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**ADB's Private Sector
Development Strategy (PSDS):**

**Private Sector as the
Engine of Growth**

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ADB 's PRIVATE SECTOR DEVELOPMENT STRATEGY (PSDS) -- Private Sector as the Engine of Growth

In March 2000, the Asian Development Bank (ADB) unveiled its new Private Sector Development Strategy (PSDS) aimed at strengthening the role of the private sector as the engine of growth in Asia. According to ADB, a robust private sector can play a key role in poverty reduction, the 'overarching goal' of the Bank. Growth, moreover, creates jobs that use the poor's main asset (i.e., labor) and increases the tax base that enables government to provide basic social services to the poor. The new strategy has been hailed as 'the instrument by which ADB will harness the private sector's contribution to its vision of an Asian and Pacific Region free of poverty.' This guidebook will present how ADB implements this new strategy, as well as some of the more fundamental concerns raised by local communities and citizens groups around the region about the potential and actual impacts of the new PSDS being implemented by ADB.

Thrusts and areas of operation

The new PSDS has three main thrusts, namely: (a) creating enabling conditions for business to flourish and an environment conducive to pro-poor growth; (b) generating business opportunities; and (c) catalyzing private investments. The areas of operation are four-fold -- Governance in the public and private sectors; Financial intermediation; Public-Private Partnerships; and Regional and subregional cooperation.¹

At the first Asia-Pacific Poverty Forum organized by ADB in February 2001, PSG head Christine Wallich described how the private sector can play a key role in reducing poverty through job generation and creation of so-called 'fiscal space' that 'relieves pressure on public budgets and allows governments to redirect resources to social spending.' Wallich also advised on the kind of 'public-private partnership' that is needed (Box 1).

BOX 1. PUBLIC-PRIVATE PARTNERSHIP IN POVERTY REDUCTION

- ♣ Public-private partnerships should be formed through government design of concessions that call for bidders to provide services where it will not otherwise provide to the poor.
- ♣ Private utilities should be effectively regulated to make sure the poor get better access to services at lower prices.
- ♣ Responsible corporate citizenship must be encouraged.
- ♣ Privatization and divestiture should be linked to poverty reduction as, for instance, when state-owned assets are sold to investors and some of the proceeds could be shared with the poor.

ADB will be training staff members and exposing them to the opportunities of dealing with the private sector. Experienced private sector development specialists are already in place, and the core team will continue monitoring the implementation process. A private sector development network is also being created to prepare a database on activities, provide advice on opportunities and implement a 'private sector scorecard' while preparing projects.²

ADB's corporate connection³

Since ADB was founded in 1996, private sector corporations based in donor countries have benefited immensely from goods, related services and civil works (GRSCW) contracts of ADB-funded projects in the region. Most ADB contracts are awarded through internationally competitive bidding with the caveat that bidding is only open to the 58 member countries of ADB. In 1966-1999, ADB awarded contracts worth \$54.3 billion for goods and services; thirty seven percent (\$20.1 billion) went to companies from donor countries, particularly Japan, US and Germany. Private companies from Japan and America -- the top two donors with highest voting rights in the Bank -- have between them won ADB contracts worth more than all ADB lending to the thirteen LDCs (least developed countries) in the region.

Many of these companies awarded contracts from ADB loans and technical assistance are the biggest companies in the world. Moreover, many are involved in large-scale infrastructure projects using technologies that are either no longer politically acceptable or commercially viable in developed countries.

Private companies, large engineering and construction companies in donor countries (particularly Japan, US, Germany and UK) and consulting companies in donor countries, therefore, are some of the immediate beneficiaries

of ADB lending over the last 34 years. (See following tables of names of top 5 companies, consulting agencies and contractors.)

Top 5 companies from top 4 donor countries with the most GRSCW contracts (1995-1999)

JAPAN (\$342 million)	US (\$209 million)	GERMANY (\$166 million)	UK (\$43 million)
♣ Mitsui and Co	♣ Cooper Rolls	♣ Siemens AG	♣ NVPSKG
♣ Mitsubishi	♣ Westinghouse International	♣ Man B&W Diesel AG	♣ Balfour Beatty
♣ Mitsui Engineering and Shipbuilding	♣ AT&T	♣ KGH Sculze	♣ Acme Maris (China) Ltd
♣ Itochu	♣ Raytheon Company Electronic Systems	♣ Dyckerhoff & Widmann	♣ Siemens PLC
♣ Marubeni	♣ Cargill Fertilizer	♣ UNICO	♣ British Steel

Top 5 consulting companies from top 4 donor countries with the most GRSCW contracts (1995-1999)

UK (\$35 million)	US (\$44 million)	JAPAN (\$44 million)	NETHERLANDS (\$31 million)
♣ Mott McDonald	♣ Morrison Knudsen	♣ Japanese Overseas Consultants	♣ DHV Consultants
♣ Scott Wilson Kirkpatrick	♣ Louis Berger Group	♣ Nippon Koei	♣ Euroconsult
♣ Ryder John Taylor	♣ Upham International	♣ Pacific Consultants International	♣ BMB Mgt Consultants
♣ WS Atkins International	♣ Everest International Consulting	♣ Nippon Jogessuido Sekkei Electric Power Development Co	♣ BKH Consulting Engineers
♣ Cambridge Education Consultants	♣ Development Alternatives		♣ Infrastructure Hydraulics

Top 5 TA contractors from top 4 donor countries (1995-1999)

US (\$25 million)	UK (\$ 21 million)	AUSTRALIA (\$20 million)	CANADA (\$22 million)
♣ Boston Institute for Developing Economies	♣ Biotechnology Consultants	♣ SMEC International	♣ Northwest Hydraulic Consultants
♣ Hagler Bailly Consulting	♣ Halcrow Fox and Associates	♣ EGIS Consulting	♣ Association of Canadian Community Colleges
♣ Pricewaterhouse Coopers Associates in Rural Development	♣ Scott Wilson Kirkpatrick	♣ Hawthorne International Education	♣ Agrodev Canada
♣ Development Alternatives	♣ British Council	♣ Maunsell	♣ Cowater International
	♣ Maxwell Stamp	♣ PDP Australia	♣ Global Environmental Consultants

Think 'PSD' in public sector operations / Think 'development impact' in private sector operations

ADB uses a range of instruments -- such as policy dialogue and advice, program lending and technical assistance -- to help address problems that impede private sector growth in its DMCs (Developing Member Countries). Through its public sector operations, ADB will support DMC governments in creating enabling conditions for business. Through its private sector operations, on the other hand, the Bank will catalyze private investments that deliver 'developmental impacts' and/or 'demonstration effects'. Hence, Bank staff should 'think PSD' in its public sector operations, and to 'think development impact' in its private sector operations.

In its public sector operations, ADB will help shift the government's role from 'owner-producer' to 'facilitator-regulator' of private sector activities, freeing public resources for use in basic education, health services, and social safety nets ('fiscal space'). ADB will ensure that its public sector investments do not 'crowd out' the private sector, and that it takes all possible opportunities to 'crowd in' private sector participation.

In its private sector projects, thinking 'development impact' means that due consideration should be given to creating employment opportunities, increasing income, improving access to public services and promoting effective competition and better corporate governance. ADB will continue to provide direct loans to private sector projects with focus on two sectors -- infrastructure and finance.

This may be illustrated by the scorecard approach to gauging Bank-funded projects. A scorecard can 'score' all prospective public and private sector projects against a set of development impacts and private sector development, respectively, desired in the DMCs. Below is a conceptual illustration of the 'scorecard' concept, using the Bank's public and private sector projects as examples; further refinement and elaboration, however, will be needed to implement such an approach.

Development Impact Scorecard (An Illustration)												
Country	Project	Development Impact Areas										
		Poverty Reduction through growth	Environment Protection	Subregional Cooperation	Infrastructure Improvement	Capital Market Development	Better Banking	More Competitive Sector	Opening to FDI	Good Governance	Forex Saving/Earning Initiative	
BANGLADESH	Grameen Phone											
BANGLADESH	La Farge Surma Cement											
PEOPLE'S REPUBLIC OF CHINA	Everbright Bank											
PHILIPPINES	Maynilad Water Services											
THAILAND	Eastern Power											
Scorecard for Private Sector Development Effects of Public Sector Projects (An Illustration)												
Country	Project	Private Sector Development Effects										
		Create enabling environment	Build regulatory capacity	Promote effective governance	Facilitate financing	Develop capital markets	Provide support infrastructure	Generate investment opportunities				
INDIA	Private Sector Infrastructure Facility											
INDONESIA	Financial Governance Reforms											
PHILIPPINES	Power Sector Restructuring											

(Source: PSDS Working Paper, September 1999)

A ' Conflict Office' , similar to that of the World Bank Group will be created to prevent any ' significant reputation risk' that will jeopardize ADB' s ability ' to provide impartial advice or make impartial investment decisions.' As this has yet to be institutionalized, however, the primary responsibility will still remain with the project departments and senior management concerned.⁴

Civil society groups have raised concerns regarding conflict of interest issues when the Bank would now have increased dealings with the private sector alongside its traditional public sector clients. This may happen in cases where, for instance, ADB, through its public sector operations, advises a government on how to privatize state-owned utilities, while at the same time the Bank gives direct lending assistance or equity investments to the private sector bidders and/or winners through its private sector operations. Or, privileged information between the Bank and its government agency client may be unwittingly disclosed to private sector clients that deal with these agencies directly. How will the Bank play a 'neutral' role or balance the sometime conflicting interests of its private (e.g. confidentiality clauses) and public sector clients (e.g. transparency)? This gray area in Bank operations needs to be addressed directly, rather than be left to the discretion of individual Bank staff or management.

'Governance' in the public and private sectors

According to the PSDS, effective governance is essential for encouraging private sector investment. There is no greater disincentive to business than the feeling of uncertainty and vulnerability brought about by corruption, abuse of discretion, and bureaucratic interference. ADB will assist various ways to foster effective governance in the public sector.

