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# CSOs Matter to MDBs. Looking into CSOs' Impact on Governance in the WB & the ADB

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## Introduction

**CIVIL SOCIETY ORGANIZATIONS (CSOS) DO IMPACT ON THE** running of the multilateral development banks (MDBs). To what extent and how will be the core of this case presentation, focusing specifically on the World Bank (WB) and the Asian Development Bank (ADB).

Governance is a new buzzword in the WB and the ADB, indeed across the MDB system. Defined as “the manner in which power is exercised in the management of a country’s social and economic resources for development”), governance is now viewed as central to sustainable and equitable development (Nishimoto, ADB 1997). Good governance is the exercise of power characterized by transparency (openness to public scrutiny and reduced, if not total absence of, corruption); accountability (answerable to decisions and outcomes); and predictability (rule of law). The discourse has been broadened to also include broad-based participation, as in decentralization of authority, functions and resources within the state system or involvement of non-governmental stakeholders in the process of decision-making.

But first, a word of caution. Impacts and outcomes are of multiple parentage and result from actions that are both intended and contingent. CSOs engaging the MDBs can only account for part of the result and even that is not easy to determine. The MDB's have been getting inputs from a wide range of CSOs, which include non-government organizations (NGOs) and community and people's organizations (COs and POs), among other non-state social actors. NGOs get more prominence in MDB literature because (1) they happened to be more visible and have had a more sustained relations with the MDBs as a distinct group and (2) the WB and the ADB tend to use the concept NGOs to also mean CSOs. These CSOs range from those directly collaborating with the MDBs for a host of motives to those actively campaigning for their outright abolition.

In this paper, NGOs and CSOs may sometimes be used alternately to mean the same thing.

### **Where we're at**

There is no common assessment as to where MDB-NGO relations stand now. But the WB and the ADB tend to share a generally positive view of their evolving relations with NGOs.

Views from NGOs diverse widely depending on where they are coming from and the nature of their experiences in relating with the MDBs.

### **As the WB sees it**

The WB came out with its first policy on NGOs in 1981 although NGO involvement in the Bank's activities traces back to the 1970s. The 1981 *Operational Policy Note on NGOs* has guided the Bank's operational collaboration and other forms of interaction with NGOs subject to the member government's policies relating to NGOs. Since then there has been steady increase in NGO involvement, notably in the social and rural sectors. By 1990, about 12 percent of projects being implemented had some form of NGO participation. Today, this has risen to 38 percent of active projects. In FY97, 47 percent of all approved projects had at least some degree of NGO involvement. These numbers have been derived from Staff Appraisal Reports, which include in their count intention to be involved though this may not be realized in practice. Likewise NGO participation is often no more than a consultation or involvement in a minor aspect of implementation. The depth of NGO



involvement in projects has also improved. In 1990, NGOs were involved in only a few projects at the design stage but by FY97 NGO involvement at that early stage accounted for 60 percent of all approved projects.

The space for NGO involvement has also been expanding beyond projects. The WB has opened the door to NGO participation in Economic Sector Work (ESW) through input into Poverty Assessments (PAs), National Environmental Action Plans (NEAPs), and analysis of social issues. The Bank has allowed NGO involvement in the formulation of a range of policies and operational guidelines concerning poverty, gender, indigenous people, resettlement, environmental assessment and action plans, forestry, information disclosure, inspection panel, and even in the NGO-initiated tripartite review of structural adjustment programs. To date, NGOs have gone as far as having a say in the formulation of Country Assistance Strategies (CAS), the WB document that sets the framework and direction of development and investment financing in developing member countries (DMCs). The World Development Report (WDR) 2000/01 is presently going through a process of global consultation and promises to be the first participatory exercise of its kind.

There has been a shift as well towards more collaboration with community-based organizations (CBOs) and national organizations. Among the projects involving NGO collaboration in FY94, 40 % involved CBOs, 70 % involved national organizations and 10 % involved international organizations.

