

Evaluation Approach

Supporting Good Governance: A Thematic Evaluation Study of ADB Support for Enhancing Governance in its Public Sector Operations

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A. Introduction

1. The Independent Evaluation Department (IED) will undertake a thematic evaluation study (TES) on Asian Development Bank (ADB) support for enhancing governance through its public sector operations. The TES will be led by Benjamin Graham, with Joanne Asquith, Rajesh Vasudevan, Agnes Anabo, and Valerie Melo as team members. This is the first in-depth evaluation on ADB support for enhancing governance, following an evaluation in 2011 focused on ADB support for good governance in its Pacific developing member countries (DMCs).¹ The background, methodology, and other information on the TES are presented here.

2. The TES will serve several purposes. It will present a learning opportunity, through its examination of ADB's governance policies and plans and appraisal of its governance operations over the past decade. By evaluating ADB's governance experience and drawing on lessons and evidence from the wider global experience, the TES will provide guidance to strengthen the effectiveness of ADB's future work in this area. The TES findings will feed directly into the 2014 midterm review of Asian Development Fund (ADF) XI, as requested by ADF donors in 2012.²

B. Background

1. Definitions and Principles of Governance

3. Governance is a multi-dimensional concept with no universally agreed definition. 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.³

4. Good governance is often defined by key principles or characteristics which commonly include: accountability, control of corruption, efficiency, equity, participation, political stability, predictability, responsiveness, rule of law, and transparency.⁴ ADB applies four key elements in particular: stakeholder participation, predictability, transparency, and accountability. Strategy 2020, ADB's long-term strategic framework, identifies good governance (with capacity

¹ IED. 2011. *Special Evaluation Study: ADB Support for Promoting Good Governance in Pacific Developing Member Countries*. Manila: ADB.

² ADB. 2012. *Asian Development Fund XI Donors' Report: Empowering Asia's Most Vulnerable*. Manila. The ADF is the concessional finance window of ADB.

³ ADB. 1995. *Governance: Sound Development Management*. Manila.

⁴ For example: Worldwide Governance Indicators. Available: <http://www.govindicators.org>

development) as one of five drivers of change to improve cost effective delivery of public goods and services and ensure inclusive growth.⁵

5. The United Nations characterizes 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.⁶ At the 4th High Level Forum on Aid Effectiveness, developed and developing countries alike reaffirmed the importance of good governance for development effectiveness and endorsed the principles of human rights, democracy, and anti-corruption as integral to their development efforts.⁷

6. Achieving these principles depends, to a large degree, on the types of institutions and policies in place. This has raised the importance of effective institutional assessments⁸ and political-economy diagnostics.⁹ Good governance is also increasingly viewed as a function of basic service delivery and the extent to which core public goods such as education and health are provided in an equitable and efficient manner, especially for the poor.¹⁰ This, in turn, emphasizes the importance of good governance at the sector and service-delivery level.

2. Governance and Development: A Crucial but Complex Relationship

7. The relationship between governance and development is complex, with many issues subject to ongoing debate and research, such as: how best to measure and assess the quality of governance;¹¹ how good governance and institutions affect growth and equity;¹² what approaches work most effectively to strengthen governance, including in fragile states and on both the supply and demand sides;¹³ and whether and how aid can strengthen domestic accountability.¹⁴ The TES will include a literature review that synthesizes the latest knowledge and debates surrounding these and other important questions.¹⁵

8. While debates and research on certain aspects of the governance-development relationship continue, there is already widespread agreement, including among ADB and other major development institutions, that good governance matters for improvements in economic

⁵ 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.

⁶ United Nations Global Issues: Governance. Available: <http://www.un.org/en/globalissues/governance>

⁷ Outcome Document for 4th High Level Forum on Aid Effectiveness, 1 December 2011, Busan, Korea.

⁸ 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.

⁹ As with other development organizations, ADB has paid increasing 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.

¹⁰ For example: UNESCAP. 2007. *Access to Basic Services for the Poor: The Importance of Good Governance*. Asia-Pacific MDG Study Series, in collaboration with UNDP and ADB.

¹¹ For example: Overseas Development Institute. 2007. *Overview of Governance Assessment Frameworks and Results from the 2006 World Governance Assessment*. London.

¹² For example: Acemoglu, D. and Robinson, J. 2012. *Why Nations Fail: the Origins of Power, Prosperity, and Poverty*. Crown Business Publishing.

¹³ For example: Brookings Institution. 2009. *How to Improve Governance: A New Framework for Analysis and Action*. Brookings Institution Press.

¹⁴ For example: OECD. 2009. *Aid and Domestic Accountability: Background Paper*. Prepared by Alan Hudson and GOVNET Secretariat.

¹⁵ A comprehensive bibliography of references for the literature review has been prepared with the assistance of researchers from the Kennedy School of Government and is available upon request.

and social outcomes,¹⁶ while poor governance, including corruption, deter development.¹⁷ Moreover, it is now generally accepted that good governance and strong institutions hold intrinsic value as ends of development in their own right.¹⁸

9. As such, since the 1980s development institutions have paid increasing attention and resources to strengthening governance in their policies and operations. Concern over the effectiveness of international support for development and poverty reduction has driven the emergence and expansion of governance related rules and approaches, and these are now an integral feature and focus of international development.

C. Governance in Asia and the Pacific: Challenges and Concerns

10. 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, reforming public administration, managing decentralization, 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.

11. Strengthening governance remains particularly difficult in ADB's fragile and conflict-affected countries. The exclusion of many of these countries from the region's growth and prosperity is a growing concern and ADB's Asian Development Fund donors cite the widening gap between ADF and non-ADF countries as a worrying trend (footnote 2). This imbalance is largely attributed to weak governance, institutions, and capacity. Recent IED evaluations found that promoting good governance in these countries remains difficult, requiring longer-term and more focused engagement and stronger partnerships.¹⁹

12. Strengthening governance is also a longstanding challenge in various sectors of public services. As far back as 1995, ADB pledged that its programs and projects should, to the extent possible, be designed to raise governance quality in key sectors (footnote 3). The growing use of sector-wide approaches requires better coordination and improved sector-level management to sustain investments. For ADB, the second Governance and Anticorruption Action Plan's²⁰ (GACAP II) focus on due diligence, including identification of sector-level risks, and Strategy 2020's narrower set of priority sectors, demand more effective support for sector-level assessments, capacity development, and reforms.

