



FOR REVIEW PURPOSES ONLY

**DOCUMENTATION OF THE CONSULTATION WORKSHOP
WITH EXECUTING AGENCIES OF ADB-FINANCED PROJECTS**

DRAFT

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Though we have attempted to provide an accurate account, the attached document is preliminary and may contain errors or omissions. Please contact us with any corrections. Thank you.



**Documentation of the Consultation Workshop with Executing Agencies of
ADB-Financed Projects on the Review of the Implementation of
ADB's Governance and Anticorruption Policies**

15 December 2004, Hotel Imperial, New Delhi

NOTE: *This document is primarily intended for participants of the workshop. Though others are welcome to consider the contents, the information will be less clear to people who did not attend the live event.*

The ADB India Resident Mission organized a consultation workshop with its executing agencies in India, including its main interlocutors in formulating the country's strategy and programs. In plenary, participants introduced themselves and identified issues and challenges in governance and anticorruption in the country. They also assessed ADB's progress and recommended action to strengthen ADB's work. This document presents the outputs on the assessment of ADB's performance, recommended priority actions, and key discussion points of the consultation workshop.

The **purpose** of the workshop is for ADB to listen to its executing agencies India as they:

- Consider what ADB has achieved, not achieved, and lessons learned India in governance & anticorruption;
- Describe issues and challenges in governance and anticorruption in the country and the region that will affect ADB's future work; and,
- Recommend appropriate roles and priority actions for ADB in governance and anticorruption in the country.

I. Introduction and Significant Issues and Challenges in India on Governance & Anticorruption

During plenary introduction, participants were asked to identify a significant issue or challenge in governance and anticorruption facing India. Their responses follow:

- Importance of law and governance
- Governance in India is multilayered. Corruption is only one part. India has lots of problems and one is policy formulation is an important element on how the degree of implementation takes place. There have been some problems in the downward approach in the implementation of its projects.
- Performance based delivery mechanism is not the only criteria. The quality of services and people's involvement should be an important consideration.
- For central governments to reduce corruption, the policies must be well attuned. At present, our policies lack stability and the objectives are somewhat blurred.
- Governance policies must be well attuned to the country context.
- There should be emphasis and more careful planning and emphasize on processes.
- We need to drastically improve client interface. As far as ADB is concerned, we found that it is as bureaucratic as us, and this is an issue that ADB needs to address.
- ADB should have minimum checks on State governments who have to implement its projects.

- On the general issue of governance and anticorruption, we've noticed that water systems in Government of India (State governments) and ADB are based on mistrust. Unless we start trusting our citizens and people implementing the projects, governance and anticorruption will continue. The more checks and controls, the more you force people to indulge in corruption. We need to trust each other.
- Proposals take some time to mature.
- ADB has several checks on the implementing agencies but only at the procurement level. It has not been involved much in the implementation. ADB should involve itself in the implementation of projects.
- Reengineering the process of governance and altering the attitudes and procedures in government institutions.
- Projects across sectors have been opened up for private sector. The issue is that if a project is already in place in a State (restrictions in other States), the private sector cannot go into the sector and the private sector may or may not comply with the requirements of procurement and social assessment.
- Documentation in procurement took some time. An issue also is the project-mandated consultants.
- Governance relation to liberalization and privatization.
- ADB's enthusiasm somewhat gets reduced after signing loan agreement/covenant. ADB should show same enthusiasm in the implementation of the projects. ADB is not entirely to be blamed on issues of governance and anticorruption. ADB has been flexible and understanding partner and has showed trust. It all depends on internal processes and macro governance issues. It is important also to keep our house in order and in check. ADB understands the ground reality.

II. ADB's Performance: Participants' Report Card

This session asked participants to consider ADB's governance and anticorruption performance versus its commitments using a Report Card.

Results Area	Qualitative Assessment	Examples & Lessons Learned
1. Ensure country leadership and ownership of the governance and anticorruption development agenda	<ul style="list-style-type: none"> • Some evidence of commitment to long-term policy towards governance and anticorruption and no conflict with ADB's policies. • Generally, yes, at project level and sector level. • No issue at aggregate level. 	<p><i>The issues of governance and anticorruption are multilayer issues. What is not clear is ADB's influence in the government's commitment to transparency.</i></p> <p><i>ADB procedures are systematic in approach for the sake of accountability and transparency. In spite of this, certain procedures become problematic in procurement as well as in implementation.</i></p> <p><i>Some government agencies have own procurement systems and standard documents. ADB can review and check if these are acceptable instead of ADB insisting on its own procurement guidelines. There are also some local requirements that need to be considered.</i></p>

