



REVIEW OF THE IMPLEMENTATION OF THE  
**GOVERNANCE AND**  
**ANTICORRUPTION**  
POLICIES OF THE ASIAN DEVELOPMENT BANK

**FOR REVIEW PURPOSES ONLY**

**EXECUTIVE SUMMARY OF THE ADB GOVERNANCE  
MEDIUM-TERM AGENDA AND ACTION PLAN 2000-2004**

Attached is a paper on the above subject for discussion

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*The attached document is one of the papers being used in the current Review of the Implementation of the Governance and Anticorruption Policies.*

## **Executive Summary of the ADB Medium-Term Governance Agenda and Action Plan, 2000-2004<sup>1</sup>**

1. The Asian Development Bank (ADB) has learned through decades of experience that sustainable development depends on the quality of decisions made toward development and reform, and, equally, on the manner in which these decisions are taken and carried out. In October 1995, ADB members reached a consensus to apply this fundamental lesson in a more systematic way in ADB's overall operations. Thus, ADB became the first multilateral development bank to have a board-approved policy on governance.

2. The governance policy became the basic building block for a cluster of good governance policies, which now includes policies on procurement, law and policy reform, participation of civil society, and anticorruption. Good governance has since also been established as one of the three pillars of ADB's Poverty Reduction Strategy. Without good governance, efforts at reducing poverty will not be effective. Therefore, ADB will introduce a performance-based allocation system, with particular emphasis on good governance, that enables ADB to effectively direct scarce Asian Development Fund (ADF) funds to countries in which they will have the greatest impact. With these additions, policy development in this field is now nearly complete, and ADB's cluster of good governance policies provides a sound basis for addressing most of the governance problems confronting ADB's developing member countries (DMCs). ADB will, of course, continue to review and, if needed, revise this policy cluster periodically based on experience.

3. **Implementing ADB's Governance Policy.** ADB has been involved in the full range of areas that constitute the governance field. Its work is becoming progressively more focused on analysis of governance issues in each DMC to identify the weaknesses impairing the effectiveness of development performance. Examples of ADB's activities across key governance themes include

- public expenditure management to enhance budget preparation and expenditure management;
- public administration reforms;
- legal system reforms, especially developing legal information systems, enhancing DMC capacity to implement and administer laws, and supporting legal reforms for private sector development;
- institutional development and capacity building aimed at improving service delivery to consumers of government services, particularly the poor: this constitutes the largest segment of ADB's governance work, as most ADB projects include capacity-building components;
- public accountability, through strong anticorruption measures in ADB's investments, improvement of audit standards and capacities in the DMCs, and activities to combat money laundering;
- improving governance at subnational levels by supporting devolution;
- improving the public-private interface by helping to improve (a) disclosure and transparency in the financial sectors of the DMCs; (b) effectiveness of regulatory

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<sup>1</sup> The ADB Medium-Term Governance Agenda and Action Plan (2000-2004) was approved in 2000 and the full document can be viewed at [http://www.adb.org/Documents/Policies/Good\\_Governance/](http://www.adb.org/Documents/Policies/Good_Governance/)

- frameworks; and (c) corporate governance of state-owned enterprises, and in the private sector, through improved laws and regulations; and
- strengthening participation, particularly in ADB's project work, and cooperating with nongovernment organizations, in ADB projects and to strengthen civil society.

4. In terms of the four elements of good governance, ADB has had some successes. The groundwork has been laid. While basic ground rules for improved governance have been established in many DMCs, the more difficult process of changing attitudes and behavior has also begun. Progress will be slow and difficult. It will depend largely on appreciation by leadership in the DMCs of the benefits of better governance and their support for the incentives required to bring about the necessary changes.

5. **Lessons Learned.** Many programs and projects in the governance area have tried to do too much in too short a time. In some cases, political realities were neglected at the design stage. Another important lesson is that without political commitment, improvements in governance are unlikely. Also, models that have worked well in developed nations are not necessarily successful when imported uncritically into a different political, cultural, and government environment. And capacity building must extend beyond training and introduction of information technology systems.

