

ADB Sustainable
Development
Working Paper Series



Governance and Sustainable Development The Asian Development Bank Perspective

Kathleen Muktan and Sandra Nicoll

No. 3 | December 2008

Governance and Sustainable Development: The Asian Development Bank Perspective

Kathleen Moktan and Sandra Nicoll*

No. 3 | December 2008

This is an update of a paper presented at the International Perspectives on Governance and Development: Accomplishments, Challenges, and Evolving Research Agenda, an International Conference Organized by the International Centre for Governance and Development, University of Saskatchewan, 26–27 June 2008

*Ms. Moktan is the director of the Asian Development Bank's (ADB) Capacity Development and Governance Division, and Ms. Nicoll is a principal governance specialist also in the Capacity Development and Governance Division at ADB.

Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
www.adb.org/

© 2008 by Asian Development Bank
June 2008
Publication Stock No. 120108
ISSN 2071-945

The views expressed in this paper are those of the author(s) and do not necessarily reflect the view or policies of the Asian Development Bank.

This working paper series is maintained by the Regional and Sustainable Development Department. Other ADB working paper series are on economics, regional cooperation, and ADBI Working Paper Series. Further ADB Publications can be found at www.adb.org/Publications/. The purpose of the series is to disseminate the findings of work in progress to encourage the exchange of ideas. The emphasis is on getting findings out quickly even if the presentation of the work is less than fully polished.

Table of Contents

1	Introduction.....	2
2	ADB's Governance, Anticorruption, and Capacity Development Framework.....	2
3	Governance and Poverty Reduction	3
4	Emerging Global and Regional Trends and Challenges	5
	4.1 Changing Regional Context for Governance.....	5
	4.2 The Evolving Global Development Agenda	6
	4.3 Corruption.....	7
	4.4 Governance Challenges Arising from Rapid Growth	7
	4.5 Reforms and Local Context Matter	8
	4.6 Local Context Versus Best Practices.....	8
5	ADB's Response	9
	5.1 Implementation of ADB's Governance and Anticorruption Policies—Review	9
	5.2 ADB's Second Governance and Anticorruption Action Plan	9
	5.3 Opportunities for Further Research	13
6	Conclusion.....	14

1. Introduction

Improving governance and reducing vulnerability to corruption are core development challenges. Development is essentially about reducing poverty, and there is clear evidence that the poor are the most vulnerable to corruption and suffer the most from the impacts of poor governance and weakly performing institutions. This paper presents a brief overview of the Asian Development Bank's (ADB) recent experience in supporting the efforts of countries in the Asia and Pacific region as they work to strengthen governance. This paper will (i) highlight recent global and regional trends and challenges affecting governance in Asia and the Pacific; (ii) describe ADB's response to these trends and challenges; (iii) highlight experience with implementation of ADB's Second Governance and Anticorruption Action Plan; and (iv) identify, from the development practitioner's perspective, areas that could benefit from further academic study.

2. ADB's Governance, Anticorruption, and Capacity Development Framework

In 1995, ADB became the first multilateral development bank to adopt formally a governance policy to promote sound development management.¹ The policy applies to all ADB operations in Asia and the Pacific and defines governance as "the manner in which power is exercised in the management of a country's economic and social resources for development." The policy further conceptualizes governance as

the management of the development process involving both the public and private sectors. It encompasses the functioning and capability of the public sector, as well as the rules and institutions that create the framework for the conduct of both public and private business.

The policy sets out four basic elements of good governance—accountability, predictability, participation, and transparency—and emphasizes the need for flexible, country-specific approaches.

Any discussion of governance is not complete without also considering the issue of corruption. ADB supplemented its policy framework with the approval, in 1998, of the Anticorruption Policy.² ADB defines corruption as the abuse of public or private office for personal gain. The policy's objectives are to support competitive markets and effective public administration, support explicit anticorruption efforts in the region, and ensure that ADB-financed projects and personnel adhere to the highest ethical standards. The policy commits ADB to zero tolerance for corruption in its own activities. This does not imply that

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

² ADB. 1998. *Anticorruption Policy*. Manila (supplemented in 2004).

ADB can unilaterally eliminate corruption or that corruption will ever be completely eradicated. However, should ADB discover corruption in its operations, ADB will take swift and immediate action to remedy the situation. This includes canceling loans and/or contracts; sanctioning firms and/or individuals; and, when necessary, taking appropriate disciplinary action against ADB staff members.

