

Thematic  
Evaluation Study

# ADB Support for Enhancing Governance in its Public Sector Operations



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**Thematic Evaluation Study**

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# **ADB Support for Enhancing Governance in its Public Sector Operations**

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## NOTE

In this report, "\$" refers to US dollars.

### Key Words

asian development bank, asian development fund, civil society organization, country partnership strategy, energy, governance, independent evaluation department, project administration manual, public sector management, risk assessment and management plan, second governance and anticorruption action plan, sector governance, transport and information and communication technology, water supply and other municipal infrastructure and services

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# Abbreviations

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CNG	–	compressed natural gas
CoP	–	community of practice
CPS	–	country partnership strategy
CSO	–	civil society organization
ENE	–	energy
EPAM	–	economic and public affairs management
GACAP II	–	Second Governance and Anticorruption Action Plan
GAP	–	governance action plan
ICT	–	information and communication technology
IED	–	Independent Evaluation Department
Lao PDR	–	Lao People’s Democratic Republic
LTSF	–	Long-Term Strategic Framework 2001–2015
NGOC	–	NGO and Civil Society Center
OAI	–	Office of Anticorruption and Integrity
OCR	–	ordinary capital resources
OSFMD	–	Operations Services and Financial Management Department
PAM	–	project administration manual
PEFM	–	public expenditure and fiscal management
PFM	–	public financial management
PPP	–	public–private partnership
PPRR	–	project procurement-related review
PSD	–	private sector development
PSM	–	public sector management
RAMP	–	risk assessment and management plan
RSDD	–	Regional and Sustainable Development Department
SOE	–	state-owned enterprise
TA	–	technical assistance
TAI	–	transport and information and communication technology
WGI	–	world governance indicator
WMS	–	water supply and other municipal infrastructure and services



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Independent Evaluation remains fully responsible for this report.



# Foreword

Rapid economic growth in the Asia and Pacific region has lifted millions out of poverty, but can no longer be pursued at any cost, given the increasingly visible fallout from social and political exclusion, rising inequality, environmental degradation and climate change. Adjustments are needed to aim for a triple bottom line of growth with inclusion and sustainability.

There is no universal strategy for seeking the triple bottom line, but addressing governance challenges underlies approaches to be pursued. Achieving higher development dividends from growth will require a transformation in the quality of governance in countries—and for most this will be an arduous undertaking in view of the often conflicting goals and interests surrounding governance reforms and their inherently long term nature.

The region's governance performance is not in line with its economic growth performance. Global indicators suggest weakness in several governance dimensions in the region. ADB's stakeholder surveys consistently point to poor governance and corruption as top developmental concerns. Poor public services, weak institutions, and corruption scandals continue to plague the region, holding countries and their citizens back from realizing their full potential.

ADB's support for enhancing governance, through both its public sector management operations and its support in core operational areas, will remain vital. While its experience demonstrates the difficult and high-risk nature of governance operations, the record shows steadily improving performance and many examples of high-impact programs and projects.

The evaluation stresses the need for ADB's continued governance support, for development effectiveness in the region and in serving its mission. Achieving better results will require improvements in direction, diagnostics, and delivery. ADB would want to improve its country- and sector-level governance related diagnostics, sharpen its corporate-level guidance for crosscutting public sector management oriented operations, and design and deliver interventions that carefully consider the countries' governance contexts, public sector management capacities, and political commitment.

The evaluation acknowledges the tough challenge inherent in working on governance and getting good results from it, but highlights the potential payoffs of deeper efforts made.



Vinod Thomas  
Director General  
Independent Evaluation



# Executive Summary and Recommendations

**Governance matters for development effectiveness.** Although the relationship between governance and development varies across their different dimensions and at different stages of a country's development, there is general agreement—based on a growing body of evidence—that government effectiveness, rule of law, regulatory quality, and control of corruption facilitate the achievement of economic, social, and environmental outcomes. Analysis of cross-country data suggests that such elements of good governance matter not only for economic growth but especially for inclusive and sustainable growth.

**The quality of growth and development rely on good governance.** Good governance also matters for other development outcomes, such as poverty reduction, human development, gender equality, infrastructure quality, and water security. Effective governance is important for improving the distribution of income and people's welfare and ensuring both greater participation of low-income groups and the sustainability of the growth process. Thus, good governance is important for the overall quality of growth and development. For these reasons, development agencies have consistently paid attention and allocated resources to strengthen governance.

**Improving governance is an arduous undertaking; understanding the dynamics of change and country context is critical.** For external actors, supporting good governance is naturally challenging, requiring analysis, sensitivity, time and much effort. There are few quick wins or convenient linear approaches. Better understanding of the dynamics of change, political economy, and country contexts is critically important.

**Despite remarkable economic growth, governance remains a top concern in Asia and the Pacific.** Rapid growth has lifted millions out of poverty, yet the region continues to face governance deficits that constrain its ability to raise the quality of growth. Conventional indicators suggest continued weakness in key governance dimensions, and stakeholder surveys consistently point to poor governance as a top concern.

**Weak governance lies at the heart of numerous challenges.** Strengthening core government functions has proven particularly difficult in the small island countries and the fragile and conflict-affected countries such as Papua New Guinea, Kiribati, and Afghanistan. In the growing number of middle-income countries, such as the Philippines and the People's Republic of China, improving basic service delivery, and pursuing more inclusive growth are key challenges. Across the region, surveys continue to identify corruption as a major threat to development. Addressing these challenges will require a transformation of governance in many countries.

**The Asian Development Bank (ADB) has a mandate to play a role in enhancing governance to raise development effectiveness.** Its evolving governance agenda reflects this expectation and its response to new needs. Three primary interests serve as the backbone of ADB's governance operations: (i) to strengthen core public management functions and country systems, primarily through its public sector management (PSM) operations; (ii) to enhance governance and capacity in sectors where it is most active;

and (iii) to help safeguard the integrity of project resources. The relevance of these interests remains high, and demand for ADB support in these areas remains strong.

### ADB's Support for Governance

**Strategy 2020 affirmed the importance of governance and labeled it one of its five drivers of change, along with capacity development.** But it also marked a divergence from earlier strategies, which placed more direct emphasis on governance and PSM as an operational priority or even a main strategic agenda. Nonetheless, PSM remains a major sector of operations for ADB and is the primary channel through which its governance support is delivered. PSM represented 14% of lending from 1999 to 2013, supporting efforts in such areas as economic and public financial management and decentralization, while also extending its reach to help improve the enabling environment for private sector development and service delivery in the social sectors. ADB has, thus, remained operationally responsive in supporting governance.

**PSM operations constitute a major portfolio but lack clear corporate guidance.** Unlike most other sector programs, the large but disparate PSM portfolio is not guided by a dedicated corporate directional document. Existing guidance, such as the Second Governance and Anticorruption Action Plan (GACAP II), covers some aspects of PSM, but does not articulate specific operational priorities and directions, including for PSM subsectors. At the country level, ADB relies on country strategies and sector assessments and road maps to articulate direction for PSM efforts. These instruments, however, vary greatly in the depth and the detail of their diagnostics and analysis.

**Success rates for PSM operations are low but improving.** Although there are signs of improvement in some areas over time, overall ratings reflect relatively weak performance. In regions such as Central and West Asia and the Pacific, improving results has been particularly challenging. While aggregate success ratings for PSM are lower than those for most other sector portfolios, within countries the differential is smaller. PSM operations perform poorly where operations in other sectors also tend to perform poorly. This fact highlights the strong influence of country context on operations. ADB's long-term engagements in PSM provide insights on how operations can be more effective in the future, including in difficult environments where they tend to cluster.

**ADB's experience provides lessons on what works, what doesn't work, and why.** When PSM projects failed, it was mostly because of: insufficient institutional capacity and/or resourcing in government counterparts (to undertake projects or reforms); weak government ownership and commitment; unforeseen socioeconomic or political factors; overambitious or complex designs; and implementation challenges, including insufficient ADB supervision and support. When PSM technical assistance (TA) projects failed, it was for generally the same reasons, but unclear implementation arrangements, inappropriate technical design, and poor consultant performance were also common factors. Two lessons emerge from this.

**First, more rigorous diagnostics are required at the design and appraisal stage.** This entails more rigorous knowledge work and assessments of (i) institutional capacity and resources in counterpart agencies, (ii) the degree of motivation for change and overall ownership and commitment to the objectives of the project, and (iii) political or socioeconomic factors that may pose risks to both the project and the time needed for reforms—or that might present windows of opportunity for reform. For particularly risky interventions, such as higher-order reforms, extra effort is required to identify risks so as to address them or to adjust project designs accordingly.

**Second, adequate allowance for monitoring and supervision is necessary in high-risk interventions.** Two aspects warrant closer supervision: the complexity of many PSM projects and the unpredictability of their political and economic contexts. Insufficient staff time and effort for supervision of these difficult projects was a factor in about 20% of failed interventions. Thus, the current model—relying on short processing times, use of consultants and project implementation units, and few staff dedicated to project administration and local research—may not be conducive to the success of a large portfolio of complex PSM operations. This also highlights the important role resident missions can play in monitoring and supervision, especially on interventions that warrant close interaction and frequent dialogue with government counterparts.

**Where PSM interventions have succeeded, results have often been transformative.** PSM interventions have high-risk/high-return characteristics. Success stories include, for example, reformed state-owned enterprises, strengthened local government financial management and enhanced state audit capacity in Indonesia; successful public sector and fiscal reforms in Micronesia and the Cook Islands; improved social services delivery in Georgia; strengthened fiscal management and improved private sector development in Sri Lanka; and a better enabling environment for private sector and small and medium enterprises in the Lao People’s Democratic Republic. While some success factors are specific to the types of PSM interventions, a few emerge as crosscutting, including the need for sufficient upstream diagnostics, strong and sustained government ownership and commitment, and effective ADB support.

**The evaluation found that ADB made a number of efforts to enhance governance and capacity in the major infrastructure sectors.** ADB is the lead development partner in many member countries’ transport, energy, and water sectors, giving it the critical mass to influence sector reform and develop capacity. ADB has developed a good set of guidance documents to help mainstream governance analysis and activities into sector programs. The evaluation noted efforts to support sector reforms and capacity development, and increasing attention to perennial challenges such as good cost recovery and maintenance programs. For instance, in Uzbekistan, ADB support contributed to improved railway management and devolution of the state railway enterprise’s ancillary social services. In Cambodia, ADB support helped not only in expanding access to electricity but also in achieving sector reforms and institutional capacity building. ADB-supported legislative and tariff reforms improved the financial status of Electricité du Cambodge and expanded rural electrification. These earlier efforts made possible a recent public–private partnership project that helped customers in three provinces connect to cleaner, less expensive, and continuously running power.

**Some issues related to ADB’s sector governance support warrant attention.** While ADB has developed a range of guidance documents to mainstream governance into its sector operations, evaluations often find that good practices reflected in these documents are not followed. The proportion of transport and energy loans with governance and capacity development components has declined. The use of dedicated TA has been declining relative to the rapid growth in infrastructure lending (in terms of numbers and values of TA projects relative to loans). Furthermore, a review of 31 transport, energy, and water sector evaluations undertaken since 2008 found that half of them rated ADB operations *less likely to be sustainable*. Poor governance and lack of sector reforms are often the underlying cause of this. Greater efforts are needed to raise the sustainability of infrastructure operations, in particular in the transport and water sectors. Breaking the *build-neglect-rebuild* paradigm remains a major challenge and will require more concerted efforts to build-in measures to improve the

sustainability of infrastructure provided, as well as more effective use of TA and capacity building support.

**Success stories highlight the essential alignment of politics and technical solutions in addressing long-standing problems.** The examples demonstrate that political interest and commitment is very often the critical link to effecting change in these sectors. For ADB, this requires good political economy intelligence, strong country and sector knowledge, and staff who can engage in effective dialogue with high-level decision makers and influencers. The examples also show that achieving success involves taking risks and often requires long-term engagement (sometimes for decades), but that such efforts and cautious risk-taking can pay off, as successful interventions often deliver high returns. Bringing about substantive change is a difficult, incremental, time-intensive endeavor. It is also an unpredictable and opportunistic process, with socio-economic or political factors sometimes unexpectedly presenting windows of opportunity for reform.

Among the major detractors from success are disconnected and ad hoc interventions, the lack of governance and institutional specialists on teams, and weak baseline diagnostics and institutional or sector assessments. Key success factors are long-term programmatic approaches that build on progress, follow good practices in capacity development, carefully consider political economy factors, and focus strongly on sustainability. These are critical lessons for future sector governance efforts.

**Implementation of GACAP II has been a challenge, especially at the project level.** GACAP II's scope is focused and limited—it does not provide direct guidance for broader PSM operations nor does it directly guide ADB's diverse efforts to enhance governance in core infrastructure sectors. Nonetheless, GACAP II does provide a practical, standardized approach to identifying and mitigating risks in ADB-supported programs and projects, through the use of risk assessment and management plans (RAMPs). However, the evaluation found that many project RAMPs covered only the bare minimum analysis of risks or showed a disconnect between risks and suggested mitigating actions. The integration of risk-mitigating actions from project RAMPs into project administration manuals has also been weak. As documented by the Office of Anticorruption and Integrity (OAI) through its investigations and project procurement-related reviews (PPRRs), safeguarding projects against fiduciary irregularities, noncompliance, and integrity violations remains a challenge. This suggests the need to strengthen both risk identification during project preparation and preventive and mitigating measures during implementation. Delivering projects with minimal fiduciary irregularities and noncompliance requires stronger efforts by project teams, more quality control, and perhaps different arrangements for oversight.

### **Evaluative Assessment: Relevance, Responsiveness, and Results**

Three key questions guided the evaluation, based on the evaluative criteria of relevance, responsiveness, and results: *How has the governance agenda evolved within ADB's strategy and against the needs of the region? How effectively is ADB supporting the agenda? What lessons should be considered going forward?* The evaluation findings draw on both qualitative and quantitative information and provide a sufficient basis to make the following evaluative assessment. Recommendations follow in the next section. The relevance assessment considers the internal and external relevance of the agenda. Internal relevance considers its alignment with ADB's mandate and guidance to the agenda provided in ADB's corporate strategy. External relevance addresses the alignment of the agenda to needs of client countries and the region. For responsiveness, institutional support and operational responsiveness are assessed. The



results assessment focuses primarily on the performance of PSM operations, through which the bulk of ADB's governance support is delivered. (Appendix 1 provides details on the evaluative framework.)

**ADB's governance agenda is rated *relevant*.** The relationship between good governance and inclusive, sustainable growth is crucial, making the agenda highly relevant to ADB's broader mission. Improving governance is an imperative for countries in Asia and the Pacific, and demand from clients for certain types of PSM operations and sector governance reform is robust. The principles and priorities set forth in the Governance and Anticorruption policies remain critically important for reasons of both intrinsic value and efficiency and effectiveness, and they should continue to inform governance operations. Although Strategy 2020 adopts governance (with capacity development) as a driver of change, it gives less prominence to governance than earlier corporate strategies did, in which governance was given the highest level of emphasis (e.g., as a strategic pillar), and it is silent on the role of PSM operations and on priorities within this large sector. This is a constraint from the perspective of relevance of design.

**On balance, ADB has been *responsive* in its institutional and operational support for the agenda, but some gaps limit the extent of this responsiveness.** Institutionally, the agenda has evolved and expanded to respond to emerging interests and needs, reflecting the larger discourse on governance and development. The recent integration of the governance division of the Regional and Sustainable Development Department into a much larger unit with multiple responsibilities raises concern on how such an arrangement might affect focus and oversight. In addition, the number of core governance specialists is relatively limited, given the scale of operations. The quality of governance diagnostics and the articulation of direction at the country level (in country partnerships and related assessments) have been mixed and need strengthening. ADB's governance-related knowledge work has broadened in recent years and the Governance and Public Management Community of Practice has demonstrated its critical role as an institutional platform for coordination and sharing knowledge.

Operational responsiveness has been generally positive, with some constraints. ADB has developed useful guidance to strengthen and mainstream governance in operations and to familiarize staff with good practices, although application of these practices is not always evident. Although Strategy 2020 is silent on the role of PSM as an operational sector, ADB has continued to extend PSM support in line with country needs, including support to help countries address economic downturns and natural disasters. Moreover, despite the challenges faced in bringing about real change in sector governance, the evaluation found important efforts by ADB to support capacity development and reforms in infrastructure sectors. However, the declining share of transport and energy projects that contain governance and capacity development components, the limited use of dedicated TA in these sectors (relative to the rapid growth in lending), and weak diagnostics for sector governance and capacity demand attention. Finally, GACAP II implementation remains a challenge at the project level.

**The results of PSM operations are *less than satisfactory*, but they have been improving and ADB's experience in supporting sector governance yields important lessons.** Including crisis-response lending, PSM operations approved in the 2000s have had a 55% success rate, an improvement over the rate of 44% for operations approved in the 1990s. PSM operations perform poorly where operations in other sectors tend also to perform poorly, which points to the importance of country context and the need to improve diagnostics, design more appropriate projects, and strengthen monitoring and supervision in more difficult, high-risk environments. Although bringing about real change has been difficult, there are good examples of ADB support (both through PSM

and in other operations with governance components) delivering real reforms, which have often had system-wide impacts. Such results make ADB's governance work a high-risk/high-return endeavor worthy of continued pursuit.

### Lessons to Better Support Governance

**Striking the right risk/return balance.** A number of findings and lessons have direct implications for PSM operations and their results going forward. Many governance interventions face high risks of failure but offer potential for high development impacts. Striking the right risk-return balance requires a more strategic approach, with clearer direction, better diagnostics, and more effective delivery.

**Improving direction, diagnostics, and delivery.** Achieving these improvements requires a number of changes: clearer directional guidance at the corporate level for PSM operations; more consistent governance diagnostics and programming at the country and sector levels; more rigorous assessments of capacity and commitment; and closer monitoring and supervision of higher-risk governance projects and contexts. Other important factors to consider include: providing long-term programmatic approaches to build cumulative progress on good governance in countries, following good capacity-development practices; and focusing strongly on sustainability. Improving the broader results on the agenda will also require improving results in the countries, regions, and subsectors where PSM performance has been weakest.

To deliver better results, the evaluation encourages the continuation of a strategically prioritized set of PSM operations in country programs and the vigorous pursuit of meaningful governance and capacity development components in infrastructure operations. The evaluation recognizes the relevant actions set out in the Strategy 2020 Midterm Review Action Plan, which aim for more effective implementation of and prioritized resources for capacity development, GACAP II, and PSM efforts.

### Recommendations

The evaluation recognizes the tough challenge inherent in governance work and its reflection in the difficulty of getting good results, as well as the high payoffs of making further efforts. The following three recommendations address work at the corporate, country, and project levels. They can help clarify direction on the agenda, strengthen PSM and sector governance support, and improve GACAP II implementation. Taken together, these steps will help refocus and reinvigorate the governance agenda and better support it as a driver of change.

- (i) **Clarify direction and strengthen guidance on PSM operations at the corporate level.** The PSM portfolio is a critical component in ADB's approach in many countries, but it would benefit from a clearer sense of direction and priorities, elements that are not highlighted in existing corporate-level plans such as GACAP II. A concise directional document is needed to better guide PSM operations. This would serve the overarching purpose of articulating how ADB intends to improve the effectiveness of PSM operations within existing resource constraints. More specifically, it could: (a) articulate how PSM operations can support and align with Strategy 2020's agendas, in particular inclusive and environmentally sustainable growth; (b) signal ADB's forward positioning on PSM for the benefit of staff, member countries, and other development partners; (c) set clearer directions and priorities for PSM subsector operations (including in new areas such as information

and communication technology for governance); (d) provide better guidance on PSM in the formulation of country partnership strategies (CPSs) and their component assessments; (e) highlight important lessons and good practices to be incorporated into programs and projects; and (f) provide a basis for monitoring progress and achievements in PSM operations. Elaborating the direction and guidance at the corporate level would also require a review of organizational arrangements and staffing strength for PSM operations and for sector and project governance (including in resident missions) to maximize use of resources under existing constraints. It could also clarify ADB's position in terms of support for governance dimensions such as voice and accountability, government effectiveness, rule of law, regulatory quality, and the control of corruption.

- (ii) **Improve governance and capacity-development analytics in country and sector programs.** CPSs should identify those governance issues that are most likely to have an impact on development effectiveness in the main sector programs and propose achievable risk mitigation and capacity development measures. The risk section in CPSs should reflect risks in the GACAP II focus areas of public finance management, procurement and anticorruption, as well as risks to sustainability, with references made to the linked sector road map documents, which would have a much fuller discussion of these issues. The targets for the sector programs set in the sector road maps need to be reflected in the sector results frameworks, as do key risk mitigation actions of the sector RAMPs. Where good governance is a main objective or pillar of the CPS, the country results framework needs to reflect key indicators and targets, going beyond those that are specific to the PSM program. The country results framework may also need an explicit link to the country RAMP, so that this plan is better monitored and acted on. This may require a revision of the guidelines for the frameworks. It is fortunate that ADB is reviewing the framework guidelines, as this presents an opportunity to bring in such improvements.

In addition, sector diagnostics and capacity needs assessments require more rigor, resources and systematic application, with sharper focus on how TA and capacity development support can strengthen sustainability in infrastructure sectors.

- (iii) **Strengthen GACAP II implementation at the project level.** Better-quality project RAMPs will require stronger guidance and inputs, including improved financial management and procurement assessments, particularly in high-risk sectors and countries. Greater oversight of RAMPs by non-operations entities, such as OAI and the Operations Services and Financial Management Department, warrants consideration. The integration of risk-mitigating actions identified in RAMPs into project administration manuals need to be checked, and ideally indicators for these actions reflected in log frames. Finally, ADB would want to closely monitor the results and trends of OAI PRRs to gauge the effectiveness of ongoing risk assessment and mitigation efforts. Regional department implementation of PRR actions and recommendations need monitoring and follow-up by OAI. More resources should be allocated to broaden the sample of PRRs to ensure a more representative mix.



# CHAPTER 1

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## Introduction

1. This report presents the findings of a thematic evaluation study on Asian Development Bank (ADB) support for enhancing governance through its public sector operations.

### A. Purpose and Rationale

2. The evaluation serves several purposes. It is the first in-depth evaluation of ADB support for enhancing governance, following earlier evaluations that covered the topic in part. By assessing ADB's governance experience and drawing on lessons and evidence from the broader global experience, the evaluation provides guidance to strengthen the effectiveness of future work in this area. The findings will also feed into the midterm review of Asian Development Fund (ADF) XI, to take place in late 2014, as requested by ADF donors in 2012.<sup>1</sup>

3. ADB stakeholders expect it to play a role in supporting good governance as a means to improve the effectiveness of development. Its evolving governance agenda manifests ADB's recognition of this role. *How effectively is ADB supporting this agenda? What can it learn from its own experience, and what lessons have emerged from the wider global experience? How can it draw on this knowledge to more effectively support countries in addressing governance challenges?* The evaluation answers these and other important questions, with attention to the evaluative criteria of relevance, responsiveness, and results.

*ADB stakeholders expect it to play a role in supporting good governance*

### B. Scope and Focus

4. The evaluation assessed three major areas of ADB's broad governance agenda:<sup>2</sup> (i) Public Sector Management (PSM) operations; (ii) support for enhancing governance and capacity in core infrastructure sectors (in particular, transportation and information and communications technology [TAI], energy [ENE], and water supply and other municipal infrastructure and services [WMS]); and (iii) implementation of the 2006 Second Governance and Anticorruption Action Plan (GACAP II), focusing at the project level. For conceptual clarity, these three areas can be characterized as follows:

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<sup>1</sup> ADB. 2012. *Asian Development Fund XI Donors' Report: Empowering Asia's Most Vulnerable*. Manila. The ADF is ADB's concessional finance window.

<sup>2</sup> In this report, the phrase *governance agenda* refers to ADB's collective policies, plans, operations, and general approaches to enhancing governance and PSM, including through capacity development support. Chapter 3 provides a detailed discussion of the governance agenda.

*PSM operations represent the main channel through which ADB supports governance*

**Public Sector Management:** PSM is one of 10 sectors distinguished by ADB's project classification system.<sup>3</sup> PSM operations (loans, grants, and technical assistance [TA], or a combination thereof) represent the main channel through which ADB supports the enhancement of governance. Projects in the PSM sector are further classified into one of five subsectors: (i) economic and public affairs management (EPAM); (ii) public expenditure and fiscal management (PEFM); (iii) public administration; (iv) decentralization; and (v) law and judiciary. As discussed in Chapter 4, PSM is often considered a crosscutting or facilitating sector, as it often extends beyond core government areas into service delivery areas and functions.

**Sector Governance and Capacity:** In this evaluation, sector governance and capacity refer generally to the management of key development sectors in countries and efficient, sustainable service delivery. ADB channels support to sector governance and capacity primarily through dedicated activities to develop capacity and to reform policy and institutions, as conducted during the implementation of programs, projects, and TA. Whereas the bulk of ADB financing goes into hard investments in infrastructure, the focus here is on the soft, complementary components and support.

**GACAP II:** Adopted in 2006, this plan embodies ADB's approach to systematically managing risks in sectors where ADB is most active in countries, as well as in individual programs and projects. The primary instrument is the Risk Assessment and Management Plan (RAMP), which must be prepared at three levels: country, main sectors and project. In essence, GACAP II's RAMPs operationalize ADB's fiduciary interest in safeguarding the resources and results of programs and projects.

5. As discussed in Chapter 3, these three components align with the three main interests of what has evolved to become ADB's broad governance agenda.

6. In addition to its main sector classifications (of which PSM is one) ADB also classifies projects by their thematic focus. Projects in all sectors can be tagged with up to four of eight possible themes: economic growth, social development, gender equity, environmental sustainability, governance, regional cooperation and integration, private sector development (PSD), and capacity development. A project can, thus, be sectorally classified as PSM and thematically classified as governance and capacity development.<sup>4</sup>

### C. Governance Definitions and Principles

*Governance is a multi-dimensional concept*

7. Governance is a multi-dimensional concept for which no universally agreed definition exists. ADB equates governance with the management of the development process, with its 1995 Governance Policy defining it as "the manner in which power is exercised in the management of a country's economic and social resources for development."<sup>5</sup>

<sup>3</sup> ADB revised its project classification system in early 2014, with changes made to sector/subsector and theme/subtheme classifications; these revisions are not reflected in this study since its coverage period is through 2013.

<sup>4</sup> Under the revised (2014) project classification system, governance and capacity development have been combined into one theme.

<sup>5</sup> ADB. 1995. *Governance: Sound Development Management*. Manila.