In the private sector, ADB will help member governments promote 'good corporate governance' through various means such as, reviews of commercial laws and regulations and establishment of credible accounting and auditing standards. As an 'activist investor', ADB will also actively pursue the introduction of best corporate governance practices in its existing and potential private sector investee companies and through investment funds it supports.

ADB's 1999 Anticorruption Policy makes the Office of the General Auditor (OGA) the point of contact for alleged cases of fraud in ADB projects or among ADB staff. The Anticorruption Unit of OGA receives allegations, performs initial review and screening, and determines whether a preliminary review is warranted. As of December 2000, Bank Management has declared 'ineligible' 12 firms, two cooperatives, and 31 individuals found to have engaged in 'corrupt' or 'fraudulent' acts. OGAU had processed a total of 114 cases; ~~eighty~~ ^{eighty} of these cases (77%) have been closed, while 26 (23%) are still being investigated. The sanction period for one firm has expired, and ADB has deleted its name from the list of sanctioned firms, making the firm again eligible to participate in ADB-financed projects. *This kind of 'sanction' mechanism, however, can only be described as tokenist and a mere slap in the wrist, casting grave doubt as to the Bank's effectiveness in promoting 'good corporate governance' among its private sector clients.*

On a more fundamental level, NGOs are largely critical of the 'facilitating' role that multilateral development banks like the ADB and World Bank play in the development agenda of poor countries in the region. These roles, coupled with conditionality-laden loans, result in restructuring the national policies and programs of sovereign countries and outright meddling in their political processes, which these Banks, through their own charters, have been explicitly prohibited from interfering. 'Good governance' policies which the ADB will advise to governments in the region will reflect many of the old worn-out paradigms that it had given in the past -- liberalization, deregulation and privatization -- which have time and again brought further impoverishment to the poor.

Private sector operations (PSO)

ADB had crafted a Private Sector Strategy in 1995 that reaffirmed the role of the private sector in promoting development. The Private Sector Group (PSG) was then created to focus on five key activities: (a) infrastructure investment; (b) capital markets; (c) privatization; (d) large, complex industrial deals; and (e) small projects, manufacturing and commercial deals through an ADB financial subsidiary -- the ill-fated Asian Finance and Investment Corporation Ltd. (AFIC). ADB made its first equity investment in 1983, and provided its first loan without government guarantee in 1986.

Two months after the creation of the PSG to consolidate private sector operations (PSO), ADB approved a focused operational strategy for PSO which accorded high priority to two sectors -- infrastructure and finance. Accordingly, PSG has focused on the two sectors and on relatively large projects; it was considered that AFIC could lend to and invest in other sectors and in small and medium companies and projects.

Under the new Private Sector Development Strategy, the PSG is responsible for all of ADB's unguaranteed, enterprise-level private sector operations that include:

- ♣ formulating and implementing Bank policies for direct assistance to the private sector;
- ♣ processing funding support for private entities;
- ♣ monitoring the portfolio and managing risk;
- ♣ providing advisory service to entrepreneurs and corporations wishing to undertake BOO/BOT-type investments;
- ♣ mobilizing funds for private sector activities, including syndicating loans for private sector operations, and
- ♣ designing investment funds for small and medium enterprises (SMEs), and infrastructure projects.

The PSG currently has a 'lean' staff of 23 out of a total of 800 Bank staff. Infrastructure and finance remain the core areas of PSG activities.⁶ The PSG uses certain 'filters' in the selection of its private sector projects: (a) Project should fit with country strategy; (b) Project should fit sectoral strategy; (c) 'Governance' components are in place (e.g., environmental compliance, social assessments, political acceptance); and (d) Economics of the project. It should be strongly noted, however, that ADB's PSDS is a strategy for the entire Bank, and not only for the PSG.

ADB justifies its direct participation in private sector projects -- through private sector loans or direct equity investments -- by saying that this helps mitigate perceived sovereign risks and provides ' comfort and confidence' to investors, particularly by demonstrating the feasibility of pioneering transactions in client countries. Direct participation also provides the Bank with the opportunity to understand firsthand the impediments to private sector development, and ' increases ADB' s credibility as a public policy adviser' that promotes creating an enabling environment for private investment.⁷

BOX 2. AFIC: ADB'S VERY OWN PRIVATE SECTOR FIASCO

In 1989, ADB took the lead in conceptualizing and establishing the Asian Finance and Investment Corporation Ltd. (AFIC). AFIC was formed with 26 shareholders comprising the Bank and a group of international commercial banks, with an initial equity investment of \$35 million from ADB. AFIC's main purpose was to provide financing for private sector enterprises in the Bank's developing member countries (DMCs); ADB is AFIC' s top shareholder at 30% shares; Japanese banks control 35%.

With the onslaught of the Asian crisis, ADB approved a bail-out ' liquidity facility' of \$30 million to AFIC in April 1998 to support AFIC' s ' short-term financial needs' brought on by the currency turmoil. The liquidity facility was to be the Bank's second loan to AFIC; its first loan of \$35 million in 1991 was repaid in 1996. In September 1998, ADB again led in AFIC' s bailout with a \$105 million syndicated revolving credit facility (RCF) package for up to \$40 million. In November 1999, ADB' s Board approved the Bank' s continued participation in the RCF for up to \$40 million; on top of this, the Bank also seconded senior staff person as president and CEO of AFIC in June 1998.

In an April 2000 ADB Board paper, key lessons that the Bank learned were that AFIC: (a) had too broad a product and geographic scope; (b) no coherent business plan; (c) not leveraged its key strength, i.e., its linkage with ADB and with leading financial institutions and shareholders. In a confidential Board document dated August 2000, ADB management recommended that a final ' exit strategy' for AFIC shareholders (including ADB) be determined only after the AFIC becomes a debt-free financial institution. In its current setting, AFIC will only have limited complementarity with the new PSD-PDO strategy. The document further says that AFIC needed to reposition itself in the market and overcome these shortcomings; this was not feasible without a new strategic partner to drive a future strategy for AFIC and inject new capital. The Bank' s Board is currently deliberating on a ' final exit strategy' for AFIC.

This same rhetoric permeates the IFC' s much earlier private sector policy. Both public and private sector clients might think twice of ADB as a ' credible policy adviser' , however, were they disclosed more intimate information about one of the Bank' s earliest foray into private sector operations -- AFIC. The Bank' s AFIC misadventure resulted in a commercial fiasco with the onslaught of the Asian crisis and AFIC among the list of financial intermediaries near-collapse despite successive bail-out packages led by the ADB. The Bank' s Board is currently deliberating on a ' final exit strategy' for AFIC (Box 2).

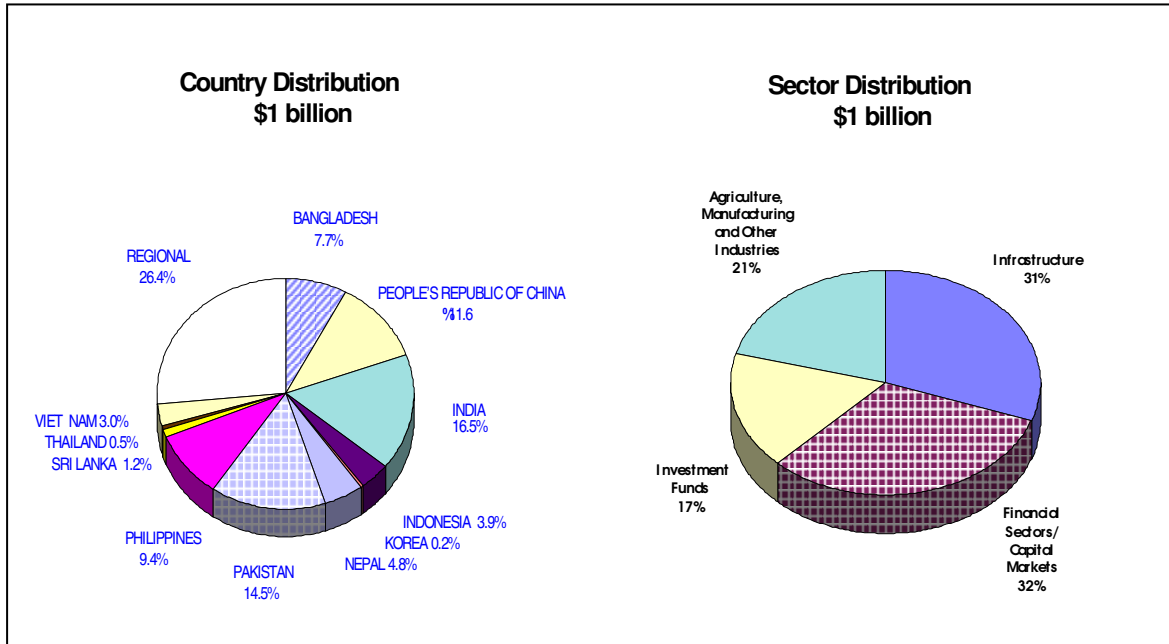
AFIC was formed in 1989 with ADB as top shareholder along with other mostly Japanese banks. AFIC concentrates largely on mid-sized projects and transactions that the Bank would find too small, especially in sectors such as industry or manufacturing. Moreover, AFIC provides underwriting, syndication, and other merchant banking services which the Bank does not generally get involved, especially in the industrial and manufacturing sectors. AFIC was mentioned in the same breath as the IFC is to the World Bank in the 1995 PSD strategy. The new PSD strategy made no mention of AFIC.

Asked whether ADB would have a separate IFC-like entity within the ADB (the International Finance Corporation is the World Bank' s private sector arm), Strategy and Policy Department (SPD) head Shoji Nishimoto replied that he doubted this very much, although he thought that a wholly subsidized organization similar to the IFC should still be considered an option for the Bank.⁸ Asked whether the Bank' s PSD strategy would increase the ' risk factor' in ADB' s lending, Nishimoto replied that as long as the exposure remained at a single digit percent of the lending portfolio, the risk would not be great; if this became more than 20% and performance poor, however, ADB' s credit ratings might be affected.