13. Corruption remains pervasive and persistent in some countries, imposing significant costs, including reputational externalities, to development. Corruption disproportionately affects the poor and is deemed a critical constraint to development in some countries.²¹ As recently noted by former ADB President Haruhiko Kuroda, "We have to redouble our efforts to eradicate poverty in Asia, and since corruption and poor governance have been major obstacles in

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

¹⁷ For example: International Monetary Fund. 2012. *The IMF and Good Governance: Fact Sheet*. Washington.

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

¹⁹ IED. 2011. *Special Evaluation Study on 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.

²⁰ ADB. 2006. *Second Governance and Anticorruption Action Plan*. Manila.

²¹ For example: ADB. 2007. *Country Diagnostic Studies: Philippines, Critical Development Constraints*. Manila.

reaching this goal, we also have to redouble our efforts to support anticorruption initiatives and to ensure that governance is substantially improved in our member countries.”²²

14. Looking forward, the region will continue to face critical governance challenges across multiple fronts. Tackling them will require more effective management of development processes in many areas. As suggested in *Asia 2050*, transforming governance may well be the greatest challenge the region faces as its endeavors to realize the Asian Century.²³

D. ADB’s Governance Agenda

1. Serving Three Essential Interests

15. Over several decades, ADB’s governance agenda²⁴ has evolved to serve three distinct but related interests:

- (i) **To support DMC efforts to strengthen governance and public sector management (PSM).** This constitutes the portfolio of ADB operations and initiatives—including regional cooperation, partnerships, and knowledge work—that aim to strengthen various aspects of governance, including sector governance, in DMCs. This encompasses all loans, grants and TA in the PSM sector and non-PSM operations with governance and/or capacity development thematic classification.
- (ii) **To manage risks to and safeguard ADB-financed operations.** The interest here is to strengthen governance and ADB performance by managing risks to and safeguarding ADB-financed operations. This is pursued through the identification and management of risks of corruption, mismanagement, and waste in ADB projects, and to support aspects of stakeholder participation, transparency, accountability and predictability more broadly. Safeguarding ADB resources and projects helps to maximize their potential impacts. This interest is the central tenet of GACAP II (see section D4).
- (iii) **To strengthen ADB’s internal, institutional integrity.** This aspect is concerned with ADB’s own institutional and organizational integrity, transparency, and accountability. It is essentially concerned with aspects of ADB’s corporate governance and how the organization is internally managed and governed.

2. Shaping the Agenda: Major Governance Milestones

16. A number of milestones have shaped the ADB governance agenda since the early 1990s. The following summarizes the evolution of the agenda under three general phases. Appendix 1 provides a more detailed timeline of milestones.

a. Early Policy Recognition of Governance: 1994–1999

17. Reflecting growing global recognition of the importance of policies and institutions for development results, ADB adopted its Governance Policy in 1995, following issuance of Staff Instructions on Governance in 1994. The policy called for (among other things): (i) scaling up internal governance capacity, (ii) mainstreaming the four elements of good governance into

²² In the 2012 statement of ADB President Kuroda. Available: <http://www.adb.org/site/integrity/main>, accessed 6 February 2013.

²³ ADB. 2011. *Asia 2050: Realizing the Asian Century*. Manila.

²⁴ In this approach paper and the TES to follow, 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.

operations, (iii) incorporating governance issues into country assistance plans, (iv) more detailed analysis of governance aspects in economic and sector work, (v) coverage of governance aspects in policy dialogue, and (vi) expanding cooperation with nongovernment organizations.

18. In 1998, ADB adopted its Anticorruption Policy,²⁵ committing 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 1999 establishment of the Anticorruption Unit.

19. In 1999, ADB declared poverty reduction as its overarching objective with the adoption of the Poverty Reduction Strategy,²⁶ which proposed a framework for poverty reduction that included good governance as a key element.

b. First Governance Action Plan (GAP): 2000–2006

20. The Governance Action Plan²⁷ adopted in 2000 committed ADB to playing a lead role in promoting good governance in the region and enhancing governance in DMCs. Where DMC commitment to improving governance was weak, GAP proposed that ADB foster it through dialogue, advocacy, and support to sympathetic stakeholders. GAP was instrumental in the establishment of the Governance Cooperation Fund and the adoption of the performance-based allocation system for ADF resources in 2001.²⁸

21. Adopted in 2001, the Long-Term Strategic Framework 2001–2015²⁹ (LTSF) identified three core strategic areas of intervention, consonant with the Poverty Reduction Strategy, including good governance for effective policies and institutions. The first Medium-Term Strategy 2001–2005 (MTS) of the LTSF considered ineffective institutions and policies as the biggest constraints to growth; and committed ADB to place strengthening of institutions and policies at the center of its MTS. The second MTS 2006–2008 was adopted in 2006 and included five strategic priorities, including improving governance and preventing corruption.

c. GACAP II: 2006 onwards

22. The second Governance, Capacity, and Anticorruption Action Plan (GACAP II),³⁰ adopted in 2006, called for more systematic approaches to implementing the Governance and Anticorruption policies through risk assessments and management plans. As GACAP II will be a focus of the TES, it is described in more detail in section D4 and in Appendix 2.

23. In 2007, the Public Management 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. Also in 2007, ADB adopted its first Capacity Development Action Plan.³¹ The plan was updated in 2011.³²

²⁵ ADB. 1998. *ADB Anticorruption Policy*. Manila.

²⁶ ADB. 1999. *Fighting Poverty in the Asia and Pacific: The Poverty Reduction Strategy of ADB*. Manila.

