

II. The Role of Germany and Donor Countries within the ADB

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It is not known to many Germans that when the Asian Development Bank was established in 1966, Germany was one of the original 31 founding member countries of the Bank. Furthermore, Germany remained as an important donor country of the ADB and is the third largest shareholder among the nonregional (outside Asia) members after almost four decades of operation. Of the 62 current members, Germany is the ninth largest shareholder, and owns 4.39 percent of the total shares in the Bank. In terms of votes, the German government have a 3.8 percent vote among the total membership and 11.03 percent from the total nonregional membership. It has an overall capital subscription of US\$2.07 billion and a paid-in capital subscription of US\$145.21 million¹³.

The German government's policy for its involvement in regional development banks is an integral part of German development policy. At the same time, the development policy is a crucial part of Germany's international policy¹⁴. As a signatory to the United Nations' Millennium Declaration, Germany is committed to the Programme of Action 2015, which recognises poverty reduction as a pre-requisite for the achievement of sustainable development. Germany's development policy identify as its aim the fostering of sustainable development world wide and to help the developing and transition countries to improve their political, social, economic and ecological structures.

The German development policy also acknowledges that the realisation of poverty reduction includes the right frame conditions for development, which includes the security of global public goods and the respect for human rights in the broader sense. These tasks form the principles, which the German government follow in its

operations that concern regional development banks.

Germany's Role in the Asian Development Bank

The Asian member countries hold a total of 65.5 percent of the voting power at the Asian Development Bank. The United States and Japan each own 15.9 percent of the shares. Although majority of the shares within the ADB are owned by member countries from the Asian region, non-regional donor members like the US and the EU member countries are important actors that also influence the Bank's operations. There are twelve Executive Directors that oversee and decide about the Bank's operations in behalf of all the 62 member countries. Japan, the US and China have one seats each, while the other countries are clustered together in shared constituencies.

Germany is the largest shareholder among the 14 European shareholders. Similar to the World Bank, the voting power in the ADB is based on the number of shares owned by a member country. All the European Union members in the ADB have a combined voting power of 16.8 percent. The EU countries have three constituencies, which is equivalent to three seats in the 12-strong Board of Directors.

Germany, together with Austria, Luxembourg, Turkey and the United Kingdom form one constituency and is represented in the Board of Directors by one Executive Director. The combined voting power of this five-country constituency is 7.2 percent. As agreed upon under a rotational procedure, the Executive Director comes from Germany for three consecutive years then followed by a one-year term directorship by the other countries within the bloc. During this one year, Germany will have the position of the Alternate Executive Director¹⁵.

¹³ Figures based from the ADB „Fact Sheet on Germany and ADB“, December 2002

¹⁴ BMZ, „Combating Poverty – Our Goals in the Regional Development Banks“, April 2003, www.bmz.de

¹⁵ BMZ, *ibid*, p.20

The Federal Ministry for Economic Co-operation and Development (BMZ) is the lead ministry within the German Federal Government in matters related with the regional development banks and the World Bank. The Federal Ministry of Finance (BMF) and the Federal Foreign Office (AA) also participate in specific decision-making that concerns their scope of responsibilities. According to the BMZ goals, Germany's involvement in the decision making and supervisory bodies of regional development banks and the World Bank is an instrument for influencing these development institutions towards the realisation of sustainable development¹⁶.

In 1999, the ADB adopted poverty reduction as its overarching goal with the key elements of sustainable economic growth, social development and governance for effective policies and institutions. These elements complement the crosscutting priorities of environmental sustainability, private sector development and regional cooperation and integration¹⁷. The BMZ endorses this strategy and gave commitments toward its implementation.

To complement its Asian Strategy¹⁸, the BMZ supported key reform strategies within the ADB during the process of the Bank's reorganisation in 2000 and 2001. Among the strategies for reforms that the German government supported include: a) Orientation of Country Programmes with the Millennium Declaration Goals and the use of the Poverty Partnership Agreements in Country Programmes, b) Integration of the private sector and civil society organisations in program promotion, c) Capacity building for the expansion of the ADB as a "knowledge bank", d) Expansion of field structures in the member countries, and e) Improvement in the co-ordination between the ADB and the World Bank¹⁹.