The Bank' s private sector operations accounted for roughly 3% of the Bank' s total portfolio in 1999; of the total lending of \$5 billion, four loans (total \$146 million) without government guarantee went to the private sector; ADB

also made one equity investment (\$7 million). ADB frequently boasts that although its participation in a project is usually small, it leverages larger funds from commercial sources and is seen as a source of 'comfort' by other lenders and investors. In 1999, for instance, some \$3 billion cofinancing was mobilized for 28 projects; this was equivalent to 61% of ADB's total lending in the same year. In 2000, ADB's participation in 11 PSO projects catalyzed a total of \$1.6 billion of investment commitments.⁹

Country and Sector Distribution of PSO Portfolio (1998)



Source: PSDS Working Paper, September 1999.

The Bank's PSG further claims that its involvement in private sector activities could exert influence on the design and implementation of a project to ensure environmental protection and good corporate governance. This is being done through covenants, or by dealing only with responsible parties or those with 'good corporate citizenship'.

This claim, however, is belied by the Bank's own PSO track record which contains, among others, two private sector loans in 1991-1992 to Marinduque Copper Mining Corporation (MARCOPPER) which, in 1996, was responsible for an environmental disaster of unprecedented proportions in the small island of Marinduque in the Philippines (Box 3). Worse, the Bank's own finding of the disaster contradicted government's own findings in a blatant display of the Bank defending the interests of its private sector client rather than those of its DMC client and affected poor communities dependent on the wasted river. The current crop of PSG honchos had exhibited collective amnesia over the disaster; when asked whether MARCOPPER would again be provided loans in future, a categorical NO was not given in response. Moreover, the PSG does not have a 'negative list' of bad corporate citizens who should be automatically excluded from its private sector operations nor does it feel the need to create one.¹¹

It should be noted that ADB's charter grants the Bank immunity from all kinds of suits. Some legal analysts believe, however, that the Bank -- in its private sector operations (specifically, ADB equity investments) -- may be held liable for any wrongdoing, as with any commercial or private entity.

Partial Risk Guarantee (PRG)

The PRG scheme is one of ADB's instruments to promote financial flows to developing countries. It is aimed at providing loan default protection against political risks that may arise in connection with the project. In February 2001, the Bank revamped its political risk guarantee policy by making it more 'userfriendly and transparent'. The scope of coverage for lenders to private sector projects has also been expanded and made more explicit. Areas of

political risk coverage now include expropriation, currency inconvertibility and/or nontransfer, political violence, and breach of contract.

BOX 3. ADB'S PSO CLIENT MARCOPPER CAUSES ENVIRONMENTAL TRAGEDY IN THE PHILIPPINES

The Marinduque Copper Mining Corporation (MARCOPPER), a 40% Canadian-owned multinational company operating in the island of Marinduque (Philippines) was granted two successive private sector loans (total \$40 million) in 1991 and 1992 by ADB. In late March 1996, MARCOPPER mine tailings spilled over to the nearby Boac River; this immediately destroyed fish and marine resources. Environmental officials say Boac River is now dead, covered with foul-smelling mine tailings. Hundreds of families living near the river were rendered isolated. Attempts have been made, in vain, at blocking the tailings from flowing into farmland. The Science and Technology Ministry reported that MARCOPPER's tailings contained poisonous substances. As a consequence of this disaster, the government banned MARCOPPER, its Canadian partner Placer Dome and subsidiary firms from further mining activities; MARCOPPER officials were charged with criminal offenses. An ADB mission team which went to the site, however, reported that the mine tailings were 'mostly mud and not toxic'. In light of this environmental disaster, issues were raised by NGOs regarding ADB's private sector operations which remain relevant till the present:

- ♣ How does ADB select its private sector clients?
- ♣ How will the Bank enforce its own environmental and social policies and guidelines on its private sector clients?
- ♣ What information disclosure policies guide private sector operations of the Bank?
- ♣ How accountable is the Bank in disasters related to its private sector operations?
- ♣ Which interests will the Bank ultimately promote, especially in cases where those of its private and public sector clients clash?

This revamp provided a major shift in focus in the marketing of ADB's PRG instrument to attract commercial lenders, on top of direct loan assistance. This will enable ADB to focus on assessing and mitigating country and political risks, areas in which ADB has a comparative advantage, leaving commercial risks to private sector lenders. The enhanced policy also includes a new 'Coguarantee' program and Collaboration program.

Under the 'Coguarantee' program, ADB will issue a contract of guarantee for the entire amount of coverage requested but will retain only a portion of exposure under the contract with the remainder being underwritten by private political risk insurers. The 'Collaboration' program will enable private and public political insurers to offer guarantee facilities jointly with ADB, under their respective names. The improved policy also offers a more market-oriented and transparent fee structure.

In recent months, ADB had used the PRG instrument for three projects -- including Dhaka's 450mw power plant (a first for ADB approved in December 2000) and Colombo's 163mw power situation. In the Dhaka (Bangladesh) power plant project, the PRG scheme aimed at providing loan default protection against political risks that may arise in connection with the project. Such risks included expropriation or nationalization of all or part of the borrower's assets, the imposition of foreign exchange restrictions, and failure by the Bangladeshi Government to honor its payment obligations. Any claims paid by the Bank in relation to the PRG will be reimbursable by the Bangladesh government and may be converted into public sector loans from ADB to Bangladesh. ADB's PRG risk exposure will be offset by a counterindemnity offered by Bangladesh in favor of the Bank.

These ADB guarantees and counter-guarantees provided DMC governments are defacto subsidies given to the private sector which unjustly shifts the burden to taxpayers of already poor DMC countries. Critics have likewise alleged that donor country governments are using ADB to deliver taxpayer-funded subsidies to the private sector.¹³ ADB itself and the global investment firms which purchase ADB bonds are protected from commercial risk by donor country guarantees and counter-guarantees provided by borrowing governments. Bank contract conditions externalize social and environmental costs or transfer these as well as market risk to borrowing governments. Again, the costs are borne by taxpayers in donor countries or the poor in borrowing countries.

Privatization of state-owned enterprises (SOEs)

The Bank promotes privatization as a vehicle for improving efficiency and creating 'fiscal space'; privatization, however, is not seen by the Bank as a panacea, as 'a private monopoly can be worse than a public one.'¹⁴ The Bank also recognizes the many drawbacks experienced in privatization and private provision of services -- 'In some cases,

public institutions that have been privatized have been put to some other use or have entered into monopolistic contracts for service delivery, increasing fees while allowing services to deteriorate' ¹⁵

At the 1999 ADB Annual Meeting, PSG head Wallich described how the role of governments had evolved to 'facilitate the process of production, rather than own the means of production.'¹⁶ Privatization -- when carried out where ownership was concentrated, or where there were dominant interests -- could have negative and unintended effects. According to Wallich, it was important to ensure that public interest was protected through an appropriate legal and regulatory structure and framework which addresses consumer concerns, establishes fair trade practices and the like, regulates monopolies and quasi-monopolies, deals with unlawful restraints and anti-competitive practices, and does away with barriers to entry and exit. The regulatory authority must be well equipped to enforce regulations. Equally important, added Wallich, labor concerns must be adequately addressed either through social safety nets or retraining and redeployment.

PSG head Wallich had also 'surprisingly' noted that the privatization approach taken in such countries as Bolivia and Poland has not picked up in Asia, 'perhaps in light of the magnitude of assets on hand after the financial crisis.' In Bolivia, government shared SOEs privatization revenues with the general population on the grounds that nationally-owned assets had been created with people's taxes; in Poland, 20% of shares in privatized enterprises were reserved for workers who lost their jobs. In November 1999, the Tokyo-based ADB Institute highlighted some policy issues at a capacity-building seminar it organized on privatization, with government policy-makers from around the region as main participants (Box 4).¹⁷

BOX 4. ADB: POLICY ISSUES IN PRIVATIZATION

- ♣ Privatization is grounded on the changing role of governments in the economic development process.
- ♣ Privatization is vital for long-term development of the private sector, development of local capital markets and financing institutions, fostering an enabling environment that facilitates private initiatives and rewards risk-taking, improving fiscal balances, and may promote democratization through the devolution of power.
- ♣ The driving force for privatization and economic policy reforms must come from within developing countries.
- ♣ Privatization may result in increased efficiency gains due to less political interference in decision-making, among others.
- ♣ Three major pre-conditions are required -- irreversible political commitment; legal and regulatory reforms; structural reforms across all economic sectors.
- ♣ Privatization is a political process.
- ♣ Building capacity in government institutions is necessary.
- ♣ Menus of privatization programs are recommended according to objectives.
- ♣ An emerging 'core lesson' is privatization to a capable strategic investor.

ADB has limited experience in privatization and public enterprise reform, but will 'encourage more privatization projects in future.'¹⁹ More recent Bank experience on privatization is in support of International Monetary Fund (IMF) economic stabilization program among crisis-stricken countries in the region -- e.g., Thailand, Indonesia, Philippines -- particularly in the areas of 'reforming' SOEs to promote 'good financial governance' .

Concerns raised by civil society groups (e.g., Philippines, Indonesia, Pakistan) regarding privatization of SOEs has to do with the original intent of setting up publicly-owned or controlled enterprises, that these have been created with several objectives in mind -- to provide essential services, to regulate the economy and to promote the public interest. Publicly-owned utilities and other SOEs are vested with public welfare interests and need to remain in the hands of the state. Moreover, placing key industries like oil, steel and power within government control would allocate resources more on the basis of national interests rather than pure profit. Through privatization, public enterprises with combined 'social' and income-generating functions would be transformed into purely profit-oriented enterprises. The losses would be in the 'social' , subsidized functions, where lie support mechanisms and subsidies for the poorer sections of society. Women are disproportionately burdened as public sector workers of privatized enterprises more likely to be displaced and as household managers who would bear the brunt of steadily increasing prices of privatized goods and services (Box 5).

