

APPENDIXES

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SELECTED ADB PROJECTS WITH A MAJOR GOVERNANCE FOCUS

A. Core Government Functions and Public Sector Management

1. Core Government Functions

a. Public Sector Reforms in the Pacific

1. The Office of Pacific Operations has played the biggest role in supporting whole government reforms. The Office has processed and reviewed seven such loans (to Cook Islands, Marshall Islands, Federated States of Micronesia, Nauru, Samoa, Solomon Islands, and Vanuatu).¹ The findings of these loans is as follows.

“...The reform initiatives have been substantially internally generated, and committed political effort has gone into maintaining the reform momentum. The funding agencies have responded appropriately, with the Asian Development Bank (ADB) generally taking the lead in developing the reform framework as a basis for external assistance. Some reform programs have been overly ambitious. On the other hand, in retrospect, the reform programs have usefully capitalized on initial enthusiasm, and have generated substantive policy, legal, and institutional gains even in those cases where the momentum is now slowing. Results achieved to date have justified the Bank’s change of strategic focus in the Pacific.

The reform programs in the Pacific have only recently begun. Being change processes, they are long-term in nature. Sustainable change must be evolutionary change, allowing time for internalization and institutionalization of new modes of behavior and operation. The programs must also be and remain continuous learning processes. There are no ready formulae, recipes, or models that have all the answers and which can assure success. There are, however, important principles that must be respected and used in designing and implementing these reform processes...”

b. Governance Reform Program Loan: Mongolia

2. Mongolia’s Governance Reform Program is a pilot phase of a 10-year Government initiative to address governance issues in the public sector and how they impact on the whole economy.² Under this Program, in parallel with the administrative reforms, which will be pursued in a phased manner across three layers of central Government, local government, and state-owned enterprises (SOEs), output-oriented budgetary reforms will be introduced at both the central and local government levels. An outcomes-based public expenditure management system will be established within the Ministry of Finance, and through the administrative reforms, agency and local government budgeting will be linked systematically with this system. Table A1 summarizes the reforms.

¹ Loan 1466-COO: *Economic Restructuring Program*, for \$5 million, approved on 26 September 1996; Loan 1513-RMI: *Public Sector Reform*, for \$12 million, approved on 30 January 1997; Loan 1520-FSM: *Public Sector Reform*, for \$18 million, approved on 29 April 1997; Loan 1608-SAM: *Financial Sector Program Loan*, for \$7.5 million, approved on 19 February 1998; Loan 1627-SOL: *Public Sector Reform Program*, for \$25 million, approved on 27 August 1998; and Loan 1624-VAN: *Comprehensive Reform Program*, for \$20 million, approved on 16 July 1998.

² Loan 1713-MON: *Governance Reform Program*, for \$25 million, approved on 2 December 1999.

Table A1: Spectrum of the Public Sector Governance Reforms in Mongolia, 1999-2009

Central Government	Local Governments	State-Owned Enterprises
Implement initial requirements of the reforms (PP) <ol style="list-style-type: none"> 1. Budgetary reforms : <ul style="list-style-type: none"> • Improve strategic prioritization and resource allocation • Stabilize public sector finances • Improve budget execution 2. Establish standards for public sector personnel management 3. Strengthen financial policy coordination 4. Improve banking, cash flow, debt, and investment management 	Design an implementation strategy (PP) Formalize division of responsibilities between central and local governments Introduce output contracting	Privatization Management reform (PP) Transparency Improve financial governance
Strengthen strategic focus at portfolio level <ul style="list-style-type: none"> • Bunch 1 (PP) • Bunch 2 (EPP) • Bunch 3 • Three pilot portfolio ministries (EPP) • Other ministries 	Increase focus on core functions 20 local budgetary bodies (EPP)	
Administrative reforms (performance contracting) <ul style="list-style-type: none"> • Bunch 1 (PP) • Bunch 2 (EPP) • Bunch 3 	Administrative reforms <ul style="list-style-type: none"> • One or two pilot provincial government's bunch 1 (PP) • Other provincial governments 	

Bunch: Public sector agencies are divided into small groups for implementing the administrative reforms;
 EPP: Will begin to implement reforms during the pilot program, but only after review of earlier experience;
 PP: Will be implemented under the pilot program (1999-2002).

c. Public Resource Management Program: India

3. The Program supports reforms to improve public finances in India's largest state, Madhya Pradesh, including raising tax revenues, cutting subsidies, and channeling funds raised from these actions into more social services urgently needed by the poor.³

4. In this Program, governance activities include (i) improving the capacity of government agencies in financial and fiscal management; (ii) reforming the tax system and cutting subsidies to increase state revenues and reduce state expenditure; (iii) reforming the public enterprise sector, including shutting down some of them; (iv) establishing and strengthening the policy, regulatory, and institutional frameworks governing private sector participation; and (v) directing increased revenues and other savings to vital social services, such as basic health and primary education to support human development.

d. Strengthening the State Law Office and Law Reform and Capacity Building: Vanuatu

5. The first technical assistance (TA)⁴ supports the Government to strengthen the State Law Office (SLO), improve the quality of legislation, and improve the advice on reform measures. (i) During 1999, all the experienced legal staff except the Attorney General left SLO for the private sector. Through the TA, four fresh graduates were recruited, trained in litigation and legal negotiation, and guided in the requirements of drafting legislation, statutory interpretation, and compliance issues. Major attention was paid to the problems of money laundering and property checking in the offshore banking centre. (ii) The TA helped to improve the quality of legislation, focusing on ensuring appropriate links between reform measures—a patents act, copyright act, trade marks act, e-commerce act, forest harvest act, and interactive gaming act have been drafted. The TA is drawing up amendments to the Financial Institutions Act and the Banking Act to ensure that anti-money laundering conditions are met, and a new set of Rules for the Supreme Court of Vanuatu. (iii) The TA is helping to improve the quality and timeliness of advice provided to Government ministries on the legal implications of reform measures. The reform was principally addressed by reorganizing SLO processes and the way in which they stored and filed information.

6. The second TA⁵ directly supports the Program's objectives by ensuring there is due process in the operations of SLO and central Government institutions.

e. Governance and Public Sector Reform Program: Papua New Guinea

7. The TA supports the Government's public sector reform program by maintaining full collaboration with all other reform and structural improvement efforts.⁶ The TA has supported the forum set up to drive the reform program, the Central Agencies Committee. It outlined the set of issues that need to be addressed and could be used as a basis to prioritize a reform plan. It also proposed some ideas about measures that could be taken to address the disappointing level of service delivery currently experienced in Papua New Guinea. The main present

³ Loan 1717-IND: *Madhya Pradesh Public Resource Management Program*, for \$250 million, approved on 14 December 1999.

⁴ TA 3197-VAN: *Strengthening the State Law Office*, for \$150,000, approved on 29 May 1999.

⁵ TA 3366-VAN: *Law Reform and Capacity Building*, for \$300,000, approved on 23 December 1999.

⁶ TA 3280-PNG: *Governance and Public Sector Reform Program*, for \$600,000, approved on 16 October 1999.

concern of the Committee is a public expenditure review that is being supported by the World Bank.

f. Economic Policy Reform and Management: Federated States of Micronesia

8. The TA supports the Government in establishing far-reaching structural adjustment policies to prepare the country for the post-Compact era.⁷ A project management unit is assisting the federal and state governments to implement the agreed reform measures and producing economic information to help the government monitor impacts. State public services have been reduced by up to 37 percent, though this has had serious repercussions on the local economies and little impact on productivity. Privatization has tended to be sluggish.

g. Institutional Support to Central Agencies for the Comprehensive Reform Program (Phases 1 and 2): Vanuatu

9. The TAs support the Department of Strategic Management and help strengthen financial and economic management of the central agencies for program implementation.⁸

h. National Reform Program: Nauru

10. The TA is supporting the Government formulate a national reform program by identifying policy and strategic options.⁹ A policy options paper led to an awareness of the need for reforms, but was not acted upon as the reform government lost its majority. It did, however, result in a program loan incorporating several reform measures. These included downsizing the public service, which has reduced the payroll by 30 percent, and transparency in budget preparation. An independent audit and valuation of the Trust Fund Assets, which is key to the reform program, has only recently been addressed. The value of the fund has been established. Progress has been hampered by frequent changes of government.

i. Workshop on Key Themes and Priorities for Governance and Capacity Building in the Asian and Pacific Region

11. This regional TA financed a workshop in Manila that developed the definition of ADB's main areas of concern in governance and public management.¹⁰ The workshop brought together experts on all the major governance areas, as well as leading developing member country (DMC) policymakers, to discuss the technical soundness and operational viability of current and proposed ADB governance and capacity-building work.

⁷ TA 3024-FSM: *Economic Policy Reform and Management*, for \$1.377 million, approved on 2 June 1998.

⁸ TA 2984-VAN: *Institutional Support to Central Agencies for the Comprehensive Reform Program (Phase 1)*, for \$630,000, approved on 23 January 1998, and TA 3046-VAN: *Institutional Support to Central Agencies for the Comprehensive Reform Program, (Phase 2)*, for \$1.2 million, approved on 16 July 1998.

