

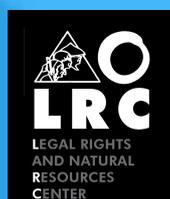
MISSING THE MARK

ADB @ 50

AN INITIAL SURVEY OF FINANCING TRENDS OF THE
ASIAN DEVELOPMENT BANK
AND ITS RELATION TO DEBT DEPENDENCE,
HIGH-LEVEL RENT-SEEKING BEHAVIOUR,
AND INVOLUNTARY DISPLACEMENT OF THE
MARGINALIZED AND POOR

Legal Rights and Natural Resources Center –
Kasama sa Kalikasan

NGO Forum on ADB



Holding ADB accountable since 1992

Cover Photo and Layout by Mari Jeanie Derillo - Santos
Printed on Recycled Paper and Soya Based Ink.
ISSN 0017-238



MISSING THE MARK : ADB@50

**An Initial Survey of Financing Trends of the Asian Development Bank
And Its Relation to Debt Dependence, High Level Rent Seeking Behaviour and
Involuntary Displacement of the Marginalized and Poor**



Published by
LEGAL RIGHTS AND NATURAL RESOURCES CENTER INC./ KASAMA SA KALIKASAN/
FRIENDS OF THE EARTH PHILIPPINES
(LRC KSK/FoE PHILIPPINES)

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Prepared for
NGO FORUM ON ADB

2017

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Historical Milieu before the Birth of the Asian Development Bank

In looking at the relevance of the Asian Development Bank (ADB) to the development of countries in the Asia Pacific region over the past half century, it is worthwhile examining the social milieu which gave birth to its establishment. The Bank's own account of its history begins with a description of a region mired in poverty with a per capita GDP of \$100, much lower than Sub-Saharan Africa and Latin America. This laid down the premise of the need for economic development to be supported. The United Nations Economic Commission for Asia and the Far East (ECAFE) recommended the creation of a regional bank for Asia "that would foster economic growth and cooperation in the World's poorest region" and recognized that many of its developing member states were adjusting to political and economic independence from former colonial rulers (ADB 1967).

This poverty in the region was born from centuries of uneven colonial relationships, and the hunger suffered by these territories occurred amidst an abundance of natural resources. Had these extracted resources been accessed and utilized directly by the peoples of these territories, it would have been more than enough to feed every single community. However, the resources were taken away from colonies and brought into trade that benefitted colonial powers. The hunger and poverty described in the region was from

undistributed colonial control over land, resources and political power and the plunder that accompanied maintaining the support for the civil and military needs of empires.



POLITICAL UNREST AND STRUGGLES FOR INDEPENDENCE

Prior to the establishment of the ADB, Asia's political, economic and social landscape was already in the process of significant transformation. Since the latter part of the 19th century, the birth of nationalist movements working for political and economic secession from centuries-old colonial rule was a distinct and growing trend across Asia. It was an era accompanied by deep fissures within colonial powers and rising economies which challenged traditional global hegemonies illustrated in the first and second World Wars. The period after the second World War ushered in a pattern of decolonization and assertion of self-determination, paving the way for the birth of many liberated nation states (Omics International n.d.).

The following table shows a listing of countries which achieved colonial independence during this period.

Colonial Power	Prior to World War II	Post World War II	Post ADB establishment
United Kingdom	Afghanistan (1919)	India (1947), Burma (1948), Palestine (1948), Palestine (1948), Ceylon (1948), Malaya/ Malaysia (1957), North Borneo (1963), Sarawak (1963), Singapore (1963)	Brunei (1984)
France		Vietnam (1945), Cambodia (1953), Laos (1953), French India (1954)	

Spain	Guam (1898), Philippines (1898), F.S. Micronesia (1899), Northern Mariana Islands (1899), Palau (1899)		
Portugal		Portuguese India (1961),	Macau (1999),
			Timor-Leste (1975/ 2002)
Japan		North Korea (1945), South Korea (1945), Taiwan (1945), Taiwan (1945)	
Netherlands		Indonesia (1949), Netherlands New Guinea (1962)	
Australia			Papua New Guinea (1975)
United States		Philippines (1946)	

The nationalist and independence movements in the colonies pushed for much needed changes in the political economic and social colonial set up.

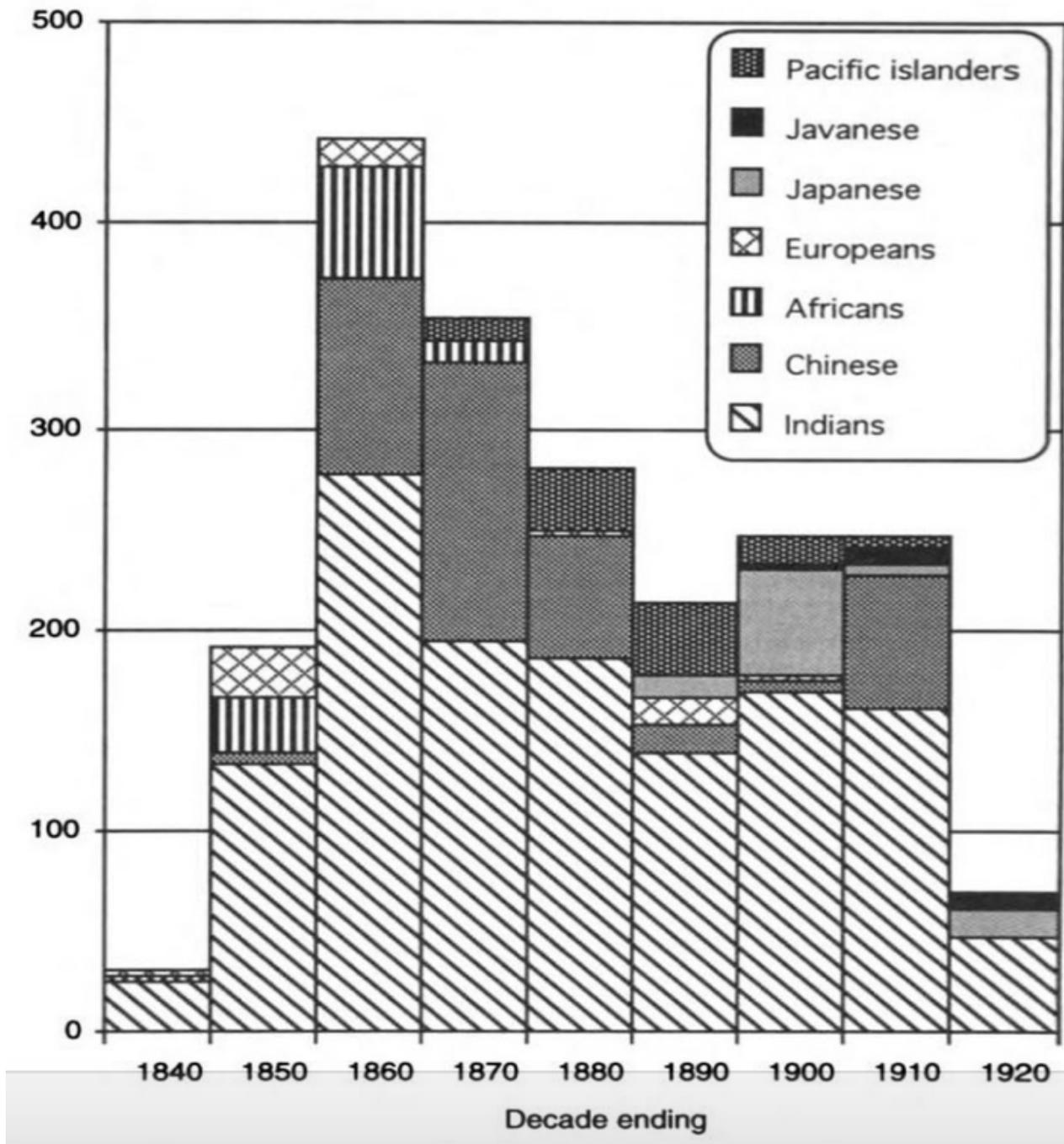
Colonization reoriented the economy of colonies towards production of a scale that would feed the needs of the colonizing country and its voracious appetite for international trade. Colonial trade utilized goods which were already being traded by the colony in existing trade relations with other countries, or imposed the production of new goods based on the needs of the colonizers.

The production and trade of goods were done through public and private initiatives, and facilitated through the support of a section of the local elite (Bonfatti 2008). It brought economic changes in the colonies which benefitted a small section of society, while at the same time brought hardships on the larger section of peasant cultivators and indigenous peoples.

Colonizers depended on the imposition of forced labor, slavery and indentured servitude to serve as fuel for production and trade, while at the same time taking on a handful of local elite under their wing to help in the

colonial set up (Bonfatti 2008). When slavery was “abolished”, a rise in indentured servitude (bonded labor for a period of time) from Asia was observed, making Asia the number one exporter of indentured labor. The conditions of indentured labor soon became neither free nor voluntary. The Viceroy of India urged its termination in 1915, asserting that it had become “a system of forced labour... differing but little from... slavery.” Many indentured laborers were enlisted through kidnapping or coercion and were not fully informed of their “destination, duties and compensation” by their recruiters (Northrup 1995).

Some accounts show that from 1830 to 1930, an estimated 30 million indentured servants migrated from India to other European colonies, and of these some 24 million returned home after rendering the sufficient number of work days/years. An equally large number of Chinese indentured servants were sent to European colonies (Omics International n.d.). Many of them experienced discrimination and abusive labor conditions. The following graph shows that indentured labor from Asia (India and China) comprised a significant percentage of the total (Northrup 1995).



Origins of indentured overseas migrants by decades (thousands) (Northrup 1995)

Amidst this, the unfair colonial trade relations depended on the presence, support and loyalty of a small section of local elite. Even the slave trade and indentured labor recruitment was facilitated through the support of local enterprising interests. Towards the end of the colonial period, this section of elite and enterprising interests was hugely dependent upon the benefits from international trade, while the vast majority suffered (Bonfatti 2008).

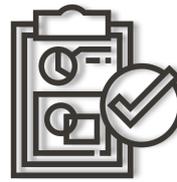
Colonialism likewise gave birth to the discourse on the effects of colonization of culture and concept of indigenous peoples as a distinct section of society (Erni 2014). On one hand, the lack of respect of local cultural practices was another fuel for the independence movements. On the other hand, the need to identify and distinguish between the citizens of the colonizing power present in the colony and the people of the colony who were subjugated under colonial rule gave

birth to the concept of “indigenous peoples” in the 19th century (Erni 2014).

Colonization was accompanied by a campaign to spread the colonizers’ cultures. As expressed by the often-quoted Englishman Cecil Rhodes in 1877,

“I contend that we Britons are the first race in the world, and the more of the world we inhabit, the better it is for the human race. I believe it is my duty to God, my Queen, and my country...” (Brown, et al. 2009).

Fulfilling the “white man’s burden” resulted in a campaign for religious conversion, lack of respect of practices, sites and objects considered sacred, suppression of the use of indigenous or local language and an overall devaluation of indigenous cultures. Thus, reformist movements soon sprouted all over Asia pushing for a national identity based on “traditional religious and cultural values (Ty n.d.).” In 1906, for example, the Young Man’s Buddhist Association in Burma was created to foster “nationalist sentiments and religious devotion” (Berkely Center for Religion, Peace and World Affairs n.d.) and aimed to “bring down western influence” (Ty n.d.). It is seen to be the impetus for the birth of the nationalist movement in Burma and brought together public opposition to British colonialism (Berkely Center for Religion, Peace and World Affairs n.d.).



POVERTY AMIDST A WEALTH OF RESOURCES

The colonies in Asia, what would later on comprise the developing member countries of the ADB, were not poor.

The material and labor resources of these nations fed and supported the politico-military empire and economy of the colonial powers. This was done under subhuman conditions, to the detriment of the majority of the colonies and to the advantage of a select handful of local elite.

England and Netherlands were the two European powers whose economies were increasingly dependent on trade with Asia - importation of raw materials from colonies, and exportation of processed materials to Europe and Americas. Both established East India companies which became the vehicles for colonial trade – colonies in Asia and in Africa were the sources of raw materials of silk, cotton, spices and aromatic products. Finished products such as textile were soon brought back and sold to colonies dealing heavy blows on local industries. For example, Britain initially imported finished cotton goods from India, but soon imported raw cotton to be spun and woven in the new industrial mills. The cotton cloth was then traded back to India and caused joblessness among indigenous weavers. Europe also exported steel products into Asian countries. Other traded products were tea, tobacco and jute became a monopoly product of the Indian subcontinent (Ryabchikov, Alexeeva and Others 2016).

A little over 50% of their trade was comprised of raw materials extracted and traded from Asia (O'Rourke, de la Escosura and Daudin 2008).

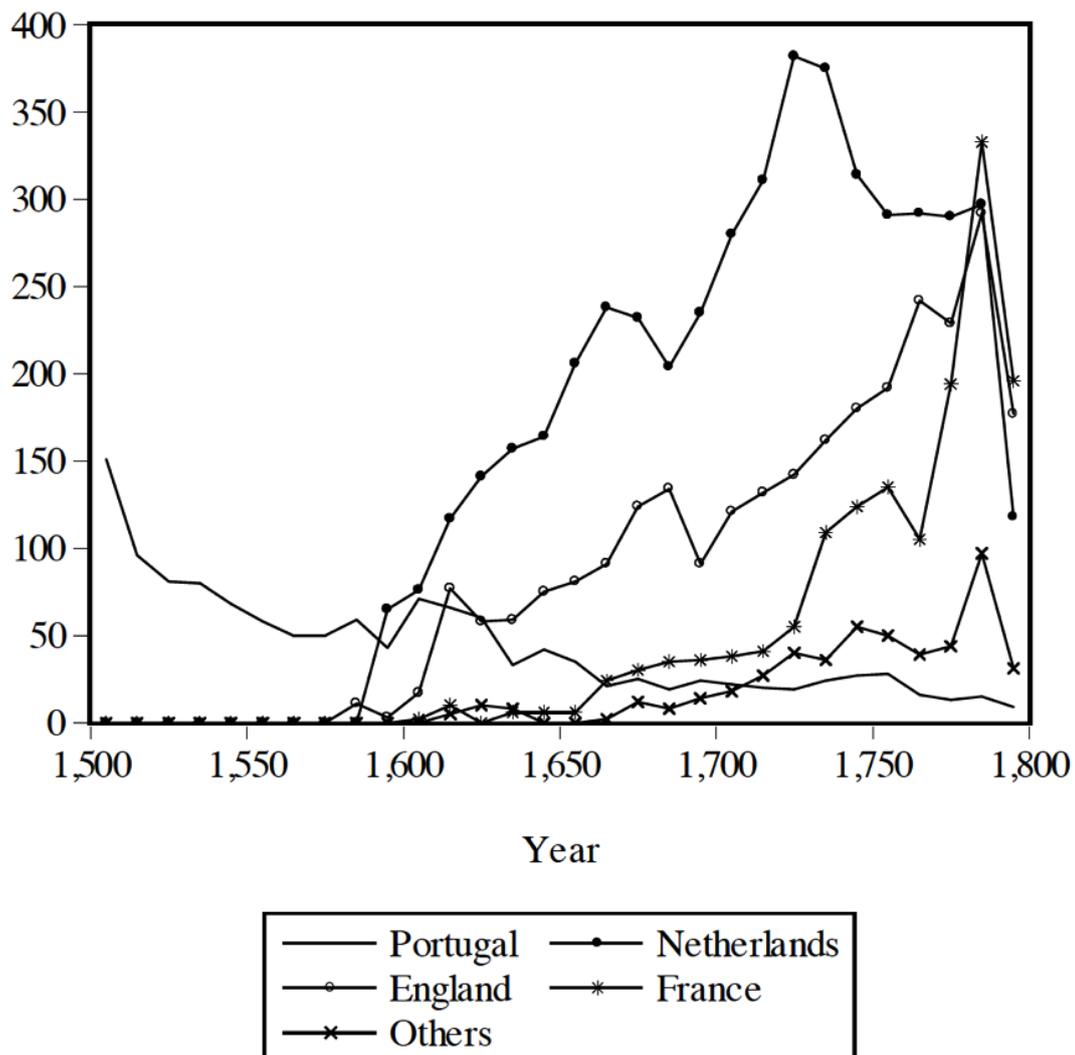
Panel D. Estimated annual sales of colonial imports, England and Netherlands, 1751-4

	Total sales (1000 pesos)	Percentage of sales	
		From Asia	Of total
Textiles	6750	41.7	21.1
Pepper	1100	6.8	3.4
Tea	2800	17.3	8.7
Coffee	1000	6.2	3.1
Spices	1850	11.4	5.8
Misc.	2700	16.7	8.4
Total from Asia	16200	100.0	50.5
		From America	Of total
Sugar	8050	50.8	25.1
Tobacco	3700	23.3	11.5
Misc.	4100	25.9	12.8
Total from America	15850	100.0	49.5
Total overseas imports	32050		100.0

Source: Findlay and O'Rourke (2007, pp. 308-9).

Table 1. Annual Sales of Colonial Imports of England and Netherlands, 1751-1754

This increasing value of Asia for Europe is further illustrated by the number of ships sailing to and from Asia.



Number of ships sailing to Asia, per decade (O'Rourke, de la Escosura and Daudin 2008).

Apart from trade, the local population of the colonies were subjected to heavy taxation which supported the colonial power, the monarchy and its military structure. A key leader of the independence movement in South Asia described succinctly the impetus for the calls to severe unfair colonial relations which rings true not just in his country but in other nations within Asia subjected to colonial rule.