BOX 5. WHAT HAPPENS TO WOMEN IN A PRIVATIZATION REGIME?²⁰

The experience of women under various privatization regimes indicates the erosion of social, cultural and economic gains which women have painstakingly earned in the past through various struggles and negotiation processes. Where the public sector is an important employer of women, its restructuring under a privatization regime has disastrous consequences for women. As paid workers in the public workforce, women are at the forefront of the onslaught of privatization. Women dominate the public sector as lower-rung members in the rank-and-file (clerks/typists/secretaries); they perform most of the much-maligned bureaucratic red-tape which are traditionally low-skilled and low-paying. With privatization's aim to reduce 'inefficiencies' and other 'redundancies', women would be deemed less 'competitive' due to less educational skills or lack of training opportunities will more likely be affected than men. Women dominate the health and education public sector agencies because of their traditional role as caregivers and nurturers in the family; this notion extends to the larger society in terms of career choices that are made open to them. As paid workers in the productive sphere, women are vulnerable to the 'last in, first out' syndrome, in which women are likely to be the last one hired, but the first one fired.

Privatization places additional stresses on women's 'private' lives. Burdens once borne by the public and the larger society would now be borne by women privately, adding further stress to their reproductive work at home. Through privatization, public enterprises with combined social and income-generating functions will be transformed into purely profit-oriented enterprises. The losses would be in the social function, where support mechanisms and subsidies for the poorer sections of society lie. Privatization of an erstwhile public good like water which price is largely subsidized by the public, will now find its price in the 'market'; price consequences on the accessibility and quality of water would further challenge women with already overstretched budgets to keep the household economy afloat. Rising tempers and stress-related domestic violence are not likely to be far behind.

In Indonesia (as in other crisis-stricken countries), for instance, privatization is a big and controversial issue with government's plan to privatize 144 state companies. Opposition has started to emerge as privatization is almost always linked to massive job termination. In November 2000, civil society groups in Indonesia -- NGOs, trade unions, academe, etc -- called strongly for the rejection of SOE privatization, along with demands for greater transparency, accountability and participation in the government's transactions with international financial institutions like ADB.²¹

PSD in infrastructure

ADB will support the development of workable public-private partnerships to involve the private sector in areas such as energy, water, wastewater treatment transport, telecommunications, and where practicable, the social sectors. The Bank believes that the private sector alone cannot deliver efficient public services and that 'public private partnerships' can balance development goals with commercial interests. The public and private sectors must work together to inject greater competition, increase efficiency, and avert market failures. ADB has actively financed pioneering BOT projects in the region and accompanying 'capacitybuilding' assistance.

Power sector. How PSD in the power sector is evolving within the Bank may be illustrated by several recent cases of Bank loans in the sector -- e.g. Philippines, Sri Lanka, Bangladesh, India and Pakistan.

In December 1998, ADB provided a \$300 million loan to the Philippines' Power Sector Restructuring, one of the Bank's major policy-laden program loan in the region. The loan package will privatize the state power utility (NAPOCOR) requiring the passage of an Omnibus Power Bill and transfer ownership of generation to the private sector; a separate transmission entity will remain in government hands for a while longer.²³ Two technical assistance (TA) grants were also provided -- (a) to study Electricity Pricing and Regulatory Policy in a competitive environment (\$600,000) and (b) to finance a Consumer Impact Assessment. A separate \$400 million loan from Japan's Miyazawa Fund is hinged upon the privatization of the NAPOCOR; the loan will 'restore NAPOCOR's financial sustainability' in the period prior to privatization-- i.e., finance some of the adjustment costs of the restructuring that include the debt burden, the incorporation of long-term 'take-or-pay' contracts with independent power producers (IPPs) into the competitive framework, and separation payments to employees. A 'NAPOCOR Privatization Master Plan' TA is also in the offing to: provide details of the best practices followed by countries that have undergone similar processes; assess the value of assets to be sold; and guide the government in the overall privatization process through financial closure with investor groups.²⁴

Critics of the NAPOCOR privatization in the Philippines have repeatedly brought to the public's and the Bank's attention many contentious points in the pending legislation that will restructure the power sector -- it will not encourage competition in power generation because 'cross-ownership' between generation and distribution sectors (already dominated by large oligopolies) will be allowed; unconscionable 'take-or-pay' contracts with IPPs will not be abrogated inevitably leading to power rate hikes; absence of any real 'choice' for small household consumers. ADB, World Bank and IMF had, on several occasions, put subtle pressure on the National Legislature to speed up the passage of the Omnibus Power Bill by threatening to withhold subsequent releases of the power sector loan, in clear violation of their own charters prohibiting them from meddling in the political processes of their DMCs.

BOX 6. COLOMBO POWER STATION - ADB'S FIRST PRIVATE POWER PROJECT

The Colombo power station is ADB's first private power project in Sri Lanka and the country's largest such scheme. It will be used as a model for other projects and is expected to strengthen government support for private participation in other sectors through 'demonstration effects'. The financing package consists of a US\$26 million ADB loan and a US\$52 million loan from a syndicate of commercial banks under ADB's partial risk guarantee (PRG) scheme. AES Kelanitissa (Private) Limited (AKL) will construct and operate the power plant under a build-own-operate-transfer (BOOT) scheme with the government and a 20-year power purchase agreement with Ceylon Electricity Board. Commercial operation is expected to begin in 2002/2003. This Project reportedly demonstrates increasing interest in ADB's PRG scheme⁵

More recently, the PSG worked overtime to process the approval of at least two 'model' PSD power projects. In December 2000, the Bank approved a financing package to construct a 163-megawatt power station in Colombo, Sri Lanka, making the power station ADB's first private power project and the largest such scheme in the country (Box 6). In Bangladesh, a \$140 million loan was approved for the construction of a 450-mw power plant in southeast Dhaka. This is the first ever power project supported by the private sector in the country and the first to be competitively bid. In both cases, US-based AES Corporation, a leading independent power producer (IPP), is the 'strategic' private sector partner, leaving one askance about the degree of 'competition' existing amongst transnational power producers.

In India, ADB approved a \$250 million loan in October 2000 to establish a national grid for interstate power transmission in India; the Bank also extended its partial credit guarantee for raising another \$120 million from commercial banks.²⁶ The project supports ongoing reforms to improve governance, strengthen newly-established regulatory mechanisms, build long-term institutional capacity, improve efficiencies and facilitate private sector participation in transmission. The project also aims to enhance the autonomy of the Power Grid Corporation of India (Powergrid), a government agency responsible for the construction and operation of the main transmission network. It will facilitate Powergrid's commercialization by introducing it to international capital markets and private sector participation. States which implement power sector reforms will receive preference for investment by Powergrid. In December 1999, ADB approved a TA grant to assist Powergrid in competitively soliciting for private sector implementation of the Vizag-Vijayawada 400-kV transmission line which, when completed, will be the first extra high-voltage line established by the private sector for a central or state power utility. ADB's partial credit guarantee is the first for India by a multilateral agency for securing a long-term commercial bank financing for power transmission system projects.

In December 2000, ADB approved two loans totaling \$350 million to the heavily industrialized western Indian state of Gujarat to undergo sweeping reforms in its power sector.²⁷ Through the Gujarat Power Sector Development Program, an independent authority will be created to set and regulate tariffs, rationalize power charges and bring in new management practices. The loan will also construct transmission lines and substations for private and public sector power projects. ADB also prepared TA grants towards a reorganization plan for Gujarat Electricity Board (\$0.6 million), a consumer awareness campaign (\$0.05 million) and in support of the Gujarat Electricity Regulatory Commission (\$0.45 million).

In Pakistan, ADB approved two loans amounting to \$350 million in December 2000 to restructure and privatize Pakistan's two major utilities- the national Water and Power Development Authority and Karachi Electric Supply Corporation (KESC). The Energy Sector Restructuring Program is an integral part of the IMF's structural adjustment program in Pakistan; the WB will also provide parallel financing.²⁸

Water and sanitation sector. In January 2001, ADB approved its Water Policy in response to what the Bank perceives as a growing inefficiency in water allocation across the globe, particularly in major urban centers. With the new water policy, ADB will focus on water sector reforms, integrated management of water resources and the improved delivery of water services. This new policy came about with the Bank's alarming forecast on the inability of existing water supply to meet the ' rapidly increasing demand for domestic and industrial water' .

ADB has several PSD initiatives in the Asia-Pacific region, following the IFC-assisted privatization of the Philippines' Metropolitan Waterworks and Sewerage Services (MWSS) in 1997. The World Bank' s private sector arm -- International Finance Corporation (IFC) -- engineered this first large-scale privatization of a water utility in the region. After the privatization, ADB provided loans totaling over \$170 million in September 1999 to one of the two private concessionaires -- Maynilad Water Services, Inc -- making this the Bank' s first assistance to a privatized water and sewerage utility.²⁹ ADB assistance was part of a \$350 million debt package being raised by Maynilad to meet its financing needs up to 2002; this meant that at least half of the financing requirements needed by the private concessionaires was raised from public coffers (ADB' s) in what may be a case of the private ' crowding out' public investments.

At the ADB Poverty Forum (February 2001), PSG head Christine Wallich cited the MWSS privatization as an example of a ' creative public-private partnership' and described how a concessionaire was chosen to ' provide public faucets in slum communities where the poor had previously brought trucked-in water at high prices.' According to Wallich, the government accepted lower concession revenues in return for providing drinking water to nearly 68,000 low-income families. Furthermore, the project reduced illegal connections and water theft and thus helped to improve the general delivery of basic water services. Civil society groups, however, belie these claims, as no independent (or perhaps even official) monitoring had been made to ensure that these performance targets had actually been reached (Box 7).

BOX 7. MWSS: THE 'PUBLIC-PRIVATE PARTNERSHIP' IN WATER DELIVERY

Over the past ten years, the Asian Development Bank has poured several loans amounting to \$426 million to improve the water supply and distribution of Manila' s Metropolitan Waterworks and Sewerage Services (MWSS). These included a \$92 million loan to the Philippine government in 1995 to bore tunnels through mountains to divert water from Umiray River several hundred kilometers away from Metro Manila. Apart from the environmental destruction caused by construction of the ' transbasin' critics deplored the lack of transparency and consultations, particularly among indigenous water users who depended on the waters of the Umiray River for their daily sustenance and livelihoods.

