

**EXPLANATORY OVERVIEW
AND
TOOLKIT
FOR
GOVERNANCE AND CAPACITY BUILDING ASSESSMENTS**

I. Introduction

The ADB was the first multilateral development bank to have a board approved policy on governance. Good governance has subsequently been established as one of the three pillars of the ADB's Poverty Reduction Strategy. Governance and the means of improving it, namely capacity building are central to the ADB's achieving its strategic objectives.

In the R-Paper: "Promoting Good Governance: ADB's Medium-Term Agenda and Action Plan", the ADB undertook to take a number of actions to enhance its approach to promoting good governance in DMCs. The actions included:

- Undertaking more rigorous studies and structured studies to analyze governance issues in DMCs and the risks they pose;
- Formulating strategies and programs to address key governance issues, including non-economic factors which have demonstrable and direct economic effects that have been identified. Governance assessments and progress in improving the quality of governance will inform both the level and sectoral composition of ADB assistance to a DMC;
- 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 Country Strategy and Program process. Such activities will include strengthening the capacity of the public sector to monitor and evaluate government performance, and of civil society to maintain the debate about improvements in governance;
- Promoting participation in DMCs by ensuring that, in the design of projects and programs, attention is given to expanding opportunities for involvement by local representative assemblies and civil society, including women's groups, and creating a favorable environment for citizens to have meaningful input into development decisions;
- Developing indicators for the four elements of good governance. 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;
- Developing governance and institutional databases on each DMC which will include information about the strengths and weaknesses of key executing agencies in the priority sectors assisted by ADB;
- Providing managers and mission leaders with toolkits for effectively addressing governance issues in project design.

Governance and capacity building are central to the ADB achieving its strategic objectives.

The ADB's R-Paper on Promoting Good Governance Promises a number of specific actions will be taken to improve the ADB's approach to improving governance in DMCs.

A considerable amount of focused data collection is required if the ADB is to be able to implement these undertakings in the action plan. The data needs to access the behaviour of governments within the political process and the administration of government of each DMC so that base level assessments are made. The data will then need to facilitate annual comparisons of that behaviour and the processes so that measurable improvements can be demonstrated. Additionally, it will need to assess the performance of departments of state and other agencies operating in key sectors in each DMC to understand what they do well and what they don't do well and what is preventing them from improving what they don't do well.

In project and program implementation, the ADB relies on DMC agencies to carry out the requirements of the project or program. Consequently, effective projects are a combination of good design and competent government agency. Where the latter has weaknesses, there is a need for effective capacity building to bring it up to a level of competency necessary to convert the good design into effective reality. The weaknesses can be internal to the agency or some generic weaknesses in the way in which a government administers its public service. Capacity building is any action taken to improve an agency's performance or, writ large, any action taken to improve the overall performance of government. Capacity building, therefore, can operate at two levels: the agency level and the whole of government level.

For the ADB, there is a spin off in capacity building work. Every incremental improvement in an agency's performance not only positively affects the prospects of successful project implementation; it also positively affects other projects and ongoing programs the agency is engaged in. Clearly, in terms of the ADB's major goal of poverty alleviation, effective capacity building will produce broadly based benefits.

The performance of an agency is also materially affected by the way in which a government conducts its business. That is the field of governance. The concept of governance adopted by the ADB is "the manner in which power is exercised in the management of a country's social and economic resources for development." Governance, therefore, is different from capacity building, though capacity building can produce better governance. Governance embraces the formal way in which a government conducts its business and addresses the norms of and actual behaviour of all the players engaged in the exercise of government.

This overview develops a framework to enhance understanding of how government is organised and works, what it does and the important guiding principles which are established to ensure that it works as well as possible. The guiding principles concern important governance issues. How a government is organised and works are also important to good governance particularly as it affects the appropriate exercise of power. Out of this analysis, key factors which affect good governance can be identified and they in turn will become strong candidates for being key priorities in any ADB

To fulfil its commitments in the action plan, the ADB needs to collect focused data on governance in each DMC and the strengths and weaknesses of agencies operating in key areas of ADB activity.

The ADB relies on agencies to implement projects. Where they are weak, there is a need for capacity building.

The performance of agencies is affected by the way a government runs its business, which is the field of governance.

This overview seeks to explain:

- **How government is organised and works;**
- **What it does;**
- **The important guiding principles which ensure it works as well as possible.**

program concerned to improve governance in DMCs.

II. Objectives of the Overview

The objectives of this overview are to:

- provide a framework to enable Programs and Projects Departments to evaluate how well governments or parts of government are operating and, where they are not, to identify the structural, systemic and other weaknesses which contribute to underperformance and problems of a governance nature;
- identify those key aspects of government, which, if they do not work well, become major contributors to poor economic performance, a diminished civil society and the probability of significant levels incidences of poverty. These aspects provide key inputs into the data bases on governance in each DMC which the ADB will be producing.

III. Guiding Principles

Governance is concerned with an ethical dimension in its focus on “the manner in which power is exercised in the management of a country’s social and economic resources for development”. Consequently, if government is to exercise its power in an appropriate way, it should observe a number of key principles which have been recognized by the ADB in its policies on governance.

The rationale behind these principles is discussed in the ADB’s Board Policy on governance and other ADB documents. Some, such as accountability, efficiency and effectiveness, can be justified on operational grounds alone. Others, such as responsiveness and predictability, also contain a normative element.

The principles are:

- **Accountability.** Accountability can be defined as: “existing where there is a direct authority relationship within which one party accounts to a person or body for the performance of tasks or functions conferred or able to be conferred, by that person or body.” Accountability has many components. Legal accountability ensures that the actions of public sector entities are in accordance with legislative requirements. Financial accountability ensures that public resources are appropriated and expended for the purposes for which they were intended. Financial accountability usually is directed at two aspects of public service action – efficiency and

The overview has two objectives:

- **Enable weaknesses in public sector agencies to be identified and addressed;**
- **Identify key areas of government which must work well if a government’s programs are to be optimised.**

There are important guiding principles which are crucial to good governance.

Accountability ensures that governments and public servants are responsible to a supreme authority for the performance of the responsibilities given them.

effectiveness. Efficiency addresses the requirement for funds appropriated to be expended to produce specified outputs at a given level of quality and at a reasonable or targeted cost. Effectiveness addresses the requirement for the outputs produced to lead to the outcomes desired by government policy. Together, they provide an approximate qualitative guide as to the relative performance of a given government agency¹;

- **Transparency and Predictability.** Transparency ensures that decisions and their basis and costs are accessible to the public at large both in the sense of being available as well as being understandable. Predictability applies to executive action in the sense that bureaucrats apply the rules consistently without favour. Similarly with the judicial system, the law should be applied consistently without favour and therefore predictably;
- **Participation:** Governments do not operate within a vacuum. At the broader, societal level, recent research has demonstrated that they are often most effective when they operate within a robust civil society with an abundance of “social capital” (i.e. common norms and practices that lower transaction costs between individuals and enable them to attain higher utility functions than they would otherwise enjoy). At the project level, a growing body of empirical evidence demonstrates that initiatives tend to be more successful when stakeholders and beneficiaries are integrated into the planning process. This principle also contains a normative component, in the belief that people have a right to be consulted about initiatives that will have a major impact upon their welfare and lifestyle.

IV. The Role of the State

Governments perform thousands of functions, from providing for national defense to deciding the size of an apple its citizens are able to buy. In the broad, governments are responsible for four related activities that have a direct impact upon the quality of their economic growth and upon the way in which wealth is distributed across the various groups that constitute its citizenry. The four kinds of activity are (illustrated in figure 1):

- Formulation of and monitoring the impact of policies;

¹ Cost per kilometer of road paved, or cost per vaccination, or cost per pupil year are all measures of efficiency. A decline in travel time and the cost of vehicle maintenance, improved mortality and morbidity rates, and reductions in graduand illiteracy rates are measures of effectiveness.

Efficiency assures that resources are applied in an optimal way to the products they must produce and effectiveness that those products produce the results intended.

Transparency ensures that executive decisions are generally accessible and predictability that they are based on the rules governing those decisions.

Participation assumes that a partnership between government and the groups it is serving increases the likelihood that government programs will serve the people most effectively.

- Raising revenues to implement policies;
- Implementation of policies, some through the provision of critical goods and services;
- Fostering an enabling environment for private sector growth and for other matters which contribute to civil society.

Policy Formulation

The capacity of governments to formulate effective policy on both a national and sectoral basis is crucial to the overall effectiveness of government. Hence, not only do individual policies have to be effective, but they have to be consistent with the broad policy thrust of a government as well as with policies in related areas. Policies address two broad issues:

- They affect the broad environment (economic, social, physical) in which a nation exists. Some extend to the whole international community, for which there are often international or bilateral protocols. Others are directed at establishing exemplary conditions for a nation to prosper like establishing a sound macroeconomic environment, including relatively modest fiscal deficits and inflation rates, low unemployment, and a positive balance of payments;
- They govern the production and delivery of goods and services targeted at the whole population or deserving parts of it. Such goods and services include utilities, health services, educational services, welfare services, consular services and the like. In some DMCs, goods include textiles and handicrafts while services include banking, shipping, hotels and forestry. ADB programs now extend into areas like the most efficient and effective mechanisms to produce a product or deliver a service – the current advocacy of privatisation is an example. Such programs take ADB activities into the overlap between public and private sectors in the general area of the provision of goods and services and into questions about the appropriateness of corporatising, commercialising and privatising. Consequently, the policies themselves and the institutional capacity to formulate appropriate policies, ensure they are internally consistent and then to implement them effectively have become important issues to address.

Governments should have policies and protocols about governance and these should be part of any governance assessment. An assessment of sectoral policies, especially as they affect poverty alleviation and an assessment of the capacity of sectoral agencies to develop policy will also be an important part of the analyses leading up to the development of a CSP. Equally important is an assessment of the process by which a government reviews policy proposals, ensures that they are consistent with the policy agenda of the government and that there is funding available to implement them, broadcasts decisions about new or changed policies and subsequently monitors their

In essence, governments perform four activities:

- **Make policies;**
- **Raise revenue;**
- **Provide goods and services;**
- **Regulate.**

Policies operate at two levels:

- **A macro level;**
- **A micro level which results in the production of goods and services.**

implementation.

