



**STRATEGY 2030
OPERATIONAL PLAN FOR PRIORITY 6
STRENGTHENING GOVERNANCE
AND INSTITUTIONAL CAPACITY,
2019–2024**

SEPTEMBER 2019

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Operational Priority 6

Strengthening Governance and Institutional Capacity

- Increase cross sectoral collaboration within ADB and beyond
- Increase use of lending instruments, such as PBLs and RBLs
- Enhance operational processes
- Promote digital technology advancements
- Strengthen collaboration with civil society organizations

Strategic Operational Priorities

Operational Approaches

Sub-pillars

1

Public management and financial stability enhanced



1. Domestic Resources Mobilization
2. Public financial management, expenditure and fiscal policies, adequate fiscal space for service delivery



3. Support for private sector development



4. Macro-fiscal stability
5. Strengthened subnational governments capacity



6. SOE reforms
7. Improved legal and judicial institutional capacity



8. Strengthened financial management and procurement systems



9. Anticorruption and integrity measures



10. Strong statistical institutions

11. Environmental and social safeguards

2

Governance and institutional capacity for service delivery improved

3

Country systems and standards effectively utilized

- Capacity of public organizations to design and/or implement targeted policy reforms improved
- Capacity of public organizations to promote private sector and financial sector development improved
- Capacity of relevant authorities to maintain monetary and/or fiscal stability improved
- Capacity of public organizations to manage public finances strengthened
- Capacity of nonsovereign financial viability improved
- Capacity of public organizations to strengthen standards for better service delivery enhanced
- Capacity of subnational entities improved, and provision of services decentralized
- Governance and efficiency of state-owned enterprises improved
- Citizen engagement increased

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ABBREVIATIONS

ADB	–	Asian Development Bank
CPS	–	country partnership strategy
CSF	–	countercyclical support facility
CSO	–	civil society organization
DMC	–	developing member country
FCAS	–	fragile and conflict-affected situations
GACAP II	–	Second Governance and Anticorruption Action Plan
GAR	–	grant assistance report
IED	–	Independent Evaluation Department
IMF	–	International Monetary Fund
LIC	–	low-income country
LMIC	–	lower middle-income country
NGOC	–	NGO and Civil Society Center
OECD	–	Organisation for Economic Co-operation and Development
PBL	–	policy-based lending
PCR	–	project completion report
PPP	–	public–private partnership
PSM	–	public sector management
RBL	–	results-based lending
RRP	–	report and recommendation of the President
SDG	–	Sustainable Development Goal
SIDS	–	small island developing states
SOE	–	state-owned enterprise
TA	–	technical assistance
TAR	–	technical assistance report
TCR	–	technical assistance completion report
UMIC	–	upper middle-income country

STRATEGIC OPERATIONAL PRIORITIES

A. Overview

1. Achieving the vision of Strategy 2030 of the Asian Development Bank (ADB) for a prosperous, inclusive, resilient, and sustainable Asia and the Pacific requires effective governance and improved institutional capacity in ADB's developing member countries (DMCs).¹ Asia and the Pacific is home to more than 264 million people living in extreme poverty, and income inequality is on the rise, with nearly 80% of the region's population living in DMCs with widening inequality. Many DMCs still face governance issues, including poor public services, weak government institutions and capacity, and corruption. Corruption costs the world \$3.6 trillion globally every year.² The region needs governance and institutional reforms to sustain development momentum and ensure the benefits of growth are equitably and widely shared. ADB, as a leading development partner to the region, plays an important role in helping the region achieve this objective.

2. Strategy 2030 sets the course for ADB operations with guiding principles for providing integrated solutions, combining expertise across a range of sectors, tailoring a country-focused approach to specific local circumstances, and using innovative technologies across ADB operations. These principles relate directly to ADB's work on governance and institutional development in DMCs.

3. People and businesses mostly experience governance and the public sector through services they receive, and there is increasing public scrutiny over the inefficiency and lack of accountability and transparency of governments. Strategy 2030 commits ADB to promoting effective, timely, and corruption-free delivery of public services, which requires designing and implementing results-based policies aimed at delivering better services delivery, including those that are more participatory and gender and socially inclusive. ADB will work more closely with civil society and citizen networks to ensure accountability, transparency, and inclusivity. Meaningful citizen engagement and governance and institutional capacity efforts are critical because they help determine whether well-intentioned policies lead to desired development outcomes and meet citizen expectations.

4. Countries with sound policies and regulations, effective public services, and the ability to control corruption develop more quickly and sustainably.³ The quality of governance is linked with the quality of growth, including addressing poverty and inequality.⁴ According to ADB's country

¹ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

² United Nations. 2018. *UN News*. <https://news.un.org/en/story/2018/12/1027971>.

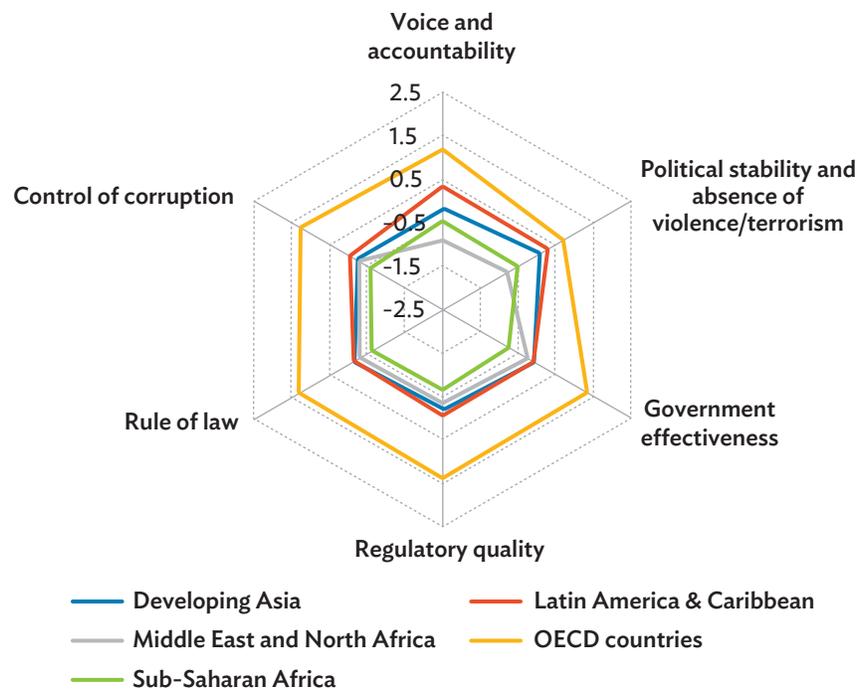
³ ADB. 2013. *Asian Development Outlook 2013 Update: Governance and Public Service Delivery*. Manila.

⁴ V. M. Fritz, M. Verhoeven, and A. Avenia. 2017. *Political Economy of Public Financial Management Reforms: Experiences and Implications for Dialogue and Operational Engagement* (English). Washington, DC: World Bank Group. <https://openknowledge.worldbank.org/bitstream/handle/10986/28887/121436-15-11-2017-18-52-15-NTDofPFMReformsReportWeb.pdf?sequence=5>.

performance assessments, governance and institutional performance in Asia and the Pacific have gradually improved in 2010–2018.⁵ Performance has varied among subregions and DMCs, but most performed better in budgetary and financial management and revenue mobilization when a lot of attention was placed on policy reforms, technical solutions were widely available, and development partners were actively engaged. Many countries still contend with issues regarding public administration capacity, transparency, accountability, and corruption in the public sector, and enforcing property and contract rights. Poor governance and the lack of citizen voices are significant factors behind the generally poor quality of public services and inadequate access to services by the poor.⁶

5. Despite Asia and the Pacific showing signs of better governance and institutional capacities, problems persist in some DMCs and the region continues to be behind others in the world (Figure 1). Using the Worldwide Governance Indicators, a data set of perception-based relative governance performance, developing Asia and the Pacific continues to lag behind other regions—including peer regions such as Latin America—in governance performance.⁷

Figure 1: Worldwide Governance Indicators (WGI) Performance by Region, 2017



OECD = Organisation for Economic Co-operation and Development.
Source: Worldwide Governance Indicators and ADB staff estimates.

⁵ Country performance assessments are conducted for DMCs with access to the Asian Development Fund and concessional ordinary capital resources and link the allocation of concessional finance to country policy and institutional performance.

⁶ A. Deolalikar, S. Jha, and P. Quising. 2015. *Governance in Developing Asia: Public Service Delivery and Empowerment*. Cheltenham, UK: Edward Elgar.

⁷ World Bank. Worldwide Governance Indicators. <http://info.worldbank.org/governance/wgi/index.aspx#home>.

6. By prioritizing the strengthening of governance and institutional capacity in DMCs, ADB is aligning its aspirations for Asia and the Pacific with the global commitments of the 2030 Sustainable Development Goals (SDGs).⁸ The dedicated SDG 16 on governance recognizes the unfinished governance agenda worldwide and calls on countries to build effective, accountable, and inclusive institutions at all levels; promote the rule of law; enhance government transparency; and reduce corruption. SDG 17 includes targets to strengthen domestic resource mobilization, enhance access to technology and innovation, and build capacity in developing countries. ADB will assist DMCs with achieving these and all the other SDG goals, especially in areas where ADB makes significant investments. Like the SDGs, ADB recognizes that better governance is not just a development outcome in itself but serves as an enabler to achieve the other SDGs. Governance and sustainable development outcomes are intrinsically linked, and a country's governance, institutional capacity, and performance affect its achievement of the SDGs.

7. Localizing the SDGs has gained global attention as subnational contexts are considered. Localization relates to how local governments can support the achievement of the SDGs and to how the SDGs can provide a framework for local development policy.⁹ The experience of developed countries suggests that, as the economy and population grow and urbanization increases, a greater share of public investments and spending will occur at the local level.¹⁰ National governments are typically responsible for clarifying functional assignments and intergovernmental fiscal relations, and ensuring capacity development for lower levels of government, whereas subnational governments are closer to citizens and well placed to provide opportunities for the poor and marginalized to be heard.

8. The global commitment to governance is included in other forums and initiatives that ADB supports. In 1999, ADB and the Organisation for Economic Co-operation and Development (OECD) established the Anticorruption Initiative for Asia and the Pacific to support ADB members in implementing the United Nations Convention against Corruption and to strengthen anticorruption policies and institutions. In 2016, ADB joined more than 30 countries and international organizations to support the Addis Tax Initiative, which aims to boost capacity in tax efforts and to counter cross-border tax avoidance through tax cooperation in support of the SDGs. ADB works closely with the Financial Action Task Force, Global Forum on Transparency and Exchange of Information for Tax Purposes, and the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting. The Open Government Partnership, of which ADB became a multilateral partner in 2014, provides an international platform for countries committed to making their governments more open, accountable, and responsive to their citizens. ADB is also a long-time partner to the Extractives Industries Transparency Initiative, which provides the global standard for the open and accountable management of extractive resources.

9. In infrastructure development, the importance of infrastructure governance over the narrower infrastructure finance agenda is gaining increasing recognition. This agenda encapsulates strategic initiatives such as the G20 Principles for Promoting Quality Infrastructure Investment endorsed at the G20 Osaka Summit (Appendix 3). Quality infrastructure investment combines financing with

⁸ United Nations. Sustainable Development Goals. <http://www.un.org/sustainabledevelopment/sustainable-development-goals>.

⁹ Global Taskforce of Local and Regional Governments. 2016. *Roadmap for Localising the SDGs: Implementing and Monitoring at Subnational Level*. https://www.uclg.org/sites/default/files/roadmap_for_localizing_the_sdgs_0.pdf.

¹⁰ ADB. 2017. *Regional: Technical Assistance for Strengthening Institutions for Localizing Agenda 2030 for Sustainable Development*. Manila.

knowledge solutions and the adaptation of new technologies as part of a value-addition proposition. It also recognizes the various dimensions of infrastructure development across public and private sectors, regulatory framework, financing solutions, and implication for service delivery. This broader approach to infrastructure development also considers things such as possible spillovers, the importance of mitigating the risks of debt buildup, and the effect on the environment. Developing integrated solutions with other governance goals, such as enhancing domestic resource mobilization and improving debt management and capacity, will be crucial for sustainable infrastructure development.

B. ADB Experience and Initiatives

10. ADB prioritizes governance and institutional capacity and included it in its governance policy,¹¹ its subsequent actions, and in its Strategy 2020.¹² The Second Governance and Anticorruption Action Plan (GACAP II) has guided ADB operations since 2006,¹³ and prior to 2006, ADB's governance and anticorruption policies guided its operations. However, Strategy 2030 sets a new course by refocusing ADB's operational plan and approaches, and ensuring ADB stays relevant given the region's rapidly evolving development needs.

11. **Defining governance and institutional capacity.** The ADB governance policy defines governance as the way in which power is exercised in the management of a country's economic and social resources for development. ADB's concept of governance—and the closely related concept of institutions¹⁴—concerns management of the development process in public and private sectors. Governance encompasses the capability of the public sector and how it engages with the private sector.¹⁵ It is also framed by the institutional environment, composed of formal and informal rules that shape the conduct of both the public and private sectors, and how citizens interact among themselves and with governments. In the context of the operational priority 6 framework, good governance and institutional capacity is an outcome and it enables support for other operational priorities to achieve their outcomes.

12. Within this broad governance agenda, ADB has traditionally focused on the public sector. Public sector reforms have focused on improving performance by changing the way governments work. The size of the public sector and the effectiveness of its services determine its economic significance and contribution to investment, inclusive growth, and job creation in most DMCs.

¹¹ ADB. 1995. *Governance: Sound Development Management*. Manila.

¹² ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

¹³ ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

¹⁴ Institutions are formal rules; informal constraints (e.g., norms of behavior, conventions, and self-imposed codes of conduct); and their enforcement characteristics. Organizations are groups of players that come together for a common purpose or to achieve specific objectives. They adapt their tactics and organization according to externally defined rules and regulations.

¹⁵ The public sector comprises institutions, including upstream and downstream executive bodies, and non-executive bodies such as legislatures, judiciaries, and audit authorities, that maintain a certain level of independence from the executive arm of government.

13. ADB policies on governance and anticorruption, which remain as relevant as when they were introduced, are implemented through GACAP II (Appendix 4). This action plan was approved in 2006 to improve ADB performance in the implementation of its governance and anticorruption policies in country programming and operations. However, a 2013 implementation review shows that GACAP II risk assessments—while having elevated governance issues through public financial management, procurement, and anticorruption areas in countries, sectors, and projects—will have to be improved. The Governance Thematic Group Secretariat commissioned a learning note to inform the implementation of GACAP II to Strategy 2030 and operational priority 6 to ensure that ADB continues to improve the quality of risk analysis and mitigation, and strengthen institutional oversight. Completed in July 2019, the note also builds on ADB’s procurement, financial management, and anticorruption reforms and will inform a staff guidance note expected by mid-2020.

