



Final Report

July 2006

**SECOND GOVERNANCE AND
ANTICORRUPTION ACTION PLAN
(GACAP II)**

Asian Development Bank

ABBREVIATIONS¹

ADB	–	Asian Development Bank
BPMSD	–	Budget, Personnel and Management Systems Department
COSO	–	Central Operations Services Office
CPRM	–	country portfolio review mission
CSP	–	country strategy and program
CTL	–	Controller's Department
CWRD	–	Central and West Asia Regional Department
DAC	–	Development Assistance Committee
DER	–	Department of External Relations
DMC	–	developing member country
EARD	–	East Asia Department
ECRD	–	East and Central Asia Department
GACAP II	–	Second Governance and Anticorruption Action Plan
ICRA		institutional corruption risk assessment
KRA	–	key result area
MKRD	–	Mekong Department
MTR	–	midterm review
MTS II	–	Second Medium-Term Strategy
NIS	–	national integrity system
OAG	–	Office of the Auditor General
OAS	–	Office of Administrative Services
OECD	–	Organization for Economic Co-operation and Development
OGC	–	Office of the General Counsel
OED	–	Operations Evaluation Department
PARD	–	Pacific Department
PFM	–	public financial management
PSOD	–	Private Sector Operations Department
RRP	–	Report and Recommendation of the President
RSCG	–	Capacity Development and Governance Division
RSDD	–	Regional and Sustainable Development Department
SARD	–	South Asia Department
SERD	–	Southeast Asia Department
SPD	–	Strategy and Policy Department
TA	–	technical assistance

NOTE

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

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¹ ECRD and MKRD are acronyms before the realignment of regional departments on 1 May 2006.

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I. INTRODUCTION

A. Background

1. In October 2005, the management committee of the Asian Development Bank (ADB) endorsed the findings and conclusions of the **Review of the Implementation of the Governance and Anticorruption Policies** and directed the review team to (i) prepare a condensed, reader-friendly version of the report; (ii) share the review findings and secure feedback from external stakeholders; and (iii) prepare an action plan to address the conclusions of the review. It assigned responsibility for coordination and oversight of the preparation of the action plan to the Governance Community of Practice. The review team was requested to come up with a realistic set of priority actions, paying particular attention to the resource requirements for implementation.

2. In December 2005, the review report was shared with stakeholders from developing member countries (DMCs) who had participated in the review process. In accordance with the ADB's *Public Communications Policy (2005)*, the full and condensed versions of the draft report were posted for public consultation on the ADB website. On 3 February 2006, the review findings were discussed with ADB Board members in an informal seminar.

3. This report covers the Second Governance and Anticorruption Action Plan (GACAP II). The first action plan covered the period 2000–2004.² In addition, the report: (i) provides a summary of the review findings, (ii) outlines the process used for developing GACAP II, (iii) highlights important messages from the contributors that influenced the shape and approach of GACAP II, and (iv) identifies key requirements, including the direction set by the recently approved Second Medium-Term Strategy (MTS II).

B. GACAP II Purpose

4. 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. Implementation of GACAP II will enable DMCs in partnership with ADB to design and deliver better quality projects and programs. GACAP II is based on the findings and conclusions of the review and guided by the priorities and directions set by MTS II. It specifically draws on those components of the MTS II operational model concerned with: (i) being selective and focused and building a critical mass of expertise in a few selected sectors; (ii) strategic and efficient use of technical assistance resources; and (iii) enhanced emphasis on project implementation and portfolio performance. The key results areas and accompanying actions for GACAP II is in appendix 1.

5. GACAP II provides the management and coordination arrangements for implementation, the accountability and responsibility matrix, resource requirements, and an approach for addressing the resources gap. Implementation will start during the execution of MTS II (2006–2008) and continue beyond 2008. Regular reviews will assess GACAP II implementation, resource requirements, and priorities.

6. GACAP II specifies the minimum set of actions necessary to fulfill the mandatory requirements of ADB's existing policy framework. This does not preclude further governance and anticorruption assistance beyond the minimum set of actions, where such assistance is

² ADB. 2000. *Promoting Good Governance: ADB's Medium Term Action Plan*. Manila.

requested by DMCs, falls within the MTS II priority sectors, and is reflected in the country strategy and program (CSP).

II. THE CONTEXT AND PROCESS FOR DEVELOPING GACAP II

A. Review Findings³

7. Overall, ADB has been successful in raising the profile of governance in the region. Significant investment has been made in strengthening procurement and undertaking investigations relating to allegations of corruption. However, full implementation of the first governance action plan had been hampered by the ambitious nature of the plan, the tenuous ownership in ADB, and a lack of resources.

8. Because much of ADB's lending is directed toward infrastructure sectors—in particular toward reforming and building the capacity of infrastructure sectors' institutions—the review highlighted the need for a more systematic approach to implementing the governance and anticorruption policies through sector assessments. Past institutional and governance efforts have tended to be too short term and spread across too many sectors. Too few resources have been allocated toward preventing corruption and building systems and capacity in public financial management (PFM) and procurement.⁴ Project supervision has often been compromised because of organizational incentives to direct resources toward preparation of new loans. As a result, ADB has made limited progress in delivering the mandatory and aspirational elements of the policies.⁵

9. The mandatory elements of the governance and anticorruption policies are rooted in ADB's sovereign document, the Charter.⁶ To fulfill its Charter obligations, ADB is expected to conduct due diligence (including financial) of projects and programs. ADB is also expected to design and supervise projects with an eye toward minimizing the impacts of corruption, and to make a concerted effort to detect and act on proven malfeasance.

10. The governance and anticorruption policies also include aspirational elements for working with DMCs: improving governance systems and processes, developing institutional capacity, and combating corruption. These aspirational elements are reflected in ADB's CSPs and ongoing policy dialogue.

11. The review found that the mandatory requirement for sector and governance assessments introduced in 2002 for developing CSPs had a minimal impact on strengthening ADB's upstream activities. In particular, it largely failed to improve the quality-at-entry decisions during the preparation of CSPs. Stand-alone assessments were less useful in providing focus, informing priorities, and assessing risks. Country governance assessments were too broad and

³ The detailed and condensed review reports are available on <http://www.adb.org/Governance/Review/default.asp>.

⁴ This applies to national and subnational levels of government (sometimes referred to as core or crosscutting governance themes) and sectors.

⁵ As indicated in the policies, operations manual, project administration instructions, and first Governance Action Plan.

⁶ ADB. 1966. *Agreement Establishing the Asian Development Bank (the Charter)*. Manila. Article 14 of the Charter specifically requires ADB to pay due regard to the ability of the borrower to meet its obligations under the loan agreement (Article 14[v]) and to take the necessary measures to ensure that loan proceeds are used for their intended purpose, with due attention to considerations of economy and efficiency (Article 14 [ix]). It also requires ADB to be guided by sound banking principals in its operations (Article 14[xiv]).

often included areas where ADB had little influence or capability to assist. Implementation of new business processes introduced in 2002 would have benefited from staff guidelines and training on sector diagnostics, assessments, and road maps. In particular, guidance on institutional development and corruption-prevention measures would have helped build sector capability.⁷

12. The review found that a program-based approach⁸ to sector investment provides more opportunities and better information for designing and implementing effective checks and balances in projects and programs. The review concluded that wider adoption of the program-based approach can only be achieved if ADB (i) focuses on a few priority sectors; (ii) builds a critical mass of expertise in sector governance, institutional development and corruption prevention; (iii) has effective tools and guidance; and (iv) adopts a long-term, flexible approach to supporting DMCs in the relevant sectors.

13. The review identified the following critical areas for action: (i) filling the significant gaps in compliance with the governance and anticorruption policies and relevant operations manuals and project administration instructions; (ii) building stronger partnerships with multilateral and bilateral development institutions, particularly in accessing country diagnostics and strengthening countries' procurement systems and PFM; (iii) more effectively applying institutional knowledge and country and sector diagnostics to determine focus and priorities; and (iv) instituting more flexible, longer-term institutional development arrangements to address systemic weaknesses in sector governance and corruption. The review also recommended a series of interrelated institutional actions. These focused on building leadership, encouraging management and staff to focus more on project supervision, improving accountability, delegating responsibilities for various functions, improving in-house skills, and increasing access to experts.

B. MTS II and GACAP II

14. MTS II recognizes that improving governance and preventing corruption are core strategic priorities⁹ for ADB and further specifies six core operational sectors on which ADB should concentrate.¹⁰ MTS II also calls for renewed emphasis on project implementation and portfolio performance, the application of quality-at-entry mechanisms, and project-readiness criteria. It highlights the importance of partnerships with other institutions to leverage the poverty-reducing impact of its own resources and meet the diverse needs of DMCs in fields outside ADB's core operational sectors.

15. MTS II emphasizes that ADB's priorities need to reflect the international consensus on development assistance, particularly the Paris Declaration on Aid Effectiveness¹¹ and the United Nations Millennium+5 Summit in 2005. ADB and its bilateral and multilateral development partners are committed to aligning assistance more closely with DMC development priorities

⁷ Definitions for sector assessments, sector road maps, analytical work, and other related definitions are in Appendix 2.

⁸ Program-based approach is a way of engaging in development cooperation based on coordinated support for locally owned development programs. See Appendix 2 for the definition.

⁹ The others are (i) catalyzing investment; (ii) strengthening inclusiveness; (iii) promoting regional cooperation and integration; (iv) and managing the environment.

¹⁰ The core operational sectors referred to in MTS II are road transport, energy, urban infrastructure, rural infrastructure, education, and financial sectors.

¹¹ *Paris Declaration on Aid Effectiveness. Ownership, Harmonization, Alignment, Results and Mutual Accountability.* High Level Forum. Paris, 28 February-2 March 2005.

and country systems,¹² harmonizing their assistance programs, and placing more emphasis on results.

C. Process for Developing GACAP II

15. The GACAP II was developed through a participatory process involving representatives of 14 departments.¹³ The Governance Community of Practice directed the process, with the Community of Practice chair leading meetings with focal persons. The process also involved consultations with heads of department, sector directors, and some resident missions. The strategic direction of GACAP II was shared with the President before the more detailed work on resource estimates and accountability frameworks were developed. The process started in late February 2006 and included a 2-day retreat where 34 participants developed the first version of the action plan. Appendix 3 provides information on key events, the composition of the development team, and a list of participants who contributed to the development of the action plan.¹⁴

16. ADB has engaged with the World Bank and the Utstein Partnership¹⁵ on the risk management approach to assessing governance and corruption, particularly for ADB's core sectors in MTS II. Based on the latest information, the World Bank is considering an approach similar to that laid out in GACAP II, namely focusing on governance, institutional development and corruption risks in priority sectors. Both the World Bank and the Utstein Partnership have indicated an interest in working with ADB on advancing the risk management approach.

D. Factors Influencing the Design of GACAP II

17. Poor governance, weak institutions, and systemic corruption impose significant risks on public sector service delivery and private sector job creation. Reducing corruption and developing capable institutions is a means to improving development outcomes and building effective states. Despite operational constraints, DMC governments have made concerted efforts to address these challenges, and there are many examples of effective measures taken to mitigate these risks in the region. However, the region continues to face significant risks associated with corruption and vulnerable institutions. The transition from centrally controlled to market-led economies changes the rules of the game and creates new forms of corruption (sometimes categorized as a form of economic crime). DMC governments are expected to rapidly develop institutions to make markets work for poor and disadvantaged people. Speedy implementation of changes often increases institutional risks and the level of corruption. Several

¹² Country systems and procedures typically include national arrangements and procedures for public financial management, accounting, auditing, procurement, results frameworks, and monitoring (Paris Declaration on Aid Effectiveness).

¹³ Budget, Personnel and Management Systems Department (BPMSD), Central Operations Services Office (COSO), Controller's Department (CTL), Department of External Relations (DER), East and Central Asia Department (ECD), Mekong Department (MKRD), Office of the Auditor General (OAG), Office of Administrative Services (OAS), Office of the General Counsel (OGC), Pacific Department (PARD), Regional and Sustainable Development Department (RSDD), South Asia Department (SARD), Southeast Asia Department (SERD), and Strategy and Policy Department (SPD).

¹⁴ ECD, MKRD, SARD, and SERD were realigned on 1 May 2006. The new regional departments are East Asia Department (EARD), Central and West Asia Department (CWRD), SARD, and SERD.

¹⁵ The Utstein Group consists of the United Kingdom, Norway, Sweden, the Netherlands, Germany, and Canada; their international development ministers have formed a partnership to coordinate development assistance policies. The partners expressed their commitment to concerted action against the damaging effects of corruption on development and have a common resource center for knowledge products on corruption. They state their readiness to collaborate with governments, civil society and private sector organizations, and other multilateral and bilateral development agencies who share this commitment.

DMC governments have embarked upon specific programs to address these developmental challenges.

18. The retreat was a key event for setting the tone, direction, and focus of GACAP II. The participants validated many of the review findings and identified critical institutional changes required to improve implementation of the governance and anticorruption policies. Key goals that emerged from the event were (i) to change the incentive system to direct more resources and qualified staff toward supporting and supervising project implementation; (ii) to build in-house capacity with country-specific knowledge to handle the complex task of creating capable institutions in DMCs; and (iii) to strengthen resident missions and give them more responsibility for building and sustaining DMC partnerships.

19. The following key factors influenced the shape and direction of GACAP II.

- (i) ADB's quality and reputation rests heavily on staff compliance with the operations manual and project administration instructions.
- (ii) Visible commitment and action by ADB management are essential to addressing noncompliance.
- (iii) Developing effective measures for preventing corruption in ADB-funded programs and projects requires sound upstream analysis and assessments.
- (iv) Many sector specialists lack the skills and experience to deal with the complexities of PFM, procurement, and corruption in their projects.
- (v) Technical solutions not accompanied by organizational improvements will not achieve maximum development impact.
- (vi) It is essential for ADB to work in partnership with donors particularly in preparing for and aligning with country systems.
- (vii) GACAP II must utilize the existing human resource base in ADB.
- (viii) The work undertaken by the capacity development working group on the development of a medium term framework and action plan for integrating capacity development into country programs and operations.¹⁶
- (ix) By reassigning staff and synchronizing tasks with MTS II priorities, resources may be freed up for delivery of GACAP II.

III. THE SECOND GOVERNANCE AND ANTICORRUPTION ACTION PLAN (GACAP II)

A. GACAP II: Key Results Areas

20. GACAP II is set within the context of and directed by the priorities of MTS II. It is about improving the effectiveness of development assistance and contributing to poverty reduction in the region. GACAP II provides focus, proposes actions to strengthen project oversight and internal checks and balances, and outlines a framework for strengthening internal capacity and optimizing core competencies. It is consistent with the new business processes on CSP preparation, new procurement guidelines, and the draft medium-term framework for capacity development. It will facilitate further use of ADB's Innovations and Efficiency Initiative modalities in that it will result in strengthened sector analysis which in turn could increase the number of sectors supported through sector lending including products like the multi-tranche financing facility.

¹⁶ ADB. 2006. Draft Final Report. *Integrating Capacity Development into Country Programs and Operations. Proposed Medium-Term Framework and Action Plan.*

21. GACAP II is a results-oriented action plan that will promote and add value to ADB's managing for development results operational policy framework. The GACAP II actions have been framed around four key result areas (KRAs) as described in Table 1.

Table 1: GACAP II's Key Results Areas

KRA 1: Improve identification and management of governance, institutional, and corruption risks in country strategies and programs (CSPs), midterm reviews of CSPs, and annual country portfolio review missions
KRA 2: Strengthen governance and anticorruption components in project and project design
KRA 3: Strengthen program and project administration and portfolio management
KRA 4: Improve organizational structure, human resources, and access to expertise

B. KRAs 1 and 2: GACAP II Focus and Priorities

22. Three governance themes that are critical to development assistance effectiveness and poverty reduction—and relevant to a significant proportion of ADB's lending and TA projects—form the basis of GACAP II: (i) PFM, (ii) procurement, and (iii) combating corruption through preventive, enforcement, and investigative measures. The priority governance themes will apply to (i) national and subnational levels of government, including municipalities; and (ii) operationally relevant sectors in DMCs. Strengthening country PFM and procurement systems and preventing corruption were highlighted during the consultations with DMCs as priority areas for ADB support.¹⁷

23. KRAs 1 and 2 are designed to avoid stand-alone, ad hoc initiatives. ADB support will be based on DMC demand, the role of other donors, and ADB's comparative advantage. The KRA actions encourage ADB to anchor support to DMC-led, long-term, program-based approaches for national and subnational governments and to be an integral part of DMC sector development plans.

24. The focus and priorities will enable DMCs and ADB to acquire in-depth knowledge of oversight measures and systems of checks and balances in PFM and procurement to identify initiatives that can strengthen accountability, predictability, and transparency. KRAs 1 and 2 also emphasize the importance of investing in measures that will improve access to information on: (i) how services are planned and budgeted; and (ii) how funds are utilized for new investments and service delivery. GACAP II places emphasis on involving civil society organizations to provide oversight and promote links between DMC governments and citizens to strengthen participation and improve accountability.

C. KRAs 1 and 2: Partnerships, Harmonization and Alignment

25. In line with MTS II and based on the findings of the review, GACAP II commits ADB to work with multilateral and bilateral development partners: to increase the number of joint sector and thematic analyses; to harmonize diagnostic reviews; to adopt common performance

¹⁷ Summary of DMC consultation feedback is contained in Appendix 2 of the *Review of the Implementation of the Governance and Anticorruption Policies: Findings and Recommendations*, December 2005.

measurements for PFM and procurement; to develop joint PFM, procurement, and anticorruption programs; and to actively promote risk assessment and program-based approaches.

26. It is expected that future CSPs will report on the status of PFM and procurement systems. ADB technical assistance efforts will prioritize country-led PFM, procurement, and anticorruption programs.

27. GACAP II also reflects the commitment by multilateral development banks to standardize the definition of corruption and adopt a uniform framework for preventing and combating fraud and corruption.