Results Area	Qualitative Assessment	Examples & Lessons Learned
<p>2. Take a long-term approach to achieving improvements in governance and anticorruption</p>	<p><i>There is some program and there are policies in almost all sectors that move towards a good governance model (with evidence of governance elements). Although, we don't see that process complete but there is definitely a commitment in the ADB on governance and anticorruption and the reform agenda in general.</i></p> <ul style="list-style-type: none"> • ADB procurement policy/procedure not sufficiently flexible. Took long time to get approval and led to increase in project cost 	<ul style="list-style-type: none"> • ADB impact in the following areas: <ul style="list-style-type: none"> ○ Railway Reforms Programme ○ Terms and Conditions of Loans <ul style="list-style-type: none"> ▪ Power sector recovery ▪ User price ▪ Disclosure ▪ Rehabilitation <p><i>The MDB's loan condition of recovery charges helped streamline the recovery of dues and it has impacted government to take action.</i></p> <p><i>Another issue on ADB's procurement policy is that many of the decisions have to be made in Manila which delays the process.</i></p> <p><i>In whole, ADB has been responsive but in certain aspects, some amount of flexibility can be made.</i></p>
<p>3. Optimize impact of ADB's operations on poverty reduction by addressing key governance issues in DMCs in a systematic and focused manner.</p>	<ul style="list-style-type: none"> • There is considerable scope for realignment. <p><i>Policies of ADB and GOI need to be realigned particularly on R & R (which at present is not in sync)</i></p> <p><i>ADB has set very high standards that are not at par with GOI and other agencies' standards. Sometimes, the cost structures of these projects have been pushed up, therefore in a way there is less demand for projects.</i></p> <ul style="list-style-type: none"> • Addressing poverty reduction in India – does not need direct intervention from ADB? • Benefit: quantifiable? Needed? 	<ul style="list-style-type: none"> • Tripartite arrangement between State Government, Central Government and ADB <p><i>There is non-optimization and lack of harmonization.</i></p> <p><i>Poverty reduction – what is not clear is it due to ADB's intervention or is it a spin off of various projects in various sectors.</i></p>
<p>4. Measure development impact of governance and anticorruption support.</p>	<ul style="list-style-type: none"> • Limited (participants don't know) • (We are not aware of any) No specific indicators on governance or even some kind of comparison among countries (for example on transparency) or do not know if some kind of analysis has been done. • sustainability of assets can be an indicator? 	<p><i>No evidence of that, but there may be indirect measures. For instance in almost all public policies, there is a greater insistence on disclosure, governance, etc.</i></p>

6. Enhance strategic alliances and partnerships with the international development community in governance and anticorruption.		<ul style="list-style-type: none"> Where size of donors is comparable, cooperation is better <i>An issue is when the size is not comparable, coordination between government agencies are not as good.</i> ADB should have more coordinated approach with other multilateral and bilateral agencies
7. Empower the poor people and civil society organizations through processes used to identify and design projects.	<ul style="list-style-type: none"> Design of projects and implementation display grassroots participation. 	<p><i>There is conclusive evidence of ADB processes effectively interact from the design stage onwards to implementation with local persons. There is generally a coordinated and participatory approach of ADB projects from the start to the implementation.</i></p> <ul style="list-style-type: none"> Stakeholders' participation – more due to state/project specific policies rather than ADB dictate (creates delay as well) <p><i>Stakeholder partnership and consultation brought about by State initiatives and project statements rather than imperatives from ADB.</i></p>
8. Ensure stakeholder participation to establish priorities and poverty reduction targets, and help direct project identification and design.	Yes.	<i>In India, disclosure is not a problem. But accountability could be an issue in terms of mediation of different layers of structure.</i>
9. Introduce transparent procedures that ensure full disclosure of information for all dealings with public sector entities.		<ul style="list-style-type: none"> Transparency – can be double-edged (NHAI) <p><i>There are some classified information which we should not be insisted on sharing.</i></p>
10. Improve public expenditure management at central and local levels.		<ul style="list-style-type: none"> Pricing of loans an issue <i>ADB needs to look at pricing issue. Some elements of the price are insistence on standards that are not country specific.</i>
11. Increase government accountability through support for fiscal decentralization and local empowerment.	<ul style="list-style-type: none"> Decentralization – Yes particularly in urban sector. 	<ul style="list-style-type: none"> Changes in governance model autonomous (73rd and 74th Amendments) <p><i>Some of the changes are not happening. Perhaps we can also say intermediation with various agencies is needed.</i></p>

