

ASIAN DEVELOPMENT BANK

REVIEW OF COUNTRY GOVERNANCE ASSESSMENT REPORT

May 2003

REVIEW OF COUNTRY GOVERNANCE ASSESSMENT (CGA) REPORT May 2003

I. INTRODUCTION

1. This report is based on a review of Asian Development Bank's Country Governance Assessments (CGAs) conducted in April to August 2002. The Review discussed how ADB used analysis of governance in developing member countries (DMCs) in its work, particularly in the development of its country strategy and program (CSP) in each DMC. This report discusses the review findings and makes recommendations on the future role of DMC governance analysis as an input into strategy and operations.

A. This Review

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

3. The fieldwork for the Review extended from April to August 2002. Since then, there has been further progress with CGAs and more lessons have been learned. While the basic findings of the Review and proposals for change are not materially altered by these developments, the report still reflects feedback from ADB staff on initial drafts of the Review's findings.

B. Conduct of CGAs

4. ADB has been undertaking CGAs in various forms since 1997. Following a review of policy in 2000, ADB adopted a medium-term agenda and action plan for governance (MTAAP), which gave governance analysis an explicit role in the development of each DMC's CSP. New business processes introduced in January 2002 made governance analysis a mandatory input for CSPs. Twenty-five CGAs were planned: for all DMCs who were borrowers from the Asian Development Fund (ADF) and a few other countries as well. At the time of the review, there were 22 CGAs ranging in status from being published on the ADB website to others that were considered as internal work-in-progress documents.²

C. Definition of Governance

5. ADB defines governance (1995) very broadly as "the manner in which power is exercised in the management of a country's economic and social resources for development." In practice, its operations have focused on public sector institutions in DMCs and how they relate to the private sector and civil society.³

D. Uses of Governance Analysis in ADB

6. The quality of governance in its DMCs represents both a major risk and an opportunity for ADB in pursuing its central objective of poverty reduction. ADB has always collected and

¹ Managed by the Governance and Regional Cooperation Division (RSGR), based on terms of reference prepared by ADB.

² As at January 2003, the comparative figures were: 22 CGAs commissioned, 5 published, and 17 still in progress.

³ The focus of this review is on governance in the public sector, not on corporate governance as it applies to the private sector.

made use of information about governance in DMCs. However, since a formal governance policy was adopted in 1995, governance work has significantly increased its profile, generating a need for more systematic study of DMC governance conditions and issues.

7. Governance information and analysis is required for:
- (i) Identifying impact of governance on the poor. The poverty analysis, which contributes to the CSP, requires diagnosis of “governance at a grassroots level.”
 - (ii) Conducting policy dialogue with DMC governments on key governance issues. Preparation of the CSP includes discussion with the DMC on ADB country strategy.
 - (iii) Guiding public discussion, information-sharing, or joint projects on country governance with other stakeholders (e.g., donor agencies or civil society organizations).
 - (iv) Developing “strategies and programs ... to address key governance issues.” In ADB’s business processes, this is an explicit role for the CGA as an input into the CSP.
 - (v) Arriving at decisions on the size and composition of ADB’s country portfolios. The business processes provide for the CGA to contribute to decisions on “level and sectoral composition of ADB assistance to a DMC.” In ADF countries, the country performance assessment (CPA) informs decisions on performance-based allocations (PBA), as defined in the MTAAP.⁴
 - (vi) Identifying risks and opportunities from the governance environment in sectors and projects. Some sector assessments include a governance component. The program logic for project appraisal also factors in governance risks. Conversely, operational evaluation identifies governance factors in project performance.
 - (vii) Developing indicators and benchmarks of governance at various levels: either within individual DMCs over time, between sub-national jurisdictions, or between countries in the region.
 - (viii) Identifying the relationship between public governance and the private sector or civil society. There is a significant area of common interest between CGAs and private sector assessments in the regulatory environment for the private sector and its relationship to corporate governance. Similar interest and advocacy exist between governance and civil society as well.