In 1997, the World Bank' s IFC advised government on the privatization of MWSS, the largest ever in the Asia-Pacific region of a public water utility. After hiking water rates pre-privatization and a two-stage ' early retirement plan for affected public sector workers, what followed was the change in MWSS management from government to two private sector concessionaires for the next 25 years. The ' public-private partnership' that seemingly transpired was for government to guarantee the supply of water to the private concessionaires which distributed the water and collected the bills in behalf of government. In return, the concessionaires promised to make more investments to improve water distribution and sewerage services, as well as pay government regular concession fees.

In 1999, ADB approved a \$170 million loan to one private concessionaire -- Maynilad Water Services Inc (French Lyonnaise des Eaux is ' strategic' foreign investor). The loan was roughly 50% of the total \$350 million debt package being raised by Maynilad to meet its investment requirements till 2002.

Today, the MWSS Regulatory Office (RO) receives its budget from the concession fees of the private concessionaires. It lacks teeth in enforcing its regulatory role -- partly arising from its weak legal mandate as it was created simply from a chapter in the Concession Agreement -- and partly because the private sector ' duopoly' can simply threaten to return the management of MWSS to government (at great immediate costs to water consumers) if their demand for water rate increases are not met satisfactorily by the RO. In fact, the private concessionaires, who now have control over water supply, can simply switch off the taps to show government that they mean business! It is not known whether the underfunded and weakly competent RO had been monitoring the supposed benefits to be derived from the water privatization -- e.g., increased number of connections among poor communities, improved public health, decrease in ' non-revenue water, etc.

In Nepal, ADB approved the Melamchi Water Supply Project (\$120 million loan) in December 2000. This involves the construction of a 26-kilometer tunnel primarily to divert 170 million liters of water daily from the Melamchi River to Kathmandu, the country's capital. Aside from tapping new water sources, the project will privatize the management of the Kathmandu Valley water supply. *Even in the early stages, the project has already earned resounding objections from Valley residents largely due to the lack of consultation as to how water can be provided for through other means, including harvesting of rainwater) that will not tax consumers of what is primarily a free good. The project's intent to privatize the public water utility has no foreseen benefits to the poor who cannot pay the new water rates.*³¹

In Sri Lanka, ADB approved a \$19.7 million loan in 2000 to 'improve water resources management' institutional reforms will include the creation of the National Water Resources Authority (NWRA) as the single government agency to manage and have stewardship over the country's water resources. The project will also construct the Kelani Conservation Barrage which will provide improved domestic water supplies to Greater Colombo. *Peasants' and other people's movements in Sri Lanka have raised the fundamental issue of the privatization of water, a resource freely available in nature and a requisite to life itself. Under the guise of water resources management, a new government policy -- largely kept under folds and adopted in March 2000 -- vests all water rights in the state and now allows the government to sell its water. This is but part of a continuing trend promoted by the multilateral banks (e.g., ADB, WB) which, in 1996, supported legislation that would have the country's 1.8 million farming families pay for irrigation water. This was also in line with the move to wean farmers away from growing non-export food crops, the rationale being that as long as government continues to supply water freely to farmers, the latter will continue to cultivate what they wish. Hence, the proposal to charge user fees for water.*³²

*Very fundamental issues are also being raised by a citizens alliance in Pakistan over the privatization of Karachi's public water utility (Box 8).*³³ *The official privatization strategy of the Karachi Water and Sewerage Board (KWSB) was formulated through a million-dollar consultancy from the Paribas-Halcrow consortium. All system assets would be handed over free-of-charge as a 'concession' for 20 or more years. Other than a provincial regulatory authority, there would be no separate oversight body except the Sindh legislature by default.*

According to the alliance, sustainable reforms in the provision of water services should be defined by three themes - (a) Public interest requires universal access to minimum levels of services; (b) The crisis of provision demands simultaneous institutional and organizational restructuring; (c) Acknowledge that markets will not satisfactorily mediate critical social relationships of rights and obligations in essential services. In other words, reforms should not diminish the social responsibility toward citizen rights in exchange for efficiently responding to consumer privileges. If the World Bank (which initially provided support to the project) would have its way, however, reforms in Pakistan's major cities would transform public water agencies into private monopolies. Issues raised include-damning the poor skyrocketing private water tariffs, illusory private efficiency, guaranteed profiteering and unaccountable privatization; and how alternative restructuring should unbundle monopoly, provide equitable financing and secure public interest. As of May 2000, urban water privatization has not taken place. Both the WB and ADB continue to demand privatization in return for further loans. The military regime is more amenable to renewed proposals for privatization to halt the continuing deterioration of services.

Transport sector. Some recent ADB-funded projects which encourage private sector participation in the transport sector are the Indian tollway (approved in July 2000) and the Chittagong Port Access Road in Bangladesh (approved in November 2000).

The Indian tollway is a 180-km stretch between Surat and Manor of National Highway 8 linking the states of Gujarat and Maharashtra.³⁴ After widening and upgrading through a \$180 million loan, a private concessionaire -- which could be Indian or an international/local joint venture -- will operate and maintain the tollway. This is the first time that India will use the private sector to operate and maintain a publicly-funded tollway, thought to bring entrepreneurial skills and better management to the development of national highways. Through policy dialogue with the Government, ADB seeks to reform the road sector by strengthening the National Highways Authority of India (NHAI) and by encouraging private financing and commercialization in operation and maintenance.

BOX 8. PAKISTAN' s KWSB: WORLD BANK' S GUINEA PIG ON WATER PRIVATIZATION IN SOUTH ASIA

- ♣ *Damning the poor* Improvements in water delivery are given no specific targets; during the entire concession period, poor and lower income households will continue to be accorded low priority. Sewerage collection will never be provided to more than half the population.
- ♣ *Skyrocketing private tariffs* As prelude to privatization, tariffs have jumped 30%, and are planned to increase annually by 20% in real terms, yielding a cumulative increase of 300% by the fifth year of privatization for all consumers, rich or poor, domestic or commercial. Irrelevant comparisons are made to tariffs in richer Southeast Asian cities; ignored are substantially lower public tariffs in Bombay and almost equal private tariffs in Manila. Consumers will also face additional burdens as taxpayers as the existing debt of \$280 million will be serviced by government. Given the highly inequitable tax system, the poor will end up paying a great deal more than tariff increases.
- ♣ *Illusory private efficiency* Water utility staff will be reduced by 1,500 before privatization, and another 4,000 after. It is not obvious how cost-effective retrenchment will be after expatriates take over senior management, and downsizing is accomplished through golden handshakes. Bill collection ratios are expected to more than double for connected customers, and four-fold for unconnected customers. The problem of theft by industrial, commercial and domestic customers is not seriously taken up, nor how to tackle the formidable ' tanker Mafia' . Despite substantial public investment, better private management will reduce physical water losses from 40% to 30% in five years of privatization; it is puzzling why the much-vaunted private efficiency will do no better than public systems in Bombay (24% in 1993) and Delhi (30%).
- ♣ *Guaranteed profiteering* Despite its monopoly, private equity finance will bring less than 10% of funds needed for rehabilitation and expansion. The bulk of investments will in fact be financed by additional international agency loans and rapidly increased revenues through a 3000% real increase in tariffs and doubling of collections. Virtually no private risks are present because of minor equity finance; the WB advises that the private concession should assume no financial risks whatsoever. Recovery of equity with a 15% real rate of return is guaranteed through a revenue reserve facility which could cost taxpayers %50 million just over five years. Presumably in deference to international reputations of the water cartel, no penalties are proposed for bad performance. No limits are placed on exploitation of transfer pricing and expatriate compensation. Taxpayers should continue to service all existing debt; servicing of all future debt is also required to be guaranteed by government.
- ♣ *Unaccountable privatization* Not content with coddling the private system through the absence of specific minimum and verifiable targets for service improvements, the privatization strategy further recommends that any commitments be open to re-negotiation after five years. No penalties are proposed for failure to meet targets, and measures of service levels are to be based on self-assessment by the operator, ensuring the death-knell of regulation. Tariff regulation, however, is to be guaranteed by government, i.e., through enforcing disconnection.
- ♣ *Alternative restructuring* The required focus in all restructuring is a rapid and sustained expansion of services to the unserved and underserved in water and sewerage. Yet another priority must be large-scale conservation through reduction of enormous system leakage and consumer waste. Karachi should get no additional water until it ensures collection and safe disposal of present supplies.
- ♣ *Unbundling monopoly* Efficiency and consumer welfare require substantial break-up or unbundling of KWSB operations, both vertically by functions and horizontally by locations. Introducing competition and contestability for the market, unbundling will considerably reduce the subsequent burden of regulation and oversight of conduct. If some functions are to be privatized, unbundling will encourage direct local participation through private enterprise and community control.
- ♣ *Equitable financing* When focused on equitable services, there is likely to be a sharp drop in the level of investments required in the immediate future, hence reducing the unfair pressure to privatize. Unbundling and limited-duration franchises can permit substantially smaller tariff increases for the poor as well as on average; there should also be an explicit element of cross-subsidies from affluent to poor consumers. Taken together with subsidy block grants from the city, cross-subsidies in tariffs must ensure universal access to the final service and effectively protect the environment. For public financing of activities, raising funds through tax-exempt municipal bonds should be considered an option. Retrenched public entities should have preferential outsourcing of activities and shares in restructured public entities.
- ♣ *Securing public interest* Citizens fear regulatory capture by service providers; introducing competition through structural unbundling could get a long way in protecting consumer interests. Time-bound contracts of short duration must become the rule for both public and private providers. Whether it is a management contract or franchise, efficiency and service incentives would be strongest when providers face a credible threat of being ousted for bad performance. Contracts must specify target outcomes in service and environmental standards, and these must be the benchmark for tariff adjustments. Stiff penalties for deterioration in services must be prescribed beforehand, and paid to consumers directly as rebates. An oversight body -- a Public Utilities Commission -- is recommended with federal, provincial and city representation to adjudicate between stakeholders, with a transparent system for public dissemination of all information available to regulatory and oversight bodies.

In November 2000, ADB approved two loans totaling \$94 million to Bangladesh to upgrade and expand the Southeast Road Corridor, the country's most important highway that links Dhaka to the main port city of Chittagong in the southeastern part of the country.³⁵ The highway is essential especially for export industries. The Chittagong Port Access Road, the country's first access-controlled toll road, will be operated and maintained by the private sector.