⁹ TA 2617-NAU: *National Reform Program*, for \$100,000, approved on 25 July 1996.

¹⁰ TA 5768-REG: *Workshop on Key Themes and Priorities for Governance and Capacity Building in the Asian and Pacific Region*, for \$190,000, approved on 31 December 1997.

2. Public Expenditure Management

a. Financial Management: Papua New Guinea

12. The Project¹¹ will improve planning and budgeting systems, and budget execution and accounting systems, and link them up in a more integrated information technology system. The Project, cofinanced by Australia, has a major focus on human resource development and accounts personnel. Better public sector financial management will underpin future programs of public sector, economic, and governance reforms. Overspending, waste, and corruption will be reduced, allowing more resources to be channeled into poverty reduction and social sector programs.

b. Economic Restructuring Program: Cook Islands

13. The Cook Islands' Economic Restructuring Program,¹² has produced (i) the revised Ministry of Finance and Economic Management Act requiring the Government to maintain operating expenses within the limits of the Government's internally generated revenues and to publish statements of its fiscal and economic strategy before its budgets are drawn up; (ii) the Public Expenditure Review Committee Audit Act, which created an independent committee with wide powers to review all aspects of public finance so as to ensure transparency of national and local bodies, and provides for the adoption of generally accepted international accounting principles throughout the Government; and (iii) the Public Service Act which gives heads of ministries the power and responsibility to staff and manage their departments according to good employment principles to achieve defined outputs required by their own performance contracts.

c. Public Expenditure Management and the Implications of Decentralization: Indonesia

14. This TA is to develop internal Government capacity to initiate and guide performance-oriented reforms in public expenditure management.¹³ This TA is a component of the Anticorruption Action Plan for Indonesia prepared by ADB at the request of and with the support of the Government.

d. Strengthening Public Expenditure Management Systems: Sri Lanka

15. A long-term program of public expenditure management reform was started in 1993 with the Financial Management Training Project.¹⁴ The Project was to computerize public accounting systems throughout the public service; however most agencies had no experience with information technology systems. A low-level system was developed to familiarize personnel with computerized accounting. The Project introduced scores of accounting personnel to computerized systems and trained them in their use, accelerated the production of monthly financial statements to the Ministry of Finance and Planning, and strengthened the Office of the Auditor General. A second stage has been initiated through a cluster TA¹⁵ to help the Ministry of

¹¹ Loan 1703-PNG: *Financial Management*, for \$25.8 million, approved on 21 October 1999.

¹² Loan 1466-COO: *Economic Restructuring Program*, for \$5 million, approved on 26 September 1996.

¹³ TA 3394-INO: *Public Expenditure Management and the Implications of Decentralization*, for \$225,000, approved on 25 January 2000.

¹⁴ Loan 1275-SRI: *Financial Management Training Project*, for \$13 million, approved on 29 ~~approved on~~ November 1993.

¹⁵ TA 3301-SRI: *Strengthening Public Expenditure Management Systems*, for \$3 million, approved on 16 November 1999.

Finance and Planning design a public expenditure information and management system, develop a medium-term expenditure framework, and support these changes by revising the Finance Act and improving the internal audit function throughout the service.

e. Workshop on Public Expenditure Management in the World Conference on Governance 1999

16. This regional TA financed the public financial and accountability component of the World Conference on Governance in Manila in May-June 1999.¹⁶

f. Public Expenditure Management and Public Administration

17. This regional TA¹⁷ financed the writing of two major ADB publications, *Managing Government Expenditure* (published in April 1999) and *To Serve and Preserve: Improving Public Administration* (forthcoming in October 2000). It is also financing a series of in-country workshops on the programming and management of public expenditure. A first series, with assistance and financing by the ADB Institute, took place in Cambodia and Viet Nam in September-October 1999. The second workshop was held in March 2000 in India for Ministry of Finance officials. Others will be organized as requests are made by the countries concerned.

3. Public Administration Reforms

a. Public Sector Reform Program: Solomon Islands

18. The Program's main objectives are to (i) support macroeconomic and fiscal policy reforms; (ii) support public sector management reforms, reorientation of the public sector, and movement toward performance-based management; (iii) support reform of public enterprises; and (iv) strengthen governance institutions to improve accountability and transparency in the Government.¹⁸ Medium-term targets included (i) cutting the payroll cost by about 9 percent, which was done within 12 months; (ii) balancing the budget, which, under current economic conditions, is more difficult than earlier but there is now much tighter control of public expenditure; (iii) linking the medium-term budget framework to the medium-term development strategy, which has been completed; (iv) placing tight centralized controls on Government finances, which has been done by revitalizing the warrant system; (v) forming within the Prime Minister's Office an institutional strengthening unit, which has been operating; (vi) placing ministry secretaries on performance contracts with specific deliverables, which is now operational after a series of workshops and practical assistance; (vii) implementing for senior officers and managers an executive development program, which is now operational; (viii) setting measurable output targets in ministry budget submissions, which is being pilot tested in four ministries; (ix) streamlining/simplifying public service employment laws and procedures, which will be addressed in a new Public Service Act; (x) reengineering work processes and structures in key ministries, which is being done in a continuous improvement program; and (xi) eliminating the backlog of national Government accounts and audits, which is being progressively addressed with audits having been completed to 1997 (there had been none since 1985). The current political crisis in the country is a significant setback for the program, which will need to be reviewed and reformulated upon the return to normalcy.

¹⁶ TA 5833-REG: *Workshop on Public Expenditure Management in the World Conference on Governance 1999*, for \$75,000, approved on 12 February 1999.

¹⁷ TA 5813-REG: *Public Expenditure Management and Public Administration*, for \$500,000, approved on 27 October 1998.

¹⁸ Loan 1627-SOL: *Public Sector Reform Program Loan*, for \$25 million, approved on 27 August 1998.

b. Comprehensive Reform Program: Vanuatu

19. The loan supports the Comprehensive Reform Program, which addresses key governance, public sector, and financial and economic reform issues.¹⁹ Under the Program, major legislative, policy, institutional, and structural reforms are being effected to restore stability and confidence in, and to revitalize, the economy. A key element of the reforms was the enactment of new legislation to redefine and separate the boundaries between the political leadership and the public sector. The legislation, however, is now being reviewed by the new Government. Other intended reforms included establishing more transparent and accountable financial management and regulatory regimes, and creating a smaller and more efficient public service, which, as yet, have not been addressed satisfactorily. In restructuring the economy, the program has (i) created a broader tax base with the introduction of a value added tax (VAT) and through a lower and more uniform tariff structure; (ii) sought to increase spending on social programs, especially health and education; and (iii) tried to open the economy to attract direct foreign investment through the Foreign Investment Act, which has been subsequently amended against the spirit of the reform program.

c. Social Sector Reform Program: Thailand

20. The Social Sector Program was developed by the Thai Government with the assistance of ADB in cooperation with a number of aid agencies.²⁰ The Program will support activities and policy reforms in the labor, health and social welfare, and education sectors, and the administrative decentralization of health and education services. The higher education project, for example, contains provisions to promote increased accountability and autonomy of higher education institutions, and improve teacher incentives through merit-based promotion and a competitive salary structure. A key reform at the central level is to improve the targeting of poverty spending through the Bureau of Budget allocating budgets based on incidence of poverty. It is too early to measure the impacts. Also the government has simplified procedures for private enterprises to obtain tax deductions for training, but their impact is only just beginning to be measured. In the education sector, an independent school inspection body has been established to improve performance-based school management. The Ministry of Education is to reduce its headquarters' staff by 25 percent and has started the process. The Ministry of Health has agreed to deploy more personnel to rural areas to improve service delivery to the poor, but numbers are not yet available. The Government also agreed to start corporatizing (restructuring as a corporation) one rural hospital by delegating sufficient authority over administrative, financial, and personnel matters.

d. Formulating an Action Plan for Civil Service Reform: Nepal

21. The TA²¹ supports preparatory activities for developing a civil service reform project by reviewing legislation and rules relating to the public service and developing a set of recommendations to incrementally introduce the best-known practices to its public service.

¹⁹ Loan 1624-VAN: *Comprehensive Reform Program*, for \$20 million, approved on 16 July 1998.

²⁰ Loan 1611-THA: *Social Sector Reform Program*, for \$500 million, approved on 12 March 1998.