D. KRA 3: Strengthening Project Administration and Supervision

28. The MTS II and the review highlight the need for increased emphasis on project implementation and portfolio performance. New procedures to improve loan and TA portfolio performance were introduced in the President's action plan.¹⁸ Managing finances, procurement, and corruption risks during implementation requires the right mix of skills and resources. It requires having the flexibility to introduce new risk mitigation measures should the situation demand it.

29. Drawing on the President's action plan, KRA 3 contains a number of actions to strengthen due diligence, oversight, and management of projects and programs. Management should be charged with ensuring that this happens and reflected inter alia in Operations Evaluation Department (OED) performance reviews and evaluations, and through more effective use of the sanction system for loan suspensions and cancellations. GACAP II requires all project documents to specify the project administration requirements, including the specialist resources and skills mix required for managing finances and procurement and mitigating corruption risks during implementation.

E. KRA 4: Management, Organization, and Human Resources

30. GACAP II actions respond to internal management and organization and staff issues identified in the review and reiterated at the retreat. The actions under KRA 4 are specifically designed to (i) strengthen management oversight and leadership for effective implementation of the policies; (ii) change incentives systems to reward good project administration and supervision; (iii) have clearer accountability and responsibility for compliance functions;¹⁹ (iv) delegate more responsibilities to resident missions; (v) introduce new ways to acquire and apply information and knowledge; and (vi) increase access to experts in the region. Many of the actions depend on public commitment by top management. One of the critical actions in KRA 4 concerns the development of staff resource planning guidance that will enable directors general to adopt a flexible and needs based approach for servicing governance, institutional development and corruption prevention functions. Directors general and divisional directors in regional departments and PSOD also need to divert resources from non-priority areas to priority areas identified by MTS II and GACAP II.

¹⁸ Action Plan to Improve Loan and Technical Assistance Portfolio Performance, memo from the President to Heads of Departments and Offices, 16 December 2005.

¹⁹ Functions specified in the governance and anticorruption policies and relevant project administration instructions and operations manuals.

F. Managing Governance and Corruption Risks – A Risk-Based Approach

31. KRAs 1-3 contain actions that will require an assessment of risks to inform CSPs and the design of projects and programs. Sound PFM and procurement systems and effective corruption prevention measures underpin strong state institutions. Assessing the PFM, procurement, and corruption risks and the measures needed to manage the risks is thus an important starting point for formulating DMC development plans and ADB's CSPs. PFM and corruption risk assessments are particularly important where DMCs plan to borrow using ADB's program loan modality.

32. GACAP II will (i) require ADB to conduct risk assessments²⁰ and prepare risk management plans during CSP formulation and preparation of projects in DMCs where ADB has a lending program, and (ii) remove the requirement for mandatory country governance assessments. The regional department directors general will determine the sectors to be covered by risk assessments and whether national and/or subnational assessments are required before CSP formulation starts. In determining the sectors to be covered, the directors general will consult with PSOD, as sector risk assessments should cover corruption risks for private sector operations. The project-specific risk assessment undertaken during project preparation will draw on the risk assessment undertaken for the CSP. A preliminary risk assessment will be expected in project concept notes.

33. Risk management plans²¹ will be included in CSPs and project documents. Project implementation performance reports will regularly assess the effectiveness of these risk management plans. Management will be responsible for assessing the quality of the risk assessments and risk management plans in CSPs. The project administration manual will also include guidelines on the requirements for implementation of the risk management plan.

34. Mid-term reviews of CSPs provide an ideal opportunity for reviewing the implementation of the risk management plans²² and updating risk assessments. The country team and DMC will jointly review and formally report on the implementation and outcomes of PFM, procurement, and corruption risk management plans. Country portfolio review missions (CPRMs) will routinely review and report on country systems.

G. KRA Outcomes

35. The outcomes and accompanying actions and subactions have been formulated for each KRA. The outcomes reflect a longer time horizon and in effect demonstrate the medium- to long-term approach required to achieve sustainable impact. The actions and subactions focus on PFM, procurement, and corruption. Table 2 provides the outcomes for KRAs 1-4. The full matrix showing outcomes, actions, sub-actions, resource requirements, assumptions, and accountability and responsibilities is provided in Appendix 1.

²⁰ Risk assessments will draw on country-level diagnostics and analysis undertaken by other agencies, including the World Bank, the International Monetary Fund (IMF), United Nations Development Program (UNDP), and others. Good examples of assessments include the Country Financial Accountability Assessment, Public Expenditure Review, and Country Procurement Assessment and Review.

²¹ Appendix 4 outlines information on the approach, which will be further elaborated into a risk management system during implementation.

²² The GACAP II has taken into consideration changes proposed in the draft paper on *Further Enhancing Country Strategy and Program and Business Processes*, 4 July 2006 by SPD.

Table 2: KRA Outcomes

<p>KRA 1: Improve Identification and Management of Governance, Institutional, and Corruption Risks in Country Strategies and Programs (CSPs), Midterm Reviews of CSPs, and Annual Country Portfolio Review Missions (CPRMs)</p> <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. <p>KRA 2: Strengthen Governance and Anticorruption Components in Program and Project Design</p> <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. <p>KRA 3: Strengthen Program/Project Administration and Portfolio Management</p> <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. <p>KRA 4: Improve Organizational Structure, Human Resources and Access to Expertise</p> <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 ADB programs and 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.
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H. Actions Supporting GACAP II KRAs

36. **Strengthening Anticorruption Measures in Procurement:** The new guidelines for procurement and the use of consultants²³ draw on the findings of the review and suggest ways to prevent corruption in ADB-funded projects and programs. By streamlining, harmonizing, and improving transparency, many of the guidelines respond directly to the review findings and the KRA outcomes. The guidelines include the following:

²³ ADB. 2006. *Procurement Guidelines*, Manila; and ADB. 2006. *Guidelines on the Use of Consultants by ADB and Its Borrowers*, Manila.

- (i) Dissemination of procurement information by borrowers is mandatory; publication of procurement notices and contract awards of goods, works, and consulting services is also required.
- (ii) The borrower is required to publish a procurement plan containing details on contracts to be bid, methods of procurement, and review procedures for the relevant ADB project.
- (iii) Definition of eligibility criteria for bidders needs to be improved; avoid discriminatory practices and the criteria should state that conflicts of interest are grounds for ineligibility.
- (iv) A bidder can seek a meeting with ADB if it is not satisfied with the explanation given by the borrower about why its bid was not selected.
- (v) A risk assessment of borrower's procurement capacity must be undertaken.
- (vi) Internal procurement capacity is being strengthened through a centrally funded program run by the Central Operations Services Office (COSO) and BPMSD for staff in regional departments and resident missions.²⁴

37. Additional priority actions under the responsibility of COSO include: an accreditation program to ensure a core group of procurement specialists in regional departments and selected resident missions; establishing a procurement network for promoting knowledge exchange and management; dedicating accredited staff in regional departments and resident missions to handle procurement, with a job title that reflects that role.

38. **Strengthening the Investigative Function:** OAG's integrity division strengthened its anticorruption investigation guidelines and procedures in September 2005 to clarify terms and definitions. Further updates are planned in late 2006 to harmonize the guidelines with those of other international financial institutions; to strengthen existing whistleblower protection; and to reflect changes expected in ADB's disciplinary procedures, which will involve a change in the responsibilities for the integrity division.

39. At the request of the audit committee of the Board, staff resource requirements for the integrity division have been submitted. BPMSD will allocate one additional professional staff position to the integrity division in 2006, and the auditor general and BPMSD will continue to discuss closing the gap between current and required level of resources in 2007.

40. Discussions are ongoing between OGC, BPMSD, and OAG's integrity division on the development of a financial disclosure policy for staff.²⁵

41. ADB has reviewed its operational policy on publicizing the debarment list and concluded that the existing policy²⁶ enables ADB to do a more efficient and fair job in its fight against corruption. Under GACAP II, no changes are envisaged in the treatment of the debarment list.

42. **Integrating Capacity Development into Country Programs and Operations:** Implementation of the Capacity Development Action Plan will contribute to the implementation of GACAP II and in particular the development of capacity in PFM, procurement and corruption prevention. The Action Plan emphasizes organizational and institutional capacities as well as

²⁴ The program briefing highlights fraud and corruption in the procurement cycle for consulting services, and draws attention to the mandatory assessments of a borrower's procurement capacity to define the risk level and how the risk assessment is used to feed into the procurement plan. More than 500 staff members have been briefed and more sessions are planned. An e-learning facility will be introduced to improve outreach.

²⁵ Several other international financial institutions have such a policy.

²⁶ Distributing the list only to ADB staff and other international organizations and not publicizing it.

partnerships and networks. The outcomes expected from the Action Plan should strengthen internal capacity in PFM, procurement and corruption prevention. It should also enable institutionalization of capacity development through implementation of GACAP II.

IV. IMPLEMENTATION AND RESOURCES FOR GACAP II – KEY CONSIDERATIONS

A. Accountability and Responsibilities for GACAP II

43. Accountability for delivery of GACAP II rests with ADB's management and responsibility for implementation is primarily with the regional departments, its resident missions, and PSOD. Operations support departments²⁷ also have a significant role. As GACAP II presents corporate level actions, a further level of planning will be required by regional departments, resident missions, and PSOD to determine actions and expected results in DMCs. Directors general in regional departments and PSOD will be expected to produce a responsibility matrix showing relevant activities under GACAP II by sector division.²⁸ Appendix 1 provides information on accountability and responsibilities for individual action in GACAP II.

B. How to Manage GACAP II in Operations

44. A major goal of GACAP II is to change the way ADB addresses governance, institutional and corruption issues. Bringing about the necessary changes calls for specific types of leadership and skills to undertake the day-to-day operational management and requires working across existing divisional and departmental boundaries. For example, there must be clear incentives—through leadership exercised by heads of departments, divisions and resident missions—for staff in governance divisions to support and work with the sector divisions in regional departments. Similar incentives are required between regional departments and resident missions, and between regional departments and PSOD to bring about coordinated leadership and consistent messages on the importance of dealing with governance, institutional development and corruption issues. Another major thrust of GACAP II is the requirement for integrated approaches within ADB to combat corruption, strengthen PFM, and have procurement systems that adhere to international good practice. This will require OAG, OGC, COSO, Office of Administrative Services (OAS), and RSDD to work collaboratively to deliver integrated support services. Thirdly, as part of the commitments made by the international development community, GACAP II requires ADB to put greater effort into working with bilateral and multilateral development agencies at country and headquarter levels. This will require investments in staff resources.

45. Implementation by regional departments, resident missions, and PSOD will need to be managed at many levels to ensure that accountability and responsibility is not compromised, and to bring about the organizational change. Although all divisions in regional departments and PSOD will have direct responsibility for implementation, regional departments and PSOD will appoint a focal person to facilitate change, coordinate implementation, share good practices and learning experiences, and report on the implementation.

²⁷ BPMSD, COSO, OAG, OGC, RSDD, and SPD.

²⁸ RSDD, through RSCG, will prepare sample format of responsibility matrix on the basis of the action plan key results areas matrix in Appendix 1.

C. Coordinating GACAP II

46. GACAP II will require effective coordination to (i) ensure overall consistency of approach, (ii) provide operational support to regional departments, resident missions, and PSOD in new areas of activity; (iii) enable flexibility within the GACAP II framework; (vi) facilitate coordinated working across the operations support departments identified earlier; and (v) operationally manage the implementation risks.

47. RSDD will be accountable for coordination of operations and for the timely delivery of a number of enabling actions.²⁹ Responsibility will be located in the Capacity Development and Governance Division (RSCG), with support from COSO, OGC, and OAG. The focal persons from the regional departments and PSOD will coordinate with RSCG. Appropriate coordination arrangements will be required. However, RSCG has insufficient capacity to carry out this responsibility. Given the focus on governance and anticorruption in MTS II, the immediate priority is for RSCG to fill the two posts allocated to provide corporate and direct support to operations and coordinate implementation of GACAP II. One new position as a sector and thematic lead has been created and the second position will be filled through redeployment within RSDD. Implementation of GACAP II is dependent on filling these posts.

D. ADB's Capacity to Implement GACAP II

48. To deliver GACAP II, ADB will need to review internal capacity. One priority is to collect information on staff with skills and experience in sector level institutional analysis, PFM, procurement, and corruption prevention.³⁰ Resident missions require staff with skills in governance, institutional development and corruption prevention, and project management, oversight, and scrutiny. Based on the review, decisions will need to be made on redirecting staff with the right skills to deliver GACAP II. Without this adjustment—and with continued excessive reliance on consultants in this area—the risk management approach risks becoming a “box-ticking” exercise instead of a valuable tool for protecting investments made by DMCs.

E. Factors Influencing the Resource Requirements

49. Assessment of resource requirements and methods for GACAP II is influenced by the factors outlined below.³¹

- (i) The historical underinvestment in building internal capacity in governance, institutional development, and anticorruption has resulted in capacity shortages in all regional departments; for some regions this issue is more critical.
- (ii) One of the early outputs expected from GACAP II is an assessment of staff resources and skills requirements by regional departments, resident missions, and PSOD based on guidance provided by RSDD and BPMSD, the requirements from DMCs, and the GACAP II actions. However, this will only be ready for preparing the 2008–2010 work program and budget framework.

²⁹ The enabling actions are detailed in Table 3.

³⁰ This is also a key action in the Capacity Development Medium-Term Framework and Action Plan.

³¹ Appendix 5 provides a more detailed explanation of the main issues influencing the approach.

- (iii) The GACAP II actions proposed are a mixture of new requirements that will require resources and a reiteration of existing commitments. The removal of the mandatory requirement for conducting country governance assessments will be replaced by acquiring up to date country and sector knowledge on governance, institutional development and on how to prevent corruption. The most significant new requirement is the introduction of risk assessments and risk management plans.
- (iv) Significant variations exist in political, economic, geographic, historical, and social factors among DMCs that influence the staff and skills requirements and in how functions are allocated between regional departments and resident missions.
- (v) It will be difficult to deliver key components of GACAP II, particularly the risk management-related actions, in the immediate term through the administrative budget, so TA resources will be required initially. Subsequently, regional departments and PSOD will need to make provisions in the administrative budget for delivery of GACAP II actions (through staff or staff consultancy).
- (vi) Some functions can be delivered either by staff, by outsourcing, or through partnerships with donors.
- (vii) Regional Departments need to decide which of their sector divisions take on governance, institutional development and anticorruption specialists.
- (viii) BPMSD, Regional Departments and Resident Missions will need to carefully consider the type of decentralization for ADB functions, particularly being clear on areas where the segregation of duties is required and where additional checks and balances will be necessary.

F. Functional Model for Governance, Institutional Development and Corruption Prevention Expertise in Regional Departments and Resident Missions

50. **Sector Level:** The main options available for securing sector-level governance, institutional development and corruption prevention expertise are: (i) have a central group in each regional department or in RSDD; (ii) designate governance, institutional development and anticorruption experts to cover priority sector divisions; or, (iii) sector divisions hire staff or TA consultants to undertake the bulk of the work. The recommended approach for the organization of governance, institutional development and corruption prevention expertise within sectors is to (i) employ sector governance, institutional development and corruption prevention experts who benefit from professional recognition and opportunities for career progression, (ii) train existing sector specialists to a level where they can undertake institutional development and anticorruption work in their sectors, and (iii) ensure that future recruitment for the sectors recognizes that institutional development and corruption prevention skills are essential.

51. A concerted program will be required to upgrade sector specialists in institutional development, procurement, and corruption-prevention skills. Good institutional development sector specialists are in most instances also knowledgeable about the nature of corruption in their sectors. They can be trained to assess opportunities for corruption and take preventative action. Analysis and support for PFM in sectors requires specialist skills. This skill could either be accessed through dedicated staff positions or through staff consultants.

52. **Regional Department Coordination and Oversight:** In addition, regional departments must ensure that there are sufficient resources made available for support in procurement, financial management, PFM, and anticorruption activities.³² PSOD will need to ensure that their governance, institutional development and corruption responsibilities are effectively operationalized within the functional model adopted by regional departments and resident missions. Regional departments and PSOD will need to highlight their staff and budgetary resource requirements during the “Work Program and Budget Framework” process for 2008–2010, based on projected workload and skills requirements and guidance provided by RSDD and BPMSD.

V. GACAP II: RESOURCES REQUIREMENTS AND IMPLEMENTATION APPROACH

A. Introduction

53. Overall, the changes proposed in GACAP II will require additional resources. This is mainly a result of the historical underinvestment in governance and anticorruption expertise including during implementation of the 2000–2004 action plan. However, estimating resources for the range of actions proposed and for the diverse nature of the countries covered by ADB is a challenging task. The need to maintain zero growth in human resources in the current financial year is an important factor that will need to be considered. This chapter describes the underlying complexities preventing a uniform approach to assessing resource requirements across all regional departments and PSOD.

B. Resources for GACAP II

54. There are essentially two types of resources required for delivery of GACAP II: (i) one-off resources to deliver the updated procedures, tools, guidance, and training activities, which can be estimated with some degree of certainty; and (ii) resources to strengthen preparation, reviews, and implementation of CSPs³³ and programs and projects. In addition, as outlined in chapter IV, RSDD will require resources to coordinate GACAP II and oversee the production and implementation of the risk assessment approach.

55. For reasons outlined in the preceding section, it would be inappropriate to prescribe how regional departments, resident missions and PSOD should resource the delivery of GACAP II—and in particular how they should resource the risk assessments. Regional departments, resident missions, and PSOD will need to decide how to allocate administrative budget resources, TA resources, and staff and consultants resources, and whether resident missions or regional departments should undertake particular actions. Furthermore, some resource estimates are better undertaken after an initial period of implementation. This is particularly relevant for activities associated with the proposed risk management approach. In addition,

³² One option would be to fill the vacant governance posts in many of the regional departments with public financial management (PFM) experts. The requirement for financial management expertise is a reiteration of existing operational policy. The R11-06 paper on Revising the Procurement Guidelines, 12 January 2006, transfers greater autonomy to regional departments and resident missions and expects regional departments and resident missions to have appropriate level of procurement capacity to take on the increased level of responsibility that goes with greater autonomy. Sector specialists should be trained to enable effective mainstreaming of institutional development and anticorruption measures.

