

STATEMENT OF
HEMANTHA WITHANAGE,
CONVENOR, SRI LANKAN WORKING GROUP ON TRADE AND IFIs AND
EXECUTIVE DIRECTOR, CENTRE FOR ENVIRONMENTAL JUSTICE
TO THE U.S. SENATE FOREIGN RELATIONS COMMITTEE
CONCERNING
CORRUPTION AND THE SUSTAINABILITY OF THE PROJECTS FINANCED BY
THE ASIAN DEVELOPMENT BANK IN SRI LANKA
AT THE HEARING ON
“COMBATING MULTILATERAL DEVELOPMENT BANK CORRUPTION:
AFRICAN, ASIAN AND EUROPEAN REGIONAL DEVELOPMENT BANKS”
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1. Introduction

Mr. Chairman, Senators of the Committee, thank you very much for the opportunity to testify this morning at the hearing on “Combating Multilateral Development Bank Corruption: African, Asian and European Regional Development Banks”. The Chairman and the Committee are to be commended for organizing these hearings, which address one of the most critical but hidden threats to the proper use of Bank funds that hinders sustainable development.

As of December 31, 2004, the ADB had approved US\$3.476 billion in loans to Sri Lanka for some 128 projects and programs. However the development effectiveness of many of these loans and their role in poverty reduction is highly questionable, even according to the ADB’s own statistics.

A presentation made by Mr. Bruce Murray of the Asian Development Bank (ADB) Operations Evaluation Department (OED) to the NGO FORUM on the ADB on 31st March 2005, showed that over half of completed ADB projects (59%) were rated highly successful (HS), generally successful (GS) or successful (S). 31% of completed ADB projects were rated partly successful and 9% were rated unsuccessful by this internal evaluations unit. For Sri Lanka, OED had evaluated 36 projects and 47% were considered HS/GS/S, 45% were rated partly successful, and 8% unsuccessful. In this context, the performance of projects in Sri Lanka ranks third from the bottom of ADB borrowers, with only Papua New Guinea and Bangladesh generating lower ratings. The rating of Partly Successful seems to be generous for many projects, considering that it was given to projects, such as Lunugamwehera, which are actually dismal failures and creators of poverty on-the-ground. If we take the ADB’s self-evaluation at face value, more than half of Sri Lanka’s ADB debt accumulated over three and a half decades is from projects the ADB itself considers to be less than successful.

The World Bank Poverty Reduction Strategy Paper (PRSP) presented to the Sri Lankan Development Forum in June 2002 says that poverty in Sri Lanka had not decreased over the last 10 years, and continues to be around 40 percent of the population. It is admitted that the actual figure for poverty in Sri Lanka would be higher if the conflict areas were taken into consideration.¹ In fact, the poverty level used in Sri Lanka of Rs 1500/ month (equivalent to US\$15/month) is much lower than the internationally recognized poverty level of US\$1/day/ person.

Neither GDP growth nor its distributive effects have been sufficient to bring about a marked reduction in the poverty level in Sri Lanka. In other words, the benefits of economic growth have not automatically trickled down to the poor and the economic strategy adopted in Sri Lanka has not succeeded.² The PRSP acknowledges this in relation to the decade of 1990s. But this failure was even more apparent in the previous one and a half decades.³

Mr. Chairman, Senators of the Committee, Sri Lanka has been a client of the Asian Development Bank since 1968. ADB is involved in project financing as well as in macroeconomic policy development. Poverty alleviation has been a major focus of ADB-financed projects since the new mandate of the ADB was established. However, it is very

¹ “Poverty in South Asia 2003, Civil Society Perspectives,” SAAPE , October 2003, Katmandu, p. 185.

² Sri Lankan Development Forum 2002.

³ “Poverty in South Asia 2003, Civil Society Perspectives,” SAAPE , October 2003, Katmandu.

clear that the ADB and the Sri Lankan government have failed to realize their mission to reduce poverty and increase growth.

Contrary to the ADB's mandate, certain ADB-funded projects and macroeconomic policy changes have actually created poverty. In the next few pages of my testimony, I will discuss a number of projects that are controversial due to the destruction of people's sustainable livelihoods and the related failures of the ADB and local implementing agencies to control corruption.

2. Asian Environmental Organizations that Monitor the ADB

The Sri Lankan Working Group on Trade and IFIs (International Financial Institutions) is a network of civil society organizations that monitors the impacts of projects and policies of the IFIs on local communities, their livelihood, natural environment and resources. Its secretariat is located at the Centre for Environmental Justice in Colombo, which is a local environmental organization, working towards good governance and environmental justice.

The Sri Lankan Working Group of Trade and IFIs is an evolution of the Sri Lankan Working Group on ADB, which was established in 1998. There are fifteen member groups who are concerned about ADB's involvement in development projects and in promoting macroeconomic policy changes. Recently we assisted people affected by the Southern Transport Development Project (STDP), a major road project funded by the ADB, to bring their inspection claim to the ADB's Special Project Facilitator and Compliance Review Panel. We have also helped people to develop their complaints to the ADB regarding the loss of their rights to water due to water transfers under the ADB-financed Water Supply and Sanitation projects through the Water Supply and Drainage Board. Our network member, Green Movement of Sri Lanka, helped affected communities from the Kirindi Oya Irrigation and Settlement Project (1986), the Upper Watershed Management Project (2002), and the Protected Area Management and Wildlife Conservation Project (1999)⁴ to raise their concerns with the ADB and local implementation agencies.

I was the elected International Convener for the NGO FORUM on the ADB for the period of 2001-2003. Recently I accepted the Executive Director position of the NGO FORUM on the ADB (Forum) and will take up my new position in May 2005. The NGO Forum on the ADB is a network of more than 300 civil society organizations based in ADB borrowing countries and donor countries that monitor the projects, programs and policies of the ADB. Its Secretariat is based in Manila, Philippines and it is governed by an international committee comprising members from both borrowing and donor countries.