II. FINDINGS OF THIS REVIEW

8. The findings of this review, summarized in the following sections, are structured around these key topics:

- (i) Purpose of CGAs,
- (ii) Impacts of CGAs,
- (iii) Clients and audiences of CGAs,
- (iv) Timing of CGAs,
- (v) The CGA Framework,
- (vi) Other governance analyses,
- (vii) The CGA process,
 - (a) Guidance on design and execution,
 - (b) Participation by governments and stakeholders,
 - (c) Publication of reports,
 - (d) Collaboration or coordination with other donors,

⁴ The performance-based allocation system was excluded from this Review’s terms of reference.

- (viii) Responsibility for governance analysis,
- (ix) Resources utilized for CGAs,
 - (a) Budgets,
 - (b) Human resources, and
- (x) Governance knowledge management.

9. Section III of this summary report discusses the implications of these findings and makes recommendations for future action by ADB.

A. Purpose of CGAs

10. The Review looked at both the formal documented purpose of CGAs and their actual scope in practice. The formal purpose of governance assessments is defined by the MTAAP:

Beginning in 2001, as part of the country strategy and program (CSP) process, more rigorous and structured studies will be undertaken to analyze governance issues in individual DMCs and the risks they pose. ... Based on this analysis, the CSPs will formulate strategies and programs to address the key governance issues, including non-economic factors that have demonstrable and direct economic effects that have been identified. The CSPs will also specify relevant performance indicators (future CSPs will assess the effectiveness of these programs and identify successes and failures). Governance assessments and progress in improving the quality of governance will inform both the level and sectoral composition of ADB assistance to a DMC.

11. The first cycle of CGAs is still underway and generalization about purposes is difficult while lessons are still being learned about methods and uses. However, they provide governance information and analysis in varying degrees in the areas identified in section I-D above:

- (i) CGAs provide information on the institutional environment relevant to development and poverty reduction. Some recent CGAs have specifically analyzed the relationship between governance and development and diagnosed the impacts of governance on the poor.
- (ii) A number of CGAs supported policy dialogue with DMC governments on governance reform and increased public understanding of governance issues, either through government (and perhaps civil society) participation in the development of the CGA or by publication and discussion of its findings.
- (iii) All CGAs provide a broad overview of governance and some analysis of issues relevant to country strategy; but their scope has ranged from a comprehensive coverage of all governance aspects to limited focus on selected dimensions.
- (iv) Several CGAs go further and identify specific strategies or action plans and opportunities for ADB programs and projects.
- (v) Few CGAs specifically analyze the level and sectoral composition of ADB assistance in relation to governance risk. The Review was unable to track any relationship between CGAs and CPAs.
- (vi) Other CGAs cover governance issues specific to sectors and a few have provided a basis for sector road maps in CSPs.
- (vii) CGAs may report indicators of governance performance but there is no set of common indicators for comparative analysis of performance or tracking changes over time.

- (viii) Most CGAs have not addressed the private sector regulatory environment or corporate governance in any depth and they have given only cursory attention to civil society.

B. Impacts of CGAs

12. The Mekong studies, outstandingly the one in Cambodia, have had some influence on governance reform in those countries. The batch of CGAs initiated in 2001 and 2002 are having some effect on ADB's strategies, analysis of governance issues, and on policy dialogue. CGA influence on strategy appears to be related to (i) timing of CGAs in relation to CSPs, (ii) good communication between governance specialists and country teams, (iii) the leverage of CSPs on actual country operations, (iv) DMC government involvement in the development of CGAs and CSPs, and (v) the readiness of governments to contemplate reform.

13. Where CGAs are completed in time, their analysis appears to have been incorporated in the governance sections of CSPs. A number of CGAs were having some impact on the content of CSPs or CSP Updates (CSPUs) even when they were being completed in parallel. Generally, CGAs appear likely to have more impact on strategy and operations when they are properly timed in relation to CSPs.

