

THE BASICS OF ADB INVESTMENT OPERATIONS

How Does the ADB Work?

The ADB provides financial support, through low-interest long-term loans and grants, and professional advice for economic and social development activities to developing and transitional countries in the Asia-Pacific Region. These services are provided to country governments as well as private companies, but not to individuals.

The following are the types of financial assistance the ADB offers to Developing Member Countries (DMCs):

Ordinary Capital Resources: Nearly 75% of ADB's lending is from Ordinary Capital Resources (OCR). OCR loans are usually for 15-25 years, have an interest rate set by the market and are made to DMCs with a higher level of economic development.

Asian Development Fund: This special fund was started in 1973 as an instrument of concessional lending for lower income members. ADF project loans give borrowers a longer time to repay the money (they have a 32 year maturity period¹, including an 8 year grace period during which the borrower does not pay any interest), and a very low interest charge (1 % to 1.5 %). Only the poorest member countries qualify for these loans. Several countries receive a mixture of both OCR and ADF loans.

Money for the ADF is received through pledged donations (covering a 4 year period) from both regional and non-regional donor

member countries. The donation cycles are called "Replenishments" and are determined after negotiations between donor countries and the ADB. The negotiations focus on the amount each donor country will contribute and the conditions set by donors in exchange for their contributions. Currently ADF lending in its 9th Replenishment (covering the January 2005 – December 2008 period) makes up 27% of overall ADB assistance, and 24 countries receive it.

How do borrowers make use of ADB funding?

The ADB provides loans and grants to DMCs for development activities. The interest rates on these loans are lower than those offered by commercial banks. For all loans, ADB provides a portion of the funding, and the borrower must provide counterpart funding as well. The ADB portion can be, and often is, the substantially larger contribution.

It is important to note that borrowers must always pay back ADB loans, with interest, regardless of whether the project or program is successful in meeting its goals or not. This burden is ultimately paid by the citizens of the country. (See below.)

Organizations monitoring ADB operations have found that often projects and programs are not successful in that they do not ad-

Loans by sector	USD (millions)	% of Annual Lending
Agriculture & Natural Resources	391.90	6.4
Energy	756.70	12.4
Finance	483.00	7.9
Industry and Nonfuel Minerals	0.0	0.0
Social Infrastructure	1,130.51	18.5
Transport and Communications	2,577.70	42.2
Multisector	465.5	7.6
Others	299.5	4.9
Total	6,104.81	100.0

vance the ADB's overall mission of alleviating poverty in the Asia-Pacific region. It is important to note that even the ADB's own Operations Evaluation Department (OED) admits that many of its projects have been unsuccessful or only partially successful.

Loans for public sector projects: The ADB's primary focus has been on providing public funds for projects—primarily large-infrastructure initiatives—in energy, transportation, communication, and agriculture. Examples include the building of roads and bridges, hydropower dams, power transmission facilities, oil and gas projects, and irrigation programs. These types of projects are generally very likely to have major impacts on the environment and on communities living in the project area.

Program loans: Since the 1990's the ADB has also been providing program loans.

In program lending to sectors, borrowing governments are given a lump sum loan that is for the purpose of helping them implement policy reforms in a particular sector, such as water or power, which are supposed to ensure that the sector is managed more efficiently. Through these loans the ADB is able to promote its market liberalization ideology. Generally, these reforms have paved the way for greater private sector involvement and management of sectors previously run by the central government.

Loans for private sector projects: The ADB provides a small, but increasing, percentage of its loans to private companies for development projects in a DMC. Loans are currently provided primarily for infrastructure and financial sector projects. In 2003, the ADB approved

Loans by Sector, 2003 (percent)

Transport and Communications	41
Social Infrastructure	19
Energy	11
Finance	8
Multisector	8
Agriculture and Natural Resources	6
Industry and Nonfuel Minerals	0
Others	5

Total: **\$6.1 billion**

(Source: ADB Annual Report 2003)

\$562.7 million for private sector operations. This was a 174% increase over the previous year's assistance.

