

# ASIA 2050

## Realizing the Asian Century

### Executive Summary

## “What Elephant? – Framing Governance Reforms in Real-World Conditions

3 August 2017  
Governance Seminar Series

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“The greatest challenge Asia faces in its endeavors to realize the Asian Century: transforming governance and institutions.”



# 7 Sector and 8 Thematic Groups at ADB to leverage technical expertise

## Sector Groups

Education  
Energy  
Finance  
Health  
Transport  
Urban Development  
Water

## Thematic Groups

Agriculture & Rural Development  
Climate Change & Disaster Risk Management  
Environment  
Gender  
**Governance**  
Public-Private Partnerships  
Regional Cooperation & Integration  
Social Development

The Governance Group's mandate is to help ADB's developing member countries improve development results by...

- investing in public sector reforms and supporting improved performance of institutions

20.1%

PSM (as sector),  
% of ADB's total  
approved  
sovereign  
loans, 2016

- supporting identification and mitigation of governance risks in ADB operations
- focusing on capacity development

85%

GCD (as driver  
of change), % of  
total ADB  
sovereign  
operations,  
2016

# The Governance Thematic Group covers both sectoral and thematic work

## Sectoral focus

### Public Sector

#### Management (PSM) Reforms

##### 7 sub-sectors

Public Expenditure and Fiscal Management (52%)

Economic affairs management (5%)  
Reforms of State-Owned Enterprises (12%)

Decentralization (9%)

Social protection initiatives (13%)

Public administration (9%)

Law & judiciary (0%)

**PSM as a sector in ADB's total approved sovereign loans (2016): 20.1%**

*Figures in parentheses above are share of sub-sector investments as total sectoral investments of \$5.55 billion (2014-2016)*

## Thematic focus

**Governance and Capacity Development as a theme in total ADB sovereign operations (2016): 85%**

### On Governance Risks

Assessing, and mitigating, risks to development effectiveness of ADB's investments; focus on public financial management, procurement, and anticorruption

**Basis: Second Governance and Anticorruption Action Plan (GACAP II)**

### On Capacity Development

Ensuring governments have the institutional capacity to implement reforms, and manage investment projects and development programs

**Bases: Capacity Development Operational Plan; Approach to Institutional Performance**

For 2017-2018, as a sector, Governance Thematic Group is engaged in 3 main areas of work

<u>Governance and PSM Area</u>	<u>Outcome</u>
Domestic resource mobilization	Greater capacity of DMCs to raise revenues from domestic sources
Reforms of SOEs	Better knowledge gathering and sharing on SOE reform work of ADB
Local governance and localizing global agendas	Innovative development ideas incubated at local level and scaled up, as feasible

## Operational Support by GovTG Secretariat – Targeted areas

### Domestic Resource Mobilization

*(Outcome: Greater capacity of DMCs to raise revenues from domestic sources)*

- Policy dialogue with DMCs and donors
- DRM Trust Fund to support DMCs (capacity development)
- Use expertise and knowledge of OECD, Global Forum, etc.
- Engage with, and support, regional associations (eg, SGATAR)
- Work with RDs on pipeline development and program processing

### SOE Reforms

*(Outcome: Better knowledge gathering and sharing on SOE reform work of ADB)*

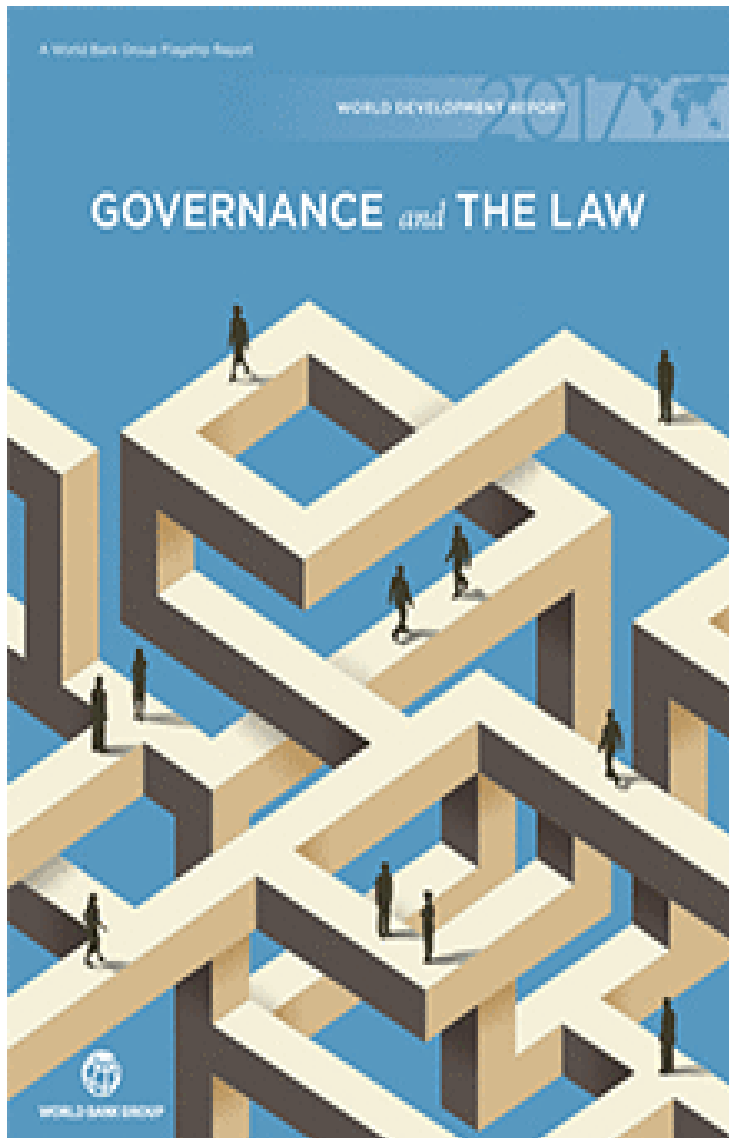
- Working across departments
  - Central database of ADB operations
- Knowledge sharing events and skills development for staff

### Localizing Global Agendas

*(Outcome: Innovative development ideas incubated at local level and scaled up, as feasible)*

- Links to SDGs / COP21
  - Test innovations for upscaling
- Work with RDs for operational application
  - Open government partnership
- Service delivery improvements at local level

# Setting the overall tone



Three guiding principles for rethinking governance for development are:

- Both form and functions of institutions matter
- Capacity building is important but so are power asymmetries
- The rule of law, and the role of law, are important