²⁷ ADB. 2000. *Promoting Good Governance: ADB's Medium-term Agenda and Action Plan*. Manila.

²⁸ ADB Country Performance Assessment page: <http://www.adb.org/site/adf/country-performance-assessment>.

²⁹ ADB. 2001. *Moving the Poverty Reduction Agenda Forward: The Long-Term Strategic Framework of ADB*. Manila.

³⁰ ADB. 2006. *Second Governance, Capacity, and Anticorruption Action Plan*. Manila.

³¹ ADB. 2007. *Integrating Capacity Development into Country Programs and Operations: Medium-Term Framework and Action Plan*. Manila.

³² ADB. 2011. *Revised Capacity Development Action Plan*. Manila.

24. Strategy 2020, adopted in 2008 and superseding the first LTSF, focused operations on a narrower set of core areas. Governance is not assigned as a core operational area, but is considered a driver of change, to be emphasized in all operations.

25. In 2009, a renewed project classification system introduced PSM as a sector classification (replacing the earlier but similar Law, Economic Management and Public Policy), and the independent Office of Anticorruption and Integrity was established, replacing the Anticorruption Unit.

3. Organizational Evolution

26. Organizational units concerned with managing different aspects of governance have expanded over time. The Public Management, Governance, and Participation Division of the Regional and Sustainable Development Department, with some 24 total staff, supports operations in governance, public sector management, capacity development, ICT and e-governance, and disaster risk management, and also includes the Nongovernment Organization and Civil Society Center. The Anticorruption Unit established in 1999 has grown into the Office of Anticorruption and Integrity with now around 20 total staff. The regional departments in ADB have divisions that prepare and administer PSM operations, usually along with finance sector and trade operations. Other aspects of governance, including safeguards, procurement, and contracting, have also evolved into special divisions with expanded staff. The TES will provide a more in-depth examination of the organizational evolution of ADB vis-à-vis the governance agenda.

4. GACAP II

27. Effective since 2006, GACAP II aims to improve ADB's implementation of the Governance and Anticorruption policies. GACAP II was influenced by a 2006 review that found the first GAP to be overly ambitious, tenuously owned, and poorly resourced.³³ The review found that inadequate fiduciary and corruption risk assessments at the country- and sector-levels reduced the effectiveness of ADB's efforts to deal with corruption. Prior to GACAP II, ADB prepared country governance assessments that focused on five major governance areas and issues, but the 2006 review found these too broad and lacking in sector operational focus.

28. GACAP II emphasizes more upstream due diligence and risk assessment work and focuses more on the mandatory elements (versus what it refers to as the *aspirational* elements) of the Governance and Anticorruption policies. GACAP II identifies three priority themes of public financial management (PFM), public procurement, and anticorruption that are to apply at the national and subnational levels and in ADB priority sectors in DMCs. Table 1 compares the main objectives of GAP and GACAP II, illustrating the shift in focus to a more risk-based, program/project design and administration focus.

29. ADB is currently undertaking a self-review of GACAP II implementation to assess its effectiveness in mainstreaming governance and anticorruption into operations. The review methodology includes qualitative assessments of relevant documents and interviews with ADB staff and DMC officials. The review will be completed by June 2013, and its findings and recommendations will be considered, and validated where necessary, by the TES. Appendix 2 provides more details on GACAP II's key result areas and outcomes.

³³ ADB. 2006. *Review of the Implementation of ADB's Governance and Anticorruption Policies*. Manila.

Table 1: Main Objectives: GAP and GACAP II

GAP 2000–2004	GACAP II 2006–present
(i) Optimize impacts of operations by addressing key governance issues in DMCs 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/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 strategies and program, DMC = developing member country, GACAP II = Second Governance and Anticorruption Action Plan, GAP = Governance Action Plan.

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

Source: GAP and GACAP II.

E. Overview of Governance Operations

1. PSM, Governance, and Capacity Development Classifications

30. Operationally, ADB approaches governance in two ways: (i) governance as sector reform through its PSM operations, and (ii) governance and/or capacity development as themes in sector projects and programs. ADB's project classification system reflects this, with its PSM sector classification and governance and capacity development thematic classifications. PSM operations can be further classified into one of five subsectors, while operations in any sector can be classified thematically as addressing governance in any one or more of five subthemes, or capacity development in any one or more of three subthemes.³⁴ Table 2 presents the PSM subsectors and governance and capacity development subthemes and Appendix 3 shows the evolution of ADB's classification system. The TES will include a portfolio analysis of all PSM, governance, and capacity development loans, grants and TA over the past decade (2003–2012).

Table 2: PSM Subsectors and Governance Subthemes

PSM Subsectors	Governance Subthemes	Capacity Development Subthemes
(i) economic and public affairs management	(i) economic and financial governance	(i) institutional development
(ii) public expenditure and fiscal management	(ii) public administration (national and decentralized)	(ii) organizational development
(iii) public administration	(iii) civil society participation	(iii) client relations, network, and partnership development
(iv) decentralization	(iv) law and judiciary	
(v) law and judiciary	(v) anticorruption	

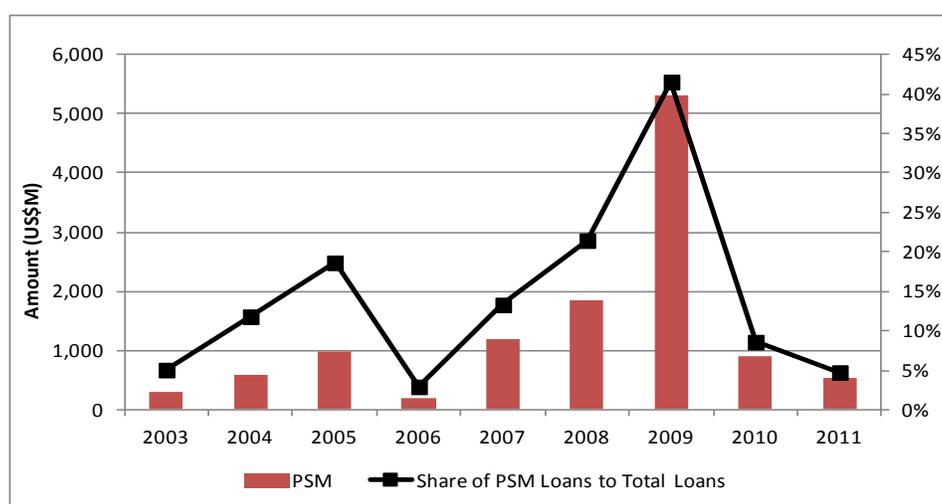
Source: Asian Development Bank project classifications.