The Forum was established in 1989 by Philippine NGOs and NGOs from the United States. Since then it has lobbied the ADB to develop necessary safeguard policies and address the failures of its projects and programs to provide benefits to the local communities. The Forum has been involved in the campaign for accountability at the ADB, which resulted in the establishment of the first Inspection Mechanism in 1995 and the new Accountability Mechanism in 2004. The Forum has also been involved in campaigns around gender, environment, involuntary resettlement, indigenous people, and disclosure at the ADB, many of which have led to the adoption and or strengthening of ADB policies. Forum activities also involve assisting local communities to bring their concerns to the ADB.

⁴ This project is jointly funded by the ADB and the World Bank.

Mr. Chairman, Senators, it is important to know that these organizations who are primarily focused on the environment and social welfare and are focused on promoting environmentally sustainable lending policies in the international financial institutions are also concerned about corruption. They are very concerned about the negative impacts on the social, environmental and economic sectors coming from projects with ADB involvement. They are also concerned that although ADB is a development bank with anti-corruption, social and environmental responsibilities, its staff and management often seem to have relatively little concern for these issues.

3. ADB: Sustainable Development or Poverty Creation

As stated by Mr. Bruce Rich in his testimony on the 28th September 2004 at the hearing before this Committee

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.

Close monitoring of some recent ADB projects, such as the Thailand Samut Prakarn Wastewater Management Project, Melamachi Water Project in Nepal, and the Chashma Right Bank Irrigation Project in Pakistan, shows that the ADB’s stated mission is in trouble.

My close monitoring of certain projects in Sri Lanka, namely the Kirindi Oya Irrigation and Settlement Project (1977), Sri Lanka Southern Transport Development Project (1999 to date), Upper Watershed Management Project (2000 to 2006), and Protected Area Management and Wildlife Conservation Projects (1998 to date) shows that rather than alleviating poverty, ADB projects have too often created poverty for local communities and fostered corruption.

Mr. Chairman, Senators of the Committee, I would like to address a few Sri Lankan case studies to illustrate this point.

4. CASE I

ADB’s Poverty Creation at Lunugamwehera in the Southern Dry Zone (1977) (Kirindi Oya Irrigation and Resettlement Project)

Kirindi Oya is a river that flows to the ocean in the southern province of Sri Lanka. The Kirindi Oya Irrigation and Settlement Project (KOISP) project was started in 1977 with US\$60 million in loans from the Asian Development Bank. The project involved the construction of a large earthfill dam and irrigation canals in the dry zone of Sri Lanka. Nearly 5,000 families were settled in the area as part of the project.

Water distribution in Kirindi Oya began in 1986, but there was not adequate water for rice paddy cultivation. Many settlers were given land before irrigation water was provided and then had to be “sustained by food assistance under the World Food Program for longer than anticipated.”⁵ The river was dammed in the wrong place and more people were resettled in

⁵ ADB, Operation Evaluation Office. “Project Performance Audit report on the Kirindi Oya Irrigation and Settlement Project in Sri Lanka.” December 2000, quoted in “Asian Development Bank: In Its Own Words,” Fried, Lawrence, Gregory, 2002.

order to satisfy needs of the politicians. Both the Irrigation Department and the ADB failed to design the project to cater to the river flow. In most years, not a single plot is cultivated in the new development area. According to the ADB's OED report, "Destruction of livestock land, shrimp lagoons, and wildlife habitats adversely affected the livelihoods of some groups in the project area and led to increased conflicts between settlers and herdsman."⁶

Mr. Kumarasinghe, Secretary to the Federation of the Integrated Farmers Organisation-Kirindi Oya, said

"We were given only one hope that we will be provided with water for both "Yala" and "Maha" seasons. But today it has become only a dream. Farmers have been indebted day by day and it has developed to an extent that some farmers commit suicide".

According to the ADB's evaluation report, the Kirindi Oya project was considered to be politically expedient as the Sri Lankan government sought to address civil unrest in the impoverished area and promote "more balanced development." This same political imperative meant that less expensive project alternatives were not adequately considered.⁷ Social tensions and inequality increased in the area because of the project, and "many settlers brought in from outside the project area appear to have obtained their allotment by political influences".⁸

Kirindi Oya had time overruns of more than 100% and, despite its high cost, was not "relevant" to the development needs of the local population.

"The expenditure of close to \$ 100 million to benefit a relatively small number of settlers can be considered of limited relevance in the context of overall development needs and poverty alleviation in the southern dry zone".⁹

The Green Movement of Sri Lanka and Oxfam Community Aid Abroad produced the report "Too Little Too Late" in 2001, which addressed the grave problems in the Kirindi Oya project. This report and a letter from the Federation were presented to ADB President Chino during the ADB Annual General Meeting in 2001. Although a response to the letter was received from ADB, there were no steps taken to correct the problems.

Although the Federation had hopes that the ADB will provide a new water source, assistance did not materialize. Mr. Jayaweera says

"Newly settled families have now doubled. Since the population in the project is increasing they have no income for living. There is no education for the children. Although ADB is responsible for this poverty creation we have no access to the ADB".

Furthermore, our information revealed that land allocation in the Kirindi Oya project was full of corruption. According to villagers, both politicians in the area and the government officers were involved in requiring bribes from the people who were not their political supporters in

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

exchange for their land allocation. This is one reason more lands were cleared and developed than could be irrigated by the reservoir. Although we presented documents and evidence to prove the allegations of corruption in a letter from villagers to the ADB President in 2001, ADB failed to address these issues. They responded to the people's letter and sent a consultancy firm to the project area, but there were no changes on the ground.

While the destruction caused by the Kirindi-Oya project, which was funded more than 25 years ago, still needs to be corrected, ADB continues to provide funds for new projects. The Southern Transport Development Project is a recent example of violations of social, environmental and human rights and inadequate controls to guard against corruption.

5. CASE II

ADB's Accountability Experiment through the Southern Transport Development Project (STDP) 1999

The Southern Transport Development project (STDP) is one of the most controversial projects of recent times. But it is a dream for some politicians. The project has been characterized by mismanagement, corruption, social unrest, delay, disregard of social and environmental concerns and in some cases, police abuse and threats. Sri Lankan government bureaucrats as well as the lending institutions (both ADB and the Japan Bank for International Cooperation [JBIC] in this case) and consultants are responsible for these injustices.