³³ It is assumed that resources for policy dialogue with DMC governments and developing and sustaining donor partnerships are mainstreamed into country strategy and program (CSP) and program and project processes.

there is insufficient time for individual regional departments, resident missions, and PSOD to be specific about the resource requirements for the 2007–2009 work program and budget framework. The overwhelming need to deliver early results necessitates an interim solution for allocating resources for GACAP II before an institutionalized arrangement is formalized.

56. Taking into consideration the context and the issues identified in the preceding section, any interim solution should enable: (i) a flexible basis for resource allocation taking into account the significant differences among the countries in the region;³⁴ (ii) regional departments to determine appropriate operational models; and (iii) regional departments to have some flexibility in methods used to address the critical shortage of expertise.

57. Interim arrangements are proposed to resource the immediate implementation of GACAP II. During this period, which is likely to be about 15 months, the regional departments, resident missions and PSOD will acquire a clearer understanding of the level of resources and the skills mix required. They will also better understand the functions to be undertaken by ADB staff or staff consultants, and the tasks to be undertaken as part of the overall development effort in DMCs. Two activities during the start-up period will be crucial for determining the resource requirements for regional departments, resident missions, and PSOD: (i) the work undertaken on staff requirements under KRA 4, outcome 4 of GACAP II (Appendix 1); and (ii) firsthand experience from implementation of the risk assessment approach in the start-up sites. It is envisaged that this information should be available for factoring into ADB's work program and budget framework for 2008–2010.

C. Implementation of GACAP II

58. Implementation will be phased and start in September 2006. The **start-up phase** will take about 15 months, followed by the **institutionalization phase**. Phasing is particularly relevant for risk assessments, as an initial period is required for the risk assessment approach to be developed and implemented in a limited number of countries before it is applied widely. Even beyond the initial development, phased implementation is required to ensure that regional departments, resident missions, and PSOD have sufficient resources and capacity available to enable improvements to the risk management approach from lessons learned during implementation.

59. The regional departments and resident missions and PSOD will begin implementation starting with the new CSPs (KRA1) in 2007. In the start-up phase, risk assessments and risk management plans will be prepared for two priority sectors in the 2007 CSPs. For projects and programs, risk assessments and risk management plans will only be prepared for sectors where there are risk management plans in the CSP. Similarly, project administration and supervision will include review and reporting of risk management plans only in cases where these exist.³⁵ Regional departments will be encouraged to select priority sectors where DMCs are willing to participate in the process and use the results.

60. In cases where there is insufficient time to incorporate risk management plans in all 2007 CSPs, it is recommended that the CSP includes a timetable for preparing these plans during CSP implementation. In these instances the risk management plans are incorporated into the CSP during the midterm review of the CSP.

³⁴ Organizational parameters and operating principles will be needed to ensure overall consistency and coherence.

³⁵ Newly approved projects in the two priority sectors identified in the CSP.

61. Risk assessments and the development of risk management plans for sectors not covered as part of CSP preparation can be undertaken progressively and where appropriate be prepared during CSP implementation. Aligning risk assessments and risk management plans to country planning cycles should be encouraged. Sector risk assessments can also be undertaken at subnational levels. An outline plan for moving over to a risk management approach for the remaining sectors (i.e., sectors other than the identified two priority sectors) should be included in the CSP. As indicated earlier, CSP risk assessments and risk management plans are only needed for sectors, national governments, and subnational governments where ADB is planning or has a lending program.

D. Assessing Level of Effort for Start-up Phase

62. The initial effort for undertaking risk assessments and risk management plans will be relatively high because of the steep learning curve involved and, secondly, because there is nothing similar to draw on. Nevertheless, as indicated earlier, the background analysis and diagnostics required for the assessments should be available from a variety of sources. Occasionally, additional diagnostics may be necessary. However, these should be undertaken as part of developing support for the sector, national government, or subnational government, and in partnership with DMCs and, where practical, other donors. Subsequent assessments and rollout will be less resource intensive and not exponential.

63. Quantifying the level of effort required for implementing actions under KRAs 1–3 by the regional departments and PSOD has been based on 2005 data.³⁶ Since only two sectors will be covered under the start-up phase, for planning purposes, coefficients have been computed using the energy and the transport and communications sectors.³⁷ Before preparing a CSP, regional departments would need to select two operationally relevant sectors where significant investments are planned in the medium term. Although the level of effort would vary between countries and across sectors, a standard set of coefficients has been used here.

64. The following coefficients have been derived: (i) 8³⁸ additional weeks for each sector in the preparation of CSPs, (ii) 2 additional weeks for project concept preparation, (iii) 5 additional weeks for project preparation, and (iv) 4 additional weeks for project implementation and supervision. In addition, the existing allocation for country governance assessments may be used to deliver the corruption, PFM, and procurement risk assessment for relevant national and subnational governments. On this basis 868 person weeks of effort would be required for the first 15 months (the start up phase).³⁹ Approximately \$4 million would be required from TA funds to finance this requirement for the start-up phase.

65. For the start-up phase, dedicated resources will be made available to implement GACAP II. There will be procedures for regional departments, and resident missions, and PSOD, and PSOD to access these funds. Procedures may include the submission of a business plan and expected results for delivering GACAP II together with appropriate monitoring and reporting arrangements. Regional departments, resident missions, and PSOD will use their professional judgment to determine required resource levels when making an application for resources to the centrally managed GACAP II resources.

³⁶ On an annual basis there are about eight CSPs, 64 loan projects, and 477 loan projects under administration. (Source: ADB *Annual Report 2005*).

³⁷ Based on the 2005 data, there are 20 loan projects to be prepared and 150 projects under implementation.

³⁸ 3 weeks for PFM, 1 week for procurement, and 4 weeks for corruption risk assessments.

³⁹ 128 person-weeks for CSPs, 40 person-weeks for project concept papers, 100 person-weeks for loan project preparation; and 600 person-weeks for project implementation and supervision.

66. RSDD⁴⁰ will require one-off resources for the delivery of a number of enabling actions (shown in Table 3). Critical to timely delivery of outputs from the start-up phase are: (i) for RSDD to deliver guidance, advice, and support for the risk management approach in a timely manner; (ii) for regional departments to commence recruitment procedures to fill vacant governance and financial management posts; (iii) for sector directors to produce country- and sector-specific plans for delivering the GACAP II, and to provide access to relevant and timely governance, institutional development and anticorruption expert assistance; and (iv) for regional departments to appoint a focal person to coordinate implementation among regional departments, resident missions, and PSOD implementation, and report results.

Table 3: One-Off Resource Requirements– Start-up Phase

Activities	Person Weeks Estimate
Development of a risk management system	20
Support implementation in DMCs through regional departments and resident missions.	35
Revised operations manual and project administration instructions on treatment of governance, institutional development, and anticorruption in CSPs, project concept notes, design, and implementation	8
Guidance on sector risk assessments for CSPs	4
Contribution to ADB sector strategies (transport, water, energy) ^a	12
Staff guidelines on preventing fraud and corruption in ADB projects	6
Staff guidelines on project supervision	5
Training of sector staff (regional department, resident mission, and operation support staff estimated at 1-day training; 700 staff to be trained in sessions comprising 10 staff)	14
Preparation of the workload coefficients and sector competencies for governance, institutional development, and anticorruption	6
Introduction of a management systems for effective enforcement	8
Total	118
Total at \$4,000 per week	472,000
Non-staff/expert costs for travel, documentation, etc.	200,000
Contingency	150,000
Total	822,000

^a A chapter in the sector strategy on how to address PFM, procurement, and institutional and corruption risks, and how to prepare a risk management plan.

E. Assessing Level of Effort for the Institutionalization Phase

67. During the start-up phase there will be several activities to prepare for the institutionalization of GACAP II. These activities will help determine the level and types of resources required and the pace of implementation beyond the start-up–interim phase. Key activities and factors that will help determine the level of effort and resources required for the institutionalization phase include: (i) the experience gained from implementation and the revised staff coefficients; (ii) the work undertaken on staff and skills profiles requirements; (iii) the capacity development of ADB staff; and (iv) the country-specific requirements. For the risk

⁴⁰ RSDD through RSCG will need to work with the sector divisions in RSDD, SPD, COSO, BPMSD, OAG's integrity division, and OGC in the development of the enabling products and services.

management approach to be used for improving development effectiveness, ADB should introduce it in a manner that allows for effective engagement with DMCs and ownership by them. Implementation must not be seen as an additional imposition on DMCs. The primary objective of risk management is to protect the investments made by DMCs.

68. For the institutionalized phase there should be flexibility for regional departments and PSOD on funding sources for delivery of GACAP II. Initially funding will come from TA resources and trust funds. After GACAP II is mainstreamed into ADB operations, it will be funded by the internal administrative budget.

F. Summary of Resources for GACAP II

69. Implementation of GACAP II for the start-up phase will be funded from TA resources including trust funds. Donors will be encouraged to direct and, where feasible, redirect trust fund resources to improve the quality of governance, build capable institutions, and combat corruption in ADB projects and programs. Total resource requirements for the first 15 months are expected to be around \$5 million of which less than \$1 million will be required in 2006. There should be flexibility to roll over unused funds beyond the interim phase to the institutionalized phase. The resource requirement for the institutionalization phase will be incorporated into the Work Program and Budget Framework for 2008-2010 and reflected in the 2008 budget.

SECOND GOVERNANCE AND ANTICORRUPTION ACTION PLAN (GACAP II)
KEY RESULTS AREA (KRA) MATRIX

Table A4.1: KRA 1—Improve Identification and Management of Governance, Institutional, and Corruption Risks in Country Strategies and Programs (CSPs), Midterm Reviews of CSPs, and Annual Country Portfolio Review Missions

Outcomes	Priority & Compliance Actions	Accountability ^a	Responsible ^b	Subactions	Assumptions
1. ADB's country strategies and programs informed by assessment of governance, institutional, and corruption risks for relevant national and subnational governments and sectors.	1.1. CSPs provide an assessment of the risks and risk management actions, including mitigation measures required for public financial management (PFM), procurement, and corruption for sectors and national and subnational governments where ADB is active.	DGs, RD & PSOD	country team leader	1.1. Review portfolio, priorities, and areas of focus arising from the risk assessment 1.2. Together with DMCs, identify and agree specific risk mitigation measures to be adopted 1.3. Consider appropriateness and extent of program lending on the basis of PFM and corruption risks. 1.4. Consult with civil society in the preparation of risk assessments and the development of risk management action plans during CSP preparation.	1.1. ADB invests in the development and implementation of appropriate risk management system for PFM, procurement, and corruption risks. 1.2. Country teams draw on country performance assessments for Asian Development Fund countries, PFM, country procurement, corruption, sector, and other relevant assessments undertaken by donors (including ADB) and relevant DMC. 1.3. Guidance is provided on how to conduct risk assessments at sector, national, and subnational levels, and staff is trained to undertake the assessments. 1.4. Management has access to risk assessment expertise for advice on the risk assessments in CSPs. 1.5 Sector assessments cover institutional analysis, legal and regulatory status and identification of civil society organizations capable of providing advocacy and oversight or delivering services.
	1.2. Management ensures the quality of the PFM, procurement, and corruption risk assessments; Management also looks at the extent to which these assessments have informed focus, priorities, and risk mitigation measures in CSPs before submission of CSPs to the Board.	Management	regional vice presidents		

CSP = country strategy and program, DG = director general, DMC = developing member country, PFM = public financial management, PSOD = Private Sector Operations Department, RD = regional department, RM = resident mission.

^a Accountability defines function of management/staff members who are ultimately responsible for an action, task or function.

^b Responsibility defines function of staff members who are assigned to carry out an action, task or function.

Outcomes	Priority & Compliance Actions	Accountability ^a	Responsible ^b	Subactions	Assumptions
2. ADB delivers its governance, institutional, and anticorruption programs at the country level in partnership with other donors, uses harmonized procedures where relevant, and increases alignment with DMCs' priorities, systems, and procedures.	2.1. Use harmonized diagnostic reviews and performance assessment frameworks for PFM and procurement.	DG, RD	sector directors	2.1. Prioritize technical assistance for DMC-led PFM, procurement, and anticorruption programs in active sectors and national and for subnational governments where ADB is active.	2.1. Program-based approach is understood as having the following features: (a) leadership by the host country or organization; (b) a single comprehensive program or budget framework; (c) a formalized process for donor coordination and harmonization of donor procedures for reporting, budgeting, financial management, and procurement; and (d) efforts to increase the use of local systems for program design and implementation, financial management, monitoring, and evaluation.
	2.2. Conduct joint risk assessments with DMCs, and where practical other key donors, with particular focus on PFM and procurement.	DG, RD	sector directors	2.2 Based on Multilateral Development Bank Joint Statement on Corruption (18 February 2006), work with other international financial institutions (IFIs) to standardize multilateral development banks' definition of corruption to improve the consistency of their investigative rules and procedures, to strengthen information exchange, and to ensure compliance and enforcement actions taken by one institution are supported by others; and multilateral development banks adopt uniform Framework for Preventing and Combating Fraud and Corruption.	
	2.3. Actively promote adoption of program-based approach and common performance targets when providing support to DMC-led sector programs, national or subnational anticorruption programs, PFM programs, and procurement programs.	DG, RD and country director, RM	sector directors		2.2. ADB will rely on partner country systems for procurement and PFM when the DMC has implemented mutually agreed standards and processes.
	2.4. Establish in consultation with DMCs, mutually acceptable performance criteria for moving to country procurement and PFM systems.	DG, RD	sector directors		
3. Country portfolio review missions (CPRMs) routinely review and report on country systems. CSP midterm reviews (MTRs) consider the governance, institutional, and corruption risks and identify changes as required.	3.1. CPRMs report on progress made by DMCs in achieving performance targets for PFM and procurement and further actions, if any be taken to achieve the performance targets.	DGs, RD & PSOD	country team leader		3.1. Shared responsibility for CPRMs, MTRs, and CSPs
	3.2. CSP MTRs report on the effectiveness of risk management across the portfolio (see note 1).	DGs, RD & PSOD	country team leader		3.2. PFM, FM, procurement, and anticorruption expertise is made available to the country teams who are responsible for relevant risk assessments in CPRMs and MTRs.
	3.3. CSP MTRs will assess what adjustments to the focus, priorities, and risk management of the 3-year rolling business plans are required.	DGs, RD & PSOD	country team leader		3.3. Program-based approach adopted to support PFM and procurement systems.

CSP = country strategy and program, DG = director general, DMC = developing member country, PFM = public financial management, PSOD = Private Sector Operations Department, RD = regional department, RM = resident mission.

Note 1: The CPRM is being updated to accommodate results-based CSPs.

^a Accountability defines function of management/staff members who are ultimately responsible for an action, task or function.

^b Responsibility defines function of staff members who are assigned to carry out an action, task or function.

Table A4.2: KRA 2— Strengthen Governance and Anticorruption Components in Project and Project Design

Outcomes	Priority & Compliance Actions	Accountability ^a	Responsible ^b	Subactions	Assumptions
4. Project concept papers provide preliminary assessment of financial management, procurement, and corruption risks.	4.1. As part of project and program concept formulation: (a) develop terms of reference for conducting detailed risk assessments and preparing financial management, procurement, and corruption risk management plans; and (b) determine the skills set and person months required to complete this work during project preparation.	PSOD/RD sector director	project team leader	4.1. Based on a preliminary risk assessment, consider project design parameters that could mitigate/manage these risks.	4.1. The preliminary assessment is expected to draw heavily on the relevant PFM, procurement, and corruption risk assessments and risk management plans in the CSP and in any subsequent MTR and CPRM updates. 4.2. PFM and procurement risk assessments do not apply to PSOD operations.
5. Program and project design incorporates findings of governance, institutional, and corruption risk assessments, and project documentation clearly identifies risks and risk management and mitigation measures.	5.1. Specify in RRP: (a) the outcome of the FM, procurement, and corruption risk assessment for the project; (b) the specific measures taken in project design to mitigate risks; (c) actions to be taken by the borrower to mitigate risks during project implementation (include these as assurances in loan agreements); and (d) further measures to be taken by ADB during project implementation.	PSOD/RD sector director	project team leader	5.1. Ensure that project design and appraisal teams have access to financial and procurement expertise, and to specialists capable of advising on project-specific anticorruption measures for the sector 5.2. Draw on PFM, procurement, and corruption risk assessments produced for the CSPs. 5.3. Minimize opportunities for corruption through a strong measurable results framework, where fund disbursement is tied to concrete and measurable results. 5.4. Where feasible and based on an assessment of civil society capacity (conducted jointly with the DMC), integrate mechanisms for grassroots civil society organizations to monitor project results during project implementation. 5.5. Build on project-related information disclosure and	5.1. Civil society engagement is dependent on local-level capability to represent the community and DMC operational policy on civil society's role in improving service delivery 5.2. PFM and procurement risk assessments do not apply to PSOD operations.

CSP = country strategy and program, DG = director general, DMC = developing member country, PFM = public financial management, PSOD = Private Sector Operations Department, RD = regional department, RM = resident mission.

^a Accountability defines function of management/staff members who are ultimately responsible for an action, task or function.

^b Responsibility defines function of staff members who are assigned to carry out an action, task or function.

Outcomes	Priority & Compliance Actions	Accountability ^a	Responsible ^b	Subactions	Assumptions
				<p>communications requirements to strengthen accountability and transparency and to mitigate opportunities for corruption during implementation.</p> <p>5.6. For program loans, provide a fiduciary risk and corruption assessment and management actions to be taken for PFM; and secondly (drawing on the assessment undertaken for the CSP), specify measures to mitigate opportunities for corruption in new policies introduced as part of the program policy framework.</p>	
6. Project administration requirements determined during project design and appraisal on the basis of PFM, procurement and corruption risk assessments.	6.1. Determine project administration requirements for project implementation (including specialist resources and skills mix) based on risks, and specify the project administration resources requirements in RRP.	sector director/country director	project team leader	6.1. Sector /country director confirms project administration requirements, including staff resources and skills mix.	

CSP = country strategy and program, DG = director general, DMC = developing member country, PFM = public financial management, PSOD = Private Sector Operations Department, RD = regional department, RM = resident mission.