8. Good governance is often defined by principles which commonly include accountability, control of corruption, efficiency, equity, participation, political stability, predictability, responsiveness, rule of law, and transparency. The 1995 Governance Policy identifies four key elements in particular: participation, predictability, transparency, and accountability. Strategy 2020, the long-term strategic framework adopted in 2008, identifies good governance (with capacity development) as one of five drivers of change to improve the cost-effectiveness of the delivery of public goods and services and to ensure inclusive growth.<sup>6</sup>

*Strategy 2020 identifies good governance as one of five drivers of change*

9. The evaluation adheres to the ADB definition of governance. The United Nations, for instance, uses a broader definition, characterizing good governance as that which promotes equity, participation, pluralism, transparency, accountability and the rule of law, in a manner that is effective, efficient, and enduring.<sup>7</sup>

## D. Sources and Methods

10. Appendix 1 provides details on the major sources and methods used to gather evidence, information, and feedback. It also provides the evaluation framework (focused on relevance, responsiveness, and results). In summary, the study relied on a desk review of relevant references from ADB, the Independent Evaluation Department (IED), and others; institutional review, including analysis of strategies, policies, plans, organizational arrangements, and staffing; project performance analysis, focused on PSM sectoral and governance/capacity thematic operations;<sup>8</sup> key informant interviews; missions to six member countries; sector studies, focused on TAI, ENE, and WMS; review of GACAP II implementation, focused on projects; and a literature review.<sup>9</sup> The evaluation also drew on IED's Evaluation Information System (EviS) to identify salient lessons from ADB project completion reports and IED evaluations covering PSM and the infrastructure sectors.<sup>10</sup> Interviews were held with staff within ADB and with stakeholders in six member countries, including resident mission staff (in Bangladesh, Bhutan, Cambodia, the People's Republic of China, Pakistan, and Papua New Guinea).<sup>11</sup>

## E. Structure of the Report

11. Following this introduction, Chapter 2 aims to synthesize the latest knowledge on the relationship between governance and development. It then discusses Asia's governance challenges and their implications. Chapter 3 presents ADB's governance agenda and how it has evolved. It also reviews operational guidance, country strategies, and organizational arrangements. Chapters 4, 5, and 6 cover the main components of the evaluation: PSM operations (Chapter 4), support for enhancing governance and capacity in infrastructure sectors (Chapter 5), and implementation of GACAP II (Chapter 6). Each chapter includes a conclusions section. The Executive Summary includes the key findings; an evaluative assessment of relevance, responsiveness, and results; and the study's main lessons and recommendations.

<sup>6</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of ADB 2008–2020*. Manila. The five drivers of change are (i) private sector development and private sector operations, (ii) good governance and capacity development, (iii) gender equity, (iv) knowledge solutions, and (v) partnerships.

<sup>7</sup> United Nations. Global Issues: Governance. Available: <http://www.un.org/en/globalissues/governance>.

<sup>8</sup> Projects reviewed in this evaluation are listed in Supplementary Appendix A.

<sup>9</sup> A review of literature on governance and development appears in Supplementary Appendix B.

<sup>10</sup> A summary of evaluation lessons from the IED EviS is in Supplementary Appendix C.

<sup>11</sup> A synthesis report on the key findings of six country missions is in Supplementary Appendix D and a list of interviews and consultations is in Supplementary Appendix E.

## CHAPTER 2

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# Governance, Development, and Asia's Challenge

*The relationship between governance and development varies across dimensions*

12. Governance matters for development effectiveness. Although the relationship between governance and development varies across their different dimensions and at different stages of a country's development, there is general agreement—based on a growing body of evidence—that better governance facilitates achievement of economic and social outcomes. Asia's remarkable growth has lifted millions out of poverty, yet the region continues to face critical governance deficits that affect its ability to improve the inclusion and sustainability qualities of this growth. The region faces mounting development challenges that demand more effective and responsive governance. Achieving this will require a transformation of governance in many countries.

### A. Governance and Development Effectiveness

13. The relationship between governance and development effectiveness is complex. Some issues are subject to ongoing debate and research, for example: how best to measure and assess the quality of governance;<sup>12</sup> how good governance and institutions affect growth and equity;<sup>13</sup> what approaches work most effectively to strengthen governance, including in fragile states and on both the supply and the demand sides;<sup>14</sup> and whether and how aid can strengthen domestic accountability.<sup>15</sup>

*Development institutions have paid increasing attention to governance*

14. While debates and research continue, there is general agreement, including among most development institutions, on this point: good governance matters for the achievement of improvements in economic and social outcomes and for the quality and effectiveness of development in general,<sup>16</sup> while poor governance, including corruption, deters development and limits its effectiveness.<sup>17</sup> Moreover, since the 1980s, development institutions have paid increasing attention and resources to strengthening governance through their policies and operations. It is now generally accepted that

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<sup>12</sup> For example: Overseas Development Institute. 2007. *Overview of Governance Assessment Frameworks and Results from the 2006 World Governance Assessment*. London.

<sup>13</sup> For example: D. Acemoglu and J. Robinson. 2012. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. Crown Business Publishing.

<sup>14</sup> For example: Brookings Institution. 2009. *How to Improve Governance: A New Framework for Analysis and Action*. Brookings Institution Press.

<sup>15</sup> For example: Organisation for Economic Co-operation and Development. 2009. *Aid and Domestic Accountability: Background Paper*. Prepared by Alan Hudson and GOVNET Secretariat.

<sup>16</sup> For example: Overseas Development Institute. 2006. *Governance, Development, and Aid Effectiveness: A Quick Guide to Complex Relationships*. ODI Briefing Paper, March 2006. London.

<sup>17</sup> For example: International Monetary Fund. 2012. *The IMF and Good Governance: Fact Sheet*. Washington, DC.



good governance and strong institutions hold intrinsic value as ends of development in their own right.<sup>18</sup>

## B. Recent Explorations in Governance Support

15. The accumulating body of knowledge, while still inconclusive on some issues, is leading to more nuanced perspectives on the governance-development relationship. Last decade's dictum that only countries with good reform policies should be rewarded with aid now stands on shaky ground, as the link between good governance and growth is seen to be both complex and contingent on local context. Where governance initiatives appeared to show progress, deeper examination sometimes revealed that real progress was minimal if not illusory, the phenomenon of isomorphic mimicry being a case in point—where the forms dictated by good practices are assumed but the functions are essentially not performed as expected.<sup>19</sup> The sustainability of genuine gains has also been questioned as some countries reverse policies and backslide on improvements.<sup>20</sup> On the positive side, new evidence also suggests that promoting growth—even in the face of past poor governance—can lead to better governance and, subsequently, accelerated growth.<sup>21</sup>

*Accumulating knowledge is leading to more nuanced perspectives on the governance-development relationship*

16. Improving governance in a country is rightly recognized as an arduous undertaking. For external actors, supporting good governance is naturally challenging, requiring analysis, sensitivity, time, and much effort. It is rarely a matter of applying well-developed theory, but more often a process of learning through iteration or diverse planned and natural experiments. There are few quick wins or useful linear and formulaic approaches. It is also often highly political.

17. Understanding the dynamics of change has become more critical, as can be seen in the growing interest in political economy and institutional analysis.<sup>22</sup> Decades-long axioms about the importance of institutions are being confirmed by new evidence, but some related assumptions are being retested; the importance of institutions may be very contingent on context, with complexes of institutions and their change over time being more important than specific institutions. Accordingly, the capacity of the state to transform institutions to meet evolving challenges may be the key to supporting development.<sup>23</sup>

*Understanding the dynamics of change has become more critical*

18. The balance between fiduciary concerns and broader governance interventions may need to be revisited. Some observers believe that the concern with fiduciary issues and control mechanisms and the priority given to short-term, visible results have led to

<sup>18</sup> ADB. 2010. *Governance and Institutional Quality and the Links with Economic Growth and Income Inequality: With Special Reference to Developing Asia*. Economics Working Paper. Manila.

<sup>19</sup> L. Prichett. 2010. *Capability Traps? The Mechanisms of Persistent Implementation Failure*. Centre for Global Development, Working Paper 234.

<sup>20</sup> D. Kaufmann. 2010. *Governance Matters 2010: Worldwide Governance Indicators Highlight Governance Successes, Reversals and Failures*. Brookings Institute, Opinion, 24 September.

<sup>21</sup> J. Bai, S. Jayachandran, E.J. Malesky, and B.A. Olken. 2013. *Does Economic Growth Reduce Corruption? Theory and Evidence from Viet Nam*. Working Paper, MIT.

<sup>22</sup> Country policy and institutional assessments undertaken by the World Bank and ADB specifically set out to assess the extent to which country policies and institutions support and facilitate good principles and practices. ADB has been paying greater attention to the importance of political economy analysis in its operations. This is reflected in its expanding knowledge work in this area. For example: ADB. 2013. *Managing Reforms for Development: Political Economy of Reforms and Policy-Based Lending Case Studies*. Manila.

<sup>23</sup> W. Evans and C. Ferguson. 2013. *Governance, Institutions, Growth, and Poverty Reduction: A Literature Review*, Department for International Development of the United Kingdom, August.

the tendency to avoid “complex initiatives that take longer to achieve their intended results, and whose outcomes are uncertain and more difficult to predict.”<sup>24</sup>

19. A major challenge that has drawn growing attention from the international community in recent years is the shortage of reliable indicators to track whether and how efforts to enhance governance and public management are having an impact. In a coordinated response to this challenge, a multi-stakeholder effort led by the World Bank aims to develop a new set of indicators of the strength of public management systems. The initiative aims to identify and develop international consensus on a comprehensive, comprehensible set of cross-national performance indicators for governance and public management that will assess existing systems and help prioritize and target reforms. ADB and other development partners are part of the initiative’s steering group and the technical expert groups that will guide the work.

*Governance is likely to feature prominently in the post-2015 agenda*

20. Governance is likely to feature prominently in the post-2015 global development agenda. Development appears likely to continue to be cast in terms of its sustainability—encompassing and going beyond the recent focus on inclusive growth. Governance can be seen as the glue that holds together the triple bottom line of sustainable development, with its economic, social, and environmental dimensions. The two concepts, sustainable development and governance, are inextricably linked in the post-2015 discussion of what should follow the Millennium Development Goals.<sup>25</sup>

### C. Asia’s Governance Challenge

*Weak governance lies at the heart of numerous challenges*

21. Weak governance lies at the heart of numerous challenges confronting the region. In small island, fragile, and conflict-affected countries, improving (or restoring) core state functions and providing basic services are primary concerns. In the more rapidly growing and diversifying economies, improving service delivery, avoiding the middle-income trap and fostering more inclusive growth are among the challenges. All countries face the critical challenge of preparing for and managing the impacts of recurrent economic shocks and more frequent natural disasters.

22. Strengthening governance remains a particularly difficult effort in fragile and conflict-affected countries. The exclusion of many of these countries from the region’s growing prosperity is becoming a greater concern, and ADF donors cite the widening gap between ADF and non-ADF countries as a worrisome trend (footnote 1). Recent evaluations have found that achieving good governance results in these countries remains very difficult, requiring longer-term and more focused engagement, stronger partnerships, and better understanding of change dynamics and below-the-waterline factors that influence decision making.<sup>26</sup>

<sup>24</sup> R.C. Riddell. 2014. *Does Foreign Aid Really Work?* Oxford Policy Management, Background paper to keynote address to the Australasian Aid and International Development Workshop, Canberra, February.

<sup>25</sup> United Nations. 2013. *A New Global Partnership: Eradicate Poverty and Transform Economies Through Sustainable Development: The Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda*. New York; and United Nations Development Program. 2014. *People’s Message to the United Nations: Governance Essential for Sustainable Development Post-2015*. New York.

<sup>26</sup> IED. 2011. *Special Evaluation Study: Asian Development Fund Operations: A Decade of Supporting Poverty Reduction in Asia and the Pacific Region*. Manila: ADB; and IED. 2011. *Special Evaluation Study: ADB Support for Promoting Good Governance in Pacific Developing Member Countries*. Manila: ADB.

23. Corruption pervades the region, imposing significant costs, including reputational externalities. Corruption, which disproportionately affects the poor, is deemed a critical constraint to development in many countries.<sup>27</sup> A number of high-profile corruption cases, some involving ADB-supported projects, highlight the continuing challenge of controlling corruption. The Office of Anticorruption and Integrity (OAI) has received a growing number of complaints in recent years, to which it has responded with investigations and sanctions, as well as stepped-up awareness and capacity development efforts.<sup>28</sup> As former ADB President Haruhiko Kuroda stated, "We have to redouble our efforts to eradicate poverty in Asia, and since corruption and poor governance have been major obstacles in reaching this goal, we also have to redouble our efforts to support anticorruption initiatives."<sup>29</sup> Stakeholders consistently rank poor governance and corruption as top threats to development in their countries (Table 1).

*Corruption is deemed a critical constraint in many countries*

**Table 1: Threats to Development: ADB Stakeholder Perceptions Surveys 2006, 2009, and 2012**

2006	2009	2012
<ul style="list-style-type: none"> <li>- <b>Poor governance</b></li> <li>- Poor infrastructure</li> <li>- <b>Corruption</b></li> <li>- Limited educational opportunities and inadequate health services</li> <li>- Low investment rates</li> <li>- Lack of private sector activity</li> <li>- Income inequality</li> <li>- Environmental degradation</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Corruption</b></li> <li>- Environmental degradation and climate change</li> <li>- Widening gap between rich and poor</li> <li>- Poor infrastructure</li> <li>- <b>Poor governance</b></li> <li>- Limited educational opportunities and inadequate health services</li> <li>- Low rate of investment</li> <li>- Lack of an active private sector</li> <li>- Lack of natural resources</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Corruption</b></li> <li>- Environmental degradation and climate change</li> <li>- Poor infrastructure</li> <li>- Limited educational opportunities and inadequate health services</li> <li>- <b>Poor governance</b></li> <li>- Widening gap between rich and poor</li> <li>- Low rate of investment</li> <li>- Lack of an active private sector</li> <li>- Lack of natural resources</li> </ul>

Note: Only eight threats were enumerated in the 2006 survey.

Sources: ADB Stakeholder Perceptions Surveys for 2006, 2009, and 2012.

24. Annual Country Performance Assessments for ADF-eligible countries track *transparency, accountability, and corruption in the public sector* as one of five governance-related dimensions. Regional ratings for this dimension show marginal improvement in recent years (Figure 1).<sup>30</sup>

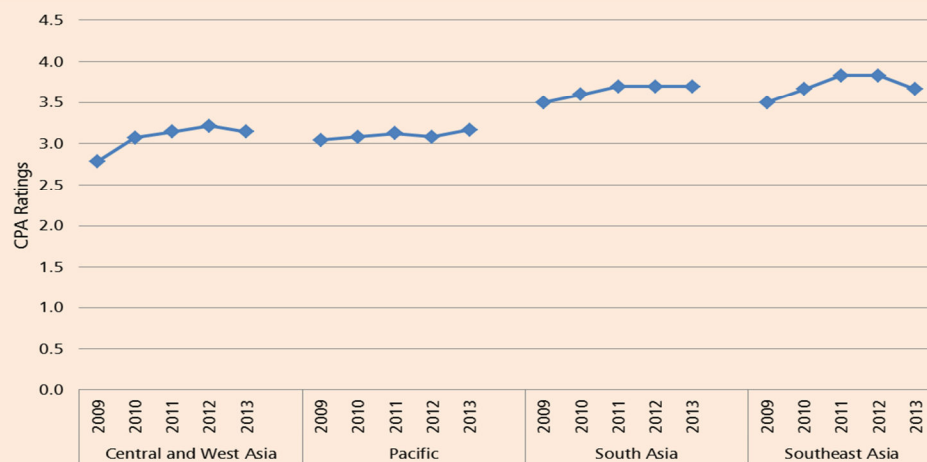
<sup>27</sup> For example: ADB. 2007. *Country Diagnostic Studies: Philippines, Critical Development Constraints*. Manila.

<sup>28</sup> ADB. 2013. *Office of Anticorruption and Integrity Annual Report 2013*. Manila.

<sup>29</sup> In the 2012 statement of ADB President Kuroda. Available: <http://www.adb.org/site/integrity/main>, accessed on 6 February 2013.

<sup>30</sup> Ratings for all governance dimensions in the country performance assessments are in Supplementary Appendix F.

**Figure 1: Country Performance Assessment Rating for Transparency, Accountability, and Corruption in the Public Sector, 2009–2013**



ADF = Asian Development Fund, CPA = country performance assessment.

Note: Mongolia is the only ADF-eligible country in the East Asia region and is, therefore, excluded from the chart. The trend line shows a simple average for country ratings in each region.

Source: ADB. Annual Country Performance Assessment Reports, 2009–2013.

## D. Disaggregating Governance and Development Dimensions

*Although growth has raised incomes, many measures of governance have not improved*

25. The relationship between governance and development is not a simple one, particularly in Asia. First, a close and positive association suggests only that governance matters for growth and development; it does not explain causality—whether good governance leads to development or development subsequently favors the development of stronger institutions. Some suggest that the causality goes in both directions. Second, although it is evident that rapid economic growth has raised incomes and lifted millions out of poverty, many measures of governance in Asia have not improved substantially. This apparent contradiction of conventional wisdom forces proponents of governance to dig deeper into the role of various aspects of governance in Asia’s impressive growth, and what they will mean as Asia continues to develop, with many countries on the cusp of attaining middle-income status.

26. Because governance is a multifaceted construct, it is unbundled in diverse ways as proponents or observers seek to make it useful. Despite methodological hurdles, governance indicators and studies of governance are multiplying. Although still considered catchy shorthand, the concept is increasingly disaggregated.<sup>31</sup> In an effort to define and assess governance performance, a growing set of categories and governance metrics is being explored and adopted. A durable set of indicators, widely applied and allowing for cautious comparisons across countries and time, is the World Governance Indicators (WGI). The WGI are useful for providing a broad picture of governance. They align generally with the governance principles put forward in ADB’s Governance and Anticorruption policies (see Chapter 3). Moreover, ADB deems the WGI to be proxy measures of the level of governance capacity.<sup>32</sup>

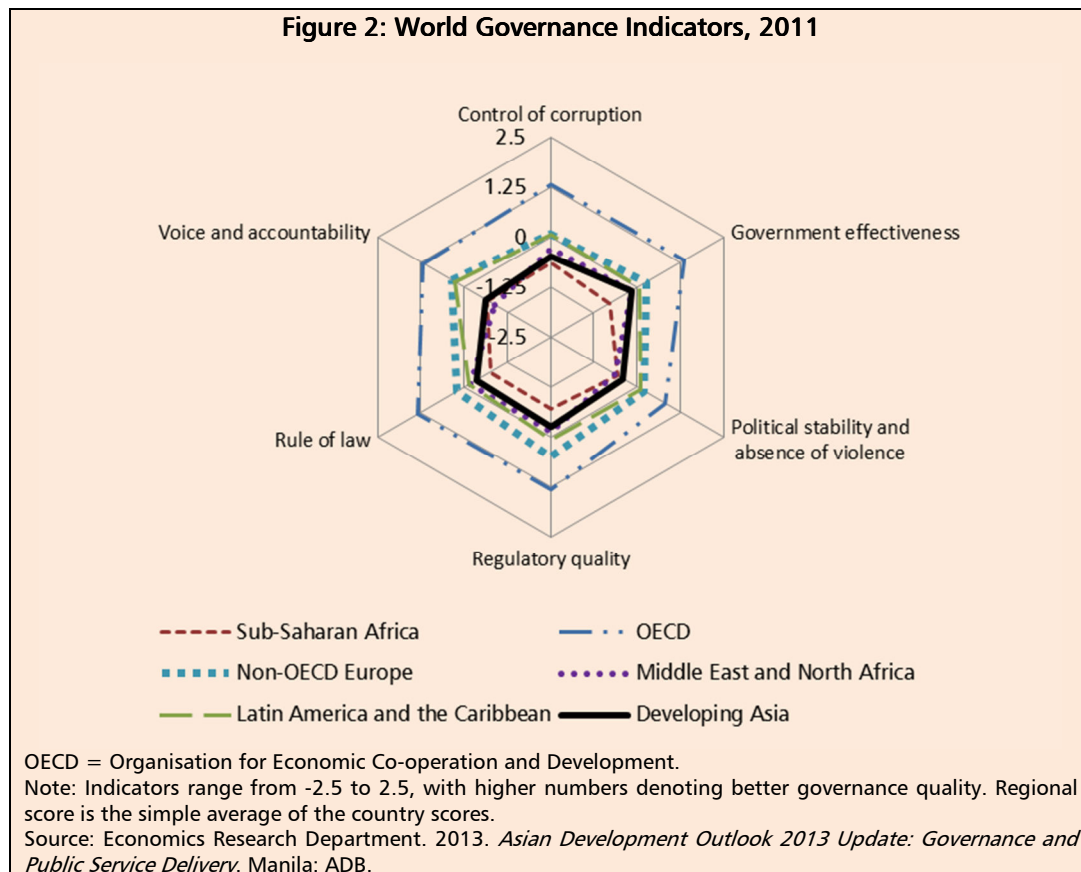
<sup>31</sup> R.M. Gisselquist. 2012. *Good Governance as a Concept, and Why This Matters for Development Policy*. Working Paper No. 2012/30. New York: United Nations University.

<sup>32</sup> ADB. 2011. *Capacity Development Thematic Report: 2008–2010*. Manila.

27. As part of its analysis of governance and public service delivery in the region, the Asian Development Outlook Update 2013 provided an insightful set of analyses on governance challenges in Asia using the WGI.<sup>33</sup> The relative positioning of developing Asia against other regions on the six indicators is depicted in Figure 2. Sub-Saharan Africa's indicators place it at the bottom of the scale for all six dimensions, while developing Asia's indicators (black line) place it second from the bottom on control of corruption, government effectiveness, regulatory quality, and rule of law, and third from the bottom on political stability and absence of violence, and voice and accountability.

28. Examining the WGI relationship to development yields some important insights. For instance, government effectiveness, the rule of law, regulatory quality, and control of corruption are more closely and positively related to income levels than are voice or political stability. For developing Asia, government effectiveness and regulatory quality are even more strongly associated with income than in the global average.

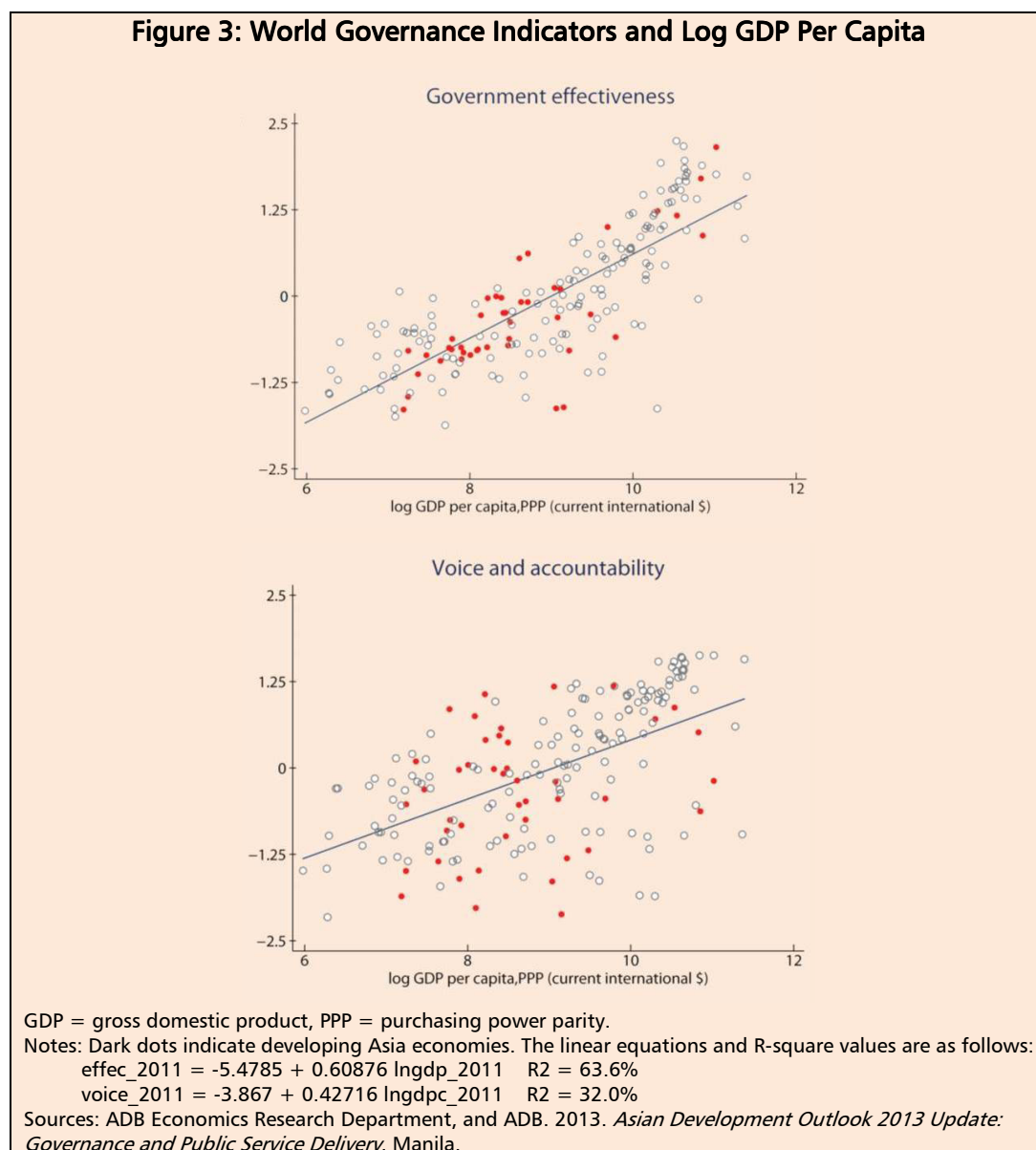
*For developing Asia, government effectiveness and regulatory quality are strongly associated with income*



29. For the 187 countries measured in 2011, Figure 3 shows the scatter plot of log gross domestic product per capita against two WGIs: government effectiveness, and voice and accountability. The line within each data plot, which shows a linear relationship, can be considered the global benchmark of the WGI given a country's per capita gross domestic product; while the red dots indicate developing Asia economies.

<sup>33</sup> ADB. 2013. *Asian Development Outlook 2013 Update: Governance and Public Service Delivery*. Manila.

As the figure shows, government effectiveness has a closer and stronger relationship to income than does voice and accountability.



## E. Governance and Broader Outcomes

*Government effectiveness is also positively correlated with poverty reduction*

30. Government effectiveness is also positively correlated with poverty reduction in Asia.<sup>34</sup> Recent analyses have also documented positive relationships between government effectiveness and environmental performance,<sup>35</sup> as well as between better governance on most WGIs and better development outcomes in terms of a number of

<sup>34</sup> P. Petri and V. Thomas. 2013. *Development Imperatives for the Asian Century*. ADB Economics Working Paper Series No. 360. Manila.

<sup>35</sup> For example, see World Bank. 2010. *World Development Report 2010: Development and Climate Change*. Washington, DC.

indicators; for example, better water security,<sup>36</sup> lower rates of extreme poverty, higher human development index, less gender inequality, lower maternal and under-5 mortality rates, better access to sanitation, higher educational attainment, better infrastructure quality, and more reliable electricity supply.<sup>37</sup> Thus, good governance indicators can be held to correlate with (and, thus, be important for) the overall quality of growth and development, in terms of human development, environmental management, and inclusion.

## F. Implications and Imperatives for the Asian Century

31. The region faces critical development challenges across multiple fronts and good governance is a common denominator in addressing them. As suggested in *Asia 2050*, transforming governance may well be the greatest challenge the region faces as it endeavors to realize the Asian Century.<sup>38</sup> Several trends—and the necessary policy responses to them—stand out.