In 2004, ADB recognized capacity development as a thematic priority and, in 2007, approved the Capacity Development Medium-Term Framework and Action Plan.³ ADB's approach emphasizes country ownership and leadership and recommends adopting a capacity development focus in country programs and operations that incorporates a results and process orientation. Capacity development interventions can be targeted at the institutional, organizational, or network levels. But irrespective of the entry point, it is important to consider the context in which the entity operates. It is also recognized that there is no "one-size-fits-all" solution; that country, sector, and cultural contexts have to be considered when designing capacity development support; and that adopting a learn-by-doing approach is important.

In April 2008, ADB approved its Long-Term Strategic Framework for 2008–2020 (Strategy 2020), which now serves as ADB's corporate-wide planning document, giving ADB a more relevant and innovative role in shaping the future of the Asia and Pacific region.⁴ In Strategy 2020, ADB acknowledges that good governance and capacity development provide an opportunity to stimulate growth and synergize broad development assistance. ADB commits to increasing support for good governance and building of development capacities, recognizing that this will improve the cost-effective delivery of public services and broaden inclusiveness. It regards accountability for economic performance, effectiveness of policy formulation and implementation, and the efficient use of public resources as essential for development effectiveness. ADB also supports efforts to reduce the profound harm that corruption inflicts on development, particularly on the poor. ADB's anticorruption efforts are linked to broader support for governance and improvement in the quality and capacities of the public sector as a whole. It continues to focus on strengthening initiatives and systems that emphasize prevention and utilize the international framework as embodied in the United Nations Convention against Corruption.

3. Governance and Poverty Reduction

There is general agreement that strengthening the quality of governance is necessary for development, growth, and poverty reduction. Over the past decade, governance and institutional reform have moved to center stage in discussions between governments and development partners. In response, many bilateral and multilateral development agencies

³ ADB. 2007. *Integrating Capacity Development into Country Programs and Operations: Medium-Term Framework and Action Plan*. Manila.

⁴ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

have elevated poverty reduction to their overarching objective. This prompts two questions: (i) why has governance and institutional reform gained such prominence, and (ii) what is the link between improved governance and poverty reduction?

During the 1990s, considerable discussion and empirical research focused on the correlation between economic growth and poverty reduction. The general conclusion, summarized succinctly by Dani Rodrik,⁵ is that economic growth is generally good for poverty reduction. However, while economic growth is necessary for poverty reduction, it is also generally recognized that growth alone is not sufficient to reduce poverty,⁶ and that not all economic growth is equally effective in reducing poverty. To reduce poverty, we need to focus on equitable economic growth and economic policies that specifically take into consideration the needs of the poor.

Let us turn from poverty and growth for a moment and explore how governance fits into the equation. Recent research concludes that governance and institutional quality strongly determine the extent to which countries can achieve the high rates of investment required to accelerate growth and provide the infrastructure and services that the poor need. In 2002, Daniel Kaufmann and Aart Kraay at the World Bank Institute studied the correlation between governance and per capita net income from both directions. In other words, while there is evidence that good governance can result in higher per capita net income, does higher per capita income translate into improvements in governance?⁷ The study concludes that while growth depends on institutional quality, it does not necessarily improve the quality of institutions (footnote 7). In other words, it does not follow that countries that grew rich could then afford and arrange to have a corruption-free bureaucracy, an independent judiciary, free elections, and so on.

To summarize, it can be inferred that good governance fosters economic growth, and that economic growth is a precondition for poverty reduction; therefore, governance has an important role to play in poverty reduction. But there is a little more to it. While the poor can benefit from strengthened governance, the opposite is also true; it is the poor who suffer most from poor governance and the debilitating impact of corruption. Given the centrality of poverty reduction to the development agenda—and the need for strong institutions and sound policies that address issues of equity and the needs of the poor—governance, institutional development, and reducing vulnerability to corruption are likely to continue to figure prominently in country-led development programs.

