

ADB KORANGI WASTEWATER PROJECT:

ILL-CONCEIVED BOONDOGGLE

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In September 99 the Asian Development Bank terminated the loan agreement for its \$100 million Korangi wastewater collection and treatment project in Karachi, after a new provincial government withheld endorsement of the project for over a year. It seems likely that a sustained protest by citizens assisted wiser counsel to prevail in government and the Bank.

At the subsequent invitation of the provincial government, the Orangi Pilot Project has prepared the conceptual outlines of an alternative project. Since it will cost no more than one-fourth of the ADB proposal, the alternative project can rely entirely on provincial and municipal resources, and on affordable user charges.

Given frequent change of government, and the enormous gains to be made from boondoggles by consultants, contractors, politicians and aid agencies, citizens must now struggle for implementation of the alternative low-budget project.

There are essential lessons to be learnt from the Korangi case, and we elaborate upon our interaction with the Bank.

Citizen Concerns

Despite much talk of transparency, it took ADB and government 8 months to concede a request for sharing Project plans. Alarmed citizens promptly informed the Bank and government of fundamental technical and organisational flaws in the Project, which made it unworkable and exorbitantly expensive. A comprehensive and independent review was repeatedly requested, but neither government nor the Bank agreed to the call for broad-based, transparent and accountable public scrutiny.

One reason for such major flaws in Project formulation lies in dismal organisational failures at the Karachi Water & Sewerage Board. This is compounded by the absence of effective government oversight over its agencies and consultants. Immensely serious is the failure of Bank staff to formulate the Project in compliance with ADB

Policies and Procedures. The result is a larger municipal boondoggle than that previously financed by the Bank in Baldia.

Unaccountable Officials

Between 1997 and 1999, Pakistani groups filed a series of complaints with provincial and federal governments, Bank Management and its Board. The Inspection Committee of the ADB Board was first approached in late 97.

At the 1999 Annual General Meeting of the ADB, citizen concerns were emphasised in meetings with the new President and with Executive Directors. Internationally, these protests have been disseminated through the NGO Forum on the ADB.

Not surprisingly, both Bank Management and Board members have resolutely defended their Project against citizen complaints. Expressing complete satisfaction with Management, in mid- 98 the ADB Inspection Committee rejected our petition for independent review on the grounds that we had failed to establish eligibility to invoke the Inspection Process.

A subsequent petition by residents of the Project area was filed in mid-1999, with the same grievances as in the earlier petition, and also pointing out that the new provincial government had declined the Project loan. ADB Management rejected the petition as baseless. In their last letter of February 2000, the Bank Inspection Committee defended Management, and further declined review since the Project had actually been terminated prior to loan disbursement.

Our experience with government and its agencies suggests the obvious. The crux of the complaint against the Project obviously arises from the wholly inadequate process of participation in Project formulation followed by the Bank and government. Had the consultative process been genuinely broad-based from the very start, government and Bank staff would have easily realised and acted promptly upon relevant information and legitimate concerns of communities and citizens.

Ad-hoc consultations with selected citizens need to be replaced by more transparent, participatory and accountable mechanisms. The city needs a Permanent Commission on Infrastructure and Utilities. If public hearings by the Commission develop a

consensus at the initial stage of project conceptualisation, further work on project formulation and implementation should be overseen by Commission subcommittees. Further scrutiny of formal project proposals should include public discussion and debate through Standing Committees of the provincial legislature, and where foreign or federal loans are involved, of the national legislature. Legislative ratification of all large projects is absolutely essential.

Protests to the ADB

In November 97, citizens complained to the ADB Inspection Committee after Bank Management had failed to satisfactorily respond to serious grievances.

Bank Management was charged with failing to satisfactorily implement various aspects of at Bank policies and procedures, including the following:

Lending and Re-lending, and Formulation of Loan Covenants; Processing of Loan Proposals; Benefit Monitoring and Evaluation; Incorporation of Social Dimensions; Good Governance; and Economic Analysis.

These grievances were repeated in mid-1999, when residents of the Project area endorsed the earlier complaint. In addition, residents drew attention to the provincial government's decision to decline the ADB loan and instead develop cost-effective alternatives. Even after ADB terminated the loan, the federal government and KWSB kept up its pressure to implement the Project. In response to expression of fears that ADB would reconsider, the ADB Inspection Committee reassured that the Bank had no intention of reinstating the Project Loan.

Fundamental Project Flaws

The following facts and judgements were placed by us before the ADB Board and Management.