32. First, the region is likely to continue its high growth path, but ensuring a better pattern and quality of growth, in terms of greater inclusion and sustainability, are fundamental policy concerns. Second, the region is almost certain to experience increasingly severe effects of runaway climate change, which calls for a significant scaling up of integrated disaster risk management efforts. Third, the move into middle-income status of a growing number of countries is likely to translate into higher expectations from citizens for more transparent, accountable, and responsive government and better service delivery. Fourth, continued subregional and regional integration will require more effective cooperation across boundaries in many policy areas. These trends and their implications reflect the need for better consensus building (including on regional issues), more effective institutions, and accountable rulemaking, among other imperatives (footnote 34).

33. The outlook suggests that ADB's support for governance will remain relevant and in-demand. While ADB will want to maintain some flexibility in order to respond to evolving needs, given its resource limitations it would also want to consider targeting long-term programmatic support to those areas of governance within each country that have the highest impact on development effectiveness. This calls for improved guidance for governance at the corporate level and more rigorous country and sector diagnostics to identify where its support might yield the highest impacts.

*Good governance indicators correlate with the quality of growth and development*

*ADB's support for governance will remain relevant and in-demand*

<sup>36</sup> ADB. 2013. *Asian Water Development Outlook 2013: Measuring Water Security in Asia and the Pacific*. Manila.

<sup>37</sup> K. Sen. 2014. *Governance and Development Outcomes in Asia*. ADB Economics Working Paper Series. Manila: ADB. As referenced in footnote 33.

<sup>38</sup> ADB. 2011. *Asia 2050: Realizing the Asian Century*. Manila.

## CHAPTER 3

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# The Governance Agenda

*ADB's governance agenda has evolved in response to new needs and interests*

34. ADB's governance agenda—its collective policies, operations, and general approaches to enhancing governance—has evolved in response to new needs and interests. It supports broad interventions in PSM as well as efforts to mainstream governance into core infrastructure sector operations, while safeguarding project resources and results. ADB now holds that governance (with capacity development) is a driver of change and that improving governance is important in its work to eliminate poverty.

### A. An Integral Role

35. Governance has been a concern of ADB since its founding. While its governance agenda has evolved, the principles and priorities set forth in the Governance and Anticorruption policies remain integral to ADB's role as a regional public institution and highly relevant to development challenges facing the region. While Strategy 2020 does not explicitly recognize PSM—the main channel through which ADB delivers its governance support—as a priority sector, it nonetheless holds governance as a driver of change, integral to ADB's mission and to raising the effectiveness of its operations.

### B. Major Governance Milestones

*ADB adopted its Governance Policy reflecting growing recognition of policies and institutions*

36. **Early Policy Recognition of Governance: 1990s.** ADB adopted its Governance Policy in 1995 (footnote 5), reflecting growing global recognition of the importance of policies and institutions for development results. The policy called for (among other things) (i) scaling up internal governance capacity, (ii) mainstreaming elements of good governance into operations, (iii) incorporating governance issues into country assistance plans, (iv) conducting more detailed analysis of governance aspects in economic and sector work, (v) covering governance aspects in policy dialogue, and (vi) expanding cooperation with nongovernment organizations.

37. Reflecting growing interest in the pernicious effects of corruption on development,<sup>39</sup> the Anticorruption Policy (adopted 1998),<sup>40</sup> committed ADB to (i) a zero tolerance policy for corruption in its own activities, (ii) more explicit consideration of corruption in country strategies and programs, (iii) strengthened procurement, (iv) an updated code of conduct, (v) independent internal reporting, (vi) staff training and seminars, and (vii) other measures. The policy led to the establishment in 1999 of the Anticorruption Unit (now OAI). That same year, ADB declared poverty reduction its overarching objective with the adoption of the Poverty Reduction Strategy,<sup>41</sup> which

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<sup>39</sup> This interest was driven in large part by the emergence of Transparency International's corruption perception report series.

<sup>40</sup> ADB. 1998. *ADB Anticorruption Policy*. Manila.

<sup>41</sup> ADB. 1999. *Fighting Poverty in the Asia and Pacific: The Poverty Reduction Strategy of ADB*. Manila.



proposed a framework for poverty reduction that included good governance as one of three pillars.

38. **First Governance Action Plan (GAP): early 2000s.** Influenced by the growing global discourse on the role good governance plays on growth and development, the GAP<sup>42</sup> adopted in 2000 committed ADB to playing a lead role in promoting good governance in the region and addressing the key governance issues in countries in a systematic and focused manner. Where a country's commitment to improving governance was weak, GAP proposed that ADB foster it through dialogue, advocacy, and support to sympathetic stakeholders. Although GAP was later criticized for being too broad in its scope (as discussed in Chapter 6), it was instrumental in the establishment of the Governance Cooperation Fund (Box 1) and the adoption of the performance-based allocation system for ADF resources in 2001.

#### Box 1: Governance Cooperation Fund

Established in 2001, the GCF is a multidonor umbrella facility to support government-led reforms. Canada, Denmark, and Norway made initial contributions worth \$5.3 million; followed by an additional \$2 million from Ireland and Norway in 2007. Over the period 2001–2006, the fund financed 22 TA grants for policy advice, project preparation, training, capacity development, and institutional support activities.

A review in 2005 concluded that although the goals of the fund remained relevant, it needed refocusing. Rather than serving as a funding mechanism to address fundamental governance issues affecting ADB's portfolio, the GCF had been financing a large number of small, disparate projects with limited overall impact. It was refocused in 2008 to support the implementation of GACAP II and has since supported the preparation of risk assessments, risk mitigation measures in priority areas, knowledge dissemination, and long-term consultants in resident missions. The fund's resources are now nearly exhausted.

ADB = Asian Development Bank, GACAP II = Second Governance and Anticorruption Action Plan, GCF = Governance Cooperation Fund, TA = technical assistance.  
Sources: Independent Evaluation Department, and ADB. 2014. *Partnering for Development: Donor Report 2013*. Manila.

39. With global attention to good governance and direct poverty reduction still strong, ADB adopted its Long-Term Strategic Framework 2001–2015<sup>43</sup> (LTSF), which included good governance for effective policies and institutions as one of three core strategic areas of intervention. The first Medium-Term Strategy 2001–2005 of the LTSF considered ineffective institutions and policies as the biggest constraints to growth and committed ADB to help strengthen them. Although ADB abandoned the direct poverty reduction focus in 2004, the second Medium-Term Strategy 2006–2008 still included improving governance—now complemented by preventing corruption (more of a fiduciary concern)—among its five strategic priorities.

40. **GACAP II: 2006 onwards.** GACAP II,<sup>44</sup> adopted in 2006, called for more systematic approaches to implementing the Governance and Anticorruption policies. It has a fiduciary and risk management focus and introduced a new tool: the RAMPs. As discussed in Chapter 6, while it serves an important function, GACAP II does not provide direct guidance for broader PSM operations, including PSM subsector

*GACAP II has a risk management focus*

<sup>42</sup> ADB. 2000. *Promoting Good Governance: ADB's Medium-term Agenda and Action Plan*. Manila.

<sup>43</sup> ADB. 2001. *Moving the Poverty Reduction Agenda Forward: The Long-Term Strategic Framework of ADB*. Manila.

<sup>44</sup> ADB. 2006. *Second Governance, Capacity, and Anticorruption Action Plan*. Manila.

operations. Professionalizing the governance expertise in ADB and focusing the governance agenda was also promoted. In 2007, the PSM and Governance Community of Practice (CoP) was established. The CoP serves several functions, including peer review and quality control, organizing learning events, and networking and strengthening partnerships. The particular link between governance and capacity development was emphasized. In 2007, ADB adopted its Capacity Development Framework Action Plan,<sup>45</sup> which it updated in 2011.<sup>46</sup> The framework and plan aim to raise effectiveness, across all sectors and modalities, in strengthening capacity.

*ADB's PSM program after 2008 became unclear in strategic terms*

41. Strategy 2020, adopted in 2008 and superseding the first LTSF, identified three strategic agendas, five core operational areas, and five drivers of change, including governance and capacity development. It marked a divergence from earlier strategies that implied more direct involvement in PSM-type operations—the crosscutting PSM program was not emphasized or prioritized in the document, unlike many others, including the ‘core’ infrastructure, education, and finance programs, and even other lower priority programs such as in agriculture and health. The need for improving governance in various core sector programs was emphasized instead, along with the need for improving risk management and capacity development. Hence, corporate positioning of ADB’s PSM program after 2008 became unclear in strategic terms. Appendix 2 shows PSM and governance positioning in high-level corporate strategies. This matter is taken up further in this chapter’s conclusion.

### C. Multiple Interests and Instruments

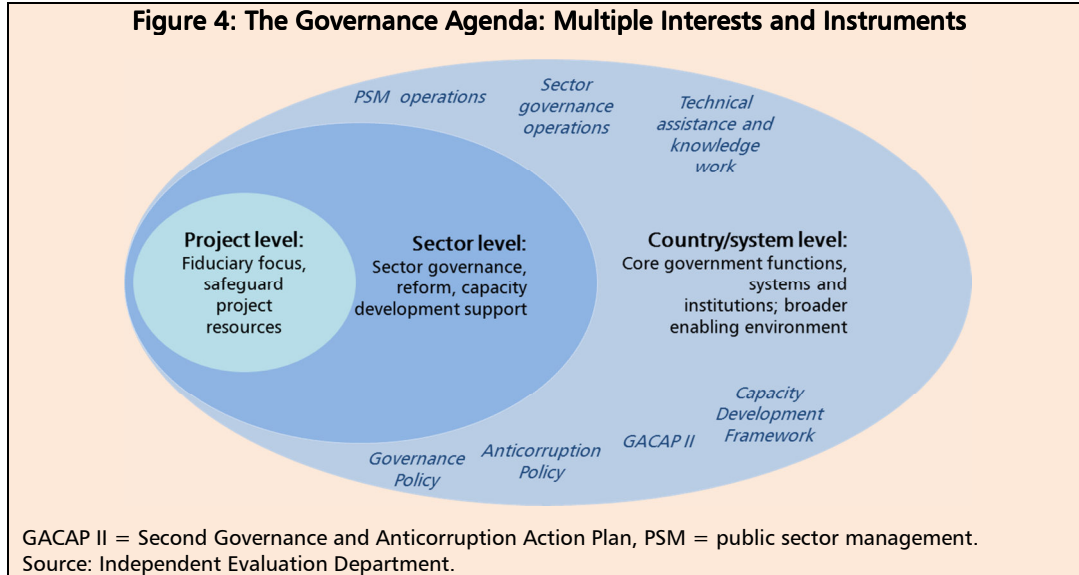
42. The governance agenda has, thus, evolved to serve a range of interests, underpinned by different policies, operational instruments, and initiatives. Three primary interests can be identified over time, represented by the concentric circles, characterized as follows:

- (i) **Country/system level:** This constitutes operations (mostly through PSM) that aim to strengthen core government functions, systems, institutions, and capacities, with the larger aim of improving the overall enabling environment for effective development. As mentioned, since 2008 strategic direction in this regard has been less clear, but country demand for support at this level has remained robust and it remains a major sector program in practice.
- (ii) **Sector level:** The interest here is to strengthen governance and capacity in the key sectors where ADB is most active, notably in such areas as TAI, ENE, and WMS, which together often comprise 60%–75% of annual lending operations; this includes support to strengthen key sector organizations, policies, and institutions.
- (iii) **Project level:** This represents ADB’s more mandatory, fiduciary responsibility to ensure that the resources it provides, which are public resources, are used efficiently and effectively; the primary means to ensure this is the identification and mitigation of risks to these resources and projects, and this is a central tenet of GACAP II.

<sup>45</sup> ADB. 2007. *Integrating Capacity Development into Country Programs and Operations: Medium-Term Framework and Action Plan*. Manila.

<sup>46</sup> ADB. 2011. *Revised Capacity Development Action Plan*. Manila.

43. The interests at the three levels take their shape from and are implemented through the policies (e.g., Governance and Anticorruption), action plans (e.g., GACAP II and the Capacity Development Action Plan), and various instruments and modalities (e.g., PSM operations, TA, knowledge work) now in place. Figure 4 illustrates these multiple interests and instruments.



### D. Corporate and Operational Guidance and Monitoring

44. PSM operations represent a significant part of ADB’s work. As noted in Chapter 4, it has been the third largest sector (based on lending volumes) since 1999. Excluding crisis-response PSM programs, the sector still represented 9% of all lending over this period and is forecast to remain a major operational area. Although PSM is not among the priority operational areas under Strategy 2020, it outsizes most other sectors.

*Although PSM is not among the priority areas, it outsizes most other sectors*

45. Unlike for other operational areas—such as Water, Environment, Urban, Education, Financial Sector, and Social Protection—PSM operations do not follow any formal corporate operational plan or other type of directional document.<sup>47</sup> Existing instruments, as enumerated in Figure 4, provide broad guidance, and country strategies and related instruments<sup>48</sup> serve as the entry points for diagnosing and setting strategic and programmatic directions for PSM work, especially given the highly contextual nature of this work. The current approach appears, therefore, to place emphasis on these country-level instruments, but this assumes that these instruments provide adequate diagnostics and directional guidance for PSM, governance, and capacity development operations in each country and sector. As discussed in the next section, the evidence that they do so is weak.

*PSM operations do not follow any formal corporate plan*

46. ADB’s updated Corporate Results Framework includes several indicators (at two levels of the framework, accompanied by Standard Explanatory Data) that allow for

<sup>47</sup> Since adopting Strategy 2020, ADB has approved a range of directional documents to guide operations in its major sectors and thematic operational areas, and to align these operations to the objectives of Strategy 2020. The majority of these are in the form of Sector or Thematic Operational Plans.

<sup>48</sup> These include PSM sector assessments and road maps, results frameworks, RAMPs, and knowledge and diagnostic work.

monitoring of some governance-related activities and results.<sup>49</sup> At Level 1 (Development Progress in Asia and the Pacific), the *Governance and PSM assessment (index)* tracks the aggregate (unweighted average) score for all ADF countries on the five CPA indicators related to governance.<sup>50</sup> At Level 3 (ADB Operational Management) the *Operations supporting governance and/or capacity development* indicator tracks the percentage of projects that are classified under the governance or capacity development themes.

## E. Country Partnership Strategies and Instruments

*A review of CPSs found high variability in the depth and detail of articulation*

47. Country partnership strategies (CPSs) and their related instruments should articulate key governance issues and spell out ADB's intended positioning and support on those issues. A review of recent CPSs and their ancillary instruments corroborates that some form of assessment was done but found high variability in the depth and detail of articulation. This is, in part, understandable given the different governance contexts across the countries. But the conclusion here is that it also reflects underlying weaknesses in the diagnostics done through governance assessments and RAMPs.

48. This conclusion is reinforced by earlier analyses done by ADB. The 2012 quality-at-entry exercise<sup>51</sup> for operations in 2010–2011 found that while most CPSs articulate risks and management plans, they are less instructive on how operations could manage or mitigate such risks. The 2013 GACAP II Review<sup>52</sup> found that while CPSs identify risks and propose mitigation measures, these risks do not inform the country and sector result frameworks. Moreover, it reported concern among staff that risk assessments lack rigor and rely too heavily on secondary sources. The 2014 Midterm Review of Strategy 2020<sup>53</sup> expressed concern that implementation of country, sector, and project plans to assess and manage governance risks was not uniform and requires systematic improvement. It expressed that governance and capacity development need to be more firmly anchored in operations, including in sector assessments and road maps.

49. Table 2 provides a summary assessment of 16 recent CPSs and their accompanying country and sector RAMPs, and PSM sector assessments. Fourteen included country RAMPs, at least 11 included RAMPs for major sectors, and 6 included stand-alone PSM sector assessments. It is not clear why country RAMPs have not been prepared for all CPSs, as this is prescribed by GACAP II. It is also not clear why the inclusion of sector RAMPs has been patchy, as they are to be prepared for all sectors in which ADB will be active. The practice of preparing stand-alone PSM sector assessments and inclusion of PSM in CPS results frameworks is variable as well.<sup>54</sup>

*Diagnostic instruments can be more effectively standardized*

50. This variety illustrates that ADB's preparation of diagnostic and programming instruments for PSM and governance in country and sector programs is less systematic and can be more effectively standardized. It also points to the existing confusion

<sup>49</sup> Available: <http://www.adb.org/site/development-effectiveness/adb-results-framework>.

<sup>50</sup> These are: (i) property rights and rule based governance; (ii) transparency, accountability, and corruption in the public sector; (iii) quality of public administration; and (iv) quality of budgetary and financial management; and (v) efficiency of revenue mobilization.

<sup>51</sup> ADB. 2013. *The Quality-at-Entry Assessment of ADB Country Partnership Strategies and Projects Approved in 2010–2011*. Internal Report. Manila.

<sup>52</sup> ADB. 2013. *Implementation Review of the Second Governance and Anticorruption Action Plan*. Manila.

<sup>53</sup> ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

<sup>54</sup> For example, the CPSs for Indonesia and Sri Lanka include PSM sector assessments, even while PSM is not identified as a priority sector (it is a crosscutting sector).

(as evidenced during consultations within ADB and in resident missions) about whether RAMPs are mandatory exercises at the sector and country levels.

**Table 2: Recent CPS and Related Instruments: Summary Information**

Country and CPS Period	Country RAMP?	RAMPs for Major Sectors?	PSM Sector Assessment?
India 2013–2017	Yes	— <sup>c</sup>	Yes
Nepal 2013–2017	Yes	ANR, EDU, ENE, TAI, WMS	No
Kyrgyz Republic 2013–2017	Yes	— <sup>d</sup>	No
Thailand 2013–2016	Yes	— <sup>d</sup>	No
Kazakhstan 2012–2016	Yes	ENE, TAI, WMS	No
Uzbekistan 2012–2016	Yes	ENE, TAI, WMS	No
Mongolia 2012–2016	— <sup>a</sup>	EDU, Urban Infrastructure	No
Sri Lanka 2012–2016	Yes	EDU, ENE, Road transport, WMS	Yes
Indonesia 2012–2014	Yes	ENE, Road transport <sup>e</sup>	Yes
Myanmar 2012–2014	Yes	— <sup>f</sup>	No
Philippines 2011–2016	Yes	Social protection, Road transport <sup>g</sup>	Yes
People's Republic of China 2011–2015	— <sup>b</sup>	ANR, ENE	No
Timor Leste 2011–2015	Yes	— <sup>h</sup>	No
Papua New Guinea 2011–2015	Yes	ENE, TAI	Yes
Bangladesh 2011–2015	Yes	EDU, ENE, TAI	No
Cambodia 2011–2013	Yes	EDU, TAI, private sectors <sup>e</sup>	Yes

ANR = agriculture and natural resources; CPS = country partnership strategy; ENE = energy; EDU = education; GOV = governance; PSM = public sector management; RAMP = risk assessment and risk management plan; RETA = regional technical assistance; TAI = transport and information and communication technology; WMS = water supply and other municipal infrastructure and services.

Notes: <sup>a</sup> The RAMP Summary in the CPS is based on the main findings and recommendations of ADB. 2008. *Risk Assessments and Risk Management Plans for National Systems and the Education and Urban Infrastructure Sectors in Mongolia*. Manila (COSO/80-038).

<sup>b</sup> The RAMP Summary in the CPS is based on ADB. 2011. *Sector Risk Assessment—Energy and Natural Resources and Agriculture*. Manila, and consultations with development partners, and relevant PRC line ministries and project executing agencies.

<sup>c</sup> No sector RAMP listed in CPS-linked documents.

<sup>d</sup> The GACAP II Review noted that RAMPs have been prepared under RETA 7277: Governance and Capacity Development Initiative (Phase 2), but none were listed in CPS-linked documents.

<sup>e</sup> These are the sector RAMPs per GACAP II Review, but none listed in CPS-linked documents.

<sup>f</sup> GACAP II Review noted that under RETA 7277 funds to prepare RAMPs have been requested, but none were listed in CPS-linked documents.

<sup>g</sup> Sector RAMPs were prepared in connection with major projects in these two instances.

<sup>h</sup> No sector RAMP per GACAP II Review and none listed in CPS-linked documents.

Sources: Country Planning Documents; GACAP II Implementation Review.

## F. Organizational Arrangements, Staffing, and Knowledge Work

51. Responsibility for PSM, governance, capacity development, and related interests (including GACAP II) is spread among departments and units, with coordination and advisory responsibilities housed in the Regional and Sustainable Development Department (RSDD). RSDD had, until recently, a division dedicated to governance, public management, and participation; but in early 2014, most of its functions were merged with the Poverty Division, to become the Poverty Reduction, Social Development, and Governance Division. While consultations within ADB found mixed views on whether such a large scope can be effective, there is some concern over how this arrangement might affect focus and oversight. This division is now responsible for advice to Management and regional departments on at least seven operational areas:

*Responsibility for governance is spread among departments and units*

- (i) Public management, governance, and capacity development;
- (ii) e-Governance and information and communication technology;
- (iii) Education;
- (iv) Health;
- (v) Civil society and participation (including the NGO and Civil Society Center [NGOC]);
- (vi) Poverty and social development; and
- (vii) Social protection.

*The CoP is becoming an increasingly important institutional platform*

52. All five regional departments have divisions of Public Management, Financial Sector, and Trade,<sup>55</sup> and these have some specialists with PSM responsibilities (including several based in or outposted to resident missions). Other units cover the integrity and fiduciary aspects of the governance agenda; for example, OAI and the Operations Services and Financial Management Department (OSFMD). Some influence on the agenda is also exerted by the Governance and Public Management CoP,<sup>56</sup> whose membership has reached some 200 staff from various departments and resident missions. The CoP serves several functions, including as a network for knowledge sharing and cross-departmental coordination, peer reviews, and promoting learning on governance-related themes. A review of annual activity reports since 2010, coupled with consultations within ADB, suggest the CoP is becoming an increasingly important institutional platform for coordination and knowledge sharing.

53. As of 2013, ADB employed 20 international staff with a public management designation: 8 based in RSDD (1 of whom has been redeployed to Central and West Regional Department in 2014), and 12 spread across the five regional departments (with 3 based in resident missions and 1 outposted to the Indonesia Resident Mission). This is a relatively limited number of core PSM staff, given the size of operations in this sector—an average of 10 loans a year in the most recent 5 years, an average of some 80 TA projects per year (more than any other sector), and many other governance components in sector operations.<sup>57</sup>

*Consultations found consistent concern over limited staffing strength for governance*

54. Consultations within ADB and in resident missions found consistent concern over limited staffing strength for governance-related specialties, including in resident missions and especially for the workload entailed in mainstreaming governance into core infrastructure operations and managing governance risks as prescribed under GACAP II. This concern was also expressed in a 2012 report on governance operations<sup>58</sup> as well as in the 2013 GACAP II Review (footnote 52). The 2012 report stated that mainstreaming and addressing governance by sector specialists requires full-time staff with expertise and experience to bridge the gap between theory and practice, document lessons learned, conduct dialogue with staff in the field, and provide inputs at all levels of operations.

55. Furthermore, data from the Budget, Personnel, and Management Systems Department shows that the total number of staff resources for public management and governance remained static during the 3-year workforce expansion from 2009 to 2012,

<sup>55</sup> In the East Asia Regional Department, this is the Public Management, Financial Sector, and Regional Cooperation Division. In the Pacific Regional Department, this is the Urban, Social Development, and Public Management Division.

<sup>56</sup> The CoP was initially established in 2007 but did not become a formal network until 2010.

<sup>57</sup> Staff with designations other than Public Management (e.g., economists or financial sector specialists) are also sometimes involved in or lead public management work. In addition to international staff, there are nine national staff with Public Management designations who are provided to RSDD and resident missions.

<sup>58</sup> ADB. 2012. *Stocktake and Review of ADB's Governance and PSM Operations*. Manila.

during which 500 new staff were hired. The bulk of these additions were in project administration and portfolio management, procurement, safeguards compliance, gender and development, and social development (see chart in Appendix 3).<sup>59</sup>

56. Meanwhile, ADB's knowledge work on governance has broadened in recent years. A 2012 IED evaluation found a range of examples of high-quality and high-impact knowledge products and services, including work covering governance and public management related areas.<sup>60</sup> The Economics and Research Department's recent analysis on governance and development (as referenced in Chapter 2) and ADB's crosscutting and sector-specific guidance for mainstreaming governance into its sector operations (as referenced in Chapter 5) are recent examples of useful knowledge work targeting internal and external users. ADB has also produced useful country-focused governance diagnostics and reports for a number of countries.

*Knowledge work on governance has broadened in recent years*

## G. Conclusions

57. Almost 20 years on, the principles and priorities set forth in the Governance and Anticorruption policies remain highly relevant. The governance agenda still reflects these priorities but has evolved in response to new needs and interests. This shows a process of learning and adjustment, based on experience and reflecting the larger discourse on governance and development.

58. Strategy 2020 positioned governance and capacity development as a crosscutting driver of change. This is important in terms of encouraging the mainstreaming of governance and capacity development into operations. At the same time, however, Strategy 2020 is silent on PSM, which all along has remained a major operational sector and the primary channel through which its governance support is delivered. This has resulted in lack of clarity on the role, direction, and broad priorities for this important sector. This evaluation agrees with ADB's Implementation Progress Report on Strategy 2020, which expressed the concern that, "Because public sector management remains critical for improved delivery of basic services, subsuming public sector management under governance as a driver of change runs the risk of losing focus on the need for direct support to country and sector systems reforms."<sup>61</sup>

59. ADB relies on country strategies to articulate programmatic direction for governance, PSM, and related operations; but these vary greatly in their depth and detail of analysis. The quality and consistency of country- and sector-level diagnostic and directional instruments—in particular CPSs, sector road maps, and accompanying results frameworks—should be revised to improve their PSM, governance, and capacity development analytics. This will require revisions to guidelines and templates. Moreover, ADB will want to revisit its organizational and staffing arrangements to determine how these might better support governance operations, given its resource constraints.

*Country and sector instruments should be revised to improve their analytics*

60. Altogether, clearer corporate level guidance for PSM operations, improved diagnostics in CPSs, and effective organizational and staffing arrangements should better position ADB to support governance as a true driver of change.

<sup>59</sup> ADB. 2013. *Review of the Implementation of the 3-Year Workforce Plan 2010–2012*. Manila.

<sup>60</sup> IED. 2012. *Special Evaluation Study: Knowledge Products and Services, Building a Better Knowledge Institution*. Manila: ADB.

<sup>61</sup> ADB. 2013. *Strategy 2020: Implementation Progress*. Manila.

## CHAPTER 4

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# Public Sector Management Operations

*PSM operations constitute one of ADB's largest sector programs*

61. PSM operations are the primary channel through which ADB's governance support is delivered, and constitute one of ADB's largest sector programs, reflecting the diverse and steady demand from countries for support as well as a recognition of PSM's important role in development. Project ratings for PSM show relatively weak but improving performance. The challenge in large part is owing to the often complex and difficult nature of both PSM interventions and the contexts in which they take place. PSM is likely to remain a major operational area and ADB's experience provides important lessons on how this work can be more effective in the future.