' **Capable strategic investor**' Citing diverse regional experiences in 1999, IFC Lead Economist Frank Lysy concluded that an emerging ' core lesson was privatization to a ' capable strategic investor' rather than to ' insiders'³⁹ This generally ' worked best' rather than dispersed ownership,' although it was important to ' ensure minority shareholder rights.' These lessons, according to Lysy, were largely influenced by instances of ' privatization disasters' in the former Soviet bloc e.g. the so-called loans-for-shares scheme in Russia that became ' hopelessly corrupt' and the ' controversial' voucher privatization in the Czech Republic.

BOX 9. WORLD OF WATER MULTINATIONALS IN SELECTED ASIAN COUNTRIES.

COUNTRY	MULTINATIONAL	COMPANY	% OWNED (*)
Philippines	Biwater	Subic Water	30.0
	Suez-Lyonnaise	Maynilad Water Services	-
	United Utilities	Manila Water Company	25.0*
Thailand	Bouygues	MSM	-
	Bouygues	SAUR Thai	77.2*
	EDF	MSM	-
	EDF	Saur Thai	14.0*
	SAUR	MSM	-
	SAUR	Saur Thai	100.0
	Thames Water	BJT Water	40.0
	Thames Water	Pathum Thani Water	31.0
	Thames Water	Thames Water Intl (Thailand)	100.0
Indonesia	Biwater	PT Abhya Tirta Batam	45.0
	Suez-Lyonnaise	Lyonnaise (Indonesia)	100.0
	Suez-Lyonnaise	Palya	50.0
	Thames Water	Sidoarjo Water	-
	Thames Water	Thames (Indonesia)	100.0
	Thames Water	TPJ	50.0
	United Utilities	NW Water (Indonesia)	-
	Vivendi	Sidoarjo Water	-
Malaysia	Biwater	Biwater Shellabear	-
	Suez Lyonnaise	Lyonnaise (Malaysia)	100.0
	Thames Water	Kelantan Water	70.0
	Thames Water	Thames Water (Malaysia)	90.0
	Thames Water	Thames Water Eng'g (Malaysia)	100.0
	United Utilities	Indah Water	50.0
	United Utilities	NW Water (Malaysia)	100.0
	United Utilities	GdE (Malaysia)	100.0
China	Anglian Water	Purac (China)	100.0
	Bouygues	SAUR (China)	-
	Hyder	CWC	20.0
	SAUR	SAUR (China)	-
	Suez-Lyonnaise	Lyonnaise (China)	50.4*
	Suez-Lyonnaise	Macao Water	-
	Suez-Lyonnaise	Sino-French Water Development	50.0
	Thames Water	Bovis Thames (Shanghai)	50.0
	Yorkshire Water	Yorkshire Water (China)	100.0
Vietnam	Bouygues	SAUR (Vietnam)	77.0
	Suez-Lyonnaise	Safege (Vietnam)	-

* Indirect % Owned (Reconstructed from Public Services International "World of the Multinationals" tables 1999)

At ADB, a core of ' capable strategic investors' is beginning to emerge, in much the same way that the same or US companies have managed to consistently land on Top 5 slots as Bank contractors, consultants or TA grantees.

These are mostly large transnational corporations with headquarters based in the top donor countries (e.g., US). In the power sector, for instance, US-based AES Power Corporation seems to be a top favorite at the PSG; multiple loans and credit guarantees to two of its subsidiaries were provided by the Bank in December 1999 alone -- AES Meghnaghat Power Limited, Bangladesh (\$50 million), and AES Kelanitissa (Private) Limited, Sri Lanka (\$26 million). AES Kelanitissa is the first recipient of the Bank's Political Risk Guarantee; AES Meghnaghat Power has also benefited from ADB's Complementary Financing Scheme and Political Risk Guarantee⁴¹

In the water sector, French-based Lyonnaise des Eaux (Lde) is a consistent recipient of the Bank's private sector loans; Lde belongs to an elite cartel of water transnationals based largely in donor countries (e.g., England and France) which have acquired privatized water utilities in the Asia-Pacific region (Box 9). Lde is the foreign partner of the Philippines' Maynilad Water Services which received the Bank's first private sector loan (\$170 million) to a privatized water utility in 1999; in 2000, ADB granted a \$35 million loan to another Lde subsidiary in Vietnam -- Lyonnaise Vietnam Water Company Limited. Aside from water and sanitation, Lde is also active in waste management, prisons, energy, health services and telecommunications.

*The much-vaunted competition in the private sector is a myth, particularly in the globalized arena where only a handful of multinational corporations have emerged as 'capable strategic investors', with much financial and advisory support from international financial institutions like the World Bank and ADB, to dominate privatized public utilities wherever they take place around the world. In the water sector, for instance, the most important TNCs are the French-owned Generale des Eaux (GdE), Lde and SAUR; the English Anglian Water, North West Water, Severn Trent and Thames Water. Few as they are, they still try to reduce competition by setting up a consortium among themselves. Their stakes in the private water companies in the Asia-Pacific region run up to 100% in the privatized water companies. Their emerging track record worldwide, however, is beset with labor woes, failed performances, allegations of corruption, water rate increases, etc.*⁴²

Financial intermediation

To ADB, well-functioning financial systems are important for private sector development, especially in the aftermath of the Asian crisis. Financial institutions need to be strengthened to develop the domestic capacity to finance private-sector led growth.

Financial sector reform. To provide support to the IMF package of reforms in countries hardest-hit by the financial crisis, ADB poured unusually large bail-out packages in support of reforms in the banking and finance sector -- \$1.2 billion to Thailand in August 1997, \$4 billion to Korea in December 1997 (the largest loan ever granted by the Bank), and \$1.5 billion to Indonesia in 1998. These policy-based loans typically include the restructuring of state-owned banks and improving the legal and regulatory environment ' to facilitate debt recovery.'

Financial sector programs, however, should more fully incorporate the lessons learned from the Asian crisis, according to some US-based NGOs.⁴⁴ One of these lessons, recognized even by mainstream economists, is that the costs of capital market liberalization have outweighed the benefits. ' While the PSD Strategy does tackle the governance agenda of such countries and pledges to integrate operations on a country-specific basis, it does not address the costs associated with the liberalization of markets, nor propose an agenda that promotes stabilization mechanisms in the DMC's economy' . A variety of measures should be featured in these financial sector reform packages -- e.g., capital controls, exchange controls, and transaction taxes (including a ' Tobin tax' on foreign exchange transactions.)

Capital market development. ADB will also look towards substantial domestic savings in Asia-Pacific countries by developing a financial sector that allows these savings to be channeled into productive long-term investment. Through direct funding investments with emphasis on ' good corporate governance' , ADB will help establish role model banks, insurance companies, mutual funds, leasing firms and pension fund management companies. Thus, pension funds reform and housing project models will soon become staple fare in the Bank's policy-based lending operations.

In March 2001, for instance, the Bank identified a housing project model in Sri Lanka for capital market development in the region.⁴⁵ ADB approved an equity investment of up to \$360,000 in the proposed NDB Housing Bank, a new market-based financial institution in the country, to provide housing finance. The institution is an example of the types of projects supported by the Capital Markets team of PSG. NDB Housing Bank is the first

private sector housing bank investment in Sri Lanka; it will focus on providing loans to medium and low income borrowers, initially in the Colombo region; over time, the bank is expected to diversify provide a wide range of loan products designed to meet the funding needs of low and medium income home owners.

Pension reform. In December 1998, former ADB Vice President Peter Sullivan cited the need to reform pension systems to avert a ' looming social security crisis and to develop financial markets.⁴⁶ VP Sullivan stressed that pensions offer a large pool of savings and provide an impetus to the development of debt and equity markets. He also pointed out that most Southeast Asian economies needed to design reforms of ' partially funded' systems; in the transition economies, there was a need to ' restructure and tighten the welfare systems by enhancing contributions while allowing for market forces to determine the use of resources.' In 1997, the Bank funded Kazakhstan' s pension system reform with a \$100 million loan that will support the transition of the existing ' pay-as-you-go' pension system to a ' fully funded, defined contribution' pension system.⁴⁷ In 1999, ADB co-organized a ' capacity building' conference to explore appropriate strategies to reform pension systems in South Asia.

The Chilean model of pension reforms -- deemed by many Chilean activists as an ' extreme case of privatization' -- may be instructive here.⁴⁸ In 1981 under the Pinochet dictatorship, Chile shifted from the ' defined benefit' system (also known as ' pay-as-you-go') to the privatized ' defined contribution' system. Chile' s pension system today is based on individual accounts administered by private fund managers. It favors the individual and not the social group; the principle of solidarity is absent since the gains or earnings from individual contributions are strictly for the individual. This is in contrast to a ' defined benefit' system which is guided by the principle of social equity and solidarity. Benefits are shared by all as individual contributions are also being used to subsidize the poor, the sick, the disabled and the old. Moreover, the privatized, fully-funded pension system causes gender inequality: " Unlike the public schemes that give the same benefits regardless of the sex of the affiliates, fully funded schemes pay benefits which explicitly include the life expectancy factors by gender. Therefore, those who live longer (women) obtain on average lower benefits than those with shorter life expectancies. For instance, assuming an equal record of wages and years of contribution by gender, women who retire at 60 would obtain 52-76% of the pension received by males."⁴⁹

Financing SMEs and micro-industries

According to PSG head Wallich, private sector financial institutions can assist in poverty reduction in more direct ways – by providing easy access to financing on reasonable terms to SMEs and tiny industries and even individual entrepreneurs.⁵⁰ There is great interest in SME and microcredit financing, particularly in the aftermath of the Asian crisis, and given the need to provide assistance to sectors which employ the largest number of people -- and that is a very good thing. SMEs are the largest source of employment in Asia. Their access to finance could make a real difference for the betterment of many lives in the region.