Technical Assistance (TA): The ADB provides technical assistance grants and/or loans to DMCs for the identification or preparation of projects or programs. Technical assistance is provided via the following categories:

- * *Project Preparatory Technical Assistance* for the preparation of feasibility studies and other assessments
- * *Project implementation technical assistance* covering consulting services for project implementation and initial operation, including the training of project personnel
- * *Advisory technical assistance* for institutional strengthening, sector and policy studies, and non-project-related human resource development

Top Borrowers, 2003 (\$ million)

India	1,532
China, People's Rep. Of	1,488
Pakistan	871
Bangladesh	532
Sri Lanka	275
Indonesia	262
Philippines	184
Viet Nam	179
Afghanistan	150
Uzbekistan	99
Other DMCs	488
Regional	45

Total: **\$6.1 billion**

(Source: ADB Annual Report 2003)

Top Recipients of Technical Assistance, 2003 (\$ million)

India	15
China, People's Rep. Of	14
Indonesia	11
Afghanistan	11
Pakistan	10
Viet Nam	9
Cambodia	6
Sri Lanka	5
Bangladesh	5
Philippines	4
Other DMCs	54
Regional	51

(Source: ADB Annual Report 2003)

* *Regional technical assistance* for addressing issues of interest to the region or a sub-region

As with other ADB operations, affected communities and other external stakeholders have to be consulted in the development, preparation and implementation of TAs.

Project Cycle

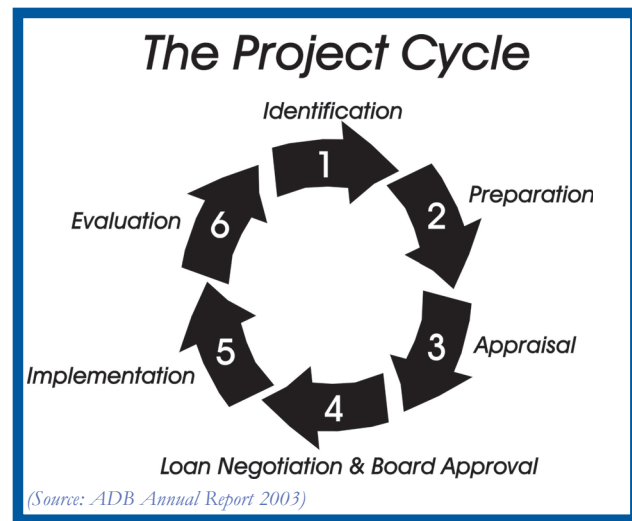
In order to understand how the ADB functions and how civil society can influence its operations one has to understand how the ADB initiates and prepares projects. The various steps from project identification to project completion are known collectively as the ADB's Project Cycle. At various stages throughout the project cycle there are opportunities for civil society to obtain information about a particular project, and to exercise influence over how or whether a project is developed. The project cycle description below mentions what information becomes available at each stage², and suggests actions Civil Society Organizations (CSOs) can take to find out more, or to influence the outcome of a project. Generally it is easier to influence ADB's decisions about a project during the earlier stages of the project cycle. After construction of a project begins it is very difficult to influence changes in the project's design, and even more difficult to lobby for stopping the project altogether.

Stage I: Project Identification

During this stage, the ADB consults with the executive level (e.g. ministries) of a borrowing government to identify potential projects and programs. All project and program ideas must be consistent with the development goals identified in the Country Strategy and Program (CSP) for that country.

The ADB may also send a fact-finding mission to obtain information in the field if the ADB plans to provide a *Project Preparatory Technical Assistance* (PPTA) for the project.

What information is available: During the project identification stage, information about a proposed project becomes available on the ADB's "*Business Opportunities*" Web page at <http://www.adb.org/Projects>. CSOs should pay close attention to proposed PPTAs, as the ADB is very likely to provide loans to projects it has supported through this form of technical assistance, and this is the most upstream form of information that is currently provided about a potential ADB-funded project. CSOs should look



at both the list of proposed as well as removed PPTAs and projects because this second list explains why a project is no longer in the proposed section; often it is because the project/TA has been approved and is in the implementation phase.