#### **Medium-Term Governance Agenda and Action Plan 2000-2004**

6. **Objectives.** ADB will take a lead role in promoting good governance in the Asian and Pacific Region. More specifically, ADB will aim to elevate governance issues to the top level of the development agenda in the Region; develop a consensus on regional benchmarks, codes of conduct, and best practices across the whole range of public and private sectors, and indicators of good governance; and enhance the quality of governance in individual DMCs. To achieve these objectives, ADB will

- optimize the impact of its operations on poverty reduction by addressing key governance issues in DMCs in a systematic and focused manner;
- initiate a regional governance program to raise the profile of governance, and provide a regional focal point for governance issues;
- 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, and promote the spread of good internal financial and other control systems to DMCs by encouraging their use in all agencies involved in ADB related activities;
- actively seek to improve the coordination of governance activities by development agencies in the Asian and Pacific Region through enhanced cooperation and partnership;
- strengthen ADB's capacity to effectively address governance issues; and
- provide regular and frequent feedback to all stakeholders on implementation of the action plan and the lessons learned.

7. **Action Plan.** The plan for implementing the medium-term governance agenda has six major areas of activity:

- a. **enhancing governance quality in DMCs by**

- undertaking more rigorous and structured studies of governance issues in DMCs, and the risks the issues pose, as part of the process of preparing the country strategy and program (CSP);
- ensuring that the studies pay particular attention to the extent of transparency in budget preparation; level and trend of nonproductive government expenditures and spending on social sector programs; opportunities for and degree of participation in development processes (at national, sector, local, and project levels); prevalence of the rule of law; success in fighting corruption; existence of legal and bureaucratic factors promoting official secrecy and inhibiting public access to information; and the need to ensure that complex, large, and unusual patterns of financial transactions are monitored and reported;
- formulating strategies and programs to address the key governance issues identified in the DMCs, together with relevant performance indicators;
- targeted capacity building focused on areas of weakness in governance identified in the CSP process;
- promoting participation in DMCs by ensuring that, in the design of projects and programs, attention is given to expanding opportunities for involvement by local representative assemblies and civil society, including women's groups; and
- developing indicators for the four elements of good governance, i.e., accountability, participation, predictability, and transparency, which will be used to identify the strengths and weaknesses in governance in individual DMCs, determine priority areas for ADB governance activities in the DMC concerned, and track the broad impact of governance interventions;

**b. elevating good governance to the top of the development agenda** in the region by

- developing a regional program of governance initiatives, focusing on the principles of accountability, participation, predictability, and transparency, with the aim of identifying and implementing effective methodologies, demonstrating the positive impact of good governance, and creating momentum for an expanded set of governance activities;
- establishing a regional partnership network on governance, comprising representatives from governments, civil society, private sector, and development agencies, to build a consensus on relevant benchmarks, best practices and codes of conduct, and indicators of good governance, and to review progress on achieving better governance in the region; and
- working with the ADB Institute to develop a program of workshops and training courses aimed at enhancing understanding of DMC politicians, officials, and leaders of civil society about the principles of good governance;

**c. fighting corruption** by setting an example of zero tolerance, and promoting the spread of good financial and other internal control systems by

- strengthening the control systems of executing agencies and identifying fraud and corruption through project procurement related audits;
- developing a training program to help ADB staff detect fraud and corruption in ADB-financed projects;

- introducing measures to strengthen borrowers' capacities to audit with appropriate independence;
  - expanding assistance to supreme audit institutions in the DMCs for developing programs and training to strengthen their capability to detect corruption and fraud; and
  - preparing in consultation with other multilateral development banks (MDBs), master standard bidding documents with the aim of introducing standard terms and conditions for bidding and award of contract, as well as generally accepted international best practices, into ADB procurement procedures and practices;
- d. **coordinating governance activities** by working with the MDBs and aid agencies to actively promote unified approaches, and set up cooperative arrangements with the International Development Fund (IMF), World Bank, United Nations Development Programme (UNDP), and major bilateral aid agencies to carry out governance assessments and public expenditure reviews in the DMCs;
- e. **strengthening ADB's capacity for governance operations** by
- providing governance specialist positions to all operational department and ensuring that ADB has sufficient staff for the effective implementation of the governance policy;
  - providing resources to engage specialized experts to respond to the demand for governance reforms, as reflected in CSPs, through technical assistance or as staff consultants;
  - developing governance and institutional databases on each DMC;
  - elaborating the links between good governance and poverty reduction, and good governance and political and institutional frameworks; and
  - providing managers and mission leaders with training and toolkits to effectively address governance issues in project design; and
- f. **monitoring implementation of the action plan** by providing an annual report to ADB's Board on implementation of the plan: the report will include information on actual achievements against the actions and targets in the annual work program, lessons learned, and a work program for the next year.