Contribution to Special Funds and Resources

Germany is a donor to the Asian Development Fund (ADF) and to the Technical Assistance Special Fund (TASF). The ADF, established in 1973, is the Asian Development Bank's window for concessional lending to its borrowing member-countries. It is the oldest and largest of the ADB's funds. This fund comes from the contributions from ADB members and is subject to a periodic replenishment of every four years. The ADF carry a 1% to 1.5% interest charge and could be availed by the developing member countries with 24 to 32 years of maturity, including an 8-year grace period²⁰. The Technical Assistance Special Fund provides grants to borrowing members to help prepare projects and undertake technical or policy studies.

For the ADF VIII, Germany committed a contribution of US\$1.37 billion, the over all committed contribution from multilateral sources amounted to US\$18.18 billion. The ADF VIII covers the period 2001-2004²¹. At the end of 2002, loans from the ADF accounted for around 28% of cumulative ADB lending. There are now 25 ADF borrowers (not necessarily equivalent to number of countries) in the ADF VIII. In the first half of the ADF VIII (2001-2002) the major borrowers were Pakistan, Viet Nam, Bangladesh, Sri Lanka, and Afghanistan.

According to the ADF VIII Donor's Report, donors endorsed ADB's plans to strengthen its development impact and realise its overarching goal of poverty reduction through a closer linkage between country performance (effective development management) and the allocation of scarce ADF resources among recipient countries. Donors expect as well that the good governance principles of transparency, accountability, participation and predictability be applied as well to ADB's own internal governance²²

¹⁶ BMZ, *ibid.*p.7

¹⁷ ADB, „Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy“, Manila, November 1999, p.23

¹⁸ See BMZ Basic principles of German development policy in Asia, www.bmz.de

¹⁹ BMZ, Combating Poverty – Our Goals in the Asian Development Bank, www.bmz.de

²⁰ ADB, About the ADB: Members and Shareholders, www.adb.org

²¹ ADB, Asian Development Fund, October 2003, www.adb.org

²² ADB, Asian Development Fund VIII Donor's Report, www.adb.org

For the Technical Assistance and Special Fund, Germany committed US\$18.56 million in 2002²³. In 2001, the ADB extended a total of 257 technical assistance amounting to US\$146.4 million. Although most of this money is intended for the public sector and to governments, private enterprises from developing member countries can also apply direct assistance through equity investments and loans.

Cofinancing

The ADB define Cofinancing as financing mobilised from sources other than the borrower or project sponsors to augment its own assistance funds. As additional resources for project financing, the ADB arranges Cofinancing from commercial financial institutions, official funding agencies and export credit agencies.

According to the 2002 Factsheet: Germany and the ADB, Cofinancing arrangements from German sources reached US\$2.85 billion covering 38 loan projects and US\$157.85 million in untied grant financing for 73 technical assistance projects and grant components of loan projects last year. From 1970 to the end of 2002, Germany granted a cumulative Cofinancing arrangements totalling US\$38.33 billion covering 609 loan projects and US\$ 583.13 million in grants for 501 technical assistance projects and grant components of loan projects.

Cofinancing operations mobilises and encourage the participation of the public sector as well as expand the impact of each dollar of development assistance extended in developing member countries. The ADB estimates that an additional 50 cents was mobilised through Cofinancing for every dollar that was given for a development project²⁴.

Cofinancing also increases the attractiveness of an otherwise unbankable project because a *Political Risk Guarantee* will be provided by the ADB and the government. A Political Risk Guarantee (PRG) covers payment of all or part of the project's debt

service against specific political or sovereign risks. Since the political risks covered by a PRG relate to events under the direct or indirect control of the host government, the government also provide (in most instances) a counter-guarantee or indemnity to ADB. This provides further assurance to cofinanciers and ADB of the host government's commitment to the project.

