

**Not for Quotation, work-in-progress****A LIST OF INDICATIVE HYPOTHESES FOR PHASE II**

An indicative list of hypotheses that might be explored in detail during Phase II of the project is set out below. The list is not meant to be definitive and will only be finalized following the findings in Phase I of the study. There is a reasonable likelihood that hypotheses can be used to improve project performance.

- (i) At the country level, the private sector development (PSD) program is not fully understood by both regional departments (RDs) and public sector officials and project ownership is weak.
- (ii) Lack of ownership impairs incentives of government officials to successfully implement projects and create enabling conditions for the private sector.
- (iii) PSD programs will be more successful if they are adapted to reflect the country context.
- (iv) RDs do not receive sufficient credit for private sector operation (PSO) projects.
- (v) RDs do not have sufficient skills and financial resources to help improve the enabling environment for PSD.
- (vi) PSD projects tend to be too ambitious in scope and there is a lack of institutional capacity within countries to implement projects.
- (vii) Improvements to the enabling environment are not important for PSO projects and most project risks can be managed through appropriate financial structures.
- (viii) The Private Sector Operations Department (PSOD) primarily relies upon improvements to the enabling environment put in place by specialist agencies such as the International Finance Corporation and the European Bank for Reconstruction and Development who have a comparative advantage in this area.
- (ix) PSOD's product is risk mitigation in areas such as country and political risk, rather than financial and technical risks, through its ability to use the Asian Development Bank's (ADB) name and access the public sector to address problems during implementation.
- (x) The PSD impact of investments in funds is much less than financing infrastructure projects.
- (xi) PSOD does not place sufficient emphasis on pursuing transactions in small and transition economy countries.
- (xii) Demonstration effects are the most important form of PSD impact for PSO projects.
- (xiii) Social and environmental risk management requirements are unnecessarily opaque.
- (xiv) Project risks associated with social and environmental impacts and corruption are greatest at the time of construction and then tend to diminish over time.
- (xv) PSOD staff are subject to strong incentives to pursue unnecessarily risky projects.
- (xvi) ADB's risk management systems, especially in the area of financial management and reporting, are underdeveloped.
- (xvii) ADB's systems and procedures are too slow and cumbersome and result in PSOD unnecessarily losing transactions or pursuing overly small transactions.
- (xviii) PSOD could potentially catalyze much larger transactions without unnecessarily undermining ADB's credit rating, provided adequate staff and resources were put in place.