



FOR REVIEW PURPOSES ONLY

**COUNTRY CONSULTATION WORKSHOPS:  
ISSUES FOR CONSIDERATION  
EXTERNAL CONSULTATION PAPER**

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The working draft paper, workshop agenda and consultation process document provide the background material for *external* consultations on the governance and anticorruption policies. The issues in the paper are drawn from the desk-based review, our *internal* assessment of implementation.

## **Country Consultation Workshops: Issues for Consideration**

### **Background: Key Themes in Asia's Governance Situation**

Good governance is an ideal—few countries or societies come close to achieving good governance in total. However, the Millennium Development Goals and sustainable poverty reduction require actions making this ideal more real.<sup>1</sup> Every nation's path to good governance differs, depending on culture, geography, political and administrative traditions, economic conditions and other factors. The scope and scale of public sector activities varies widely. Institutions and practices effective in the People's Republic of China, with its 1.2 billion, may not be relevant in Nauru with a population of only 10,000. Yet governments face similar responsibilities to establish sound macro policy framework, create the enabling environment for pro-poor growth, provide critical goods and services, protect and administer the rule of law, and advance social equity.<sup>2</sup>

Asia is still recovering from the 1997 financial crisis, as several countries with different historical, geographical, political and social contexts now experience reasonably high growth. However, pro-poor and inclusive growth remains elusive. The move from centrally controlled to market economies requires government capacity to minimize any new opportunities for corruption and social inequity inadvertently created during transition. Weakly performing states, countries affected by conflict, and global threats of terrorism are challenges that make achieving good governance even more difficult. The AIDS epidemic and the recent SARS outbreak bring health related threats to development in Asia. These challenges require countries to work collectively promoting good regional governance and sharing information more transparently and timely. Information and communications technology present new opportunities for developing countries to advance directly to current standards, but these risk leaving many countries and people behind.

Over the past 10 years, ADB has focused on strategic governance work, including strengthening public sector management at all levels, improving public accountability and legal reform, combating corruption, and creating enabling environments for private sector development. ADB has explored processes for enhancing popular participation in decision making to achieve equitable and inclusive growth. It helped enhance governance quality in DMCs by elevating governance's place on the regional development agenda and fighting corruption and strengthening ADB's capacity for governance operations. Nevertheless, progress is slow and difficult. Many programs and projects have tried to do too much in too short a time with little regard for prioritizing and sequencing activities. In some cases, political realities were neglected at the design stage and without adequate political commitment, improvements in governance are unlikely. Measures to address corruption have been inadequate. Although some groundwork has been laid, the more difficult process of changing attitudes and behavior is very slow. Strong governments that engage effectively with citizens and address their needs, an active civil society that truly represents the poor and the marginalized are fundamental to sustain poverty reduction in the region.

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<sup>1</sup> United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP),

<sup>2</sup> Governance in Asia: From Crisis to Opportunity, ADB Annual Report, 1998.

## The Review and Consultations

This is the first combined review of the implementation of the Policies and the first to consult DMC stakeholders. The initial internal desk review examined how ADB implemented the Policies through its business processes and the findings of the review have highlighted issues that would benefit from wider stakeholder inputs. Now, external consultations consider how ADB's Developing Member Countries (DMCs) and other stakeholders view ADB's role in improving the quality of governance and combating corruption and its priority actions for 2005-2009. This paper provides a summary of the issues as background material for DMC consultations:

### 1. DMCs' Poverty Reduction Strategies and Long Term Partnerships

ADB recognizes the importance of taking a long-term approach to achieving improvements in governance and corruption and has taken a number of measures to ensure country leadership and ownership of the governance and anticorruption development agenda. It is committed to optimizing impact of ADB's operations on poverty reduction by addressing key governance issues in DMCs in a systematic and focused manner. ADB's Long Term Strategic Framework (LTSF) commits ADB to an effective long-term presence in the sectors and priority areas agreed with DMCs. The Poverty Reduction Strategy (PRS) commits ADB to actively support DMCs achieve objectives in their National Poverty Reduction Strategies (NPRS). Investments to improve governance and combat corruption are undertaken through lending and non-lending services and through policy dialogue between DMCs and ADB. Policy dialogue allows ADB to understand the local context and priorities better while providing opportunities to respond to DMC requests for advice. With greater decentralization, ADB resident missions have more opportunity to conduct effective policy dialogue on governance and anticorruption. Decentralization has also enabled greater country ownership of the governance and anticorruption agenda supported by ADB.

