

**Chair's Summary of the Development Effectiveness Committee**

---

24 September 2014

**Thematic Evaluation Study: ADB Support for Enhancing Governance in its Public Sector Operations (IN.281-14)**

1. The Development Effectiveness Committee (DEC) discussed the thematic evaluation study on ADB support for enhancing governance in its public sector operations, which the Independent Evaluation Department (IED) rated as relevant to ADB's mandate and to the needs of its client countries. The study reported that ADB has been responsive in its institutional and operational support for the agenda, yet cited concerns including the declining share of transport and energy projects that contain governance and capacity development components as well as the limited use of dedicated TA in the infrastructure sectors (relative to the rapid growth in lending). The results of Public Sector Management (PSM) operations were rated *less than satisfactory* and the report underscored the need to improve diagnostics, design, monitoring and supervision in more difficult high-risk environments. To provide greater cohesion on ADB's interventions on governance, IED recommended: (i) clearer directions and guidance for PSM operations at the corporate level; (ii) mainstreaming governance in country sector operations by providing deeper analysis of governance and reform issues in country partnership strategies and sector roadmaps; and (iii) improving the quality of project-level risk assessment and management plans (RAMPs) and strengthened oversight by concerned non-operations departments.

2. DEC members welcomed the report, noting that the review on governance was the first of its kind considering that the sector represents at least 10% of the total portfolio. DEC members had mixed views in regard to the needed prominence of the governance agenda in ADB's strategic positioning. One DEC member underscored that ADB's emphasis on governance could be gleaned from the fact that it has been identified as one of the drivers of change with crosscutting relevance on different sectors and the three pillars of inclusive growth. Another DEC member felt that the visibility of governance is limited, given that there are very few indicators relating to this in the revised results framework, which he hopes will be adjusted in the next review. The DEC Chair considered that ADB attaches importance to governance, citing the governance policy in 1995 and the formulation of the Second Governance and Anti-Corruption Plan (GACAP II) in 2006. Staff mentioned that the Midterm Review of Strategy 2020 emphasized how ADB has effectively used governance as a driver of change in its operations.

3. In regard to IED's first recommendation suggesting the formulation of an operational plan or directional document to clarify priorities and help guide PSM operations, one DEC member thought this may be necessary given the sector's size in proportion to ADB's overall portfolio. At the same time he cautioned that ADB should only do so if it had capacity to operationalize the plan or if it would help identify focus areas. Staff disagreed with IED's recommendation asserting that there is sufficient staff guidance across various fronts, and expressed skepticism about the value addition of another directional document. Some DEC members pointed out that the issue may not be directly linked to the performance of PSM operations. Staff added that a Capacity Development Operational Plan is expected to be rolled out in 2015, further explaining that they are working on addressing remaining gaps in light of the findings of the report to provide greater clarity to staff working in PSM operations. IED maintained that the GACAP II and other plans could not substitute for a strategic, directional document for PSM operations, even if GACAP II is an important instrument for identifying and mitigating risks of individual projects. The Managing Director General added that if the goal of a guiding document is to better train and prepare staff, then additional trainings or workshops could be organized to fulfill this need.

4. The report cited that relative to the scale of PSM operations and the imperatives of mainstreaming, there are limited core public sector management specialists in ADB compared to other sectors. DEC members inquired whether ADB has the right strategic skills mix and instruments to address diagnostics at the design appraisal stage and during monitoring and supervision of high risk interventions. A Board member intervened that he encountered instances wherein staff failed to illustrate understanding of the social and governance dimensions in the design and monitoring framework (DMF), which may in turn affect the project success rates negatively.

5. Staff mentioned that there are about 90 staff members working either full time or part-time on PSM and governance matters. Staff also asserted that while not all of them have public management titles, they have

expertise relevant to the cross-cutting and multisector nature of governance interventions. They added that IED should also consider the entire delivery value chain of said interventions, including additional positions in private sector development which ultimately contribute to improvements in governance. IED stated that the limited number of staff solely dedicated to the large portfolio of PSM and governance operations was a recurring concern that came up during its consultations in ADB and in resident missions.

6. Some DEC members considered that success rates should not be a decisive factor in ADB's engagement in the sector. They recognized that governance interventions are high risk, high return operations and could have transformative impact in client countries, even when partly successful. A DEC member inquired about the critical elements which made governance projects successful in Southeast Asian countries compared to those in South and Central Asia. He also asked IED whether they found a relationship between capacity or staffing of resident missions (RM) and success rates of governance interventions.

7. Staff observed that the success of operations in Southeast Asian countries may be attributed to proper identification of challenges at the country level, taking into account country capacity constraints, and keeping the program as simple as possible in terms of policy measures. IED found no hard evidence linking RM size to performance, but cited findings of the recent IED decentralization study which suggested that RMs who engage in good dialogue with client countries and conduct good diagnostics seem to have a better grasp of how to design effective projects.

8. A DEC member encouraged staff to work smart in raising the visibility of ADB's governance agenda by leveraging on partnerships and reaching out to knowledge centers of other financiers. He added that results based lending could be used as a tool to elevate ADB's governance agenda in a higher platform. Staff responded that ADB has been collaborating with a number of bilateral, multilateral, and institutional partners to move the governance agenda forward.

9. Staff agreed to recommendations two and three of the report, which call for better governance analytics in country and sector programs and improving the quality and implementation of RAMPs. They cited ongoing efforts to revise relevant guidelines and templates for the treatment of GACAP II and governance risk assessments in CPSs and DMFs. Staff also mentioned stronger coordination among various departments in reviewing RAMPs at country, sector, and project levels with the aim of improving quality.

### **IED Work Program 2015-2017**

10. DEC endorsed IED's work program and 2015 budget as presented.

### **Proposal on follow up actions**

11. On DEC Chair's request, IED drafted a proposal outlining how DEC could fulfill its oversight functions in monitoring actions agreed to by Management. The DEC Chair suggested that DEC follow up on Management actions related to thematic and corporate evaluation studies conducted by IED beginning in 2012. One DEC member expressed strong reservation with the proposal citing the exercise as a form of micromanagement and stressed that IED should report to the DEC on a case-by-case basis if it finds significant deviations from the actions that Management agreed to do. With two DEC members absent, no decision was adopted. The DEC Chair requested IED and Management to work on the finer details of the proposal.