14. However, the impacts of governance analysis on actual operations are variable. Treatment of governance in CSPs ranges from highlighting it as a major theme to according it a paragraph along with other mandatory statements. There is some doubt that strategic issues addressed in the CSP, like governance, are having much real effect on the "level and sectoral composition" of ADB lending and technical assistance (TAs).

15. CGAs appear to have more impact on DMC government decision-making if (i) the government is interested in governance reform, (ii) it has participated in or been consulted on the analysis, (iii) the analysis is couched in language which meets government sensitivities, and (iv) suggested reform priorities fit government ideas of what is politically feasible.

16. In a few cases, ADB's analysis work and its governance specialists have had a degree of influence on other donors. Donors are likely to find ADB work useful if it brings something original to an understanding of governance issues, rather than recycling what has already been written. However, in some DMCs in the region, ADB is not yet widely regarded as a serious player in governance by other donor agencies, which tend to look at its skimpy resources for governance work in relation to its responsibilities in the region. Donors have observed, in certain instances, that ADB's CGAs appear to be cutting across their own work or are redundant.

17. There may be secondary benefits from CGAs. If analyses are open or results are published, they can raise awareness of governance issues in DMCs. If ADB operational staff are involved in these analyses, it may increase their understanding of governance issues and its significance in their project work. Experimenting with governance analysis methodology and process can also contribute to internal learning.

18. Overall, CGAs and governance specialists seem to be having some impact on ADB's thinking about governance, the content of country strategies, and DMC government priorities. The main issues are whether this impact is value for money in relation to the effort going into CGAs and whether CGAs are focused on ADB's priorities.

C. Clients and Audiences of CGAs

19. A CGA may have a variety of audiences but it can only have a small number of clients, i.e., those who have significant power to direct its process and content. Its clients depend on the purpose of the analysis:

- (i) In all CGAs reviewed, the primary client identified was ADB. However, responsibility for directing governance analysis was not always clear. The majority viewed it as the country team's responsibility. The rest perceived it as the responsibility of the regional department's governance specialist or of the Regional and Sustainable Development Department (RSDD).
- (ii) For most CGAs, a secondary client is the DMC government, either as participant in the analysis or as the prime target for its governance policy findings. However, not all governments welcome the idea of an external analysis. In a few cases, governments have refused to permit them.
- (iii) The process and content of a CGA may also be influenced by the participation of civil society or the private sector. If these are conducted jointly with other donors, then by the interests of those donors also.

20. A wider group may have an interest in the CGA. It may include anybody in ADB with an interest in governance issues in general or in the country in particular. It may also include a wide variety of professional and academic groups in the country and internationally with an interest in governance issues in the country. While the readership for donor analyses is not well-documented, it is likely these are significant inputs into the international debate on governance issues.

D. Timing of CGAs

21. Majority of staff thought it was difficult to meet the requirement of completing CGAs on a fixed cycle to inform the CSP, although others maintained that with good project planning this should be possible. Several thought that analysis should be seen as an ongoing activity, with a quick stock-take and identification of priorities and opportunities for the CSP or CSPU. Otherwise, considerable lead-time would be needed for the CGA in its present form to get to a stage where it can provide useful input for the CSP.