14. In addition, the ADB capacity development framework aims to improve the mainstreaming of capacity development principles and practices in operations.¹⁶ Capacity development is defined as the process whereby a country raises its capacity to manage its affairs successfully, with different levels of capacity recognized—individual, organizational, networks of organizations, and the institutional enabling environment. The framework embodies recognized principles of effective capacity development such as country ownership, a focus on results, and attention to enabling institutional environment with a strong sustainability base. While ADB’s experience with implementation has been mixed, the framework remains valid as ADB continues to invest in institutional capacity in DMCs.¹⁷

15. Following on the review of the capacity development approach in 2016, ADB will strengthen the implementation of the capacity development framework in operations. ADB will build on and broaden existing good practices, including by strengthening the quality and selectivity of capacity development support to effectively address region’s challenges. Integrated knowledge solutions and streamlined business processes under the revised GACAP II will enable ADB to be more responsive to the diversity of DMCs’ needs and development situations and draw on a wider range of support options. Under operational priority 6, capacity development efforts will be strategically integrated with upstream public sector management (PSM) operations and downstream sector support, and fully aligned with the corporate results framework.

16. **Public sector management operations and advisory support.** Through its PSM operations, ADB works with central ministries and agencies, subnational governments, non-executive bodies, and the judiciary to pursue policy and institutional reforms that cut across governments, such as economic management, public financial management, procurement, public administration, decentralization, the reform of state-owned enterprises (SOEs), and the rule of law. PSM operations support the public sector’s capacity to deliver and manage outsourced services and complement public sector operations that deliver infrastructure and services. They also complement private sector operations through their support for creating the upstream conditions for the private sector investment to develop as well as preparing SOEs for commercial financing. PSM operations also help DMCs strengthen financial stability and resilience, and respond to economic and other shocks.

¹⁶ ADB. 2007. *Integrating Capacity Development into Country Programs and Operations: Medium-Term Framework and Action Plan*. Manila.

¹⁷ ADB. 2016. *Capacity Development in ADB Operations: Review of the Medium-Term Framework and Action Plan for Capacity Development*. Manila.

17. PSM operations—composed of loans and grants—totaled \$21 billion over 2008–2018. At 15% of ADB’s total sovereign operations, PSM is a major sector portfolio for ADB. The subsectors of economic affairs management, public financial management, and decentralization comprise the bulk of the PSM portfolio. PSM operations include crisis response lending for economic and fiscal downturns and natural disasters, which surged in the wake of the global financial crisis but has since reduced in scale. During the 2016–2018 period, PSM operations accounted for 11% of total ADB sovereign operations.

18. ADB operations performance in PSM has improved markedly. The success rate of PSM operations increased from 81% during 2015–2017 to 92% during 2016–2018, making it one of ADB’s best-performing sector portfolios and the sector that showed greatest improvement across ADB sovereign operations.¹⁸ The success rate of associated technical assistance (TA) operations—an important modality for ADB public sector and institutional support—was 89% during 2016–2018 and above ADB’s 80% target.¹⁹ The uptick in PSM performance contrasts with ADB’s longer-term experience in which PSM success rates were found to be generally weaker against other sector portfolios. However, the increasing performance of ADB’s policy-based lending (PBL) has been instrumental in turning the PSM performance around, with success rates in PBLs more than doubling from 43% to 88% during 2008–2018.²⁰ PSM is the major reform focus of PBL. It has also been shown that where PSM interventions succeeded, results were often transformative with system-wide impacts.²¹

19. **Governance and institutional support for service delivery.** The majority of ADB governance and institutional support to DMCs is mainstreamed in operations delivering infrastructure and services, such as agriculture, education, environment, energy, finance, gender, health, social protection, transport, urban, and water. Contributions of sector and thematic areas to the operational plan are described in detail in Appendix 1. An array of institutional factors determines how well and how inclusive services are delivered, including the effectiveness of public policies and governance arrangements and the strengths of various capacities such as physical assets and human capital. Infrastructure development—which remains a key priority under Strategy 2030—is more likely to be sustainable and contribute to inclusive growth if it is underpinned by governance and institutions that enable equitable access to services.

20. ADB makes large investments in social sectors, enabling policy and regulatory settings and public systems for human development and social inclusion; quality job creation; and improvements in education, health care, and social protection. These investments include strengthening of institutional capacities to implement digital transformations in government, partnering with the private sector and civil society organizations (CSOs) to provide the services and strengthening standards in public accountability and transparency. ADB supports climate governance and the central role of governments in tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability. ADB helps cities across Asia and the Pacific deliver effective urban governance and services in line with rapid urban growth, including tackling the governance of water

¹⁸ Independent Evaluations Department (IED). 2019. *2019 Annual Evaluation Review: The Quality of Project Design and Preparation for Efficiency and Sustainability*. Manila.

¹⁹ ADB. 2019. *2018 Development Effectiveness Review*. Manila.

²⁰ IED. 2018. *Corporate Evaluation: Policy-Based Lending 2008–2017: Performance, Results, and Issues of Design*. Manila.

²¹ IED. 2014. *Thematic Evaluation Study: ADB Support for Enhancing Governance in its Public Sector Operations*. Manila.

supply services. To promote gender equality, ADB supports women's leadership and participation in decision making to achieve tangible changes in public policy and resource allocation.

21. ADB governance and institutional support to DMCs is often delivered as a component of a sector program or project and not as a stand-alone activity. About three-quarters of ADB operations mainstreamed governance and institutional support during 2016–2018, which is above the 2008–2017 average of about 40%. While this marks an increase in the overall attention to governance and institutional issues across ADB operations, determining the actual value and results of ADB governance and institutional capacity investments is challenging.²² This constrains the scope for categorizing governance in operations more meaningfully.

22. **Strengthening country systems and standards.** A third operational focus is on the efficient and effective implementation of ADB operations. ADB supports DMC executing and implementing agencies to strengthen their country systems and standards, with the aim of improving project readiness and implementation, ensuring adherence to ADB standards, and mitigating project risks including governance risks as defined under GACAP II. The main areas of focus are financial management and procurement systems, anticorruption and integrity institutions and practices, and environmental and social safeguards.

23. ADB's Independent Evaluation Department (IED) has identified lessons for further improving operational performance in PSM and governance,²³ and environmental and social safeguards.²⁴ One is for rigorous diagnostics to be carried out at project design and appraisal to assess institutional capacity and resources in counterpart agencies, DMC ownership and commitment to projects, and political and socioeconomic factors that pose risks to project success. Another is to focus on long-term programmatic approaches to build cumulative progress on governance following good capacity development practices and attention to sustainability. Adequate allowance also needs to be given to monitoring and supervising high-risk interventions because of the complexity of projects and the unpredictability of political and economic contexts. Other lessons include recognizing that substantive reform and change are often difficult, incremental, and time-intensive, and the unpredictability of the process requires ADB to respond quickly to opportunities when presented.

C. Key Trends, Challenges, and Opportunities in Developing Member Countries

24. **Increasingly complex governance challenges.** Strategy 2030 sets an ambitious agenda for ADB to respond to the emerging development challenges in Asia and the Pacific that includes rising inequality, rapid urbanization, climate change and disaster risks, growing environmental pressures, and harnessing technological advancements. Demographic changes, if not addressed appropriately, may become a major fiscal challenge for governments. With more than 2 billion individuals under the age

²² ADB's project classification system allows operations to be classified as governance and capacity development by applying a general marker, but without assigning a monetary value to the specific activities.

²³ IED. 2014. *Thematic Evaluation Study: ADB Support for Enhancing Governance in its Public Sector Operations*. Manila.

²⁴ IED. 2016. *Real-Time Evaluation of ADB's Safeguard Implementation Experience Based on Selected Case Studies*. Manila.

of 30 living in Asia and the Pacific, representing 54% of the global youth population,²⁵ it is crucial for national policies to be geared toward providing youth with job skills to sustain the economic life cycle of DMCs. This rapid and massive transition will have important implications for economic growth, sustainability of publicly funded pension and health care systems, labor supply and mobility, savings and capital formation, spending on human resources, poverty, and intergenerational inequality.

25. The changing regional landscape means the institutional environment, including the interaction between public and private sector actors, is also changing. While core public sector functions, such as economic and fiscal management, law and order, and security, remain in the hands of the state, there is increasing focus on the role of subnational governments, the private sector, and citizens on how public services are produced and delivered. A combination of public and private engagements is increasingly likely where the public sector is the enabler that supports mixed public and private solutions. There are also more opportunities for private sector participation in public service provision through public–private partnerships (PPPs). Citizens are also becoming more informed and empowered through digital technologies and grassroots movements. Disruptive technologies, such as blockchain and artificial intelligence, will also increasingly impact the economies of the region and the expectations of citizens in terms of government capabilities and services.

26. To maximize these opportunities, conducive policy and regulations and capable institutions must be in place to anticipate and to respond to these changes. Tax systems need to promote inclusiveness, investment, job creation, and direct redistribution of income and wealth that match society's views on reducing inequality. Financial institutions must reflect the increasing international commitment to anti-money laundering, combating terrorism financing and cross-border illicit financial flows, and integrating environmental and social management systems into their business models. In addition, stronger governance of natural resources is needed to capitalize on the sustainable growth and employment opportunities that these resources create. Meanwhile, despite gains from digitization, more than one-half of the world's population still remains offline,²⁶ and the basic enabling infrastructure prevents the full development potential of digital technologies.

27. ADB's extensive experience and in-depth knowledge of DMCs, its strong track record in public policy and management reforms and service delivery, and its provision of public and private sector lending and support make it uniquely placed to make a major contribution to the changing regional landscape. Delivering on Strategy 2030 will require ADB to readdress its approach to strengthening governance and institutional capacity, from tackling issues of policy and governance in isolation to increasingly providing integrated solutions that cross sector, thematic, and geographic boundaries.

28. Building on lessons from the 2018 IED evaluation of SOE reforms and PBL operations, ADB will ensure the operational and financial sustainability of its interventions.²⁷ On SOE reforms, ADB will focus on strengthening service delivery by improving the governance of SOEs and supporting policy, institutional, and regulatory reforms. This will be anchored in approaches to SOE support that capture service delivery, operational efficiency, and greater accountability considerations. In

²⁵ United Nations Department of Economic and Social Affairs, Population Division. 2017. *World Population Prospects: The 2017 Revision*. New York.

²⁶ World Economic Forum. 2018. *Financing a Forward-Looking Internet for All. White Paper*. New York.

²⁷ IED. 2018. *Thematic Evaluation: State-Owned Enterprise Engagement and Reform*. Manila; and IED. 2018. *Corporate Evaluation: Policy Based Lending 2008–2019*. Manila.

addition, ADB operational support involving SOEs will require clear reporting of how the support will contribute to wider SOE reforms. PBL, as a key financing modality for ADB, will be increasingly used to improve macro-fiscal stability and public financial management and enhance the sustainability of ADB's infrastructure investments. PBLs will serve to foster enabling environments—including at the sector level—that will remove policy, regulatory, and operational distortions to enhance private sector investment and enable growth, and reflecting a clear and substantive value-addition proposition by ADB. ADB will also ensure the operational and financial sustainability of its support by combining programmatic or a longer-term commitment to reforms through its PBL and results-based lending (RBL), supporting institutional and capacity development by using TA projects more effectively, and adopting methodologies and analytical tools to better assess and manage risks associated with political economy issues.

29. **Differentiating ADB's responses to country contexts.** The variability in governance and institutional capacity within and across DMCs demands differentiated policy and investment choices by ADB. Country partnership strategies (CPSs) will serve as a platform to diagnose governance and institutional issues and to define customized solutions through country and sector assessments to inform program and project design. In fragile and conflict-affected situations (FCAS),²⁸ governance and institutional performance is generally poor, public service delivery systems are underperforming, and the governments' ability to provide the basic security of their people is often limited. Civil unrest may likely result in violent conflict that may impact neighboring countries and the global community. These economic, political, social, and environmental challenges and conditions are often more complex than in other DMCs, such as the weak capacity to carry out the basic functions of governing.²⁹ This requires approaches to be tailored to and the unique context and circumstances of FCAS DMCs, informed by good diagnostics of a nation's political economy, the nature and causes of its fragility, and the roots of its conflict. Following on the New Deal for Engagement in Fragile States,³⁰ ADB will focus on strengthening state capacity and country systems to enable basic service delivery, improve legal and judicial systems, and bolster peace and stability.³¹

30. Small island developing states (SIDSs) confront severe constraints, like FCAS, because of their remoteness and they are particularly vulnerable to economic, climate change, and disaster-related shocks. Their economies are often constrained by small domestic markets, high costs of infrastructure and service delivery, and low performance on ease of doing business, and challenges in connectivity to regional and international markets. The smaller population size will likely constrain the scope to exploit economies of scale resulting in relatively high per unit cost in the provision of service delivery. These vulnerabilities also induce wide-ranging gender inequality in terms of access to employment and decision-making opportunities, education, and health. Recognizing the need for a differentiated approach to addressing SIDS' extreme vulnerabilities, ADB will continue to support the use of flexible instruments to mobilize resources for disasters and climate change, and greater private sector investments.

²⁸ ADB classifies 10 DMCs as FCAS, two of which are affected by conflict (Afghanistan and Myanmar) and the remaining are Pacific small island developing states (SIDS) and demonstrate the effects of fragility (Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Papua New Guinea, Solomon Islands, Timor-Leste, and Tuvalu).

²⁹ ADB. 2013. *Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations*. Manila.

³⁰ International Dialogue on Peacebuilding and Statebuilding. 2011. *New Deal for Engagement in Fragile States*. https://www.pbsdialogue.org/media/filer_public/07/69/07692de0-3557-494e-918e-18df00e9ef73/the_new_deal.pdf.

³¹ The New Deal, agreed at the Fourth High Level Forum on Aid Effectiveness in Busan in 2011, is a milestone agreement between FCAS, development partners, and civil society to improve the current development policy toward FCAS.

31. Many low-income countries (LICs) and lower middle-income countries (LMICs) need to further improve their institutional capacity to design and implement appropriate policies as well as to strengthen governance, anticorruption, and service delivery functions.³² The variability in the effectiveness of policies and regulations, public investment in infrastructure and services, and the difference in the speed of change have become important parameters for these DMCs as they face a broad range of challenges in sustaining and accelerating the pace of development. With most DMCs attaining middle-income status, demands for greater use of country systems, and better public services and social protection for the poor and most vulnerable are expected to grow, including demands on subnational governments that are responsible for the quality delivery of many frontline services and efforts to address climate change. On the supply side, greater commercial orientation will be expected of public institutions including less dependence on subsidies and greater efforts to transition to cost-based tariffs. This, in turn, would create more opportunities for private investment in service delivery and thereby expanding access and quality.