⁵ Rodrik, Dani. 2000. Growth Versus Poverty Reduction: A Hollow Debate. *Finance and Development* 37 (4). Available: www.imf.org/external/pubs/ft/fandd/2000/12/rodrik.htm

⁶ Zepeda, Eduardo. 2004. *Pro-poor growth: what is it?* International Poverty Centre, United Nations Development Programme. September (1). Available: www.undp-povertycentre.org/pub/IPCOnePager1.pdf

⁷ Kaufmann, Daniel, and Aart Kraay. 2002. *Growth Without Governance*. World Bank Policy Research Working Paper No. 2928. Available: <http://siteresources.worldbank.org/INTWBIGOVANTCOR/Resources/growthgov.pdf>

4. Emerging Global and Regional Trends and Challenges

The governance landscape in the Asia and Pacific region has changed drastically since ADB adopted its governance and anticorruption policies. The 1997 Asian financial crisis had a deep impact in the region, and for the most part—at least from a governance perspective—a positive one. Countries in the region recognized the importance of strengthening financial sector governance, and the reforms undertaken strengthened not only financial sector regulation to protect investors and promote financial stability but also created environments considerably more conducive for economic growth. Specific trends impacting the governance landscape are discussed below.

4.1 Changing Regional Context for Governance

There has been rapid growth since the Asian financial crisis, and significant progress has been made in the region in reducing poverty. Developing Asia recorded an 8.5% increase in regional gross domestic product in 2006, and Asia's share of global exports has escalated from 16% in the 1980s to 27% today. It has the largest reserves and the highest savings rate in the world. However, more than 600 million people in Asia still live on less than \$1 a day. When measured against a \$2-a-day benchmark, poverty reaches 1.5 billion people—one of every two individuals in the region (footnote 4).

Security concerns—including conflicts, political unrest, and other disruptions that threaten the viability and effectiveness of government institutions—are becoming more prevalent. “Fragile states” are challenged to deliver basic services to and ensure the security of their citizens; contributing factors to their tenuous status include lack of policy direction, weak institutions, limited financial and human capacities, civil conflict, poor governance, and corruption. Fragile states need to be supported in building and sustaining effective public institutions, reducing corruption, and providing equitable and accessible public services. These problems are complex; simplistic approaches cannot effectively address the challenges to good governance in fragile situations.

Over the past few years, global food prices grew at unprecedented levels. According to the Food and Agriculture Organization of the United Nations (FAO),⁸ during the first half of 2008, international food prices in real terms were the highest in nearly 30 years. While fluctuations are common in international commodity markets, what differentiates this situation was that prices were soaring in almost all categories, particularly in vegetable oil, grains, dairy, and rice. In Bangladesh alone, without government intervention, the impacts of rising food prices would have forced more than 12 million people into poverty.⁹ Inflation subsided during the later part of 2008. Lower oil and food prices and slowing economic activity should help to

⁸ *Soaring Food Prices: Facts, Perspectives, Impacts and Actions Required*. Background paper prepared for High Level Conference on World Food Security: The Challenges of Climate Change and Bioenergy, Rome, 3–5 June 2008.

⁹ Source: ADB staff estimates.

contain price pressures in 2009, though inflation could remain high in some countries in the region.

In 2009 the world economy will likely face a major downturn as the global financial crisis stifles credit to firms and households, which are already under pressure from weaker income and the record commodity prices in early 2008. The weakened global outlook will affect Asia, but the underlying growth momentum in domestic demand is expected to allow many of the region's economies to sustain a healthy, if slower expansion.

4.2 The Evolving Global Development Agenda

The international development agenda has been forever changed by the adoption of the Millennium Development Goals (MDGs) and the commitment to meet these goals by 2015.¹⁰ The Millennium Declaration has set the basic ground rules for the international development agenda. Achievement of the MDGs must be addressed within the context of national poverty reduction strategies, sound macroeconomic policies (including trade agreements), effective management of public expenditures, and harmonized aid in support of good governance and sound policy frameworks. Meeting the MDG targets will require not only increases in the amount of development assistance provided but also the more effective use of a country's scarce financial resources. Ensuring that development assistance alone is well managed is far less important than strengthening capacity of a country to manage its entire resource base effectively.

Recognizing the need for a global partnership for development, the international development community began the process of harmonizing its processes and aligning development assistance around country priorities in 2002. The Monterrey Consensus set the stage for managing for development results, shifting the emphasis from measuring development assistance to measuring the extent to which the assistance actually resulted in tangible improvements at the country or community level. Two high-level forums, Rome 2003 and Paris 2005, further deepened international commitments and culminated in the Paris Declaration on Aid Effectiveness that contains (i) a set of more than 50 "partnership commitments" organized around concepts of ownership, harmonization, alignment, results, and mutual accountability, applicable to both "partner countries" and development agencies; (ii) a set of 12 indicators of progress, including targets; and (iii) the intention to monitor and evaluate progress against the indicators and targets.¹¹

¹⁰ The Millennium Development Goals comprise eight specific indicators ranging from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education. Available: www.un.org/millenniumgoals/

¹¹ OECD. 2005. *Paris Declaration on Aid Effectiveness*. Paris.