STDP involves the construction of an Expressway connecting Matara (a southern city) and the outskirts of Colombo by a 128 km road. The road crosses through 4 river basins and over 100 small and large wetlands and paddy fields. It also passes through many villages, home gardens and demolishes over 1,300 houses. In total, 8,745 land lots are planned to be crossed by the Expressway. In 2002, estimates showed that 5,683 households of all categories will be affected. Resettlement cost for STDP would be US\$29.75 million.¹⁰ The total project cost is 33 billion rupees or approximately US\$230 million. The local implementing agency is the Road Development Authority (RDA), which comes under the Ministry of Transport and Highways.

ADB's Environmental Policy requires the consideration of environmental problems since this is an environmental Category A or high-risk project with significant impacts. The Environmental Impact Assessment (EIA) was done for a 3-4 kilometer wide corridor, with detailed studies for a corridor of 200 meters for housing, but as it turned out, it did not address the actual impacts of parts of the road trace that was subsequently chosen. In fact, as described in more detail below, about 40% of the entire final trace of the road financed by the ADB was not covered by the EIA. As a result, numerous groups of people and households have had their livelihoods and quality of life affected without adequate compensation. The EIA was subject to heavy criticism, as it had not properly addressed these environmental and social impacts.

The project is guided by the Sri Lankan National Environmental Policy and the Resettlement Policy as well as the ADB safeguard policies such as Involuntary Resettlement, Environment, Information Disclosure and the Inspection Policy. However, these policies are being

¹⁰ Resettlement Implementation Plan, October 2002.

breached and the project has serious social, environmental and legal issues.

Since 2001, people have been exploring legal redress through the local judiciary. They went to the Local Human Rights Commission, Appeals Court and to the Supreme Court. Although the Supreme Court decided that human rights have been violated in the STDP project, it did not make any changes in the project's design, or influence the attitude of the ADB and the RDA.

Construction in the ADB-financed area started in 2003. Many people were displaced. Numerous social and environmental issues were created.

The Committee has heard testimony of Mr. Bruce Rich last 28th September 2004 on the allegations of corruption in this project concerning the bidding process and contract award, which I will give an update on. But the corruption and irregularities in management in this ADB project permeate down to the level of the poor and displaced, which I will first describe in the following section.

5.1 Forms of Corruption at the Local, Implementation Level

Many people who have received compensation for their land which was taken for the project are not happy. But the Land Acquisition & Resettlement Committee (LARC) for the project provided unprecedented compensation for a few individuals. **This is one type of local corruption and abuse of power that happens under the STDP.** Many people thought that they would get the same compensation. But they never did. Initially people were paid the market price. But now they are given only the very low government value plus 25%.

The affected people do not have access to the Resettlement Implementation Plan. Displaced people have never seen a copy of the plan. RDA does not give a copy. Those who have been displaced people have moved out without proper guidance or knowledge of their entitlements. They were told to leave before receiving compensation. Many people were intimidated into removing their roofs, they were told they would get no compensation if they did not do so immediately. Often they got only Rs. 50,000 (US\$ 500) as a rent allowance and nothing more. Their neighbors do not even know where they live now.

According to the villagers, Divisional Secretaries (government officials below the provincial level) were told by the RDA that they will be given Rs 250,000 (US\$ 2,500) for early clearance of the trace. Divisional Secretaries instructed Grama Niladhari (Village Officers) and certain villagers who were provided better resettlement packages to demonstrate to the ADB officials that there were many satisfied people. **This is the second type of local corruption.**

RDA resettlement officers ask for bribes from the affected people to approve better compensation packages. This includes better land for the new house. Those who disagree are given rocky lands. **This is the third type of local corruption.**

People living in Gelanigama which is a village located close to Kalutara, say

“we went to all the authorities including the Inspection Panel of the ADB, but with no success. We were threatened with arrest by the Parliamentary Member of the area, if we do not allow the road to be constructed”.

They said Surveyors came to their village with Police Officers from five police stations. They cry for justice.

Affected people in Akmeemana say that road trace was changed to protect land owned by a rich businessmen. They said

“our politician took bribes to protect those lands and change the trace. We now have no faith in them”.

They went to all available judicial mechanisms in Sri Lanka. They also wrote to the Inspection Panel of the ADB with no success. The first Inspection request in 2001 was denied by the ADB, which misconstrued facts and pretended that the affected people were all within a 3 km. corridor. This was proved false at that time, but it was only in 2004 that the ADB admitted this.

The surveying of the road was accompanied by police abuse and threats in some areas. The surveyors came with police. Gelanigama people say they came to their village and threatened that they would arrest them. Police arrested one woman from Akmeemana and detained her. She was the single parent of a young child.

There are many unresolved issues. The design process is full of intimidation, bribery and corruption, betrayals and displacements.

5.2 Corrupt contract award- Can ADB wash its hands?

The consultants involved in the design are Wilbur Smith Associates in association with Resource Development Consultants (WSA & RDC). The EIA report was done by the consultants of the University of Moratuwa. The EIA process is full of errors. About 48 kilometers (40%) in both JBIC and ADB sections in the Final Trace are not covered by the EIA. The design was changed to a new trace by the RDA without authority and without any studies or a new EIA. The Supreme Court ruled that the process of approval had not been followed.

The construction contract for the Southern 62 km has been awarded to Kumagai Gumi a Japanese construction company.

As stated by Bruce Rich in his testimony on the 28th September 2004

“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, Kumagai Gumi, did not meet the pre-qualification criteria¹¹, and in fact had a negative financial worth. Kumagai 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

¹¹ 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. Kumagai's score was 54.

Lankan newspapers reported that Access had influential political connections, including in the Prime Minister's Office.¹² 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 Kumagai won the contract.¹³ 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 Kumagai Gumi nevertheless be considered as a bidder on the project. Three companies, including Kumagai, participated in the final bidding; only Kumagai was allowed to submit a second alternative bid. Kumagai 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.¹⁴ The Attorney General of Sri Lanka, when asked how Kumagai could have won the contract in violation of national and ADB tender guidelines, reportedly stated: "Kumagai 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."¹⁵

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.¹⁶ 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 counter-productive 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 Kumagai 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.

Responding to this claim, which also appeared in the Sri Lankan newspaper, the Daily Mirror, on the 2nd October 2004, Mr. Alessandro Pio, Country Director of the ADB resident mission in Sri Lanka states that

¹² 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.