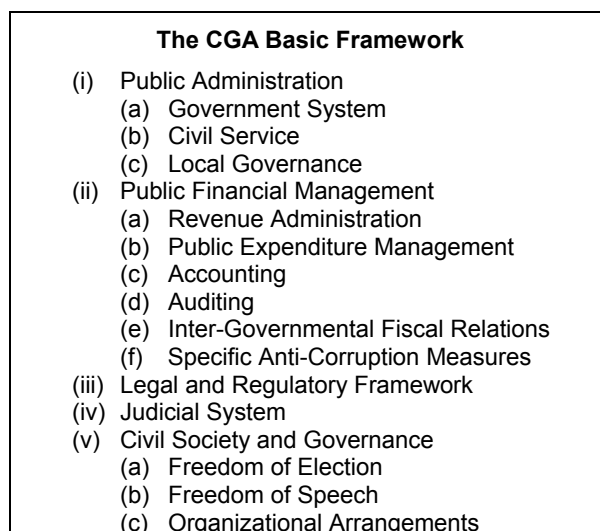
E. The CGA Framework

22. The basis for governance analysis in the CGA has evolved since the first broad studies were undertaken in 1997. Since its publication in mid-2001, the Framework for the Preparation of CGAs (Framework) has become the de facto standard.⁵

23. The Framework assumes that the quality of a country's governance can be assessed from the quality of specific governance institutions, which is defined by a range of diagnostic questions in each topic area. There is an implicit model of "good governance process and output" in the issues addressed and the questions asked, generally implying remedies. Defining "good governance" in terms of "good institutions" is a common approach adopted by donors and civil society organizations and has some empirical support. The governance categories adopted by different organizations may differ somewhat, and there is scope for refinement (e.g., by

⁵ The consensus was that the Framework had superseded the Toolkit for Governance and Capacity Building Assessments, issued earlier, as the basic source of guidance.

giving a clearer status to decentralization issues) but ADB's CGA Framework would, in general, stand up well in comparison with others as an institutional analysis.



Source: ADB. 2001. A Framework for the Preparation of Country Governance Assessments.

24. A basic issue is that analysis of formal institutions is only one link in the chain of reasoning from ADB's definition of governance as "the manner in which power is exercised in the management of a country's economic and social resources for development" to the quality of development outcomes. In fact, governance analysis may be concerned with any or all of the:

- (i) Power groupings and agenda in a country and their effects on government decision-making and incentives for reform;
- (ii) Institutions of governance and their immediate effects; and
- (iii) Longer-term effects of governance institutions on development outcomes.

25. Step (i) analysis is only cursorily treated, if at all, in ADB governance work. The CGA Framework and the CPA focus mainly on (ii). The governance component of the poverty analysis starts with (iii) but the basis for this analysis is not well-developed in ADB. Work in other donor agencies, particularly the World Bank and Department for International Development (DfID), has focused on political economy and poverty diagnostics. While not all this work is methodologically convincing, it reflects real concerns that analysis needs to focus on incentives for reform, impacts on the poor, and formal governance institutions.

F. Other Governance Analyses

26. In addition to the CSP, there are three other business processes requiring information on the quality of governance in DMCs:

- (i) The PBA system, which requires CPAs, awards points for governance performance. The focus is on government's policy intentions and outcomes relating to governance reform. The guidelines for CPAs follow a different set of headings from the CGA Framework: (a) rule of law, (b) anticorruption and accountability institutions, (c) civil service, (d) revenue mobilization and budgetary management, and (e) management and efficiency of public expenditures.

- (ii) Poverty analysis, as described in the Handbook for Poverty and Social Analysis (Poverty Handbook), begins with outcomes for the poor and traces their causes, including the impacts of governance institutions. It explicitly identifies the target of analysis as “governance at the grassroots level.” Analysis is to be a participative process, with “the full involvement” of civil society and the private sector.
 - (iii) Sector assessments usually include some discussion of relevant governance issues such as regulatory and legislative requirements, institutional strengthening and capacity building, service delivery reform, financial management, and related areas. However, systematic analysis of the governance environment is less common. The Water Sector assessment is a model for how a governance component can be included in a sector assessment.
27. Each of these approaches has its strengths and its limitations:
- (i) **Big picture analysis.** The institutional analysis in the CGA and CPA provides an overview of DMC governance institutions in a consistent and comprehensive way, facilitating comparative analysis and benchmarking.
 - (ii) **Grounded analysis.** The diagnostic approach in the Poverty Handbook ensures the analysis links governance institutions to development outcomes in general and outcomes for the poor in particular. It helps ADB target its governance strategies to its overall mission of poverty reduction.
28. There is a need to consider the different governance information requirements within an overall framework and to improve the sequencing of governance information analysis.