4.3 Corruption

Corruption disproportionately affects the poor, and experience shows that corruption harms the economy, undermines the rule of law, and weakens public trust in government. Corruption not only increases the costs of development and therefore service delivery, but can also have a detrimental impact on quality. Corruption also has many faces; while it is often considered a financial crime manifesting itself in bribes and kickbacks, more subtle forms include nepotism, conflict of interest, and collusion. Country, sector, and cultural contexts determine not only how corruption exhibits itself but also must be considered when designing approaches to reduce vulnerability to it.

In the Asia and Pacific region, there is wide appreciation that corruption poses a serious risk to sustainable equitable economic development. This is evidenced by the growing regional commitment to implement the United Nations Convention against Corruption. As of 12 June 2008, 20 of ADB's 39 borrowing countries have signed the convention, 11 have ratified it, and a further 4 have acceded to it.¹² While 10 years ago, the discussion of corruption was seen as highly sensitive, this is no longer the case. An example of this is evident in the growing membership of the ADB/Organisation for Economic Co-operation and Development (OECD) Anticorruption Initiative for Asia and the Pacific,¹³ which has grown from 17 members to 28 since 2000. The initiative brings together member countries and jurisdictions, the development community, civil society, and the private sector around a common action plan to reduce corruption in the region. The associated Anticorruption Action Plan for Asia and the Pacific sets out the goals and standards for sustainable safeguards against corruption in the economic, political, and social spheres of member countries and jurisdictions. It encourages the establishment of effective and transparent systems for public service, strong anti-bribery action, promotion of integrity in business, and support of an active involvement of civil society. Members of the network meet regularly to share progress on implementation of the action plan, including steps to ratify and implement the United Nations Convention against Corruption. A key element of the initiative is the shared learning that is fostered. Over the past year, the initiative brought together worldwide and regional experts and practitioners to discuss such topics as mutual legal assistance and recovery of stolen assets, bribery in public procurement, and conflict of interest.

4.4 Governance Challenges Arising from Rapid Growth

The complex challenges created by rapid economic growth have increased demands on the capacity and capabilities of public institutions to design and implement better policies and strategies. Many countries in Asia need support to establish an institutional and policy

¹² Countries that signed it include Afghanistan, Armenia, Azerbaijan, Bhutan, People's Republic of China, India, Indonesia, Kyrgyz Republic, Lao People's Democratic Republic, Malaysia, Mongolia, Nepal, Pakistan, Papua New Guinea, Philippines, Sri Lanka, Tajikistan, Thailand, Timor-Leste, and Viet Nam. Countries that ratified it include: Armenia, Azerbaijan, People's Republic of China, Indonesia, Kyrgyz Republic, Mongolia, Pakistan, Papua New Guinea, Philippines, and Sri Lanka. Countries that acceded to it include Bangladesh, Cambodia, Fiji Islands, Maldives, and Tajikistan. Source: www.UNODC.org

¹³ For further information, see www.oecd.org/corruption/asiapacific

environment that maximizes opportunities for growth and poverty reduction. The long-term economic success of many countries in the region will depend on sustainable institutional development, along with a policy and regulatory environment that fosters trade, investment, and technological development. Public sector institutions must adjust and reform to meet the demands of dynamic, open, and market-driven economies, as well as citizens' calls for greater transparency and accountability in managing public resources and public service delivery.

4.5 Reforms and Local Context Matter

Each country follows a different development path, and good governance is determined by a complex interaction of culture, geography, history, and economic factors. This diversity is reflected in the different approaches adopted by countries to improve the quality of governance.

The contrasting experiences of eastern Asia, the People's Republic of China, and India suggest that the secret of poverty-reducing growth lies in creating business opportunities for domestic investors, including the poor, through institutional innovations that are tailored to local political and institutional realities....¹⁴

The issues that continue to challenge regional governments and require context-specific solutions include (i) the optimum role of the state; (ii) the balance between central, regional, and local power; and (iii) effective government partnerships with civil society and the private sector.

4.6 Local Context Versus Best Practices

There is a growing realization that the concept of best practices must be considered in a local rather than universal context.