³⁴ ADB. 2009. *Staff Instructions for the Revised Project Classification System*. Manila.

2. PSM Sector Lending

31. Preliminary IED estimates show that from 2003 to 2011, ADB approved 81 PSM loans worth \$11.8 billion, representing around 16% of the total lending portfolio over the period³⁵ (Figure 1). PSM lending peaked in 2009, commensurate with the major counter-cyclical programs approved during the Global Economic Crisis (worth around \$2.5 billion) but subsequently declined in 2010 and 2011. Excluding 2009, PSM represented an annual average of 11% of the portfolio. The top five PSM loan recipients (in descending order) were Indonesia, Philippines, Pakistan, Bangladesh, and Viet Nam; accounting for 89% of the PSM portfolio value. The majority of PSM loans targeted the subsectors of: economic and public affairs management, public expenditure and fiscal management, and decentralization. ADB forecasts that PSM operations will remain low at around 7% of the portfolio over 2013–2015.³⁶

Figure 1: Public Sector Management Loans, 2003–2011



PSM = public sector management.

Source: Independent Evaluation Department (preliminary estimates).

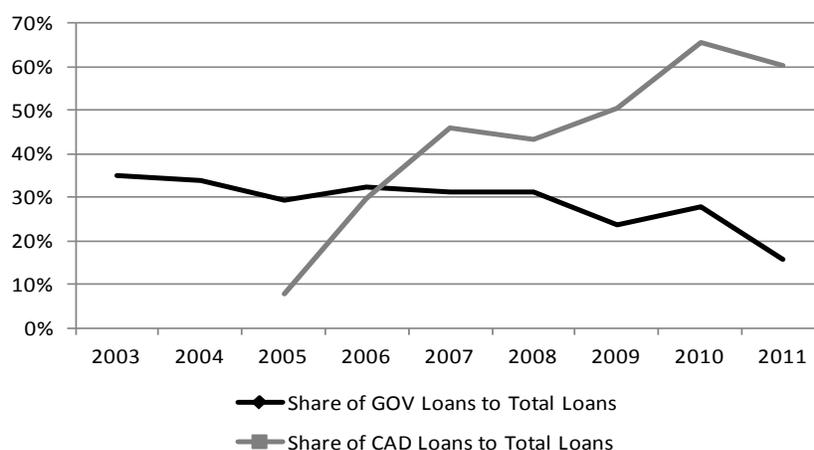
3. Governance Thematic Lending

32. Of 760 total approved loans from 2003 to 2011, 215 had governance as a thematic classification (at any level: primary, secondary, etc.). This suggests that over a quarter (28%) of loans have had some governance orientation. On average, ADB approved 24 governance loans a year, but this fell to 16 in 2011. Moreover, the ratio of loans with governance classification to all approved loans has declined steadily over time (Figure 2). By sector, governance loans were most commonly seen in PSM (86% percent of all PSM loans), finance (72%), multisector (38%), industry and trade (37%), and health (26%). Figure 2 compares governance with capacity development thematic lending, illustrating opposite trends over time (see next section on capacity development thematic lending).

³⁵ All portfolio figures are preliminary and subject to revision. The TES will analyze the portfolio for the full decade, 2003–2012. At the time of writing, the portfolio analysis for grants and technical assistance remains incomplete.

³⁶ ADB. 2012. *Work Program and Budget Framework 2013–2015*. Manila.

Figure 2: Share of Approved Loans with Governance and Capacity Development Theme, 2005–2011



CAD = capacity development, GOV = governance.

Note: Capacity Development was introduced in 2004 as a thematic classification.

Source: Independent Evaluation Department (preliminary estimates).

4. Capacity Development Thematic Lending

33. ADB adopted capacity development as a thematic priority in 2004, reflecting growing international recognition of capacity development as an important means to strengthening governance, public sector performance, and risk management. A 2004 review of ADB's Poverty Reduction Strategy³⁷ suggested that ADB adopt its first Capacity Development Action Plan in 2007 (this plan was updated in 2011) and Strategy 2020 links capacity development with good governance as a key driver of change. Capacity development is now integral to ADB's governance agenda.

34. IED estimates show that from 2005 to 2011, 280 loans (in all sectors) were thematically classified as capacity development (at any level), representing 37% of loans over the period. Whereas governance lending declined over time, capacity development lending grew (Figure 2). As of 2011, loans with capacity development classification represented 60% of all approved loans. Over the period, 32% of PSM and 29% of governance loans were thematically classified as capacity development, suggesting significant overlap among these classifications. Capacity development classified TA is also significant, representing more than half of the TA portfolio (by value) in 2010 and 2011.³⁸

5. ADB's Priority Sectors

35. Under Strategy 2020 ADB operations have concentrated into a narrower set of sectors. This reflects clearly in the portfolio: according to the 2013–2015 Work Program and Budget Framework, over the period 2009–2011 two-thirds of ADB sovereign operations (by value) was concentrated in three sectors: transport (33% of portfolio), energy (24%), and water and sanitation (11%). Over 2013–2015, operations are forecast to concentrate further in these

³⁷ ADB. 2004. *Review of the Asian Development Bank's Poverty Reduction Strategy*. Manila.