Fiscal Management

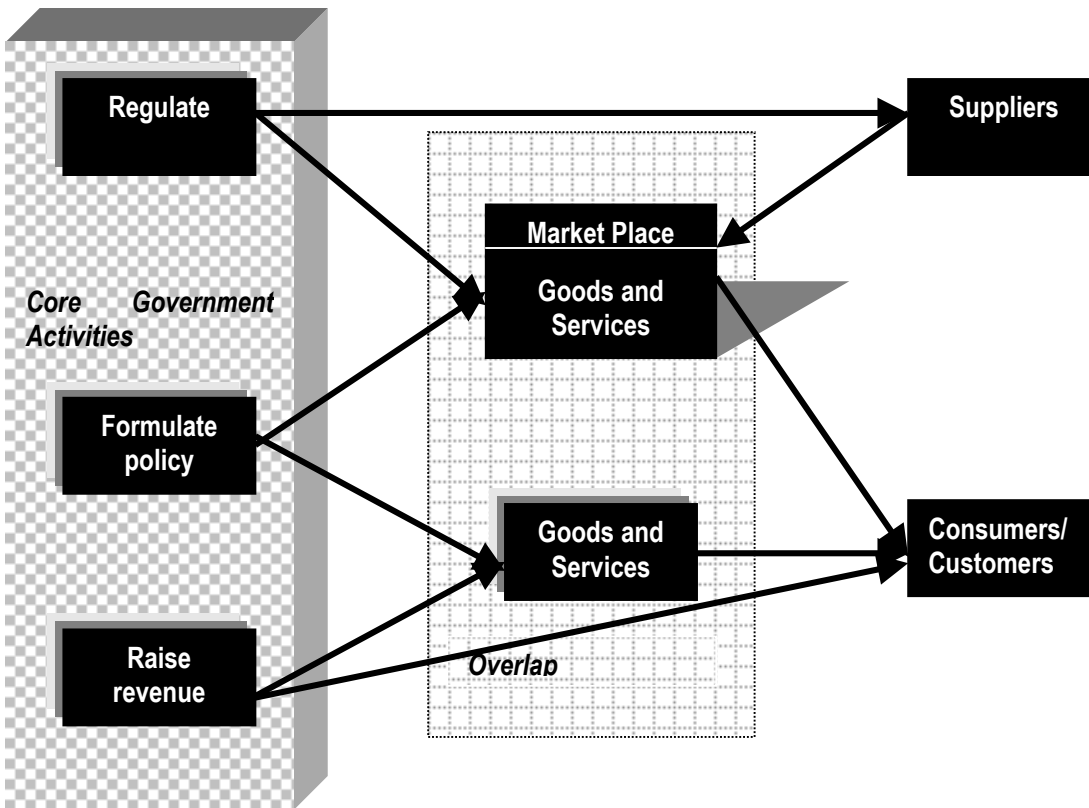
Governments need to finance their activities. To do this, they raise revenue through a number of instruments including taxation, duties, the levying of imposts and fees and through user charges. The revenue they raise is then applied to the Government's policy and program agenda, usually, through an annual budget. The budget, among many things, is a statement of all the planned fiscal operations of the government. It should fund the programs which have been developed to implement the policy agenda. Programs usually have multi year horizons, because most policies cannot be concluded in a financial year. Consequently, governments also need to plan their future expenditures and ensure that there will be the funds available to finance it. This is usually done through Medium Term Budget Frameworks which, among other things, provide program managers with a certain level of confidence that programs, once started, will be funded at certain agreed levels. Ideally, annual targets should be set for each program to ensure that the government and its departmental apparatus is held accountable for what it has said it will achieve. Expenditure is appropriated through the budget and should be used as a management tool to ensure that the expenditure produces what is intended. If it is to be a management tool, managers of government programs need timely and accurate reports linking expenditure with the outputs it produces so that the managers know how well they are doing and realise when they must take action when things are not going as well as planned.

The budget is the principal basis of a government's accountability. Among other things, it informs the population at large what a government intends to spend the taxation it has raised on and what it intends to achieve from that. To be able to report transparently on how the money has been spent and what it has achieved, governments need good financial reporting and management information systems. Such systems extend to such matters as financial control which should be designed to mitigate the chances of fraud and increase the likelihood that where it does occur, it will be discovered. Evaluating current systems and their capacity to report accurately will be important if the ADB is to "strengthen the capacity of the public sector to monitor and evaluate government performance".

A high priority for governance is the enhancement of the strategic use of public sector financial resources by improving the institutional arrangements in place to manage the budget and financial management systems.

Figure 1: Principal Government Activities





Government activities cross over with the activities of the private sector in the delivery of goods and services.

Goods and Services

The provision of goods and services by governments has become an area in which fundamental questions are being asked about the appropriate role of government. Is a core business of some government departments to produce a given product or service? Are government agencies appropriate mechanisms for producing goods and delivering services? The protagonists are sharply divided. At one extreme, countries like New Zealand was at one time moving to pull government out of the production of all goods and services. At the other extreme, governments produce many goods and services like, for example, running fisheries enterprises and merchant banks. Some even become so embroiled in the marketplace that they bail out foundering firms and find that they have become virtual conglomerates.

Questions are now being asked if governments should be in the business of delivering goods and services.

Neoclassical economic theory has traditionally allocated government a role in providing certain

products. They include public goods, such as defense and law and order, from which all citizens derive similar benefits and education and health which benefit citizens to the extent that they use the services provided.

For the ADB, the size and scope of a public sector which is a consequence of the extent of services and goods delivered by the public sector are questions appropriately left to individual DMCs. Many DMCs, however, cannot afford the size of public service they have. The consequences are that important programs, often touching on poverty, are squeezed of operational funds because the costs of the public sector payroll consumes a greater and greater proportion of the annual budget. Such conditions undoubtedly have economic consequences of the kind that concern the ADB. Information, therefore, needs to be collected to identify:

- where the overall size of the public sector wage bill and the annual budget deficit demands some kind of public sector contraction (the ADB has assisted a number of South Pacific nations deal with this issue in their public sector reform programs);
- in economies in transition, where fundamental questions regarding what services a government should continue to provide are still being debated;
- on a sectoral level, where public sector inefficiencies make a product (like, for example, electricity or potable water) unaffordable or unavailable to a high proportion of citizens and alternative or improved means of providing that service need to be sought;
- where a public sector is unable to deliver all the services a government requires of it through lack of capacity or inappropriate resources and different approaches to delivering the services need to be developed. Such an examination could also raise the more fundamental question about whether or not the service should be delivered by the Government in the first place.

Regulation

A core government function is to establish a regulatory framework to facilitate the effectiveness of its overall policy objectives. Such a framework is directed at influencing the operation of the marketplace, defining and policing the requirements of corporate governance, controlling the distribution of certain products like alcohol and drugs, town planning, pollution control, road rules and the like.

The provision of a stable legal and regulatory environment for private sector activities together with advice about certain key institutions which produce a more effective investment environment has

Once the basic legal and regulatory frameworks are in place in DMCs and their capital markets are well established, requirements for assistance on such frameworks will diminish.

been a growing area of ADB focus. Good governance is a critical aspect in regulation, particularly as it concerns predictability and transparency. It is also an important area in the context of the Governance Action Plan if the ADB is to formulate “strategies and programs to address key governance issues, including non-economic factors which have demonstrable and direct economic effects”. The ADB has already started this work. For example, in Indonesia, the ADB is a member of the Partnership for Governance Reforms and has been nominated as the lead agency to develop a program to strengthen corporate governance in Indonesia.

V. Machinery of Government

At the most basic level, governments need to organise themselves to perform four essential tasks:

- formulating policy;
- selecting mechanisms to implement policy decisions;
- mobilizing human and financial resources in pursuit of the policies;
- monitoring that the resources have been mobilized as required and have produced the outcomes desired.

The kinds of choices confronting a government on a new policy initiative and the way it can be addressed and implemented at many different levels are illustrated in figure 2 below.

There are three important levels of government which must be taken into account when considering issues of governance. None of these levels operate in a vacuum. There are strong linkages between each level which have to be managed skilfully if government is to operate effectively (see Figure 3). The three levels are:

- the three branches of government: the executive, the legislature and the judiciary;
- the central agencies which are responsible for coordinating government policy setting, for broad financial management and for personnel management;

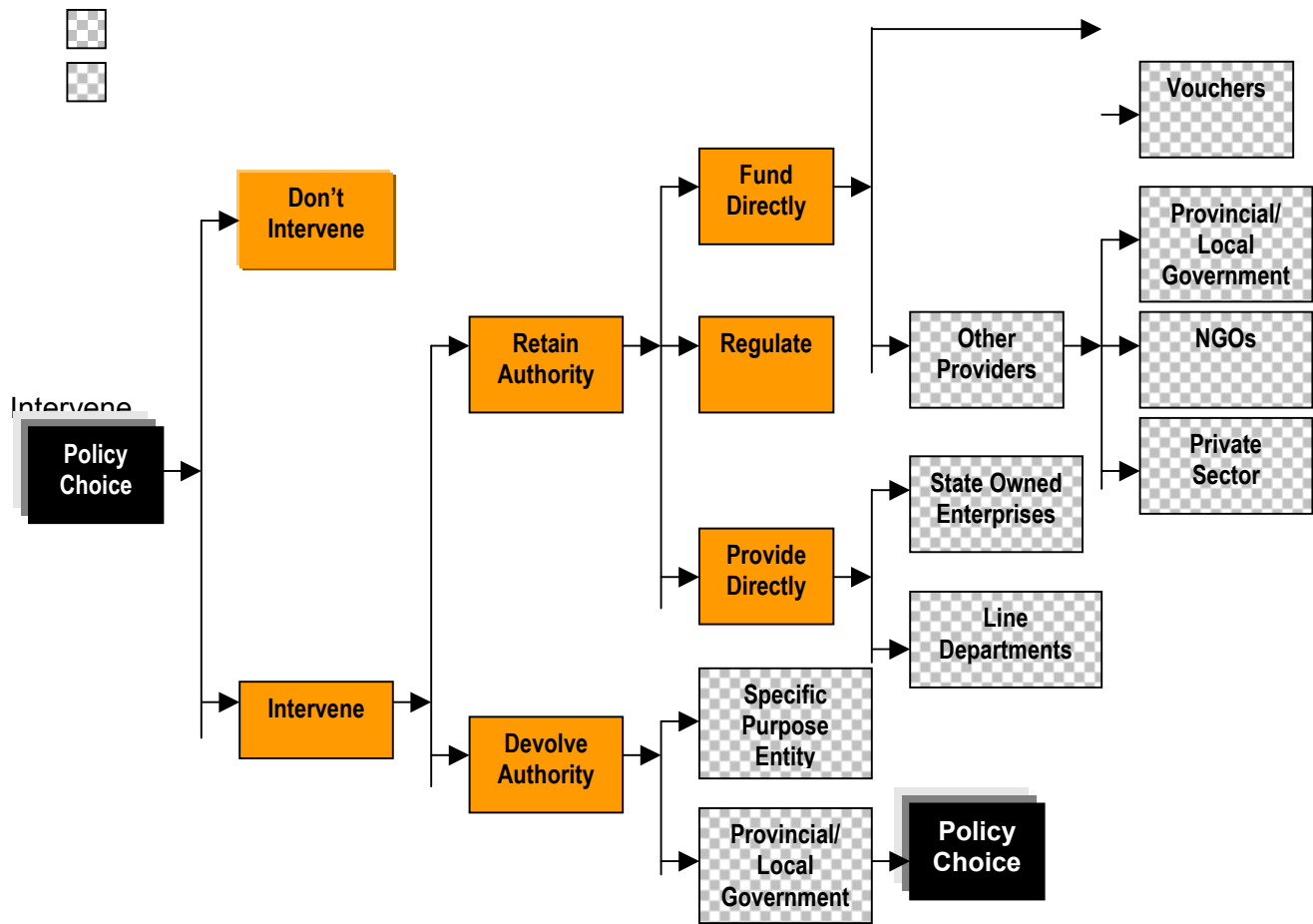
Governments need a mechanism to manage line and other agencies effectively.

