

Panel Discussion ADB and Accountability
12:30 – 2:00 pm
NGO/Civil Society Room HITEX #1
Hyderabad International Convention Centre
Hyderabad, India

This panel discussed ADB's anticorruption and accountability efforts and compared them to those of other international financial institutions. It was organized by Bank Information Center with assistance from ADB's NGO Center. Mishka Zaman, Manager, Asia Program, Bank Information Center, moderated the discussion and introduced the members of the panel.

I. Summary of Discussions:

Bruce Rich, Director, International Program, Environmental Defense

- The private bank normally lends money with financial risks. There is a kind of "market financial accountability" for making bad loans. What is interesting about ADB, and multilateral development banks (MDBs) in general, is that they are banks in the sense that they lend money expecting to be repaid but there is no financial accountability. Money is loaned to a country for a specific project and that money could either be well used or it could be stolen. The government that is borrowing is obligated to pay back the ADB.
- "There is no financial accountability in the ADB," is a statement of fact. That makes political, organizational and managerial accountability all the more important. After all, it is the richer member donor governments that supply most of the money and guarantees and usable resources. Money is supplied not just to make standard loans but to promote poverty alleviation, the main rationale. In holding the ADB accountable, the performance of ADB's loans becomes very important.
- To whom is ADB accountable is set out in its charter and articles of agreement that can be downloaded from its website. It is basically run by member countries, but the proportion of vote in the ADB's Board comes in proportion roughly to how much a country puts in, with Japan and the United States having the most number of votes each.
- The powers of Governors are delegated on a day to day basis to the Board of Executive Directors who fulfill their obligations. Unfortunately, the Executive Directors (EDs) are not there very long. There are cases when ADB management may run circles around the EDs.
- The articles of agreement indicate that funds of ADB loans should be devoted for the purposes intended. There have been hearings at the US Senate Committee where academics attest that around 20 percent of World Bank lending, and I would say ADB lending, in the past years have been devoted by the agencies and officials away from the purposes intended. The ADB has made corruption more of a priority in rhetoric. Management is not walking the walk but only talking the talk. They are not taking the firm actions to send the message to borrowing governments that you can not steal money from ADB loans. ADB proposes to lend more money for governance improvements, or to use corruption as an excuse to lend more money without ensuring that the loans themselves are clean. This is almost absurd.
- Another issue under accountability is the issue of development performance. The record for the ADB is that Management does not listen much to the Operations Evaluation Department. The internal incentive is geared more toward the processing of loans and not in achieving results on the ground. The US Senate Foreign Relations Committee is continuing to hold oversight hearings on this issue. On 28 March 2006 there was a hearing on development effectiveness and corruption, and there were three prominent people who said MDBs cannot be trusted to evaluate themselves.

Marcus Heinz, Alternate Governor (Ministry of Finance, Austria), ADB Board of Governors

- ADB is the first multilateral institution that put good governance and anticorruption on the agenda in the mid-1990s. If you look at history of MDBs, it used to be that corruption could not be touched at all, because corruption was considered political and the bank should stay apolitical.
- ADB's transparency has become much better with the new Public Communications Policy. When I was in the Board, it was actually a secret what the Board of Directors did, but at least some of it can now be published. Transparency is important for oversight.
- The Anticorruption and Governance Policy Review is an open process and provides a frank assessment of what is in order and what needs to be done. These issues can be addressed.
- I am hesitant to say that there is no financial risk feedback in ADB as each MDB bears at least some political risks. Every donor, needs to go to Parliament to ask for additional funds and will get asked if the money is used well. Donors do not ask for dividends, but for development results.
- Looking at the structure of MDBs, there are two systems we can compare: (i) MDB system, and (ii) the UN system. The accountability system in the MDBs, as well as the feedback mechanism from evaluation departments, is much better than in the UN system.
- In the Board of Directors there is on average a rotation cycle of 3 years. This is not a very long time. However, if you look at Boards in other institutions, they are non-resident, unlike the ADB's Board. If you live with the institution (like in the ADB) you have a better chance of understanding what goes on. The person that goes to the Board is briefed very well and trained accordingly. Donor capitals have the responsibility to select the right persons for the Board and give them the right information to work effectively.
- The Operations Evaluation Department which reported to the Office of the President now reports to the Development Effectiveness Committee, which is a worthwhile change.
- In terms of corruption, we have to recognize that ADB is a bank and not a policeman. As an international organization, it has limits to its sovereignty. When I was in the ADB Board, in the case of the Samut Prakarn Project, the sovereign Government of Thailand did not allow the Inspection Panel to visit the project site and there was nothing that ADB could do about that.
- Anticorruption should start at home. The ADB internal systems should be corruption free.