G. The CGA Process

1. Guidance on design and execution

29. Currently, there is no set of rules on how a governance analysis might be designed, managed, or phased. The CGA Framework provides guidance on the analytical basis for a CGA but not on process, evidence acquisition, or resourcing.
30. On the whole, task managers have been left to design their own processes, with terms of reference for individual analyses providing steering on method. The result has been a good deal of variation in both CGA process and product. The variation appears to be a function of ongoing learning on the design of CGAs, specific country context, resources available to carry out the work, and methodology and approach selected by the task manager.
31. Broadly speaking, task managers have adopted three approaches:
- (i) Brief reports by staff based largely on analyzing existing documents on country governance, supplemented by short visits to the country;
 - (ii) Wide-ranging desk research with field visits, a basic level of participation (in the form of interviews and consultation), and selected use of national or international consultants; and
 - (iii) Participation by government and DMC stakeholders in the design and execution of the analysis, often involving extensive consultation and workshops, which is at the top end of the range in terms of effort and budget.

2. Participation by governments and stakeholders

32. Unlike poverty analyses, which require the active participation of civil society and are always carried out by ADB in partnership with DMC governments, CGAs have been developed with varying degrees of consultation and participation. Where fieldwork has been undertaken, mostly government officials and other donors have been consulted, but there are wide variations in the extent of private sector and civil society consultation as well.

33. The majority view among task managers is that an open participative process is preferable to an arm's-length external analysis because this is more likely to lead to effective leverage on governance reform in the country. Results can be achieved through influencing governance reforms and priorities and raising awareness level on governance issues. Staff noted that the CGA was only a small element of ADB's ongoing wider policy dialogue and advocacy in a DMC.

34. Although a majority was in favor of a participatory process, some expressed concern that government involvement could affect the CGA's objectivity. In some cases, the reported findings of the CGA team are negotiated with the government. Findings relating to sensitive issues like corruption are removed or toned down. However, these worries are outweighed by the difficulty of influencing a government's policy choices using an analysis on which it has not been consulted.

3. Publication of reports

35. Views varied widely on publication of reports. A number of staff believed that as a matter of principle, all ADB reports should be published. Others believed that in certain cases, publication could jeopardize DMC government participation in policy dialogues or threaten ADB interests in achieving strategic or operational change in a DMC. In these instances, they believed the CGA report should remain an internal document, although a public version of its main findings could be shared.

36. Participation (particularly by DMC stakeholders) and transparency are closely linked. Particular ADB processes, such as the poverty analysis, are explicitly participatory and this makes it difficult to keep their findings secret. The international trend is towards wider availability of agency reports and analyses. Website publication is widely used as a cost-effective means of reaching DMC stakeholders and the international development community.

37. So far, five CGAs have been published: those of the four Mekong countries and the People's Republic of China (PRC).⁶ A number of others have been disseminated in different ways, most commonly by circulation of drafts for comment to government officials and other donor agencies. Some reports were intended for limited circulation to government and donors. It is intended to eventually publish all CGAs in one form or another.

4. Collaboration or coordination with other donors

38. ADB often consults with other donors on its governance work and makes extensive use of their reports. Occasionally, it collaborates directly with other agencies on joint analyses such as in Vietnam and on some PERs. There are high-level agreements on cooperation between ADB and other donor organizations.

⁶ The PRC CGA has been published on the ADB website.

39. In principle, donors appear interested in finding ways to coordinate governance analysis work more closely. In practical terms, however, greater cooperation would require resolving differences in objectives, timing, approaches, and in making appropriate resources available for joint work. For example, joint effort with the World Bank and other institutions on public expenditure reviews (PERs) is given prominence in the MTAAP, but the Review could find no direction to achieve and weave this into the CGA process.