¹³ *Ibid.*

¹⁴ *Ibid.*

¹⁵ *Ibid.*

¹⁶ 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.

“During the hearing, allegations were made about the Southern Transport Development Project in Sri Lanka, which were not new. In fact, ADB had addressed many of the issues relating to the project, in your own publication in May 2002.

On the pre-qualification process highlighted in your article, the objective was to ensure that sufficient and appropriately experienced and resourced companies were eligible to tender for the ADB-funded project, thereby achieving a cost and quality effective outcome.

Three companies were originally pre-qualified and another – the fourth company referred to in your article – met the basic financial, experience, and resource requirements but fell slightly short of a passing mark when these criteria were combined.

Since the objective of the process was to maximize competition, and because the deficiency was of a technical nature only, the company was permitted to participate in the tender process. It is important to note that the company became eligible simply to tender for the work, in competition with the originally pre-qualified companies. There was no question of the company being awarded the contract as a consequence of the pre qualification process.¹⁷

Although this response rejects the allegations, it proves that ADB has interfered with the bidding process which means the process is not transparent. According to Alessandro Pio, this was a “slight relaxation”.¹⁸

A subsequent article appeared in the Sri Lankan newspaper, the Sunday Leader, on 10th October 2004, reiterating the ADB’s involvement and stating that

“after the pre qualification process was complete the ADB reportedly sent a letter to the Treasury requesting that Kumagai Gumi nevertheless be considered as a bidder on the project. The Attorney General of Sri Lanka, when asked how Kumagai could have won the contract in violation of national and ADB tender guidelines, reportedly stated: ‘Kumagai 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.’”¹⁹

This article also states that

“Secretary to then Prime Minister Ranil Wickramasinghe, Bradman Weerakoon articulated similar sentiments stating Kumagai was awarded the contract after the ADB intervened to ensure the project went to the Japanese firm.”²⁰

Responding to Mr. Pio’s article, Sarath Athukorala and Heather Mundy of the Joint Organization of the Affected Communities on Colombo–Matara Highway state that

¹⁷ Alessandro Pio, Country Director, ADB Resident Mission, “ADB clarifies inaccuracies on corrupt project in Lanka”, Daily Mirror, 6th October 2004.

¹⁸“ADB chief refutes charges,” The Sunday Leader, 10th October 2004.

¹⁹ Federica Jansz, “Southern Highway – the access to corruption,” The Sunday Leader, 10th October 2004.

²⁰ Ibid.

“Mr. Pio says ‘There has been a general misunderstanding that the project cost increased from 11-12 billion rupees to 27 billion rupees, because of the alignment changes. However this is actually a misleading comparison between the cost of the ADB financed section and the total project cost, which includes the section financed by the JBIC.’

*This is totally untrue. Mr. Alesaandro Pio is either unaware of what he is commenting on or he is deliberately misleading the people of Sri Lanka. The major documents of the project include the cost for the entire road in the range Rs 11-15 billion, not as Mr. Pio indicated for only a section of it”.*²¹

The response of the affected people also addresses Mr. Pio’s explanation with regard to the pre qualification. Affected people state that

“With regard to the points allocated at pre-qualification, there has been more than enough publicity of the computations, all recognize that the disqualification was not of a technical nature. Kumagai Gumi, has financial problems, its Bank had to write off an enormous amount of debt in 1997 and again in 2000. More recently its executives have also allegedly been involved in bribery, illegal political donations and money laundering. See Mainichi Newspaper about Imajo in Japan in 2002, and again in 2003 and Papua New Guinea Post Courier about 1995 to 2000. So much for Mr. Pio’s ‘deficiency of a technical nature’”.

The ADB’s main explanation for its pressing for the involvement of Kumagai Gumi despite the company’s failure to pre-qualify is not convincing: “the objective was to ensure that sufficient and appropriately experienced and resourced companies were eligible to tender for the ADB-funded project, thereby achieving a cost and quality effective outcome.” If this were the case, why did the ADB intervene not to increase the number of pre-qualifiers, but to urge that one specific company, and one company only be included, one indeed that had failed the pre-qualification tender because of its risky financial condition? And after this same company was finally chosen, the project’s cost has increased by over 100%.

The ADB’s anti-corruption unit (the Integrity Division), in response to the submission from affected communities regarding these corruption allegations in the STDP, simply replied, “We have conducted an investigation on the concerns that were raised. We did not find evidence of fraud or corruption, as defined by ADB, or that ADB’s funds were misused. Thus, we are closing the case”. When the affected communities requested more information on the investigation, they were told that no report was produced. The ADB’s Integrity Specialist then asked that the communities provide evidence of “who received the payment, how much was paid, when the payment was made, how the payment was made, which contract were you referring to, any corroborating evidence to indicate the allegation, any information that you may have that would help us to determine if further investigation is warranted, etc.”²²

The ADB cannot wash their hands of the corruption either because of the involvement of its own staff and due to the failure of its own policy implementation. Since this project is a joint

²¹ Sarath Athukorala, Heather Mundy, “ADB- the truth behind the highway,” Daily Mirror, 18th October 2004.

²² Email from ADB Integrity Specialist to Joint Organisation of the Affected Communities on Colombo Matara Highway, March 2005.

funded project of the ADB and the JBIC, the selection of a Japanese construction contractor could have been a pre-requisite or a factor leading to undue influence and pressures to choose a Japanese company.

We have seen similar pressure from the Japanese government during the selection of the construction company for the Upper Kotmale Hydro Power project, which is a very controversial project funded by JBIC. This project will have negative impacts on 6 beautiful waterfalls located in the hill country of Sri Lanka.

5.3 STDP destroys Environment and Sustainable Livelihoods too

The STDP Expressway crosses 4 major rivers in the Southwestern – Southern part of Sri Lanka, viz Kalu Ganga, Bentara Ganga, Gin Ganga and Polwatta Ganga.²³ The Expressway traverses through 60% high ground and 40% wetlands. Due to its undulating nature and for easy filling material, the road will be constructed by cut and fill. This will create some major environmental problems.