The Corporate Connection

The issues on privatisation are "hot issues" in Germany as well as in Asia. It is also the central theme in many current NGO campaigns directed at the ADB, beside the damaging effects to people and environment of the projects that it funded. When the ADB approved its Poverty Reduction Strategy in 1999, ADB President Tadao Chino hailed it as the new "heart" of the Bank. One of the major principles of the PRS is the development of the private sector as the engine of growth to reduce poverty in Asia. To follow Chino's analogy, the function of the Bank's heart will be supported by a strengthened private sector that will now serve as the new blood vessels.

This new thrust goes in line with the Public-Private-Partnership strategies, which is being aggressively promoted everywhere in the world now. This development mantra rationalises that the delivery of the poor from poverty could be done through public-private partnerships that will provide services, which are otherwise not possible for the government to provide to its poor.

Since the establishment of the ADB in 1966, corporations from donor countries have benefited enormously through the share that they get in the procurement contracts, which were facilitated through their country's influence within the ADB. Each year, the ADB provide loans that fund projects and activities in the developing member countries in Asia and the Pacific region where billions of US dollars worth of contracts are involved for the procurement of goods, related services, and civil works (GRSCW). Private companies, large engineering firms, consulting and construction companies in donor countries, especially in

²³ ADB, Fact sheet on Germany 2002, www.adb.org

²⁴ ADB, Co financing Opportunities, www.adb.org

Japan, US, Germany and the UK are the immediate beneficiaries of projects funded by ADB loans.

ADB Procurement Contracts are awarded through internationally competitive bid-

ding where only companies from the ADB member countries could participate.

**Cofinancing with Germany from 1 January 1998 to 31 December 2002
Comprised the Following.**

Loans: 11 loan projects, Cofinancing of US\$308.46 million
Official: 7 loan projects, Cofinancing of US\$191.35 million
Commercial: 4 loan projects, Cofinancing of US\$117.11 million

Source: ADB Fact Sheet on Germany, 2002

Loan Projects Cofinanced with Germany, 1 Jan. 1998–31 Dec. 2002.

^a C = commercial Cofinancing, O = official Cofinancing

Country	Project	ADB Loan Amount (US\$ million)	Cofinancing Amount (US\$ million)	Type of Cofinancing ^a
Bangladesh	Rural Infrastructure Improvement	60.00	16.90	O
China, People's Rep. of	Water Infrastructure Development	35.00	30.00	O
Philippines	North Luzon Expressway Rehabilitation and Expansion	45.00	7.14	C
Bhutan	Basic Skills Development	7.00	2.50	O
Papua New Guinea	Employment-Oriented Skills Development	20.00	2.45	O
Sri Lanka	Credit Enhancement Facility for Private Enterprises	5.00	7.00	C
Sri Lanka	North East Community Restoration and Development	25.00	2.50	O
India	Private Sector Infrastructure Facility at State Level	200.00	107.00	O
Bangladesh	West Zone Power System Development	198.90	30.00	O
Thailand	Export Financing Facility	50.00	80.00	C
China	Fujian Pacific Electric Co. Ltd.	40.00	22.97	C

Source: ADB Fact Sheet on Germany, 2002

**Top Five Companies from Top Four Donor Countries
with the most GRSCW Contracts (1995-1999)**

Japan (\$342 million)	US (\$209 million)	Germany (\$166 million)	UK (\$43 million)
Mitsui and Co	Cooper Rolls	Siemens AG	NVPSKG
Mitsubishi	Westinghouse International	Man B&W Diesel AG	Balfour Beatty
Mitsui Engineering and Shipbuilding	AT&T	KGH Schulze	Acme Maris (China) Ltd
Itochu	Raytheon Co Electronic System	Dyckerhoff & Widmann	Siemens PLC
Marubeni	Cargill Fertilizer	UNICO	British Steel

Source: NGO Guidebook on ADB Series Vol. 1, Nr.2

**Comparison between Contribution to ADB Resources
and Cumulative Procurements of Donor Countries
in GRSCW and Consulting Services
under Project Loans and Technical Assistance Operations
from January 1967 to 30 June 2003**

