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COMBATING CORRUPTION IN THE MULTILATERAL DEVELOPMENT BANKS [PART III]

HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE

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COMBATING CORRUPTION IN THE MULTILATERAL DEVELOPMENT BANKS (PART III)

Tuesday, September 28, 2004

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.

The committee met at 2:40 p.m., in room SD–419, Dirksen Senate Office Building, Hon. Richard G. Lugar, chairman of the committee, presiding.

Present: Senator Lugar.

OPENING STATEMENT OF HON. RICHARD G. LUGAR, U.S. SENATOR FROM INDIANA

The CHAIRMAN. This hearing of the Senate Foreign Relations Committee is called to order.

The committee meets today to continue our review of United States policy toward the multilateral development banks, the MDB's. Today we will focus on three regional development banks: the Asian Development Bank, the African Development Bank, and the European Bank for Reconstruction and Development. This is the third in our series of hearings examining ways that the United States Congress and our Government can contribute to anti-corruption and anti-fraud efforts at the multilateral development banks. Our committee is committed to ongoing oversight of the multilateral development banks through hearings, project visits, interviews, and document reviews.

We are pleased to be joined by Mr. Bruce Rich, International Program Manager for Environmental Defense, and Dr. George Ayittey, Distinguished Economist in Residence at American University. The committee also invited Mr. Mark Sullivan, United States Executive Director of the European Bank for Reconstruction and Development, and Ambassador Paul Speltz, U.S. Executive Director to the Asian Development Bank.

Regretfully, United States Treasury officials did not allow Mr. Sullivan and Mr. Speltz to provide testimony regarding the anti-corruption strategies of the banks to which they are assigned. This is an unfortunate development because Congress and this committee oversee the annual United States contribution of more than $1 billion to the multilateral development banks and the MDB reauthorization is scheduled to be considered by the Congress next year.

The United States has strong national security and humanitarian interests in alleviating poverty and in promoting progress around the world. That is why the Congress funds foreign assistance programs and also why we fund multilateral development banks. The MDB's leverage our resources to promote poverty reduction and development around the world.

Since 1960, the United States has provided more than $39 billion in direct contributions to the MDB's.

Corruption impedes development efforts in many ways. Bribes can influence important bank decisions on projects and on contractors. Misuse of funds can inflate project costs, deny needed assistance to the poor, and cause projects to fail. Stolen money may prop up dictatorships and finance human rights abuses. Moreover, when developing countries lose development bank funds, through corruption, the taxpayers in those poor countries are still obligated to repay the development banks. So, not only are the impoverished cheated out of development benefits, they are left to repay the resulting debts to the banks.

In our May 13 hearing, we learned that MDB's have been taking steps to curb corruption, but that more needs to be done to ensure that bank funds are used properly. Our witnesses provided clear recommendations for the MDB's to minimize leakage of development financing. They recommended changing the incentives at the MDB's so that staff would have less pressure to lend. Witnesses also recommended that MDB's focus more actively on supervision and auditing of MDB lending. They argued for more transparency in operations and a requirement that borrowers improve transparency within their governments.

In our July 21 hearing, we learned that the United States Treasury Department does encourage anti-corruption efforts of the MDB's and reviews all MDB loans. Treasury, however, has limited ability to investigate the misuse of MDB funds. According to Under Secretary John Taylor, "The first line of attack, if our staff hears about issues like this, is to work through our executive directors at the institutions."

In written testimony provided to the committee, Mr. Dennis Schindel, Acting Inspector General for the Treasury Department, advised that "the international agreements that established MDB's and the U.S. law that implements the agreements makes clear that MDB's possess an effective immunity to OIG's authority."

During our July hearing, we also learned that the Government of Lesotho was strained financially during its prosecution of corruption related to a World Bank-financed project and that there is not currently a mechanism to assist poor countries that want to prosecute corruption related to their loans. It was suggested that the MDB's harmonize anti- corruption policies and mutually recognize blacklists. For example, a company that is debarred from the World Bank can still receive contracts from other MDB's.

The testimony we will hear today will be important to the future recommendations of our committee. The challenge of preventing waste, fraud, and corruption at the MDB's must be tackled with vigor.

We welcome our distinguished witnesses and we look forward to their insights.

Gentlemen, I will ask you to testify in the order that I have introduced you. Let me say at the outset that your full statements will be made a part of the record in full, and you may proceed as you wish, either to give the statements in full or to summarize. Following that, the committee will raise questions of you. Mr. Rich.

STATEMENT OF BRUCE M. RICH, INTERNATIONAL PROGRAM MANAGER, ENVIRONMENTAL DEFENSE, WASHINGTON, D.C.

Mr. RICH. Thank you, Mr. Chairman, members of the committee, for this opportunity to testify this afternoon concerning the corruption in the Asian Development Bank. You are to be commended for this series of three hearings on corruption in the MDB's. The multilateral development banks, in an interconnected world where economic development and political stability are more critical than ever, are unique institutions, and they have the potential to play an important and critical, much-needed role in fostering these goals in poorer countries.

However, as we heard in the previous two hearings, the cancer of systematic corruption threatens to undermine the purposes for which the multilateral development banks were established. We heard that 20 to 30 percent of World Bank lending and other donor funds, such as those of the ADB, may have been stolen in Indonesia, according to the World Bank's Jakarta-based staff as expressed in leaked internal World Bank memos from the late 1990's. In other countries with analogous levels of corruption, the amounts may even be greater.

The Asian Development Bank has lent $105 billion, approximately, since its inception in 1966. Some of its major borrowers, such as Bangladesh, rank even lower on lists of international perceptions of corruption than Indonesia. If 30 percent of ADB lending has succumbed to leakage over the years, that would amount to over $30 billion in stolen funds.

In our examination of the situation in the Asian Development Bank concerning control and oversight of corruption and diversion of loans, we found that it appears to be much weaker than at the World Bank. To date, the Asian Development Bank has begun to take some relatively timid measures to address corruption, but in our view these measures are so inadequate that many informed observers, both inside and outside the ADB, would characterize them as cosmetic, whatever the intention. Like the other multilateral development banks, the Asian Development Bank suffers from the well-documented "culture of loan approval" where staff are rewarded for processing and pushing loans but not for monitoring projects and ensuring quality. I go into detail in my statement about that. It is perceived to be as bad at the ADB as anywhere else, perhaps worse.

But I have to add that the ADB suffers from a deeper organizational crisis that is no secret. Over the past 3 years, two non-U.S. executive directors of the institution, one representing the United Kingdom and other countries, the other representing Australia and a constituency of countries, made very public statements to their colleagues and peers referring to a deeply entrenched institutional culture of patronage and lack of accountability for carrying out ADB policies, and that applies to the corruption issue.

The Donors' Agreement for the Eighth Replenishment of the soft-loan agreement of the Asian Development Fund, which was negotiated by the U.S. Treasury and which came out earlier this year, hardly mentions the word "corruption." It does not address how the ADB is going to reduce leakage from its lending. There is a lot of talk about governance, reforming the personnel system, promoting results management, development effectiveness, et cetera. But from reading the donors' agreement, you would not even have the impression that corruption or leakage was an issue or a problem, nor in examining some of the other initiatives which are proposed, such as a new human resources strategy, which if you had to name one initiative that has been suggested will help change the institutional culture at the ADB, it is this new human resources strategy. As I explain in detail in my testimony, if you read the drafts of this strategy, again the word "corruption" hardly appears and there are no specific references as to how they are going to address this issue in rewarding personnel, changing incentives, and so on and so forth.

In light of all that, I might add that the donors' agreement is an agreement to pump billions more into the Asian Development Bank, and the U.S. share is going to be about $460 million. Therefore, it is particularly deplorable that Treasury has refused to allow the U.S. Executive Director of the ADB to appear today. The Treasury Department has a fiduciary duty to help ensure that the Asian Development Bank complies with its legal duty and its charter, its articles of agreement, which is also part of U.S. law. And article 14, subsection xi of the charter requires the institution to "take the necessary measures to ensure that the proceeds of any loan made, guaranteed or participated in are used only for the purposes for which the loan was granted." But Treasury, though not having anyone appear today, is in a few weeks going to come before this committee and ask it to authorize nearly a half billion dollars more in the coming 3 years for that institution.

Well, in my prepared statement, which is quite detailed—I would be reading for the next hour if I were to read it in its entirety, so I am obviously not going to do that—I go over a number of the issues in more detail. I will just summarize them and conclude.

One, I represent an environmental organization in the U.S. with over 400,000 members and supporters, Environmental Defense. Our international program looks at environmental sustainability and MDB lending, but we are concerned with the corruption issue because it is part of this culture of loan approval. And lack of attention to corruption, as one can see in some of the case studies in our testimony, has led to massive environmental and social harm to affected people in specific projects.

I go into detail about a couple of recent projects which are particularly outrageous: one, a wastewater treatment plant in Thailand; the other, a major highway construction/transport project in Sri Lanka. We would like the committee really to go to the Treasury Department and ask for independent forensic corruption audits of these projects.

I would like to mention just a couple of the points in the Sri Lanka project because it has some analogies with the Lesotho case that was discussed in detail in the last hearing.

This was a $90 million loan for road construction in southern Sri Lanka. Here, just as in Lesotho, you had a case of an allegedly corrupt contractor that hired an agent to do the corrupting. The agent, I guess appropriately enough, was called "Access International." It purportedly had high contacts in the Sri Lankan Prime Minister's office. It purportedly bribed the project authority to try to win the bid for this project. The company in question is a Japanese company, Kumagai Gumi. In the pre-bidding, the pre- qualification, the company did not qualify. Among the other things, it had a net negative financial risk and could have been threatened with bankruptcy. Three other companies did qualify. The Asian Development Bank then sent a letter allegedly to the Sri Lankan treasury asking them, by way of exception, to nevertheless consider this company. The company then was allowed to submit a second bid after all the other companies had made their bids. Since it knew what the bids were and its bid was slightly under what was required, it won the contract.

The road was built in a somewhat different place with cost overruns of nearly 100 percent and displacement of hundreds of households, thousands of people, environmental impacts, wetland being affected, five temples being partly damaged, so on and so forth.

In the Sri Lankan newspapers, the attorney general on the front pages was quoted. He was asked, well, why did you allow this company—it had not prequalified—to bid and it violated Sri Lankan procurement rules, ADB procurement rules, and so on? He is quoted as saying, well, we would not even have thought of it except the ADB sent us this request saying we should, and it is an ADB project.

Well, what is particularly indicative of the state of anti-corruption investigations in Sri Lanka for the ADB is that last year, 2003, the anti-corruption unit sent its first proactive mission to investigate corruption in procurement in ADB projects in Sri Lanka. And they looked at a few and they chose another project in which they found no corruption, though I was told they did notice weak financial controls where, if someone had been corrupt, they could have stolen money, but they found nothing. But they did not look at the most notorious ADB project in the country, which was all over the front pages of the newspapers.

In our statement, we look at two studies that were conducted recently, one just a few months ago by the Bank Information Center looking expressly at how the ADB is implementing its anti-corruption policy. It came out with the anti-corruption policy in 1998. In 2000, it issued operational procedures for anti-corruption. Basically these procedures required it to assess, which is a logical first step, the risk of corruption in its country lending strategies in specific project appraisal reports and in post-project evaluations. Well, this study of the Bank Information Center called "Zero Tolerance?" because zero tolerance is a quotation from the ADB's anti-corruption policy, looked at a whole variety of studies, dozens and dozens and dozens, and there is a remarkably consistent record of non-implementation. The issue of corruption hardly appears in a whole number of country strategies, project appraisal reports, and post-project evaluations conducted in the past 4 years when the ADB anti-corruption policy was in effect.

Similarly, Environmental Defense looked at 49 different project evaluation reports for the ADB in recent years, and a number of them really did identify irregularities that would be a proxy for corruption, huge cost overruns, contracting irregularities, et cetera. But the word "corruption" never appears. There is no investigation of corruption.

Well, to conclude, what is the ADB doing to fight corruption and what more should be done? Well, we mention that the donors' agreement and this new human resources strategy, which is supposed to be a linchpin of changing the institutional culture, does not hardly mention the word "corruption." There is nothing very specific in the human resources strategy, which apparently was discussed in the ADB board yesterday about how they are going to address corruption. So we think that before the committee authorizes $460 million for the Asian Development Fund, a lot more questions need to be answered, and perhaps directives need to be attached to the legislation that would accompany that authorization. Certainly in the human resources strategy, there needs to be much more specificity on how they are going to create incentives and deal mechanically with the issues of auditing corruption. Naturally they need simply to apply their existing policies, and for that, you need more resources, more staff, et cetera.

There is a new public information policy that is being elaborated right now. A lot more can be done there to make all kinds of information public to affected people in the recipient countries and frankly to the parliaments and the U.S. Congress that have to authorize all this money. To start with, the ADB should publish much more detail on its own internal budget and how it is allocating resources to focus more on monitoring and administration of loans, rather than promoting loan approval.

You had mentioned and Under Secretary Taylor mentioned the issue of debarment proceedings in the anti-corruption units of the MDB's. The ADB does not make public its debarment of companies or individuals for corruption. They should do this. And this whole issue of cross-debarment, of harmonization of anti-corruption actions is a great recommendation, and the U.S. should really promote that very vigorously.

The ADB has an anti-corruption unit, which they are trying. I spent an hour and a half talking to the Auditor General on the phone in Manila, and he is a candid man fighting an uphill battle. But they need more resources and staff. There are only five people in the ADB anti-corruption unit. There are 55 in the World Bank's Department of Institutional Integrity. I think Richard Thornburgh has even in his report said they should have as much resources as they need in the World Bank. So the ADB level of staffing in their own anti-corruption unit, to be proportional to the World Bank, would be at the level of around 14.

Finally, I think the main point I would like to emphasize is that in our overview, which is detailed much more in my statement, of the situation with anti-corruption in the ADB, we think it would really be irresponsible to authorize some $460 million from the U.S. taxpayers more for this institution unless there are much clearer answers and signs of real progress of things being done in terms of anti-corruption, changing the institutional culture in the

ADB. The record now is pretty abysmal and disturbing. We hope we can work with the committee and your staff, who I think are just great—they have been very helpful in discussing this—over the coming weeks for perhaps questions, measures, and so on that we can think about.

Well, thank you very much.

[The prepared statement of Mr. Rich follows:]

PREPARED STATEMENT OF BRUCE M. RICH

I. INTRODUCTION

Mr. Chairman, Senators of the committee, thank you very much for the opportunity to testify this afternoon concerning corruption and the Asian Development Bank (APB). The Chairman and the committee are to be commended for the series of three hearings on corruption and the Multilateral Development Banks (MDBs) that have been held since May. In an interconnected world where economic development and political stability are more critical than ever, the MDBs are unique institutions that have the potential to play an important and much needed role in fostering these goals in poorer countries.

However, as we heard in the previous two hearings, the cancer of systemic corruption threatens to undermine the purposes for which the MDBs were established. As much as 20 to 30% of World Bank lending and other donor funds, such as those from the ADB, may have been stolen in Indonesia, according to the World Bank's Jakarta-based staff as expressed in leaked memos from the late 1990s. In countries with analogous levels of corruption, the amounts may be the same or even greater.

The ADB has lent some $105 billion since its inception in 1966. Some of its major borrowers, such as Bangladesh, rank even lower on lists of international perceptions of corruption than Indonesia. If 30% of ADB lending has succumbed to "leakage" over the years, that would amount to well over $30 billion in stolen funds. You yourself, Mr. Chairman, correctly ventured that the total amount diverted from cumulative World Bank lending since the institution's inception may be as much as $100 billion. Although the World Bank is in most respects the leader in anti-corruption efforts amongst the MDBs, there are serious questions about whether current efforts are adequate to deal with the scale of corruption that occurs in some of the World Bank's major borrowing countries. These countries are also the major borrowers of the regional MDBs, including the ADB.

The situation regarding control and oversight of corruption and diversion of loans appears to be much worse at the ADB than at the World Bank. To date, while the ADB has begun to take some relatively timid measures to address corruption, these measures are so inadequate that many informed observers within and outside the ADB would characterize them as cosmetic, whatever the stated intention. Like the other MDBs, the ADB suffers from the well-documented "culture of loan approval"—where staff are rewarded for processing and pushing loans, but not for monitoring projects and ensuring quality. But that the ADB suffers from a deeper organizational crisis is no secret, and over the past three years at least two non-US. Executive Directors of the institution have made public statements referring to a deeply entrenched institutional culture of patronage and unaccountability.

The Donors' Agreement for the Eighth Replenishment of the soft-loan window of the Asian Development Fund, which the U.S. Treasury and the finance ministries of other countries negotiated this year for the period 2005–2008, hardly mentions the word corruption. It does not explicitly address what the ADB can do to reduce "leakage" from its lending. There is significant discussion of emphasizing governance, reforming the personnel system, and promoting results management and development effectiveness. But if the scale of corruption is not acknowledged in an agreement to pump billions more (of which the U.S. share is to be $461 million) into the institution, it undermines confidence in the reform measures proposed.

Therefore it is deplorable that the Treasury Department has refused to allow the U.S. Executive Director of the ADB to appear today, particularly given that on May 13, 2004 the U.S. Executive Directors of the Inter-American Bank and World Bank did appear for the committee's first hearing on corruption and the MDBs. The Treasury Department has a fiduciary duty to help ensure that the Asian Development Bank complies with its legal duty, as required in Article 14 (xi) of its Charter: to "take the necessary measures to ensure that the proceeds of any loan made, guaranteed or participated in are used only for the purposes for which the loan was granted and due attention to considerations of economy and efficiency." Although

Treasury has refused to allow the U.S. Executive Director to appear before this committee to answer questions regarding ADB corruption, it will soon ask the committee to authorize nearly a half billion dollars of appropriations for that same institution.

In the rest of my statement I will examine in more detail the following issues: the concern of environmental organizations such as Environmental Defense over corruption in development lending; the external context of corruption at the ADB; the culture of loan approval, patronage, and lack of accountability at the ADB; studies that reveal the extent of the almost total non-implementation of much of the ADB's 1998 Anti-Corruption Policy and 2000 Operational Policy on Corruption; projects that clearly demonstrate negligence of the part of ADB in investigating corruption; the adequacy of ongoing and proposed reforms for the ADB; and specific recommendations that we believe should be implemented before fully authorizing U.S. replenishment of the ADB's soft window, the Asian Development Fund (ADF), next year.

II. ENVIRONMENTAL ORGANIZATIONS AND CONCERN FOR CORRUPTION IN THE ADB

Environmental Defense is a national environmental organization with more than 400,000 members and supporters nationwide. While most of our work is domestic, the International Program of Environmental Defense has conducted research and advocacy concerning the environmental and social impacts of MDB lending for 20 years, and has made numerous submissions to Congressional authorization and appropriations committees regarding these institutions. A number of years ago, our concern regarding the quality of MDB lending led us to examine the issue of institutional incentives and controls at these institutions.

Why are organizations such as Environmental Defense, which are primarily focused on promoting environmentally sustainable lending policies at the international financial institutions, so concerned about corruption? The "culture of loan approval" and "pressure to lend," which has been documented in the world Bank and other MDBs for more than a decade, has often also contributed to failures in the implementation of policies designed to mitigate adverse environmental and social impacts of MDB lending. This is quite clear in some examples of recent ADB projects, discussed later in this statement, such as the Thailand Samut Prakarn Wastewater Management Project and the Sri Lanka Southern Transport Development Project. Measures to address the institutional problems relating to corruption at the MDBs would also go a long way towards improving overall project quality with respect to environmental and social impacts.

III. CORRUPTION AND THE ADB: THE EXTERNAL CONTEXT

Corruption in the multilateral development banks can occur at three, interconnected levels. First, there is corruption of individual members of staff and management for personal gain. Second, there is corruption in procurement for provision of goods and services for specific investment projects. The example of the corrupt bidding practices, through agents, of international companies involved in the world Bank Lesotho Highlands Project—discussed in the committee's July 21, 2004 hearing—provides an example. Third, there is systemic corruption on the part of government officials and ministries in borrowing countries, where substantial percentages of development assistance are stolen over years or decades, with at least passive MDB complicity. The case of Indonesia, discussed in the May 13, 2004 hearing, has become one of the best-documented and publicized examples.

There are indications that the ADB, through both its organizational deficiencies and its external lending environment, is more susceptible to corruption than the world Bank on all three levels. The following sections of this statement will examine the ADB's internal culture and effectiveness as it relates to these three types of corruption. It is important to emphasize here that the external lending environment of the ADB is extremely corruption prone and calls for an extraordinary level of due diligence—a commitment to which the institution has not shown.

The ADB's top five cumulative borrowers, and its largest borrowers in 2003, are among the most corrupt countries on earth, as analyzed in recent years by Transparency International. Its five biggest cumulative borrowers are Indonesia ($19.3 billion), China ($13.3 billion); Pakistan ($13.55 billion), India ($13.315 billion), and Bangladesh ($7.32 billion). The ADB approved some $6.105 billion in loans for fiscal year 2003, of which $1.532 billion were for Indonesia, $1.488 billion for China, $871 million for Pakistan, $275 million for Sri Lanka, and $262 million for India.

Transparency International ranks countries annually according to a Corruption Perception Index (CPI), from a possible highest rating of 10 (highly clean) to 0 (highly corrupt). In 2003, Transparency published 133 rankings: Indonesia is rated near the bottom at number 122, with a CPI ranking of 1.9. Bangladesh ranks dead last at 133 on the list with a CPI of 1.3. Pakistan, the third largest cumulative borrower and third most important borrower for FY 2003, ranks 92 with a CPI of 2.5. India ranks number 83 with a CPI of 2.8 and China number 66 with a CPI of 3.4. Moreover, a number of the ADB's smaller borrowers such as Cambodia and Laos, while notoriously corrupt, do not even have a Transparency International rating. In contrast, countries ranked in the top five such as Finland, New Zealand, and Singapore had CPI ratings ranging from 9.7 to 9.4.

Such a lending environment should call for controls on corruption as perhaps the number one institutional priority. Instead ADB management has only belatedly and timidly recognized the seriousness of the issue, despite having promulgated a good governance policy (for its borrowers, not for itself!) in 1995, an Anti-Corruption Policy in 1998, and more detailed Operational Procedures on Anti-Corruption in 2000.

My own conversations with ADB officials (some of whom were quite forthcoming, some of whom wish to remain anonymous) revealed concerns over the quality of financial reporting and accounting from borrowers. While the ADB offers technical assistance to borrowers for "governance" programs, it has not made rigorous financial reporting and accounting for its own loans a priority, which would be the first and single most important thing it could do to begin to catalyze better accounting by borrowers. I was told that the ADB now requires that financial reports be submitted in a timely and regular manner, and that ADB staff are supposed to read the reports, but it's not clear what attention is actually paid to them.

IV. A DYSFUNCTIONAL INTERNAL CULTURE: LOAN APPROVAL, PATRONAGE, LACK OF ACCOUNTABILITY AND TOLERANCE OF CORRUPTION

The ADB suffers from the same "culture of loan approval" as the world Bank and other MDBs, with a concurrent lack of resources and commitment to monitoring and implementation. But it also suffers from a deeper institutional crisis: it is no secret that the ADB's internal culture is one that has fostered—and still continues too often to foster—a climate that turns a blind eye to corruption. Stephen Baker, a former Executive Director to the ADB representing Australia, shared his reflections with his peers in February 2001. He stressed that following the Asian financial crisis there was a "rude awakening to the damage wrought by corruption" and that the ADB still had "to get far tougher with those who 'skim and scam' on. ADB projects and those governments which are party to, or allow it to happen." [1] This former ADB Executive Director also alerted his colleagues to the poor performance of the ADB: "Having previously worked under the premise that every $1 of investment must return at least $1.10, it was depressing to find from the evaluation reports that some projects returned as little as 30 cents on the dollar and even some of the generally successful ones only 60 cents on the dollar. Even more depressing was the fact that in certain sectors, the Bank kept lending and kept failing." [2]

Just fifteen months ago (June 2003), Frank Black, former Executive Director to the ADB for United Kingdom, Germany, Austria and Turkey, noted that "the Bank's appointments, promotion, appraisal and incentive systems are in need of a thorough overhaul. The system lacks transparency at present, and there is a prevalent 'patronage' system, whereby staff of sometimes dubious quality, can rise in the institution by aligning themselves with powerful 'patrons' in senior positions." [3]

Black, in his widely circulated critique of the Bank, stated that the ADB "is perceived as very government-oriented" and "can too easily slip into playing the role of propaganda mouthpiece for some governments (and not always the most democratic or legitimate governments)." Black argues that ADB's ability to promote good, governance in its borrowers is often hampered by an institutionally rooted conflict of interest where major borrowers are also shareholders. The Board itself is part of the problem since "it is almost entirely reactive to, and very effectively 'contained' by the Bank's management, and by its 'consensus culture.'" According to Black, "[t]oo often, and particularly in the case of institutional reform and some sensitive policy issues, this can mean either 'no change' or a series of backroom deals and

[1] Stephen Baker, *ADB—Wherefore Art Thou (Reflections of a Board Member who spent three interesting years with the Bank),* February 2001, p. 10.

