

## INTRODUCTION

This report outlines the main issues addressed at the workshop on *Key Themes and Priorities for Governance and Capacity Building (GCB) in the Asian and Pacific Region* held at the headquarters of the Asian Development Bank in Manila from 12-16 January 1998.<sup>2</sup> The participants included senior government officials from Bank Developing Member Countries (DMCs), internationally recognized experts in various fields of public sector management, and ADB staff. An agenda, list of participants and list of papers circulated at the workshop are provided in the Appendices at the end of this document.

The participants agreed that issues of governance and capacity building are at the center of many of the most pressing challenges currently confronting countries throughout the Asian and Pacific region. In East and Southeast Asia, the need for greater transparency and accountability in regulating the financial sector has been one of the major problems behind the currency turmoil, corporate bankruptcies, and falling stock markets that have plagued the region since July 1997. In South Asia, issues of restricting the reach of state intervention and improving the delivery of basic services, such as health care and education, are high on the agenda. Economies in transition in Central and Southeast Asia are grappling with redefining the role of the state, changing the balance between central and local power, and developing civil service cadres with appropriate skills for managing a market economy. In the Pacific, issues of public sector efficiency,

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effectiveness and accountability are particularly important in ensuring the long-term viability of small island economies.

The challenge of framing a governance program that addresses the diverse needs of these constituencies is one of seeing consistency through the very different historical legacies, administrative traditions and levels of development. The ADB's 1995 policy paper, *Governance: Sound Development Management*, sought to address this problem by advocating a country-specific approach. The Bank's policy articulated four essential elements of good governance—accountability, participation, predictability and transparency—that could be implemented in a wide variety of settings.

The Bank is now further refining its capability to help its DMCs address GCB issues. This objective requires developing areas of recognized expertise, which in turn requires establishing a clear conceptual overview that will enable the Bank to target the most pressing problems. It will also allow the Bank to adopt a more balanced and comprehensive approach. Participants were provided with a draft ADB Board information paper on governance that listed six key themes. The first three relate to various levels of government; the second to critical cross-cutting issues:

- Core Institutions of Government;
- Sector Work with Line Ministries, Agencies and Departments;
- Sub-National Governance;
- Public/Private Interface;
- Law and Development; and
- Civil Society, Social Capital and Participation.

Approximately twenty important sub-themes were identified under each general heading. (See Table 1 on page 29 for a complete listing.)

There was a general agreement that these themes and sub-themes are targeted at the correct issues. However, they are advanced at such a level of abstraction that they provide little concrete operational guidance. A major

goal of the workshop was to develop a more detailed and narrowly focused set of priorities. The participants also sought to support greater shared understanding of issues and solutions; to improve the network of consultants, academics and practitioners working on GCB issues in the Asian and Pacific Region; and to advance the understanding of key GCB issues by ADB staff.

## **GENERAL OBSERVATIONS**

The workshop participants considered the dynamics that have brought issues of governance to the forefront of the development debate in the Asian and Pacific Region. The evolving role of the state, shifting perceptions and expectations of citizens and corporations, and changing development paradigms require improvements in governance and the strengthening of capacity for national and sub-national institutions. Many countries are currently confronting economic challenges that require new and innovative responses from governments, whether it be delivering basic services that will help lift millions out of poverty or tackling issues of corruption, cronyism and lack of transparency that are hindering their ability to develop financial markets and attract foreign investment. As a result of these pressures, governments are increasingly searching for ways to enhance their performance and service delivery by making better use of the financial and human resources at their disposal. Civil servants, and the organizations in which they work, are seeking to be more responsive, productive and entrepreneurial. They are learning new skills and embracing new values. A number of countries present at the workshop, such as Pakistan, Sri Lanka and Mongolia, have either embarked or are about to initiate ambitious programs for GCB reform, which they view as fundamental to achieving economic and social growth.

In considering the possibilities for GCB reform, participants emphasized the need to respond to the diverse challenges confronting the countries of the region.

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The unique political and administrative traditions within each DMC must be accounted for in designing and implementing measures for reform. An informed understanding of the broader institutional context is essential, for there are frequently important dynamics and linkages that must be appreciated. Often, for example, in countries such as India and Vietnam, GCB reform involves implementing changes not only at the central and sectoral level but also the sub-national level. Moreover, the existing legal framework is often deficient, and its improvement poses unique challenges in advancing institutional reform, particularly in countries that have a federal structure.

Some participants felt that the lessons of development in the Asian and Pacific Region and elsewhere showed that expectations for improving GCB through development projects must be modest and realistic. The capability of the country to implement change is always the key question. In some countries, the policy framework is inadequate to deal effectively with current administrative challenges. In others, political instability, ethnic or other tensions, or limited staff capacity to formulate and oversee the necessary improvements prevent GCB reform.

