

Harnessing Private-Public Synergies

- The private sector is generally regarded as the engine of economic growth and job creation and thus as a major contributor to poverty reduction.
- To provide better services to their clients and increase the probability of achieving development results, international finance institutions know that they must (i) move away from providing funding to the private sector through state-owned development finance institutions, (ii) sharpen the focus of their private sector strategies on strengthening enabling environments, and (iii) increase investments funded through their private sector operations.
- In its private sector operations, is ADB doing the right thing? Is it doing things right? Is it adding value?

Background

In 2000, the Asian Development Bank (ADB) drafted a **Private Sector Development Strategy** in support of its overarching goal to **reduce poverty in Asia and the Pacific**. In relation to public sector operations, the strategy has two thrusts: (i) support governments in **developing member countries** in creating enabling conditions for business, and (ii) generate **business opportunities** in ADB-financed public sector projects. Regarding **private sector operations**, it aims to catalyze private investments through direct financing and risk mitigation instruments. **Private sector assessments** and **country quantitative indicators** have helped to identify opportunities and constraints and formulate **country partnership strategies**.

ADB's private sector transactions have grown, especially since 2003. They amounted to \$1.5 billion in 2006—more than five times the annual average level of approvals in the 1990s. For 2007, \$1.9 billion in transactions are planned. In 2006, the Operations Evaluation Department undertook a **Special Evaluation Study on Private Sector Development and Operations: Harnessing Synergies with the Public Sector** to assess the degree to which ADB's **Private Sector Operations Department** is pursuing the correct objectives, the efficiency and effectiveness of its operations, and the extent to which ADB has been creating value.¹ To capture the effects of the strategy, the study evaluated

operations over the period 1995–2005, five years before and five years after the strategy was adopted. Case studies were conducted for **India, Philippines**, and **Viet Nam**.

Summary of Findings

ADB's private sector development and operations were evaluated following ADB's **Guidelines for Preparing Performance Evaluation Reports on Nonsovereign Operations**.

Item	U	PS	S	E
Development Impact			✓	
• Private Sector Development			✓	
→ Beyond company impacts (improving the enabling environment)		✓		
→ Direct company impacts (catalyzing investments)			✓	
• Business Success			✓	
• Economic Sustainability			✓	
• Contribution to Living Standards			✓	
• Environmental Performance			✓	
ADB's Investment Profitability			✓	
ADB's Effectiveness		✓		
• Screening, Appraisal, & Structuring		✓		
• Monitoring & Supervision		✓		
• Role & Contribution			✓	
ADB's Additionality			✓	
Overall Rating			✓	

Legend: U = unsatisfactory, PS = partly satisfactory, S = satisfactory, E = excellent.

Performance overall was rated "satisfactory". Investment profitability and additionality were rated "satisfactory", while development impact was rated marginally "satisfactory". Effectiveness was rated "partly satisfactory" due to lack of progress in strengthening the overall environment. That lower rating reflects the fact that ADB has not realized its potential to harness private-public synergies.

Despite the strong growth of ADB's portfolio, many developing member countries are complaining that ADB is not responding adequately to demand. In most countries, the private sector's role in financing, managing, and delivering services has increased, particularly in sectors such as finance, energy, transport, and water utilities. Governments are shifting their operational focus to policy and regulatory functions.

ADB's **Medium-Term Strategy II, 2006–2008** calls for a concerted effort for more private sector operations, and endorses the recommendation of an internal Review of ADB's Private Sector Development Strategy Implementation, conducted in 2006, that ADB should prioritize transactions that have a strong demonstration effect, are innovative and pioneering, and are replicable by ADB and others. **Toward a New Asian Development Bank in a New Asia**, the Report of the Eminent Persons Group, highlighted in 2007 the importance of economic growth, private-public partnerships in infrastructure, and the need to strengthen financial intermediation. The adjustments this vision implies would not be straightforward; from the early 1980s, ADB has struggled to find ways to merge public and private sector operations. This is not surprising: corporations involved in mergers and acquisitions have often found that different cultures are difficult to integrate.

Corporate Level Recommendations

- Assess the need for changes in organizational structure supporting Private Sector Operations and Private Sector Development activities such that the potential synergies of the public and private sectors working together are more effectively captured.
- Establish a permanent unified credit committee supported by a permanent independent secretariat. Revise credit committee operations to consider risks and returns of transactions. Encourage direct and frank exchanges of information through regular

meetings, and review projects from the concept clearance stage.

- Strengthen the Risk Management Unit in anticipation of a significant increase in nonsovereign lending.
- Develop a corporate management plan covering a five-year period that aligns resources with aspirations to expand private sector operations, including details on necessary administrative budget, technical assistance resources, staff skills mix, and strengthening supporting functions of risk management and commercial co-financing. Introduce a balanced scorecard framework for assessing achievements in private sector operations, drawing on the experience of other multilateral development agencies.

Departmental Level Recommendations

- Prepare country business plans for delivering private sector operations and private sector development related outputs in the country partnership strategy framework.
- Develop and implement a medium-term strategic plan, including new products for supporting private sector and nonsovereign clients, monitorable results indicators, and resource requirements.
- Prepare and implement integrity due diligence guidelines for private sector operations that form part of ADB's anticorruption policy framework encompassing various aspects of corruption, including fraud, money laundering, and financing for terrorism.

Feedback

At the time of preparation of these *Learning Curves*, **ADB Management's Response** and the **Chair's Summary of the Development Effectiveness Committee Discussions** were not yet available for disclosure to the public. The study was completed in May 2007.

¹ ADB. 2007. *Special Evaluation Study on Private Sector Development and Operations: Harnessing Synergies with the Public Sector*. Manila. Available: <http://www.adb.org/Documents/SES/REG/SST-REG-2006-06/SST-REG-2006-06.pdf>