12. Strengthen ADB's capacity to effectively address governance issues.		<ul style="list-style-type: none"> • ADB INRM – to strengthen governance and anticorruption issues. <p><i>ADB INRM might also want to do governance risk mitigation.</i></p>
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Other comments:

- Absence of coordination between diff. levels center in certain aspects of project implementation particularly R & R.
- Lack of harmonization between standards used for some aspects of project implementation. This is directed to ADB and other donors which can create problems for both outcomes and with separate categories of beneficiaries or project affected persons.
- Institutional risk – to look at the first level of sustainability, which is at the start of an investment. ADB invests in a sector by looking at the institution and how it is organized and functioning vis-à-vis the investment. This will highlight the weaknesses of the institution and will be addressed by specific actions to strengthen the institution as part of project implementation. These are measures to mitigate institutional risks.
- While there is flexibility in terms of loan parameters and responses to local needs, the process of modification took time. There is a need for greater empowerment of the local resident mission in decision making rather than waiting for approvals to come from Manila.
- On delegation of responsibilities to resident missions: while responsibility and authority has been delegated to resident missions, it is important to know whether staff are available at the resident mission to help government implement the programs and projects.
- Certain facets of lack of coordination amongst donor agencies – i.e., different standards of procurement formats (bidding documents) (and sometimes government agencies have their own standard formats) which makes it unwieldy for implementing agencies - harmonize papers.
- ADB can also consider harmonizing its procurement procedures and bidding requirements with the country's fiscal year and not the calendar year.
- The procurement issue was also linked to harmonization. The participants pointed out while there was coordination between multilaterals and bi-laterals on grand plans there was considerable discordance on details like procurement also R&R.
- The point of strengthening INRM and decentralizing some decision making to speed up responses also came up in the discussion.

III. Recommended Actions for Governance & Anticorruption

Different small groups focused on priorities, analysis, country strategy, and programs & projects. Participants were asked to recommend priority action points for ADB. Below are the responses:

Group	Recommendations / Actions
1	<ul style="list-style-type: none"> • ADB has social acceptability, the advantage of being an outsider and having an objective view. <p><i>It is commendable that ADB is spearheading discussion of these issues because it has credibility and objectivity.</i></p> <p><i>India has not reached kind of maturity for ownership of these issues to be transferred. Discussing and identifying these issues that are related to projects, the process of transfer and ownership can be started.</i></p> <ul style="list-style-type: none"> • ADB may adopt grant-based assistance for governance and anticorruption issues • Harmonization of practices and procedures and firms amongst different donors can be effected at several levels. <p><i>There is harmonization but negotiations are separate for same projects. Different requirements and forms are likewise required. Maybe at the time of negotiations, uniform documentation should be agreed to save on cost and time.</i></p>

Group	Recommendations / Actions
	<ul style="list-style-type: none"> • At the beginning, look first at the institution and adopt uniform reporting. • ADB should address governance and anticorruption issues in the specific context of sectors. <p><i>ADB to consolidate these best practices and highlight specific actions made.</i></p> <ul style="list-style-type: none"> • Project design and size should be made such as to make performance and monitoring easy to administer; local players should not be excluded. <p><i>In some cases of international procurement, local actors are excluded and this limits the competition and the winning firm may not necessarily be the best persons to carry on the project.</i></p> <p><i>Instead of having own procedures and standard format, ADB can study systems of its DMCs towards more economic and cost-effective approach (country specific). It may be ADB is incurring far higher cost for insisting on a system that is not applicable to the country. In one experience, JBIC agreed to use ADB format of documentation.</i></p> <ul style="list-style-type: none"> • In centre sector projects, State government participation may be ensured with relation to issues relating to them. • Whenever domestic system adequate from T/A/D points of view, they should be followed. • ADB's attitude before loan negotiation are over and after vastly different; post negotiation, flexibility disappear. <p><i>In most cases, ADB's approach is flexible before the documents are signed, problems are when projects are implemented on the ground.</i></p>
2	<ul style="list-style-type: none"> • TA studies to be handled by the EA from beginning to end. ADB to keep a close watch so that TA doesn't take TA for a ride. • ADB not to venture where funds can be arranged from commercial banks. • International consultants role can be removed or minimized (in cases where they cannot be trusted upon) and consider Indian subsidiaries of consultants. • Performance indicator of consultants and their periodic evaluation should be made a public document. • Do also capacity assessments. • R & R should be uniform or be aligned to the existing state of Government of India. • In a country like India where democratic institutions and rule of law is well-placed – ADB should intensify sectoral assistance (covenants of which may be agreeable to Government, State Government and Implementing Agency – within a definite time-limit. • ADB's is also learning ropes and no comparative advantage in expecting ADB to improve governance in India. It can go full steam to combat corruption within its domain of activities – which itself would be agreeable. • More decentralization of power to ADB INRM to sanction projects and to give clearances. <i>Need to increase the ceiling limit of funds for which INRM is capable of handling.</i> • In a country like India, more importance should be given on institutional development (key institutions). • More confabulation with WB, USAID, etc. and converge on accepted practices. • Consider practice of same financial year of reckoning for ADB in countries (other than calendar year) • ADB can emphasize more on delivery of services & sustenance of assets created once project period is over. This would be the key indicator. • (2, v) Yes, but related to sector concerned. • No grand policy prescription to change whole governance structure of India (not an all India approach on governance) – India is a complex organism and one medicine may not work always. Hence, ADB should concern itself to improvements in sectors in which it has a comparative advantage, rather than concentrating on delivery of services in India as a whole because these are public enterprises to begin with.