### A. PSM Operations Patterns

#### 1. Ordinary Capital Resources and ADF Operations

62. **Long-term lending patterns.** Over the 15 years from 1999 to 2013, ADB approved 126 PSM loans worth \$16.6 billion, representing 14% of total lending,<sup>62</sup> some \$2.8 billion (17%) of which was financed through the ADF. PSM lending has surged in recent years in response to country requests for support during major crisis events (as discussed further below).

63. **Crisis-response lending.** An important distinction should be made between crisis-response PSM lending and non-crisis PSM lending (hereafter referred to as core PSM lending). Crisis-response lending has usually been categorized as PSM, but on somewhat debatable grounds, as clear governance conditionality or activity often was not part of the lending. Figure 5 illustrates the magnitude of crisis-response lending in recent years. Seventeen crisis-response loans worth \$5.6 billion (\$481 million from ADF sources) were approved in 2008–2013 to support country responses to economic and fiscal downturns and natural disasters. In 2009 alone, these totaled \$4 billion, \$2.5 billion of which came from the Countercyclical Support Facility, which provided \$500 million each to Bangladesh, Indonesia, Kazakhstan, the Philippines, and Viet Nam.<sup>63</sup> Except for one Special Assistance Loan<sup>64</sup> and one TA loan, most were program loans.

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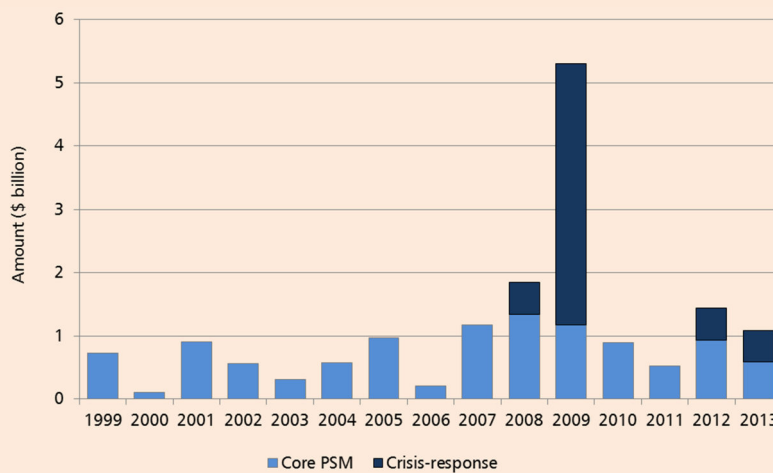
<sup>62</sup> Compare this with equivalent spending (on PSM/governance and related areas) in the past 5 years of about 20% for the World Bank, 13% for the Inter-American Development Bank, and 15% for the African Development Bank. Data and comparisons are available from IED upon request.

<sup>63</sup> ADB. 2011. *Countercyclical Support Facility: Macroeconomic and Fiscal Policy Updates 2010*. Manila. The Board of Directors established the \$3 billion Countercyclical Support Facility in mid-2009 to provide budget support loans of up to \$500 million each, to support fiscal stimulus efforts in member countries that are eligible for ordinary capital resources borrowing. A total of \$2.5 billion was disbursed from the Countercyclical Support Facility, which expired on 31 December 2010.

<sup>64</sup> To assist the Philippines in the aftermath of Typhoon Haiyan in late 2013.



**Figure 5: PSM Lending: Core and Crisis-response, 1999–2013**  
(\$ billion)

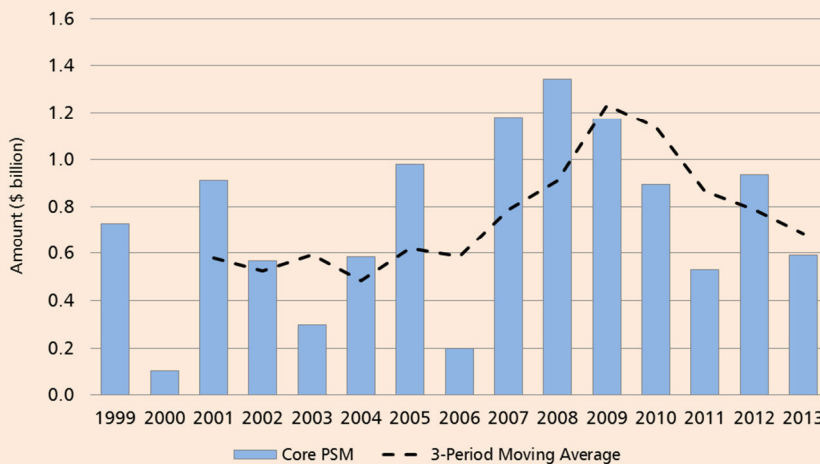


PSM = public sector management.  
Source: Independent Evaluation Department.

64. **Core PSM lending.** Core PSM lending totaled \$11 billion, of which \$2.3 billion, or about 20%, came from the ADF. Core PSM lending represented 9% of total lending since 1999. Approvals averaged just over \$700 million a year (on average, seven loans a year), peaking in 2007–2009 and declining since then (Figure 6).

*Core PSM represented 9% of total lending since 1999*

**Figure 6: Core PSM Lending, 1999–2013**  
(\$ billion)

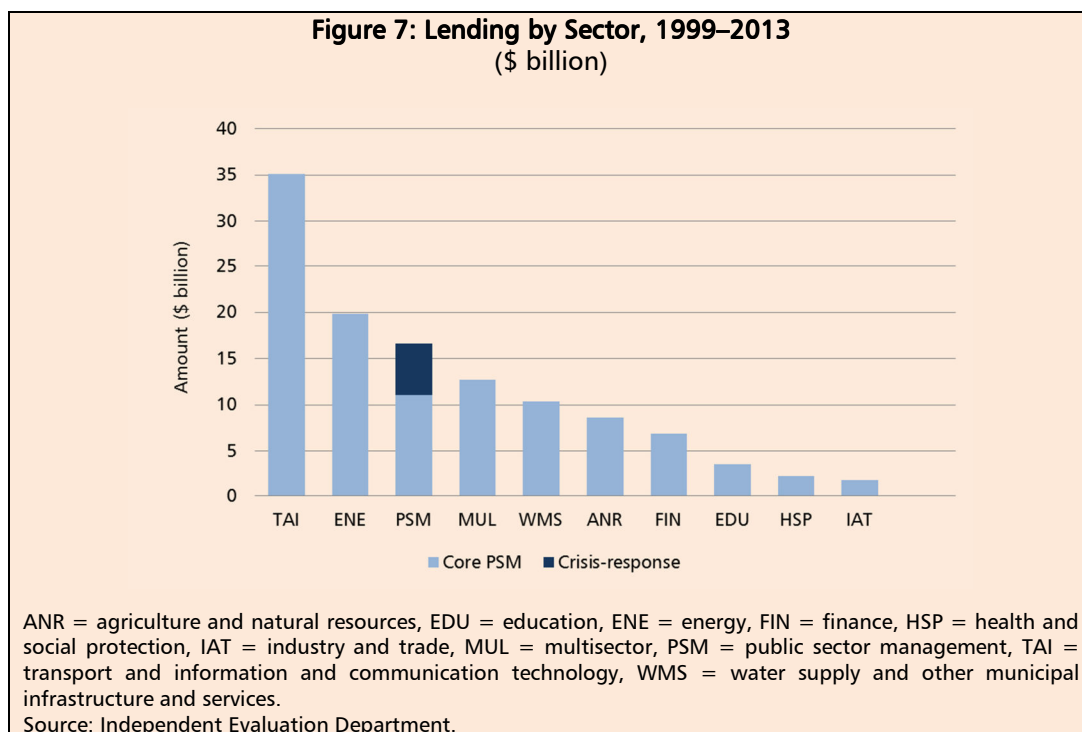


PSM = public sector management.  
Source: Independent Evaluation Department.

65. The \$11 billion in core lending make PSM operations ADB's fourth largest sector program since 1999; when crisis-response loans are included it is the third largest (Figure 7). PSM lending is forecast to moderate to 7% over 2014–2016.<sup>65</sup> What

<sup>65</sup> ADB. 2013. *Work Plan and Budget Framework: 2014–2016*. Manila.

makes PSM lending stand out is its conditions on governance reform and capacity development, for the rest the operations cover widely varying fields of intervention.



*Economic and public affairs management was dominant*

66. **Subsectors.** Economic and public affairs management (EPAM) was the dominant subsector in terms of lending volume, at 54% of lending (\$9 billion for 47 loans), with wide-ranging support including most of the \$5.6 billion in crisis-response loans. Examples of major EPAM loans include a \$575 million ADF-financed loan for reforms aimed at inclusive growth in Myanmar in 2013; a \$500 million ordinary capital resources (OCR) emergency assistance program to the Philippines in the aftermath of Typhoon Haiyan in 2013; a \$500 million OCR precautionary financing facility for Indonesia in 2012; and a \$120 million ADF program for Pakistan's Sindh Growth and Rural Revitalization Program (Subprogram 2) in 2010. Examples of small and medium-sized EPAM programs include a \$6.4 million ADF loan to support implementation of a poverty reduction program in Viet Nam in 2004; a \$20 million ADF program to support economic diversification in Cambodia in 2008; and a \$10 million ADF economic and public sector reform program in Tonga in 2002.

*Decentralization lending funded programs in Cambodia, Philippines, Pakistan, and Indonesia*

67. PEFM was the second largest subsector in terms of lending volume (24% of total PSM loans) but was just as frequently employed as EPAM in terms of the number of operations (\$4 billion for 46 loans). Major support included a \$400 million OCR development finance program for West Bengal in India in 2012; a \$745 million public expenditure and countercyclical support program (through OCR and the ADF) to Bangladesh in 2009; and a \$225 million OCR local government financing and budget reform program for the Philippines in 2009. PEFM included four small TA loans (mostly financed by the ADF) for public resource management reforms and capacity building in India (2009), Maldives (2009), and Pakistan (2003 and 2004).

68. Decentralization lending covered 10% of lending volume (\$1.7 billion for 17 loans) and funded programs in Cambodia, the Philippines, Pakistan, and Indonesia.

Law and Judiciary lending constituted 6% or about \$1 billion for five loans in the Philippines and Pakistan. Public administration represented 5% (\$900 million) for 11 loans in seven countries, with the majority going to Bangladesh, Indonesia, and Pakistan.

69. PSM operations represented a sizeable portion of all lending over the 1999–2013 period. Yet its footprint is considerably larger: PSM operations are often also channeled through multisector programs and projects, such as a recently approved decentralization program for the Philippines classified as multisector<sup>66</sup> (see multisector discussion below).

70. **ADF lending and grant summary.** The ADF financed \$2.8 billion for 63 PSM loans over the period, for an average of \$44 million per operation. About 80% of ADF loans were under \$50 million. EPAM was the largest subsector, with \$1.7 billion for 24 loans. PEFM was the second largest, accounting for \$450 million for 21 loans. ADF loans went to 18 countries over the period, compared with 12 for OCR. Of \$26 billion for 670 ADF loans between 1999 and 2013, PSM represented 11% in value and 9% in numbers of loans, as compared with OCR financing, in which PSM represented 15% in value and 11% in numbers. During the 2004–2013 period, 27 ADF grants for PSM worth \$381 million went mostly into programs and projects focused on PEFM (45%) and decentralization (35%).

71. **PSM grants (non-ADF).** Eight grants worth \$23 million were financed primarily by the Netherlands, Canada, Sweden, the United Kingdom, and the European Union. These grants supported audit reforms in Indonesia, commune council development in Cambodia, and public resource management projects in Nepal and in Pakistan’s Balochistan province.

72. **Thematic classifications of PSM operations.** PSM lending was most often classified thematically as addressing either governance and economic growth, or both (Table 3). Other major thematic classifications were PSD, capacity development, and social development (e.g., health and education). This illustrates the tendency for PSM operations to reach downstream into other areas, including service delivery sectors. The numbers classified as growth, governance, and capacity development are high, as is to be expected. Four in 10 PSM operations aimed to address PSD, and one in four aimed to address social development (namely, education and health).

*PSM operations reach into other areas, including service delivery sectors*

**Table 3: Thematic Classification of PSM Loans, 2004–2013**  
(%)

GOV	GRO	PSD	CAD	SOD	GEN	ENV	RCI
84%	72%	40%	38%	26%	8%	2%	2%

CAD = capacity development, ENV = environmental sustainability, GEN = gender equity, GOV = governance, GRO = economic growth, PSD = private sector development, SOD = social development, RCI = regional cooperation and integration.

Note: Figures sum to more than 100% because loans can have more than one thematic classification.

Source: Independent Evaluation Department.

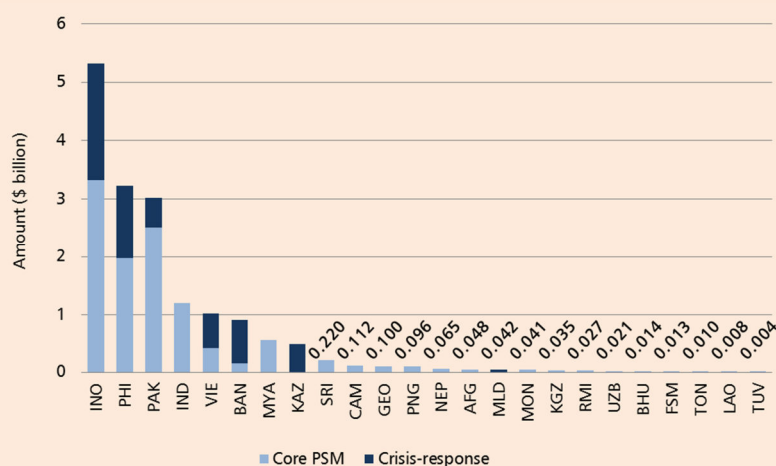
73. **Recipients.** During the 1999–2013 period, PSM operations were conducted in 24 countries, but the bulk of the allocations were made to a limited number of them. Six countries received 90% of loans (including crisis-response loans): Indonesia,

<sup>66</sup> ADB. 2014. *Report and Recommendation to the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1, Republic of the Philippines: Local Government Finance and Fiscal Decentralization Reform Program*. Manila.

*ADB restarted operations in Myanmar with a \$575 million PSM loan*

\$5 billion; the Philippines, \$3 billion; Pakistan, \$3 billion; India, \$1 billion; Viet Nam, \$1 billion; and Bangladesh, \$900 million. In 2013, ADB restarted operations in Myanmar with a \$575 million PSM loan. All other countries received much smaller amounts (Figure 8), although for several of them, the share of these operations in the total was large and the need high, given their poor governance rankings.

**Figure 8: PSM Recipient Countries, 1999–2013**  
(\$ billion)



AFG = Afghanistan, BAN = Bangladesh, BHU = Bhutan, CAM = Cambodia, FSM = Federated States of Micronesia, GEO = Georgia, IND = India, INO = Indonesia, KAZ = Kazakhstan, KGZ = Kyrgyz Republic, LAO = Lao People's Democratic Republic, MLD = Maldives, MON = Mongolia, MYA = Myanmar, NEP = Nepal, PAK = Pakistan, PHI = Philippines, PNG = Papua New Guinea, PSM = public sector management, RMI = Republic of Marshall Islands, SRI = Sri Lanka, TON = Tonga, TUV = Tuvalu, UZB = Uzbekistan, VIE = Viet Nam.

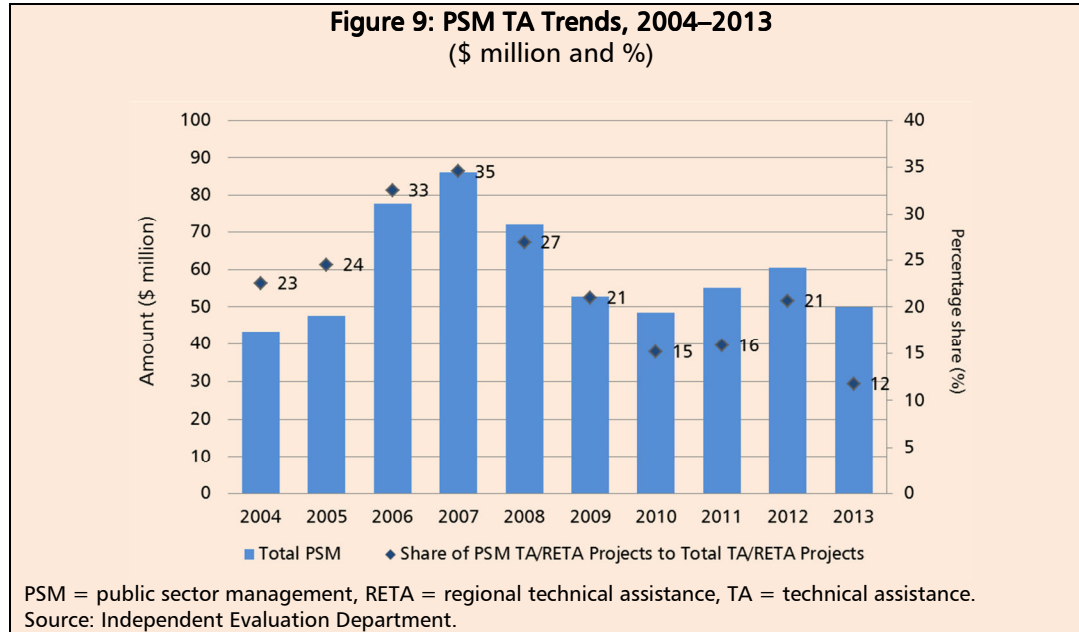
Source: Independent Evaluation Department.

74. **Two size clusters.** Core PSM loans clustered into two groups. Forty large (\$100–\$575 million) loans accounted for \$9 billion or 80% of lending. These mostly OCR-sourced loans supported major efforts in decentralization, public financial management (PFM) reform, state-owned enterprise (SOE) reform, privatization, and general development policy support. The bulk of this lending occurred in the Southeast Asia (Indonesia and the Philippines) and the Central and West Asia (Pakistan) regions. Sixty-nine smaller program, project, and TA loans worth nearly \$2 billion made up the rest of the core lending. This cluster of loans (all under \$100 million) was financed primarily by the ADF and had a broader geographic spread.

## 2. TA and Multisector Operations

*PSM has been the largest sector for TA*

75. From 2004 to 2013, ADB approved nearly 800 PSM TA operations, including regional TA, worth nearly \$600 million. PSM has been the largest sector for TA, in terms of both value and number of operations (averaging 80 per year). Yet on the whole, and perhaps owing to lower corporate priority, PSM TA is declining: it fell to 12% in 2013 after peaking in 2006–2008 when it represented one-third of all TA operations (Figure 9). Multisector TA has grown in recent years, crowding out PSM and other sectors, but it often includes PSM elements.



76. Over the 2004–2013 period, 20 multisector loans collectively worth \$1.8 billion had PSM components, bundled with (in some cases) components of more than four other sectors. It is not possible to isolate the PSM-specific portion of that total. It is not unusual to find cluster programs with subprograms scattered across sectors or shifted across sectors over time. Table 4 provides examples of multisector loans with PSM components. These loans could also be categorized as addressing service delivery in multiple sectors, but less so as addressing cross-sector, core PSM objectives. Of 73 multisector grants worth \$1.3 billion in this period, 36% had PSM components. Many had governance conditionality in their loan agreements.

*Multisector loans worth \$1.8 billion had PSM components*

**Table 4: Examples of Major Multisector Loans with PSM Content**

Country	Loan Title	Approved	Amount (\$ million)	Components
INO	Poverty Reduction and Millennium Development Goals Acceleration Program (Subprogram 1)	2007	400	EDU, HSP, PSM
PHI	Kalahi CIDDS National Community-Driven Development Project	2013	372	EDU, PSM, HSP
PAK	Earthquake Emergency Assistance Project	2005	220	EDU, ENE, HSP, PSM, TAI
BAN	Emergency Assistance for Food Security Project	2008	170	HSP, PSM
GEO	Growth Recovery Support Program	2009	80	PSM, HSP
SAM	Economic Recovery Support Program (Subprogram 1,2)	2010-2011	27	PSM, TAI, HSP, ENE, WMS

BAN = Bangladesh, Kalahi CIDDS = Kapit-Bisig Laban sa Kahirapan – Comprehensive and Integrated Delivery of Social Services, EDU = education, ENE = energy, GEO = Georgia, HSP = health and social protection, INO = Indonesia, PAK = Pakistan, PHI = Philippines, PSM = public sector management, SAM = Samoa, TAI = transport and information and communication technology, WMS = water supply and other municipal infrastructure and services.

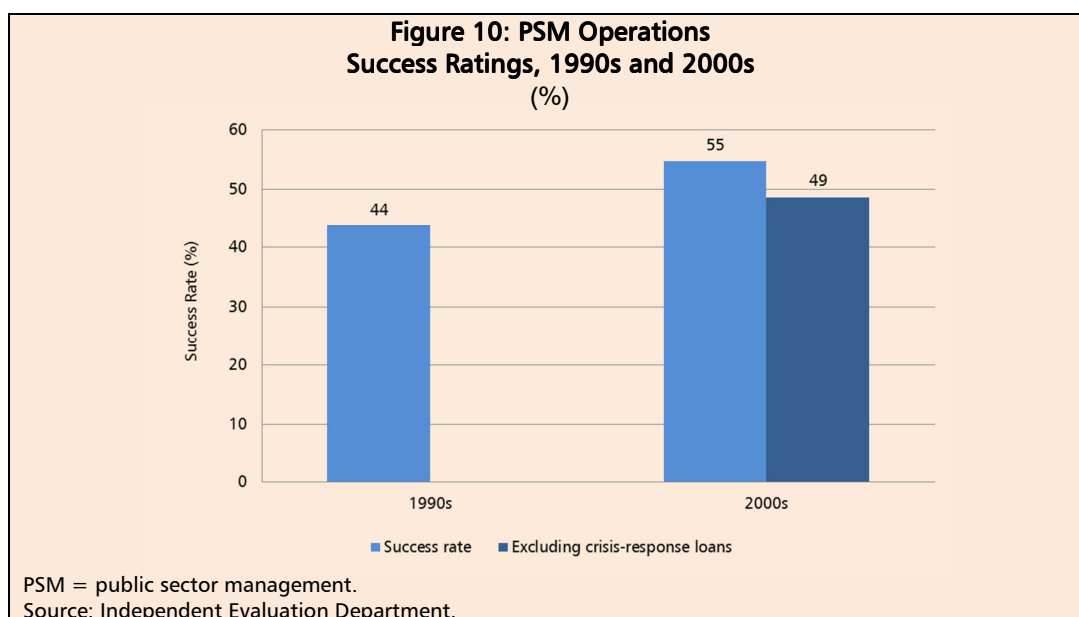
Source: Independent Evaluation Department.

## B. Performance of PSM Operations

### 1. Project Evaluation Results

*Performance improved from the 1990s to the 2000s, from 44% to 55%*

77. **Long-term success rate.** Evaluations of 58 PSM projects covering 89 loans and grants approved from 1993 to 2010 show an overall success rate of 52%.<sup>67</sup> Of these 58 projects, two-thirds have been validated and/or fully evaluated by IED. Performance improved from the 1990s to the 2000s, from a success rate of 44% to 55%, but that was in large part due to the inclusion of recent crisis-response programs, all of which have been self-evaluated as *successful*.<sup>68</sup> Excluding crisis-response loans, there was a slight increase in the 2000s success rate to 49% (Figure 10).



*Fiscal reforms are long term and iterative*

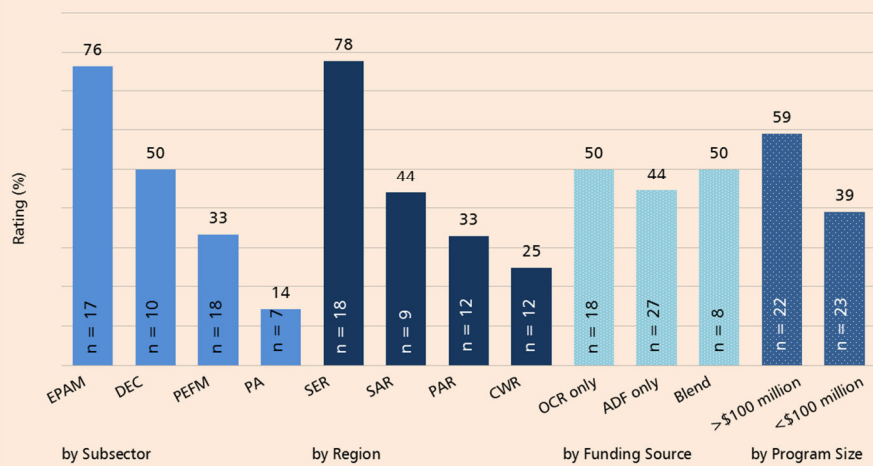
78. **Performance by subsector, region, and funding source.** EPAM, the largest subsector in terms of lending, had a 76% success rate (Figure 11). Successful EPAM projects ranged from a major SOE reform and privatization program in Indonesia, to a small and medium-sized enterprise development program in the Lao People's Democratic Republic (Lao PDR), to public sector reform programs in Cook Islands and Tuvalu (in the late 1990s). Only half the decentralization projects succeeded, but the more recent ones have fared better, perhaps indicating that some lessons are being learned. Successful examples are in Cambodia, Indonesia (Box 2), and the Philippines. Evaluation lessons<sup>69</sup> show that decentralization and devolution programs have been particularly complex, requiring strong strategic leadership and consensus across a wide range of national and subnational stakeholders. One in three PEFM projects succeeded, but again, performance has improved recently. Section B2 provides further discussion on why projects in these subsectors often fail. Evaluation lessons show that fiscal reforms are long term and iterative, which presents a challenge for ADB in terms of its ability to sustain involvement, staffing, and financing.

<sup>67</sup> A project may include more than one loan, grant, or TA.

<sup>68</sup> Five crisis-response projects were included, one of which was validated by IED.

<sup>69</sup> Evaluation Lessons from IED EvIS can be found at [www.evis.adb.org](http://www.evis.adb.org). Supplementary Appendix C provides a summary of governance-related lessons from EvIS for PSM and the major infrastructure sectors.

Figure 11: Success Ratings by Category, 1993–2010



ADF = Asian Development Fund, DEC = decentralization, CWR = Central and West Asia region, EPAM = economic and public affairs management, OCR = ordinary capital resources, PA = public administration, PAR = Pacific region, PEFM = public expenditure and fiscal management, SAR = South Asia region, SER = Southeast Asia region, TA = technical assistance.

Notes: Results based on evaluations of 53 projects (excluding crisis-response loans), containing 77 loans, 4 grants, and accompanying TA. Law and Judiciary (subsector) and the East Asia region are excluded owing to the very small sample sizes. Program size ratings are for program loans only, excluding project loans.

Source: Independent Evaluation Department.

### Box 2: Support for Decentralization in Indonesia

ADB's support for Indonesia's decentralization efforts in the early 2000s provided financing for community-based programs that were aligned with the emerging decentralization reforms. Subsequently, it joined in supporting refinements to the regulatory framework and particularly in providing capacity development for subnational governments. In the CPS 2006–2009, it signaled that, "almost all projects in the program would address issues in areas of policy, capacity building, or implementation related to decentralization." A cross-sectoral focus on fiscal decentralization, centered on a large program loan, was complemented by separate advisory TA projects for on-lending, the environmental impact assessment process, urban infrastructure, and minimum service standards. The sectoral contribution was made, for instance, through the second Decentralized Health Services Project (2003–2010) and Decentralized Basic Education Project (2001–2008).