[2] *Ibid.*, p. 1.

[3] Frank Black, *The Asian Development Bank (ADB): A Unique Contribution? The Effectiveness of the Financing and Political Role of the ADB in Reducing Poverty in the Asia/Pacific Region* (prepared by Frank Black, departing Executive Director for Austria, Germany, Turkey and the United Kingdom at the ADB, June 2003), p. 8.

compromises presented as 'consensus,' but amounting to the lowest common denominator." [4]

These deeper institutional crises feed into and reinforce the culture of loan approval. Pushing money out the door represents the path of least resistance for a management and board that is reluctant to exercise independence and rigor vis a vis major borrowing governments. In the words of former Executive Director Baker, "Considerable energy is spent on preparing projects and programs for Board approval. Far less is spent on ensuring they are successfully implemented." [5]

A former relatively high ranking ADB official with extensive operational experience prepared the following comments on the internal dynamics of the culture of loan approval at the ADB:

> The "organizational ethos" of the ADB is "lending." This is their raison d'etre. The organizational structure including staffing is geared towards this. This is further reinforced with the bank recruitment, staff deployment and performance policy.
>
> The personnel policy practiced over the years is heavily weighted towards loan processing rather than administration. This has its consequences. First, staff recruitment tends to favor those with project formulation and processing experience over applicants experienced in project administration. Second, the HR performance system is skewed to reward staff with demonstrated record in processing loan and technical assistance operations than those in project administration. This is seen in the number of managerial positions being occupied by staff rewarded for their performance in loan processing and perpetuating this practice.
>
> In the bank, the weekly Board meeting agenda is dominated by discussions on loan proposals. Similarly, management meetings are convened to appraise loans. Performance at these meetings defines staff's career and promotion prospects.
>
> The importance of loan administration has been largely undermined by the attention to loan approvals. The lesser attention to loan administration can lead to abuses of loan funds that are easily detected The arduous and less "glamorous" task of loan administration is relegated to staff with "weaker" performance. Most loan administration staff have been less successful in project processing relatively "less fluent" in the bank's working language (English) and generally "older staff." Managerial attention is focused on pursuing the timely completion of project processing leading to "approved loans" in line with organizational goal compared with loan administration.
>
> The bank has delegated wide ranging approving authority to implementing agencies to accelerate disbursement as a sign of effective project implementation. This is often the area for potential abuse that unfortunately, the bank is not always in the position to fully understand. Documentation relating to contract awards is submitted to the bank, post-ante, with a certification on adherence to bank's procurement guidelines. However, it does not preclude the implementing agencies from malpractices such as collusion and price-fixing among contractors. This is difficult to detect particularly since loan administration officers are encouraged to approve such awards quickly to speed up disbursement, which is their performance measure.
>
> The inadequate attention to loan administration is also reflected in the resources set aside for its staffing and supervision missions. In general, the staff team responsible for processing a loan devotes their full time attention to "deliver" the project for approval including funds for several appraisal related missions. On the other hand, a loan administration staff has to supervise a number of projects, This includes combining several project supervision activities into a single mission. To supplement staff resources, the bank uses loan administration clerks (Filipino staff many of whom were ex-secretaries) to accompany professional staff on supervision missions. Their responsibility is to verify post-ante contract awards against claims for disbursements. The loan administration professional's main task is to report on physical implementation.

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[4] *Ibid.*, pp. 4, 8.

[5] Stephen Baker, *ADB—Wherefore Art Thou (Reflections of a Board Member who spent three interesting years with the Bank),* February 2001.

> Some estimates of total funds corrupted from other MDBs have reached 30 percent. Internally we feel that this level of losses is the same if not higher at the ABB.

This individual has asked to remain anonymous. I believe that most knowledgeable observers inside and outside the ADB would not challenge his analysis.

In this atmosphere, ADB management has shown an almost cavalier approach to the consistent and effective implementation of its own declared policies and procedures. In response to documented examples of major violations of ADB policies in complaints before the ADB's Inspection Panel, Management has denied every alleged violation in every case: the Samut Prakam Wastewater Management Project, the Sri Lanka Southern Transport Development Project, and most recently the Pakistan Chashma Right Bank Irrigation Project (Stage III). The first two projects are discussed in more detail in section VI of this statement.

The Chashma Right Bank Irrigation Project is the most recent ADB management response (May 2004) to an Inspection claim. This is a project for which the ADB committed $172.6 million (60% or the total project cost of $296.52 million) for a 171-mile irrigation canal along the Indus River, including the construction of 72 distribution canals, 68 cross-drainage structure, and 91 bridges. The most recent ADB financing was approved in 1999. The project area in northwest Pakistan impacts part of the Northwest Frontier Province bordering Afghanistan. A grievance committee for the project received complaints from almost 9,000 people detailing economic hardship and livelihood losses resulting from the project. A major issue is that ADB never prepared, as required by ADB policy, a resettlement and rehabilitation action plan to address the forced displacement, land and livelihoods losses to thousands of people caused by the project's huge infrastructure footprint. In November 2002, representatives of local affected communities requested an independent inspection of the project, and the inspection finally commenced in December 2003 . ADB management issued its response to the draft inspection report in May 2004.

ADB management's expressed views on ADB policies and procedures in this May 2004 document are disturbing and revealing. Management strikes a defensive pose and asserts that no ADB Operational Policies and Procedures were violated because "[j]udgment also applies to the interpretation given to Operational Policies and Procedures themselves. It is for this reason that the ADB's 'internal laws' are not written as rule based statutes but as operational principles. . . . This set up . . . means that Management (as well as the Board) are called upon to make evaluations and decisions about what is possible and 'doable' while adhering to the integrity and spirit of ADB's internal laws. . . . With the above in mind, Management feels it relevant to highlight that many (all) of the operational principles in place in the past and today are drafted on the understanding that 'one rule does not fit all.' Professional judgment fills the vacuum.[6]

And what a vacuum it is! The management response goes on to state that the "vacuum" for ad hoc differing applications of policy and procedures based on "professional judgment" of management "is needed in relation to all due diligence areas, including: technical, commercial, economic, financial, legal, institutional, environmental, social, gender, indigenous peoples, resettlement." To assert that "one rule does not fit all" and that "professional judgment [of management] fills the vacuum" for implementing ADB policies, including, and especially for, financial and legal procedures, policies and requirements, is an extraordinary declaration of unaccountability for an international public financial institution.

The issues of internal personnel culture and culture of loan approval are mentioned in the ADB's Eighth Replenishment Donors' Agreement for the ADF. The ADB is also preparing a new internal Human Resources strategy. Whether there is any reasonable expectation that changes will be more than cosmetic, timed in anticipation of another donor replenishment, is an open question to which this statement will return in Sections VII and VIII.

V. EVIDENCE OF SYSTEMATIC NON-COMPLIANCE WITH ADB ANTI-CORRUPTION POLICIES AND PROCEDURES: TWO RECENT STUDIES

A. "Zero Tolerance" For Implementing the Anti Corruption Policy and Procedures?

In fact, it is precisely in the area of corruption where we have the most recently documented and most analytically rigorous studies of systematic ADB non-compliance with declared policies. The March 2003 study commissioned by the Washington, DC Bank Information Center, *"Zero Tolerance:" Assessing the Asian Develop-*

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[6] ADB, *Comments of ADB Management to the Inspection Panel on the Panel's Draft Report on the Chashma Right Bank Irrigation Project (Stage III) (Loan 1145–Pak [SF] in the Islamic Republic of Pakistan, May 2004,* pp. 3–4.

ment Bank's Efforts to Limit Corruption in its Lending Operations, by attorney Steve Herz, reveals a remarkably consistent record: "We found that the ADB *almost never* complied with the policy requirement to explicitly address corruption issues in its reports, assessments, and evaluations" (emphasis in original).[7]

The study examined in detail the ADB's policy response to corruption, particularly its commitments under its Charter, 1998 Anti-Corruption Policy, and 2000 Operational Procedures on Anti-Corruption. It then analyzed how the ADB implemented these policies and procedures in three major stages of the project cycle: country economic and strategy studies, project appraisals, and project performance evaluations. The study examined eight recent Country Strategy reports for eight ADB borrowing nations and 18 recent project appraisal reports (known in the ADB as Reports and Recommendations of the President to the Board or RRPs) for three major ADB borrowers with high levels of corruption: Indonesia, Pakistan, and Bangladesh. Finally, the study examined 16 project completion and project performance audit reports in eight different borrowing countries.

The findings are a remarkable exposure of the culture of unaccountability and non-compliance in the ADB.

Article 14 (xi) of the ADB's Articles of Agreement states that "the Bank shall take the necessary measures to ensure that the proceeds of any loan made, guaranteed or participated in are used only for the purposes for which the loan was granted and with due attention to considerations of economy and efficiency." In 1998, the ADB published its Anti-Corruption Policy, which Herz notes, does not refer to the fiduciary requirement in the Articles of Agreement to take "the necessary measures" to ensure ADB funds are used for the purposes intended. The policy takes a narrower "more instrumental approach and grounds its anti-corruption efforts in the pursuit of development effectiveness rather than the obligation to safeguard Bank funds."[8]

The Anti-Corruption Policy specifies three priorities: "(i) supporting . . . effective, accountable, and transparent public administration as part of the ADB's broader work on governance and capacity building; (ii) supporting promising anti-corruption efforts on a case by case basis and improving the quality of the ADB's dialogue with Developing Member Countries on a range of governance issues, including corruption; and (iii) ensuring that the ADB's projects and staff adhere to the highest financial and ethical standards."[9] The policy cautions staff about "initiatives that are largely cosmetic in nature and designed to foster the illusion of progress without the substance."[10] The Policy declares "a 'zero tolerance' policy when credible evidence of corruption exists among ADB staff or projects" and that "ADR's anti-corruption effort will place particular emphasis on the implementation of practical and cost-effective preventative control measures . . . ."[11]

For country programming and strategies, the Operational Procedures "direct management and staff to assess whether ADB projects are likely to be affected by corruption (luring their design or implementation, whether a country's ability to attain its national development objectives are being compromised by corruption, and whether the government is willing or able to control corruption. In preparing these documents management and staff are instructed to use plain language and avoid using euphemistic language that may obscure the nature of the problem."[12]

In looking at eight recent Country Strategy Papers, CSPS, (for high corruption risk Bangladesh, Cambodia, India, Indonesia, Laos, Nepal, Pakistan, Viet Nam), the BIC study found negligible implementation of the Policy and Operational Procedures. None of the eight assessed the impact of corruption on a country's ability to attain national development objectives, and none assessed in any way the government's ability and willingness to control corruption. Seven of the eight had no mention of how ADB projects might be affected by corruption during design or implementation (for Indonesia there was a general, vague mention, not in 'plain' non-euphemistic language). Only one CSP, for Indonesia, discussed how the ADB could specifically address corruption.[13] In contrast, the study examined World Bank Country Assistance Strategies for all eight countries and found that the World Bank had addressed three or four of the corruption issues explicitly and specifically for

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[7] Steve Herz, *"Zero Tolerance?:" Assessing the Asian Development Bank's Efforts to Limit Corruption in its Lending Operations,* (Washington D.C.: Bank Information Center, March 2004), p. iii.

[8] *Ibid.*, p. 4.

[9] ADB, *Anticorruption,* (typeset version of the official policy paper approved by the Board on 2 July 1998), para. 34, pp. 19–20.

[10] *Ibid.*, p. 26.

[11] *Ibid.*, p. 28.

[12] *Ibid.*, p. 5, citing ADB Anti-Corruption Operational Procedures at paragraphs 27 and 54.

[13] *Ibid.*, p. 7.

seven of the eight countries, and examined two out of four in the case of one country.

Going on to project appraisal, the study looked at 18 ADB appraisal reports (RRPs) approved by the Board in 2002 for three of the ADB's biggest, and riskiest borrowers: Bangladesh, Pakistan, and Indonesia. Regarding assessment of the borrower's management and procurement capacity, 17 of 18 RRPs had no mention of the issue. The risk of theft and misappropriation of project funds was not considered in any of the 18 reports. Fifteen of eighteen reports provided no assessment of corruption risk in the project on achieving its objectives. Finally, 13 of 18 reports proposed no specific measures to mitigate project corruption risks.

For post-project auditing, the study examined eight recent Project Completion Reports (prepared by the ADB's operations staff one to two years after completion) and eight Project Performance Audit Reports (prepared by the independent Operations Evaluation Department three years after completion). The 16 evaluation reports were selected for four of the ADB's biggest, most at risk for corruption, borrowers: Bangladesh, Indonesia, India, and the Philippines. The ADB had a perfect score: in none of the 16 project evaluation reports for four of the more corrupt countries on earth did ADB operations staff and performance auditors assess possible corruption in any respect.[14]

Apparently, this is how the "ADB's anti-corruption effort will place particular emphasis on the implementation of practical and cost-effective preventative control measures. . . ." We see clearly how management's "professional judgment fills the vacuum" in interpreting ADB policies and procedures as flexible principles so that "one rule does not fit all." No rule applies to anyone at anytime.

The BIC study ventures four possible explanations for the miserable record of compliance, which basically restate the problems of the internal ADB management culture discussed above in Section IV. First, management has not given staff any guidance. on how to assess corruption issues. It would seem that the Anti-Corruption Policy and Operational Procedures are largely cosmetic ornaments or public relations tools, rather than serious directions for ADB operations. Second, the loan approval culture still prevails, along with the concurrent lack of resources for supervision and monitoring. Third, ADB staff do not want to embarrass borrowing governments on the Board or make them lose face. Fourth, there is a lack of institutional leadership in top management, starting with the President.[15]

The "Zero Tolerance" study was discussed earlier this year with ADB officials, including the Auditor General of the institution, who has stated that he agrees with 99% of the findings. Such candor is praiseworthy, and perhaps a first harbinger of change in the attitudes of some in management. Nevertheless, the current situation remains abysmal.

B. "The ADB in its Own Words"

> "Record keeping also seems to have been abandoned" "This Project did not benefit from having a logical framework" "No identification of beneficiaries was attempted, and thus no basis was provided for measuring impact on beneficiaries" "The project was implemented more or less as planned, but at greatly increased cost with substantial delays" "Overall ADB's supervision of the Project was not adequate"—*Conclusions from recent ADB Project Performance Audit Reports.*

When corruption is not explicitly addressed in project evaluations (as is the case of the ADB), poor performance (cost and time overruns, reported contracting irregularities, shoddy appraisal with few or no measurable indicators for project success) can often be a proxy indicator for corruption in borrowers at high risk for bribery and fraud. In July 2003, Environmental Defense released an analysis of almost all publicly available Project Performance Audit Reports (PPARs) of ADB projects in Indonesia, Pakistan and Sri Lanka.[16] Most of the PPARs were conducted in the past six and a half years, during which time the ADB's Anti-Corruption Policy has been in effect.

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[14] *Ibid.*, p. 11.

[15] *Ibid.*, p. 10.

[16] Stephanie Gorson Fried, Ph.D. and Shannon Lawrence, Environmental Defense, with Regina Gregory, ADB Watch, *The Asian Development Bank: In its Own Words: An Analysis of Project Audit Reports for Indonesia, Pakistan, and Sri Lanka,* Environmental Defense, July 2003. In the case of Pakistan and Sri Lanka, we examined every PPAR the ADB had made publicly available on its website (23 for Pakistan, 16 for Sri Lanka); and for Indonesia we analyzed 70% of the publicly available reports, some 21 out of 30. Presumably ADB management chose to make public a representative sample of its audits, a sample which at the very least did not present a view of the ADB's record that was skewed towards worse than average performance.

We found a disturbing record of poor performance, where project sustainability—whether or not a project provides lasting, long-term economic and social benefits—was lacking for the vast majority of projects: based on the sample of ADB publicly available audits at the time, 70% of ADB projects in Pakistan and Indonesia were not likely to provide long-term benefits, and 78% in Sri Lanka. It should be painted out that in its 2000 assessment of multilateral development institutions, the bi-partisan U.S. Congressional International Financial Institution Advisory Committee (the Meltzer Commission) identified project sustainability as the key indicator for measuring these institutions' performance.

In a number of these projects, clear warning signals of fraud were identified—e.g. "contracting irregularities" resulting in cost overruns and shoddy, substandard construction—without any mention or analysis of perhaps the most likely explanation: corruption. In the majority of the 49 PPARs we analyzed, project appraisal and preparation was also gravely deficient; most projects lacked coherent, measurable systems to measure the project's delivery of benefits. The lack of monitorable indicators in projects makes diversion of funds easier to perpetrate and harder to detect and prove.

A reading of the findings of these audit reports reveals poor performance and irregularities time and time again, which at the very least would call for consideration of whether or not corruption played a role. For example, the 2000 audit report for the $36.5 million ADB loan for the Sri Lanka Road Improvement Project uncovered a convoluted bidding process where rising costs reduced the planned road construction to 147 kilometers instead of 390, but the project still incurred a 23% cost overrun.[17] The 1999 audit of the Sri Lanka Walawe Irrigation Improvement Project (ADB financing of nearly $20 million) found that consultant fees were almost three times greater than appraised, accounting for 20% of construction costs.[18] The 2002 audit of the $151 million ADB loan for the Indonesia Third Local Roads Project identified 1,800 separate road contractors who were hired under "local competitive bidding procedures." There were 10,000 person-months of domestic consultants and 500 person-months of international consultants. Most of the ensuing road construction was sub-standard, using cheap unstable penetration macadam (penmac) rather than higher quality machine laid hot mix, such as asphaltic concrete. As a result, "35 percent of the penmac surfaces had severe defects within 3 years; all of these roads were likely to soon be in poor condition unless effective maintenance was applied."[19]

The lack of monitorable benefits indicators is particularly alarming for non-project program loans. Two agricultural program loans for Sri Lanka totaling $140 million lacked performance indicators, ignored the government's institutional capacity to handle the money, and indeed, lacked "a logical framework specifying quantitative performance indicators"[20] The audit of a $250 million Food Crop Sector program loan for Indonesia found "no performance indicators against which Program impact could be assessed."[21]

These and many other examples show the development cost of the ADB's refusal to seriously carry out its fiduciary duty and take necessary measures to ensure that its loans are used effectively and efficiently for the purposes intended.

VI. NEGLIGENCE OF THE ADB IN INVESTIGATING CORRUPTION IN MAJOR PROJECTS

Non-governmental and community organizations in ADB borrowing countries have complained about financial irregularities and corruption in ADB projects for years. We see flagrant cases where corruption has been linked not only to irregular procurement and massive cost overruns but—most importantly from the standpoint of local communities—also to major changes in the location and design of large infrastructure projects. These unappraised changes have resulted in major, unmitigated social and environmental impacts. Two of the most flagrant examples are described below.

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[17] *The Asian Development Bank: In its Own Words,* p. 90, citing Asian Development Bank Post-Evaluation Office, *Project Performance Audit Report on the Second Road Improvement Project in Sri Lanka,* June 2000, paras. 11 and 19.

[18] *Ibid.*, p. 39, citing Asian Development Bank Post-Evaluation Office. *Project Performance Audit on the Walawe Irrigation Improvement Project in Sri Lanka,* December 1999, Section II, p. 3.

[19] *Ibid.*, p. 9, citing Asian Development Bank Post-Evaluation Office. *Project Performance Audit on the Third Local Roads Project in Indonesia,* December 2002, p. 9.

[20] *Ibid.*, pp. 40–41.

[21] *The Asian Development Bank: In its Own Words,* p. 2, citing Asian Development Bank Post-Evaluation Office. *Project Performance Audit on the Food Crop Sector Program in Indonesia,* December 1997, p. 6.

A. The Thailand Samut Prakarn Wastewater Treatment Plant

The ADB approved a total of $230 million in loans for this project. When the original $150 million loan was approved by the ADB Board in 1995, the project was appraised as two industrial wastewater treatment plant on both sides of the Chao Phraya River in Thailand. The ADB board approved a loan for a project which in effect was never implemented: following the loan approval the Thai Pollution Control Board moved the site of the plant 20 kilometers away to build a single plant in the Klong Dan district. Only one company—the NVSPKG Joint Venture—submitted a bid for the construction, a violation of both Thai and ADB procurement rules.

Building the plant on the changed site resulted in a cost overrun of 87% (from $507 million to $946 million; among other things, a, pipeline had to be built to transfer the wastes from the industrial plants near the original site) and serious environmental, social and economic impacts on some 60,000 villagers—most of them dependent on coastal fisheries that would be polluted by the wastewater plant discharges—living adjacent to the new site. To finance the cost overruns caused by the change of location, ADB management asked the ADB Board to approve an $80 million supplemental financing loan in 1998. ADB policies and procedures clearly required a reappraisal of the project at that time, since it was not the project that was approved in 1995, but this was not done. Nor were any of the requisite environmental impact or social studies conducted based on the new site.

Over the past several years, the Thai press has printed numerous articles alleging that this seemingly illogical and costly site change was. linked to a massive land fraud conspiracy among various Thai government officials. For example, the Bangkok Post reported on November 15, 2002 that the Thai Development Research Institute found the company that won the bid was linked to a former Science Minister and his relatives, and the then deputy Commerce Minister and the Deputy Industry Minister happened to be co-owners of the land at the new site. A major consultant to the project, Seatec International Asia Technology, was owned by a former politician who also jointly owned some of the land at the new site: [22] "Thai law enforcement authorities believe that PCD [the Thai Pollution Control Authority, Executing Agency for the project] officials, executives of the Joint Venture, and the owners of the Klong Dan property conspired to inflate the purchase price of the [land] parcels by as much as 1000 percent." [23] Thai authorities have brought criminal indictments against senior officials of the Pollution Control Authority, real estate developers, and executives of the contractor. [24]

Several Thai Government entities launched investigations into corruption in the project. A Special Committee of the Thai Senate "found corruption at every stage of the project." [25] The Thai Prime Minister stated last year that the ADB project was "riddled with corruption." This has become one of the biggest, most public corruption scandals in Thai history and more remains to be uncovered: "Many in Thailand now suspect that the collusive land deals are only the tip of the iceberg of the corruption on the Samut Prakam project, and that far grander corruption is likely to have occurred in the procurement and construction of the project." [26]

So how has the ADB responded to corruption allegations in Samut Prakam? June 2000 ADB Special Review Mission to Klong Dan found no evidence of irregularities in the land acquisition process. The affected communities at Klong Dan then filed claims of violations of ADB policies before the ADB Inspection Panel and the ADB Anti-Cormption Unit of the Office of the ADB Auditor General (OAG). But the Inspection Committee of the ADB's Board, which has to approve inspections, refused to allow the Panel to pursue the corruption allegation, arguing that it was outside the Panel's jurisdiction and that the Anti-Corruption Unit was conducting its own investigation. The Anti-Corruption Unit never conducted a full investigation, arguing that the Thai government was already on the case. The ADB mainly examined

[22] Supawadee Suanpoolthong, *A Case Study of Corruption: Politicians exploited plan "at every stage,"* BANGKOK POST, November 15 2002.

[23] Steve Herz, *"Zero Tolerance?" Assessing the Asian Development Bank's Efforts to Limit Corruption in its Lending Operations* (Washington D.C.: Bank Information Center, March 2004), p, 22, citing BANGKOK POST, *Klong Dan Wastewater Plant Scandal: Vartana, Nine Others Accused: Graft Report Names VIPs, Senior Officials* (11 June 2002); and THE NATION (Bangkok), *Making the Case for Graft at Klong Dan,* (18 July 2003).

[24] *Ibid.*, citing citing BANGKOK POST, *Klong Dan Wastewater Plant Scandal: Vartana, Nine Others Accused: Graft Report Names VIPs, Senior Officials* (11 June 2002).

[25] Luntharimar Longcharoen, *Slap in the ADB's Face: The Klong Dan Wastewater Treatment Project Corruption Scandal,* TERRA (Towards Ecological Recovery and Regional Alliance), Bangkok.

[26] Herz, *Zero Tolerance,* citing and THE NATION (Bangkok), *Making the Case for Graft at Klong Dan,* (18 July 2003).

the allegation that an ADB official involved with the project had a conflict of interest, and concluded by rejecting the allegation.[27] The Auditor General of the ADB has stated that while the ADB did not release its internal findings to the Thai authorities, it did pass on some "tips" to them.