³⁸ IED. 2012. *Special Evaluation Study: Knowledge Products and Services, Building a Stronger Knowledge Institution*. Manila: ADB.

sectors: transport (35%), energy (20%), and water and sanitation (19%) (footnote 36). An important question to be explored is how, and to what effect, ADB has helped to enhance governance in these priority sectors.

6. Other Governance Work

36. ADB also focuses attention on strengthening governance and anticorruption through partnerships with other development organizations, such as through the OECD and its Anticorruption Initiative for Asia and the Pacific, civil society groups, regional bodies, and academic institutions. Regional cooperation and integration is a core operational area under Strategy 2020, and part of ADB's regional work supports governance issues and initiatives.³⁹ The TES will look into partnerships and trust funds related to governance, including operations financed through the Governance Cooperation Fund. In the area of knowledge, ADB has expanded its output of knowledge products and services in recent years, including a growing body and scope of governance and PSM-related publication, which the TES will also review.

F. The Thematic Evaluation Study

1. Purpose and Rationale

37. As the development bank for a dynamic, fast growing, but increasingly vulnerable region, ADB occupies a unique and important position. Increasingly, it is looked upon by its stakeholders to play a role in supporting good governance as a means to raising development effectiveness, especially where weak governance and corruption pervade. Its evolving governance agenda manifests ADB's recognition of this role. What can ADB learn from its own experience and what lessons have emerged from the wider global experience? How can ADB draw on this knowledge to more effectively support DMCs in addressing governance challenges? The TES will present a learning opportunity by addressing these and other important questions.

38. ADB's major development partners endorse efforts to raise the quality of governance in DMCs, in particular in ADF member countries. Reiterating this support, in 2012 ADF donors committed ADB to deepening its engagement with DMCs on governance reforms, while also pursuing new areas to improve governance outcomes (footnote 2). In line with this, donors requested an independent evaluation of ADB governance operations that will feed into the mid-term review of the ADF XI in 2014 and inform future operations.

2. Objective and Scope

39. The objective is to examine ADB support for enhancing governance through its public sector operations and provide guidance to strengthen the effectiveness of this support in the future.

40. The three main interests that ADB's governance agenda has evolved to serve, as outlined in section D1, provide the organizing framework for the TES. These three interests are to: (i) support DMC efforts to strengthen governance at overall and sector levels, (ii) manage risks to and safeguard ADB-financed operations (as emphasized by GACAP II), and (iii) strengthen internal institutional integrity. As the objective of the TES is to evaluate ADB's support for enhancing governance through its public sector operations, the study will focus on

³⁹ For example, ADB provides regional technical assistance (RETA) to strengthen public audit capacity in its Pacific DMCs. Preliminary IED estimates show that ADB approved a total of 353 PSM RETAs over 2003–2011.

the first and second interests, with coverage of the third interest only where relevant to the analysis of the first two interests.

41. The major study components (as outlined in section F4 below) illustrate where the TES will focus its efforts. These include: an institutional review, which will cover GACAP II; a projects performance analysis, focused on PSM, governance, and capacity development operations over the 2003–2012 decade; and sector-level studies, covering two of ADB's top sectors. In addition to drawing lessons from ADB's operations and experience, the TES will synthesize emerging evidence and good practices from the rest of the world through a literature review. The TES will have both a retrospective (summative) and prospective (formative) orientation.

3. Key Evaluation Criteria and Questions

42. The TES will focus on the three criteria of relevance, responsiveness, and results in evaluating ADB's support for enhancing governance in its public sector operations. Under relevance, the evaluation will assess the extent to which ADB's governance agenda is aligned with its overall mission (internal relevance) and relevant to the needs and dynamics of the Asia-Pacific region (external relevance). For responsiveness, the evaluation will consider how ADB has responded, strategically and organizationally, to the governance agenda. For results, the evaluation will assess how effectively ADB is meeting the key principles and objectives of the governance agenda and what results its governance operations are yielding. Three overarching questions will guide the study:

- (i) How has ADB's governance agenda evolved, within its overarching strategy and against the needs of DMCs and 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?

43. To address these questions the TES will gather evidence through the following activities: desk review, institutional review, projects performance analysis, key informant interviews, country missions, sector-level studies, and literature review. These are described in more detail below.

4. TES Components and Activities

44. **Desk Review.** The TES will review documents and information pertaining to governance in ADB, including (but not limited to) institutional documents such as official ADB policies, strategies, plans and guidelines; self-reviews by ADB on governance-related matters and operations; governance-related knowledge products and publications; and IED evaluations with governance focus. ADB has undertaken periodic self-reviews covering various aspects of its governance policies and operations, the findings of which will be assessed, validated where necessary, and reflected in the TES. Reviews of particular interest include:

- (i) 2006 Review of Governance and Anticorruption Policies Implementation⁴⁰
- (ii) 2011 Triennial Governance Thematic Report 2008–2010⁴¹
- (iii) 2011 Capacity Development Thematic Report⁴²
- (iv) 2012 Stocktake of Governance and PSM Operations⁴³

⁴⁰ ADB. 2006. *Review of the Implementation of ADB's Governance and Anticorruption Policies: Findings and Recommendations*. Manila.

⁴¹ ADB. 2011. *Triennial Report: Governance Thematic Report 2008–2010*. Manila.

⁴² ADB. 2011. *Capacity Development Thematic Report*. Manila.

- (v) 2012 Governance in ADF Countries review⁴⁴
- (vi) 2013 Review of GACAP II implementation (ongoing)

45. Findings from recent and ongoing IED evaluations⁴⁵ with relevant coverage, including the ongoing thematic evaluation studies on Technical Assistance and Inclusive Growth, will be incorporated as appropriate. This component will be managed by the IED team leader with support from the Lead Governance and Development consultant (see list of consultants below).

46. **Institutional Review.** The study will pay attention to how policy, strategic, organizational, and other institutional issues and factors have both shaped and responded to ADB's governance agenda. The review will focus on how ADB has organized and managed itself, including its business processes, to support the governance agenda. The institutional review will include an assessment of the relevance and effectiveness of GACAP II, working off the self-review by ADB currently underway. Analysis of ADB country strategies will also be undertaken to identify how ADB planned and positioned itself to support governance in its operations. This component will be managed by the IED team leader with support from the Lead Governance and Development consultant.