In a letter to Viceroy Lord Irwin in March 2, 1930, (British Library n.d.) Mahatma Mohandas K. Gandhi wrote:

“xxx And why do I regard the British rule as a curse?

It has impoverished the dumb millions by a system of progressive exploitation and by a ruinously expensive military and civil administration which the country can never afford.

It has reduced us politically to serfdom. It has sapped the foundations of our culture.

And, by the policy of disarmament, it has degraded us spiritually. Lacking the inward strength, we have been reduced, by all but universal disarmament, to a State bordering on cowardly helplessness.

xxx

The terrific pressure of land revenue, which furnishes a large part of the total, must undergo considerable modification in an Independent India. Even the much vaunted permanent settlement benefits the few rich Zamindars, not the ryots. The ryot has remained as helpless as ever. He is a more tenant at will. Not only, then, has the land revenue to be considerably reduced, but the whole revenue system has to be so revised as to make the ryot's good its primary concern. But the British system seems to be designed

to crush the very life out of him. Even the salt he must use to live is so taxed as to make the burden fall heaviest on him, if only because of the heartless impartiality of its incidence. The tax shows itself still more burdensome on the poor man when it is remembered that salt is the one thing he must eat more than the rich man both individually and collectively. The drink and drug revenue, too, is derived from the poor. It saps the foundations both of their health and morals. It is defended under the false plea of individual freedom, but, in reality, is maintained for its own sake. The ingenuity of the authors of the reforms of 1919 transferred this revenue to the so-called responsible part of the dyarchy, so as to throw the burden of prohibition on it, thus, from the very beginning rendering it powerless for good. If the unhappy minister wipes out this revenue he must starve education since, in the existing circumstances, he has no new source of replacing that revenue. If the weight of taxation has crushed the poor from above, the destruction of the central supplementary industry, i.e. hand-spinning, has undermined their capacity for producing wealth. The tale of India's ruination is not complete without reference to the liabilities incurred in her name. Sufficient has been recently said about these in the public press. It must be the duty of a free India to subject all the liabilities to the strictest investigation, and repudiate those that may be adjudged by an impartial tribunal to be unjust and unfair.

The iniquities sampled above are maintained in order to carry on a foreign administration, demonstrably the most expensive in the world. Take your own salary. It is over Rs. 21,000 per month, besides many other indirect additions.

The British Prime Minister gets £5,000 per year, i.e. over Rs. 5,400 per month at the present rate of exchange.

You are getting over Rs. 700 per day against India's average income of less than two annas per day. The Prime Minister gets Rs. 180 per day against Great Britain's average income of nearly Rs. 2 per day. Thus, you are getting much over five thousand times India's average income. The British Prime Minister is getting only ninety times Britain's average income. On bended knee, I ask you to ponder over this phenomenon. I have taken a personal

illustration to drive home a painful truth. I have too great a regard for you as a man to wish to hurt your feelings. I know that you do not need the salary you get. Probably the whole of your salary goes for charity. But a system that provides for such an arrangement deserves to be summarily scrapped. What is true of the Vice regal salary is true generally of the whole administration.”



CHALLENGES FOR ADB AT ITS INCEPTION

In looking back at the 50 years of ADB, it is important to understand that it bore a historical imperative to look not just at increasing gross domestic productivity of the nation but to support newly acquired independence. To be truly supportive of development goals of newly emancipated nations, it was incumbent upon ADB to examine how it contributed to disestablishing the shackles of iniquitous conditions and establishing a more equitable set up. It is important to examine whether the development path supported by the Bank contributed to addressing the root of hunger and poverty, the monopoly of control over the land, resources and political power in the hands of a few to the detriment of the majority.

It is thus important to review the five decades framed from a lens which examines whether the ADB funded loans and technical assistance have supported the key issues flagged by the nationalist and liberation movements which gave life to emancipated nations:

- Worked towards ending unfair trade arrangements between former colonies and colonial powers
- Encouraged the redistribution of capital resources to ensure increased per capita productivity especially beyond the handful of local elite who have previously benefitted from colonial trade relations,

and in particular towards the large mass of peasantry, workers and indigenous peoples

- Supported the expansion of basic social services to stave off the further decline of basic human development indicators in the poorest regions of Asia
- Ensured that natural resources found within these nations are managed in a sustainable way and utilized primarily to answer the needs of the local economy especially the poorest and most marginalized and not exclusively for international trade
- Supported local economic development and local industrialization towards economic independence
- Respected religious and cultural traditions of nations, and respected the rights especially of the indigenous peoples who have not developed in the same pace as other citizens of developing nations
- Uplifted the working conditions of labor and prevented modern-day slavery conditions and indentured work arrangements
- Protected the rights of women engaged in traditional crafts affected by industrialization or involved in migrant work



FIVE DECADES OF INDEBTEDNESS TO FORMER COLONIAL POWERS, LOCAL ELITE CAPTURE AND NEO COLONIAL TRADE

The Agreement Establishing the Asian Development Bank (ADB Charter) entered into force on 22 August 1966. It stated the purpose of the Bank was to foster economic growth and co-operation in Asia and the Far East and contribute to accelerating economic development in the developing member countries. The ADB Charter allowed for membership to the Bank from countries within the Asian region and outside for as long as these countries were either members of the UN Economic Commission for Asia and the Far East, or the United Nations, or any of the specialized agencies of the UN (ADB 1965).

Based on this, its membership in 1967 comprised countries from within the Asian region most of which were developing member countries DMC, former colonial powers, and other European countries (ADB 1967).

- DMCs included: Afghanistan, Cambodia, Ceylon, Republic of China, India, Indonesia, Republic of Korea, Laos, Malaysia, Nepal, New Zealand, Pakistan, Philippines, Republic of Viet-Nam, Singapore, Thailand, Western Samoa.
- Former Colonial powers include Non-Regional Members United Kingdom, Netherlands and the United States. Other colonial powers which became Regional members of the Bank were Australia and Japan.
- Other European Countries include: Austria, Belgium, Canada, Denmark, Finland, Germany, Italy, Sweden, Switzerland
- Iran initially subscribed to the Charter but was not present anymore in 1967. Burma and Mongolia expressed interest to

subscribe to the Charter but was not listed in 1967.

Article 11 of the ADB Charter enumerates the Method of Operation of the Bank which is to provide or facilitate financing to (1) any member country, (2) any enterprise/entity operating in the member's territory, or (3) any international/regional agencies which contributes to the economic development of the region. Financing could be in the form of (i) direct loans using the capital contributed by all member countries, (ii) direct loans using funds raised by the Bank in capital markets or borrowed, (iii) investment of funds in an enterprise or institution, or (iv) serving as guarantor for loans. These financing operations are primarily for specific projects but the Bank could also loan out these funds to national development banks which would then finance specific development projects. The Bank has options for loans under regular capital resources with a specified interest rate, and has allocated for Special Funds which are loaned out under preferential low rates repayable within longer periods of time.

The ADB Charter does not provide for an allocation for grant arrangements. Similar to commercial banking operations, all financing activities are carried out with interest rates, commissions, guarantee fees, and other fees as may be determined by the Bank. However, unlike commercial banks, ADB is not liable to pay taxes and has immunity from suit.

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unlike commercial banks, ADB is not liable to pay taxes and has immunity from suit.

Article 33 of the ADB Charter provides that the voting power of each member is based on its basic votes and proportional votes. The number of shares of the capital stock of the Bank enables one member to have more voting power than others. The 10 member countries with the largest subscription at inception were:

		US\$
Regional	Japan	200 Million
Non Regional	United States	200
Regional	India	93
Regional	Australia	85
Regional	Iran	60
Regional	Philippines	35
Regional	Pakistan	32
Regional	Rep of Korea	30
Non Regional	Germany	30
Non Regional	Canada	25

The total subscription of former colonial powers dwarfs the subscription, and consequently the voting power, of smaller developing member countries. This shows that financing, assistance and development direction decisions of the Bank was controlled not by newly emancipated developing nations but by former colonial powers (ADB 1967). As of 2015, the following table shows the ratio of non-borrowing shareholders most of which are developed nations, and borrowing shareholders most of which are developing nations (ADB 2015). While this approximates the ratio of their voting power – showing that the uneven ratio has skewed further in favor of the developed countries/ former colonial powers.

Country	Subscription	Country	Subscription
Afghanistan	3.36	Australia	85
Cambodia	3	Japan	200
Ceylon	8.52	Belgium	5
China Rep of	16	Canada	25
India	93	Denmark	5
Iran	60	Germany	30
Korea	30	Italy	10
Laos	0.42	Netherlands	11
Malaysia	20	UK	10
Nepal	2.16	US	200
New Zealand	22.56		

Pakistan	32			
Philippines	35			
Vietnam	7			
Singapore	4			
Thailand	20			
Western Samoa	0.06			
	357.08			581
	38.06%			61.94%

1967 Subscription to the Asian Development Bank. (ADB 1967)

Non-borrowing Shareholders	Shareholdings (2015)*	Borrowing Shareholders	Shareholdings (2015)*
Japan	15.6%	People's Republic of China	6.5%
United States	15.5%	India	6.3%
Australia	5.8%	Indonesia	5.5%
Canada	5.2%	Malaysia	2.7%
Republic of Korea	5.0%	Philippines	2.4%
Germany	4.3%	Pakistan	2.2%
France	2.3%	Thailand	1.4%
United Kingdom	2.0%	Bangladesh	1.0%
Italy	1.8%	Others	5.4%
Others	9.0%		
27 Countries	66.7%	40 Countries	33.3%

2015 Subscription shareholdings to the Asian Development Bank (ADB 2015)

What has been the core focus of ADB in the past 50 years?

In broad strokes, the following shows the timeline of ADB's milestones from its perspective;

1

FIRST DECADE (1966-1976)

AGRICULTURE AND RURAL DEVELOPMENT

In the first decade of ADB, it intended to focus on assistance for improved food production and rural development. It conducted an Asian Agricultural Survey (ADB 1967) which identified the need to address food supplies and spur agricultural development. Agricultural production was seen to be either modernized but for commercial and export and not domestic consumption, or was static and not developed to be able to satisfy increasing domestic needs. Both situations were seen to contribute to worsening food shortage. There was a need to increase agricultural production and diversify crop production.

However, looking at the loans and technical assistance during this period, it is noticeable that the assistance focused on infusion of technology for more efficient extraction of resources and increasing production rather than enhancing capacities of member developing nations towards a more sustainable, prudent management of the resource.

It was during this decade that support for the Green Revolution type of agriculture occurred – increased crop production with the use of high yielding varieties of crops, increased consumption and local production of fertilizers and pesticides, access to rural credit schemes and combining extensive and intensive agriculture (ADB 1970). From the available literature, traditional agricultural patterns and systems were not seen to be relevant given the needs of the developing nations. Since production yield using traditional agricultural systems were too low, it was seen as “static agriculture” and was therefore not a priority.

Loans and technical assistance also went into the improvement and development of water sources through irrigation and water impoundment/dams, development of boats, ports and wharves

and fish processing plants. In the Sempor Project in Central Java, Indonesia, it was created with the objective of alleviating food deficiencies in the densely-populated South Kedu region through irrigation of about 16,000 hectares of paddy land. Despite the collapse of a previously completed coffer dam in 1967, ADB recommended further construction of another dam for continuous all-weather irrigation for 16,200 hectares of land.

But apart from increasing rice and wheat production, the other agricultural resources produced was catered towards foreign markets with the end view of increasing foreign exchange earnings from international trade. Even rice production contributed to exports.

• In Ceylon, for example, technical assistance for the fisheries sector in 1969 focused on increasing fish production, increasing fish catch, making fuller use of boats, promotion of fish processing industries and marketing of fish and fish by-products. This did not include sustainably managing fishing grounds, identification of no-take zones, or identifying seasonal extraction to allow for the fishing grounds to flourish. The extraction did not serve to address the immediate food needs of the member developing nations, but sought to build income from building up foreign exchange (Dollar) reserves from export earnings (ADB 1969).

• In the Republic of China, in the same year, a \$10 Million Loan was provided for the financing and construction and out-fitting of forty 250-ton tuna deep-sea fishing vessels coursed through the Cooperative Bank of Taiwan. This projected to further increase the 39,585 ton annual tuna production of Taiwan, with 95% of the tuna catch for export (ADB 1969).

• The Sawit Sebarang Oil Palm Estate support in 1969 contributed to mill expansion and rehabilitation, procurement of automotive, railroad and earthmoving equipment and accounting-financial advise. Expanding this was geared towards increasing the Indonesian Government revenue and higher foreign exchange earnings from export of palm oil and palm kernels (ADB 1969).

- The Bukit Mendi and Bukit Goh Palm Oil Mills Project was entered into to further bolster the increasing significance of oil palm planting to the Malaysian economy because of the foreign exchange earnings from palm oil and kernels reached a level next to other export cash crops/products rubber, tin and timber. It covered 19,330 acres and 20,110 acres (15,960.8 hectares) of area for clearing and to be planted with oil palm (ADB 1969).
- FLDA Malaysia began its oil palm scheme in 1961. By 1968 it had fostered 22

schemes involving 93,850 acres (37,979.748 has) – this is one-fourth of the total area planted (to oil palm). FLDA planned to expand palm oil production to 343,000 tons of the country’s total production of around 1.3 million tons (ADB 1969).

Support for agricultural production was coursed through directly in projects or through national development banks which then re-loaned them for agriculture related projects.

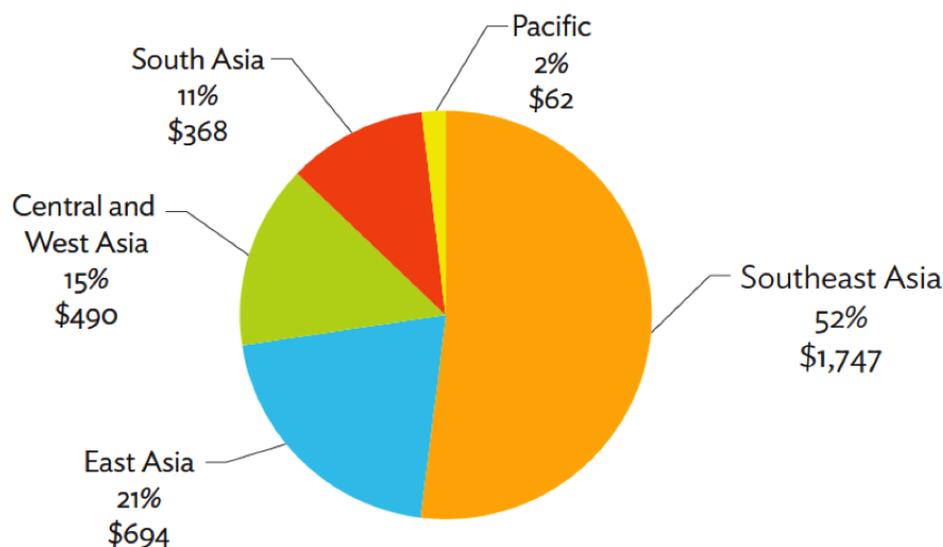
TRANSPORTATION

Aside from agriculture, ADB also supported the development of road and hi-way systems. A Regional Transport Survey was also done during this decade to determine the needs for road development. Next to Agriculture, ADB focused on providing support for Transportation in order to ensure the easy flow of commodities from farms to markets and for closer linking of urban and rural sectors. The following are some of the transportation related loans provided to member developing nations during the first decade.

Republic of China	North-South Freeway
Korea	Seoul-Inchon Expressway
	Korea Express Company – Transportation and Stevedoring
	Improvement of Incheon Port
Western Samoa	Apia-Faleolo Airport Road
Nepal	Air Transport Development
Malaysia	Kuala Lumpur-Karak Highway
Philippines	Iligan, Cagayan de Oro Butuan Road
	Cotabato Port
	Road improvement – Tarlac Santa Rosa road affected by floods
	Expansion of Manila International Airport
Singapore	Airport
Afghanistan	Road – Upper Helmand Valley 266km
Bangladesh	Port Improvement in Chittagong
Malaysia	5 Bridges at the East West Highway
	Deep water sea port at Kuantan

Most of the support for agriculture and transportation went to Southeast Asia and this is illustrated in the overall share of lending operations for the entire decade. The loans for agriculture went to Indonesia (17%), Korea (14%), Myanmar (13%), the Philippines (12%) and Malaysia (10%). Majority of the loans for Transportation and ICT went to Malaysia (20%), the Philippines (16%) and Korea (13%).

