

Annual Accomplishment Report on the Implementation of the Second Governance and Anticorruption Action Plan (GACAP II)

January–December 2013

Executive Summary

- **The Midterm Review of Strategy 2020 affirmed the urgency in promoting good governance in Asia and the Pacific.**
- **The 2013 implementation review of GACAP II found notable progress since 2006, but implementation needs to be strengthened.**
- **In 2013, ADB approved \$3.1 billion in operations in public sector management and governance, an increase of 27% from 2012.**

This accomplishment report summarizes progress made by the Asian Development Bank (ADB) in 2013 to implement the Second Governance and Anticorruption Action Plan (GACAP II).¹ The report provides an overall assessment of progress; accomplishments against the four key result areas (KRAs) of the GACAP II results framework; and the outlook and future focus of GACAP II implementation. The report is prepared by the Regional and Sustainable Development Department (RSDD), which has overall responsibility for coordinating and monitoring ADB's governance-related activities.

The purpose of GACAP II is to improve ADB's performance in implementing its governance and anticorruption policies in the sectors and subsectors where ADB is active, and to design and deliver better quality programs and projects. The 2013 review of GACAP II

¹ ADB. 2006. *Second Governance and Anticorruption Action Plan*. Manila.

implementation observed notable progress since 2006, but also identified several areas for strengthening.²

ADB's Strategy 2020 prioritizes good governance as a driver of change. The Midterm Review of Strategy 2020 found that weak governance and institutional capacities continue to constrain development prospects in many ADB developing member countries (DMCs), and prevent the benefits of growth being widely shared. Promoting good governance was affirmed as a key action to reduce poverty and achieve inclusive economic growth in Asia and the Pacific in 2014–2020.³

The Governance and Public Management Community of Practice (CoP)—an internal network for knowledge sharing and cross-departmental coordination—continues to play a crucial role in promoting governance issues in ADB operations, and supporting initiatives that strengthen GACAP II implementation.

Overall Assessment

ADB continues to work closely with its DMCs to strengthen governance and the quality of public institutions. In 2013, ADB approved \$3.1 billion in operations in public sector management (PSM) and governance. This was an increase of 27% from \$2.4 billion in 2012. In accordance with GACAP II, ADB prioritizes

² ADB. 2013. *Implementation Review: Second Governance and Anticorruption Action Plan*. Manila.

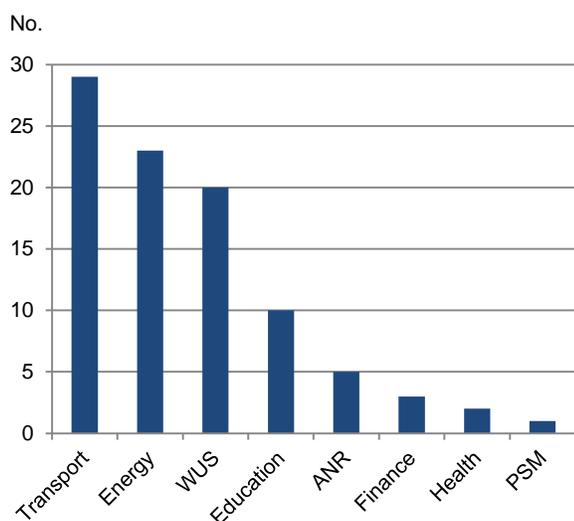
³ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

support for public financial management (PFM) and procurement reforms, and measures to combat corruption.

Strengthening governance through e-solutions is fast becoming another promising new area owing to advances in information and communication technologies. E-governance is showing increasing positive results in terms of institutional development, including improved services from government to government, government to business, and government to citizens.

In 2013, RSDD reviewed implementation of GACAP II (footnote 2). The review found notable progress in mainstreaming governance in ADB operations. Governance risk assessments and risk management plans (RAMPs)—the chief operational instrument of GACAP II—were prepared in 34 DMCs since 2006, with 33 country-level and 93 sector-level RAMPs completed. Figure 1 provides a sector comparison of completed RAMPs.

Figure 1: Completed Sector-level RAMPs since 2006



ANR = Agriculture, Natural Resources, and Rural Development, PSM = Public Sector Management, WUS = Water and Other Urban Infrastructure and Services

The GACAP II review calls for simplified business processes, and strengthened analysis of institutional and governance

arrangements in DMCs. The review made six recommendations:

- (i) Streamline and simplify the GACAP II implementation approach at country, sector, and project levels;
- (ii) Strengthen integration of RAMP findings in country partnership strategy (CPS) and project processes;
- (iii) Strengthen organizational oversight arrangements for GACAP II, including revising staff guidance on implementing GACAP II;
- (iv) Prioritize resources for GACAP II implementation;
- (v) Increase DMC ownership of the process and content of RAMPs; and
- (vi) Strengthen ADB staff skills, training, and incentives in applying GACAP II.

Accomplishments Against KRAs

KRA 1—Improve identification and management of governance, institutional, and corruption risks in country partnership strategies (CPSs), midterm reviews of CPSs, and country portfolio review missions (CPRMs)

During the reporting period, country and sector level RAMPs were completed in seven DMCs to inform respective CPSs—Armenia, Azerbaijan, Bhutan, Georgia, India, Kyrgyz Republic, and Nepal.