Meanwhile, ADB management's February 2002 response to the Inspection Panel investigation claimed there were no violations of ADB policy and procedures in the way the project was conducted. The Inspection Panel released its report in March 2002, and found violations of six major ADB policies, including management's failure to conduct a complete reappraisal of the project when supplemental financing was requested in 1998. After a heated Board discussion, with some major borrowing countries arguing against the findings of the Inspection Panel, the Board basically endorsed the report's recommendations for remedial measures to address the needs of the affected population, but did not address any internal issues concerning violations of ADB policy and procedures, let alone corruption. [28]

In early 2003, the Thai government declared the contract for the plant null and void, and the Pollution Control Department announce that it is pursuing legal actions against the contractors to sue for recovery of all funds paid under the contract. All consulting contracts have been terminated.[29]

The plant remains unfinished and the numerous legal actions filed by. Thai authorities are unresolved. The ADB closed both loans for Samut Prakam in December 2003; the 1998 supplemental loan of $80 million for cost overruns and almost $131.7 million of the original 1995 $150 million loan had already been disbursed. The ADB cancelled the balance of $18.3 million. None of the remedial measures to address the harm done to local communities have been carried out.[30]

The continued lack of a full investigation of the ADB's responsibility for not monitoring, supervising, and addressing the massive corruption in this debacle is a scandal. Certainly once the corruption allegations and huge cost overruns began to surface in the late 1990s, it could and should have intervened, demanded a full forensic audit of the project, and halted disbursements on loans. What we have instead is the observation of the Board Inspection Committee's February 28, 2002 response to the Inspection Panel (which was not allowed to address corruption): "A sudden increase of $421 million in the estimated cost of a recently approved ADB project is a significant event." [31]

And what has the ADB learned? Following the second hearing of this committee on corruption and the MDBs in July 2004, the Far Eastern Economic Review published an article posing that very question to ADB officials. The director of the ADB's Mekong Department declared "we learn from Samut Prakam as much as we learn from other projects." [32] Given the ADB's record, this is not encouraging.

B. The Sri Lanka Southern Transport Development Project

The Sri Lanka Southern Transport Development Project is an ongoing controversy with some analogies to Samut Prakam: after the ADB Board approved loans for a major infrastructure project that was appraised in one location, the location was changed, causing massive cost overruns, environmental damage, and economic hardship for affected populations. Evidence of procurement irregularities in the ADB-funded project were publicized in the Sri Lankan press. The lead contracting company reportedly bribed the project head who was subsequently dismissed by the government. Affected communities filed an Inspection Panel claim in 2001, and again in 2004 after their original claim was rejected by the ADB Board Inspection Committee. The Board Inspection Committee reaffirmed management's assertions that no policies were violated, despite the recommendation of an. Inspection Panel member that an inspection proceed. Although the corruption charges became a widely publicized national scandal, the ADB continues to turn a blind eye to mounting evidence of major procurement irregularities, cost overruns, and corruption in this $90 million loan.

The Sri Lanka Southern Transport Development Project involves the construction, under the authority of the government Road Development Agency (RDA), of a high-

[27] See Herz, pp. 24–25 and footnotes,

[28] See Bank Information Center, Washington D.C., *BIC Project Factsheet #8: The ADB funded Samut Prakarn Wastewater Management Project in Thailand,* Updated July 2002.

[29] Asian Development Bank, *Samut Prakam Wastewater Management Project, Fourth Semi-Annual Report to the Board of Directors on the Implementation of the Recommendations of the Board Inspection Committee as Adopted on 24 March 2002,* April 2004.

[30] *Ibid.*

[31] ADB Board Inspection Committee, *Inspection Request, Samut Prakarn Wastewater Management Project,* 28 February 2002, Para. 38, p. 7.

[32] Christopher Gay, *Thai Project Yields Graft and New Policies,* FAR EASTERN ECONOMIC REVIEW, July 20, 2004.

speed highway link from the capital, Colombo, to the Southern city of Mataria. Much of the original route and area of impact for the road (a trace three kilometers wide) was moved to a different location after the project was appraised and approved. The changed road route. is, according to the June 4th complaint submitted to the ADB by Sri Lankan community groups, twice the cost of what was presented to ADB Board when it approved the loan.[33] The result is that the number of households displaced and destroyed by the construction more than doubled, to at least 1,315, as opposed to the environmental assessment of the original route, which affected 622 houses.[34] The altered route will destroy a valuable wetland, 1,000 hectares of rice paddies, rubber, tea, fruit and vegetable gardens belonging to the local inhabitants. Five temples will be damaged. The affected communities were not consulted, and the ADB, the claimants allege, has violated its environmental, social and resettlement policies.

The affected communities filed a lawsuit against the Road Development Authority (RDA) and won a judgment from the Sri Lanka Supreme Court in January 2004 that RDA had violated both the National Environmental Act and the rights of the petitioners under the Sri Lankan Constitution.[35] To violate the laws of its borrowers is a blatant contravention of ADB policies for projects it finances, monitors and supervises.

Allegations regarding contracting irregularities emerged in Sri Lankan newspapers in 2001 and 2002, which were confirmed by a parliamentary Committee on Public Enterprises. In the bidding process for the project, 29 companies applied, and three met the pre-qualification bidding procedures, based on a number of considerations, including the financial condition of the prospective contractors. A Japanese company, Kumagi Gumi, did not meet the pre-qualification criteria,[36] and in fact had a negative financial worth. Kumagi hired an agent, Access International, to help win the contract. As is typical with this sort of arrangement, Access would win a hefty fee if it paved the way, as it were, for a successful contract award for its client. Sri Lankan newspapers reported that Access had influential political connections, including in the Prime Minister's Office.[37] Access is alleged to have bribed the RDA project official, for example by installing a new diesel generator in his home, giving him the use of a new SUV, and promising financial rewards if Kumagi won the contract.[38] This use of agents as motors of corruption to win contracts in some respects recalls the case of the Lesotho Highlands Project, discussed in the committee's July 21, 2004 hearing.

After the pre-qualification process was complete, the ADB reportedly sent a letter to the Sri Lankan Treasury requesting that Kumagi Gumi nevertheless be considered as a bidder on the project. Three companies, including Kumagi, participated in the final bidding; only Kumagi was allowed to submit a second alternative bid. Kumagi knowing the lowest bid of the other two companies, was naturally able to submit another, lower bid, and win the contract. All of this is recounted in two Sri Lankan newspaper articles, which I have submitted for the record. In the aftermath, the bidder that would have under normal procedures won the contract, protested, repeating the same allegations, and threatened to bring legal action.

The Sri Lankan parliamentary Committee on Public Enterprises (COPE) conducted an investigation, and concluded that both national government procurement guidelines and those of the ADB had been violated.[39] The Attorney General of Sri Lanka, when asked how Kumagi could have won the contract in violation of national and ADB tender guidelines, reportedly stated: "Kumagi Gumi had been accommodated purely on a suggestion by the ADB on February 13, 2001, particularly since it is an ADB funded project and the guide on pre-qualifications specifically provides [in such cases] for ADB approval."[40]

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[33] Joint Organization of the Affected Communities on Colombo-Matara Highway, *Submission of Complaint: Southern Transport Development Project Sri Lanka, Loan SRI 1711,* 4th June 2004 (complaint submitted to the Asian Development Bank Special Project Facilitator as part of the revised ADB inspection claim process), p. 3.

[34] *Ibid.*, p. 2.

[35] *Ibid.*, Appendix 2 containing details of Inspection Request and new evidence, and Appendix 9, Supreme Court Judgment.

[36] To pre-qualify companies had to score 60 points in an evaluation framework assessing their financial stability, technical capacity etc. The pre-qualifying companies had scores of 95, 79 and 75. Kumagi's score was 54.

[37] Frederica Jansz, *COPE shoots down Southern Highway,* SUNDAY LEADER (Sri Lanka), October 27, 2002; Frederica Jansz, *Of Highways and Backroom Access,* SUNDAY LEADER (Sri Lanka), November 1, 2001.

[38] *Ibid.*

[39] *Ibid.*

[40] *Ibid.*

When the ADB Anti-Corruption Unit undertook its first mission to perform spot procurement audits in a borrowing country last year, it went to Sri Lanka, but did not look at the Southern Transport Development Project.[41] According to ADB staff, they do not wish to pursue anti-corruption claims against a project where an Inspection Panel claim may be underway or pending. This is truly a perverse and counterproductive approach, since not only does the Inspection Panel not appear to investigate corruption, it is likely that projects with Inspection Panel claims underway may be precisely the ones where corruption abuses may be better documented.

Meanwhile, the STDP project proceeds and Kumagi remains the contractor. Neither ADB management nor the ADB Board appear to be interested in investigating the extremely serious procurement irregularities and cost overruns in this case.

The June 2004 complaint of affected communities notes:

> The ADB Board of Directors approved a project which was significantly different to the one being implemented. ADB management is disbursing funds for a Project that is different from the one approved by the Board in 1999. ADB management has not carried out a full review of the Project to ensure that the current project is in compliance with ADB policies nor has it sought approval for the Project's increased costs.[42]

This would seem to be a clear, prima facie case of ADB management and its Board failing to fulfill its fiduciary duty under the Articles of Agreement to "take the necessary measures to ensure that the proceeds of any loan made, guaranteed, or participated in are used only for the purposes for which the loan was granted. . . ."

VII. WHAT IS THE ADB DOING TO COMBAT CORRUPTION?

In 2001, a departing Executive Director made the following comments to his colleagues on the Board and to the management and staff of the ADB:

> Perhaps one of the most signs scant breakthroughs that has resulted from the Asian Crisis is the rude awakening of the damage wrought by corruption. Unfortunately this realization is yet. to translate into a widespread appreciation of what amounts to "good governance" in the form of transparency, accountability and responsibility, but at least it is a beginning. But the real question for an organization such as the ADB is "where do you start?"
>
> My view is that it has to firstly start at home. For example in relation to contracts, not only must the Bank be exemplary from within (and I have little to criticize on that account), but also, in its lending operations, the standards applied must be of a high order and strictly enforced. We have to get far tougher with those who "skim and scam" on ADB projects, and those governments which are party to, or allow it to happen. That may result in lower lending levels, but ultimately the outcomes will reward the effort, and send clear signals to the donors and the region that ADB is delivering a graft-free product to the ultimate benefit of the poor which it seeks to assist. With each product there should be a "warts and all" assessment of leakage.[43]

However, in the past few years the ADB has failed to systematically apply its Anti-Corruption Policy and Procedures. It has not investigated the most flagrant, scandalous and well publicized examples of corruption, such as the Thailand Smut Prakarn Project and the Sri Lanka Southern Transport Development Project. This lack of institutional leadership and managerial integrity concerning a public international financial institution's most basic fiduciary duty is most disturbing.

Conversations with ADB staff and Executive Directors' offices reveal differing perspectives on the institution's commitment to fight corruption. Some assert that over the past year ADB management has finally started to realize the seriousness of the issue and there is a new resolve to deal with the problem. The ADB's Auditor General is both candid and hopeful, but concedes that change is just beginning and progress is fragile. Some senior staff are deeply cynical about the institution's ability to change, noting that cosmetic commitments to reform come in cycles in anticipation of new ADF replenishments or ADB capital increases.

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[41] The Anti-Corruption Unit examined another project, and no corruption. It found weak financial controls which could have been exploited for corruption if corruption were present in the project.

[42] *Ibid.*, p. 4.

[43] Stephen Baker, *ADB—Wherefore art thou? (reflections of a board member who spent 3 interesting years with the Bank),* p. 10.

With these caveats in mind, we shall examine the anti-corruption potential of several ongoing initiatives: (a) the Donor's Report for the Eighth ADF Replenishment (2005–2008); (b) Performance Based Allocation of country lending; (c) halting disbursements on loans when borrowers refuse to address corruption; (d) the new Human Resources Strategy; (e) an ongoing review of the implementation of the ADB's Anti-Corruption and Governance policies; (f) the new information disclosure (Public Communications) policy of the ADB, still in draft revision; (g) the role of the Anti-Corruption Unit in the Auditor General's Office (OAG).

A. The June 2004 Donors' Report for the Eighth ADF Replenishment

The ADF IX (Eighth Replenishment) Donor's Report [44] reveals a general awareness of institutional problems in the ADB, but, as noted above, barely mentions the word corruption. The Donor's Report does not address the scale of potential "leakage" from ADB lending, let alone suggest anything as specific as the short suggestions made in Stephen Baker's farewell observations to the Executive Board in 2001. It does emphasize a "Managing for Development Results (MfDR)" framework, to be administered by a Results Management Unit (RMU): "MfDR at ADB will incorporate measures of effectiveness, efficiency, client satisfaction, and staff satisfaction. The RMU is developing these indicators drawing on global best practices. . . ." [45] With respect to specific measures to combat corruption in ADB loans, this is not very illuminating.

The Donors' Agreement notes the need for a "merit-based culture" and that "the current incentive structure is weighted towards new tending; they [donors] suggested that ADB reorient incentives towards implementation and development outcomes." To that end a new Human Resources Strategy is being developed. "ADB is planning early remedial action, including: (i) revising staff incentives to promote greater attention to project quality rather than lending targets . . . (iv) implementing a human resources strategy focused on improving performance management and providing for greater accountability." [46] It is very difficult with commitments in such general, vague language to assess how deep or effective they are; the credibility of such proposals lies in the details and implementation. The avoidance of any specific discussion in the text of glaring problems in ADB performance, and above all the almost total avoidance of the corruption issue, can only fuel serious skepticism.

B. Performance Based Allocation

The Donors' Report cites improving the Performance Based Allocation (PBA) of ADF resources. The promotion of Performance Based Allocation in the MDBs was mentioned by Treasury Under Secretary for International Affairs John Taylor in testimony before this committee on July 21, 2004. The idea is to allot lending based on overall country performance, as assessed by ADB-promoted indicators. The ADF IX Donors' Report proposes a greater significance of PBA for country lending allocations, and an increase of the effective weight of governance considerations in the PBA to 50%.[47]

The ADB has had a PBA system in place since 2001. This system does not appear to have had any impact on the implementation of the Anti-Corruption Policy and Procedures, nor caused any perceptible change in management's willingness to investigate even the most glaring corruption scandals associated with ADB projects. Although a revised PBA system could have the result of reducing lending allocations to borrowers that rank low on the Transparency International Index, many of the ADB's major borrowers fall into this category. Moreover, allotting resources to borrowers based on general "governance" rankings would seem to have little relevance to stopping actual ongoing corruption of ADB resources if the ADB itself has no idea of the extent of "leakage" from its country lending.

C. Suspending Loans When Borrowers Do Not Address Corruption

One unambiguously promising development has occurred in the past year: the reported halting of disbursements on two loans to Indonesia because of corruption concerns. Although the 1998 ADB Anti-Corruption Policy provides for this type of recourse, until last year it had never been utilized. Reportedly ADB management and the Board are considering halting disbursements on a third loan to Indonesia, again for corruption.

[44] Asian Development Bank, *ADF Donors' Report, Development Effectiveness for Poverty Reduction,* June 2004.

[45] *Ibid.*, pp. 6–7.

[46] *Ibid.*, pp. 7–8.

[47] *Ibid.*, p.16.

D. The New Human Resources Strategy

The Donors' Report also refers to new ADB Human Resources Strategy which was discussed yesterday (September 27) by the ADB's Board. The Human Resources Strategy contains a somewhat franker acknowledgement of ADB's institutional problems: "There is a widespread perception that the internal appointment and promotion processes are not transparent and are not structured to ensure merit-based decision making . . . Staff consider that there is undue non-disclosure of information about the processes, and combined with the lack of objective criteria for recruitment and selection, they do not have an appropriate level of information to substantiate decisions. These factors create a strong level of distrust and cynicism about how the organization makes HR decisions."[48] There is a grotesque irony here: it is clear that ADB staff complain that they suffer from the same lack of access to information, and arbitrary, unaccountable non-implementation of ADB policies—at least concerning human resources management—that communities and NGOs affected by ADB projects constantly protest.

The new Human Resources Strategy proposes general measures that in one sense we all can agree with: a "Focus on Results" and "Linkage Between Performance and Incentives" looking at, *inter ailia,* "internationally accepted best practices in its HR management policies and practices."[49] But exactly what results and incentives is the strategy referring to, and how will these plans be implemented?

The Summary of the Action Plan notes that the "lack of objective criteria to aid selection for each position" will be remedied by the establishment of "an ADB-wide competency framework and skills inventory" by the end of 2004. A "stronger linkage between salary increase and improved performance evaluation to ensure high level performers are rewarded with higher salary increases" will be established. Finally, the Action Summary states that to establish a "clear understanding of unacceptable behaviors and consequences" for staff through 2005 there will be "a more effective internal governance system," "mandatory code of ethics seminars for all staff," and a "review and strengthen[ing of] policies, processes and appropriate sanctions to ensure staff compliance."[50]

In the July 5, 2004 "Revised Draft" of the Human Resources Strategy, there is no mention of the priorities expressed in the ADF Donors' Report of "reorient[ing] incentives towards implementation and development outcomes," "promot[ing] greater attention to project quality rather than lending targets"—let alone any reference to country lending "leakage." The "Summary of Actions" in the Human Resource Strategy does not contain the slightest indication of what the specific content or orientation of the new performance indicators will be. Reading the text literally, one could fill in almost any possible set of institutional priorities, goals and values. It is a document proposing purely instrumental measures which are almost completely disconnected from the very real corruption and project performance problems that threaten to undermine the ADB's very mission.

E. Reviewing the Implementation of the Anti-Corruption and Governance Policies

The ADB is also conducting a review of the implementation of its Governance and Anti-Corruption Policies to consider "the governance and anti-corruption priority actions for the period 2005–2009."[51] The studies of NGOs discussed in Section V ("Zero Tolerance" and "The ADB in Its Own Words") have already, as one staff member told us, done a significant part of the work the ADB should have done itself. The committee should be kept appraised of the progress of this effort, particularly regarding the "priority actions" that the review will identify for the next five years.

F. Revised Public Communications Policy

The ADB is currently revising its "Public Communications" [information disclosure] Policy. Non-governmental groups have welcomed progress in this area, noting that the draft proposals of the ADB do go beyond the current disclosure standards at some other MDBs.[52] But there are a number of critical areas of particular relevance to assessing the ADB's corruption efforts where more information should be

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[48] Asian Development Bank, *Human Resources Strategy: Revised Draft for Discussion,* 5 July 2004.

[49] *Ibid.*, p. 8.

[50] *Ibid.*, pp. 10–16.

[51] ADB, *Fighting Poverty in Asia and the Pacific: Achieving Results Together. Review of the Implementation of the Governance and Anti-Corruption Policies* (ADB internal document, 6 pages), p. 1.

[52] Letter of Jennifer Kalafut and Mishka Zaman, Bank Information Center, to Mr. Robert Salmon, Principal Director, Office of External Relations, Asian Development Bank, May 28, 2004.

disclosed—starting with, for example, more detailed disclosure of the ADB's own operational budget, resource allocation, and expenditures and outlays.[53]

G. The Anti-Corruption Unit

Finally there is the role of the Anti-Corruption Unit itself. The ADB Anti-Corruption Unit, with five professionals, appears to be understaffed in relation to the 55-person strong Department of Institutional Integrity (TNT) at the World Bank. According to the report undertaken by Richard Thornburgh and his associates in July 2003 indicate that the World Bank plans to further increase its anti-corruption staffing levels.[54] In the case of the ADB, with approximately $6 billion a year in loan commitments compared to the World Bank's $24 billion, an appropriate staffing level for the Anti-Corruption Unit should be at least around 14.

The Anti-Corruption Unit, which is under the authority of the ADB's Office of the Auditor General (OAG), is primarily reactive in its function, investigating cases of alleged corruption when someone files a complaint. An Oversight Committee (analogous to the World Bank Sanctions Committee) rules on whether individuals and firms should be blacklisted and barred from future ADB business (usually for a limited period of several years). With a much smaller staff than the World Bank's INT, Anti-Corruption Unit investigations have lead to the debarment of 207 firms and individuals, as opposed to 288 to date at the World Bank. The World Bank makes its debarments public, but the ADB does not. The Thornburgh reports on fighting corruption at the World Bank emphasized in the strongest terms the desirability of automatic publication of debarments.[55]

The rationale for not naming debarred companies and individuals at the ADB seems to be two-fold. First, the news of debarment supposedly spreads rapidly in the business and consulting community, since debarred firms doing business in the Asia-Pacific region have to alert possible business partners of their status for every prospective ADB contract. Second, large, powerful firms bring tremendous political pressure to bear when confronted with potential debarment. Public debarment would likely make this pressure on the ADB, given its closeness to governments, even more intense. It is true that some major industrialized donor nations play an extraordinarily hypocritical role in lobbying for their businesses behind the scenes at the MDBs. ADB staff informed us that the Ambassador to the Philippines of a donor country directly protested the prospective debarment of a major company for corruption, claiming that the ADB Anti-Corruption policy was not intended to have such consequences. Nevertheless, the argument for automatic publication of debarments is strong, I will return to it in my summarizing recommendations.

Since the Anti-Corruption Unit serves a primarily reactive function, it is at best only one part of an effective strategy to address corruption. Proactive and preventative measures, as the Thornburgh World Bank reports stress, are equally important. The Anti-Corruption Unit has begun, despite its limited resources, to undertake proactive spot procurement audits of projects. As it is, the effectiveness of the Anti-Corruption Unit is also limited by the restrictions and limitations ADB Management and the Board have put upon it. For example, there appears to be a de facto rule that the Anti-Corruption Unit will not conduct pro-active investigations of projects if an Inspection Panel claim is in process or pending, nor when there is an ongoing government corruption investigation. But these are precisely the cases where there may be greater evidence of ADB negligence or complicity.

VIII. CONCLUSION AND RECOMMENDATIONS

Mr. Chairman, Richard Thornburgh and his colleagues made the following observation concerning the World Bank, which I believe applies even more urgently to the Asian Development Bank:

> It is important to recognize that any responsible business would have been attempting from the time of its inception, to stem fraud and corruption that interfered with its mission. In the Bank, however, senior management began to acknowledge the problem openly only in 1996—after a half

[53] *Ibid.*, p. 6.

[54] Dick Thornburgh, Ronald L. Gainer, Cuyler H. Walker, *Report Concerning the Proposed Strategic Plan of the World Bank's Department of Institutional Integrity, and the Adequacy of the Bank's Mechanisms and Resources for Implementing that Strategy,* July 9, 2003, p. 6.

[55] Dick Thornburgh, Ronald L. Gainer, Cuyler H. Walker, *Report Concerning the Debarment Processes at the World Bank,* August 14, 2002, pp. 82–83.

century of operation and after significant amounts had already been lost to fraud and corruption. The Bank has a lot of catching up to do.[56]

In the Asian Development Bank there is still a question as to what extent senior management has even "began to acknowledge the problem."

We have seen the documented non-implementation of the Anti-Corruption Policy and Procedures and the unwillingness of ADB management to investigate some of the most flagrant and well-publicized cases. Current organizational plans at the ADB do not explicitly address the issue of corruption, let alone propose explicit measures to reduce it. One reads the ADF Eighth Replenishment Donors' Report, and the July 2004 draft Human Resources Policy, and comes away with the impression that major "leakage" of ADB loans and procurement abuses are hardly a problem. The Performance Based Allocation system at the ADB, in place since 2001, seems to have had little impact on Management's commitment to implementing the Bank's Anti-Corruption Procedures and to investigating controversial cases. General governance rankings and corresponding country lending allocations will not address the corrupt diversion of ADB resources if the institution itself is not assessing corruption risk in its own country strategy and lending instruments. The most positive development at the ADB has been the willingness to halt disbursements on two loans when the borrower was not adequately guarding against corruption. But such actions are insufficient and long overdue.

Mr. Chairman, we believe the record of the ADB in addressing corruption is so poor that it would be irresponsible to authorize hundreds of millions of dollars for this institution—as Treasury will ask the committee to do in the coming year—without a clearer idea as to the steps ADB is taking to implement reforms that will effectively address corruption. Some of these reforms are elaborated as recommendations below.

Recommendations

In the course of these hearings, a number of quite detailed and relevant recommendations were made by other witnesses which also apply to the ADB. The testimony of Manish Bapna of the Bank Information Center (BIC) on May 13, 2004 sets forth a framework of recommendations which we strongly endorse. Carrying out a number of these recommendations would in effect simply be a matter of rigorously implementing the ADB's existing Anti-Corruption Policy and Operational Procedures on Anti-Corruption.

A. The First recommendation of the May 13, 2004 BIC testimony calls for "Evaluating Corruption Risks in Project and Sector Operations Explicitly." The ADB should rigorously implement its Anti-Corruption Operational Procedures to explicitly assess corruption risk in its country strategy programs, project appraisal, and project performance evaluation reports. This will require, as the BIC statement notes, the development of clear diagnostic tools and indicators for staff to conduct a rigorous assessment of corruption risks for different sectors and types of loans.

B. The second recommendation calls for special attention to and methodologies for risky sectors and loans: for example, extractive industries (oil, mining and gas), large infrastructure, and private sector operations, and, we would add, for non-project, program loans. With respect to extractive industries, a comprehensive set of recommendations can be found in the World Bank commissioned Extractive Industries Review (MR). One of the most important recommendations would require revenue transparency concerning royalties and fees paid to borrowing governments by private extractive companies supported by the MDBs, and ensure that revenue management systems are in place to account for the pro-poor uses of those revenues.

Regarding program lending, former ADB Executive Director Frank Black told his colleagues that the ADB, in comparison to the World Bank, "has much weaker in-house capacity in managing programmatic lending."[57] Since the ADB has increased programmatic lending in recent years, diagnostic tools and indica-

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[56] Dick Thornburgh, Ronald L. Gainer, Cuyler H. Walker, *Report Concerning the Proposed Strategic Plan of the World Bank's Department of Institutional Integrity, and the Adequacy of the Bank's Mechanisms and Resources for Implementing that Strategy,* July 9, 2003. pp. 5–6.