NPRS or national development plans guide DMC investments for reducing poverty and pro-poor growth. The NPRS analyzed as part of this review have good governance as an objective and many directly refer to combating corruption. However, governance reforms are often described in broad terms with little supporting documentation on their importance in relation to poverty reduction. Prioritization and sequencing issues and coordination with sector reforms such as health and education are often missing or weak. The resource and capacity constraints are often left out and it isn't always clear as to whether all the reforms are needed to reduce poverty or create the enabling environment for poverty reduction and pro-poor growth. Very rarely is corruption addressed through a coordinated national strategy or program. As ADB anchors its support to local requirements, the country strategy and programs (CSPs), prepared by ADB in partnership with DMCs, inevitably have gaps and weaknesses in their links between the strategy and program elements of the CSP in so far as it concerns governance and corruption related issues.

Although governance is given a high priority by ADB in the region, the proportion of ADB's investment for core governance<sup>3</sup> lending and nonlending services does not reflect the scale of

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<sup>3</sup> ADB classifies core governance as: national government administration, economic management, law and judiciary, public finance and expenditure management and subnational government administration. The themes are based on the priorities indicated in the PRS: financial and economic governance, public governance, civil society participation and anticorruption.

governance challenges facing DMCs. One reason could be that DMC governments are less inclined to take loans that only address governance issues. As governance covers a wide range of issues and ADB has limited resources, ADB and DMCs must agree to fewer strategic areas of support where investment leverages significant improvements to governance and corruption.

*Issues:* a) Has ADB been an effective and flexible partner in supporting governance and anticorruption programs for poverty reduction through policy dialogue and lending and non-lending services? What have been the main achievements and where could ADB improve performance? b) How do DMCs coordinate governance and anticorruption reforms and track reform results within the context of the NPRS?

2. **Governance Analysis:** Effective country governance and corruption analysis<sup>4</sup> are important to inform strategic priorities and program/project design. Multilateral and bilateral agencies invest in various instruments to assist DMCs analyze governance and corruption.<sup>5</sup> DMCs participate in most analyses, but duplication and gaps persist and linking the analysis to DMC action plan is difficult. Some assessments are too ambitious in scope and findings do not consider the absorptive capacity of the DMC. Donors also need to harmonize these assessments. The review highlights the need to move away from generalized country governance analysis to issue-based and context-specific analysis. For example, DMCs may wish to analyze major constraints to specific priority services or pro-poor growth. Corruption assessments, service delivery surveys and public expenditure reviews are also important. Effective analysis responds to DMC administrative processes and political cycles; identifies priority reform measures that can bring significant change; and actions within the DMC's existing capabilities and capacities.

*Issues:* Do DMCs have good analysis on governance constraints to poverty reduction? Have DMCs benefited from good institutional and corruption assessments and are these routinely undertaken before large investments are made? What is the experience of DMCs with ADB's and other donor-led governance analyses? What should be ADB's future priorities to support DMCs in quality governance and corruption analysis?

3. **DMC Governance and Corruption Indicators:** Many DMCs do not systematically measure the quality of governance and level of corruption. Few report performance to their citizens. Indicators on the quality of services and costs of doing business are useful for citizens and prospective investors. Although international governance and corruption indicators are available, DMCs, multilateral development banks and bilateral donors have not collectively agreed on indicators for governance and corruption. However, this does not preclude DMCs setting up their own systems to report on performance and where appropriate using relevant international indicators that are already available.

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<sup>4</sup> ADB conducts mandatory country governance assessments (CGAs) to inform country strategy and program (CSPs). The review of CGAs is available at [http://www.adb.org/Governance/gov\\_publications.asp#country\\_governance](http://www.adb.org/Governance/gov_publications.asp#country_governance)

<sup>5</sup> These include: public expenditure reviews, CGAs, country procurement assessments and financial management assessments. Information on other types of analysis is available on <http://www.adb.org/governance/review>.

*Issues:* Is it important for DMCs to have a few meaningful governance and corruption indicators that enable performance in governance and corruption to be shared with citizens?<sup>6</sup> Should there be regional or international indicators for comparative purposes? What should be ADB's role in supporting DMCS develop and utilize governance and corruption indicators?