47. **Projects Performance Analysis.** The study will analyze ADB's portfolio of governance operations (loans, grants, and TA) approved over the past decade (2003–2012) to clarify how ADB has supported governance in member countries and how these interventions have performed in terms of their relevance, effectiveness, efficiency, sustainability, and (to the extent possible) impact. The analysis will include a disaggregated review of trends and performance by subsector and subtheme. The projects performance analysis will pay special attention to interventions to support governance in the transport and water and sanitation sectors (as part of the sector-level studies on these sectors, see below). This component will be managed by an IED team member with support from the Portfolio Analyst consultant.

48. **Key Informant Interviews (internal and external).** The TES will draw on semi-structured interviews and consultations with a cross-section of informants within ADB, in DMCs, and in the broader Asia-Pacific region. Interviews will elicit a broad set of perspectives on the key evaluation questions. Within ADB, interviews will be held with management and staff from regional and other departments and units, as well as with Executive Directors. A facilitated forum with the Governance CoP is proposed, along with group discussions with the Transport and Water and Sanitation CoPs. Outside ADB, interviews will be held with regional and international experts on governance, ADB donor representatives,⁴⁶ representatives of other development organizations, and DMC-based informants, as part of the five country missions planned. Interviews in ADB will be managed by the IED team leader with support from other IED team members, the Lead Governance and Development consultant, and the Sector Governance and Development consultants. Interviews in DMCs and with other external informants will be managed by the respective mission members.

49. **Country Missions.** Evaluation missions to five DMCs will be fielded to gain a better appreciation of: (i) country perspectives on governance issues and challenges, and the role and performance of ADB in supporting governance; and (ii) how ADB operates on the ground, especially in supporting sector-level governance. Interviews in DMCs will target representatives from government, key sectors (transport and water), the private sector, civil society, academia,

⁴³ ADB. 2011. *Stocktake and Review of ADB's Governance and PSM Operations*. Manila.

⁴⁴ ADB. 2012. *Governance in ADF Countries*. Background review for ADF XI Replenishment Meeting 2012. Manila.

⁴⁵ These include special evaluation studies, country/sector assistance program evaluations, and project evaluations. The TES will draw directly on governance assessments in recent IED Country Assistance Program Evaluations.

⁴⁶ Including donor representatives to the ADF and Governance Cooperation Fund.

other development partners, and ADB resident missions. Missions will be fielded to DMCs in which ADB has been generally active in supporting PSM, transport and water and sanitation operations (either through projects/programs or technical assistance). One DMC from each ADB subregion will be selected, while ensuring a mixed representation of country sizes, levels of development, and governance contexts. Based on these criteria, the proposed DMCs are: Pakistan, Bangladesh, People's Republic of China, Cambodia, and Papua New Guinea. Time and resources permitting, a sixth DMC may be added.

50. The IED team leader will undertake the missions to Papua New Guinea (tentatively planned for early May 2013) and Cambodia (tentatively planned for June 2013). The Lead Governance and Development Expert will undertake the mission to Pakistan (tentatively planned for May-June 2013). IED team members will undertake the missions to Bangladesh and People's Republic of China (both tentatively planned for May-June 2013).

51. **Sector-Level Studies.** Analysis of how ADB supports governance at the sector level will be undertaken, taking into consideration the broad range of institutional, organization, and operational arrangements and practices in place. In addition to a broad analysis of how (and how effectively) ADB supports enhancement of governance in key sectors, two focused case studies will be undertaken, covering two of the top three priority sectors: transport and water and sanitation.⁴⁷ Both the broader sector governance analysis and these two focused case studies will be informed by the desk/literature reviews, institutional analysis, key informant interviews (including group discussions with sector specialists and CoPs), and sector-focused project performance analysis. The focused sector studies will take an integrated view of how ADB supports the enhancement of sector governance, both in its upstream operations (i.e., how ADB is internally organized to plan for and support key sectors) and in downstream operations (i.e. how resident missions work with DMCs to strengthen sector governance and how DMC officials perceive ADB's role and performance in this regard). A separate portfolio review (part of the Project Performance Analysis component) will assess how priority sector projects with governance components or features have performed. This component will be led by an IED team member with support from the Sector Governance and Development consultants.

52. **Literature Review.** The development and academic fields' decades-long focus on governance has yielded important knowledge on what works, what doesn't work, and what remains unknown and unproven in terms of interventions to enhance governance. The TES will undertake a literature review to synthesize the evidence, debates, and good practices for supporting governance and PSM in developing countries. Some key issues to be addressed will be: (i) how governance is measured and assessed (including by major development institutions); (ii) what effects good governance has on growth and equity; (iii) what are the costs and other effects of corruption; and (iv) how governance can be enhanced, taking into consideration supply and demand side approaches, incentives, and the role of technology. The review will also identify major existing knowledge gaps and how they might be filled, including by institutions like ADB. This component will be led by the Governance and PSM Research consultant with support and feedback from the IED team.

G. Schedule and Resource Requirements

53. The Headquarters-based team has commenced initial deskwork and other preparations, including preliminary discussions and coordination with relevant ADB departments.

⁴⁷ In addition to the broad sector governance analysis, the two focused case studies will add depth and perspective to the evaluation. Transport and Water and Sanitation were chosen as they should provide different perspectives on governance issues and challenges. Only two detailed case studies are planned due to time and resource constraints. However, if time and resources permit, a third case study on Energy may be added.

54. **Proposed schedule.** The tentative target dates for major milestones are:

Approval of the evaluation approach paper	IV April 2013
Main study activities undertaken	IV April–IV July 2013
Initial draft TES prepared	I September 2013
Internal (IED) and external peer reviews	II September 2013
Interdepartmental circulation	II October 2013
Director General level meeting	IV November 2013
Approval of final report by Director General	II December 2013
Circulation of final report	IV December 2013
Development Effectiveness Committee meeting	Quarter 1 2014

55. **Budget.** The TES will cost an estimated US\$300,000.