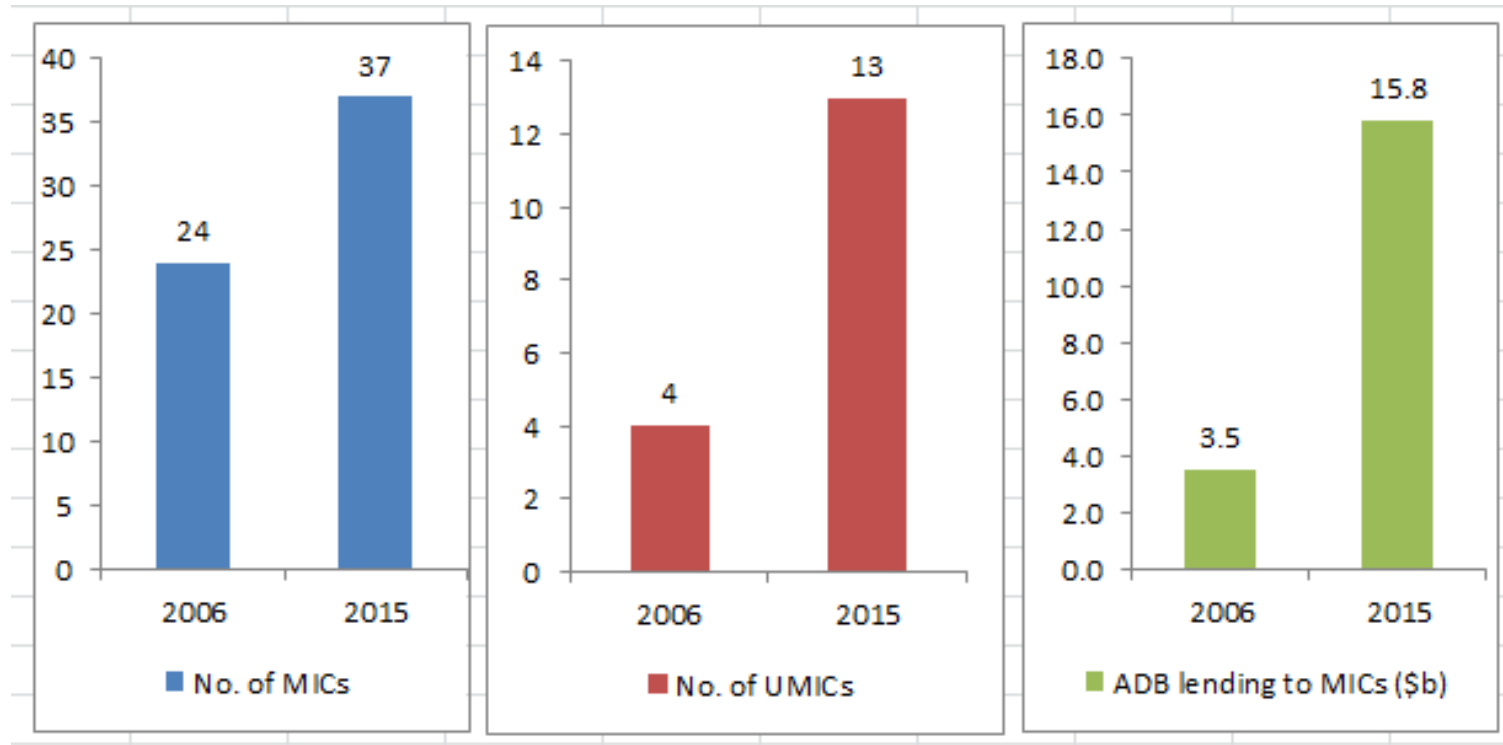


## Vote rigging fiesta at Dhaka College

Presiding officer looks helpless as BCL men enter all the six polling booths of Dhaka College polling centre and stuff ballot boxes at their will.



## What a greater number of MICs means for governance and public sector management



All but three of 40 countries where ADB has operations are now middle-income.

**Increased number of middle-income countries**

- Greater pressure to link up regionally and globally
- Increasing role of sub-national governments
- Rethinking of role of state, eg, use of SOEs
- Greater demands for effective service delivery, transparency, and accountability



The World Bank-Annenberg Summer Institute is designed for leaders, strategists and advisors who want to strengthen the critical communication skills required to support change agents and reform initiatives in developi

- Political analyses
- Multi-stakeholder collaboration, coalition and network building
- Strategic communication
- Leveraging social/digital media tools and analytics
- Communication metrics and M&E frameworks

### World Bank-Annenberg Summer Institute Reform Communication: Leadership, Strategy and Stakeholder Alignment

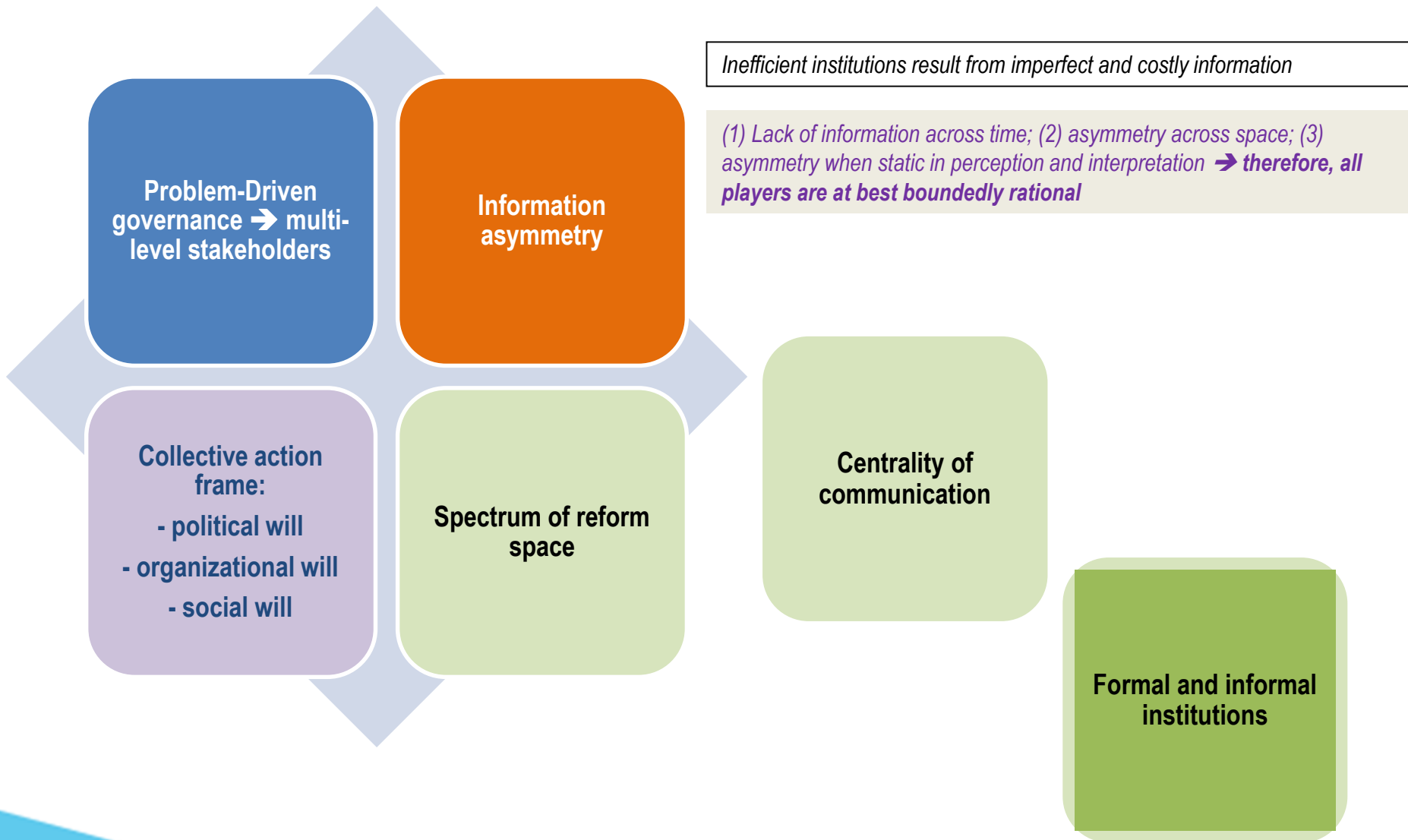


May 03, 2010, the founding coalition of the World Bank- Annenberg Summer Institute meets to discuss the program. Back row from left to right: Michael X. Delli Carpini (Dean, University of Pennsylvania), Professor Patricia Riley, Sina Odugbemi, Ed Campos, Carola Weil, Helen Garcia, Saafir Rabb II, and Coby Verzosa. Front row from left to right: Ernest James Wilson III (Dean, University of Southern California), Johanna Martinsson, Anne-Katrin Arnold.

The External and Corporate Relations Vice Presidency of the World Bank Group, the Leadership, Learning, and Innovation Vice Presidency of the World Bank Group, the Annenberg School for Communication at the University of Pennsylvania, and the Annenberg School for Communication and Journalism at the University of Southern California have forged a strategic partnership to provide an executive course on Reform Communication.

Initially, the course was launched by the World Bank Communication for Governance and Accountability Program (CommGAP) as an instrument for capacity development. In developing the CommGAP program, a series of roundtable meetings and global dialogues were held to engage institutions involved in learning programs for public sector reform, strategic communication, diplomacy, and stakeholder engagement. Two of these institutions were the Annenberg School for Communication at the University of Pennsylvania and the Annenberg School for Communication and Journalism at the University of Southern California. These universities have contributed their faculty and classroom facilities and have provided access to their communication research and graduate and executive education programs.