^a Accountability defines function of management/staff members who are ultimately responsible for an action, task or function.

^b Responsibility defines function of staff members who are assigned to carry out an action, task or function.

Table A4.3: KRA 3—Strengthen Program and Project Administration and Portfolio Management

Outcomes	Priority & Compliance Actions	Accountability ^a	Responsible ^b	Subactions	Assumptions
7. Strengthened program and project administration through effective management of program and project risks and performance reporting.	7.1. Strengthen project administration and supervision through timely review of the effectiveness of measures taken by ADB and the borrower during implementation to mitigate FM, procurement and corruption risks.	country director	project team leader	7.1. PPRs record program and project financial management, procurement, and corruption risk management and mitigation actions taken during implementation and track performance over time.	7.1. There is sufficient flexibility, resources, and streamlined internal processes for mission leaders to introduce measures during project implementation to mitigate unforeseen procurement, FM, and corruption risks
	7.2. Update risk assessment, adjust risk mitigation measures where appropriate, and report on actions taken in Aide Memoire, project and program performance report (PPR).	country director	project team leader	7.2. Record outcome of risk management actions in the portfolio administration review system for management oversight on a regular basis as per established ADB procedures.	7.2. PPR system is updated to facilitate recording of (i) risk management actions for FM, procurement, and corruption; and (ii) review and follow-up actions for audited financial statements (AFS).
	7.3. Audited financial statements (AFS)/ audited project accounts (APA) are reviewed and the audit review checklists completed to determine if further action is required.	country director	sector financial specialists, FM specialists	7.3. Outcome of review, including corrective actions to be taken as per PAI 5.09, should be communicated to the DG and relevant directors and recorded in PPR. 7.4. Borrower notified of weaknesses identified, with request for borrower to respond to weaknesses and report on proposed corrective measures. Outcome of review, actions required, follow-up, and actions completed documented in PPR.	7.3. Audit review checklist completed by project administration staff (in either RM or RD) after initial review of AFS. 7.4. An effective information system to support the quarterly monitoring by DGs of the quality and effectiveness of portfolio administration.

CSP = country strategy and program, DG = director general, DMC = developing member country, PFM = public financial management, PSOD = Private Sector Operations Department, RD = regional department, RM = resident mission.

^a Accountability defines function of management/staff members who are ultimately responsible for an action, task or function.

^b Responsibility defines function of staff members who are assigned to carry out an action, task or function.

Outcomes	Priority & Compliance Actions	Accountability ^a	Responsible ^b	Subactions	Assumptions
8. Strengthened management oversight of project administration	8.1. On a regular basis operational DGs monitor the adequacy of the resources allocated for managing and mitigating FM, procurement, and corruption risks for projects under implementation. Regular reports provided to regional vice presidents on quality of portfolio and portfolio management issues including adequacy of resource allocations.	regional vice presidents	DG, RD		8.1. DG, PSOD contributes to the priority and compliance actions for outcome 8 through the relevant DG, RD
	8.2. Vice president of relevant RD to review performance against the portfolio administration review plan and consider actions necessary to address the reported issues. Projects where risks have changed significantly are submitted to the management committee for direction and consideration.	regional vice presidents	concerned DGs, RDs		
	8.3. On a regular basis, Management reviews performance of the implementation of RD/RM portfolio administration, and, in particular, reviews the effectiveness of RD/RM monitoring and the adequacy of resources allocated for managing project/program FM, procurement, and corruption risks during implementation. Management communicates outcome of review, including any actions taken to strengthen measures and improve performance of project supervision and risk management to staff.	Management	regional vice presidents		
	8.4. Management makes effective use of the sanctions system for loan suspensions and cancellations as	Management	concerned vice president		

CSP = country strategy and program, DG = director general, DMC = developing member country, PFM = public financial management, PSOD = Private Sector Operations Department, RD = regional department, RM = resident mission.

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Outcomes	Priority & Compliance Actions	Accountability ^a	Responsible ^b	Subactions	Assumptions
	defined in relevant policy, PAIs and documented in loan agreements.				
9. ADB's project supervision quality and effectiveness is reviewed regularly by OED.	9.1. Develop methodology and collect baseline data for assessing whether there has been tangible improvements in project supervision since the introduction of strengthened systems and business processes (undertaken by OED after implementation of GACAP II).	Management	OED COSO		
10. Coordinated supervision missions with other donors.	10.1. Increase joint supervision missions with other donors.	country director	sector directors, country team leader, project team leader		

COSO = Central Operations Services Office, OED = Operations Evaluation Department, PAI = Project Administration Instructions.

^a Accountability defines function of management/staff members who are ultimately responsible for an action, task or function.

^b Responsibility defines function of staff members who are assigned to carry out an action, task or function.

Table A4.4: KRA 4— Improve Organizational Structure, Human Resources, and Access to Expertise

Outcomes	Priority & Compliance Actions	Accountability ^a	Responsible ^b	Subactions	Assumptions
11. 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.	11.1. ADB's performance on preventing and controlling corruption in ADB-financed programs and projects is regularly reviewed through utilization of an effective governance and corruption risk management system.	Management	vice presidents		11.1. Management has the responsibility for overseeing ADB's effectiveness in implementing its "zero tolerance" policy on corruption
12. Strong leadership exercised and characterized by providing clear directions, continuous monitoring, and the right organizational incentives for effective implementation of the governance and anticorruption policies.	12.1. Public pronouncements by senior management on ADB's efforts to mitigate opportunities for corruption in its programs and projects.	Management	DGs, RDs, PSOD and RSDD		
13. Management ensures an adequately resourced organization for managing governance, institutional, and corruption risks in ADB programs and projects.	13.1. Management to prioritize full resourcing of GACAP II through: (i) technical assistance resources for the start-up and interim phase; and (ii) the three year work program and budget framework and the annual budget for the institutionalization phase starting 2008–2010.	Management	vice presidents		
14. The role of RDs and RMs in governance and anticorruption is clearly defined and resourced through a flexible resourcing strategy for the institutionalization phase.	14.1. For GACAP II implementation determine: accountabilities and responsibilities of RDs and RMs and operations support departments; oversight requirements of other departments, and the transfer of GACAP II functions to RMs.	DG, RSDD	RSDD/SPD/BPMSD	14.1. Determine whether GACAP II actions can be carried out through: (a) outsourcing or hiring experts based on need; (b) accrediting staff; (c) having professional staff positions; and (d) enhancing governance and	14.1. Workload planning guidelines for project administration reflect the resource and skills mix requirements for effective risk management and mitigation during project implementation.

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^a Accountability defines function of management/staff members who are ultimately responsible for an action, task or function.

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Outcomes	Priority & Compliance Actions	Accountability ^a	Responsible ^b	Subactions	Assumptions
	<p>14.2. Update estimates of staff resources and skills required for operational work in RDs and RMs to implement GACAP II.</p> <p>14.3. Ensure that RDs and RMs are appropriately resourced based on updated staff resource requirements. Fill all vacant posts for governance and FM specialists.</p>	<p>BPMSD</p> <p>vice presidents</p>	<p>RSDD/SPD/BPMSD</p> <p>DGs, RDs/ DG BPMSD</p>	<p>anticorruption skills through retraining</p> <p>14.2. Assess workloads for GACAP II for RDs and RMs and oversight requirements by other departments.</p> <p>14.3. Ensure that there is a robust accountability and oversight system in RDs and in the relevant oversight and support departments.</p>	<p>14.2. DGs and sector and RM directors are effective in workload planning and give high priority to portfolio performance management, including FM, procurement, and corruption risk management and mitigation for TA and loan projects</p> <p>14.3. System of accreditation for procurement practiced by the World Bank is considered for adoption.</p> <p>14.4. Models of FM and procurement functions establish effective oversight</p>
15. Appropriate Incentives are introduced to recognize importance of project supervision and implementation efforts and due attention to governance and anticorruption issues in project design.	15.1. Introduce appropriate incentives to formally recognize risk management and project supervision for professional recognition and promotion	DGs, RDs & PSOD	sector directors	15.1. Utilize a staff performance management system to assess the effectiveness of project supervision and the ability to manage and mitigate FM, procurement, and corruption risks	<p>15.1. Management rewards and publicizes good performance in project supervision.</p> <p>15.2. Visible career benefits are given for taking on project supervision.</p>
16. Staff skills in PFM, FM, procurement, corruption prevention, and project supervision are built and retained.	16.1. In consultation with RDs/RMs, BPMSD develops a rolling 3-year training and development plan within the context of ADB's Learning and Development Program and obtain annual budget approval for implementation.	DGs, BPMSD, RDs & PSOD	sector and country directors	<p>16.1. Determine competencies required at all levels</p> <p>16.2. Using the results of the BPHR skills audit, conduct a focused audit to determine training and development needs of staff on financial management, procurement and anticorruption.</p>	
17. Management and staff are clear on their governance and anticorruption responsibilities.	17.1. Revise operations manuals, PAIs, and guidelines to provide clear directions on responsibilities, tasks to be carried out, and methods to be used for governance and	Vice President, KMSD	RSDD	17.1. Revise the governance & anticorruption operations manuals to make procedures, responsibilities and tasks clear.	

CSP = country strategy and program, DG = director general, DMC = developing member country, PFM = public financial management, PSOD = Private Sector Operations Department, RD = regional department, RM = resident mission.

^a Accountability defines function of management/staff members who are ultimately responsible for an action, task or function.

^b Responsibility defines function of staff members who are assigned to carry out an action, task or function.

Outcomes	Priority & Compliance Actions	Accountability ^a	Responsible ^b	Subactions	Assumptions
	corruption risk assessment and management.				
	17.2. Provide guidance for Second Medium-Term Strategy (MTS II) priority sectors on (a) mainstreaming PFM , procurement, and corruption assessments in conducting sector assessments and sector road maps; and(b) provide sector-specific guidance on corruption prevention measures.	Vice President, KMSD	RSDD	17.2. Revise templates of CSP, RRP, Governance and Anticorruption Operations manuals and guidelines on a standard method of risk assessment for PFM, procurement, and corruption risks	
18. Staff has access to up-to-date information on governance, institutional, and corruption risks in DMCs.	18.1. Access a wider body of governance and anticorruption knowledge through "resource center" agreements with regional and international think tanks and knowledge institutions.	Vice President, KMSD DG, RSDD, DGs, RDs/PSOD & Governance COP	RSDD country team leader country director sector directors	18.1. Create a knowledge portal and document repository for governance and anticorruption. Disseminate the knowledge acquired through this portal.	
	18.2. Acquire and disseminate international and regional good practices and lessons learned by participating in relevant regional and international governance and anticorruption networks.	Vice President, KMSD, Governance COP	RSDD		

CSP = country strategy and program, DG = director general, DMC = developing member country, PFM = public financial management, PSOD = Private Sector Operations Department, RD = regional department, RM = resident mission.

^a Accountability defines function of management/staff members who are ultimately responsible for an action, task or function.

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DEFINITION AND TERMINOLOGY USED¹

Access to Information: refers to the right of interested parties (the public, nongovernment organizations, the media, etc.) to receive information held by government. This right, protected by international and national laws, provides that official documents should be generally available, and that any exceptions should be limited and specific. Access to information increases government accountability to its citizens and reduces opportunities for corruption.

Accountability: denotes a relationship between a bearer of a right or a legitimate claim and the agents or agencies responsible for fulfilling or respecting that right. One basic type of accountability relationship is that between a person or agency entrusted with a particular task or certain powers or resources, on the one hand, and the principal on whose behalf the task is undertaken, on the other.

A duty to be accountable can be discharged in different ways, but all accountability mechanisms operate according to three principles:

- (i) **Transparency** requires that decisions and actions are taken openly and that sufficient information is available so that other agencies and the general public can assess whether the relevant procedures are followed, consonant with the given mandate;
- (ii) **Answerability** means an obligation on the part of the decision makers to justify their decisions publicly so as to substantiate that they are reasonable, rational, and within their mandate; and
- (iii) **Controllability** refers to mechanisms in place to sanction actions and decisions that run counter to given mandates and procedures; often referred to as a system of checks and balances or enforcement mechanisms. The checks may take many forms, including shaming and praise. Impunity is the antonym of accountability and apportioning blame for harm done is an important component of accountability.

Checks and Balances: refer to the institutional mechanisms for preventing power abuse. Often, they are constitutional controls whereby the three branches of government (executive, legislative, and judiciary) and other state institutions have powers over each other so that no single branch will dominate.

Country analytic and diagnostic work: encompasses the analysis and advice necessary to strengthen policy dialogue, design and implement country strategies, and carry out sound lending operations.

Fiduciary risk: Corruption is one type of fiduciary risk, which in the development aid context is the risk that aid funds are not used for the intended purposes, do not achieve value for money, and/or are not properly accounted for. Fiduciary risk is of particular concern when donors

¹ Sources: U4 Utstein Anti-Corruption Resource Centre at <http://www.u4.no/document/glossary.cfm>; ADB. July 2005. *Financial Management and Analysis of Projects*. Available: <http://www.adb.org/documents/guidelines/financial-financial-governance-management.pdf>; Department for International Development, United Kingdom. March 2003. *Promoting Institutional and Organisational Development*; and High-Level Forum, Paris Declaration on Aid Effectiveness, 2005.

provide direct budget support, as partner governments' public financial management systems are often relatively weak.

Financial management: process of financial decision making based on planning, forecasting, organizing, controlling, and communicating financial and physical data to achieve optimum financial and economic benefits from an investment. Financial management may incorporate one or more of the following: managerial accounting, financial accounting, and cost accounting.

Holistic approach: To address corruption effectively, conventional wisdom holds that a holistic approach is needed. Such an approach examines all institutions and practices within a given country that are relevant to maintaining honest government and private sector institutions. These include the executive, legislature and judiciary, businesses, the media, and civil society organizations.

Institutions: formal rules, informal constraints—norms of behavior, conventions, and self-imposed codes of conduct—and their enforcement characteristics (North, 1991). Organizations are groups of players who come together for a common purpose or to achieve specific objectives. They adapt their tactics and organization according to externally defined rules and regulations.

Institutional development: concerned with the process and content of changing existing institutions to improve their effectiveness. Institutional development is complex and unpredictable and needs a process approach and usually a long-term commitment. Institutional development also involves organizational development. Diagnostics are needed at both the institutional and organizational levels before institutional development interventions can be designed and implemented. The institutional components are described in Table 1.

Table A1: Institutional Components

Priorities	Has government identified its priorities among its desired outcomes and allocated resources accordingly? Are allocations adhered to? What are the core policy and decision making structures? What levels of expenditure can be afforded in the short, medium, and long term? What mechanisms are available to ensure that poor people's views are taken into account? Who sets priorities and in response to what interests? Can priorities be translated into resource allocations?
Policies	How effective are the core policy and decision-making structures and processes? Are they based on evidence and data? What is the availability and quality of data? What is the impact of policy changes on the poor?
Incentives	What is the current formal and informal incentive structure? Who benefits? What are the incentives for state structures to deliver services; for the bureaucracy to attract and motivate staff; for the development of national skilled human resources? What incentives, if any, are there to modify behaviors of key players in support of the desired outcomes? What incentives are there to review and improve performance?
Rules and Law	Are formal rules and laws respected? Are there informal rules leading to corruption, patronage, victimization, and exclusion? Can rights be enforced through law? Are rules and law subject to political interference? Are there informal systems of dispute resolution?
Culture	National attitudes to risk, hierarchy, incentive systems, participation, and donor interventions. Willingness to engage in consultation. Responsiveness to information. Issues of community and individual identity.
Drivers for change	What are the key drivers for change? Social, technological, economic or political? Are there sponsors or champions for reform? Extent of their power and influence? Level of commitment to reform? What benefits or incentives do they have to push a reform

	process? Level of political stability? What are the implications of the current electoral cycle?
Voice and partnership	What mechanisms and structures are in place to promote the concerns of poor people? Awareness raising, capacity development, joint management (e.g., forestry or water resources, participatory budgeting)? How effective are they? What voice do poor people have to hold delivery organizations to account? Report cards, public audits?

Source: Department for International Development, United Kingdom. March 2003. *Promoting Institutional and Organisational Development*.

Integrity system: Integrity means adherence to a set of moral or ethical principles. An integrity system, therefore, is a political and administrative arrangement that encourages integrity. A country's national integrity system (NIS) comprises the whole of government and nongovernment institutions, laws, and practices that can, if functioning properly, minimize levels of corruption and mismanagement. The concept of NIS has been developed and promoted by Transparency International as a framework with which to analyze corruption in a given national context, as well as the adequacy and effectiveness of national anticorruption efforts.

Program-based approach: a way of engaging in development cooperation based on the principles of coordinated support for locally owned program of development, such as a national development strategy, a sector program, a thematic program, or a program of a specific organization. They share the following features: leadership by host country or organization; single comprehensive program and budget framework; formalized process for donor coordination and harmonization of donor procedures for budgeting, financial management, and procurement; efforts to increase the use of local systems for program design and implementation, financial management, and monitoring and evaluation

Public financial management (PFM): refers to the legal and organizational framework for supervising all phases of the budget cycle, including the preparation of the budget, internal control and audit, procurement, monitoring and reporting arrangements, and external audit. The broad objectives of public financial management are to achieve overall fiscal discipline, allocation of resources to priority needs, and efficient and effective allocation of public services.

Sector² diagnostics and analysis: undertaken by the DMC government, or jointly by the DMC government and donors involved in the sector.

Sector strategy and sector development plan and sector reform program: produced by the DMC government, or jointly by the DMC government and donors. It is a medium- to long-term program of investment and change to improve the performance of the sector.

Sector assessment: undertaken by donors based on the sector diagnostics and analysis and on the sector strategy. The assessment is undertaken to inform the development of the country strategy.

Sector risk assessment: undertaken as part of the sector assessment, including an assessment of the PFM, procurement, and corruption risks. Risk assessments should normally be undertaken in an open and transparent manner and with the relevant DMC partners to encourage a shared understanding and consensus of the risks associated with achieving the performance targets proposed in the DMC's sector strategy.