It has many negative social and environmental impacts as it crosses through many rural villages where people still have sustainable livelihoods. Villagers say

“We don’t need many inputs from the cities. The villages are surrounded by paddy fields owned by us, which gives Rice in two seasons. Jak, Bread fruit, Green Vegetables come from our home gardens. We have plenty of water and fertile lands. Our cattle are grazing in the nearby field. The temple is in the vicinity. Our relatives are living around us. What else do we want? Who wants to leave such a heaven? This is a sustainable life.”

When the road is constructed it will destroy this natural environment. The agriculture will be destroyed. The paddy field will be filled with soil. Stagnant water will destroy the remaining fields. No more good soil or lands for agriculture will be available. There will be no more home gardens or lands for grazing. Flooding will increase. Wetlands will be destroyed.

The compensation is not sufficient to complete the replacement houses they have started constructing. They were not given enough compensation to maintain, let alone improve, their living standards as the project promised. No one has been given the market value of their land or assets.

Rice is the staple food of the Sri Lankans, but it seems all major and minor development projects destroy paddy fields day by day. Agriculture is the main economic activity of the affected people and the affected area of STDP. Paddy is one of the main crops. However, 299.9 hectares of paddy lands will be acquired for this project. This is about 31.53 % of the total land acquisition for the STDP. While these plots are directly affected, hundreds of acres of other paddy lands will be destroyed due to soil erosion, water clogging, etc. No paddy lands will be developed under this project. Therefore those farmers will lose their employment.

It was estimated that 265 people would lose employment in paddy sector for the combined road trace which the ADB loan was originally granted for. The area this road trace would

²³ These four rivers create severe flooding in the southwest monsoon annually.

cross had large tracts of abandoned paddy fields. For the combined trace, the total annual estimated economic loss in terms of paddy cultivation is Rs 5,990,484. For large parts of the current trace, which traverses through villages and cultivated paddy lands, there are no studies to estimate the total value of lost paddy lands. Isn't this a destruction of sustainable livelihood?

Yes, the road will give access to major cities. It may increase industrial development too. There will be benefits to the general public. It will give more jobs to some people who now depend on agriculture. But this all could be achieved at much less cost and without needlessly impoverishing hundreds of households, if corruption and mismanagement did not permeate this ADB project.

Although those who are engaged in agriculture will be temporary laborers for the road construction when their fields are destroyed, what will happen to them afterwards? The temple and the school will be separated from the people by an Expressway. Relations will be separated. Community will be dispersed. There will be no village anymore. Sustainable livelihood will be destroyed.

5.4 ADB's Accountability Mechanism Failed

In 2002, four cases concerning the project were filed in the Sri Lanka Court of Appeal. The Court appointed a Judicial Committee of Retired Supreme Court Judges to investigate the position. Their Report stated "the alterations are of a significant nature and should be approved afresh."

Instead of ordering an EIA and Social Impact Assessment (SIA), the ADB did just the opposite. It declared the loan effective on a Resettlement Implementation Plan which said there were only 31 objectors when there were actually 51 petitioners still in the Court of Appeal. At the same time, the ADB acknowledged receiving over 150 letters objecting to the unstudied change of road trace.

Nevertheless they pressurized the Sri Lankan government to sign the contract with Kumagai two months later, five months prior to the verdict in the Court of Appeal. These very signatories to the letters continue to protest, causing delay to the project which is costing the Sri Lankan government.

In 2004, two years after the contract had been awarded to their favoured contractor Kumagai and work had progressed, affected people approached the ADB's new accountability or inspection mechanism through its ADB's Special Projects Facilitator (SPF) process and Compliance Review Panel (CRP). The Special Projects Facilitator has recently been added to the ADB accountability mechanism as an initial step to promote consultation or mediation between the affected people, the government implementing agency, and the ADB's operations department. The Compliance Review Panel investigates the affected people's claims of ADB policy violations that have caused them harm.

Belatedly, the ADB SPF admitted that the 3 km argument which was used by the ADB to deny the first inspection request in 2002 was not valid. The SPF acknowledged that indeed neither an EIA or a SIA exist for the final road trace.

However, subsequent delays by ADB in carrying out its own accountability process had the effect of buying time for the contractor and RDA to advance their activities to a point of no return. The SFP's investigation of the complaint was delayed from the required 49 days to over 100 days. The pretext was to allow the report of a Committee appointed by the Prime Minister and an ADB Safeguards Review Report to be published. Neither of these reasons are in line with the ADB's own Accountability Mechanism Procedures. The complainants have not been allowed access to either of these reports to date.

In December 2004, the SPF appointed an international mediator who spent half a day with the complainants. Without further discussion, he and the SPF suddenly closed the mediation process in January 2005, claiming that he could not reach consensus on the dispute that had been going on for over 3 years. The refusal of the implementing agency (RDA), with the backing of ADB, to study their road trace changes was allowed to block the facilitation.

Whilst the CRP is still investigating ADB policy violations, the SPF decided to close the mediation or consultation process.

The ADB thought fit to hasten the signing of a contract with Kumagai when it was patently obvious that strong protests would continue, as in fact they are. The ADB continued to ignore the protests of the people from 2001 onwards, and made every effort to hasten the commencement of the project which violated its environmental, social and economic policies. During this entire period, the project was under a growing cloud of corruption and bidding irregularities widely publicized in all of Sri Lanka.

One can define corruption in various ways. In the view of many Sri Lankan civil society groups, there is institutional corruption when ADB management uses—or rather misuses—ADB accountability processes like the Inspection Panel, the SPF and CRP, and the Safeguards Review Report to allow loans which violate ADB policies and covenants to continue. This may be because money is changing hands or because, as Mr. Rich has pointed out, the ethic at ADB is loan disbursement, not development effectiveness.

The ADB is the largest multilateral lender to Asia; there is a real threat of some Asian countries becoming another economic burden like Africa if institutions like ADB are not forced to become more transparent and accountable and made to remember that they are not responsible and accountable only to themselves.

As ADB is increasingly using co-financing in projects, it is even more important that they work strictly within policies and guidelines, since the ADB through co-financing leverages multiples of its own financial contribution often based on confidence in the integrity of its procedures and financial management.