[57] Frank Black, departing Executive Director for Austria, Germany, Turkey and the United Kingdom, ADB, *The Asian Development Bank (ADB): A Unique Contribution? The Effectiveness of the Financing and Political Role of the ADB in Reducing Poverty in The Asia/Pacific Region,* June, 2003, p. 4.

tors to assess, monitor and address corruption risks in programmatic lending should be a top priority.

C. Enhancing Transparency and Disclosure is a critical preventative measure to reduce the likelihood of corruption in ADB operations. The ongoing revision of the ADB Public Communications Policy presents a timely opportunity for progress, The Bank Information Center and other NGOs have submitted a number of recommendations for the improvement of the current draft Public Communications Policy, such as:

1. The ADB should start by releasing more detailed information on its own budget, including information on its internal allocation of resources, and actual expenditures and outlays. It should provide a transparent, public and detailed account, for example, of how the ADB will allot more budgetary and staff resources for monitoring and improvement of project performance and quality, including addressing corruption, as opposed to loan preparation and approval.

2. The ADB should routinely disclose documents in draft form, before final decisions are made on a policy, project or program. One of the main purposes of disclosure, of course, is to obtain input to improve the final policy, project or program.

3. Civil society organizations have called upon the ADB to disclose Aide Memoires, documents produced throughout the project cycle that outline Bank and Borrowing Government agreements on steps taken in project development and implementation. Disclosure of Aide Memoires would be particularly useful in the anti-corruption fight by providing interested and affected civil society groups information on specific commitments their governments are supposed to be undertaking with ADB money. It should be pointed out that the IMF now discloses Country Letters of Intent, which are documents in which governments describe what steps and measures they have committed themselves to under IMF Standby Agreement loans.

4. The proceedings of the Board of Directors should be open to the public. Transcripts and summaries should be publicly available. This would be very important step towards holding the Board itself more accountable for oversight, including fiduciary oversight, of ADB operations. As noted by former ADB Executive Directors Baker and Black, the Board is too often divided and/or weak in performing its basic oversight duties. Great transparency of its proceedings will help create incentives for better and more effective Board performance.

5. Greater access to information for project beneficiaries and affectees will also be an added brake on corruption. The ADB must make translation of certain documents (pertaining to project planning and implementation stages) mandatory, and must employ more proactive means of seeking opinions of those who stand to gain or lose from the ADB's interventions .

6. Finally, access to information needs to be better organized and centralized: all relevant project information should be collected on a single place on the Bank's website; and ADB public information centers need to be established in all its borrowing countries.

D. Changing the internal culture and institutional incentives. This is perhaps the most important and challenging issue. The main vehicle at present for advancing this agenda appears to be the new Human Resources Strategy. Yet, as noted, drafts of the policy have almost no reference to corruption nor specifics on how staff would be evaluated in addressing the issue. The committee should ask for clarifications from Treasury on exactly how the new Human Resources Strategy will systematically address corruption risks in ADB operations.

For example, there are specific well-designed "business tools" that the ADB and other MDB staff could and should be required to use to guard against corruption. Transparency International in the U.K. has developed a number of check-lists and questionnaires for use in banks and international agencies conducting due diligence in the Construction and Engineering Industry. A recurring problem in international procurement is the use of corrupt agents to win contracts for bidders. Transparency International, U.K. has developed a comprehensive "Agency Questionnaire" along with a guide to evaluating answers with respect to likely indicators of corruption (see www.transparency.org.uk).

Finally, ADB Management's decisions in areas besides the Human Resources Strategy, such as the allocation of resources and staff for implementation of the Anti-Corruption Policy, decisions to release more information as described in sub-section C, decisions to proactively investigate corruption scandals, and to halt loan disbursements in certain cases, will be indicators of a changed internal culture.

E. Galvanizing the Board in its Oversight and Fiduciary Duties: Stephen Baker described his first impressions when he assumed is position as an Executive Director as frustrating ones: "The impression gained was that the role of the Board was restricted merely to endorsement of management initiatives. . . . During casual discussions with staff it became apparent that the Board was regarded by some as more of a liability than an asset, or to quote, 'a waste of money.'"[58] Frank Black, another departing Executive Director, told his colleagues in June last year that "while virtually all donor and some borrowing shareholders have concerns about the Bank's internal governance and a commitment to promoting institutional reform, the Board, at least as it operates at present, does not provide sufficient impetus."[59]

Although we believe that the U.S., along with some other shareholders, has tried to galvanize the ADB Board to ensure better oversight, we believe that the Board has failed to get management to adequately carry out its fiduciary duties. One of the most important things the U.S. could do to create incentives for the Board to improve its own focus and that of management, would be to promote the improved information disclosure measures mentioned above, especially the full and timely disclosure of all Board proceedings and transcripts.

F. Changes in the Debarment Process: In the July 21, 2004 hearing before this committee, Treasury Undersecretary John Taylor made two recommendations regarding debarment of corrupt companies which we strongly endorse. First is the automatic publication of debarred companies in the ADB and other MDBs. There is simply no good excuse for the ADB practice (we believe this is true in the IDB also) of keeping the names of debarred companies and individuals anonymous. In the words of Richard Thornburgh and his associates:

> *The greatest proponents of public disclosure are [World] Bank employees with field experience involving procurement issues they favor as widespread a dissemination as possible . . . As noted by another [Bank staffer] lecturing by the Bank against corruption will not work by itself, "fear must be placed in the hearts" of those willing to give or take a bribe, One of the few things that can provoke such fear is the prospect of a public debarment.*[60]

The second recommendation is cross-debarment from all the MDBs when a company has been debarred from one of them. It would be entirely illogical, and counter-productive, for one MDB to go to the cost and effort of an investigation resulting in the debarment of a company for corruption, while the same company would still be able to do business with its sister institutions—indeed, in some cases, sister institutions working in the same region or country. Moreover, public cross-debarment would have a still more leveraged deterrence effect for other potential bribers and bribees.

If the company is a U.S. one, it should also be debarred from doing business with other U.S. agencies operating abroad, including USAID, the U.S. Export-Import Bank, and the Overseas Private Investment Corporation. Through the OECD Development Assistance Committee (DAC) and the OECD Working Group on Export Credits, the U.S. should also seek similar cross-debarment commitments for the bilateral aid agencies and export credit agencies of other donor nations.

G. Greater Readiness to Halt Loan Disbursements When Government Borrowers Are not Addressing Corruption: As noted earlier, this is one of the strongest signals the ADB can send that it is serious about corruption. One occasionally hears concerns that slowing lending and halting disbursements for whatever reason will have a negative development impact, since it may increase the number of governments that are paying more money back to the ADB than they are receiving in new loan disbursements. But lending more to indebted

[58] Stephen Baker, *ADB—Wherefore art thou? (reflections of a board member who spent 3 interesting years with the Bank),* February, 2001, p. 1.

[59] Frank Black, departing Executive Director for Austria, Germany, Turkey and the United Kingdom, ADB, *The Asian Development Bank (ADB): A Unique Contribution? The Effectiveness of the Financing and Political Role of the ADB in Reducing Poverty in The Asia/Pacific Region,* June, 2003, p. 8.

[60] Dick Thornburgh, Ronald L. Gainer, Cuyler H. Walker, *Report Concerning the Debarment Processes at the World Bank,* August 14, 2002, pp. 82–83.

governments of poor countries when substantial percentages of loans are being diverted is unconscionable, saddling nations with a debt that is increasingly viewed as illegitimate. It is also a violation of the most basic fiduciary duty in the ADB's charter; namely, to ensure loans are used for the purposes intended.

H. Strengthening the Anti-Corruption Unit: We noted that the ADB Anti-Corruption Unit is much smaller in proportion to the Asian Development Bank than the Department of Institutional Integrity (INT) is to the World Banks In coordination with other ADB Board members, the U.S. should call for an increase in staffing and resources for the Anti-Corruption Unit, so that its resources are least proportionally closer to those of INT in the World Bank. This would probably mean, for example, an increase of staff size from five to around fourteen.

The Anti-Corruption Unit should be no longer hindered from undertaking anti-corruption investigations, whether in response to a complaint or proactively, in cases where there may be ongoing Inspection Panel investigations or in-country government corruption investigations.

The Anti-Corruption Unit should be given more resources to conduct more numerous and frequent proactive spot corruption and procurement investigations, something which it did for the first time last year in Sri Lanka and is currently planning in Viet Nam.

I. Proactive, Independent Forensic Audits of Corruption for the Thailand Samut Prakarn and Sri Lanka Southern Transport Development Projects: The ADB's failure to investigate the blatant evidence of corruption and procurement irregularities in the Thailand Samut Prakarn Wastewater Treatment Plant and Sir Lanka Southern Transport Development Project is particularly disturbing. No one appears to be held accountable in the ADB for the blatant mismanagement of these projects, nor does the institution appear to have learned much from the corruption aspects of these cases, since the ADB itself has not conducted a thorough corruption investigation in either instance. We would recommend that the committee call upon Treasury to request ADB management to commission independent corruption investigations of these projects, whether through the Anti-Corruption Unit or outside consultants. We believe that the lessons learned would greatly inform wider range efforts to change staff incentives vis a vis corruption, and prevent such abuses from occurring in the future.

It is also imperative that ADB management find some means of delivering restitution and assistance for the communities that have been adversely affected by the mismanagement of these two projects. The affected communities in these two ADB projects are truly "corruption refugees."

The CHAIRMAN. Well, thank you very much, Mr. Rich, for your testimony and your very comprehensive statement that accompanies it.

Dr. Ayittey.

STATEMENT OF GEORGE AYITTEY, PH.D., DISTINGUISHED ECONOMIST IN RESIDENCE, ECONOMICS DEPARTMENT, AMERICAN UNIVERSITY, WASHINGTON, D.C.

Dr. AYITTEY. Mr. Chairman, I am extremely grateful and very deeply honored to be asked to testify before your committee regarding corruption and the African Development Bank.

I have been one of those angry Africans who have been involved in development of the continent for the past 30 years or more. The reason why I use the term "angry" is because over the past 4 decades or so, all sorts of western organization multilateral development banks have pumped more than $500 billion to try and encourage or spur development in Africa. But all these efforts have produced very little results. As a matter of fact, Africans today are worse off than they were in 1960 when they gained their independence from colonial rule.

Now, there is something maddening about all this. We are talking about a continent which is tremendously rich in mineral resources. There is no need, there is no reason why Africans should be mired in poverty as they are today.

Now, another aspect of this is that not only have American taxpayers wasted their money, but Africans are left with the bill to pay. I mean, they are responsible to repay the loans that were taken to spur development. If American taxpayers want to throw away their money, they should not ask the African people to pay it back.

I would like to sort of focus on the African Development Bank because that is where the continent's real problems are sort of situated. I should mention that the structure of the operations of the African Development Bank is different from the Asian or the other regional development banks because the African Development Bank deals directly with governments. As a matter of fact, about 98 percent of its loans is granted to government ministries and agencies. Now, the African Development Bank is not really involved in the contracting out of these loans for the projects. It just approves the application and the funds go to governments, and the governments are responsible for ensuring that contracts are subjected to international bidding, et cetera. So within the African Development Bank itself, there is a limited scope for, say, corruption or kickbacks and bribery and receiving commissions, for example. So if we are looking for the reasons why the corruption has sort of been responsible for the nonperformance of the bank's portfolio, we need to look more elsewhere.

The bank's overall portfolio has not performed very well to achieve its intended objectives. I went to the bank's web site and the latest information I could get was for 1997 for its portfolio performance. For that year, 31 percent of the bank's entire portfolio was considered to be problem projects. 31 percent problem projects. And the worst part was that of the ongoing projects, 40 percent of them were considered to be at risk which, if you add the two percentages up, it means that more 70 percent of the bank's portfolio is not performing.

Now, as I indicated earlier, corruption within the bank itself is not one of the main culprits. The main culprits lie elsewhere. The first of these is that the bank, like the World Bank, has been a victim of the environment in which it operates. It operates in what I call a sea of coconut republics where government does not exist. What we have in many African countries is a government which has been hijacked by a phalanx of thugs and bandits who choose the instrument of the state to enrich themselves, their cronies, their tribesmen, and exclude everybody else. I call this a vampire state. I have inserted in my testimony the wealth and the personal fortunes of many of Africa's autocrats. Some of them are worth more than billions and billions of dollars. As a matter of fact, the President of Nigeria, Obasanjo, himself claimed that corrupt African leaders have stolen at least $140 billion from their people since independence.

And foreign aid has not been spared either. Let me quote you what The Economist magazine wrote, that for every $1 foolish westerners lent Africa between 1970 and 1996, 80 cents of that flowed out of Africa as capital flight and typically into Swiss ban accounts to buy mansions on the Cote d'Azur in France, for example, which meant that 80 percent of the loans or the aid that foolish westerners gave Africa never got to the people. It flowed right out of Africa.

And the former British assistant secretary of state for international development, Lynda Chalker, revealed that 40 percent of the wealth created in Africa is invested outside the continent.

Now, last month the African Union revealed that Africa loses an estimated $148 billion due to corruption annually. Now, if you take the amount that Africa loses to corruption, that is 100 times more than what Africa receives in aid even from all sources.

Now, it is in this environment that the African Development Bank has to operate. Now, over 95 percent of its clients are government ministries and agencies. In 2003, last year, 121 project loans were approved by the African Development Banks, and 98 percent of all those loans went to government ministries and agencies. So far this year and at its web site, the African Development Bank says that 19 project loans have been approved, as posted on its web site, but only 2—only 2 of them—went to non-government borrowers.

Now, there has been some mission creep within the African Development Bank. The bank often deals with what we call crafty bandits who sort of hijack and sort of pervert such buzzwords as "development," "democracy," "foreign investment," "rule of law," et cetera. To them "development" means developing their pockets and seeking foreign investment means investing the loot in a foreign country.

Now, these guys are not very serious about policy reform. You ask them to privatize inefficient government-owned enterprises, and they will sell them to themselves and to their cronies.

You ask them to respect the rule of law, and they will bend the law to respect their whims. In Zimbabwe, for example, The Economist writes that it is the thieves who are in charge and their victims face prosecution.

You ask them to trim the bloated bureaucracies that they have, and what they will do is they will set up a government of less government intervention.

You ask them to promote private enterprise, and they will set up a ministry of private enterprise.

Now, this kind of chicanery is what has stymied reform and growth in Africa.

You notice that ever since September 11th when the U.S. declared war on terrorism, many of Africa's autocrats are also fighting against terrorism when they themselves are the real state terrorists. Even Charles Taylor of Liberia once claimed that he was fighting against terrorism. He even set up an anti-terrorist unit. And you also have regimes in Sudan, in Zimbabwe all fighting terrorism.

In other words, the point which I want to get across is that they take such buzzwords and then pervert it and use it as bona fide. The African Development Bank is often duped by these gangster regimes and co-opted to become an extension of their treasury. The bank's original mission has become so elastic that it has lost its meaning. The terms "poverty reduction" and "capacity building" have been perverted and corrupted by governments to define every project submitted to the bank for funding. Currently the bank has approved a loan for capacity building of rural women in Ethiopia, whatever that means. There are many other examples and I have compared these examples, which I took from their web site in January of this year.

The African Development Bank in Djibouti signed a loan agreement to finance basic health services. There is also another loan to Senegal to support private sector adjustment support program. The details are there. In Sudan, for example, the African Development Bank is providing institutional support to government for poverty reduction. In Tanzania, the African Development Bank is also providing institutional support in the ministry of finance. In Ghana, you have a poverty reduction support.

There are many, many flaws and conceptual problems with this. Number one, if you give loans to African governments and you are reinforcing the status economic development approach which has failed Africa miserably. By status development approach, I mean the state-led development effort. We are not encouraging the private sector. You are reinforcing this notion that it is the state which must initiate development. That is the first wrong with this particular approach. Now, the African Development Bank should be giving more loans to the private sector, not to the government.

The second problem is that allocating more African Development Bank loans to the state or the modern sector simply defies common sense. Africa is made up of three sectors. There is the modern sector, and there is the traditional sector, and there is the informal sector. The vast majority of the African people live in the informal and the traditional sectors. Agriculture is their main occupation. You cannot develop Africa by ignoring the informal and the traditional sector, nor can you develop the informal and the traditional sectors if you do not understand how they operate. But you see these are the very, very two sectors which African governments neglected after independence.

The African Development Bank is repeating the same error. As a matter of fact, if you look at the bank's own commitment to agriculture, it has remained low at 18.5 percent of its total portfolio. And the agricultural portfolio's performance has been the worst. The bank itself says this: "Performance of the agricultural portfolio is below the bank's average performance. In 1997, 16 percent of the 142 agricultural sector projects were rated as problem projects, and 23 percent of the agricultural sector projects were rated as unlikely to attain their developmental objectives."

Now, is it is also debatable whether the African Development Bank should be in the humanitarian or the relief assistance business at all. Another additional problem is that the African Development Bank in providing loans for basic programs such as education, health care is of concern because these are basic services which normal governments should be providing to their citizens out of normal tax receipts, and in normal circumstances the African Development Bank should not be in this particular business.

And more worrisome is the fact that the African Development Bank is becoming increasingly involved in the policy reform area. It is of increasing concern because African autocrats are simply not interested in reform. Period. The reason why I am saying this is because billions of dollars have been spent by the World Bank, the multilateral institutions, foreign donors to try and bribe and cajole recalcitrant despots to implement economic and political reform.

Now, the democratization process in Africa has stalled. Back in 1990, there were four democracies, and after the collapse of the Soviet Union, there was a wave of democratizations throughout the continent. The number of democracies rose. Now it is stuck at 16 out of 54 African countries, which means that tyranny remains the order of the day in Africa. The autocrats are simply not interested in reform.

The record on economic reform is even worse. The World Bank itself spent $25 billion trying to persuade African governments to restructure their economies. And over the period of time, 1981 to 1991, the World Bank said out of the 29 adjusting African countries, only 6 of them have been successful, which means that 6 out of 29 gives a failure rate of more than 80 percent. So the policy reform area is not the area where the African Development Bank should be. Even the World Bank tried. It could not succeed. Occasionally, the World Bank comes up with a phantom list of success stories, only for the list of countries to disappear in a year or 2.

Now, the other problem that the African Development Bank has is that it does not have enforcement mechanisms. It responds feebly. It can set up anti-corruption conferences, and indeed it has. But its missions in various African countries are only manned by a skeleton staff which cannot enforce anything at all. But even if it tries to enforce strict accountability rules, it will clash with domestic governments and may be seen as interfering in the domestic affairs of these various governments. So it can only take tepid steps, such as holding conferences and workshops on corruption and withdrawing from the Lesotho water project, which was riddled with corruption. You cannot have reform in the bank itself without a concomitant reform of the environment within the bank operates.

Now, I would like to make a couple of suggestions in terms of improving bank operational efficiency assuming that there is nothing that can be done to clean up the environment within which the bank operates.

First of all, the bank's scope of operations needs to be limited. The original objective of promoting regional development to meet especially energy needs has been submerged in favor of a far more expansive objective.

Right now, the mission of the bank has even crept even further to embrace NEPAD. Now, NEPAD is badly structured. NEPAD is the New Partnership for Africa's Development. It is badly structured, badly structured because it was modeled after the Marshall aid plan, and number two, African civil society, the people were not consulted when this document was put together. Yet, the African Development Bank wants to invest $372.5 million in NEPAD.

Now, for real development to take place in Africa, the African Development Bank should limit—and this is my own suggestion—to 20 percent its portfolio lending to African government ministries and agencies. The focus should be on the private sector, not on the government sector.

Now, second, it should also limit its lending to countries on the verge of implosion. The African Development Bank was headquartered in Ivory Coast, and the country blew up. And when the country blew up, the African Development Bank had moved to Tunisia. Liberia, Sierra Leone, for example, the African Development Bank had many projects there. When those countries blew up, the African Development Bank lost all those loans used to fund those projects.

Now, number three, the African Development Bank should focus on the informal and the traditional sectors. That is where the real people of Africa are, and they want to help themselves. All they need is a small, micro-credit finance. Now, I have indicated in my testimony such small micro-finance projects which were funded, one of them in Bamako to a certain woman who was unemployed and she set up a local small business with a loan of just $50 from Oxfam. Just $50. Now she is able to operate and open up her own bank for rural women.

Now, there is another success story in Senegal also funded by Christian Aid, another one in Ethiopia funded by Action Aid for Development. These are small, small projects which help the real people. That is the area where the African Development Bank should be, not lending money to crooked governments in Africa.

Thank you.

[The prepared statement of Dr. Ayittey follows:]

PREPARED STATEMENT OF GEORGE B.N. AYITTEY, PH.D.

I am extremely grateful and honored to be called upon to testify before the Senate Foreign Relations Committee again—my second time in two years—regarding corruption and the activities of the African Development Bank.

For the past 30 years or more, I have been actively involved in the promotion of genuine, grass-roots development in Africa for the obvious reason that, not only am I an African but the African continent remains the least developed in the Third World in spite of immense mineral wealth. Therefore, African development remains close to my heart.

Over the past four decades since independence in the 1960s, all sorts of foreign aid agencies and multi-lateral development banks (MDBs), including the World Bank and the African Development Bank have been involved in Africa's development, pumping more than $500 billion into Africa. But the results have been negligible. Most Africans are worse off today than they were at independence in the 1960s. Much of the funds came in the form of soft loans, for which the African people are liable to repay. Africa's total foreign debt today stands at $350 billion. There is something maddening about this state of affairs. American taxpayers not only wasted their money but we Africans have to repay for loans from which we derived little or no benefit. Obviously, something has gone fundamentally wrong with these MDB loan programs. This year American taxpayers are going to shell out $1 billion to the MDBs. You can throw American taxpayers money away but don't ask the suffering African people to pay it back.

I would like to focus my testimony today on the African Development Bank loan programs and begin by making a few key points. I will then follow with additional elaboration. These points ar more fully developed in a paper I will submit for the Record.

1. Overall Performance of AfDB Loan Portfolio

AfDB lending programs have not performed well to achieve their intended objectives. The Bank is slow in updating information at its website. The latest that it has at its website for its portfolio performance is for 1997. For that year, 31 percent of the Bank's entire portfolio was considered "problem projects" and unlikely to attain their development objectives. Worse, of the on-going projects, 40 percent were considered to be at risk. This means that over 70 percent of the Bank's portfolio is "non-performing."

Corruption within the African Development Bank—kickbacks, bribery, and commissions on projects—are difficult to document or prove due to their illegality, although nepotism, administrative and staff problems are known to pervade the AfDB. But these are not the main culprits behind the poor performance of the Bank's portfolio.

2. The Environment of Corruption, Collapsed States and Coconut Republics

Rather, AfDB—like the World Bank—has been a victim of the environment in which it operates. The Bank operates in a sea of "coconut republics" where "government" does not exist. What exists is a "vampire state," where the machinery of the state has been hijacked by a phalanx of gangsters and thugs to enrich themselves, their cronies, tribesmen and exclude everyone else. The richest persons are heads of state and their ministers and quite often the head of state himself is the chief bandit. In 1997, the fortunes of African heads of state were published by *French Weekly* (May, 1997) and reprinted in the Nigerian newspaper, *The News* (August 17, 1998):

1. General Sani Abacha of Nigeria 120 billion FF (or $20 billion)
2. President H. Boigny of Ivory Coast 35 billion FF (or $6 billion)
3. Gen. Ibrahim Babangida of Nigeria 30 billion FF (or $5 billion)
4. President Mobutu of Zaire 22 billion FF (or $4 billion)
5. President Mousa Traore of Mali 10.8 billion FF (or $ $2 billion)
6. President Henri Bedie of Ivory Coast 2 billion FF (or $300 million)
7. President Denis N'guesso of Congo 1.2 billion FF (or $200 million)
8. President Omar Bongo of Gabon 0.5 billion FF (or $ $80 million)
9. President Paul Biya of Cameroon 450 million FF (or $70 million)
10. President Haile Mariam of Ethiopia 200 million FF (or $30 million)
11. President Hissene Habre of Chad 20 million FF (or $3 million)

Speaking to representatives of African civic groups meeting in the Ethiopian capital, Addis Ababa, to prepare the African Union to be launched in South Africa, Nigeria's President, Olusegun Obasanjo, said that "corrupt African leaders have stolen at least $140 billion (£95 billion) from their people in the decades since independence" (*The London Independent,* June 14, 2002; web posted).