ADB = Asian Development Bank, CPS = country partnership strategy, TA = technical assistance.

Source: IED. 2010. *Special Evaluation Study: ADB Support for Decentralization in Indonesia*. Manila: ADB.

79. Projects in the Southeast Asia region had the highest success rate, at 78%, driven by Viet Nam (75%), Indonesia (75%), and by countries that had 100% success rates but with small sample sizes.<sup>70</sup> Half the projects rated *less than successful* and *unsuccessful* (15 of 28) were in Pakistan and the Pacific. It is important to note that in these two areas, overall project success rates for all sectors are relatively low. This suggests that country context strongly influences project performance (see further discussion below), although in Pakistan, program-specific circumstances also played a role, as a recent country program evaluation pointed out.<sup>71</sup> ADF-financed PSM projects

*Half the projects rated less than successful and unsuccessful were in Pakistan and the Pacific*

<sup>70</sup> This includes Cambodia and Lao PDR.

<sup>71</sup> IED. 2013. *Country Assistance Program Evaluation: Pakistan 2002–2012*. Manila: ADB.

fared slightly worse (44% *successful*) than did projects financed by OCR and a blend of ADF and OCR.

*Successful programs reformed SOEs, strengthened financial management, and improved social services*

80. **Program lending.** Policy-based (program) loans<sup>72</sup> had an overall success rate of 49%, with larger ones (\$100 million and higher) performing markedly better than smaller ones, possibly indicating that financial clout matters in persuading governments to reform. Of the 22 large programs that were rated, 59% were *successful*, compared with only 39% for smaller programs. Over time, the success rate for larger program loans has generally improved. The recent improved performance of such loans may be due to greater openness of governments to embracing reforms and greater experience by ADB with the modality, resulting in better formulation of reform programs.<sup>73</sup> Successful programs often had significant impacts, as discussed in Section C (High Risk, High Return), and included ones that reformed SOEs, strengthened provincial financial management, and improved social services delivery. Not all major endeavors lived up to expectations, as seen in the program lending experience in Pakistan (Box 3).

### Box 3: Program Lending Experience in Pakistan

During the CAPE period 2002 to 2012, PSM made up 23% of the \$11.5 billion in ADB operations in Pakistan. Some 60% of PSM support was channeled through program lending. Loans were provided to both provincial and national governments with the aim of creating fiscal space and addressing balance-of-payments problems. This budget support and emergency liquidity option, which the government appreciated, played a significant role in fostering macroeconomic stability. However, the substantive PSM reform agenda associated with some of these loans was not well conceived or packaged, and ultimately came to a halt in 2010 when ADB discontinued program lending (after the International Monetary Fund's program went off track). The disruption posed a challenge in terms of shifting to other modalities to support still-needed reforms.

CAPE = country assistance program evaluation.

Sources: Information drawn from a country mission to Pakistan (conducted as part of this evaluation); IED. 2013. *Country Assistance Program Evaluation: Pakistan 2002–2012*. Manila: ADB.

*Softer policy- and program-focused operations tended to perform worse than hard infrastructure sectors have*

81. **PSM versus other sectors.** Although recent analysis suggests that PSM performance improved over the 2011–2013 period,<sup>74</sup> it remains one of the weaker performing sectors (Figure 12). Nonetheless, comparisons of success rates across sectors warrant careful consideration. The 10 operating sectors can be arranged along a continuum based on the content of operations: on one end are the infrastructure-heavy sectors (e.g., TAI, ENE, and WMS, with operations composed mostly of project loans) and on the other end sectors with more policy and program content (e.g., PSM, finance, and industry and trade). Arranged this way, it is evident that over the long run the sectors with softer policy- and program-focused operations have tended to perform worse than the hard infrastructure sectors have. This is somewhat intuitive, as these operations focus largely on capacity and institutional development, reforms, and change processes that are often complex, politically sensitive, and time intensive, with results that can be difficult to measure or prove.

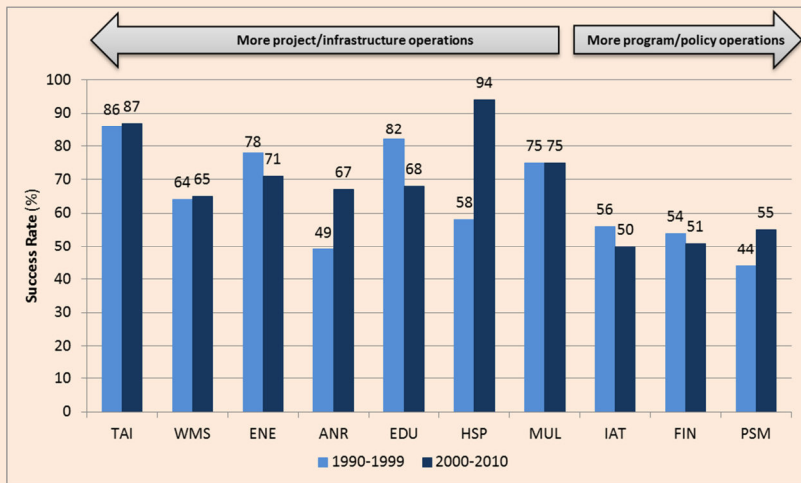
<sup>72</sup> Policy-based lending has evolved from its original use as an instrument for addressing balance-of-payment problems to its recent focus on supporting policy reforms and responses to economic and fiscal downturns and natural disasters. Policy loans are often used in combination with project investments and TA.

<sup>73</sup> IED. 2013. *Annual Evaluation Review 2012*. Manila: ADB.

<sup>74</sup> ADB. 2014. *Development Effectiveness Review 2013*. Manila.



Figure 12: Success Rates by Sector, 1990s and 2000s



ANR = agriculture and natural resources, EDU = education, ENE = energy, FIN = finance, HSP = health and social protection, IAT = industry and trade, MUL = multisector, PSM = public sector management, TAI = transport and information and communication technology, WMS = water supply and other municipal infrastructure and services.

Note: PSM includes crisis-response loans.

Source: Independent Evaluation Department.

82. **Country context and success rates.** This evaluation analyzed in-country differences between the success rates of PSM and non-PSM operations. A simple comparison of the aggregate, long-run success rate of 52% for PSM and 72% for all non-PSM operations shows a significant differential. Yet when PSM performance is viewed against non-PSM performance within each country, the differential is smaller (about 9%). This conclusion is based on analysis of a small sample of countries for which there are sufficient numbers of rated PSM and non-PSM projects.<sup>75</sup> Analysis of World Bank project performance data shows that, like in ADB, PSM projects have had relatively lower success rates (in the aggregate) compared with those of other operations (especially infrastructure-focused ones).<sup>76</sup> Recent analysis has found, however, that performance differences are small and statistically insignificant when comparing PSM and non-PSM projects in the same countries.<sup>77</sup> This suggests that country context heavily influences success rates, and a somewhat higher occurrence of PSM operations in more difficult country contexts (by itself appropriate) pushes the aggregate PSM success rate lower than that for other sectors.

*Country context heavily influences success rates*

83. **TA performance.** Unlike the ratings for PSM loan and grant projects, two-thirds of which have been validated or evaluated by IED, ratings for TA are based almost entirely on self-evaluation (in TA completion reports), which most often rate TA projects as successful in the absence of the usual indicators that make it much more difficult to do so for loan operations. Thus, any analysis of TA success rates should be done with caution and concentrate on trends as well as on subsector and country differences.

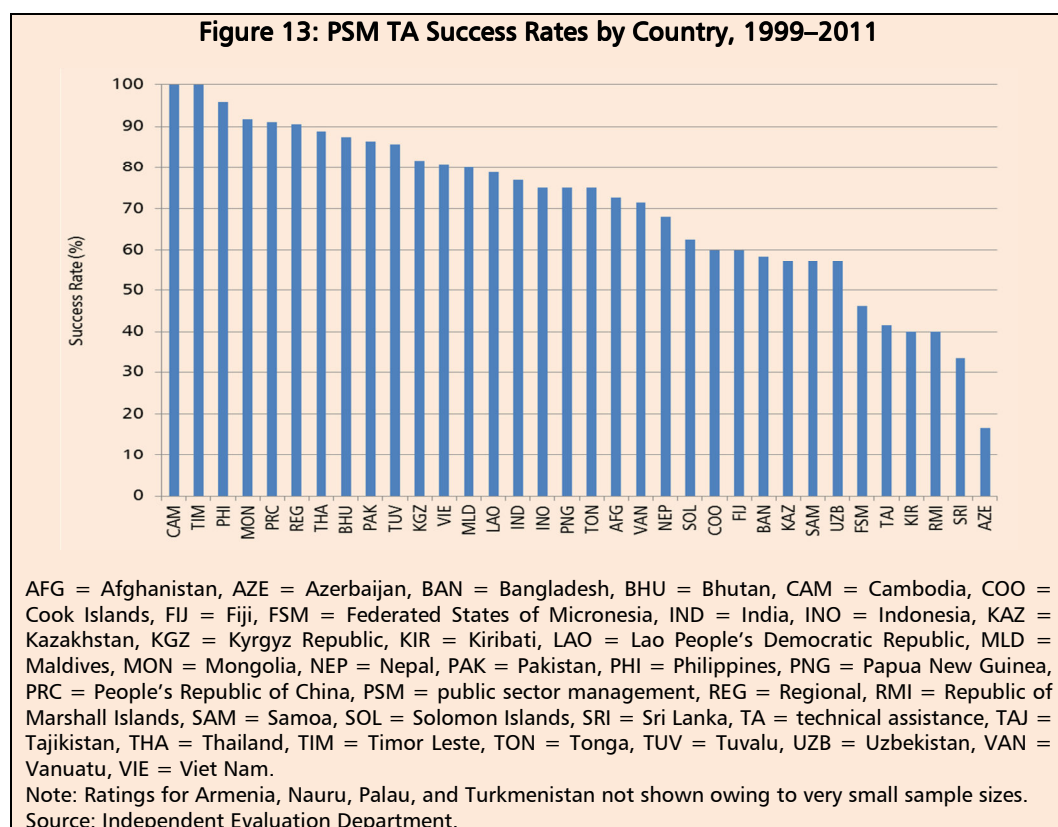
<sup>75</sup> Only seven countries have rated PSM projects covering at least six loans or grants. In this sample, the mean non-PSM to PSM differential was -9% (i.e., on average, the PSM success rate was 9 percentage points lower than the non-PSM success rate). When Pakistan is taken out of this sample (it is an outlier in that none of its PSM projects in the study period were rated *successful*), the mean in-country differential drops to -3%.

<sup>76</sup> Based on an IED review of the Independent Evaluation Group project performance database.

<sup>77</sup> World Bank. 2014. *What Factors Predict How Public Sector Projects Perform? A Review of the World Bank's Public Sector Management Portfolio*. Policy Research Working Paper 6798. Washington, DC.

*The spread in PSM TA success ratings is wide*

PSM TA ratings have risen from an average of about 80% in the late 1990s and early 2000s to about 90% in recent years. The spread in PSM TA success ratings across countries is wide (Figure 13). Over the period, the average country success rate was 70% (excluding countries with very small numbers of TA projects) with no difference between ADF and non-ADF countries. As is the case for project (loan or grant) ratings, countries in the Pacific and in Central and West Asia had relatively lower ratings.



84. Case studies from an ongoing evaluation suggest that successful TA projects are those which, among other things, address a specific technical need, build capacity over a long period, and support loan operations. The evaluation also points to the importance of country-level engagement and political will, particularly for achieving policy reforms. When implemented well, TA has proved flexible in responding to diverse needs throughout a region, such as project preparation, capacity development, policy advice, and support for broader regional public goods.<sup>78</sup>

## 2. Why Projects Fail

*Three factors were most common among failed projects*

85. A review of 28 PSM projects (covering 40 loans)<sup>79</sup> and 121 TA projects rated *less than successful* or *unsuccessful* found a number of recurring factors that contributed to failure (Table 5). Three factors were most common among failed projects: lack of institutional capacity and/or resources in government (to undertake projects or reforms), overly ambitious or complex designs, and weak government ownership and commitment. Half or more of failed projects experienced these

<sup>78</sup> IED. Forthcoming. *Corporate Evaluation Study: Role of TA in ADB*. Manila: ADB.

<sup>79</sup> IED validated or evaluated 21 of the 28 projects.

problems. Overly ambitious and complex designs and lack of government capacity and/or resources were the top two factors in failed decentralization and PEFM projects, respectively. Unforeseen socioeconomic or political factors was the most common factor among failed public administration projects and among failed projects in the Pacific.<sup>80</sup> TA interventions failed for generally the same reasons that projects failed, but unclear implementation arrangements, inappropriate technical design, and poor consultant performance were also common factors.

**Table 5: Underlying Factors for Failed PSM Projects and TA Projects**  
(%)

Factors	% of Projects (n=28)	% of TA Projects (n = 121)
Government's lack of institutional capacity or resources	68	36
Overambitious or complex project/program design	57	21
Government's weak sense of ownership or support	46	40
Unforeseen socioeconomic or political factors	36	9
Implementation delays	21	20
Insufficient supervision by ADB during implementation	18	8
Inadequate or inappropriate technical design of project	14	31

ADB = Asian Development Bank, TA = technical assistance.

Source: Independent Evaluation Department.

86. Two important lessons emerge from this analysis. First, more rigorous effort is required at the design and appraisal stage to assess (i) institutional capacity and resources in counterpart agencies, (ii) the degree of motivation for change and overall ownership and commitment to the objectives of the project, and (iii) political or socioeconomic factors that may affect or pose risks to the project. Given the sensitive nature of PSM reforms, ensuring strong government ownership and support for change is arguably the most important prerequisite for successful reform. This recognition calls for more careful selectivity in identifying projects in order to mitigate the probability of failure, with better ex-ante filters for ownership and readiness. Capacity development, institutional reform, and change processes are complex and face high political economy risks. For particularly risky programs and projects, such as higher-order reforms that carry potentially high social, economic, or political costs, extra efforts are required at the design and appraisal stage to identify risks and measures to address them or to adjust project designs accordingly.

*More effort is required to assess institutional capacity, commitment, and political factors*

87. Second, because of the complexity of many PSM projects and (in some cases) the unpredictability of the political and economic contexts in which they are set, more effective supervision and frequent policy dialogue is often necessary. About one in five failed projects suffered from insufficient staff time and effort spent on supervision and a similar percentage of failed TA projects suffered from either unclear implementation arrangements or inadequate implementation supervision. Thus, ADB's model—relying on short processing times, use of consultants and project implementation units, and few ADB staff dedicated to project administration and local research—may not be conducive to a large portfolio of complex PSM operations.<sup>81</sup>

*More effective supervision and frequent policy dialogue is often necessary*

<sup>80</sup> In the sample, five of the eight *less than successful* or *unsuccessful* PSM projects in the Pacific were affected by unforeseen socioeconomic or political factors.

<sup>81</sup> Recent efforts have been made in strengthening the monitoring of and practices in PFM, procurement, and fiduciary issues (through tripartite portfolio review meetings and country portfolio review meetings); through its staffing expansion, ADB has added staff in these areas (as discussed in Chapter 3).

### 3. Critical Success Factors

88. Successful PSM projects had a wide range of contributing factors. For example, in PEFM interventions the following factors were important: (i) clear program scopes that reflect country capacities; (ii) sustained support with flexibility to respond to the iterative and long-term nature of reforms; (iii) adequate stakeholder consultations and buy-in (for example on difficult fiscal adjustment reforms); (iv) sound program design and proper sequencing; (v) close collaboration by ADB with government officials; (vi) strong government ownership and leadership; (vii) continuity of ADB and counterpart staff, to build institutional memory; (viii) development of complementary soft capacities in those responsible for implementing reforms; and (ix) complementary use of TA.

89. On decentralization efforts, important factors were: (i) regular consultation and dialogue among national and subnational government stakeholders and other development partners; (ii) support for champions and leaders in agencies to ensure the institutional sustainability of program gains; (iii) adequate consideration of sociopolitical, administrative, and historical contexts in project design and implementation; (iv) well-designed frameworks and effectively sequenced programs; (v) harmonious interlinkage of policy objectives to bring about the program's main objective; (vi) program design flexibility, given the complexity of decentralization, with its major changes in legal and regulatory framework, institutional arrangements, local government financial infrastructure, and human capacity; and (vii) synergy among ADB-financed projects.

*Rigorous diagnostics, government commitment, and effective support were crosscutting success factors*

90. The need for rigorous diagnostics, including strong country and sector knowledge, strong and sustained government ownership and commitment, and effective ADB implementation support were crosscutting success factors. This is generally consistent with the findings of a recent IED study on ADB's Decentralization<sup>82</sup> that examined 344 projects in different sectors that had completion reports during 2000–2012.<sup>83</sup> It found that ADB's efforts in monitoring and oversight during project implementation, borrower's project ownership and performance, experience of the resident mission at approval, project size, and political stability all have positive and significant effects on project performance.

91. Some relevant lessons can be gleaned from the World Bank's PSM experience. Box 4 provides a summary of lessons from two studies.

<sup>82</sup> IED. 2013. *Corporate Evaluation Study: ADB's Decentralization: Progress and Operational Performance*. Manila: ADB.

<sup>83</sup> The evaluation also identified several factors that led to project success based on a review of 13 projects processed by resident missions during 2000–2012. These included maintaining active dialogue with the government and other stakeholders and building trust with government to enable ADB staff to discuss proposals and risks during implementation at an early stage. Given the small sample, it is not possible to make statistical inferences regarding project success. Nonetheless, these factors were crucial for PSM projects, which constituted 8 of the 13 projects in the sample. The study suggests that it is useful to consider processing certain types of projects or programs in resident missions—in particular those for which close and frequent interaction with the country and understanding of its political economy are crucial to the success of the operation.

#### Box 4: What Works in PSM: the World Bank's Experience

The World Bank spends a significant amount of resources, roughly one-fifth of annual lending, on PSM-related operations across a large sample of countries. Among the most important lessons from this work are five related to political economy: political economy factors are key predictors of how projects perform; PSM projects are more sensitive to or harder to insulate from political factors than are non-PSM projects; projects should be designed and delivered with full recognition that they carry complex political and sequencing issues and that bringing about significant results requires significant time; project designs might be aided by better understanding of and alignment with political incentives; and local research can help improve understanding of these incentives.

For PFM reforms, getting the basics right first is important, as is adapting the reform efforts typically used in developed countries to better suit developing countries. Most tax reform investment projects have had to be extended, but this effort has usually paid off. For anticorruption efforts, it is important to set priorities based on assessments of which types of corruption are most harmful to poverty reduction and growth. Reforms to financial management, civil service, and tax administration are indirect but important ways to reduce the potential for corruption. Using project implementation units rather than government procurement systems slows government improvements without ensuring corruption-free procurement. Civil service reforms have remained difficult work, and analytics tend to focus on civil service reform affordability rather than on performance. Case studies show that TA coupled with investment loans has been particularly important in encouraging these reforms.

PFM = public financial management, PSM = public sector management, TA = technical assistance.

Sources: Independent Evaluation Group. 2008. *Public Sector Reform: What Works and Why? An IEG Evaluation of World Bank Support*. Washington, DC; and Blum, J.R. 2014. *What Factors Predict How Public Sector Management Projects Perform?* Policy Research Working Paper 6798. World Bank Governance and Public Sector Management Practice. Washington, DC.

#### 4. PSM Sector Evaluation Results

92. Sector evaluations have the advantage of taking a more medium- to long-term, programmatic perspective on PSM operations in a country. This is important given that the outcomes desired from PSM programs and projects often require many years to manifest. PSM sector evaluations have been undertaken in 17 countries since 2005, as part of country assistance program evaluations in countries where substantial operations took place in PSM and/or governance during the evaluation period. As summarized in Table 6, 41% of the sector programs were rated *successful* overall, while 47% had documented impacts. For the subset of six ADF countries, the overall success rate was generally the same (about 43%) but development impact was rated lower at 33%. Programs rated highly on strategic positioning and relevance and consistently low on efficiency. Effectiveness was rated *successful* in 60% of evaluations, but sustained outcomes were rated likely in only about half the programs. Appendix 4 provides the list of the 17 PSM sector evaluations reviewed in this evaluation, as well as key success and failure factors.

*PSM sector evaluations have been undertaken in 17 countries... 41% were rated successful*

**Table 6: Results of Recent PSM Sector Evaluations**

Overall Sector Rating = 41% overall successful		Development Impact = 47% satisfactory, substantial, likely substantial		
Strategic Positioning 86% <i>satisfactory</i>	Relevance 93% <i>relevant</i> or <i>highly relevant</i>	Efficiency 36% <i>efficient</i> or <i>highly efficient</i>	Effectiveness 60% <i>effective</i> or <i>likely effective</i>	Sustainability 47% <i>likely sustainable</i>

Source: Independent Evaluation Department.

## 5. Findings from Thematic/Corporate Evaluations

93. Many thematic and corporate evaluations in recent years have assessed operations in PSM, governance, and capacity development (at least in part) or made findings relevant thereto. Some of their key findings are summarized in Table 7 (with more details provided in Supplementary Appendix G).

**Table 7: What Some Recent Evaluations Have Found**

Issue/Topic	Some Key Findings/Recommendations
Support Private Sector Enabling Environment <sup>a</sup>	ADB support for reforms—while growing—remains low. A push for more business regulatory and governance reforms is needed, including through increased advocacy efforts, greater focus on reform outcomes versus policy actions and outputs, and promotion of the use of e-governance systems.
Support for the MDGs <sup>b</sup>	Weak governance, capacity, and service delivery impeded progress toward the MDGs in many countries. Future progress is contingent on improvements in governance.
ADF Operations <sup>c</sup>	PSM programs did help improve PFM and transparency, but they were <i>less successful</i> in reducing the scope for corruption, improving procurement, or supporting decentralization.
Support for Governance in the Pacific <sup>d</sup>	Support was <i>partly successful</i> , with modest impacts, but the study acknowledged the high degree of difficulty in working in the Pacific region. State-owned enterprise reform is one area where sustained support is showing results.
Capacity Development Assistance <sup>e</sup>	ADB needs to ensure adequate baseline assessments, clear results frameworks, long-term continuity, and careful phasing. It needs more staff with capacity development expertise.
Policy-Based Lending <sup>f</sup>	A weakness has been insufficient ADB resources for institutional capacity building during implementation of reforms.

ADB = Asian Development Bank, ADF = Asian Development Fund, MDG = Millennium Development Goal, PFM = public financial management, PSM = public sector management.

Sources: <sup>a</sup> IED. 2013. *ADB Support for Strengthening the Enabling Environment for Private Sector Development*. Manila: ADB.

<sup>b</sup> IED. 2013. *ADB Support for the Millennium Development Goals*. Manila: ADB.

<sup>c</sup> IED. 2011. *ADF Operations: A Decade of Supporting Poverty Reduction in the Asia and Pacific*. Manila: ADB.

<sup>d</sup> IED. 2011. *ADB Support for Promoting Good Governance in Pacific Developing Member Countries*. Manila: ADB.

<sup>e</sup> IED. 2008. *Effectiveness of ADB's Capacity Development Assistance: How to Get Institutions Right*. Manila: ADB.

<sup>f</sup> IED. 2008. *Policy-Based Lending: Emerging Practices in Supporting Reforms in Developing Member Countries*. Manila: ADB.

## 6. Capacity Development, Anticorruption, Civil Society, and e-Governance

*Capacity constraints pose major obstacles to development*

94. **Capacity development.** In 2007, ADB adopted its Capacity Development Framework and Action Plan, with the growing recognition that capacity constraints (including in the public sector) pose major obstacles to sustainable development, hamper service delivery to the poor, and negatively affect the investment climate and the effectiveness of development lending.<sup>84</sup> Perhaps as a result, Strategy 2020 combined governance and capacity development as a driver of change. The capacity development plan was revised in 2011 to streamline activities and ensure that they are mainstreamed more effectively into operations.

<sup>84</sup> ADB. 2007. *Integrating Capacity Development into Country Programs and Operations*. Manila.

95. More than 40% of loans have a capacity development thematic tag, but evaluations suggest that improving the effectiveness of capacity development operations remains a major challenge. The Midterm Review of Strategy 2020 concluded that capacity development was not well integrated in country, sector, and project plans and that the outcomes of capacity-building strategies remain unclear. It stressed that good governance and capacity development need to be more firmly anchored in operations, including in sector assessments and road maps (footnote 53). ADB has developed a number of useful guides for capacity development (as discussed in the next chapter) to support staff operations, including in core infrastructure sectors, but evaluations find that good practices are often not followed in projects. Government interest in funding such activities from loans may also be low.

*Capacity development was not well integrated in country, sector, and project plans*

96. A review of capacity development operations is due in 2015, but some critical issues highlighted in the 2008 IED evaluation on capacity development remain largely relevant today. These include ensuring adequate baseline assessments, clear results frameworks, and long-term continuity.

97. **Anticorruption support.** Supporting countries' efforts to curb corruption, especially in sectors where ADB is active, is a major governance priority, as set out in the Governance Policy, Anticorruption Policy, and GACAP II. Over the 2004–2013 period, anticorruption was tagged as a subtheme in 12 loans, 2 grants, and 52 TA projects.<sup>85</sup> Anticorruption tags were applied to a wide range of programs and projects across sectors, suggesting that in addition to direct PSM sector support for anticorruption (e.g., for strengthening anticorruption institutions, public audits, or the justice sector), efforts are also indirectly applied through non-PSM projects and programs. For example, loans tagged as anticorruption efforts included the \$150 million Good Governance Program in Bangladesh (a PSM sector operation); the \$300 million justice sector program in the Philippines (also PSM); a series of small (\$5 million–\$10 million) customs reform and modernization programs in the Kyrgyz Republic, Mongolia, and Tajikistan (industry and trade sector); a \$340 million road project for India's Uttarakhand state (transport); and financial sector and poverty reduction projects in Viet Nam. Evaluation evidence on the performance of anticorruption projects (and anticorruption components within projects) is limited, but successful interventions include the Tajikistan and Viet Nam examples (based on self-evaluations).

*Supporting efforts to curb corruption, especially in sectors where ADB is active, is a major priority*

98. Efforts to support anticorruption appear most frequently in TA operations. On average, five TA projects a year are tagged with the anticorruption subtheme. As for loans, a wide range of TA types and sectors have the tag, but unlike for loans, just under half the TA projects were managed by nonregional departments: RSDD (e.g., for anticorruption conferences, the Anticorruption Initiative of the Organisation for Economic Co-operation and Development and ADB, implementation of GACAP II, and e-solutions), OAI (e.g., for training on prevention and detection of fraud), and OSFMD (e.g., for training on project implementation). A review of TA completion reports for 19 TA projects with anticorruption components found that 18 rated themselves as *successful* (none have been independently evaluated).

99. Efforts to prevent corruption are also known to be channeled through other means, such as through projects focused on strengthening PFM and procurement (which may not have been tagged as explicitly focused on anticorruption). Moreover,

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<sup>85</sup> Anticorruption is one of five subthemes under the theme of governance.

