

ADB

NEWS from ERO

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Countries Covered: 14 European members: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, Turkey, and United Kingdom

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Political Risk Guarantee Policy Revamped

The Asian Development Bank has revamped its political risk guarantee policy, making it more user-friendly and transparent. The scope of coverage for lenders to private sector projects has also been expanded and made more explicit. Areas of political risk coverage now include expropriation, currency inconvertibility and/or nontransfer, political violence, and breach of contract.

"This represents a major shift in focus in ADB's marketing of our political risk guarantee (PRG) instrument," says Christine Wallich, Director of ADB's Infrastructure, Energy and Financial Sectors Department (West) and Head of the Private

Sector Group. "ADB generally offers direct loan assistance to projects. In the future, we will also offer the political risk guarantee to attract commercial lenders and, at the same time, continue to provide direct lending. This will enable us to focus on assessing and mitigating country and political risks, areas in which we have a comparative advantage, leaving commercial risks to private sector lenders."

The improved political risk guarantee program will help catalyze long-term foreign investment in developing member countries, thereby promoting growth and supporting ADB's overarching goal of poverty reduction. Promoting capital flows and long-term foreign

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New Water Policy Approved

Integrated Water Resource Management Encouraged

On 16 January, the Asian Development Bank approved a water policy that stresses the need for an integrated water resource management approach to conserve an increasingly scarce resource.

With rapidly rising demand for water—and depleting resources—ADB notes that reallocating water among competing uses is an increasing challenge. This impacts on

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34TH ANNUAL MEETING OF THE BOARD OF GOVERNORS

The Thirty-Fourth Annual Meeting of the Board of Governors of the Asian Development Bank will be held in Honolulu, Hawaii, United States, from Wednesday, 9 May, to Friday, 11 May

2001. The Opening Session will take place in the Hawaii Convention Center (HCC) on 9 May. Business Sessions will also be held in the HCC on 10–11 May. The sessions will end at about noon on 11 May.

Seminars on development and financial issues and country presentations will be held in the mornings and afternoons on Monday, 7 May, to Friday, 11 May. ■

Date	Title
7 May (a.m.)	Regional Cooperation: The Way Forward Urban Environmental Dilemma and Development Policy in Asia Pacific Day Seminar: Partners in Development Nongovernmental Organizations and Donor Cooperation in the Pacific The ICT Revolution: Can Asia Leapfrog Poverty Barriers?
7 May (p.m.)	Water in the 21 st Century—The Looming Crisis Pacific Day Seminar: Private Development in the Pacific Seminar on Commercial Cofinancing and Guarantees Money Laundering: Threats and Countermeasures
8 May (a.m.)	Country Presentation—Philippines Best Practices for Promoting Private Sector Investment in Infrastructure Tourism and Poverty Reduction in Asia and the Pacific Forum on the Implementation of International Financial Standards in Asia ADB's Private Sector Development Strategy Pro-Poor Growth: The Renewed War on Poverty
8 May (p.m.)	Hawaiian Business Forum Luncheon Hawaiian Business Forum <ul style="list-style-type: none"> ◆ Keys to Expanding Business with Asia ◆ How to do Business with ADB
	Child Labor and Poverty Globalization—the Emerging Development Challenge (two sessions) Policy Recommendations for Developing Corporate Bond Markets in Asia (Organized by the Asian Development Bank Institute in Cooperation with ADB) Future of Regional Institutions in Asia and the Pacific HIV/AIDS in Asia and the Pacific
9 May (a.m.)	Country Presentation—India
9 May (p.m.)	Corporate Governance (Organized by Standard and Poor's in Cooperation with ADB) Information Technology: Impact on Asian Society (Organized by Compaq in Cooperation with ADB) Open Forum on Cooperation Between ADB and Nongovernment Organizations Roundtable Meeting of Institutional Investors, Financiers, and Policymakers
10 May (a.m.)	Emerging Markets Country Presentation—People's Republic of China
10 May (p.m.)	Emerging Markets
11 May (a.m.)	Country Presentation—Indonesia

<http://www.adb.org/AnnualMeeting/seminars.asp>

the poor who are not sufficiently empowered to claim water rights. ADB is encouraging its developing member countries to adopt a participatory and negotiated approach to water allocation.

The region's water shortage is serious. Asia has the lowest per capita availability of freshwater resources among the world's continents. Due largely to population increases, per capita water availability dropped by 70 percent in South and Central Asia, 60 percent in North Asia, and 55 percent in South-east Asia over the last 50 years.