The WB/NGO relations have been institutionalized upon the establishment of the NGO-World Bank Committee in 1982. Caricatured by some NGO participants as a 'wining and dining club', particularly referring to its earlier years of existence, the Committee has been functioning as a formal interface body between the WB and an international network of NGOs willing to engage in constructive interaction with the Bank. Over the years the Committee has sustained regular policy dialogues around issues of common concern, including structural adjustment, privatization and liberalization, people's participation in the Bank's policy and project work, information disclosure, the role of the state, among others. Certainly, the Committee has helped shape the Bank's thinking, policies and project practice.



## In the eyes of the ADB

By its own admission, the ADB lags behind the WB in NGO literacy. ADB's relations with NGOs dates back to its 1987 policy paper *ADB's Cooperation with Nongovernmental Organizations*. This policy paper has set a limited framework of cooperation between the ADB and the NGOs, addressing a range of operational and institutional implications. It considered cooperation with NGOs as an effective means of supplementing efforts in selected operational areas. It justified this cooperation on the ground of enhancing operational effectiveness by using the special capabilities and expertise of NGOs in addressing the basic needs of the poor and in the management and conservation of natural resources. The first ADB project to involve NGOs in its implementation was the NGO Microcredit Project in the Philippines in 1988.

A new policy on cooperation with NGOs was adopted by ADB in April 1998 taking into account the changes over the past decade. ADB has begun shifting its operational strategy from a narrowly-based project approach to program approach. Since 1994, policy-based lending has emerged as a major feature of ADB's operations. Correspondingly, NGOs have been involved increasingly in the formulation of policies, including country operational strategies (COS), the equivalent of the WB's CAS. To date, ADB-NGO relations involve three broad areas: cooperation in loan and technical assistance activities; cooperation in programming and country-level work; and cooperation in policy development work.

In loan and technical assistance activities of the ADB, direct NGO involvement has been steadily increasing. From 1981 to 1986 only 17 approved loans involved NGOs. By 1997, 27 of 72 loan approvals, about 38 percent, had varying levels of NGO involvement. NGO participation in technical assistance, which shows the same trend as in loan projects, suggests that NGOs have some influence in project development at the earliest stage of the project cycle. Of late, part of the ADB's menu of options for procurement has also included community participation in the interest of project sustainability or to achieve certain specific social objectives of the project. The Guidelines for Procurement Under ADB Loans prescribes such mode when it is desirable and efficient to (i) call for the participation of local communities and/or non-governmental organizations (NGOs), or (ii) increase the utilization of local know-how and materials, or (iii) employ labor-intensive and other appropriate technologies.



ADB-NGO cooperation in programming and country-level work is based on the recognition that NGOs can play a role in articulating the views, concerns and needs of larger constituencies than those affected by specific projects. NGOs, especially those which have developed capacities for policy research, analysis, and advocacy, are a major source of input in shaping the course of national development.

ADB has committed to integrate all of its declared policy reforms in its project practice. The Bank's 50:50 project mix goal (50 percent traditional growth projects and 50 percent social and environmental projects) set in 1991 provides the framework for this integration. ADB claims that its 50:50 promise is superior to the 20:20 compact put forward by the UNDP at the 1995 Copenhagen Social Summit. The UNDP formula proposes a matching arrangement of 20 percent ODA and 20 percent of national budget of recipient government to be dedicated to social spending.

Indeed thinking and practice across the MDB system have changed a great deal over the years. NGOs are not only recognized by the banks for their so-called comparative advantage in the effective delivery of project benefits to the poor. They are now considered a significant voice in determining policy and development outcomes.

### **What they don't say**

MDBs have been central players for much of postwar development history. They have been around long enough to accumulate a huge stock of lessons from project experience, demonstrate impact, answer criticisms and undertake needed reforms in policy and practice.

The WB (along with the IMF) was created by the winning allied nations at the close of World War II in 1944 to be the leading global institutions for post war reconstruction and development. The WB was to be the big builder mandated to assist member governments in reconstructing their war-devastated economies. After more than five decades it has financed more than 6,000 projects to the tune of \$300 billion plus in hard and soft loans.

The ADB was founded in 1966. Set up to promote the economic and social development of its developing member countries in the Asia-Pacific region, the ADB has funded about 1,500 projects amounting to more than \$50 billion in loans and soft credits.



