

What is the Asian Development Bank?

The Asian Development Bank (ADB) is a financial institution that approves loans, facilitates capital investment and offers technical assistance to its 42 Developing Member Countries (DMC) within the Asia-Pacific region. Like the World Bank, the stated objective of the ADB since 1999 has been 'poverty reduction' through the facilitation of 'pro-poor sustainable growth', 'social development' and 'good governance'. Despite this, a growing coalition of civil-society organisations have raised numerous concerns about the activities of the ADB which has been criticised by a former ADB director as being an 'inefficient regional mimic of the World Bank'.¹

Why is it important to know about the ADB?

Multilateral development banks such as the ADB are the single largest form of international development finance. Collectively they account for between A\$60-70Bn of loans to low and middle-income countries each year. This gives institutions such as the World Bank and the ADB enormous influence over DMC

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development operations and goals, in some cases more than the countries own elected officials. While the ADB's operations are funded through taxpayers money, very few people in donor countries such as Australia understand the consequences of ADB-funded projects and the bank itself lacks accountability to either its member governments or their citizens.

Structure and Decision making in the ADB?

The main decision making body of the ADB is the board of executive directors which facilitates the day-to-day management of the bank, approves loans and decides on specific projects and policies. Although all 65 member countries are entitled to vote in the election of the 12 directors, voting power is proportional to the size of the financial contribution from each country. Consequently, Japan, the US and China each nominate their own director and all other members group together to elect shared directors. India and Australia traditionally head two such groups and two traditionally coming from European donor clusters. The remaining six are from developing countries.

Decision making power within the directorial board is also proportional to amount donated with the US and Japan each controlling around 13% of the voting power.³ Unlike the UN system of "one nation one vote", this is unofficially referred to as "one dollar one vote" and often means that it is the interests of the wealthy donor countries (not the poorer DMC countries the ADB is designed to assist) that take precedence in ADB decision making.

Where does the ADB get its funds from?

The ADB raises around 75% of its funds by issuing bonds on the world's capital markets where it has a triple-A rating. The other 25% is made up of contributions from donor members and the recycling of loan repayments from developing member countries.

The ADB is also placing an increasing emphasis on **co-financing** from official, commercial and export credit sources. As co-financing involves sources external to the ADB they can charge higher interest rates than the bank and have even lower accountability in terms of the social and environmental impacts of the projects they fund. US\$2.4Bn in co-financing was mobilised in 2004.⁴

How does ADB Project Financing Work?

Over 75% of ADB lending occurs through the **Ordinary Capital Resource** fund which loans to more economically developed DMCs at near or better than market rates on 15-25 year terms (US\$3.9Bn in 2004).⁵

Around 20% of ADB lending occurs through the **Asian Development Fund** which is available to the 24 Lower Income DMCs who receive an 8 year grace period before repayment commences and then pay a very low interest rate of around 1-1.5%. The ADF has traditionally been funded through pledged 'replenishments' which members donate on certain negotiated conditions. However there has been a recent push within the organisation to make the fund self-sufficient on loan repayments by increasing the interest rate on loans (US\$1.2Bn in 2004).⁶

While loans are the principle means of financing, the ADB also allocates a small proportion of funds for non-repayable grants and technical assistance schemes. (US\$193m each in 2004).⁷

Examples of ADB Projects: The Nam Theun Dams

In 1998 the ADB-financed Nam Theun-Hinboun dam was completed in central Laos with the aim of allowing the country to cease importing electricity from neighbouring Thailand. While it has reduced Laos' dependency on imported energy, the dam has also caused severe environmental problems, forced the resettlement of over 5,000 people and had a detrimental effect on the lives of more 25,000 people who depend on the river for their livelihood. Drinking water has dried up, cattle and crops have been destroyed by irregular flooding, fish stocks in the river have declined by up to 90% and traditional use of the river for transport is no longer possible. The detrimental effects have been so great that the ADB itself has admitted that it caused 'unnecessary environmental damage and human hardship' and the company that built the dam has been forced to pay out over US\$5m in compensation.^{vii}

Despite this, the ADB has recently announced plans to fund a second controversial Nam Theun II dam which it is estimated will displace an additional 6,200 people and impinge on the lives of a further 150,000. The International Rivers Network has shown that the Nam Theun 2 will violate 6 out of the 7 strategic priorities for dam development laid down by the World Commission on Dams including those on public acceptance.^{viii} Moreover, several NGOs have pointed out that the ADB has no way of guaranteeing that the revenue raised from the dam will be used for poverty alleviation, nor that Thailand will even purchase the energy produced by the dam.

⁴ ADB, 'Cofinancing and Guarantee Operations', *Asian Development Bank Annual Report 2004*, Manila, ADB, 2005, 14. Available online at: http://www.adb.org/Documents/Reports/Annual_Report/2004/part020407.asp

⁵ ADB, 'Loans', *Asian Development Bank Annual Report 2004*, Manila, ADB, 2005, 11. http://www.adb.org/Documents/Reports/Annual_Report/2004/part020403.asp

⁶ ADB, 'Loans', *Asian Development Bank Annual Report 2004*, Manila, ADB, 2005, 11. Available online at: http://www.adb.org/Documents/Reports/Annual_Report/2004/part020403.asp

⁷ ADB, 'Technical Assistance', *Asian Development Bank Annual Report 2004*, Manila, 2005, 12

¹ Shawn Donnan, 'Asian Development Bank Criticised by Ex-director' Published at: http://www.aidwatch.org.au/index.php?current=45&display=aw00483&display_item=1

² ADB, 'Proportion of Successful Projects/Programs', Available online at: http://www.adb.org/Evaluation/eval_region.pdf

³ ADB, *Asian Development Bank Annual Report 2004* Manila, ADB, 2005, v

In recent years the ADB has followed the World Bank in preferencing controversial 'high risk/high reward' projects, opting for large scale infrastructure 'master plans' such as energy and water provision, communication and transportation enhancement projects over more direct poverty alleviation programs such as community health and education initiatives.