Moreover, the outlook is alarming. Demand for domestic and industrial water is growing rapidly. As a result, per capita water availability is projected to fall further by 2025. To meet the top priority of providing drinking water and sanitation, the use of irrigation water for food production needs to be much more efficient. In some countries, up to 90 percent of water is used for irrigation. Pakistan, Sri Lanka, and Thailand are examples of countries under high water stress and likely to suffer further.

"Twenty years ago, people were talking about food security. Today, they talk of water security," says Arjun Thapan, co-author of the water policy report and manager of ADB's Water Supply, Urban Development and Housing Division (West). "In the face of competing demands for water, we have to use it wisely. This means using an integrated water resource management approach. We should also follow nature in basing such an approach on a river basin context."

Within the next quarter century, half of Asia's estimated population of 4.2 billion is expected to live in urban centers. Increas-

ing urbanization, industrialization, and waste will put more pressure on water availability. While cities are reaching out ever further for water, rural areas also suffer from water shortages. In many countries, women and children have to walk long distances to fetch water, sacrificing a large part of their lives—and education—to sustain others.

ADB's water policy stresses the need for integrated cross-sectoral approaches to water management and development. It emphasizes that water is a socially vital economic good that needs careful management to sustain equitable economic growth and reduce poverty. Conserving and protecting water resources through a participatory approach are at the heart of the policy.

The water policy aims to achieve the following.

- **Promote a national focus on water sector reform.** Developing member countries will be helped in adopting effective national water policies and laws, improving institutional capacities and information management, and developing a national action agenda for water. The needs of the poor will be factored into legal, institutional, and administrative frameworks.
- **Foster the integrated management of water resources.** This will be based on comprehensive water resource assessments and concentrating interlinked water investments in river basins.
- **Improve and expand delivery of water services, mainly water supply and sanitation (urban and rural), irrigation, and drainage.** Support will be provided for autonomous and accountable service providers, private sector participation and public-private

partnerships. Equity of access to water for the poor and underserved will be emphasized.

- **Encourage water conservation and system efficiencies.** Support will be given for packages that combine water use and resource management charges to recover costs, improve regulation, and increase public awareness, and provisions to ensure the poor are not excluded.
- **Promote regional cooperation and the benefits of shared water resources within and between countries.** This will focus on the exchange of information and experiences.
- **Facilitate stakeholder participation through the exchange of water sector information.** This will be achieved largely through public-private-community-nongovernment organization partnerships.
- **Improve governance.** This will be accomplished by supporting decentralization; building capacity; and strengthening monitoring, evaluation, research, and learning at all levels, particularly in public sector institutions.

In implementing the policy, ADB will focus on policy discussions and water sector assessments to reach agreement with development partners on national water sector reforms. ADB will also selectively support programs based on a country's water action agenda that reflects integrated water resource management. Projects in the pipeline will be reviewed and supported if they conform with ADB's broad policy principles. ■



Opportunities for Private Environmental Investment

Many poor countries in Asia count on agriculture, fisheries, forestry, or mining. But maintaining, increasing, or supplementing these sources of livelihood is conditional on sustainable management of natural resources and the environment. As these countries industrialize—and as their populations increase and concentrate in urban settlements—it is becoming urgent to balance the economic, social, and environmental benefits they derive from natural systems.

Too often, the challenge of maintaining environmental integrity is placed squarely on the lap of the public sector. However, in industrialized countries, the private sector plays an ever more significant role in providing environmental goods and services. There, experience shows that such services can be provided in various ways, on a variety of scales, and at varying levels of waste, efficiency, and environmental impacts.

That know-how can be transferred to developing countries where the markets for environmental goods and services, though small, will expand rapidly. There, demand for private environmental investment will be driven by the ever-increasing severity of environmental problems, rising awareness of such problems, grow-



ing support for better environmental stewardship, and international pressure on countries to harmonize and enforce environmental laws and regulations. It will be led by buyer groups such as central governments, state governments, local authorities, parastatal enterprises, private sector manufacturing concerns, developers, and individual consumers.

Where are the Markets? That future is not distant. Already, opportunities for private environmental investment exist in many areas.

- **Water.** The most promising market for environmental goods and services is in the water sector, where the need for potable water supplies and wastewater treatment facilities is often critical. Asia's rivers are far more polluted than the rest of the world's: typically, they have four times the world average of suspended solids. Good prospects exist in municipal and industrial water treatment, distribution and disposal, wa-

ter conservation and recycling, and consulting and monitoring.