The participants drew attention to instances where reforms had been inappropriately managed. For example, in many DMCs, GCB improvements are often undertaken during period of crisis. The policy matrices agreed upon by the government and ADB may set timetables for introducing change at a pace that officials cannot maintain. To comply with the timetables, expatriate technical advisors may carry out key pieces of work without proper collaboration with their counterparts. The end result is that country ownership is not established, skills are not transferred, and the reforms are not sustained. To avoid these problems, timetables for change need to take into account local capacities. Promoting local participation and expertise in public sector reform is critical to enhancing local ownership and credibility, as well as to ensuring the sustainability of the reforms being implemented.

A second area of potential difficulty is when technical advisors seek to promote reform by pushing the

adoption of a particular management technique that is currently fashionable. Often, as was the case with program budgeting, for example, the results are counterproductive. There were repeated warnings throughout the workshop about inflicting managerial fads on DMCs.

While participants accepted that a few general principles of governance are likely to have universal applicability, such as accountability, they were cautious about the uncritical promotion (or, less charitably, the slavish adoption) of particular models of reform. The Australian and New Zealand experience, for example, are impressive examples of reform that have established valuable areas of best practice. However, whether either can be readily transposed to another setting is an open question. Similarly, as one presentation acknowledged, the highly successful approach that Singapore has adopted towards GCB issues—which relies upon political stability, an effective government in power, sound macroeconomic policies, racial harmony and shared economic growth—is probably not directly applicable to other settings. In yet another example, a participant emphasized that Japan’s highly meritocratic system of civil servant recruitment and promotion, while effective in developing a strong administrative cadre in that country, may not work well in others. While it is clearly useful for DMC ministers and officials to be exposed to different ideas and approaches, their decisions about the optimal approach to reform is best informed by their own circumstances, priorities and capabilities.

For these reasons, participants affirmed that the pace and scope of GCB work, as well as the priorities and sequencing of reform, will differ from country to country. With the possible exception of the need for a merit-based, professional and independent public service and the importance of having a sound framework for budgetary and financial management, they were not inclined to accept that there are pat formulas or ready-made solutions that can serve as a basis for implementing GCB reforms in member countries.

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Participants did indicate that it was important in sequencing reforms to implement “basic management changes” before moving on to other reform initiatives. For example, it is essential to have a budget system that offers confidence in the integrity of the expenditure and revenue figures before introducing more sophisticated measures such as accrual accounting. The same is true for ensuring basic compliance and financial auditing working effectively before moving on to performance auditing. One presentation suggested that many GCB development projects failed because those responsible for implementing them had not gotten the basics right first. Again, it is better to be modest and cautious in setting objectives.

A recurring theme throughout the workshop was that leadership of the GCB reform process is indispensable. Reform is often inimical to the interests of those in power, particularly when it attempts to change power relationships or is directed towards reducing corruption. There will be winners and losers, and some topics are particularly sensitive politically (such as changing the recruitment rules for the civil service). In addition, some participants noted that poor experience in implementing previous reform efforts often undermined political support for new reforms.

Without institutional champions who actively support the implementation of reform, it is difficult for a major GCB reform effort to succeed. While recognizing that the ADB cannot interfere in the political arena, a key question in selecting possible GCB projects is whether there exists the vision, leadership, commitment and motivation to follow through on the reform process.

Participants also noted that sustainable institutional change often necessitates careful selection of the desired intervention, a gradualist approach in implementation, and long term support. Reform needs to be viewed as a lengthy process of continuous improvement. It goes beyond introducing new systems. It also requires the acquisition of new skills, attitudes and organizational culture.

One participant argued that, in order for the ADB to identify project opportunities where it might have

sustainable impact, the Bank needs to address a number of important issues. It needs to be selective and to limit its involvement to proposals that have definite promise. Towards this end, it should focus upon central agencies rather than working just at the sectoral level; it should be realistic about whether a particular project will in fact affect performance and accountability; and it should spell out the linkages and sequencing needed to advance particular projects. Once these steps have been taken, the Bank should proactively encourage promising requests from member governments. It should develop active and demanding clients and provide them with robust feedback on project progress and performance. Finally, the Bank should consider how it can best influence the debate over these issues among other key players, such as other donor agencies.

While the participants generally agreed with these comments, and particularly with the need for a stronger client focus in GCB projects, they emphasized that the ADB should take into account that the capability of the client to support the reform process is often lacking, and that clients often need assistance in developing the relevant skills. Some argued that the ADB should set more demanding targets for stringency and openness in its post evaluation findings than had been previously been achieved by other agencies. Others noted that there is a need to develop learning cultures in donor agencies in which evaluation is utilized to provide an objective and balanced look at what has been achieved. Still others noted that there is often a need to convince clients that reform would in fact improve the system.

## **CHALLENGES FACED BY THE ADB IN SUPPORTING GCB REFORM**

The ADB's work is shaped by its Charter, by its Board policies and by the expectations of its members. The Bank's explicit focus on GCB issues is relatively recent, although it has been involved in various aspects of institutional

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development with sector agencies for some time (primarily training and the provision of equipment such as computers). The Bank's emphasis on GCB issues is an integral part of its broader effort to move away from its historical emphasis upon project finance to become a more comprehensive development institution.