² Sector could be subsectors and cover national or subnational governments, including municipal and district governments.

Sector road map: produced by Asian Development Bank (ADB), reflecting ADB's planned contribution to the implementation of the sector strategy and sector development plan and highlighting the milestones and performance targets to be achieved through ADB's partnership with DMC government agencies.

Sustainability: refers to the ability of a development activity to deliver substantial benefits for an extended period of time after financial, managerial, and technical assistance from a donor finishes.

Systemic corruption: As opposed to incidents of corruption that exploit isolated opportunities, endemic or systemic corruption occurs when corruption is ingrained in the economic, social, and political system. Systemic corruption is not a special category of corrupt practice, but rather a situation in which the major institutions and processes of the state are routinely dominated by corrupt individuals and groups. In such a situation, people have no alternatives to dealing with corrupt officials.

Transparency: the quality of being clear, honest, and open. As a principle, transparency implies that civil servants, managers, and trustees have a duty to act visibly, predictably, and understandably. Sufficient information must be available so that other agencies and the general public can assess whether the relevant procedures are followed, consistent with the given mandate. Transparency is, therefore, considered an essential element of accountable governance, leading to improved resource allocation, enhanced efficiency, and better prospects for economic growth in general.

Whistle-blower protection: refers to the measures (administrative or legislative) taken to shield the informer from physical, social, and economic retaliation. Successful law enforcement and anticorruption strategies largely depend upon the willingness of individuals to provide information and/or to give evidence. Whistle-blowers are people who inform the public or the authorities about corrupt transactions they have witnessed or uncovered. These individuals often require protection from those they expose.

GACAP II DEVELOPERS AND KEY EVENTS

Table A2.1: Governance Community of Practice

Chair	Klaus Gerhaeusser (EARD)
Members	Peter Pedersen (OAG) Auditor General
	Arjun Goswami (SARD) Principal Governance Specialist
	Asha Newsum (RSDD) Principal Governance Specialist
	Elsie Louise Araneta (RSDD) Principal Innovation and Efficiency Initiative Specialist
	Rita O' Sullivan (OGC) Senior Counsel
	Jurgen Conrad (CWRD) Economist
Alternate	Sandra Nicoll (PRM) Senior Governance Specialist

CWRD = Central and West Asia. EARD = East Asia Department, OAG = Office of the Auditor General, OGC = Office of the General Counsel, PRM=Pakistan Resident Mission; RSDD = Regional and Sustainable Development Department, SARD = South Asia Department.

Table A2.2: Retreat Participants

Department	Participant
ECRD	Barry Hitchcock V.B. Tulasidhar
MKRD	Shigeko Hattori Hubert Jenny
PARD	Stephen Pollard Marcelo Minc
SARD	Arjun Goswami Gambhir Bhatta Neside Tas-Anvaripour Surya Shrestha Allan Lee
SERD	Tariq Niazi Olly Norojono
BPMSD	Susan Kerr Mary Clarke
COSO	Robert Rothery Chi Nai Chong
CTL	Yuichiro Ogino Roslaini Rasuman
DER	Lynette Mallery
OAG	Renadi Budiman Michael Stevens
OAS	Bryan Cook
OGC	Roberta Thami Gulen Atay
PSOD	None

Department	Participant
SPD	Eugene Zhukov Robert Schoellhammer Guido Geissler
RSDD	Charles Melhuish Elsie Araneta Claudia Buentjen Raza Ahmad Anouj Mehta

BPMSD = Budget, Personnel and Management Systems Department, CTL = Controller's Department, COSO = Central Operations Services Office; DER = Department of External Relations, ECRD = East and Central Asia Department, MKRD = Mekong Department, PARD = Pacific Department, OAG = Office of the Auditor General, OGC = Office of the General Counsel, PSOD = Private Sector Operations Department, RSDD = Regional and Sustainable Development Department, SARD = South Asia Department, SERD = South East Department, SPD = Strategy and Policy Department.

**Table A2.3: Focal Persons and Alternates
(Post Realignment of RDs)**

Department	Focal Person	Alternate
EARD	Tulasidhar Vankina	Raymond Renfro
SERD	Tariq Niazi	Staffan Synnerstrom, Ray Cahoon
PARD	Stephen Pollard	Emma Ferguson
SARD	Arjun Goswami	Gambhir Bhatta
CWRD	Allan Lee	
BPMSD	Susan Kerr Teresa Kho	Mary Clarke Yohana Kho
COSO	Robert Rothery	Chi Nai Chong
CTL	Yuichiro Ogino Roslaini Rasuman	Kim Chan Heqing Huang
DER	Lynette Mallery	
OAG	Renadi Budiman	Andre Egloff
OAS	Hendy Widjaja	Bryan Cook
OGC	Roberta Thami	Shinsuke Kawazu
SPD	Eugene Zhukov	Robert Schoellhammer

BPMSD = Budget, Personnel and Management Systems Department, CTL = Controller's Department, COSO = Central Operations Services Office; CWRD = Central and West Asia Department, DER = Department of External Relations, EARD = East Asia Department, PARD = Pacific Department, OAG = Office of the Auditor General, OGC = Office of the General Counsel, SARD = South Asia Department, SERD = South East Department, SPD = Strategy and Policy Department.

Table A2.4: Post Retreat and Action Plan Small Group

Department	Name
ECRD ^a	V. B. Tulasidhar
MKRD ^a	Shigeko Hattori Hubert Jenny
PARD	Marcelo Minc
SARD	Arjun Goswami Surya Shrestha
COSO	Robert Rothery Chi Nai Chong
OAG	Michael Stevens
OGC	Roberta Thami
SPD	Eugene Zhukov Robert Schoellhammer
RSDD	Elsie Araneta

COSO = Central Operations Services Office; ECRD = East and Central Asia Department, MKRD = Mekong Department, PARD = Pacific Department, OAG = Office of the Auditor General, OGC = Office of the General Counsel, RSDD = Regional and Sustainable Development Department, SARD = South Asia Department, SPD = Strategy and Policy Department.

^a before departmental realignment effective 1 May 2006.

Table A2.5: Resource Team

Department	Name
CWRD	Allan Lee
EARD	V. Tulasidhar
COSO	Robert Rothery
SPD	Eugene Zhukov Robert Schoellhammer
BPMSD	Yohana Kho

BPMSD = Budget, Personnel and Management Systems Department, COSO = Central Operations Services Office; CWRD = Central and West Asia Department, EARD = East Asia Department, SPD = Strategy and Policy Department.

Table A2.6: Timeframe of Events

Date	Event	Agenda and Circulated Papers
3 February	informal Board seminar chaired by VPKM	review findings and conclusions
3 February	memo issued to various departments requesting nomination of focal persons	
28 February	inaugural meeting of focal persons	i. list of focal persons ii. key findings and conclusions from the review iii. Action Plan framework
7 March	briefing with RSCG professional staff	i. list of focal persons ii. key findings and conclusions from the review iii. Action Plan framework
7 March	second meeting of focal persons	
20-21 March	development of Action Plan retreat	two sets of papers circulated—first rough-cut Action Plan produced
29 March	small group first meeting	revised version of Action Plan discussed
29 March	uploaded retreat documents to the review site at the portal	
31 March	revised and simplified draft Action Plan circulated to focal persons and retreat participants	a further revision of the Action Plan based on comments from earlier meeting issued
2 April	uploaded retreat plenary discussions to the review site at the portal	
3 April	small group second meeting	to discuss latest revision of Action Plan
6 April	small group third meeting	to discuss further revision of action plan
7 April	circulation of draft Action Plan for comments to retreat participants and focal persons	draft Action Plan cover note
7 April	meeting with Vice President, Operations 2	briefing on the review
11 April	Governance Community of Practice Meeting	Discussion and review of status of preparation of Action Plan—issued two-page note on process, draft Action Plan, and two-page summary of key issues from retreat
11 April	deadline of submission of comments	
18 April	meeting with Vice President, Knowledge Management and Sustainable Development	i. draft Action Plan ii. Action Plan process iii. common themes and discussion points iv. summary of comments from plenary sessions
19 April	meeting of focal persons, alternates and retreat participants	i. draft Action Plan ii. comments matrix iii. notes on the comments iv. incomplete draft of GACAP II
19 April	Issue papers to Governance Community of Practice members	i. Draft Action Plan ii. comments matrix iii. notes on the comments iv. incomplete draft of GACAP II
20 April	complete first draft—Action Plan Report updated Action Plan matrix	
20 April	appointment of resource planning team	
21 April	meeting with Director General, RSDD	
21 April	issue Action Plan and text to directors general and Heads of Departments	
24 April	Governance Community of Practice	

Date	Event	Agenda and Circulated Papers
	meeting	
25 April	submit briefing for the President	
25 April	meeting with directors generals chaired by VPKM	
27 April	briefing with the President	
28 April	information note to Board	progress on development of Action Plan
28 April	briefing and presentation for Pacific Department and South Asia Department sector directors	
2 May	briefing and presentation for East Asia Department	
3 May	first resource team meeting	
3 May	briefing and presentation for Central and West Asia Department sector directors	
4 May	briefing and presentation for South East Department sector directors	
4 May	second briefing Pacific Department sector directors	
9 May	risk assessment briefing—resource planning team	
10 May	briefing by Vice President, Knowledge Management and Sustainable Development post-annual meeting	Requested inclusion of a few high-profile internal and external announcements to coincide with the announcement of the Action Plan.
11 May	risk assessment briefing—resource planning team	
12 May	retreat group and focal persons briefing on risk assessment	
12 May	update Action Plan and text with comments of directors general	
16 May	complete resource requirements	
17 May	issue Action Plan, text and resources	
19 May	retreat group meeting—on resources	
19–23 May	identify high profile actions to be announced by ADB management	
30 May	interdepartmental circulation—Action Plan and resource estimate report	
9 June	finalize Action Plan based on interdepartmental comments	
13 June	heads of department Meeting chaired by VPKM	
13 June	issue Action Plan to management committee	
14 June	briefing with the President	
16 June	management committee meeting	
26 June	finalize Action Plan report reflecting interdepartmental, heads of departments and management committee comments	
30 June	finalize review reports	
4 July	send review and Action Plan reports to editor	
12 July	Briefing of EARD Regional Management Team	

Date	Event	Agenda and Circulated Papers
17 July	Informal meeting with Regional DGs chaired by VPKM	
25 July	Informal Board Briefing on Action Plan	2-page brief and powerpoint presentation
August	Circulate to Board for Information the Review and GACAP II Reports	
August	Launch GACAP II and place reports on website	
August	Management announces measures to be taken by ADB	
August/September	Establish external communications arrangements and launch GACAP II in DMCs through series of planned events	
September	Appoint staff in RSDD to start preparatory work	
September	Establish internal organizational and communications arrangements for the start up phase	

COUNTRY ANALYTICAL WORK AND ASSESSMENTS

A. Country Analytical Work

1. Country analytic work (CAW) encompasses the analysis and advice necessary to strengthen policy dialogue, develop and implement country strategies, and carry out sound lending operations. A group of donors has created the CAW joint website³ to facilitate cooperation among countries and donors and improve development impact and cost-effectiveness for both capacity building and knowledge sharing. Through an active exchange of information, all partners stay up-to-date on development challenges and successes in a particular country or region.

2. The CAW website provides (i) a document library with access to project documents from partner agencies; (ii) contact points for the agency people with whom to communicate; (iii) toolkits for the main diagnostic products; (iv) procedures for conducting analytic work; and (v) examples of best practices. The website also provides information about all the analytical work undertaken for a specific country. Information on the donors⁴ contributing to the CAW website is shown in Table A2.1 at the end of this appendix.

B. Institutional Corruption Risk Assessments

3. ***What is an institutional corruption risk assessment?*** An institutional corruption risk assessment (ICRA) is an examination of the opportunities for corruption or gaps in the system that allow corruption to occur. This involves an examination of the processes, procedures, and—through expert opinions—mechanisms for corruption. ICRA's provide a valid entry point to address corruption within the context of Asian Development Bank's portfolio, mandate, and capacity.

4. Given the nature of corruption, where both the perpetrator and victim (although most countries judge both parties to be perpetrators) of the act want to keep it hidden—it is impossible to accurately measure the amount of corruption. The ICRA provides an opportunity for ADB, in partnership with developing member countries (DMCs), to conduct assessments on corruption that are not accusatory and do not affix blame (unlike perception surveys or social audits). Instead, they will assist in designing policies that mitigate opportunities for corruption.

C. At What Level will an ICRA be Done?

5. To ensure that realistic measures for preventing corruption are generated, the ICRA's will be carried out at the sector level⁵ as part of sector diagnostics for the purposes of preparing sector investment plans. Large national-level governance assessments have had minimal impact because they have focused on country-level issues that are beyond the mandate and capacity of organizations like ADB to change. The logical next step in corruption diagnostics would be to develop sector-specific tools that can be used in a variety of countries.

6. The core operational sectors identified in the Second Medium-Term Strategy (MTS II)—road transport; energy; urban and rural infrastructure; education and financial sectors—are

³ <http://www.countryanalyticwork.net>.

⁴ ADB is a contributor. However, ADB's analytical work is not routinely made available at this site.

⁵ This could be for subsectors, for a province, municipal government, or other institutional entities.

conducive to sector-specific institutional risk assessments. By focusing on selected priority sectors, ADB will also be able to maximize development impact.

D. ICRA: The Process

7. To identify mechanisms for corruption, the ICRA will utilize expert opinions from local and regional practitioners who understand the sector-specific opportunities for malfeasance in the country. ICRA would be done as a partnership between the DMC government, ADB and other donors. The participatory process combined with the use of local and regional expertise will strengthen the capacity of DMC governments to manage corruption risks in their sectors.

- (i) First step would be to establish the institutional arrangements including the assignment of responsibility and accountability for conducting the ICRA in ADB and DMC.
- (ii) Based on sector and institutional knowledge identify sector experts and practitioners that can make a valuable contribution to sector specific ICRA.
- (iii) Conduct meetings of expert/practitioners to identify opportunities for corruption and develop a series of indicative questions (checklist) that will identify the integrity gaps in the system for one country and one sector.
- (iv) The questionnaire will cover the entire project cycle including: planning; design; procurement; implementation; operation and maintenance.
- (v) It will then draw on sector diagnostics, analyses and reviews of policies and procedures to provide information on additional gaps in the system.
- (vi) After risk assessments for two sectors are prepared, they can be applied to other countries for modification and validation. While each country and sector will have its own ICRA; the increasing number of assessments available will serve as a reference point and strengthen those being developed.
- (vii) Once the tools for the assessment are ready, the risk assessment can be conducted involving a variety of stakeholders from the public sector, private sector, and civil society.
- (viii) The completed risk assessment will serve as the basis for sector strategies for combating corruption through risk identification.
- (ix) It should lead to a sector-specific action plan by the responsible ministries and departments within DMC governments.

E. Who Will Do the Work?

8. Institutional responsibility for undertaking ICRA would normally reside with DMC governments. ADB would need to perform a facilitative role. Analysis and sector specific knowledge required for conducting the ICRA would be facilitated by an appointed person either from within or from outside ADB.

F. Timeframe

- (i) 2 months from start date to prepare first ICRA in one sector in one country;
- (ii) 1–2 months to modify the initial ICRA per each country and new sector covered; and
- (iii) 6 - 10 months to prepare ICRA for three to five sectors in maximum of six countries (partially selected on the basis of upcoming sector reviews for the preparation of CSPs).

G. Resource Implication

- (i) One full-time person with assistance and inclusion of internal resources for each review.
- (ii) Consultative meeting costs will be dependent on the size, variety, and frequency of consultative meetings.

Table A3.1: DONORS CONTRIBUTING TO CAW WEBSITE

ADB	Asian Development Bank
AFD	Agence française de Développement
AFDB	African Development Bank
BMZ	German Federal Ministry for Economic Cooperation and Development
BOF	Bank of Finland
CIDA	Canadian International Development Agency
DED	German Development Service
Danida	Ministry of Foreign Affairs Denmark
GTZ	Deutsche Gesellschaft Für Technische Zusammenarbeit
DFID-UK	Department for International Development
	Dutch Ministry of Foreign Affairs
EBRD	European Bank for Reconstruction and Development
EC	European Commission
FAO	Food and Agricultural Organization
	French Ministry of Foreign Affairs
	German Embassy
IADB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IMF	International Monetary Fund
IMO	International Maritime Organization
IOM	International Organization for Migration
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
KfW	KfW development bank
NORAD	Norwegian Agency for Development Cooperation
OECD	Organisation for Economic Co-operation and Development
PAHO	PAN American Health Organization
PPIAF	Public-Private Infrastructure Advisory Facility
SDC	Swiss Agency for Development and Cooperation
SECO	State Secretariat for Economic Affairs
SIDA	Swedish International Cooperation Agency
UNAIDS	Joint United Nations Program on HIV/AIDS
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific, and Cultural Organization
	UNESCO Africa Regional Office Pole de Dakar French Ministry of Foreign Affairs
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICs	United Nations Information Centers
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization

UNU	United Nations University
WB	World Bank
WFP	World Food Program
WHO	World Health Organization

FACTORS INFLUENCING THE GACAP II RESOURCE REQUIREMENTS

1. **Underinvestment in governance, institutional development, and anticorruption capacity.** New operational policies, procedures, and instructions have historically been introduced without adequate consideration of the functions, skills, and expertise required. Although earlier reviews provided some guidance on estimating the required number of governance and anticorruption specialists, there has never been a systematic assessment of the matter. The closest thing were the country governance assessments of 2002.⁶ The 2002 reorganization transferred responsibility for sector-level governance and anticorruption efforts to the sector divisions, but it did provide sufficient resources or training programs. The tendency to allocate more staff and resources to loan approvals has also diverted resources from governance, institutional development, and anticorruption work. The end result has been a shortfall of expertise and manpower in governance, institutional development, and anticorruption efforts. Heads of departments are responsible for determining the required professional staff levels, but in the absence of central guidance their estimations have varied wildly. One of the activities in the Second Governance and Anticorruption Action Plan GACAP II is to train regional departments, resident missions, and Private Sector Operations Department PSOD on allocating governance, institutional, and anticorruption resources. However, this training will not be completed in time for the 2007 budget preparation.