Donor Member Countries	Total Contribution to ADB Resources (in million US\$)		Total Procurement (in million US\$ equivalent)	
	Amount	Percent	Amount	Percent
1. Japan	13481.292	45.63%	5334.193	9.92%
2. USA	3502.521	11.85%	2889.115	5.39%
3. Germany	1660.218	05.62%	2183.672	4.06%

Source: ADB Quarterly Procurement Statistics June 2003

This process is stated in the Article 14 of the ADB Charter, which states that „...Proceeds of a loan can be used only for procurement of goods and works supplied from, and produced in member countries of ADB“. Between 1966-1999, the ADB awarded contracts worth US\$54.3 billion for goods and services; and thirty seven percent (US\$20.1 billion) of which went to companies from donor countries, particularly Japan, US and Germany²⁵.

For the year 2001 and 2002, Germany's share of procurement contracts totalled

US\$2.70 billion and US\$4.46 billion respectively. The cumulative procurement from 1967 to 31 December 2002 was US\$67.29 billion. The following graph would also show that the top three donor member countries of the ADB, which are also among those with high voting rights within the Bank, are also enjoying the top ranks in terms of cumulative procurements of goods, related services, civil works and consulting services under project loans and technical assistance operations.

Between the periods January 1, 1998 to December 31, 2002, the following German companies benefited from ADB Projects as

²⁵ V.Corrall, ADB's Private Sector Development Strategy: Private Sector as the Engine of Growth, FORUM, Quezon City, 2001

Contractors and Suppliers and the corresponding sectors²⁶:

1. Siemens – Transport and Communication/ Industry and Nonfuel Minerals/Energy
2. Voith Hydro GmbH – Energy
3. KG Helmut Schulze & Co, GmbH – Social Infrastructures
4. ABB Utilities GmbH – Energy
5. Unico – Transport and Communications
6. Alcatel Contracting GmbH – Energy
7. Wabag-Waseenco JV – Social Infrastructure
8. Minmetals Germany GmbH – Energy/Industry and Nonfuel Minerals
9. Passavant Maschinentechnik – Multisector
10. Passavant Rödiger Anlagenhaus – Multisector

In terms of Consulting projects, German consultants had been involved in 74 out of the total of 3.696 contracts for ADB loan projects between January 1985 to December 2002. The 74 projects are worth US\$90.62 million from the US\$2.03 billion total amount. This top consultants include the following²⁷:

1. Fichtner GmbH & Company
2. Lahmeyer International GmbH
3. GTZ-Acil
4. Bankakademie IMCC
5. Weidleplan Consulting GmbH
6. GTZ GmbH
7. GOPA Consultant
8. Epos Health Consultant
9. Abu Consult GmbH
10. Dorsch Consult

What can German Civil Society Do to Reform the ADB?

Those who are already being mobilised for issues that concerns International Financial Institutions and Multilateral Development Banks are aware that such institutions uses a range of instruments to influence the economic and political deci-

sions in developing countries in order to rationalise the IFIs and MDBs operations. Such instruments include policy dialogue and advice, program lending and technical assistance. IFI and MDB operations are not all neutral activities and in most cases project affectees from poor countries are left in worst conditions than before Bank-funded development projects changed their lives.

We have to be reminded and we need to inform others that IFIs and MDBs like the World Bank and the ADB are public institutions. They are using our money as taxpayers in order to operate but they act like corporations when they decide and operate. For German taxpayers, it is a matter of the government's accountability how taxpayer's money is used. For developing member countries in Asia, it is beyond that. They too are owners of the ADB, they also pay taxes directly and indirectly and their money are also used to finance the existence of the institution. However as citizens of the borrowing countries they shoulder the burden of paying the loans used for the projects. As affected people, the consequences of the projects produce lasting impacts in their lives and future.