- **Air.** Air pollution in Asian cities is among the worst in the world: major sources of air pollution include vehicular exhaust gases and industrial emissions. Here, efforts to improve air quality will generate opportunities in emission control equipment for industry, clean energy technology and associated energy substitution, public transport, catalytic converters, vehicular emission filters, gas combustion systems, natural gas distribution infrastructure, solar power equipment, vehicle inspection, as well as consulting and monitoring.
- **Waste.** Economic progress and industrialization coupled with urbanization and population growth have aggravated urban sanitation throughout Asia. On average, municipal authorities there spend 50–70 percent of their revenues on managing solid and hazardous waste. Yet collection services remain low, with only

50–70 percent of residents receiving any service. Of even greater concern are the growing quantities of hazardous toxic wastes that hospitals and industrial and commercial establishments generate. About 60–65 percent is placed in dumpsites or landfills and 5–10 percent is dumped in water bodies; the rest is incinerated or chemically treated. Most of the time, environmental safeguards are absent or largely ineffective. Particularly in metropolitan areas, business can be done in waste collection equipment, waste sorting and recycling, waste treatment equipment and installations, and hazardous waste treatment and disposal.

- **Renewable Resources.** Private environmental investment in renewable resources is less dependent on legislation and its enforcement than in the three other markets identified. Opportunities include ecotourism, plantation and sustainable forestry, integrated pest management, wildlife management, agro-industrial waste treatment, and renewable energy.

Neglected Options. The private sector can move quickly in the right regulatory climate. As governments respond to environmental degradation with legislation, strengthened environmental protection institutions, and tougher enforcement of environmental laws and regulations, gateways such as those listed above will open up to private environmental investors. Constraints on public resources will also generate additional demand on private entities to extend utility services. But privatization and other supportive actions can harness private environmental investment even more directly.

- **Privatization.** In Asia, public utilities, state enterprises, and parastatal enterprises are often major polluters and inefficient users of energy and environmental resources; they also absorb large shares of central and state budgets. Well-planned privatization can cut financial

costs and risks and promote private environmental investment. Several options exist. Some retain public ownership and control of assets and concentrate on competitive bidding among private operators for service, management, or lease contracts for a defined period. In the build-operate-transfer mode, a private company finances investments in addition to working capital, builds the project, operates it long enough to repay debt and achieve a return on equity, and then transfers the project to the government. In the most far-reaching option, i.e., divestiture, the government sells all or some of its shares to the private sector. (The table below illustrates these options, citing locations where the Asian Development Bank played a role.)

■ **In developing countries, the market for environmental goods and services will expand rapidly.** ■

- **Supportive Actions.** Governments are not short of ways to harness private environmental investment. They can also, for instance, remove obstacles to the involvement of the private sector in reforestation in ways that promote tree planting on underused or vacant lands. They can provide training to private entrepreneurs wishing to play a role in reclaiming and rehabilitating degraded public lands, sustainable agriculture, aquaculture and fisheries management, or environmentally sound industrial development. They can also facilitate access to pollution control and abatement technologies and support programs aimed at raising private sector awareness of the need for more environmentally benign technologies.

ADB's Reach. ADB can back up governments in their efforts to harness private environmental investment through privatization. It can also shore up the supportive actions mentioned, provide direct assistance to private enterprises wishing to avail of opportunities for environmental investment, and extend indirect assistance for the same purpose through development finance institutions.

- **Privatization and Supportive Actions.** ADB can offer policy advice to developing member country governments privatizing for environmentally sound development and taking other actions to promote private environmental investment. It can also provide complementary technical assistance to formulate and implement policy reforms, examine privatization possibilities, and create or improve a legislative and institutional framework in which private environmental investment can emerge and thrive.
- **Direct Financial Assistance.** ADB can also extend direct financial assistance to private enterprises for green projects through loans without government guarantee and underwriting and investment in equity securities. In this way, it can promote private investments in any of the markets identified above. Where suitable, ADB can also fund technical assistance to create or strengthen institutions assisting the private sector, or to prepare studies of build-operate-transfer or build-own-operate projects that can have demonstration and catalytic effects.
- **Indirect Assistance through Development Finance Institutions.** ADB assistance to promote private environmental investment can also be channeled through development finance institutions. Where its involvement is in the form of a credit line to be used by the latter, ADB's environmental concerns will be addressed at the policy and subproject levels.

The most successful policy, program, and project interventions are those in which private sector players—including nongovernment organizations—are the primary investors and operators. In the developing countries of Asia, it is high time that governments and developers make better use of environmental investment opportunities. ■

Olivier Serrat, Liaison Officer, European Representative Office, Asian Development Bank, contributed this article.