ADB also extends support for anticorruption through its partnership with the Organisation for Economic Co-operation and Development on the Anticorruption Initiative for Asia and the Pacific, the regional forum for supporting national and multilateral efforts to reduce corruption in the region that was launched in 1999 by several governments.<sup>86</sup>

*There is growing interest in the potential for civil society to promote good governance*

100. **Civil society participation.** Engaging with civil society is among ADB's stated governance principles and commitments, and there is growing international interest in the potential for civil society organizations (CSOs) to promote good governance. Annual reports by the NGOC document an increasing share of projects in which CSOs participate on the basis of the NGOC's review of project documentation at entry. The biennial report for 2011–2012 stated that 98% of all projects had indicated participation of CSOs, compared with less than 10% in 1990.<sup>87</sup> The report is commendable in its documentation of project-specific information on CSO involvement. It shows that efforts are made to involve CSOs at various stages of the project cycle but also that the intent is often clearer than the actual implementation, and that for some projects information is relatively thin. Although consultations within ADB and resident missions revealed mixed views on whether ADB is engaging sufficiently with CSOs, the general consensus is that it is engaging more now than before. Moreover, there are good practice examples, such as the Cambodia Resident Mission's engagement of a civil society liaison officer, its plan to develop a civil society engagement strategy, and its participatory approach in developing the Country Governance RAMP.

101. Notwithstanding the positive trends reported by the NGOC, project data (classification theme and subtheme tagging) on the number of operations in which civil society participates do not show much activity. From 2004 to 2013, just 16 loans, 20 grants, and 58 TA projects were tagged as having civil society participation elements, and the numbers decreased during the period.<sup>88</sup>

*ICT for better governance should be an area for more careful consideration and scaling up*

102. **Information and communication technology (ICT) in governance.** A growing number of operations (in PSM and other sectors) have incorporated ICT as part of reform and capacity development efforts. A review of PSM projects that were rated *successful* reveals that many included ICT components which contributed to project success, including in such areas as tax revenue administration, public audit, and property registration. A number of countries, such as the Philippines, are also pursuing *open government* initiatives as part of their efforts to improve transparency and access to information, leveraging ICT to facilitate these initiatives. Altogether, this observation suggests that ICT for better governance should be an area for more careful consideration and scaling up (Box 5).

#### Box 5: ICT for Governance: Potential for Expansion?

Recent experience with integrating ICT into public sector programs and projects shows promising signs, in terms of the potential for improving public service provision and delivery. Improvements can occur through effects on both the demand and the supply sides. For example, projects have demonstrated good results in areas such as online requests, registration, and applications, and delivery through identification cards or ATM banking. ICT systems and

<sup>86</sup> To date, 31 countries and jurisdictions from Asia and the Pacific are involved in the Initiative.

<sup>87</sup> ADB. 2014. *ADB Cooperation with Civil Society Biennial Report: 2011 and 2012*. Manila.

<sup>88</sup> Civil society participation is one of five subthemes under the theme of governance.



applications have improved the efficiency, speed, and transparency of delivery of services and of the generation and sharing of knowledge.

Notwithstanding these potential benefits, precautionary attention to a few key issues is important. First, ICT initiatives often require significant up-front investment, provision of technical training, and adequate attention to security and privacy protections. These aspects need careful consideration in any new ICT venture. Second, benefits from ICT do not always or automatically accrue to the poor and to residents of rural and remote areas. Effort is needed to design and deploy inclusive ICT policies and projects that enable benefits to reach these groups. Third, even though ICT holds good potential for improving efficiency and service delivery in some public organizations, ICT solutions often ignore deeper capacity, institutional, and political economy factors that constrain organizational effectiveness. ICT solutions alone offer no guarantee that these underlying constraints on organizational effectiveness will be addressed. Finally, governments and development partners must ensure that successfully piloted ICT projects—of which there are growing numbers—are scaled up and replicated to maximize their system-wide impacts.

ICT = information and communication technology.

Sources: ADB. 2013. *Asian Development Outlook Update*. Manila; ADB. 2014. *Public Service Delivery: Role of Information and Communication Technology in Improving Governance and Development Impact*. Manila.

### C. High Risk, High Return

103. Despite the low overall success rates, where PSM interventions have succeeded, results have often been transformative, with system-wide impacts. In this sense, such interventions have high-risk/high-return characteristics. Some short examples include the following: in Indonesia, reformed SOEs, strengthened local government financial management, and enhanced state audit capacity; in Micronesia and Cook Islands, successful public sector and fiscal adjustment reforms; in Georgia, improved social services delivery; in Sri Lanka, strengthened fiscal management and PSD; and in the Lao PDR, an improved environment for private sector and small and medium-size enterprises. More detailed examples include the following projects, all of which have been validated or evaluated by IED.

104. In India, support for legal, policy, and institutional reforms has helped to establish utility regulatory authorities and enable significant investment in the power and transport sectors. Significant progress has also been made on improving tax administration (particularly on measures supporting the introduction of a value-added tax), reducing power sector subsidies, and reforming public enterprises.<sup>89</sup> The Gujarat Public Resource Management Program supported the formulation of the legal framework for private sector participation in infrastructure development, providing the foundations for longer term sector reforms, improved enabling environment, and increased investments. It also contributed to strengthening the capacity of the state's Finance Department to manage tax reforms, particularly for SOE restructuring and preparing for the introduction of a value-added tax.<sup>90</sup>

105. In the Philippines, ADB engagement and policy dialogue helped the government pursue controversial tax and power tariff reforms. Other reforms helped to improve the fiscal position, creating space for additional development spending. Through the Development Policy Support Program, the Government Procurement Law of 2001 was enacted and implemented, helping to streamline procurement rules and

*Where PSM interventions have succeeded, results have often been transformative*

*In the Philippines, ADB helped government pursue tax and tariff reforms*

<sup>89</sup> IED. 2007. *Country Assistance Program Evaluation: India*. Manila: ADB.

<sup>90</sup> IED. 2007. *Performance Evaluation Report: Gujarat Public Resource Management Program in India*. Manila: ADB (Loan 1506-IND).

regulations and to increase competition and transparency. The Local Government Financing and Budget Reform Program provided local government units with more financing options, built capacity for planning and project management in a transparent manner, and developed an automated system for performance assessment.<sup>91</sup>

106. In the Kyrgyz Republic, the Capacity Building on Corporate Governance and Insolvency Procedure Project helped promote efficient functioning of enterprises. Through the project's support to the Kyrgyz Development Center, best practices in corporate governance were promoted. The project also helped strengthen the legal and regulatory basis for corporate governance and insolvency, and build capacity for the application of the bankruptcy law.<sup>92</sup>

*In Cambodia, the Commune Council Development Project helped councils manage democratic development of communes*

107. In Cambodia, the Commune Council Development Project helped enable councils to effectively manage the democratic development of their communes. The construction of commune buildings served as a symbol of the presence of government at the commune level. Training programs helped in building the capacities of decentralization and deconcentration champions in national ministries who have been involved in the formulation of policies related to decentralization and deconcentration. The project initiated the registration of all Cambodians, as vital records and documents were lost during the civil war years.<sup>93</sup> Also, the TA projects on Support to Public Financial Management Reform Program and Strengthening Public Financial Management (TA Cluster) helped develop the basic procedures for public procurement and contributed to the legal framework and institutional capacity for external audit as well as to establishing systems and procedures for management of public debt.<sup>94</sup>

## D. Conclusions

*PSM continues to see strong demand from member countries*

108. PSM remains a major operational area and continues to see strong demand from member countries, but it is not guided by a formal corporate level plan. Given the scale of the challenges facing the region, including in the growing number of middle-income countries, and new areas of interest such as ICT for governance, PSM is likely to remain a major operational area going forward. Still, the fact remains that Strategy 2020 does not provide clear strategic guidance for this critical area of ADB operations.

109. Altogether, this warrants serious consideration for a focused PSM directional document. The overarching purpose of such a document would be to improve the effectiveness of PSM operations within existing resource constraints. Specifically, such a document could add value in a number of important respects, including by: articulating how PSM operations can support and align with Strategy 2020's agendas (and now the adjusted agendas of ADB's Midterm Review of Strategy 2020 in 2014); clarifying ADB's forward positioning on PSM for the benefit of staff, member countries, and other development partners; setting clearer directions and priorities for PSM subsector

<sup>91</sup> IED. 2008. *Country Assistance Program Evaluation: Philippines*. Manila: ADB; ADB. 2010. *Completion Report: Development Policy Support Program Cluster in the Philippines*. Manila (Loans 2315-PHI and 2545-PHI); and ADB. 2013. *Completion Report: Local Government Financing and Budget Reform Program Cluster in the Philippines*. Manila (Loans 2387-PHI and 2584-PHI).

<sup>92</sup> IED. 2009. *Validation Report: Capacity Building on Corporate Governance and Insolvency Procedure in Kyrgyz Republic*. Manila: ADB (Loan 1547-KGZ).

<sup>93</sup> IED. 2013. *Performance Evaluation Report: Commune Council Development in Cambodia*. Manila: ADB (Loan 1953-CAM).

<sup>94</sup> IED. 2009. *Country Assistance Program Evaluation: Cambodia: Growth and Sector Reform*. Manila: ADB.

operations; providing better guidance on PSM operations in the formulation of CPSs; highlighting important lessons and good practices and approaches to be incorporated into future PSM operations; and providing a basis for monitoring progress and achievements in PSM operations.

110. Half of all PSM operations end up *unsuccessful or less than successful*, owing to their complex content and the difficult country contexts in which they are launched. However, among those that do succeed, impacts are often significant and system-wide, giving PSM operations (and related sector governance operations) high-risk/high-return characteristics. The challenge is to follow approaches (based on lessons) that maximize the probability of success while mitigating the risk of failure.

111. It is imperative that staff apply the lessons from earlier experience (including those of others, like the World Bank) to each new operation. An important lesson is the need for more rigorous diagnostics at the project design stage. Efforts often fail due to insufficient understanding of institutional capacity and political commitment and incentives. PSM interventions, particularly those which seek higher-order change and reform, are sensitive to political factors. Understanding the political economy is crucial, as are adjusting the designs of interventions to better suit country contexts, engaging in frequent policy dialogue, and practicing flexible project management. Also, ADB can improve the performance of its projects with closer implementation monitoring and with design of suitable project size and choice of implementing institutions.

*Efforts often fail due to insufficient understanding of institutional capacity and political incentives*

## CHAPTER 5

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# Support for Enhancing Sector Governance

*ADB has committed to help enhance governance in core sectors*

112. Infrastructure predominates ADB operations, absorbing nearly three-fourths of financing since 2008, with a concentration on investments related to transport, energy, and water. In addition to financing physical investments, ADB has committed to help enhance governance and capacity in core infrastructure sectors, through technical assistance, reform support, and other means. This assessment of ADB support for enhancing sector governance noted important efforts to improve various aspects of governance and capacity in major infrastructure sectors, but also some concerning issues and trends. Bringing about real change has been difficult, often taking decades of effort, and sustainability remains a pervasive challenge. Success stories highlight, among other lessons, the essential alignment of politics and technical solutions to addressing long-standing sector governance challenges and the importance of rigorous diagnostics, understanding of political economy, and dialogue.

### A. Guidance for Mainstreaming Governance

*ADB has developed a range of guidance documents to address governance*

113. ADB mainstreams and supports governance and capacity in infrastructure sectors by embedding soft components into projects, providing TA, providing program loans with policy and reform content, and engaging with governments through policy and reform dialogue. Over the past decade ADB has developed a range of guidance documents to strengthen corporate and country capacity to identify, explore, and address governance issues of relevance to infrastructure operations. These include both crosscutting and sector-specific guidance, as discussed below. While these guidance documents provide some direction or have implications on PSM operations, they do not go so far as providing direct guidance and direction on PSM and its subsectors.

114. **Sector Policies, Plans, and Other Guidance.** There is no uniform structure of guidance across sectors, but infrastructure sectors have seen considerable framework and guidance development, including an array of crosscutting and sector-focused instruments. There is a wide range of sector guidelines, notes, and policy papers relevant to governance. Some of the guidance notes aim to assist staff in assessing and mapping governance risks related to PFM, procurement, and corruption.

115. A review of these instruments finds most to be of good quality, with clear and practical guidance and appropriate use of case studies and examples from ADB's experience. Those on political economy analysis and integrating capacity development into sectors are especially useful.

116. ADB has adopted several sector policies and plans, using different labels; e.g., the Energy Policy<sup>95</sup> and the Sustainable Transport Initiative—Operational Plan.<sup>96</sup> These policies and plans cover issues of governance such as sector-wide reforms and capacity development. Other operational direction also exists, such as principles to guide the development of the sector in relation to key initiatives. Guidance notes have been prepared for some sectors to assist staff in assessing and mapping governance risks. The notes aim to help governance specialists better understand key sector characteristics and to raise the governance risk awareness of sector specialists. Table 8 provides examples.

**Table 8: Crosscutting and Sector-focused Guidance**

Crosscutting Guidance Examples			
<i>Capacity Development Framework and Action Plan (2007, 2011)</i> <i>Practical Guide to Capacity Development in a Sector Context (2011)</i> <i>Preparing Results Frameworks and Monitoring Results: Country and Sector Levels (2010)</i> <i>Second Governance and Anticorruption Action Plan (2006, 2008)</i> <i>Guidance Note on the Use of Political Economy Analysis (2013)</i>			
Sector-focused Guidance Examples			
	Transport	Energy	Water
Sector policy or plan	Sustainable Transport Initiative—Operational Plan (2010)	Energy Policy (2009)	Water Operational Plan (2011)
Guidance for sector risk assessments	Guidance Note: Road Transport Subsector Risk Assessment (2010)	Guidance Note: Electricity Sector Risk Assessment (2009)	Guidance Note: Urban Water Supply Sector Risk Assessment (2009)
Other guidance	Road Funds and Road Maintenance—An Asian Perspective (2003)	Energy Outlook for Asia and the Pacific (2009)	Asian Water Development Outlook (2007, 2013)

Source: Independent Evaluation Department.

117. **Capacity Development Framework and Action Plan.** As discussed in Chapter 3, this plan sets out the conceptual approach to capacity development and provides an implementation strategy. It helps staff institutionalize a capacity development focus in country operations and establish internal support systems for capacity development.

118. **GACAP II.** As discussed in Chapter 6, GACAP II aims to improve performance in the implementation of the governance and anticorruption policies in the sectors and subsectors where ADB is active. RAMPs are to be conducted at country, sector, and project levels and are separate from the sector diagnostics that cover analyses of institutional, legal, and regulatory frameworks and sector capacity. As discussed in Chapter 3, the development of country and sector RAMPs has not been consistent.

119. **CPS-level Sector Assessments and Road Maps.** As part of CPSs, sector assessments and road maps are to elaborate core problems, issues, and strategic solutions relevant to a particular country that may have been identified in general in the country sector policy/plan. Their governance content is, therefore, variable and specific to the country and sector in question. Their analyses are not presented consistently and often fail to provide clear priorities and actions for institutional development efforts. Moreover, there is no formal guidance to staff on the conduct of

*Sector road maps are to elaborate problems, issues, and solutions*

<sup>95</sup> ADB. 2009. *Energy Policy*. Manila.

<sup>96</sup> ADB. 2010. *Sustainable Transport Initiative—Operational Plan*. Manila.

*Governance and capacity development need to be more firmly anchored in sector operations*

sector assessments or the governance and institutional content of road maps. The Midterm Review of Strategy 2020 found that governance and capacity development need to be more firmly anchored in sector operations but that a shortage of in-house technical capability has led to a reluctance to prepare these and to get involved with difficult—but effective—sector reforms (footnote 53).

120. A recent effort by the Southeast Asia Regional Department aims to systematize sector assessments, strategies, and road maps, and here capacity, institutional, and governance issues are analyzed more rigorously. The key aspects of assessments, strategies, and road maps are incorporated in the sector section of the CPS, and summaries or full versions are listed as supplementary documents to the CPS. In some cases, they are sufficiently developed to be stand-alone documents for wider distribution. These are good examples of rigorous diagnostics in sector programming.

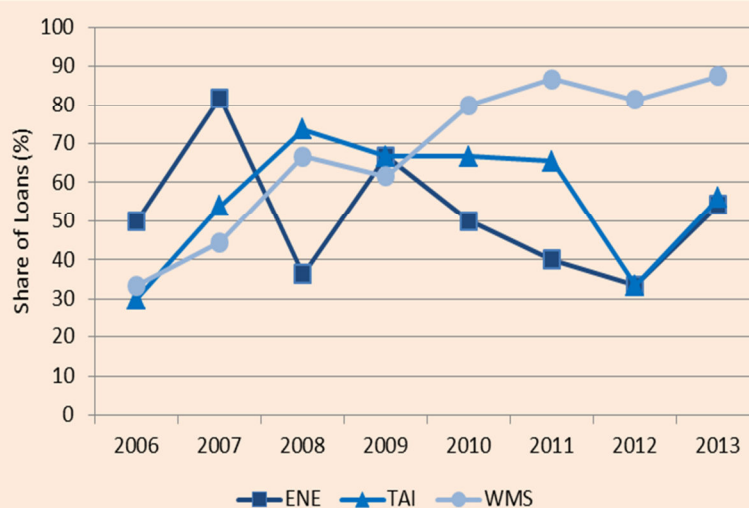
## B. Efforts to Enhance Sector Governance

### 1. Lending and TA Patterns

*The share of WMS loans with governance components has risen...for TAI and ENE it has declined*

121. **Governance and capacity development components in infrastructure loans.** ADB thematically classifies projects to identify whether they contain governance and/or capacity development components. In recent years, the share of WMS loans with governance and/or capacity development components has risen steadily (appropriately, given major issues in this sector and poor success rates of operations), whereas for TAI and ENE it has slightly declined (Figure 14). This warrants attention, as it suggests that the governance focus of operations in these two major sectors might be stalling. This would be inconsistent with ADB's commitment to mainstream governance into core sector operations.

**Figure 14: Loans with Governance and/or Capacity Development Theme, 2006–2013 (%)**



ENE = energy, TAI = transport and information and communication technology, WMS = water supply and other municipal infrastructure and services.

Source: Independent Evaluation Department.

122. **TA support in infrastructure sectors.** While the number of TAI, ENE, and WMS loans has nearly tripled from 23 in 2004 to 65 in 2013, the number of TA projects supporting these loans has increased only slightly from 35 to 38. In other words, in 2004, there were nearly two TA projects approved for every one loan; whereas in 2013 this declined to one TA for every two loans.<sup>97</sup> The total value of TA support relative to that for lending for the three sectors declined from around 1.8% in the early part of the decade to around 1.5% in recent years.<sup>98</sup> Insofar as TA is an important instrument for supporting governance, capacity development, and reforms in tandem with the physical investments delivered through loans, the decline in the number and value of TA projects relative to loans should raise some concern.

*The number of TA projects supporting loans has increased only slightly*

123. **Policy-based lending.** Policy-based lending has not been a commonly used modality in these sectors, with TAI, ENE, WMS receiving just two, two, and four program loans, respectively, over the 2004–2013 period. However, some PSM program loans are known to have policy actions and reform content that target non-PSM sectors such as transport and energy.<sup>99</sup>

## 2. Sector Evaluation Findings

124. A review of sector evaluations conducted by IED since 2008 for 31 transport, energy, and water operations in 13 countries and the Pacific region was undertaken to (i) examine effort, in terms of how ADB has supported sector governance and capacity development, and (ii) assess effectiveness, sustainability, and broader lessons and results.<sup>100</sup> Sector evaluations typically assess operations over the course of a decade and consider all modalities of support (loans, grants, TA, etc.) and, therefore, provide a broader perspective. The following are some key findings about ADB's efforts. Section C (*Results of Sector Governance Support*) discusses the results and effectiveness of these efforts, as well as some important lessons.

125. **Sector evaluations show a considerable number of efforts by ADB to provide capacity development and reform support to complement infrastructure operations.** ADB has made efforts to program and provide capacity development and reform support of various types to complement its infrastructure investments. The extent and composition (in terms of the number, scope, and value) of these operations has, however, varied across sectors, countries, and over time.

*Evaluations show a number of efforts to provide capacity development and reform support*

126. **Much of the support aimed to strengthen counterparts' ability to manage projects.** A significant amount of support had the more immediate focus of closing capacity gaps in counterpart agencies. ADB guidance requires that these capacity gaps be assessed systematically, but the 2008–2010 Capacity Development Thematic Report noted that few such assessments were being done, even though they were an obligatory part of project preparation.<sup>101</sup> Even when based on shaky assessments, a broad range of support was extended, including (for example) efforts to help plan,

<sup>97</sup> This includes sovereign TA only, and excludes project preparatory TA and regional TA. In 2013, there were 13 TA projects and 25 loans approved for TAI (0.5 TA/loan ratio); 14 TA projects and 24 loans for ENE (0.6); and 11 TA projects and 16 loans for WMS (0.7).

<sup>98</sup> TA approval values doubled from 2004 to 2013 from around \$50 million to just over \$100 million while loan values more than doubled from \$3 billion to over \$7 billion. Over the decade, the TA/loan value ratio has averaged 3% for WMS, 2% for ENE, and 1% for TAI.

<sup>99</sup> PSM accounts for the majority of policy-based loans approved by ADB.

<sup>100</sup> For more details on the sector evaluations reviewed, see Appendix 5 and Supplementary Appendix H. The evaluations were conducted as part of country assistance program evaluations or as sector assistance program evaluations.

<sup>101</sup> ADB. 2011. *Capacity Development Thematic Report 2008–2010*. Manila.

design, and implement projects or to help counterparts comply with ADB rules (e.g., on procurement). This support had a shorter-term, project-facilitation and compliance focus but in some cases was seen to also provide longer-term capacity benefits.<sup>102</sup>

*Emphasis on private sector participation and sustainability has grown*

127. **Emphasis on private sector participation and sustainability has appropriately grown in recent years.** The content of capacity development and reform support has increasingly focused on facilitating private sector participation (through support for the public-private partnership [PPP] frameworks and transactions) and addressing the sustainability of infrastructure. In transport, recent evaluations have documented a growing focus on road safety, cross-border connectivity, trade facilitation, and multimodal planning support. In energy, support in recent years (especially since the 2008 energy crisis) has focused more sharply on energy efficiency, renewable energy, and energy security. Moreover, in countries with more decentralized government structures, recent support has also targeted subnational levels (e.g., rural utilities).

### 3. Examples of ADB Efforts

128. Several examples of the types of efforts ADB has extended to strengthen governance and capacity and support reforms follow:<sup>103</sup>

- (i) Pakistan, transport sector: Major roads subsector projects financed by ADB included complementary institutional support and capacity-building components at the national and provincial levels; support included efforts to develop a new policy and maintenance plan and strengthen the capacity of the National Highway Authority.
- (ii) Bhutan, energy sector: ADB-supported policy, institutional, and legal reforms with the objective of improving the commercial orientation and financial performance of power sector entities; support included policy dialogue and reforms pursued through loan covenants and supporting TA.
- (iii) Uzbekistan, water sector: Alongside projects to expand water supply and reduce losses was support for the introduction of more effective water tariffs, in line with the government's new policy on tariffs; projects approved earlier aimed to strengthen capacity of rural water utilities.

## C. Results of Sector Governance Support

### 1. Sector Evaluation Findings

*Sustained support helped bring about cumulative progress*

129. **Evaluations have found some good examples of significant impacts from ADB support.** In these cases, sustained and strategic support helped to bring about incremental, cumulative progress. ADB used an appropriate combination of interventions to augment its infrastructure operations and complement the efforts and investments of governments and other development partners. In several cases, earlier support enabled later outcomes, such as a private investment (e.g., a PPP in

<sup>102</sup> In the 2008–2010 period, ADB reported to have used country systems in 47% of its procurement disbursements; in doing so, it often sought to bolster counterparts' abilities to meet good practices. See ADB. 2011. *Aid Effectiveness Report 2011: Overall Achievements on Paris Declaration Commitments*. Manila.

<sup>103</sup> More examples are provided in Supplementary Appendix H.



Cambodia's power subsector), illustrating that efforts to improve the enabling environment can pay off but often only after many years. In several cases, support helped to transform a key sector entity or institution (e.g., a water utility or a regulatory authority), and the new and improved entity in turn catalyzed further changes in the sector.

130. Evaluations have identified some success stories in all three major sectors. In transport, for example, support was particularly effective in the Lao PDR and Uzbekistan. In energy, efforts in Cambodia and Bangladesh have shown good results. In the water sector, Nepal and Viet Nam stand out as examples. ADB's ongoing support to reforming SOEs in places like Viet Nam and the Pacific region, while still works in progress, show promising signs.<sup>104</sup> Section C2 provides additional examples.

131. **Success stories highlight that alignment of political interests and technical solutions is essential for addressing pressing problems.** Success tends to come when political recognition of a problem and interest in addressing it coincide with the availability of good-quality technical support to diagnose the problem and deliver an effective solution. Many challenges linger, despite ADB support, because the critical ingredient of political interest and commitment is often missing. Where this interest and commitment materialized, they were often brought about by a crisis or disruptive event, such as an energy supply crisis.

132. **However, in most cases, bringing about substantive change has been very difficult.** Most sector evaluations show that despite long engagement by ADB in some sectors, sector governance, capacity, and overall performance often remain critically weak, warranting continued support. This illustrates the long-term horizon necessary to bring about change. The Bangladesh Railways case illustrates how long and arduous reforms can be (Box 6).

*Alignment of political interests and technical solutions is essential*

*In most cases, bringing about substantive change has been very difficult*

#### **Box 6: Support to Bangladesh Railways: A Long Journey**

ADB's relationship with Bangladesh Railways started in the 1970s, when it was among the world's worst performing railways. ADB provided five loans from 1974 to 1993 to rehabilitate key routes, followed by a program loan in 1994 to promote institutional and policy reform. It took four TA grants and more than 4 years of intense dialogue to prepare the loan, which set ambitious targets and timetables for the railway to break even and fully recover working expenses and depreciation by 1997. Program objectives were achieved but not sustained. Then in 2006, ADB approved a multitranches financing facility (\$430 million) to support sector reform, accompanied by a TA grant of \$2 million. Ongoing support focuses on policy and legal reforms and restructuring to improve Bangladesh Railways' commercial orientation.

In short, reforms expected to take 1 year took 4; those expected to take 2 years took nearly 7. It took Bangladesh Railways more than 5 years to adopt an up-to-date financial management system. During that period, it was also restructured into lines of business, finally achieving an objective that ADB had pursued since 1994. Among many lessons, this case points to the importance of sustaining consultations to build consensus on reform; retaining institutional memory and staff to help achieve outcomes; securing political support for change, as well as support from those affected by change; and ensuring that directly linking (through loan conditions) physical investments to institutional and policy reforms does not jeopardize

<sup>104</sup>For example: IED. 2009. *Country Assistance Program Evaluation: Socialist Republic of Viet Nam*. Manila: ADB; IED. 2011. *Special Evaluation Study: ADB Support for Promoting Good Governance in Pacific Developing Countries*. Manila: ADB; and IED. 2009. *Special Evaluation Study: ADB Support for Public Sector Reforms in the Pacific: Enhance Results through Ownership, Capacity, and Continuity*. Manila: ADB.

outcomes. Institutional change is an ongoing, incremental process, and financial incentives alone may not always speed it up.