2. **Balancing new requirements with existing commitments.** Although many actions in GACAP II simply reiterate existing operational policies, its risk management approach is new. Efficiency gains could be achieved by using assessments undertaken jointly with other development partners⁷ or by drawing on diagnostics conducted by others. Resources currently allocated for country governance assessments⁸ can be redirected to risk assessments. Similarly, sound upstream sector diagnostics conducted jointly with other donors and developing member countries (DMCs) should lead to better risk assessments for use in country strategy and program (CSP) preparation and sector road maps.

3. **MTS II focus and the Asian Development Bank (ADB) reform agenda should realize savings and improve organizational effectiveness.** The Second Medium-Term Strategy (MTS II) notes that insufficient attention is given to project implementation and supervision, and that ADB has spread itself thinly across too many sectors. It recommends sector focus and exit from certain sectors. The recent realignment of the regional departments should help balance portfolio sizes, correct imbalances in workload, and improve regional departments' country focus. There are other reforms and human resource strategy-related actions designed to improve organizational and individual effectiveness. Collectively, these actions should enable staff and financial resources to be released for MTS II priority areas and compliance activities. However, realizing the benefits from the reforms and MTS II will take a while, and it's unclear to what extent any savings will be directed toward governance, institutional development, and corruption (GIC) work. It is expected that the regional departments and PSOD will implement GACAP II immediately to bring early results.

⁶ Estimated at 12 weeks in the *Business Processes for the Reorganized ADB*, 2002.

⁷ These include country performance assessment for the allocation of Asian Development Fund (ADF) resources, public financial management assessments, and country procurement assessments.

⁸ There is an allowance of 12 weeks for country governance assessments in the staff coefficients for CSP preparation.

4. **Country and regional context.** The nature of ADB's partnerships with DMCs⁹ varies widely. It is thus inappropriate to prescribe a uniform functional model across regional departments. For example, the decision on whether a particular function should be undertaken in the regional department, the resident mission, or as a regional activity would be influenced by the nature of the DMC and ADB's relationship with that DMC, reflected in the CSP. Requirements could also change over time. Flexibility to allocate resources to meet evolving needs is an important consideration.

5. **Choice of delivery of functions, including outsourcing and partnerships.** Functions can be delivered through staff in regional departments, resident missions, and PSOD; staff in Office of the General Counsel (OGC), Regional and Sustainable Development Department (RSDD), or Central Operations Services Office (COSO); staff consultants; and/or TA support to the DMC. A number of functions can be outsourced to accredited institutions and some could be undertaken in partnership with other donors. Even for outsourced functions, ADB requires a critical mass of expertise in regional departments and resident missions to be able to assess public financial management (PFM), procurement, and corruption risks and oversee the implementation of risk management plans.

6. **Sector institutional development and governance expertise.** Regional departments and PSOD will need to consider the most appropriate organization for mainstreaming institutional development, governance, and anticorruption expertise in the sector divisions and in resident missions. There are several sector specialists with institutional development expertise. However, in most instances, they do not have procurement or PFM competencies, or the skills to look at corruption issues systematically in their sectors.

7. Sector specialists can be trained in institutional development and on measures for preventing corruption in their sectors. They can also be trained in procurement by going through the procurement accreditation scheme that COSO is planning to introduce. PFM and financial management require specific technical competencies that cannot be acquired through short-term training.

8. The recommended approach for institutional development and corruption prevention is (i) to give professional recognition and a career path for sector institutional development experts;¹⁰ (ii) train existing sector specialists to a level where they can undertake institutional development and anticorruption work in their sectors; and (iii) ensure that future recruitment into sectors recognizes these skills as essential. Whether additional posts are created or existing sector posts are converted into sector institutional development posts will be dependent on the sector and the regional department and resident mission.

9. For PFM and financial management, it is recommended that regional departments determine the most appropriate model. However, all regional departments must have, at a minimum, a procurement, a PFM, and a financial management specialist¹¹ to provide operational support to sector specialists and team leaders. PSOD will need to ensure that the models adopted by regional departments and resident missions meet these requirements.

⁹ Including middle-income countries, small states, weakly performing states, and countries in transition to market-driven economies.

¹⁰ Institutional development is defined in Appendix 1.

¹¹ The FM requirement is not new—it is a reiteration of existing policy.

10. **Decentralization and checks and balances:** As resident missions take on increased responsibilities, clarity is required on whether functions are being de-concentrated, delegated, or devolved to resident missions. Effective oversight by regional departments and systematic rotation of functions in resident missions are needed for critical functions where there is significant interaction with the DMC on projects and programs.



Summary Report

February 2006

Improving Governance and Fighting Corruption: Implementing the Governance and Anticorruption Policies of the Asian Development Bank

A comprehensive version of the report details the review outcomes and recommendations. See full report.

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CGA	–	country governance assessment
CPAR	–	country procurement assessment report
CSO	–	civil society organization
CSP	–	country strategy and program
CSPU	–	country strategy and program update
DMC	–	developing member country
ECRD	–	East and Central Asia Department
MDB	–	multilateral development bank
MDG	–	Millennium Development Goal
MKRD	–	Mekong Department
NGO	–	nongovernment organization
NPRS	–	national poverty reduction strategy
OAGI	–	Office of the Auditor General Integrity Division
OGC	–	Office of the General Counsel
OED	–	Operations Evaluation Department
PARD	–	Pacific Department
PBA	–	performance-based allocation
PRS	–	poverty reduction strategy
RD	–	regional department
RM	–	resident mission
RRP	–	report and recommendation of the President
RSCG	–	Capacity Development and Governance Division
RSDD	–	Regional and Sustainable Development Department
RSGR	–	Governance and Regional Cooperation Division
SARD	–	South Asia Department
SERD	–	Southeast Asia Department
SDP	–	sector development program
SWAP	–	sector-wide assistance approach
TA	–	technical assistance

NOTE

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

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SUPPLEMENTARY APPENDIX (available upon request)

Review of the Implementation of ADB's Governance and Anticorruption Policies- Findings and Recommendations

FOREWORD

Improving governance and fighting corruption are critical to reducing poverty, which is the overarching mission of the Asian Development Bank (ADB). Governance is one of the three pillars of ADB's poverty reduction framework (the other are pro-poor sustainable economic growth and social development). In 1995, ADB became the first multilateral development bank to adopt a governance policy that applied to all its operations. Three years later, ADB adopted an anticorruption policy that, among other recommendations, called for the implementation of both policies to be reviewed at a later date.

Subsequent years have seen a review of the implementation of the governance policy and the creation of the governance action plan in 2000, the introduction of new business processes in 2002, a progress report on the action plan in 2003, and a supplement to the anticorruption policy in 2004. During this period, the development challenge has evolved, notably with the adoption of the Millennium Development Goals, the Monterrey Pledge, the Rome Declaration on Harmonization, and the Paris Declaration on Aid Effectiveness. Many countries in the region have moved toward market economies and there has been a trend devolve power to local authorities.

This document condenses the first full combined review of the implementation of ADB's governance and anticorruption policies (available as a supplementary appendix to this report). Consultation with internal and external stakeholders complemented the normal desk analysis. The review finds that ADB has succeeded in raising the profile of governance in the region and significantly increased assistance for governance and institutional development; that the long-term strategic framework is still relevant; that the recently revised classification of the main themes of governance and the Asian Development Fund's criteria for assessing governance remain appropriate; and that some of the 2000 governance action plan has been implemented. For the period 2000–2004, nearly 6% of ADB loans and 18% of technical assistance activities were for governance programs and projects.

However, the review also concludes that there is still a long way to go toward embedding implementation of the governance and anticorruption policies in the mainstream of ADB operations. Implementation by ADB and many developing member countries (DMCs) has been weak. The scope of the governance policy and its action plan has resulted in too many small projects of short duration and thinly spread staff resources. Important governance posts are vacant and investment in succession planning has been minimal. The organizational imperative to process loans has compromised certain essential governance functions. Governance activities need to be more focused.

Corruption remains a serious challenge. ADB must renew its commitment to fighting corruption in a way that involves the whole organization. The quality of fiduciary and risk assessments is unsatisfactory and staff incentives do not always favor rigorous action against corruption. Closer collaboration with DMC governments, civil society, the private sector, and other donors is required.

Faced with these challenges, ADB should draw up an action plan that stresses accountability for outcomes and is adequately resourced. The plan should take careful account of the organization's capacity and resources. Some aspects of the plan may cost more to implement while others may save money. DMCs should benefit from on costs improved development outcomes. This summary report sets out where the implementation of the governance and anticorruption policies stands and what ADB, DMCs and their development partners should do to help raise standards of governance and prosecute the fight against corruption successfully.

I. ADB'S GOVERNANCE AND ANTI-CORRUPTION POLICIES

A. Introducing the Policies

1. Improving governance and combating corruption are critical to poverty reduction, which is the overarching goal of the Asian Development Bank (ADB). Poor governance and corruption deter investment, waste resources and distort their allocation, undermine the credibility of public authorities, and increase insecurity. The poor suffer most from the consequences of weak governance and corruption.

2. In 1995, ADB became the first multilateral development bank (MDB) to adopt a governance policy, which was to be integrated into all ADB's operations. The policy, *Governance: Sound Development Management*,¹ defined governance as "...the manner in which power is exercised in the management of a country's economic and social resources for development." It identified the basic elements of good governance as accountability, predictability, participation and transparency. It also stressed the importance of flexible approaches specific to each country and proposed an increase in ADB resources for governance, such as redeploying staff and enhancing expertise in governance and institutional development.

3. A review in 2000, *Promoting Good Governance: ADB's Medium-Term Agenda and Action Plan*² (Governance Action Plan), along with reforms to ADB's business processes in 2002, recommended that ADB should implement its governance policy by:

- (i) supporting sector-wide approaches to programming;
- (ii) providing an approach to assisting developing member countries (DMCs) with governance;
- (iii) guiding development of sound governance performance indicators;
- (iv) determining that country strategy and programs (CSPs) contain a focus on governance; and
- (v) identifying governance risks and informing mitigation measures.

4. Combating corruption is a vital element of improving governance. Corruption reduces the impact of investments in DMCs by creating unproductive debt and corroding confidence. The Agreement Establishing the Asian Development Bank (the Charter) requires ADB to follow sound banking principles, which include ensuring that loans are used only for their agreed purpose. ADB adopted an anticorruption policy in 1998. The policy has four objectives:

- (i) to support competitive markets and efficient, effective, accountable and transparent public administration as part of ADB's general work on governance and capacity building;
- (ii) to support promising anticorruption work by DMCs on a case-by-case basis;
- (iii) to improve ADB's dialogue with DMCs on governance issues, including corruption; and
- (iv) to ensure that ADB staff adhere to the highest ethical standards.

5. The anticorruption policy, which was supplemented in 2004, committed ADB to: (i) zero tolerance of corruption in its own activities; (ii) more explicit consideration of corruption in CSPs;

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

² ADB. 2000. *Promoting Good Governance—ADB's Medium-Term Agenda and Action Plan*. Manila.

(iii) reinforced procurement procedures; (iv) updating the code of conduct for ADB staff; (v) independent internal reporting; (vi) improved loan supervision and oversight; and (vii) training for staff.

B. The Policies in a Changing Context

6. Since the introduction of the governance and anticorruption policies, the external and internal contexts for their implementation have changed considerably.

7. Externally, many Asian countries have enjoyed rapid economic growth since the region's financial crisis in 1997. The trend toward market economies has played a major role in the region's progress, but Asia is still home to two thirds of the world's poor. The extent of poverty, combined with security concerns, poses particularly severe challenges to more fragile states, where the need for less corruption and more effective and accessible public services is acute. Even in more robust societies, realizing the full benefits of a more market-oriented economy depends to a considerable degree on the quality of institutions and the formulation and implementation of economic policies.

8. The global development agenda has also been changing. The United Nations Millennium Summit in 2000 and the International Conference on Financing for Development in Monterrey, Mexico two years later raised the curtain on a new development era whose objective was achieving the Millennium Development Goals (MDGs) in areas such as poverty, education, empowerment of women, health, the environment, and building a global partnership for development by 2015. A consensus has emerged that MDGs should be addressed in the context of national poverty reduction strategies (NPRSs), an important part of which is good public policy management. Other changes to the development agenda have been the Rome Declaration on Harmonization in 2003, which committed ADB and others to move toward sector-wide assistance approaches (SWAPs) to development, and the 2005 Paris Declaration on Aid Effectiveness.

9. Applying the development agenda requires sensitivity to countries' differences. There is broad agreement, however, that certain issues are paramount. They include the optimum role of the state; the balance between central, regional and local authorities; and partnerships between government, civil society and the private sector.³

10. Strategy and operational policy changes within ADB also have a bearing on implementing the governance and anticorruption policies. On the strategy side, the most important developments have been the long-term strategic framework for 2001-2015 and the medium-term strategy, both introduced in 2001, and the enhanced poverty reduction strategy, introduced in 2004. All three stressed the importance of identifying and measuring governance and corruption issues and taking suitable action.

11. On the operational side, policy changes have affected the implementation of governance and anticorruption policies. The Resident Mission (RM) Policy of 2000, ADB's reorganization in 2002 and its review in 2004, the human resources strategy of 2004, and the public communications policy of 2005 strengthened ADB's ability to meet its strategic priorities. Regional departments (RDs) became more focused, sector approaches to programs were

³ A recent World Bank study identified six dimensions of the institutional quality of governance for poverty reduction: (i) voice and accountability, (ii) political instability and violence, (iii) government effectiveness, (iv) regulatory burden, (v) rule of law, and (vi) control of corruption.

emphasized and plans or “road maps” for each sector were made mandatory, and fresh emphasis was placed on listening to stakeholders and collaboration with other development institutions.

12. While the human resources strategy introduced new career paths and incentives for experts in areas such as governance, the RM policy stressed DMC ownership of development and the consequent importance of government engagement in improving governance and combating corruption. Greater DMC involvement in these issues was also highlighted by a performance-based allocation (PBA) policy, introduced in 2001, which established rules for the allocation of resources according to country needs and performance. Such assessments placed a 30% weight, later raised to 50%, on governance and anticorruption issues.

13. A 1998 policy on cooperation with nongovernment organizations (NGOs) and the separate private sector development strategy stressed the importance of relations with stakeholders. The introduction of a money laundering and antiterrorism financing policy in 2003 expanded the scope of the Governance Action Plan. A year later, ADB revised its project classification system. It established “law, economic management and public policy” as a new sector, with the existing “public sector management” being reclassified as a subsector.

II. PROMOTING GOOD GOVERNANCE IN PRACTICE

A. ADB Lending and Technical Assistance

14. ADB has devoted significant resources to addressing governance (Table 1). Between 2000 and 2004, almost 6% of ADB loans and 18% of technical assistance (TA) activities were for governance programs and projects. The former public sector management sector consisted of four subsectors: (i) law and judiciary; (ii) national government administration; (iii) public finance and expenditure management; and (iv) subnational government administration. Ordinary capital resources financed 74% of the lending and the balance came from the Asian Development Fund (ADF).

Table 1: Overview of Governance Investments

Governance	2000	2001	2002	2003	2004	2002–2004
Number of Loan Projects and Programs	—	5	6	4	4	19
Percentage of Total Number	—	8.8	9.0	6.5	6.9	6.1
Percentage of Total Value	—	9.4	10.2	5.1	11.7	7.2
Number of Technical Assistance Projects	47	53	59	50	56	265
Percentage of Total Number	15.6	20.9	18.3	16.0	17.3	17.5
Percentage of Total Value	13.6	20.2	13.8	16.4	13.8	15.3

— =not available.

Source: Project Processing Information System as of 29 March 2005.

15. Over this period, ADB committed \$1,942 million to 19 public sector management projects. The great bulk of this funding, \$1,477 million, went to South Asia and \$1,034 million of the total was for public finance and expenditure management. TA financing totaled \$133 million for 265 projects over the same period. The largest single group of TA projects was for national

government administration. The geographical distribution of TA was more evenly spread than for loans, but the largest recipient was again South Asia (Table 2).

Table 2: Governance Loans, 2000–2004

Governance Subsectors	SERD (\$ million) Number	PARD (\$ million) Number	ECRD (\$ million) Number	MKRD (\$ million) Number	SARD (\$ million) Number	Total
Law and judiciary	0.0	0.0	0.0	0.0	350.0	350.0
National government administration	0	0	0	0	1	1
Public finance and expenditure management	0.0	80.0	15.5	45.0	65.0	205.5
Subnational government administration	0	2	1	1	2	6
	225.0	12.0	35.0	0.0	762.0	1,034.0
	1	1	1	0	6	9
	42.2	0.0	0.0	10.0	300.0	352.2
Total	267.2	92.0	50.5	55.0	1,477.0	1,941.7
	2	3	2	2	10	19

ECRD = East and Central Asia Department, MKRD = Mekong Department, PARD = Pacific Department, SARD = South Asia Department, SERD = Southeast Asia Department,
Source: Project Processing Information System as of 29 March 2005.

16. Table 3 sets out how this work aimed to reduce poverty.

Table 3: Dimensions of Poverty in ADB's Public Sector Management Loans and Technical Assistance

Dimensions of Poverty and Governance Issues Addressed	Percentage of Public Sector Management Projects	
	Public Sector Loans	Public Sector TA Projects
Empowering the poor	11	11
Improving coverage, efficiency and sustainability of basic services	58	54
Increasing access to markets	8	9
Providing security from economic shocks, corruption, crime and violence	22	26

Note: Numbers may not sum precisely due to rounding.
Source: Asian Development Bank.

17. The range of governance work is extensive. In national government administration, ADB's work embraces, for example, support for Viet Nam's Public Administration Master Reform Program, TA to the Republic of the Marshall Islands so it can cut its public sector by 30%, and TA to Azerbaijan to develop a competition policy framework. In public finance and expenditure management, examples include helping to set up an outcome-based expenditure management system in Mongolia and supporting the introduction of new procurement legislation in the Philippines. In subnational government administration, ADB is supporting local government in Indonesia, the Philippines, and Pakistan to decentralize and improve financial management and service delivery. In law and judiciary, ADB has supported an access to justice program in Pakistan; setting up a cadastral commission in Cambodia; and strengthening legal education in the Maldives, Mongolia, Viet Nam and other countries.

