

Why Reform of the ADB is the Wrong Agenda

By Walden Bello*

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

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

Power Scandal in Manila

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

It would be worthwhile at the onset to revisit the scandal since it illustrates the ways that the technocratic designs of multilateral agencies and the corrupt practices of governments are often symbiotic rather than contradictory.

Two representatives of the Philippine Congress revealed that they each received 500,000 pesos (\$12,500) despite their having voted against the bill, leading to strong suspicions that the majority that voted for the bill each received a greater payoff.

Critics of the privatization initiative looked at a \$1 million technical assistance grant from the ADB earmarked for lobbying the Philippine government for privatization of state enterprises as a possible source of the bribe money, alongside another \$1 million grant from USAID that was meant to "create a constituency for privatization." The combined P84 million from these two grants would have gone a long way toward meeting the requirements of bribing our 250 Congress people at P500,000 each.

This is by no means "absurd," as the ADB claims. For if we see money as fungible, then aid simply provides cash to fill the gap in the budget that is created by spending on "special items." This is one of the basic premises of the ADB's own "good governance" policy. As one key document asserts with respect to another special item, military spending, "since money is fungible, external assistance for economic development should not have the effect of freeing up resources for unreasonably high military-related expenditures."¹

But the main accusation being laid at the doorstep of the Bank is that its pressure on the government to rush privatization of Napocor might have prompted the previous administration of Philippine President Joseph Estrada to take short cuts to gather the necessary votes. The ADB had conditioned further disbursements of its energy loan and an associated Miyazawa loan to the Philippines on passage of the Napocor privatization bill. Indeed, to push through its whole program of privatization, liberalization, and deregulation, the ADB reduced loan disbursements to the Philippines in 1999 to nearly zero--certainly a far cry from the \$300 to \$500 million annual outlay usually earmarked for the country.

That the loan program has, in fact, been manipulated to twist the arm of the Philippine government is not denied by the ADB. As R.H. Salamon, the Bank's external relations chief, candidly admitted: "The implementation [of privatization] is slower than originally planned. As a result, disbursement of ADB loan tranches, which is related to progress made, is also slower. The first loan tranche had already been released in December 1998, but the second tranche will be released only after a number of actions have been completed. The passage of legislation is only one of them..."²

The corruption and strongarming that is so stark in the case of the Napocor privatization is, however, merely one manifestation of a many-sided crisis that is now gripping the ADB. Interviews I did with a number of senior officers last year provide a glimpse into an organization that is very confused in terms of direction, burdened with high project failure rates, marked by low transparency, and low in morale.

Let me take the reader on a tour of the ADB as seen through the eyes of some of its most sensitive personnel, though for obvious reasons we cannot identify them. Documents, many of them confidential, will, however, be cited.

“Goal Congestion”

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

“The problem is very real,” he continued. “You have all these new goals, but the old baggage, the old goals, have not disappeared. You’ve somehow to get ‘women and development’ into the project design, and you get scolded if you don’t know how to sneak it in. The result is incoherence.”

The confusion and failure to integrate goals into project and program design is reflected in internal evaluations. Thus the Draft Asian Development Fund (ADF) Report to the Donors states that although poverty reduction has been a central concern and is now the ‘bverarching vision and goal,’ “few projects have been designed specifically to address this objective.” Moreover, “there has been little lending directly targetted at women or the environment.”³

High Project Failure Rates

Failure to integrate stated goals into the so-called ‘country operational strategies’ (COS) is part of a broader pattern of failure. “Almost all forestry projects have failed--that is well known within the Bank,” noted one official knowledgeable with the Bank’s environmental projects. Indeed, only 36 per cent of ADF projects in the Agriculture and Natural Resources Sector are rated ‘generally successful.’ But this is not as bad as the record in the Social Infrastructure Sector (33 per cent) and the Finance Sector (15.2 per cent).⁴

While the success rates in the Energy, Industry, and Transportation and Communications Sectors are high, an assessment by the Strategy and Policy Department says that across the board, ‘in most instances...operational performance was far short of projections.’ This was due to “weaknesses in project design, particularly where there was weak institutional capacity and there were inappropriate policies. Implementation of most projects tended to focus on completion of their physical infrastructure components rather than institutional development and support service components and policy reforms.”⁵

The poor record in agricultural projects reflects the fact that the ADB, according to another senior staff member who refused to be identified, has been trying to get out of agriculture lending. The reason for this was that assessment of costs and benefits and project management were not as simple and straightforward as in energy and infrastructure programs. The resulting lack of a track record in agriculture poses a major problem, he commented, since “the future of Asia lies in solving the food security problem, not in providing more and more physical infrastructure. The Bank may have made a strategic mistake.”