5.5 What is questionable?

Corruption is manifest throughout the Southern Transport Development Project (STDP). It is not limited to the transactions described in the testimony to the Senate Foreign Relations Committee by Mr. Bruce Rich on 28th September 2004. It is underpinning and contaminating the whole project.

Why is it that the Implementing Agency—RDA—has worked so hard to avoid any sort of study of the changes to the road trace they have made? Why have they sought to proceed

with a plan that harms more than double the families that were on the recommended trace for the Expressway? Why has the cost more than doubled? Why did they choose some of the most difficult places for construction to build the Expressway?

Why is it that the ADB has sought to block any investigation? Why is it happy to ignore breaches of Loan Covenants? Why is ADB happy to ignore the many breaches of its Safeguard Policies?

We think the most plausible answer can be found in the gains to individuals throughout the process. For ADB personnel, possibly it is to keep their record clean and increase their portfolio, though one of the individuals involved did so much to substantially alter the project from its original concept that one cannot help but question whether there was not some personal gain somewhere.

Corruption does not mean that only money is passed from hand to hand, it means ignoring major safeguard policies that are designed to protect local communities. It also means a lack of transparency and accountability. It means using Accountability Mechanisms that are supposed to solve problems to buy time so that projects with gross irregularities proceed past the point of no return and foreclose the benefit of correction.

6. CASE III

Upper Watershed Management Project: Another Example for Corruption and Irregularities

Upper watersheds for the main rivers in Sri Lanka (Kalu ganga, Uma-oya, and Kirindi-oya) are badly affected by soil erosion that has taken place due to the cash-crop plantations started in the British period, subsequent population growth and land use for new agricultural development. As there are many adverse changes in the waterways and the surroundings in the area at present, the ADB with the assistance of the Government of Sri Lanka has inaugurated a project under the Ministry of Forestry and Environment to conserve the upper watersheds of above-mentioned rivers.

The ADB-funded Upper Watershed Management Project of Ministry of Forestry and Natural Resources has an estimated total cost of US\$ 23.7 millions, which consists of 70% from the ADB, 25% from the Government of Sri Lanka and 5% from the beneficiaries. The project started on 5th May 1998 and was to be completed by 31st December 2004.

The investigation done by the Green Movement of Sri Lanka, a local environmental organization, shows that the project has many irregularities, including slow project performance, the absence of a consultative process for affected people, failure to implement the participatory fire prevention plan developed by the Provincial Secretariat, failure to integrate the involvement of the village-level government officers (Grama Sewakas) and village-level officers of the government poverty alleviation program (Samudri), field and provincial officers, in the Project even after their request, failure to take action on the reported irregularities that have taken place in the replanting process by officers. There are a number of financial irregularities relating to purchases of the rubberized coir pots, plant material, etc. that is necessary for the project.²⁴

²⁴ Forest in Trouble, Green Movement of Sri Lanka, 2003

The Project failed to address soil conservation measures. The project failed to reach some important areas but carried out work in areas that are not that important. Some of the findings and observations on financial management and policies in the project are also cause for concern. All the above-mentioned activities of the Upper Watershed Management Project have led to financial and administrative irregularities. The Project money was used for printing religious books for certain politicians in the area, and constructing roads across the forests to satisfy local politicians. The Project had deviated from its original basic concept and objectives. The rest of the Project staff made a complaint to the authorities about the irregularities, but no action was taken.²⁵

The money loaned from the ADB is being utilized haphazardly in an irresponsible way under this Project. The Project Management has grossly violated the institutional fundamentals and ethics of the ADB. The citizens of this country are paying this loan and will be paying in the future too.

The Green Movement of Sri Lanka requested the ADB to evaluate the present situation by an independent body, and to take appropriate action to control these financial misappropriations under the Project before it is too late. The report prepared by the Green Movement was sent to the ADB Resident Mission, Government agencies and the relevant Minister. This was also raised with the ADB mission who visited to study the performance of the project in late 2004. According to the Green Movement no action to date has been taken to solve the problems.

7. Lack of Accountability and Corruption

The above three cases show that ADB-financed projects are facing serious accountability problems. The projects can go wrong in a) design stage b) contracting stage and c) implementation stage. The problems in the Kirindi Oya Project and STDP are at the design, contracting, and implementation stages. The problems in the Upper Watershed Management Project is at the implementation stage.

Although the ADB has a number of safeguard and accountability policies, it exercises inadequate scrutiny over the implementing agencies for its loans in Developing Member Countries (DMCs). While some irregularities may be unavoidable, the problems in the bidding processes have in some cases been caused by the ADB itself, such as in the STDP project detailed above.

According to Mr. Jak Jabes, the Director of ADB's Governance and Regional Cooperation Division, corruption in Asia can cost up to one sixth of a country's GDP. He also states that governments pay between 20% and 100% more for goods and services due to corrupt procurement practices.²⁶ The ADB is aware of the corruption in its borrowing members.

The above three cases show that the corruption in ADB-financed projects is on several levels. At the first level, government officers involved at the local implementation level may ask for bribes in exchange for compensation for villagers lands or assets which are taken for the project. The second level involves the local politicians and their supporters who ask for bribes to allow for construction or project implementation. They also ask for sub-contracts and jobs for their supporters. This includes misuse of project assets. The third level of

²⁵ Ibid

²⁶ Daily Mirror, 25 May 2000.

corruption is related to big companies, which can involve high level Government Officers, Project Designers and possibly ADB officials.

For example, hiring of Government Officers for ADB projects and paying them multiples of their normal salary is a practice which encourages corruption. Furthermore, employing foreign experts and paying them salaries more than fifty times the amount paid to the equally qualified and experienced local employees is also a practice that encourages irregularities and corruption in ADB projects.

Mr. R Dissanayake of Kotte, Sri Lanka stated

“I was appalled to read in the newspapers recently that an enormous amount of money is to be spent on a water resources management project with a loan obtained from the ADB. A breakdown of the Rs 1400 million project budget indicates that Rs 62 million is to be spent for import of vehicles, Rs 182 million for purchase of equipment, Rs 248 million for employing foreign specialists, and Rs 492 million for training. I venture to predict that this project will also end up with very limited benefits to the people of this country but will bestow ample benefits to the lender, the politicians and state official’s associated with the project.”²⁷

It is the general perception among the public in Sri Lanka that ADB-funded projects are often involved with some kind of corruption. There is a wide belief that these projects somehow give fewer benefits to the people while significant amount of funds seep to corrupted officials and politicians. There is also a popular perception that senior government officers design projects to earn very high income before they retire.