....Today there is currently no theoretical or empirical basis for making any claims about what the "right" solution is for any sector in any country that has not itself tried the alternatives.¹⁵

...In fifty years' time, Vietnam's institutions for public service delivery will most likely be just better versions of what they are today, not pale imitations of those in Switzerland (footnote 15).

¹⁴ Birdsall, Nancy, Dani Rodrik, and Arvind Subramanian. 2005. How to Help Poor Countries. *Foreign Affairs*, July/August: 136–152. Available: www.foreignaffairs.org/20050701faessay84410/nancy-birdsall-dani-rodrik-arvind-subramanian/how-to-help-poor-countries.html

¹⁵ Pritchett, Lant, and Michael Woolcock. Solutions when the Solution is the Problem: Arraying the Disarray in Development. Center for Global Development Working Paper No. 10, September. Available: www.cgdev.org/content/publications/detail/2780/

As binding constraints change over time, best practices to address those constraints are also likely to change; therefore, no single set of best practices can meet the needs of all countries at all times. Further, considering that “best practice institutions are—by definition—non-contextual” is imperative.¹⁶

5. ADB’s Response

5.1 Implementation of ADB’s Governance and Anticorruption Policies—Review

A recent review of implementation of ADB’s governance and anticorruption policies¹⁷ concluded that the policies had been only partially implemented for two main reasons. First, the policies—particularly the governance policy—are very broad. While this breadth provides sufficient flexibility to adjust to multiple country contexts, in the absence of a more specific focus, and given competing demands and limited resources, ADB had failed to respond effectively to systemic governance and corruption issues. A second key finding was that ADB had failed to sufficiently “mainstream” governance work within the core sectors it operates.

The review identified a number of critical areas for action, including (i) building stronger partnerships with other institutions, particularly in strengthening countries’ public financial management and procurement systems; (ii) developing a more effective application of knowledge and country/sector assessments to determine focus and priorities; and (iii) creating longer-term, flexible arrangements for institutional development to address systemic weaknesses in sector governance and corruption. The review also recommended that priority be given to (i) fragile states and countries eligible for concessional lending terms; and (ii) public financial management, including procurement and infrastructure services.

5.2 ADB’s Second Governance and Anticorruption Action Plan

5.2.1 Overview

In July 2006, ADB approved its Second Governance and Anticorruption Action Plan (GACAP II). The purpose of GACAP II is “to improve ADB’s performance in the implementation of the governance and anticorruption policies in the sectors and subsectors where ADB is active...and...to design and deliver better quality projects and programs.”¹⁸

¹⁶ Rodrik, Dani. 2008. Second Best Institutions. NBER Working Paper No. W14050. Available: www.nber.org/papers/w14050.pdf?new_window=1

¹⁷ ADB. 2006. *Summary Report on Improving Governance and Fighting Corruption: Implementing the Governance and Anticorruption Policies of the Asian Development Bank*. Manila (IN.216-06, 4 August).

¹⁸ ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

GACAP II identifies three governance themes, viewed as critical to poverty reduction and development effectiveness: (i) public financial management, (ii) procurement, and (iii) combating corruption. These three themes apply at the national and subnational levels and in ADB priority sectors in countries where ADB is engaged. As such, GACAP II addresses both ADB's partnerships with countries to strengthen country systems, in line with the 1995 governance policy, and actions to reduce corruption vulnerability in ADB investments, in line with the 1998 anticorruption policy.

The focus on country systems will support partnership commitments enshrined in the Paris Declaration, especially those related to development agency commitments to align their overall support with the national development strategies, institutions, and procedures of partner countries. Developing the capacity of countries' public financial management and procurement systems will support efforts to ensure that all financial resources managed by governments—both domestic and external development assistance—will be used for agreed purposes by strengthening countries' sustainable capacity to develop, implement, and account for their policies to citizens and legislatures.

The more targeted focus on sector governance arises from the failure of previous broader-based governance assessments to address sector-specific governance issues. To be effective, support for development of a sector must be grounded in an in-depth understanding of institutions governing the sector. Sector reform programs should also be sequenced carefully and an integrated approach adopted, taking into consideration reforms and processes at the country level. Risks to development effectiveness in the sector must be identified and managed through appropriate risk mitigation measures.