Figure 3: Lending Operations by Region, 1968–1976
(\$ million)

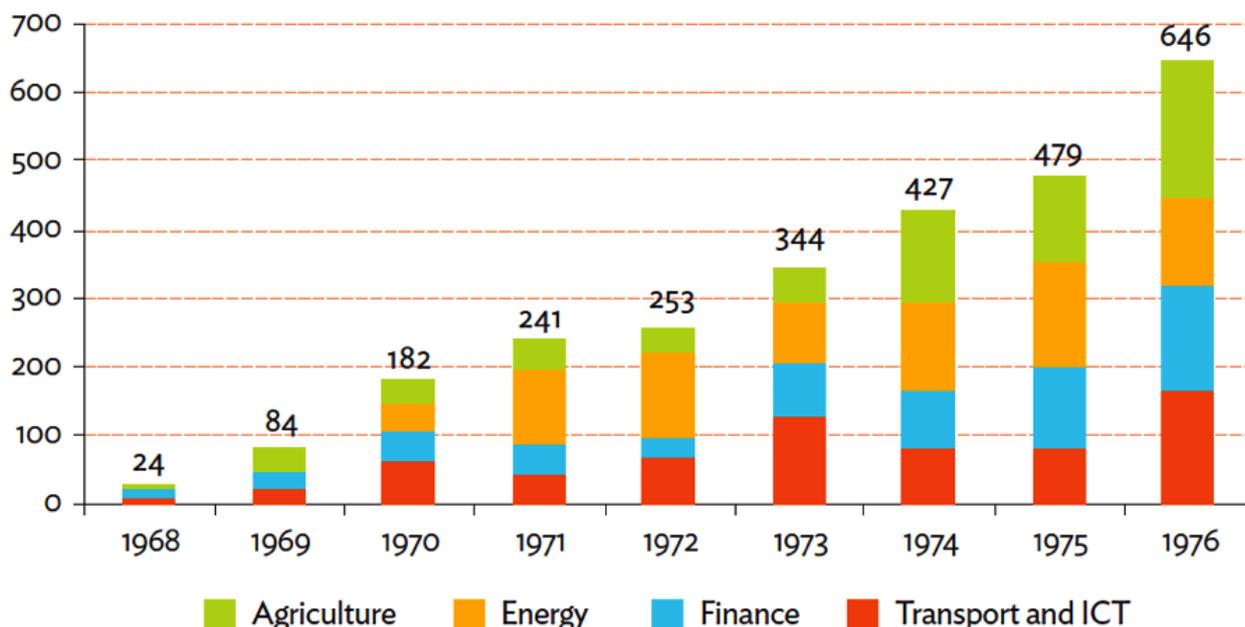


Note: Percentages do not sum up to 100 because of rounding. Regional breakdown is based on current country groupings. Lending operations include equity, grant, guarantee, and loan approvals. Source: ADB loan, technical assistance, grant, and equity approvals database.

ADB 2016.

However, when the negative impacts of the first oil price shock (1973) was felt globally, ADB shifted its focus to support energy projects, especially those promoting the development of domestic energy sources in member countries. From 1973 onwards, the share of agriculture to energy and transportation declined. This can be illustrated in the graphical presentation of lending operations of ADB in the first ten years where the energy sector received the largest piece of the pie at USD\$ 777 Million (23%) (ADB 2016).

Figure 5: Evolution of Lending Operations, Key Sectors, 1968-1976
(\$ million)



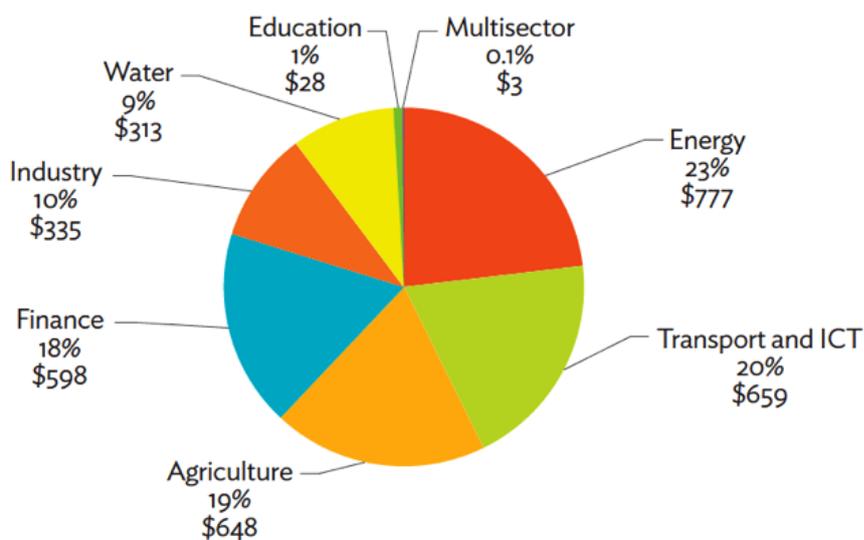
ICT = information and communication technology.

Note: ADB approved its first loan in 1968.

Source: ADB loan, technical assistance, grant, and equity approvals database.

ADB 2016.

Figure 4: Lending Operations by Sector, 1968-1976
(\$ million)



ICT = information and communication technology.

Note: Percentages do not sum up to 100 because of rounding. Lending operations include equity, grant, guarantee, and loan approvals.

Source: ADB loan, technical assistance, grant, and equity approvals database.

ADB 2016.

The First Oil Crisis and the overall crisis felt in the developed countries affected economies which were heavily dependent on international trade. During this period, there was a very big decline in exports and a very high increase in the cost of importation.

EXTRACTIVES

The financing of mineral extraction has been present since the first decade of ADB. This was classified as support for Industry since most of the mineral extraction was to support fledgling industries in the countries. In 1969 for example, the Bank supported Taiwan Metal Mining Corporation – wholly owned Government corporation with mining interests in North of Taiwan – for the production of 200 metric tons of high quality copper strips, 400 metric tons of high quality brass strips, 1200 metric tons' copper magnet wires, IFT shield cans 36 million pieces used in transistor radios. New plant would be supplying the needs of the local country's rapidly expanding electronics, automobile and electrical appliances industries. Extraction of minerals was also for export as well. The Aluminum expansion project of the Taiwan Aluminum Corporation (TALCO) also sought to expand production from 42,000 metric

tons to 76,000 metric tons of alumina and from 20,000 metric tons to 38,000 metric tons per annum of primary aluminum and was projected to result in significant foreign exchange earnings through exports (ADB 1969).

It was observed that some developing member nations of the ADB (Hong Kong, China (Taiwan) and Singapore) had progressed well by the end of the decade and had no need for ADB assistance as they had increased capacity to borrow from private resources.

While ADB support contributed to this positive growth, it would be interesting to look at what types of economic activities these countries prioritized and whether growth has been inclusive.

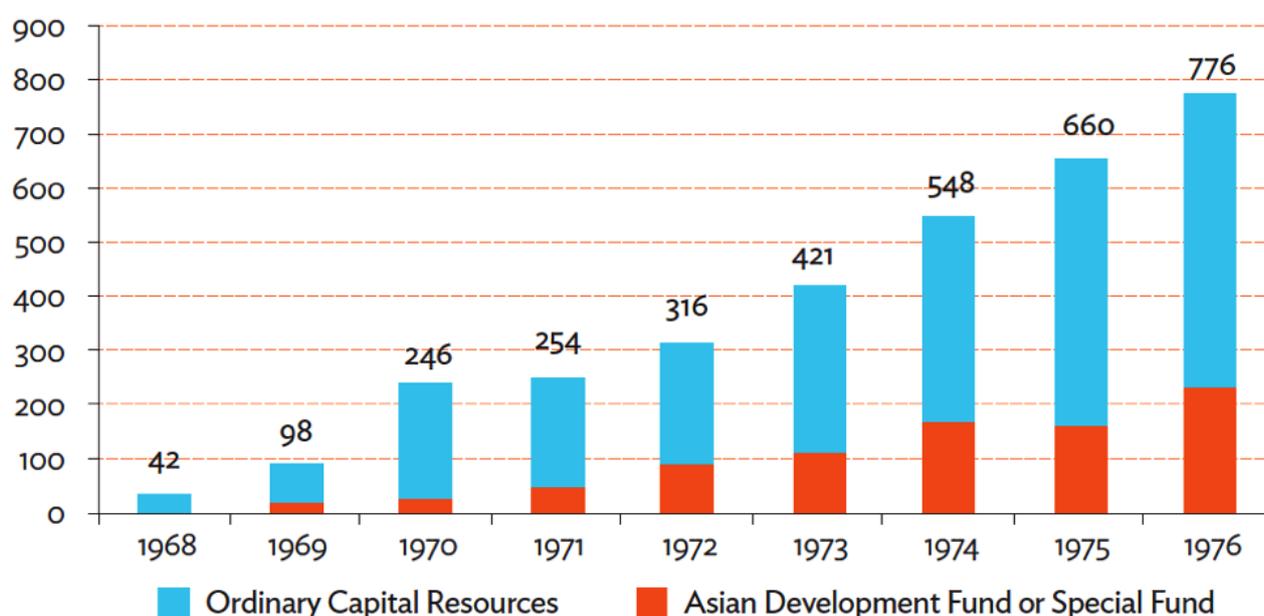
FINANCING MECHANISM

The primary mechanism of operation of the Bank has been co-financing operations, where each loan and technical assistance has counter-part funds from the recipient member country, or co financed by another development agency. ADB primarily managed the funds and the requisites for fund disbursement. This scheme spread the loan risk across several institutions and increased the resources for ADB projects and programs. A major vehicle to source additional funding for co-financing was through the issuance of bonds, with an initial issuance of \$16.7 million worth of bonds in Japan.

From an initial rate of 6 7/8 percent loan interests, the Bank also progressively established lower interest,

longer repayment period soft loans to ADB's poorest members through the Asian Development Fund (ADF) providing an interest rate of 3% and a longer repayment period. 6 7/8% was a rate higher than commercial prime loan rates in 1966, but as loan interest rates went up to as high as 11%, the Bank essentially maintained the 6 7/8 lending rate. The graph below shows that most of the loans were given out were at near commercial rates. The volume of soft loans utilizing the ADF was progressively increasing but remained at a small percentage given the overall lending operations of ADB.

Figure 2: Lending Operations by Fund Type, 1968–1976
(\$ million)



Note: ADB approved its first loan in 1968.

Source: ADB loan, technical assistance, grant, and equity approvals database.

Total loan approvals over the ten-year period from the first loan approval in 1968 until 1977 went mostly to South East Asian countries -- Korea (16.17%), Philippines (14.39%), Pakistan (13.42%), Indonesia (12.07%), Thailand (8.49%), Malaysia (7.94%) and Bangladesh (6.48%). Most of these were from Ordinary Capital Resources.

The Special Funds which were loaned on softer terms (low interest rate, long repayment period represented around a fourth of the total loans. Countries which benefitted the most from the Special Funds were Bangladesh (22.6%), Pakistan (17.48%), Burma (11.25%), Nepal (10.57%), and Indonesia (9.71%).

This data raises some questions as to the overall value-for-money of incurring debt with the Asian Development Bank.

- Given that most of the funds were being lent to developing countries, shouldn't the ratio have been reversed – where there were more soft loans extended to newly liberated developing countries rather than

the volume of loans extended under higher than commercial banking rates?

- Given the history and situation of the developing member countries which had undergone wars of liberation or bitter civil wars, the situation at liberation would not be far from a country ravaged by a natural disaster. Communities have been torn apart, economic activities have been hampered by the trail of destruction ushered in by war, and local governance mechanisms at the national and subnational level are just about normalizing or is still in the process of normalization. Wouldn't this situation have merited the opening of a grant facility rather than a loan facility?
- Due to the funds being released as loans rather than grants, there was very little incentive to invest in education. Education perhaps was not seen as an income generator to be able to contribute to loan repayment. As such, education and other social protection measures comprised only 1% of the total funds in the region.

LOAN APPROVALS BY COUNTRY AND BY SOURCE OF FUNDS TO END OF 1977
(amounts in \$ million)

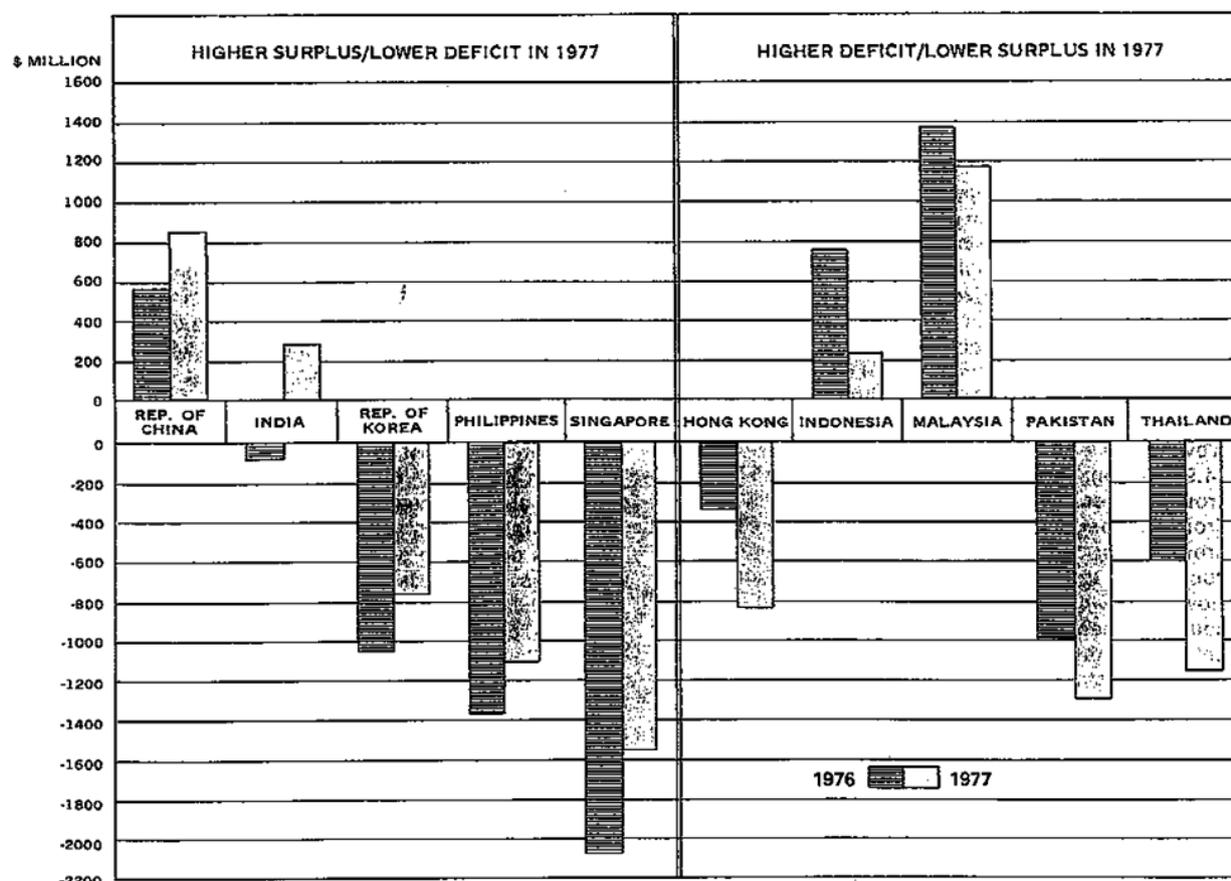
Country	1976			1977			1968-1977					
	OCR	SF	Total	OCR	SF	Total	OCR	%	SF	%	Total	%
Afghanistan	—	24.80	24.80	—	14.70	14.70	—	—	73.55	6.31	73.55	1.73
Bangladesh	—	53.50	53.50	—	84.75	84.75	11.40	0.37	263.63	22.60	275.03	6.48
Burma	—	45.90	45.90	—	25.10	25.10	6.60	0.21	131.20	11.25	137.80	3.25
Cambodia	—	—	—	—	—	—	—	—	1.67	0.14	1.67	0.04
China, Republic of	—	—	—	—	—	—	99.99	3.25	—	—	99.99	2.36
Fiji	—	—	—	—	—	—	6.70	0.22	—	—	6.70	0.16
Gilbert Islands	—	1.75	1.75	—	—	—	—	—	1.75	0.15	1.75	0.04
Hong Kong	—	—	—	20.50	—	20.50	62.00	2.01	—	—	62.00	1.46
Indonesia	109.34	—	109.34	136.00	—	136.00	399.27	12.97	113.28	9.71	512.55	12.07
Korea, Republic of	114.00	—	114.00	135.15	—	135.15	682.75	22.17	3.70	0.32	686.45	16.17
Lao People's Democratic Republic	—	—	—	—	—	—	—	—	11.69	1.00	11.69	0.28
Malaysia	42.00	—	42.00	43.30	—	43.30	333.86	10.84	3.30	0.28	337.16	7.94
Nepal	—	44.30	44.30	—	23.50	23.50	2.00	0.07	123.34	10.57	125.34	2.95
Pakistan	62.80	32.80	95.60	68.00	71.00	139.00	365.97	11.88	203.85	17.48	569.82	13.42
Papua New Guinea	—	21.24	21.24	17.70	—	17.70	17.70	0.57	35.54	3.05	53.24	1.25
Philippines	116.20	—	116.20	147.00	—	147.00	595.85	19.35	15.30	1.31	611.15	14.39
Singapore	23.60	—	23.60	—	—	—	124.98	4.05	3.00	0.26	127.98	3.01
Solomon Islands	—	3.57	3.57	—	5.63	5.63	—	—	9.20	0.79	9.20	0.22
Sri Lanka	—	5.00	5.00	—	41.50	41.50	14.13	0.46	103.21	8.85	117.34	2.76
Thailand	72.10	—	72.10	47.00	—	47.00	352.30	11.44	8.10	0.69	360.40	8.49
Tonga	—	—	—	—	0.37	0.37	—	—	1.67	0.14	1.67	0.04
Viet Nam, Socialist Republic of	—	—	—	—	—	—	3.93	0.13	40.67	3.49	44.60	1.05
Western Samoa	—	3.00	3.00	—	5.25	5.25	—	—	18.84	1.61	18.84	0.44
TOTAL	540.04	235.86	775.90	614.65	271.80	886.45	3,079.43	100.00	1,166.49	100.00	4,245.92	100.00

ADB 1977.

LOOMING TRADE DEFICIT

By the end of the first decade of increasing indebtedness to ADB and continued dependence on export oriented production, the aggregate trade deficit of the developing member countries was at \$5.7 Billion. This meant that the economic track of encouraging the build of up foreign exchange buffers in the country's coffers through an export oriented economy actually resulted in developing member countries' spending a bigger amount importing goods than their earnings from the goods they've exported (ADB 1977).