ADB = Asian Development Bank, TA = technical assistance.  
Source: Independent Evaluation Department.

**Half of the sector programs were rated less likely to be sustainable**

133. **Half of the sector programs reviewed were rated *less likely to be sustainable*.** The sustainability of ADB-supported infrastructure operations hinges largely on underlying effectiveness of governance. Half the sector assessments reviewed rated ADB's operations as *less likely to be sustainable*, with energy operations faring better; energy operations were twice as likely to be rated sustainable (78% of sector assessments) compared to transport and water programs (38% each). The very low sustainability ratings for the transport and water programs undertaken in many countries are concerning, and are surprising perhaps especially for transport programs, which are usually rated *successful* overall. Table 9 summarizes the most common reasons underlying weak sustainability prospects and Appendix 5 provides a summary of sustainability and other evaluative ratings for each sector.

**Table 9: Underlying Challenges to Sustainability: Findings from Evaluations**

TAI	ENE	WMS
<ul style="list-style-type: none"> <li>- Weak asset management and lack of robust maintenance systems</li> <li>- Limited or unpredictable financing for maintenance programs</li> <li>- Weak policy environment</li> <li>- Limited government ownership and support for reforms</li> <li>- Poor institutional arrangements and coordination among key sector entities</li> <li>- Weak staff or organizational capacity</li> </ul>	<ul style="list-style-type: none"> <li>- Skill shortages and retention of trained staff</li> <li>- Weak institutional capacity</li> <li>- Limited government commitment to reforms and addressing underlying issues (e.g., civil service challenges)</li> <li>- Weak financial and operational performance and efficiency in main utilities</li> <li>- Difficulties in adjusting tariffs</li> <li>- Weak regulatory and oversight capacity</li> </ul>	<ul style="list-style-type: none"> <li>- Weak staff and institutional capacity</li> <li>- Weak financial and operational performance and efficiency in main utilities</li> <li>- Challenges related to devolution</li> <li>- Limited or unpredictable financial resources and support from government</li> <li>- Difficulties in adjusting tariffs</li> <li>- Poor institutional arrangements and coordination among key sector entities</li> </ul>

ENE = energy, TAI = transport and information and communication technology, WMS = water supply and other municipal infrastructure and services.

Source: Independent Evaluation Department.

**Breaking the build-neglect-rebuild paradigm remains a major challenge**

134. **ADB has tried to address perennial sector challenges including sustainability, but this remains a pervasive challenge.** Across all sectors and over time several challenges stand out, including weak asset management, maintenance, and sustainability, low tariffs, costly and poorly targeted subsidies, and weak human capacity. ADB has sought to make a difference but with variability in scope and intensity, and in duration—and with mixed but generally limited results. Maintenance and sustainability of assets is among the most severe and long-standing challenges in sector governance, and one that has yet to see improvement in many countries. Breaking the *build-neglect-rebuild* paradigm remains a major challenge (Box 7) and will require more concerted efforts by governments and ADB to build-in sustainability into infrastructure operations, including through more effective use of TA and capacity building resources.

### Box 7: Addressing the *Build-Neglect-Rebuild* Paradigm

The perennial problem of infrastructure maintenance and sustainability has come to be referred to simply as the *build-neglect-rebuild* paradigm. With recurrent budgets tight, preventive maintenance is often ignored and assets allowed to deteriorate until they are ripe for a major overhaul. Development partners may be perpetuating this problem by providing financing for asset rehabilitation without due consideration and support for an associated asset management system. The dominant practice of deferred preventive maintenance is inefficient, as the subsequent rehabilitation cost is a multiple of what it would be if preventive maintenance had been undertaken more proactively.

Recent knowledge work by the Pacific Region Infrastructure Facility, a multipartner infrastructure coordination and financing mechanism, offers important lessons and recommendations applicable to the entire region.<sup>a</sup> Among the key points it emphasizes is the critical role of government in asset management, including for establishing clear legislative and policy frameworks for provision of infrastructure services, strengthening institutions that deliver infrastructure services, ensuring a local skills base necessary for asset management functions, and addressing funding gaps.

Specific recommendations are provided for four main priority areas: (i) strengthening resource allocation to asset management functions, including direct earmarking for certain sectors; (ii) addressing incentives and accountability, including setting performance and service targets and spelling out roles and responsibilities in legislation; (iii) strengthening asset management planning and implementation, including forward estimates on maintenance requirements and risk-based maintenance approaches; and (iv) improving development assistance, including through stronger consideration of sustainability in each project and use of long-term maintenance contracts.

<sup>a</sup> The partners are ADB, Australia, the European Commission, the European Investment Bank, New Zealand, and the World Bank.

Sources: Independent Evaluation Department; and Pacific Infrastructure Advisory Center. 2013. *Infrastructure Maintenance in the Pacific: Challenging the Build-Neglect-Rebuild Paradigm*. Sydney.

135. **Disconnected interventions provide limited cumulative effects.** A number of evaluations point out problems of providing one-off interventions that were largely short-term, that were not linked over time (not strategic or programmatic), and that did not have cumulative effects. Often these interventions were provided in response to urgent requests from developing member countries or perceived critical needs in a particular area.

*Disconnected interventions provide limited cumulative effects*

136. **Better diagnostics, project design and implementation support could have led to better achievements.** Evaluations enumerate several factors explaining limited achievements: (i) weak baseline diagnostics and initial institutional assessments; poorly designed interventions, including insufficient time frames and expectations about the duration or complexity of reforms; (ii) weak consideration or understanding of political factors and constraints; and (iii) implementation problems (e.g., insufficient support for soft components of projects or disruptions with the hard components which in turn disrupted soft support). Poor sector diagnostics and weak (or absent) country-owned sector policies and development plans are also known constraints.

137. ADB guidance documents recognize these issues and offer good practice approaches to delivering better sector governance support, but a number of project evaluations continue to find insufficient baseline capacity and institutional assessments and/or poorly designed interventions. Programs and projects need to be technically sound, which requires technical competence of staff and due diligence applied to program design. Both conditions are frequently not met.

*Political economy intelligence and engagement through dialogue is critical*

138. **Political economy intelligence and engagement through dialogue is critical for managing change.** Structural change and reform—such as restructuring enterprises, adjusting tariffs, or breaking up concentrated market power—are often necessary to improve sector performance. These changes are almost always prone to political forces. While proponents of change like ADB cannot involve themselves directly in politics, they must nonetheless engage with political actors and influencers, and be able to read and interpret political forces in order to gain support. In a number of cases, ADB has helped to initiate or support a reform under the assumption that it was politically endorsed, only to find later that this was not the case (e.g., a new policy drafted but not approved by a cabinet). This misreading of political factors has led to stalled or abandoned reform efforts. Such results highlight the critical importance of political economy intelligence and effective engagement through ongoing policy dialogue with leaders.

139. **ADB’s long-term engagements and lead financier role present opportunities to influence change.** ADB is often cited in evaluations as the lead donor or financier in the sector, giving it the opportunity to influence reforms. In several cases, ADB has been credited for having sustained its support and engagement, even after other donors had pulled out of the sector or subsector (energy in Bangladesh, for example). Many evaluations credit ADB for playing a leading role among development partners in the sector, and for its active policy dialogue, coordination, and continued engagement on reforms, even if reforms have taken years to materialize.

## 2. Examples of Effective Support

*Impacts of governance support can be more important than the physical investment itself*

140. Evaluations provide examples of successful ADB support to governance and capacity development across the three major infrastructure sectors. These success stories illustrate that the overall impacts of effective governance support can be even more important than the physical investment itself.

141. In the Lao PDR, policy dialogue was effective in shaping the road maintenance fund and supporting capacity development related thereto.<sup>105</sup> ADB support, particularly the advisory TA<sup>106</sup> that was attached to the Lao PDR component of the Greater Mekong Subregion: East-West Corridor Project covered project-specific and sector work such as advice on private sector participation for operation and maintenance and toll and transit fee arrangements. Also, it provided training on the implementation of a harmonized financial management system. It further contributed to the development of the contracting industry in the region wherein local contractors learned new techniques from international ones, bringing in international practices.<sup>107</sup>

142. In Uzbekistan, ADB-supported railway projects contributed to improved railway management and devolution of the state railway enterprise’s ancillary social services.<sup>108</sup> Reforms introduced in the Railway Rehabilitation Project contributed to institutional development, in particular the reorganization and strengthening of Uzbekiston Temir

<sup>105</sup> IED. 2010. *Country Assistance Program Evaluation for Lao People’s Democratic Republic: Sustainable Growth and Integration*. Manila: ADB.

<sup>106</sup> ADB. 1999. *Technical Assistance for East–West Corridor Coordination*. Manila (TA 3348-LAO, for \$690,000, approved on 20 December).

<sup>107</sup> IED. 2008. *Performance Evaluation Report: Greater Mekong Subregion: East-West Corridor Project*. Manila: ADB (Loans 1727-LAO and 1728-VIE).

<sup>108</sup> IED. 2011. *Country Assistance Program Evaluation: Uzbekistan*. Manila: ADB.

Yullari. Many of the schools, housing, and medical facilities run by the company were successfully devolved. Also, working with ADB paved the way for the railway company to gain experience in working up to international standards in project implementation. As its capabilities were strengthened, it worked successfully as a contractor on an ADB-financed railway project in Afghanistan.<sup>109</sup>

143. In Cambodia, ADB support helped not only in expanding access to electricity but also to achieving sector reform and building institutional capacity. ADB TA<sup>110</sup> included drafting of the electricity law and petroleum law, tariff reform, improvement of Electricité du Cambodge's financial status, and rural electrification through a bulk supply distribution approach. ADB has also made important capacity-building contributions to the Ministry of Industry, Mining and Energy, the Electricity Authority of Cambodia, and the Cambodia National Petroleum Authority.<sup>111</sup> These earlier efforts helped enabled a recent PPP project supported by a non-sovereign loan that helped customers in three provinces connect to cleaner, less expensive, and continuously available power.<sup>112</sup>

144. In Bangladesh, ADB's policy advice, TA, and financing have helped transform entities in the poorly performing power sector into several well-managed and profitable companies.<sup>113</sup> As one example, the Dhaka Power System Upgrade Project not only expanded access to electricity supply in the Dhaka area and areas supplied by rural electric cooperatives but also improved the financial conditions of distribution and transmission companies<sup>114</sup> as system losses decreased and financial ratios increased. In another example, the Dhaka Clean Fuel Project played an important role in promoting the private sector by providing assistance for the establishment of compressed natural gas (CNG) filling stations and the procurement of CNG buses. Through the project, specifications were prepared for CNG kits, cylinders, and workshop equipment. Safety codes, standards, and rules and regulations for CNG activities were also prepared. These promoted greater use of cleaner fuels in the transport sector.<sup>115</sup>

*In Bangladesh, policy advice, TA, and financing helped transform entities in the power sector*

145. In Nepal, the Community-Based Water Supply and Sanitation Sector Project built the capacity of local-authority institutions such as district and village development committees, particularly in planning and monitoring water supply and sanitation programs, thus, reflecting district government commitment to decentralized decision making. Also, participating communities have been contributing to planning, development, construction, and operation and maintenance—and their contributions

<sup>109</sup>IED. 2010. *Performance Evaluation Report: Railway Rehabilitation Project in Uzbekistan*. Manila: ADB (Loan 1631-UZB).

<sup>110</sup>ADB. 2000. *Technical Assistance to Cambodia to Develop a Strategy for Management of Provincial Power Supplies*. Manila (TA 3453-CAM); ADB. 2003. *Technical Assistance to Cambodia for the Capacity Building of Electricity Authority of Cambodia*. Manila (TA 4169-CAM); and ADB. 2006. *Technical Assistance to Cambodia for the Institutional Strengthening of the Cambodian National Petroleum Authority*. Manila (TA 4901-CAM).

<sup>111</sup>IED. 2009. *Country Assistance Program Evaluation: Cambodia: Growth and Sector Reform*. Manila: ADB.

<sup>112</sup>IED. 2013. *Performance Evaluation Report: Power Transmission Lines Co., Ltd., in Cambodia*. Manila: ADB (Loans 7256-CAM and 2337-CAM).

<sup>113</sup>IED. 2009. *Country Assistance Program Evaluation: Bangladesh*. Manila: ADB.

<sup>114</sup>IED. 2012. *Validation Report: Dhaka Power System Upgrade Project in Bangladesh*. Manila: ADB (Loans 1730-BAN and 1731-BAN).

<sup>115</sup>IED. 2013. *Validation Report: Dhaka Clean Fuel Project in Bangladesh*. Manila: ADB (Loans 1942-BAN and 1943-BAN).

have demonstrably generated ownership by and capacity in the community to undertake operations and maintenance.<sup>116</sup>

*In Viet Nam, ADB support helped to strengthen water and sanitation institutions and companies*

146. In Viet Nam, ADB support helped to strengthen provincial water supply and sanitation institutions and companies. This support included legislation to grant water supply companies sufficient financial and administrative authority. Support also included a public environmental education component that built awareness of the importance of public hygiene among communities, women's unions, and local health care units.<sup>117</sup>

## D. Conclusions

147. Although there are limitations on the extent to which (and speed with which) ADB, as an external agency, can bring about better governance in the invariably complex political arena of any country, it is nonetheless identified as the lead development partner in many sectors across many member countries. This gives it the opportunity to influence country-wide change in infrastructure development and maintenance. ADB has developed good guidance documents to help mainstream governance and capacity into core sector operations and has appropriately raised its emphasis on private sector participation and sustainability. Evaluations show a number of efforts to provide capacity development and support reforms, in some cases over many years, and with some good examples of high-impact interventions.

148. But some issues and trends warrant attention, particularly the decline in the share of transport and energy loans that have governance and capacity development components, and the declining use of TA relative to infrastructure lending (in terms of numbers and values of TA projects relative to loans). Furthermore, greater efforts are needed to raise the sustainability of infrastructure operations, in particular in the transport and water sectors.

149. Success stories highlight (i) the essential alignment of politics and technical solutions for addressing problems, (ii) the reality that bringing about substantive change is usually a very difficult, incremental, and time-intensive endeavor, and (iii) the unpredictability of the process, which requires ADB to respond quickly to windows of opportunity opened by socio-economic or political factors.

*Weak diagnostics and disconnected interventions are major detractors from success*

150. Weak baseline diagnostics and institutional or sector assessments, and disconnected and ad hoc interventions are among the major detractors from success. Key factors for success are long-term programmatic approaches that follow good capacity development practices, that are informed by good political economy intelligence, and that focus strongly on sustainability. Moreover, better support for sector governance will require staff (including in resident missions) with capabilities to effectively diagnose governance, institutional, and capacity issues; understand the political dynamics of change; and engage in continuous high-level policy dialogue.

<sup>116</sup> IED. 2013. *Validation Report: Community-Based Water Supply and Sanitation Sector Project in Nepal*. Manila: ADB (Loan 2008-NEP).

<sup>117</sup> IED. 2008. *Performance Evaluation Report: Second Provincial Towns Water Supply and Sanitation Project in Viet Nam*. Manila: ADB (Loan 1514-VIE).

## CHAPTER 6

# GACAP II Review

151. ADB is mandated to ensure that resources provided for programs and projects are used efficiently, effectively, and only for their intended purpose. GACAP II was designed with the primary objective of serving this mandate. This assessment builds on the 2013 review of GACAP II (footnote 52) and focuses mostly on the effectiveness of the risk-based approach (RAMPs) at the project level.

### A. From GAP to GACAP II

152. A 2006 review<sup>118</sup> of the application of the Governance and Anticorruption policies concluded, among other things, that the plan<sup>119</sup> adopted in 2000 had raised awareness of governance, but that its governance assessments underpinning ADB strategies and operations were too broad and lacked the operational focus needed to effectively mainstream governance into sector operations. The wide-ranging governance issues raised in GAP assessments also stretched capacities too thinly. Consequently, the review recommended that a new, more prioritized, and results-oriented action plan be prepared. This came in the form of GACAP II in 2006,<sup>120</sup> with implementing guidelines issued in 2008.<sup>121</sup> Table 10 compares the main objectives of GAC and GACAP II.

*ADB is mandated to ensure that resources are used efficiently, effectively, and only for their intended purpose*

**Table 10: Main Objectives: GAP and GACAP II**

GAP 2000–2004	GACAP II 2006–present
(i) Optimize impacts of operations by addressing key governance issues in developing member countries in a systematic and focused manner	(i) Improve identification and management of risks in CSPs, midterm reviews of CSPs, and annual country portfolio review missions
(ii) Elevate good governance to the top of the development agenda in the region	(ii) Strengthen governance and anticorruption components in program and project design
(iii) Fight corruption by setting an example and promoting good financial and control systems	(iii) Strengthen program and project administration and portfolio management
(iv) Coordinate governance initiatives with development agencies	(iv) Improve organizational structure, human resources, and access to expertise
(v) Strengthen governance operations capacity	
(vi) Provide feedback on progress in implementing the action plan and lessons learned	

CSP = country strategy and program, GACAP II = Second Governance and Anticorruption Action Plan, GAP = Governance Action Plan.

Note: GACAP II objectives are the plan's four Key Result Areas.

Sources: GAP and GACAP II.

<sup>118</sup> ADB. 2006. *Review of the Implementation of ADB's Governance and Anticorruption Policies*. Manila.

<sup>119</sup> ADB. 2000. *Promoting Good Governance: ADB's Medium-Term Agenda and Action Plan*. Manila.

<sup>120</sup> ADB. 2006. *Second Governance and Anticorruption Action Plan*. Manila.

<sup>121</sup> ADB. 2008. *Guidelines for Implementing ADB's Second Governance and Anticorruption Action Plan*. Manila

153. GACAP II's basic purpose is to improve performance in implementing the mandatory, minimum requirements of the Governance and Anticorruption policies in sectors and subsectors where ADB is active. It follows a risk-based approach. Its chief instrument is the RAMP, which is to inform CPSs, sector road maps, and project design in a cascading fashion. Country, sector, and project RAMPs are to focus on identifying and mitigating risks in three areas: (i) PFM, (ii) procurement, and (iii) combatting corruption.

154. Compared with GAP, GACAP II is to provide a more selective, strategic, and efficient process with greater emphasis on project implementation and portfolio performance. While it specifies the minimum set of actions necessary to fulfill the mandatory requirements of ADB's existing policy framework, it does not preclude ADB from providing additional governance and anticorruption support—but only where countries request such support.

*GACAP II provides a practical framework for identifying and mitigating risks*

155. GACAP II provides a practical framework and approach for identifying and mitigating risks at the country, sector, and project levels. It is an important element in ADB's arsenal of governance instruments. But GACAP II's scope is focused and limited—it does not provide direct guidance for broader PSM operations (including PSM subsector operations) nor does it directly guide ADB's diverse efforts to enhance governance, develop capacity, and support reforms in core infrastructure sectors.

## B. ADB Review of GACAP II

156. The 2013 internal review of GACAP II (footnote 52) assessed implementation and aimed to determine the plan's effectiveness in mainstreaming governance and anticorruption into operations. The review did not directly assess progress against the four key results areas, 18 outcomes, and accompanying actions set out in 2006. Indicative of the perceived key element of GACAP II, it instead focused on assessing prepared RAMPs and gathering feedback on implementation strengths, challenges, and opportunities.

157. It found reasonably good compliance with the preparation of country and sector RAMPs, with RAMPs informing CPS formulation in 28 of 40 countries where ADB is engaged in operations (a 70% compliance rate). However, just 25% of sector RAMPs were incorporated into projects, indicating that the proposed cascading effect was not occurring. It noted an improvement in project RAMPs over time but indicated that only 42% of these RAMPs identify risks related to GACAP II.

*Due diligence challenges constrain implementation of RAMPs*

158. The review concluded that GACAP II is being gradually mainstreamed into operations but remains a work-in-progress as due diligence challenges continue to constrain the full implementation and monitoring of governance RAMPs, in turn limiting the effectiveness of governance operations. The review calls for clearer linkages with business processes; better monitoring, determination of responsibilities, and greater oversight; training; better support for governance in the sectors; and alignment of incentives to pursue governance objectives. This evaluation endorses these recommendations and the commitments related to GACAP II set forth in the Strategy 2020 Midterm Review Action Plan,<sup>122</sup> but focuses more specifically on the challenges of implementing GACAP II at the project level.

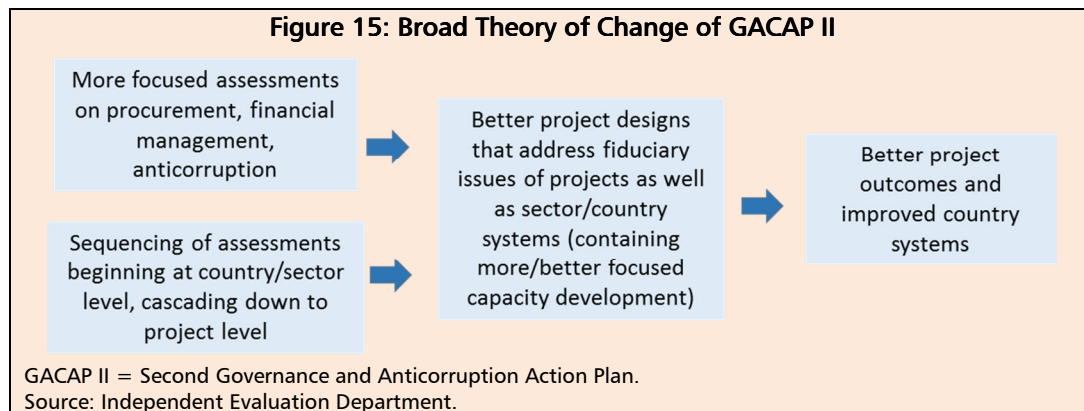
<sup>122</sup>ADB. 2014. *Strategy 2020 Midterm Review Action Plan*. Manila.



### C. GACAP II's Theory of Change

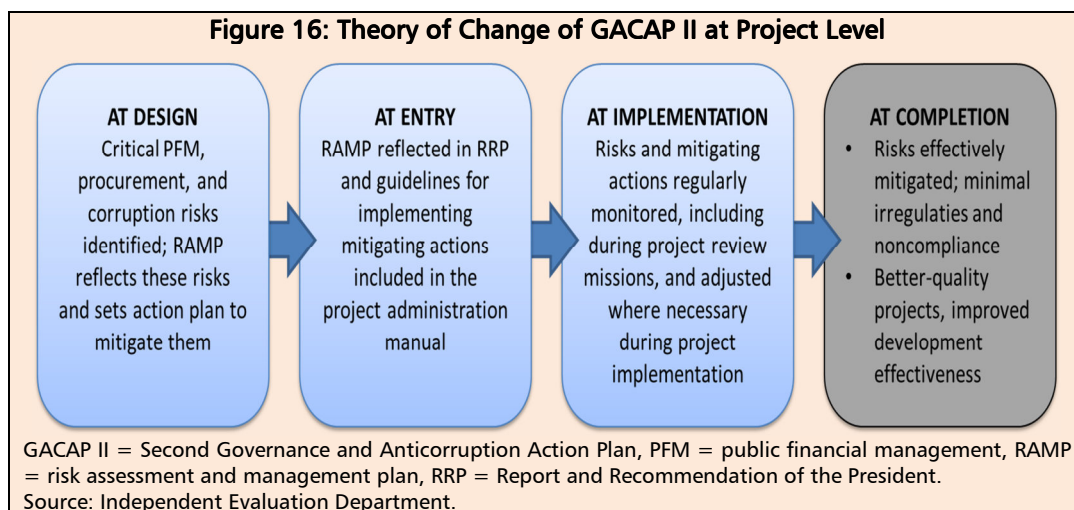
159. GACAP II recognizes two streams of governance: the fiduciary concern in project design and implementation and a larger view of governance that leads to governance-specific interventions. While at times ADB seeks to encompass both streams, it gravitates in its operational guidance toward the mandatory requirement of fiduciary safeguarding project resources.

160. GACAP II does not put forward a formal theory of change, but the two streams can be characterized as shown in Figure 15. The focused analysis and cascading approach is expected to yield stronger safeguards built into program and project design and management. Some of the project-focused activities are also expected to reach into country systems. Direct governance interventions at larger scale are possible in this framework, though generally within the three mentioned areas of focus and (as stated) only where countries demand ADB support.



161. More specifically, at the project level, Figure 16 illustrates the sequence of change along the project cycle, from design to completion. At design (starting with the concept note), critical risks are to be identified and mitigating actions proposed in a RAMP. At entry, the RAMP content is to be reflected in the Report and Recommendation of the President and carried forward to the project administration manual (PAM). At implementation, risks and mitigating actions are to be regularly monitored, including during project review missions, and adjusted as necessary. These steps should ultimately lead to effective mitigation of risks and successful completion of projects with minimal irregularities and noncompliance. This in turn contributes to better development effectiveness overall.

*RAMP content is to be carried forward to the project administration manual*



## D. Implementation Challenges

162. The following findings are based on a close examination (and in some areas, validation) of the GACAP II review, analysis of GACAP II documentation and RAMPs, and consultations in ADB and in six member countries.

163. **Limited ability to evaluate the GACAP II matrix.** GACAP II sets out a stratified matrix of key results areas, detailed to the level of outcomes, priority and compliance actions, sub-actions, and assumptions, including assignment of accountability and responsibility to departments. The matrix focuses on ADB capacities to manage the relevant risks, and it is ambitious in this regard. However, this framework has not been fleshed out with operational indicators and, therefore, the management mechanisms it implies have not been developed. The monitoring of expected results has also not been undertaken systematically or with rigor.<sup>123</sup> Thus, the matrix has not been refined over time as might have been expected. It has not become a useful tool to assess progress and point to further management improvements. The review of GACAP II did not undertake a detailed assessment of progress against the individual matrix components.

### *The quality of RAMPs and their implementation need improvement*

164. **Mixed compliance on and quality of RAMPs.** As discussed in Chapter 3, although country RAMPs have been developed and included in all but two cases, the development of sector RAMPs has been less consistent, with some CPSs providing no sector RAMPs at all. At the project level, RAMPs are now developed for all projects, as mandated in 2010 under the ADB Streamlined Business Process. However, the quality of project RAMPs and their implementation need improvement, as discussed below.

165. A review of around 200 project RAMPs for this evaluation found that many covered only the bare minimum analysis of risks (this was among the findings of the GACAP II review). The evaluation also found cases in which a disconnect was evident between identified risks and suggested mitigating actions. The quality-at-entry exercise

<sup>123</sup>The most salient monitoring effort is found in a review covering October 2011 to September 2012, but this is not systematic and is based almost entirely on a list of activities rather than a description of either institutional mechanisms established or quality of processes. See ADB. 2012. *Progress on the Second Governance and Anticorruption Action Plan (GACAP II): Key Results Area (KRA) Matrix. October 2011–September 2012*. Manila.

in 2012 reached a similar conclusion in its assessment that risk identification and management remains weak (footnote 51). It also criticized financial management assessments for projects as barely satisfactory. Better quality assurance processes are needed to improve RAMPs and related fiduciary assessments.