# Main Focus Areas of the Program





# 1. Know the Spectrum of Reform Space

Adapt design to align with existing reform space

Intermediate options

Expanding the reform space

- *Do the political analysis*
- *Targeted information*
- *Do what you can, and move on*

- *Build transparency*
- *Carry out contained public dialogue*
- *Target capability to analyze certain reform issues*

## **Proven methods:**

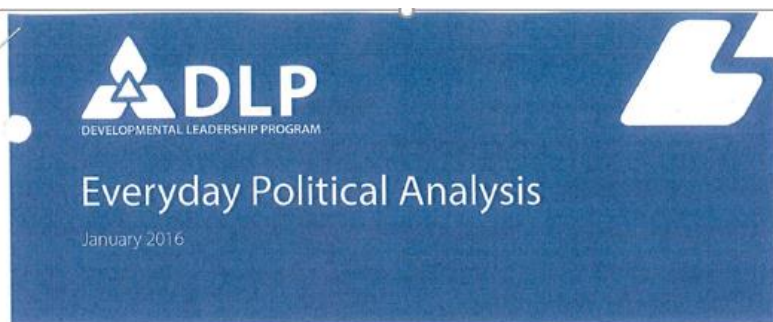
- *Empower stakeholders*
- *Build coalitions*
- *Consider system-wide communication*

## Learning from others about reform space

***“Why liberalize? When you see your neighbor being shaved, you should get your beard wet. Otherwise, you could get a rough shave”***



*Mwalimu Julius Nyerere, former President of Tanzania, 1964-1985*



David Hudson DLP - University College London  
Heather Marquette DLP - University of Birmingham  
Sam Waldock DFID - Rwanda

In this short note we introduce a framework for thinking about politics and power called Everyday Political Analysis (EPA). EPA is for anyone who is convinced that politics and power matter, but feels less sure of how to work out what they mean for their programs. This note introduces a stripped back political analysis framework – stripped down to its bare bones – leaving only the essentials needed to help frontline staff make quick but politically informed decisions.

The political environment can kill a program, or make it thrive. In Zambia a technically sound donor health program was wrecked by a politician who restructured the health system to extend his power rather than to deliver services. In Uganda a donor livelihoods program was closed early because the implementers were more interested in personal enrichment than helping the poor. Taking some of the political context – and being able to use this understanding to make more politically savvy decisions – is essential to improving the effectiveness of development programs.

How can buy frontline staff make the kinds of quick but politically

### **Where are we? A mirror, not a 'God's eye view'**

A critical component to any political analysis is to include ourselves – especially if we are likely to be part of the incentive structure facing others, because of budget, diplomacy or expertise.

But more than this, it's critical to reflect on our own interests and incentives – to understand where we are coming from and our own room for manoeuvre. It would always be advisable to conduct your own internal political analysis – not just look 'outwards'!

## 2. Dive below the 'waterline' – understand the informal institutions

**Formal institutional content:**  
*above the water; in view*



**Informal institutional content:**  
*below the water; out of view*

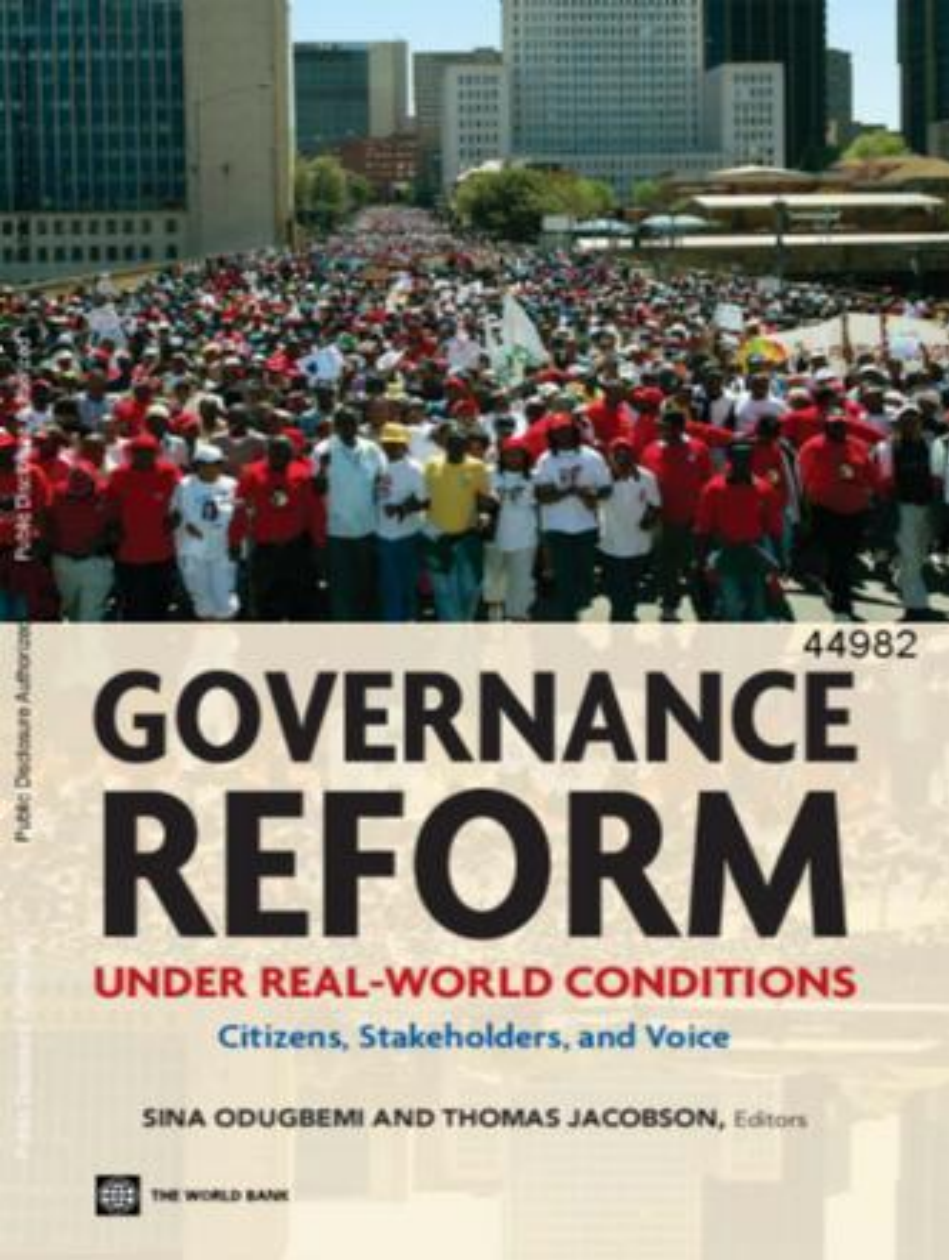


	Institutions	Organizations
Formal	Policies, laws, regulations, guidelines, codes, standards, ...	Executive agencies, parliament, judiciary, private sector, NGOs, ...
Informal	Customs, beliefs, norms, values, historical experiences, practices, ...	Traditional leaders, pressure groups, religious groups, clans, social clubs, community watchdog committees, ...