56. **Consultants.** A total of five international, one national, and five domestic consultants will be required.

- (i) Lead Governance and Development Expert (one international consultant)
- (ii) Sector Governance and Development Experts (two international consultants)
- (iii) Governance and PSM Research Expert (one international consultant)
- (iv) External Peer Reviewer (one international consultant)
- (v) Portfolio Analyst (one national consultant, headquarters-based)
- (vi) Local DMC consultants (five DMC-based consultants)

57. **IED Peer Reviewer.** In addition to the external peer reviewer, two internal peer reviewers from IED will provide intermittent assistance.

58. **Knowledge Dissemination Plan.** This EAP and the final TES report will be made available to the public upon Director General, IED approval. A summary of key findings and lessons in the form of Learning Curves will be prepared, along with other possible knowledge products and learning events.

Attachments: Appendixes

- 1: Timeline of Governance Milestones
- 2: Second Governance and Anticorruption Action Plan (GACAP II) Key Result Areas and Outcomes
- 3: Evolution of Asian Development Bank Sector and Theme Classifications

TIMELINE OF GOVERNANCE MILESTONES

1. Reflecting growing global recognition of the importance of policies and institutions for development results, in 1994 the Asian Development Bank (ADB) President issued interim staff instructions on governance. This was followed in 1995 by the adoption of the Governance Policy, which stressed flexible and country-specific approaches and provided guidance on how to operationalize governance. The policy called for (among other things): (i) scaling up internal governance capacity, (ii) mainstreaming the four elements of good governance into operations, (iii) incorporating governance issues into country assistance plans, (iv) more detailed analysis of governance aspects in economic and sector work, (v) coverage of governance aspects in policy dialogue, and (vi) expanding cooperation with nongovernment organizations.

2. ADB adopted its Anticorruption Policy,¹ committing 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 1999 establishment of the Anticorruption Unit of the Office of the Auditor General. Also in 1999, ADB and the Organization for Economic Cooperation and Development (OECD) established the ADB-OECD Anti-Corruption Initiative.

3. In 1999, ADB declared poverty reduction as its overarching objective with the adoption of the Poverty Reduction Strategy.² The strategy proposed a framework for poverty reduction with three elements: (i) pro-poor sustainable economic growth, (ii) social development, and (iii) good governance. It argued that supporting these elements will yield socially inclusive development and called for this framework to be the driving force for ADB's Long-term Strategy.

4. The first Governance Action Plan (GAP) 2000–2004,³ adopted in 2000, committed ADB to playing a lead role in promoting good governance in the region and enhancing governance in developing member countries (DMCs). Where DMC commitment to improving governance was weak, GAP proposed that ADB foster it through dialogue, advocacy, and support to sympathetic stakeholders. GAP was instrumental in the establishment of the Governance Cooperation Fund and the adoption of the performance-based allocation system for ADF resources in 2001, which includes assessment of governance related policies and institutions in DMCs via the annual Country Performance Assessment.⁴

5. Adopted in 2001, the Long-term Strategic Framework 2001–2015⁵ (LTSF) identified three core strategic areas of intervention, consonant with the Poverty Reduction Strategy, including good governance for effective policies and institutions. For governance, the LTSF committed ADB to working closer with DMCs to strengthen core government functions and public sector management (PSM), build capacity, support decentralization, and strengthen stakeholder participation. That same year, ADB adopted a new framework for the preparation of country governance assessments to inform country strategies and operations.⁶

6. The first Medium-Term Strategy 2001–2005 (MTS) of the LTSF, adopted in 2001, considered ineffective institutions and policies as the biggest constraints to growth; and

¹ ADB. 1998. *ADB Anticorruption Policy*. Manila.

² ADB. 1999. *Fighting Poverty in the Asia and Pacific: The Poverty Reduction Strategy of ADB*. Manila.

³ ADB. 2000. *Promoting Good Governance: ADB's Medium-term Agenda and Action Plan*. Manila.

⁴ ADB Country Performance Assessment page: <http://www.adb.org/site/adf/country-performance-assessment>.

⁵ ADB. 2001. *Moving the Poverty Reduction Agenda Forward: The Long-Term Strategic Framework of ADB*. Manila.

⁶ ADB. 2001. *A Framework for the Preparation of Country Governance Assessments*. Manila.

committed ADB to place strengthening of institutions and policies at the center of its MTS to improve the impact of interventions and support sustainable and broad-based growth.

7. Under the 2002 reorganization, the Governance and Regional Cooperation Division (now the Public Management, Governance, and Participation Division) of the Regional and Sustainable Development Department was established. In 2004, ADB introduced a new project classification system with Governance and Capacity Development included as two new themes.

8. The second Medium-Term Strategy 2006–2008 (MTS II) of the LTSF, adopted in 2006, adopted five strategic priorities, including improving governance and preventing corruption. MTS II specifically called for (i) support for public financial management, (ii) reforms and capacity building in DMCs for sectors and/or subsectors where ADB is active, (iii) harmonization with other multilateral development banks on fighting corruption, and (iv) finalization and implementation of GACAP II.

9. The second Governance, Capacity, and Anticorruption Action Plan (GACAP II),⁷ adopted in 2006, called for more systematic approaches to implementing the Governance and Anticorruption policies through risk assessments and management plans. As GACAP II will be a central focus of the TES, it is described in more detail in section D4 and in Appendix 1. In 2006, ADB and other development finance institutions signed a Joint Statement on Corruption that standardized definitions of corruption, improved consistency of investigations, and strengthened information exchange. This was followed by the joint adoption of the Uniform Framework for Preventing and Combating Fraud and Corruption.