H. Responsibility for Governance Analysis

40. CGAs are widely perceived as a compliance requirement imposed by RSDD and their execution entirely the responsibility of governance specialists. The role and accountability of governance specialists were unclear to some staff.

41. It was a commonplace among staff that the lending business drives operations. The wider governance risks to projects are difficult to deal with in the timeframe for project development and loan approval. Thus, the perspective of operational staff on the governance implications of loan and TA projects tends to be limited to specific preconditions for successful implementation (such as support required from counterparts). Furthermore, the incentives to get the loans out mean that programming tend to drive strategy, rather than the other way around.

I. Resources Utilized for CGAs

1. Budgets

42. 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 most expensive CGAs have been a multiple of the costs of the cheapest.⁷ Given a fixed budget, there was a trade-off between scope and depth of coverage.

2. Human resources

43. While time and money are important, the quality of a CGA depends significantly on the quality and experience of the individual or team that do the work and, where consultants are used, the quality and degree of supervision by an ADB staff member. The principal issues raised were as follows:

- (i) **Unsatisfied demand for governance expertise.** The demand is partly manufactured by the CGA and other mandatory requirements, but it may also partly (and encouragingly) reflect operational recognition of the value of governance specialists.
- (ii) **Problems managing workload peaks.** Several staff said there is a considerable workload peak during CSP preparation. This is compounded by surges in governance-related workload at peak periods of the business planning cycle, so staff frequently have to ration their time according to their own perception of priorities.
- (iii) **The need for specialists.** No governance specialist can be equally well-informed on everything from civil service reform to legal and judicial reform to

⁷ There are limitations on cost information. Where analyses have not been finished, direct costs charged are provisional. Staff costs are not charged to projects. The Review obtained estimates of person-months, which varied widely, from task managers.

public expenditure management. When work focuses on specific topics, more specialist knowledge may be required.

- (iv) **Requirements for new types of skills.** Governance work emphasizes more facilitative and relational skills (e.g., effective consultation, process management, networking, and teamwork), political acumen and organizational understanding, and the ability to think strategically in terms of objectives achieved over a time period. These may require further development in ADB staff.
- (v) **Lack of training.** The last training program on governance in ADB was two years ago. Nobody is keen on attending training courses, but staff also remarked if they had a better idea on the role of governance, they could factor it into their work more effectively.

44. Most analyses have made some use of consultants as well as ADB staff. Most staff thought that consultants in varying combinations (and depending on the specific CGA) should be employed to support the carrying out of a governance analysis. On the other hand, staff reported that some consultants lacked experience of the particular country environment. There was concern that they might displace ADB staff and therefore distance them from ownership of analysis results.

J. Governance Knowledge Management

45. Many staff commented that management of governance information and knowledge in ADB could be strengthened considerably. The Review could not find a central repository of ADB governance documents in either electronic or paper format. It seemed that each unit or person maintained their own files. Several staff observed that the best source of information and knowledge on governance and governance analysis was the wider corporate memory of ADB personnel. As staff moved or changed, this knowledge was often lost to the system.

III. CONCLUSIONS AND RECOMMENDATIONS

A. Future Development of Governance Analysis

46. 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 should be on the collection and analysis of governance information that clearly contributes to ADB's mission, strategy, and operational priorities and reflects its comparative advantage in governance work.

Recommendation A: Mandatory Governance Analysis

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 institutional overview for each DMC, based on the present CGA Framework; and**
- (iv) Specialist in-depth studies of core governance topics relevant to ADB's governance interventions.**

47. **Governance in the poverty analysis.** The poverty analysis is central to ADB's overarching mission of poverty reduction. A methodology for governance analysis is outlined in the Poverty Handbook but it needs further development on (i) how to diagnose the effects of governance institutions on the poor and (ii) how government, civil society, and the poor will participate in the analysis. This Review recommends that:

- (i) Poverty analysis should include a mandatory section, diagnosing the impact of governance institutions on development outcomes and how they affect the poor, contributing to the Poverty Partnership Agreement and the CSP.
- (ii) The basis and process for this analysis should be further developed between governance and poverty specialists to establish a common framework for diagnosing the connection between governance and poverty and provide detailed guidance to task managers undertaking these analyses.
- (iii) ADB should work with other donor organizations in the development of the methodology for governance-poverty analysis. The work currently being undertaken in the World Bank and DfID, among others, may be useful for this.