Options for Private Sector Participation in Urban Water Supply

Option	Asset Ownership	Operation & Maintenance	Capital Investment	Commercial Risk	Usual Duration (years)	Location
Service Contract	Public	Public & Private	Public	Public	1-2	Bangkok
Management Contract	Public	Private	Public	Public	3-5	
Lease	Public	Private	Public	Shared	8-15	Kathmandu
BOT	Private	Private	Private	Private	20-30	Chengdu
Concession	Public	Private	Private	Private	25-30	Jakarta, Manila, Kuala Lumpur
Shared Ownership	Joint Corporate	Joint Corporate	Joint Corporate	Joint Corporate	Indefinite	
Divestiture	Private	Private	Private	Private	Indefinite	

Source: ADB.2000. "Sustainable Development in Asia." Manila, Philippines.

Private Financial Organizations Struggle to Find Green Solutions



Presumably, the creation of sustainable livelihoods is a topic that private financial service organizations know something about. So excitement ran high when the United Nations Environment Programme (UNEP) discussed the environmental implications of globalization with several of them in Frankfurt last November.

To be sure, a few saw that financial service organizations can encourage sustainable development. The market-based opportunities and challenges that one speaker identified include ethical or green funds, green securities, tradable permits, and mixed instruments such as environmental bonds. The knowledge-based openings that he made out could be voluntary agreements, certification, reporting, and disclosure of information. Another explained the workings of the Nikko Eco Fund, which invests in companies that excel in environmental conservation. But most others highlighted the direct, indirect, and image risks associated with environmentally sensitive projects. And, except for one speaker who reminded the audience that 1.3 billion people live on less than US\$1 a day, they contemplated only emerging markets.

Predictably, then, few new business models were outlined. One participant (from UNEP) made clear the potential of cleaner production financing in terms of cost reduction (materials, energy, waste treatment), business upgrading (improved quality and competitiveness of green processes, products, services), and risk reduction (inherent to cleaner production). Even so, he recognized constraints, of which the small sizes of investments. **(SOMETHING MISSING?)** Others are the absence of business incentives, the lack of ability of the private sector to prepare creditworthy proposals, the longer payback period of such investments, undervaluation of environmental risks, and the fact that financial organizations often do not see the technical and financial merits of investment proposals.)

One session on environment management and reporting guidelines for the financial services sectors also came unstuck. A panelist explained the endeavors of the Global Reporting Initiative. But subsequent talks described separate attempts to develop a common reporting framework at

the national level, and in isolation from the global initiative.

Yet the relationship between companies and the environment in which they operate is more and more important, and senior managers recognize increasingly that companies have a responsibility not just to shareholders but to other stakeholders. Environmental (and social) accounting could embed these responsibilities. But despite its topicality, UNEP's roundtable did little to advance knowledge and much remains to be done before a practical framework for action comes about.

The emphasis that several speakers placed on image risks is not encouraging. So, those who lament aid fatigue will take comfort in the fact that most of the examples provided on smart environmental lending were drawn from multilateral development banks such as the Asian Development Bank. This suggests that they could help the financial services sectors of their developing members incorporate environmental considerations in their activities, and share their practical experiences of environment-friendly lending. And there surely exists potential for cleaner production financing—the hidden cost of waste is far greater than the cost of its treatment and disposal (counting compliance with regulations, wasteful use of raw materials, energy, and labor, tarnished images, and liability). For this reason, constraints on cleaner production financing ought not to be insurmountable, and development banks could mitigate them by means of credit lines, trust funds, policy dialogue, and training.

But the growing number of initiatives on environmental reporting, which use very different reporting frameworks, is cause for worry. It could set off a race to the top and spawn restrictive trade practices. What is more, the applicability in developing countries of the frameworks advertised is debatable. Should environmental reporting allow for regional variations? And, if this is not the case, how should the drafting process for global guidelines proceed? ■

Olivier Serrat, Liaison Officer, European Representative Office, Asian Development Bank, contributed this article.

Asia Faces Challenge of Finding Jobs for Its Youth, ADB Warns Poverty Forum

Social Protection Strategy Being Finalized

Forty percent of the Asian and Pacific population is under 19 years of age—and many face poverty instead of jobs unless sufficient economic activity is generated, an Asian Development Bank (ADB) official told the Asia and Pacific Forum on Poverty on 8 February 2001.

“Asia is a young, rural continent,” said Karti Sandilya, Manager of ADB’s Poverty Reduction Unit. “Social protection programs and policies should be built to respond to Asia’s needs. The region does not have adequate protection systems to reduce the impact of shocks on its population. As a result, risks will continue to have devastating implications for poverty, inequality, and the prospects of long-term growth.”