As honest taxpayers of an important shareholder and donor country of the ADB, we have to know and we must be convinced how our money is valued and not wasted by the ADB in the name of poverty reduction in Asia and the Pacific. The ADB have the responsibility to satisfy us that the governance and internal working mechanism within the institution is good. The officials of the ADB, including those coming from Germany, are being paid well. Most of the poor people in Asia will not even earn as much as the equivalent of their one-year salary in a whole lifetime, not even in their dreams. It is only decent then that the Bank must solve first its institutional and ethical poverty to be really effective in addressing the problems of the poor.

One of the reasons why projects, policies and programmes of institutions like the ADB create massive problems in the lives and other life-forms in Asia and the Pacific region is the fact that there is a lack of

²⁶ ADB Fact sheet on Germany and the ADB 2002

²⁷ *ibid*, p.5

democracy within the institution. The structures and formal procedures may look perfect if one would read the voluminous documents produced by the Bank. However, in terms of decision-making, operations and project implementation, there is a big discrepancy between the written conceptual outputs of the Bank and its actions. The problems associated with ADB operations are not just products of malicious intent from the side of the NGOs and the affected people who are protesting and struggling against the Bank and its projects in Asia, some officials within the Bank are also cognisant of the problems within the ADB. Most recently, a former Executive Director of the ADB came out publicly and identified the flaws in the way that the ADB operates. He mentioned the lack of clear vision and direction of the ADB and its ineffectiveness in being a regional mimic of the World Bank²⁸. Some critical staff within the Bank are also admitting the fact that there is still a prevalent culture of loan–pushing within the Bank.

As outside stakeholders coming from a donor country, NGOs in Germany must engage the German government and support the initiatives meant to reform the bank through donor-government interventions. We have to ensure that the positive developments in German politics and the well-meaning international policies of the German government is being reflected in its co-operation activities with the Bank. It is already an advantage that Germany is assured of a voice in the ADB Board of Directors. It would be useful to maintain relations with the German Executive Director, the Alternate Executive Director and the appropriate officials within the German Federal Ministry. We have to engage the government who represents us within the ADB in every policy, programme and projects where we have capacity and expertise. Such effort of developing a critical and committed engagement with the ADB must be supported by collaboration with other European NGOs. The ADB lend an average

of US\$5 billion a year, the contribution of the EU countries form a significant amount of that money but unfortunately the EU member states are not yet formulating a single coherent policy and co-ordinated agenda within the ADB. If counted together, a solid EU vote is bigger than each of the US and Japan vote within the Bank. However each country is protecting its own agenda and interests. We also have to make our presence felt at the ADB European Representative Office in Frankfurt am Main and participate in the regional consultations that they organise.

The Bank must also be challenged based on the perspective of the affected communities and the poor population of its developing member countries who should be the main beneficiaries of development and improved delivery of services. In this aspect, Asia-focused civil society organisations within Germany in particular and individuals with interest on development issues in general should see the connection between ADB issues and their respective advocacy/ies. It is an additional angle in the One World dialogue and North – South partnerships.

Civil society groups should also monitor the private sector or the German companies that are involved in Germany's co-financed projects with the ADB and those who are getting those lucrative procurement contracts. Private sector participation and the preference now in the part of decision makers for public-private-partnership is definitely on the rise and it will not easily wane or become unfashionable. Since it is more difficult and tricky to subject the private sector to social and environmental conditionalities and monitoring than governments, we have to come up with effective strategies to engage them and we need such strategies quickly.

A recent development in the civil society scene in Germany is the formation of the German NGO Working Group on the ADB. It is facing big tasks and big challenges. Its members need to make it known to German citizens that their government is a member and donor country to the ADB. It has to convince fellow advocacy groups that the

²⁸ S.Donnan, „Ex-Director attacks ADB's lack of direction“, Financial Times, Sept.17,2003

ADB must not be spared from the strong criticism that German NGOs are throwing against the World Bank. ADB issues are not just Asian issues, the ADB is a co-promoter of the kind of development that is

marginalising people in the North and the South and is shaping the current economic trends towards globality.