Participants noted that the ADB could draw upon a number of strengths in building its GCB program. Management is strongly committed to making progress in this area. The ADB has a respected 'family doctor' reputation in the Asian and Pacific region and could, with increased capacity, bring to bear extensive good practice on GCB. The Bank has little historical or institutional "baggage," so it can start from scratch and avoid contentious bureaucratic battles over turf. Furthermore, at a time when many other donors are constrained by lack of resources and expertise, the ADB has adequate resources and flexible loan and grant modalities that can be utilized effectively in support of organizational change.

However, the Bank also confronts a number of internal and external challenges that will need to be overcome. It must develop new capabilities to support GCB reforms through:

- Realigning its strategic objectives and developing a long term strategic framework;
- Developing clear conceptual frameworks and policies;
- Developing new tools, including indicators and performance management systems;
- Improving staff understanding of GCB through training and work assignments;
- Recruiting new staff with GCB expertise and/or contracting consultancy expertise;
- Adopting new work processes to enhance its diagnostic and analytical capacity; and
- Achieving cultural change.

At the broadest level, several participants argued that the project approach used by the ADB is not the best way

to advance GCB reform. Governance issues are sweeping and cross-sectoral in nature, and they call for a program approach in their design and implementation. One working group suggested that the Bank's GCB work should proceed along the following lines: (1) adopt a strategic program approach for each country; (2) determine criteria for deciding upon the best use of the ADB's resources to maximize "leverage;" (3) coordinate the ADB's GCB policies with those of other donors; (4) change the incentives within the Bank to reflect the new priorities (and learn to live with the consequences); (5) make greater use of conditionalities to promote better governance practices; (6) identify and cultivate change agents in DMCs; and (7) develop and apply appropriate performance indicators.

There were differences among the participants regarding the degree of up front diagnosis that is necessary before acting. One presentation described the GCB process as involving several critical steps: obtaining commitment from institutional leadership; clarifying end results and agreeing performance data and benchmarks; undertaking a diagnostic analysis on the factors influencing performance; and planning and managing the change process.

Others argued that the ADB should not spend too much time on diagnosis. Crises often require immediate reactions, or the underlying circumstances will change and create new problems. The Bank should be willing to experiment and "learn by doing." The UNDP, for example, developed pilot projects to build its expertise when it first became involved with governance issues.

Participants also emphasized that the ADB must build close and lasting relationships with key players in its DMCs, which will support the institution's effort to ensure that its initiatives are focused and responsive to local conditions. The Bank must also have the capacity to work across networks covering the various institutions of government. Within this context, both the increased use of Bank resident missions for GCB initiatives and the utilization of established professional associations can be particularly valuable tools.

Participants also emphasized that donor collaboration is essential in addressing GCB issues. Occasionally, donor advice conflicts and donor projects may be in competition. Collaboration with DMCs and donors can be enhanced by using coordination mechanisms to share information; by increasing the ADB's local presence; by donors developing and exploiting their own area of comparative advantage; and by sharing models of good (and bad) practice.

## **STRENGTHENING CENTRAL MECHANISMS OF GOVERNMENT**

This theme is concerned with the role and operation of the core institutions of national government, such as the prime minister's office, the cabinet office, the ministry of finance, the supreme audit office and the central personnel agency. These bodies help to establish the rules within which the bureaucracy operates. They coordinate the policy-making function and support the mobilization of financial and human resources. They also help to monitor performance. Four areas were singled out in the draft ADB Board information paper on governance as being of particular importance: (1) strengthening central mechanisms for policy formulation, coordination and implementation; (2) public financial management reform, including procurement reform; (3) civil service reform; and (4) strengthening accountability mechanisms, such as audit capacity. Each is discussed in greater detail below.

A strong policy-making capacity is fundamental to good governance. The challenge is to develop a machinery of governance, including ministerial portfolios, that can perform a number of critical functions. They include resolving the key strategic issues that require decisions by government; ensuring rapid decision-making within a tight fiscal framework; coordinating policy proposals, making sure that they have ownership across all ministries and agencies, and ensuring they are firmly placed within relevant expenditure parameters. These goals, in turn, can

be facilitated by the development of standard formats for submissions to the policy-making body (the Cabinet); by robust technical consultation procedures between sector ministries; and by formal linkages between cabinet submissions, budget processes and expenditure planning.

While different countries utilize different mechanisms for policymaking, it is essential that—as with the President’s Office in the Philippines—these procedures provide effective guidance in resolving policy conflicts. The failure to resolve important policy questions, or the selection of inappropriate alternatives, has the potential to gravely weaken government operations.