To help meet the need, ADB is finalizing a proposed social protection strategy to reduce risks for the most vulnerable groups, including the unemployed, women, children, the elderly, and victims of natural disasters. The proposed strategy paper, which will be discussed by ADB’s Board of Directors within the first quarter of 2001, says the Asian financial crisis has underscored the fact that many vulnerable groups have been seriously affected by the crisis and are bypassed by economic growth.

The paper notes that, demographically, the major issue in the years 2000–2015 is the predominance of children and young new entrants into the labor market. This has clear implications for education, health, child protection, and labor market policies for realizing human potential and creating opportunities for self-reliance. “The development challenge of the Asian and Pacific region is to achieve sufficient pro-poor sustainable growth to secure inclusion of the poor and the young new entrants in the development process,” it states.

The proposed strategy identifies that four main challenges facing Asia and the Pacific are population explosion, high levels of poverty and the size of informal sector, inadequacy of most social protection mechanisms, and the impact of globalization.

“The financial crisis showed that inadequate and underdeveloped social protection sys-

tems have exposed their working populations to excessive risk, increased the incidence of poverty, and threatened to undermine longer-term human capital investments,” said Isabel Ortiz, an ADB economist who specializes in poverty reduction.

While globalization expands opportunities for growth, it also increases the risk of macroeconomic shocks.

“To assure social progress, protection and safety nets need to be brought to the forefront of the agenda in many developing countries,” said Ms. Ortiz. “Social protection policies and programs should help communities and individuals reduce their exposure to risks, which include ill health, aging and death, natural and civil catastrophes, and economic shocks.

ADB’s proposed social protection strategy contains five components.

- Labor market policies and programs to facilitate employment and promote efficient labor markets.
- Social insurance programs to cushion the effects of unemployment, disability, sickness, maternity, work injury, and old age.
- Social assistance and welfare services to assist the most vulnerable, including the disabled, single parents, battered women, substance abusers, and refugees.
- Schemes to protect the informal sector and rural communities, including micro-insurance, social funds, and disaster preparedness and management schemes.
- Child protection to secure the development of the region’s future workforce.



What does the future have in store for him?

One example of ADB’s approach is skills development projects in the Kyrgyz Republic and Papua New Guinea for young new entrants into the labor market. Another example is a recently approved project for Indonesia to help female street children, who are often victims of sexual abuse and child prostitution. The project, run with non-government organizations (NGOs), enables girls, who make up 20 percent of Indonesia’s estimated 170,000 street children, to receive counseling as well as health and medical care. In the Philippines, ADB is helping five million children through an integrated health, nutrition, and education program. ADB is also assisting the elderly by helping reform pension systems in many countries.

“As well as reducing poverty and vulnerability, well-designed social protection programs will contribute to economic growth through investments in human capital and increases in the productivity of the workforce,” said Ms Ortiz.

The four-day Poverty Forum, which ended on 8 February 2001, was organized by ADB for representatives of government, funding agencies, NGOs, and academic institutions to debate how best to address the needs of the poor and work toward reaching a consensus on strategies for reducing poverty. ■

investment contributes to technology transfer, economic development, and growth in the industry and service sectors. This creates jobs and improves social and living conditions.

The enhanced policy also includes a new coguarantee program and a collaboration program. Under the coguarantee program, ADB will issue a contract of guarantee for the entire amount of coverage requested but will retain only a portion of exposure under the contract with the remainder being underwritten by private political risk insurers. The collaboration program will enable private and public political insurers to offer guarantee facilities jointly with ADB, under their respective names. The improved policy also offers a more market-oriented and transparent fee structure. In recent months, ADB has used the PRG instrument for three projects and hopes to expand its use beyond BOT (build-operate-transfer) and BOO (build-own-operate) projects in the coming years. ■

ADB Lending Rates for the First Half of 2001

The Asian Development Bank has increased the lending rates on its US dollar loan facility from 6.53 percent to 6.70 percent per annum. The rate on multicurrency loans, on the other hand, has decreased from 5.68 percent to 5.50 percent per annum.

The new lending rates apply from 1 January to 30 June 2001. The interest rates on ADB's multicurrency and US dollar loans are adjusted on 1 January and 1 July each year.

For each facility, the lending rate is determined by adding a spread (currently 0.6 percent per annum) to the preceding six months' average cost of the respective pools of outstanding ADB borrowings established to fund such loans. ■



ADB Opens Philippines Country Office

Mindanao will be a Focus of Assistance

On 1 March, Philippines President Gloria Macapagal-Arroyo and Asian Development Bank President Tadao Chino officially opened the Philippines Country Office (PhCO) at ADB headquarters.