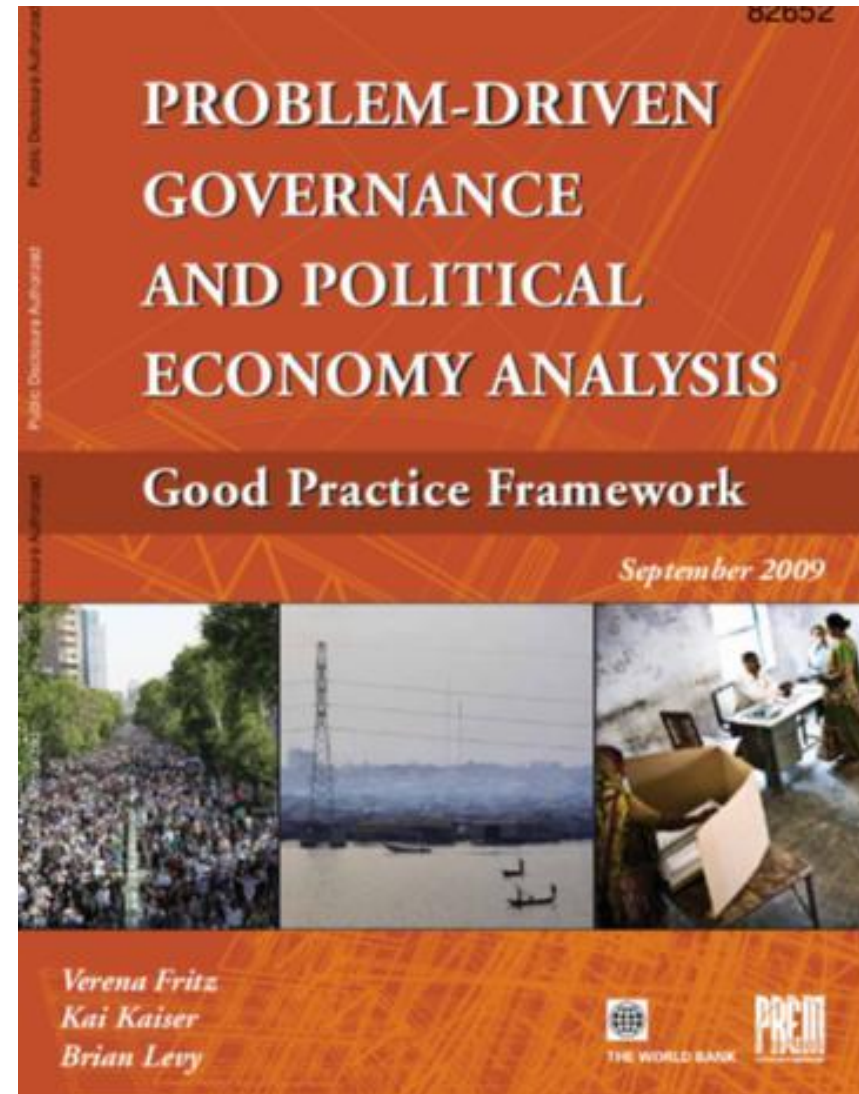


“Politics and the political economy matter for whether and how reforms happen in developing as well as in developed countries.”

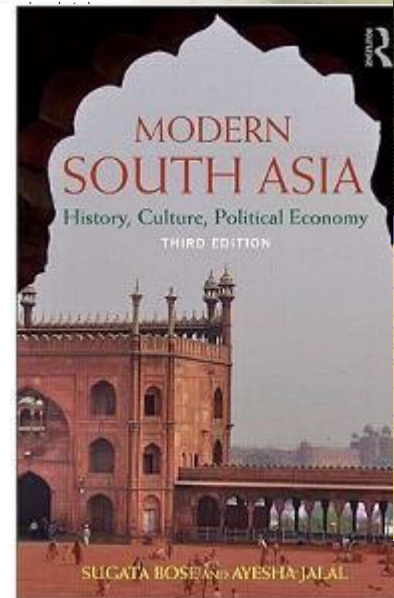
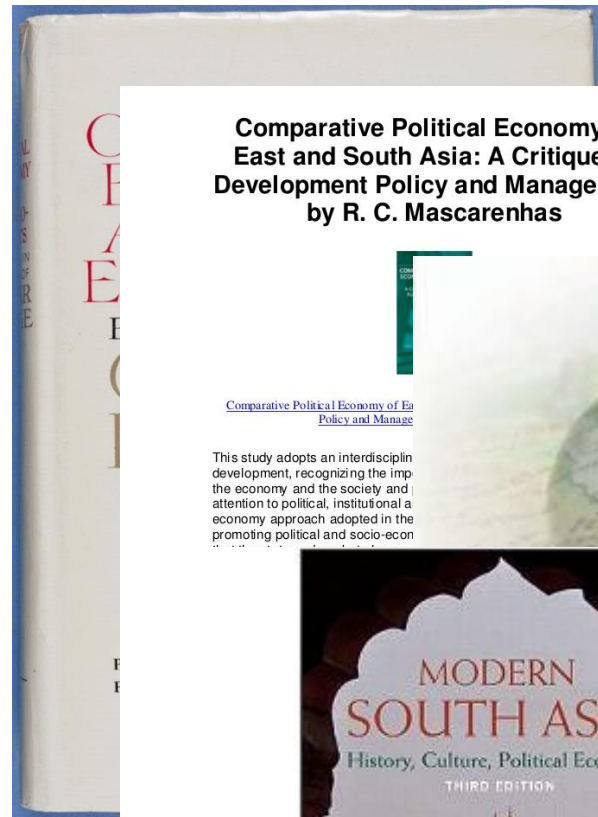
<https://openknowledge.worldbank.org/handle/10986/16777>



3. Analyze the political economy of reforms to understand the incentives for action/inaction



- “Politics has more to do with change than economics, but we are not yet ready to let politics out of the closet.”
- “Lack of understanding of the political economy of reform is increasingly seen as a risk to development effectiveness...”\*





# Political economy – *Definition and Lens*

*“... all the many activities of cooperation, conflict and negotiation involved in decisions about the use, production, and distribution of resources”\**

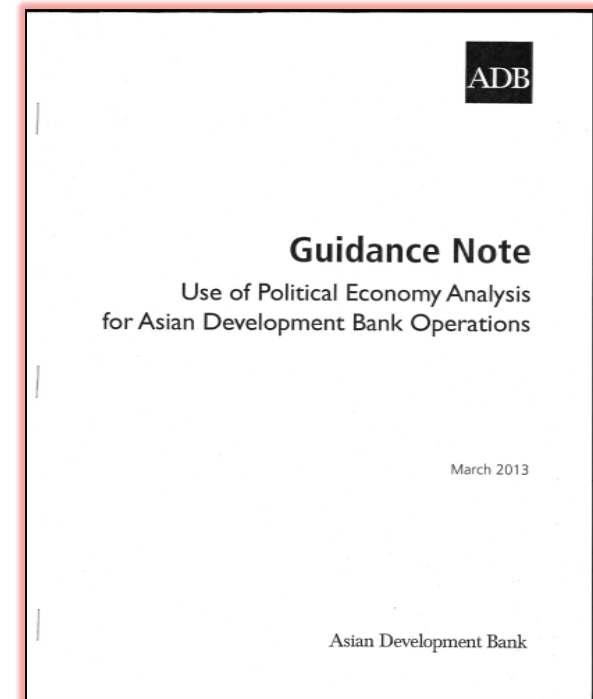
Area of coverage	Examples
Historical context	Central Asian countries as part of the former Soviet Union
Political context	Move to federalism ( <i>Nepal</i> )
Economic context	Regional cooperation in the Mekong region
Values, ideas, development philosophy	Tanzania's <i>Ujamaa</i> (common good, self-reliance, cooperation)
Power relationships	Among political parties (eg, in <i>Bangladesh</i> ), judiciary-executive tussles, trade unions, civil society, media, etc.
Policy environment	Subsidy regimes
Binding constraints	<i>Bhutan</i> ,* <i>Kazakhstan</i>

# We ourselves have dabbled in PEA a bit...

## Guidance note on political economy analysis

Carried out PEA at various levels:

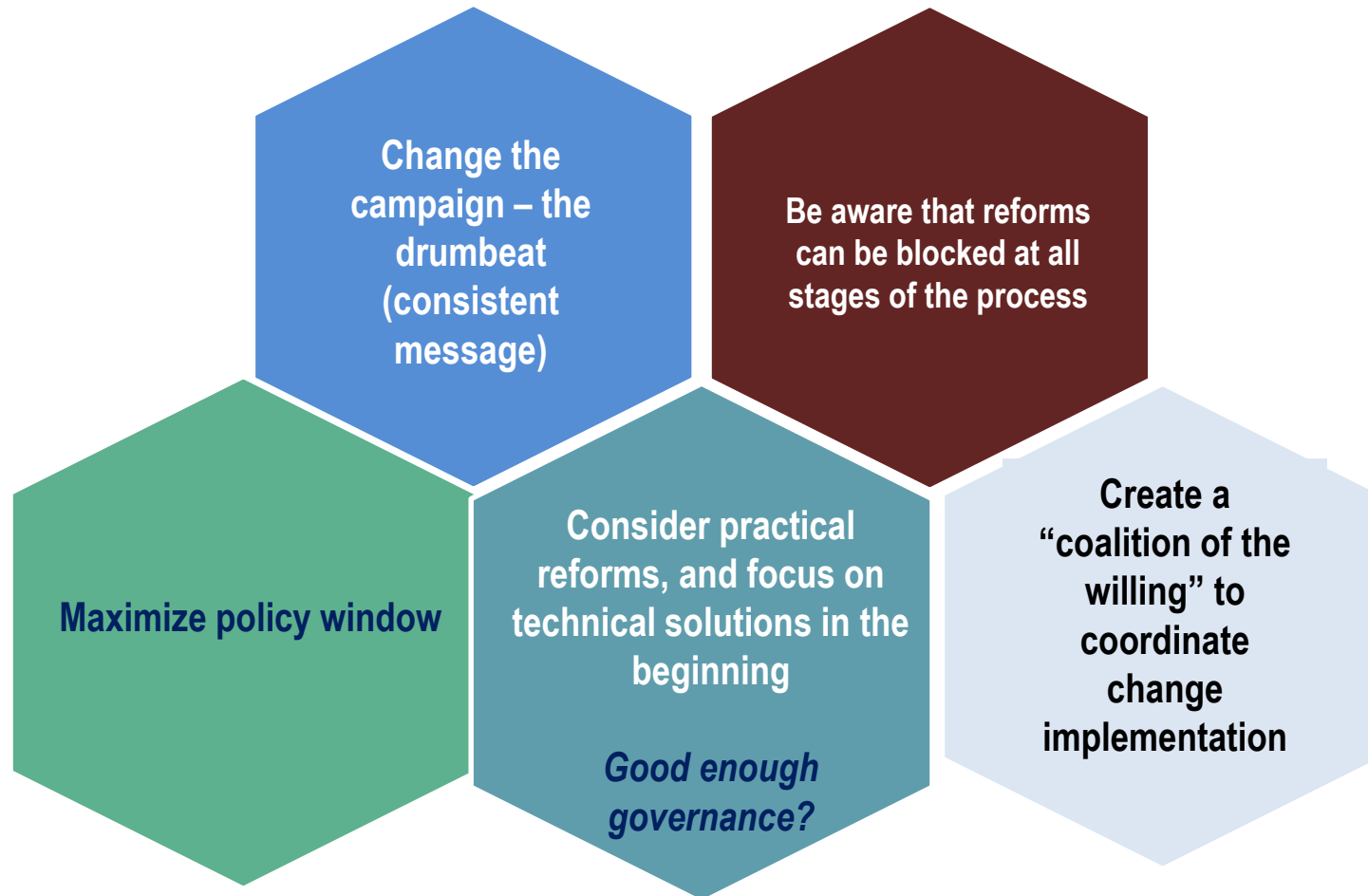
- CPSs (Philippines, Armenia)
- Sector level analysis (road sector in PNG)
- Policy dialogue and policy-based lending (in PARD countries)



However,

*GACAP II and Governance Risk Assessment are still the “bread and butter” approach taken*

## 4. Reforms have to have compelling narratives, and the vision has to be communicated well



**Forming a coalition** – (a) linking CSOs with government reformers; (b) engaging champions in legislatures; (c) fostering reformers and champions in public sector; (d) building a core team; (e) *“In reform, you don’t need a battalion; a squad will do...”*; (e) mobilizing public support; **(f) sustaining the reform; legislate!**

# Good Governance vs Good Enough Governance

“Small improvements in governance are generating exponentially positive results for Africa”

Interview with Muhtar Kent, Coca Cola Chief



*“... good governance is deeply problematic as a guide to development” –*  
Merilee Grindle,  
KSG



“Real thing to focus on in Africa is governance”  
*Financial Times*, 16 June 2016, p. 16\*



But “good enough governance” alone is not the right answer...

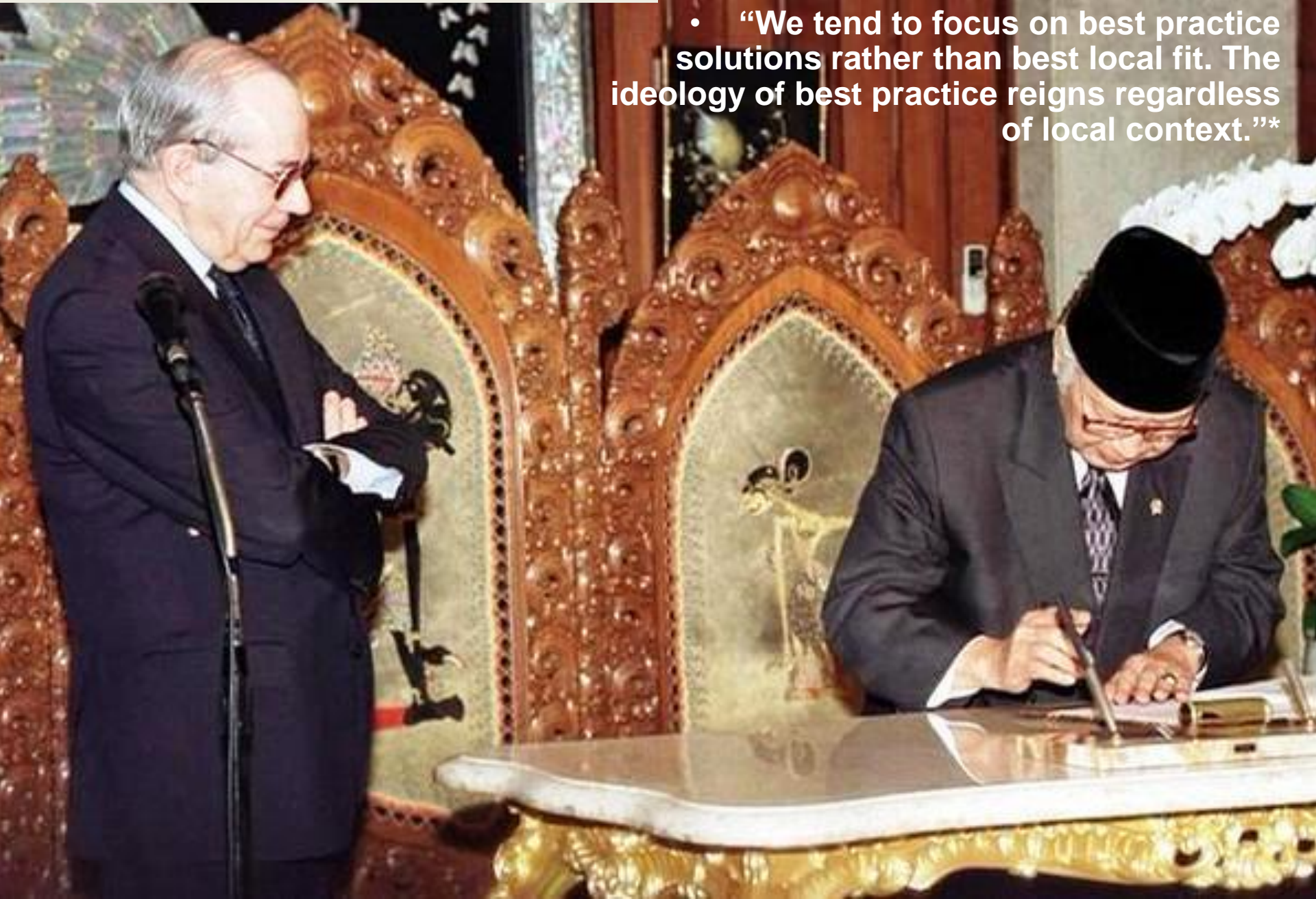
**Think sustained reforms long term:**  
*Mindsets and institutions take a long time to change*

1996: ADB first MDB to support state-level PFM reforms in four states of India. ADB's work was considered successful by the Independent Evaluation Department... performance in PFM out-ranked the performance of transport, energy, water and urban services, and finance