32. While many upper middle-income countries (UMICs) have improved their living standards, they continue to face economic and social development challenges and constraints in accessing capital markets and have unfinished policy and institutional agendas. UMICs share some challenges with LMICs, but they differ in the intensity and complexity, including higher inequality, climate change, the need to upgrade productivity and competitiveness to match those of developed economies, and vulnerability to cyclical economic downturns because of their deeper integration with global markets and international trade.³³ Where better governance and capacities exist, UMICs are increasingly looking to promote regional cooperation and integration; implement global best practices; and access cutting-edge knowledge, digital technologies, and innovations, including careful attention to smart implementation, which is as critical as origination and design. Similarly, PPPs and other means to more efficiently allocate resources will be considered including through combination of sovereign and nonsovereign financing and eventually taking key corporations to mobilize finances through the market.

33. **Adapting global experiences to Asia and the Pacific.** Improving governance and institutional capacity is challenging for many DMCs, and approaches continue to evolve. Evidence on what policies and reforms will yield development outcomes is not always available. Policies are often contested, and the drivers of policy effectiveness and institutional factors that are needed to achieve desired outcomes may not be well understood. Moving beyond asking what the right policy is to how better governance and institutions make policies work to produce development outcomes is attracting global attention and underpinning the direction of this operational plan for more country focused, integrated solutions. This shift in thinking was the focus of the 2017 World Development Report.³⁴

34. Since 2008, important trends in development approaches have emerged, some of which ADB has been quick to adopt.³⁵ ADB is increasingly focusing on higher-level results, with the aim to facilitate performing, responsive, and resilient institutions that deliver better development results to citizens,

³² For classifying LICs, LMICs, UMICs, and high-income countries, the World Bank sets the gross national income per capita thresholds each year, with 2019 at \$995 or less for LICs, \$996–\$3,895 for LMICs, \$3,896–\$12,055 for UMICs, and \$12,056 or more for high-income countries.

³³ ADB. 2015. *Clients–Contributors–Collaborators: A New Partnership with Upper Middle-Income Countries*. Manila.

³⁴ World Bank. 2017. *World Development Report: Governance and the Law*. Washington, DC.

³⁵ ADB. 2016. *Better Performing Institutions in ADB Developing Member Countries: Positioning ADB's Approach to Public Sector Management and Institutional Performance*. Manila.

such as more responsive public service delivery. It is also emphasizing local context and drivers of change, where operational flexibility, learning, and adaptation in programs and reforms are prioritized, while shifting away from a narrow focus on technical advice and training—inputs that are considered synonymous with capacity development no matter their intended and actual effects—to knowledge sharing, digital technologies, and the use of multistakeholder practices involving civil society and the private sector. There is also a greater focus on South–South learning where countries can make better use of country peer experiences as a positive driver of change. In addition, strengthening country systems and standards will be strongly pursued, including moving toward using country systems for delivering development assistance and recognizing the principles of a country and sector differentiated approach.

A. Approaches

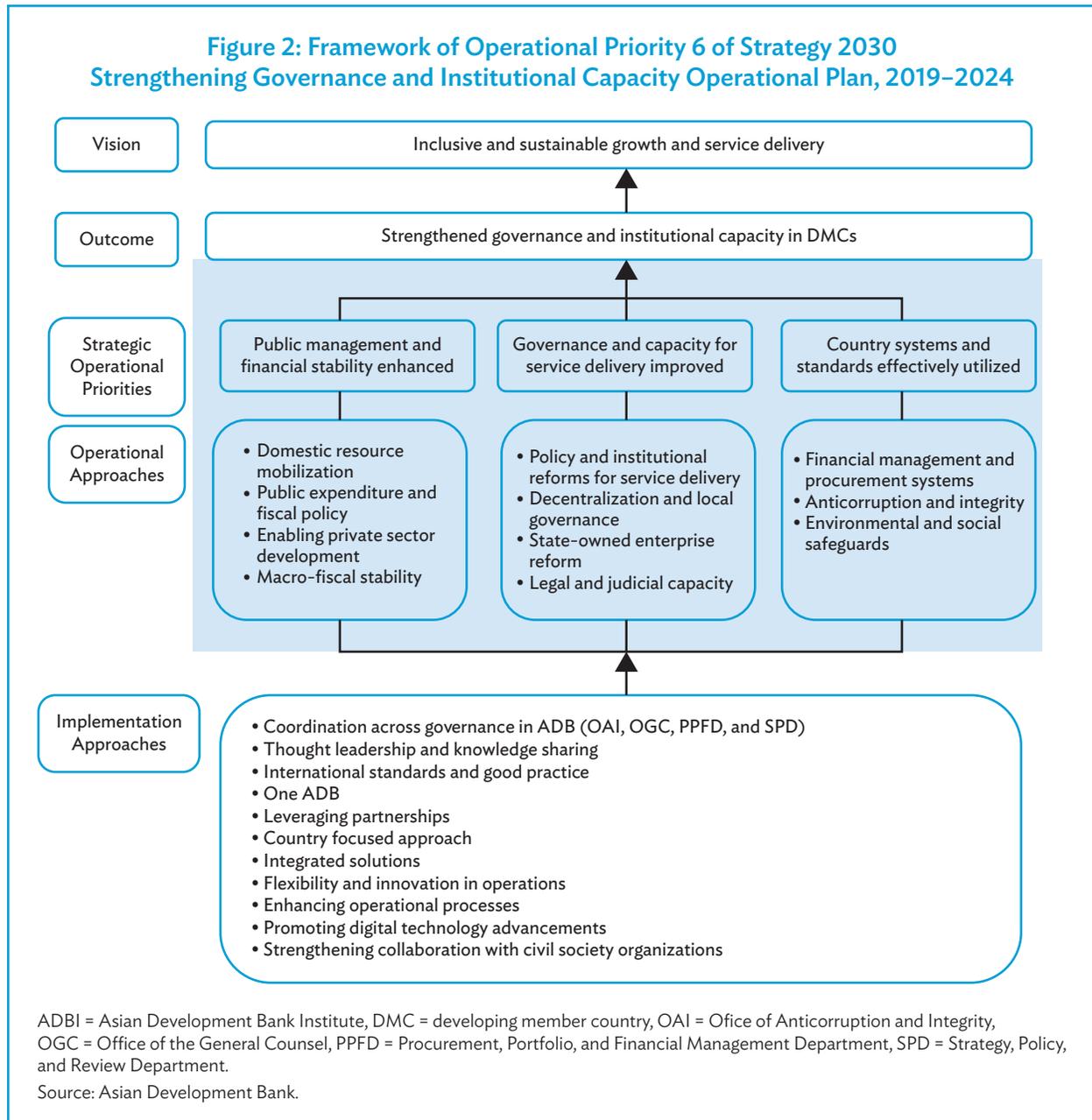
35. ADB's operational approaches need to change to effectively deliver governance and institutional support to DMCs. A country-focused approach will customize support to meet the varying needs of the diverse client base. ADB will also seek to better integrate operations, advisory services, and knowledge support across the strategic operational areas. It will promote flexibility and innovation in its operations and advisory services, and enhance operational processes so that positive governance and institutional results in DMCs are achieved (Figure 2).

1. Implementing a Country-Focused Approach

36. **Country context.** The international governance agenda—and ADB support to DMCs to implement this agenda—must be customized to specific local development challenges. Countries designated as FCAS, SIDS, and low-income are characterized by weak institutions and severe economic constraints, whereas middle-income countries are further along in their development trajectory but continue to require specialized governance and institutional support. However, DMCs have significantly diverse needs, institutional capacities, and availability of resources, including among countries with similar per capita income and those categorized as FCAS and SIDS. There is no “one size fits all” approach to governance and institutional capacity in countries, and ADB's experience points to the benefits of employing differentiated approaches.

37. ADB support will require long-term, strategically guided efforts in low-capacity and fragile environments, often focusing on core state functions. ADB's institutional strengthening framework for FCAS recognizes the interaction among fragility situations, weak institutions, and development activities.³⁶ The importance of understanding the local context, having a long-term commitment, ensuring country ownership and making the best use of limited capacities, and being flexible in responding to the challenges are paramount. Setting standards and tracking indicators will guide the operational work. ADB will continue to identify new and innovative solutions for working in fragile situations in the Pacific.

³⁶ ADB. 2014. *Engagement in Fragile and Conflict-Affected Situations: Institutional Strengthening Framework: A Guidance Note*. Manila.



38. For conflict-affected DMCs, ADB will emphasize the use of conflict-sensitive approaches for project identification and implementation, such as the fragility situation assessments and peace-building tools used in Afghanistan and the post-conflict transitional situation applied in Nepal. Effective use of grant financing, including TA grants, will be critical factors for achieving success in these countries. A higher dependency on TA grants and greater use of advisory support across key ministries and institutions coupled with extended time horizons for translating outputs into outcomes will have to be factored into consideration. Use of PBLs will also contribute to establishing policy direction to complement institutional support.

39. In middle-income countries, where better governance and capacities are available, ADB will focus on policy, regulatory, and institutional reforms, where such reforms are achievable, and contribute to inclusive and sustainable service delivery outcomes. The focus in LMICs will be strengthening capacities to implement first-generation reforms, such as domestic resource mobilization, rationalization of public expenditures, SOE performance, greater accountability and transparency in government, reduced government intervention in domestic markets, financial deregulation, and the liberalization of trade and foreign investment. Private sector development with greater policy-based reforms for deregulation and ease of doing business will be critical. Reducing dependency on foreign grants; better efforts at domestic resource mobilization and expanding services; and better targeting of expenditures, including on poverty alleviation, will be part and parcel of this transition.

40. For UMICs, ADB will focus on second-generation reforms, such as improving the efficiency of SOEs according to market principles, adopting international transparency standards and corporate governance, protecting intellectual property rights, improving legal and regulatory frameworks (including for PPPs), and developing sound financial systems (including capital markets).³⁷ ADB will also seek to broker regional networks and cooperation between countries, support innovative products and processes, and make cutting-edge knowledge available based on recognized best global practices. Greater attention will focus on effective use of resources, increasing quality and not just access to services, and catalyzing investments including through private sector solutions.

41. **Country partnership strategies.** The CPS is the primary platform to diagnose governance and institutional issues and define customized support—with DMCs as the driver of their own development and ADB as a trusted partner that provides integrated governance and institutional solutions. In determining priority areas for engagement, ADB will consider the different challenges and needs of DMCs, where policy and institutional outcomes are feasible and ADB support can be effective, and where ADB has a comparative advantage. ADB will also coordinate country programming with regional initiatives such as the Open Government Partnership. It will offer targeted support to policy actions that support transparency and anticorruption in the country's Open Government Partnership National Action Plan. In forming CPSs, ADB will consult with citizens, civil society, and the private sector to promote responsive governance and improved service delivery.

42. **Understanding governance and institutional issues.** Addressing governance and institutional issues starts with good diagnostics. At the country and sector level—above the level of individual operations—these issues, including the risks to operations, need to be given sufficient attention. Therefore, sector assessments and road maps will be used to point to more comprehensive investments in governance and institutional strengthening, and to provide strategic reference for subsequent operations. They will also detail the need for governance risk assessments at the country or sector level, and institutional capacity assessments and road maps at the project level to inform program and project design or to be included as program or project deliverables. The diagnostics will also identify the quality of demand-side governance, including consultation and feedback mechanisms, grievance redress, and the presence of independent institutions to enhance accountability and combat corruption.

³⁷ ADB. 2015. *Clients–Contributors–Collaborators: A New Partnership with Upper Middle-Income Countries*. Manila.

43. ADB will introduce new diagnostics to meet DMC demands, such as technology need assessments, as part of wider digital transformation efforts. As customized approaches in country diagnostics are developed, ADB will standardize them with global metrics as much as possible to encourage collaboration with DMCs and development partners. Strengthening diagnostic approaches, including producing quality primary source analytics, will help drive the development of high-quality programs and projects.

2. Providing Integrated Solutions

44. **Alignment of governance and institutional objectives.** An integrated approach requires that ADB operational objectives and support for upstream public policies and reforms in DMCs are aligned with downstream governance and institutional development for service delivery outcomes in the sectors and areas where ADB is engaged. Public sector management (PSM) operations have a bearing on service delivery outcomes in DMCs, from the way public resources are allocated in the national budget to the enabling policy and regulatory environment for public and private sector activity. The Health Services Sector Development Program in Papua New Guinea is a good example.³⁸ It combines policy-based operations and project financing to enable the effective use of the country's health sector financing and address deficiencies in health sector governance, public financial management, and fragmented funds flows. Similarly, policy-based support to Samoa enabled the government to provide education and housing services to tsunami-affected communities while making improvements to budget processes and the country's overall fiscal position.

45. Within the operational plan for governance and institutional capacity, delivering integrated solutions means closer alignment across the three strategic areas of public management and financial stability, institutional capacity for service delivery, and country systems and standards. ADB will engage DMCs through policy dialogue and coordination on PSM reforms while also engaging on governance and institutional development in other sectors and areas driving better service delivery outcomes. Similarly, ADB support for country systems and standards in financial management, procurement, anticorruption, and environmental and social safeguards will consider broader national- and sector-level governance and institutional objectives in DMCs.

46. **Coordination of public and private sector operations.** The coordination of public and private sector operations will also contribute to the provision of integrated solutions to DMCs. Public sector operations will aim to improve the enabling environment for the private sector through upstream policy and regulatory reforms or by reforming SOEs to attract commercial financing. The SOE Working Group provides a model approach for public and private sector coordination that could be replicated across different operations departments. As ADB aims to expand private sector operations to one-third of total ADB operations in number by 2024, coordinating public and private sector operations in a sequenced manner is an effective way to ensure ADB delivers appropriate and integrated solutions to its clients. This would require combined solutions that make use of differentiated expertise and financing solutions across public and private sectors at the appropriate stages to ensure price competitiveness to support SOEs on a selective basis.

³⁸ ADB. Papua New Guinea: Health Services Sector Development Program, Subprogram 1. Sovereign (Public) Project. Manila.

3. Promoting Flexibility and Innovation in Operations

47. ADB operations, advisory services, and knowledge support will be delivered strategically, looking beyond individual activities, to enable DMCs to exploit ADB's array of operational instruments and services. Developing capable institutions is typically a long-term, non-linear, and cumulative effort extending beyond individual operations. ADB investments for governance and institutional reform will increasingly offer DMCs the flexibility to combine, sequence, and adapt assistance to development challenges and needs. Knowledge products, innovative digital solutions, and collaborative partnerships will form an increasing part of ADB support to DMCs. Of ADB's existing modalities, three are essential for strengthened governance and institutional capacity: technical assistance (TA), policy-based operations, and results-based lending (RBL).