Wallich further describes microcredit as being a 'quite recent phenomenon' and a major challenge being to make micro-credit ' bankable' , i.e., commercially viable. The first initiatives were made in Bangladesh by the Grameen Bank; in Viet Nam, the Bank for the Poor and a large number of peoples' credit funds providing credit to small farmers exist. In the Philippines, NGOs play an active role; German-designed schemes have also been successfully coursed through local chamber of commerce. Another challenge – further in the future -- is getting these enterprises capital market access. For instance, explains Wallich, can a microcredit portfolio be securitized to reduce its dependence on donors?

Much less familiar is so-called ' MicroEquity' ranging from \$50,000 to \$250,000. Venture capital funds have traditionally not reached the smallest companies nor the poorer families and individuals in need of credit to finance productive activities and improve the quality of their lives. However, micro-equity funds are also being piloted and found to be also working – e.g., Eastern Europe and Latin America. They are not without problems, however, according to Wallich -- (a) Overheads are high due to small fund size; (b) Fees are high due to hands-on approach; (c) Donor funds are typically needed for start-ups; (d) A heavy dose of ' entrepreneurial support' is needed, as is a financially seasoned NGO to run the funds on behalf of private investors.

Some NGOs might welcome ADB' s investing in SMEs and micro-enterprises, especially those owned or managed by women, as this can work to broaden access to small-scale but long-term financing that should promote job creation and poverty reduction.⁵¹ Fostering economic growth spurred by domestic investors/companies will result in profits being reinvested locally rather than repatriated. In most of Asian economies, more than 50% of production

takes place in the informal sector which is largely dominated by women. In these environments of daily subsistence, what may be necessary is a package to help women build viable financial systems. But whether the Bank is the most appropriate agent for this kind of credit assistance, particularly to women, is still largely debatable.

' Public-private partnership' in the social sector

In 1999, the Tokyo-based ADB Institute (ADBI) convened major policy makers in the region to a conference on *Dealing with Public-Private Partnerships in the Social Sector* to ' explore economic systems and the combination of roles and functions of the economic entities of markets, institutions and governments.' In education and health, the ' public sector needs to recognize the skills and capacities of the private sector, while the private sector needs to consider its social responsibilities beyond that of self-interest.'

In recent years, some ' consensus' seemingly been reached on the financing and provision of social services.⁵² In health, for instance, the public sector is ' most naturally suited' to addressing issues involving communicable diseases, availability and quality of information about health and health care, creation of viable health insurance programs, safety nets for the poor, and equity in distribution of health resources. The private sector is believed to control costs and promote efficiency. In the education sector, the public sector is ' bound to provide primary education' as it impacts so deeply on all areas of the country's wellbeing; government should oversee private sector provision. Tertiary education is more suitable for private partnerships, either in financing and provision or both, as education becomes more specialized; the public sector must ensure that quality and equity are maintained. ADB recently assisted the creation of the first private university of Vietnam.

Earlier in 1995, former ADB President Mitsuo Sato set the tone for public-private partnerships in health when he cited the urgency to develop concerted policy reform to address problems of access, high costs and diminishing resources for health care in Asia; a key element in this strategy was the encouragement of greater private sector involvement in health care provision.⁵³ Among the key issues on the agenda for debate were public expenditure on health; decentralization of the health care system; broadening health financing options to include user fees, community finance and social and private insurance; promoting private sector participation; and improving access to, and the efficiency, of health care services.

There have been major lessons learned in privatizing social services (particularly health), however, which belie this so-called 'consensus' on 'public-private sector partnership.' In Nicaragua for instance, the institution of privatized health services disenfranchised citizens, resulting in the reversal to a biomedical emphasis rather than a ' broad based, intersectoral and integral concept' of primary health care.⁵⁴ In the Philippines, various citizens' groups have continually opposed the privatization of health services due to core issues of the people's right to quality health care that is appropriate, affordable, and accessible', especially poor women and children.. How would privatized health institutions balance social responsibility and profitability? There were no guarantees that poor and charity patients would still be given free health care services. In Cambodia, official user-fee schemes resulted in poor people being further denied access to health services.⁵⁵

In the privatized health care system of the US, consumers felt powerless against the monolith of profit-seeking doctors, hospitals and insurers.⁵⁶ ' Perverse incentives' have been created e.g., unnecessary surgical procedures, including caesarians, hysterectomies and tonsillectomies. Privatizing health services in Europe revealed the following trends vis employment statistics, pay and conditions of health sector workers: (a) Health care support services (cleaning, catering, and computing) are being contracted out to some extent in most countries of the European Union; (b) There is a growing number of transnational companies who are already providing support services such as cleaning and catering in a number of countries.⁵⁷

Privatization in the agriculture/natural resources sector

The increasing commercialization of agriculture will be intensified with ADB's PSD strategy in its public sector operations, particularly in the agriculture and natural resources sector. Some recent agriculture ADB loans with PSD components are:

- ♣ The ambitious Grains Sector Development Program in the Philippines (\$175 million, approved April 2000) which will overhaul the ' largely protected' grains sector and make it more ' market-based, productive and internationally competitive' ; an accompanying TA will recommend strategies to privatize the National Food Authority.⁵⁸

- ♣ In November 2000, ADB approved a \$45 million loan to restructure already privatized farms in Kazakhstan. The Farm Restructuring Sector Development Program will promote the recovery and growth of the agriculture sector through 'efficient agricultural taxation' and use of water fees, facilitation of local private initiatives and the formation of voluntary rural associations, efficient pricing of agricultural inputs and encouragement of private investments in agriculture.⁵⁹
- ♣ In November 2000, ADB approved a \$11 million loan to Nepal's Crop Diversification Project that will use private service providers, including NGOs, to assist groups of farmers -- especially women -- how best to grow and market cash crops.⁶⁰

Decreased subsidies, irrigation water fees, and other ' cost-recovery mechanisms' will again be imposed which further burdens poorer farmers. The privatization of common access resources -- such as the leasing of fishing lots in support of industrial development -- has resulted in increasing lack of access by poor fishers and their families of cheap sources of fish and protein needed as caloric requirements of poverty reduction. Moreover, opening the agriculture and natural resources sector to market-oriented approaches will disrupt the lives of indigenous men and women whose livelihoods depend on their natural environment and threaten their survival as a people.

Subregional Cooperation

ADB's mandate to promote regional cooperation was translated into policy in 1994. The Bank has since supported several subregional cooperation programs in Southeast Asia (e.g., Greater Mekong Subregion or GMS, East ASEAN Growth Area or BIMP-EAGA), Central Asia, and more recently, in South Asia. In these schemes, ADB plays a coordinating role cum ' honest broker' between governments and the private sector. ADB's support to subregional cooperation covers the whole range of activities from technical studies and workshops in support of 'cooperation dialogue', to physical investments in cross-border projects and, where appropriate, assistance for cross-border agreements like the ' landmark' Framework Agreement on Movement of Goods and People recently signed by Thailand, Lao PDR and Vietnam in the Greater Mekong Subregion scheme.

According to ADB, the basic rationale for economic cooperation is four-fold.⁶² It supports the development process beyond national limits. It helps exploit ' complementarities' among groups of countries or areas to ~~able~~ generate a momentum of growth. It involves the joint development of collective goods such as transportation, telecommunications, and power facilities. It strengthens responses to common concerns involving the environment and human resource development. Moreover, subregional cooperation enhances the investment attractiveness of participating countries as a group, well beyond their individual abilities, i.e., the ' *subregional whole can be greater than the sum of the individual parts.*

Greater Mekong Subregion⁶³ The GMS consists of the six countries of Thailand, Vietnam, Cambodia, Laos, Burma, and Yunnan province of People's Republic of China. Several TA grants from the ADB in 1991-1993 initiated the process of bringing together government officials from the subregion to discuss greater economic cooperation and to facilitate trade and investments in the GMS. Some 100 priority projects have been identified -- several already funded by ADB -- in the key areas of energy, transport, trade and investment, telecommunications, human resources development, tourism and environment.

ADB views the GMS as a Mekong-centered ' natural economic area' where a ' natural process' of integration in trade and investment develops as subsistence levels rise from an expected rapid economic growth. The ADB's experience in the GMS has considerably strengthened its theory-building on the concept and actual practice of subregional economic cooperation.

GMS cooperation is not covered by any formal treaty or convention, and ADB staff would be quick to point out that this was not an objective in the first place. The framework builds upon existing relationships among countries, and is fed with a good dose of economic pragmatism. Being basically project-oriented, its success crucially depends on attracting both domestic and foreign private investments. When the Asian crisis hit in 1997 and Thailand among the countries hardest hit, GMS activities ground to a halt, as crippled Thailand was largely seen as the ' hub' of the GMS.

In a 1999 impact evaluation of the GMS program by ADB's Operations Evaluation Office, key lessons emerged. The evaluation cautioned against building unrealistic expectations and that the program should remain focused on achievable targets. Moreover, the review recognized the constraints of an 'ad hoc approach' and suggested the

creation of appropriate institutional arrangements, with separately dedicated TA and loan resources and staff to pursue strategic planning and medium-term programming.

In the GMS, the ADB flaunts a new paradigm shift idealizing a scenario where subregional cooperation projects would be 'free of national borders' and would not have to deal with 'sometimes cumbersome' national laws and regulations. Natural resources would then likely be utilized quite differently from current patterns. In the energy sector, for instance, a shift from the 'traditional' national self-sufficiency approach towards an integrated 'subregional approach' would be seen as a triumph of subregionalism. In November 1995, then ADB Vice President Bong Suh-Lee noted that in implementing the GMS program, 'the participating countries have increasingly developed a subregional perspective whereby national interests are integrated in a complementary manner with those of neighboring countries.' The Bank's 'facilitating' role in GMS cooperation will simply mean one more venue for the Bank to impose policy conditionalities on unsuspecting member countries on a subregional scale.

South Asia Subregional Economic Cooperation (SASEC)⁶⁴ To ADB, several factors signal the growing momentum for cooperation in South Asia --

- ♣ Chukha Hydel Project for power delivery from Bhutan to India;
- ♣ Signing of Mahakali Treaty between India and Nepal;
- ♣ Enhancement of transit facility from Nepal to Bangladesh through the eastern corridor in India;
- ♣ Signing of Ganga Water-Sharing Agreement between India and Bangladesh;
- ♣ Signing of India-Sri Lanka Free Trade Agreement;
- ♣ Activities initiated under the Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation initiative (BIMSTEC);
- ♣ Formation of the South Asia Growth Quadrangle (SAGQ).