10. In 2007, the Public Management and Governance Community of Practice (CoP) was established. The CoP now plays a number of roles and functions, including peer review and quality control, organizing learning events, and networking and strengthening partnerships. Also in 2007 ADB adopted its first Capacity Development Action Plan, recognizing that capacity constraints pose major obstacles to sustainable development, hamper service delivery to the poor, and impact negatively on the investment climate and the effectiveness of development lending.⁸ The plan was updated in 2011.⁹

11. Strategy 2020, superseding the first LTSF, focused operations on a narrower set of core areas. Governance is not assigned as a core operational area, but is considered a driver of change, to be emphasized in all operations. Thus, ADB's results framework did not set a concrete target for Governance or PSM operations, unlike for other themes such as private sector development, environment, and regional cooperation. ADB issued guidelines for GACAP II implementation, including the requirement for country partnership strategies to be informed by risk assessments and risk management plans for national and/or subnational government systems in which ADB is engaged, and priority sectors for ADB operations.

12. A renewed project classification system introduced PSM as a sector classification (replacing the earlier but similar Law, Economic Management and Public Policy), and the independent Office of Anticorruption and Integrity was established, replacing the Anticorruption Unit. In 2010, ADB's streamlined business processes required that risk assessment and risk management plans (RAMPs) be included in ADB loan proposals.

⁷ ADB. 2006. *Second Governance, Capacity, and Anticorruption Action Plan*. Manila.

⁸ ADB. 2007. *Integrating Capacity Development into Country Programs and Operations: Medium-Term Framework and Action Plan*. Manila.

⁹ ADB. 2011. *Revised Capacity Development Action Plan*. Manila.

SECOND GOVERNANCE AND ANTICORRUPTION ACTION PLAN (GACAP II) KEY RESULT AREAS AND OUTCOMES

Key Result Areas	Outcomes
KRA1: Improve Identification and Management of Governance, Institutional, and Corruption Risks in Country Strategies and Programs, Midterm Reviews of CSPs, and Annual Country Portfolio Review Missions	<ul style="list-style-type: none"> (i) Priorities and focus of ADB's CSPs informed by assessment of risks for operationally relevant national and subnational governments and sectors. (ii) ADB delivers its governance, institutional, and anticorruption programs at the country-level in partnership with other donors; uses harmonized procedures and processes where relevant; and increases alignment with DMCs' priorities, systems, and procedures. (iii) CPRMs routinely report on status of country systems and risk management plans. Review of the risk management plans during midterm reviews of the CSP should determine the need for changes required in overall focus, priorities, resource allocation, and sequencing.
KRA2: Strengthen Governance and Anticorruption Components in Program and Project Design	<ul style="list-style-type: none"> (i) Project concept notes provide preliminary assessment and classification of financial management, procurement, and corruption risks. (ii) Program and project design incorporates findings of risk assessments and project documentation clearly identifies risks and risk management and mitigation measures. (iii) Project administration requirements—determined during project design and appraisal on the basis of the risk assessment undertaken for financial management, procurement, and corruption—must be met.
KRA3: Strengthen Program and Project Administration and Portfolio Management	<ul style="list-style-type: none"> (i) Strengthened program and project administration implemented through effective management of program and project risks and performance reporting. (ii) Strengthened management oversight of project administration is observed. (iii) Quality and effectiveness of project supervision is reviewed annually. (iv) Supervision missions with other donors are coordinated.
KRA4: Improve Organizational Structure, Human Resources and Access to Expertise	<ul style="list-style-type: none"> (i) Effective oversight to preserve and enhance ADB's reputation as a responsible regional development bank with zero tolerance for corruption in ADB programs and projects. (ii) Strong leadership exercised and characterized by providing clear directions, continuous monitoring, and providing the right organizational incentives for effective implementation of the governance and anticorruption policies. (iii) Management ensures an adequately resourced organization for managing risks in programs/projects. (iv) The role of regional departments and resident missions in governance and anticorruption is clearly defined and resourced through a flexible strategy for the institutionalization phase of GACAP II. (v) Staff members gain professional recognition and promotions based on their skills and achievements in governance, anticorruption, quality of project supervision, and success in project implementation management—on an equal footing with loan processing. (vi) Staff skills in public financial management, procurement, corruption prevention, and project supervision are built and retained. (vii) Management and staff are clear on their governance and anticorruption responsibilities (viii) Staff has access to up-to-date and relevant information on governance, institutional arrangements, and corruption in DMCs.

ADB = Asian Development Bank, CPRM = country portfolio review mission, CSP = country partnership and strategy, DMC = developing member country, GACAP II = Second Governance and Anticorruption Action Plan, KRA = key results area.

Source: GACAP II.

EVOLUTION OF ASIAN DEVELOPMENT BANK SECTOR AND THEME CLASSIFICATIONS

Prior to 2004 Revised Classifications	2004 Revised Classifications	2009 Revised Classifications
<p><u>Sectors</u> Agriculture and Natural Resources Energy Finance Industry Transport and Communications Social Infrastructure Others Multisector</p>	<p><u>Sectors</u> Agriculture and Natural Resources Energy Finance Industry and Trade Transport and Communications Education Health, Nutrition and Social Protection Water Supply, Sanitation, Waste Mgt. Law, Economic Mgt., Public Policy Multisector</p>	<p><u>Sectors</u> Agriculture and Natural Resources Energy Finance Industry and Trade Transport and ICT Education Health and Social Protection Water Supply, Other Muni. Infra/Services Public Sector Management Multisector</p>
<p><u>Themes</u> Poverty Reduction Economic Growth Human Development Gender and Development Environmental Protection Good Governance Regional Cooperation Private Sector Development Multitheme Others</p>	<p><u>Themes</u> Sustainable Economic Growth Inclusive Social Development Gender and Development Environmental Sustainability Governance Regional Cooperation Private Sector Development Capacity Development</p>	<p><u>Themes</u> Economic Growth Social Development Gender Equity Environmental Sustainability Governance Regional Cooperation and Integration Private Sector Development Capacity Development</p>

Sources: Asian Development Bank Staff Instructions on Revised Project Classification System, as issued on 7 December 2004 and 17 December 2008.