants for water resource management and the restructuring of agricultural institutions. One TA currently in process, known as the Agriculture Strategy and Policy Development Project, amounts to \$250,000. This project warrants close examination by Thai civil society, as it could pave the way for additional agricultural reforms that will further marginalize local farming communities.

Compiled by International Rivers Network with information from Towards Ecological Recovery and Regional Alliances and Bank Information Center.

1 Cited in the Bangkok Post, January 11, 2000.

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An Overview of the ADB's Support for Energy Sector Reform

The ADB is the leading promoter of energy privatization in Asia and the Pacific. Through energy sector reform programs, the ADB requires countries to privatize state-owned electricity utilities and promote foreign investment in energy generation, transmission and distribution. The ADB believes that private sector participation in the energy sector will relieve governments' debt burdens and allow scarce resources to be allocated to social sectors such as health and education. Yet in India, Indonesia and the Philippines, the ADB's advice has led to escalating energy costs for consumers, increased debt burdens for the government, and increasing windfalls for the private sector. In the energy sector, multinational corporations are the only ones that seem to benefit from the ADB's advice.

The basics of energy sector reform

While the IMF and World Bank promote structural adjustment of national economies, the ADB has tended to focus on sectoral adjustment to facilitate privatization and foreign investment in individual sectors such as energy, transportation and communications. The ADB has promoted energy sector reform in countries throughout the region, including the Philippines, Indonesia, India, Pakistan and Tajikistan. The ADB's energy sector reform loans require governments to enact new laws and policies facilitating private sector participation, splitting generation, transmission and distribution into separate companies, privatizing state-owned enterprises and abolishing tariff subsidies.

Central to the ADB's advice is encouraging private companies to invest in and construct power plants. They have argued that involving the private sector better distributes economic risks among those who can best absorb them, and that cash-starved government gain benefits at little risk.

This strategy, however, has largely failed. In order to attract private capital, governments have signed agreements with independent power producers (IPPs) in which economic risks and responsibility are unevenly borne by governments. In some cases, governments have signed contracts that guarantee payment even if there is no demand for electricity, and stipulate that payment will be made in foreign currency regardless of fluctuations in foreign exchange rates. In effect, economic risk has been transferred to the consumers who are forced to subsidize private investment through levies, taxes, price increases and debt repayments. The private sector, in these cases, has received a disproportionate share of profits and privileges.

The ADB argues that privatizing state electricity companies and separating control over power generation, transmission and distribution will lighten the financial burden of governments and improve efficiency. However, the debt burden of state electricity utilities is, in fact, passed onto the government because the often-staggering debts of these utilities make them an unattractive investment for the private sector. Eventually, this burden is transferred to consumers through increases in electricity tariffs.

Contrary to the ADB's claims, energy sector reform loans increase the financial burden of governments, detract from government spending on basic social services, and increase tariffs, making electricity unaffordable for low-income communities. Rather than alleviating poverty, the ADB's push for sector reform threatens to impoverish those most marginalized in society.

Putting the burden on Philippine consumers

In December 1998, the ADB approved a \$300 million adjustment loan for power sector restructuring in the Philippines. The goals of the power sector restructuring program are to create a competitive market in electricity generation, restructure and privatize the National Power Corporation (NPC), support private sector generation expansion and reinforce and expand the transmission grid.

At the center of controversy is the proposed privatization of the heavily-indebted NPC, whose debts total an estimated \$7 billion, with another \$9 billion in power purchase obligations. NPC's debt is due largely to the promotion of IPPs contracted to generate electricity during the power shortages in the early 1990s. The IPP contracts were negotiated as a "quick fix" to the power crisis without serious thought as to their long-term financial consequences.

The ADB played a vital role in bringing about reliance on the IPPs and claimed in one internal document that "ADB efforts to support the Philippines install power generating capacity through private sector participation have been hugely successful..." One of the conditions of contracts negotiated with IPPs was their demand that future payments be denominated in foreign currency. Not surprisingly, when the peso collapsed at the beginning of the Asian financial crisis, NPC was stuck with skyrocketing debt payments that drove it to the brink of bankruptcy.