Group	Recommendations / Actions
	<p><i>Publicize impact of sector specific governance.</i></p> <p><i>ADB should focus on technical assistance and the governance of the projects that are being administered. It will be very difficult for ADB to address governance issues not related to ADB projects.</i></p> <p><i>There was an experience with an international consultant where executing agency have not seen the consultant. Even though the final report was submitted, it gives doubt as to the accuracy and authenticity of the report. Perhaps ADB can consider that technical assistance be handled by the executing agency and not by ADB since these consultants are paid directly by ADB and the beneficiary stakeholders might be ignored.</i></p>

Other comments:

- Having an international consultant can be an advantage of not being subjected to local pressures.
- There are two conflicting claims or attitudes in the way loans and ADB assistance is being modeled. One is the perspective of a lender where the contact is the lending money and no commercial transaction once the loan is closed will the lender agree to reopen the contract. Another is the executing agency and you include as part of your loan contract a whole bunch of governance and development directives that are in their very nature nebulous and difficult to figure out. So given these conflicting objectives, maybe what is needed is some format to marry the two objectives.
- ADB is not venturing into projects where commercial loans are available. It also tends to fund projects where financial returns are higher particularly on infrastructure projects, which is understandable to spur economic growth. However, ADB needs to invest as well in social projects.
- Executing agencies have a say in the Terms of Reference of hiring consultants. It may opt not to use international consultants, only if the need is there and competence is not available in the country.
- Part of the problem of international consultants not performing according to expectations is not adequate participation in the framing of the Terms of Reference (TOR). A loosely framed TOR will lead to abuse and misuse, while more tightly framed TORs will give you more results and closer to what you like and expect.

We encourage participants to comment or give feedback on this report through e-mail at governance_review@adb.org. Thank you.

APPENDIX



INDIA CONSULTATION WORKSHOP WITH THE EXECUTING AGENCIES OF ADB-FINANCED PROJECTS 15 December 2004, The Imperial Hotel, New Delhi PURPOSE & AGENDA

Purpose :

The purpose of the workshop is to seek feedback of executing agencies of ADB-financed projects in India to collectively:

- Discuss issues arising from the findings of the desk review on governance and anticorruption;
- Describe regional trends in governance and anticorruption that influence poverty reduction and will affect future work; and,
- Identify action points for ADB's Medium Term Action Plan (2005-09) on Governance and Anticorruption to reduce poverty.

Agenda:

10:00 AM	Arrival / Registration
10:30 AM	Welcome, Expectations & Introductions
11.15 AM	Governance & Anticorruption Desk-Based Review: Background and Themes
12 NN AM	Highlights of ADB's Urban Governance Program in India
12:30 PM	ADB's Contribution to India: Achievements and Performance (small groups)
1:30 PM	LUNCH
2.15 PM	Executing Agency Presentation: Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC)
2:30 PM	Report Back: ADB's Contribution and Performance
3:30 PM	Appropriate Roles & Priority Actions by ADB for Governance & Anticorruption Work (small groups)
4:15 PM	Report Back: Recommended Priority Actions and Results for the Medium-Term Action Plan for Governance and Anticorruption (2005-2009) (plenary)
5:00 PM	Implications & Next Steps
5:30 PM	Close