They do this through three key central agencies:

- **A cabinet office which coordinates policies;**
- **A finance Department which coordinates planning and budgets;**
- **A personnel agency which co-ordinates all human resourcing matters.**

Figure 2: Implementation of a Policy Decision





Central agencies can influence the colour of government by making fundamental choices about a policy related service will be delivered.

- line agencies which are responsible for individual sectors of government operations. Often there are other agencies active in a particular sector which are not line agencies in the sense of a government department. Such agencies possess a statutory charter which sets out what their functions are and broadly how they will be managed. Such agencies can be:
 - ◆ state owned enterprises which provide services like energy and water, run airports and manage other activities in all sorts of commercial and semi commercial fields;

- ◆ other administrative units like central bureaus of statistics, offices of public prosecution, police forces, environmental protection agencies and the like, which require a level of independence free from direct ministerial intervention.

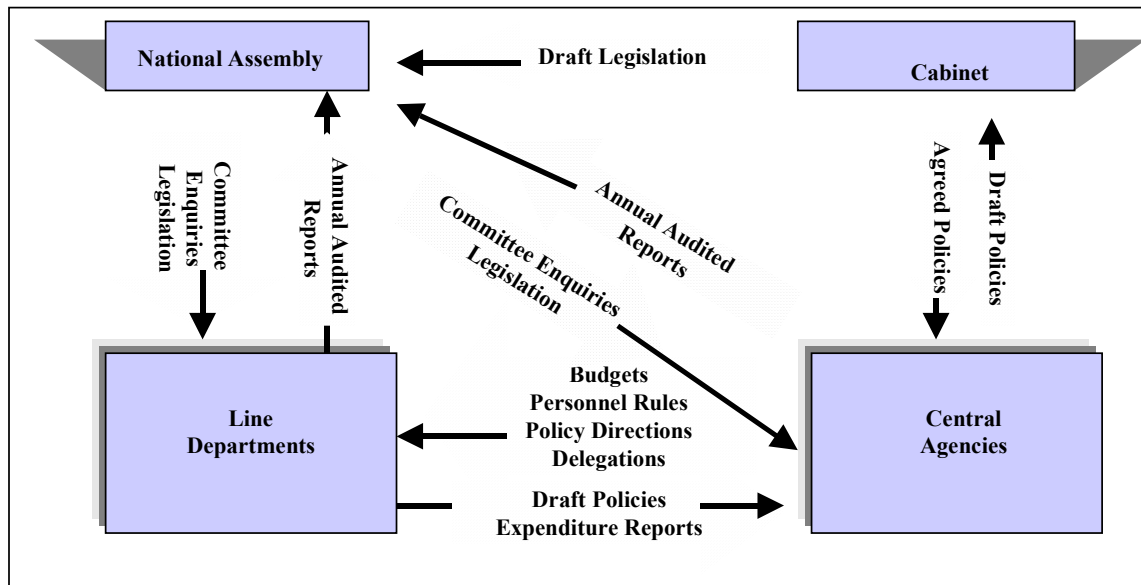
These agencies operate within the framework of an overall line ministry umbrella and report to the minister. Only, they have been separated out of direct ministerial control for political reasons and there should be strong protocols which prevent ministers interfering in their management other than through formal directives which are made transparent to the national assembly on a regular basis. Reporting relationships to the line agency head vary from country to country. They are often accompanied by tensions as agencies assert their statutory independence and line agencies try to make them toe a departmental line.

Figure 3: Government Linkages

Governments everywhere have this basic structure at the national level. There are numerous variations on this theme. In some countries (Vietnam, for example), the political party in power exercises considerable influence through its committee structure. In others (Indonesia, for example), there are co-ordinating ministries which ostensibly co-ordinate inter-departmental activities across a broad sector like the social sector. For all but the smallest island states, there are other levels of government which are important to this framework. Two are particularly important:

There are two other levels of government in addition to a national one:

Central agencies are a key linkage between the head of the executive branch of government and the line agencies which have to implement those decisions.



- a provincial or regional level;
- a local level.

The provincial level often replicates the national level. In federal systems like Malaysia, India and Pakistan, for example, there are provincial legislatures, there is a provincial judiciary, there are provincial executives and there are provincial public services with their own particular rules and conditions of employment. Provinces also have their own capacity to raise revenue. They present an annual budget to their legislature. Where such arrangements are in place, the presence of national level agencies is confined to those areas of activity where the central government has not conceded powers to the provincial level. The collection of income and corporate taxation is an example of an activity which would be conducted at the provincial level by an agency of the national government.

Elsewhere, the provincial level does not replicate the machinery of government at the national level. Elected assemblies and a provincial judicial apparatus are absent. There is a provincial executive responsible to a provincial head and a separate provincial public service, but operating under conditions specified by the national government and usually consistent with the national public service. These organisational arrangements are sometimes replicated (Indonesia, for example) at a sub-provincial level and at a local level. The province usually has restricted revenue raising capacities. The provincial government administers those programs that have been devolved to it by the national level of government. In these situations, the national level line agencies generally have a reasonably strong presence at the regional level, administering those national government programs which have not been devolved to the provincial level and monitoring the implementation of those programs which have.

Local government is usually of a different order. In this regard, a careful distinction should be made between national or provincial government operating at a local level and local government. In the former, the local level is simply a decentralised office of the national or provincial government. In the latter, there is an elected assembly or council and institutional arrangements whereby officers are responsible to the local assembly and not to any higher level of government. Local government does not operate like a national government. For one thing, it largely concerns itself with the provision of services like garbage collection and traffic management to a local population. The analogy is closer to a company organisation with the assembly replicating the board of directors and employees of the organisation fulfilling its various responsibilities, much as they do in a corporation.

A. Legislature, Judiciary and Executive

The classic division of powers in government is between:

Provincial governments are often approximate mirror images of a national level of government.

A second provincial model has no provincial assembly, but a provincial public sector reporting to a centrally appointed leader.

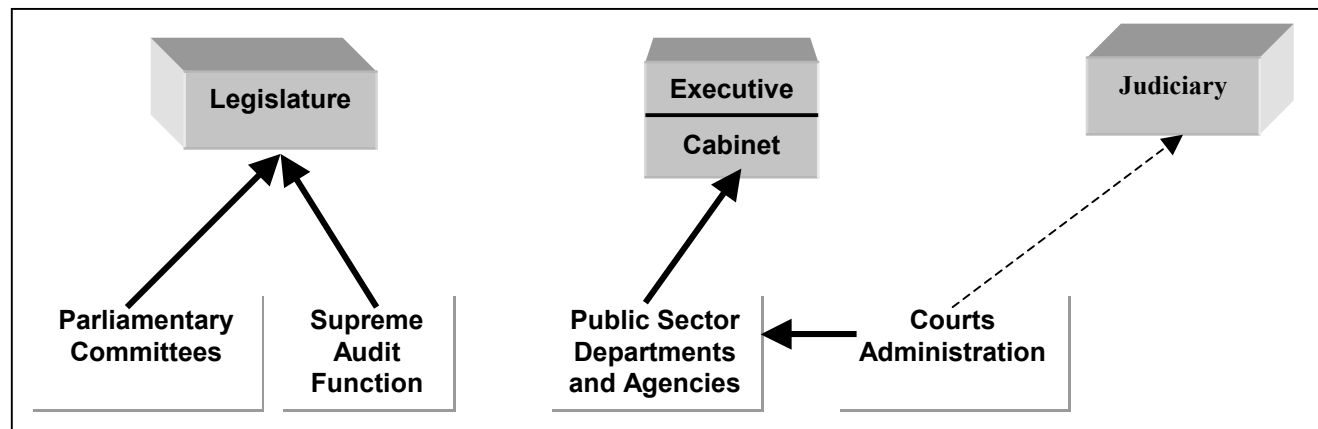
Local government operates more like companies in the private sector with an elected council acting in a similar role to a board of directors.

- A legislature which enacts laws and to which a government is accountable for its conduct of the nation's affairs;
- An executive, which executes the laws and carries out the programs which the legislature has funded through the annual budget;
- A judiciary which adjudicates on the law and provides a forum of appeal to ensure that the government acts at all times predictably within the law.

Ideally, each of these institutions is independent. In many countries, the separation of powers is regarded as important to ensure that there are proper safeguards, particularly against the abuse of power. In others, the division between legislature and executive is not clearcut with the executive arm being able to issue decrees and laws with, at best, only a cursory review by an elected assembly. In such cases, transparency and accountability often suffer.

Each branch of government has its own institutional arrangements to fulfil its responsibilities as illustrated in figure 4 below.

Figure 4: The Three Arms of Government



Each of the three branches is important in a governance and capacity building context. One important governance focus is the separation of powers, particularly between the executive and political arms of government and the executive and judicial arms of government. In the context of the former, a key governance issue is the power of an executive to issue subordinate legislation in the form of decrees or regulations without reference to the legislature. A second issue common in some DMCs is the capacity of elected representatives to interfere in the running of line departments

The classic division of powers in government is into three distinct and independent branches:

- A legislature;
- An executive;
- A judiciary.