48. **Technical assistance.** TA is an important vehicle for ADB governance and institutional support in its longer-term engagements. It is an indispensable instrument for maintaining a strategic perspective, looking beyond the narrower objectives of individual operations, and identifying future investment opportunities. Strategically applied, TA is a meaningful tool to strengthen governance and institutional capacity, enabling support and continuous dialogue with DMCs. ADB will continue to use it for technical advisory and knowledge support to DMCs to develop institutional capacity in areas such as policy and regulatory development, structural reforms, results-based management practices, introduction of digital technologies, and country systems and standards strengthening. Enhancing individual skills and competencies in government, which DMCs continue to demand, is an essential building block of better organizational capability—and institutional capacity—in ADB's overall capacity development approach.

49. ADB will consider facility-type TA that provides longer-term and more flexible engagement in DMCs. In the People's Republic of China, facility-type TA has been effective in providing flexible and real-time support through a frontier approach.³⁹ The Pacific Private Sector Development Initiative is a regional facility-type TA cofinanced with the governments of Australia and New Zealand.⁴⁰ The flexibility of this initiative allows ADB to work across its 14 Pacific DMCs to improve the enabling environment for business and support inclusive, private sector-led growth.

50. **Policy-based operations.** With the success rates of policy-based lending (PBL) more than doubling over 2008–2018, it is an effective way to support DMCs on major public policy reforms.⁴¹ PBL, delivered as stand-alone support or through a programmatic approach, offers the opportunity for structured dialogue with government and other stakeholders over the medium to long term. In many cases, PSM PBL provides an anchor for other ADB sector-specific engagements. It is attractive to other middle-income countries for improving governance and institutional performance as they undertake structural or organizational reforms. PBLs, anchored on sound analytical work and combined with financing support, provide integrated solutions and opportunities for continued policy dialogue with DMCs to further influence policy and institutional reforms for inclusive growth and poverty reduction. PBLs and RBLs also promote greater use of country systems in ADB operations. ADB will continue to improve the use of these lending instruments, including strengthening methodologies to evaluate the benefits and costs of policy reforms to measure their impact, better understand the political economy

³⁹ ADB. 2013. *Performance Evaluation Report. Facility-Type Technical Assistance in the People's Republic of China*. Manila.

⁴⁰ ADB. Pacific Private Sector Development Initiative. <http://www.adbpsdi.org/p/what-is-psdi.html>.

⁴¹ IED. 2018. *Corporate Evaluation: Policy-Based Lending 2008–2017: Performance, Results, and Issues of Design*. Manila: ADB.

factors in policy reforms, and provide tailored TA and policy advice to support DMCs and strengthen the evidence base for government-led reform programs.

51. Policy-based operations also provide the flexibility for rapid assistance and response to emerging issues like climate change. With global economic conditions becoming increasingly volatile, ADB will continue to use the countercyclical support facility (CSF) and special PBLs to provide urgent balance of payments or countercyclical fiscal stimulus during periods of economic crisis. Policy-based instruments allow precautionary financing options so that ADB can provide financing to DMCs contingent on a disaster, with an option to defer loan drawdown. ADB is using this innovation in the disaster-prone Pacific region, with policy actions aimed at strengthening disaster resilience. ADB will seek opportunities to include social accountability approaches in policy-based operations, such as by including policy actions on public expenditure tracking, participatory auditing, and citizen consultation and feedback mechanisms.

52. To improve the effectiveness of PBLs as financing instruments, these should be identified up-front in CPSs. PBL outcomes should be incorporated in the CPS results framework, and the achievements should be assessed over the medium term in the CPS final reviews. PBL design will be strengthened by articulating policy actions as substantive outputs; establishing clear linkages among policy actions, outputs, and outcomes; highlighting the analytical framework underpinning this work; and justifying the choice of lending instrument and ADB's value addition.

53. **Results-based lending.** RBL supports government investment programs, ties disbursements to program results, and emphasizes support for DMC institutions and systems, which reinforces broader results-based management practices. ADB experience with this type of lending has been positive with success dependent upon a favorable policy environment, DMC willingness to undertake governance and institutional reforms, strong financial management, procurement and social and environmental safeguard systems, and the existence or establishment of credible and transparent monitoring and evaluation systems.⁴²

54. Since ADB's first RBL activity, these programs have been suited to long-term sector engagement where reforms and system strengthening require an incremental approach. Multiple sectors, such as energy, health, transport, and urban development, are implementing results-based programs, making RBL an important instrument for providing integrated solutions and improving governance and institutional capacity in DMCs. RBL also enables DMCs to deepen their understanding of national or subnational programs at sector and subsector levels and their impact in the medium to long term, as well as mechanisms to improve their monitoring and evaluation, fiduciary, and safeguards systems. In mainstreaming the instrument, ADB will seek to increasingly use it for PSM operations to promote results-based public sector reforms and to deepen results-based policy dialogue with DMCs.

55. ADB will also address governance and institutional issues through investment projects, which remain ADB's most used lending modality; multitranches financing facilities that offer the advantage of long-term investment and dialogue with DMCs; financial intermediary loans to strengthen the governance, capacity, and sustainability of participating financial intermediaries; and political risk guarantees primarily designed to facilitate private sector development through public or private sector operations, as appropriate.

⁴² IED. 2018. *Corporate Evaluation: Results-Based Lending at the Asian Development Bank: An Early Assessment*. Manila: ADB.

56. ADB will also intensify its efforts to attract additional financing to address priority governance and institutional issues in DMCs. Specialized governance trust funds like the multidonor Governance Cooperation Fund—established to support the implementation of the Second Governance and Anticorruption Action Plan (GACAP II)—have proved successful. Building on the experience of the Domestic Resource Mobilization Trust Fund, ADB will increasingly look to establish trust funds that are designed to respond to DMC demand for specialized support in frontier areas and align with the global governance agenda and donor priorities.

57. Specialized trust funds allow for experimentation and innovation to address some of the more challenging aspects of governance and complement operations that may be more confined in their scope. They can be effective in developing knowledge through targeted and pilot initiatives, building demand for change through multistakeholder engagement, and capitalizing on investment opportunities by applying the knowledge learned to inform the design and implementation of wider ADB operations. Specialized funds in areas such as climate change and urbanization provide ADB with additional means to address governance and institutional issues including in areas where governance is a recognized factor in achieving development outcomes and institutional strengthening is not yet familiar. Trust funds will also enhance government capacity to engage citizens in responsive service delivery and to work collaboratively with civil society.

58. ADB will continue to introduce new instruments, as appropriate. ADB has committed to achieving more agility and responsiveness through the small expenditure financing facility for small, low-risk activities, and introducing the policy-based guarantee and project readiness financing facility.⁴³ Policy-based guarantee supports government financing needs based on achieving policy conditions through a credit guarantee instead of borrowing from commercial banks or the issuance of bonds. Project readiness financing, however, increases the likelihood of timely and cost-effective achievements of project outcomes by ensuring implementation readiness of ADB projects. ADB will also explore enhancing financing solutions (e.g., lending to SOEs where the transition from sovereign to nonsovereign can be challenging). Similarly, ADB will consider mezzanine-type structures where a first-loss provision from a sovereign tranche can ensure more competitive nonsovereign-priced tranches.

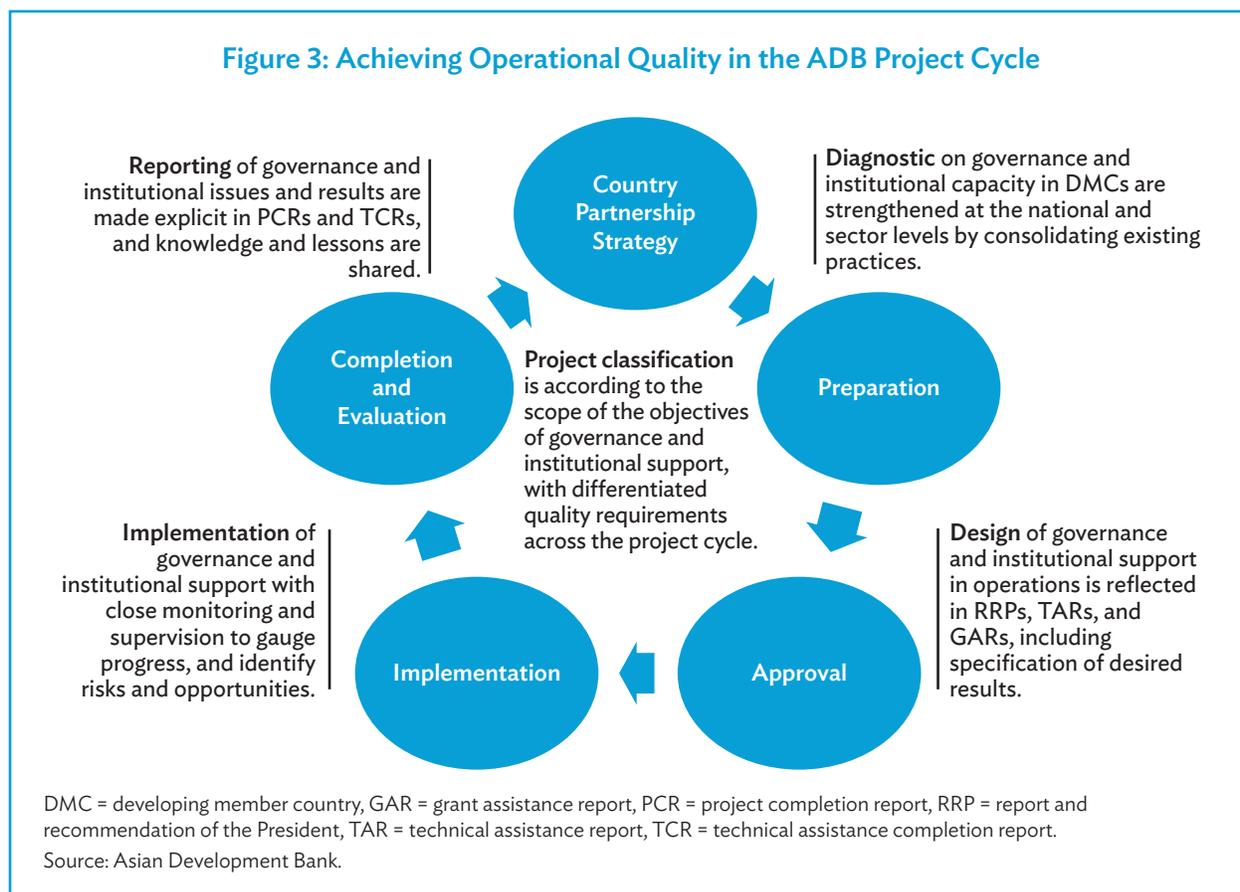
4. Enhancing Operational Processes

59. ADB will ensure sufficient attention is given to quality at key points across project cycle (Figure 3). Operations will be explicit about governance and institutional capacity, with operational requirements tailored to the country, objectives or level of ambition of ADB's governance and institutional investments, and identified risks.

60. As governance and institutional support can be resource intensive, operational processes and requirements will cater to the variability in ADB engagement in DMCs. The focus will be on a limited and strategic number of changes to processes and systems that complement broader corporate reforms under Strategy 2030 designed to make ADB stronger, better, and faster and to incentivize governance actions in operations. Changes and innovations in operational processes are also needed to systematically implement and determine the success of this operational plan. ADB will progressively introduce the following changes and innovations during the implementation of this operational plan:

⁴³ ADB. 2018. *Proposal for ADB's New Products and Modalities*. Manila.

Figure 3: Achieving Operational Quality in the ADB Project Cycle



- (i) The GACAP II approach employs risk assessments and management plans for country systems covering the national and priority sector levels in DMCs. The use of country systems does not require an “all-or-nothing” approach. ADB can move progressively toward using country systems based on agreements between DMC governments and development partners. Strategic improvements based on achievements and smarter measures for handling critical success factors will provide the foundation for an improved GACAP II. Existing operational procedures and practices will be updated.
- (ii) Institutional capacity assessments and road maps will be recommended for operations targeting comprehensive policy and institutional reforms so that issues are understood and considered, which will inform the formulation of integrated solutions. Institutional capacity diagnostics at the project and/or agency level are critical for deepening ADB’s understanding of issues beyond the analysis contained in sector-level assessments. The diagnostics can also assist DMC governments in shaping reform programs and organizational development processes. ADB will develop operational guidance that draws on its capacity development framework and considers emerging international practices. ADB will also encourage international metrics such as public financial management performance assessments and the Methodology for the Assessment of Procurement Systems⁴⁴ to be used in DMCs.

⁴⁴ OECD. 2019. Methodology for the Assessment of Procurement Systems. <http://www.oecd.org/gov/public-procurement/methodology-assessing-procurement/>.

- (iii) The classification of governance and institutional capacity as one of Strategy 2030's operational priorities recognize the differentiated objectives of ADB support that generally include at least one national and sector policy and institutional reform, institutional sustainability of ADB projects, and DMC agency performance in implementing operations. The new classification will allow a better understanding of the objectives and systematic tracking and reporting of results. It is recognized that not all operations need to have explicit governance and institutional capacity objectives, either because they are not needed, or because DMC needs are being met by other development partners or means. The project classification system will also enable reporting on cross-sector investments like working with SOEs and subnational governments and promoting digital technologies and civil society engagement.
- (iv) Design, implementation, and reporting processes will reflect the quality standards to be met according to the desired objectives of the governance and institutional support. Operational documents will continue to include necessary information and will focus more on quality at key points across the project cycle. The document types include reports and recommendations of the President, TA reports, project administration manuals, project completion reports, and TA completion reports.
- (v) ADB will explore mechanisms for partnering with civil society so that it can enter into operational partnerships through streamlined grant processes and encourage citizens to become more involved in the design, implementation, and monitoring of ADB operations and knowledge work. ADB will also develop operational approaches to directly engage with citizens by leveraging technology, crowdsourcing ideas from the youth, and working with smaller CSOs who represent groups of citizens and umbrella CSOs who draw together the perspectives of grassroots CSOs. The NGO and Civil Society Center (NGOC) will also continue to build upon existing good practices by sharing knowledge on how to successfully engage citizens and civil society in projects.

