

**INFORMATION NOTE:
REVIEW OF COUNTRY GOVERNANCE ASSESSMENT (CGA)
May 2003**

1. **The Review.** A team of three consultants undertook this review,¹ reviewing over 170 documents relating to governance work in ADB and other organizations and interviewing more than 150 ADB staff, representatives of other donor agencies, government officials, and other stakeholders in DMCs (Bangladesh, Cambodia, and Indonesia).

A. Findings of the Review

2. **General.** ADB has been undertaking CGAs in various forms since 1997 and at the time of the review there were twenty two CGAs ranging in status from being published on the ADB website and others that were considered as internal work-in-progress documents. The first cycle of CGAs is still underway and generalization about purposes and impacts is therefore difficult while lessons are still being learned about methods and uses.

3. **Purpose of the CGAs.** The purpose of governance assessments as defined by ADB's medium-term agenda and action plan for governance (MTAAP) is to (i) contribute to the formulation of strategies and programs in Country Strategy and Programs (CSPs) and address key governance issues; and (ii) inform both the level and sectoral composition of ADB assistance to a Developing Member Country (DMC). New business processes introduced in January 2002, made governance and institutional analysis a mandatory input for all CSPs.

4. **Impacts of the CGAs.** Generally, CGAs appear likely to have more impact on strategy and operations when they are properly timed in relation to CSPs. However, the impacts of CGAs on actual operations have been variable and are influenced by the process of undertaking CGAs and the scope of the assessment. There is some doubt that CGAs are having much real effect on the "level and sectoral composition" of ADB lending and technical assistance (TAs) in CSPs.

5. **Clients and Audience.** In all the CGAs reviewed, the primary client was identified as ADB. For most CGAs, a secondary client is the DMC government, either as participant in the assessment itself or as a prime target for its governance policy findings. A wider group may have an interest in the CGA and may include a wide variety of professional and academic groups in the country and internationally with an interest in governance issues in the country.

6. **Timing of CGAs.** Some staff thought that assessment should be seen as more of an ongoing activity, with a quick stock-take and identification of priorities and opportunities for the CSP or CSPU.

7. **Current Framework for Governance Analysis.** Since its publication in mid-2001, the CGA Framework has become the de facto standard for CGAs. The CGA Framework assumes that the quality of a country's governance can be assessed from an analysis of the governance institutions. It excludes instruments for assessing the political conditions impacting on development and for assessing governance in the sectors.

¹ Managed by RSGR based on terms of reference prepared by ADB.

8. **The CGA Process.** The CGA Framework provides guidance on the analytical basis for a CGA but not on process, evidence acquisition, or resourcing. This has resulted in a good deal of variation in both CGA process and product. CGAs have been developed with varying degrees of consultation and participation with DMC stakeholders. Although a majority of staff was in favor of a participatory process, some staff also expressed a concern that involvement of the DMC government could affect the CGA's objectivity. It appeared that in some cases, the reported findings of the CGA team are negotiated with the government and findings relating to sensitive issues like corruption are removed or toned down.

9. **The CGA Product.** Some staff believed that as a matter of principle, all ADB reports should be published. Others believed that there were cases where publication could jeopardize the participation of the DMC government in important policy dialogue or could otherwise threaten ADB interests in achieving useful strategic or operational change in a DMC.

10. **Governance Information Requirements.** In addition to the CSP, there are three other business processes requiring information on the quality of governance in DMCs. These include: (i) policy on performance-based allocation (PBA) for ADF Resources; (ii) conducting poverty analysis; and (iii) conducting sector assessments. Governance and Public Sector Management is one of the three country performance criteria in the Policy Paper on PBA. Guidance in the Poverty Handbook includes analysis of the governance and institutional causes of poverty. Sector analyses usually include some discussion of relevant governance factors but systematic analysis is less common. There is a need to consider the different governance information requirements within an overall framework and to improve the sequencing of governance information analysis.

11. **Harmonization with other donors.** There are high-level agreements on cooperation between donor organizations including ADB. In practical terms, greater cooperation would require solving some complex problems of differences in the objectives, timing and approach of the different agencies and in making appropriate resources available for joint work. Guidance is needed on how joint effort with donor institutions could be woven into the overall CGA process.

12. **Responsibility for Governance Analysis.** CGAs are widely perceived as a compliance requirement and their execution entirely the responsibility of governance specialists. However, responsibility for directing governance assessments was not always clear to the staff.

13. **Resources Utilized for CGAs.** The budgets for CGAs varied according to the process followed. The costs and elapsed time of CGAs rise sharply as fieldwork, consultation, and participation increase. The unsatisfied demand for governance expertise is partly manufactured by the CGA and other mandatory requirements.

B. Conclusions and Recommendations

14. Governance analysis can add value to the formulation and implementation of CSPs by developing opportunities for policy dialogue and strengthening ADB's understanding of the governance risks associated with pro-poor development in DMCs. Nevertheless, good analysis is costly and needs to be focused to ensure value for money. The findings in this review indicate that no single type of analysis is able to deliver all the governance information needs of ADB. The focus in future should be on the collection and analysis of information about governance that clearly contributes to ADB's mission, strategy, and operational priorities and reflects ADB's comparative advantage in governance work.

15. **Recommendation A: A mandatory requirement for governance analysis in so far as it relates to pro-poor development to be undertaken through the following business processes.**

- (i) Poverty analysis;
- (ii) Sector analyses;
- (iii) A periodic CGA overview for each DMC, based on the present CGA Framework (incorporating institutional analysis); and
- (iv) Specialist in-depth studies of core governance topics relevant to ADB's governance interventions e.g., judicial reform; civil service reform; service delivery; local government; and decentralization.

16. **Recommendation B: Governance in the CSP.** The CSP should contain a mandatory section on governance which:

- (i) Sets an overall strategy for ADB's future governance interventions based on the four main types of analysis recommended in this report, and
- (ii) Defines indicators and benchmarks agreed with the DMC government for future reporting on progress with the strategy.

17. **Recommendation C: Participation and Transparency.** ADB should, as a general rule, invite DMC governments and other stakeholders to participate actively in governance analysis and should make the results of the analysis publicly available. Resources provided for analysis projects should reflect the likely higher cost and longer time frames of participatory processes.

18. **Recommendation D: Responsibility for Analysis.** The decision to undertake any of the four types of governance analysis in a country should be the responsibility of the country team, reporting to the appropriate regional department and should be planned one year ahead of the CSP. Task management responsibility should depend on the type of analysis: (i) country program manager for the poverty analysis and CGA overviews; (ii) regional governance specialist for specialist in-depth studies of core governance topics; and (iii) regional or country sector specialists, for the analysis of sector-related governance issues. The primary role of RSDD should be as provider of specialized support to regional departments for governance work (including direct participation of subject experts in analysis projects) and as guardian of governance knowledge and standards.

19. **Resourcing Governance Analysis.** With the extra participation and survey work implicit in the four types of analysis, both expert resources and budgets for governance analytical work may need to increase. Streamlining processes, reducing internal and external duplication, and better prioritizing of staff work, could manage demand for governance specialists better. ADB could also make use of external subject experts to supplement ADB's resources. It may also need to invest more in additional staff specialists and in staff development to supply specialized knowledge required of governance work within ADB.

20. **Next Steps.** RSDD, through the relevant committees, should look into the recommendations in this report and prepare an action plan for implementation.