B. The Effectiveness of ADB Operations

18. How effective has ADB been in helping to improve governance? The broad answer is that ADB has succeeded in raising awareness of the issue in the region and governance now has a higher place on many DMCs' development agendas than would have been the case otherwise. Dialogue with governments, the private sector, other development agencies, NGOs and other representatives of civil society has grown more systematic and thorough. Governance is moving into the mainstream of ADB activities.

19. However, assessing the more specific impact of ADB lending for governance is not straightforward. ADB's Operations Evaluation Department (OED) has not done an evaluation study of the implementation of the governance policy. Extending the definition of governance lending to include decentralization and judicial reform and types of lending for mainstreaming institutional development has further blurred the picture. The review of these policies therefore sought to assess implementation by the main types of business processes and lending instrument (the full review is available as a supplementary appendix to this report).

20. **Country Strategy and Programs (CSPs).** CSPs are at the heart of ADB's operations. In conjunction with country strategy and program updates (CSPUs), the aim is to focus scarce resources on priorities agreed with DMCs. However, analysis of CSPs shows that the sector focus is often limited. Lending pipelines are hard to change and the three-year planning horizon of CSPs militates against the long-term strategic commitments that improvements to governance require. The result is that CSPs have tended to spread limited resources across too many sectors.

21. **Sector Assessments and Road Maps.** Sector assessments and road maps were designed to improve the quality of information in CSPs and to provide milestones for reform. However, the review found that sector assessments are still only a small part of ADB's economic, thematic, and sector work. The way in which governance is treated in sector assessments varies considerably and the analysis that is supposed to underpin sector work is often weak. Similarly, road maps are often inadequate, failing to provide clear priorities for institutional development and governance and presenting the issues inconsistently. Moreover, there is no formal guidance to ADB staff on the conduct of sector assessments or the governance and institutional content of road maps. As a result, projects are not sufficiently long-term and it has been hard to institutionalize sector assessments and road maps in ADB's work.

22. **Country Governance Assessments (CGAs).** Since 2001, country governance assessments (CGAs) have covered five areas: (i) legal and regulatory frameworks, (ii) public administration, (iii) public financial management, (iv) the judicial system, and (v) civil society. By mid-2004, 24 CGAs had been completed, but their impact has been limited. While CGAs have raised awareness of issues and improved the quality of discussion of governance issues in CSPs, the review concluded that they have made little difference to the development of long-term governance and institutional programs and strategies. The CGA framework omits analysis of the political system and political economy and is too broad to inform presentation of governance and anticorruption questions in a CSP.

23. **Governance Risk Assessments.** The Governance Action Plan said that CGAs should assess governance risks that pose a threat to development. However, CGAs and associated mitigation measures have not yet been fully and effectively integrated into ADB operations. Most CSPs do not identify the risks that weak governance and corruption pose to development. This is because the CSP process does not adequately utilize governance and corruption diagnostics

to inform the sector and thematic assessments, leaving the design of country programs generally—and sector road maps particularly—without the necessary understanding of governance and corruption risks.

24. **Governance and Performance-Based Allocation (PBA).** PBA has raised awareness in ADB of the importance of improved governance and combating corruption. However, even though PBA has great potential for engaging DMC governments and other stakeholders in dialogue, the review found that annual assessments have not been much used for this purpose. Moreover, PBA is mainly applied to the allocation of ADF resources, which limits the benefits anticipated from PBA, and governance assessments for PBAs and CGAs are too often replicated by different ADB staff in the same country. Now that ADB is required to disclose PBA ratings, it must be better prepared to answer queries about governance.

25. **Governance TA Projects.** TA projects were numerous, widely dispersed, and on average small and of short duration. Most were stand-alone projects with an average value of \$500,500 and an average duration of 16 months. Only 7% of TA projects supported governance loans. The number and variety of short-term TA projects suggests that resources have been diverted from a more strategic and focused approach to promoting good governance.

C. Mainstreaming Governance and Institutional Development

26. **Sector Projects and Programs.** More than 60% of ADB lending is for sector projects. Just over half of these are classified as sector development programs (SDPs). About half of the SDPs analyzed for the review had governance and institutional development components. However, the effectiveness of this relatively high number of stand-alone sector projects is questionable. Despite being short-term, many of the projects sought to address long-term institutional development, and they did so in the absence of proper sector institutional assessments. Analysis of 30 transport projects, evidence from a 2002 ADB study on rural roads, and analysis of the loan risks since 2002 provides further evidence that institutional development issues remain unresolved even though they have been identified repeatedly.

27. **Sector Lending.** This is one of the main instruments for encouraging institutional reform and development. Of the 47 sector loan projects during 2000–2004, half included sector development and almost a quarter included institutional reform and development. The review found several examples of sound sector analysis informing project design, usually undertaken with DMC governments. However, the review also found that, in many lending cases, sector assessments were either unsatisfactory or were not used. As with CSPs and governance, scarce project preparatory resources were stretched to cover institutional analysis, design of reforms, and sector development.

28. This finding reinforced existing evidence of tension between “hard” investments such as infrastructure and “soft” investments such as governance, in which precedence is often given to “hard” investments. Despite attempts to provide ADB staff with guidance about priorities, staff still feel under pressure to process infrastructure investments at the expense of sector institutional development. More fundamentally, the review concluded that project loans may not be the best way of assisting governance and institutional development reform in a sector. Because compliance with loan covenants is not a necessary condition for releasing funds, incentives for addressing difficult institutional, policy and legal conditions are often compromised. The complexity of sector loans leads to compromises in their investment and development components.

29. **Program Lending.** As Table 4 shows, program lending has been important for implementing the governance policy.

Table 4: Overview of Sector Development Programs and Program Lending, 2000–2004

Loan Type	Number of Projects	Average Duration (Years)	Average Number of Policy-Related Actions	Attached Technical Assistance
Sector Development Program	32	3.4	39	14 grants
Program Loans (sector)	27	2.0	56	7 loans
Sector Development Programs (governance)	3	2.8	73	4 project loans with components
Program Loans (governance)	13	2.7	63	6 loans
Total	72			
Program Cluster Loans	13	1.7	65	
Technical Assistance Loans	19 ^a	Normally same as program loan		
Technical Assistance Grants	14 ^b			

^a Average value \$5.2 million. This excludes the technical assistance loans for *PAK: Institutional Development for Access to Justice* (\$20 million) and *PAK: Local Government Performance and Enhancement* (\$23 million).

^b Average value \$995,000.

Sources: Project Processing Information System as of 29 March 2005; reports and recommendations of the President (RRPs) for program, sector development program, technical assistance, and project loans.

30. However, program lending is more complex than project lending and, in crucial respects, is ill-suited to addressing the systemic problems associated with governance and corruption. To be successful, sector and policy-based program lending requires sector analysis and a sector development plan. DMCs need to be confident that the sector has the capacity to carry out the plan. Analysis of program lending policy actions suggests that there seems to be no relationship in the design of plans between loan size, implementation period and the number of policy actions. The review also found that insufficient resources have been allocated to institutional capacity building in program loans. Only 35% of program loans were supported by TA loans and only 33% had grants to support institutional development.

31. Moreover, few program loans were backed by sound sector assessments and road maps. The South Asia and Southeast Asia RDs have recently adopted an improved sector development approach to governance loans. However, given the central role of TA in institutional development loans, the weaknesses in current practice need to be addressed more thoroughly. The review looked at the program lending cluster approach—which is a series of subprograms that allow for policy action over a longer period—and concluded that this approach was not used enough.

32. Analysis of the implementation of program lending revealed several key weaknesses:

- (i) Many program loans are too ambitious and do not allow enough time to achieve their objectives. Policy matrixes are too long and complex, are unrealistic and

burdened with too many conditions, and lack clear links between the conditions and program purposes and between purposes and planned benefits.

- (ii) DMC institutional development and capacity building are inadequately addressed.
- (iii) Analysis of policy changes often fails to fully describe the risks and mitigation measures.
- (iv) Insufficient attention to policy dialogue and capacity development results in program loans having a weak sector and country focus.
- (v) Development impacts are often insufficiently identified and monitored.
- (vi) Program designs often fail to fully analyze political processes in DMCs, partly because of a lack of knowledge or experience or both.

33. It is now generally accepted that best practice for program support is a long-term, flexible approach that is based on a detailed understanding of the institutional and political context. The design and output should be adjusted as the program evolves, probably over 7-12 years rather than the 18-24 months that is common now. However, the road maps for such long-term programs are often unclear. In addition, the programs are likely to grow in complexity and cost as decentralization in DMCs progresses and partnerships with NGOs and the private sector intensify. Even more than today, ADB governance specialists will need a sound understanding of government systems, policy and legal frameworks, and oversight bodies.

D. Developing Member Countries and Governance

34. **Governance and Poverty Reduction.** It is not easy to measure how much work on governance contributes to reducing poverty. One way is to see how far CSPs and CSPUs are aligned with DMC strategies for poverty reduction in NPRSs. Analysis of a sample of NPRSs showed that most had a long-term vision for good governance and poverty reduction. However, the strategies also suffered from one or more deficiencies:

- (i) failure to clearly diagnose key governance challenges,
- (ii) lack of defined priority governance actions and monitoring arrangements,
- (iii) insufficient emphasis on the public financial management systems vital for improving governance,
- (iv) absence of clear links between outputs and the budget, and
- (v) almost complete failure to fully tackle corruption.

35. **Governance and the MDGs.** The MDGs are part of the Millennium Declaration, which specifies good governance as being essential for achieving them. Successful implementation of the Governance Action Plan is therefore a critical part of ADB's support for DMCs as they try to achieve these goals by 2015. Service delivery is fundamental to improving governance, but the review found that the extent of support for systems to measure, monitor and report on service performance was unclear, despite their acknowledged value. Although the Governance Action Plan committed ADB to develop indicators to track the impact of governance interventions, there appeared to be little demand from DMCs or departments in ADB for such indicators. Nevertheless, "report cards" have been effective and work is underway to improve their use. Public expenditure tracking surveys, service delivery surveys, and social audits have also proved useful.

36. **Country Ownership.** DMCs are increasingly prominent in the global development dialogue. Country ownership of a development strategy and its implementation is the first and most important of the Paris Declaration commitments. However, the review observed that DMCs

seem to have become less inclined to borrow for improving governance and to use significant loan resources for institutional reform and development.

37. More specifically, there is little awareness among DMCs that CGAs are needed for developing CSPs. The assessments are seen as part of the compliance with CSPs rather than a valuable diagnostic tool. Nevertheless, the review found that DMCs do want to play a much larger role in project design. It also found, however, that several obstacles stood in the way.

- (i) DMCs may lack the capacity to do more in determining technical expertise requirements.
- (ii) TA can be too rigid and DMCs could be more engaged if TA were more of a process.
- (iii) DMCs would prefer to use much more local expertise instead of leaving sector and governance strategy preparation in the hands of ADB staff and international consultants.
- (iv) Participatory processes often do not take enough account of local circumstances and ADB's guidance on this aspect of the project cycle need revising.
- (v) Delays between design and implementing projects mean that ADB cannot readily adjust to changed political conditions.

38. **Building Capacity in DMCs.** Strong planning and public financial management systems create the enabling environment for DMC governments to produce medium-term expenditure frameworks that reflect the priorities in their national development strategies and are incorporated in annual budgets for long-term investment planning. The review found that weak public financial management systems and planning on the basis of projects instead of sector development meant that insufficient attention is paid to the running costs investments may entail. However, ADB can help to build capacity and promote greater ownership by adapting products and services better to local conditions, developing DMC capacity to carry out public financial management, institutional and sector analyses and ensuring that ADB resources and specialist staff are predictably available.

39. Public expenditure reviews, often undertaken together with the World Bank, are also valuable to DMCs, especially when the findings help to determine development priorities, inform policy dialogue, and shape interventions. However, ADB's limited staff resources restrict its participation in joint public expenditure reviews. Another weakness identified by the review is the absence of a road map that shows what DMCs must do before ADB uses the country's financial and procurement systems. All ADB projects continue to use ADB systems and procedures managed by ADB project management units, which perpetuates the problem of inadequate country systems.

E. Strategic Partnerships and Development Effectiveness

40. **ADB Commitment to Strategic Partnerships.** ADB is committed through the long-term strategic framework, the Governance Action Plan, and the Paris Declaration to strengthening partnerships with other development agencies as well as with DMC governments, civil society, and the private sector. ADB has drawn up an action plan to harmonize its activities with other donors and issues a quarterly progress report on harmonization. While good progress has been made in some areas, for example public expenditure reviews, progress in other areas such as joint CGAs has been less satisfactory. Nevertheless, the review found that a network of alliances and partnerships operated at several levels and was an increasingly powerful mechanism for promoting development effectiveness. Instances of good practice included joint

needs assessments in the wake of conflicts and disasters, common processes for drawing up country strategies, and assessing country performance for allocating ADF resources.

III. ZERO TOLERANCE OF CORRUPTION

A. Assisting Developing Member Countries (DMCs) in Combating Corruption

41. **Supporting the Growing Momentum.** Corruption is discussed more openly and often today than was the case before 1998, when ADB introduced its anticorruption policy. In recent years, DMC governments have become more willing to lead the fight against corruption and take measures to root it out. The new attitude partly reflects globalization, competition for foreign direct investment, stronger international coordination on tackling money laundering, and increased awareness in civil society. This trend can be expected to continue and ADB should—and will—continue to support it.

42. Despite recent progress, corruption continues to be rife in service delivery in many DMCs. Weaving support for combating corruption into mainstream development and poverty reduction therefore demands patient and persistent economic, legal and institutional reforms. The anticorruption policy anticipated that ADB's anticorruption work would be part of governance and capacity building and a growing number of TA projects aim to improve transparency and establish financial management systems. However, the review was unable to gauge the impact of this work because of the weakness of monitoring and evaluation systems for measuring project outcomes.

43. The anticorruption policy also envisioned supporting DMCs on a case-by-case basis as requested, but some DMCs have been reluctant to request such support or have seen corruption as an issue best addressed by other bodies such as the United Nations Development Programme. However, ADB is engaged in country dialogue, for example on starting an anticorruption project in Bangladesh and a state audit reform loan in Indonesia.

44. **Addressing Corruption in CSPs.** CSPs are the door through which DMC governments can tackle corruption in ADB operations and in their countries. A growing number of CSPs discuss corruption, but the review found considerable variation in the way the issues were presented. The results framework for CSPs does not require reporting on anticorruption measures and the business process framework for preparing CSPs and the CSP template are silent on how to treat corruption. However, in one important area, involvement with civil society, good progress has been made. ADB has become increasingly engaged with civil society stakeholders through consultation and participation in developing CSPs, designing projects and refining ADB policies. ADB's NGO and civil society network has been valuable and ADB also helps DMC governments to involve civil society in designing, project monitoring, and measuring. A significant outcome of closer civil society involvement in anticorruption efforts is more accurate corruption risk assessments.

45. So far, however, ADB has allocated few resources to specific anticorruption activities. Even when a country team does pinpoint particular actions in the CSP, the resources required for implementation are not spelled out. The difficulties are exacerbated by the shortcomings in anticorruption assessments, which are supposed to be the basis for discussion between ADB and DMC governments. The assessments tend to be too broad and offer little practical guidance on integrating anticorruption measures into CSPs. Information on corruption at the country level is derived from CGAs, public expenditure reviews, country procurement assessment reports

(CPARs) and assessments for ADF countries. ADB does not conduct corruption assessments at the national, subnational or sector level. All this means that country teams cannot determine whether corruption is likely to affect an ADB project during design or implementation. The consequences are serious.

- (i) The CSP may not be explicit enough about portfolio performance generally and about procurement, public financial systems and financial audit in particular.
- (ii) Sector road maps may not clearly identify or assess corruption risks, making it very difficult to devise mitigation strategies.
- (iii) The CSP may lack a clear statement that all investments will be designed to minimize corruption risks during implementation.

B. Designing Projects and Programs to Prevent Corruption

46. **Preventing Corruption in Projects.** Project loans often provide opportunities for corruption, for example, through government counterpart funds or local community contributions to projects. The review found that many project documents do not contain explicit arrangements for implementation, supervision and oversight, and terms of reference for contracting local expertise often do not specify how to prevent corruption. ADB's new classification system allows anticorruption work to be tagged as a theme, but only one loan and seven TA projects were tagged in this way during 2001–2004. The implication is that ADB staff do not systematically link the transparency and accountability components in project design to reducing corruption.

47. Project and program documents—the report and recommendation of the President (RRP)—present similar weaknesses. They do not have a separate section describing corruption risks and mitigation measures which are integrated into the project or program design. Although some project and program teams have introduced measures into RRP's to lower corruption risks, teams generally have little incentive to address them. Moreover, the existing format and procedures mean that project completion and project performance audit reports fail to offer full or candid assessments of corruption. The review also found that corruption risks are particularly high when projects are implemented through stand-alone mechanisms, such as project management units that often report to specially created steering committees outside official structures.

48. **Preventing Corruption in Program Loans and National Systems.** Program Loans and national systems present a great challenge. Program loans are budget support that is conditional on performance. The integrity of financial control and accountability systems in DMCs is therefore essential. Ideally, ADB and other donors should use a country's financial systems as this will both lower transaction costs and raise development effectiveness. However, the risks and benefits of using country systems need to be realistically evaluated. ADB's case for providing program loan assistance would be stronger if a critical mass of donors determined that, on balance, budget support is effective in supporting reform, more cost-effective than a project, and likely to reduce transaction costs and so outweigh the cost of leakage.

C. Enforcement and Prevention Measures

49. **Financial Management Assessments, Project Review Missions and Audits.** ADB has several mechanisms that are intended to provide checks on corruption. However, the review found that all are deficient in significant respects.