48. **Analysis of governance issues in sectors.** A major issue for ADB is ensuring that effects of the governance environment on its portfolio are properly analyzed and influence both project selection and risk management in implementation. The governance component of sector assessments needs to be strengthened and its results should be available to country teams in the preparation of CSPs.

49. To strengthen the analysis of sector-related governance issues, it is proposed that:

- (i) Sector assessments should include a mandatory section analyzing the governance environment and its impacts on ADB work in the country.
- (ii) Priority should be given to further development in sectors of importance to ADB operations such as energy, transport, and urban development.
- (iii) Further guidance should be provided for task managers on undertaking governance analysis in sector assessments.

50. **CGA institutional overview.** Future CGAs should concentrate on providing periodic overview of governance institutions and strategic summary of governance risks and opportunities for the CSP.⁸ The present CGA Framework provides a good definition of the nature and quality of the governance institutions. CGAs currently underway should be completed, as input into CSPs and CSPUs and as a basis for dialogue with DMC governments on governance reform priorities.

51. It is suggested that:

- (i) The CGA should be a strategic overview of governance conditions for the CSP.
- (ii) It should include an analysis of governance institutions and how they operate to support or inhibit good governance in a country as well as the political economy of a DMC (how power is distributed in society and how it operates through governance institutions).
- (iii) Its scope should be defined by the current CGA Framework, used selectively to reflect governance issues in each DMC and incorporating an analysis of significant incentive factors impacting on development of governance institutions.

⁸ There may be times when an update of this analysis would be valuable, such as after an election or in a post-conflict situation.

- (iv) Further guidance should be developed on the process for preparing this institutional overview.
- (v) CGAs in progress should be completed as a baseline for future updates.

52. **Specialist in-depth studies of core governance topics.** Beyond the institutional overview, specialist studies need to focus on areas of direct importance for ADB's existing in-country work. The criteria for commissioning analysis of core governance topics should be (i) whether the area is important for selection and implementation of ADB-funded projects and (ii) whether ADB has a comparative advantage in governance program lending or policy dialogue in the country in question. Core governance topics may include the (i) policy and decision-making system of government, (ii) civil service reform, (iii) public expenditure and financial management, (iv) local government, (v) decentralization, (vi) judicial reform, (vii) private sector regulation, and (viii) relations with civil society. The decision on topics needing further analysis should be in the recommended priorities of country teams, advised by governance specialists, in preparing the CSP.

53. It is also recommended that:

- (i) Specialist in-depth studies of core governance topics should be commissioned in the context of the CSP when they will add value to ongoing country work and where ADB has a comparative advantage in governance interventions.
- (ii) These core governance studies should be coordinated with the work being carried out by DMC governments and other donors.
- (iii) Further guidance should be provided for task managers on undertaking core governance studies in priority areas.

54. The development of guidance for these four types of governance analysis should be the responsibility of RSDD and where appropriate, through the relevant Knowledge Committees.

B. Governance in the CSP

55. The CSP should continue to play a central role in deciding governance work and analytical priorities. Governance should be a central theme of the CSP and the CSP should include a mandatory governance section, which draws on the results of each of the four types of analysis outlined above.

56. In the context of the CSP, ADB may also need to develop governance indicators for agreeing objectives with the DMC government to measure progress on core governance issues, such as corruption and public expenditure management, or in sectors, such as service delivery targets in water and sanitation. The use of indicators for benchmarking between governments is more difficult because of the problems of comparing like with like but there would be benefit in establishing common features for all assessments of a similar type.