4. **Participation:** Participation<sup>7</sup> was recognized as a priority for supporting DMCs in ADB's governance action plan (2000-2004). ADB's framework for participation<sup>8</sup> recommends ADB to assist DMCs with stakeholder analysis for consultations in CSP preparation, program design, implementation, monitoring and reviews. ADB is committed to creating the enabling environment for DMC governments to empower the poor people and civil society organizations through processes used to design projects and in determining investment priorities and poverty reduction targets.

*Issues:* Has ADB promoted participation in the design, implementation and monitoring of programs and projects in a DMC? What are indicators of effective stakeholder participation? What more should ADB do and what are the risks of making participation work effectively in DMCs ?

5. **Assessing and Mitigating Governance and Corruption Risks:** Weak governance and corruption are significant risks to development effectiveness requiring effective measures for analyzing, assessing and mitigating these risks. ADB's commitment under its Charter requires ADB<sup>9</sup> to take the necessary measures to ensure that the proceeds of any loan made, guaranteed or participated in by ADB are used only for the purposes for which the loan was granted and with due attention to considerations of economy and efficiency. DMCs need to be pro-active about managing risks and may require support in undertaking governance and corruption risk analysis, assessment and mitigation.

There are several actions that can be taken to identify, assess and mitigate program/project related governance and corruption risks and these include: assessing the political feasibility of reforms during program design; conducting sound institutional analysis including analysis of systems and processes of the agencies that will be involved in the implementation of the program/project; directly assessing corruption risks as part of the financial management assessments that take place now; undertaking sound stakeholder analysis and incorporating stakeholder participation processes in the design, implementation and monitoring of projects; building in sound risk mitigating measures during implementation; bringing greater transparency by making available project/program related information to stakeholders and the public; and ensuring sound project/program monitoring and reviews including effective checks on financial statements during implementation.

*Issues:* What are DMCs' views on the quality and effectiveness of the governance and corruption risk analysis, assessment and mitigation measures undertaken for ADB's programs and projects? How effective are ADB's project/program monitoring and reviews? Are the

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<sup>6</sup> Indicators for services provided, corruption, participation etc. could be implemented by sectors, agencies, and ministry or across the whole of government.

<sup>7</sup> Participation is one of the four elements in ADB's Governance Policy. The others are: accountability, transparency and predictability.

<sup>8</sup> Mainstreaming Participatory Development Processes in ADB Operations, June 1996 – prepared pursuant to provisions in the Action Plan contained in the Report of the Task Force on Improving Quality.

<sup>9</sup> Agreement Establishing the Asian Development Bank (The Charter), 22 August 1966.

financial statements effectively checked? Should ADB build DMC capacity identify, assess and mitigate governance and corruption risks? Does ADB need to take additional measures to mitigate corruption related risks in the loans?

6. **Capacity Building:** In 1998, ADB established a framework for capacity building. This review, and evaluations undertaken by ADB's Operations Evaluation Department, highlight the lack of sector-wide and long-term approaches to institutional development and capacity building. Donors approach capacity building in various ways with little coordination. Overusing limited existing capacity or filling short-term gaps with consultants for ambitious programs is not building sustainable capacity.

*Issues:* What are DMCs' experiences with ADB's capacity building programs? Are there any good practices that DMCs would like to share with ADB? Do ADB lending and non-lending instruments allow for project and program outputs to be made sustainable through effective capacity building? Are there important changes recommended in the way ADB helps DMCs build sustainable capacity?

7. **Public Financial Management (PFM) and Public Expenditure Management (PEM):** The success of program or policy-based lending (a form of budget support), sector-wide approaches, and the NPRS rely on effective public financial management.<sup>10</sup> Although support for PFM and PEM to the Ministry of Finance in DMCs is popular, PEM support to sectors and for decentralized services has not been mainstreamed into sector projects/programs. Unless sector departments and agencies have sound PEM systems the investments made will not be sustainable.

*Issues:* Should ADB give priority to PFM and PEM, particularly in the primary sectors of ADB's operations? Should PFM and PEM at subnational levels receive higher priority?

8. **Knowledge Products and Services (KPS):** ADB manages its knowledge to help DMCs. Products include publications, journals, learning products and toolkits, seminar and workshop materials, governance assessments and information posted on ADB's website.

*Issues:* To what extent do ADB's KPS for governance and anticorruption benefit the DMC? Are ADB websites for governance and corruption useful? What should be priority KPS for the next 3-5 years for governance and anticorruption? How can KPS respond better to priority governance and corruption issues?