TRADE BALANCE OF SELECTED DMCs
1976-1977



ADB 1977.

The Bank did not view this in a bad light. Instead it looked at the improving or lessening trade deficit of several countries as a positive development and the need to continue expanding its exports with the clear recognition that the success of this set up is highly dependent on the health of the economy of the developed countries they are exporting to.

It in fact stated in the opening year of the second decade that:

“To maintain their growth momentum, the developing countries will have to intensify their efforts to mobilize higher domestic savings, exploit domestic natural resources, increase efficiency in industrial and agricultural production and expand exports both of traditional and non-traditional items. The success of these efforts will greatly depend on the extent to which major industrial countries reflate their economies, maintain growth in their imports from developing countries and also raise the level of their external assistance. (ADB 1977)”

CORRUPTION, AUTHORITARIANISM AND JUNTAS

What the reports of ADB failed to mention during this period is whether there was any reflection made on its part as an institution on how ADB support through the large scale, multi-million-dollar infrastructure projects actually helped entrench and strengthen the hold of authoritarian and military rule in the region. At around the first decade of ADB, military inspired dictatorships and military juntas came into power and challenged fledgling democracies -- the government of Hadji Muhammad Soeharto in Indonesia, the Martial Law period under President Ferdinand Marcos in the Philippines and the Military Junta in Burma led by General U Ne Win (Boudreau 2016). These regimes were the subject of protest movements which raised issues of high-level corruption and repression of political dissent. Foreign aid and the discovery of fossil fuel resources have kept the economies afloat amidst the lack of democratic space. ADB annual reports are not keen on discussing whether ADB funded projects have been subject of corruption, or if mechanisms were put in place to prevent corruption or prevent the suppression of political dissent to the projects. What is clear though is that these countries (Indonesia, Philippines and Burma) received considerable ADB loans and special funds at the height of political repression and high-level corruption.

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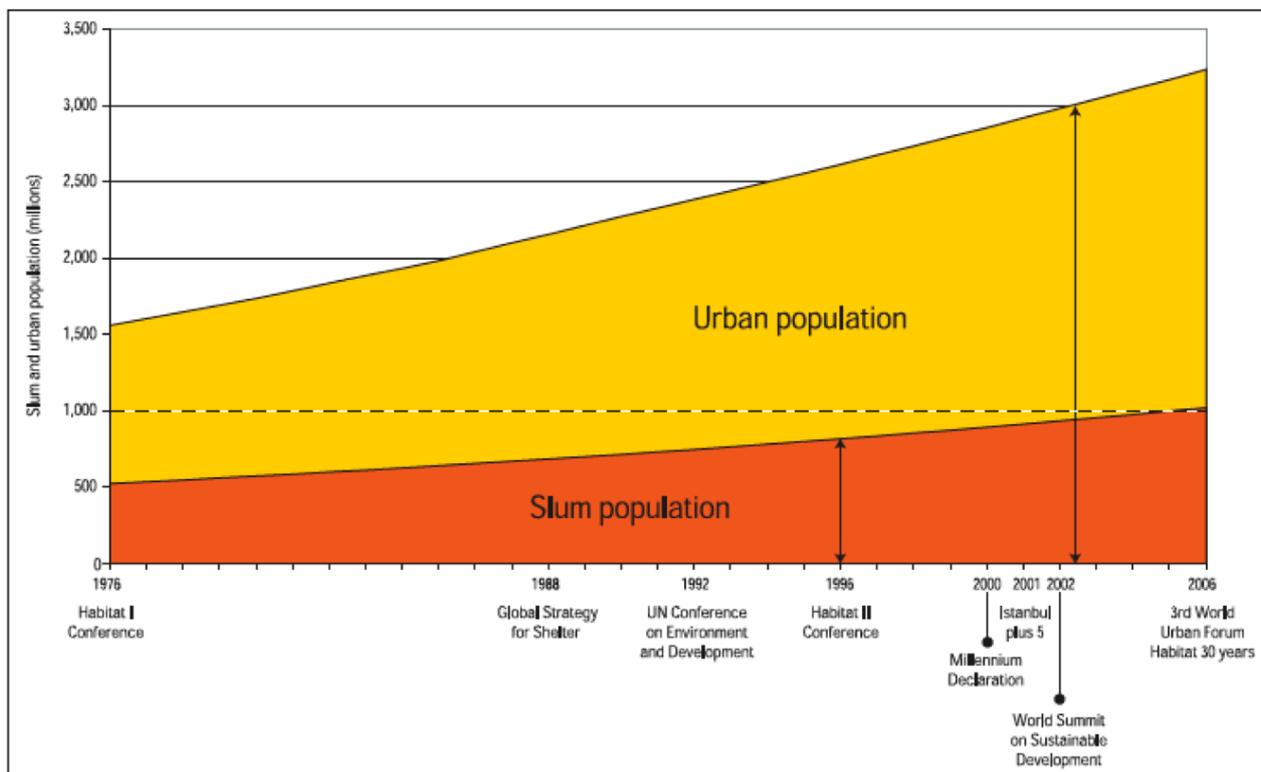
SECOND DECADE (1977-1986)

CHALLENGES AT THE BEGINNING OF THE DECADE: RURAL AND URBAN POVERTY

As could be surmised, the increased productivity of agricultural production geared towards the export market and increasing foreign exchange reserves did not result in remarkable poverty alleviation. Thus, in the second decade, the general situation of many of the developing countries was that abject poverty remained present in many communities. The Second Asian Agricultural Survey found that “despite the introduction of superior agricultural technologies, the rural population has not shared much in the benefits. Rural Poverty is widespread and what evidence is available suggests that it has

worsened in the past decade. (ADB 1977)” The survey further noted that at the end of ADB’s first decade there was “widespread underemployment and poverty, inadequate performance of agricultural production and distribution systems and insufficient implementation capacities at both government and “grassroots” levels for the development task.” It recommended the need to increase the capacity of domestic agriculture to provide food for subsistence and consumption needs and market demands (ADB 1978)

Slum Population and the Urban Population Growth in the world (1976 – 2006)



Source: UN-HABITAT Global Urban Observatory 2005 and UN Population Division

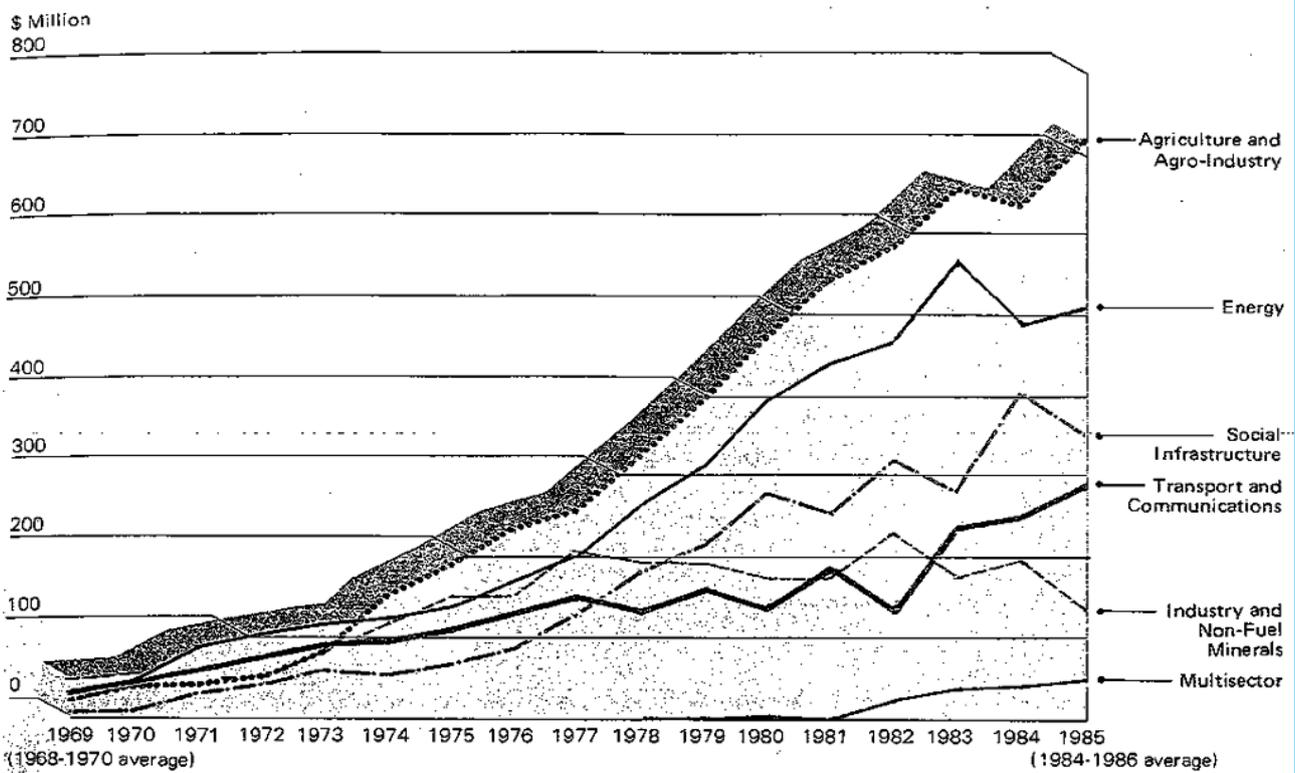
This was likewise an era where the push for industrialization and unresolved rural issues and needs led to the creation of urban centers and consequently the rise of urban slums/urban poor communities and worsening urban poverty. The rapid and uncontrolled growth of urban centers especially in the developing nations prompted the United Nations General Assembly to create the United Nations Habitat and Human Settlements Foundation (UNHHSF) in 1975, and call for the First United Nations Conference on Human Settlements (Habitat I) in 1976. In 1977, the UN created the United Nations Commission on Human Settlements – an intergovernmental body – and the United Nations Centre for Human Settlements. These bodies were tasked to look at the situation of the growing number of slum dwellers, the increasing number of poor people without sustainable access to safe drinking water and basic sanitation, the requirements to ensure cities are without slums, and the need to reduce slum populations and improve the overall quality of life of slum dwellers (UN-HABITAT 2017).

The figure above shows the proportion of slum / urban poor people in cities in the world from the birth of UN Habitat till 2005 and indicates that the pattern of industrialization in cities of developing nations are unable to fully absorb the growing urban population. This is especially significant for Asia since by 2005 Asia had the largest share of the slum population worldwide, or some 581 million people. Eastern and Southern Asia comprised 80% of the slum dwellers, with 50% of the regional slum population located in Southern Asia, particularly China in East Asia and India in South Asia (UN-HABITAT 2006).

In ADB's 1977 report, it mentions that "the urban population is increasing at a much faster rate than the total population in most DMCs. It has been estimated that the rate of increase in the population living in slums and squatter areas is higher than that of the city population causing the steady deterioration of the environment and living conditions inside those urban areas (ADB 1977)." In 1978, ADB estimated that around 75 million people in the cities of developing member countries were living in slums where problems such as "unemployment, inadequate housing and water supply, overcrowding, insufficient transport facilities and poor sanitary and environmental conditions have assumed grave proportions because of increasing pressure of population in urban areas (ADB 1978)."

INCREASED LENDING PORTFOLIO, RISING SUPPORT FOR SOUTH AND CENTRAL AND WEST ASIA

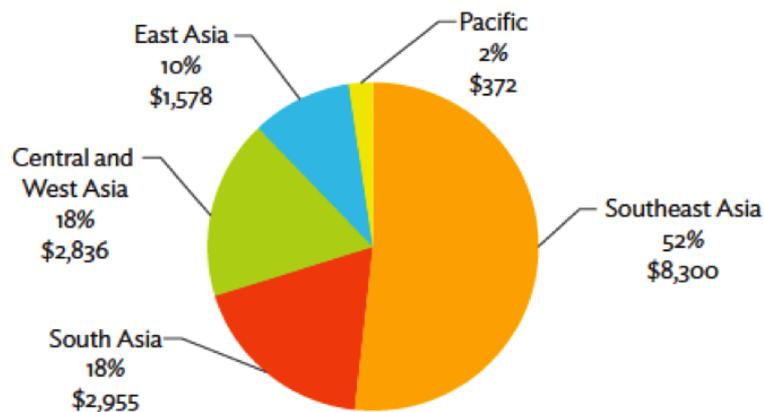
Loan Approvals By Sector: Three-Year Moving Averages, 1968-1970 – 1984-1986



ADB 1986.

The annual lending volume of the Bank across the region reached more than \$1Billion annually, and a total of over \$16Billion lending portfolio for the entire decade. This is around a 500% increase from the previous decade's total (ADB 2016). The table above shows how steep the incline was from the first decade to the second decade.

Figure 2: Lending Operations by Region, 1977-1986 (\$ million)

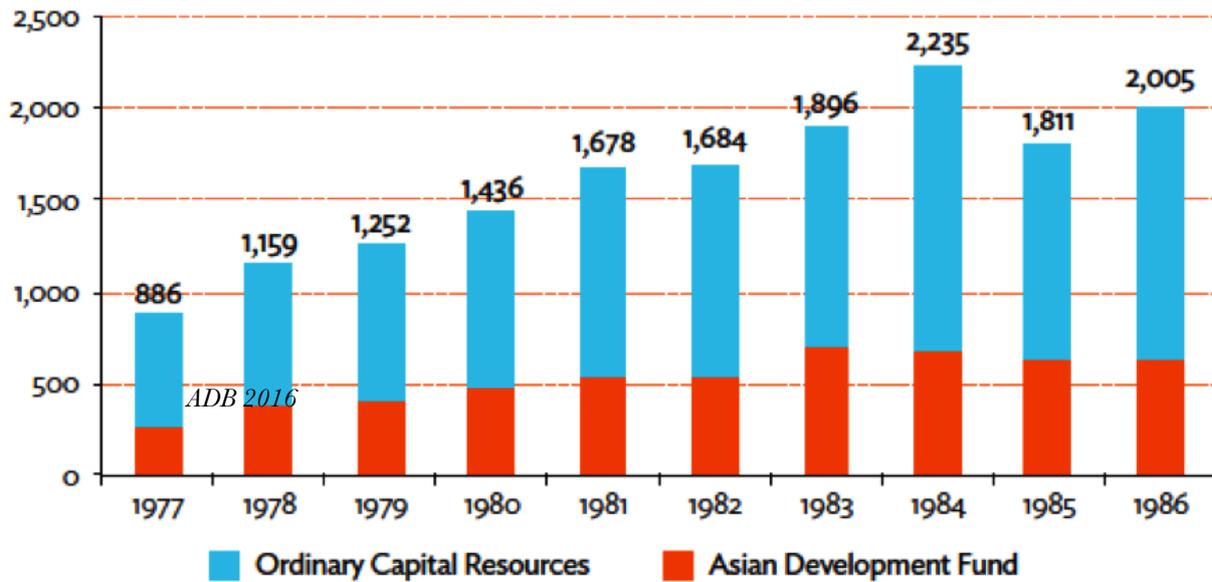


Note: Regional breakdown is based on current country groupings. Lending operations include equity, grant, guarantee, and loan approvals. Source: ADB loan, technical assistance, grant, and equity approvals database.

ADB 2016

Much of the lending operations of ADB for the second decade remained to be with Southeast Asia (\$8.3 Billion). However, in this decade, ADB increased its presence in South Asia with the setting up of their office in Bangladesh. ADB also began working with civil society to help disadvantaged groups. Compared to the first decade, lending to South Asia (\$2.955 Billion) and Central West Asia (\$2.836 Billion) increased more than 500% and gained prominence over East Asia. The top 5 borrower countries were Indonesia (21%), Pakistan (17%), the Philippines (12%), Bangladesh (11%), and the Republic of Korea (9%). There was increased support also to the Pacific from less than USD 100 million dollars to close to USD 400 Million (ADB 2016).

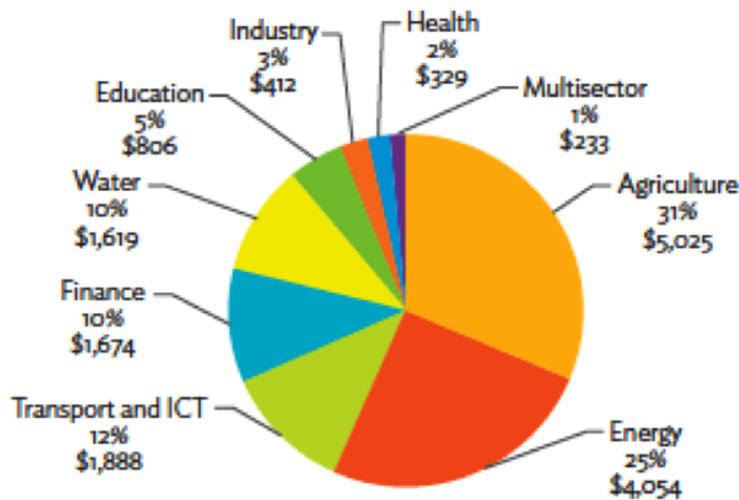
Figure 1: Lending Operations by Fund Type, 1977-1986
(\$ million)



Note: Lending operations include equity, grant, guarantee, and loan approvals.
Source: ADB loan, technical assistance, grant, and equity approvals database.

ADB 2016

Figure 3: Lending Operations by Sector, 1977-1986
(\$ million)



ICT = information and communication technology.

Note: Regional breakdown is based on current country groupings. Lending operations include equity, grant, guarantee, and loan approvals.
Source: ADB loan, technical assistance, grant, and equity approvals database.