The record shows that up until the early 1990's, the WB and the ADB have been preoccupied more with pushing money out the door, as it were. This is the so-called culture of approval that has long characterized their operations. The two banks have made out one loan after another mostly for traditional growth projects that favored the borrowing elites and resulted in more harm than good to the masses of poor and the environment.

Billion dollars of MDB loans have piled up as international obligations in the borrowing countries' ledgers, adding to an already huge composite debt burden with little prospects of being fully serviced or repaid.

It seems that the MDBs are less interested in collecting repayments than in opening local economies to global trade. What is more important for them is to increase exports and it matters little if earnings from these do not suffice to meet the borrowers' obligations. Indeed most of the borrowing DMCs have already been trading off their human and natural capital without necessarily increasing their capacity to repay.

For much too long MDBs have been going about their business with little public knowledge, if not total lack of transparency. The histories, purposes, visions, resources, structures, and operations of these institutions were little known, much less understood by ordinary people. The information disclosure policy has come a long way, resulting from stubborn and increasing public demand for transparency.

Bank funding of mega projects that have displaced communities and destroyed the environment has been challenged on many occasions. Outstanding examples include the Chico Dam project in the Philippines, the Polonoestre Project in the Brazilian Amazon, the Arun Dam in Nepal, among many others. The WB itself has admitted to the displacement of some 800,000 people by its own funded projects in the Indian sub-continent alone.

The WB Inspection Panel, a quasi-independent mechanism designed to evaluate WB's adherence to its own policies and procedures, was a product of a broad grassroots and international campaign against the Sardar Sarovar dam project on the Narmada River in India. The Panel was created in response to strong and persistent demand for greater public accountability of WB lending operations.

NGO advocacies through the years have straddled a broad spectrum. There are groups that are adamant in their rejection of these institutions and choose not to participate in the venues for direct engagement. Others like the Working Groups on the WB and the ADB have chosen to



take the struggle for reforms inside the 'lions den' so to speak, in the process creating opportunities and spaces for NGO participation.

The strongest NGO criticism has been directed at the structural adjustment program (SAP), a set of policy prescriptions intended to enable debt-burdened countries of the developing world to grow out of the debt crisis that has paralyzed them since the 1980's. This adjustment prescription entails cutback in public spending to reduce or close budget deficits, deregulation to free up the market forces in order to boost export production and earn more money to repay accumulating debts.

The impact of SAP on the poor was sudden and profound. Social spending on education, health and other services was hit the hardest. In Africa and Latin America, SAP was judged a failure for causing widespread negative effects on education and health, worsening the poverty situation, increasing unemployment and further widening the gap between the rich and the poor.

NGOs have also raised issues and concerns over the social and environmental impacts of MDB policies and projects. The campaigns launched by NGOs to reform policies and oppose projects of MDBs were expositions of the ill effects of these policies and projects on people's lives. These campaigns effectively mobilized communities and fortified the growing opposition to destructive development.

At the national level, NGOs, COs and POs challenged their governments to defy the MDB prescriptions. In the Debt-SAP campaign NGOs called for a repeal of policies that give priority to debt payments in budget allocation, as in the case of the Automatic Appropriations Act in the Philippines.

At the international level, networks of NGOs were created to push the reform agenda forward. These networks effectively combined strong grassroots links of the NGOs and their ability to mobilize opposition with critical research and policy analysis. The networks pooled capacities together to strengthen their common advocacy, explore innovative strategies and expand the scope of engagement with the MDBs.

## **Winning the battle of words**

The ADB and the WB have been responding positively to mounting criticism of their policy and practice. We are being told that the infrastructure banks of old are no more. What we are supposed to see now are banks that have gone far down the road to reforms. That they



must be addressing social and environmental concerns more than ever. And that they are now more accountable with respect to the conduct of their business and the consequences of their decisions.

The MDBs subscribe to the current ideological consensus that economic growth is necessary but not enough. What it means is that the MDBs from now on will see to the incorporation of social and environmental concerns across the board while pursuing economic development. Following this, they have put in place policy measures addressing many, if not all, of the issues raised by their critics.

The change in thinking and policy language reflects what is happening at the global scene. The series of international events and processes in which the MDBs member governments have participated have resulted in a bundle of commitments addressed to a whole range of issues concerning human survival. The WB and the ADB have been participants in the UN summits in Rio, Cairo and Copenhagen, among others, and is not only privy to all the commitments made but are also somehow bound by them.