- (i) *Financial management assessments* are made of executing agencies but a report by ADB's Capacity Development and Governance Division (RSCG) calculated that 17% of all RRPs evaluated and 20% of public sector RRPs failed to address financial due diligence adequately. ADB Management has endorsed the report's recommendations.⁴
- (ii) *Project review missions* could be valuable for enquiring into corruption issues, but ADB's project administrative instructions do not give clear guidance on how the missions should do this and the organizational incentive system does not encourage investment of time and effort in project reviews. Informants have also expressed concern that project staff in ADB do not have enough time to evaluate bid documents and bids thoroughly before giving a no-objection clearance.
- (iii) *Annual audited financial statements* are prepared for all projects but yield few allegations of corruption. Over the past 6 years, the statements have led to an average of fewer than two Office of the Auditor General Integrity Division (OAGI) investigations a year. Statements are often presented late, do not contain enough detail about disbursement flows, and are regarded as being of variable quality and having an excessive number of qualifications. ADB needs to ensure that these statements are prepared to international standards. Greater use of private audit firms may be necessary.
- (iv) *Procurement-related audits* are carried out in partnership with country audit institutions and these can increase ownership of audit findings and build local capacity. Two such audits were conducted in 2004 and another six were scheduled for 2005. However, the review noted that the quality of an audit rests entirely on the integrity of a project's internal monitoring arrangements.

D. Guidance and Training

50. ADB staff receive some guidance from the ADB operations manual and project administration instructions but not in full operational detail. The audit manual also has a chapter on corruption, although the review felt that staff were not very familiar with the manual. *Guidelines for the Financial Governance and Management of Investment Projects* set out policies and procedures. In addition, OAGI provides anticorruption training to staff in RDs and RMs. *Guidelines for Procurement* and *Guidelines on the Use of Consultants* provide fundamental procedural safeguards for project implementation. However, the review recorded reservations about continued over-reliance on them as primary bulwarks against corruption, and it was noted that insufficient attention is paid to ensuring adequate transparency provisions and to monitoring arrangements to make corruption more difficult.

51. At the moment, staff do not have practical guidance notes or training programs to help them review procurement documents and detect and assess early signs of malfeasance. This is particularly a problem for national staff in RMs who are usually responsible for scrutinizing procurement documentation. While experienced project officers may be able to spot collusion immediately, newer staff are less likely to have these skills. Training and guidance in detecting malfeasance are essential. More specifically, guidance and best-practice examples are needed in such areas as preparing corruption risk assessment and mitigating measures for CSPs, reviewing and updating corruption risks, and assessing the effectiveness of mitigating measures during CSPU preparation and portfolio reviews, and preparing preventive design arrangements.

⁴ ADB. 2005. *2004 Financial Due Diligence Retrospective Report*. Manila.

E. Management Engagement and Staff Perceptions

52. **Leadership and Staff Skepticism.** ADB Management has made a strong commitment to combating corruption and is more vocal about corruption during review meetings for CSPs and projects than in the past. The review noted, however, that there was reluctance among some staff to raise corruption issues with DMC governments unless Management had already raised the same question during CSP discussions. More seriously, the review also found widespread scepticism among staff at headquarters and in RMs about the willingness of Management to pursue alleged corruption aggressively. It was widely perceived that Management treads cautiously in policy dialogue about corruption. These views were echoed by stakeholders in DMCs. The fact that ADB's borrowers were also shareholders in ADB was seen as a cause of this perceived reluctance to tackle corruption resolutely.

53. Moreover, there was widespread suspicion among staff, particularly those in RMs and those directly involved in project implementation, NGOs and civil society organizations (CSOs) that the true level of corruption in ADB projects was significantly underreported. This was largely attributed to a feeling that reporting corruption is implicitly discouraged and that there are poor incentives for staff to report suspected malfeasance, a primary concern being the consequences for an individual's career. As a result, the number of corruption allegations brought to OAGI is probably lower than it should be.

54. OAGI is trying to encourage reporting of corruption, but success will partly depend on introducing sound performance measures and benchmarks and stronger incentives for staff. It would also help if MDBs could harmonize their reporting and if ADB could greatly expand its strategic partnerships with other donors to help DMC governments to develop strategic and coordinated approaches to combating corruption. The positions of other countries, notably ADB's donor members, are also important. An example is the bill introduced in 2005 by the United State Senate Foreign Relations Committee to strengthen MDBs' anticorruption efforts.

IV. ORGANIZATION AND STAFFING

A. Organization for Implementing the Policies

55. **Organization Structure and Responsibilities.** ADB's structure for implementing the governance and anticorruption policies flowed from ADB's reorganization in 2002.

- (i) The RDs and RMs were responsible for all operations, including CSP preparation, and all stages of the project cycle other than evaluation.
- (ii) The Office of the General Counsel (OGC) was charged with supporting legal and judicial reform.
- (iii) Departments within Finance and Administration (e.g., Budget, Personnel, and Management Systems Department, Controller), and the Central Operations Services Office were to implement and closely monitor activities to prevent corrupt practices.
- (iv) The OAGI was the main contact point for allegations of fraud.
- (v) The Governance and Regional Cooperation Division (RSGR) within the Regional and Sustainable Development Department (RSDD) was to maintain quality and technical excellence, ensure consistency across ADB by developing and monitoring policies and guidelines, and support regional programs in governance and anticorruption.

56. More recently, RSDD has been reorganized because the original structure was not delivering the desired results. As part of that reorganization, RSGR was replaced by a new RSCG, whose mandate was to support and enhance quality and efficiency in all ADB operations for capacity building and governance areas. Responsibility for money laundering was transferred to OGC.

57. **Governance Functions in Operations.** In addition to designing and implementing projects and programs for NPRSs and CSPs, there are other ADB functions that bear on governance and combating corruption. They include:

- (i) acquiring and applying knowledge on the country's formal and informal governance systems;
- (ii) engaging in strategic policy dialogue with DMCs on governance and anticorruption issues during formulation of the NPRS;
- (iii) ensuring the effective mainstreaming by sector divisions of the policies in CSPs, programs, and projects;
- (iv) sustaining strategic alliances with international development partners in DMCs;
- (v) providing oversight of fiduciary and corruption risk assessment at the country, sector, and project levels;
- (vi) providing oversight on project and program procurement, financial management, and actions mitigating corruption during implementation; and
- (vii) implementing the governance commitments on harmonization and alignment in the Paris Declaration.

B. Governance Expertise and Workload

58. **Governance Staffing.** There is no clear estimate of the number of staff devoted to governance. Early in 2005, only 12 approved professional posts had the word "governance" in their title. This gives a misleading impression because there are many more specialists in governance and relevant disciplines such as financial economics, public resource management, financial management and law in RDs, RMs, and OGC. The Governance Action Plan did not set out how many specialists would be required to implement the policy and the workload is certainly higher than was anticipated in 2000.

59. The lack of a systematic approach to staffing for governance is evident from the following.

- (i) In RMs, where priority is given to loans and TAs, risk management and mitigation strategies are underdeveloped. Staff have insufficient guidance or support in promoting good governance and or fighting corruption, and the roles of governance and sector specialists are unclear.
- (ii) Staff hired as financial management specialists have often been diverted to assist with loan processing.
- (iii) OGC's role in combating corruption in operations needs to be formalized.
- (iv) Despite the evidence from the review that staff want ready access to expert help, ADB has no satisfactory mechanism for obtaining such help regionally or globally. For example, ADB's database on individual consultants functions poorly.
- (v) A staff survey conducted as part of the review indicated that there is a large pool of unrecognized governance skills. Planned changes to ADB's human resources systems to support governance work by encouraging specialists to join a

“governance cadre” may lead to a wider pool of experts that ADB can draw on to further implement the policies.

60. **Placing Governance Fully in the Mainstream.** The strains on staff, particularly the time and effort devoted to projects, mean that, despite progress, institutional development has not proceeded to the extent envisaged at the time of the reorganization in 2002. The review noted that staff were uncertain about what “institutional development” meant and that they felt that more support, guidance and training on governance were badly needed.

61. The first medium-term strategy called on ADB to introduce integrated resource management to carry out country programs, and the 2002 reorganization and the new business processes stressed putting governance into the mainstream of sector activities. However, progress has been slow.

- (i) There is limited evidence of a systematic approach to assessing the cost of implementing the CSP, which has resulted in erratic work in areas such as corruption assessments, financial due diligence and implementation oversight.
- (ii) There is no published accountability framework in sector divisions for mainstreaming governance, anticorruption and institutional development.
- (iii) There are few governance specialists in RDs and RMs and they have not been able to prioritize governance and institutional development in important lending areas such as infrastructure and public financial management.

62. **Staff Skills Eroding.** Many governance specialists have been redeployed and many governance posts in RDs and RMs are vacant. Other staff, frustrated by the limited opportunities for promotion in governance, have left ADB or moved to other parts of ADB. The review found that most staff believed that promotion was largely based on the number of loans processed, creating perverse incentives for implementing governance and anticorruption policies. The upshot is that there seems to have been an erosion of staff skills just when governance is becoming more important.

63. **Lack of Clarity and Focus.** There is no agreed basis or framework for organizing governance work in RDs and RMs and responsibilities for essential non-project governance and institutional work are especially poorly defined. Moreover, there is a lack of strategic focus on governance at the corporate, country and sector or theme levels. This means checks and balances in implementing the policies may be impaired, makes it more difficult to align the organization to implement the policies properly, and complicates planning of staff resources. This lack of clarity and focus poses a major challenge for ADB.

V. MAIN FINDINGS AND RECOMMENDATIONS

A. Main Findings

64. **Both Policies.** Overall, ADB has been successful in raising the profile of governance in the region. The LTSF’s operating principles, the new classification system and ADF criteria continue to be relevant. However, full implementation of the Governance Action Plan has been hampered by the ambitious nature of the plan, tenuous ownership within ADB, and DMCs and a lack of resources. DMCs are increasingly critical of perceived inadequacies in ADB’s support for governance and of ADB’s heavy use of external consultants.

65. **Governance.** The review detailed extensive weaknesses in the implementation of the governance policy.

- (i) Insufficient attention is given to a multi-dimensional approach to governance that takes into account local participation and circumstances.
- (ii) There are too many small TA projects covering too many areas. RDs have difficulty focusing programs in priority sectors and governance areas.
- (iii) ADB needs to step up the formation of strategic partnerships with other donors and agencies.
- (iv) Uncertainty about the definition of “governance” has led to confusion about the scope of ADB’s work.
- (v) ADB’s knowledge of governance is not specific or detailed enough in many countries.
- (vi) Some forms of assistance to DMCs, such as program and sector lending (including program cluster lending), are ill-suited to supporting a long-term, flexible, program-based approach to institutional reform.
- (vii) Integrating institutional development with infrastructure investments using sector lending and development has often been ineffective.
- (viii) ADB has missed opportunities to tap into the performance-based allocation (PBA) process and to use CGAs and road maps to inform institutional development priorities. ADB has also not taken advantage of the revised classification system to improve the analysis of project data.
- (ix) Leadership and organizational accountability for governance and anticorruption functions in operations need to be formalized.
- (x) ADB does not have sufficient internal capacity in governance or access to external expertise to implement policies for institutional capacity building or policy reform properly.
- (xi) Many staff from the sector divisions in regional departments are uncertain about how to design CSPs, sector strategies, and investment projects in a way that strengthens institutions and minimizes corruption.

66. **Anticorruption Activities.** ADB has achieved some success in dealing with fraud and corruption in procurement and in increasing awareness of the anticorruption policy. Less progress has been made in assessing the impact of corruption on a country’s ability to meet its development goals. Wrongdoers continue to act with impunity. The review found that:

- (i) service delivery in many DMCs is plagued by inefficiency and corruption, for example in health, education, water, licensing, revenue and land titles;
- (ii) higher priority should be given to supporting investments in local transparency, participation and complaint mechanisms;
- (iii) strong preventive measures against corruption must be built into project designs;
- (iv) a better balance should be struck between early analysis and more cautious learning as work progresses;
- (v) guidance on implementing the anticorruption policy needs to be streamlined and operational support more decentralized;
- (vi) project monitoring, supervision and project audits are weak and ADB needs incentives across ADB to encourage staff to take effective measures to mitigate corruption risks during project implementation;
- (vii) implementing the policy would be helped by more use of rapid appraisals, closer collaboration between DMC stakeholders and the Bank to carry out diagnostic

- work together, harmonization of work with other donors, and investing in action-oriented research;
- (viii) as attitudes toward corruption have changed, it would be timely for ADB to reaffirm its Charter and policy commitments to tackle corruption; and
- (ix) ADB needs to make integrated, internal reforms to ensure that corruption is much more likely to be detected and punished.

67. **Organization and Staffing.** The allocation of resources needs to reflect the importance of improving governance and fighting corruption.

- (i) ADB must be clear about the roles, responsibilities, and accountability of the units implementing the policies.
- (ii) It must define how to determine governance and anticorruption workloads and the number of positions for governance specialists in RDs and RMs.
- (iii) Sector divisions need to increase their capacity for governance and institutional appraisal and identify development specialists in priority sectors.

B. Conclusions

68. The report contains the following recommendations.

Improving Governance

- (i) ADB must focus and prioritize lending and non-lending activities in governance and institutional development (a) where there is greatest demand from DMCs; (b) where DMC have plans, or are prepared to develop plans for improving the performance of country systems;⁵ and (c) where ADB can offer support from sufficient skilled staff and external centers of expertise. Priority should be given to: fragile states and ADF countries and to public financial management, including procurement and infrastructure services. In allocating TA grant funds, priority should be given to developing competent institutions in public financial management and infrastructure service delivery.
- (ii) ADB should create an effective, low transaction cost, lightly administered TA modality, with effective monitoring and reporting systems that will enable long-term (7-10 years), flexible, process-oriented institutional reforms and capacity development of a sector or subsector.
- (iii) ADB should replace the mandatory requirement to conduct CGAs for CSPs with a requirement for country teams to have up-to-date knowledge of the key governance, institutional, and corruption risks to ADB's future portfolio.
- (iv) For ADF countries, RDs and RMs should use the governance assessments undertaken for PBA as the entry point for (i) engaging in policy dialogue and determining priority areas for ADB support; (ii) assessing country fiduciary and corruption risks; and (iii) developing and agreeing on a results framework for monitoring performance as part of the PBA assessments and CSPs.
- (v) A code of good design and implementation principles for governance program lending is required to ensure that the medium- to long-term benefits of the policy objectives are realized and sustained.
- (vi) ADB must be clear about the roles, responsibilities, and accountabilities of units involved in implementing the policies. There is a need for clarity on the

⁵ Country systems in this instance refer to public financial management and procurement systems.

responsibilities and accountability of the newly formed RSCG and key roles played by other divisions within RSDD, OGC, OAGI, COSO, and the Strategy and Policy Department. Relationships among these units should be carefully analyzed and formulated in order to provide optimal support to RDs and RMs to implement the policies and the action plan.

- (vii) RDs and RMs need a basis for determining governance and anticorruption workloads and the number of positions for governance specialists. Priority should be given to appointing governance specialists in RMs to support fragile states and ADF countries.
- (viii) Sector divisions in RDs and RMs must enhance their capability to assist DMCs as they (i) implement key institutional, policy, and legal reforms at the sector level and (ii) develop and implement a program-based approach for sectors and subsectors requiring institutional, policy, and legal reforms. Staff who demonstrate relevant competencies and leadership skills should be identified as institutional specialists for the sector in each of the RDs.
- (ix) Strategic alliances with development partners should be strengthened. ADB must collaborate with its development partners to identify specific areas of governance and sector institutional development that present opportunities for (i) improved analytical work and joint governance assessments; (ii) adopting or expanding program-based approaches; (iii) cofinancing; (iv) use of common arrangements and procedures; (v) development and use of common benchmarks; and (vi) enhanced joint policy dialogue.

Achieving Zero Tolerance of Corruption

- (x) ADB's corporate commitment to the Anticorruption Agenda should be renewed. It is essential that ADB's Board and Management renew and make plain their commitment to oppose corruption at all levels of the organization and in all ADB operations. This renewed commitment would form the basis for discussions between senior staff and DMCs over corruption assessments and countermeasures incorporated in CSPs and in the design of lending and other products.
- (xi) All CSPs should include a comprehensive assessment of corruption in the country, including a frank discussion of its impact on the country's development and the government's ability or willingness to control it. CSPs should contain: (i) sound risk assessments for corruption and a clear description of mitigation measures in each relevant sector of operation; and (ii) clear statements that all ADB investments are designed to minimize risks of corruption during implementation and corruption is likely to lead to cancellation of program elements affected.
- (xii) The insights of civil society stakeholders should be harnessed. CSOs can and should play a key role in mitigating corruption risks in DMC operations. ADB's NGO center provides the institutional focal point for involving civil society in combating corruption in its operations. CSPs and project documents should explicitly describe how DMC government policies and practices engage civil society in combating corruption. Further, the CSPs should clearly define the role to be played by civil society in mitigating corruption risks in ADB operations.
- (xiii) Corruption in projects should be addressed more effectively. Among the many corruption risks ADB faces, the most serious are associated with projects because that is where funds are disbursed. The review therefore recommends that the highest priority be given to lessening corruption risks in projects.

- (xiv) Guidance and training on anticorruption measures should be improved. The review finds that ADB staff, particularly those with responsibilities for anticorruption work in RDs and RMs, would benefit from improved guidance and training.
- (xv) Staff incentives should be realigned. The staff code on duties and responsibilities⁶ should be revised to strengthen incentives to combat corruption. All staff should understand that failure to report suspected corruption constitutes a disciplinary offense. Management should reinforce the message to heads of departments, divisions, and RMs that preventing or deterring staff from reporting allegations of corruption is also a disciplinary offense. It is important that staff are certified as having completed fraud and corruption training before becoming mission leaders or project supervisors.

C. Recommendations

69. **Prepare an Action Plan.** ADB should set up a multi-disciplinary working group representing key departments to consider the review and prepare an action plan with an estimate of necessary resources and an accountability mechanism. Future reviews and plans need to be more closely aligned with corporate business planning cycles.

⁶ Administrative Order 2.02 comprises staff duties, rights, and responsibilities.