There has been an increase in the ratio of soft loans (Asian Development Fund) to 27%, but the dominant lending window remained to be from Ordinary Capital Resources which were lent at higher rates. Priority sectors for these loans remained to be in the Agriculture, Energy/ Power, Transport/ICT and Industry - either directly or through Development Banks relending to support small and medium enterprises. Agriculture received an almost 800% increase from the previous decade, and around 49% of this was under soft loan ADF agreements. In this decade, support for basic essential services such as Water and Education increased, and began in Health (ADB 2016).

TABLE 10--
EXTERNAL PUBLIC DEBT AND DEBT SERVICE RATIO
OF SELECTED DMCs, 1983-1985
(\$ million)

Country	Debt Outstanding ^a			Service Payments			Debt Service Ratio ^b (%)		
	1983	1984	1985	1983	1984	1985	1983	1984	1985
Bangladesh	4,885.0	5,154.8	5,967.8	135.1	172.6	214.3	13.8	14.3	16.7
Burma	2,225.1	2,249.5	2,946.8	151.3	160.5	196.6	34.2	37.4	51.8
China, People's Rep. of	3,280.2	4,023.4	7,020.2	300.5	342.9	...	1.2	1.2	...
Fiji	292.3	289.7	302.2	37.5	51.6	55.6	7.3	9.8	10.6
Hong Kong	223.4	270.4	251.1	47.9	52.9	71.4	0.2 ^c	0.2 ^c	0.2 ^c
India	21,151.9	22,294.9	26,649.5	1,282.1	1,464.2	1,885.1	9.5	10.7	13.3
Indonesia	21,684.8	22,861.9	26,624.6	2,548.2	3,251.0	4,015.1	12.8	14.7	20.1
Korea, Rep. of	22,689.4	24,982.6	29,126.0	4,147.3	4,671.3	5,030.1	13.6	13.9	15.2
Malaysia	10,592.6	12,226.4	13,834.1	954.1	1,479.6	3,969.3	5.9	7.8	22.3
Maldives	48.2	50.5	52.2	4.3	14.8	7.8	5.5	17.5	8.6
Nepal	360.0	426.7	527.3	8.0	9.8	12.9	2.8	3.3	4.0
Pakistan	9,753.0	9,990.2	10,681.4	1,066.0	937.4	1,071.7	28.0	27.1	29.5
Papua New Guinea	927.1	989.7	1,061.1	106.9	138.3	130.8	11.1	13.4	14.2 ^c
Philippines	10,578.5	11,611.7	13,561.4	1,298.4	1,115.3	1,257.0	16.0	13.9	15.8
Singapore	1,494.9	1,904.8	1,790.8	411.3	317.2	721.8	1.3	1.0	2.4
Solomon Islands	28.9	34.5	59.9	0.1	0.1	1.1	0.1	0.1	1.3
Sri Lanka	2,214.9	2,421.9	2,815.2	167.0	201.7	226.3	11.9	11.2	13.9
Taipei, China	6,139.0	5,639.5	4,903.7	1,862.0	2,268.2	1,787.8	6.8	6.9	5.4
Thailand	7,000.3	7,538.8	9,898.4	939.1	1,251.2	1,499.1	10.2	12.0	14.7
Vanuatu	3.6	5.2	6.9	0.6	0.6	0.6	0.9	0.7	0.7
Western Samoa	60.4	64.4	65.2	3.9	3.8	5.2	14.4	13.2	19.2
TOTAL	125,633.5	135,031.5	158,145.8	15,471.6	17,905.0	22,159.6	7.3	7.5	10.8

... data not available.

a Disbursed only.

b Debt service payments as a percentage of exports of goods and all services including workers' remittances.

c Merchandise exports was used in the computation.

Sources: World Bank, *World Debt Tables*, 31 December 1986 and country sources.

ADB 1986.

This scenario of continued reliance of extending loan operations rather than creating grant facilities to address underdevelopment, whether under commercial rate conditions or through concessional soft loans, shows that developing member nations across South East, South and Central Asia have taken on a path towards deepening their indebtedness under commercially-competitive terms amidst unabated poverty and expansion of slums in newly developing urban centers that welcomed the decade. The strategy actually deepened debt dependence in a more pronounced way in the second decade, and not self-reliance. There was an attempt to reorient the loan objectives to address addressing internal needs rather than full dependence on international trade, job creation, support for basic social services (education and health) the strategy failed to address much needed asset reform and

addressing long-standing inequity in rural areas were not sufficiently addressed.

The ADB notes in 1986 that the total Public Sector Debt of developing member nations has been increasing, with Peoples Republic of China, India, Indonesia, Korea, Malaysia, Philippines and Thailand comprising 92% of the cumulative external public debt. Some countries had debt servicing Looking at the figure above, it can be noted that despite debt service payments made by the developing countries, only the newly industrializing countries (NICs) Taiwan/China, Singapore and Hong Kong were able to reduce their overall debt.

ADB reports for this decade once again glosses over any mention of autocratic regimes existing and receiving support from the Bank. It does not mention whether the large-scale projects were subject of high-level corruption rife in these autocracies.

INTEGRATED RURAL DEVELOPMENT AND SUPPORT FOR SMALL TO MEDIUM ENTERPRISES

Thus, the second decade saw a shift in the agricultural paradigm employed by the Bank. From 1977, it embarked on employing “an integrated approach to rural development, land utilization, water management and expansion of rural employment, as a means of dealing with the persisting problems of unemployment and underemployment, poverty and malnutrition among the rural population in (developing member countries) DMC. (ADB 1977)” There remained the push for accelerated expansion of agricultural output but this was tempered with the objective of ensuring that the benefits from this increased production should redound towards the small farmers (ADB 1977). The need to address local consumption balanced out the desire to reap benefits from international trade. In a sense, there was a recognition of the volatility of completely depending on international trade.

Agriculture and Agro-Industry covers irrigation, drainage and flood control facilities, integrated agricultural and rural development, fisheries, livestock, agricultural credit, and support services, feeder road networks, multipurpose dams, coconut and cotton production, foodgrain storage, crop intensification programs, fisheries, and livestock development. It was also during this decade that support for Forestry ensued. The interest in forestry was around utilization of forest resources to be able to address the demand for forest products, rather than conservation, identification and delineation of protected areas, recognition of indigenous rights over territories covering forested areas.

Another change in the Bank’s strategy was around support for Industry.

This would be seen in the increased support for small to medium scale enterprises coursed through National Development Banks, and more direct lending specific projects. The support for small to medium scale enterprises was also geared towards generating more 'employment' In developing member nations especially in the rural areas (ADB 1978). The other track was to support large industrial projects which were direct recipients of Bank loans.

TIEMPO MUERTO: INCREASING AGRICULTURAL PRODUCTIVITY WITHOUT ASSET REFORM AND DOMESTIC SELF-RELIANCE FAILS TO ADDRESS POVERTY AND HUNGER

These developments in terms of addressing local consumption needs from agricultural production did not mean that economies weaned away from international exports. While there was a marked increase in the production of rice and wheat, the production of agricultural products for export still remained and did not result in the expected returns on foreign currency. There was a massive drop in the price of prime commodities exported by the developing member countries - copra (52%), palm oil (50%), cotton (25%), jute (51%), tin (44%), and crude oil (49%). Only the prices of sugar (51%) and timber (11%) increased.

However, increased production and favorable pricing does not completely address centuries-old rural inequity. Even with the rise in sugar prices, for example, the situation of sugar workers did not improve. Cash crop production dedicated large tracts of lands to only one cash crop. This, coupled with the absence of genuine land reform, meant that hundreds of thousands of poor peasants and farm workers did not have the means and capacity for subsistence level consumption nor could they prepare to produce grain for their own household consumption needs.

In Negros Island, Philippines alone, there were 440,000 landless sugar workers in the mid-80s. Their situation even prior to the sugar crisis was already deplorable. "In this plantation society, sugar production is itself a constant crisis for the vast majority who teeter on the edge of survival even in the best of times. Year-round employment is rare, wages

are low and Negros imports most of its staple food (Scott 1987)." During tiempo muerto, the dead season, when the haciendas are waiting for the harvest, sugarworkers have no work (Williams Jr. 1985).

The collapse of the sugar industry began in 1975 when preferential US sugar quotas expired. Prices in 1974 were 65 cents to a pound, and went down to 4 cents to a pound in 1985. When sugar prices dropped towards the mid 80s relative to their peak prices in previous years, this was unfortunately accompanied by prolonged drought. In 1985, at least 300,000 sugar workers were out of work for 6 months (Williams Jr. 1985). In 1987, the situation did not improve. "Cane production dropped by 30% and planters debt jumped to \$225 million, putting 80% of the sugar land in hock. At least 190,000 sugar workers lost their jobs, affecting 1 million dependents – half of Negros' population of 2 million (Scott 1987)."

The situation created widespread hunger and malnutrition in the sugarlands in the Philippines. "Every fifth child on the island under the age of six in 1986 was found to be seriously malnourished. An effective supplementary feeding program headed by the United Nations Children's Fund has reached as many as 90,000 underfed youngsters a day. (Scott 1987)."

This became an international issue and was covered by international media as one of the hallmark legacies of Martial Rule and lopsided trade relations in the Philippines.

And yet the ADB reports, surprisingly, failed to factor this in their annual and decade long reports.

CONTINUOUS PUSH TO HARNESS NATIONAL POWER RESOURCES, FOSSIL FUEL AND EXTRACTIVES

The First and Second oil crisis continued to drive the investment in developing domestic / indigenous energy sources and avoid dependence on oil importation. This meant support for (Williams Jr. 1985) the power sector was in the area of water/hydropower, natural gas, lignite or brown coal and coal. There was likewise a push towards rural electrification through improvement of the transmission and distribution of power (ADB 1978). Energy and Mineral development was the second largest lending sector in this decade. The total loan portfolio of ADB for Energy reached more than USD 4Billion, majority of which went to transmission and distribution (43%), thermal/natural gas development (27%), and large scale hydropower (12%). Only 1% of the loans financed the development of renewable energy (ADB 2016).

Since the oil crisis in 1973, ADB purposively pursued supporting the development of indigenous energy sources to avoid overdependence on imported fuel by developing member nations. But it was after the second oil crisis of 1979 that ADB undertook a serious shift, including studies, towards supporting the development of these resources. This indigenous energy source was

mainly hydropower, natural gas and coal. ADB shifted its focus from power generation, transmission and distribution towards (i) development of the hydrocarbon sector (coal, gas, oil); (ii) developing biomass and non-conventional energy sources; (iii) evaluation of various energy development and demand; (iv) supporting energy conservation and efficient energy use and (v) where external support is most needed. ADB likewise supported the participation of the private sector in the development of energy sources and distribution (ADB 2016).

The interest of ADB in mineral resource development also increased in this decade. Rather than viewing the mineral resources as a finite capital resources which should be prudently utilized in the face of a fossil fuel crisis, ADB instead viewed this as a resource potential which needed to be tapped. It recognized that majority of the developing member nations “were known to have substantial mineral resources, which remained largely untapped. ADB therefore decided in 1978 that it could perform a useful role in helping DMCs explore this potential, particularly with respect to nonfuel mineral and coal resources. (ADB 2016)”

TRANSPORTATION COMMUNICATION – ROADS PORTS AND AIRPORTS

Transportation projects formed part of the integrated area development objectives for the second decade. Most of the loan investments in transportation focused on building main roads, ports and airports. With the widening divide between rapid urban growth and the relative plateau in rural growth, transportation was seen to be an enabling factor for the integration of rural and urban economic activities. Roads would increase the capacity for exchange of goods from rural to urban areas. The emphasis in this decade was to increase farm to market secondary and feeder roads. Support also went to road improvement projects with Indonesia, Korea, the Philippines and Thailand receiving the big chunk of loan projects.

WATER, EDUCATION, HEALTH

Loan support for the delivery of basic social services such as water, education and health were introduced in the second decade. Development of piped water and sewerage systems were in line with supporting the rapid urban growth and particularly looked at the access of the poor to water. Education was geared towards increasing employment opportunities with the projects on education focusing on technical and vocational skills but also supporting secondary and higher education. Health support is also a new area for loan financing. The health projects supported hospital-polyclinic projects and family planning.

ENVIRONMENTAL SAFEGUARDS

ADB began developing its environmental policy during this decade, towards ensuring that the environmental effects of ADB funded projects did not adversely affect the environment. This came in the wake of the river pollution in Seoul, Korea and in Laguna de Bay, Philippines, two of the countries which have received considerable support from ADB. The concern for the pollution stems from the increased economic or project activities in the two countries which have contributed immensely to polluting traditional common water resources (rivers and lakes). In 1979 ADB produced a paper which highlighted how environmental considerations may be incorporated into the operations of ADB. In 1980, the ADB President signed “the Declaration of Environmental Policies and Procedures Relating to Economic Development, committing ADB to supporting the principles and recommendations for action of the United Nations Conference on the Human Environment.” (ADB 2011)

In 1986, the Bank’s Board of Directors approved the working paper “Review of the Bank’s Environmental Policies and Procedures” which sought to ensure that “all potentially significant environmental impacts are identified, appropriate measures are taken to avoid adverse impacts and, where possible, that projects enhance the environment; (ii) promoting environmental awareness among

staff; (iii) acting as a regional development resource center; and (iv) supporting projects with direct environmental benefits—such as reforestation, water supply and sanitation, urban development, and housing (ADB 1986).” The review also noted that there was a need to strengthen the environmental and natural resources planning, management, monitoring and enforcement of environmental law and policies at the national level of developing member countries for more strategic gains in environmental practices (ADB 1986).

From 1981 to 1987, there were around 3,000 development project reports reviewed by ADB Environmental Specialists. The specialists reviewed whether there were significant potential environmental impacts, possible remedial measures where appropriate and emphasized the benefit of incorporating the environmental assessment during planning and designing phase of the project rather than when the project has already been approved. Some of the wider environmental impacts of the project which surfaced during the review include: “impact on water resource development, resettlement of tribal people, and rural development opportunities.” They classified the ADB projects into 4 impact categories according to the severity of potential environmental impacts of projects (US EPA 1990):

Category A:	Projects rarely having significant adverse environmental impacts;
Category B:	Project inducing significant adverse impacts but which can be readily identified and quantified, and remedial measures can be prescribed without much difficulty;
Category C:	Projects invariably having significant adverse impacts and requiring detailed environmental analysis;
Category D:	Environmentally oriented projects

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WOMEN AND GENDER POLICY

It was during this decade that ADB likewise began developing its policy around Women and Gender. It produced a policy paper entitled “Policy on the Role of Women in Development” in 1985 which emphasized the importance of incorporating the role and needs of women in lending and technical assistance. Guidelines were developed on how to undertake this per major sector such as “fisheries, forestry, livestock, irrigation, rural development, agro-industry, education, water supply, sanitation, urban development, housing, health, population and development finance institutions.” Gender disaggregated data in some development indicators also began for each developing country during this decade (ADB 2016).

Catering to the private sector also began in this decade. The private sector stepped in to perform the role of financial intermediary to small and medium sized enterprises whose financing needs were not as large to fall within the minimum loan portfolio directly monitored by the Bank. ADB provided credit lines, loans and technical to local financial institutions and directly to the private sectors in agriculture, agro-industry and energy. There was already a push towards providing loans to the private sector which did not need guarantees, but this was not approved.

3

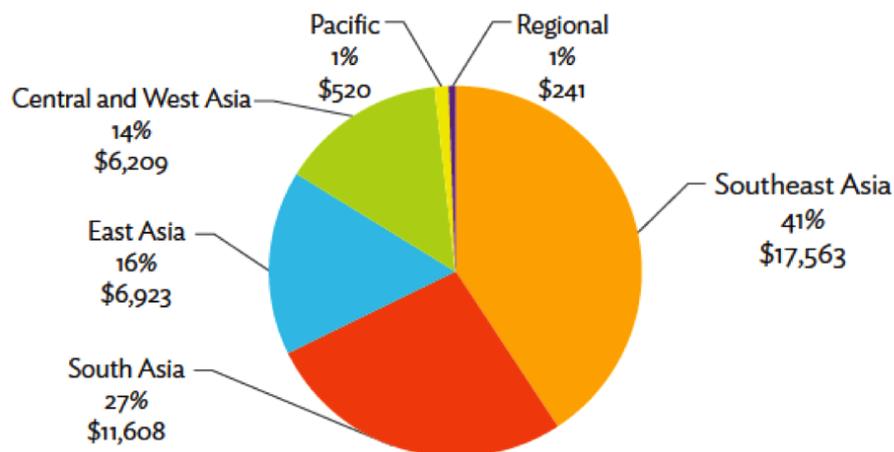
THIRD DECADE (1987-1996)

CHALLENGES AT THE BEGINNING OF THE DECADE: RURAL AND URBAN POVERTY

With the end of the cold war and the pursuit of capitalist economics by the Soviet Union and the Peoples Republic of China, the third decade ushered in the entry of member countries which were transitioning from closed and regulated socialist economies towards economies with heavier reliance on market forces. Thus a clear shift in terms of extending more loans to East Asia (China) and Central West Asia (Kazakstan, Kyrgyz Republic, Uzbekistan) may be observed during this decade.

From a lending volume of USD\$2.836 Billion in the second decade, ADB now extended transitioning Central and West Asia economies a two-fold increase to USD\$6,209. East Asia on the other hand jumped from USD\$1,578 to more than a three-fold increase to USD\$6,923. This is once again of concern considering the situation of the economies of these transitioning countries now being suckled through a debt-dependence drip (ADB 2016).