5. Promoting Digital Technology Advancements

61. The spread of digital technologies has promoted a more connected and interdependent world and proven to be a powerful tool for improving both the demand and supply sides of public services.⁴⁵ The strategic use of digital technology can facilitate the fast and efficient delivery of public services and improve government accountability and openness. The ADB Digital Technology Unit is preparing an action plan to strengthen public management and improve service delivery, building on recommendations from an advisory panel of experts.⁴⁶ Thus, ADB will proactively promote the use of advanced technologies in DMCs while assisting them to develop policies, structures, and capacities; and improve the regulatory environment for the digital economy. The application of digital technologies in strengthening governance and improving public service delivery will help emerging economies leapfrog development with a greater focus on catch-up innovations than frontier innovations. ADB will also provide TA for capacity building to DMCs to incorporate technology in improving the availability of high-quality, timely, and reliable data in support of data-driven policy actions. ADB will assess the potential of disruptive technologies, such as biometrics, blockchain,

⁴⁵ ADB. 2013. *Empowerment and Public Service Delivery in Developing Asia and the Pacific: Policy Report*. Manila.

⁴⁶ ADB established an advisory group on digital technology for development to facilitate dialogue between ADB and external experts and eminent thought leaders on ADB's digital strategies.

and artificial intelligence, to reshape the governance challenges that DMCs face including identity management, delivery of social services, and reducing corruption.

62. From the demand side, working with clients, ADB will support DMCs to scout, pilot, and develop new technologies and digital solutions that improve public management and performance, including interactions with citizens and nonpublic actors through open government systems, to shape public policies and organizational practices. ADB will explore fit-for-purpose and future-proof digital solutions to help improve service delivery, public administration, and governance through an integrated and open government approach.

63. As digital technologies are crosscutting in nature, governments will need to take a whole-of-government approach to e-government to promote accessible, citizen-centric service delivery for greater inclusion and yield tangible benefits including for the bottom of the pyramid. Increasingly, digital solutions will drive changes in public administration and reform in areas such as online tax filing, e-procurement, digitization of public records and land administration, and statistical systems. ADB will cooperate with other international and multilateral institutions on GovTech to collect primary data in the region on digital government strategies and on government policies to respond to disruptive technologies.⁴⁷

64. From the supply side, ADB will support DMCs to build foundational information and communication technology infrastructure for digital transformation and services. The potential areas of support include (i) countries adopting national digital technology strategies; (ii) information and communication technology infrastructure to improve connectivity such as the ADB-supported underwater marine cable in Pacific island countries; (iii) development of foundational government information platforms such as national ID systems and national geographic information systems; (iv) innovative tech-based pilot projects such as financial technology solutions for government payments that can contribute to improved public service delivery including the SDGs; and (v) the development of risk management action plans across key sectors to include consumer protection (i.e., privacy and data protection), mitigate excessive and disorderly disruptions (i.e., loss of jobs from the introduction of robotics and machine learning), and the development of temporary safety nets.

6. Strengthening Collaboration with Civil Society Organizations

65. ADB will work in partnership with a broad range of CSOs to strengthen social accountability and contribute to responsive service delivery in DMCs. Experience shows that civil society engagement improves the quality of ADB operations and contributes to increasing inclusiveness by placing citizens—particularly the poor and marginalized—at the center of the development process. Therefore, ADB will support the maintenance of civil society space in DMCs and the strengthening of the rule of law. ADB will use its convening power to facilitate multistakeholder engagement and leverage the supply and demand sides of governance. For example, ADB engagement with the Open Government Partnership provides a means to support constructive engagement between governments and citizens.⁴⁸ ADB will explore opportunities for increasing citizen involvement in designing, implementing, and monitoring ADB operations, including streamlining grants and partnership mechanisms. To better

⁴⁷ GovTech is a whole-of-government approach to digitalization that promotes simple, accessible, and efficient government.

⁴⁸ The Open Government Initiative is an organization of governments and civil society organizations, working to promote accountable, responsive, and inclusive governance.

align with the 2030 strategic framework, ADB will undertake a gap analysis to identify priority areas for working with CSOs and develop operational processes and staff instructions to support deeper civil society engagement.

66. ADB will also engage with youth as a vital demographic, especially in lower middle-income countries (LMICs) that retain largely youthful populations. The ADB Youth for Asia is a pilot initiative to mainstream youth participation in selective ADB operations, from planning and design consultations, to project implementation and monitoring. Through this initiative, young people are able to contribute to awareness-raising campaigns, youth-focused data management, and project-based knowledge generation. The ADB Youth for Asia Team mobilizes local youth organizations and strengthens local youth capacity in DMCs for the effective delivery of project activities. For example, as part of the Cities Development Initiative for Asia, young people introduced nature-based solutions for rejuvenating a polluted waterway through the city of Panaji, India.

B. Expected Results

67. The expected result of this operational plan is strengthened governance and institutional capacity in DMCs as a catalyst for inclusive and sustainable growth and service delivery. Key drivers of transformative change will include promoting digital technology advancement into service delivery in close collaboration with civil society and with a focus on citizen-centric improvements. With three-quarters of ADB operations supporting governance and institutional capacity in DMCs, and by capitalizing on and broadening good practices within ADB and internationally, ADB is ideally positioned to achieve this outcome.

68. This operational plan outlines three high-level strategic directions, priority areas of focus, and operational approaches to deliver the expected outcome. The plan is intended to guide ADB programming and operational decisions. With the strategic directions and priority areas of focus crosscutting in nature, priority areas may be implemented in operations with one or more strategic directions.

69. This operational plan also provides for coordination with other Strategy 2030 operational priority areas. Appendix 2 lists the key responsibilities and activities of ADB's departments and offices to implement the Operational Plan.

C. Major Outcomes and Activities

1. Public Management and Financial Stability Enhanced

70. With high demand for PSM support, ADB will continue to prioritize PSM reforms focused on upstream policy and institutional reforms. The objectives of these public sector operations will align with the SDGs, and ADB will increasingly specialize in domestic resource mobilization, public expenditure management, and financial sector and banking reforms; promoting private sector development; and building resilience and responding to economic shocks as well as emerging issues such as climate change and crisis response. Core public administration reform has become a smaller share of the PSM portfolio in 2008–2018 but will continue to be supported in line with the country-

focused approach with an emphasis on innovative technologies and solutions that bring about improved performance and efficiencies to the public sector.

71. **Increase support for domestic resource mobilization.** ADB will increase its support to DMCs for domestic resource mobilization to strengthen public financial management, including expenditure and debt management. Support will include strengthening revenue collection regimes and capital markets. Many DMCs have an overall tax–gross domestic product ratio below 15%, now widely regarded as the minimum level required for sustainable development in the absence of other sources of revenue.⁴⁹ This is significantly below the OECD average tax burden of 34%. ADB operations and advisory support, including through the Domestic Resource Mobilization Trust Fund, will support DMCs to implement the Addis Tax Initiative and to boost tax collection and other revenues by (i) broadening and protecting the domestic tax base through fair and effective tax policies; (ii) enhancing tax compliance, including improved risk management, audit and enforcement, and taxpayer services; and (iii) developing more transparent and efficient tax administration with streamlined business processes and digital technologies.

72. ADB will continue to improve DMCs' tax integrity and compliance. DMCs will be encouraged to engage in international taxation initiatives, such as the Global Forum on Transparency and Exchange of Information for Tax Purposes and the Inclusive Framework on Base Erosion and Profit Shifting, and Financial Action Task Force. ADB will also encourage DMCs to improve disclosure of beneficial ownership, including through cooperation with the Extractives Industries Transparency Initiative. These initiatives will also serve to address or mitigate distortions derived from offshore tax havens, and facilitate better disclosure of beneficial ownership, which is also important for improving financial sector and SOE performance.

73. **Strengthen public finance, expenditure, and fiscal policy.** ADB will draw on its experience supporting DMCs to strengthen public financial management, including expenditure and debt sustainability and management. Over 2008–2018, public financial management has been one of ADB's largest investment areas within its PSM portfolio. Effective public financial management—including government budgeting; public investment management; and public sector accounting, reporting, and auditing—is central to DMCs implementing their policy objectives and national development and poverty reduction plans. It is at the core of a government's ability to maintain fiscal discipline and strategically allocate and utilize public resources to deliver efficient and sustainable infrastructure and services, including through PPPs. The performance of service delivery agencies, including at subnational levels, depends on upstream public financial management systems working well. ADB will thus look to introduce digital technology solutions and promote the role of civil society in national budget processes, including accelerating women's participation in public resource allocation.

74. **Enable private sector development.** ADB will support DMCs to implement public policies that improve the investment and business climate for private sector activity. Improving the enabling environment for private sector development and competition through upstream policies that enhance transparency and predictability of legal and regulatory regimes help reduce the costs of doing business, protect businesses, level the playing field, and increase business innovation and productivity. For example, ADB supports the Investment Coordinating Board of Indonesia to better understand the impact of tax policies on business development and to implement policy actions that improve the ease

⁴⁹ ADB. 2018. *A Comparative Analysis of Tax Administration in Asia and the Pacific: 2018 Edition*. Manila.

of doing business. ADB will coordinate its PSM operations and advisory support with private sector operations, including efforts to strengthen corporate governance and catalyze private sector partners and resources. PSM operations will continue to contribute to private sector development across DMCs. PSM investments will also leverage resources either through policy reforms or other operations that serve to “crowd-in” private investments from the market including in sectors such as health, education, finance, and transport.

75. ADB will support PPPs as part of the “One ADB” approach.⁵⁰ Through its public sector operations, regional departments will provide upstream policy, legal, regulatory, and institutional support to develop an enabling environment for PPP development. In addition, a new focus on mid-stream institutional support by embedding PPP investments in countries’ Public Investment Management Programs and better linkages to the Medium-Term Budget Framework will complement more traditional public sector investments. The Office of Public–Private Partnership will, in turn, support downstream initiatives including transaction advisory services to DMCs for concrete operations. PPPs, if deemed viable and sustainable, can also be used to strengthen service delivery mechanisms. ADB will also focus on better integrating blended sovereign and non-sovereign solutions to more efficiently allocate resources and provide a backstopping for greater leveraging through partial credit guarantees. Through its private sector operations, ADB will encourage good corporate governance, including by enhancing the quality of ADB representation on investee company boards, coordination with corporate governance initiatives and forums of other international financial institutions and membership in corporate governance-focused professional bodies, and working with clients to strengthen integrity and tax transparency in all operations, in each case, in an effort to help promote sustainable private sector development. To reinforce this, ADB will (i) provide greater TA targeting client gaps in these areas, and (ii) maintain, and where feasible try to raise, the quality of its clients through conditions and/or covenants agreed with clients in the course of private sector financings. For example, ADB’s Trade Finance Program has rolled out training programs for private banks throughout Asia and the Pacific, covering implementation of anti-money laundering measures as well as promotion of environmental and social safeguards.

76. **Support macro-fiscal stability in developing member countries.** ADB has a long-standing tradition of supporting financial market development through policy-based reform programs. These PBLs support the development of diversified financial systems that contribute to more stable and resilient financial markets. Through these operations, ADB maintains engagement with government and market participants to be better able to respond to economic crises and other shocks in a timely manner. This involvement is critical for containing disorderly disruptions in DMCs and safeguarding much of the progress achieved in poverty alleviation and continuing improvements in livelihoods, especially in the more vulnerable segments of the population. CSFs will be provided judiciously ensuring close collaboration with the International Monetary Fund (IMF) and other development partners at the operational level and based on the principle that the recipient countries are committed to maintaining strong economic fundamentals. CSFs provide budgetary support to DMCs to complement the IMF’s traditional balance of payments support. CSF represents a dedicated instrument established in the wake of the global financial crisis and provides a temporary financial

⁵⁰ This approach encourages collaboration between ADB’s sovereign and nonsovereign operations, synergy in knowledge activities between operations and nonoperations departments, and integrated solutions through collaboration across the sector and thematic groups.

backstop to contain potentially large disruptions to public, and in particular social expenditures that are more prone to cutbacks and are most in demand as part of governments' own social safety nets.

77. Strengthening capital markets is also important for macro-fiscal stability. For example, ADB has been effectively supporting Bangladesh's capital markets development with successive PBLs by developing the local currency bond market and building a stronger and empowered securities and exchange commission that was upgraded to a higher level of compliance standards by the International Organization of Securities Commissions. ADB will support enhancing financial systems in terms of strengthening the prudential regulatory framework and aligning it with reforms to international financial architecture. This may be complemented with measures to ensure that the financial system supports the real economy within principles of stability and resilience and, where required, the adequate provision of safety nets. With cyclical downturns generating vulnerabilities in many DMCs through external and fiscal pressures and increasing levels of debt, countercyclical support will continue to be important. For emerging issues such as climate change and disaster crisis response, ADB will introduce financing options attached to policy reforms, including enabling financing to be put in place before disasters strike, such as catastrophe-deferred drawdown options.

78. ADB operations will also target measures to strengthen public debt management combined with greater transparency and improved disclosure requirements. Greater transparency would focus on better monitoring of both budget and off-budget contingent liabilities, including mobilizing resources through special purpose vehicles, better reporting on debt profiles of SOEs and other public corporations, and government guarantees that often pose significant fiscal risks. This will also contribute to better informed decision making for debt sustainability and overall macro-fiscal stability. More specifically, reforms could target: (i) support to establishing public debt management offices increasingly operated by professionals with treasury management experience; (ii) better coordination between public debt management with treasury management, budget, and planning offices; and (iii) improved capacity to manage debt enhanced with better and integrated digital platforms. In this regard, ADB will also seek to expand institutional links with specialized agencies such as the Paris Club.

2. Governance and Institutional Capacity for Service Delivery Improved

79. ADB governance and institutional support will focus on the promotion of effective, timely, citizen-centric, and corruption-free delivery of public services in DMCs. ADB will mainstream policy, governance, anticorruption, and institutional reforms across operations in the sectors and areas in which ADB is engaged. ADB will prioritize two public sector reform areas that directly contribute to service delivery outcomes: decentralization and local governance, and SOE reform. ADB will also selectively support legal and judicial capacity in DMCs.

80. **Strengthen policies and institutions for better service delivery.** ADB operations aiming for better service delivery in DMCs will support governance and institutional capacity in key areas by helping

- (i) create the fiscal space for service delivery and poverty reduction programs, including infrastructure investments;
- (ii) support the enabling policy and legal and regulatory environment necessary for service delivery reforms, including public resources, structures, functions, and decision making in government, and engagement with the private sector and civil society; resource adequately the operation

and maintenance of infrastructure assets; and promote public service quality standards with increased attention on marginalized and vulnerable sectors such as women and children, persons with disabilities, and indigenous peoples.