The Project requires repayment of the Bank loan by KWSB through its revenues. Well before submission to the Board, Management had known that this loan condition could not be met, in view of its knowledge of:

- Government strategy for privatising KWSB wherein the private concession would have full control over revenues, operations and investments;
- KWSB debt servicing would remain the obligation of government;
- Government plans to complete privatisation well before Project completion.

Similarly at odds with ADB's prior knowledge of government plans, the Project allocates funds for government capacity building in areas which are currently the responsibility of privatisation consultants or will become the responsibility of the proposed private concession.

Being poorly designed, Project implementation places an unnecessarily higher burden on beneficiary communities both through investments required by them, through the additional user charges that will be imposed, and through the higher taxes collected.

When the future private company recognises its cost-ineffectiveness the Project will be ditched half-complete and concessional Project finance diverted to other objectives.

Government plans for privatisation will result in the Bank loan becoming an additional annual burden of over Rs 200 million (at current prices) upon taxpayers. Even if the Project is implemented and becomes functional, all user charges will go to the private operator. This will indeed be a perverse situation wherein consumers pay twice for Project services, first to the private operator and second as taxpayers.

There are serious questions whether projected sewerage collection is adequate to allow reasonably high utilisation of both the Project wastewater treatment plant as well as the proposed treatment plant constructed by industry groups (KATI/PTA). Since poor design makes it highly probable that sewerage collection will be a fraction of projections, the consequent extremely low utilisation of treatment plants will simply be an enormous waste of public and private resources.

In formulating the Project, neither ADB Management nor KWSB undertook substantive consultations with the communities directly impacted through Project outcomes.

Neither ADB nor KWSB ever conducted public or semi-public hearings *during* Project formulation. ADB consulted largely with its so-called clients of KWSB and GOS, which is hardly in consonance with ensuring accountability, participation, and transparency to project communities and taxpayers.

Benchmark information on the project area has been collected and evaluated by ADB within the narrow confines of justifying a pre-conceived project design. Had they been more diligent, Management would have discovered that existing conditions called for a very different design to minimise costs and maximise project success.

As with gathering benchmark information, economic analysis is self-servingly restricted by the Bank to the chosen Project design.

ADB Inspection Policy

Our experience in the Korangi Project suggests that the ADB Inspection Policy fails to hold the Bank accountable to citizens. The Policy therefore needs urgent revisions to remedy fundamental flaws. These include:

- Citizens not directly affected by the Project are deemed ineligible to file complaints, however grievous the damage to people and nature; or the waste and misuse of public resources;
- Also excluded as eligible complainants are citizens from member countries whose public funds support Bank operations;
- Grievances are ineligible if Management faithfully applies grossly defective Policies or Procedures;
- Inspection procedures focus more on establishing violations of Policy and Procedure instead of the substance of grievances;
- An unfair burden is imposed on petitioners to search for violations of specific Policy and Procedure;
- The Board exercises judgement on its own diligence in prior project approval;
- Loan processing and project implementation can continue even after the Policy is invoked to halt severe adverse impacts.

Promoting Poverty

In 1999 the Bank began to emphasise poverty reduction as its core objective. The Korangi Wastewater Project is completely at odds with this objective. Being ill-conceived, the Project would provide very little additional sanitation and waste water treatment. The Project would ignore investments already made by low-income households in disposal of sewerage. Yet low-income households in the Project area and in the rest of the city would be burdened with enormously higher user charges and taxes to service debts for a Project that was exorbitantly costly to build, maintain and operate.

Even in the unlikely event that the ADB Project accomplished its goals, so-called beneficiaries would end up paying at least four times the value of benefits since the same goals could be achieved at one-fourth the cost of the ADB Project. The Korangi Wastewater Project would have therefore added to poverty rather than alleviate it.

This is also the distressing conclusion that we derive from some of the other large ADB projects we have examined. The failed Baldia Sewerage Project is another example. Billions of rupees have been spent in the Social Action Programme without much to show for it, yet the Bank keeps pumping in more funds into the program. The Korangi Fisheries Harbour has remained mostly idle for many years, and efforts to revive it have brought foreign fishing vessels poaching in our coastal waters. The Bank's emphasis upon water as an economic good and consequent support for privatisation of urban water supply and of irrigation water will surely lead to worsening the plight of the poor rather than their alleviation as the Bank would have us believe. For the poor, the road to hell can be paved with good intentions.