An important focus for governance is a clear separation of powers between each of these

Legislation is a key to understanding how a government works because it is legislation which establishes a public sector and the entities within it.

and other agencies. In so doing, they can cause significant disruptions to programs and planned work schedules as well as diminish the authority of executives responsible for the management of the department or agency. A third is to ensure that committees of review in the national assembly are funded appropriately and are able to carry out their work effectively. Judiciaries need to be independent of the political and executive arms of government so that they are able to interpret the law fairly and consistently and not be seen to be favouring a particular party in a dispute particularly where the government or someone familiar to the government is involved.

Legislation is important in a governance and capacity building context, because it is legislation which establishes government agencies, whether they be line agencies, administrative units or state owned enterprises. Legislation normally will state what an agency's functions and responsibilities are, to whom it is responsible, how it relates to other organisations operating in the same sector and how it is to fulfil its accountabilities. In fact, legislation establishes the whole public service through something like a Public Service Act and lays down the code of conduct that public servants must adhere to and all the employment and work conditions that need to be prescribed centrally.

Parliamentary committees perform important review functions. For example, many countries have a Public Accounts Committee which reviews a proposed budget in detail, interviewing departments about budget details and past performance before proposing amendments to the executive arm. The Public Accounts Committee also reviews the audited annual statements of each government agency before reporting back to the national assembly. In this role, it is the principal mechanism to ensure government accountability. Other committees examine proposed legislation, often proposing amendments to the legislation as a result of the review. In many DMCs, and particularly in transitional economies, parliamentary committees are in place but are often poorly resourced in terms of professional support staff, a situation which materially affects the quality of their work. In many others, while committees exist, they no longer perform their role effectively as the power of the national assembly has become eroded. This in turn means that there is little pressure on the supreme audit authorities to perform their work appropriately. These issues are critical to any rigorous study of governance issues in a DMC.

For governments to operate effectively and efficiently, authority needs to be delegated to management and staff as close to where a decision has impact as is possible. If such authority is delegated, there must be confidence that it will be applied without fear or favour and that the officers concerned will not abuse their power in any way. To be able to do this, public servants need protection from the actions of interested people with political influence. The conventional response to this dilemma has been to give public servants permanency in their jobs. Such permanency is not completely effective because it does not prevent public servants from being posted to remote outposts should they balk at illegal directives of a minister. The convention of permanency also prevents the public service from dismissing the poor performer other than poor performers who

Parliamentary committees perform important review functions which are critical to the governance principle of accountability.

The independence of public servants has been eroded in many countries which is a serious governance issue.

have committed some indictable offense. Political interference in the way in which government is administered has a number of governance implications, particularly in the context of accountability, predictability and transparency and needs to be considered in any review of governance issues in a DMC.

The nature of a country's legal system is fundamental to a wide variety of economic and social activities. It is impossible to create an enabling environment for economic development or to advance the status of certain social groups without ensuring that the "rules" governing interactions are applied fairly and expeditiously. Good governance cannot operate where a person, on appeal to the courts, cannot get a fair hearing. A suspect judiciary has other pernicious impacts on a country and, consequently, its capacity to alleviate poverty. Foreign investors, in particular, are discouraged from investing in a particular country where they believe that, if there is a dispute over their business activities, they will not obtain a fair hearing.

In many DMCs, access to the court systems frequently encounters serious delays as the system grapples with a serious backlog situation. Judges and magistrates are poorly trained. Prosecution offices are under resourced and lack competencies. The forensic skills of police forces are poor. Procedures to get cases heard discriminate against the uneducated and the poor. These disadvantages are exacerbated by the poor not being fully conversant with their rights and having nowhere to go to find out what they are. And where the judiciary is underpaid, individual judges are more susceptible to bribery. Consequently, all the institutions which are involved in a judicial system are crucial factor in the quality of governance in a DMC.

B. Core Administrative Capacity

Central agencies are broadly responsible for the way in which the public sector is managed. They usually comprise four core functions (as illustrated in Figure 5):

- Management and overall monitoring of a government's program of policy development through a Cabinet Office or a Chief Minister's Department;
- Management of the standards, conditions of employment and human resource management within the public service through a Central Personnel Agency;
- Macro economic planning through a Ministry of Finance or a Ministry of Planning;
- Developing, management and control of medium and annual budget plans through a Ministry of Finance.

The judicial system ensures that rules are applied fairly as intended by the legislature.

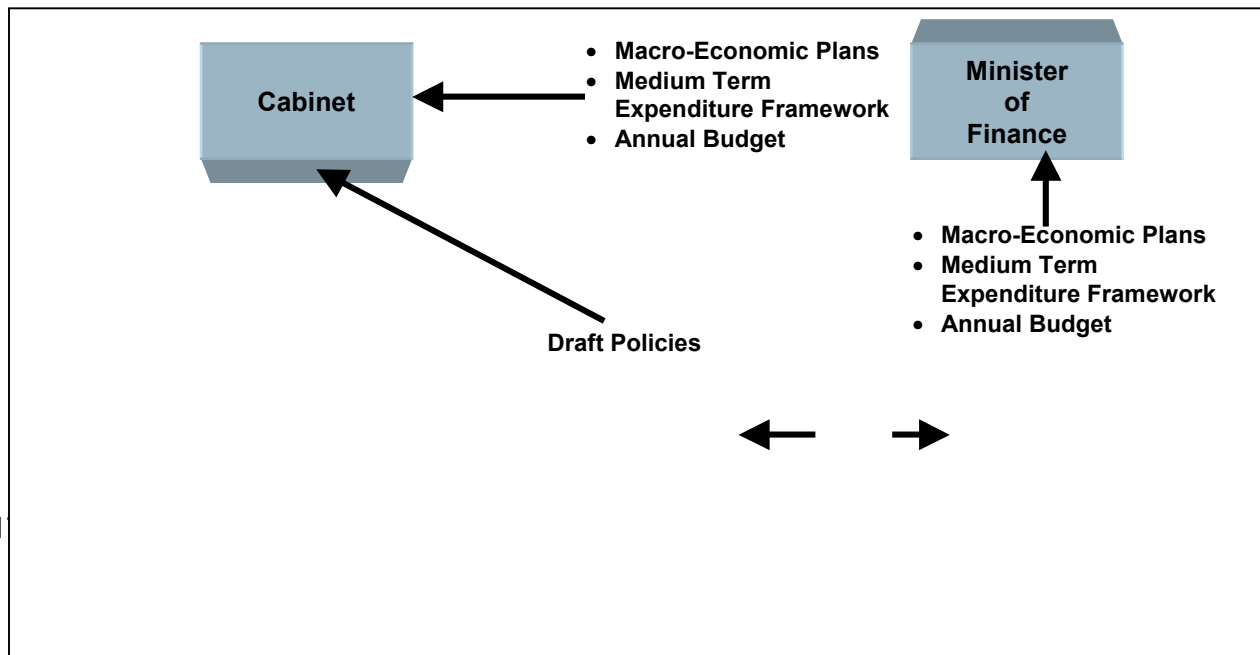
Judicial systems often are characterised by poor systems, poorly trained personnel and procedures which discriminate against the poor. Consequently, organisations and people are deprived of their rights as the systems do not operate predictably and without favour.

Central agencies are crucial to the smooth functioning of government.

The first two functions usually report directly to the Chief Minister while the latter two report to the Minister of Finance.

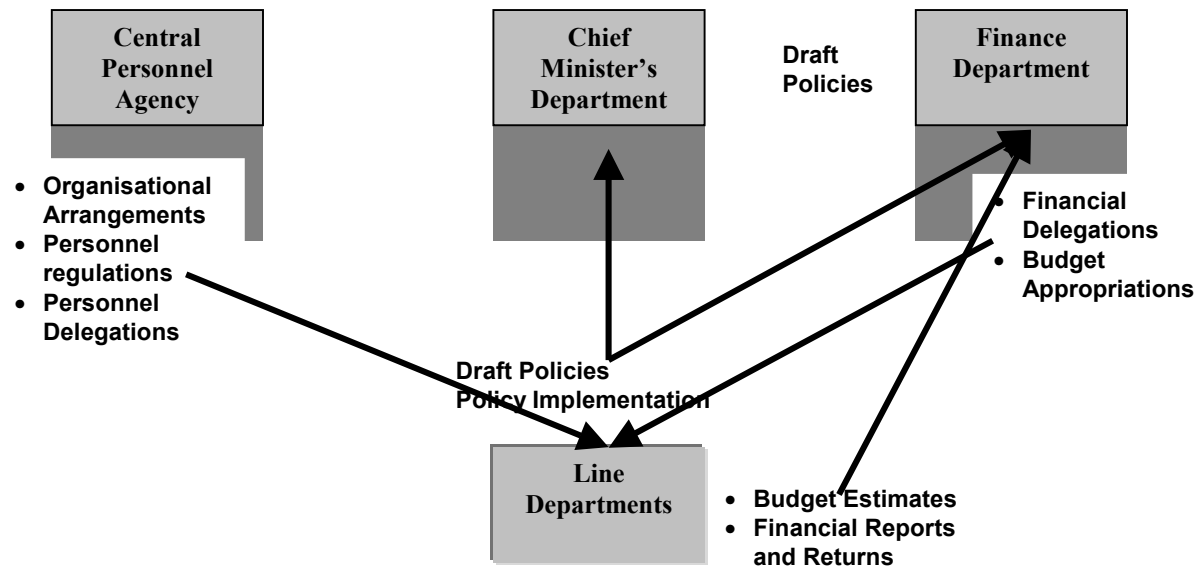
Central agencies are crucial to the smooth functioning of a government. Where they do not function effectively, the implications are felt throughout the system. In many cases, a major barrier to improving the performance of line agencies is the way in which the public service is managed by central agencies. Where the Cabinet Office does not ensure that policy recommendations are consistent with the overall policy agenda of the government, policies will be agreed which conflict with extant policies. Where policy initiatives are agreed but there are insufficient funds to implement them, the investments will not produce the returns they should and the policies will not achieve their objectives. Where the personnel agency does not protect public servants from the vindictive actions of their superiors, an independent service will not operate to the detriment of the principles of accountability, predictability and transparency. Where managers do not receive all the delegations they require to manage their responsibilities effectively, there cannot be full accountability. Consequently, rigorous studies of governance issues and of the strengths and weaknesses of priority sector agencies need to be clear about weaknesses at central levels of government and how they affect performance at the sector and line agency level. Where there are central level weaknesses, the weaknesses at the central level should be addressed first before capacity building is likely to be fully effective at the line agency level.