²¹ TA 3117-NEP: *Formulating an Action Plan for Civil Service Reform*, for \$630,000, approved on 14 December 1998.

e. Strengthening Capacity for Public Administration Reform: Viet Nam

22. The TA is helping formulate a public administration reform strategy, inclusive of a medium-term action plan, centered on achieving more effective coordination of ministries at the center, and stronger linkages between the center and the provinces.²²

f. Public Sector Management Reforms, Strengthening of Public Sector Management: Solomon Islands

23. These TAs are to help the Government prepare and implement a strategy and action plan to introduce results-based management in the public sector²³ and strengthen the capacity of the Privatization Unit of the Ministry of Finance to implement the Government's Privatization Policy.²⁴ While it is too early to introduce results-based management linked to the budget, but, through the continuous improvement program, results-based targets have been introduced at the service delivery level. The main target for privatization was the Solomon Islands Plantations. The current insurgency has complicated the timing of privatization.

g. Public Service Reform Program: The Marshall Islands

24. The TA is providing guidance on the implementation of public service reforms as part of the Public Sector Reform Program loan (footnote 1), and is designing training and counseling programs for retrenched civil servants.²⁵ Progress has suffered as the political and economic situation has fluctuated. A target for the public service to have 1,484 officers was met, with over 600 public servants retrenched.

4. Legal System Reform

a. Development of Economic Laws: People's Republic of China

25. In support of the Government's economic reform policy, one of the objectives of the legislative program of the People's Republic of China (PRC) is to establish a legal and regulatory framework appropriate for a market economy. To support this, Appendix 1, page 16 prepare seven key economic laws and regulations that have been given priority for 1999–2001. ADB will help the PRC (i) amend the Company Law, (ii) enact a new bankruptcy law, (iii) complete a trust law, (iv) provide for laws on closure and restructure of financial institutions, (v) develop a social security law, (vi) draft a new law on registration of commercial and industrial organizations, and (vii) develop an administrative licensing law.²⁶

26. This law reform program will result in a legal and regulatory framework conducive to economic reform, effective administration of corporations, improvement of corporate governance, and creation of conditions of fair competition for different types of enterprises. The new bankruptcy law and law on closure and restructuring of financial institutions will be essential to ensure the efficient and productive use of resources. The trust law will enable the emergence

²² TA 3023-VIE: *Strengthening Capacity for Public Administration Reform Phase II*, for \$995,000, approved on 28 May 1998.

²³ TA 3009-SOL: *Public Sector Management Reforms*, for \$150,000, approved on 20 April 1998.

²⁴ TA 3061-SOL: *Strengthening of Public Sector Management*, for \$600,000, approved on 27 August 1998.

²⁵ Loan No. 1515-RMI: *Public Sector Reform Program*, for \$12,000,000, approved on 30 January 1997.

²⁶ TA 3279-PRC: *Development of Economic Laws*, for \$1.4 million, approved on 19 October 1999.

of new vehicles for financial investment and asset management in the form of pension funds, mutual funds, housing assistance funds, and financial asset management companies. The new social security law—covering unemployment benefits, accidental injury and death, and pensions—is an essential part of the PRC's transformation from a centrally planned to a market economy. TA implementation will put in place a legal and regulatory framework that will reduce the risk of a financial crisis.

b. Dissemination of Laws and Strengthening of the Legal Information System: Tajikistan

27. The TA helped establish the Law Reform Commission, disseminate laws of Tajikistan, and train Tajik lawyers.²⁷ It is too early to ascertain the impact of the Law Reform Commission.

c. Provincial Legislation for Environmental Protection and Natural Resources Conservation: People's Republic of China

28. One of the most pressing areas for policy reform in the PRC is land administration. The improper pricing of landed natural resources has contributed to extensive soil erosion, deforestation (accompanied by silting of rivers), and (most importantly) high rates of conversion of farmland to industrial and residential uses. Under a previous TA, a team of environmental law specialists from the University of Peking Law School and New York University School of Law worked with the Environmental and Natural Resources Protection Conservation Committee (EPNRCC) of the National People's Congress to draft a national land administration law. It contains important and innovative mechanisms to more appropriately price farmland upon conversion, and to compensate farmers whose land is taken for development purposes. Because provinces have considerable autonomy in the PRC, national laws usually need to be supplemented by provincial implementing legislation. In this TA,²⁸ a team of law specialists from the two universities worked with the EPNRCC of the Sichuan People's Provincial Congress to draft and implement a provincial land administration law to implement the National Land Administration Law. In December 1999, the Sichuan People's Congress adopted the Implementation Measures of Sichuan Province on the Land Administration Law of the PRC. This adopts the most important farmland protection mechanisms of the national Land Administration Law. Representatives of all of the PRC's provinces will receive training based on the achievements of the Sichuan People's Congress.

d. Legal and Judicial Reform Project: Pakistan

29. TA for legal and judicial reform supported a diagnostic study of the legal system in Pakistan to identify the systemic causes of inefficient legal and judicial institutions, infrastructure, and procedures that are inimical to enterprise and economic development.²⁹ The study recommended ways to address the need for good governance measures, such as a freedom of information act and an administrative grievance mechanism; the internal governance of legal institutions, including establishing a national policy-making body and appointing provincial judicial ombudspersons; changes in incentives and reporting structures that will

²⁷ TA 3238-TAJ: *Dissemination of Laws and Strengthening of the Legal Information System*, for \$380,000, approved on 9 August 1999.

²⁸ TA 3123-PRC: *Provincial Legislation for Environmental Protection and Natural Resources Conservation*, for \$300,000, approved on 15 December 1998.

²⁹ TA 3015-PAK: *Legal and Judicial Reform*, for \$995,000, approved on 7 May 1998. This TA was in continuation of TA 2979-PAK: *Strengthening of Government Legal Services and the Subordinate Judiciary*, for \$150,000, approved on 31 December 1997.

improve judicial performance and accountability; delays and human resource constraints; and the financing of the judiciary to improve salary structures and judicial facilities. The recommendations are a deliberate effort to make strategic choices about reform activities and to structure credible institutions. This was followed by another TA,³⁰ which will provide the basis for a legal and judicial reform loan to Pakistan, which is slated for consideration in 2001.

5. Enhancing Service Delivery

a. Irrigation Sector: Philippines

30. The Project components include construction and rehabilitation of irrigation systems, and protection of water resources.³¹ Implementation and financial arrangements were designed to enhance the participatory, transparency, and accountability aspects of the National Irrigation Administration (NIA), a government-owned corporation and the project's executing agency. Under the Project, NIA is obligated to adopt client-oriented approaches that entail closer consultations with project clients (i.e., farmers and local governments), obtain informed consents of clients on subproject designs and cost-sharing arrangements, and conduct transparent discussions on accountability for the performance of irrigation systems built. In parallel with project implementation, the TA, *Review of Cost Recovery Mechanisms for National Irrigation Systems*,³² provides assistance in strengthening NIA's financial accountability to its shareholder—the Philippine Government.

b. Power Sector Restructuring Program: Philippines

31. The Program prepares the Philippine power industry for privatization. Currently, virtually all power generation is arranged through the financially strapped Government-owned National Power Corporation.³³ Privatization will shift the heavy financial burden of power sector development from the public to the private sector. Moving it to the competitive world of private business will lead to efficiencies in generation and distribution, and eventually lower electricity charges for consumers. Enabling legislation for industry restructuring has been passed in both houses of congress and the overall legislation is expected to be passed in September 2000. Implementing rules and regulations issued under the enabling legislation to support industry restructuring are expected to be approved by mid-2001.

c. Health Sector Development Program: Mongolia

32. The program loan³⁴ is supporting reforms to develop a more efficient health system that is sustainable in a market economy and to encourage private sector participation. The investment loan³⁵ is helping to improve the health system's management and infrastructure, as well as health service quality. Due to the time lag between a change and the results of the change being evident in the statistics, it is too early to verify the extent of the improvements. The reforms include strengthening and improving the quality of primary health care, developing

³⁰ TA 3433-PAK: *Strengthening of Institutional Capacity for Judicial and Legal Reform*, for \$2,900,000, approved on 27 April 2000.

³¹ Loan 1668-PHI: *Southern Philippines Irrigation Sector*, for \$60 million, approved on 18 December 1998.

³² TA 3235-PHI: *Review of Cost Recovery Mechanisms for National Irrigation Systems*, for \$300,000, approved on 4 August 1999.

³³ Loan 1662-PHI: *Power Sector Restructuring Program*, for \$300,000, approved on 16 December 1998.

³⁴ Loan 1568-MON: *Health Sector Development Program*, for \$4 million, approved on 4 November 1997.