9. **Governance and anticorruption consultants:** Terms of reference for project and program design often expect technical consultants to provide governance, institutional and anticorruption content simultaneously. The set of skills needed to design transformational change rarely resides in one person. ADB needs to strengthen its base of country, regional and international experts in governance, anticorruption and institutional development.

*Issues:* How effective are national, regional and international governance and anticorruption consultants contracted to undertake work on ADB programs and projects? How can ADB help improve their effectiveness?

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<sup>10</sup> PFM is the process by which governments raise revenues, and allocate and spend and account for public funds (Overseas Development Institute, Center for Aid & Public Expenditure).

10. **Harmonization, Simplification and Partnerships:** Often, multiple donors support governance and anticorruption initiatives in a DMC in similar domains e.g. public expenditure management. Without effective coordination measures, resources can be wasted by duplication and contradictions in approach and content. Although some DMCs have systems for donor coordination, more effort is required by donors to harmonize and simplify their practices particularly in governance and corruption assessments. ADB has successfully worked in partnerships with DMCs and other multilateral development banks in joint assessments and with bilateral donors through co-financing agreements.

Issues: Has the DMC experienced duplications, contradictions, or added transaction costs from different approaches taken by donors? What priority actions should ADB or other donors take to harmonize and simplify governance and anticorruption work?

11. **ADB's Governance and Anticorruption Policies and Guidance:** The Governance Policy is nearly ten years old and the Anticorruption Policy has been implemented for 6 years. Although the four elements<sup>11</sup> of governance continue to be valid, they are not practical to evaluate implementation. The governance and anticorruption policies overlap - integrating them both in guidance has not been easy.

Issues: Do the Policies require changes? Where can existing guidance be strengthened?

### **Expected Outputs From Consultation Process**

- Participants' assessment of ADB implementation performance
- Recommendations for updating ADB's Governance and Anticorruption Report Card (See Attachment One)
- Recommended Priority Actions and Results for the Governance and Anticorruption Medium Term Action Plan (2005-2009) (See Attachment Two)

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<sup>11</sup> The four elements are: transparency, predictability, accountability and participation.

### Attachment 1: Recommendations for Updating ADB's Governance and Anticorruption Report Card<sup>12</sup>

Results Area	Issue	Qualitative Assessment
1. Ensure country leadership and ownership of the governance and anticorruption development agenda	Has ADB been a flexible and effective partner in supporting DMC's own governance and anticorruption programs through policy dialogue and lending and non lending services?	
2. Take a long-term approach to achieving improvements in governance and anticorruption	Does the DMC have a long-term program (10 years +) for improving governance and combating corruption with ADB? Has ADB taken a long-term approach to capacity building in one or more sectors? – give examples	
3. Optimize impact of ADB's operations on poverty reduction by addressing key governance issues in DMCs in a systematic and focused manner.	Has ADB optimized impact of ADB's operations by assessing key governance, institutional development and corruption issues in a systematic and focused manner and using the assessment to develop a focused governance and anticorruption strategy for the DMC? Does ADB address key governance, institutional and anticorruption issues in the sectors (e.g. health, water, education, transport) in systematic and focused manner?	
4. Measure development impact of governance and anticorruption support	Has ADB assisted the DMC develop indicators for measuring improvements in governance and in reducing corruption?	
5. Demonstrate to borrowing DMCs the cost of corruption and the value of eliminating it by setting an example of zero tolerance for it in ADB's own activities; promote spread of good internal financial and other control systems to DMCs by encouraging their use in all agencies involved in ADB related activities.	Does ADB set an example of zero tolerance for corruption? Has it promoted spread of good internal financial and other control systems in agencies involved in ADB activities?	

<sup>12</sup> These are ADB commitments made in its: a) Long Term Strategic Framework (LTSF); b) Poverty Reduction Strategy (PRS) governance priorities; and c) Governance Medium Term Agenda and Action Plan (MTAAP), 2000-2004.