The costs of the planned privatization will largely be borne by the taxpayer. The ADB loan document admits that, "The magnitude of NPC's existing debt is such that it cannot be fully allocated to the companies after privatization." It also recom-

mends that the Philippine government approve a levy on all consumers to recover NPC's stranded debt and above-market IPP costs. It has been estimated that this levy will amount to about \$0.54 to \$0.60 per kilowatt-hour until the year 2032. The ADB has admitted that the economic impact on consumers has not been quantified, nor has the need to provide safeguards to protect the poor.

The Philippine government has faced intense pressure to privatize NPC. The ADB has made privatization a precondition to receiving disbursements of the \$300 million loan. Only \$100 million has been disbursed so far by the ADB due to the Congress' unwillingness to pass legislation to privatize NPC. In February, President Gloria Macapagal-Arroyo called for the bill to be redrafted out of concern over how to cover NPC's debt. However, shortly afterward, Macapagal-Arroyo retracted her statement and declared that the bill would be passed in June.

Mounting debts in Indonesia

The IMF, World Bank and ADB declared in 1998 that a comprehensive restructuring of the power sector was one of the conditionalities for a \$46 billion bailout package to help the country after the Asian economic crisis. According to the ADB, "successful restructuring of the power sector is critical to Indonesia's economic recovery" and will help "mitigate social distress caused by the crisis." However, support for energy sector reform threatens to cause further social and economic distress in the country.

In March 1999, the ADB and the Japan Bank for International Cooperation each approved \$400 million in loans for energy sector reform in Indonesia. The ADB restructuring plan was aimed at establishing a competitive market in Java-Bali and called for changing the legal and regulatory framework, restructuring the sector, adjusting tariffs and increasing private sector participation. The reform also called for the adoption of a new electricity law, which was prepared with the support of ADB-funded consultants.

One of the centerpieces of the sector reform is privatization of the state-owned electricity utility Perusahaan Listrik Negara (PLN). However, as in the Philippines, the PLN has been crippled under the staggering debt burden of IPP repayments. Under the power purchase agreements with the IPPs, the PLN was obliged to continue paying for power from IPPs in US dollars and guarantee a minimum purchase of power regardless of actual demand.

After the Asian financial crisis, the PLN was economically crippled by the devaluation of the Indonesian rupiah, contracts negotiated in foreign currency and mounting loans from foreign sources. A 1999 audit by US accounting firm Arthur Andersen revealed that PLN had a total loss of \$30.2 billion, about one and a half times the state budget of Indonesia. Of those incurred losses, \$18 billion is attributable to corruption in the negotiation of private power purchase agreements, \$10.7 billion as losses caused by the devalued currency and \$1.5 billion from the inefficiency of PLN operations.

In recent years, the Indonesian government has tried to increase electricity tariffs to compensate for the inflation rate and financial losses of PLN. As a result, tariffs for all categories except for nonprofit and residential have been increased by 29-40 percent since 1994. Faced with strong public opposition, the government gave up planned tariff increases in 1998, which would have doubled the charges for the lowest income residential customers. Nevertheless, the government is under strong pressure to increase tariffs and cut subsidies under the IMF/ADB adjustment program.

In 1999, the PLN froze salaries and cut bonuses for its nearly 50,000 employees. The ADB anticipates the privatization of the PLN assets will lead to a large layoff of PLN workers.

Rising power costs in India

In India, the ADB's promotion of energy sector reform poses serious financial threats to Indian citizens. In Madhya Pradesh, poor citizens have already had their power cut off and tariff subsidies to farmers have been abolished as a result of energy sector reforms mandated by the ADB.

The promotion of IPPs in India has led to huge increases in electricity tariffs. The Maheshwar Dam on the Narmada River, a proposed private sector project, is expected to produce power at the rate of about \$0.15 to \$0.21 per kilowatt-hour, several times higher than power currently produced by the state. The project is expected to receive financing from the Power Finance Corporation, which is funded by the ADB and the World Bank.

The impacts of ADB-funded power sector reform will soon be felt throughout India. In October 2000, the ADB approved a loan of \$250 million for the establishment of a national grid for interstate power transmission and extended a partial credit guarantee for raising another \$120 million from commercial banks. The ADB's support of Powergrid, the state company overseeing the unification of the national grid, is part of a move to encourage private sector involvement in the power sector. In December 2000, the ADB approved two loans totaling \$350 million to implement sweeping reforms of the power sector in the western Indian state of Gujarat.

Compiled by International Rivers Network with information from Focus on the Global South, Bank Information Center and Friends of the Earth Japan.

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