³⁵ Loan 1569-MON: *Health Sector Development Project*, for \$11.92 million, approved on 4 November 1997.

an effective referral system for quality services, and introducing mechanisms to maximize private sector entrepreneurship in health service delivery. In the provinces, autonomous health boards with representatives from civil society and local government have established performance contracts with quantitative targets for the provincial and district hospitals. A new agency for licensing and accreditation of health personnel and health facilities has been established. In Ulaanbataar and the provinces, private medical practices provide primary health care under contracts including incentives to ensure that they deliver them to vulnerable and poor groups.

d. Education Sector Development: Kyrgyz Republic

33. The first loan provides program support for key government reforms in the policy areas of sector sustainability and efficiency, quality and relevance of basic education, and access to and equity in preschool and basic education.³⁶ Major reforms include the rationalization of the user-charge system for basic education, the state funding system for schools, and education sector staffing. The second loan was earmarked to help the Government with curriculum and textbook reform, teacher development, improvement of education delivery, and capacity building and resource mobilization.³⁷ At this early stage in project implementation, statistical information is not showing any discernible trends.

e. Health Sector Development Program: Papua New Guinea

34. The Program focuses on the provision of priority health services for women and children in rural areas, and supports improvements in the management and efficiency of the health systems.³⁸ Policy initiatives include shifting emphasis from urban to rural areas and from curative to preventive health care. Financial reforms aim at stable funding; better financial planning; greater reliance on user fees; and increased allocation of resources for drugs, supplies, and medical services. The Program, as part of the Government's strategy to decentralize authority to provincial and local level governments, emphasizes capacity-building in the nation's health care agencies, health centers, and posts; and closer collaboration with churches, nongovernment organizations (NGOs), and private health services. The principal achievement has been the collection of morbidity and other statistics across the country, which has increased the transparency of the effectiveness of the public health system throughout Papua New Guinea.

f. Fourth Rural Water and Sanitation Sector Project: Nepal

35. The Project addresses potable water supply and sanitation deficiencies in some of Nepal's most disadvantaged rural areas.³⁹ The sector loan aims to transform the Department of Water Supply and Sewerage from a project implementer to a facilitator, and adopts a community-based, user-responsive approach for subproject formulation, implementation, and operation and maintenance.

³⁶ Loan 1554-KGZ: *Education Sector Development Program*, for \$19 million, approved on 29 September 1997.

³⁷ Loan 1555-KGZ: *Education Sector Development Project*, for \$13.7 million, approved on 29 September 1997.

³⁸ Loan 1516-PNG: *Health Sector Development Program*, for \$45 million, approved on 20 March 1997.

³⁹ Loan 1464-NEP: *Fourth Rural Water and Sanitation Sector Project*, for \$20 million, approved on 24 September 1996.

g. Capacity Building for Public Enterprise Reform and Social Safety Net in Madhya Pradesh: India

36. The TA is supporting the government of Madhya Pradesh's efforts to develop and implement a comprehensive and socially sustainable program of public enterprise reforms and to strengthen institutional capacity.⁴⁰

h. Restructuring State Level Housing Institutions: India

37. The objective of the TA is to facilitate the transformation of the state housing boards, which have been the main provider of low cost housing with state subsidized funds, from government-owned housing agencies to market-based, demand-driven housing institutions.⁴¹ The TA will improve the accountability of the management of the state housing boards by introducing commercial accounting and management information systems. The changes will be the first step in moving the housing boards toward corporatization. Over the long run, the changes are expected to enable the housing boards to improve their service delivery efficiency and capability.

6. Public Accountability

a. Establishment of an Anticorruption Commission: Indonesia

38. The TA is helping to establish an independent anticorruption commission. An important component of this TA will be vigorous public dissemination and consultations on the purposes of the commission and related anticorruption legislation.⁴² The TA will provide contextualized best international and regional practices in establishing and successfully operating an independent anticorruption commission.

b. Strengthening the Government Auditing System: PRC

39. The TA is assisting the PRC's National Audit Office to formulate and implement Government auditing standards and procedures aligned with international auditing standards.⁴³ The TA is helping improve the efficiency and effectiveness of Government audits, thus enhancing transparency and public accountability. It will also help reduce waste and abuse of public funds, thus contributing to combating corruption in the PRC, and ensuring funds directed at poverty reduction programs are more likely to reach their destination.

c. Establishing the National Audit Office: Lao People's Democratic Republic

40. The TA is helping set up the National Audit Office, draft a five-year operational plan, carry out a training program, prepare an audit manual, implement guidelines for audits, and conduct four pilot audits.⁴⁴

⁴⁰ TA 3338-IND: *Capacity Building for Public Enterprise Reform and Social Safety Net in Madhya Pradesh*, for \$600,000, approved on 14 December 1999.

⁴¹ TA 3067-IND: *Restructuring State Level Housing Institutions*, for \$500,000, approved on 11 September 1998.

⁴² TA 3381-INO: *Establishment of an Anticorruption Commission*, for \$1 million, approved on 28 December 1999.

⁴³ TA 3103-PRC: *Strengthening the Government Auditing System*, for \$700,000, approved on 27 November 1998.

⁴⁴ TA 2987-LAO: *Establishing the National Audit Office*, for \$400,000, approved on 9 February 1998.

d. Long-Term Training Program for Members of Supreme Audit Institutions, Phase I and Phase II; Long-Term Regional Training Program for Members of the South Pacific Association of Supreme Audit Institutions

41. The two regional TAs have contributed to continuous training of government auditors by creating a pool of qualified trainers available at the regional and local levels. With the supreme audit institutions' crucial role in strengthening accountability in public sector management, audit training programs promote good governance and increase the level of fraud awareness among government auditors.⁴⁵

e. Accountability Mechanisms in the Asian and Pacific Region

42. This regional TA financed a major workshop on anticorruption organized jointly with the Organization for Economic Cooperation and Development (OECD) at ADB's request. The workshop was held in Manila in September 1999. The scope of the TA has been changed to include financing of a follow-up workshop on anticorruption in Seoul, Korea in December 2000 and reorientation of the case studies and surveys from accountability institutions toward urban local governments. The latter will involve pilot testing report card surveys in the 11 cities of Metro Manila and institutionalizing the survey as a means of promoting greater accountability and better delivery of local public services. The TA is also intended to support the establishment of a "whistleblower" protection scheme for people who report on corruption in Bangladesh.⁴⁶

B. Improving Governance at Subnational Levels

1. LGU Private Infrastructure and Project Development Facility: Philippines

43. Local government units (LGUs) currently lack capacity and resources to prepare projects and solicit private sector participation. They instead depend on private firms approaching them, and preparing and developing project proposals. Unsolicited project proposals do not always provide the best value for money nor fully conform with the communities' needs. Now LGUs have access to the LGU Private Infrastructure Development Facility, for which a \$3 million TA loan was approved by ADB.⁴⁷ This gives them more control over their projects, and provides more equal competition among bidders, which ultimately will benefit the local community.

⁴⁵ TA 5688-REG: *Regional Long-Term Audit Training Program for Members of the Asian Organization of Supreme Audit Institutions, Phase I*, for \$1 million, approved on 13 June 1996; TA 5872-REG: *Regional Long-Term Audit Training Program for Members of the Asian Organization of Supreme Audit Institutions, Phase II*, for \$300,000, approved on 3 December 1999; and TA 5830-REG: *Long-Term Regional Training Program for Members of the South Pacific Association of Supreme Audit Institutions*, for \$700,000, approved on 3 February 1999.

⁴⁶ TA 5829-REG: *Accountability Mechanisms in the Asian and Pacific Region*, for \$500,000, approved on 31 December 1998.

⁴⁷ Loan 1729-PHI: *LGU Private Infrastructure and Project Development Facility*, for \$3 million, approved on 20 December 1999.

2. Karnataka Urban Development and Coastal Environmental Management: India

44. The Project provides essential urban infrastructure and municipal services that will improve the lives of a million people.⁴⁸ Services include urgent improvements in water supply and sanitation facilities, solid waste and wastewater management, and roads and traffic management. Significantly, the Project is part of a Government strategy to shift the responsibility for municipal management from states to cities. Capacity building is provided at state and local levels to support this. Community participation plays a major role in the design and implementation of subprojects.

3. Community and Local Government Support: Sector Development Program: Indonesia

45. With increasing public awareness of governance-related issues, the Government of Indonesia is striving to improve transparency, accountability, and public participation. Heightened emphasis is being placed on the responsiveness and efficiency of basic services, particularly for the poor. A regional government law and a law on intergovernmental fiscal relations, which are under consideration by Parliament, will strengthen the policy framework for decentralization and increase the responsiveness of local governments and communities to address the needs of the poor. A \$200 million policy loan component supports a set of reforms under the Government's decentralization program to devolve administrative and fiscal authority from central to district governments.⁴⁹ Three TAs are attached to the program loan to support decentralized administrative systems;⁵⁰ set up district-level financial and budgetary systems;⁵¹ and implement participatory planning, monitoring, and evaluation.⁵² A second ADB loan, for \$120 million, will fund a project aimed at both capacity building at the district government level and poverty reduction.⁵³

4. Social Protection Sector Development Program, Health and Nutrition Sector Development Program: Indonesia

46. Policy reforms implemented under the two loans strengthened decentralization, giving autonomy and responsibility to local schools and health services through village and district committees to better meet local needs. The management structure is highly decentralized to allow local decision making and beneficiary targeting.⁵⁴ The programs incorporate measures to support efficient, effective, accountable, and transparent public administration. Effective external

⁴⁸ Loan 1704-IND: *Karnataka Urban Development and Coastal Environmental Management*, for \$175 million, approved on 26 October 1999.

⁴⁹ Loan 1677-INO: *Community and Local Government Support: Sector Development Program*, for \$200 million, approved on 25 March 1999.

⁵⁰ TA 3177-INO: *Capacity Building to Support for Decentralized Administrative Systems*, for \$500,000, approved on 25 March 1999.