Foreign aid has not been spared, either. Says *The Economist* (Jan. 17, 2004): "For every dollar that foolish northerners lent Africa between 1970 and 1996, 80 cents flowed out as capital flight in the same year, typically into Swiss bank accounts or to buy mansions on the Cote d'Azur" (Survey; p. 12). At the Commonwealth Summit in Abuja, Nigeria on December 3, 2003, former British secretary of state for international development, Rt. Hon. Lynda Chalker, revealed that 40 per cent of wealth created in Africa is invested outside the continent. Chalker said African economies would have fared better if the wealth created on the continent were retained within. "If you can get your kith and kin to bring the funds back and have it invested in infrastructure, the economies of African countries would be much better than what there are today, she said (*This Day* [Lagos], Dec 4, 2003). On October 13, 2003, Laolu Akande, a veteran Nigerian freelance journalist, wrote that:

> Nigeria's foreign debt profile is now in the region of $25–$30 billion, but the president of the Institute of Chartered Accountants of Nigeria, ICAN, Chief Jaiye K. Randle, himself an eminent accountant and social commentator has now revealed that individual Nigerians are currently lodging far more than Nigeria owes in foreign banks. With an estimate he put at $170 billion it becomes immediately clear why the quest for debt forgiveness would remain a far fetched dream." (http://nigeriaworld.com/columnist/laoluakande/articles.html)

In August 2004, an African Union report claimed that Africa loses an estimated $148 billion annually to corrupt practices, a figure which represents 25 percent of the continent's Gross Domestic Product (GDP). "Mr. Babatunde Olugboji, Chairman, Independent Advocacy Project, made this revelation in Lagos while addressing the press on the survey scheduled to be embarked upon by the body to determine the level of corruption in the country even though Transparency International has rated Nigeria as the second most corrupt nation in the world" (*Vanguard,* Lagos, Aug 6, 2004. Web posted at www.allafrica.com).

This is the environment in which the AfDB operates and over 95 percent of its clients are ministries and agencies of these "governments." In 2003, 121 project loans were approved by the AfDB; 98 percent went to government ministries and agencies. So far this year, 19 project loans have been approved, as posted at its website; only two went to non-government borrowers.

3. Mission Creep and Problem Portfolio

The Bank often deals with crafty bandits, who hijack and corrupt such buzzwords as "development," "democracy," "foreign investment," and "rule of law." "Development" to the ruling vampire elites means developing their pockets and they seek "foreign investment" by investing the loot in foreign bank accounts.

Ask them to privatize state enterprises and they would sell the companies to themselves and their cronies at fire-sale prices. In 1992, in accordance with loan conditionalities, the Government of Uganda began a privatization effort to sell-off 142 of its state-owned enterprises. However, in 1998, the process was halted twice by Uganda's own parliament because, according to the chair of a parliamentary select committee, Tom Omongole, it had been "derailed by corruption," implicating three senior ministers who had "political responsibility" (*The East African,* June 14, 1999). The sale of these 142 enterprises was initially projected to generate 900 billion Ugandan shillings (Ushs) or $500 million. However, by the autumn of 1999 the revenue balance was only 3.7 billion Ushs.

Ask them to respect the rule of law and they would rather bend the law to respect their whims. In January 2000, the ruling party's (KANU's) gang of thugs known as *Jeshi la Mzee* ("the old man's army"), attacked a group of opposition leaders outside parliament who were protesting against the resumption of IMF assistance. "It was the protesters, not the thugs, who were arrested" (*The Economist,* Feb 5, 2000; p. 42). Said *The Economist* (March 16, 2002): "In Zimbabwe, the thieves are in charge and their victims face prosecution" (p. 18).

Ask them to trim their bloated bureaucracies and limit government intervention in the economy and they will establish a "Ministry of Less Government Intervention." Ask them to establish a market-based economy and place more emphasis on the private sector and they will create a "Ministry of Private Enterprise," as Ghana did in 2002.

Ask them to establish democratic pluralism and they will create surrogate parties, appoint their own Electoral Commissioners, empanel a gang of lackeys to write the constitution, inflate the voter's register, manipulate the electoral rules and hold coconut elections to return themselves to power. Even African children could see through this chicanery and fraud. Said Adam Maiga, from Mali: "We must put an end to this demagoguery. You have parliaments, but they are used as democratic decoration" (*BBC News* website, May 10, 2002).

Ever noticed that since September 11, 2001 and the U.S. declaration of "war on terrorism," all sorts of African despots have also claimed to be fighting terrorism in order to win U.S. sympathy and aid? Never mind that these tyrants are themselves the real *state terrorists!* The regimes of Omar Bashir of Sudan, Yoweri Museveni of Uganda and Robert Mugabe of Zimbabwe were all fighting terrorists! Even former President Charles Taylor of Liberia established an Anti-Terrorist Unit to terrorize the people!!

Aided by a gaggle of intellectual collaborators, they resist any attempt at reform. Reform becomes a charade, the rule of law a farce. Eventually, the coconut republic implodes: Somalia (1993), Rwanda (1994), Burundi (1995), Zaire (1996), Sierra Leone (1997), Liberia (1999), and even Ivory Coast (2000), where the AfDB was headquartered.

The AfDB is often duped by these gangster regimes and co-opted to become an extension of their treasury. The Bank's original mission has now become so elastic that it has lost its meaning. The terms—"poverty-reduction" and "capacity building" have been perverted or corrupted by these governments to define every project submitted to the Bank for funding. Currently, the Bank has approved a loan for "capacity building of rural women in Ethiopia"—whatever that means. Here are some examples of projects of dubious value that are being funded in 2004 by the AfDB posted at its website (www.afdb.org):

- Jan 15: AfDB and Djibouti Sign Loan and Grant Agreements totaling the Equivalent of US$ 5.94 Million to finance the Basic Health services Reinforcement Project (Health I Project);
- Jan 16: AfDB and Senegal Sign a US$ 35.67 Million Loan Agreement to finance the Private Sector Adjustment Support Program (PSASP) in Senegal;
- March 5: In response to the deadly earthquake, which occurred in the Al Hoceima region on 23 February 2004, the AfDB provided, through an accelerated procedure, an emergency grant of $500,000 to Morocco. The assistance, obtained from the Special Emergency Relief Fund of the AfDB, was intended to

meet part of the foreign currency cost of humanitarian aid for the victims of the earthquake;

- March 17: AfDB approves a Loan and a Grant of $37 Million to finance Healthcare Development in the Democratic Republic of Congo;
- March 17: AfDB approves a Loan and a Grant of $7.74 Million to finance the Education Sector Support Project in the Democratic Republic of Congo;
- March 31: AfDB Provides Education Sector Support To Chad;
- April 12, 2004: AfDB, Liberia sign humanitarian emergency grant agreement; and
- May 5, 2004: AfDB and Tunisia sign a loan agreement for railway infrastructure modernization.

Sudan

The AfDB is providing "Institutional Support to the Government for Poverty Reduction." The project has two main components, namely, (a) Short-term training courses for Government personnel from the Ministry of Finance and National Economy and Social Sector Ministries, and the carrying out of short-term studies in key policy areas; and (b) the provision of technical assistance and (c) Computer & office equipment.

AfDB is also providing "Humanitarian Emergency Relief Support to the Victims of the 2003 Floods" in Sudan. The proposed humanitarian relief assistance entails the provision of kits to prevent cholera and water-borne diseases, drugs and supplies, spraying equipment and chemicals for environmental sanitation. It will complement the assistance provided by other donors in different areas of need.

Tanzania

AfDB is funding the following projects:

Rural Marketing Program involving the following components: (i) Market infrastructure and facilities; (ii) Market organization; (iii) Marketing information and communication systems; (iv) Agricultural marketing policy and regulations and (v) Extension, research and training.

Support for Strategic Plan Action Plan for Vocation & Technical Education Project. The project consists of the following 4 components: (i) Upgrading renovation & construction of vocational training centers; (ii) Improvement of the quality in Graphic School; (iii) Curriculum & Staff development and (iv) Project management. Environmental Category II.

Institutional Support in the Ministry of Finance. The projects will consist of the following components: (i) Aid information management system; (ii) Training (short-term courses, workshops and study tours); (iii) Purchase of vehicles & computers; (iv) Strengthening the Government technical audit systems and (v) Provision of technical support to the ADB Desk Office.

Ghana

AfDB is funding the following projects:

Emergency Relief to Drought Victims;

Health Services Rehabilitation III—The project will comprise the following components: (i) strengthening district health services; (ii) support to the national blood bank; (iii) support to the national HIV/ AIDS control program and (v) support to the Project Management Unit;

Senior Secondary School Support Project III—The key components are: (a) Expand access; (b) Improve quality of Teaching and Learning; (c) Management Efficiency; and

Poverty Reduction Support.

There are many conceptual and practical problems with many of these loan projects. First, loans to African government ministries and agencies for development purposes reinforces the statist (state-led) development approach that has failed miserably in Africa. Africa's post colonial history shows that the vampire state has been the major obstacle to development. Why should the AfDB be providing more loans to the state and not the private sector where wealth is created?

Second, allocating more AfDB loans to the state or modem sector defies common sense. There are three Africas: modem, informal, and traditional Africa. They do not operate by the same logic and rhythm. The vast majority of the African people live in the informal and traditional sectors. Agriculture is the main occupation of the people. Africa cannot be developed by ignoring the two sectors; nor can they be developed without understanding how they work. But these were precisely the two sectors African leaders and elites neglected. The AfDB is repeating this error. The Bank's commitment to agriculture has remained low at 18.5 percent of its total portfolio and its agricultural portfolio's performance has been the worst. "Performance of the agricultural portfolio is below the Bank's average performance. In 1997, 16 percent of 142 agricultural sector projects were rated as problem projects with respect to implementation progress (IP). Twenty-three percent of the agricultural sector projects were rated unlikely to attain their development objectives (DO)" (Agricultural and Rural Sector Policy, 2000. Posted at http://www.afdb.org/projects/polices/pdf/agri_policy_apr2000.pdf?nl=7&n2=1&n3=00.

Third, it is debatable whether AfDB should be in the humanitarian relief assistance business, but the increasing provision of Bank loans for basic programs such as education and health care is of concern. These are services which a normal government should provide its citizens out of tax receipts under normal circumstances. But then again, a normal government does not exist in much of Africa. Of more immediate concern, however, is the increasing involvement of the AfDB in the "policy reform" area.

Billions of dollars were spent by the World Bank, multi-lateral institutions and foreign donors to bribe or cajole recalcitrant African despots to implement political and economic reform. But the democratization process, which gained momentum after the collapse of communism in 1989 has been stalled or reversed by political chicanery and strong-arm tactics. In 1990, only 4 of 53 African countries were democratic. This tiny number grew to 15 in 1995 but shrank somewhat to 13 in 1997 and bounced back 1016 in 2004: Botswana, Benin, Cape Verde Islands, Ghana, Kenya, Madagascar, Malawi, Mali, Mauritius, Nainibia, Nigeria, Sao Tome & Principe, Senegal, Seychelles, South Africa and Zambia. Even then, the application of a rigorous definition of "democracy" would reduce this number. Besides periodic elections, democracy requires a constitution that is freely negotiated, a neutral and independent media, an independent judiciary, an independent central bank, as well as a neutral and professional armed forces—requirements which some of the "democratic" countries listed above would fail to satisfy.

The record of economic reform sponsored by the World Bank and the IMF is even more dismal. According to UNCTAD (1998), "Despite many years of policy reform, barely any country in the region has successfully completed its adjustment program with a return to sustained growth. Indeed, the path from adjustment to improved performance is, at best, a rough one and, at worst, disappointing dead-end. Of the 15 countries identified as 'core adjusters' by the World Bank in 1993, only three (Lesotho, Nigeria and Uganda) are now classified by the IMF as 'strong performers'" (p xii).

The World Bank itself evaluated the performance of 29 "adjusting" African countries it had provided more than $20 billion in funding over the ten-year period, 1981–1991. Its report, *Adjustment Lending in Africa,* released in March 1994, concluded that only six African countries had performed well: The Gambia, Burkina Faso, Ghana, Nigeria, Tanzania, and Zimbabwe. It may be noted that 6 out of 29 gives a failure rate in excess of 80 percent. More distressing, the World Bank observed that "no African country has achieved a sound macro-economic policy stance" (p.6). Barely a year later, however, this number had shrunk to two: Burkina Faso and Ghana. By 1995, SAP was on the verge of collapse in Ghana. By March 2001, the incoming Kufuor administration had placed Ghana, the Bank's "star pupil" on the HIPC intensive care unit and on July 5, 2002, the outgoing World Bank Resident Director in Ghana admitted that the Bank probably made a mistake in tagging Ghana an "economic success story." Ghana's real per capita income is about 10–15% below 1983 level when the structural adjustment program was launched in 1983.

4. Lack of Enforcement Mechanisms

Projects approved by the AfDB are supposed to have been "vetted" by national governments in transparent processes. The Bank may also set guidelines on transparency, oversight, cost control and accountability measures. But it cannot enforce them since Bank representatives reside in most client countries often with a skeleton staff for basic tasks excluding public liaison. The total absence of full resident missions in some countries of operation makes it difficult to evaluate the projects it finances, disseminate information and engage in public dialogue. AfDB also has to be careful in its oversight activities without interfering with the political process or becoming ensnared by it. If it becomes too involved, it risks becoming an "enabler." Therefore, even if the Bank becomes squeaky clean, it can only take tepid steps such as holding conferences and workshops on corruption or withdrawing from the Lesotho Water Project that was riddled with corruption. Bank reform without a concomitant "environmental reform" would be meaningless.

5. Improving the Bank's Operational Efficiency

Assuming that the "environment" remains as it is and cannot be reformed, then the following suggestions wifi be made to improve the AfDB's operational efficiency.

Its scope of operations needs to be limited.. Original objective of promoting regional development to meet especially energy nees has been submerged in favor of a far more expansive purview that now serves as an extension of domestic treasuries. It has further been expanded. The African Development Bank Group has already approved $372.5 million for NEPAD infrastructure projects (AfDB Financial and Operational Analysis, 2003. Posted athttp://www.afdb.org/financial/pdf/adb_financial_presentation_may2004e.pdf

NEPAD (New Partnership for Africa's Development) undertakes "to respect the global standards of democracy, whose core components include political pluralism, allowing for the existence of several political parties and workers' unions, fair, open, free and democratic elections periodically organized to enable the populace to choose their leaders freely." It also includes a "peer review mechanism" by which African leaders who misrule their countries would be subject to criticism by fellow African leaders according to commonly agreed standards. NEPAD was trumpeted as "Africa's own initiative," "Africa's Plan," "African crafted," and therefore "African owned." While African leaders deserve credit for at least making the effort to craft an "African initiative," NEPAD is fatally flawed in many ways.

First, it turned out NEPAD too was modeled after a foreign plan: The U.S. Marshall Aid Plan, which rebuilt Europe after World War II. How could it be "African crafted" when it is a copy of the Marshall Aid Plan? How could Africa claim ownership over someone else's idea? Furthermore, the $64 billion in investment NEPAD sought from the West, reflected the same old aid dependency syndrome.

Second and more serious was the blatant dishonesty and double-speak that infected NEPAD. Speaking at the four-day OAU Civil Society conference (June 10–14, 2002), President Obasanjo of Nigeria noted that the involvement of civil society is required in order to make the on going establishment of African Union (AU) and NEPAD successful. "I would like to reiterate that much of what Africa has today gained in the areas of political and social sphere have been derived from the direct influence of Civil Society Organizations (CSOs). This attitude should continue," he added (*The Daily Monitor,* Addis Ababa, June 14, 2002). Prime Minister Meles Zenawi on his part said that the role of civil society is essential in making a sustainable development and integration in Africa. Meles noted that the success of African Union with NEPAD lies in collective efforts of all Africans at the grass root levels (*The Daily Monitor,* Addis Ababa, June 14, 2002). NEPAD also claims to be "people-oriented." Yet, NEPAD was "crafted" without consultation with Africa's NGOs and civic groups.

No civic group, church, political party, parliament or democratic body took part in its formulation. Only a small coterie of African leaders deliberated on the document, excluding the political leadership of the rest of Africa. In fact, most governments and civil society organizations in Africa first learnt about NEPAD from the western media when President Thabo Mbeki presented it in Davos at the World Economic Forum in January 2001 after a chaotic evolution. Then dubbed the Millennium Partnership for African Recovery (MAP), crafted by Presidents Mbeki and Bouteflika, it was merged with the Omega Plan, spearheaded by President Abdoulaye to create the Compact For African Recovery by the Economic Commission for Africa (ECA), which subsequently metastasized into NEPAD.

A furor erupted in Africa when it became clear that NEPAD was crafted more to placate Western donors rather than address issues of concern to the African people. On Jan 9, 2001, representatives of some 200 social movements, organizations and institutions, meeting in Bamako, Mali, issued "The Bamako Declaration," strongly condemning the lack of consultation with civic society. Another joust came in March 2002, when the Southern African Catholic Bishops Conference (SACBC) slammed NEPAD, calling the plan "ambiguous" and some of its proposals "dubious." The Bishops averred that "NEPAD may not achieve its purpose because of lack of consultation with those the plan would affect" (*Mail & Guardian,* Johannesburg. March 8, 2002). In fact, such has been the history of other grandiose initiatives and mega-plans announced by African leaders at various summits to address Africa's woes. Nothing is subsequently heard of them.

For real African development, the AfDB should:

A. Limit to 20 percent of its portfolio lending to African government ministries and agencies. The statist development model has not served Africa.

B. Limit its lending to countries on the verge of implosion. AfDB lost many of its investments to state collapse.

C. Focus on the informal and traditional sectors where the vast majority of the African people. Genuine economic development must come from small-scale projects and with micro credit, poor Africans can lift themselves out of poverty and prosper. On June 24, 2002, the BBC posted on its website the successful tales of three African entrepreneurs. The following is a short account of their stories.

Bamako, Mali: In the space of five years, Mariam Jaras Dirassouba rose from being a housewife to a bank manager. She had been unemployed with no access to credit and few opportunities to generate cash to support her family. Her story began when she and a group of Malian women started borrowing small sums of money of up to $50 from an Oxfam-backed local organization. With their loans, the women started money-making projects, including selling spices or kindling in the local markets. Their success led the women to demand training to set up a cooperative bank to help their friends and neighbors. When the number of women grew to 260, the bank was in a position to issue big loans of $1,000 or more to finance much more ambitious business plans, including a mango juice factory and a cloth dying business. Mme Jaras Dirassouba became the manager. Thus, the women gained the skills to access the formal banking system while giving other women the chance to borrow money to start out in business.

Kebemer, Senegal: Collecting rubbish gave a new financial freedom to a group of women in the small town of Kebemer. The women borrowed money to buy a horse and cart, employed rubbish collectors, and earn a salary by cleaning up the streets on a daily basis. Since the local authorities lacked funds, garbage piled up, causing illnesses among the children playing outside. When people saw the benefits of the daily service, they were willing to pay for it. The project has not only reduced health problems, but it has also created income and employment for 20 people. The idea of a new force of dustbin women was first conceived in 1998 and got off the ground after Christian Aid provided the loan for the first horse and cart. The women then earned enough money to buy more than 300 dustbins and 10 horses and carts, and employ administrators to organize the project, spanning 500 homes. There were profits left over to invest in new moneymaking projects, including traveling to Mauritania and Gambia to buy shoes for resale in their local towns.

Dekaya, Ethiopia: Bee-keeping is a traditional activity in Dekaya in southern Ethiopia, using hives made out of hollow logs. Farmers introduced more innovatively designed hives from Germany while still making the hive out of local wood. The improvements raised productivity, with each hive producing about 26 kg of honey, compared to the 3 kg produced with the old-fashioned method. About 150 farmers benefited from the new technology, after Action for Development provided technical training and the loans for the first hives to be used. The farmers then set themselves up as a cooperative, with the aim of securing their own loans from banks to buy new hives in the future. With such success, the children could go to school, have access to better accommodation, and one man has been able to build a new house with the money raised from selling honey.

The problem is, it is foreign charities which are providing these small but productive microcredit. I believe this is the area where the AfDB should be structured to be in, rather than providing loans to crooked African governments.

Thank you.

The CHAIRMAN. Well, thank you very much, Doctor, for that very comprehensive statement.

I suspect because of the inability to obtain this testimony from Treasury, we have not heard as much today as we might have on the European Bank for Reconstruction and Development and the Asian Bank. But nevertheless, the African Development Bank we have heard a good bit about. So I want to begin my questioning, because you have made some direct suggestions, Dr. Ayittey.

To what extent has the United States' contribution, the $460 million we are talking about for reauthorization next year, what percentage of the money is being furnished by the United States in one form or another, not just that reauthorization sum but the overall support of the bank?

Mr. RICH. Are you referring to the Asian Development Bank?

The CHAIRMAN. Yes. No. In this case the African Development Bank. Now, pardon me. Was the Asian Development Bank the one? The $460 million that had been mentioned.

Mr. RICH. That is what the Treasury is going to be requesting this committee to authorize in a few weeks for the Asian Development Bank.

The CHAIRMAN. For the Asian Development Bank. All right. And what was the authorization for the African Development Bank, or are we into the picture at all?

Mr. RICH. I am not sure of that.

The CHAIRMAN. In other words, I am trying to think of at what point——

Dr. AYITTEY. I think this year, for fiscal year 2004, the United States committed to provide $1 billion. I do not know how much of that will be going to the African Development Bank yet.

The CHAIRMAN. Now, $1 billion is for what?

Dr. AYITTEY. That is the total to the multilateral development banks.

The CHAIRMAN. For all the multilateral development banks.

Dr. AYITTEY. For all of them, yes.

The CHAIRMAN. But next year, it is your understanding, that $460 million is for the Asian Development Bank.

Mr. RICH. Yes. Well, that will be a 3-year authorization for the soft loan window of the Asian Development Fund. That is like the international development association for the World Bank. So they have a 3-year replenishment. So you will be asked to authorize about $460 million for the next 3 years, 2005 to 2008.

The CHAIRMAN. But the billion dollars, though, is approximately the American taxpayers' contribution to all the banks annually?

Dr. AYITTEY. Yes.

Mr. RICH. Yes.

The CHAIRMAN. So we are dealing, however, specifically next year with the 3-year authorization for the Asian Development Bank.

Mr. RICH. Yes.

The CHAIRMAN. But some money will be going to the African Bank and some money to the European Reconstruction Bank.

Dr. AYITTEY. And the Inter-American Bank.

The CHAIRMAN. Yes, and the World Bank.

Mr. RICH. I would like to point out that it is not just the actual paid-in money. It is approximately $1 billion a year for all the multilaterals, but there is a much smaller paid-in amount every year for a number of them for not the soft loan windows, but for the main lending facilities, like the International Bank for Reconstruction and Development and the World Bank. We pay in a little bit, but every dollar that we pay in every year, then I think in the case of the World Bank, there is something like $17 of a callable capital, which is basically a guarantee of the World Bank's loans from the U.S. Treasury Department.

The CHAIRMAN. That is the leverage effect.

Mr. RICH. That is the leverage effect. So that $1 billion is hard, paid-in cash, but then there are basically the guarantees, the potential liability of American taxpayers, which runs into many billions more through that leverage effect every year.

The CHAIRMAN. I suppose, in trying to grasp in my own mind's eye what sort of leverage the United States has with any of these banks—in other words, if we had only a small contribution and other countries all around the world are putting the capital into it, then we could get exercised in this committee about all of this and hear witnesses. But yet, the banks might very well say, well, that is your view, but on the other hand, the way the world works is our view, and we are still headed down the trail that we are headed down.

What effect does really what we are talking about here today have on potential conduct of these banks?

Mr. RICH. Mr. Chairman, I am glad you asked that question because it has a tremendous impact. The U.S. by far in most of these institutions is either the biggest shareholder or a co-equal as the biggest shareholder. In the Asian Development Bank, we are equal with Japan, approximately. Though it is true that the U.S. only pays in a certain percentage—like in the World Bank, I think it is 17 percent approximately and so on—what we say and do on the executive board really carries weight.

Let us take the example of this Asian Development Bank soft loan fund authorization for the next 3 years. I think this committee is best placed, almost in the world, to exercise leverage because if we threaten to withhold just a tiny percentage, that is the language that these institutions really understand. You can write them letters. As you point out, they have scores—in the case of the World Bank, over hundred—shareholders, and they do feel somewhat unaccountable. But if we threaten to withhold at least, unless we get better answers, better results through the U.S. Executive Director, just a small percentage of the funding, it has a leveraged effect because other countries then do not want to contribute quite as much because there is sort of a burden-sharing arrangement. If the U.S. contributes less, then why should they contribute their full share?

And secondly, it just sends the message. It is more difficult than dealing with a U.S. Government agency, but nevertheless, the U.S. representatives, the executive directors on these institutions can promote policy reforms. They can lobby and cajole the other board members to do things. They can point out that if things are not done, it is going to undermine the confidence of the U.S. Congress just to keep writing blank checks, and so on and so on. Because of our unique system in the United States where committees, such as the foreign relations committees, really do control the money with our division of powers, we are better placed than almost any other forum in the world to really make these institutions more accountable.

The CHAIRMAN. Mr. Rich, concentrate just briefly on the Asian situation as opposed to the African one, which we will talk about in a moment. To what extent are Asian countries seized by what Dr. Ayittey described as this culture of corruption? Are there a good number of instances among the clients of the Asian Development Bank that really have pretty good operations, that even if the oversight were a great deal more intensive, would pass muster? And to what extent are we dealing with a good number of clients, or how many, who really would not pass muster, who, as a matter of fact, if you make a government-to-government loan or a bank-to-government loan, you are likely to run into persons who are at the public trough?

Mr. RICH. Well, there is a way of getting a rough idea because Transparency International every year publishes a list of countries, and they poll hundreds and hundreds of businessmen, investors, and so on around the world and they create a perception of corruption index, a PCI index.

The CHAIRMAN. What is Transparency International?