166. **Weak integration of RAMPs into project management process.** Risks and mitigating actions identified in RAMPs are supposed to have been integrated into PAMs to be regularly monitored during project implementation, including during project review missions, with adjustments made where necessary. This requirement was spelled out in GACAP II<sup>124</sup> and in the implementing guidelines in 2008 and 2011.<sup>125</sup> However, consultations with resident mission staff found confusion over whether this was a mandatory requirement. A review of a sample of 70 PAMs for projects in 31 countries over the 2010–2013 period (representing a sample size of 22% of available manuals for this period) revealed that just 17% referred to (at a minimum) or integrated RAMPs. With a limited number of manuals reflecting the RAMPs, and the apparent confusion over the requirement to reflect RAMPs, it is clear that ongoing monitoring of these risks and implementation of the actions will also have been limited. Moreover, risks identified in RAMPs are not reflected in design and monitoring frameworks for projects.

*A review of PAMs revealed that just 17% referred to or integrated RAMPs*

167. **Fiduciary irregularities, noncompliance, and violations remain a problem.** As documented in recent reports by OAI, ADB-supported projects continue to experience irregularities, noncompliance, and integrity violations (footnote 28). OAI project procurement-related reviews (PPRRs) consistently identify irregularities and/or noncompliance issues, although the sample of PRRs undertaken remains small. Audits undertaken by Office of the Auditor General have found similar irregularities and noncompliance issues. This suggests the need to strengthen risk identification during project preparation and preventive and mitigating measures during implementation. The rising number of complaints that OAI has received in recent years, coupled with the trend toward more sophisticated fraud and corruption schemes it has documented, highlights the critical role of RAMPs and effective mitigation in ADB projects.

## E. Conclusions

168. GACAP II provides a practical approach to identifying and mitigating risks and has helped to standardize the way ADB goes about doing so. In particular, RAMPs serve an important governance and fiduciary function in helping to ensure that resources provided for programs and projects are used efficiently, effectively, and only for their intended purpose. Improvement is needed on the quality of RAMPs and their integration into ongoing operations (especially at the project level). This may require stronger oversight on RAMPs, procurement assessments, and financial assessments by non-operations departments, such as OAI and OSFMD. Stronger efforts to monitor and manage risks by project teams and ensuring that PAMs better integrate risks and mitigating actions identified in RAMPs will be critical.

*Stronger efforts to monitor and manage risks will be critical*

169. ADB would want to closely monitor the results and trends of OAI PRRs (and related spot reviews and limited reviews) in order to gauge the effectiveness of

<sup>124</sup>GACAP II states that RAMPs will be included in CPSs and project documents. Project implementation performance reports will regularly assess the effectiveness of these RAMPs. Management will be responsible for assessing the quality of the RAMPs in CPSs. The PAM will also include guidelines on the requirements for implementation of the RAMP.

<sup>125</sup>GACAP II Implementing Guidelines state that major risks and RAMPs at the program or project level will be included in PAMs and monitored during project review missions.

*More resources should be available to broaden the sample of PPRRs*

ongoing project level risk assessment and mitigation functions. More resources should be made available to broaden the sample of PPRRs to ensure a more representative mix of projects. Furthermore, OAI should monitor the actions that regional departments take on PPRR recommendations. PPRRs can serve a capacity-enhancing function, as demonstrated in Nepal, where the ADB Resident Mission has worked with executing agencies to develop and implement action plans that incorporate lessons from an earlier PPRR.

170. Finally, this evaluation acknowledges ADB's recently proposed actions to improve GACAP II implementation and strengthen procurement performance, as articulated in several recent reviews and plans, including the GACAP II Review (footnote 52), the Procurement Governance Review,<sup>126</sup> and the Procurement Reform—10-Point Plan.<sup>127</sup> These actions have been further refined and reflected in the Strategy 2020 Midterm Review Action Plan (footnote 122). The actions will improve ADB's ability to safeguard project resources but will require close monitoring and regular reporting to ensure intended outcomes are achieved.

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<sup>126</sup>ADB. 2013. *ADB Procurement Governance Review*. Manila.

<sup>127</sup>The Procurement Reform – 10-Point Plan was approved on 26 February 2014 and further refined as part of the Midterm Review of Strategy 2020.

# Appendixes

## APPENDIX 1: EVALUATION SOURCES, METHODS, AND FRAMEWORK

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### A. Sources and Methods

1. The evaluation gathered evidence and information through the following sources and methods, as initially proposed in the evaluation approach paper (EAP):
2. **Desk Review.** The evaluation team reviewed documents and information pertaining to governance in the Asian Development Bank (ADB), including institutional documents such as policies, strategies, plans, and guidelines; self-reviews by ADB on governance-related matters and operations; governance-related knowledge products and publications; and Independent Evaluation Department (IED) evaluations. ADB has undertaken periodic self-reviews covering aspects of its governance policies and operations, the findings of which were assessed, validated where necessary, and reflected in the study. These are referenced through the main report.
3. **Institutional Review.** The team reviewed various aspects of ADB's institutional arrangements, including organizational structure and staffing strength. Particular attention was given to institutional documents and instruments related to the three focus areas of the evaluation: public sector management (PSM), sector governance (in particular for transport, energy, and water), and the Second Governance and Anticorruption Plan (GACAP II). Analysis of ADB country strategies was undertaken to identify how ADB planned and positioned itself to support governance in its operations. The team also examined annual reports and other documentation covering the activities of the Governance and Public Management Community of Practice.
4. **Projects Performance Analysis.** The study analyzed ADB's portfolio of governance-related operations (loans, grants, and technical assistance) approved during the 1993–2013 period. The focus of this analysis was on PSM sector operations, and operations in non-PSM sectors that were classified as governance and capacity development, especially in the infrastructure sectors of transport, energy, and water. This analysis included detailed review of performance by subsector (e.g., decentralization, public expenditure and fiscal management, economic and public affairs management), and subtheme (e.g., anticorruption and civil society participation). Supplementary Appendix A lists projects reviewed under the evaluation and Supplementary Appendix I provides summary tables on PSM operations.
5. **Key Informant Interviews (internal and external).** The study drew on semi-structured interviews and consultations with a cross-section of informants within ADB and in six developing member countries (DMCs), including ADB resident mission staff, and representatives of government, private sector, academia, and civil society (see Supplementary Appendix E). Interviews sought to elicit a broad set of perspectives on the key evaluation questions, with a focus on PSM operations, sector governance support, and GACAP II (in particular at the project level), and with the criteria of relevance, responsiveness, and results in mind. An interview template was designed to guide the discussions. Material from interviews informed the various chapters of the report.
6. **Country Missions.** Missions were undertaken to gain a better appreciation of country perspectives on governance issues and challenges, ADB's role in supporting governance, and how ADB operates on the ground, especially in supporting PSM and sector-level governance. Interviews with resident mission staff, officials of DMCs, and other stakeholders provided country-level context and perspectives. The missions also identified examples of PSM and sector governance operations, some of which are referenced in the main report, and also gathered feedback on GACAP II implementation issues. As set out in the EAP, missions were to be undertaken to countries where ADB has been generally active in supporting PSM, transport, energy, and water and sanitation operations (either through projects and programs or through technical assistance. One DMC from each ADB subregion was selected, while ensuring a mixed representation of country sizes, levels of development, and governance contexts. On the basis of these criteria, the EAP proposed five countries for missions:

Bangladesh, Cambodia, the People’s Republic of China, Pakistan, and Papua New Guinea. The EAP indicated that a sixth country would be added if time and resources permit (Bhutan was added). Supplementary Appendix D provides a summary of findings from country missions.

7. **Sector-Level Studies.** A detailed analysis of how ADB supports governance and capacity development at the sector level was undertaken. This effort focused on a review of 31 sector evaluations in the transport, energy, and water sectors (see Supplementary Appendix H).

8. **Review of GACAP II.** The evaluation reviewed the implementation of GACAP II, building on the 2013 self-review by ADB. This review focused on implementation at the project level and included a review of about 200 project risk assessment and management plans and 70 project administration manuals.

9. **Literature Review.** A literature review synthesized the latest knowledge on key governance and development issues (see Supplementary Appendix B). The team also reviewed a wide range of references on the state of governance in Asia and the Pacific and the challenges related thereto.

10. **Review of Lessons: IED Evaluation Information System (EviS).** The team reviewed and synthesized lessons from project completion reports and IED evaluations covering PSM and infrastructure sectors (see Supplementary Appendix C).

## B. Evaluative Framework

11. **Key Evaluative Questions.** As proposed in the evaluation approach paper, three main questions guided the evaluation:

- (i) How has ADB’s governance agenda evolved, within its overarching strategy and against the needs of DMCs and the dynamics of the Asia-Pacific region?
- (ii) How effectively is ADB meeting the key principles of the governance agenda, strategically and organizationally?
- (iii) What lessons, evidence, and good practices, from both ADB’s and others’ experience, should be considered in shaping ADB’s governance work going forward?

12. **Three Rs Criteria, Subcriteria, and Assessment Basis.** These questions were framed according to the three main evaluative criteria adopted and applied in the study: relevance, responsiveness, and results. For relevance, the evaluation assessed internal relevance in terms of (i) the extent to which ADB’s governance agenda is aligned with its overall mission and mandate; and (ii) attention and guidance given to the agenda in ADB’s strategy (relevance of design), and external relevance in terms of its alignment with the needs of the Asia-Pacific region.

13. For responsiveness, the evaluation considered how ADB has responded institutionally and operationally to support the agenda. Institutional responsiveness was assessed on the basis of how the governance agenda has evolved in response to emerging needs and interests and the broader discourse on governance and development; how governance is positioned within the organizational structure and internal coordination; staffing strength, in particular in core management designations; governance-related knowledge work and sharing, including the role of the Governance and Public Management Community of Practice; and articulation of governance in country strategies and their ancillary assessments. Operational responsiveness was assessed on the basis of operational guidance to help mainstream governance and capacity development into core operations areas; responsiveness of PSM sector operations and support over time; responsiveness in terms of efforts to support governance, capacity development, and reforms in major sectors; and the implementation experience with GACAP II.

14. The assessment of results was based primarily on a review of PSM sector operations in all DMCs and how they have performed (in all countries) over time, based on evaluation ratings for projects and programs and for sectors. Additional insights were drawn from ADB's experience in supporting sector governance and the lessons related thereto.
15. **Evaluation Framework.** The framework summarizes the evaluation criteria, subcriteria, and ratings levels.

Three Overarching Questions		
<p><i>How has the agenda evolved, within ADB's strategy and against the needs of the region?</i></p> <p><i>How effectively is ADB supporting the agenda?</i></p> <p><i>What lessons should be considered going forward?</i></p>		
Three Focus Areas		
<p><i>PSM Operations</i></p> <p><i>Support for Sector Governance and Capacity</i></p> <p><i>GACAP II Implementation (at project level)</i></p>		
Criteria	Subcriteria	Overall Rating Levels
Relevance	<p><b>A. Internal Relevance:</b></p> <ul style="list-style-type: none"> <li>- Alignment of the agenda with ADB's overall mandate</li> <li>- Attention and guidance to the agenda in ADB's strategy (relevance of design)</li> </ul>	<p><i>Highly relevant</i></p> <p><i>Relevant</i></p> <p><i>Less than relevant</i></p> <p><i>Not relevant</i></p>
	<p><b>B. External Relevance:</b></p> <ul style="list-style-type: none"> <li>- Ongoing relevance of agenda to the needs of client countries and the region</li> </ul>	
Responsiveness	<p><b>A. Institutional Responsiveness:</b></p> <ul style="list-style-type: none"> <li>- Responsiveness of the agenda to evolving needs and interests</li> <li>- Positioning of governance within the organizational structure and internal coordination</li> <li>- Staffing strength, in particular in core public management areas</li> <li>- Governance-related knowledge work and sharing</li> <li>- Articulation of governance in CPSs and ancillary assessments</li> </ul>	<p><i>Highly responsive</i></p> <p><i>Responsive</i></p> <p><i>Less than responsive</i></p> <p><i>Not responsive</i></p>
	<p><b>B. Operational Responsiveness:</b></p> <ul style="list-style-type: none"> <li>- Operational guidance to help mainstream governance and capacity development into core operations areas</li> <li>- Responsiveness of PSM sector operations and support</li> <li>- Efforts to support governance in major operational sectors</li> <li>- Implementation experience with GACAP II</li> </ul>	
Results	<p><b>A. PSM sector performance (primary basis of assessment)</b></p> <ul style="list-style-type: none"> <li>- Performance of PSM operations based on project- and/or sector-level evaluations and ratings (across all ADB member countries) and trends</li> </ul>	<p><i>Highly satisfactory</i></p> <p><i>Satisfactory</i></p> <p><i>Less than satisfactory</i></p> <p><i>Unsatisfactory</i></p>
	<p><b>B. Sector Governance experience (secondary basis)</b></p> <ul style="list-style-type: none"> <li>- Lessons and findings from support for sector governance, capacity development, and reforms</li> </ul>	

ADB = Asian Development Bank, CPS = country partnership strategy, GACAP II = Second Governance and Anticorruption Plan, PSM = public sector management.

Source: Independent Evaluation Department.



## APPENDIX 2: HOW GOVERNANCE IS POSITIONED IN HIGH-LEVEL ADB STRATEGIES

The matrix presents how governance has been positioned in high-level corporate strategies since the late 1990s.

Governance Focus in ADB Corporate Strategies

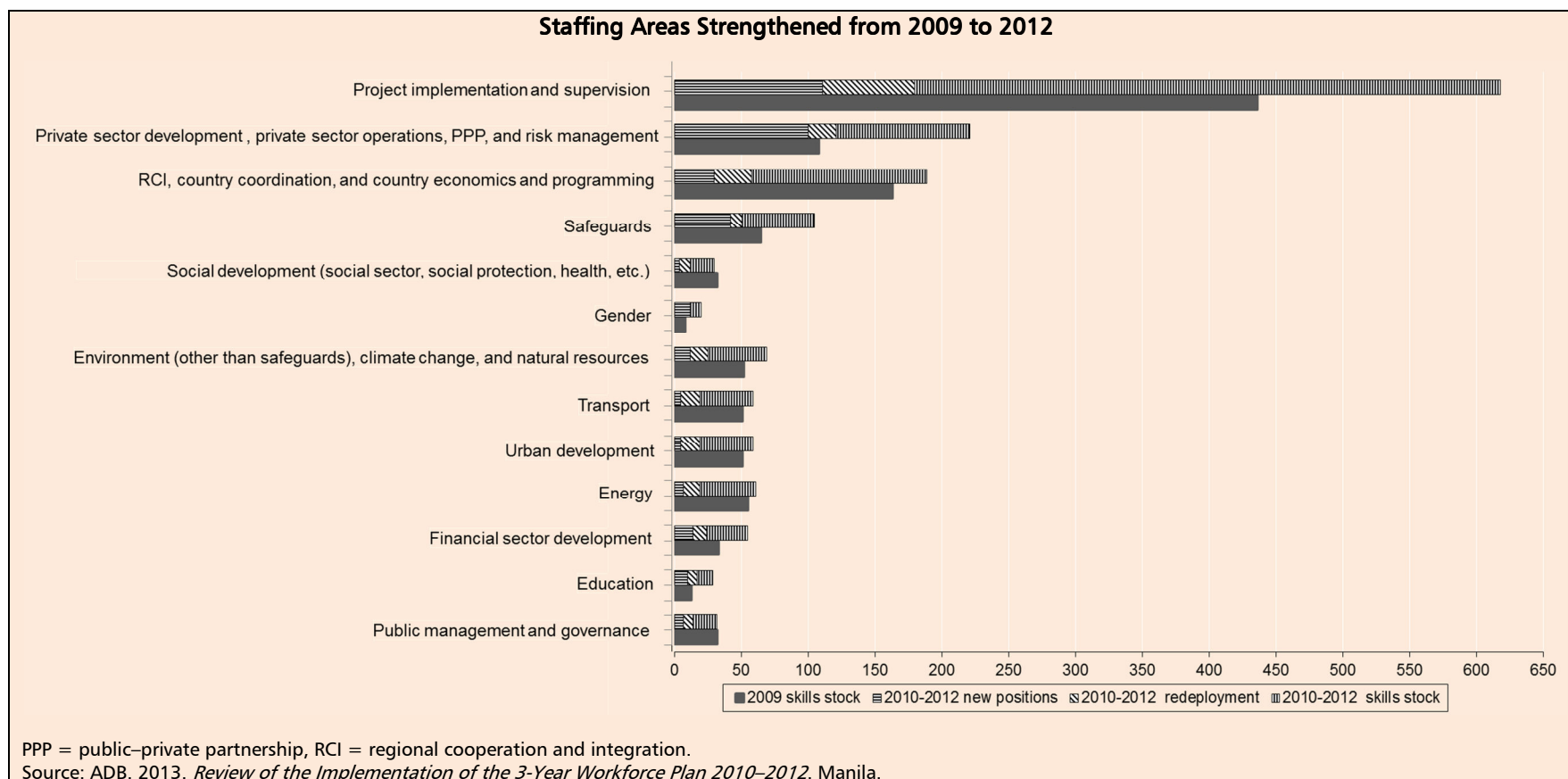
PRIORITIES	PRS (1999)	LTSF and MTS I (2001)	Enhanced PRS (2004)	MTS II (2006)	Strategy 2020 (2008)
<b>Strategic Pillars, Priorities, Agendas</b>	<b>3 Elements/Pillars</b> <ul style="list-style-type: none"> <li>Pro-poor sustainable economic growth</li> <li>Social development</li> <li><b>Good governance</b></li> </ul>	<b>3 Core Strategic Areas</b> <ul style="list-style-type: none"> <li>Sustainable economic growth</li> <li>Inclusive social development</li> <li><b>Governance for effective policies and institutions</b></li> </ul>	<b>3 Strategic Pillars</b> <ul style="list-style-type: none"> <li>Pro-poor sustainable economic growth</li> <li>Inclusive social development</li> <li><b>Good governance</b></li> </ul>	<b>5 Strategic Priorities</b> <ul style="list-style-type: none"> <li>Catalyzing investment</li> <li>Strengthening inclusiveness</li> <li>Promoting regional cooperation and integration</li> <li>Managing the environment</li> <li><b>Improving governance and preventing corruption</b></li> </ul>	<b>3 Strategic Agendas</b> <ul style="list-style-type: none"> <li>Inclusive growth</li> <li>Environmentally sustainable growth</li> <li>Regional integration</li> </ul>
<b>Sector, Operational Priorities</b>	<b>3 Sector Priorities</b> <ul style="list-style-type: none"> <li>Agriculture and rural development</li> <li>Social sectors</li> <li>Infrastructure and finance</li> </ul>	(none specified)	(none specified)	<b>6 Priority Sectors (Group 1)</b> <ul style="list-style-type: none"> <li>Road transport</li> <li>Energy</li> <li>Urban infrastructure</li> <li>Rural infrastructure</li> <li>Education</li> <li>Finance sector</li> </ul>	<b>5 Core Operational Areas</b> <ul style="list-style-type: none"> <li>Infrastructure</li> <li>Environment</li> <li>Regional cooperation and integration</li> <li>Finance sector</li> <li>Education</li> </ul> <b>Other Areas</b> <ul style="list-style-type: none"> <li>Health</li> <li>Agriculture</li> <li>Disaster and Emergency Assistance</li> </ul>
<b>Crosscutting Themes, Priorities, Drivers</b>	<b>4 Priorities</b> <ul style="list-style-type: none"> <li><b>Good governance</b></li> <li>Private sector</li> <li>Gender (women)</li> <li>Environmental sustainability</li> </ul>	<b>3 Strategic Themes</b> <ul style="list-style-type: none"> <li>Private sector development</li> <li>Regional cooperation and integration</li> <li>Environmental sustainability</li> </ul>	<b>5 Thematic Priorities</b> <ul style="list-style-type: none"> <li>Gender equality</li> <li>Environmental sustainability</li> <li>Private sector development</li> <li>Regional cooperation</li> <li>Development capacity</li> </ul>	(none specified)	<b>5 Drivers of Change</b> <ul style="list-style-type: none"> <li>Private sector development</li> <li><b>Good governance and capacity development</b></li> <li>Gender equity</li> <li>Knowledge solutions</li> <li>Partnerships</li> </ul>

LTSF = Long-Term Strategic Framework, MTS = Medium-Term Strategy, PRS = Poverty Reduction Strategy.

Source: Independent Evaluation Department.

## APPENDIX 3: MAIN STAFFING AREAS STRENGTHENED (2009 AND 2012)

ADB expanded its staff by 500 positions from 2009 to 2012, mostly in the areas of project administration and portfolio management, safeguards compliance, gender and development, and social development. As shown in the figure, *Public Management and Governance* positions (shown at the bottom of the chart) remained static over the period.



## APPENDIX 4: ON SUCCESS AND FAILURE: EXAMPLES FROM PSM SECTOR EVALUATIONS

1. The 17 public sector management evaluations covered (including the year of the evaluation and period covered) were: Pakistan, 2013 (2002–2012); Kyrgyz Republic, 2012 (1994–2010); Afghanistan, 2012 (2002–2011); Maldives, 2011 (1978–2010); Uzbekistan, 2011 (2002–2009); the Lao People’s Democratic Republic, 2010 (2000–2009); Bhutan, 2010 (2001–2009); Nepal, 2009 (2004–2008); Bangladesh, 2009 (1999–2008); Cambodia, 2009 (1998–2008); Viet Nam, 2009 (1998–2008); the Philippines, 2008 (2003–2008); Mongolia, 2008 (1997–2007); People’s Republic of China, 2007 (1998–2005); India, 2007 (1986–2006); Sri Lanka, 2007 (1986–2006); and Indonesia, 2005 (1990–2004).
2. The table provides examples from eight evaluations on why sector programs were successful or not.

Why Programs Succeeded...	Why Programs Did Not Succeed...
<p><b>Objectives were aligned</b> with government’s interests and strategies.</p> <p><b>Reform initiatives reflected good understanding</b> of political economy factors.</p> <p><b>Good-quality diagnostics and knowledge work</b> was instrumental for policy dialogue and used by government to shape its reform agenda.</p> <p><b>Support reinforced government’s commitment</b> to follow through on controversial yet critical reforms through contributions to analytical process in economic policy making.</p> <p><b>Strong commitment of executive and legislature</b> in approving necessary budgetary resources and prerequisite laws for timely pacing of reforms.</p> <p><b>Program encouraged officials</b> of state governments to shape institutional capacity efforts and chart the direction and pace of complex fiscal reforms, thereby increasing the likelihood of sustainability.</p> <p><b>Effective support for institutional capacity</b> in various sectors.</p> <p><b>Timely disbursement</b> leading to on-time delivery of assistance in the case of ADTA projects.</p> <p><b>Appropriate mix and experience of consultants</b> leading to efficient use of resources to achieve outputs.</p>	<p><b>Overambitious or complex interventions</b>, particularly in terms of institutional reforms.</p> <p><b>Delayed ADTA</b> caused by problems in recruiting and supervising consultants.</p> <p><b>Significant delays</b> caused by coordination problems, high turnover in government staff, and insufficient government funding.</p> <p><b>Insufficient support</b> for program implementation, especially on difficult or complex programs.</p> <p><b>Limited experience</b> in executing agencies or project management units in consultant recruitment, procurement, and ADB rules.</p> <p><b>No tangible results</b> from TA and capacity development activities, leading instead to capacity substitution.</p> <p><b>Noncompliance</b> with conditions for loan effectiveness, leading to cancellation.</p> <p><b>Underestimated risks or problems</b> in subprojects, leading to only partial completion.</p> <p><b>Impact of completed projects limited</b> by the low success rate of subprojects.</p> <p><b>Limited overall development impact</b> of PSM activities.</p> <p><b>Post-project closure of institutions</b> launched with ADB support owing to insufficient financial support or shifting responsibilities.</p> <p><b>Lack of continuity</b> and failure of ADB to support second generation reforms, which reduced the potential impact and sustainability of earlier efforts.</p>

ADB = Asian Development Bank, ADTA = advisory technical assistance, PSM = public sector management, TA = technical assistance.

Sources: IED sector evaluations undertaken as part of Country Assistance Program Evaluations for Pakistan (2002–2012), the Kyrgyz Republic (1994–2010), Maldives (1978–2010), Uzbekistan (2002–2009), the Lao People’s Democratic Republic (2000–2009), Bhutan (2001–2009), the Philippines (2003–2008), India (1986–2006).

## APPENDIX 5: SECTOR EVALUATIONS REVIEWED

1. The evaluation examined 31 sector evaluations (conducted as part of country assistance program evaluations or as stand-alone sector assistance program evaluations) undertaken since 2008, covering operations in the following developing member countries over the following years:

**Table A5.1: Sector Evaluations Reviewed**

Transport	Energy	WMS
1. Pakistan, 2013 (2002–2012)	1. Pakistan, 2013 (2002–2012)	1. Pakistan, 2013 (2002–2012)
2. Sri Lanka, 2012 (1999–2010)	2. Kyrgyz Republic, 2012 (1994–2010)	2. Uzbekistan, 2011 (2002–2009)
3. Kyrgyz Republic, 2012 (1994–2010)	3. Maldives, 2011 (1978–2010)	3. Lao PDR, 2010 (2000–2009)
4. Pacific Region, 2011 (1995–2010)	4. Lao PDR, 2010 (2000–2009)	4. Bhutan, 2010 (2001–2009)
5. Maldives, 2011 (1978–2010)	5. Bhutan, 2010 (2001–2009)	5. Nepal, 2009 (2004–2008)
6. Uzbekistan, 2011 (2002–2009)	6. Nepal, 2009, (2004–2008)	6. Bangladesh, 2009 (1999–2008)
7. Lao PDR, 2010 (2000–2009)	7. Bangladesh, 2009 (1999–2008)	7. Viet Nam, 2009 (1999–2008)
8. Bhutan, 2010 (2001–2009)	8. Cambodia, 2009 (1998–2008)	8. Philippines, 2008 (2003–2008)
9. Nepal, 2009 (2004–2008)	9. Viet Nam, 2009 (1999–2008)	
10. Bangladesh, 2009 (1999–2008)	10. Philippines, 2008 (2003–2008)	
11. Cambodia, 2009 (1998–2008)		
12. Viet Nam, 2009 (1999–2008)		
13. Mongolia, 2008 (1997–2007)		

Lao PDR = People's Democratic Republic, WMS = water supply and other municipal infrastructure and services.

Source: Independent Evaluation Department.

2. The assessment ratings for the 31 evaluations are summarized as follows:

**Table A5.2: Evaluation Ratings**

Evaluation Criterion	Rating	Transport (n = 13)	Energy (n = 10) <sup>a</sup>	WMS (n = 8)
Relevance	Highly relevant/Relevant	13 (100%)	9 (100%)	8 (100%)
Effectiveness	Highly effective/Effective	10 (77%)	8 (89%)	5 (63%)
Efficiency	Highly efficient/Efficient	9 (69%)	5 (56%)	3 (38%)
Sustainability	Likely sustainable	5 (38%)	7 (78%)	3 (38%)

WMS = water supply and other municipal infrastructure and services.

<sup>a</sup> The Kyrgyz Republic Country Assistance Program Evaluation 2012 assessed the energy sector but did not provide ratings by evaluation criterion.

Source: Independent Evaluation Department.