⁵¹ TA 3178-INO: *Capacity Building for Setting Up District Level Financial and Budgetary Systems*, for \$460,000, approved on 25 March 1999.

⁵² TA 3179-INO: *Capacity Building for Participation, Monitoring, and Evaluation*, for \$1.54 million, approved on 25 March 1999.

⁵³ Loan 1678-INO: *Community and Local Government Support: Sector Development Program – Project Loan*, for \$120 million, approved on 25 March 1999.

⁵⁴ Loan 1622-INO: *Social Protection Sector Development Program*, for \$100 million, approved on 9 July 1998, and Loan 1675-INO: *Health and Nutrition Sector Development Program*, for \$100 million, approved on 25 March 1999.

monitoring and oversight mechanisms are in place, while internal capacity to manage, and monitor (and audit) expenditures is being developed.

47. The Programs are introducing a system of block grants to public and private schools and health centers, giving these units the authority to plan and manage their resources, and introducing a formula linking resource allocation to the district poverty index. Adoption of an objective (pro-poor) formula for resource allocation minimizes inappropriate or inefficient distribution of resources based on national norms, subjective decisions, and rent-seeking during the budgeting process. The block grant mechanism bypasses ordinary bureaucratic systems—the post office system is the conduit to move program funds directly to districts—to ensure direct, timely, and predictable support to providers and beneficiaries. The block grant approach has since been adopted as the Government's primary mechanism to channel budgetary support for the education and health sectors. It is a major step in decentralization and greatly simplifies fund flow mechanisms. Attached to the Social Protection Program was a \$2.5 million grant provided by the Government of Australia to monitor scholarships and block grants. The grant has contributed significantly to good governance by collecting data on scholarship and block grant targeting and utilization and establishing a complaints resolution mechanism. 7,600 junior secondary schools and 44,000 primary schools have established functioning committees. The names of scholarship holders are publicly posted. Student perceptions have been surveyed. 82 percent believe that scholarships have successfully targeted the poor and very poor. In the context of block grants, 95.2 percent have been applied for purposes specified in the guidelines. A number of complaints have been verified and the officials concerned have been transferred or demoted, but the numbers have been small, partly because the bureaucratic requirements for investigation are tedious, but largely because the system is working well. The monitoring system can be considered a model for monitoring of subsequent programs funded by ADB.

5. Gujarat Public Sector Resource Management Program: India

48. The state of Gujarat in India faces wide-ranging structural challenges in the public finance area because of stagnation in resource mobilization, weak fiscal management, growing inefficiency of SOEs, and lack of support for efficient infrastructure. ADB's program loan of \$250 million, for the first subnational operation in India, supports the Gujarat government in augmenting domestic resource mobilization, improving the allocation and efficiency of public resources, and reducing the government's role in commercial activities, while promoting market-oriented policies to enhance private sector participation in physical infrastructure.⁵⁵ To support the program loan, ADB provided TA to strengthen institutional capacities for budget policy, planning, and modernizing tax administration to improve transparency and accountability.⁵⁶ An additional TA to develop a restructuring program for SOEs aims to strengthen the technical secretariat charged with the responsibility for the restructuring.⁵⁷ The construction of a core investment plan has enabled state expenditures to be prioritized and rationalized and protected expenditures for social and economic development from ad hoc budgetary cuts. As a result, Gujarat has not reduced its expenditure for social and economic development despite the fiscal pressures it is experiencing. Subsidies to state-owned utilities are now stated. Proposed tariff changes in the power sector are subject to review by the Gujarat Electricity Regulatory Commission according to a transparent process of public hearings. Such hearings were held in

⁵⁵ Loan No.1506-IND: *Gujarat Public Sector Resource Management Program*, for \$250 million, approved on 18 December 1996.

⁵⁶ TA 2668-IND: *Gujarat's Reform of Public Finances*, for \$600,000, approved on 23 October 1996.

⁵⁷ TA 2552-IND: *Restructuring Program for State-Owned Enterprises in Gujarat*, for \$500,000, approved on 2 April 1996.

February 2000 and should lead to Gujarat being the first Indian state to revise tariffs on the basis of operational and financial information analyzed by an independent regulatory authority.

6. Review of Provincial Government: Solomon Islands

49. The TA facilitates a revision of provincial government legal and institutional arrangements to achieve a more cost-effective, reliable, and sustainable delivery of essential services at provincial and subprovincial levels.⁵⁸

7. Study of Extrabudgetary Expenditures and Revenues: PRC

50. The TA helps the Government identify the responsibilities that various levels of government will assume under the fiscal reform program, redefine the concept and scope of the extrabudgetary funds and self-raised funds, and reinforce the management and distribution of these resources to ensure that authorities are adequately funded and a stated level of service delivery prevails across the various levels of government.⁵⁹

8. Enhancing Municipal Service Delivery Capability in Selected DMCs

51. The regional TA aims to pilot test the techniques of benchmarking and continuous improvement as a means to drive change in urban local governments. In a parallel activity, the ADB Institute supported the organization of the Asian Mayors' Forums in Cebu (1998), Colombo (1999), and Shanghai (2000) to exchange information on innovations and good practice in municipal management.⁶⁰ The pilot project has proven that the techniques are relevant and useful for promoting change, increasing customer satisfaction, improving quality and coverage of service delivery, and enhancing revenues at the municipal level. For example, customer complaint handling has dramatically improved through setting up a public assistance center in the municipal building, installing telephone hotlines, training customer complaint staff, broadcasting daily radio programs for airing of complaints and providing feedback, and monitoring complaints all the way through their resolution. In solid waste education and enforcement many innovative practices were adopted, including development of education programs for school children, waste separation by residents, and deputization of individuals and community-based organizations to issue citation tickets and impose on-the-spot fines in offenders. Also, significant opportunities for increasing revenues from property tax have emerged, and some municipalities have started to use vacant lots as paid parking, erected new parking signs to ease the flow of traffic, and revised parking regulations.

9. Governance and Development in South Asia and other DMCs

52. This regional TA focused on the needs of South Asian DMCs to identify what they can learn from other countries in the region. Activities included a regional seminar on Municipal Management Reforms held in Lahore in October 1997.⁶¹ An additional contribution toward

⁵⁸ TA 3171-SOL: *Review of Provincial Government*, for \$150,000, approved on 16 March 1999.

⁵⁹ TA 2743-PRC: *A Study of Extrabudgetary Expenditures and Revenues*, for \$600,000, approved on 31 December 1996.

⁶⁰ TA 5764-REG: *Enhancing Municipal Service Delivery Capability in Selected DMCs*, for \$550,000, approved on 24 December 1997.

⁶¹ TA 5664-REG: *Governance and Development in South Asia and other DMCs*, for \$350,000, approved on 22 December 1995.

sharing best practices in municipal governance was made through a workshop in Tokyo in February 1998, in collaboration with the ADB Institute.

C. Public-Private Interface

1. Financial Governance

a. Financial Governance Reforms: Indonesia; Financial Sector Program: Republic of Korea; Financial Markets Reform Program: Thailand

53. ADB assistance to the countries worst hit by the Asian crisis—Indonesia, Republic of Korea, and Thailand—has focused on financial governance. In Indonesia, the centerpiece of ADB assistance is the Financial Governance Reforms: Sector Development Program Loan.⁶² Its overall objective is to improve resource allocation in the financial and public sectors by adopting good practices in financial governance; increasing disclosure and transparency of financial information; and strengthening legal and regulatory frameworks for the financial sector. A key change has been the enactment of a new Central Bank Law that provides the bank with *de jure* independence that has progressively enabled it to assert more effective authority in the banking sector.

54. In the Republic of Korea, ADB contributed the \$4 billion Financial Sector Program loan⁶³ to the multilateral assistance package led by the International Monetary Fund (IMF). The loan supports the restructuring of financial institutions, combined with strengthening of regulation and supervision, as well as measures to liberalize and develop the capital market. There is now a central supervisory agency for the financial sector and the central bank is exercising greater oversight of monetary policy.

55. In Thailand, the Financial Markets Reform Program loan for \$300 million underpinned fundamental reforms for transparency and accountability in the financial sector.⁶⁴

b. Secured Transactions Law Reform and Insolvency Law Reform

56. In 1999, ADB held a two-part symposium, Secured Transactions Law Reform and Insolvency Law Reform, under two TA grants approved in 1998.⁶⁵ More than 150 senior judicial officers; government policymakers; central bank and private sector representatives; participants from the World Bank, IMF, and United Nations Commission on International Trade Law; and others attended the symposium.

57. The Asian financial crisis has illuminated the lack of frameworks in many DMCs for the systematic restructuring of debt and the efficient liquidation of businesses incapable of being restructured. As a first step to facilitate developing sound legal frameworks to address these problems, ADB studied the insolvency regimes in 11 Asian economies. The studies are published on the internet at www.insolvencyasia.com.

⁶² Loan 1618-INO: *Financial Governance Reforms: Sector Development Program Loan*, for \$1.4 billion, approved on 25 June 1998.