ADB promotes South Asia as the region accounting for the 'single largest concentration of poor people in the world', or about 500 million out of a total 900 million persons living in poverty. Full-fledged subregional loan projects, however, have yet to be financed in South Asia. An initial subregional TA facilitated a power exchange agreement between India and Bangladesh in May 1997; another TA provided support to the first meeting of the Private Sector Forum promoted by the chambers of commerce from SAGQ countries (Bangladesh, Bhutan, India and Nepal) in November 2000.

The SAGQ was formally launched by the foreign ministers of 'member' countries in April 1997; Nepal became overall coordinator and the following key sectors identified -- environment, energy and power, trade and investment, transport and tourism. Consequently, SAGQ countries requested ADB's assistance in identifying and preparing subregional projects.

The first Private Sector Forum on SASEC in Calcutta (India) brought together public and private sector representatives and was seen as a major step towards identifying an investment program to develop the SAGQ; the event was attended by a large ADB delegation.⁶⁵ The Calcutta forum aimed to begin translating these broad concepts into specific, bankable, investment projects. ADB will urge SAGQ governments and private sector representatives to prepare a regional development masterplan to identify specific projects in different sectors, and prioritize them for financing.

Broadly, an investment program for the SASEC subregion would include an economic corridor around the Bay of Bengal, linking ports from Chittagong to Dhaka, Mongla, Calcutta, and Haldia. It would also include a transport grid of east-west railroads and highways linking the eastern Indian hill states with West Bengal through Bangladesh, as well as north-south transport corridors linking Nepal, Bhutan, and the hill states of eastern India to ports on the Bay of Bengal. This grid would be connected to the rest of India at Calcutta through India's top priority Golden Quadrilateral project of superhighways joining Delhi, Bombay, Chennai, and Calcutta. Similar grids could be developed for power, hydrocarbons, and telecommunications.

According to ADB, the subregion offers a huge force of hard working and disciplined workers at relatively low wages, is rich in natural resources including -- the Ganga-Brahmaputra-Meghna basin, one of the largest graineries in the world; hydropower potential in Nepal and Bhutan; the coal resources of West Bengal and Bihar; hydrocarbon reserves in Bangladesh, Assam and Tripura; large non-energy mineral deposits, forest resources, livestock and

marine resources and a network of ports in Chittagong, Mongla, Calcutta, and Haldia. However, coordination is required among governments to create an enabling environment for the private sector, such as forging agreements to facilitate cross-border movements of goods and services. Moreover, many of the planned infrastructure projects are cross-border projects which require coordination across national boundaries. ADB's strong commitment to the subregion is reflected in its investment portfolio of over \$16 billion in the SAGQ countries, in addition to \$340 million in technical assistance grants.

Central Asian Regional Economic Cooperation (CAREC) In 1997, ADB initiated support to CAREC with a three-year TA plan prepared for 2000-2003. In March 1998, ADB crafted a private sector strategy for the newly-independent republics of Central Asia formed after the break-up of the former Soviet Union. The transition economies were then encouraged to design broad-based reforms that promote the development of a viable and healthy private sector, especially in those areas concerned with developing commercially viable firms and farms.

In October 2000, ADB approved a \$70 million loan to rehabilitate the road linking the Central Asian republics of Kazakhstan and Kyrgyz; the road forms part of the famous 'Silk Road' which links Europe and the People's Republic of China.⁶⁷ This is the first subregional cooperation project in Central Asia; twenty-five percent of the traffic is international, largely of agricultural and industrial goods. To encourage privatization as the countries move towards market-based economies, the project will also establish a pool of equipment which can be rented out to private contractors competing for road construction and maintenance work. Importantly, the project will also 'modernize' border control facilities and procedures.

Pacific Islands In March 2001, ADB approved its new Pacific strategy which focuses on the streamlining of Pacific countries' public sectors and boosting private sector investment. The new strategy responds to five key challenges in the Pacific Island nations:

- ♣ Vulnerability due to remote locations and a narrow resource base, and susceptibility to natural disasters and global markets;
- ♣ Political instability and poor governance;
- ♣ Limited skilled human resources;
- ♣ Socio-cultural factors that affect politics and productivity; and
- ♣ Inadequate physical, technological and financial sector infrastructure for sustainable growth.

ADB's Pacific strategy underscores the importance of regional cooperation to collectively reap the benefits of economies of scale. ADB is currently supporting regional cooperation in fisheries, air transport, financial sector restructuring (including addressing money laundering), public sector management and governance.

In the countries which are resource-rich but have poor growth and high population rates (Papua New Guinea, Solomon Islands and Vanuatu), the strategy will focus on governance, public sector reform and poverty reduction through social and infrastructure investments. In the more economically advanced countries with a higher skill base, moderate resource potential and relatively low poverty (Cook Islands, Federated States of Micronesia, Fiji Islands, Samoa and Tonga), the strategy will promote private sector growth through policy reform and physical and financial sector strengthening. In the island atolls of Kiribati, Marshall Islands, Nauru and Tuvalu which are severely disadvantaged by their smallness, isolation and weak resource base, the strategy is to establish and expand trust funds to support the sustainable financing of basic services. It is also to support niche markets for tourism and a sustainable use of marine resources.

What needs to be done

The ADB's Private Sector Development Strategy (PSDS) is the embodiment of a neo-liberal ideology that puts blind faith in the supremacy of the private sector as the all-knowing and all-efficient determinant of a country's development, which premises, among others, that:

- ♣ Private ownership always ensures incentives to maximize efficiency;
- ♣ Private management is intrinsically more efficient than public management;
- ♣ The market always allocates resources where they are most needed;
- ♣ Public investment 'crowds out' private investment;

- ♣ People will pay for what they need and do not need what they cannot pay for;
- ♣ Collective provision of welfare services promotes a ' dependency culture' .

These premises that the Bank assumes to be a given should be challenged in a major way. 'Privatization' , in its broadest sense, should not be reduced to merely the question of inefficiency and graft and corruption of state enterprises - the public sector' s trilogy of sins. It is also about the role of government in providing social goods, its capacity to act as a social agent, and about employees in these public enterprises. Through privatization, however, public enterprises with combined ' social' and income-generating functions would be transformed into purely profit-oriented enterprises. The losses would be in the ' social' , subsidized functions, where support mechanisms and subsidies for the poorer sections of society would lie. Moreover, the specter of big business conglomerates controlling strategic sectors in society - e.g. public utilities - cannot be swept under the mantle of a much improved service delivery. If government is deemed to be inefficient and corrupt, then the answer is not privatization, but rather to replace government.

Multilateral development banks like the ADB and World Bank have often cited empirical evidence of the primacy of the private sector. Most of these studies show the ' superiority' of privatized SOEs, these are limited, however, to narrow efficiency criteria such as: increased sales, increased earnings, increased average salary per worker, and decline in both short-term and long-term debts. Moreover, the budgetary implications of privatization -- which tend to be based on gross, incomplete figures -- have not been taken into account -- e.g., transition costs, monitoring costs, costs arising from unemployment, losses for assets sold below market value, losses of future streams of dividends, and various financial and other support lent by governments to the new entities.

These so-called evidence should be continually challenged based on the perspective of poorer segments of society who should be the primary beneficiaries of development and improved delivery of services. There appears to be a lack of clear assessment of the benefits and costs of the various privatization processes, and insufficient efforts to seek alternatives or a full-options approach. For instance, no systematic studies have been carried out to monitor the efficiency of divested enterprises over a longer period.⁶⁸ What needs to be done, among others, is implement a rigorous strategic or social and environmental assessments of pre-privatization projects as well as monitoring and analysis of the impact of already privatized goods and services. The differential impacts of privatization on women should also be recognized.

More in-depth and strategic assessments of privatization should address fundamental issues related to the social function of the state, accountability and profit motives of private enterprises, impact on prices and poor consumers, opening of strategic sectors (e.g. power, telecoms) to foreign multinational interests, further re-concentration of wealth, contractualization of labor, hidden private sector subsidies and/or guarantees, so-called ' fiscal space' , retention of public sector debts, environmental protection and privatizing control and management over natural resource assets (e.g. water, geothermal power).

More importantly, civil society groups should monitor the private sector.⁷¹ Private sector participation in the ADB's co-financed projects is definitely on the rise. As this trend goes full swing, increasing adverse effects on affected local communities and their environments can be expected. Since the private sector is less subject to social and environmental ' conditionalities' than the borrowing governments, effective strategies need to be devised for engaging the big money interests. Their responsibility for the 1997 crisis and the Banks' tendency to bail them out with taxpayers' money must never be left unchallenged. The concept of ' corporate citizenship' should translate in monitorable corporate responsibility to people and the environment.

Some NGOs believe that the implementation of the PSDS may benefit a country and particularly the poor if certain conditions are met, including the following:⁷²

- ♣ Build on a detailed analysis of the determinants of poverty and marginalization in each country and region, specifying pro-poor interventions in which the private sector plays an important but not necessarily predominant role in poverty reduction;
- ♣ Development and implementation of redistributive measures which enhance equity and prevent concentrations of power, wealth and decision-making;

- ♣ Enhanced monitoring and participation in private sector development by civil society and enhanced oversight by parliaments;
- ♣ Ownership of the strategy by borrowing countries.

Moreover, for the PSDS to be truly effective in combating poverty, US-based NGOs recommend that it should:⁷³

- ♣ More fully incorporate the lessons learned from the Asia Crisis and relate international processes to domestic poverty alleviation.
- ♣ Develop private sector operations policies that reflect environmental, labor and social concerns and framework in which to enforce these policies.
- ♣ Further develop transparent and accountable private sector project implementation procedures.
- ♣ Incorporate a risk assessment as well as lessons from past evaluations.
- ♣ Make specific reference and compliance to existing global standards (e.g. environment, labor).

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