The new office, which has a staff dedicated solely to operations in the Philippines, will strengthen ADB's partnership with the Government, other funding agencies, the private sector, and civil society. As ADB President Tadao Chino noted, "The country office will improve the responsiveness of our Philippine operations and strengthen our client orientation by establishing a streamlined and coordinated communication channel."

President Chino said ADB plans to lend the Philippines US\$1 billion over the next three years. "A total of 16 projects have been identified and the focus will be on socioenvironmental projects and poverty alleviation," he said. The Philippines is one of ADB's active clients, borrowing some US\$400 million annually during the last decade. To date, the Philippines has borrowed

nearly US\$8 billion to finance key development projects. ADB has had its headquarters in the Philippines since it opened in 1966.

Gunter Hecker, Chief for PhCO, said the office "will be a one-stop shop for our operations in the Philippines. It will provide a sharper focus on operations, better coordination, and effective representation. Policy dialogue with the Government will be elevated and this will improve implementation of our portfolio."

ADB aims to sign a milestone poverty-reduction partnership agreement with the Philippines by the second quarter of 2001. "This is a big step that will be a basis for determining our country strategy for the Philippines," said Mr. Hecker. ADB is entering such partnerships with every developing member and has signed agreements with Bangladesh and Mongolia.

ADB's past assistance focused on infrastructure, especially energy and roads, and agriculture, particularly irrigation projects, to develop fisheries, forestry, and coastal resources. Today's priorities include social infrastructure and, in particular, developing

the southern Philippines, which has a high incidence of poverty. Assistance for Mindanao will include developing infrastructure and strengthening transmission systems for rural electrification. It will also include providing microfinance and improving forest and coastal resources management to help poor upland and coastal communities. "Three projects dedicated to Mindanao are in the pipeline while several with large Mindanao components have also been identified," said Mr. Hecker.

ADB will also address urban poverty in Metro Manila over the next three years. It will help meet basic needs of the poor through health and education projects. ADB will also help the Government develop the private sector to create jobs and boost economic growth. In addition, it plans to provide technical assistance in policy areas, including governance and trade and environment, as well as capacity building at the national and local government levels.

The Philippines Country Office will have an initial staff of 10, including 5 Philippine nationals. ■

ADB to Provide Immediate Assistance to Earthquake-Devastated Gujarat, India

On 30 January 2001, President Tadao Chino announced that the Asian Development Bank will provide immediate financial assistance for rehabilitating and reconstructing infrastructure facilities devastated by the earthquake in the state of Gujarat, India.

As an immediate measure, about US\$350 million will be made available from the proceeds of existing loans. In addition, new loans will also be provided.

President Chino's offer of financial assistance was in response to a request from

India's Finance Minister, Mr. Yashwant Sinha. In letters to the Finance Minister and the Chief Minister of Gujarat, Mr. Keshubhai Patel, President Chino extended ADB's deepest condolences for the lives lost in Bhuj and neighboring regions as a result of the earthquake and subsequent tremors.

Referring to the "staggering impact" of the disaster, President Chino said, "We are also ready to extend all the financial and technical assistance within our capacity to help the state of Gujarat and the Govern-

ment of India restore the affected areas." He added that ADB will do everything it can to assist India at this time of terrible tragedy.

"The immediate aid will be used for the rehabilitation of housing, water supply, sanitation, and power facilities. We will provide new loans to meet the needs of the disaster-stricken areas including the reconstruction of roads, sewer systems, and other infrastructure," said Yoshihiro Iwasaki, Director of ADB's Programs Department (West). ■

Dutch Fund to Promote Renewable Energy and Energy Efficiency

The Netherlands and the Asian Development Bank have agreed to set up a Dutch Cooperation Fund to promote renewable energy and energy efficiency.

The Government of the Netherlands has contributed an initial sum of US\$6 million to the Fund, which will be administered by ADB.

The Fund may also finance activities involving the abatement of greenhouse emissions and access to treaty-related mechanisms, including the Global Environment Facility and Clean Development Mechanism.

Activities may include project preparation, training and advisory services, institutional support, or other technical assistance services. Grants will be provided on an untied basis. ■



Reading the Future

the future. Scenario analysis is the process of generating and analyzing a small set of scenarios. This exercise stretches mental models, enhancing perception of events as part of a pattern, and leads to better thinking about the future. Scenario analysis involves discrete steps, as explained by Peter Schwartz in *The Art of the Long View*.