Figure 5: Core Functions of Central Agencies



Central agencies consolidate the policy and planning directions of the public sector, channeling new proposals to Cabinet and Cabinet decisions back to line agencies.

They also manage the conditions under which the public sector operates.



Central to a government's effectiveness is its ability effectively to manage the process of policy formulation and implementation. When the process is not managed effectively, Cabinet lacks adequate information to make good decisions. Often poorly presented papers result in cabinet meetings going on for hours without decisions being made. Or, policies are adopted without an appreciation of their fit with the government's overall policy agenda, without adequate consideration of alternatives or a proper understanding of their budget implications. Information about cabinet decisions are not disseminated effectively so that all agencies understand their responsibilities regarding the implementation of a policy decision with resulting costly overlaps, bureaucratic friction, program confusion and inefficiencies. Improvements in Cabinet operations and procedures can therefore enhance a government's policy making capability and the management of government business where it counts most.

Government agencies cannot operate without funds. The budget, consequently, sets out what an agency is expected to do in a financial year and, if linked to outputs, what it should produce with the funds appropriated to it. A government also needs information to enable it to determine how it should allocate resources so that priorities are addressed effectively. Part of that information relates to the policy agenda and the costs of implementing the programs designed to deliver on that agenda. Part of the information relates to where each program is and how much more has to be spent to produce the desired outcomes. Part of the information relates to how well the program is producing the desired outcomes with the funds appropriated. Consequently, the budget should be a management tool. With appropriate reporting systems, it should be used by agency management

The cabinet provides a central focus for directing and consolidating all government business.

The adequacy of central mechanisms for policy formulation, coordination and implementation are a major concern for a governance scrutiny.

The budget is a powerful tool for

The budget is a powerful tool for securing sustainable public sector reform.

Numerous weaknesses are often found in budgetary management systems.

- improving the integration of policy options with the total

Weaknesses include:

- **Poor integration of policy options with the total resources available;**
- **Inexperienced budget officers in**

and by Treasury officials to monitor that budget appropriations are achieving what they set out to do. Where results are not good, it should direct management's attention to those areas where appropriate management action is required to address problems. The budget is also a powerful tool to drive organisational change. Squeeze an agency for resources but require it to maintain or improve its outputs and productivity increases are likely to occur.

A situational analysis of a Treasury Department or Ministry of Finance would seek to ascertain major weaknesses, for the budgetary systems above all other systems has a major impact on the economy of a DMC and on its capacity to address any poverty issues. Weaknesses often evident in budgetary management systems include²:

- Poor planning;
- Little relationship between planning and budgeting;
- Inadequate expenditure control and accountability;
- Inadequate relationship between capital budgets and subsequent operations and maintenance of the capital assets acquired;
- Procedures for amending the budget as formulated ignored in practice;
- Poor financial and management accounting systems;
- Non-availability of budget appropriations to spending agencies;
- Inadequate performance reporting;
- Poorly managed and trained accounting staff.

The performance of the public sector as a whole depends on the quality and professionalism of the public service. Productivity and effectiveness in a public service can be measured just as it can in the private sector. Public sectors in many DMCs grew significantly in the early years of nationhood as there were few other opportunities for employment. Often, conditions in public services, with increasing competition from the private sector, have not kept pace with developments in the market place. A result is that public servants are often underpaid, practices and procedures have ossified, morale is poor, and agencies rarely have the right mix and numbers of personnel to fulfil their responsibilities.

Weaknesses in public sector personnel management systems affect the capacity of line and other agencies to undertake their programs of work. If such agencies are to be strengthened effectively, often such centrally located weaknesses need to be addressed first. Weaknesses in central personnel management systems often include:

² Taken from the World ADB's **Public Expenditure Management Handbook**

Employment conditions and organisational arrangements in a public service are often the responsibility of a central personnel agency.

Public service conditions and organisational arrangements are areas which are often barriers to institutional change. Many public services experience debilitating weaknesses because of the poor way personnel are managed.

Effective capacity building at the line agency level often needs to start with the conditions established for employment and personnel management in a public service.

- Codes of conduct paying insufficient attention to ethics and work practices and not being enforced in practice;
- Over centralised recruitment, transfer and promotion systems;
- Promotion systems based on seniority and not on merit;
- Inequitable recruitment discriminating against women and racial minorities;
- Inadequate sanctions against the unsatisfactory performer;
- Rigid and general job classification procedures;
- Over centralised approaches to organisational change;
- Low, uncompetitive pay scales;
- Inappropriate staff performance appraisal systems;
- Little attention paid to career planning.

C. Sector Work with Line Ministries, Agencies and Departments

Line agencies and other government enterprises operate within a “whole of government” context. They are established through legislation and are accountable to that legislative authority. They are part of a public sector and, therefore, must operate according to the rules, regulations and directives of the government operating through their own minister and the central agencies. Other government agencies usually operate within a sector portfolio which makes them responsible for some matters to the line agency under whose umbrella they are located. All report to a minister of state whose capacity to intervene directly in the day to day operations of an agency differs from country to country.

Essentially line agencies have four areas of activity, state owned enterprises two and other government owned enterprises between two and four depending on what they have been established to do (as illustrated in Figure 6). The broad activities are:

- policy and program development for their Minister and the government;
- regulating activities in a sector on behalf of the government for the benefit of players;
- delivering goods and services (also a state owned enterprise function) to designated recipients;
- providing corporate services which include accounting, personnel, information technology and other administrative functions (possessed by state owned enterprises) to operational divisions

Line agencies operate within a “whole of government” context. They are not self-contained isolates.

Line agencies have four principal activities:

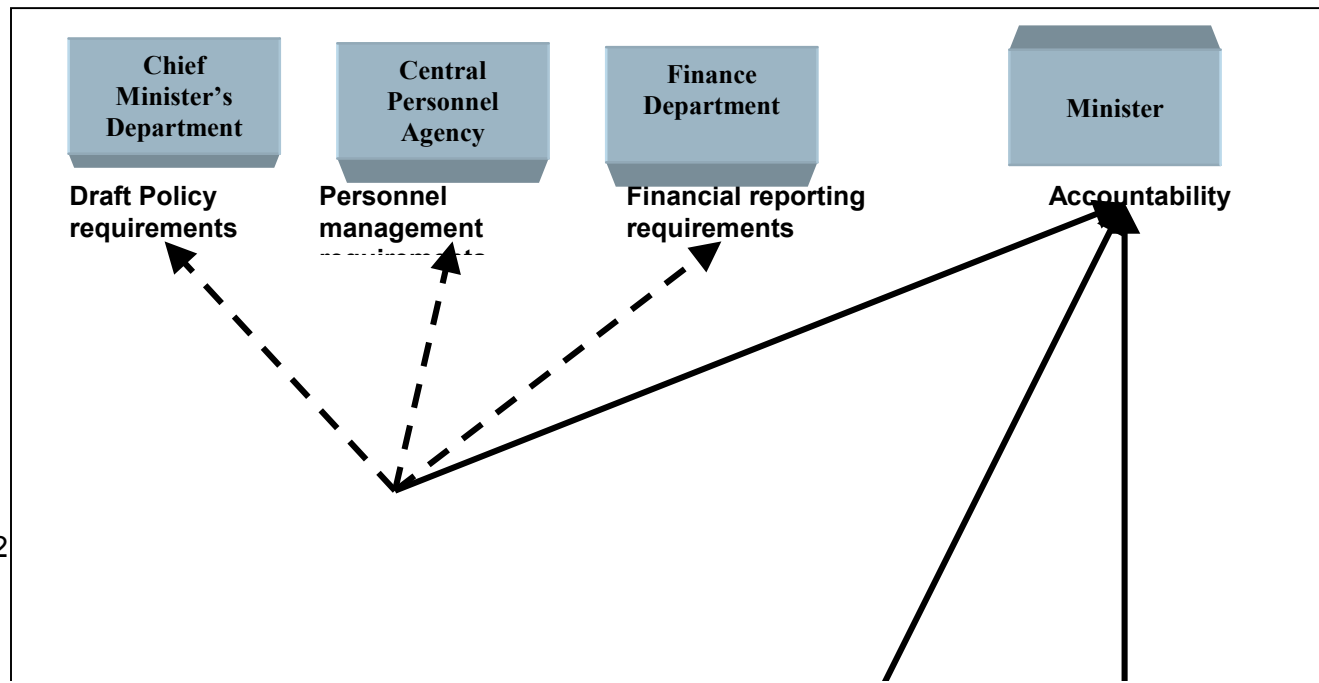
- **Policy and program development;**
- **Regulation;**
- **Provision of goods and services;**
- **Internal corporate services.**

within the agency.

