

Chair's Summary of the Committee Discussion on 11 September 2013
DEVELOPMENT EFFECTIVENESS COMMITTEE

I. Thematic Evaluation Study: ADB Private Sector Operations: Contributions to Inclusive and Environmentally Sustainable Growth (IN.208-13)

1. DEC discussed the above evaluation study. The evaluation is based on a desk review of 173 private sector operations (PSO) projects to help understand their relevance to inclusive and sustainable growth, as well as on project evaluations, validation reports, and project reviews for all operational projects, which were supplemented by literature reviews, field visits and surveys to assess results.

2. **Definition of inclusive growth and role of private sector operations.** DEC noted disagreement between Management and IED over the definition of inclusive growth and how it should guide ADB operations. Some DEC members offered the view that while ADB's PSO need to be commercially viable, return on investment should simply be a minimum condition and a development case should be made for each of the projects. Some DEC members also opined that it may be useful to adapt IED's yardstick in measuring how inclusive ADB operations are, by looking at how income distribution has changed for the bottom 40%. Other DEC members were of the view that ADB operations cannot address inequality on its own.

3. **Methodology.** Several DEC members appreciated the focus and methodology adopted for the evaluation study. A few DEC members opined that the evaluation criteria should have focused on whether PSO are innovative, competitive and attractive enough for the private sector to replicate. In particular, one DEC member opined that the methodology used by IED in the study should have taken into account that PSO fall under ADB's strategic framework as elaborated under Strategy 2020, and should be evaluated on that basis, namely, whether it generates economic growth, assumes greater risks and plays a catalytic role in enabling DMCs to attract private investment in support of inclusive growth and improved environment. Another DEC member noted that the evaluation focused too much on broad access to economic opportunity but failed to cover PSO's contribution to higher economic growth itself; he opined that PSOD projects must first be profitable as they are not guaranteed by the sovereign government, citing the importance of catalytic and demonstrative effects of PSO. A DEC member observed that the report did not evaluate PSO's contributions to promote private sector development including support related to public private partnerships (PPPs) and the creation of an enabling environment as part of ADB's efforts to support inclusive and environmentally sustainable growth.

4. **Inclusive business.** DEC members credited PSOD for its projects in the energy and telecommunications sectors which has had employment effects and provided value added services with significant social and economic benefits. Members were pleased to note that the study found no trade-off between inclusion and profitability of projects. DEC members noted the discouraging results of SME and finance sector transactions, and asked whether there is scope to step-up efforts on inclusive business, particularly innovative solutions targeting the base of the pyramid. A DEC member suggested the creation of an inter-departmental working group to move the agenda forward as well as setting concrete targets. Another DEC member encouraged PSOD and ORM to identify more profitable and innovative companies with projects that invest in the poor. PSOD reported that it is working with RSDD to determine how to incorporate inclusive business in its operations. Management mentioned that while there have been examples of profitable inclusive business projects, the number of cases has been limited, and that the decision to pursue such an agenda should be made in the context of the realities of PSO, its impact on credit rating, and ADB's ability to raise funds. A DEC member also considered it necessary for PSOD to have its own business plan.

5. **Components of inclusive growth.** Management informed that ADB projects supported pillars one and two of inclusive growth (49% on creation of opportunities and 45% on access to opportunities, respectively), with pillar three (social protection) comprising only 1%. DEC discussed with Management and IED whether all ADB projects should strive to contribute to all of these pillars comprehensively. IED stressed that not any investment necessarily translates into growth, and not any growth is necessarily inclusive—unless effective transmission and distribution mechanisms are in place either at the project or country levels. Every project therefore needs to demonstrate direct or indirect inclusion effects apart from contributing to growth. Management clarified that ADB pays attention to the components of inclusive

growth at the country strategy level, and endeavors to deploy a combination of interventions that will achieve inclusiveness. Both Management and IED agreed that ADB should do more to improve the development impact and inclusiveness of PSO, which needs to be set in the context of ADB's resource availability and capital base.

6. **Sector-related interventions.** Some DEC members emphasized the need to balance operations and not rely solely on clean energy and infrastructure projects. Management clarified that their private sector clients are responsible for project development. PSOD's role is to help these clients structure and make the project bankable assuming that these are in line with ADB's country strategy. A DEC member inquired about the concentration of energy projects in the portfolio. Management explained that private sector clients are more comfortable engaging in the energy sector, aided by the availability of master plans and what developing members wish to achieve through the private sector.

II. IED Work Program 2014 – 2016

7. DEC discussed with IED the revised work program and budget, following from the informal discussions in August. IED clarified the reason for the inclusion of the review of ADF in the work program as requested by SPD. DEC supported and approved the work program, taking into consideration staffing and budget constraints as well as the need to deliver higher-level comprehensive reports on strategic topics, while substantially increasing the number of project validation reports to provide a good basis for higher level studies and to clear the previous backlog. DEC members accepted that IED may need to reduce its commentary and review related work and its knowledge related work in order to meet the ambitious work program it has set for itself. A DEC member urged IED to find a cost efficient way to continue its important work on publications and distribution of IED's knowledge products.

8. The DEC Chair indicated that IED should aim for a realistic work program considering that some items in the previously approved work program had been postponed due to the inclusion of the Commentary Report on the Mid-term Review of Strategy 2020. A DEC member was of the opinion that changes to the work program should be minimized, while another member suggested that some strategic items such as inclusive growth, regional cooperation and integration, and environmentally sustainable growth could be spread out within the three year work program.

9. Several DEC members indicated that IED's proposed budget increase should be in line with the overall ADB proposed budget growth, and some reserved their position with regard to IED's requested budget until the discussion on the overall budget is conducted in November.