

OPERATIONS MANUAL POLICIES AND PROCEDURES

These policies and procedures were prepared for use by ADB staff and are not necessarily a complete treatment of the subject. This Operations Manual is issued by the Strategy, Policy and Partnerships Department with the approval of the President and is subject to compliance review. Questions may be directed to the Chief of Governance Thematic Group, Sustainable Development and Climate Change Department.

GOVERNANCE

A. Scope

1. The Asian Development Bank (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 ADB's poverty reduction strategy. The governance policy is the foundation for a cluster of other ADB policies on procurement, participation of civil society (nongovernment organizations, community-based organizations, the private sector, research institutions, and academia), anticorruption reform, and public communications.

2. ADB's policy is guided by the provisions of the Agreement Establishing the Asian Development Bank (the Charter) as they relate to governance. The capacity of the institutional environment in ADB's developing member countries, in which citizens interact among themselves and with government agencies and officials, helps to determine the impact of economic policies adopted by the government and, therefore, affects the development process. Governance is concerned directly with management of the development process. The capacity of the institutional environment and the quality of governance it reflects are a vital concern for all governments and ADB.

3. ADB's approach to governance issues is guided by the provisions of its Charter. Article 36 of the Charter explicitly excludes political activities and considerations and therefore, ADB cannot act as an agency for political reform. Article 36 requires that only "economic considerations" will be relevant to decisions made by ADB. However, if on purely economic grounds ADB considers an action or measure worth supporting, it may do so even if the action or measure may have political implications. ADB's work on governance, therefore, will follow this pragmatic approach. Differences in political history have resulted in a diversity of political systems and institutional cultures in the Asia and Pacific region. None of these can claim to have any comparative advantage from the point of view of governance.

B. Definition

4. The policy defines "governance" as "the manner in which power is exercised in the management of a country's economic and social resources for development."¹

¹ ADB. 1995. *Governance: Sound Development Management*. Manila. para. 4.

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C. The Policy

5. ADB regards good governance as synonymous with sound development management. It involves both the public and private sectors. It includes the effectiveness with which development assistance is used, and has a direct effect on the impact of development programs and projects (including those financed by ADB). Sound development management, among other things, takes into account the absorptive capacity of borrowers. Irrespective of the economic policies adopted by a government, good governance is essential to ensure that these policies have their desired effect.

6. The policy identifies four basic elements of good governance, which are all closely linked and mutually reinforcing.

1. Accountability

7. Accountability means making public officials answerable for government behavior and responsive to the entity from which they derive their authority. ADB views accountability more broadly than just the internal governance of the public sector. It also means establishing criteria to measure the performance of public officials, as well as oversight mechanisms to ensure that the standards are met, including through the rule of law and the judiciary. Over time, lack of accountability tends to reduce the state's credibility as an economic partner. It undermines the capacity of governments to sustain the long-term business confidence essential for growth-enhancing private sector investment. Without accountability practices as part of good corporate governance, state enterprises and the private sector will not flourish.

8. Economic accountability relates to the effectiveness of policy formulation and implementation and the efficiency of resource use. Financial accountability covers accounting systems for expenditure control, and internal and external audits.

2. Participation

9. The principle of participation derives from an acceptance that people are at the heart of development. They are its ultimate beneficiaries, and the agents of development, acting through groups or associations, and as individuals. Participation implies that government structures are flexible enough to offer beneficiaries and others affected the opportunity to improve the design and implementation of public policies, programs, and projects.

10. Participation in economic life by agents other than the state includes the role of the private sector and civil society organizations (CSOs) in working with governments. CSOs offer an additional and complementary means of channeling the energies of private citizens. CSOs can be helpful in identifying people's interests, mobilizing public opinion in support of these interests, and organizing action accordingly. They can provide governments with a useful ally in enhancing participation at the community level and fostering a "bottom-up" approach to economic and social development.

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3. Predictability

11. Predictability refers to (i) the existence of laws, regulations, and policies to regulate society; and (ii) their fair and consistent application. The rule of law encompasses well-defined rights and duties, as well as mechanisms for enforcing them and settling disputes in an impartial manner. These legal frameworks are essential for economic actors in government and the private sector to make rational investment decisions, and also to ensure that all individuals have equal access to opportunities, and are equally protected in participating in economic activities. A predictable regulatory framework helps firms to plan their activities effectively and to forecast the return on their investments with greater confidence.

4. Transparency

12. Transparency refers to the availability of information to the general public and clarity about government rules, regulations, and decisions and how these affect both public and private sector functioning. Thus, transparency complements and reinforces predictability.

13. Access to accurate and timely information about the public and private economy can be vital for economic decision making by the private sector. Transparency in government decision making and public policy implementation reduces uncertainty and helps inhibit corruption among public officials. To this end, rules and procedures that are simple, straightforward, and easy to apply are preferable to those that provide discretionary powers to government officials or are susceptible to different interpretations.

Basis: ADB. 1998. *Anticorruption Policy*. Manila.

ADB. 1995. *Governance: Sound Development Management*. Manila.

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ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

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