⁶³ Loan 1601-KOR: *Financial Sector Program*, for \$4 billion, approved on 19 December 1997.

⁶⁴ Loan 1600-THA: *Financial Markets Reform Program*, for \$300 million, approved on 19 December 1997.

⁶⁵ TA 5773-REG: *Secured Transactions Law Reform*, for \$300,000, approved on 6 January 1998, and TA 5795-REG: *Insolvency Law Reform*, for \$550,000, approved on 13 July 1998.

2. Corporate Governance

a. State-Owned Enterprise Reform and Corporate Governance Program: Viet Nam

58. Viet Nam is accelerating reform of its SOEs, especially removing policies and practices that favor SOEs over private enterprises, and making renewed efforts to attract foreign investors. The program's key aims are to strengthen the SOEs' institutional and policy framework, enhance corporate governance, and increase labor mobility.⁶⁶ As called for by the reform program supported by the loan, the Government has established the National Enterprise Reform Committee as a clearinghouse to identify priorities and sequencing of reforms, initiate pilot experiments, fine-tune strategy, and monitor and evaluate progress. In addition, the Government will corporatize 60 percent of all medium and large industrial SOEs, and will develop guidelines for corporate governance to be adopted by all firms to be listed in the stock exchange under the program. The Government will also strengthen its bankruptcy laws, and adopt international accounting and auditing standards. To facilitate SOE restructuring, a more flexible social insurance system will be introduced to allow great labor mobility.

b. Corporate Governance and Enterprise Reform Program and Capacity Building in Corporate Governance and Insolvency Procedures, the Kyrgyz Republic

59. The program loan's focus was on (i) strengthening internal governance structures of both private and state-owned companies; (ii) increasing competition, both external and domestic; (iii) implementing hard budget constraints including phasing down of subsidies to companies; (iv) strengthening insolvency procedures by introducing new law; and (v) introducing and adopting improved accounting standards.⁶⁷ As part of the program loan, legislative amendments have been enacted in the Law on Bankruptcy, the Civil Code, and the Law on Economic Societies and Partnerships. In addition, the Government also passed an important resolution stipulating that all joint-stock companies adhere to the Model Company Charter and the principles of corporate governance outlined in the *Handbook on Corporate Governance*, both prepared as a part of the program loan.

60. With regard to the hard budget constraints, significant and rapid progress has been made. As a first step, budgetary loans to SOEs in arrears were completely cut off in 1997. Subsequently, budgetary loans were to be halved every year from their initial level of Som320 million (\$7.4 million) in 1997 under the program loan. The actual phase-out has been even faster. In 1998, budgetary loans to enterprises fell sharply to Som73.7 million (\$1.7 million). In the 1999 budget, the Government allocated and extended only Som25.0 million for such loans. The loans are to be fully phased out as per the year 2000 budget.

61. Recognizing the importance of internationally accepted accounting standards (IAAS), the program has supported the development and promotion of accounting standards that conform to them. To this end, the Ministry of Finance established a department to develop and approve accounting methodology and standards, promulgate instructions, provide training, and license professional accounting and auditing activities. The Ministry of Finance has established the regulatory and technical basis for IAAS, including adoption of the core standards, a fully reformed chart of accounts, conversion and maintenance of new accounts and tax reconciliation

⁶⁶ Loan 1734-VIE: *State-Owned Enterprise Reform and Corporate Governance Program*, for \$40 million, approved on 21 December 1999.

⁶⁷ Loan 1546-KGZ: *Corporate Governance and Enterprise Reform Program*, for \$40 million, approved on 25 September 1997.

forms. IAAS have been introduced in a number of small and medium enterprises under the Accounting Reform Project financed by the United States Agency for International Development (USAID). About 1,100 joint stock companies (of 4,500 total registered enterprises) have converted to the new Kyrgyz Accounting Standards, modeled after IAAS, and over 3,000 individual accountants have been trained.

62. The amendments introduced to the Law on Bankruptcy and the Implementation Guidelines are considered to be sound in relation to the legal framework prevailing in other countries in central Asia. Just under 200 bankruptcy-related cases were registered in 1999, representing a more than 100 percent increase over the number of such cases in 1997 and 1998. However, the actual implementation has not been without hurdles, with significant problems noted in the following areas: (i) circuitous nature of the appeals process, leading to considerable delays in final judgements; (ii) lack of transparency in rulings; and (iii) political interference in the judicial decision-making process.

63. Against this backdrop, the protection for equity investors and creditors was strengthened through a program to institutionalize best practice in corporate governance. This was achieved through a handbook on best practice, which includes a model company charter. According to most recent data, around 520 joint stock companies have registered revised charters, prepared in accordance with the newly established codes of best practice. All the state-owned and majority state-owned enterprises have adopted the revised charter. The capacity-building loan complemented this through (i) support for the judiciary in insolvency proceedings, (ii) training in management for managers from the state and private sectors, (iii) a campaign for increasing public awareness of governance issues, and (iv) establishment of a corporate development center to improve understanding of the concept of corporate governance and advise enterprises on how they can comply with the new legal provisions for corporate governance.⁶⁸ The corporate development center has organized close to 50 seminars in corporate management and governance-related areas, and intensive training sessions on bankruptcy, which have attracted more than 1,400 trainees from different regions of the country. In total, 200 Government officials, 400 enterprise managers, and 800 students have been trained under the management development training program. About 60 enterprises have been provided with intensive consulting and advisory support on matters relating to the above four major areas. All the 50 arbitration court judges in the country have received classroom training on corporate, financial, and insolvency concepts; valuation of assets; basic accounting techniques; and interpreting corporate balance sheets. The judges were also taken on field visits to enterprises and to courts dealing with bankruptcy cases for practical training. Only anecdotal information is available with regard to the positive impact of the judicial training program on performance.

c. Second Industrial Energy Efficiency and Environment Improvement: PRC

64. The Project will improve the Government's energy efficiency programs by strengthening energy conservation management, while continuing market-based reforms in energy pricing. Enterprises will be encouraged to implement corporate governance reforms to enhance performance, efficiency, and environmental protection.⁶⁹ During the processing of the Projects, it was agreed that only SOEs that had implemented significant enterprise restructuring measures would be eligible for support. All the five selected enterprises have autonomy in

⁶⁸ Loan 1547-KGZ: *Capacity Building in Corporate Governance and Insolvency Procedures*, for \$4 million, approved on 25 September 1997.

⁶⁹ Loan 1436-PRC: *Second Industrial Energy Efficiency and Environment Improvement*, for \$178 million, approved on 9 May 1996.

financial management, production, marketing, pricing, investment, technical development, employment, and salary levels. Two of the five enterprises have been incorporated as limited companies. The assisted enterprises will be encouraged to issue shares to diversify ownership and mobilize resources to finance part of the costs of the subprojects. The primary focus of the subprojects is on increasing the efficiency of energy use. This will be achieved by improving efficiency of energy-intensive production processes, recovering and using waste heat, introducing new technologies for production processes and facilities to improve the efficiency of the production system, enhancing energy management, and undertaking programs for energy conservation. The energy-efficiency modifications will result in an annual saving in energy of about 110,000 tons of coal equivalent worth about \$12.04 million a year.

d. Corporate Governance and Enterprise Restructuring: Indonesia

64. The advisory TA supports improvement of corporate governance policy and mechanisms in the SOEs in Indonesia⁷⁰ and it facilitates their effective restructuring and divestment/privatization within this framework. The TA supports development and implementation of corporate governance mechanisms and has produced a corporate governance framework that is being pilot tested in seven SOEs, lifting disclosure standards for all SOEs to the level applying to listed companies. All commissioners and directors are given management contracts and SOEs are required to issue statements of corporate intent. The TA also supports (i) development of a time-bound implementation plan to launch corporate restructuring/divestment; (ii) adjustments in the legal framework, which has produced a draft Privatization Law and a draft SOE Law to be submitted to the National Assembly in 2000; and (iii) capacity building of key Government agencies concerned with managing the SOE reform/restructuring process, including an analytical framework for financial and corporate analysis of SOEs to determine privatization suitability and liquidation plans. This framework has enabled 84 SOEs to be analyzed financially and could result in recommendations for 42 privatizations, 34 corporate restructurings, and 8 liquidations.

e. A Study of Corporate Governance and Financing for Selected DMCs and Workshop on Corporate Governance and Financing for Selected DMCs

65. Under the regional TA, an in-depth study of key issues relating to corporate governance and financing in selected DMCs was completed.⁷¹ A follow-up workshop to disseminate the major findings of the TA was attended by 18 DMC officials as well as representatives from Association of Southeast Asian Nations Secretariat, OECD, World Bank, and ADB Institute.⁷²

3. Regulatory Frameworks

a. Power Sector Restructuring Program: Indonesia

66. The Program, a major step toward restructuring the power sector in Indonesia, is part of ADB's overall efforts to help the country implement major structural adjustment and mitigate

⁷⁰ TA 3149-INO: *Corporate Governance and Enterprise Reform*, for \$2.47 million, approved on 29 December 1998.