Figure 2: Lending Operations by Region, 1987-1996
(\$ million)



Note: Regional breakdown is based on current country groupings. Lending operations include equity, grant, guarantee, and loan approvals. Source: ADB loan, technical assistance, grant, and equity approvals database.

The total lending operations for the third decade was at USD\$43Billion, more than double the total lending operations in the previous decade which was at USD\$16Billion. Around 96% of this amount went to Government or government guaranteed loans, and the remaining amount was disbursed to private sector loans and equity. During this decade, lending went beyond USD\$5Billion annually - a huge leap from the annual average the previous decade of USD\$1Billion (ADB 1996).

The cumulative total in terms of lending from 1968 to the end of the third decade is at USD\$ 62.172 Billion. The sector which has thus far received the most number of loans is Energy/Power (25.47%), Agriculture and Natural Resources (22.07%), Transport and Communication (20.47%), Social Infrastructure/Education/Health (15.27%), Financial/Development Banks (9.62%), Industry and Non-fuel Minerals (3.8%), and multi-sector/Others (3.29%) (ADB 1996).

Table 10
LOAN APPROVALS BY SECTOR: THREE-YEAR MOVING AVERAGES, 1968–1970 – 1992–1996

	Total Lending ^a (\$ million)	Agriculture and Natural Resources	Energy	Financial	Industry and Nonfuel Minerals	Transport and Commu- nications	Social Infra- structure	Multi- sector/ Others
	(% of Total Lending)							
Average during								
1968–1970	128.44	19.48	11.98	23.36	15.06	24.03	6.10	0.00
1969–1971	199.25	20.48	25.38	19.57	8.69	21.68	4.20	0.00
1970–1972	271.92	15.69	33.06	13.97	5.04	21.48	10.75	0.00
1971–1973	330.53	15.78	32.18	15.49	0.42	23.88	12.25	0.00
1972–1974	428.42	18.76	26.71	15.06	4.02	21.32	14.12	0.00
1973–1975	543.16	27.87	23.03	16.73	4.25	17.68	10.44	0.00
1974–1976	661.30	29.27	21.35	17.44	5.48	16.61	9.85	0.00
1975–1977	774.22	30.51	22.02	15.46	4.19	16.97	10.85	0.00
1976–1978	940.36	27.42	21.53	14.37	7.25	15.98	13.45	0.00
1977–1979	1,098.92	29.86	24.03	11.81	5.62	12.10	16.55	0.04
1978–1980	1,282.01	30.95	24.88	10.96	3.93	12.39	16.84	0.06
1979–1981	1,454.96	32.56	27.21	10.72	0.90	9.41	19.11	0.09
1980–1982	1,598.97	34.00	27.71	10.00	0.74	11.53	15.97	0.06
1981–1983	1,751.46	33.68	26.60	10.61	2.36	7.52	18.26	0.96
1982–1984	1,937.03	34.18	28.98	7.01	1.91	12.12	14.36	1.43
1983–1985	1,978.52	32.42	24.63	6.50	1.87	12.75	20.30	1.53
1984–1986	2,013.77	35.46	25.26	4.65	0.34	14.40	17.48	2.40
1985–1987	2,081.84	30.63	17.47	11.24	3.06	20.54	15.24	1.81
1986–1988	2,512.17	26.90	18.76	12.84	7.46	21.27	11.32	1.45
1987–1989	3,053.71	22.37	16.41	17.16	6.69	21.94	14.60	0.82
1988–1990	3,564.93	25.83	20.78	12.67	4.50	19.37	15.15	1.71
1989–1991	4,115.48	25.30	26.04	10.83	3.58	17.93	14.86	1.45
1990–1992	4,561.39	21.63	28.15	9.53	3.79	20.82	12.95	3.13
1991–1993	4,973.89	13.87	30.33	9.09	5.45	23.70	14.30	3.25
1992–1994	4,616.65	10.98	27.80	7.63	4.44	29.49	14.16	5.49
1993–1995	4,797.68	12.06	30.58	6.59	3.48	26.63	17.54	3.13
1994–1996	4,909.48	15.18	26.89	5.91	2.71	26.26	17.19	8.18
Cumulative (1968–1996)	62,172.41	22.07	25.47	9.62	3.80	20.47	15.27	3.29

a Total column may not tally due to rounding.

ADB 1996.

SPECIAL FUNDS

The third decade of ADB also saw the Bank managing more special funds. Aside from the Asian Development Fund, it was now administering the Technical Assistance Special Fund (TASF) and the Japan Special Fund (JSF). The TASF was created to provide technical assistance grants to the developing member countries. The JSF was established in 1988 to assist developing member countries “restructure their economies and broaden the scope of opportunities for new investments... JSF resources are used primarily to finance technical assistance operations, these resources may also be used as equity investment operations in DMCs (ADB 1996).”

INCREASING SUPPORT FOR THE PRIVATE SECTOR

During this decade, the Bank also increased and evolved its private sector lending windows. From initially opening up increasing percentages of government-guaranteed loans to the private sector, to setting up a separate Private Sector Department within the Bank, increasing the role of the private sector in the Bank's Medium Term Strategic Framework, encouraging developing member countries to increase the participation of the private sector in local financial intermediation and equity markets. What is notable though is that the private sector was seen to be a keen partner for governments of developing member countries for infrastructure (roads, railways, ports) development and in power/energy, transportation, and telecommunications.

An ADB policy paper on the energy sector came out during this decade which “focused on increasing the private sector participation in large-scale energy investments; improving energy efficiency (on both the supply side and demand sides), and further integrating environmental considerations in energy development.” This was the decade when Build-Operate-Transfer, Build-Operate-Own, and other arrangements were formulated to usher in the increasing role of the private sector in what used to be state-led and public works development (ADB 2016).

From 1991 to 1996, ADB extended close to USD\$1 Billion in loans and equity to the Private Sector. These included loans for infrastructure power projects under build-operate-own / build-operate-transfer (BOO-BOT) arrangements: “a 500MW coal-fired power project in India, a 60MW hydropower project in Nepal, and a 150MW gas-fired power plant in Pakistan.”

These three projects comprised 45% of the total amount of funds committed by ADB to ten projects in 1996.

The Bank sees the private sector engagements are good mechanisms which enable it to leverage minimal funds for optimal resource generation – “This indicates that for every \$1 invested by the Bank, an additional \$10 are mobilized from other investors and lenders. (ADB 1996)”

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DOWN THE SLIPPERY SLOPE OF PRIVATIZATION

This wave of privatization of basic and essential services proceeded not merely as a revenue generation scheme but from an operational efficiency perspective. There is an assumption that the private sector would be able to do things more efficiently than government most especially given the past experience of countries and their State-owned Enterprises (SOE). There is increased competition and reduced expenditures thus leading to more efficient delivery of public services.

The assumption that privately-run enterprises will be cheaper or incur less expenditure is debatable. Private sector firms are able to operate efficiently when it operates with a profit. Provision of better services is incentivized by the profit generation capacity allowed (Nestor and Mahboobi 1999). Profit being the incentive for provision of more efficient public services becomes the nesting ground for rent-seeking behaviors so much so that there are findings that:

“privatization often leads to more corruption in government... loss of accountability and abuses of public funds and resources. With the increasing power of the business and corporate elites, the chances for corruption increase significantly. The ability to influence policy makers, to offer various kinds of bribes and incentives for favorable political and administrative actions, places corporate business elites in an advantageous position to entice government officials into corrupt activities. Since privatization has been a powerful strategy of globalization pursued by globalizing corporate elites, corruption is likely to increase much more significantly (Farazmand, ed. 2001).”

In the experience of some OECD countries which also embarked on privatization, the results were seen to be positive, where “important efficiencies were generated by the change in incentives, financing and governance structures that privatization generates (Nestor and Mahboobi 1999).” Consequently, this has made the cost of essential services such as power more expensive.

It is possible that this scheme may work in the context of developed nations where majority of its citizens have the means to pay for these services and the willingness to pay for them as

well. But for developing member nations with rising numbers of poor communities in the rural and urban areas, privatization of basic and essential services may not be sustainable and would in fact be contributory to further marginalizing and increasing the vulnerability of the poor.

These large-scale power projects likewise have the potential to contribute to the development of the economy, and at the same time wreak havoc on the environment, cause long-term and at times the forced displacement of rural poor and indigenous communities. That the Private Sector is running what used to be treated as an exclusively public good to be run by State enterprises, and utilizing finite natural resource capital of the country at the very least is worrisome. Whereas in the past identifying what the common good is for current and future generations would ideally dictate the use of public goods, delivery of services and full utilization of natural resource capital is now determined by how efficient the extraction is and whether it generates surplus income. The dangerous effect of this is that considerations for the damages on common property resources play second fiddle to the “greater good” of provisioning for efficient essential services.

On occasion, development projects implemented through the Private Sector behave and assume that universal tenets of due process and just compensation requirements that would have been required under normal commercial transactions may already be dispensed with under the cloak of eminent domain and police powers of the state. The danger of this is that involuntary displacement of poor and marginalized communities become more efficient.

URBANIZATION, MEGA CITIES, SLUMS AND THE URBAN POOR

Also in this decade, the growing phenomenon of urbanization is more pronounced across the region. Rising urbanization was indicative of both progress and challenges. Progress is illustrated by higher income opportunities in urban centers especially in the newly industrialized economies of Singapore, Taipei/China and Republic of Korea, and Challenges of unmet asset reform and uneven development in the urban and rural areas is illustrated by developing member countries whose rural poor flocked to urban centers to find better opportunities that rural areas could not provide them. Megacities housed increasing number of people - but the economic opportunities, basic service provisioning for housing, water and the environment cannot be fully absorbed by the rapid urbanization.

The phenomenon of increasing number of urban poor in the megacities is seen from a problem of human settlements rather than asset reform or lopsided economic development during this decade. ADB initially had difficulty how to view the urban poor and the issues they face at community level, and attributed the failure of economic development to the ills “caused” by the poor.

“Squatters can cause economic and social problems. They tap both power and water through illegal connections. Congested shanty towns without sewerage or sanitary facilities also pose fire and health hazards. Law and order problems are also common in such communities. Clearly, moving squatters to affordable housing at the right location benefits them and the society alike. (ADB 1992)”

Relocation outside existing communities became the recommended track, without considering that members of the urban poor

communities are often the blue-collar or pink-collar workers in key urban commercial and production areas. Argued to the extreme, it appears the track taken by ADB then was to eliminate the urban poor from the line of sight of those living in urban centers would eliminate poverty.

“Offering squatters a chance to own their own home is the best incentive to ensure the success of a relocation scheme. Such a scheme at the right location, a very important consideration to the poor, can often encourage people to switch from menial work, such as scavenging and even illegal activities, to more productive jobs that also generate a larger and more regular income,” says B.K. Lee, a Senior Urban Development Specialist with the Bank. (ADB 1992)”

Unfortunately, urbanization and rising megacities in the context of Asian development is an offshoot of unresolved rural asset monopolies, and the new opportunities in urban areas drives encourages those in the rural areas to flock to urban centers. The rapid rise of the urban population has been driven by the high rural to urban migration and natural increase in population. indicative of the further concentration of resources and opportunities in the hands of a few, and thus does not completely result in genuine development. ADB notes that

“These megacities have both positive and negative features. They generate a higher-than-average proportion of the nation’s output of goods and services, are the centers of innovation in science, the arts, and lifestyles; contain many of the cultural assets of the country; and offer some of the best opportunities for people to lead full and satisfying lives.

Yet they also suffer from a shortage of water, environmental pollution, traffic congestion, and proliferation of slums, crime and social alienation... (ADB 1996)”

INDIGENOUS PEOPLES, OTHER DISADVANTAGED GROUPS, AND INVOLUNTARY DISPLACEMENT

In 1987, ADB’s Board of Directors “approved a policy supporting collaboration with NGOs to address the basic needs of disadvantaged groups in developing member countries, and to support improved natural resources management and conservation (ADB 2006).” In 1995, the ADB Board issued a governance policy that looked into inspection functions, involuntary resettlement, and indigenous peoples in order to protect the rights of affected people (ADB 2006). This was galvanized into The Bank’s Policy on Indigenous Peoples by April 1998 (ADB 1998). In this 1998 policy, the Bank recognizes that power distribution, hydro-energy development, minerals and infrastructure projects affect indigenous peoples and their traditional lands:

14. As socioeconomic development takes place, many development initiatives are extending farther into geographically remote areas often considered the traditional homelands of indigenous peoples; these areas offer resources such as forests, minerals, and hydropower potential. Roads, power transmission lines, and other infrastructure development initiatives similarly are extending into the traditional areas of indigenous peoples. In parallel with physical and economic development, dominant and mainstream populations and cultures also are extending into the traditional areas of indigenous peoples. (ADB 1998)

To implement this policy, the Bank’s Operations Manual requires the preparation of an Initial Social Assessment (ISA) for each development project. The ISA would contain the needs, demands and capacities of the affected communities, and issues around involuntary resettlement, poverty reduction, human development, gender and

development, and vulnerable groups. An Indigenous Peoples Development Plan is then required from the government or project sponsor. This plan details down the measures and approaches to be taken by the project to address the issues which affect indigenous peoples and how to address them (ADB 1998).

The Bank has a separate bank policy on Involuntary Resettlement which was also issued within this decade (1995), which had undergone a special evaluation study (SES) simultaneously with the Indigenous Peoples policy in 2006. A Handbook on resettlement was issued in 1998. Within this document, the ADB admits the negative effect of ADB projects on communities which necessitated the creation of this policy. The evaluation showed that around half of the total number of public sector loan projects funded by the ADB afflicted involuntary displacement of communities. The number could be higher if all private sector projects were required to have resettlement plans. However, since some arrangements for the private sector were under equity investments, co-financing or non-guaranteed loans, only 4% of the private sector loans were required to undertake resettlement plans.

“39. Safeguards against adverse effects of involuntary resettlement are often invoked for projects that ADB supports. Of the 923 public and private sector loans approved since 1994, 23% had full RPs; 4% had short RPs; and for 2% the need was to be established after project approval, as they were sector projects or credit lines (Appendix 4, Table A4.1). This means that one third of all loan projects or programs approved by ADB involved the risk of adverse impacts on livelihoods of at least some people, including their involuntary resettlement.

However, the number has increased over the years, particularly since 2002; since then it has fluctuated between 41% and 56% of all public sector projects approved in a calendar year. Before this time, it was between 7% and 34% per year.

40. Most RPs and RFs covered projects in the public sector. Few were prepared for private sector projects. Only 4% of the private sector projects approved between 1994 and 2005 had either a full or a short RP, although for another 8% the need for an RP was to be determined after loan approval (mostly

sector projects and hybrid projects) (Appendix 4, Table A4.1). One reason for RSDD's initiative to update the policy has been to improve the consistency of resettlement planning in the context of private sector loans. It may be that the number of RPs should have been higher. However, a significant proportion of private sector operations are in the financial sector, where RPs are usually not needed. Some infrastructure projects involving private sector financing are likely to involve negotiation on land acquisition and resettlement. (ADB 2006)

4

FOURTH DECADE (1997-2006)

ASIAN FINANCIAL CRISIS

Developing Member Countries and Newly Industrialized Economies in the Asian region received a heavy blow with the Asian Financial Crisis which opened the Fourth Decade of ADB. This exposed the weak economic fundamentals of the countries which relied on export promotion, pegging trade to the US\$ currency, debt dependence and increasing reliance on speculative investments (real estate and property development) (Richardson 1998).

The Republic of Korea received a considerable number of loans in the previous decade and considered as one the newly industrialized economies. It began hemorrhaging when its private sector chaebols (conglomerates) engaged in steels and cars became bankrupt from over investing in steels and cars and had non-performing loans reaching 7.5 percent of their GDP. 20 of the 30 chaebols had very low rate of returns on their invested capitals in 1996, and by 1997 about 7 of these chaebols were considered bankrupt.

Despite this low rate of return, investments continued to pour into Asia because of the interest rate fall in industrialized countries

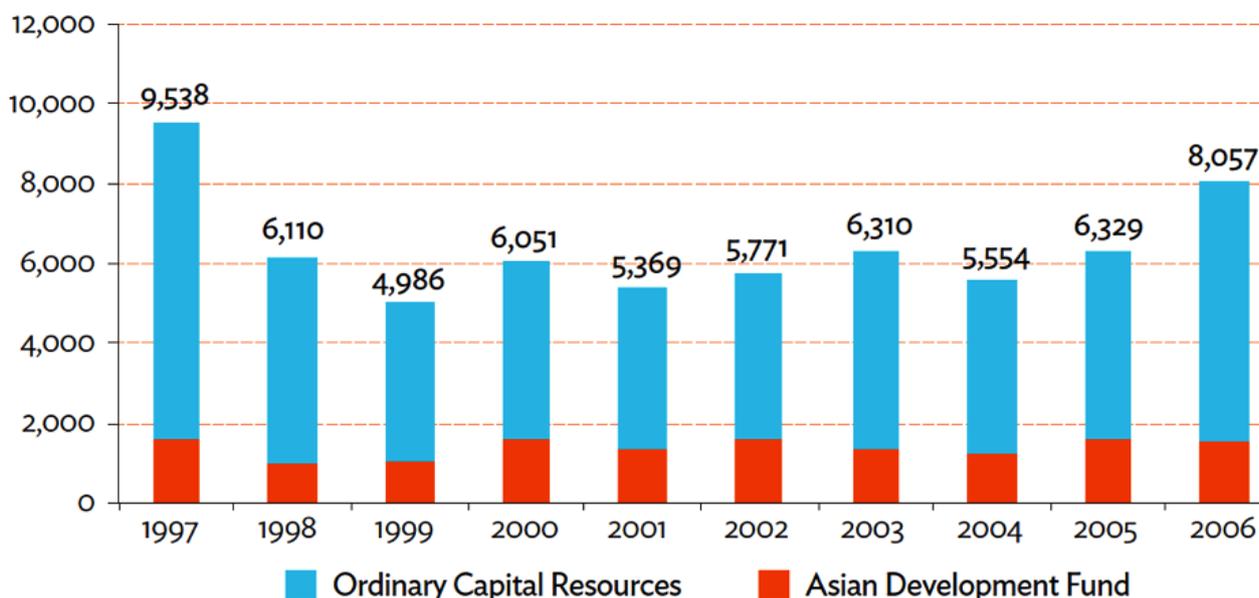
like Japan. Big banks in Asia borrowed heavily from external sources and then lent excessively in the domestic market, even if some of these were “marginally if not outright unprofitable from a social point of view” without applying prudence nor sound risk assessments (Corsetti, Pesenti and Roubini 1999).”