Following the 2013 approval of the Procurement Governance Review, the Operations Services and Financial Management Department (OSFMD) improved its approach to governance through procurement risk assessments that culminated in 2014 with the approval of the Procurement Reform 10 Point Action Plan.

CPRMs serve an important function in monitoring governance risks at the country- and sector-level. For CPRMs reported in 2013—Azerbaijan, Cambodia, Georgia, India, Indonesia, Lao PDR, Nepal, Uzbekistan, and Viet Nam—the governance issues commonly experienced were procurement-related corruption risks and contract management

issues, and shortcomings in PFM and general project readiness. Weak institutional capacity of project executing agencies (EAs) and implementing agencies (IAs) was also cited in many jurisdictions.

The Tripartite Country Portfolio Review Meeting (TPRM) exercise in India is notable for its inclusiveness of stakeholders, intensity of dialogue, and effectiveness in steering improvements in project performance. An early warning flag rating system for assessing project performance—wherein projects are rated with green, yellow and red flags based on implementation progress—has proved to be simple but effective.

Actions are being taken to address governance risks. DMC officials received training in financial management and procurement. DMCs' PFM and procurement systems and procedures were strengthened with ADB technical assistance. More stringent business processes in bid evaluation, project financial reporting, and audit to improve quality and timeliness were implemented in some jurisdictions. ADB also intends to increase the use of country systems for PFM and procurement when appropriate. For example, progress was made in Indonesia and Lao PDR to harmonize ADB and government procurement procedures.

GACAP II promotes ADB delivering its governance programs in collaboration with development partners. In Nepal, the Department for International Development (DFID) of the United Kingdom and European Union co-financed the Strengthening Public Management Program. The DFID-ADB Partnership for India supports 30 component TA projects especially in weak-capacity states that contribute to project readiness and capacity development. ADB is also working with the World Bank and other development partners to harmonize external audit procedures for donor-financed projects in Southeast Asia DMCs—Cambodia, Lao PDR, Myanmar, the Philippines, and Viet Nam.

Governance subprojects financed by the Governance Cooperation Fund (GCF) were

launched in Cambodia, the Philippines, and Viet Nam in 2013.⁴ The subprojects directly support GACAP II by implementing governance risk mitigation measures identified in RAMPs at all levels. GCF also financed long term national governance consultants located in ADB's resident missions in Cambodia and Nepal.

In 2013, the ADB/OECD Anti-corruption Initiative for Asia and the Pacific held its 12th regional seminar in Timor Leste on strengthening anticorruption agencies and whistleblower protection. A study on corporate compliance, internal controls and ethics measures to prevent and detect corruption in the initiative's 31 member countries was launched.

KRA 2—Strengthen governance and anticorruption components in program and project design

In 2013, project-level RAMPs were prepared for 30 projects in Southeast Asia DMCs, 25 projects in South Asia DMCs, and 12 projects in Pacific DMCs. RAMPs were also prepared for projects in Azerbaijan, Pakistan, the People's Republic of China (PRC), and Uzbekistan.

There is evidence of project-level RAMPs improving project design. This is true for fiduciary oversight arrangements. Where PFM and procurement shortcomings are assessed as risks to project performance, appropriate risk mitigation measures are integrated in project designs. Examples cited during the reporting period are the Infrastructure Sustainability Support Program in Armenia, Skills for Employment Investment Program of Bangladesh, Flood Damage Emergency Rehabilitation Project in Cambodia, Nepal's Skills Development Project, the Benazir Income Support Program in Pakistan, and Education Sector Development Program in Sri Lanka.

⁴ GCF is a multi-donor trust fund established in 2001 to support DMC-led governance reforms. GCF is managed by ADB with financing by the governments of Canada, Denmark, Ireland and Norway.

KRA 3—Strengthen program and project administration and portfolio management

ADB's regional departments supported capacity development of EAs and IAs in many DMCs during the reporting period to strengthen project administration. This includes training EA/IA officials in ADB's procurement, financial management, and safeguards procedures as well as exposing DMC officials to international standards in accounting and audit. For Pacific DMCs, training was conducted in Fiji, Kiribati, Papua New Guinea, Samoa, Solomon Islands, and Tonga.

Complementing the efforts of regional departments, OSFMD trained 577 DMC officials to improve capabilities in project implementation. There was a heightened emphasis on project financial management, analysis, reporting, and auditing during 2013, including new guidance and business processes, and the appointment of additional financial management staff in regional departments.

The Office of Anticorruption and Integrity (OAI) held anticorruption seminars in Afghanistan, Bangladesh, Cambodia, the Philippines, and Viet Nam attended by over 400 representatives from DMC governments, civil society, and the private sector. OAI also conducted three forensic accounting workshops for more than 150 auditors and investigators from Bangladesh, the Philippines, and Viet Nam.