- **Uncovering the focal issue.** For small businesses and large organizations alike, “What should our business be?” is usually the first (and natural) question. If not, the focal issue should be what keeps one awake at night.
- **Making out key factors.** Once the focal issue has been decided on, the next step is to identify the key factors in one’s environment. What will managers want to know when they have to make choices? What will be seen as success or failure?
- **Listing driving forces.** Then, after the key factors have been identified, the third step involves listing candidates for prime movers (driving forces) that will impact the key factors. They lie in society, technology, economics, politics, and the natural environment. This is without doubt the most research-intensive stage of the process of generating and analyzing scenarios; it requires much information hunting and gathering.
- **Ranking driving forces.** Next comes ranking driving forces based on two main criteria: the degree of importance vis-à-vis the focal issue; and the degree of uncertainty surrounding each driving force. The outcome of such ranking will, effectively, draw the lines along which scenarios differ. However, if scenarios are to serve as learning tools, the lessons that they teach must be fundamental to the resolution of the focal issue. So, the driving forces must also be few to curtail generation of scenarios around every conceivable uncertainty.
- **Fleshing out scenarios.** The scenario skeletons can then be fleshed out with regard to the key factors in one’s environment and the driving forces identified. Every one of them should be given some attention in each scenario.
- **Drawing implications.** Once the scenarios have been fleshed out, it is time to

return to the focal issue and examine how it comes across in each scenario. What vulnerabilities have been revealed? Is a strategy robust across all scenarios? And, if it looks robust in only one instance, then it qualifies as a gamble.

- **Selecting indicators.** Last, it is important to know quickly which of the several scenarios is closest to the course of history as it plays out. And so, one must identify indicators to monitor. Fortunately, the coherence built into the scenarios makes selecting indicators easy.

Abandoning stale pursuits. The end result of building scenarios is not an accurate picture of tomorrow but better thinking about the future. And, since scenarios

■ **The point is not to pick an ideal future, hope that it will come to pass, or even strive to create it.** ■

provide a context for decisions, better thinking should lead to more robust decisions. Still, just as important as the permanent process of making decisions about what things to do is planned and systematic abandonment of the old that no longer fits purpose, conveys satisfaction, or makes a contribution.

As events unfold, it is therefore necessary to continue to review existing products and services (as well as processes and distribution channels). Do they still fit the realities of society, technology, economics, politics, and the natural environment? And, if not, how can one discard them, or at least stop devoting more resources and efforts?

Otherwise, the best definition of the focal issue will turn out to have been a thankless exercise. Energy will be used up in defending yesterday. ■

Olivier Serrat, Liaison Officer, European Representative Office, Asian Development Bank, contributed this article. The article draws on the pioneering work of Peter F. Drucker on strategic planning and that of Peter Schwartz on scenario thinking and planning.



The future will not happen just because one wishes hard. It requires action now.

Because nothing lasts forever and no product or service sells itself for long, small businesses and large organizations (individuals, too, for that matter) have no alternative but to forerun the future, endeavor to shape it, and balance short-term and long-term objectives. This means that the short term calls for strategic decisions just as much as the long term. And so, strategic planning stands for the unremitting process of making decisions systematically with the greatest intelligence of their futurity, organizing the resources and efforts needed to carry them out, and measuring outcomes against expectations with feedback and self-control. Only then can one avoid extending carelessly past and present trends.

Readjusting mind-sets. More often than not, however, strategic planning holds out only one scenario that underplays the unpredictability of the world. That future stands for the set of assumptions implicit to blind spots. Yet, the point is not to pick an ideal future, hope that it will come to pass, or even strive to create it. Nor is it to find the most probable future and bet the house on it. Rather, it is to make decisions that will be suitable for all plausible futures. That is why the challenge is to develop a small set of distinct scenarios covering the main areas of uncertainty—and in so doing define direction without confining it.

Thinking the unthinkable. A scenario is an internally consistent view of

ADB News Releases on the Web

Releases for January 2001

ADB Announces Lending Rates for Multicurrency and US Dollar Loans for the First Half of 2001 (3 January)

ADB's New Water Policy Adopts Integrated Water Resource Management Approach (16 January)

ADB to Provide Immediate Assistance to Earthquake-Devastated Gujarat, India (30 January)

Releases for February 2001

ADB Organizes Poverty Forum on Asia and Pacific Region (3 February)

Stakeholders Should Share Common Vision, ADB President Urges at Poverty Forum (5 February)

Governance Assessments to Help the Poor, ADB Expert Tells Poverty Forum (6 February)

Creativity and Private Sector Can Help Poor, ADB Official Tells Poverty Forum (7 February)

Asia Can Halve Poverty by 2015, Agrees ADB Poverty Forum (8 February)

Asia Faces Challenge of Finding Jobs for Its Youth, ADB Warns Poverty Forum (8 February)

ADB Appoints New Chief Economist (9 February)