The ADB responded by providing emergency bail-out schemes amounting to USD\$7.8 Billion to Indonesia, Republic of Korea and Thailand, and technical assistance for economic surveillance to prevent the further decline of member countries affected by the financial crisis. It was in favor of the Republic of Korea that the ADB provided its single biggest loan to the tune of USD\$4Billion (ADB 2016). This financial crisis created a slowdown in the economies, especially when the market responded by increasing loan interest rates and devaluing local currencies against the USD\$ where most of the loans were made in US\$ or against US\$ reserves. Attempting to achieve the Millennium Development Goals amidst this crisis was a great challenge (ADB 2016).

One of the key findings of ADB also makes reliance on full deregulation of the Private Sector quite worrisome. Undisciplined corporate governance was seen to be one of the contributing factors to the crisis (ADB 2016). The bandwagon towards privatization was tempered by the experience in the Asian Financial Crisis. The wakeup call included calls for a rational regulation of the financial sector was seen as a lesson learned that needed immediate implementation.

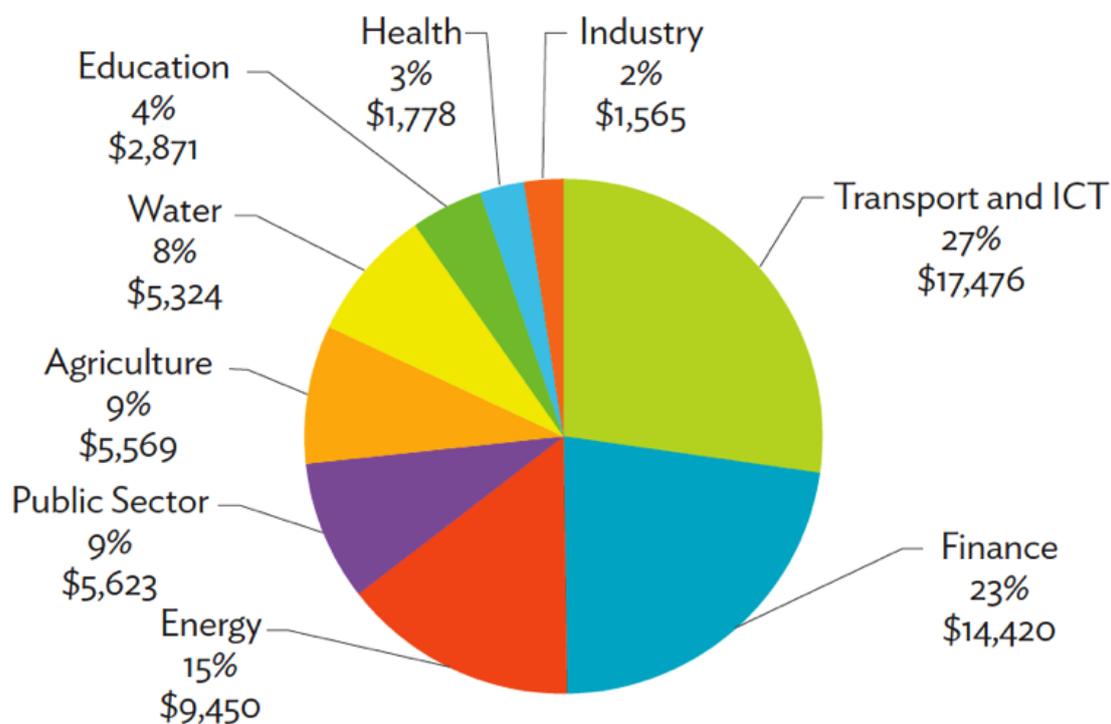
Given this backdrop, there was a felt slowdown in terms of the economy but this did not trim down the lending operations of ADB. In fact, the bail out packages for the affected countries came was in the form of more loans.

Figure 1: Lending Operations by Fund Type, 1997–2006
(\$ million)



Note: Lending operations include equity, grant, guarantee, and loan approvals.
Source: ADB Operations Dashboard, eOperations database.

Figure 3: Lending Operations by Sector, 1997–2006
(\$ million)



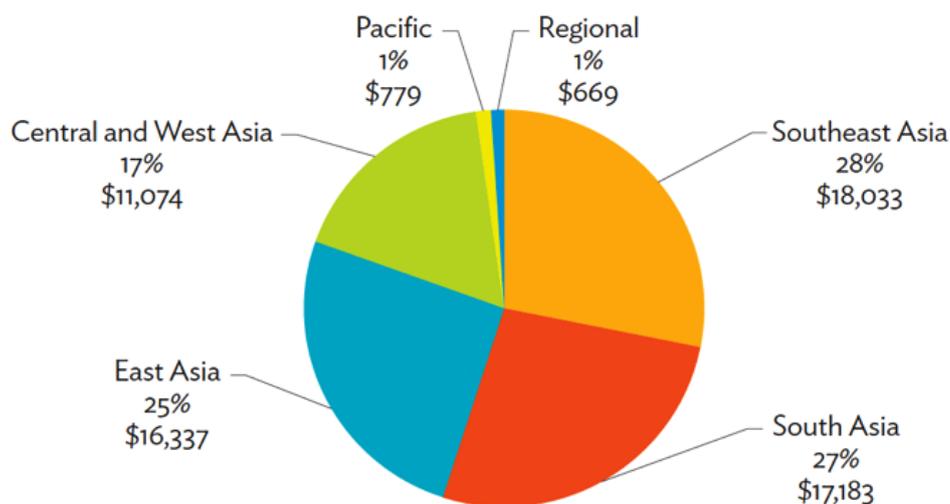
ICT = information and communication technology.

Note: Lending operations include equity, grant, guarantee, and loan approvals.

Source: ADB Operations Dashboard, eOperations database.

The total lending operations of the Bank in the fourth decade reached USD\$64.075B – an increase of a little over USD\$20Billion from the previous decade. In this decade, Transportation has overtaken Energy as the sector with the highest amount allocated. Finance is second highest and most of this became part of the support in the wake of the Asian Financial Crisis. There was a sharp decline in support for the Agricultural sector which is down to 9% from 22% in the previous decade, and to the Industrial sector which has further decreased to 2% from 3.8% (ADB 2016).

Figure 2: Lending Operations by Region, 1997–2006
(\$ million)



ADB = Asian Development Bank.

Note: Based on current organizational grouping of ADB. Lending operations include equity, grant, guarantee, and loan approvals.

Source: ADB Operations Dashboard, eOperations database.

The distribution of the lending operations to the different Regions appear to be spread more equally owing to the support given to countries affected by the Asian Financial Crisis (South East Asia and East Asia) and the continued entry of former Soviet Union countries in Central and West Asia.

RESPONDING TO NATURAL DISASTERS AND ACUTE HEALTH ISSUES

Aside from the Asian Financial Crisis, this decade also posed a significant challenge to the Asian region with the advent of successive, large scale natural disasters. The Gujarat Earthquake in India (2001) was a 7.7 magnitude quake which claimed the lives of 19,000 people, injured more than 200,000 people and rendered 1.7 million people without homes. In 2004, underwater quakes measuring 9.0 magnitude triggered tsunamis in 14 countries and claimed the lives of 260,000 people and displaced 1.7 million people with the most damage to lives and property occurring in Indonesia, India, Maldives, Sri Lanka and Thailand. The following year, Pakistan was struck by a 7.6 magnitude earthquake which left 2.8 million people homeless and 2.3 million people

affected by disrupted transportation and food supply.

For the tsunami, ADB was able to set up a USD\$600 million multi-donor Asian Tsunami Fund grant facility within 6 weeks of the disaster. It later on allocated USD\$775million in fresh loans and grants towards emergency relief. For the Pakistan earthquake ADB was able to mobilize around USD\$369 million in soft loans and technical assistance. The support rehabilitation and reconstruction of transport, power, health and education. The support rehabilitation and reconstruction of transport, power, health and education. In addition, a \$1 billion line of assistance to help victims of the October 2005 earthquake in Pakistan was set up.

Prior to this, the Bank also responded to the severe acute respiratory syndrome (SARS), avian influenza and HIV/AIDs.

4

FIFTH DECADE (1997-2006)

GLOBAL FINANCIAL CRISIS WORSE THAN THE GREAT DEPRESSION OF 1929

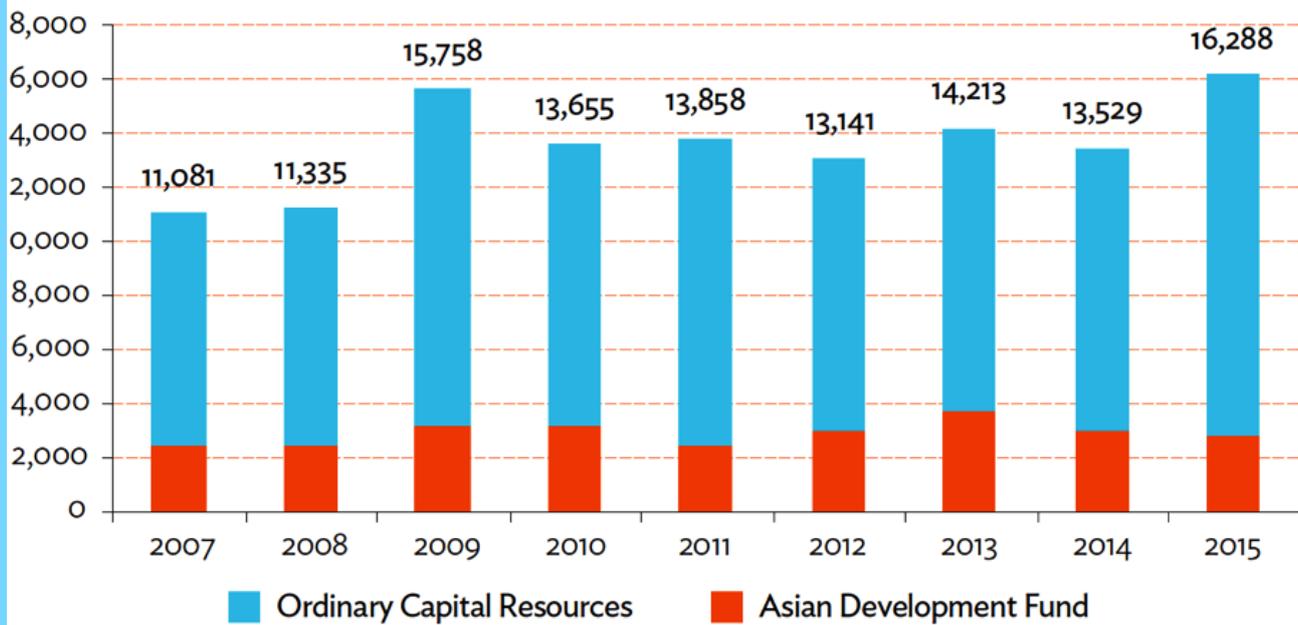
Another financial crisis opened the fifth decade of ADB. In September 2008, the global bank Lehman Brothers collapsed and with it the rest of the world's financial system was brought down (The Economist 2013). Merrill Lynch, AIG, Freddie Mac, Fannie Mae, HBOS, Royal Bank of Scotland, Bradford & Bingley, Fortis, Hypo and Alliance & Leicester, all established names in the financial industry, almost suffered the same fate as the Lehman Brothers until they were provided bail-out support (Mathiason 2008). The financial crisis rooted in the subprime mortgage market of the United States rocked the globe and was considered to be worse than the Great Depression of 1929. Housing prices plummeted 31.8 percent and with increasing unemployment rates.

Having undergone the Asian Financial Crisis in the previous decade, different sub-regions within Asia were differently affected by the global financial crisis, based on their "degree of dependency to external demand and credit." Export oriented economies such as Korea and other South East Asian countries Thailand, Malaysia and the Philippines suffered a decline in export demands. But the other countries which were not as dependent on exports did not suffer as much. Peoples Republic of China though initially affected, is a new market in itself (Brunschwig, Carrasco and Hayashi 2011). Asia's significant reliance on satisfying domestic/national and regional demand for goods and services enabled it to rebound from the slump by 2010 (ADB 2016).

LENDING OPERATIONS INCREASE TWO-FOLD

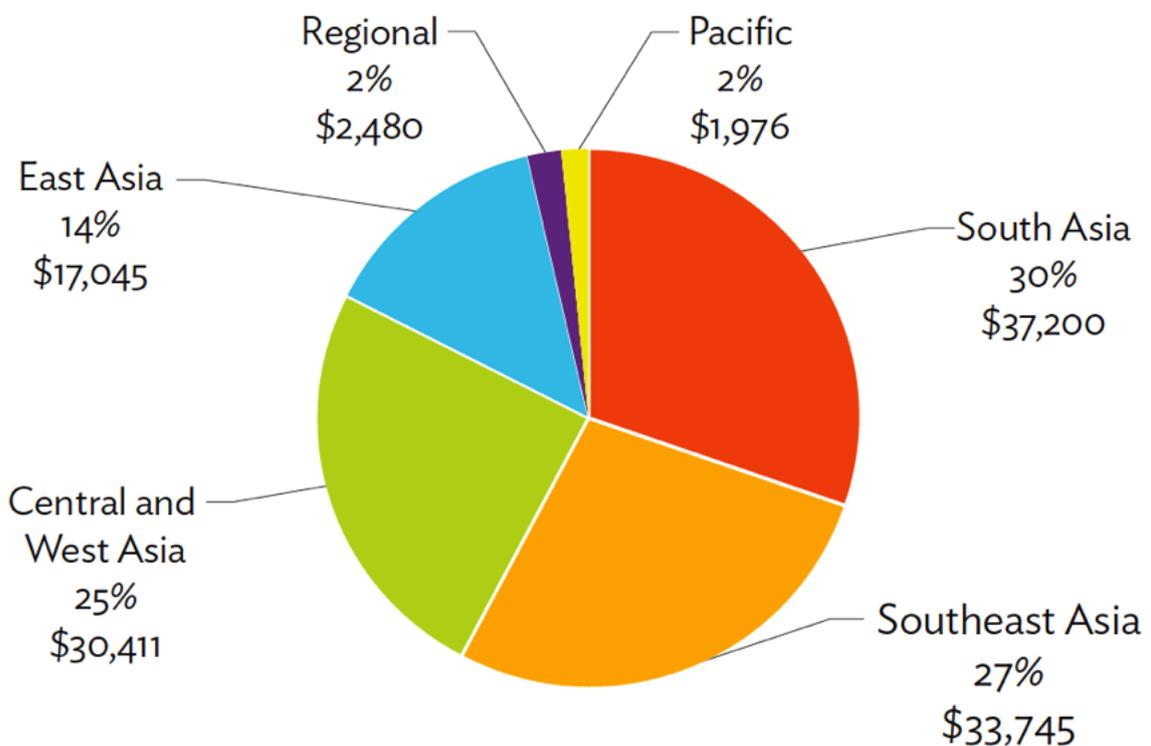
ADB was again able to increase its lending portfolio to twice the amount from the last decade. From 2007 to 2015, the accumulated lending operations of the Bank was around USD\$123 Billion, with an average annual lending volume of USD\$13Billion (ADB 2016).