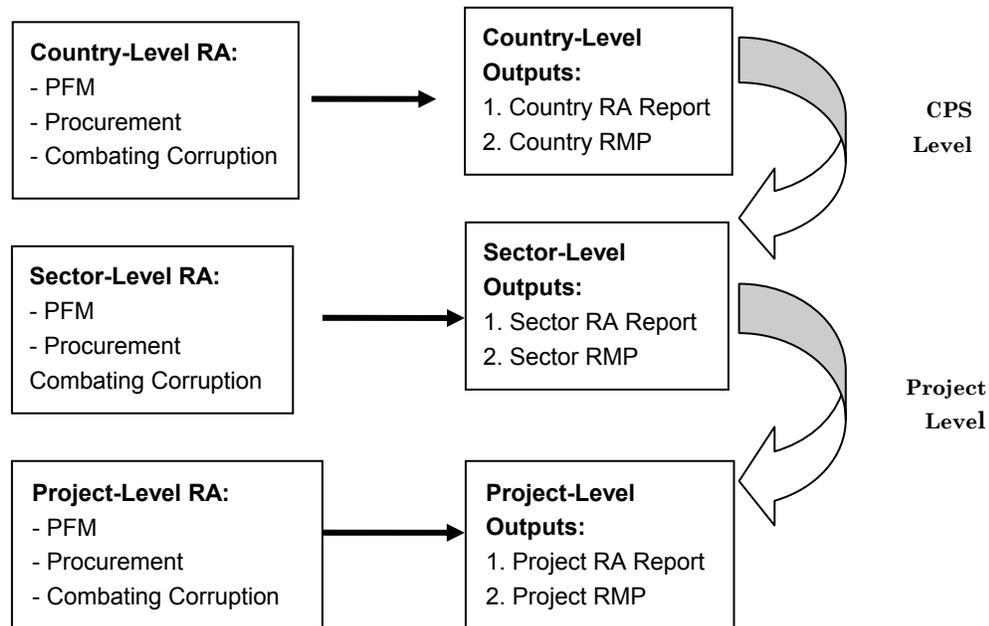
Under GACAP II, ADB has adopted a risk-based approach to identify the major risks in a sector that will impede development effectiveness, and formulate practical, actionable measures to mitigate identified risks. This means a shift away from “policy laundry lists” toward actions that ADB and/or our client countries can actually take. Addressing institutional risk at the sector level is of paramount importance for achieving sector-level results at outcome and impact levels. Risk mitigation actions at the sector level must consider what actions have the greatest likelihood to create incentives for key stakeholders toward behaviors needed to achieve development objectives and results in the sector.

ADB has developed a cascading risk assessment approach as shown in Figure 1. The country- and sector-level risk assessments are key diagnostics prepared to inform the preparation of ADB's medium-term country strategies. The outputs at the country-level risk assessment provide crosscutting inputs to the sector-level risk assessments undertaken for priority sectors for ADB operations in a given country. The sector-level risk assessments and risk mitigation plans provide guidance to the preparation of projects in the relevant priority sector.

At each level—country, sector, and project—risks must be classified in terms of likelihood of occurrence and seriousness of consequences for development effectiveness. Figure 2 presents a typology for classifying types of risks and identifying the risks that ADB considers to be major. After identifying the major risks, the next step is to determine what major risks are not currently being mitigated—these are the residual risks that ADB seeks to address.

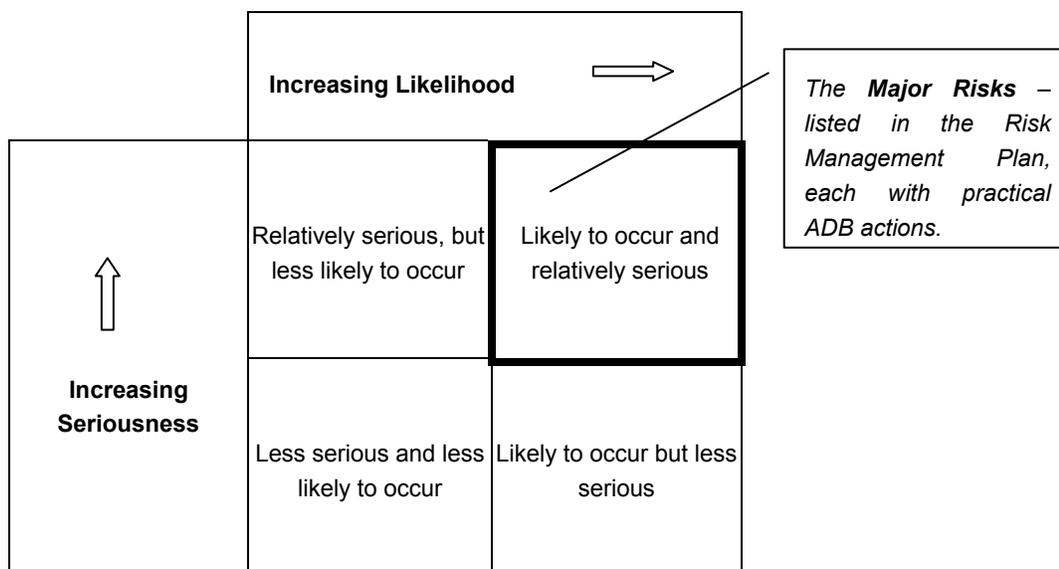
Following the risk prioritization process, the next step is to identify practical, measurable actions that ADB can take to tackle major risks identified—either on its own or in conjunction with other development agencies. These actions are included in risk management plans prepared at country, sector, and project levels.