Policy formulation must be supported by a professional public service that has the capability to provide objective and well-reasoned advice to Government. The challenge for many DMCs is how such capacity can be strengthened or, in some cases, created from scratch. One presentation maintained that three priorities are particularly important. First, systems for establishment management and control are essential to ensure that governments can monitor their payroll. Second, all staff within the civil service must be usefully employed—i.e. they perform services which bring value added to society. Third, to enhance the quality of civil service cadres and reduce the opportunity for nepotism or cronyism, merit-based principles should be enshrined and staunchly adhered to in recruitment and promotion.

Other participants added to this list. As circumstances in DMCs change, more imaginative approaches to public sector reform issues are needed. Ensuring continuity among senior officials is critical in developing improved policymaking capability. The reform process needs careful management and must reflect local priorities. Central coordinating agencies typically need to devote more attention to communication, education and training. Issuing instructions to line agencies from the center does not always work. Reform is a long-term process and requires clear vision, careful planning, adequate resources and perseverance.

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Many DMCs face a number of serious challenges to the effective management of their financial resources. These challenges include inadequate legal frameworks; weak or underdeveloped mechanisms for accountability; the inability to track the government's financial position; ineffective systems for cash management; limited analytic capacity; poor budget procedures and inadequate budget coverage; and no clear link between strategy and budgetary allocations.

Best practice in the field of financial management suggests DMCs should concentrate on the fundamentals. One presentation argued that there are three basics that must be in place. The first involves introducing and enforcing sound financial laws. The IMF's model Organic Budget Law is a good place to start. The Organic Budget Law should provide for a carefully balanced division of responsibility between parliament and the executive branch of government; it should set out the essential institutions and processes for preparing, monitoring and controlling the budget; and it should give the necessary powers to the Ministry of Finance and other budget entities. Other laws and regulations are also often necessary, such as defining the powers of the Supreme Audit Institutions (SAIs) or ensuring an open and competitive public procurement system.

The second priority should be the establishment of an effective system for controlling budgetary inflows and outflows. There are four essential elements under this subcategory. The first is a robust and effective system of cash management covering all cash inflows (revenues) and cash outflows (expenditures), which should be established by setting up a treasury function within the Ministry of Finance. The second is establishing systems for defining the scope and coverage of the budget, which should be defined as broadly as possible. (The use of extra-budgetary funds should be discouraged.) The third element is a budgetary information system that ensures that the information flows used to prepare the budget conforms with a classification system that meets international standards. The information system should be evaluated in relation to

its accuracy, timeliness, consistency, comprehensiveness and continuity. It should be easy to access and use and be based upon accurate data regarding costs. The final element is an effective system of internal and external audit.

The third major priority is an effective system of resource allocation or budget preparation. This objective, in turn, requires a strong link between the government's procedures for taking policy decisions and its annual budget process. It requires both a top-down and decentralized process for budget preparation, in which a global ceiling is established consistent with the government's overall fiscal targets and the task of budget preparation is then turned over to the budget offices in various line ministries (who in turn require the resources, skills and access to financial information necessary to perform their functions effectively). It requires careful attention to outputs and results, in addition to inputs; it also requires a multi-year approach to capture the downstream implications of current expenditure decisions. Finally, good support systems are essential, such as accurate macroeconomic forecasts.

The final presentation focused upon the role of SAIs in improving government accountability and performance. SAIs must have adequate independence to perform their job effectively, and in many countries they report to parliament, not to the executive branch, to ensure such independence exists. They can be key instruments in providing assurance about proper expenditure, enhancing confidence in government, combating corruption, and contributing to important systemic reforms.

There is considerable potential for capacity building of SAIs. Many SAIs in the Asian and Pacific Region are limited in their mandate, independence, resources and capacity. When properly run, SAIs can generate substantial savings. SAIs are even more valuable when they focus on the underlying management systems and made recommendations about how they can best be improved. In Malaysia, audit findings are taken seriously and are subject to parliamentary scrutiny to identify any systemic issues.

Many developed countries have recognized the advantage of moving towards Value-for-Money (VFM) auditing, where there is a focus on the performance of a ministry and the results achieved. VFM auditing can enhance accountability and assist in improving a ministry's efficiency and effectiveness. However, there needs to be robust compliance and financial auditing in place in a DMC before introducing VFM auditing. Another suggestion offered at the workshop is that audit work needs to be complemented by a focus upon evaluation as offering valuable information not only regarding the performance of a government program but also as to whether that program is worth continuing in the future.

## **SECTOR AND PROJECT WORK WITH LINE MINISTRIES AND AGENCIES**

As was noted above, the bulk of the ADB's GCB work has historically involved capacity building with line ministries, agencies and departments. Since there is tremendous variety in the size, mission, activities and political and administrative traditions under which these agencies operate, the Bank's sector work will need to be tailored to the unique needs and operating environment of the particular organization in question.

