



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 POLICY

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 Governance Policy¹

1. In recent years, there has been increasing concern about governance issues in the development debate. In February 1994, the President issued interim staff instructions on governance. Subsequently, in May 1995, the Board considered a Working Paper on the subject. The present Paper takes into account the views expressed by the Board at that time and sets out the role, approach, and policy of the Bank in relation to governance issues.

2. Being concerned directly with the management of the development process, from the Bank's point of view, governance has to do with the institutional environment in which citizens interact among themselves and with government agencies/ officials. The capacity of this institutional environment is important for development because it helps determine the impact achieved by the economic policies adopted by the government. Hence, this capacity, and the governance quality it reflects, is a vital concern for all governments.

3. Although policy aspects are important for development, the Bank's concept of good governance focuses essentially on the ingredients for effective management. Irrespective of the precise set of economic policies that find favor with a government, good governance is required to ensure that those policies have their desired effect. In essence, it concerns norms of behavior that help ensure that governments actually deliver to their citizens what they say they will deliver.

4. Similarly, the experience so far, especially within the region, shows that successful development has taken place in countries with different political systems. However, the common features that stand out in respect of the high-performing economies are stability in broad policy directions, flexibility in responding to market signals, and discipline in sticking with measures necessary for meeting long-term objectives despite short-term difficulties, all hallmarks of sound development management, i.e., good governance.

5. A basic issue that arises in relation to governance is the proper role of government in economic management. With governments having limited access to information, there is a growing consensus that markets generally allocate resources more efficiently. However, even in market economies, governments are expected to perform certain key functions, namely

- maintaining macroeconomic stability,
- developing infrastructure,
- providing public goods,
- preventing market failures, and
- promoting equity.

6. Governments decide the policies they adopt to perform these functions. Once those policy choices are made, good governance is required to make sure that implementation is effective and consistent. As a development partner, the Bank has a clear and direct interest in the capacity of borrowing governments to fulfill their economic role by implementing the associated policies. More specifically, the success of the Bank's project investments depends crucially on the efficacy of the institutional framework in developing member countries (DMCs) and the consequent capability for purposive implementation.

¹ The policy was approved by the ADB Board in 1995 and the full document can be viewed at <http://www.adb.org/Documents/Policies/Governance>

7. A number of multilateral organizations have reflected on the elements of governance and their relation to development. Insofar as the Bank is concerned, the approach of the World Bank is the most relevant. For the World Bank, the essence of governance is sound development management, and the key dimensions of governance are public sector management, accountability, the legal framework for development, and information and transparency.

8. The Bank, too, regards questions of governance from the standpoint of their relation to the effectiveness with which development assistance is used, the impact of development programs and projects, and the absorptive capacity of borrowing DMCs. However, the Bank's analytical framework for addressing elements of good governance and, on the other, the specific areas of action (e.g., public sector management), in which they could be promoted or their existence enhanced.

9. Accordingly, and building upon the approach of the World Bank, the Bank has identified four basic elements of good governance: accountability, participation, predictability, and transparency.

10. The Bank's interest in governance issues has intensified, over time, as a result of several factors. These include

- the growing recognition of the importance of the policy environment in which development takes place,
- an increasing focus on equity issues and development performance,
- the lessons highlighted by the Task Force on Improving Project Quality, and
- the experience of the high-performing economies of the region.

11. The Bank's approach to governance issues will be guided by the provisions of its Charter. These explicitly exclude political activities and considerations. Hence, the Bank cannot act as an agency for political reform in DMCs. Nevertheless, if on purely economic grounds, the Bank has considered an action or measure worth supporting, it has not hesitated to do so even though the action or measure may have had political implications. The Bank's work on governance will follow this pragmatic approach.

12. Differences in political history have resulted in a diversity of political systems and institutional cultures in the Asian and Pacific region. None of these can reasonably claim to have any comparative advantage from the point of view of governance. There can, accordingly, be many institutional alternatives for managing

the development process soundly. When applying the criteria of good governance, therefore, the Bank will take into account the characteristics and situation of individual countries.

13. To make the elements of good governance operationally relevant, the Bank needs to translate them into specific areas of action. To this end, this Paper indicates some ways in which these elements can be promoted in the context of Bank operations. In most of these areas, the Bank is already contributing to quality governance and has been doing so for some time. The areas of action include

- accountability (building government capacity)
- public sector management

- public enterprise management and reform
- public financial management
- civil service reform
- Participation (participatory development processes)
- participation of beneficiaries and affected groups
- public sector/private sector interface
- decentralization of public and service delivery functions (empowerment of local government)
- cooperation with nongovernment organizations (NGOs)
- Predictability (legal frameworks)
- law and development
- legal frameworks for private sector development
- transparency (information openness)
- disclosure of information.

14. The Bank will integrate governance dimensions into its operations. To the extent possible, Bank-supported programs and projects will be designed such that they raise governance quality in the sectors concerned (e.g., through inclusion of appropriate policy measures, project components, or technical assistance [TA]). In addition, the Bank will provide, on request, advisory TA for specific governance-oriented policy studies, seminars, and training. In all cases, the guiding principle for the Bank will be to act on the basis of DMC requests, rather than to seek loan conditionalities.

15. The Bank's modalities for enhancing governance in DMCs encompass the full range of its operations. In due course, it is likely that capacity-building activities and assistance for legislative reform will become central pieces in the Bank's efforts to help improve governance in DMCs.

16. Enhancing the governance dimension of its development assistance will have resource implications for the Bank. These relate to staffing, staff training, staff consultants, business travel, and loan and TA resources. With respect to staffing, the Bank would need to strengthen in-house expertise in various aspects of governance and institutional development. However, given the current constraints on the budget, any new staff positions required would have to be accommodated through ongoing redeployment efforts within the Bank. Necessary trade-offs with other activities of lower priority would be worked out. Similarly, insofar as the other resource implications are concerned, these would be adjusted so as to be accommodated within the relevant budget allocations.

17. Two years after Board approval of the Bank's operational policy on governance issues (i.e., in late-1997), a Board paper will be circulated, analyzing the Bank's experience with governance activities, proposing modifications to the operational approach, as necessary, and indicating more specific resource implications.