Weaknesses found in line ministries and other agencies can include any of the following:

- Unclear goals. While the responsibilities assigned to a line ministry or agency are usually clearly stated in the statute establishing it, often these responsibilities are not reformulated as a clear set of goals which the agency needs to deliver;
- Incomplete analysis of stakeholder requirements. The two most prominent stakeholders in the public sector are the owner, (the government) and the customer, (that part of the population that the goals of the agency are targeted to benefit). Where customer needs and government objectives are in sharp contrast or in conflict, there is a strong case for policy change. A third important stakeholder in some countries are the staff associations or worker's unions within line agencies which often have vested interests in maintaining a status quo;
- Weak policy analysis. Draft policy papers, if they are made at all, lack thorough environmental analyses (that is the political, economic and social environments), detailed examination and comparison of alternative policies and inadequate cost/benefit analyses of each of the alternatives;

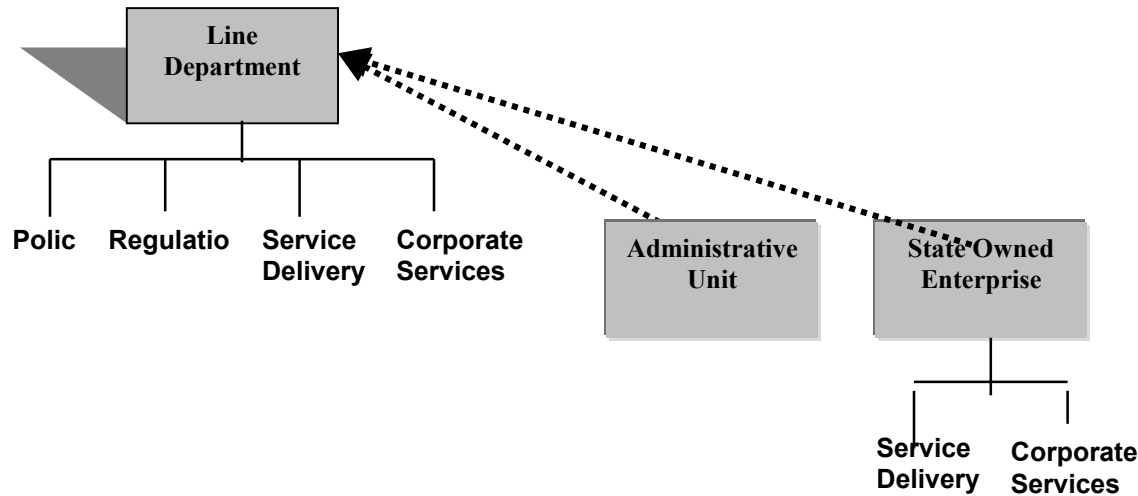
Figure 6: Ministerial Portfolios and Their Reporting Relationships



Line and other agencies report to their Minister who is broadly accountable to the national assembly for government performance in the sector.

Line and other agencies have reporting requirements to central agencies.

Other agencies usually have



- Absence of targeted plans and the key performance indicators which report achievement. The question: “How are we doing?” should be a very important one to management. The public sector, traditionally, has been much more interested in ensuring that funds allocated for inputs are applied to the designated inputs and not misappropriated for some other purpose than in ensuring that the inputs efficiently produce designated outputs and subsequent effective outcomes. The goals of an agency should identify the outcomes it expects to achieve. There are a number of key success factors which need to be done well if the outcomes are to be achieved. For management, knowledge of how well those success factors are attained enables it to manage its area of responsibility effectively. The success factors point to performance targets which should be identified in an agency’s corporate plan and annual budget. These targets, in turn, require measurement so their achievement can be monitored which in turn leads to the selection of key performance indicators which, when measured and reported, enable management to determine how well the key success factors are being addressed;
- Little systematic attention paid to strategies. Strategies in the sense used here are the means to attain given objectives. Consequently, they not only include the means chosen to deliver the goals of an organisation, but also, at a lower level, means to address problems that have been identified in an agency’s operations. A key strategic issue currently facing almost all public sector

Common weaknesses experienced by line agencies include:

- **Unclear goals;**
- **Incomplete analysis of stakeholder requirements;**
- **Weak policy analysis;**
- **Poorly targeted plans;**
- **Unequally developed strategies;**
- **Inappropriate organisational structures;**
- **Weak management competencies**
- **Inefficient processes;**

agencies, for example, is the most appropriate strategy to adopt for service delivery from a number of choices including outsourcing, doing it within the agency, devolving it to another level of government, privatising and the like;

- Inappropriate organisational structures. Agencies are often hamstrung by the organisation structure approved which need not be appropriate for the goals they have. They are hamstrung because their organisation structure is laid down by the central personnel agency. It is not uncommon for a central personnel agency to decree a common structure for all public sector agencies regardless of what sector they are in. A key requirement of any organisation structure is to ensure that each organisational unit is responsible for a discrete area of an agency's activities;
- Weak management. Good managers are rare in any walk of life. Good management, therefore, has to be groomed. That means that potential managers have to be identified at a reasonably early point in a career and developed in the requirements of good management. Systematic career planning starting at an early stage in a public servant's career is frequently neglected in the public sector. A future manager's experience is also often diminished by an unwillingness of senior management levels to delegate authority down through the organisation. Consequently, there is often a bureaucratic bottleneck, because senior managers want to be in charge of everything and require to see everything before action can be taken. Weak management is sometimes institutionalised by promotional systems being based on seniority and not on merit and by rules which make it extremely difficult to remove an underperforming manager;
- Inefficient processes. Processes are the set of activities which convert a series of inputs into an output. For example, the combination of a maintenance workforce, plant and equipment and materials like sand and cement produce measurable lengths of road maintenance. Poor sequencing of activities, plant left idle or frequently breaking down, materials not being available, overmanning – all are indicative of inefficient processes;
- Weak management information systems. Essentially information systems need to collect the information which management requires to plan future activities, to review performance and to meet the reporting requirements of the central agencies. Where key success factors and key performance indicators have not been identified, information systems are unlikely to produce the focused information that management needs to manage effectively. Much capacity building assistance has been directed at improving information systems, often before there is any demand from management for that information. Until there are strong incentives for managers to perform, information systems, however well they are designed and installed, are not likely to be used effectively;
- Dispirited organisational cultures. Organisational cultures are very important determinants of the

organizational health of an agency. Where staff perceive that they are powerless to make decisions, that good performance is rewarded in the same way as poor performance, that many decisions which affect them in the workplace are taken in an arbitrary way, that management seems more interested in pursuing agendas other than the delivery of the performance objectives set for them, that no one is clear of the performance standards expected of them, then there are problems with the organizational culture of the agency and dire consequences for the operational efficiency of the agency.

With the requirement for Projects Departments to develop databases on the capacity and strengths and weaknesses of individual agencies, comparative information will be produced. There will be a number of instances where some agencies do have strengths. Such experience might be used to assist other agencies in the same DMC or agencies in the same sector in other DMCs to develop their own capacities. The systematic collection of performance data will also enable benchmarking to be developed which could serve as a basis for agencies to learn from each other's experience and the ADB to see part of its development role as a broker of good ideas between DMCs.

D. Decentralization and Municipal Government

Within the Asia and Pacific region, urbanization is proceeding at a rapid pace. Demographers predict that the percentage of people living in Asian cities will increase steadily from a current level of 34% to 54% by 2025. Overall forecasts are for 1.5 billion new residents in Asian urban areas over the next 30 years. Asia is also currently home to 9 of the world's 14 "mega-cities" with populations over 10 million. These changing demographic patterns will place tremendous pressure upon many municipalities that are already struggling to provide critical goods and services, including a pollution free infrastructure, solid waste disposal, effective traffic management, appropriate town planning and affordable low income housing. The municipal level of government is an important level of government in the context of the ADB's goal of alleviating poverty in the region.

Many Asian governments are also considering or in the process of implementing ambitious decentralization programs. Such initiatives should provide a more responsive and effective service delivery, if done well. In terms of effectiveness, they do assume that the district level of government has a sufficient capacity to address its new responsibilities effectively. In DMCs where national level capacities are weak, the regional or district level tends to be much weaker. The relative poorer capacity at regional and district levels means that there is likely to be strong needs for improved governance and capacity building, which in turn might be exacerbated by the fact that the division of responsibilities between central, regional and municipal governments is not clear cut. The existence of such decentralisation programs will impose further requirements on the design of information databases for the ADB and increase the range of data which needs to be collected. (the devolution

Municipal government responsibilities are increasing significantly with the process of urbanisation occurring in Asia.

There is also a process of decentralisation of government responsibilities which is gathering pace in Asia.

of responsibilities to subsidiary tiers of government is illustrated in Figure 7).

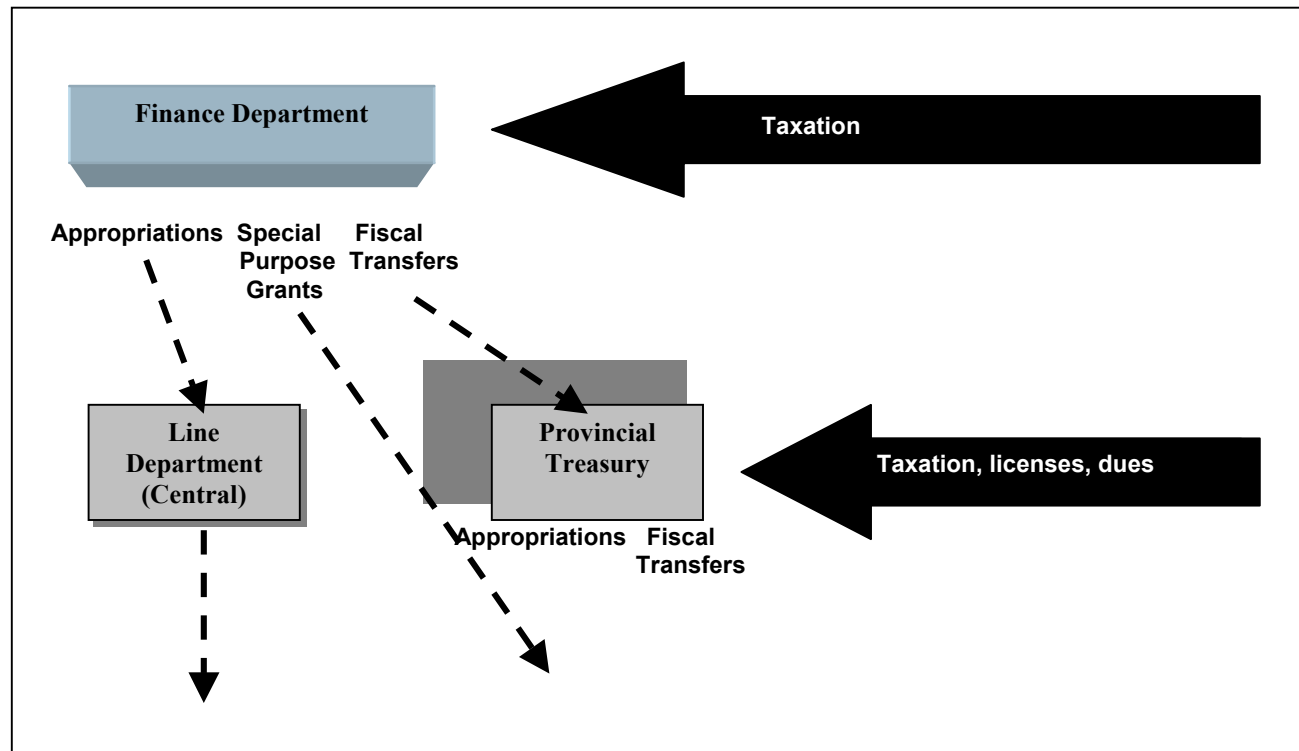
As responsibilities are devolved away from a national centre, the development of appropriate instruments for funding sub-national levels of government becomes very important. It is very easy to devolve responsibilities without providing sufficient finance to fund their achievement, especially as is the case in many DMCs, the cost of delivering a particular service is not known. Similarly, where there is endemic underfunding as frequently occurs with the operations and maintenance of infrastructure, the central government is simply transferring a significant overplanning problem to subsidiary levels of government which have even less capacity to deal with it effectively.