Mr. RICH. Well, Transparency International is a nongovernmental organization. It is actually based in Berlin, but it is an international organization. It was originally formed by former World Bank executives who for years in the '80's and early '90's had tried to raise the issue of corruption in the World Bank to no avail.

Now, one must add that after Mr. Wolfensohn came in in 1996, he at least began to use the "C" word. What they are doing is not enough, but that at least was a step forward.

At the Asian Development Bank, I think they are almost in the pre-1996 years in that sense because they have not had that strong leadership.

So they formed an NGO to fight corruption, and one of the things they do—they have a web site and so on and they have national offices—is that they do this annual corruption rating risk, and they have a system that ranks countries from zero to ten. Ten is completely clean. Zero is totally corrupt.

What you find on this list for 2003 is that some of the Asian Development Bank's biggest borrowers, its top five borrowers both last year in 2003 and cumulatively, are among the most corrupt countries on earth. Indonesia is number 122 out of 133. Bangladesh is dead last at number 133.

In that atmosphere, what on earth can the Asian Development Bank do? I went into a lot of detail in my statement. But this has even been said to the Asian Development Bank's board by a couple of departing executive directors. Stephen Baker, who represented Australia and a number of other countries, in 2001 left the board, and he circulated a statement to the board and management of the ADB. He said, what do you do in this context? Yet, what the ADB can do, you start at home. You start by making your own loans and your own products as corruption-free as they can be. And this means having the highest standards, really putting resources and making it a priority, putting staff and resources to investigate corruption, make sure that the ADB loans and projects at least are leveraged islands of good practice that will then hopefully have a leveraged ricochet effect to promote good practice in these countries. This is what they do not do. So good housekeeping starts at home.

This is true of the World Bank too. They said, well, we are going to have technical assistance projects or loans for these countries. We are going to give seminars and all this. But then they have no idea—this is true in the World Bank. It is true in the Asian Development Bank. It is true in all—how much money is being stolen or leaking. They cannot even come up with a reasonable estimate of how much is disappearing in their own lending.

I think that is one thing that the committee could do through the U.S. executive directors of all these institutions. Surely, they will not deny that nothing is being stolen. It is common knowledge that a certain percentage is being stolen. Dick Thornburgh said that in his statement in one of his reports of the World Bank. He said a lot has been stolen in the past, and the bank did not begin to address this until 1996. You would think that any responsible business that was critical to its mission would be doing this.

So they have got to start by finding out a lot more and providing the taxpayers of the donor countries with some honest answers.

The CHAIRMAN. Well, logically if, as you say, after looking at Transparency International's ratings of countries—and you cited two of these—would the Asian Development Bank then make its loans to NGO's in those countries as opposed to the governments? And if so, is there a sufficient audit trail for NGO's that might do humanitarian work in those countries?

Mr. RICH. Well, I think you have to look at it on a region-by-region basis. I think in Africa, where the governments are particularly weak, I know that USAID for years, in fact decades, has funneled a lot of its resources through voluntary organizations like CARE, NGO's, and so on if you want to reach local people.

But I think it is also important to lend to governments but with very strict controls and to focus on administration rather than just pushing the money out because you have to find ways of strengthening these governments. You cannot have countries that are totally failed states and just leave them as failed states.

The way these institutions can do this is lend less, but pay a lot more attention to using specific loans as ways of building up capacity and monitoring that capacity within government ministries.

I think these institutions were set up to lend mainly to governments. They should be doing more with civil society, but you know, NGO's can be corrupt too. Anyone can set up an NGO. You might say internationally it is an unregulated sector.

The CHAIRMAN. Well, that is even more pessimistic if the NGO's likewise are corrupt.

But, Dr. Ayittey, you have mentioned 121 projects at the African Development Bank. Only two went to NGO's; 98 percent went to governments. And you have described most of these governments in a cultural crisis and some of the cusp of implosion I think is the word that you used.

Now, someone, just an ordinary person, listening to all this would wonder what are we doing. We are doing it obviously because both of you know—and you are in the field. You have been there for years—there are a lot of very poor people in this world, tremendous poverty, tremendous difficulty. So the humanitarian impulses of this country and the world are to help people. But what we are running up against, at least in the testimony today and even more so in the African Development Bank, is this is going to be very difficult to do, that is, making large loans to whom, and how do you bring about accountability. What do you say to that?

Dr. AYITTEY. Well, it is a very tricky problem and it is a dilemma. I fully appreciate your question.

But at the same time, we have to recognize the fact that you cannot loan money to build bridges, only to see the bridges blown up in an insurgency, for example. We always have to ask ourselves, whom do we want to help? Do we want to help the real people, or do we want to help the governments? The governments, as I indicated, are not accountable to their people. Only 16 African countries are democratic.

The CHAIRMAN. How do you get to these real people? How do you loan money to them?

Dr. AYITTEY. First of all, we need to have responsible, accountable governments in Africa. That is why political reform and economic reform is important. So why do we not tell the African Development Bank that you should never loan money to any government—let me backtrack a bit. This is why I said that it should limit its exposure to these corrupt governments to, say, 20 percent of its portfolio and focus more on the private sector. That is where the real people are.

Failing that, Congress can mandate and say the African Development Bank should not deal with governments which are not accountable or should only be in those countries which are democratic. Or Congress could say that the African Development Bank should not lend money to any country which is at the bottom of the Transparency International corruption index list, for example.

The CHAIRMAN. You make good sense, but you have also testified that only 16 of the governments of the 54 or so are democratic.

Dr. AYITTEY. Well, yes, so that we put pressure on the rest of them to democratize.

The CHAIRMAN. By not giving them money.

Dr. AYITTEY. Yes. Because the money is not going to help the people anyway.

The CHAIRMAN. Now then we try to get to the people in these places, but how do we do that? If these governments are corrupt and they are authoritarian——

Dr. AYITTEY. This is why we need to establish, let us say, both. Let us take Bangladesh, for example, where the Crimean Bank has performed wonderfully. It is important that we set up such micro-credit NGO's, say, in Africa.

The CHAIRMAN. Micro-credit is a way of getting at this.

Dr. AYITTEY. Yes.

Oxfam, for example, gave $50, a small loan, to a woman in Bamako, Mali, and she has been able to use small loan into something really big and putting up a bank herself.

The things which will help the real African people are simple, little projects and not the huge ones that are proposed by African governments. See, once the project is given to the African Development Bank, it funds it. Who gets the contract, the African Development Bank has no role in that. So if the minister awards a contract to his brother, for example, the African Development Bank has no control over that.

The CHAIRMAN. Yes, I understand that and I think we all do because you have testified very strongly about this. I am just still searching for the ray of hope in all this. 20 years ago, wandering through Indonesia, I saw micro banks and they were helping a good number of people who were in very small businesses. This was particularly designed for many women who were supporting families and had broken circumstances and what have you. But all told, this is fairly small amounts of money in a huge place. Now, ideally maybe with the new president of Indonesia, at least some signs are, that this is a hopeful new administration, and maybe, as you say, you offer some incentives. You sort of hold out this.

But then I am, I suppose, asking a question which is impossible for the two of you to answer. How do we in the United States Government, whether it is our Congress, our administration, or so forth, sufficiently influence what has been the administration of these banks so that they begin to turn around almost all of their policies in ways that at least we mutually today feel are more constructive?

Do you have a thought about that, Mr. Rich? And then I will turn to the Doctor here.

Mr. RICH. Yes. There are two parts to your question: what can be done and what is the U.S. role in particular.

I think because there has been a lack of critical analysis of what is going on in these institutions, and since the Treasury has not bothered to send the representatives, our statements have focused on the flaws and not on the potential.

But in Africa, we heard in Lesotho—we had this very dramatic testimony in July of Guido Penso, the chief prosecutor who was employed by the Lesotho government in a very poor country. But that was a country that felt it needed to address the corruption in that massive project. He pointed out that World Bank had supplied no financial support to them for this corruption investigation that they conducted.

I think there are a number of countries around the world, in Africa, even in the poorest like Lesotho, and much more so than in Asia, countries like Thailand and Sri Lanka, the two case studies I cite in my testimony, where on the one hand you have corruption, but on the other hand, you have growing movements of civil society. You have people in the government who want to be honest. In the Thailand and Sri Lanka cases, you have had supreme court cases. You have had attempts to bring legal actions for corruption in these two ADB projects. What is particularly scandalous is that the ADB itself provided the money and was at least a passive accomplice in the Sri Lanka example and may have been an active accomplice. They refused to investigate the corruption.

So the institutions can provide financial support for corruption investigations in these countries. And beginning at home in their own loans, they need to be much more aggressive and have much more resources devoted to investigating issues of corruption in their own loans. So that is something you could do——

The CHAIRMAN. I am just curious. On the Asian side, you mentioned the Japanese Government provides perhaps almost the same amount of support. To what extent has that government or its legislative branch been interested in these issues of corruption? Are they a potential ally with the United States in demanding really better accountability?

Mr. RICH. Well, I would say in the past, to be frank, a lot of people would say no. But I think Japan is changing too. Even in the finance ministry, there is a younger generation of bureaucrats and so on who will not stand for the old practices. So I think it is true in the Asian Development Bank. The head is traditionally a Japanese and the Japanese finance ministry provides a lot of the staff and so on. So that is an issue.

But Japan is changing too. We have worked with nongovernmental groups there in recent years that have been doing fantastic work. There is interest in the Japanese parliament. So, again, I think things there are beginning to change to.

The CHAIRMAN. It would occur to me perhaps the Japanese and their legislative branch would be interested in our hearings and our interest. Maybe the young reformers would find at least encouragement——

Mr. RICH. Well, that is a great idea and maybe we can talk with your staff afterward about how there could be a follow-up on that.

The CHAIRMAN. Yes.

Mr. RICH. That is a fantastic idea.

The CHAIRMAN. Because we are really talking about an international situation. We have a specific responsibility with American taxpayer funds, but at the same time, we are really talking about how the world deals with poverty and great distress in a better, sounder way.

Mr. RICH. The bottom line, these institutions—and everyone has said this—have great potential to really address these problems, and because of this, frankly, lack of due diligence—their primary fiduciary duty is, first of all, to see that the money is used for the purposes intended. It has reached alarming proportions, as we see in Africa and other countries where these projects are not performing. But I think there is a lot that can be done, but they have to change their focus. Again, the U.S. executive director to these institutions cannot do it alone, but if this committee sends much stronger signals, I think we will see more progress.

The CHAIRMAN. Doctor?

Dr. AYITTEY. I recognize the box in which this committee or Congress finds itself in terms of what can it really ask the multilateral development banks to do to improve the operational efficiency. But at the minimum, there are certain things that this committee or Congress can do.

First of all, since the U.S. makes contribution to the African Development Bank, it could require that the African Development Bank post at its web site, let us say, the performance of its portfolio, for example, which would be updated frequently. The last time I checked, the one which was there was 1997, which should not be acceptable to Congress, for example.

The World Bank has an operations and evaluations department which reviews the performance of its own loans and programs. Perhaps the African Development Bank could have such a department within itself. Or maybe better yet, it could have outsiders to do such operations evaluation.

As I suggested in my testimony, loaning too much money to the government sector crowds out the private sector, and loans to the government need to be limited. I pulled 20 percent out of the hat. Perhaps it could be less. It could be something like 15 percent. Every effort should be made to focus on the private sector. That is where wealth is created, not in the government sector. So it really makes little sense to keep loaning money to government ministries and agencies.

I have also indicated that certain guidelines need to be put in place.

I am speaking because a lot of money has been borrowed on behalf of the African people, and they do not have the capacity to pay. They had no say, none whatsoever, in how the loans were distributed, who acquired the loans, what the loans were used for, for example. So it is also in the interest of the African people have general accountability and also transparency, for example. As I indicated, President Obasanjo of Nigeria says African leaders have stolen $140 billion from their people.

The CHAIRMAN. I wonder, just to pick up your suggestion, if the committee today after this hearing writes to the African Development Bank and respectfully requests that they update their web site from 1997 to 2004 and put their portfolio there and how things are going. My guess is the first impression of the directors of the bank or whoever would be to wonder where in the world did this come from and why are these people that excited about what we are doing. But at the same time, I have noticed in these hearings, given the computers and the ability to draw up stories from all over the world, these hearings may have limited interest in the United States, but they have a lot of interest. The press is pretty free in a good number of these countries. As you have both pointed out, stories in the press in various countries have been raising these questions of their governments, but likewise probably raising them about us. Why are you contributing to this malfeasance? Why do you not have really more oversight and more control?

So I suppose what I am suggesting in the spirit of transparency, sort of going beyond the group in Berlin or wherever they are who do that sort of thing annually, that we might ask for sort of an update to see where things stand, and likewise, as a prelude, that others are interested in their business, that we need to see more accountability.

Dr. AYITTEY. Yes. I very much endorse what you were saying. A lot of people, even the African people, want to see transparency. They want to know what the loans, which were taken on their behalf, were used for.

The CHAIRMAN. We have been interested in this committee—and this is entirely outside the purview of our hearing today—in the African Growth and Opportunity Act. I have been the chief sponsor on the Senate side of this. A good number of very gifted House Members have done a great deal of work, and we had a signing ceremony with the President not too long ago in which he took a conspicuous position in behalf of this act and the beginnings of our thoughts about trying to finance free enterprise, private enterprise, in addition to grants. We are not negating the need for foreign assistance and outright grants, but we are saying, in essence as you are, that the development of the private sector in these countries is tremendously important. This is the first big initiative our country has taken, and we have renewed that at the request of all of the ambassadors here in Washington.

So there is intense interest on the edges of this issue, but because of the international aspect of these banks, they are beyond really the specifics of AGOA. That is our program. This is something to which we contribute, along with many others, and perhaps because the lines of control or oversight are more indistinct, perhaps the accountability has been lost.

But that is our purpose today, and I want to state that because some persons really do not like these loans at all. Let us take a look at the body politic of our country, and they would say, listening to all of this, why in the world did we get into all of this? Have we simply lost sight of where the American taxpayers' money ought to go? Now, that would be unfortunate if we take sort of a no, nothing, isolationist position and say essentially all of this is so corrupt, so hopeless, that until folks get their act together, why, we are just out of it, and when they do, we will come back into it.

Our thought today is a more proactive one of reform: how do you get things on track so that there is public support in this country for an international program, as well as elsewhere. And that is your intent, and that I think we need to focus on because I fear, given the track record that both of you are describing, much more so in Africa than Asia, but maybe sort of a race to the finish on that, this could be very discouraging almost to the point of people wondering, when the reauthorization comes or just the annual appropriation, whatever it may be, that amounts to $1 billion, this is a lot of money. In the post election season in this country, there is going to be a lot more scrutiny on our own deficit of $400 billion in this country and wondering why we are doing certain things I think with a great deal more rigorous examination perhaps than there has been before.

Dr. AYITTEY. Mr. Chairman, I understand. Please do not misinterpret my testimony as trying to discourage America from doing something for Africa. The intent of my testimony is to improve the operational efficiency of the programs. We want these programs to work to help the people. We do not want these loans to support corrupt and crooked governments. So that is why we want to shift the focus from supporting these governments to supporting the private sector. That is where the people are.

The CHAIRMAN. Let me just ask another question. We have had testimony here in our committee now about the HIV/AIDS program. We have had testimony about the World Food Program and the work that is being done. In fact, we had the directors, Mr. Morris and Mr. Tobias, of these two efforts in our country together on one occasion, and they discussed Zimbabwe, for example. This is a story all by itself of great difficulty and turmoil, which we will not get into. But here they were claiming that the average life expectancy of a person in Zimbabwe has been reduced by these twin factors of HIV/AIDS and hunger, and maybe some tuberculosis, from somewhere in the 60's to 37. Now, this kind of stark change in a whole country really has not been witnessed in percentage terms even in Russia, where we saw in the post-Soviet days for the Russian male the average longevity going down into the mid-50's. That was pretty shocking in a European country. But 37 and still falling.

So the consequences of all of this are horrible. They are not only severe, they really are almost beyond our calculation. And the need for relief for this is apparent. But even then, we are faced still with how to be intrusive enough, at a time of hope for reform or lack of reform or so forth, to get to people who are in need.

Now, to what extent could any of these loan trails follow the administration of, say, the food program or the AIDS program. Are there any channels in which somehow or other these things might come together? Because my judgment is that we are getting some effect from the hunger relief and from the HIV anti-viral drugs. It is minimal in some cases but constructive and we are moving ahead. I am just wondering if there is a flow path here that might be helpful in terms of the banks.

Dr. AYITTEY. Let me, please, make a short interjection, and that is, there is no question that AIDS is decimating Africa's labor force and it is going to stunt Africa's economic growth in the future. There is no question about that. It is a dreadful disease and it has taken its toll on economic development.

However, how do you deal with a disease? In fact, I testified before the advisory commission for AIDS, which was set up by President Bush. When this disease first struck in the early 1980's, African governments were in denial. They did not really take this thing seriously until it blew up. And then when they belatedly turned their attention to AIDS, they focused on the wrong side of the equation. They focused on the treatment side. It is a disease which has no cure, and I think given Africa's limited resources, in terms of financial resources, I personally think that it would have made far more sense to concentrate on the prevention side to try to save more people from becoming infected.

Now, if you provide Africa with all the resources that are needed like the anti-retroviral drugs, et cetera, the modern health care system in many African countries has collapsed. Many Africans, at least 80 percent of Africans, still rely on traditional medicine. So the traditional medicine men really play, in fact, a very important role in this disease as well. But so far in all these efforts we have ignored them, and I personally believe there is a cheaper way by which we can do more to help the AIDS suffers and also prevent the spread of this disease by embracing these traditional medicine men.

In fact, in South Africa it was the Sangomes who propagated the myth that if you have sex with a virgin, you would be cured of AIDS. And that led to all kinds of nasty incidents in South Africa. See, we learned from that lesson that if you do not bring them into the campaign against AIDS, they are going to create more problems. But we are learning from some of these new things.

The CHAIRMAN. Mr. Rich.

Mr. RICH. If I could just add something shortly to that about the role of the multilateral development banks. Well, we know that the World Bank has been providing loans for AIDS programs in a number of countries, like India, for example. But the problem there is financial assistance is desperately needed to help these countries support programs, and I would concur with Dr. Ayittey that perhaps different approaches need to be tried and there needs to be more communication among the various international agencies that are dealing with this issue. Getting countries more into debt for desperately needed public health programs is not the answer because this is desperately needed, but obviously these loans do not produce a financial return.

This administration has been trying to promote, rightfully so, more grant assistance of the multilateral development banks. Certainly in this area of public health, it would be much better if that assistance were given in the form of grants rather than loans which just increase the debt burden of these countries. Dr. Ayittey pointed out the collapse of the public health systems in a number of African countries, for example. Well, part of that was due to the high indebtedness of countries and then the very austere financial adjustment programs that they had to undertake to reduce government expenditures in all areas to repay their foreign debt. Now you have sort of a vicious circle, linked with the fact of countries getting more into debt.

The CHAIRMAN. Let me just add one further anecdote. I was in the country of Georgia in the latter part of August. Now, this is outside of Asia or Africa, as the case may be, but a very important friend of the United States where young people have, in essence, in the Rose Revolution brought about democracy.

Now, one of the most promising things they have done, which follows along your testimony today, is to note the culture of corruption in the country. This has led to the dismissal of over 85 percent of the whole police force of the country and hiring of new people who are not on the take, a recognition that it is wholesale, that it is everywhere, that it pervades everything that was going on in the place. That was true in the banks and it was true in the transportation system.

This is tough to do in a poor country. Their resources are extraordinarily limited and they have the disadvantage still of some Russian pressures, while I was there, President Putin, meeting with leaders of Abkhazia, one of the provinces that is still a part of Georgia and yet not really as much a part of Georgia as it needs to be, for example.

This is tough going, but it is something that the United States has to recognize when it occurs. I was pleased with the Millennium Challenge Account idea, Georgia appeared on the list of 16 countries that is eligible. There are rewards for these really heroic attempts to change this culture of corruption which occurs elsewhere outside Asia and Africa, I might add, quite apart from our concentration today, and stultifies almost anything that is occurring.

Now, as a part of this, it was my privilege to be part of a groundbreaking for a health situation in which Georgians are going to try to spot pathogens, biological and chemical pathogens, that might occur in the country, anthrax that might occur through agricultural origin, quite apart from weapons of mass destruction and so forth. But in any event, whenever this occurs, they will share strains of this with hospitals in the United States. We will work with them on antidotes for these situations. All of this comes really through our program dealing with weapons of mass destruction. It is not really appropriate for the cases we are talking about today, but it does highlight the fact that when our Government sees this issue of corruption and health and ways that we can be helpful and then the $15 million or $20 million that we are putting into this project is a grant. It is not a loan. So the people of Georgia are not further obligated, and that is an important point that you are making, the repayment of the situation.

This is why I have used this hearing sort of to broadly sketch or to think aloud with you, because you are expert witnesses, about various courses of action that we might think about. We will not adopt anything today, but the purpose of the hearing is to reach out.

Yes, Doctor.

Dr. AYITTEY. I would like to bring your attention, Senator, to some private sector solutions in Africa, for example, with commercial banks, for example. One of the ways which they try to limit corruption or bribery is to rotate their regional managers, for example.

The CHAIRMAN. Rotate the regional managers? How would that do it?

Dr. AYITTEY. For the culture of corruption to take root, the manager needs to build a network of friends, cronies, et cetera. So now and then you will transfer. This is done by a commercial bank in my country Ghana. Move them from one particular region to another region for, say, 2 years and then move them again. So one of the ways by which we can ensure this kind of independence and transparency, for example, and reduce this is not just commercial bank managers but perhaps the resident mission managers of the African Development Bank, for example. They stay in, say, Nigeria for 2 years and move them to Uganda for 2 years or, say, Ethiopia for 2 years. We can also do that with the governors of central banks in a region, for example. We can rotate them. The governor of the bank of Nigeria, move him to Ghana for 2 years, move the governor of the bank of Ghana to Kenya for 2 years, for example. In other words, when you start rotating, you try to minimize the extent of corruption.

The CHAIRMAN. I see your point. If we were directing these banks, we could start rotating these folks today, but as it is, we will need to suggest this I suppose, that if they are serious about this—and we presume they are—that this is a good way practically to break up these circles of cronies that come locally.

Well, let me ask for any final comment either of the two of you have. Yes, sir.

Mr. RICH. Thank you. I would just like to emphasize what you mentioned, that we have seen in a number of these countries, poor, small countries, Georgia, Lesotho, Thailand, Sri Lanka, heroic efforts going on within the societies, within the governments, within the legal system to fight against this. On the other hand, we have a situation, which I think is well documented in some cases, of these rather comfortable international financial institutions up to date having shown a reluctance and a passivity, relatively speaking, to really help these progressive forces in these societies, very poor societies that are fighting against corruption, not investigating the allegations corruption in their own projects, not giving financial support to the poorest of countries like Lesotho where you have investigations of corruption, and not at least showing the same concern with the cancer of corruption in their own institutions, in the multilateral development banks, that the people show in their borrowing countries, at least the progressive forces. This committee can do a fantastic service to these institutions and to the poor of these countries that are supposed to be helped by sending a clear message that things have got to change and at least to imply that this can be linked with, as you pointed out, the willingness and the confidence of American taxpayers just to be writing blank checks.

Dr. AYITTEY. One final point which I would like to bring to the attention of the committee, and that is the two most effective antidotes against corruption are, number one, the free and independent media. A free and independent media exists in only eight African countries.

The CHAIRMAN. Eight?

Dr. AYITTEY. Eight African countries.

The second antidote is an independent judiciary to enforce the rule of law. This is lacking in the vast majority of the African countries.

The CHAIRMAN. A good point. We heard earlier on that sometimes newspaper stories raise these issues. They were not persuasive but they raise them, and the fact that there was this transparency locally, quite apart from international bankers or us, was probably even more important.

Well, we thank both of you for your very thoughtful testimony and responsiveness to our questions and our probing and our thinking aloud together today. We are hopeful that as we continue our work, that you will be available and will work with us.

Dr. AYITTEY. Thank you.

Mr. RICH. Thank you.

The CHAIRMAN. Thank you very much, and the hearing is adjourned.

[Whereupon, at 4:08 p.m., the committee was adjourned.]

APPENDIX

THE AFRICAN DEVELOPMENT BANK: A RARE SUCCESS ON A TROUBLED CONTINENT

Submitted by Don Sherk, International Economic Consultant and Former United States Executive Director to the African Development Bank

I. SUMMARY

The United States has a major interest in the African Development Bank to a large extent because it is unique. This uniqueness stems from the Bank's still strong pan-African roots, from the Bank's visible emergence as a professionally staffed and well-managed institution in a continent subjected to multiple crises and perhaps the world's greatest concentration of absolute poverty. And it is unique because for nearly twenty years the United States sat on the sidelines, it was not a member. Unlike the World Bank and the three other major regional development banks, the Inter-American Development Bank (IDB), the Asian Development Bank (AsDB) and the European Bank for Reconstruction and Development (EBRD) the United States was not a founding member of the AfDB. Together with its industrial country partners of the OECD the United States was deliberately excluded from membership in the Bank. Non-African membership in the AfDB would not occur until 1982, nearly two decades after the Bank's opening.