Good Governance: Hype and Hypocrisy

Among the new considerations that donors want to bring into lending decisions is “good governance” on the part of the borrower. The ADB prides itself with being the first multilateral lending agency to have a Board-approved policy statement on good governance, which it defines as governance marked by “accountability, participation, predictability, and transparency.” This policy was meant for client governments. Many Bank staff members are, however, very cynical about the new policy. Says one senior person, “It’s a question of practising what you preach. There’s a lot of discontent inside the Bank, precisely because it is one of the most non-accountable, non-participatory, and As an example, she pointed to informal rules that reserve certain positions to the dominant countries, in particular the US and Japan. The US speaks loudest when it comes to good governance, she said, but it considers key positions in the Bank ‘its private property, and no talk about democracy and transparency will change that.’ A good case is the position the General Counsel of the Bank. The US has locked up this position, an attitude that has brought it criticism from the Board for ‘lack of transparency.’” Showing that it listened to criticism, the US last year pushed to have a US citizen continue to fill the post but chose a US citizen from Hawaii who has a Japanese name!

MOF Colony?

While the US may be the most vocal when it comes to promoting new policies from poverty reduction to good governance, it is Japan that controls the institution. "The ADB is an institution funded by the Japanese, controlled by the Japanese, and run by the Japanese" was the way one country representative to the Executive Board put it. Japan in this case means Japan's Ministry of Finance (MOF). The Ministry of Finance virtually determines who will be president--the current chief Tadao Chino is a graduate of the MOF--and who fills the key position of head of Budget and Staffing.

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

Ironically, Japanese control of the Bank has not resulted in the adoption of the bottom-up, participatory management that Japanese firms are noted for. Instead, the ADB has reproduced the overcentralized, hierarchic structures of the MOF. Said one senior informant: "The hiring of the lowliest programmer for a small project of the Bank must be approved by the president. And any travel by any Bank staff out of the [the Asia-Pacific] region must have the personal approval of the president." Said another official: "Hierarchy is everywhere; quality control is nowhere. This is, let's face it, a mediocre organization."

Proliferating Conditionalities

Despite its Jurassic characteristics, the Bank has not been immune to internal pressures and external events. This has, however, pushed it, for the most part, in a questionable direction. For instance, pressure from some donor countries like the United States has pushed the Bank to devote more of its lending portfolio to program or "adjustment" lending, where loans for individual projects are made contingent on macroeconomic policy changes, like accelerated privatization, deregulation, and liberalization.

However, an internal review of the Bank's program lending dated Nov. 22, 1999 decries the "proliferation of policy conditionalities" in program loans, noting that the average number of conditionalities per program loan is 32!⁶ Practically admitting the failure of the Bank's conditionality-burdened program lending, the document states that "besides the issue of proliferation of conditionalities is the more basic issue of the efficacy of the policy conditionality approach."⁷

It moves on to list the "shortcomings" of the conditionality approach: "(i) undermining ownership by the recipient government; (ii) a tendency to compensate for perceived lack of commitment/weak administrative, technical, and institution [sic] by increasing the detail and number of conditions in adjustment operations; (iii) an incentive for borrowers to exaggerate the difficulty of undertaking reforms; and (iv) partial reform syndrome--reform is acceptably implemented only at the expense of watering down the original requirements."⁸

Despite doubts about the efficacy of program lending, the ADB nevertheless plans to devote 20 per cent of its public sector portfolio to program loans in 2000-2002.⁹

Conditionalities have alienated most client governments. The most controversial has been the case of Malaysia. After the outbreak of the Asian financial crisis, the ADB offered to lend to Malaysia, but only if that country undertook policy reforms demanded by the IMF. Malaysia refused and followed its own strategy to surmount the crisis, which was the exact opposite of the fiscal and monetary repression promoted by the IMF. Now that Malaysia has proven both the IMF and ADB wrong with its successful effort to bring about a vigorous recovery, ADB officials are wondering if Malaysia will ever again borrow from the Bank.

No wonder many staff members hanker for the days of simple project lending.

Resenting the Fund

The subordination of the ADB's approach to the IMF's overall strategy to deal with the Asian financial crisis still rankles within the Bank. Staff members resent the way that under IMF pressure, the ADB leadership in 1998 disregarded the usual loan approval process, which usually takes a year, to push through a massive \$1 billion loan for Korea in less than a week! This might have been tolerated had the ADB contribution been part of a program that succeeded. Yet the IMF's harsh monetary and fiscal approach merely made the Korean financial crisis worse in 1998, leading many in the ADB staff and leadership to seriously question the relevance of the Fund's paradigm and the Fund itself as an institution.

The ADB's Japanese elite, in particular, is said to be particularly resentful of the way the IMF, with US support, killed the Japanese-initiated proposal to set up an Asian Monetary Fund (AMF) to deal with the crisis in late 1997. Now that the IMF has been proven wrong, there is strong support from within the Bank and its member governments in Asia to revive the AMF proposal, according to a senior official. "And if it is set up," she noted, "it will be a Fund that will look into each country's particular situation instead of applying a standard blueprint to all countries like the IMF does."