- (iii) promote gender equality in decision making and leadership by supporting legal, policy and institutional reforms to lift gender-discriminatory legal provisions; increasing women's participation in public resource allocation through gender-responsive budgeting and feedback mechanisms on quality of public service delivery; accelerating women's greater representation in public offices including in state-owned enterprises; and supporting DMC capacity building in gender mainstreaming in sector policies and projects.
- (iv) improve country systems and capacities to implement reforms and programs and to improve the delivery of public services, such as improving efficiencies and effectiveness in public financial management and procurement and building the capabilities of public administration at both national and subnational levels;
- (v) support countries' anticorruption systems and reforms to promote corruption-free public service delivery; and
- (vi) strengthen the accountability and transparency of governments, including through greater cooperation and coordination with civil society and users of public services.

81. **Support decentralization and local governance capacity.** ADB will support DMCs to strengthen subnational governments through fiscal decentralization and service delivery reforms. Worldwide, basic services are increasingly provided by local governments and other local actors, enabling local development and citizens access to services. Approximately 65% of the 169 sustainable development targets comprising the 17 SDGs will require operationalizing through subnational and local governments.⁵¹ Subnational levels of government also continue to depend on intergovernmental fiscal transfers from the central government. A more incentive compatible transfer system is needed with a clear delineation of mandates and functions, as well as better performance monitoring of devolved programs for greater impact.

82. National and local governments will jointly develop service delivery standards that meet citizens' satisfaction with the provision of public services. Increasingly, improvements will stem from greater citizen-based participation in monitoring the access and quality of service standards, including working with CSOs, and from central government monitoring of intergovernmental performance-based fiscal transfers. Combining top-down and bottom-up approaches to monitoring service delivery and budget management will form the basis for the overall improved performance standards. ADB will build on its considerable experience with fiscal and administrative decentralization, including local-level investment programming and planning, and accessing local sources of revenue, public expenditure management, and service delivery in countries like Cambodia, India, Indonesia, Nepal, Pakistan, and the Philippines.

83. **Reform state-owned enterprises.** ADB will strengthen its strategic engagement on SOE reforms, which has accounted for about 21% of ADB operations since 2005.⁵² Reforming SOEs is essential to improve service delivery for electricity, transport, and water, as well as financial services and other key areas in many DMCs. Due to their fiscal impact, SOE reforms are also important for

⁵¹ J. Sachs et. al. 2019. Sustainable Development Report 2019. New York: Bertelsmann Stiftung and Sustainable Development Solutions Network (SDSN). <https://www.sdgindex.org/reports/sustainable-development-report-2019/>.

⁵² IED. 2018. *Thematic Evaluation: State-Owned Enterprise Engagement and Reform*. Manila.

domestic resource mobilization and, through often opaque contingent liabilities, fiscal and financial stability. ADB's support will focus on the core challenges that hinder SOE performance, strengthening performance and accountability while also ensuring a level playing field with the private sector.

84. Country-differentiated approaches will include (i) core corporate governance reforms within SOEs; (ii) fostering greater competition and contestability across markets; and (iii) promoting greater commercial orientation of SOEs, access to capital markets through its own balance sheet, and divestment. Areas of reform will include fiscal linkages; sector governance and competition; internal governance and transparency; and support for corporatization, equitization, shedding non-core assets, and appropriate private sector engagement. This would include improving contestability by reducing barriers to entry, promoting competitive markets, and reducing subsidies and inefficiencies across protected SOEs. Crucially, this work will seek to improve how the state measures SOE performance, holds SOEs accountable for that performance, and makes other major decisions in SOEs. ADB will explore joint sovereign and nonsovereign financing of SOEs, where appropriate, to facilitate their entry to commercial market borrowing, and staff from different operations departments will be incentivized to work together to deliver appropriate solutions to ADB's SOE clients. ADB will focus on targeting SOEs where there is clear government support for relevant reforms, good corporate governance, a move toward commercialization, and private participation, where appropriate. ADB will continue to deepen its investments and assist SOEs to attract commercial financing.

85. Building on the SOE Working Group established in 2016, ADB-wide coordination on SOE reform will be further rolled out, including by completing an SOE central database covering ADB operations and lessons; developing a more effective SOE project classification system for easy tagging of SOE projects, an SOE action plan, and the development of diagnostic and other tools; and more closely aligning public and private sector operations. Strengthening the SOE advisory work of ADB has also been operationalized. A demand-driven and differentiated approach will inform the SOE reform process under Strategy 2030, building on strong government ownership.

86. **Develop legal and judicial institutional capacity.** ADB will support DMCs to strengthen the quality of their legal and judicial systems to improve the efficiency, transparency, and integrity of the courts and other dispute resolution mechanisms. ADB will focus on building institutional capacity in transformative justice issues such as climate change and gender equality. Capacity in environmental and climate adjudication will become increasingly important as the effects and impacts of climate change intensify and disputes related to climate change are brought before the courts. For example, ADB's Law and Policy Reform Program works with judiciaries to strengthen their capacity for adjudication in multidimensional aspects of environmental law.⁵³ ADB also prioritizes lifting gender-discriminatory legal provisions and supporting women's legal literacy.

3. Country Systems and Standards Effectively Utilized

87. ADB is committed to increasing the use of country systems for delivering public sector operations. Using country systems could reduce delays in project implementation, cut transaction costs, improve country ownership, and strengthen DMC institutions and systems for service delivery.⁵⁴ Strong country systems and standards increase the accountability and transparency of public business

⁵³ ADB. 2016. *Law and Policy Reform Program: Effective Legal Systems for Sustainable Development*. Manila.

⁵⁴ ADB. 2015. *Clients-Contributors-Collaborators: A New Partnership with Upper Middle-Income Countries*. Manila.

processes. These include environmental and social safeguards, DMC systems and capacity in financial management and procurement, and anticorruption and integrity (the latter two are priority areas under GACAP II). Since the strengths of country systems vary among DMCs, ADB assistance will be context-specific to ensure adherence to ADB standards and will recognize that progress will be largely incremental, focusing on identifying pathways to reach a high level of compliance of standards at the agency level as a first step.

88. **Strengthen financial management and procurement systems.** ADB will accelerate its support to DMCs to strengthen financial management and procurement practices and to adhere to the highest standards of value for money across national and subnational levels. In addition to supporting broader development objectives, financial management and procurement fulfill one of ADB's key fiduciary responsibilities of ensuring the accountability of funds provided to DMCs. Strengthening local capacity in these areas helps DMCs improve their governance and contributes to the sustainability of ADB investments. It also helps DMCs to successfully plan, design, finance, and implement projects and programs, including those of other multilateral partners. For example, in the Central and West Asia region, ADB is improving the capacity and integrity of procurement processes in multiple countries through training and workshops promoting value for money. ADB will help DMCs undertake procurement reforms to improve transparency and accountability while executing public funds. ADB will also expand e-procurement and implement a modernized complaint-handling system to further promote transparency.

89. **Implement anticorruption and integrity measures.** ADB will continue promoting its zero-tolerance policy toward corruption in its operations and the conduct of its staff and will implement anticorruption measures in all operations. As corruption continues to pervade the region, governments need to be at the forefront of anticorruption campaigns in both the public and private sectors. Corruption undermines economic performance and hurts the poor disproportionately by diverting funds intended for development while weakening governments' ability to provide basic services. ADB will strengthen its capacity to eradicate corruption through anticorruption and integrity training and awareness raising. ADB will support anticorruption efforts in DMCs and look for opportunities to coordinate with development partners and to empower anticorruption institutions and CSOs.⁵⁵ ADB will also support DMCs to: (i) bridge the gap between anti-money laundering policy development and regulatory compliance; and (ii) strengthen tax integrity, including promoting tax transparency, countering tax evasion, and protecting DMCs from aggressive forms of tax planning such as base erosion and profit shifting.

90. **Uphold environmental and social safeguards.** ADB ensures the implementation of environmental and social safeguards in its operations in line with its Safeguards Policy Statement (2009). This recognizes that strengthening safeguards helps avoid and mitigate negative impacts of projects and promotes the sustainability of operations and service delivery outcomes. ADB will support DMCs to strengthen their governance and management capacity to ensure the environmental soundness of projects, to effectively manage involuntary resettlement, and to ensure that indigenous peoples benefit from projects. This support involves strengthening country safeguard systems, including the establishment and implementation of legal and regulatory frameworks, as well as

⁵⁵ For example, the Anti-Corruption Initiative for Asia and the Pacific, established in 1999, supports 31 member countries and jurisdictions to fight corruption. ADB-OECD. Anti-Corruption Initiative for Asia and the Pacific. <https://www.oecd.org/site/adoecdanti-corruptioninitiative/>

enhanced institutional arrangements and better monitoring and supervision. This will target assisting DMCs to converge toward international good practices.

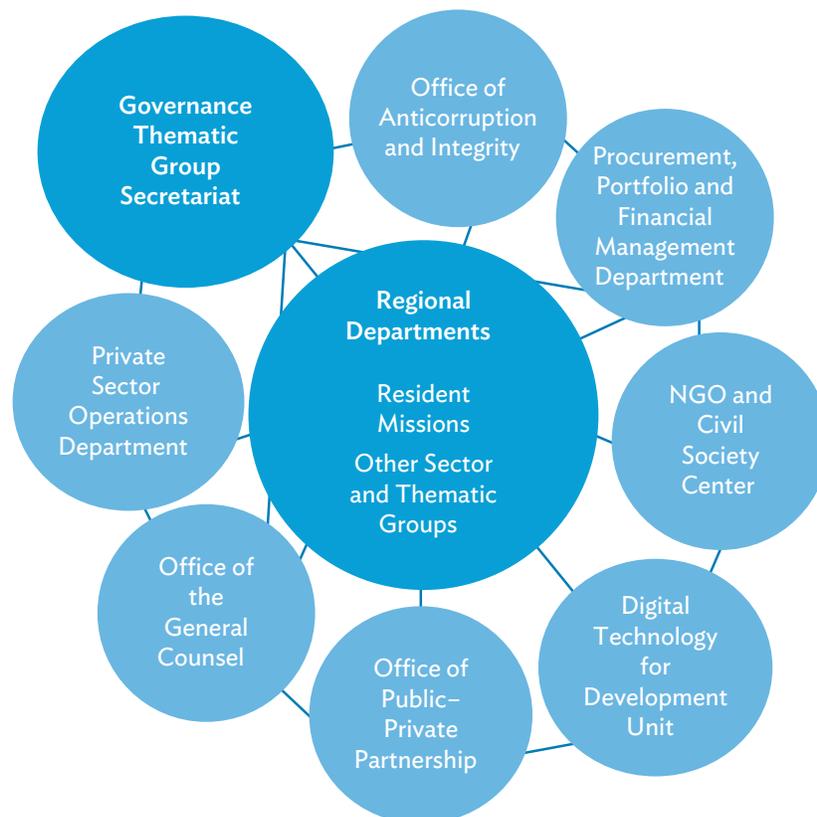
91. In line with the Safeguards Policy Statement, ADB will continue to support DMC efforts to strengthen the use of country systems through diagnostic studies, building on experiences with the use of country systems. This will be undertaken through coordination with other development partners including the World Bank. In addition, ADB programs and project operations can be used as vehicles for further assessment and capacity development. For example, RBLs can be used to improve environmental and social safeguards through the program safeguard systems assessment. The assessment can be used as an effective tool to identify gaps and inconsistencies between ADB and borrower's safeguard systems and can inform the development of program action plans. In implementing the Safeguards Policy Statement and country safeguard strengthening, ADB will continue to consult with project beneficiaries, civil society, and affected communities. ADB will give more attention to social dimensions, including vulnerable groups and gender issues, when implementing ADB projects and when designing, implementing, and monitoring country safeguard systems.

92. **Build strong statistical institutions.** ADB will continue to help build the capacity of statistical institutions to improve the availability of timely and reliable statistics that are essential for informed decision making and achieving inclusive development both at the national and subnational levels, working closely with national institutes of statistics. Based on assessments of statistical institutions, ADB will identify gaps to formulate strategic directions, implementation plans, and TA.

A. Interdepartmental Cooperation

93. The Governance Thematic Group will continue to facilitate the One ADB approach. The group is overseen by an interdepartmental governance committee, comprising the five regional departments; the Office of Anticorruption and Integrity; the Office of the General Counsel; the Procurement, Portfolio and Financial Management Department; and the Private Sector Operations Department (Figure 4). The Governance Committee oversees the implementation and monitoring of

Figure 4: One ADB Approach to Governance and Institutional Capacity



ADB = Asian Development Bank, NGO = nongovernment organization.
Source: ADB.

this operational plan. To perform its role fully, the committee's membership will be expanded to include the NGO and Civil Society Center (NGOC), the Digital Technology for Development Unit, and the Knowledge Advisory Services Center.

94. The operations departments and offices will share responsibility for implementing this operational plan. ADB's five regional departments and the Private Sector Operations Department have the primary responsibility for the effective mainstreaming of governance and institutional support in country programming and operations. They are supported by sector and thematic groups that help with understanding the governance and institutional capacity dynamics in their respective sector and thematic areas. The Procurement, Portfolio and Financial Management Department provides technical advice, guidance, and support on project financial management and performance and procurement at country, sector, and project levels. The Office of Anticorruption and Integrity provides advice and guidance on anticorruption, integrity due diligence, tax integrity, anti-money laundering, and combating the financing of terrorism. NGOC supports CSO participation, youth engagement, knowledge, and experience in ADB operations and works closely with the ADB-wide CSO cooperation network. The Digital Technology for Development Unit will closely contribute with digital solutions and platforms to strengthen GovTech and overall e-governance operations. The Office of the General Counsel also provides TA and outreach activities to DMCs in emerging legal and judicial reforms and institutional development. The Office of Public-Private Partnership, which includes the PPP Thematic Group Secretariat, leads ADB's provision of transaction advisory services to DMCs and knowledge work on PPPs.

B. Strategic Partnerships and Coordination

95. As well as finance and knowledge, Strategy 2030 prioritizes partnerships to maximize development impact for clients. Accessing regional and global expertise and knowledge means ADB will need to form partnerships with international financial institutions, bilateral development partners, research and academic institutions, philanthropic organizations, CSOs, and the private sector. ADB has experience in partnerships in governance recognizing the value to DMCs of deepening understanding and forming common approaches. It will continue to explore strategic partnerships in governance and institutional capacity founded on the mutual exchange of knowledge and expertise.

96. Organizations with global reach, such as the IMF and the OECD, bring know-how, experience, and valuable lessons in policy and institutional development from outside the region. The Anti-Corruption Initiative for Asia and the Pacific is a prime example. Established in 1999, the initiative is a partnership between ADB, OECD, and other development partners to support 31 member countries and jurisdictions to fight corruption. Other successful collaborations that have become references for experts in the sector include the OECD Network on Fiscal Relations across Levels of Government, the Global Forum on Transparency and Exchange of Information for Tax Purposes, and the OECD Centre for Tax Policy and Administration.