Information about proposed projects and technical assistance is also available online in the form of *Project Profiles*, which provide a brief 1 – 2 page summary of the project. Project Profiles can be viewed at <http://www.adb.org/Projects/profiles.asp>. Information about potential projects can also be found in the annexes of a country's *CSP* and *CSP update*, which are also available on the ADB's website at <http://www.adb.org/Documents/CSPs/>. One of the annexes contains concept papers for proposed projects which the DMC government has already discussed with the ADB.

What civil society can do: The Business Opportunities website lists the project officer responsible for the project or technical assistance and gives that person's contact information. If you would like to learn more about the project, or if you have concerns about the project, you can write to or call this person. If the project officer is not responsive you can contact the Director General of the regional department under which your country falls. You can also contact the Office of External Relations (OER) anytime you have trouble obtaining a response. OER is responsible for making sure that your requests for information are adequately addressed. Contact information for the Regional Departments and for OER is available in Appendix III.

In addition to containing contact information for the officer in charge of the project or technical assistance, *Project Profiles* also have contact information for a repre-

sentative from the project's executing agency within the borrowing government. CSOs can use this information to contact the executing agency to obtain information about the project, or to express concerns.

According to ADB policy, the process of identifying potential beneficiaries and people likely to be adversely affected should begin at the stage of project identification. Civil society groups can try to talk with ADB staff in the Resident Mission or in the relevant regional department at ADB headquarters to get a sense of what projects are being proposed in their country.

Stage 2: Project Preparation

During this stage the borrowing government, with the support of ADB staff, conducts technical preparations for the project. The borrower, with ADB support, has to evaluate the environmental impacts of the project. If the project is likely to have severe and irreparable damages on the environment, the borrower must prepare an *Environmental Impact Assessment* (EIA) which documents what the environmental risks are and how they will be addressed. If the environmental impacts are expected to be less severe, the borrower must prepare an *Initial Environmental Examination* (IEE) which also documents the environmental risks and how they will be mitigated, but in a manner less comprehensive than an EIA.

The borrower, with ADB support, must also evaluate the social impacts of the project and identify who stands to benefit, and who may be adversely affected by the

project. This includes evaluating how many people will have to be resettled, whether the source of a community's livelihood will be affected by the project, and the specific impact the project may have on vulnerable communities, such as women, indigenous people, and ethnic and religious minorities. This information is documented in an *Initial Social Assessment* (ISA) which also describes how social problems will be addressed.

Depending on the nature of the impacts, some projects may require the borrower to develop a *Resettlement Plan*, which explains how many people will be moved due to a project, where they will be moved to, and what compensation they will receive. Some projects may require an *Indigenous People's Development Plan*, which describes the negative effects the project may have on indigenous peoples, how the effects will be mitigated or avoided, how indigenous people will be compensated, and how the project takes into account the desired and preferred options of indigenous peoples.

Although the borrower is responsible for developing the various documents mentioned above, the ADB must ensure that these documents are consistent with ADB policies. In many cases the ADB will provide direct assistance in the form of a PPTA for the preparation of the assessments mentioned above and any other technical preparations that are required. Generally the borrowing government will hire consultants to develop these documents.

What information is available: During the preparation stage the borrower must make available information about

ADB Environmental Categorization

Category "A" Projects: Projects having severe environmental impacts are categorized as "A". An EIA is required.

Category "B" Projects: Projects having some adverse environmental impacts are categorized as "B". An IEE is required in order to determine whether an EIA also needs to be done. If not, then the IEE is the final environment document.

Category "C" Projects: Projects having no environmental impacts are categorized as "C". No IEE or EIA is required but environmental considerations are still reviewed.

Category "F1" Projects: Projects involving a financial intermediary or equity investment are classified as "F1". The financial intermediary will apply an environmental management system if environmental impacts are expected.