Mr. Peter Pedersen, Auditor General, ADB

- Mr. Pedersen noted that 10 years had passed since the MDBs had started talking about corruption, and gave an overview of what had taken place since then.
- Corruption is a sensitive issue because it deals with human beings and greed which MDBs are not very good at dealing with. ADB has achieved much in preventing corruption in recent years. ADB and the other MBDs have sanctioned more than 600 individuals and firms, and therefore awareness on corruption has definitely been achieved.
- We realize that ADB's Governance and Anticorruption policies may be written in an overly ambitious manner. ADB acknowledges that it will never fully eliminate corruption but we are looking seriously into it. NGOs in different countries play an important role in contributing to fighting corruption.
- However, ADB should eliminate corruption in our own projects. But no, we have not yet fully eliminated corruption in our projects. Have we reduced corruption? The answer is I don't know, since there are always new ways of carrying out corrupt activities. This is not something that can be done overnight, but we are trying the best we can.

- Regarding suspending or cancelling a loan in cases when there is corruption, we have to consider who we may be hurting. The move may penalize those receiving the goods, as well as contractors and consultants who may be honest and not involved in corrupt practices.
- ADB is going through the exercise of reviewing its Anticorruption and Governance Policies. In this context, ADB acknowledged the Bank Information Center report which has highlighted what we have failed to do and what we should be doing. The policies have placed very high expectations on ADB, which the ADB simply have not been able to live up to. ADB has assessed our weaknesses, and identified things that we have done and those that we should do better. ADB is coming up with action plan and I am pleased to say that Management is very supportive of what has been done so far.
- ADB's project procurement related audits have been strengthened. We are moving in the right direction but perhaps not as fast as we would have liked to. ADB is harmonizing its definitions of fraudulent and corrupt practices with other MDBs, and will work toward harmonizing principles and guidelines for investigations and developing mechanisms to recognize the other MDBs' sanction decisions.

II. Open Forum

Questions were raised from the floor by participants on a few ADB financed projects and on ADB's approach to stemming corruption in its activities in general. These are reported on below:

After the inspection and review by ADB's Compliance Review Panel on the Southern Transport Development Project (Sri Lanka), there are issues that remain unsettled: (i) the number of displaced people increases each day which was not considered during the inspection, and (ii) there have been imbalanced compensation, where those that have political power received enough, while others did not receive the right compensation.

- Secretary, Compliance Review Panel, underscored the value of listening to the views of affected communities. The Panel will visit Sri Lanka at the end of May 2006 and intends to submit the report to the Board of Directors in June 2006. In addition, ADB looks forward to discussing further specific details on the STDP with concerned CSOs. Regarding compensation, ADB is cooperating with the Sri Lanka Government on the costs in consideration of the prevailing market price.

While investigating alleged corruption in the Melamchi Water Supply Project in Nepal, ADB did not consult project affected people.

- Mr. Pedersen replied that ADB received allegation of corruption in the project and made a careful assessment by focusing on the allegations made. ADB interviewed as many as it could. However, ADB was not able to establish that there had been corrupt practice involved as alleged.

The Khulna-Jessore Drainage Rehabilitation Project (Bangladesh) failed to solve the problem of water logging. People who have been displaced by the project continue to suffer.

- Mr. Pedersen explained that the issues raised concerns possible mismanagement, which is an accountability concern. There is no doubt that accountability is changing in the ADB compared to recent years, especially with the support of the members of the Board and the Governors.

ADB does not publicize the names of individuals and firms sanctioned due to corruption.

- Mr. Pedersen replied that ADB is not the only institution that is not publicizing the list of persons and firms sanctioned due to corrupt action. Until now it has only been the World Bank that has made public the names of those sanctioned due to corruption. Publicizing the

names of firms of firms and individuals will distort the fair implementation of the Anticorruption Policy. This is not the only reason why ADB does not publicize. It is a mixture between practical considerations and legal considerations. In most jurisdictions, an individual or a firm has the right to some protection and should be allowed to have such allegations tested in a court to determine whether this is a correct statement. Otherwise, it could be considered slander. ADB is careful about the concept the MDBs operates and makes decisions of this kind above the rule of the law. "Why should I be allowed to point at anyone of you and say you are a corrupt person without running the risk of being held responsible?" ADB is handling sanctions administratively, and not posting the names on the website. Our list is not secret but it is not publicized. It is shared with other MDBs and international organizations and names are made available on a need to know basis.

ADB should act on anticorruption allegations fast.

- Mr. Pedersen agreed that ADB should do things faster. However, investigating allegations have to follow a process. ADB can not afford to place anybody on the list of sanctioned entities without having substantiated the correctness of the allegations.

ADB should take responsibility for "mismanaged" projects that it supports.

- Mr. Pedersen said that ADB is making loans to its developing member countries and when it came to managing the Projects; the governments should be held accountable. ADB has an obligation to make sure that the borrowers follow applicable policies and procedures.

To close the discussion, Mr. Rich stressed that when corruption takes place, MDBs tend to protect the interest of private companies. ADB should be more aggressive in making all its loans clean. Pressure should be put on the management to do this. Mr. Heinz explained that good governance, accountability and anticorruption will definitely not disappear in speeches of donor countries. The system which is represented by Mr. Pedersen will get the backing of donor countries to do more. It is an open-ended discussion and is something about which we need to learn a lot more.