The reasons for this exclusion can be found in the "mind set" of the leaders of the newly independent African nations in the early 1960s. The Bank's founding members put great stock in maintaining the Bank as an African institution. They were well aware that this "go-it-alone" attitude would seriously reduce the resources available to the Bank for the economic and social development of the continent. However they wanted the African Development Bank to be their own bank, not another northern-controlled institution that just happened to have African members. And this strong desire for an independent, authentic African institution remains active some thirty-seven years after the Bank was begun.

Where is the Bank today? if the AfDB were held up against the World Bank and the other regional development banks (the IDB, the AsDB and the EBRD) and compared by any common standard of business efficiency, the Bank would most likely be ranked on the bottom. But if a more relevant yardstick of achievement and maturity were employed measuring how far the Bank has traveled in its thirty-seven year history, in what is easily the most difficult working environment on earth, it would probably be ranked first. This paper addresses this unique institution, it historical roots, its curious membership pattern and its recent reform efforts. How the United States has dealt with this changing institution is central to the account.

II. INTRODUCTION

The African Development Bank's history marks it as a unique experiment in North-South relations. Having been established in 1963,[1] literally months after many African states had emerged from colonialism, its founders intended the Bank to be exclusively a pan-African institution. Although the Inter-American Development Bank and the Asian Development Bank, founded in 1959 and 1966 respectively, were created, in part, as a reaction to the industrial countries' dominance over the World Bank, each of these two regional development banks built in impor-

[1] Meeting in Khartoum, Sudan, in August of 1963, a majority of African finance ministers approved the agreement establishing the African Development Bank and opened subscription to the Bank's capital. The agreement entered into force in September of 1964 when 65 percent of the Bank's authorized capital was subscribed by twenty African nations. (Today there are 53 African members and 24 non-African members for a total of 77.) The management and staff moved into its present day headquarters (Abidjan, Ivory Coast) in March of 1965 and in April of 1967 it approved its first two operations: an equity participation in the National Development Bank of Sierra Leone and a transport loan to Kenya.

tant roles for the developed countries. Not so for the African Development Bank. The AfDB was conceived as a bold, some said fool-hardy, gesture of African solidarity and self-sufficiency. The founding members of the AfDB, themselves only recently independent, did not want to create their own bank only to turn around and re-establish a new and all-to-familiar, financial dependency on their former colonial rulers. Consequently their bank would be independent of northern financial links. This self-enforced financial autonomy, quickly showed itself in the resource flow to the African continent, in dramatic contrast to its sister institutions the IDB and the AsDB.

III. PAN-AFRICAN EXCLUSIVITY

Seen from today's vantage point one could be forgiven for failing to grasp the intensity of newly independent Africa's insistence on autonomy. But with leaders such as Nkruma, Toure and Nasser fervently advocating "nationalism" as the correct course for post-colonial Africa, the mood of the times clearly was one of "stand alone independence". In the words of one of the Bank's early presidents, Kwame Fordwar "The bank was an expression of African determination to help itself and to demonstrate that it was free of its colonial-period dependence on non-African and largely imperialistic economic influences. For those of this view, to open up the bank (and admit non-African states) was precisely to admit that it was impossible to give concrete expression to this determination in economic terms. For them it was a total negation of a passionately held ideology which had inspired and sustained many of them through several years of often violent anti-colonial conflict."[2]

From the very beginning there were a few African nations who predicted that pan-African exclusiveness for the new Bank would mean severely limited resources and probably a more ideological bank than would be the case had the industrial north been invited to join as was the case for the Asian and Inter-American Development Banks. But these countries, notably Ghana, Uganda and the Ivory Coast, were no match for the powerful oil-rich countries of Nigeria, Libya and Algeria and the die was cast. When the Bank's capital was finally opened to non-regional members nearly two decades later (1982) Libya and Algeria maintained their strong opposition but Nigeria changed its vote allowing the motion to finally pass. The three countries were able, however, to influence the terms and conditions that would be applied to the non-African states when they did finally join the Bank. (*See* "The Opening of the Bank" in Section V.)

IV. THE EARLY YEARS:

Of the three regional development banks the African Development Bank was capitalized by the smallest amount: $250 million as compared to $1 billion for the IDB and the AsDB. By 1968 initial AfDB subscriptions took up $218 million of which 50 percent was to have been paid up front in convertible currencies. However, given the financial shape of most African states, this turned out to be unrealistic and the AfDB ended up with 25 percent of the subscribed capital actually paid in. The Bank's limited initial capitalization significantly crimped its early lending potential. The Bankconsequently got of to a very slow start. Disbursements through the end of 1969 totaled less than $1 million. And for the period 1970 to 1972 AfDB loan approvals were averaging only $21 million compared with $685 million for the IDB and $272 million for the AsDB.[3]

AfDB lending continued to grow slowly in its early years. From 1967 through 1972 cumulative loan approvals totaled only 74 million Units of Account.[4] And over its first ten years of operations (1967–1976) the AfDB Group approved only 153 loans for a aggregate commitment total of roughly $327 million, (slightly more than 1.1 percent of the World Bank Group's 1999 lending level) an average of $2.14 million per loan. AfDB Group lending didn't really begin to reach significant levels until the Bank's third five-year operations period, 1977–1982, when total commitments for the period reached $952 million, nearly three times lending in the first ten years of Bank operations.

The Bank's early lending was concentrated in transport, telecommunication and power projects accounting for over 60 percent of disbursements to all sectors for the

[2] Kwame Fordwar, 1981, The African Development Bank: Problems of International Cooperation, New York, Pergamon Press, p. 116. Quoted in Karen A. Mingst, 1990, Politics and the African Development Bank, University Press of Kentucky, Lexington, Kentucky.

[3] AFDB lending data obtained from English and Mule, The African Development Bank, 1996, The North-South Institute, p. 20.

[4] From its inception the Bank chose to denominate its loans in the Bank Units of Account. Since 1971 a "BUA" has been the equivalent of one SDR.

years 1967–1976. By the mid-seventies lending to agriculture had taken over as the principal lending sector for the Bank. Over its entire history (1967–1998) agriculture has remained its leading sector accounting for 23.1 percent of cumulative Bank Group[5] loan approvals against 21 percent for public utilities, 16.3 percent for transport and 15.8 percent for industry.

The early years of the AfDB clearly set the Bank apart from the other MDBs. Many of the Bank's early loans were co-financed operations where the AfDB was called on to serve primarily as a financier. In other cases the Bank financed projects already identified and pre-appraised by other international agencies such as the FAO, ILO and UNESCO. This allowed the Bank to compensate for its still limited staff and limited project experience. There was no "country programming" to speak of, macro-economic reviews of individual countries were practically non-existent and sector studies were rare as well. An allocation formula was employed to ensure that the Bank was not seen as favoring one African region over another.

The importance of an even distribution of lending across the continent is instructive. In an institution in which the President is democratically elected (i.e. not the exclusive choice of one country ala the World Bank and the Asian Development Bank), being seen as discriminating against one region or another could have severe political consequences. The "right" to borrow from Africa's Bank was seen by the AfDB's regional members as one of the distinguishing features between the AfDB and other MDBs. It is also true that once the non-regional members of the Bank took on a more influential role and called for the employment of performance standards in the allocation process (especially the case with respect to the AfDF) this proposal was opposed by most African members as being somehow "un-African".

V. NON-AFRICAN MEMBERSHIP

A number of factors contributed to the erosion of African sentiment for remaining an "African-only" Bank. First, those African oil-exporting nations indicated their unwillingness to fund substantially higher levels of lending activity. Second the development model that had enamored most of Africa in the Sixties—import substitution, state enterprise, foreign investment controls and an anti-private sector bias—began to be examined more critically. Finally, the proven success of the IDB and the AsDB in being able to increase substantially resource transfers to their respective regions without necessarily "selling out" their institutions to the industrial northern countries conveyed a practical lesson to many African shareholders.

It was therefore no great surprise to find the AfDB beginning to tentatively explore the possibility of tapping the financial resources of the OECD countries to establish a concessional fund. As early as 1968 the Bank contacted a number of donor countries including the United States to solicit support for such a fund. The Soviet Union and a number of eastern-bloc countries were also approached. Initially these approaches failed to generate much enthusiasm from either side. However the mood, at least on the part of the OECD countries, soon changed and more positive signals were received.

After nearly three years of discussions and negotiations, both outside and within the Bank, a draft agreement was produced calling for the establishment of an African Development Fund (AfDF) The final AfDF agreement was signed by the AfDB and 13 non-regional "State Participants" in Abidjan in November, 1972. Total initial contributions to the Fund came to only $83 million including a token $5 million contribution from the AfDB.

Fund operations began in 1973 patterned after the World Bank's soft loan window, IDA. The terms established for AfDF loans were much like IDA terms, fifty-year maturities with ten years grace and a service charge of 0.75 percent. The funds raised in the initial round of contributions, $83 million, were to be used over the years 1973–1975. This limited funding was justified by some as an amount that would allow the donors to become familiar with the AfDB but was not enough to make more than a small dent in Africa's growing appetite for concessional funds. Consequently for the first replenishment of the new AfDF the Bank asked its donors for the amount of $300 million. Two new donors joined the original 13 and the Bank was able to raise $295 million for the years 1976–1978. The second replenishment of the AfDF saw another doubling reaching $667 million raised from 21 donor countries.

To run the AfDF, a separate board of directors was established with 50 percent of the vote allocated to the contributing non-African countries and 50 percent allocated to the AFDB proper, allowing the regional members to be involved in Fund

[5] With the launching of the African Development Fund (AfDF) and the Nigerian Trust Fund (NTF) in 1973 and 1976 respectively, the AfDB was referred to as the AfDB Group.

operations via their position in the Bank. The non-African AfDF board members were only given authority in dealing with AfDF matters and thus the Bank itself remained a fully African institution. The new AfDF board was composed of six non-regional directors and six regional directors representing the AfDB, for a total Fund board of twelve.

The Opening of the Bank

Between the establishment of the African Development Fund in 1973 and the official opening of the Bank's capital to non-African nations in 1982, the subject of non-African membership was rarely off the Bank's radar screen. Beginning with the Bank's seventh Annual Meeting held in Kampala, Uganda in 1971 and carrying right through the 1978 annual meeting held in Libreville, Gabon, the subject was constantly intruding on Bank business. On five separate occasions a vote to admit non-African states into the AfDB was taken, and on five separate occasions it was defeated. However, the vote against opening the Bank's capital to non-regionals was dwindling with each subsequent vote. Finally Nigeria broke ranks with the opposition and the opening was approved.

"African Character of the Bank"

When agreement was finally reached it carried a very important proviso, to wit: non-African membership was approved as long as the "African Character of the Bank" was maintained. It would take four and a half more years before full agreement was reached and the opening of the Bank's capital became effective in December of 1982. Much of this time was occupied in the often-heated debate over exactly what was meant by the "African character" of the Bank and how to maintain it. What the African character is, and what it is not remains a subject still very much with us today.[6]

The precise terms of entry were laboriously crafted involving numerous compromises on each side. AfDB management sought to assure African members that the introduction of non-African states into the Bank could be done in such a way as to allow the control of the Bank, for all practical purposes, to remain in African hands. These assurances were build upon changes in the Articles of Agreement that would limit the kinds and types of influence the non-regionals would have. These changes included the following points:

(1) The President would always be a national from a regional state;

(2) The Bank's lending operations would be confined to Africa;

(3) The Bank's headquarters would always be located in Africa;

(4) Regional members were guaranteed a majority of 66.66% of the votes;

(5) The Board of Directors would be composed of 18 members, 12 of whom would represent regional member countries;

(6) Recruitment policy will be formulated to preserve the regional character of the organization (*i.e.* the vast majority of the AfDB staff was to be African with staff coming from the non-regional states to be limited to a token representation;[7]

(7) Non-regional membership should not result in reduced contributions to the AfDF;

(8) Non-regional membership should not entail modification in the Bank's established policy of using only economic criteria in its loan decisions;[8] and

(9) The AfDB's annual meeting should always be held in a regional member country.

A non-African can appreciate the nervousness and uncertainty that greeted the brand-new non-regional executive directors when the newly opened AfDB held its first board meeting in January of 1983. In spite of the specificity of the above amendments, much remained unclear. When was the African character placed in jeopardy? What types of decisions, what types of activities and what types of loan

[6] For one of the best descriptions of the exhausting negotiations over the issue of non-African membership in the AfDB please see: Mr. I.K.N.E. Peprah, "The African Development Bank: Taking Stock and Preparing for the 21st Century," C.C. Consulting Ltd. Ottawa, Canada, 1994.

[7] As of December 1998 there were 978 staff members of the AfDB Group. Of this number 869 were from regional member countries and 109 from 24 non-regional countries or 11.15 percent, or roughly 4.5 nonregional staff members per non-regional countries. AfDB 1998 Annual Report, p. 56.

[8] *See* Peprah, *op. cit.* pp. 18–21.

conditionality might threaten this elusive concept?[9] As in any new organization, both sides had to feel the other side out and become comfortable in their collective decision-making responsibility.

Joining AfDB as a "minority shareholder" was especially hard for the United States. The U.S. ranked as the lead or co-equal shareholder in all the other MDBs: The World Bank, the Inter-American Development Bank, the Asian Development Bank and the European Bank for Reconstruction and Development. Although the U.S. couldn't dictate policies and procedures in these multilateral institutions, it was able to exercise considerably more influence on the Banks than other shareholders. This was not true in the African Development Bank.

Because the United States, under the terms of the 1982 agreement, was required to share 33 ⅓ percent of the AfDB share capital with twenty-three other non-African states, it was limited to 5.8 percent of the capital. This placed the U.S. second to Nigeria in terms of voting strength. Subsequently Egypt acquired additional shares under the Bank's share transfer rules and moved from third to second place behind Nigeria. Consequently today, the U.S. is the third leading shareholder with 5.6 percent of the Bank's capital. The top ten shareholders of the AfDB presents a unique mixture bearing on the subject to be considered next: influence and the AfDB.

Leading AfDB Shareholders*

Country	Percentage of Total Shares
(1) Nigeria	9.7
(2) Egypt	5.8
(3) USA	5.6
(4) Ivory Coast	5.0
(5) Japan	4.6
(6) Algeria	4.0
(7) Morocco	3.7
(8) Libya	3.6
(9) Germany	3.5
(10) France	3.2**

* 1998 AfDB Annual Report, African Development Bank, Abidjan, Cote d'Ivoire, 1999, p. 30.
** Tied with Canada.

The AfDB in Flux

The most obvious change non-regional countries made in their first few years as members of the African Development Bank was in the level of resources. Non-African membership in the AfDB brought significantly larger soft-fund replenishments and dramatically improved access to the major capital markets of the World. With the callable capital of the industrial OECD countries now available to serve as a funding guarantee, the AfDB could approach the capital markets on terms not significantly dissimilar to those given to the AsDB and the IDB.[10]

With a substantial fourth replenishment of the African Development Fund amounting to $1.45 billion agreed to in May of 1984 to cover the period 1985-1987 the AfDF was able to expand its lending significantly. Then in November of 1986

[9] The author served as only the second U.S. executive director after the opening of the Bank's capital to non-regional members. The years were from 1985 to 1989. Even after the initial two years of working together as a board for the full Bank Group, there were numerous examples of splits along regional/nonregional lines accompanied by charges and counter-charges concerning the "African Character" of the Bank. These differences would become completely overshadowed by a major political crisis hitting the AfDB in 1994 involving some regional board members and the President. Following the election of a new President in 1995 and the departure of all of the long-serving regional board members there now does seem to be a new constructive spirit of partnership among both regional and non-regional directors.

[10] The key investment rating firms acknowledged the importance of non-African participation in the AfDB by rating their debt. In January and February of 1984 first Fitch Investor's Services, Inc. and then Moody's Investor's Services, Inc. rating AfDB senior debt as Triple A. Standard and Poors, the other leading investment rating firm, rated AfDB senior debt as Double A plus. However, in 1990 S&P upgraded the AfDB rating to Triple A matching the Bank's other ratings. Then in 1995, reflecting the Bank's arrears situation and its governance problems, S&P reverted to the Double A+ rating for the Bank's senior debt.

an AD HOC Committee on the Forth General Capital Increase, appointed by the Bank's Board of Governors, approved a 200 percent increase in the Bank's capital.[11] This raised the authorized capital of the AfDB from $6.3 billion to about $23 billion.

AfDB Group lending grew dramatically in the last half of the 1980s, from $1 billion in annual commitments in 1985 to a record of $3.3 billion in 1990. Much of this expanded lending came about through the advent of "policy-based lending" that allowed the Bank to engage in fast disbursing structural and sectoral adjustment loans. At the insistence of the AfDB board of directors, most of this type of lending was expected to be directed toward co-financed projects in cooperation with the World Bank. Another indication of the rapidity by which the AfDB Group expanded it lending in the late 1980s can be seen from the fact that from 1986 to 1990 AfDB Group lending increased by a total of $12 billion. Lending for the period 1967 to 1985 resulted in cumulative lending of a little more than half that amount at $6.8 billion.

The period 1983 to 1990 might be correctly referred to as the Bank's "honeymoon" period. The "marriage" between the regionals and non-regionals went relatively smoothly. There were, from time to time, differences that surfaced between how the Bank could best promote African development. Regional executive directors (E.D.s) expressed frustration with the approach taken by some of the non-regional directors over how detailed the loan approval process should be. Regional E.D.s saw the primary purpose of the Bank being the transfer of resources to the African countries. Non-regional E.D.s saw their responsibility as being the detailed examination and evaluation of each individual loan that the Bank's management proposed. Regional E.D.s thought that the function of project "post-evaluation" was of marginal value absorbing too large a share of AfDB staff and budget resources. Non-regional E.D.s wanted the post-evaluation function elevated in importance and advocated that the director of post-evaluation report directly to the Board and not the Bank's President. One particular loan intended for the Bank's host country, the Ivory Coast, was seen as inadequate in several respects. When it appeared that the Board might be intending to reject the project, an appeal to African solidarity reaching the level of heads of state resulted in a majority vote in favor of the project over the unanimous objection of the non-regional directors.[12] However, such clear divisions of position were rare. But when they did occur, there was no question which side would win as long as the voting structure remained two-thirds to one-third.

Undoubtedly the Bank Group in its eagerness to expand lending commitments to record levels let some loans slip by that should have been cancelled or substantially redesigned. Non-regional E.D.s in their desire to appear as good junior partners in a unique multilateral institution, often went along with loans and programs they might have resisted more strongly in another institution.

A more serious problem was the credit policy employed by the Bank in the l980s. The management of the Bank adopted a policy that allowed African countries with low levels of per-capita income to borrow on Bank terms when the resources in the Fund were considered inadequate. As a result, some of the extremely poor African countries, countries that would be considered only "IDA eligible" by World Bank standards, took on AfDB debt with the corresponding higher interest rates and shorter maturities. The Bank board changed the credit policy to that employed by the World Bank in 1995 but it was too late and the Bank's arrears problem was intensified more than it needed to have been.

Still few saw the AfDB's problems as fundamental. A tightening of the lending process with some improvements in the Bank's operational procedures were thought all that was necessary. And with the plentiful resources provided by substantial AfDF replenishments and by the record 200% capital increase, there was sufficient reason for the non-regional and regional executive directors to cooperate and get along. All this changed with the publication of the "Knox Report." [13]

The Knox Report

From 1992 through 1994 the three regional development banks followed the lead of the World Bank in assembling expert teams to review their own lending portfolios. The World Bank's report was known as the Wapenhans Report after the

[11] This "AD HOC Committee" was established by the AfDB Governors at the 1986 Annual Meeting in Harare, Zimbabwe, May, 1986. The capital increase was approved by the Governors' vote at the 1987 Annual meeting in Cairo, Egypt, June 1987.

[12] Normally votes on individual loans were rare, with the President seeking "consensus" prior to a final decision. In the case cited above a recorded vote was called for by an executive director.

[13] The Knox Report is the shorthand reference for "The Quest For Quality: Report of the Task Force on Project Quality for the African Development Bank, April 1994. The Chairman of the task force was David Knox, formerly World Development Bank Vice President.

former World Bank Vice President, Willi Wapenhans. The report caused a sensation as it found a serious deterioration in project quality at the World Bank. Coming from staff from within the World Bank its conclusion that the Bank was more interested in quantity of new lending than in quality of its individual loans was seen as confirmation of the concerns of many observers outside the Bank.[14]

Because of the widespread concern generated by the Wapenhans Report, the Asian Development Bank, the Inter-American Development Bank and the African Development Bank all launched in short order their own portfolio reviews. Although the findings in each of these reports were roughly similar, the Knox Report on the AfDB was the most critical and hard hitting.[15] After reviewing the Bank's internal systems and procedures, conducting numerous interviews with staff and with client country officials and reviewing available documentation on project evaluation, the Knox Committee began its report with the following direct statement: "The African Development Bank is facing serious problems of quality of lending." In the report's prologue it identifies three main problems needing to be addressed urgently: "First, the Bank is pulled in all directions by conflicting goals and attitudes of its shareholders. This is perhaps the most important cause of the Bank's inability to deliver quality sustainable project support to Africa. . . . Second, the gap between the Bank's lending policies and procedures and its practice. There are areas where policies and procedures could be strengthened. But, broadly speaking, they are sound. The problem is that they are not applied or not applied consistently . . .. Third, the Bank has a great asset in the trust of its borrowers who look to it as an African institution to help overcome their problems. But, as borrower after borrower complains, the Bank is absent when it should be present."[16]

The AfDB took the report's findings to heart and immediately began to reform its operational procedures along the lines of the report's recommendations. An action plan was established and the Bank began to issue six monthly reports on the progress in implementing the called-for reforms.[17] Particular attention was given to the role of post-evaluation in helping the Bank avoid problems identified with earlier funded projects. Also, because the Knox report made much over the inadequate project supervision, the following year's administrative budget devoted significantly greater resources to this function than heretofore. Other areas of concern highlighted in the Bank's response to the Knox Report, entitled "The Action Plan for Improving the Quality of Bank's Operations" are portfolio review, lending policies and practices, resources and organization, and the Bank's operational culture.[18]

A complicating factor for the Bank in the immediate follow-up to the 1994 Knox Report was the emergence of a political crisis, having little if anything to do with the presence of non-regional members, impacting on the Bank's governance structure. Here a dispute between the Bank's former President and certain long-serving regional executive directors tended to immobilize the Bank precisely at the time that shareholder countries were looking to the Bank's board and management for evidence of reform. Was the Bank moving seriously to address the weaknesses outlined in the Knox Report? To get their message across, the principal AfDF donor nations postponed funding the AfDF for one year effectively stopping concessional lending in 1994/1995. As a consequence AfDB Group lending for 1995 plunged to 46 percent from its 1994 level (UA 450 million) continuing the sharp downward trend starting in 1992.[19]

[14] The World Bank, Effective Implementation: Key to Development Impact, Oct. 2, 1992.

[15] The Knox Report has received considerable praise for its forthright statement on AfDB weaknesses. For example in English and Mule's book entitled: The African Development Bank, the North-South Institute, Ottawa, Canada, one finds the following statement: "Only thirty-five pages long, it is probably the most complete critique of the ADB Group to date, and certainly the most credible." p. 34.

[16] The Knox Report, pp. 1–2.

[17] The AIDB 's response to the findings and recommendations of the Knox Report was contained in "The Action Plan for Improving the Quality of Bank's Operations." (AfDB, May 11, 1995)

[18] Action Plan, *Ibid.* p. 2.

[19] The sixth replenishment of the AfDF was originally scheduled to amount to $3.42 billion but shortfalls in contributions resulted in an amount significantly lower at $2.96 billion. These AfDF resources provided concessional funding for the years 1991–1993. Funding for AfDF VII to cover the years 1994–1996 was delayed considerably beyond its intended start time and wasn't approved until mid-1995 at a much reduced level of approximately $1.5 billion. As a result concessional fund lending dropped from $894 million in 1993 to $45 million in 1994 and $128 million in 1995. It was not until 1997 that concessional lending would rebound to earlier levels when AfDF VII resources became fully available. As a sign that the AfDF deputies were satisfied with the reform efforts undertaken by President Kabbaj, agreement was reached in January 1999, to replenish the AfDF by an amount of approximately $3.1 billion.

The Bank got back on track in late 1995 with the appointment of a new President, Omar Kabbaj from Morocco, and the departure from the board of several long serving executive directors. The AfDB's Board of Governors subsequently instituted a two-term limit for board members and for senior management. Other significant changes of note under the Bank's Action Plan included the separation of approximately twenty percent of the staff (225), the appointment of 54 new managers and a major reorganization of the Bank. In April of 1995 the Governors of the AfDB adopted a new credit policy for the AfDF putting the fund on the same footing as IDA. This policy has substantially reduced the number of countries eligible to borrow from the Bank, limiting them to the smaller AfDF resource pool.