The participants sought to develop a general framework that could serve as a baseline for analysis. The ADB background paper broke this topic into four sub-themes: strategic management, streamlining organizational structures and processes (including the utilization of information technology for this purpose), enhancing performance management and orientation, and strengthening human resource management and development. In reporting their views, the working panel suggested some re-grouping and elaboration of the sub-themes as follows:

1. *The Organization's Relationship with National and Sectoral Plans*

- Leadership Culture
- Objectives (what is expected of sector organizations in terms of targets)
- Compatibility of Systems
- Accountability/Devolution

2. *Strategic Management*

- Policy Analysis
- Plans and Targets

3. *Service Delivery and Performance Management*

- Identification and Elimination of Capacity Gaps
- Standards of Performance

4. *Resource Management*

- Financial
  - Programs
  - Running Costs
- Human Resource Management
  - Selection
  - Training (both management skills and basic)
  - Incentives
  - Career management
- Practical Issues (service delivery related)
- Information
  - Managing Information Technology
  - Software (especially management related)

5. *Evaluation*

- Performance Monitoring

The workshop endorsed the importance of strategic planning by line ministries to help set directions, allocate resources and facilitate decisions on priorities. (In Malaysia, for example, strategic planning is taken seriously and is linked to a national 2020 vision.) The presentation on strategic planning noted that there are typically two approaches: an objectives writing approach, which is process dominant, and an issues confrontation approach, which is substance dominant. The benefits of the former are that it helps management and staff to think about program purposes and results. The downside is that it can also be too vague and general; it rarely addresses trade-offs; it may avoid uncongenial changes; and it may end up enshrining the status quo. The benefits of the substance approach are that it elucidates key issues, requires the recognition of trade-offs, and provides a rationale for setting priorities, establishing future directions and allocating resources. The problem is that it can be threatening—and dangerous if the wrong issues are selected.

Strategic planning in the public sector is quite different from its private sector counterpart. There are often multiple objectives, many of which are determined outside of the agency and may be imprecise or conflicting. The external constraints and accountability mechanisms need to be understood, and analyzing the external environment is often more important than analyzing the strengths and weaknesses of the agency. Results may be difficult to measure, and time horizons may conflict.

For strategic planning to succeed in the public sector, top management's support is essential. It also helps to have a "motivator"—such as new leadership, impending constraints, major new assignments, rapid growth, or new requirements from the central government. Appropriate information, including trends, forecasts and performance data, is also important, as is skilled and capable support.

In many developed countries, there has been an important shift in public sector management away from input controls to a focus upon outputs, outcomes and results. This transition has placed a premium upon the

ability of organizations to develop systems and procedures for monitoring their performance.

One presentation addressed the essential elements of performance management systems and how they could best be adopted for use among Bank DMCs. There are 14 suggested elements in a performance management system, including: (1) establishing a high level performance management steering committee; (2) developing a guidance manual for use in training and also for operational use by agency personnel; (3) providing training and technical assistance to operating agencies; (4) encouraging operating agencies to establish working groups on major services/programs; (5) obtaining input from customers in the selection of performance indicators for services/programs; (6) using customer surveys as a performance measurement tool; (7) providing disaggregated information on program/service results; (8) building explanatory information into the performance measurement process; (9) developing guidelines on reporting; (10) encouraging strategic planning; (11) establishing “performance partnerships” between government agencies with an interest in the same area; (12) providing quality control procedures on performance measurement data; (13) preparing a long-range plan for the full implementation of the performance management process; and (14) developing incentives for civil servants to use performance information to improve performance.

There are a number of ways in which the Bank could be active in implementing such systems among its DMCs. It could sponsor the development of curricula and training in basic operational management, results based management, the use of customer surveys and auditing and quality control. It could provide computers and other equipment necessary for gathering, storing and manipulating data. It can also sponsor pilot projects, conferences, external technical assistance, professional associations, and the formation of government consortiums on performance management.

The workshop participants agreed that human resource management (HRM) and human resource deve-

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velopment (HRD) are important priorities at the line ministry level. These aspects of management are concerned with the best ways of directing, motivating, recruiting and training civil servants to achieve optimum levels of performance. They need to be carefully integrated into the strategic objectives that an agency is expected to achieve. Australia has developed a HRM framework to identify the characteristics of good HRM practice. Establishing effective styles of leadership in ministries, and addressing the underlying attitudes and values that comprise a given organization's culture, are also indispensable parts of good HRM practice.

Throughout the workshop, a number of interventions underscored the need for an increased focus on HRD to equip civil servants with the operational, management and leadership skills that would be needed to successfully navigate their public agencies through a rapidly changing environment. Capacity building and the management of the change process itself are also important areas for skills development. The experience of France's *Ecole Nationale d'Administration*—with its strong emphasis upon the integration of classroom studies and practical experience—was offered as a particularly relevant example of how training should be conducted.

A number of participants addressed the dilemmas that DMC ministries face in designing effective organizational structures. An organizational model that separates functions such as policy development, resource allocation and the setting of performance standards from the service delivery role should be considered; however, it contains both advantages and disadvantages. Another major issue is the fragmentation of particular functions by sharing responsibility for them across a number of agencies involved in service delivery. The development of better coordinating mechanisms, streamlined delivery processes, and improved delivery structures is therefore a priority.