Source: ADB OM Section F1/OP

the environmental and social impacts of a project, as well as information about how those impacts will be mitigated. The ADB requires borrowers to make EIAs, IEEs, and Resettlement Plans available to affected communities and CSOs upon request.

In addition, during the project preparation stage the ADB is responsible for updating *Project Profiles* on its website to reflect changes in the project.

What civil society can do: ADB policies require that people who will be affected by the project must be consulted when the documents listed above (EIA, IEE, ISA, Resettlement Plans, Indigenous People's Plans) are being developed. The ADB also requires a participatory development process throughout all stages of project design and implementation, thereby obligating the borrower to inform affected communities about a project and give them a chance to express their opinion about it as early as possible. CSOs can contact the project executing agency and the ADB to find out the status of the environmental and social assessments, and how to go about providing their input on these assessments. If they have already been completed, CSOs should ask for copies of these and should provide their feedback to the project owner and the ADB about these assessments. If CSOs feel that a project's environmental impacts have been wrongly categorized, they should inform the ADB.

CSOs can also familiarize themselves with some key ADB policies which explain what a borrowing government must do with regards to environmental and social impacts, disclosure of information and participation of affected communities, to determine if the government is following the rules set out by ADB. The *Toolkit on ADB Policy Framework and Accountability Mechanism* highlights some of these key policies with which CSOs should familiarize themselves. If CSOs believe the government is not complying with these policies as they are preparing the project, this should be communicated to the ADB. A CSO can strengthen its case by mentioning specifically which policies it believes are being violated, and if possible, quoting the specific sections of the policy that the government is not complying with. A complete list of the ADB's policies is available at <http://www.adb.org/Development/policies.asp>.

Stage 3: Project Appraisal

During appraisal the ADB examines project feasibility through fact-finding missions and an appraisal mission. During these missions, the ADB examines the project's

technical, financial and economic aspects, and also its expected social and environmental impacts. The ADB is responsible for reviewing all aspects of the project to ensure that it is consistent with ADB policies and guidelines. Information gathered through fact-finding and appraisal missions is used by ADB staff to create a draft *Report and Recommendation of the President* (RRP) and a draft *Loan Agreement*.

ADB staff are required to consult with people who stand to be affected by the project during the appraisal stage.

What civil society can do: This stage is the last opportunity CSOs have to influence the design of a project before the ADB decides to fund a project. Because at this stage the ADB has not yet signed a Loan Agreement with the borrowing government, changes to a project design can more likely be made. Once a Loan Agreement is signed, this becomes a legal contract between the borrowing government and the ADB. If ADB changes its plans regarding the project after the Loan Agreement is signed, this represents a break in the contractual agreement; the ADB will only do this under extraordinary circumstances.

If CSOs have concerns about the project they should raise them with the Director General of the Regional Department under which the project falls. They can also raise their concerns with the relevant Vice-President as well as with the President of the ADB. Contact information for these is available in Appendix III. CSOs can also contact the ADB if they would like to schedule a meeting with ADB staff during one of their fact-finding or appraisal missions.

As mentioned in the preparation stage, CSOs can cite policies that the borrowing government is violating to strengthen their case. If CSOs are supportive of a project, but feel that it needs to better address certain environmental and/or social risks, they can inform ADB staff to include certain conditions in the draft RRP and draft Loan Agreement that they believe will help mitigate these risks.

Stage 4: Loan Negotiation and Board Approval

During this stage the draft loan agreement drawn up by ADB staff is reviewed by the developing member country representatives, and the ADB and both parties provide their feedback. After this has been incorporated into the loan agreement, the government is called for negotiations with the ADB.

After negotiations with the government, the final RRP is submitted to the ADB's Board of Executive Directors (Board) for approval. After Board approval, the document is sent to the borrowing country's government for authorization. Following the authorization, the Loan Agreement is signed by the ADB President and a representative of the government. The Loan Agreement is a legal contract between the borrowing government and the ADB.