⁷¹ TA 5802-REG: *A Study of Corporate Governance and Financing for Selected DMCs*, for \$250,000, approved on 7 August 1998.

⁷² TA 5864-REG: *Workshop on Corporate Governance and Financing for Selected DMCs*, for \$70,000, approved on 20 September 1999.

social distress caused by the Asian financial crisis.⁷³ Successful restructuring of the power sector is critical for governance of power generation capacity additions in Indonesia and for the economic recovery. The restructuring program aims to establish a competitive market for electricity in Java-Bali, which will increase economic efficiency of the power sector in the region. The Program includes a separate TA loan for building capacity to establish a competitive electricity market. Implementation suffered delays as a result of the change of government in 1999. Commitment remains for the objectives of this loan. Tariffs were raised by 29 percent in April 2000 and a law facilitating the establishment of a competitive electricity market has been drafted that will also introduce an independent regulator.

b. Financial Sector Program: Viet Nam

67. The objectives of the Program are to strengthen the capacity of the financial system in Viet Nam to mobilize savings and to use such savings more efficiently.⁷⁴ The Program has four components: (i) establish the essential market infrastructure to facilitate private sector participation, (ii) commercialize and modernize domestic banking operations, (iii) promote competition, and (iv) initiate the development of a capital market. To enhance the country's financial market infrastructure, the Program calls for strengthening the legal and regulatory framework, establishing uniform accounting and audit systems in conformity with international standards, meeting full disclosure requirements for financial statements and publicly listed securities, and adopting measures to protect investors. To develop the capital market, a regulatory agency will be set up and securities legislation developed. The Government will subsequently initiate the establishment of an organized market in securities. Anticipated reforms within the financial sector include reorganization of the state-operated commercial banks along commercial lines to provide greater operational autonomy. Many of the required changes to legislation were only made after late 1998, including the issuance of a decree on negotiability and transferability of financial instruments and decrees on secured transactions, the new Law on the State Bank of Viet Nam, the Law on Banks and Nonbank Financial Institutions, accounting and audit policy, disclosure requirements, and deposit insurance. Consequently, it is too early to demonstrate the impacts the changes will have on the sector. Similarly, the development of a domestic capital market has resulted in establishing the necessary legal and regulatory frameworks, a regulatory authority, and a trading system and centers. The computer system supporting operations has not been installed; thus it is too early to see any impact.

c. Support for an Energy Regulatory Authority: Bangladesh

68. To streamline the legislative basis for the power sector's restructuring and regulation, and to enable the establishment of an independent regulatory authority, the Government is drafting a new Electricity Reform Act and is expected to introduce it in Parliament by December 2000. The TA will help draft for the power sector the regulations that will be administered by the new regulatory authority.⁷⁵ This will further depoliticize tariff setting and licensing procedures, making the sector's operations more transparent. The regulatory authority will conduct open hearings, and take into consideration all objections to proposals for tariff increases from interested parties before announcing its award. It will also force disclosure of information on a consistent basis from the sector entities, thus enabling interagency comparisons. Both these actions will greatly increase transparency in the sector. The first phase of the TA will be completed in September 2000. So far, a mission statement for the energy authority has been completed, and is a necessary first step to focus management on developing appropriate

⁷³ Loan 1673-INO: *Power Sector Restructuring Program*, for \$380 million, approved on 23 March 1999.

⁷⁴ Loan 1485-VIE: *Financial Sector Program*, for \$90 million, approved on 19 November 1996.

⁷⁵ TA 3129-BAN: *Support for an Energy Regulatory Authority*, for \$900,000, approved on 16 December 1998.

strategic directions for the authority. Consensus has also been reached among the stakeholders about the functions to be carried out by the regulator and the key elements of its role.

A. Promoting Participation and Strengthening Civil Society

1. Coastal Community Development and Fishery Resource Management: Indonesia; Low Income Upland Communities, Second Irrigation Systems Improvement, and Cordillera Highland Agricultural Resource Management: Philippines

69. These projects espouse a strong participatory and consultative approach with beneficiaries.⁷⁶ Community consultations are undertaken through NGOs. These are intended to shape the final scope and design of activities undertaken under the projects.

70. Due to the political uncertainties in Indonesia, implementation of the Coastal Community Development and Fishery Project was delayed. The Project has commenced and initial signs are promising that institutional strengthening will result in solid achievements.

71. In the Philippine Upland Communities' Project, 98 local organizations have been established in the seven project watersheds and these have been instrumental in empowering the participation of the communities in afforestation, agroforestry, income-diversification, and infrastructure planning and works. As a result of the positive response from the communities, local governments have also adopted a more transparent and consultative approach to planning and program implementation. In the Second Irrigation Systems Improvement Project, interventions have been successful improving irrigation efficiencies and facilitating equitable distribution of water through implementation of the rotational irrigation method. The Project has facilitated improvements and sustainability of operation and maintenance by turning over the management of the systems to the beneficiary organizations after they were properly organized, trained, and equipped. In addition, the Project has given the beneficiaries control over procurement of inputs and marketing of produce by providing them with adequate storage and postharvest facilities. In the Cordillera Highlands Project, the beneficiaries and local governments have been enthusiastic in assuming greater responsibilities over project decision making and resources, which has also resulted in greater accountability for their choices. Under the Project, the screening of activities for financing (investment works and training) is undertaken mainly by at the local government level (i.e., province and municipalities). The NGOs engaged under the Project have made the target communities aware of this fact and provided the results of the screening process to the communities. Therefore, the communities are aware that the local governments are accountable for the investment decisions made under the Project.

2. Second Irrigation Sector: Nepal

72. The Project is designed to help the Government improve the performance of farmer-managed irrigation schemes (FMISs) in the Central and Eastern regions of Nepal.⁷⁷ The schemes are owned and managed by farmers through their water users' associations (WUAs) The scope of the Project consists of strengthening about 180 WUAs to enable the farmers to

⁷⁶ Loan 1570-INO: *Coastal Community Development and Fishery*, for \$26 million, approved on 4 November 1997; Loan 999-PHI: *Low Income Upland Communities*, for \$32 million, approved on 14 December 1989; Loan 1365-PHI: *Second Irrigation Systems Improvement*, for \$15 million, approved on 30 August 1995; and Loan 1421-PHI: *Cordillera Highland Agricultural Resource Management*, for \$9.5 million, approved on 11 January 1996.

⁷⁷ Loan 1437-NEP: *Second Irrigation Sector*, for \$25 million, approved on 16 May 1996.

participate actively in planning, designing, implementing, and operating their FMISs; improving and constructing about 180 FMISs to increase agricultural productivity and water use efficiency; providing service vehicles, equipment, and training to enable the Department of Irrigation to assist the FMISs and WUAs; and providing agricultural extension to ensure that increased availability of water under the Project will result in increased crop production and incomes. The Project will serve as a model for a bottom-up and integrated approach in irrigation development. Most of the subprojects have been completed to an acceptable standard and are sustainable due to active participation of the beneficiaries in these activities. Revised implementation arrangements have improved the selection criteria for subprojects and transparency of their implementation process. Special training programs for beneficiaries and staff of the executing agency have been proceeding well.

3. Forestry Sector Project: Pakistan

73. The Project promotes participation of beneficiaries in designing, planning, and implementing project-related activities; enhances the capability of the concerned institutions, including NGOs and community-based organizations; and seeks refinement of forestry sector policies and legislation, and improvement of the institutional framework in response to the revised policies.⁷⁸ A comprehensive capacity building program has been designed and will begin implementation in 2000. The numerous changes in the Forestry Department have resulted very noticeable changes to the attitude of staff who now embrace the participatory approach required for successful social forestry.

4. Second Institutional Strengthening of Government-NGO Cooperation: Bangladesh

74. The TA is helping strengthen government-NGO cooperation at the local government level, revise the regulatory framework, and draft proposed new modalities for NGO funding.⁷⁹

5. Facilitating Capacity Building and Participation Activities

75. The regional TA established a pilot fund of \$300,000 under which incentives could be offered to projects and programs departments to support participatory and capacity-building initiatives.⁸⁰

6. A Survey of Nongovernment Government Organization Capacity Building Needs in South Pacific DMCs; and Capacity Building Support to NGOs for Financial Resource Mobilization and Management

76. The regional TAs support a survey of capacity-building needs for NGOs; examine the current circumstances of NGOs in the selected DMCs and their respective contributions to governance, poverty reduction, and development; and support institutional capacity building for NGOs.⁸¹

⁷⁸ Loan 1403-PAK: *Forestry Sector Project*, for \$42.6 million, approved on 9 November 1995.

⁷⁹ TA 2848-BAN: *Second Institutional Strengthening of Government-NGO Cooperation*, for \$400,000, approved on 25 August 1997.

⁸⁰ TA 5692-REG: *Facilitating Capacity Building and Participation Activities*, for \$300,000, approved on 19 July 1996.