Helping Mongolia to Combat Effects of Harsh Winter (14 February)

Dutch Fund to Promote Renewable Energy and Energy Efficiency (20 February)

ADB Revamps Political Risk Guarantee Policy (23 February)

Releases for March 2001

ADB Philippines Country Office Opens (1 March)

Training Asia's Financial Sector Regulators (2 March)

<http://www.adb.org/news/>

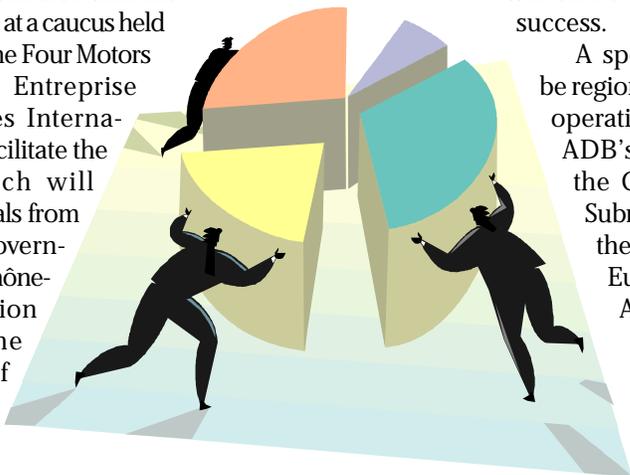
Sign up for Lyon, 25 April

On 25 April, in Lyon, staff of the Asian Development Bank and its European Representative Office will speak on economic prospects and business opportunities in the Asian and Pacific region at a caucus held jointly with the Four Motors for Europe. Entreprise Rhône-Alpes International will facilitate the event, which will gather officials from the French Government, the Rhône-Alpes region (France), the state of Baden-Württemberg

(Germany), the generality of Catalonia (Spain), and the Lombardy region (Italy).

Representatives of the private sector, nongovernment organizations, and academia will share their insights to success.

A special theme will be regional economic cooperation, drawing on ADB's experience in the Greater Mekong Subregion and that of the Four Motors for Europe in Rhône-Alpes, Baden-Württemberg, Catalonia, and Lombardy. Contact ERO for details. ■



ERO Launches Asia Forum in Frankfurt, 17 April 2001

On 17 April, the European Representative Office of the Asian Development Bank will host the first meeting of the Asia Forum.

The guest speaker at the inaugural Forum meeting will be Mr. John Lintjer, ADB's Vice-President for Finance and Administration, who will discuss the economic situation in Asia and ADB's new political risk guarantee policy.

The Forum will be convened on a quarterly basis to gather parties interested in exchanging information on Asia. ■

ERO Calendar 2001

Date	Title	Venue	Contact E-Mail Address
23-24 January	1 st European Congress on Participation in Global Infrastructure	Frankfurt, Germany	oserrat@adb.org
8-11 February	World Life Sciences Forum	Lyon, France	oserrat@adb.org
12 February	DEIK Seminar on Turkish-Israeli Business Cooperation in the Central Asian Region	Istanbul, Turkey	oserrat@adb.org
20 February	Turin Chamber of Commerce Seminar on AFTA Countries Three Years After the Asian Crisis	Turin, Italy	keonwoolee@adb.org
12-13 March	German Foundation for International Development Forum on Attracting Private Sector Participation in Infrastructure Development to Less-Developed Countries	Bonn, Germany	keonwoolee@adb.org
13 March	Preparations for ADB Day on 25 April	Lyon, France	oserrat@adb.org
17 April	ERO Launch of the Asia Forum	Frankfurt, Germany	keonwoolee@adb.org
25 April	ADB Day	Lyon, France	oserrat@adb.org
7-8 June	Business Opportunities Seminar	Vienna, Austria	oserrat@adb.org
11-12 June	Business Opportunities Seminar	Istanbul, Turkey	oserrat@adb.org
14-15 June	Business Opportunities Seminar	Madrid, Spain	oserrat@adb.org
To be determined	Herbert & Smith Project Finance Seminar	Frankfurt, Germany	keonwoolee@adb.org

Contact ERO by e-mail should you wish to meet on the dates indicated.

<http://www.adb.org/ERO/events.asp>

IN OUR NEXT ISSUE

News from ERO will be featuring an article on

Output Accomplishment and the Logical Framework

Don't miss it!

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- ▶ Meetings and Conferences in Asia - On-line knowledge of Asian gatherings in an instant
- ▶ Presentations - Crisp presentations on key ADB policies, strategies, and operations

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- ◆ Update Your Contact Address - Request a hard copy of ERO's newsletter and update our mailing list

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