97. As a convener of partnerships, ADB will promote dialogue and collaboration among diverse partners and stakeholders, including connecting government officials, academia, civil society, and the private sector to global knowledge hubs and learning centers, such as the ADB Institute, Korea Development Institute, and Lee Kuan Yew School of Public Policy. Other major partners include the Development Partners Network on Decentralization and Local Governance, the Study Group on Asian

Tax Administration and Research, and Association of Southeast Asian Nations Capital Markets Forum on corporate governance.

98. ADB will also continue to collaborate with local institutions in DMCs. For example, the Capacity Development Resource Center in Nepal is a collaboration between ADB and the Nepal Administrative Staff College to provide capacity development and training to DMC government officials and other stakeholders implementing ADB operations. Similarly, ADB's Capacity Development Resource Centre in India collaborates with several local institutions, including management and technology institutes. ADB's Water Operators Partnerships initiative is a water utility twinning program and successful capacity development endeavor designed to promote knowledge sharing and peer-to-peer learning by bringing together experienced, efficient water utilities with those that need help to improve services.

99. These strategic partnerships and networks, along with knowledge products and events will enable ADB to facilitate South–South cooperation in the course of strengthening institutional capacity in developing member countries. ADB will use its convening power to organize regional institutional development and training programs to promote peer learning and exchange among DMCs on cross-border development challenges, including the management of infrastructure connectivity. Partnerships and knowledge-sharing platforms will be periodically assessed to improve the effectiveness of these tools to tackle and address governance and institutional issues.

C. Emerging Areas

100. Emerging areas requiring increased expertise and knowledge include macro-fiscal economics, e-governance and big data management, PSM, anticorruption reforms, tax policy and administration, SOE reforms, and private sector development. ADB will increase its investment in knowledge and learning in these areas and in structured training to strengthen the governance and institutional skills of its staff. ADB has vast experience leading joint programs for its staff and DMC participants from governments, CSOs, and the private sector. New initiatives will build on existing experiences and mechanisms such as the partnership with the ADB Institute, which, if targeted and implemented well, can be effective in facilitating skills development and cross-sector peer learning and exchange.

D. Knowledge Priorities

101. ADB will increase its investment in knowledge products and services related to strengthening governance and institutional capacity in DMCs. It will work closely with DMCs to identify their needs and produce the most relevant knowledge products and services through country knowledge plans, as well as institutional capacity assessments and road maps that will focus on knowledge transfer. Developing DMC capacity for generating their own knowledge solutions to the development challenges they face will increasingly form part of ADB's capacity development in DMCs.

102. In collaboration with the Knowledge Advisory Services Center, Governance Thematic Group, operations departments, and other sector and thematic groups, ADB will work to ensure knowledge products and services are operationally relevant and promote innovation and operational quality

and effectiveness. Proven knowledge products and services will be continued while new areas will be explored, including

- (i) flagship publications series that provide multi-country and evidence-based research, including *A Comparative Analysis of Tax Administration in Asia and the Pacific*, *Association of Southeast Asian Nations Corporate Governance Scorecard*, *Government at a Glance Southeast Asia*, the public financial management systems country series, and the *Finding Balance* series;
- (ii) *Governance Brief* series, ADB's long-standing publication that responds to inquiries and demands for short, easy-to-read guidance on operational design and implementation as well as topical and frontier issues in governance;
- (iii) ADB-ADB Institute Forum on Governance and Institutions, a collaboration between ADB and the ADB Institute to promote sharing knowledge and insights on policy and institutional reforms among peer countries in Asia and the Pacific (and within ADB) to help enhance governance and capacity in DMCs; and
- (iv) technical studies, reports, and events that share ADB and global practices and experiences on a range of public policy and institutional issues, often drawing on ADB operations to encourage lessons from good practices that would otherwise remain hidden in operations and linking ADB staff with global thought leaders.

IV

STRATEGY 2030 OPERATIONAL PRIORITY RESULTS

103. The following are the Strategy 2030 operational priority results under the operational plan. These will be monitored under ADB’s corporate results framework⁵⁶ and will be reported annually in the Development Effectiveness Review.

Pillar	Description	Indicator with Achievement Rate Target	Sub-pillars
1	Public and corporate sector management functions and financial stability improved	Number of entities with improved public management functions and financial stability	<ul style="list-style-type: none"> Capacity of public organizations to design and/or implement targeted policy reforms improved Capacity of public organizations to promote private sector and financial sector development improved Capacity of relevant authorities to maintain monetary and/or fiscal stability improved Capacity of public organizations to manage public finances strengthened Capacity of nonsovereign financial viability improved
2	More effective, timely, corruption-free, and citizen-centric delivery of services	Number of entities with improved service delivery	<ul style="list-style-type: none"> Capacity of public organizations to strengthen standards for better service delivery enhanced Capacity of subnational entities improved, and the provision of services decentralized Governance and efficiency of state-owned enterprises improved Citizen engagement increased

⁵⁶ ADB. 2019. *ADB Corporate Results Framework, 2019–2024*. Manila

APPENDIX 1

CONTRIBUTION OF SECTOR AND THEMATIC AREAS TO THE OPERATIONAL PLAN

Sector and Thematic Group	Contribution to Operational Plan: Strengthening Governance and Institutional Capacity
Education	<p>Develop service delivery standards in the education sector; enhance administrative efficiency and effectiveness in the delivery of educational services.</p> <p>Create a pipeline of investments geared toward improving the access and quality of education; ensure these investments are aimed at building people's capacity to increase productivity and improve the quality of life.</p> <p>Strengthen the capacity of educational institutions to effectively formulate, plan, implement, and monitor programs and projects.</p> <p>Promote local school-based management within the context of transparency and accountability. School policies and guidelines must clearly reflect intended outcomes and must be anchored on community context.</p> <p>Support decentralization of educational services from national to subnational agencies requires clear delineation of functions, mandates, and financing arrangements.</p> <p>Encourage key stakeholders to participate in decision-making processes, and provide an enabling environment for citizen feedback.</p> <p>Ensure the timely and corruption-free delivery of quality goods and services at national and subnational levels.</p> <p>Improve the availability of timely and quality data for planning, implementing, and monitoring programs and projects in the education sector.</p>
Energy	<p>Explore how clean energy and energy efficiency can be implemented in the context of multi-level governance and policy management; introduce governance and institutional innovations to achieve sustainable management of energy systems.</p> <p>Strengthen the capacity of national and local governments to increase the use of renewable energy and promote its benefits to citizens and businesses.</p> <p>Formulate laws and regulations, providing for unbundling of power from generation to transmission to distribution.</p> <p>Develop policies that support the transition to decentralized power generation and other energy systems considering technological ability, regulatory flexibility, and political processes.</p> <p>Provide inputs in carrying out public-private partnership (PPP) appraisal, monitoring and evaluation. Based on careful comparative analysis, PPP can play a role in the implementation and financing of energy systems.</p> <p>Establish energy systems taking into account various factors, such as the strategic use of information and communication technology and infrastructure and ownership structures, engaging citizens to participate in the energy system transition process.</p> <p>Ensure citizens' access to sustainable and affordable electricity.</p>

Sector and Thematic Group	Contribution to Operational Plan: Strengthening Governance and Institutional Capacity
Finance	<p>As part of strengthening macro and fiscal stability, support the development of stronger financial systems built on prudential regulations and other regulatory reforms and sound banking practices to mitigate economic risks and other shocks.</p> <p>Contribute to the formulation and improvement of policy, regulatory, and institutional policies supporting micro, small, and medium-sized enterprises (MSMEs).</p> <p>Improve coordination and collaboration among various ministries, agencies, and departments in the design and implementation of MSMEs policies.</p> <p>Develop analytical papers and assessment studies identifying opportunities and barriers to developing MSMEs in the region.</p> <p>Improve the availability of timely and quality statistical data on MSMEs for effective policy making in the region.</p> <p>Work closely with Governance Team in initiatives supporting infrastructure financing.</p>
Health	<p>Develop service delivery standards in the health sector.</p> <p>Improve citizens' access to quality health services.</p> <p>Develop a clear strategic direction for health policy development and implementation; better articulate the case for health in national development.</p> <p>Formulate strategic health policy frameworks with built-in systems for effective oversight, regular monitoring and evaluation, and citizen participation and partnerships.</p> <p>Improve oversight and accountability mechanisms for health sector institutions.</p> <p>Promote collaboration among government, civil society, and the private sector in achieving health policy outcomes and strengthening national health systems.</p> <p>Improve availability of timely and quality data for planning, implementing, and monitoring programs and projects in the health sector.</p>
Transport	<p>Contribute to the design and implementation of policy, regulatory, and institutional reforms for improved transport connectivity and efficiency.</p> <p>Adopt a multi-level governance approach and other analytical frameworks for the development and implementation transport policies and regulations toward achieving transport policy goals.</p> <p>Ensure the coherence of transport sector policies and prioritization guidelines for the evaluation of projects.</p> <p>Provide clarity on the functions and mandates of key ministries, departments, and agencies in the transport sector.</p> <p>Provide assistance to developing member countries in developing sustainable and climate-resilient intermodal transport systems.</p> <p>Improve the planning and procurement functions of transport institutions; strengthen national and subnational public financial management frameworks in the transport sector.</p> <p>Mainstream infrastructure option analysis in transport investment programming and planning, considering key elements such as value for money, technological innovation, project timelines, market analysis, and risk and cost analysis.</p> <p>Increase citizens' access to sustainable transport infrastructure services.</p> <p>Improve the availability of timely and quality data for sustainable transport infrastructure management.</p>

Sector and Thematic Group	Contribution to Operational Plan: Strengthening Governance and Institutional Capacity
Urban	<p>Strengthen urban institutional capacities by improving national and subnational public financial management systems and enhancing administrative capacities to plan, implement, and monitor transport programs and projects.</p> <p>Contribute to the development and/or enhancement of institutional frameworks to mainstream urban development in national policy statements.</p> <p>Identify fiscal and financial management opportunities and challenges to implementing urban strategies at national and subnational levels.</p> <p>Increase citizens' access to sustainable urban infrastructure services.</p> <p>Encourage greater community participation in urban development projects and strengthen coordination among agencies involved in urban development.</p> <p>Improve the availability of timely and quality data for sustainable urban infrastructure management.</p>
Water	<p>Formulate and implement water policies and regulations to improve water usage and management.</p> <p>Strengthen institutional capacity to plan, design, implement, and monitor efficient and effective water programs and projects.</p> <p>Provide clarity on the functions and mandates of key ministries, departments, and agencies in the water sector.</p> <p>Ensure water sector policies are coherent through effective cross-sectoral coordination and collaboration.</p> <p>Increase citizens' access to sustainable water infrastructure services.</p> <p>Improve the availability of timely and quality water-related data for sustainable water management.</p>
Climate Change and Disaster Risk Management	<p>Strengthen technical and institutional capacity for climate-smart agriculture and climate-friendly agribusinesses.</p> <p>Increase climate resilience for critical rural infrastructure.</p> <p>Promote collaboration among government, private sector, and civil society in designing and implementing national sustainable development strategies.</p> <p>Develop monitoring systems for climate change adaptation to better identify and assess climate change risks.</p> <p>Strengthen institutional capacity to plan, design, implement, and monitor programs and projects promoting climate change adaptation in Asia and the Pacific.</p> <p>Ensure funds are available to tackle climate change and build community resilience to climate and disaster risks.</p>
Gender	<p>Empower women by equipping them with the necessary knowledge, skills, and attitude to participate in decision-making processes and the development agenda.</p> <p>Address the practical and strategic needs of women; identify societal and institutional constraints to political and socioeconomic empowerment.</p> <p>Formulate and implement policies and regulations that will enable greater gender inclusiveness in government institutions.</p> <p>Mainstream gender and development in all stages of the project cycle (i.e., project identification, implementation, monitoring and evaluation).</p> <p>Develop indicators, measures, and standards for gender and development.</p>

Sector and Thematic Group	Contribution to Operational Plan: Strengthening Governance and Institutional Capacity
Social Development	<p>Promote inclusive development at the grassroots level; empower the marginalized sectors in society to contribute to the development agenda.</p> <p>Analyze the governance dimension of social protection and development, social assistance and insurance, and labor market programs.</p> <p>Strengthen institutional capacity to plan, design, implement, and monitor social protection programs and projects.</p> <p>Monitor expenditures on social protection; ensure the allocated funds are spent on right priorities.</p> <p>Strengthen governance elements in social safeguards and core labor standards.</p>
Rural Development and Food Security	<p>Help design and implement institutional policies, rules, and regulations promoting rural development and food security.</p> <p>Mainstream rural development and food security in national development agendas and policy statements.</p> <p>Strengthen local government capacity for improved service delivery.</p> <p>Improve the capacity of community-based people's organizations to participate in decision-making processes.</p> <p>Introduce methodologies and approaches to rural development and food security, including multistakeholder engagement and participatory development.</p> <p>Develop accountability and service delivery standards for rural development and food security.</p>
Regional Cooperation and Integration	<p>Formulate and implement policy, institutional, and regulatory reforms supporting regional cooperation and integration.</p> <p>Establish economic integration and infrastructure networks, and create enabling conditions for trade.</p> <p>Support the economic, financial, and governance due diligence of projects in order to accurately assess their economic and financial viability.</p> <p>Strengthen institutional capacity to plan, design, and monitor regional cooperation and integration programs and projects.</p>
Public-Private Partnership	<p>Provide opportunities for private sector participation in service delivery through PPPs.</p> <p>Develop case studies showcasing the success of PPP projects and identifying challenges to implementation.</p> <p>Continue to provide transaction advisory services and project preparation facilities to developing member countries and private sector to establish a pipeline of bankable PPP projects.</p>

APPENDIX 2

INTERDEPARTMENTAL COOPERATION MATRIX

Governance Thematic Group Activities	Areas	Actors
(i) Provide an adequately resourced secretariat to support the implementation of the operational plan	Assistance and backstopping of staff working on country partnership strategies, sector road maps, and programs, including participating in missions, as necessary	Operations departments, resident missions
(ii) Ensure operations departments and other offices fully understand the operational plan's implementation arrangements as well as its implications through consultations, seminars, meetings, and workshops	Peer review of country partnership strategies, sector roadmaps, and operations, including from the perspective of the operational plan's strategic operational priorities	Operations departments, resident missions
(iii) Provide guidance to operations departments on the implementation of the operational plan regularly and routinely	Provision of technical assistance and trust fund resources to support the implementation of the operational plan, including opportunities for integrated solutions and knowledge work	Operations departments
(iv) Ensure effective peer review and support to operations and facilitate integrated solutions	Closer alignment of public and private sector operations, including through the state-owned enterprise Working Group, and promoting the use of public-private partnerships in operations	Regional departments, Private Sector Operations Department, Office of Public-Private Partnership
(v) Support knowledge products and services to improve the understanding of governance and institutional capacity issues	Monitoring governance and institutional support to developing member countries, including for operational quality and results, and supporting enhanced operational processes	Operations departments
(vi) Enhance operational processes to strengthen the implementation of governance and institutional capacity support to developing member countries	Better alignment and application of governance risk assessments and management under the Second Governance and Anticorruption Action Plan with the Asian Development Bank's overall risk-based approach to operations	Procurement, Portfolio and Financial Management Department, Office of Anticorruption and Integrity
(vii) Facilitate the mobilization of resources and expertise across the bank to implement the operational plan		

APPENDIX 3

G20 PRINCIPLES FOR QUALITY INFRASTRUCTURE INVESTMENT⁵⁷

Preamble

- *Infrastructure is a driver of economic prosperity and provides a solid basis for strong, sustainable, balanced and inclusive growth and sustainable development, which are the key goals of the G20 and critical for promoting global, national and local development priorities. Nonetheless, the world still faces a massive gap in financing for investment in new and existing infrastructure, which could generate a serious bottleneck to economic growth and development or provision of secure and reliable public services. In this vein, the G20 has stressed the need to scale up infrastructure investment. Efforts have been made to find concrete ways to mobilize more private capital, such as the Roadmap to Infrastructure as an Asset Class (“Roadmap”) endorsed by Leaders in 2018.*
- *The G20 has also highlighted the importance of the quality of infrastructure investment, including in the Leaders’ Communiqué at the 2016 Hangzhou Summit, and in the Roadmap. In infrastructure, quantity and quality can be complementary. A renewed emphasis on quality infrastructure investment will build on the past G20 presidencies’ efforts to mobilize financing from various sources, particularly the private sector and institutional sources including multilateral development banks, thereby contribute to closing the infrastructure gap, develop infrastructure as an asset class, and maximizing the positive impacts of infrastructure investment according to country conditions.*

Principles for Promoting Quality Infrastructure Investment

- This document sets out a set of voluntary, non-binding principles that reflect our common strategic direction and aspiration for quality infrastructure investment.