Figure 1: Cascading Risk Assessments



CPS = country partnership strategy, PFM = public financial management, RA = risk assessment, RMP = risk management plan.
Source: ADB.

It may appear counterintuitive to discuss both “harmonization and alignment” and “ADB’s governance assessment approach” in one paper. There is recognition among development practitioners that governance assessments can serve many purposes. Multilateral development banks tend to use these assessments to identify risks to sustainable development; some bilateral agencies apply assessment methodology to assess the fiduciary risk within their own development programs. The general consensus is that agreeing on a common governance assessment framework is probably not practical. However, GACAP II is founded on the principle of partnership—partnership between governance and sector professionals, partnership among development partners, and partnership between ADB and our client countries. We first look at whatever assessments are currently available at the country level as a starting point; we work with other development partners in conducting our assessments; and most importantly, we wish to work closely with our client governments, as it is the development risk that we are attempting to assess, and this risk is fully shared with our client governments.

Figure 2: Types of Risks

Source: ADB.

5.2.2 Sources of Risk Evidence

At the country level, several standard assessments can be used for gathering evidence of risks to country systems for public financial management, procurement, and combating corruption. For public financial management, country fiduciary and accountability assessments or public expenditure and financial accountability assessments now exist for many countries. For national procurement systems, a World Bank country procurement assessment report, or the more recent baseline indicator system report developed under the OECD–Development Assistance Committee, may exist. In many countries, public expenditure and financial accountability and baseline indicator system studies are undertaken on a harmonized government-development partner basis, with a view to aligning development partner support with a government-owned reform program.

Whereas the scope of public financial management and procurement is well defined, the scope of the corruption theme is very broad. It includes, for example, (i) laws, regulations, and agencies; (ii) the quality of the legal and judicial system; (iii) press and media freedoms; (iv) “whistle-blower” protection; (v) the quality of public administration; (vi) the quality of subnational electoral systems; and (vii) the autonomy of civil society. Further, whereas there are international standard benchmarks for public financial management and procurement, there is no agreed set of objective benchmarks for assessing corruption.

Transparency International’s annual global corruption reports include concise studies for selected countries each year. Its national integrity system country reports provide useful background for many countries, organized around Transparency International’s 16 integrity “pillars.” *Countries at the Crossroads*, published by Freedom House, provides in-depth

comparative analyses and quantitative ratings in areas of government accountability, civil liberties, rule of law, anticorruption efforts, and transparency in 60 countries worldwide.¹⁹ The U4 Anti-Corruption Resources Centre²⁰ is a useful online source for a range of countries and sectors.

Despite the relative lack of agreed benchmarks and objective data sources, reliable comparative data do now exist. The Governance Matters VI (GM-IV) data set²¹ now includes data for 212 countries from 1996 to 2006. This data set aggregates 33 different household and business perception surveys by reputable organizations and international sources, including ADB and World Bank country performance assessment results. GM-IV aggregates findings from the constituent surveys into six governance categories: (i) voice and accountability, (ii) political stability and absence of major violence and terror, (iii) government effectiveness, (iv) regulatory quality, (v) rule of law, and (vi) control of corruption. Excel tables are downloadable, enabling any number of country comparisons across space and time. The GM-IV data set provides a good starting point for a corruption assessment.

The majority of governance assessments and tools currently available concern nationwide systems for public financial management, public administration, institutional oversight and political accountability, private sector competition, and civil society participation. Sector-level governance studies and diagnostics are rare.