The improved use and management of information technology (IT) was canvassed during the workshop. Government is now a major user of IT through the services it provides to citizens and businesses; in its internal

operations; and through the global network. The ADB was encouraged to consider how it might help its member governments to improve the quality of their IT investment. It is critical for governments to ensure that the deployment of IT is driven by the needs of citizens, programs and services and not by technology; that the expected benefits are in fact delivered; and that IT delivers high quality and reliable services to the public and to internal users. There is a lot of learning that can be obtained by examining other countries' successes—and failures—in IT.

New IT applications may also change the way that the ADB and other donors provide advice and expertise. Increasingly, DMC officials will find the knowledge they need by using IT, without the need for intermediation by the ADB and other donors. For example, with proper training and IT equipment, DMC officials can gather comparative experience on public sector reform by browsing the web sites and joining Internet discussion lists, rather than by seeking donor funding to recruit high-priced international consultants or participate in international conferences. The role of the ADB will become more that of training DMC officials where and how to look for knowledge. This more direct link between DMC officials and sources of knowledge should both reduce the cost of reform programs and increase local ownership.<sup>3</sup>

The working group also addressed the Bank's current operations and suggested they would benefit from improvement in several areas. Project planning should include a detailed assessment of the capacity of the executing agency and ensure that criteria for capacity is included in project selection. The Bank should make more active use of tranching, milestones, and organizational capacity for implementation and maintenance needs to be more carefully considered. In terms of staffing, the Bank needs to maintain a skills balance using both management

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3 At the same time, it must be noted that the Bank's early experience with developing electronic networks of officials interested in various aspects of public sector reform has been mixed, as many are unfamiliar with the technology and/or lack sufficient time to fully participate in the on-line discussions.

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and sector experts. Bank products should include documents on best practice covering impact as well as output. The Bank should support networking and twinning arrangements for organizations and individuals; it should set up a customer group or technical panel to monitor the quality of ADB products; it should support software development and dissemination related to GCB issues; it should conduct cross cutting evaluations of GCB requirements in programs, sector work, and country programming. Strategies for realizing these outputs would include conducting a survey among DMCs on the type of services that should be delivered, as well as strengthening existing professional associations and public administration networks in the Asian and Pacific Region.

The working group emphasized that sectoral organizations must not become inward looking, but need to devote continuous attention to performance improvement. In discussion, the workshop participants emphasized the importance of sustainability as a criteria for the assessment of projects; the opportunities presented by IT for service improvement; and the possibility of accessing materials on best practice currently available on the Internet.

## **IMPROVING SUB-NATIONAL GOVERNANCE**

The workshop participants recognized that sub-national governance is the realm that has the most immediate impact for the majority of people living in the Asian and Pacific region. It involves governance at the regional (state or provincial) level or at the municipal level. Governments at the sub-national level have significant but varying responsibilities for service delivery on matters such as water, education, health, housing and law and order.

Sub-national governments are currently confronting a range of pressures, including rapid population growth, increasing geographic coverage areas, inadequate access to funding, and the need to adhere to policy parameters set by the national government. There are growing expectations from citizens for improved quality of service

delivery, as well as ongoing efforts to reform and streamline sub-national government through ambitious schemes to decentralize services. The discussion considered improvements in three important areas: management, finance and accountability and responsiveness.

As one presentation recognized, capacity building at the sub-national level presents a number of difficulties. Some reforms can have adverse short term impacts that create substantial political risk for the sub-national government, whereas a donor's timetable may not produce tangible benefits before the next election. Donors have historically given too much attention to developing elaborate plans for municipal development and capital budgeting, and not enough to the costing and planning of service delivery or to the funding and management of maintenance.

Strengthening local government capacity often involves addressing the wider agenda of central and local government relations. It involves obtaining a better balance between responding to local tastes and preferences and areas where considerations of equity or economies of scale would call for expanded service delivery areas. It may also involve initiatives in the area of metropolitan governance as one possible solution to the problems of fragmentation of responsibility that exist in some big cities. Finally, it can involve building partnerships between the public and private sectors to improve responsiveness to key economic and environmental issues.

The revenue side of sub-national government also requires close attention from donors. The revenue base often does not generate sufficient revenue to meet funding requirements for service delivery, either because of design problems, lack of buoyancy, or poor collection practices. Furthermore, municipal governments are often squeezed out of utilizing parts of the tax field by the range of taxes collected at the national level.

One presentation suggested that local governments should fund their own expenditures rather than depending on, and being squeezed by, transfers from the national government. Moreover, using own source revenue is a

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good way to promote efficiency in service delivery. Sub-national governments often need assistance from donors in both selecting buoyant user pay arrangements and in putting in place efficient tax collection mechanisms—or, where governments rely on inter-government transfers, in designing arrangements that are credible and predictable. The optimal revenue arrangements will vary between countries and depend on the capacity of local government to manage their own finances.