Principle 1: Maximizing the positive impact of infrastructure to achieve sustainable growth and development

1.1 *Setting off a virtuous circle of economic activities*

- The aim of pursuing quality infrastructure investment is to maximize the positive economic, environmental, social, and development impact of infrastructure and create a virtuous circle of economic activities, while ensuring sound public finances. This virtuous circle can take various

⁵⁷ G20. 2019. Principles for Quality Infrastructure Investment. June 9. https://www.mof.go.jp/english/international_policy/convention/g20/annex6_1.pdf.

forms. New jobs are created during construction, operation, and maintenance of infrastructure, while positive spillover effects of infrastructure stimulate the economy and lead to more demand for jobs. Advanced technology and know-how may be transferred voluntarily and on mutually agreed-upon terms. This can result in better allocation of resources, enhanced capacities, skills upgrade and improvement of productivity for local economies. This impetus would improve the potential for economic growth, leading to widening of the investor base, crowding-in more private investment, and resulting in further improvement in economic fundamentals. This would facilitate trade, investment, and economic development. All these expected outcomes of the investment should be considered in the project design and planning.

1.2 *Promoting sustainable development and connectivity*

- Infrastructure investment should take into account economic, environmental and social, and governance aspects, and be guided by a sense of shared, long-term responsibility for the planet consistent with the 2030 Agenda for Sustainable Development, national and local development strategies, and relevant international commitments, and in the spirit of extensive consultation, joint efforts and shared benefits. The facilities and services of infrastructure should have sustainable development at their core and need to be broadly available, accessible, inclusive and beneficial to all. A virtuous circle of economic activities would be further secured through enhancing accessibility to, and national, regional, and global connectivity of, infrastructure, based on consensus among countries. Domestic resource mobilization is critical to addressing the infrastructure financing gap. Assistance for capacity building, including for project preparation, should be provided to developing countries with the participation of international organizations. Quality infrastructure investment also needs to be tailored to individual country conditions and consistent with local laws and regulations.

Principle 2: Raising Economic Efficiency in View of Life-Cycle Cost

Quality infrastructure investment should attain value for money and remain affordable with respect to life-cycle costs, by taking into account the total cost over its life-cycle (planning, design, finance, construction, operation and maintenance (O&M), and possible disposal), compared to the value of the asset as well as its economic, environmental and social benefits. Using this approach helps choose between repairing or upgrading an existing infrastructure or launching a new project. Project preparation, as set out in the *G20 Principles for the Infrastructure Project Preparation Phase* is crucial in this regard.

2.1 The life-cycle costs and benefits of infrastructure investments should be taken into consideration in ensuring efficiency. Construction, O&M, and possible disposal costs should be estimated from the onset of the project preparation stage. The identification of mechanisms to address cost overruns and cover ongoing O&M costs is critical to ensure financial sustainability at project level. Cost-benefit analysis should be used over the life-cycle of infrastructure projects.

2.2 Infrastructure projects should include strategies to mitigate the risks of delays and cost overrun, and those in post-delivery phases. Necessary elements to achieve this objective can include: (i) broad stakeholder engagement throughout the project; (ii) expertise in planning, operations, and risk allocation/mitigation; and (iii) application of appropriate safeguards and instruments.

2.3 Innovative technologies should be leveraged through the life-cycle of infrastructure projects, where appropriate, to raise economic efficiency for existing and new infrastructure.

Advanced technologies are an important component for new and existing assets and can help to improve data availability to monitor infrastructure use, performance, and safety.

Principle 3: Integrating Environmental Considerations in Infrastructure Investments

Both positive and negative impacts of infrastructure projects on ecosystems, biodiversity, climate, weather, and the use of resources should be internalized by incorporating these environmental considerations over the entire process of infrastructure investment, including by improving disclosure of these environment related information, and thereby enabling the use of green finance instruments. Infrastructure projects should align with national strategies and nationally determined contributions for those countries determined to implement them, and with transitioning to long-term low-emissions strategies, while being mindful of country circumstances.

3.1 These environmental considerations should be entrenched in the entire life cycle of infrastructure projects. The impact on the environment of the development, operation and maintenance, and possible disposal of the infrastructure project should be continuously assessed. Ecosystem-based adaptation should be considered.

3.2 The environmental impact of infrastructure investment should be made transparent to all stakeholders. This will enhance the appreciation of sustainable infrastructure projects and increase awareness of related risks.

Principle 4: Building Resilience against Natural Disasters and Other Risks

Given the increasing number and heightened magnitude of natural disasters and slow onset of environmental changes, we face the urgent need to ensure long-term adaptability and build resilience of infrastructure against these risks. Infrastructure should also be resilient against humanmade risks.

4.1 Sound disaster risk management should be factored in when designing infrastructure. A comprehensive disaster risk management plan should influence the design of infrastructure, the ongoing maintenance, and consider the re-establishment of essential services.

4.2 Well-designed disaster risk finance and insurance mechanisms may also help incentivize resilient infrastructure through the financing of preventive measures.

Principle 5: Integrating Social Considerations in Infrastructure Investment

Infrastructure should be inclusive, enabling the economic participation and social inclusion of all. Economic and social impacts should be considered as an important component when assessing the quality of infrastructure investment, and should be managed systematically throughout the project life-cycle.

5.1 Open access to infrastructure services should be secured in a non-discriminatory manner for society. This is best achieved through meaningful consultation and inclusive decision-making with

affected communities throughout the project life cycle, with a view to securing non-discriminatory access to users.

5.2 Practices of inclusiveness should be mainstreamed throughout the project life cycle.

Design, delivery, and management of infrastructure should respect human rights and the needs of all people, especially those who may experience particular vulnerabilities, including women, children, displaced communities or individuals, those with disabilities, indigenous groups, and poor and marginalized populations.

5.3. All workers should have equal opportunity to access jobs created by infrastructure investments, develop skills, be able to work in safe and healthy conditions, be compensated and treated fairly, with dignity and without discrimination. Particular consideration should be given to how infrastructure facilitates women's economic empowerment through equal access to jobs, including well-paying jobs, and opportunities created by infrastructure investments. Women's rights should be respected in labor market participation and workplace requirements, including skills training and occupational safety and health policies.

5.4 Safe and healthy occupational conditions should be put in place, both at the infrastructure site and in the surrounding communities. Maintaining occupational safety and health conditions would also present a huge economic advantage worldwide.

Principle 6: Strengthening Infrastructure Governance

Sound infrastructure governance over the life cycle of the project is a key factor to ensure long-term cost-effectiveness, accountability, transparency, and integrity of infrastructure investment. Countries should put in place clear rules, robust institutions, and good governance in the public and the private sector, reflecting countries' relevant international commitments, which will mitigate various risks related to investment decision-making, thus encouraging private sector participation. Coordination across different levels of governments is needed. Capacity building is also key in ensuring informed decision-making and effectiveness of anticorruption efforts. In addition, improved governance can be supported by good private sector practices, including responsible business conduct practices.

6.1 Openness and transparency of procurement should be secured to ensure that infrastructure projects are value for money, safe, and effective, and so that investment is not diverted from its intended use. Transparent, fair, informed, and inclusive decision-making, bidding, and execution processes are the cornerstone of good infrastructure governance. Greater transparency, including on terms of financing and official support will help ensure equal footing in the procurement process. A wide range of stakeholders such as users, local population, civil society organizations and private sector, should be involved.

6.2 Well-designed and well-functioning governance institutions should be in place to assess financial sustainability of individual projects and prioritize among potential infrastructure projects subject to available overall financing. In addition to project-level financial sustainability, the impact of publicly funded infrastructure projects, and of possible contingent liabilities, on macro-level debt sustainability, needs to be considered and transparent, given that infrastructure investment can have significant impact on public finance. This will contribute to attaining value for money that considers life-cycle cost, promoting fiscal sustainability, saving fiscal space for future potential projects, and

crowding in more private investments. A functionally integrated and transparent decision-making framework for infrastructure investments that considers both O&M and new investments to ensure efficient resource allocation.

6.3 Anticorruption efforts combined with enhanced transparency should continue to safeguard the integrity of infrastructure investments, which are potentially large-scale, complex, long-term, and with a wide range of stakeholders. Infrastructure projects should have measures in place to mitigate corruption risks at all project stages.

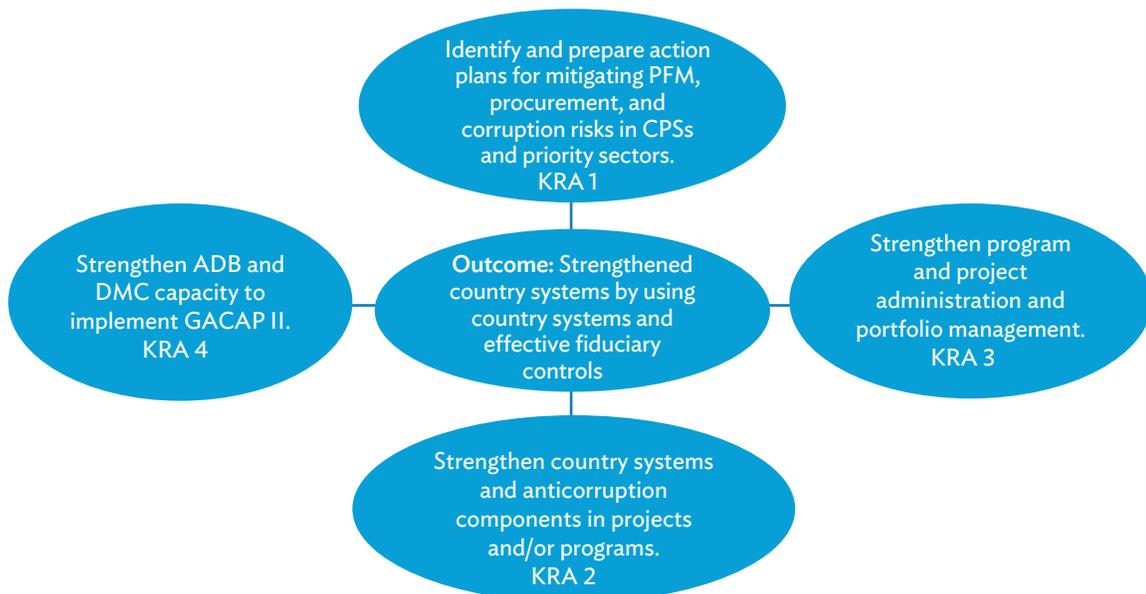
6.4 Access to adequate information and data is an enabling factor to support investment decision-making, project management, and evaluation. Access to information and data needs to be available in-country to help undertake cost and benefit analyses, supports government decision-making and policy monitoring, and facilitates project preparation processes and management.

APPENDIX 4

SECOND GOVERNANCE AND ANTICORRUPTION ACTION PLAN

104. The Second Governance and Anticorruption Action Plan (GACAP II) has four key result areas defined around institutional outcomes, which provide a valuable framework for the Asian Development Bank (ADB) to operationalize its governance and anticorruption policies. As part of ADB's commitment to strengthen and promote the use of country systems, GACAP II creates the enabling framework for risk-based governance assessments in public financial management, procurement, and anticorruption. ADB expects governance risks to be mitigated by countries, sectors, and agencies performing sound assessments; developing member countries and ADB strengthening their capacity; and projects being administered better.

Figure A4: Key Results Areas for Second Governance and Anticorruption Action Plan (GACAPII)



ADB = Asian Development Bank, CPS = country partnership strategy, DMC = developing member country, GACAP II = Second Governance and Anticorruption Action Plan, KRA = key result area, PFM = public financial management.

Sources: ADB. Forthcoming. *Second Governance and Anticorruption Action Plan Implementation, 2006–2018: Achievements and Learnings Report*. Manila; and ADB. 2013. *Implementation Review: Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

105. Reviews of GACAP II implementation show sound practices and also opportunities for improving performance by adopting an integrated and more streamlined approach in projects and programs. Institutional outcomes, performance, and compliance actions in GACAP II will be updated to reflect the experience gained and ensure implementation is aligned with the governance commitments in Strategy 2030.

Strategy 2030 Operational Plan for Priority 6 *Strengthening Governance and Institutional Capacity, 2019–2024*

Strengthening governance and institutional capacity is one of seven operational priorities of the Asian Development Bank (ADB) under its Strategy 2030. This operational plan specifies the strategic approaches and implementation measures required to operationalize the priority. It is part of a series that includes an overview and operational plans for all seven priorities. The series was prepared by members of ADB sector and thematic groups following extensive consultations with internal and external stakeholders.

About the Asian Development Bank

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members—49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