VI. AMERICAN INFLUENCE IN THE AFDB

How can the results of sixteen years (1983–1999) of participation in the African Development Bank be summed up? On balance the Bank is a much more professional institution today than when the U.S. joined.[20] The Bank has adopted poverty alleviation as its "central goal". It has incorporated into its project design processes gender considerations, environmental review, private sector support, and civil society participation in its country assistance planning. In addition the Bank has committed itself to promoting "good governance" to include respect for the rule of law, accountability, financial transparency and "fighting corruption."[21] This mandate and its components have been strongly promoted by the U.S. and its G–7 allies. Changes in Bank policies and practices reflecting these goals have all been adopted over the course of the last several years. For a "minority" shareholder this is not a bad record.

But there is a risk that the U.S. sometimes attempts to overloan the influence "circuits" by trying to obtain too many changes and not allow the new policies to make themselves part of the Bank's permanent landscape. Two appendixes to this paper are meant to convey how influence can be either effectively utilized or squandered. The primary methods of influencing any multilateral institution are listed in Appendix A. Appendix B lists the sort of goals or changes the U.S. has sought in all the multilateral development banks going back to the late Seventies. The goals listed range significantly from the petty to the major themes of development policy. If influence of any member of a multilateral organization can be thought of as a finite asset, then clearly the more "noneconomic" goals sought the less likely a country can employ its influence to achieve institution changes that reflect on the major development issues of our time.[22]

Moreover, if the focus is on U.S. participation in a regional multilateral development institution such as the African Development Bank, the question has to be asked, what is the trade-off between institutional uniqueness and achieving changes in the policies and practices of that institution. With 5.8 percent of the vote in the AfDB, the U.S. has made this relatively small voting share accomplish a very respectable record. But a line does exist where the voting strength will begin to decrease in effectiveness as the goals sought are seen as more and more peripheral.

Through its membership in the African Development Bank the U.S. is buying participation in what is seen to be the most respected multilateral development institution in Africa. In the words of the Bank: "This pan-African ownership, governance structure and staffing have made it possible for the Bank to accumulate unique experience and institutional memory of development possibilities, and constraints in Africa . . . In the area of governance the Bank is generally accepted as a trusted partner on politically sensitive issues of governance and thus has a special role to play."[23]

Is this important to the United States? Is an institution such as the AfDB capable of assisting Africa move toward sustainable development, working for the elimination of conflict situations that seriously erode the strength of involved countries, helping deal with the widespread AIDs crisis, and a host of other challenges confronting the continent in the 21st century? I think the answer to both is an unequivocal yes. There is an added benefit that in the United States is often overlooked. Learning to operate effectively in an international, uniquely African, institu-

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[20] A sampling of World Bank staff who have had dealings with the AfDB will bear this out.

[21] AfDB, "The Vision of the African Development Bank", 1999, Abidjan, Ivory Coast.

[22] Most OECD members of the multilateral development banks believe the United States pursues far too many objectives in its dealings with MDB managements. Combine this with a record of rarely contributing its pledged amounts to soft fund replenishments of capital increases on time and the message becomes clear. The United States risks losing its recognized influential voice in the most important multilateral development finance institutions in the world.

[23] AfDB, Vision Statement, *op. cit.* p. 3.

tion as a minority shareholder is not inconsequential. It is a skill that will serve the nation well in the years to come and it needs to be strengthened.

APPENDIX A

Shareholder Influence on the MDBs

(1) Meetings With MDB President and Senior Management
(2) Annual Meeting Speech
(3) Initiation and/or Review of MDB Policy Papers
(4) Proposing Select Nationals for Key Staff Positions
(5) Visits to MDB Headquarters:
(A) Governmental
(B) Private Sector
(C) NGOs
(D) Misc.
(6) Replenishment Negotiations (Linking Specific Demands to Potential Contribution Levels, *a la* IDA 12 and AfDF 8)
(7) Consensus Building With Like-Minded Shareholders (i.e. G–7 Meetings or Nordic Bloc)
(8) Co-Financing Partner Influences (Bilateral Donors/Private Sector)
(9) Board Controlled Review Committees/Functions: Evaluation, Audit, Inspection panel, etc.
(10) Overseas Networks: Diplomatic Posts, Aid Missions, Private Sector
(11) Capital Market Entry (Authorization to Enter)
(12) Instructions to Executive Directors (Abstentions/No Votes, Comments)
(13) Meeting Payment Commitments (IDA Tranches, etc.)

APPENDIX B

Shareholder Influence Objectives (What Shareholder Influence Gets "Spent" On)

(1) Gender Issues
(2) Appropriate Technology
(3) Micro-Credit Designs
(4) Basic Human Needs (BHN)
(5) Poverty Alleviation
(6) Environmental Policies
(7) Environmental Projects
(8) Private Sector Promotion
(9) Recurrent Cost Coverage
(10) Country Assistance Strategies (CAS)
(11) Local Currency Financing
(12) Project Implementation Units (PIUs)
(13) Lines of Credit
(14) National Development Banks
(15) Local vs. Foreign Consultants
(16) Rural Health Projects
(17) Primary vs. Secondary Education
(18) Post Evaluation
(19) Capacity Building
(20) Renewable Energy Projects
(21) Regional Integration
(22) Corruption
(23) Auditing/Accountability
(25) Ownership
(26) Civil Society
(27) Performance Standards
(28) Post-Conflict Policy
(29) NGOs
(30) Structure Adjustment Loans (SALs)
(31) Sector Adjustment Loans (SECALs)

(32) Local Offices
(33) Transparency
(34) National Sovereignty
(35) Program Lending
(36) Staff Quotas
(37) Integrated Rural Development
(38) Financial Sector Reform
(39) Maintenance Systems
(40) Debt Profile Management
(41) Southern NGOs
(42) Poverty Profiles
(43) Privatization
(44) Institutional Reform
(45) Conditionality
(46) Impact Studies
(47) Social Safety Nets
(48) Graduation
(49) Exchange Rate Regime
(50) Trade Policy
(51) Rule of Law
(52) Project Supervision
(53) Partnership
(54) Staff Benefits
(55) Travel Policy

SUMMARY OF TRIP REPORT: PERU AND PARAGUAY, MARCH 26 TO APRIL 6, 2004

SUBMITTED BY NILMINI RUBIN, SFRC PROFESSIONAL STAFF MEMBER

From March 26 to April 6, 2004, an SFRC staff delegation consisting of Nilmini Rubin visited Peru and Paraguay as part of the committee's ongoing inquiry into corruption at the Multi-lateral Development Banks. I spent 4 days in Peru meeting with individuals from the Inter-American Development Bank, the government of Peru, and civil society while looking at numerous projects including the Inter-American Development Bank-financed Camisea pipeline, Inter-American Development Bank-financed microlending projects and a World Bank-financed land titling project. I also spent 7 days in Paraguay focusing on the World Bank and Inter-American Development Bank-financed Yacyreta dam. There, I met with management of the Yacyreta dam, government staff, civil society and people affected by the dam to gain their perspective on the effectiveness of the World Bank and Inter-American Development Bank as participants in the project.

Summary

In Peru, I visited the controversial private-sector Camisea natural gas project (pipeline shown right) that the IDB decided to fund in 2003. The IDB will fund up to $135 million of the estimated total $1.4 billion Camisea project cost. While the government of Peru stresses the financial benefits of Camisea (1% increase to GDP growth per year, $3.9 billion increase in GDP over 30 years, and $5.1 billion in energy savings to Peru over 30 years), many NGOs are raising social and environmental concerns with the project. Currently, compensation packages for local communities for the environmental impacts (mainly erosion and deforestation) are being solely determined by the Camisea gas consortium. Though this compensation structure is permitted by the IDB, it could invite a downward bias in the size of compensation packages and is not transparent.

Most of pipeline consortium's contentious decisions about placement in natural resources and indigenous reserves were made before the IDB became a financial contributor to the private-sector Camisea project. Currently, IDB staff argue that it is acceptable for the IDB to join private sector projects after key decisions were made—even if the IDB would not have approved of those decisions if it had been a party to them. The IDB is now requiring environmental guidelines be met but those requirements do not reconsider pipeline placement. NGO representatives argued that IDB should not fund any projects that do not completely conform to IDB environmental guidelines. The private sector, once made aware of a shift in demands by the IDB, would then structure projects to conform to IDB guidelines early-on if there is a small chance that they will eventually request IDB financing. This is a particularly important issue as the USG is encouraging the IDB to do more private-sector lending.

Transparent financial structures have not been developed to ensure that Camisea-generated funds are not misused by the companies, the Government of Peru, local governments or local communities. Currently, this does not appear to be under consideration.

In Paraguay, I visited the World Bank and IDB funded Yacyreta dam project which was built on the Argentine border in order to provide Paraguay with revenues and Argentina with electricity. When Yacyreta began in 1973, it was initially budgeted to cost $2 billion of which $1.7 billion was provided by the World Bank and IDB. The project cost and debt has skyrocketed to $12.6 billion and still needs an estimated $800 million to reach completion. Though World Bank and IDB inspection panels continue to investigate social and environmental problems with Yacyreta, no forensic audit has been done to determine if funds were misused. Despite allegation of corruptions, it is not clear if an investigation has been conducted by the development banks. No companies have been debarred by the World Bank as a result of the Yacyreta project.

The initial decision to locate the dam (*See* Figures 2 and 3, below.) in a shallow, populated area is shrouded in corruption allegations. In addition, many Paraguayans believe that the dam maximized flooding area so that former President Stroessner and his friends who bought land in the flood plan could receive lucrative buyouts from the dam management. The Yacyreta dam is 43 miles long—alternative dam sites on the Argentine-Paraguay border that are currently under consideration only require a 5 mile long dam across an unpopulated canyon. (For reference, the Hoover Dam is 0.24 miles long). The dam placement decision was apparently made before World Bank and IDB involvement and was not changed by the banks.

Figure 1

Figure 2

Figure 3

It is important to note that Lahmeyer International, a German company convicted last year by the Lesotho High Court of bribery related to a World Bank-funded water project, was involved in the Yacyreta project.

Compensation packages for those flooded out of their homes and business by the Yacyreta dam were (and still are) solely determined and implemented by dam management. No outside body was involved in establishing compensation criteria nor did an outside body serve as a tribunal for compensation disputes.

The other eight World Bank and IDB projects that I visited in Peru and Paraguay were smaller-scale and had clearly identifiable benefits. These projects included microenterprises, small and medium enterprises, land-titling, elementary education, pre-schools (*See* Figure 4, below.), roads, watershed development, as well as sanitation and water delivery (*See* Figure 5, below.). In addition to project visits, I attended the IDB annual meeting in Peru where I met with IDB Executive Directors and staff, U.S. Treasury Officials, consultants, as well as local and international NGOs.

Figure 4

Figure 5

One overall concern with the development banks is that project success or failure is not incorporated into development bank staff performance appraisals. Staffers responsible for project design and implementation are not impacted if their projects do not meet performance benchmarks or are found to not be successful. Linkage, as is done with USAID performance appraisals, may be helpful to ensure that development projects meet project goals, do not repeat previous mistakes, and do not leak funds.

The following persons met with me during my 4 days in Peru:

U.S. Government Personnel

DAVID LIPPEATT, *Deputy Economic Counselor,* U.S. Embassy in Peru

Inter-American Development Bank Personnel

JOHN FERRITER, *External Affairs,* Inter-American Development Bank

ROBERT MONTGOMERY, *Private Sector Department,* Inter-American Development Bank

Business Community

FERNANDO DUESTUA, *Institutional Relations,* Transportadora de Gas de Peru S.A. (TGP)

GONZALO MORANT, *Gerente Medio Ambiente,* Transportadora de Gas de Peru S.A. (TGP)

SANDRA MARTINEZ, *Native Communities Affairs,* Pluspetrol

ALBERTO MOONS, *Vice President,* Pluspetrol

VINCENT MCELHINNY, *Program Manger,* InterAction

Civil Society

AARON GOLDZIMER, *Social Scientist,* Environmental Defense

ABIGAIL PARISH, *Latin American Program,* Bank Information Center

ADAM MENDOLSOHN, *Latin American Program,* Bank Information Center
NADIA MARTINEZ, *Sustainable Energy and Economy Network,* Institute for Policy Studies
OSCAR RIVAS, *Sobrevivencia,* Friends of the Earth Paraguay
HAROLDO SALAZAR ROSSI, *Vice President,* Association Interetnica de Desarrollo de la Selva Peruana (AIDESEP)
ROVER RIVAS KORINTI, Consejo Machiguenga del Rio Urubanba (COMARU)
CARLOS SORIA, *Environmental Lawyer,* Foro Ecologico del Peru
ATOSSA SOLTARI, Amazon Watch
ELIZABETH VETURA EGOAVIL, *Executive President,* Entitad de Desarrollo para la Pequena y Microempresa (CONFIANZA)
GERARDO PORRAS DOLORIER, *Legal Asesor,* Entitad de Desarrollo para la Pequena y Microempresa (CONFIANZA)

The following persons met with me during my 7 days in Paraguay:

U.S. Government Personnel

KEVIN JOHNSON, *Charge d'Affairs,* U.S. Embassy in Paraguay
JAMES PEREZ, *Acting Deputy Chief of Mission,* U.S. Embassy in Paraguay
WAYNE NILSESTUEN, USAID Director in Paraguay
STEVE MARMA, *Democracy Programs,* USAID

Inter-American Development Bank Personnel

JOHN FERRITER, *External Affairs,* Inter-American Development Bank
ALVARO CUBILLOS, *Representative,* Inter-American Development Bank
ALBERTO C. PASSOS, *Sectoral Specialist,* Inter-American Development Bank
FERNANDO ORDUZ, *Sectoral Specialist,* Inter-American Development Bank
CARLOS ANTONIA ARZE, *Social Development Specialist,* Inter-American Development Bank

World Bank Personnel

PETER HANSEN, World Bank Representative in Paraguay

Paraguay Public Sector Personnel

EDUARDO PETTA, *District Attorney, Public Ministry,* Encarnacion, Paraguay

Civil Society

ALVARO CABALLERO, *Administrative Manager,* Centro de Informacion y Recursos para el Desarrollo
SHEILA ABED DE ZAVALA, Instituto de Derecho y Economica Ambiental (IDEA)

SUMMARY OF TRIP REPORT: LESOTHO AND SOUTH AFRICA, AUGUST 24 TO SEPTEMBER 2, 2004

SUBMITTED BY NILMINI RUBIN, SFRC PROFESSIONAL STAFF MEMBER

From August 24 to September 2, 2004, an SFRC staff delegation consisting of Nilmini Rubin visited Lesotho and South Africa as part of the committee's ongoing inquiry into corruption at the Multi-lateral Development Banks. I spent six days in Lesotho meeting with individuals from the World Bank, the government of Lesotho, civil society and the business community while looking at numerous projects including the World Bank-funded Lesotho Highlands Water Project, a World-Bank financed child development center and an African Development Bank-financed secondary school. I also spent three days in South Africa meeting with Development Bank of South Africa officials, business-people, and other experts, for their perspective on the effectiveness of the World Bank's actions in Lesotho and their experiences with the African Development Bank.

Summary

The World Bank, in addition to providing more than $150 million in financing to the Lesotho Highlands Water project (LHWP), is actively engaged with the LHDA in providing social and environmental protections. The Bank provided a panel of experts, regular assessment missions and consistent engagement with the governments of Lesotho and South Africa.

Many individuals in Lesotho felt that the World Bank's response to corruption related to the LHWP was inadequate. The World Bank debarred one company, Acres

International, for three years as well as one individual, Max Cohen, and his businesses. However, the World Bank has not debarred the other international companies that were convicted of bribery in Lesotho.

Several members of civil society and government officials were dissatisfied with the length of the Acres International debarment. They were concerned that the World Bank mitigated the debarment because "Acres had already been ordered to pay a criminal fine by the Lesotho courts and that the relevant persons involved in Acres' work on the LHWP are no longer in positions of responsibility in the company." They noted that Acres was the only convicted company that had not yet paid its complete fine.

While the World Bank allowed the companies convicted of bribery to attend their Sanctions Committee hearing, they did not allow the government of Lesotho to send a representative or prosecutor to attend the hearing and summarize the volumes of evidence that were presented at trial according to the Chief Justice of Lesotho, the Attorney General of Lesotho, and the chief prosecutor in the LHWP bribery cases.

Lesotho spent a significant amount to prosecute a number of companies for bribery related to the LHWP. However, despite an earlier assertion by World Bank staff that the World Bank could contribute to the cost of prosecution because the "bank has deep pockets," the World Bank did not provide any funding to assist the government address the bribery allegations. The World Bank did not provide funding because it did not have a mechanism to loan or grant money to pay for a prosecution, according to World Bank staff.

The U.S. Embassy was praised by the Chief Justice of Lesotho for its assistance during the period of the trials for providing funding for internet access and Lexis-Nexis (a web-based legal research tool) so that the judiciary could access the most recent and relevant legal research. This information tool was not biased towards or against a conviction, it simply allowed the government of Lesotho access to important international legal information.

When visiting the Katse Dam (*See* Figure 6, below.), I met with a number of villagers that were not satisfied with the compensation they received for the impact of the dam on their livelihood. Compensation packages are determined by the implementing agency in a country and are designed to meet World Bank safeguard policies. In addition to involuntary resettlement safeguard policies, the World Bank applies safeguards policies on indigenous peoples, cultural property, dam safety, the pest management, environment, forests, natural habitat, waterways and disputed areas to project lending. However, policy-based lending (also called budget support or adjustment lending), does not incur safeguards.

If an affected person is not satisfied with the compensation package they are assigned, there must appeal to the implementing agency. If the implementing agency does not act, the affected people do not have recourse through the project. An instrument for recourse is not a requirement of the World Bank safeguards. The implementing agency suggested that affected people can appeal to the Ombudsman. The Office of the Ombudsman did not receive funds or additional staffing through the LHWP project. The Ombudsman said that a project tribunal to hear the complaints of affected people would have been helpful.

Near the Katse Dam, I visited a number of villages that were impacted by the Lesotho Highlands Water project. The agreement between Lesotho and South Africa stipulates that no person be made worse off by the Lesotho Highlands Water Project. However, there are a number of impacts on the villagers (*See* Figure 7, below.) that are difficult to address. Reportedly, the HIV/AIDS rate in the project area is higher than the 29% HIV/AIDS rate in the rest of Lesotho because the disease was transmitted by dam construction workers to the villagers.


Figure 6


Figure 7

The dam created a barrier that hampers access of villages like Mapeleng to Katse town where there are medical, social and economic resources. Affected villagers said that they must now either pay to cross the dam, pay for a taxi or walk for many hours to reach Katse. Villagers expressed concern about a Lesotho Highlands Development Authority-imposed licensing fee now imposing on people who want to fish on the Katse dam. As many villagers are subsistence farmers, raising cash to fish or for transportation is a significant challenge. Finally, some villagers complained that the springs that they used to depend on dried up after the construction and filling of the Katse dam. They noted with irony that they had a view of clean mountain water destined for South African taps but that they lost their access to safe water. Figure 8, below, is a picture of Mapeleng village next to the Katse dam. The LHWP includes the development of water systems but a significant portion of the systems have not yet been built.

Figure 8

The Lesotho Highlands Water Project was developed during a period when sanctions applied to South Africa. Members of civil society accused the bank of "sanctions busting" in developing the loan for this two-country project through a trust in Europe. Whether or not this is true, there is a conception that the project was born in a secrecy that impacted the adequacy of project design in Katse.

The resettled people that I visited from the Mohale Dam area seemed less distressed and generally satisfied with their current situation. Shown below (Figure 9) is a resettled woman who is renting out rooms in the house built for her. Generally, government officials, civil society and World Bank staff felt that lessons learned in the resettlement of people in Katse were applied later when people were resettled from Mohale.

Figure 9

Lesotho Ministry of Education staff traveled with me to visit a metal, wood and handicraft workshop at a secondary school that was financed by an African Development Bank loan (*See* Figures 10 and 11, below). We found an unused workshop that had been ready for two years. Though the building and the teaching supplies had been purchased with the loan, the government had not yet provided a teacher. This was discouraging because though the government of Lesotho is paying interest on the secondary school loan, there is no current benefit to the children of Lesotho.

A teacher said that the biggest problem faced by the secondary school was the impact of HIV/AIDS. He said that many of the children stop coming to school after a parent dies or falls ill. Above is a picture of students at the secondary school.

The economic impact of HIV/AIDS was highlighted in a garment factory that I visited, *Shinning Century Limited.* The factory reportedly suffers from productivity loss due to absenteeism and low morale of sick workers, workers that must care for sick family member and workers that must attend funerals. To address the needs of sick workers and to keep others from contracting HIV/AIDS, the factory hires health educators to support HIV/AIDS prevention, voluntary testing, counseling and treatment for its workers. The factory, owned by investors from Taiwan, credited the U.S. Africa Growth and Opportunity Act for its locating in Lesotho.

In South Africa, I visited infrastructure funded by the Development Bank of South Africa through an African Development Bank line of credit. The infrastructure included a road, stand-pipe water sources (*See* Figure 12, below.) and street lights (*See* Figure 13, below.) in a poverty stricken area outside of Johannesburg.

Figure 10

Figure 11

Figure 12

Figure 13

The following persons met with me during my six days in Lesotho:

World Bank Personnel

KATHERINE FERREY, *Country Counselor,* External Relations
ANDREW MACOUN, Bank African Water Team

Lesotho Public Sector

LIPHAPANG POTLOANE, *Chief Executive,* Lesotho Highlands Development Authority
MAHLAPE MOTHEPU, *Deputy General Manager,* Lesotho Highlands Development Authority
TSOTANG MOEKETSI, Lesotho Highlands Development Authority
RICHARD RAMOELETSI, *Field Operations Manager*
PEETE MOLAPO, *Chief Executive,* Lesotho National Development Corporation
MAHAPELA LEHOHLA, *Chief Justice*
LISEBO CHAKA-MAKHOOANE, *Registrar of the High Court*
LEBOHANG MAEMA, *Attorney General*
GUIDO PENZHORN, *Prosecutor*
SEKARA MAFISA, *Ombudsman*
BOROTHO MATSOSO, *Director General,* Directorate on Corruption and Economic Offences
DOMINIQUE MAKARA, *Deputy Principle Secretary for Education*

MR. PHAMOTSE, Ministry of Education
MR. MAHLOKA, Ministry of Education
SATCHY SIVAM, *Contracts Advisor,* Ministry of Education
PUSELETSO NTIISA-LETUKA, *Financial Controller,* Ministry of Education
RAFITO MOSALA, *Health Worker*

Civil Society & Business Community

SEABATA MOTSAMAI, *Executive Secretary,* Lesotho Council of NGOs
MOTHUSI SEQHEE, *Community Worker,* Transformation Resource Center
MR. MOMOSATALE, Transformation Resource Center
MR. MAMAYWE, Transformation Resource Center
PETER LAHANN, Transformation Resource Center
FIONA DARROCH, *Barrister* (UK)
THABA BOSIU, *Former Principal Chief,* a village near Mohale Dam
MAJOALANE MODEKELE, *woman resettled in phase 1B of the Mohale Dam*
MOEA RAMOKOATSI, *former Community Liason Assistant,* phase 1A of the Katse Dam
BENEDICT LUETA, *villager affected by Katse Dam,* Ha Nkokana
LEHLOHLONDO THAETHE, *orphan resettled in phase 1A of the Katse Dam*
KHETHANG KHETHAN, *Chief of Mapeleng village*
RAY HAAKENSON, Beautiful Gate
LAURA ROBERTSON, Beautiful Gate
RAFITO MOSATA, *Health Clinic Director*
SUSAN MALEFANE, *Personnel Manager,* Shinning Century Limited
MPHO MOHALEROE, Shinning Century Limited
PALESA MOTSOENENG, *Health Education,* Shinning Century Limited

U.S. Government Personnel

KARL ALBRECHT, *Charge d'Affaires*
MOROESI AKHIONBARE, *Economics and Commercial Affairs Assistant*

The following persons met with me during my three days in South Africa:

Lesotho Public Sector

R.M. TEKATEKA, *Chief Delegate,* Lesotho Highlands Water Commission

South Africa Public Sector

MIKE MULLER, *Director General,* Department of Water Affairs and Forestry
WILLIE CROUCAMP, *Chief Director,* Department of Water Affairs and Forestry
MARTIE VAN RENSBURG, *CEO,* Trans-Caledon Tunnel Authority
JOHAN CLAASSENS, *Head of Projects,* Trans-Caledon Tunnel Authority
HANRI VAN LOGGERENBERG, *African Development Bank Relationship Manager,* Development Bank of South Africa
IRENE BAUMBACH, *Project Manager,* Development Bank of South Africa
PN BASSON, *Project Manager,* Development Bank of South Africa
SERAME M. TSOMELE, *Project Accountant,* Development Bank of South Africa
CHRIS VILJOEN, *Manager,* Water Quality and Environment, Rand Water
KARL LUBOUT, *Manager,* Water Quality and Environment, Rand Water

Civil Society & Business Community

PATRICK BOND, *Professor,* Faculty of Management, University of the Witwatersrand
JEAN ROUX, *Partner,* PriceWaterhouseCoopers
PATRICIA NTONGOLO, runs informal day care in a shack on the outskirts of Johannseburg

U.S. Government Personnel

JENDAYI FRAZER, *U.S. Ambassador*
JEFF HARTLY, *Economic Minister Counselor*
JILL DERDERIAN, *Economic Affairs Officer*

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