What information is available: RRP's and *Loan Agreements* become available to the public only after Board approval.

What Civil Society can do: At this stage, concerns about a Project should be communicated directly to the Board. It is important for CSOs to communicate concerns before the Board meets to discuss the project.

If the Board approves a project and CSOs are still concerned about the environmental and social impacts of the project, a complaint can be filed with the ADB's Accountability Mechanism. For more information on this see BIC's Toolkit on ADB Policy Framework and Accountability Mechanism.

Stage 5: Project Implementation

The project is implemented by the country's executing agency according to the agreed schedule and procedures. Implementation time generally ranges from two to five years but depends on the type and nature of the project.

During implementation the ADB is responsible for monitoring the project to ensure that the borrower is complying with the terms of the Loan Agreement and ADB Policies. The Executing Agency is responsible for ensuring the project does not cause extensive damage to the environment, or harm communities in the project area. If there are negative impacts that were not accounted for in the environmental and social assessments, the borrower must address the problems by developing plans to mitigate the impacts and compensating communities that suffer any loss.

What information is available: Unfortunately, the ADB currently does not disclose any information about the status of a project's implementation.

What civil society can do: CSOs can monitor projects to see if the borrower is following through with commitments made in the Loan Agreement, and to determine

whether measures to mitigate against environmental and social risks are being implemented. Often borrowers will not follow through on these commitments. If this is the case, CSOs should inform the ADB, which can then encourage the borrower to comply with these commitments. If serious non-compliance is occurring, the ADB Board has the power to temporarily suspend disbursements, though this has to be done in accordance with the Loan Agreement, and it is very rare that the ADB will actually take this step. Nonetheless, there is no harm in asking or making other similar types of requests to the ADB.

NGOs that have raised concerns about ADB projects in the past have found that the ADB has a poor track record on monitoring projects throughout implementation. NGOs attribute this to a few factors including a tendency of ADB staff rewards and promotions to be based on the quantity of loans they are able to push through rather than on the quality of projects, as well as a misguided perception that responsibility for compliance with ADB policies is the sole responsibility of the borrowing government. Nonetheless, ADB policy requires ADB staff to ensure that policies are complied with, and to assist the borrowing government in complying with the policies. If CSOs feel this is not happening, they should complain to ADB decision-makers such as the Board, the President and Vice-President, as well as the Director General of the relevant regional department.

If during implementation CSOs are still concerned about the environmental and social impacts of the project, and feel that their concerns are not being adequately addressed by the ADB, a complaint can be filed with the ADB's Accountability Mechanism.

Stage 6: Project Completion/Evaluation

After the project is completed and is operational, the ADB operational department responsible for the Project prepares a Project Completion Report (PCR) to document the implementation experience within 12 - 24 months of the completion of the project.

ADB's Operations Evaluation Department (OED) evaluates the formulation and implementation of projects on a selective basis and prepares a number of thematic and sectoral reports, including Project Performance Audit Reports (PPAR) which contain an assessment of the project's formulation and implementation, economic, financial, and social benefits, and environmental impact. Reports are typically done about three years after completion of project implementation or about two years after the PCR has been circulated to the Board.

What Information is Available: Project Completion Reports are available one to two years after project completion. They are available online at <http://www.adb.org/Projects/reports.asp> or can be requested via the ADB Publications Unit. PPARs and other OED evaluations such as impact assessment and special evaluation studies, re-evaluation studies, and country assistance program evaluations are also available online at <http://www.adb.org/Evaluation/reports.asp> and via the Publications Unit.

What Civil Society Can Do: Interested organizations can give input into the preparation of the PCR by contacting the ADB Regional Department responsible for the project and for the PPAR and other evaluations by contacting the ADB OED. The OED prepares and posts its annual workplan on the ADB website at http://www.adb.org/Evaluation/work_prog.asp.

Endnotes

¹ ADF Program loans have a 24 year maturity period.

² For a more detailed description of the documents mentioned in this toolkit, see the *How to Access Information from the ADB Toolkit*.