Competing with the World Bank

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

When Wolfensohn proposed moving the whole East Asia-Pacific Division of the World Bank to Singapore in 1999, the ADB saw that as an effort on the part of the World Bank to marginalize it or make it irrelevant. From then on, the World Bank has been perceived as a threat. Which is why, according to several staffers, the ADB was cheered by the recommendation of the International Financial Advisory Commission (the "Metzer Commission") appointed by the US Congress that the World Bank devolve most of its functions to the regional development banks.¹⁰

All these developments are creating strong pressures from the Asian member countries of the ADB for the institution to define and structure itself as an institution that is really responsive to the needs of the region. "One school of thought gaining momentum questions whether we really need the US and Europe in the Bank," said one official. "Unlike the other regional development banks, the ADB derives the major part of its resources from the region itself, particularly Japan. The idea is to bring in resources from Taiwan and China to replace that now contributed by the Americans and Europeans." The problem with this approach, he noted, was the apprehension of some members about Japan's agenda once the countervailing power of the US and Europe is removed."

The region is changing, and the ADB is being buffeted by the pressures of change. Will it succeed in adapting itself to the changing needs of the countries and peoples in the Asian region?

Most of the senior staff members interviewed were skeptical.

"The projects will continue to be really traditional in approach, though there will be the necessary icing of pro-poor rhetoric to get the donors to loosen the purse-strings," commented one. Another laughed, saying, "This is really a conservative institution. Asking it to change is like asking Japan's Ministry of Finance to change."

Conclusions and Recommendations

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

Some would say that this crisis provides an opportunity for meaningful reform of the institution. Some would say that, following the recommendation of the famous Meltzer Commission of the US Congress, the ADB should take over regional development lending from the World Bank. Some people critical of the "Washington Consensus" assert that the worsening relations between the ADB and the World Bank and the IMF offers an opportunity to set up the ADB as a counterpoint to the World Bank and as an institutional sister of an Asian Monetary Fund. Some say that pushing the ADB to become a purely Asian institution, in terms of its donor members, is the way to go.

I disagree. For despite the differences in their scale and resources, the ADB is, in terms of ideology, structure, and dynamism very much like the IMF and the World Bank. Replacing the ADB as Asia's prime multilateral aid agency is no alternative since the ADB is even more impermeable to ideas and, in many cases, more shady than the World Bank.

The ADB is one of those institutions that might be properly labelled "Jurassic"—institutions that emerged in a Cold War context when "development" and "modernization" along Western lines was seen as

the end-goal of Asian societies. Great value was placed on even greater centralization, bigness, and leadership by technocratic elites.

It is becoming clearer and clearer that the technocratic goal of western-style development and modernization has created more problems than it has solved. Now, institutions should be saved and reformed if their functioning, while defective, nevertheless broadly achieves their alleged objectives of increasing the welfare of society. They should be abolished if they have become fundamentally dysfunctional in achieving these objectives.

Like the World Bank and the IMF, the Asian Development Bank has become part of the problem rather than part of the solution to Asia's genuine welfare and development. Despite adjustments here and there, these institutions are imprisoned within paradigms and structures that cannot handle the multiple problems confronting the world economy during this phase of globalization.

To borrow the language of Thomas Kuhn's classic *Structure of Scientific Revolutions*, both institutions are like paradigms in crisis, and the solution when a paradigm is in fundamental crisis is not to try to reform it with endless minute adjustments that merely prolong its inevitable demise, but to cut cleanly from it in favor of a simpler, more relevant, and more useful paradigm—in a manner similar to the way the founders of early modern science simply junked the old, hopelessly complex Ptolemaic paradigm to explain the cosmos in favor of the simple and elegant Copernican paradigm.

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¹ Asian Development Bank, "Sound Development Management," R151 -95, Manila, August 17, 1995 (Restricted)

² "ADB Objection," Dear Editor, *Business World*, May 1, 1990, p. 4.

³ Asian Development Bank, "Draft ADF VIII Donors' Report," Manila, March 2000, p. 20.

⁴ Operations Evaluation Office, "Report on the Results and Impact of ADF Operation," Manila, March 2000, appendix 1, p. 1.

⁵ *Ibid.*, pp.4-5.

⁶ Asian Development Bank, "Review of ADB's Program Lending Policies," R219 -99, Manila, Nov. 22, 1999, p. 15.

⁷ *Ibid.*

⁸ *Ibid.*

⁹ *Ibid.*, p. 2.

¹⁰ Report of the US Congressional International Financial Institution Advisory Commission, Washington, DC: Feb 2000.