There has been, for example, serious fights between officers for the project manager post for the ADB Upper Watershed Management Project and the Protected Area Management and Wildlife Conservation Project. The result is the implementing agencies divide and one group does not allow other groups to implement the project.

Mr. Chairman, Senators of the Committee, the ADB is not accountable to the people in the borrowing countries or in the donor countries. They are only dealing with the Governments. ADB is also immune to any legal action. ADB management and the staff take this as a freedom to design and finance projects that may destroy local communities, their livelihood, environment and natural resources. ADB’s lending target (culture of loan approval) approach and the internal evaluation of performance based on how much money has been released through the ADB is a killing approach.

This is one reason for the staff to approve destructive projects that destroy the sustainable livelihoods of local communities. But also many ADB staff strongly believe that they will not be punished for any of their wrong actions. The only penalty is that they will be transferred to another division. I strongly believe that this approach should be changed.

The people forcibly resettled under Lunugamwehera are still suffering after more than 25 years for the wrongs done by the ADB, local staff and politicians. In the STDP, resettled people are suffering because of the wrong actions of ADB and the Sri Lankan RDA. Those who complain or seek justice through local courts and the Inspection Mechanism of the Asian

²⁷ R. Dissanayake, Kotte, Foreign funded project rackets, Opinion page, The Island, 30th January 2003.

Development Bank are threatened with reduction of compensation or delay of compensation. The case of the Upper Watershed Management Project shows that the country suffers from the many irregularities of the project managers and the ADB staff. We strongly believe that this culture of the Bank and the attitude of its implementation partners need to change very quickly. The above case studies show that the Bank often exercises no control or monitoring over the local implementation agency after the loan agreement is signed.

If loan covenants are violated, the ADB has to stop disbursements. The STDP case shows that RDA continues to violate loan covenants but no action has been taken by the ADB.

I strongly believe any measure to address the institutional problems relating to corruption at the ADB would also improve overall project quality with respect to environmental and social impacts as well as enhance overall economic performance.

8. Tsunami Reconstruction

Mr. Chairman, Senators of the Committee, I would also like to address one more issue at this hearing. It is none other than the Tsunami which affected several Indian Ocean nations including Sri Lanka.

8.1 Consequences of the Tsunami

In Sri Lanka, the Tsunami killed approximately 30,740 people. 3,858 people are still missing. About 15,683 are injured. 833,780 people belonging to 178,886 families have been displaced. According to UNICEF, about 30% or 12,000 of the dead and missing people are children. More than 800 children in Sri Lanka are left with no mother or father. About 88,022 houses have been completely destroyed and 25,737 have been half destroyed. 200 schools have been seriously damaged.

Several beach hotels, houses, and other commercial buildings vanished. Vehicles with passengers were also washed out to sea. The railway line and roads were also damaged. A train with 8 coaches was totally destroyed, adding 1,800 lives to the death toll. 65% of the fishing fleet has been destroyed. Ten out of 12 fishery harbors located in these areas have been destroyed. Sea waves destroyed a 200-meter to 5 km wide zone. In places such as Mulativue Sea, waves went more than 5 km inland. It has destroyed the biodiversity in the area. The Coast Conservation Department states that more than 600 million Rupees (US\$ 6 million) damage has been done to the coastal revetments which were constructed using boulders to block the waves.

The natural environment was also destroyed by the Tsunami. Environmental experts are now studying the affected coasts in Tsunami-hit countries to assess the damage caused to the environment. The scale of the Tsunami's environmental damage is readily apparent, as the coastline has changed almost beyond recognition.

The damage to the marine environment is equally devastating. The debris that flowed into the sea from the land smashed coral reefs. Some initial research shows that 50% of the coral has been damaged due to the harbor waves and debris. The natural environment of many marine organisms changed in a just a few hours. Toxic materials including PCBs would have entered the sea at many points, further affecting marine life. The amount of silt, sand and organic

matter mixed with the water will also smother them. On land, wells and freshwater streams have been contaminated with seawater, posing more problems.

According to the Central Bank of Sri Lanka, the total loss for the country is about 150 billion Rupees (US\$ 1.5 billion). THIS DOES NOT INCLUDE THE HUMAN LOSSES and the ENVIRONMENTAL DAMAGE. According to the Central Bank, Sri Lanka needs 550 billion Rupees (US \$ 5.5 billion) for reconstruction of the infrastructure damaged by the Tsunami.

There are many reasons for the high level of damage. These include a lack of awareness and information, the high population density in the coastal zone which is about 4.88 million people within only 4% of the land area, as well as a disrespect for the law such as the Coast Conservation Act no 57 of 1981 as amended no 64 of 1988, a lack of a relevant authority and expertise, and destruction of natural barriers such as coastal sand dunes, mangroves, green belts, etc.

Sri Lanka is now aiming for a shoreline conservation zone of 100 meters in all areas and 200 meters in the Eastern province. But this needs proper and equal examination under the law. A proper environmental restoration plan is an urgent exercise. The Sri Lankan government needs support for an accelerated environmental restoration plan. Civil society awareness and participation must be brought into this restoration. Civil society organizations, especially environmental organizations, can play a major role in this exercise.

8.2 Scale of Proposed Donor Support and Need for Greatly Improved Monitoring and Coordination of Use of Funds

After a Needs Assessment, the ADB, JBIC, and the World Bank announced that Sri Lanka needs US\$1.5 billion for Tsunami Recovery and Reconstruction.²⁸ The Donor Needs Assessment further states

“the assessment, prepared in close cooperation with the Government of Sri Lanka, sets out clear guiding principles for the reconstruction strategy, with an important emphasis on the inclusion of affected communities in the planning and process of rebuilding. It estimates the overall damage to Sri Lanka at US\$1 billion with a large proportion of losses concentrated in housing, tourism, fisheries and transportation. Total losses are estimated to equal 4.4 percent of GDP with about US\$500 million in external financing required in the short term for 2005.”