When the central government stands behind local revenues (either explicitly by grant or transfer payments or implicitly as the guarantor of municipal debt), it is important that the ministry of finance exercise certain rules of financial management over local authorities, for their decisions can have an impact upon the ability of the national government to achieve its fiscal targets. Such regulation could include, for example, imposing financial ceilings and other rules on borrowing directly from the capital markets; restrictions on leasing operations; requirements that local authorities prepare accounts conforming to specified standards; or “no bail out” conditions on borrowing for capital investment or debt.

Another presentation focused on the ways in which greater accountability and improved service delivery can be obtained by involving civil society in evaluating the efficacy of the service they receive. Surveys of agencies can identify the quality service, the underlying reasons for any public dissatisfaction with service standards, and corrupt practices. Survey results also provide a basis for agencies to address any improvements that were needed in government programs.

The working group on sub-national governance identified a number of important challenges confronting states and municipalities. There is a need to eliminate fragmentation and provide clear responsibilities for service delivery. There is a need to make sub-national governments responsible and accountable to the users of services, including both households and businesses. There is a need to improve overall management at the sub-national level, particularly regarding operational efficiency and infrastruc-

ture maintenance. There is a need to develop a system for financing sub-national governments that not only provides the necessary resources but also encourages responsible use.

While recognizing that it would only be practicable for the ADB to work with a small number of sub-national governments, the working group offered a number of suggestions related to the ADB's operations. In undertaking a project, the ADB should proceed in the following sequence: (1) conduct information gathering and analysis regarding the situation on the ground (including what other donors are doing and best practice); (2) engage clients in discussion and dialogue through focus groups and workshops; and (3) design and implement projects that promote policy change and enhanced management capability.

One innovative approach would be for the Bank to experiment with financing infrastructure development in cities. It can set up a fund to disperse a limited amount of money annually and invite cities to compete for an allocation. It would develop and announce the selection criteria (such as quality of project preparation; degree of public/private sector partnership; extent to which own resources committed; capability of management, etc.). The cities scoring best would be funded, and these successful cities would act as models for others. The discussion raised a number of additional areas where donors could assist with decentralization. They include advancing criteria for the possible decentralization of a particular function; improving service delivery by putting in place performance management arrangements; supporting the use of citizen quality indexes, as occurs in the Philippines. Provinces and municipalities also often need to improve their personnel management function.

The participants recognized the strong linkages between sub-national governance and the two previous themes. There are a number of common issues, such as the improvement of management capability, in which a common response across themes might be possible. The ADB should help develop training institutions and pro-

grams in area of public sector management that incorporate components devoted to sub-national governance.

## **THE PUBLIC/PRIVATE SECTOR INTERFACE**

Turning towards this broad and cross-cutting theme, the participants directed their attention to the role of the public sector in fostering an “enabling environment” for private sector growth. The ADB draft paper argued that four sub-themes are particularly important: strengthening forums for business-government interaction; public enterprise reform and corporate governance; regulation and regulatory policy; and the privatization and commercialization of select public goods and services.<sup>4</sup>

Business-government deliberation councils have been used to foster sustained dialogue between the public and the private sector in a number of high performing East Asian economies. These councils are more than mere advisory bodies. They meet on a regular basis and help make policy decisions or formulate recommendations. They provide opportunity for information-sharing; for building credibility and ownership for economic policies; for checking the exercise of administrative discretion and preventing corruption; and for establishing reciprocity and coordination. They are now deeply rooted in the business culture and administrative practices of countries such as Korea, Malaysia and Singapore.

While it is important to avoid the risk that the members appointed to these councils will promote narrow sectional interests, the discussion at the workshop suggested that deliberation councils could be a valuable mechanism for facilitating the flow of information between the public and private sectors. They could also be useful in managing crises; in promoting structural adjustment at the sector level; and in locating funds for investment projects. A particularly promising area is their use in assist-

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4 In light of the vastness of the topic and extensive Bank work on the issue, the participants did not explicitly address issues of privatization and commercialization at the workshop.

ing with the design of regulations. However, potential problems could arise if information disclosed in the councils is leaked or used for corrupt purposes. Participants suggested that the ADB could play a useful role in promoting best practice in the use of deliberation councils.

Corporate governance is central to public enterprise reform. One presentation argued that the key issues are the process of corporatization to set up the independent legal entity and the selection of the agent to represent the Government (the usual solution has been a semi-autonomous agency). To obtain management improvement, it is then necessary to retrain old managers, select new managers, overhaul the system of performance evaluation and incentives, and remove non-performing managers. Care should also be taken to improve the capability and performance of public enterprise boards. There are pros and cons associated with the use of performance contracts for managers, and they should be entered into with care.

The working group believed that the ADB can play a valuable role in assisting DMCs in establishing an effective regulatory framework. Such a framework would cover company law and disclosure regulations. It would also cover competition policy and the regulation of natural monopolies. It would address critical areas, such as financial markets and trade liberalization.