As the sub-national levels of government have a much stronger emphasis on service delivery, effective processes should be a particular objective of capacity building. Improving processes improves the cost and quality of the product delivered, and therefore its affordability. If the improvement is done well, it also makes the agency concerned more customer orientated. Local level improvements can be secured, often where the overarching management has a number of weaknesses, because staff at the district level are often recruited from the communities they serve and, consequently, are not waiting for an opportunity to transfer to a capital city. Focusing capacity building on process improvement might require a more intensive approach to staff development but is much more likely to produce competent operators prepared to remain in the area to serve their own local communities.

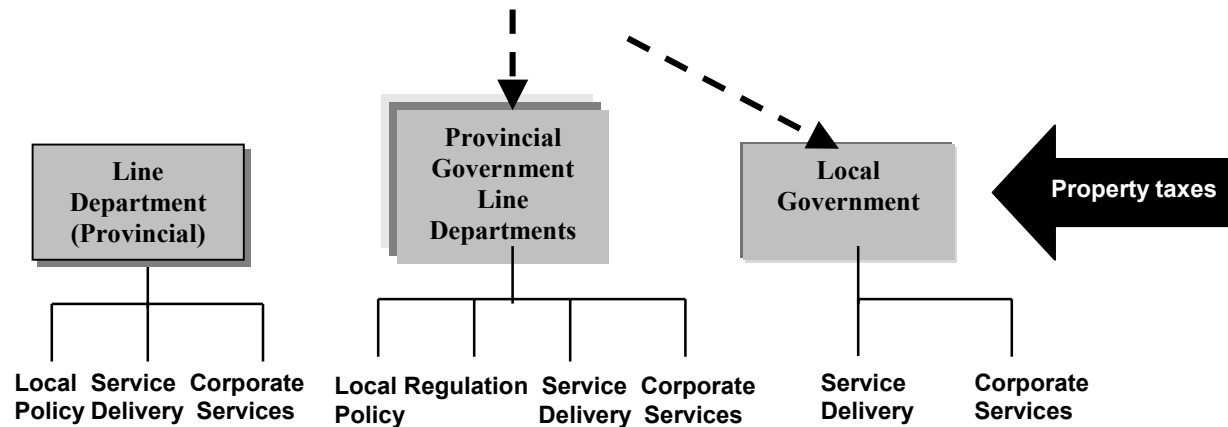
With decentralisation, the transfer of responsibilities must be accompanied with the transfer of sufficient funds to enable the subsidiary level of government to carry out these responsibilities.

Many of the weaknesses experienced by national level line agencies are also experienced by their decentralised counterparts.

Figure 7: Flow of Funds to Subsidiary Levels of Government



Raising of revenue and the flow of funds between different levels of government are major issues facing any government attempting to bring the management of services closer to the people.



VI. Public/Private Interface

Over the last decade, attitudes towards the role of the state in enhancing economic growth have shifted markedly which, as mentioned earlier, has led to a re-examination of the issue of what business a government should be in. Conventionally, emphasis was placed upon the state occupying a commanding position within the economy and serving as the engine for economic growth. However, an accumulating weight of evidence that state owned enterprises are on average less efficient than their private sector counterparts, combined with the rapid growth of East Asian economies and the extensive demands of loss making enterprises upon government budgets, have brought about a re-evaluation of this view.

In a sense, there are two broad opinions regarding the role of the state. One favours a traditional laissez faire approach, in which the state creates an enabling environment through sound macro-economic policy and transparent legal and regulatory frameworks and leaves fundamental decisions about investment and entrepreneurship to the private sector. The second considers that the state should play a more proactive role, developing certain industries where the nation has a comparative advantage or where it is in its strategic interests to do so. The state does this through policies such as protectionism, the awarding of public procurement contracts, the subsidized use of credit and in direct investment by the state itself in industries deemed important.

Whichever model is followed, it is generally accepted that governments should concentrate upon fostering an “enabling environment” for private sector growth. The elements of an enabling environment include a stable macroeconomic policy; transparent and predictable commercial and

The question of what services a state should provide and what should be left to the private sector is an issue of some contention.

The ADB seeks to engender the conditions which enable nations to establish an effective enabling environment for general economic growth.

investment codes; labor codes that avoid overly cumbersome restraints upon the hiring and firing of staff; a legal system that supports the timely and fair adjudication of disputes and a realization by government of the importance of corporate governance in the operations of the private sector. The enabling environment must be supported by bureaucracies that operate in an efficient and transparent fashion in providing access to critical goods and services, such as import and export permits, customs clearance, provision of land titles and access to utilities.

VII. Civil Society

An increasing body of research supports the argument that the robustness of civil society has an important impact upon government performance. The more the recipients of government programs believe that their opinions count and that they can materially influence the design and implementation of a program, the greater the probability that the programs will produce outputs of the required quality and the consequent policy outcomes desired.

The robustness of civil society has an important impact on government performance.

Governments can ascertain what their constituents need by asking them. Participation then plays an important role in informing a government of what it should do and, if the participation is really effective, how well the government is performing in terms of meeting those needs. Participation, used appropriately, is a powerful mechanism to bind government instrumentalities into a social compact with the people they are serving. Used inappropriately, participation can be an excuse for delays and inaction and a justification for serving the needs of vocal single interest groups and not the people most in need of the services.

Participation binds government agencies into a social compact with the people they serve.

The ADB's governance program places a premium upon participatory methods for project preparation and implementation. The types and modalities for participation vary depending upon the nature of the project and its objectives, as well as the broader social and cultural context in which it is being implemented. But as devolution of responsibilities to regions and localities becomes stronger, so the case for constituents participating in decisions which will directly affect them also becomes stronger. This can and is being done in many DMCs through devices like the establishment of school management committees in education and hospital boards comprising local citizens in health.

NGOs are an important part of civil society, particularly in the context of helping the poor. DMCs vary in the strength of their NGOs and the NGO movement. In many, they have been in the business of community development for a number of decades. The best NGOs have been enormously successful and, in countries like Bangladesh and India, a number enjoy a deserved international reputation. Conventionally, NGOs supply services to their constituents, financing them out of revenue acquired through grants from governments (both own and international), donations

In the social sectors, the work of NGOs is very important and should be included in any analysis of government performance in those sectors.

and appeals and various other revenue raising activities including merchandising. Grants are usually received on the basis of a broad service delivered to a targeted population like street kids, AIDS sufferers, the elderly and infirm and the rural poor. The grants usually provide a certain amount of discretion for the NGO to decide how it will meet its obligations. The services provided are invariably rich in terms of human support and, consequently, would not necessarily qualify as commercially efficient. When Government tries to provide a similar service, it is usually just as inefficient. In addition, it frequently is also ineffective.

The Bank has no instrument to provide grants directly to NGOs. As a consequence, where it is stipulated in a loan agreement that NGOs are to be used, the only instrument available is the contract. Hence NGOs are contracted by government agencies to provide certain services. Consequently, what NGOs are required to do is to provide a service for a fee. They tender in competition with other NGOs. Ostensibly, the lowest tender meeting the technical competency requirements (though other considerations clearly occur) wins the work. Crude commercial efficiency then becomes the major criterion for winning the work; not the less commercially orientated but much more important human and social qualities which are the bases for NGO success in the community development sector. As a consequence of these new opportunities, in some countries, there has been an efflorescence of so-called NGOs as entrepreneurs see new opportunities for making a profit. Consequently, analyses of social sectors need not only to examine the capacity and competence of government agencies but also the way in which the NGO sector is organised and be able to differentiate between those NGOs which are in the business of promoting socially worthy objectives and those which are simply in the sector to enable their owners to enjoy a higher standard of living.

VIII. Weaknesses in the Delivery of Projects

There are five prior conditions that must be satisfied if a project is to produce its desired outcomes. The first is that it contributes to a policy objective and the programs designed to achieve that policy objective of a government. That presumes that the ministry responsible for managing that sector of government activity has the capacity to assist the government to develop policy and subsequently to design effective programs to achieve those policy objectives. In many DMCs, that capacity is lacking in many sectoral ministries. The other four conditions relate to the capacity of a ministry or other government agency to build on what a project delivers. The conditions are:

- That the project actually delivers what the intended beneficiaries need. This seems an obvious condition but, surprisingly, not all projects deliver something that the beneficiaries do actually need. Sometimes a project is not consistent with a group of beneficiaries' priorities.

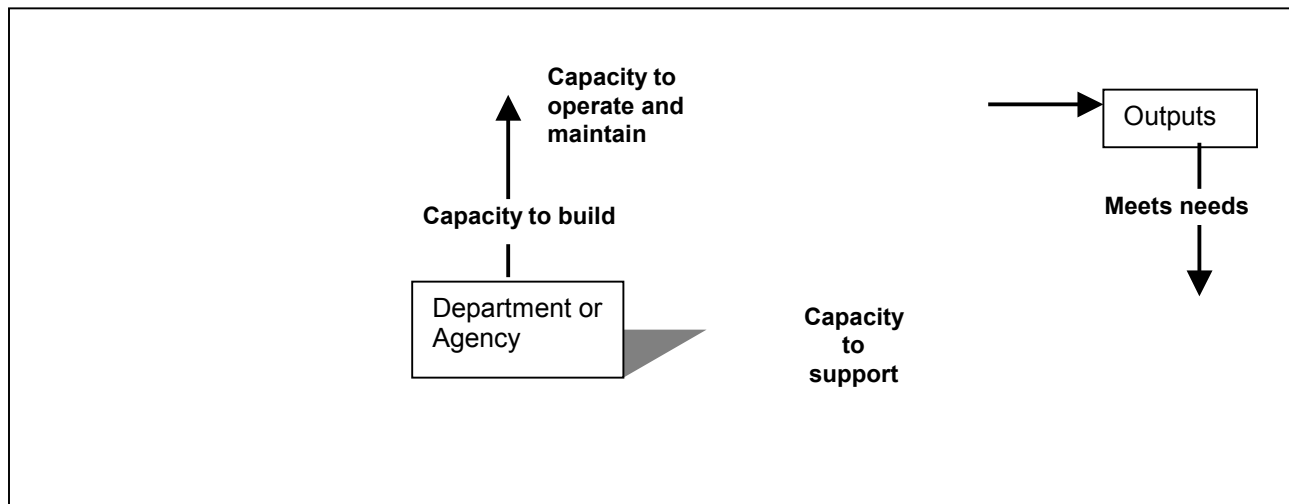
There are five conditions which need to be present for an effective project:

- **It fits with policy and program objectives of the DMC;**
- **It delivers a benefit the beneficiaries need;**
- **The delivery agency has the capacity to produce the benefit and to continue producing it after the completion of the project;**
- **The delivery agency has the capacity to continue to**

Sometimes it is something too big for the beneficiaries to manage like a deep tubewell. Sometimes it doesn't deliver what is intended to the beneficiaries – for example, potable water can be diverted by illegal connections and not reach the intended beneficiaries. Sometimes effective market research was not conducted and the product produces something the beneficiaries do not want;

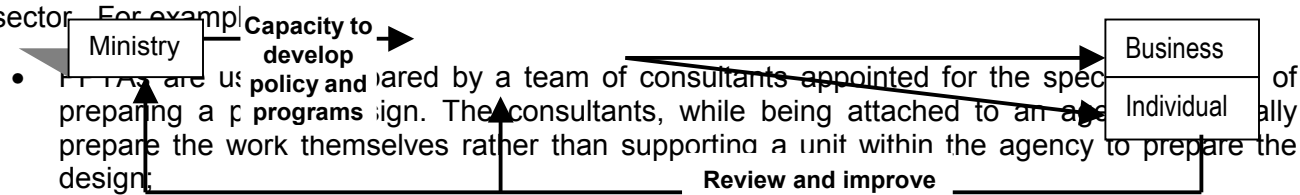
- That the agency has the capacity to construct an asset or produce a set of conditions designed to meet the needs of a given group of beneficiaries. Usually this condition is met through the expedient of establishing separate implementation units which are assisted by external consultants. Even then, there are occasions when the infrastructure or products fail to meet the design criteria set for the project;
- That the agency has the capacity to operate and maintain what the project provides. Infrastructure projects are the most notable projects which suffer from an inadequate operational capacity and insufficient resources to maintain an asset. There are many examples of capital works and machinery deteriorating from lack of maintenance;
- That the agency has the capacity to support the beneficiaries in their utilisation of the asset or what the asset produces. For example, schools can be built but the quality of teachers and teaching aids are not up to the task of teaching. Irrigation and social forestry can be provided but extension services do not support the beneficiaries in adopting new crops to the irrigation system or maintaining the trees provided.

Figure 8: Necessary Conditions for a Successful Project



Where these conditions are not met, projects generally are ~~less than satisfactory~~. The conditions themselves are often beyond the scope of a project design. **Infrastructure** they materially affect the effectiveness of a project. If the ADB is to improve its overall effectiveness of projects, consideration needs to be given to addressing these conditions where they are deficient.

Conventionally, the ADB tends to design and implement loan projects outside the ongoing organisation of the agency responsible for the broad set of government programs in a sector or sub-sector. For example



- **Ministry** are used by a team of consultants appointed for the specific purpose of preparing a project design. The consultants, while being attached to an agency, usually prepare the work themselves rather than supporting a unit within the agency to prepare the design.
- A discrete Project Implementation Unit is established within the implementing agency and charged with implementing the project. Such units tend to be detached from the ongoing work of the agency despite the fact that the agency will have to manage the outputs at a subsequent date. Their purpose is to implement the project, a requirement which rarely includes incorporating the ongoing support required to achieve the desired outcomes of the project in the ongoing business of the agency concerned.

Where capacity building is included in a project design, it frequently only addresses the implementation capacity of an agency neglecting the operational and beneficiary support capacities. Hence, while the design produces the physical requirements, often the capacity to manage, operate and support what has been produced is found to be deficient through time. The deficiencies result in the project failing to make the desired investment return. The people usually most affected by the less than optimal results are the poor.

Assuming the project produces the intended product to the required specification, reasons for subsequent less than desired results differ from project to project, but common ones include:

- Lack of resources in the recurrent budget to support the additional demands made by the outputs of a project. This is frequently so where the project includes a major construction element in it;
- There is political interference in important decisions affecting the continued management of a project (and, where a project does not meet specifications, there is political interference in the

The ADB tends to bypass the mainstream part of an agency in the design and implementation of a project:

- **Consultants design the project;**
- **Project Implementation Units are established to implement the project.**

Where capacity building occurs, it is focused on the off line implementation unit. While the implementation unit is able to complete the project, the agency finds it difficult to operate, maintain and support what has been produced.

There are a number of other reasons why agencies find it difficult to manage projects effectively.

implementation);

- Poor planning and priority setting by management resulting in the demands of the outputs of a project not being incorporated into the ongoing work of the agency. A frequent weakness is the lack of preparation by an agency of operational staff to manage a completed project;
- Inflexible personnel rules which result in inappropriate or insufficient staff being transferred to meet the demands of the outputs of the project (e.g. a new program);
- Inadequately trained or poorly motivated staff who are unable or unwilling to continue to do the work to achieve the outcomes targeted by a project;
- Staff trained by the project are promoted or transferred elsewhere or find that their market value has increased and move to the private sector;
- The project produces a set of circumstances which are not tailored to the actual requirements of the intended users or beneficiaries (the condition of not meeting the needs of the intended beneficiaries). Often, the agencies responsible do not modify the circumstances so that they do meet the needs of the intended beneficiaries. Project assets then deteriorate through disinterest in the outputs;
- An absence of any effective mechanisms to encourage performance and ensure that a project meets the target outputs and outcomes it is designed to achieve and so generate the investment returns that would justify the loan in the first place. Such mechanisms would include:
 - ◆ Performance criteria built into the budgets and annual work plans of the part of the agency responsible for managing the outputs of the project;
 - ◆ Regular reports of performance compared with targets;
 - ◆ desired results being incorporated into the performance targets of individual managers;
 - ◆ value for money audits on the effectiveness of the loan;
- Inwardly orientated agencies that have few incentives to implement government programs effectively and little concern for the intended beneficiaries of those programs. Often beneficiaries need continuing support to enable them to receive the intended benefits of a project;
- Bureaucratic cultures which are antagonistic to change resulting in new approaches being

resisted and undermined. Such resistance is often found in projects that are directly targeted at the poor.

If a project is to address all significant barriers to its being implemented successfully, it must first identify what those barriers are and then devise strategies to address and break them down effectively. Sometimes such barriers are outside the ambit and scope of a project. For example, failures of budgets to meet operational and maintenance requirements and of personnel departments to recruit the staff necessary to support the programs or activities produced by a project are outside the ambit of any project addressing opportunities in a sector. Such barriers need to be addressed by other projects or technical assistance and need to be considered in the overall strategy developed to produce better overall results in a particular DMC. Other barriers are internal to the sector and agencies concerned and can be addressed either directly by the project itself, by piggy-backed technical assistance, by stand alone technical assistance or by technical assistance funded by some other donor.

Some barriers to agency effectiveness are located in the central agencies.

Bureaucracies, historically, contained an in built inertia to change. The focus of senior management was often more on the power games within government for influence rather than on the basic functions for which they were established. This focus began to change in the 1980s with the introduction of such things as citizen's charters, performance contracts for managers based on quantifiable key result areas and the separation of policy functions from service delivery functions placing each in a separate administrative unit or agency. With the identification of quantifiable performance criteria, managers were given the opportunity to demonstrate not only a willingness to improve but a track record of improvement. These are the leaders and managers that a change program seeks if it is to have a good chance for success.

Some DMC agencies, particularly those which have introduced performance criteria to the way in which they are managed, possess managers who will champion change. Many, however, are resistant to change.

There are, however, still many bureaucracies which are rooted in the old ways and are quite resilient to any attempt to introduce changes designed to improve performance. These are the bureaucracies that are least able to drive the requirements of projects and achieve the desired outcomes. In general, such bureaucracies need careful attention before they are able to provide the supportive organisational environment in which a proposed project is likely to achieve its desired results and returns.

Essentially, a systematic assessment of a sector or sector institutions will reveal those bureaucracies that are proactive and warrant support as well as indicating the weaknesses of less effective bureaucracies. These latter sectors and institutions present significant risks to the effectiveness of a project unless their weaknesses are addressed. The proposed toolkits facilitate a systematic governance assessment of a sector and institution. In turn, that should enable project proposers to assess and address project risks that will lead to an improvement in the success rates

Systematic assessments of agency performance will reveal those agencies which would be receptive to programs of capacity building and those where it would be unlikely to produce any major change.

of ADB funded development initiatives.

IX. Benefits of Toolkits to ADB and DMCs

Toolkits have been designed to enable Bank staff to identify issues related to the way in which a government manages a sector which could have material influences on the likelihood of success or otherwise of a proposed project. They are designed to assist staff address the range of institutional issues which have, in the past, conspired to produce less than optimal outcomes for projects financed by the ADB.

A toolkit should be of value to:

- Programs staff in
 - ◆ preparing a prioritised program to produce more effective development assistance to a DMC;
 - ◆ assessing the preparedness of agencies to introduce the kinds of changes required to produce more effective development interventions;
 - ◆ evaluating priorities for development proposed by Projects Departments;
 - ◆ evaluating the capacity to change through time of a DMC and the agencies making up the government;
- Projects staff in:
 - ◆ preparing a situational analysis of a particular sector, a sub-sector or an agency working in a sector;
 - ◆ identifying the risks to effective implementation of a proposed project and where strategies should be developed to address those risks;
 - ◆ assessing the capacity of sectoral agencies to manage a development project and, if that capacity is weak, where loan and technical assistance activities might most effectively be first directed;
 - ◆ ensuring that PPTA consultants cover the management and broader whole-of-government issues which might influence the success or otherwise of a proposed project;
- Managers in reviewing project concept papers and subsequent RRP's to assure themselves

A toolkit has been designed to assist Programs and Projects staff do the assessments necessary to determine where governance and capacity building assistance is likely to bear fruit and where it is not.

that all potential risks have been assessed satisfactorily;

- DMCs in assessing the strengths and weaknesses of their management of a sector and determining those areas in which assistance might be most profitably directed in any broad change management or reform program.