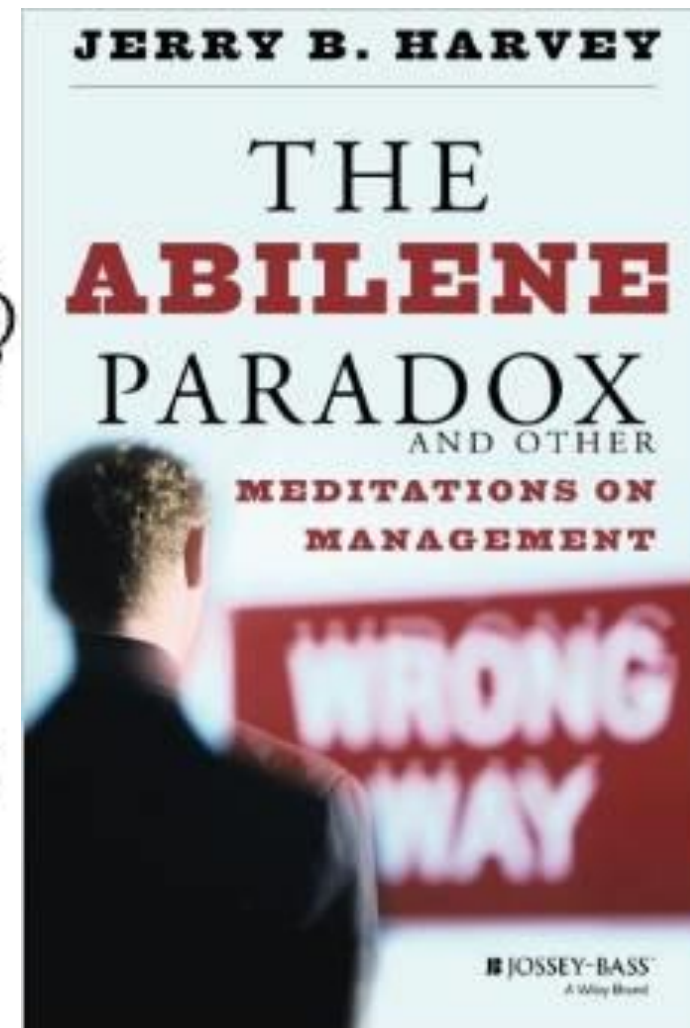
In that journey, we should be aware of “best practice”...

- “We tend to focus on best practice solutions rather than best local fit. The ideology of best practice reigns regardless of local context.”\*





We should also remember that reforms are not sustained when stated preferences differ from revealed ones...



*“Frankly, my dear, I don’t give a damn...”*



**The most dominant theme was: “Political commitment is a necessary and sufficient condition for reforms (at all levels of government)”**

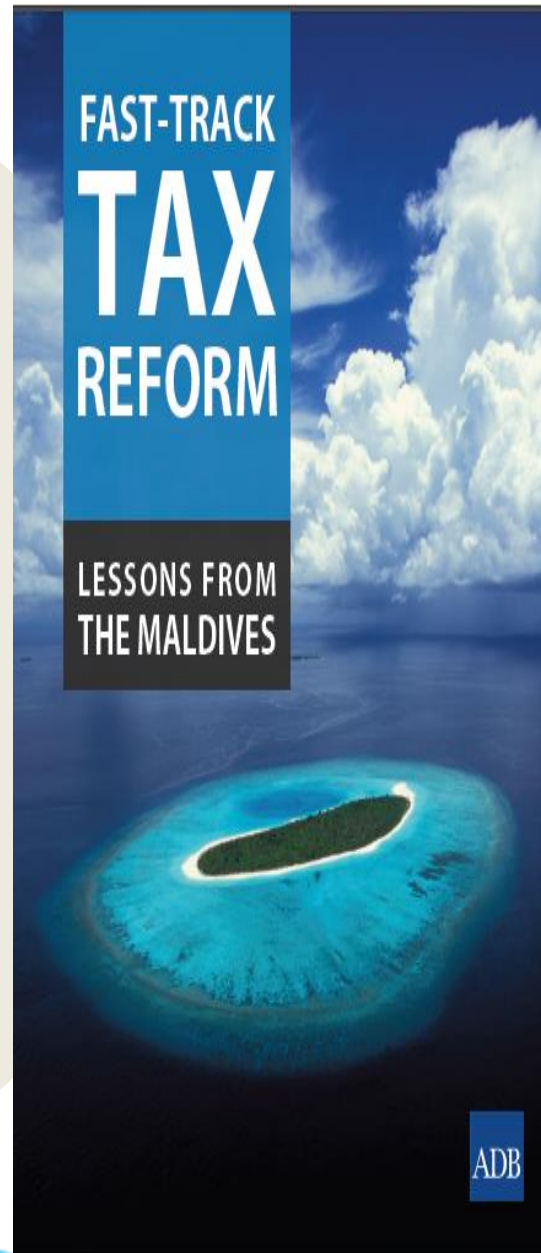


# Way Forward:

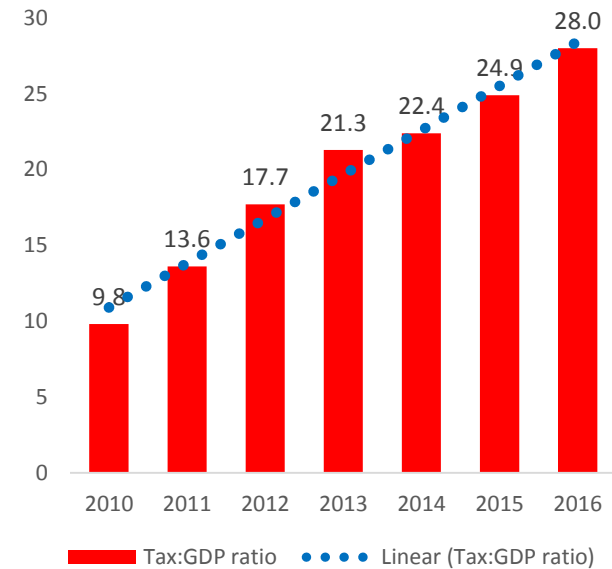
## 1. Focus on DRM

### Domestic Resource Mobilization (use of DRM Trust Fund)

- Adherence to global standards (eg, BEPS, Beneficial Ownership, AEOI, EIOR)
- Capacity building: (a) of DMC agencies; (b) of ADB staff
- Knowledge sharing: (a) across global bodies (OECD, Global Forum, IMF, etc.); (b) across regional associations (eg, SGATAR); (c) across DMCs (eg, MIRA/Maldives)
- Political economy of DRM at country and global levels (policy window opened by Panama Papers; leveraging the work of others, eg, OECD)



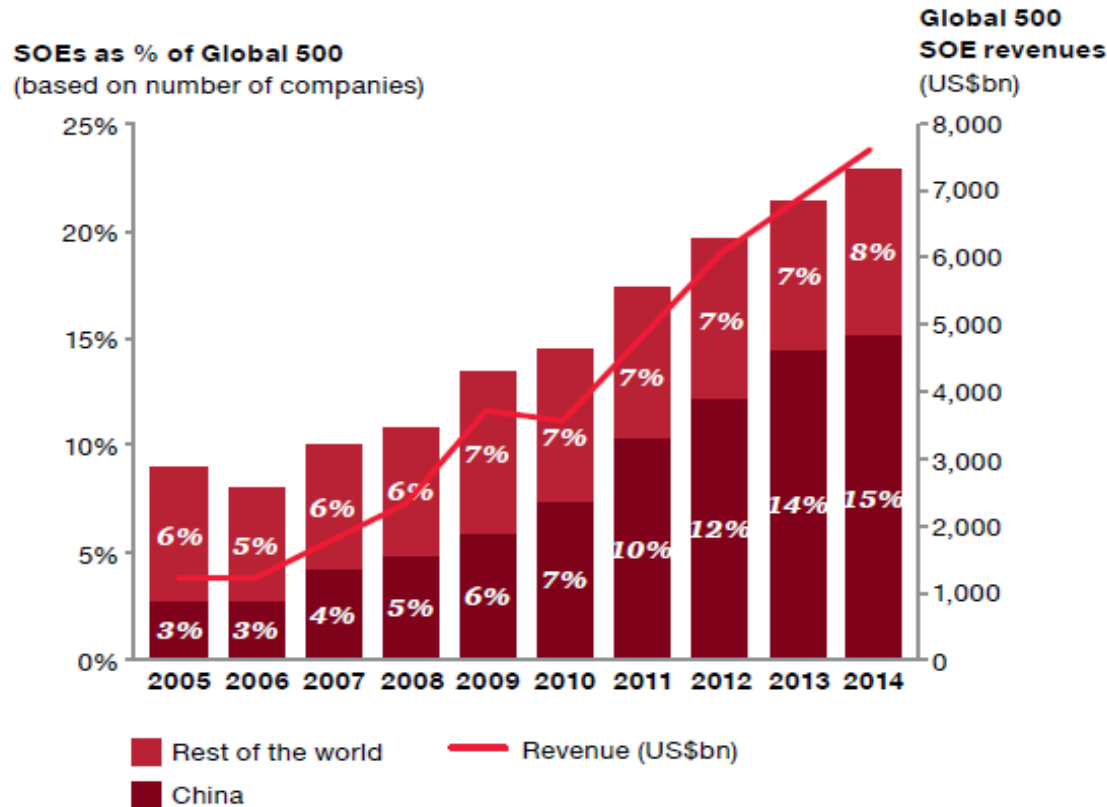
(Tax : GDP Ratio, Maldives, 2010-2016)