Concern for social aspects of development has been incorporated in ADB operations through various policy guidelines and instructions to staff. Among others, the Bank has adopted policies on the role of women in development (1985) and cooperation with NGOs (1987 and 1998). Other documents shaping Bank operations have been the recommendations of the Task-Force on Poverty Alleviation (1988); Sector papers on Human Resources Development [e.g., education (1989), and health and population (1991)]; Staff Guidelines on Institution Development (1987); Environmental Guidelines and Procedures (1987-1991); Guidelines for Social Analysis of Development Projects (1991); the Handbook on Benefit Monitoring and Evaluation (1992); the Guidelines for Incorporation of Social Dimensions in Bank operations (1993); and Policy on Confidentiality and Disclosure of Information (1995) (*From Guidelines for Incorporation of Social Dimensions in Bank Operations; ADB 1993*).

Commitment to results was how then President Mitsuo Sato summed up 1994, his first year in office at the ADB. Upon assuming the top post in the Bank immediately prior to the 27<sup>th</sup> Annual Meeting of the Board of Governors in May 1994 in Nice, Sato took major initiatives to make the ADB "more effective, efficient and accountable". His presidency was committed to deliver quality project outcomes as ADB strives to realize its 50:50 strategic goal, considering the rapid changes in the Asia-Pacific Region.



In 1998 the WB articulated its purpose to help borrowers reduce poverty and improve living standards through sustainable growth and investment in people. In FY98 it implemented the Strategic Compact, aimed at increasing development impact and playing its part in the fight against poverty more effectively.

The WB sees the mainstreaming of social dimensions as key to effective and sustainable development. An increasing number of Country Assistance Strategies are giving special attention to social development issues and to the involvement of key stakeholders in the preparation process.

The WB has been trying as well to move away from its target-driven, supply- oriented framework and has instituted a demand-driven policy framework for all its future projects. This means that projects would only be considered for appraisal and funding if proposals or requests for assistance come from the end-users or beneficiaries themselves.

Through either policy directives or procedural guidelines, the WB continues to push gender equality, environmental sustainability, and participation principles into its mainstream operations.

The WB Inspection Panel provides citizens who may be directly or adversely affected by a Bank-supported project or projects the opportunity to request an investigation regarding non-compliance to Bank's avowed policies. To date the Panel has received thirteen formal requests for inspection, eleven of which were found to be admissible, and seven have been acted upon.

### **More than Words**

There is a whole of difference between making a commitment and actually making good of it. As is often the case, word hardly squares with practice. Surely the WB and the ADB face a tall order in breaking away from a deep-seated culture and practice and embarking on the path of reform.

Many fundamental issues pertaining to equity and sustainability remain outstanding. These issues originate from the very core of the dominant development paradigm. Debates around these issues must continue. The battle for word, as it were, is not yet over.



However, it is about time that we started collecting on the promises. For this we will need to strengthen the civic watch over the WB and the ADB to make sure that commitments get pushed to their logical end. A strong civic watch means a worldwide network of voluntary organizations capable of engaging the banks and their member governments not only in discourse but more specially in monitoring compliance with promises.

For example, the ADB's 50:50 "compact" for a socially and environmentally responsible development, despite its limitations, provides a framework for the convergence of policy reforms. Its realization may very well be the litmus test for the Bank's sincerity to reform.

But in order to meet and sustain the 50:50 target, the ADB must contend with enormous pressures. In the first place, can it withstand the main current of structural adjustment that favors all-sided privatization and more cutbacks in social spending? Secondly, since social and environmental spending is usually viewed as cost rather than benefit the tendency will always be to lessen it. Thirdly half of the 50:50 mix, meaning social and environmental projects, may end up simply mitigating the negative effects of the other half of traditional growth projects, thereby producing either a zero-sum or negative-sum outcome.

In the WB there have been discussions of late on the need to maintain an "appropriate balance" in the Bank's relation to NGOs. These have been triggered by increasing concerns expressed by some borrowers "that the bank may be running ahead of its partner governments in its dialogue with NGOs on policy issues, and that some NGOs want even greater dialogue with the Bank, in part as a way to influence borrower governments".