⁸¹ TA-5884-REG: *A Survey of Nongovernment Government Organization Capacity Building Needs in South Pacific DMCs*, for \$150,000, approved on 22 December 1999 and TA 5873-REG: *Capacity Building Support to*

Governance Action Plan 2000-2004

Objective	Actions	Targeted Date	Outcomes
To optimize the impacts of Asian Development Bank (ADB) operations on poverty reduction by addressing key governance issues in developing member countries (DMCs) in a systematic and focused manner	Undertake rigorous and structured studies to analyze governance issues in individual DMCs and the risks they pose. In addition, public expenditure reviews for all DMCs will be undertaken in collaboration with the World Bank, International Monetary Fund (IMF), and other development agencies.	Beginning in 2001	<ul style="list-style-type: none"> ▪ Key DMC weaknesses addressed effectively ▪ Public expenditure prioritization with regard to poverty reduction improved ▪ Consistent application of the law ▪ Reduced corruption
	This analysis will 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.		
	Formulate strategies and programs to address the key governance issues, including noneconomic factors that have demonstrable and direct economic effects, that have been identified, and that specify relevant performance indicators (future country strategies and programs [CSPs] will assess the effectiveness of these programs and identify successes and failures). Governance assessments and progress in improving the quality of governance will be used to inform both the level and sectoral composition of ADB assistance to a DMC.	Beginning in 2001	<ul style="list-style-type: none"> ▪ Elimination of factors contributing to weak governance ▪ Increased effectiveness and impact of ADB's governance activities ▪ Civil society empowered
	Targeted capacity building will be a major part of ADB's efforts in improving governance in DMCs. In this regard, ADB will focus on areas of weakness in governance identified in the CSP process. Such activities will include strengthening capacity of the public sector to monitor and evaluate government performance, and of civil society, particularly nongovernment organizations and other groups that represent vulnerable segments of the population, to maintain the debate about improvements in governance.		

Objective	Actions	Targeted Date	Outcomes
	Promote 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 creating a favorable environment for citizens to have a meaningful input into development decisions.		
	Develop indicators for the four elements of good governance, i.e., accountability, participation, predictability and transparency, for all DMCs. The indicators will be implemented on the basis of rigorous studies undertaken as part of the CSP process and revised annually in the context of the CSP updates.	By 2001	<ul style="list-style-type: none"> ▪ Strengths and weaknesses in governance in individual DMCs identified ▪ Priority areas for ADB governance activities in each DMC determined ▪ Broad impact of governance interventions tracked
To elevate good governance to the top level of the development agenda in the region	Develop a regional program to improve application of good governance principles in the DMCs' poverty programs. (Appendix 3 provides examples .)	Beginning in 2001	<ul style="list-style-type: none"> ▪ Enhanced public scrutiny of government performance ▪ Improved voice of beneficiaries in quality of government services ▪ Consistent application of government regulations ▪ Effective methodologies identified ▪ Demonstration effect of positive impact of good governance ▪ Expanded set of governance activities
	<p>Establish a regional partnership network on governance comprising representatives from governments, civil society, private sector, and development agencies.</p> <p>Build a regional consensus on relevant benchmarks, best practices, codes of conduct, and indicators of good governance and review progress in achieving better governance in the region. ADB will provide a web site to support the network.</p> <p>Commission and publish studies on important governance issues and concerns.</p>		<ul style="list-style-type: none"> ▪ Wider acceptance of good governance principles in the DMCs, including benchmarks, codes of conduct and indicators of good governance and of the need to improve their application ▪ Commitment to governance reforms enhanced ▪ Regional consensus on the attributes of good governance in the Asian and Pacific Region
	Develop a program with the ADB Institute to run work workshops and training courses directed at enhancing the understanding of DMC politicians, officials, and leaders of civil society on the value and principles of good governance.	Continuous	<ul style="list-style-type: none"> • Expanding constituency in favor of programs of institutional change

Objective	Actions	Targeted Date	Outcomes
To fight corruption by setting an example and by promoting the spread of good financial and other internal control systems	<p>Through project procurement related audits, assist DMCs to strengthen the control systems of executing agencies and identifying fraud and corruption. Whenever, pursuant to ADB guidelines, fraud or corruption is identified, appropriate steps will be taken including sanctions against the contractor and cancellation of the loan.</p> <p>Develop a training program to assist ADB staff in detecting fraud and corruption in ADB-financed projects.</p>	Starting 2001	<ul style="list-style-type: none"> ▪ Gradual elimination of corrupt practices associated with ADB projects; ▪ Corrupt businesses put out of business • Spread of good financial and other internal control systems in the DMCs
	Introduce measures to strengthen borrowers' capacities to carry out audits with appropriate independence.	2001	<ul style="list-style-type: none"> ▪ Effective project audits
	Expand assistance to supreme audit institutions in the DMCs for developing programs and training to strengthen their capability to detect corruption and fraud.	Continuous	<ul style="list-style-type: none"> ▪ Effective supreme audit institutions in DMCs
	Prepare, 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.	2001	<ul style="list-style-type: none"> ▪ Standard bidding documents used for all international and domestic procurement
To coordinate governance initiatives with development agencies in the Asian and Pacific Region	Develop key understandings on major governance issues within the MDB Working Group on Governance, Anticorruption and Capacity Building.	2001	<ul style="list-style-type: none"> ▪ Consistent treatment of governance issues on the part of the MDBs
	Formalize arrangements with the International Monetary Fund (IMF), World Bank, United Nations Development Programme (UNDP) and major bilateral agencies for cooperation in carrying out governance assessments and public expenditure reviews in the DMCs.	2001	<ul style="list-style-type: none"> ▪ Cooperative governance programs conducted by ADB and other development agencies
To strengthen ADB's capacity for governance operations	Establish a critical mass of general governance specialists.	2001	<ul style="list-style-type: none"> ▪ Leadership of ADB in governance ▪ Improved governance interventions in project and sector operations
	Establish governance and institutional databases to ensure that information about the strengths and weaknesses of key executing agencies is stored and updated systematically.	Beginning 2001	<ul style="list-style-type: none"> ▪ Improved project designs producing institutional sustainability
	Elaborate the links between good governance-poverty reduction, private sector development, and institutional frameworks.	ongoing	<ul style="list-style-type: none"> ▪ Better understanding of links ▪ Improved service delivery efficiency in the DMCs

Objective	Actions	Targeted Date	Outcomes
	Develop protocols/toolkits for use by mission leaders and managers to ensure that governance issues are addressed effectively in all project designs.	2001	<ul style="list-style-type: none"> ▪ Improved project design ▪ Enhanced focus on key governance constraints
	Develop a program of courses on governance targeted at mission leaders and senior staff.	2000	<ul style="list-style-type: none"> ▪ Enhanced understanding of ADB staff of governance issues
To provide quick feedback to all stakeholders of progress in implementing the action plan and the lessons learned.	<p>Present to the Board a work program on governance, which will include measurable and monitorable actions and targets for 2001.</p> <p>Provide an annual report to ADB's Board on the implementation of the action plan. The report will include information on achievements against the actions and targets in the annual work program, lessons learned, and a work program for the next year.</p>	<p>1st quarter 2001</p> <p>Beginning 2002</p>	<ul style="list-style-type: none"> ▪ Effective ADB performance and scrutiny by the Board

REGIONAL PROGRAM FOR GOOD GOVERNANCE

1. The regional program for good governance is additional to specific programs to be developed for individual developing member countries (DMCs) in the CSP process. This program will concentrate on governance issues that are common to the whole region or to groups of DMCs. The program is in the concept development phase. Its objective is to test ideas that will promote improvements in the four elements of good governance—accountability, participation, predictability, and transparency—as they directly influence poverty reduction. For each two-year program, three or four initiatives will be selected for implementation across the maximum number of DMCs possible. The high degree of visibility of the initiatives is expected to prompt the DMCs to adopt the successes.
2. The 2001-2002 program could include initiatives such as
 - (i) establishing annual regional awards for good governance, focusing primarily on change and innovation, and including awards in corporate governance;
 - (ii) launching a DMC-wide intervention, in partnership with local non-government organizations (NGOs) and other aid agencies, to extend legal literacy to the excluded and, in particular, to women;
 - (iii) developing annual perception surveys of key state institutions, in partnership with regional, international, and/or local NGOs, to determine how well they are perceived by different segments of a population;
 - (iv) developing customer surveys and scorecards as a way to enhance accountability for service delivery and increase participation of the poor in the quality of a service;
 - (v) supporting constituencies for the poor to lobby the government to improve service delivery or other areas of government activity that impact on the poor; an example of constituencies that have proved effective in improving the quality of primary education in some countries in Africa is the primary teachers associations;
 - (vi) developing initiatives with the private sector to act as good corporate citizens by promoting a service of value to the poor that reflects an aspect of good governance;
 - (vii) testing performance-based service delivery targeting the poor in which contractors tender a fixed price to deliver a service or product and payment is based on an independent audit/inspection confirming delivery of the service or product: products of inferior quality will be returned to the supplier, and services below the quality tendered would not be paid; and
 - (viii) enhancing the work of standing committees of national assemblies, particularly as they relate to the accountability of government departments and agencies.