Figure 1: Lending Operations by Fund Type, 2007-2015
(\$ million)



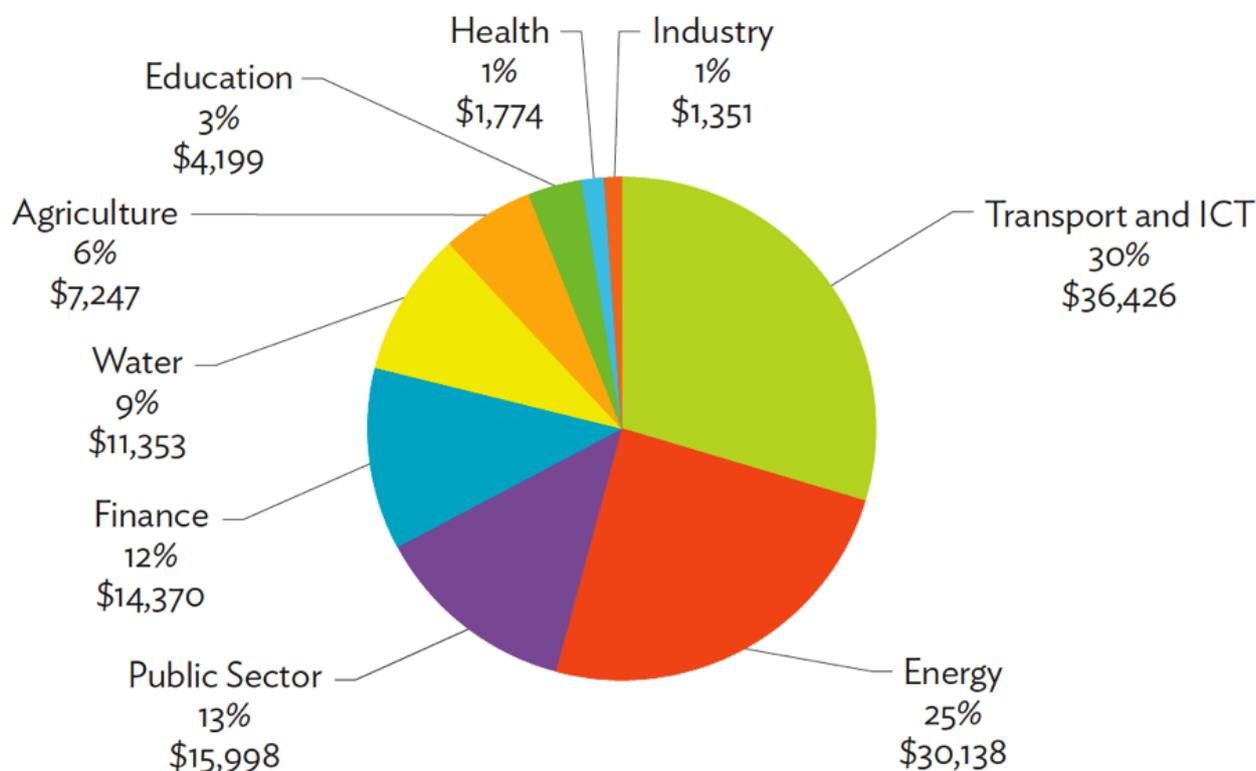
Note: Lending operations include equity, grant, guarantee, and loan approvals.
Source: ADB Operations Dashboard, eOperations database.

Figure 2: Lending Operations by Region, 2007-2015
(\$ million)



Note: Lending operations include equity, grant, guarantee, and loan approvals.
Regional breakdown is based on current country groupings.
Source: ADB Operations Dashboard, eOperations database.

Figure 3: Lending Operations by Sector, 2007–2015
(\$ million)



ICT = information and communication technology.

Note: Lending operations include equity, grant, guarantee, and loan approvals.

Source: ADB Operations Dashboard, eOperations database.

It was also in this decade that Transportation and ICT surpassed Energy or Agriculture. Most of this lending support went to roads (67%), urban transport (13%), and rail transport (9%). The top borrowers under this sector are the Peoples Republic of China (20%), India (18%), Vietnam (11%), Pakistan (7%), and Bangladesh (6%). For the energy sector, 41% of the loans went to financing electricity transmission and distribution, 16% to conventional energy, 9% to large hydropower, 7% to energy sector development, 5% to energy utilities and 2% to oil and gas transmission and distribution. Support for renewable energy rose to 12% from the previous decade's and energy efficiency 8% (ADB 2016).

CLEAN ENERGY PROGRAM AND URBAN WATER

It was during this decade that the Bank developed its Clean Energy program. It produced its Energy Policy in 2009 and its Clean Energy Program has evolved from its program to support energy efficiency. In 2010, it launched its Asia Solar Energy Initiative to promote the adoption of low carbon technologies in Asia. It has also supported 1GW of wind energy in priority member countries.

It has targeted a commitment of USD\$2Billion annual commitment for clean energy investments. This was reached in 2011 and 2013 (ADB 2016). There was also an increase in investment in urban water services. The total lending to the water provisioning for urban areas reached USD\$11.4Billion for the period of 2007 to 2015. The key subsectors were “urban water supply (41%), urban sewerage (24%), urban policy (9%), urban flood protection (8%), and

urban solid waste management (5%), and other urban services (5%) with the top borrowers coming from South East Asia and East Asia - PRC (25%), India (20%), Viet Nam (10%), Bangladesh (8%), and Sri Lanka (6%). Its Water Operational Plan released in 2011 identified the following priorities (ADB 2016).

- (i) increased efficiencies in water use across the range of users;
- (ii) expanded wastewater management and reuse, including sanitation;
- (iii) embedded integrated water resources management, including improved risk management to mitigate floods, droughts, and other water-related disasters;
- (iv) expanded knowledge and capacity development that uses technology and innovation more directly; and
- (v) enhanced partnerships with the private sector.

CONTINUED DECLINE IN AGRICULTURE

There is a continued decline in the overall contribution of Agriculture to the lending portfolio of the Bank. From a priority area of work in the first three decades, Agriculture now receives only 6% of the entire portfolio. This amount was earmarked for “irrigation (33%), water-based natural resource management (19%), agriculture policy, institutional and capacity development (9%), and agriculture production (8%).” Similar to the other sectors, Peoples Republic of China is the top borrower for agriculture (34%), with Pakistan (14%), Bangladesh (9%), Viet Nam (9%) and India (6%) (ADB 2016).

For the fifth decade, ADB shifted its focus to ensuring a “comprehensive multi-sector food security engagement with the goal of curbing food insecurity, particularly among the poor and vulnerable in Asia.” It is now looking at the agricultural value chain and not just increasing traditional productivity which it has supported for the first decade. Value chain development looks into the value chain beyond the farm gate, developing climate change resilience. Under this window, it has supported rural financing, sustainable resource use and climate change adaptation interventions (ADB 2016).



MISSING THE MARK

The Asian Development Bank holds public funds and seeks to assist governments. The volume of loan operations made available by the Bank oftentimes dwarfs the economy of the developing member countries. The funds sourced by the bank for its gargantuan loan operations comes mostly from government funds of old colonial masters, development funds of developed countries and large scale corporate interests through the equity markets and commercial banks. The impetus for generating more funds for loans has gone far off the grid from its original altruistic ideals. Instead, it is run by and large as a commercial transaction, with soft loans and grant arrangements forming only a third of its operations. This volume of loans coming into the developing member countries has likely transformed the technical assistance from mere advisory and learning initiatives towards more policy prescriptions. This has created a new indentured relationship stemming from debt dependence, between old colonies and old colonial masters.

During its 50 years of existence, the Bank supported a huge amount of funds towards increasing the capacity of developing member nations' agricultural production but without directly encouraging asset reform. Agricultural production, in fact, was primarily directed at international trade in the earlier years and dependent on the quotas allowed by developing countries who were the recipients of the exported agricultural products. It is not surprising, therefore, that while productivity of developing member nations indeed increased with the introduction of new technology, hunger and poverty have not dissipated and in fact worsened with the new phenomenon of expanding slummification in Asian megacities.

Increasing productivity without addressing issues of equity and unevenness of development within countries does not address poverty. It is no surprise therefore that with increasing agricultural production, there was a rising phenomenon of Asian megacities with accompanying rise in urban poverty, and pockets of deep poverty in the rural areas.

Rising trade deficit and plunging prices of export cash crops meant that industries such as the sugar industry would suffer a massive collapse. The drop of sugar prices and expiration of sugar quotas in the mid 1980s was accompanied by drought. This resulted in more than 300,000 sugar workers having no work. (Joel Ablong - the face of the starving children of Negros during the famine in 1985.)

The ADB, along with other multilateral development agencies, pushed fledgling democracies towards debt dependence rather than self-reliance. The debt servicing data showed countries falling deeper and deeper into debt. The export oriented production suffered immense blows from untenable trade arrangements and the crisis suffered by developed nations. Even with the technical assistance provided by the Bank for the sugar industry in the Philippines, for example, sugar workers suffer one of the most deplorable sometimes sub-human working conditions. When developing nation trading partners suffered economic crisis, it was easy for them to remove trade quotas and install more protectionist policies. This damaged many industries and sent hundreds of thousands of poor peasants and agricultural workers into periods of deathly starvation.



Photo courtesy of <https://i1.wp.com/www.philippinecanadiannews.com/wp-content/uploads/2016/02/Joel-Ablong.jpg?resize=777%2C437>

There was likewise a purposive increase in the role of the Private Sector in the delivery of basic services, in the management of financial sector, in accessing and leveraging additional funds for additional loans, and in engaging domestic financial systems in the equities and currency speculation market. This, together with an export oriented production, was a deadly cocktail. The lopsided development which did not address basic, core economic

iniquitous domestic arrangements led to newly industrialised economies in Asia, the poster child of the economic reorientation ushered in by the Bank, to belly up during the Asian Financial Crisis. This made it necessary for the Bank to facilitate the biggest loan in its entire history in favor of the Republic of Korea.



STRATEGY 2030

The Bank is currently preparing its long-term strategy for the next decade (2020-2030) which aims to respond to the economic, political and social changes in Asia and the Pacific. In its consultation paper, “Road to 2030”, it outlined salient points needed for the Strategy 2030 which outlines the vision and key direction for the Bank’s engagement with its Developing Member Countries (DMCs). The strategy also intends to find alignments with the recent global instruments

such as the Sustainable Development Goals (SDGs) and the Paris Agreement (PA), both approved in 2015. The consultation paper likewise indicates the need for organizational reforms to ensure efficiency and effectiveness (ADB, 2017).

Given the significant changes in Asia (growing middle class, urbanization, intra-regional migration, and more public consumption),

as well as emerging trends and threats such as rising inequality across income levels, climate change, growing pressures on the environment and shrinking political space in most countries, it is expected that in the coming decade, Asia will be an active and important part of the global configuration.

In the recent years, there has also been an emergence of new players and strengthening of existing ones in the region. The Asian Infrastructure Investment Bank (AIIB) was formally established in 2015 and will focus on the financing of large infrastructure projects in energy and power, rural infrastructure, agriculture development, transportation and telecommunications, water supply and sanitation, urban development and environmental protection (AIIB, 2017).

The New Development Bank (NDB), formerly referred to as the BRICS Development Bank was founded in 2014 by the BRICS states (Brazil, Russia, India, China and South Africa). NDB shall “support public or private projects through loans, guarantees, equity participation and other financial instruments.”(NDB, 2017).

Given the changes in the region and the emergence of these new players, ADB as a development bank needs to carefully evaluate its performance and ensure that it is not only relevant, but also true to its vision.

This careful review must take into consideration the historical context and imperative when the Bank was established. As discussed in the previous chapters, the Bank was envisioned to support countries not just in increasing the gross domestic productivity, but to ensure poverty reduction and to improve the quality of life of the people in DMCs. Therefore, the new strategy must examine whether the strategies of the Bank has contributed to reducing poverty, hunger as well as people’s security and well-being.

A sound and relevant strategy for the ADB as a development bank should not just look into

the current political, economic and social context in the region vis-à-vis the Bank’s vision and purpose, but it should likewise look into the performance of the Bank for the past 50 years. Since its establishment in 1966, has the Bank been able to address the prevailing issues and concerns of the countries, and ultimately reduce poverty and to improve the quality of life?

The crafting of the Strategy 2030 should likewise make a careful analysis of the implementation of the strategy for the current decade, respond to emerging issues, and ensure a genuine transparent and inclusive process especially for the its target beneficiaries.

The current strategic framework of the Bank, Strategy 2020, was approved in 2008, and envisions “An Asia and Pacific Region Free of Poverty”. Inclusive economic growth, environmentally sustainable growth, and regional integration are the three strategic agendas, with an emphasis on the five (5) drivers of change: (i) private sector development and private sector operations, (ii) good governance and capacity development, (iii) gender equity, (iv) knowledge solutions, and (v) partnerships. ADB’s resources will be concentrated in five core areas: (i) infrastructure (ii) environment, including climate change (iii) regional cooperation and integration (iv) financial sector development and (v) education (ADB, 2016).

In September 2013, the Bank conducted a mid-term review of Strategy 2020, and recommended a 10-point program on future strategic and organizational directions focused on: (ADB, 2013)

- (i) poverty reduction and inclusive economic growth,
- (ii) environment and climate change,
- (iii) regional cooperation and integration,
- (iv) infrastructure development,
- (v) middle-income countries,

- (vi) private sector development and operations,
- (vii) knowledge solutions,
- (viii) financial resources and partnerships,
- (ix) delivering value for money in ADB, and
- (x) organizing to meet new challenges.

The review likewise identified nine (9) key challenges facing the region which could derail its progress:

1. poverty
2. increasing inequalities
3. demographic transition
4. stress on environment
5. infrastructure deficit
6. less than optimal regional integration and
7. financial systems
8. need for innovation; and
9. weak governance.

More and more, these challenges are becoming evident and therefore needs to be addressed urgently, including increasing inequalities and stress on the environment and the excesses of climate change. Moreover, some issues have become more prominent – higher vulnerabilities and the “middle income trap” faced by some DMCs (Lowy Institute, 2017).

Addressing Poverty and Inequality Wherever It Exists. Extreme poverty is still the reality for almost half of the population in Asia. But in responding to this problem, it is becoming increasingly less relevant to look at poor countries. What needs to be done is to focus on the needs of the poor, vulnerable and marginalized, whichever country they may be. Inequality is continuously on the rise, both in middle-income countries but more so in prosperous countries (Lowy Institute, 2017). Therefore, the Bank has to craft its strategy to effectively help the marginalized and vulnerable sectors, including excluded populations such as indigenous and ethnic communities and persons with disabilities.

The same mid-term review likewise presented recommendations on ADB’s strategic priorities for the next decade.

- Infrastructure to continue as the key focus for ADB’s operations.
- Increased emphasis on inclusiveness
- Stronger support for climate change and environment
- More proactive support for regional cooperation and integration
- Stronger relevance for middle income countries
- Stronger support for private sector development and private sector operations
- Mainstream knowledge solutions
- Ensure adequate financial resources
- Deliver value for money
- Strengthen skills, incentives and institutional arrangements investments, co-financing or non-guaranteed loans, only 4% of the private sector loans were required to undertake resettlement plans.

Strengthen Due Diligence and the Equator Principles. If in the past its lending and technical assistance redounded to supporting rising dictatorships / authoritarian rule and military juntas, ADB has the opportunity to be more circumspect in its lending policies. It needs to adhere to and even contribute to strengthen the Equator Principles in order to ensure that loan portfolios do not contribute to strengthening perpetrators of human rights abuses and high-level corruption, whether these be governments or private sector players carrying out ADB funded projects for governments. Similar to reforms introduced through the Dodd-Frank Act, ADB needs to instill more stringent “due diligence” reviews of the recipients of funds and projects. Section 1502 of the United States Dodd-Frank Act was enacted because of concerns that the exploitation and trade of conflict minerals by armed groups is helping to finance conflict in the DRC region and is contributing to an emergency humanitarian crisis. In similar fashion, after 50 years of projects causing the involuntary displacement of communities and indigenous peoples the ADB has the opportunity to implement much needed

reforms in reviewing project and sector performance to avoid any involuntary resettlement and rights abuse.

The Road to 2030 document likewise mentions inclusive business and the involvement of the private sector's investment and expertise for development. However, this priority should ensure that the business model of the private sector include and be aligned with eradicating poverty, ensuring genuine inclusiveness and building the resilience of communities. Moreover, the Bank should proactively provide more support to alternative models of businesses and help them develop, especially the small-scale and social enterprises which maximize improvements in the community and individual, and not concentrate the profit to a few shareholders and owners. It would also be imperative for the Bank to focus on assessing and enhancing the development impact of its operations.

Serious Uptake of Climate Mitigation Commitments. ADB must also understand that supporting efforts to curb climate change and its effects would entail resilience-building efforts, specifically both mitigation and adaptation strategies. This means that a greater focus on a broader and more comprehensive analysis of environment.

Strategy 2030 has to ensure that the region transitions to renewable energy measures leading to low carbon growth.

According to ADB's strategic review of environmentally sustainable growth in relation to its operation, Asia's economic growth has been consistent and robust. But as this happened, its share of carbon dioxide emissions has reached nearly half the global total because of a continued strong reliance on fossil fuels, especially coal (ADB, 2016). This situation necessitates for the Bank to uphold, strengthen and not dilute environmental safeguards which are already in place. Said safeguards for the protection of the environment has to be coupled with

standards and safeguards relating to social well-being and the protection of human rights in its operations. Environmental issues are intrinsically linked with human and social concerns as each one depends and on the other.

Strengthen Internal and External Governance. Strengthening governance and institutions would be a very relevant strategic priority for the Bank, especially in these times of political challenges in most countries, which has resulted to a continuously shrinking space for participation. As previously mentioned, the strategy on strengthening governance and institutions in each country has to coincide with upholding and respecting social justice and human rights.

Another strategic priority that the Bank should include for Strategy 2030 should be the focus on institutional governance of the Bank itself. The will to make institutional changes within the Bank would prove that ADB puts their money where their mouth is. This institutional strengthening should enable the bank to continuously capacitate its staff and personnel to improve their skills and enhance their knowledge. The Bank's internal ways of working should be aligned to its pronouncements as enshrined in its policies. This strengthening of institutional governance should also include an honest analysis and reconsideration of ADB's immunity policy. At present, ADB and other multilateral and regional development banks operate in a legal vacuum and are immune from international and national laws. If the Bank genuinely intends to realize its vision of becoming a Bank which gives primary importance on inclusiveness, then it should amend its Charter for it to show accountability not just to itself as an institution, but also to its member countries.

The process in drafting and finalizing the Strategy 2030 document has to ensure that there is an honest reflection of the Bank's role in development in the region, a review of the past performance of the Bank

and an inclusive and transparent process of genuine consultation and participation of all stakeholders, particularly the vulnerable and marginalized communities. Unfortunately, the initial stages of the process were mired with criticisms of unacceptable and inadequate practices. The CSO demands were clearly outlined in the letter sent by the NGO Forum on the ADB network to ADB President Nakao (NGO Forum, 2017).

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