57. The governance sections in the CSP should be structured around the following:

- (i) An analysis of the impact of governance on poverty;
- (ii) A summary of governance risks and risk-mitigating measures, in so far as they relate to core governance and for the sectors important to ADB's country work;
- (iii) A discussion of priorities for and progress with governance reform;
- (iv) Governance indicators (preferably agreed with the DMC government as part of the Poverty Partnership Agreement) as a basis for tracking and reporting reform progress; and

- (v) Planning for specialist in-depth studies of core governance topics where further ADB interventions are feasible.

58. In planning for the CSP, the country team should decide on the process and choice of governance analysis type, focusing on those that are likely to have a significant impact on development and poverty reduction in the DMC. This strategy has implications for analytical basis and process, its role in country strategies, and how it can be effectively linked into operations.

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.**

C. Participation and Transparency in Governance Analysis

59. The participation of DMC governments and stakeholders in governance analysis has been variable. However, experience with CGAs to date suggests that a joint approach with government is most likely to generate useful governance policy dialogue and an agreed governance reform program. The preferred approach is joint study with the DMC government, probably using a lead agency in the DMC to manage the analysis. DMC stakeholder participation is also a generally recommended strategy. Indeed, the poverty analysis requires the active participation of the poor and other stakeholders. On the other hand, highly consultative modes of analysis are inevitably more expensive and time-consuming. Governments may also perceive a political risk in direct participation of other stakeholders.

60. In general, governance analysis should be a transparent process with publication of results. The peril of publication is that analysis may steer clear of politically sensitive governance risks. To manage this, ADB should retain final control of certain studies until publication and, if necessary, run its own process. Working with other agencies or through local civil society organizations also provides a measure of political risk insurance. There may be specific occasions when ADB needs to keep its analysis inside the organization to protect its own interests, but these should be the exception.

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 analysis publicly available. Resources provided for analysis projects should reflect the likely higher cost and longer time frames of participatory processes.

D. Responsibility for Governance Analysis

61. To ensure that governance analysis reflects ADB's strategic and operational priorities, responsibility for commissioning and managing analytical work should be closely linked to responsibility for country strategy and operations. Thus, regional departments should have responsibility for governance analyses. Task management for the conduct of analyses should

depend on the type of analysis. When analyses relate to a specific country, governance specialists should work as part of the country team although they retain existing line reporting relationships. Staff need further guidance on managing governance analysis projects: its analytical basis, evidence collection, report presentation, use of expert resources (in-house and consultancy), and other resource implications.

62. There are apparent advantages in, where possible and in larger DMCs, locating both country team leader and specialist responsible in the resident mission. The role of RSDD in analysis work should be to provide a cadre of subject experts for in-depth analyses and to develop ADB-wide policy and strategy on governance. Governance specialists in both regional departments and RSDD should be available for country analyses, working with project teams in the field or providing advice and guidance on design and presentation of analytical work.

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 institutional overview;**
- (ii) Regional governance specialist, for specialist in-depth studies of core governance topics;**
- (iii) Regional or country sector specialists, for analysis of sector-related governance issues.**

The 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.

E. Resourcing Governance Analysis

63. Both expert resources and budgets for governance analytical work may need to increase with the extra participation and survey work implicit in the four types of analysis. Budgeting and cost control could be facilitated by more accurate accounting of costs on analytical projects.

64. Demand for governance specialists could be managed better by streamlining processes, reducing internal and external duplication, and better prioritizing of staff work. ADB could also make use of external subject experts to supplement its resources and continue to engage consultants to add international expertise, objectivity, and knowledge of local institutions and culture. It needs to invest more in additional staff specialists and in staff development to supply specialized knowledge required of governance work. Designing analytical processes that meet ADB requirements, running analytical projects in an ADB environment, and the “end game” (steering reports through management, achieving consensus with DMC governments) are vital tasks that should be carried out by ADB staff.

IV. NEXT STEPS

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