The working group suggested that there was a particularly important role for the ADB to play in assisting DMC efforts to improve the governance of regulatory institutions. There is a critical need to establish consistency and predictability in the operation of commercial laws. In the case of China, for example, there are both central and local laws and a number of avenues for review and appeal. However, the dissemination of information is uneven, so companies are often unaware of the relevant legislations and administrative decrees. Improvements are needed to the availability of corporate information, which will help to ensure the accountability of companies to their shareholders. The group thought it would be valuable to involve the private sector in the drafting of laws and regu-

lations, perhaps in conjunction with the deliberation councils discussed above.

## **CIVIL SOCIETY, SOCIAL CAPITAL AND PARTICIPATION**

This theme recognizes the impact that civil society can have on improving government performance. Civil society is assuming increasingly greater prominence as the role of the state is being redefined and public accountability becomes more important. By some estimates, there has been a 150% growth in the number of NGOs since World War II.

Civil society can serve either as a partner in reform or in challenging the reform process, although it is difficult to play both roles well. The range of partnership roles includes information sharing, consultation, participating in project implementation, and being involved in project appraisal. By challenging the existing roles and standards of governance, and by standing outside of the system and demanding greater accountability, civil society can also play a critical role in shaping the reforms being implemented.

The working group outlined a proposal for assisting NGOs by providing funding to build capacity, to support pilot initiatives and test if they are applicable on a larger scale, and to reduce poverty among groups not reached by government programs. The reaction of the participants was mixed. A number felt that it is inappropriate for NGOs to receive such funding, for it may compromise their mission and independence. They also maintained that overly enthusiastic support for NGOs could strengthen them at the expense of further weakening public sectors that are struggling to provide minimum levels of service. Others argued that, if civil society is to be encouraged, it is imperative that it receive adequate resources.

The ADB can support the development of a robust civil society by developing and sharing an information base on development approaches that work (or do not work).

The Bank can also identify fertile issues for NGOs to focus on and support improvements in local capacity for monitoring government accountability. The ADB can also give attention to incorporating participatory mechanisms in infrastructure projects.

## CONCLUSION

GCB issues are clearly a high priority for countries in the Asian and Pacific region, and the participants agreed that the ADB can play an important role in advancing these issues. However, the Bank will need to devote considerable attention to improving its internal capability. It must develop a clearer sense of the themes and priorities to be advanced under the policy, and it should review the Bank's work processes to support improved performance. There were a number of innovative suggestions regarding new products that the ADB might develop. Yet the Bank's most pressing need is to increase its expertise on GCB issues and to develop new organizational arrangements to better deploy this expertise.

The discussion at the workshop suggests, with some qualifications, that the themes and priorities identified by the Bank are the right ones. The participants strongly believe that specific questions regarding the priorities or the sequencing of reform must be determined in close consultation with individual DMCs. Particular attention should be devoted to ensuring that the scope of reforms does not overtax the capacity of the implementing agency to manage them.

All participants agree that one must approach any GCB reform with humility. Sustainability is crucial, and development experience is littered with examples of inappropriate and ultimately unworkable approaches being foisted on DMCs by overly enthusiastic donor organizations. There are lessons to be learned from other countries, but these lessons cannot be transposed easily or in their entirety. The specific circumstances within a given DMC are often decisive in determining the path to reform.

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***Key Themes and Priorities for Governance in the Asian and Pacific Region***

In the end, the Bank's success in advancing its GCB work will depend upon its ability to manage its twin priorities of developing areas of recognized expertise while simultaneously responding to the diverse needs and demands of its DMC constituency. Such an approach will rely upon careful, focused dialogue and detailed exploration of the relevant possibilities. The participants agreed that the workshop was a useful step in that direction.

**Table 1**  
**Key Themes And Priorities**  
**for Governance and Capacity Building**  
**at the Asian Development Bank**

Area	Key Issues
1. Core Institutions of Government	1. Strengthening central mechanisms for policy formulation, coordination and implementation 2. Public financial management reform, including procurement reform 3. Civil service reform 4. Strengthening audit capacity
2. Sector Work with Line Ministries, Agencies and Departments  Areas of Emphasis Include: <ul style="list-style-type: none"> <li>• Social Sector Institutions;</li> <li>• Environmental Institutions; and</li> <li>• Institutions Interfacing with the Private Sector</li> </ul>	5. Strategic management 6. Streamlining organizational structures and processes 7. Enhancing performance management and orientation 8. Strengthening human resource management and development
3. Sub-National Governance	9. Intergovernmental fiscal relations and finance 10. Strengthening core institutions for sub-national governance 11. Enhancing municipal service delivery
4. Public/Private Interface	12. Strengthening forums for business-government interaction 13. Public enterprise reform and governance 14. Financial market regulation 15. The privatization and commercialization of select public sector goods and services
5. Law and Development	16. Capacity building and institutional enhancement of the legal system 17. Legal framework for private sector development 18. Law in the social and environmental sectors
6. Civil Society, Social Capital and Participation	19. Participatory methods for project preparation and implementation 20. Creating an “enabling environment” for NGOs