*"No other country has embarked upon such wide-ranging tax reforms within such a short period and, in particular, implemented a general GST regime at one month's notice, as the Maldives did."*

## Way Forward: 2. SOE Reforms

**Figure 1 SOEs in the Fortune Global 50**



Note: SOEs defined as having 50% or more government ownership

Source: PwC analysis, Fortune

SOEs' share of global market capitalization is around 13% (Economist, 2014)

### SOE Reforms

- Corporate governance (governance risks for NSOs)
  - Contingent liabilities
- Specific country focus (eg, PRC, INO, IND, ...)
- Knowledge sharing (within ADB and with partners and DMCs)
- Support for possible public sector NSOs
  - Political economy of SOE reforms at country and global levels (policy window from reluctance to take on contingent liabilities; Saudi ARAMCO listing); leveraging the work of others (eg, OECD, ACGA); spotlight on corruption and mismanagement



# Corporate Governance and State-owned Enterprises

How improvements in markets address their

**Well-run state-owned enterprises (SOEs) can offer tremendous potential as a driver of inclusive economic growth and development in emerging markets.**

The importance of SOEs to the economies and welfare of emerging markets cannot be overestimated: In Africa, SOEs are estimated to represent 15 per cent of the gross domestic product (GDP), while in the Middle East and North Africa they make up more than 50 per cent of GDP. SOEs also play a significant role in the economies of major emerging markets such as Brazil, China, India, Indonesia and Russia.

## Beyond the profit motive

The value of SOEs lies in their potential to provide efficient, reliable and affordable critical products and services in key sectors, such as power generation and water supply, transport, oil and gas and hospitals. They enable expensive and expensive investments that are often beyond the private sector's capacity. Thus, well-run SOEs can contribute to health, welfare, education and infrastructure improvements, poverty reduction and inclusive economic growth.

However, running SOEs well represents a significant challenge, not just for emerging markets, but for OECD (Organisation for Economic Co-operation and Development) countries as well. Faced with making commercially-driven decisions when they are charged with a product and service delivery

model that is inherently not economic, SOEs must cope with a built-in tension that creates a domino effect of problems and complexities.

For example, raising utility rates may make sense from an economic perspective but doing so could create additional hardships for the poor. Or consider the case of a state-owned company that operates in the red. To continue providing needed services – say clean water or retail banking – the company may require additional financing from the state. But propping up the SOE could constrain an already tight national budget, meaning fewer resources for other key services.

## Politics and good governance: a complicated mix

Add political meddling to this muddle and striking the optimal balance between social and commercial goals can become a near impossible task. In theory, a SOE may have been created for the benefit of the citizenry. But the reality is that many SOEs are accountable only to whatever political party is in power. The original notion of providing efficient and affordable services to the nation's citizens is long lost.

Herein lies the fundamental governance

The reality is that many SOEs are accountable only to whatever political party is in power. Herein lies the fundamental governance problem

The board is usually where these dramas play out. Mixing ownership and regulatory interests, as can the interests of bureaucrats, such as the minister who sits on the board and elects the

The reality is that many SOEs are accountable only to whatever political party is in power. Herein lies the fundamental governance problem

it far more difficult for these independent directors to offer informed contributions.

Board continuity is another issue. Without any protections to curb such behavior, the SOE may be treated as a political instrument of the ruling party, operating at the whim of the government.

The leader of the ruling party may decide to 'clean house' and replace members and create new connections, rather than rely on the skills and industry of the previous board. Or, the leader may use the SOE as a tool to place a political ally in a key position. Or, the leader may use the SOE as a tool to place a political ally in a key position.

These governance issues can severely impact the performance, results or reliability of SOE services. In some cases, they may lead to the SOE's role in the national economy.

## Fixing SOEs: improving governance as part of a holistic approach

At IFC we have worked with SOEs in emerging markets around the world on a variety of governance-related issues, often in preparation for privatisation.

Recently, we partnered with our colleagues at the World Bank to develop a corporate governance toolkit for SOEs, offering comprehensive guidance on ways to address the challenges that impede effective governance and efficient operations.

In our experience, we have seen that attending to SOE governance issues can contribute to improved performance of state-owned companies as part of a comprehensive and contextually relevant approach that also includes

restructuring, external audits, increased competition, private sector participation, and fiscal discipline. Governance improvements, with a more holistic approach around the SOE, can be a game-changer. For instance, in the Czech Republic, SOEs now have professional economics on the board. In Lithuania, boards are required to demonstrate good decision-making and strategic planning.

The issue of independent directors is also moving to the forefront in some markets, with good results. In Brazil, for instance, 20 per cent of SOE board members must be independent. In India and Malaysia, SOE boards must be comprised of at least one-third independent directors.

Requiring SOEs to refinance on international markets, rather than relying on the government, can also have a wide-ranging and positive impact, with a disciplining effect on governance. Financial statements and governance will be subject to lender scrutiny and the cost of capital will depend on credit rating. In countries such as South Africa, such market-driven pressures should help instill a measure of financial discipline in combination with governance enhancements through enabling legislation.

Other governance improvements that can make a difference include separating the ownership function from the regulatory function, which helps to shield decision-making from the political exigencies of the moment and gives the regulator some autonomy on how the market

Fixing SOEs: improving governance as part of a holistic approach

1999-2012: ~ 1/3 of all bribery cases involved bribery of SOE employees, while 80.1% of the value of all bribes were paid to SOE employees\*

STATE-OWNED ENTERPRISES: A GLOBAL SNAPSHOT

## Issues:

Subsidies, dividends, taxes, contingent liabilities, weak corporate governance (ownership), corruption



INTERNATIONAL EFFORT  
Improving SOE transparency  
has been a global challenge

## Way Forward: 3. Local Governance

### Local Governance

- Localizing global agendas (eg, COP21 at local level)
- Federalism issues and challenges
- Fiscal devolution and moral hazard
- Municipal financing
- Information asymmetry, and open government partnership
- Service delivery and transparency
- Local governance and prevalent political economy (eg, policy window of New Urban Agenda; leveraging the work of, eg, The Asia Foundation)