The World Bank's *The Many Faces of Corruption: Tracking Vulnerabilities at the Sector Level*²² is probably the most comprehensive compilation on sector corruption risks to date. It has chapters on the pharmaceuticals, education, forestry, electricity, transport, petroleum, and water and sanitation sectors in different regions. The case studies illustrate the use of the value chain approach to ensure comprehensive coverage of sector risks. TI Global Corruption Reports include sections by sector specialists.²³ The U4 Anticorruption Resource Centre has useful and practical material on corruption in health and education, including literature reviews and practical analytical frameworks for systematically identifying areas of high vulnerability to corruption. However, these sector studies have little to say on methodology for conducting sector risk assessments.

5.3 Opportunities for Further Research

As ADB begins to implement GACAP II and the Capacity Development Medium-Term Framework and Action Plan, it has become apparent that we are entering uncharted territory. Development agencies, particularly multilateral development banks, generally agree that we need to get a better handle on sector governance issues. While it is easy to say that we need to look at sector development issues through a governance lens, with particular focus on public financial management, procurement, and corruption themes, it is a

¹⁹ Available: www.freedomhouse.org

²⁰ Available: www.u4.no

²¹ Available: www.worldbank.org/wbi/governance

²² Campos, Edgardo, and Sanjay Pradhan, eds. 2007. *The Many Faces of Corruption: Tracking Vulnerabilities at the Sector Level*. Washington, DC: World Bank.

²³ Available: www.transparency.org/publications/gcr

little more difficult to figure out exactly how to do this. It is even more complicated when one adds a risk assessment dimension. There is tremendous interest among practitioners to explore various methodological options and to capture good practice examples.

Measuring governance and corruption and using governance indicators to allocate development resources are the subject of intense debate within the multilateral development bank community. While several indicators do exist, some degree of subjectivity exists and difficulties prevail with respect to cross-country comparisons.

Fragile states, in particular, have challenges building and sustaining effective public institutions, reducing corruption, and providing equitable and accessible public services. These problems are complex, and blueprint approaches cannot be expected to succeed in such challenging environments. More research is needed to understand how to support governance reform in fragile states with limited capacities effectively.

While we have noted the importance of country ownership and of cultural, sector, and country contexts when it comes to designing governance, capacity development, and anticorruption programs/projects, it is also helpful to have good practice examples readily available, particularly cross-regional comparisons. ADB regularly captures good practice examples for Asia, but excellent opportunities for learning exist between Central and South America and the Caribbean, Africa, and Asia and the Pacific. There are also examples that could be gleaned from OECD countries. Many of our clients regularly want to know what others are doing, not necessarily to adopt the approach, but to inform the development of a country-specific response.

6. Conclusion

ADB is firmly committed to improving governance and furthering the fight against corruption in the Asia and Pacific region. We acknowledge that improving governance, strengthening institutions, and reducing vulnerability to corruption are challenges that we must address if we are to reduce poverty and promote equitable sustainable economic growth.

GACAP II will provide the opportunity for ADB to work with our client countries, in close collaboration with the development assistance community, to assess the risks inherent in our clients' forward development programs. The risk assessments should serve multiple purposes: (i) they will help us identify the risks inherent in our forward sector programs and identify risk mitigation strategies; (ii) they will help us gain comfort with country systems or identify issues or concerns that could limit our ability to rely on those systems; and (iii) more importantly, they will assist our client governments as they identify appropriate mitigation measures and prioritize reform actions and investments that could serve to reduce risks over time.

ADB acknowledges that achievements in anticorruption and good governance depend, to a large extent, on political will and ownership of the governance agenda at the country level. From experience, development partners can serve only as facilitators; we can provide financing and/or technical expertise, but the client government must own the reforms. ADB

will continue to work with our client governments to strengthen institutions, improve governance, and reduce the vulnerability to corruption. But this will take time as strengthening governance and developing capacity are complex activities. They require patience, perseverance, and a commitment to work in partnership with our clients, civil society, and development partners.

Governance and Sustainable Development: The Asian Development Bank Perspective

This working paper examines opportunities for collaboration between development practitioners and academia in developing analytical frameworks and tools to support risk-based approaches to governance assessment.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two thirds of the world's poor. Six hundred million people in the region live on \$1 a day or less. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance. In 2007, it approved \$10.1 billion of loans, \$673 million of grant projects, and technical assistance amounting to \$243 million.