Alessandro Pio, Country Director of the ADB, said

“The human impact has been even more staggering than the damage to infrastructure,” In some coastal communities, entire families, livelihoods and social networks have simply disappeared. Reconstruction efforts must be very sensitive to this human dimension, and do everything possible to help restore communities, mitigate the psychological, emotional and economic loss and restore hope, while working to rebuild shelter and physical infrastructure”.

²⁸ Joint Press Release ADB, JBIC , World Bank , February 2, 2005.

The Donor report stressed the need for strong monitoring, transparency and accountability to ensure that the millions of dollars of external assistance reach their intended sources and are utilized efficiently. Also, the monitoring of the sustainability of the reconstruction work and plans is very important. Civil society movements have to monitor this. Otherwise transparency, participation and accountability will be neglected when the country receives foreign aid.

The three Donor Country Directors emphasized that nothing is more demoralizing for the people in need, and for those trying to help them, than to hear that funds are being siphoned off or wasted. It was therefore imperative that all key stakeholders in this —the Government, the International Community, Civil Society and the Liberation Front for Tamil Elam (LTTE) —agree upon a transparent monitoring and accounting system for all the resources that will be deployed in the reconstruction effort.

The Needs Assessment identified the guiding principles for the recovery and reconstruction strategy as:

- The allocation of resources both domestic and international should be strictly guided by the identified needs and local priorities, without discrimination on the basis of political, religious, ethnic or gender considerations;
- Reconstruction activities are carried out by the appropriate level of government, with an emphasis on decentralization where feasible;
- Communities are empowered to make their own decisions during recovery;
- Communication and transparency are present in decision-making and implementation;
- Reconstruction avoids rebuilding existing vulnerability to natural hazards; and
- A coordinated approach is used to prevent duplication in activities.
- To translate the principles into reality, the assessment team recommended a vigorous process of public consultation, a communications program, and development of district-based reconstruction plans for the affected areas.²⁹

However these principles are too often not being carried out on the ground. The biggest challenge is better coordination among the relief agencies. In certain areas, the number of boats donated by the agencies is a few times higher than the actual number required. This is the situation with fishing nets as well. Many fisherman and experts think that the fish will soon be depleted if all the boats engage in fishing. This is only one example.

The construction of housing is the biggest challenge. With the 100 m no-construction zone, a severe land problem was created. Due to the unavailability of lands, the housing development designs have been delayed and still most of the people who live in relief camps have no hope that they will be given a house in the near future.

Although the ADB, the World Bank and JBIC state the importance of empowering communities to make their own decisions during recovery, as well as the importance of communication and transparency in decision-making and implementation, this is not a reality on the ground. People are not aware the plans of the Government.

²⁹ “Sri Lanka 2005 Post-Tsunami Recovery Program: Preliminary Damage and Needs Assessment”, Asian Development Bank, World Bank, JBIC, January 2005.

The slow reconstruction process leads to uncertainties about their future among affected people.

Mr. Haruhiko Kuroda, ADB President said

“Given the scale of the recovery, even with our best efforts at coordination, the potential for gaps, overlaps and duplications is significant. We need to develop tools that can assist us in identifying gaps, and avoiding duplications.”

“It is largely for this purpose that a draft tracking mechanism has been developed for your consideration at today’s meeting. Adoption of the tracking mechanism will allow us to coordinate, monitor and manage the overall rebuilding effort. But it is so meaningful, it must be ‘owned’ by the countries involved.”³⁰

It is too early to understand whether the ADB’s monitoring tool is effective. But we don’t see either coordination or monitoring on the ground.

The large amount of funds that will be quickly disbursed by the ADB and World Bank for Tsunami relief also underscores the need for immediate reforms of performance incentives for ADB and World Bank staff, and greatly improved anti-corruption measures at the Banks.

9. Conclusion

In the final analysis, it is apparent that because the ADB is not fully committed to accountability or transparency, it in effect enables and encourages corruption, which in turn delivers unsustainable projects. It is our experience in Sri Lanka that the ADB is not concerned whether its safeguard policies are complied with, nor is it even interested whether its loan covenants are met.

Whilst it is not possible for me to show that ADB personnel are corrupt in receiving money or benefits personally, what is clear is that the corruption in our country and of the overseas contractors is in practice assisted and empowered by the ADB’s practices and lack of priority in addressing this issue. The ADB currently has only very weak tools or mechanisms to control this corruption.

Our experience in the STDP case is that the ADB Accountability Mechanism consultation phase listens only to the Government and the Executing Agency and does not try to stop the breaches of safeguard policies or corruption.

Mr. Chairman, Senators of the Committee on behalf of the 19 million citizens of the teardrop in the Indian Ocean which is Sri Lanka whose lives are affected by such careless lenders, we appeal to you to use your hold over the purse strings of ADB to pressurize them to care about development and respect the sustainable livelihoods, to care about the affected people, to stop the ADB feeding corruption.

As Mr. Bruce Rich of Environmental Defense stated before this Committee last 28th September, we also 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 without

³⁰ Harmonization and partnerships for Effective Recovery ADB Press Release, 18th March 2005.

a clearer idea as to the steps ADB is taking to implement reforms that will effectively address corruption.

In this regard I would like to make following recommendations.

- The ADB should strongly implement its Anti-Corruption Operational Procedures to explicitly assess corruption risk in its country strategy programs, project appraisal, and project performance evaluation reports.
- The ADB should improve transparency and information disclosure. We are very unhappy about the present draft version of the ADB's Public Communication Policy which says ADB also understands that full disclosure of information is not always possible for legal and practical reasons. It also says that ADB must safeguard the privacy of its staff and protect confidential business information of private projects sponsors and clients.
- The ADB should halt loan disbursements when government borrowers are not addressing corruption.
- There should be a mechanism to control borrowing government implementing agencies when they violate the ADB's safeguard policies.
- The ADB should get serious about enforcing its loan covenants.
- We also ask for a proper investigation on the corruption charges in the STDP and the Upper Watershed Management Project.
- Finally, we ask ADB involvement in finally correcting the problems to help the affected people in the Kirindi Oya Irrigation and Settlement Project.

Thank you very much for this opportunity.

END