Localizing global agenda



Impact on citizens through improved service delivery

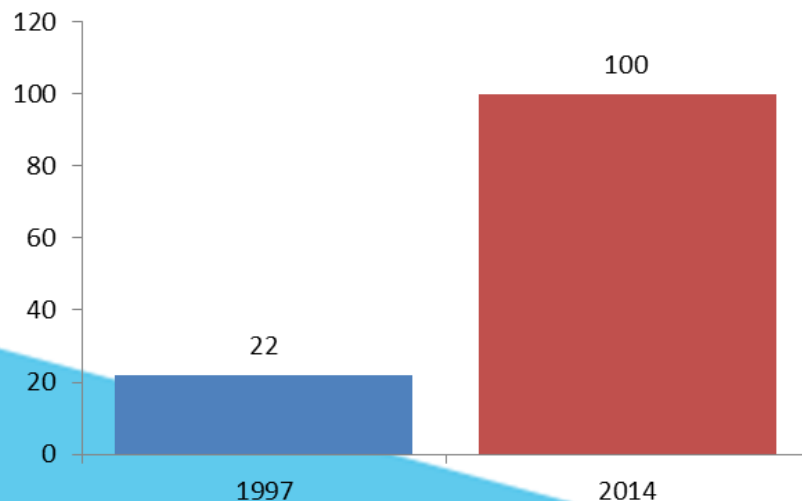


Effective delivery mechanism

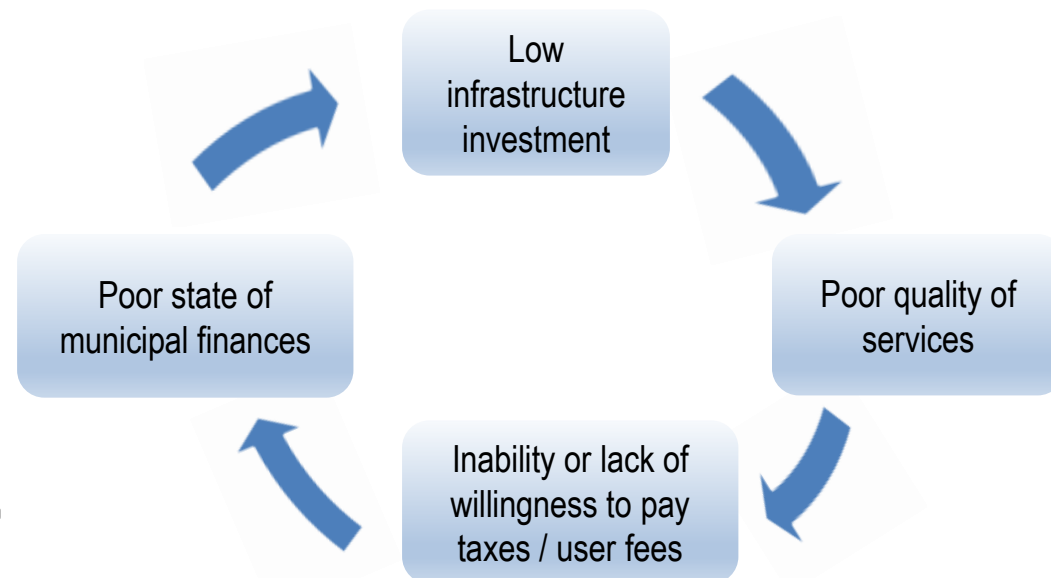


Strengthening  
local  
government

### Number of countries with RTI Acts

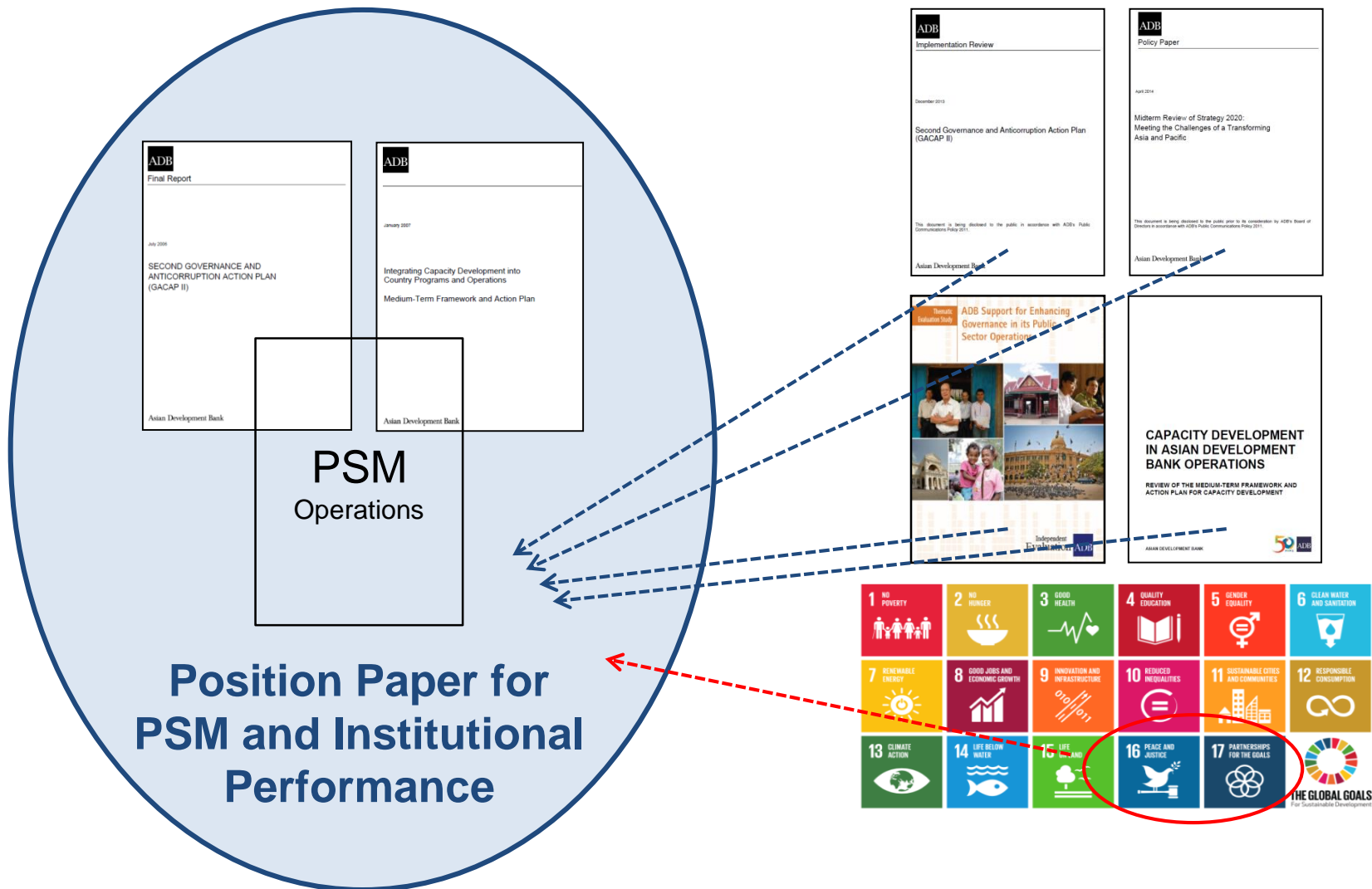


### Vicious cycle of inadequate revenues





# 4. Unify three strands of ADB's work: PSM, governance, capacity development



# Giving more attention to institutional performance is consistent with SDGs



- 16.3 Promote rule of law and access to justice
- 16.4 Reduce illicit financial flows, and recover and return stolen assets
- 16.5 Reduce all forms of corruption and bribery
- 16.6 Develop effective, accountable and transparent institutions at all levels
- 16.10 Ensure public access to information
- 17.1 Strengthen domestic resource mobilization, including tax and other revenue
- 17.6 Enhance access to technology and innovation, and knowledge sharing
- 17.9 Enhance effective and targeted capacity-building in developing countries

## ADB's existing plans:

- (i) Second Governance and Anticorruption Action Plan
- (ii) Medium-Term Framework and Action Plan for Capacity Development

## Unified Approach to PSM and Institutional Performance



# Enhance and differentiate results-orientation of operations

## **Project-level:**

Enhance project readiness and implementation

## **Sector-level:**

Support sector-wide policy and institutional reforms

## **Cross-sector-level:**

Respond to cross-sector development challenges

### **New project classification—from GCD to institutional performance**

**Existing GCD classification of operations not linked to quality criteria or subsequent monitoring of results**

- Change how institutional support in operations is recognized
- New classification according to scope of the objectives of institutional support
- Introduce differentiated quality requirements according to revised classifications (“4Ds”)

I. Sector-wide or cross-sector institutional performance

II. Institutional sustainability of ADB-funded projects

III. DMC agency performance in implementing ADB operations

IV. No explicit institutional performance objectives



# Current and future areas of involvement...

	<b>Examples of involvement</b>
<b>Strategic Operational Support</b>	Program and project design; peer review; dialogue with DMCs; help formulate CPSs (“upfront and upstream”); governance risks assessments (eg, EITI)
<b>Knowledge Sharing</b>	Global standards and commitments; engagement with partners (internal and external); database and information analysis; knowledge partnerships and products (for internal and external audience)
<b>Skills Development</b>	On BEPS, AEOI, beneficial ownership, corporate governance assessments, municipal financing, political economy analysis, leadership in governance

**You are encouraged to join the 370 or so members of the  
Governance Thematic Group!**

**Questions?** Please contact:

**ADB's Governance Team**

**w:** <http://www.adb.org/sectors/governance/main>

**f:** <https://www.facebook.com/GovernanceTG/>

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**t:** [https://twitter.com/adb\\_governance](https://twitter.com/adb_governance)