OAI conducted seven project procurement-related reviews (PPRRs) in Azerbaijan, Lao PDR, Nepal, Pakistan, and PRC. PRRs assess project vulnerability to fraud and corruption. OAI also experienced a dramatic increase in requests for advice on integrity and money laundering/financing of terrorism risks—from 15 in 2012 to 253 in 2013. With OAI assistance, project teams identify potential integrity and reputational risks that would have adverse impact on ADB projects.

Project supervision missions—a crucial mechanism for monitoring governance risks—are jointly done with other funding agencies, particularly for co-financed activities, to

improve coordination among the agencies and to minimize transaction costs. Joint missions reported in 2013 were in Bangladesh, Cambodia, Nepal, and Viet Nam.

KRA 4—Improve organizational structure, human resources, and access to expertise

The Governance and Public Management CoP—whose membership has reached some 200 staff from various departments and resident missions—continues to provide effective oversight of GACAP II implementation. The CoP serves several functions, including a network for knowledge sharing and cross-departmental coordination, project peer reviews, and promoting learning and development on governance related themes. With the support of the CoP Secretariat located in RSDD, the CoP conducted peer reviews of 11 PSM loans/grants and 13 technical assistance projects in 2013.

Knowledge products contributed to raising staff awareness of GACAP II, and of governance issues in DMCs. In 2013, ADB published a learning lessons report on mitigating governance risks in the education sector; guidance note on using political economy analysis for ADB operations; guide for Pacific policy makers on corporate planning in the public sector; guide for results-based management frameworks in the Philippines; policy brief on good practice in budget management in the Cook Islands, Kiribati, and Tonga; and report on outsourcing procurement in the public sector.

A partnership between the Governance and Public Management CoP and Lee Kuan Yew School of Public Policy, National University of Singapore produced five research papers in the areas of fiscal decentralization, financial inclusion, public-private partnerships (PPPs) in the water sector, health sector governance, and natural resources management.

ADB staff skills in governance, particularly in the priority areas of PFM, procurement, and corruption prevention, were enhanced through the following learning and development events:

- (i) The Governance and Public Management CoP organized module two of the Governance and Public Management Learning Program in 2013, and a workshop on incorporating political economy analysis in ADB operations;
- (ii) OSFMD conducted 75 training sessions in 2013 to increase capabilities in project implementation. The 2,859 participants included ADB staff, DMC officials, consultants and suppliers; and
- (iii) As of 31 December 2013, 720 staff have completed e-learning and anticorruption briefing sessions as part of induction. OAI's course on anticorruption and integrity is a mandatory component of inducting staff to ADB.

ADB has a "zero tolerance" policy towards corruption in its projects and the conduct of its staff. In 2013, OAI received 250 new complaints of integrity violations and opened 92 investigations, mostly related to ADB-financed, -administered, or -supported activities. ADB sanctioned 20 firms and 19 individuals in 2013, and submitted the names of 14 firms and 18 individuals for cross debarment.

The iACT campaign in 2013 focused on the efforts of ADB resident missions and DMCs in strengthening countries' integrity systems and anticorruption activities, and introduced civil society engagement in ADB's anticorruption efforts.⁵ A week-long celebration in December 2013 to coincide with International Anti-Corruption Day included seven learning and awareness raising events.

Outlook for GACAP II Implementation

The Midterm Review of Strategy 2020 found that country-, sector- and project-level plans to assess and manage governance risks require systematic improvement (footnote 3). Implementing the recommendations of the 2013 GACAP II review is therefore a corporate

⁵ ADB's iACT campaign raises awareness of the professional obligation and personal responsibility of all ADB staff to prevent fraud and corruption in ADB operations and activities.

priority and is included in the Strategy 2020 Midterm Review Action Plan.⁶ Revised staff guidance on implementing GACAP II will be completed in 2014 to assist regional departments strengthen the quality of RAMPs.

Resources for GACAP II implementation and PSM operations in DMCs are also prioritized in the Strategy 2020 Midterm Review Action Plan. More resources should help ADB respond to the 2013 Development Effectiveness Review, which rated governance and/or capacity development off track in 2011–2013 owing to the declining number of operations supporting governance and/or capacity development. The analyses of the project pipelines for 2014–2016 indicate operations supporting governance and capacity development are expected to increase to 57% by number of operations and 51% by financing volume.⁷

In coordination with RSDD, the Governance and Public Management CoP must continue to lead the promotion of governance issues in ADB operations. Initiatives that strengthen GACAP II implementation such as learning and development, and awareness raising efforts for ADB staff and DMC governments should be a focus in 2014, and beyond.

The Independent Evaluation Department's forthcoming Special Evaluation Study on ADB support for enhancing governance in its public sector operations aims to provide guidance to strengthen the effectiveness of future work in this area. The study will assess three major areas of ADB's broad governance agenda: PSM operations; support for enhancing governance and capacity in core infrastructure sectors; and implementation of GACAP II, focusing at the project level. The study is scheduled for completion in 2014.

This report benefited from the contributions of ADB's five regional departments, OAI, OSFMD, and RSDD.

⁶ ADB. 2014. *Midterm Review of Strategy 2020 Action Plan*. Manila.

⁷ ADB. 2013. *Work Program and Budget Framework 2014–2016*. Manila