Results Area	Issue	Qualitative Assessment
6. Enhance strategic alliances and partnerships with the international development community in governance and anticorruption	Has ADB and other donors assisted the DMC develop a coordinated governance and anticorruption strategy and supporting programs. Has ADB conducted joint assessments and harmonized systems and processes with other donors?	
7. Empower the poor people and civil society organizations through processes used to identify and design projects;	Are ADB processes effective for empowering poor people and civil society organizations to identify and design projects?	
8. Ensure stakeholder participation to establish priorities and poverty reduction targets, and help direct project identification and design	Does ADB's processes help the DMC identify and involve stakeholders (government, civil society and poor people) establish priorities and poverty reduction targets , and help direct project identification and design.	
9. Introduce transparent procedures that ensure full disclosure of information for all dealings with public sector entities	Are there transparent procedures in the DMC and in ADB for full disclosure of information on dealings with public sector entities?	
10. Improve public expenditure management at central and local levels	Has ADB maximized opportunities for improving public expenditure management at central and local levels in the DMC?	
11. Increase government accountability through support for fiscal decentralization and local empowerment.	Has ADB prioritized support for fiscal decentralization and local empowerment?	
12. Strengthen ADB's capacity to effectively address governance issues	Does ADB have adequate capacity in the Resident Mission and in ADB Head Office in Manila to address governance and anticorruption issues? Do the governance and anticorruption consultants contracted by ADB have adequate capacity to assist the DMC?	

## **Attachment 2: Recommended Priority Actions and Results for the Governance and Anticorruption Medium Term Action Plan (2005-2009)**

In determining ADB's future role and priorities, workshop participants may wish to be guided by the following questions:

### **1. ADB's Priorities**

- (i) What is ADB's comparative advantage in improving governance and combating corruption in the DMC?
- (ii) Should ADB to have a long-term partnership with the DMC for improving governance and combating corruption in the DMC? And what could ADB's role be?
- (iii) What should ADB's priorities be across the following work areas: a) governance and anticorruption policy dialogue; b) loans to improve governance and combat corruption; c) technical assistance to improve governance and combat corruption; d) addressing governance, institutional development and corruption in sector loans and technical assistance; or e) other areas (please provide supporting details)

### **2. Governance Analysis, Indicators and harmonizing processes with other donors**

- (iv) What are the priority areas for ADB to harmonize systems and processes for governance and anticorruption with other donors?
- (v) Should ADB provide support for:
  - a. DMCs to be able to conduct analysis and research on the governance, institutional and corruption constraints to poverty reduction and pro-poor growth.
  - b. DMCs to have a few simple and effective indicators, such as corruption, public expenditure management, quality of services, and business climate and to deliver performance information to citizens through monitoring and evaluation systems.

### **3. Country Strategy**

- (vi) What are the key improvements in governance and anticorruption that can be made to the country strategy and program for a DMC. For example, is it important for the country strategy and program (CSP) to include:
  - a. Sector specific governance, institutional and corruption analysis?
  - b. Should ADB continue with country governance assessments?

- c. Governance and corruption risk mitigating measures<sup>13</sup> to protect the investments proposed in the portfolio, and ensuring these are monitored and reported on during the annual portfolio reviews.

#### 4. Programs and Projects

- (vii) In the areas of governance and corruption, what are the improvements that ADB should make in the preparation, implementation and monitoring of projects and programs? For example, would the DMC consider it important for ADB to:
  - a. Incorporate sector-specific governance, institutional and corruption analysis to inform the specific governance, institutional and anticorruption measures, the risks and mitigation measures and the feasibility of reforms proposed.
  - b. Strengthen and increase technical assistance for project preparation that will enable the DMC to address governance, corruption, and institutional issues effectively.
  - c. Create the enabling environment for DMCs to involve stakeholders in project/program design, implementation, monitoring, and review; and, ADB to monitor and report on quality of stakeholder participation in all program/project monitoring and review missions.<sup>14</sup>
  - d. Assist major executing and implementing agencies in the DMC introduce appropriate indicators and monitoring and reporting systems that demonstrate levels of transparency and accountability.
  - e. Strengthen project monitoring and reviews; adopt a reporting system, which demonstrates the quality of supervision and effectiveness of governance and corruption risk management during program/project implementation<sup>15</sup>
  - f. Make public expenditure reviews compulsory for: a) programs/projects involved in public financial management reform; and b) ADB's primary sectors of operation.

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<sup>13</sup> Organize governance and corruption assessments for ADB's main executing agencies.

<sup>14</sup> The depth and breadth of participation called for in the Governance policy and the 1998 guidelines make stakeholder analysis mandatory to formulate participation plans and requirements.

<sup>15</sup> ADB would need to establish a context-specific framework specifying the areas that would require monitoring during implementation. This framework would need to set out what, why, by whom and the means of verification for each area to be monitored.