The majority of ADB loans are provided for **public sector projects**, which often entail the construction of roads and bridges, hydroelectric dams, agricultural programs and oil and gas projects. Around 20% of ADB loans take the form of **program loans** designed to reform specific sectors such as water, power or finance. Such reforms typically involve attempts to increase sectoral 'efficiency' through privatisation and deregulation. A steadily increasing portion of ADB loans are directed towards **private sector projects** which in 2004 accounted for US\$800m, a 150% increase on the previous year.⁸

Although private sector projects are still relatively small (around 15% of the total in 2004) the ADB in fact spends billions of dollars each year on private sector contracts to procure goods, consulting and construction services for its public sector projects. As **procurement** for private sector contracts can only occur from the ADB's donor countries, the value of contracts granted to a country's private sector through the procurement mechanism frequently exceeds the yearly contribution made by the country's government to the ADB. The US has benefited greatly from its powerful position within the ADB securing US\$5.6billion in total procurement during 1966-2004 compared to the total US government contribution of US\$3.9billion.⁹

Australia's Role in the ADB

Australia is the 5th largest shareholder in the ADB, representing 5.03% of total membership votes and 7.71% of the regional share of votes. As such, Australia arguably holds a more influential role in the ADB than it does in either the IMF or World Bank and virtually has a permanent directorial position within the executive (currently Stephen Sedgwick). As with most donor countries, the A\$100-150m Australia contributes each year is typically matched by the contracts procured by Australian companies, and Australia has more than made back the A\$2.1bn it has contributed since 1967.¹⁰ Australian financial institutions also secure around A\$50m per year in cofinancing contracts which are typically granted to DMCs at much higher rates than those given by the ADB itself.

The largest single recipient of ADB contracts in Australia is the Snowy Mountains Engineering Corporation (SMEC), which secured over A\$20m worth of contracts in the last four years through its involvement in many of the controversial Mekong dam projects. Other Australian companies which have secured several ADB contracts include MBK Cardno, Acil and Kerry Packer's GRM International which collectively earned nearly A\$50m in contracts between 1999-2003.¹¹

AIDWATCH is part of a broad coalition of civil society organisations that monitor the activities of the ADB. We are a not for profit organisation dedicated to monitoring and campaigning on Australian overseas aid and trade policies and programs to ensure aid-funding reaches the right people and environments.

For further information on the ADB visit

**<http://www.aidwatch.org.au> or contact
aidwatch@aidwatch.org.au Ph: 02 9557 8944.**

AIDWATCH's concerns regarding the Asian Development Bank

The ADB is undemocratic and lacks transparency

- While it preaches 'good governance' and accountability to its developing member countries, the ADB itself is undemocratic and unaccountable to either the people whose lives are affected by ADB activities in recipient countries, or to the taxpayers in donor countries that fund the ADB's lending programs. The current voting system of 'one dollar one vote' is fundamentally undemocratic and results in the organisation being dominated by the interests of its wealthy donor countries, with little input from the poorer countries the ADB is designed to assist. Moreover, the current level of civil society participation in ADB project design, implementation and review is insufficient and leaves little opportunity for meaningful input from NGOs and other civil society representatives.
- The lack of transparency within the ADB's project implementation and decision-making processes is also an issue of concern. According to its own guidelines, the ADB advocates a "presumption in favour of disclosure of information", however in practice the bank has failed to meaningfully fulfil this principle. In particular, the ADB does not provide adequate information concerning its projects to the people in the developing countries in which its operations take place and the limited material that is available is often not translated into local languages.

ADB project implementation lacks community participation and accountability:

- Though financed publicly through the taxpayers dollar, ADB activities are often carried out without the informed participation of affected people, non-governmental organizations, or, in many cases, elected officials of the borrowing countries. Combined with its propensity for 'high risk/high reward' initiatives, this lack of community and civil society participation has meant that even by the ADB's own estimates over one third of its projects fail to achieve their stated objectives.
The social and environmental effects of ADB projects are insufficiently evaluated and considered prior to project commencement. Moreover the bank is reluctant to accept responsibility for any negative impacts of its projects and often blames the inefficiency and corruption of DMC governments and institutions for any negative consequences of its programs.

Additional Resources:

- Garrido, Jane and Zaman, Mishka, Unpacking the ADB: A Guide to Understanding the Asian Development Bank, Bank Information Center, Washington, 2005.: http://www.bicusa.org/bicusa/issues/misc_resources/1630.php
- International Rivers Network, 'The ADB: Creating Poverty in Asia': <http://www.irn.org/programs/mekong/adb.html>

⁸ ADB, 'Private Sector Operations', Asian Development Bank Annual Report 2004, Manila, ADB, 2005, 15. Available online at http://www.adb.org/Documents/Reports/Annual_Report/2004/part020409.asp

⁹ ADB, Quarterly Procurement Statistics as of 30th of September 2004, Manila, ADB, 2004, 93. Available Online at: <http://www.adb.org/Documents/Others/OPS/2004/a3/2004.asn>

¹⁰ Ibid.

¹¹ ADB, 'A Fact Sheet: Australia and the ADB', published online by the ADB at: http://www.adb.org/Documents/Fact_Sheets/AUS.asp