The International Conference on Participation in November 1998 in Washington D.C. was a high point in WB-NGO interaction around the issue of good governance. The conference, jointly organized by the WB and NGOs and also involving representatives from member governments, addressed the need to mainstream primary stakeholder participation in WB's policy and project work. President James Wolfensohn committed to make the practice of participation a Bank-wide reality as well as a measure of management and staff performance.



## More to do

*Guard the pipeline.* It is important to mind the Banks' program and project cycles. The simple questions asked and the data extracted from Appraisal Reports (AR) to establish costs and benefits as shown in Project Profiles, are in the same fundamental questions that should be asked and answered at every stage of the cycle: (1) at project identification; (2) during initial analysis, design and processing of the project; (3) throughout project implementation; and (4) at post-evaluation. Here, Mission Leaders and Program Officers are the people to engage since they play a key role in seeing through the loan projects from the planning to commitment stage. At any point, throughout the project preparation stage, especially early in the cycle, it is important to focus on the Executive Directors since they are the final decision-makers apart from being "initiators" and "lobbyists" of projects on behalf of borrowing countries.

*Engage the borrower.* "Talk to your government" is a standard Bank reply to NGO lobbyists. We should take this advice seriously, without giving up on our criticism of the Bank's own responsibility for pushing money out the door among other shortcomings. Up till now, we have been concentrating more on the Banks' management and staff than on their borrowing owners, the DMCs, who are becoming less and less inclined to spend for human development priorities and environment protection. If only the borrowing DMC had reflected these concerns adequately in their loan proposal, there would be less need to lobby the banks.

*Ground test.* It can and does happen that social and environmental concerns built into the project design get watered down or ignored in the course of project implementation. Preventing this from happening is the least that must be done from the moment the loan project becomes effective. The yearly summary of bank loan projects provides us with useful navigation map for project tracking on site. On a per project basis, Project Profiles and Project Information Documents, with their cost and benefit appraisals, are very useful guiding, monitoring and evaluation tools. Lobbyists and affected local communities must take full advantage of these instruments.

*Monitor the private sector.* Private sector participation in the Bank's co-financed projects is definitely on the rise. Already, the Bank's share of financing is proportionately declining against the financial share of private sectors, especially in traditional growth projects where consideration of social and environmental concerns is found to be weakest. As this trend goes full swing, we can expect increasing adverse



effects on affected local communities and their environments. Since the private sector is less subject to social and environmental “conditionalities” than the borrowing governments the prospects for meeting sustainable development goals will be in a difficult fix indeed. We need to devise effective strategies for engaging the big money interests. Their responsibility for the 1997 crisis and the Banks’ tendency to bail them out with taxpayers’ money must never be left unchallenged. The trendy concept of corporate citizenship, whatever it means, should translate in monitorable corporate responsibility to people and the environment.

*Make an ally of the Bank.* The WB and the ADB can and should be an ally in the pursuit of equitable and sustainable development. Especially in light of the present global crisis and its horrible consequences for the poor and the environment the last thing we want is one more enemy. We can argue endlessly about whether the WB and the ADB are our friends or enemies, with perhaps justifiable reasons either way. But what’s more important, we can continue to be critically constructive as we explore avenues of cooperation within or beyond the parameters of the promised reforms. Vision or reality, the reform process in the MDBs suggests many possibilities for working together in creating a better world out of our present mess.





## About the author

Isagani R. Serrano is Senior Vice President and Board Member of the Philippine Rural Reconstruction Movement (PRRM). He's written for CIVICUS the following: *Civil Society in the Asia-Pacific*, 1994; *Humanity In Trouble But Hopeful* in CITIZENS, 1995; *Profile: Philippines* for CIVIC INDEX, 1997; *Coming Apart, Coming Together* in Civil Society at the Turn of the Millennium, 1999; *A Global Citizens' Commitment*, 1999. A community organizer, educator, writer, guitarist, 'farmer', and political prisoner for seven years during martial law in the Philippines. Trained in education and literature, community organization and development management. Holds a Master of Science in Environment & Development Education (MSc in EE/DE) from the South Bank University-London.



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