

MANAGEMENT RESPONSE TO THEMATIC EVALUATION STUDY ON ADB SUPPORT FOR ENHANCING GOVERNANCE IN PUBLIC SECTOR OPERATIONS

On 18 September 2014, the Director General, Independent Evaluation Department, received the following response from the Managing Director General on behalf of Management:

I. General Comments

1. The Thematic Evaluation Study (TES) on ADB Support for Enhancing Governance in Public Sector Operations shows that ADB's Public Sector Management (PSM) and governance work, while challenging, makes a worthwhile contribution to development. ADB has been, and will remain, fully committed to strengthening governance in all its developing member countries.

2. We agree with the finding that ADB has been responsive in terms of its institutional and operational support for governance. On the other hand, the study rates our work across this theme as only "relevant". We think this rating fails to capture the links we helped to create between good governance and inclusive, sustainable growth. The TES also argues that the number of core governance specialists is too low. This may be true for most disciplines. However, quite a few transactions (programs, projects and TAs) in the field of public management and governance have often been led by staff that have the relevant skills in the field, but whose titles do not necessarily include 'public management'.

3. We agree that successful PSM operations have been transformative, with system-wide impacts, despite their high risk - high return nature. We believe that important good practices have been built on the back of PSM and governance interventions, many reflecting lessons from project loans and technical assistance mandates. In India and beyond, first generation state level public resource management programs with a focus on fiscal consolidation and institutional development evolved into second generation development finance programs with a real focus on service delivery and performance based budget allocations. These transactions have been evaluated as largely successful. In addition, strengthening governance through e-solutions is fast becoming another promising new area, one showing increasing positive results in terms of institutional development, including improved services from Government to Government, Government to Business, and Government to Citizens. Critical success factors here include linking investments around people, processes and technology. Best practices in these areas also have been widely disseminated through various publications and seminars aimed at knowledge sharing.

4. Although the TES acknowledges that Strategy 2020 reaffirmed the importance of governance as one of the drivers of change, the report – we believe quite unfairly – also shows mixed messages on the impact of Strategy 2020 on governance and PSM operations. In various sections, the TES suggests that the governance agenda in ADB has been relevant in guiding governance and PSM operations, whereas in others it suggests that governance has been given less prominence than other corporate priorities. Governance has always

been treated as crucial crosscutting theme. It has not ranked lower than other drivers of change, and this will not change in the future.

5. The TES recommends improved monitoring of the impact of ADB's PSM operations on governance. We concur that it is important to monitor results to gauge effectiveness and inform future interventions. RSDD and the Governance and Public Management CoP (the CoP) will explore practical steps to strengthen such monitoring in consideration of emerging global best practices.

II. Comments on Key Recommendations

6. **Recommendation (1): Clarify direction and strengthen guidance on PSM operations at the corporate level.** The TES recommends development of a concise directional document to better guide PSM operations. We do not believe that such a document would help given the complex and multi-dimensional character of the sector, which requires diversity, flexibility and cross-fertilization in terms of operational approaches. Instead, we propose that RSDD and the CoP review existing guidelines and strategy documents to determine if there are any significant gaps that warrant clarification. Further, recognizing the transformative impact of PSM operations, RSDD and the CoP will further strengthen the peer review mechanism, and intensify efforts to identify and disseminate lessons distilled from operations. RSDD and the CoP will also carry out a training and capacity development program for staff working on PSM operations.

7. **Recommendation (2): Improve governance and capacity-development analytics in country and sector programs.** We agree. This is also consistent with the recently approved revisions to ADB's procurement governance framework that shifts fiduciary risk management from controlling inputs to supporting outcomes. Under the 10-point procurement reform plan, diagnostic methodologies and tools have been developed to assess country and sector procurement risks.

8. Country-level analysis of public management systems will continue to set the context for sector and project-level interventions. Regional departments are responsible for preparing country and sector governance risk assessment and management plans (RAMPs) and for assessing institutional and organizational capacity at country and sector level as part of the preparation of country partnership strategies and operations. Assessments from other development agencies can also be used to inform ADB's own country RAMPs. Sector RAMPs are undertaken where there is a sector program in a particular country's financing pipeline. RSDD is reviewing RAMPs and will provide technical and financial assistance to support regional departments in the preparation of selected RAMPs and capacity assessments. Staff guidance for the implementation of GACAP II review recommendations will include measures to strengthen quality of RAMPs. Currently, RSDD, under the guidance of CoP, is reviewing ADB's approach to capacity development, as highlighted in the Strategy 2020 MTR action plan. The review will result in a capacity development operational plan for 2015–2020. This will provide practical guidance on how ADB can improve its effectiveness in capacity development operations. This plan will also focus on the type of analytical work needed to improve capacity development.

9. **Recommendation (3): Strengthen GACAP II implementation at project level.** We agree. We note the need for greater quality control and oversight of RAMPs. A lot of efforts are being made in this direction. The quality of project-level RAMPs prepared by regional departments is being reviewed by OSFMD. Methodologies and tools for assessing project level procurement risks have been issued by OSFMD, and the financial management assessment methodology is being updated. OSFMD is also reviewing core project documents (including procurement plans, and financial management arrangement), and providing input to project administration manuals. In addition, OAI is currently preparing methodologies and tools for assessing project level integrity and corruption risks.

10. In order to implement GACAP II review recommendations, RSDD is updating staff guidance to assist regional departments with the preparation of country, sector RAMPs and for developing risk mitigation measures that flow from RAMP findings. The updated guidance will contribute to ensuring that project RAMPs (i) cascade from the country partnership strategies, (ii) are based on robust and complete analyses, (iii) identify and address key risks for ADB's operations, and (iv) focus not only on delivery, but also sustainability of project/program results. RSDD and the CoP are also exploring ways to strengthen staff capacity for implementing GACAP II as well as for improving multi-stakeholder engagement processes, including increased citizenry engagement at project level.

11. In addition, OAI plans to refine the scope of the Project Procurement-Related Reviews (PPRRs) to assess RAMPs at the project level through this vehicle as recommended by the TES. The number of PPRRs will also increase to the extent possible. PPRR findings on the adequacy of the RAMPs of ongoing projects will provide an opportunity to introduce improvements during project implementation. We find merit in the recommendation that OAI should monitor and follow up regional departments' implementation of PPRR actions, and will explore possibilities to expand tasks in this area under the consideration of resource implications for such additional work.