



**Work-in-Progress: Not for Quotation**

**Title**                   **Special Evaluation Study on Private Sector Operations  
Proposed Evaluation Approach**

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**A. Background**

1. Private Sector Operations (PSO) has been a core activity for the Asian Development Bank (ADB) since its inception. ADB's Charter mandates the promotion of investment of private capital in the region for development and empowers it to invest in equity, provide loans without government guarantee, and issue guarantees to facilitate private investment in developing member countries (DMCs). ADB made its first equity investment in 1983; and by 30 September 2005, it had participated in projects with a total value of \$3.1 billion. In 1995, ADB's Board established the Private Sector Group and approved an operational strategy for PSO. In 2000, the Board approved the Private Sector Development (PSD) Strategy which identified three strategic thrusts: (i) creating enabling conditions in areas such as macro economic stability and improving the investment climate, (ii) generating business opportunities by considering the scope for private sector participation in ADB projects, and (iii) catalyzing private investment through direct (equity and debt) and indirect (guarantees) financial participation in private sector projects. ADB's public sector operations would be responsible for administering the first two strategic thrusts, whereas PSO would take the lead directly catalyzing investment. It was envisaged that ADB's public sector operations would increase its orientation towards private sector investment and PSO towards development impact.

2. The PSD strategy was embodied in the Long Term Strategic Framework for the period 2001–2015 and Medium Term Strategy for 2001–2005. In line with this strategic framework, the Board approved the findings of a review of the strategic direction and operations of PSO in 2001 that recommended: (i) PSO should be focused on infrastructure and capital markets and projects in new areas such as information communication technology and social infrastructure would be pursued on a pilot basis; (ii) PSO should continue to focus on middle tier and larger DMCs, while seeking to extend its reach where feasible to transition and smaller economies; (iii) wider use should be made of innovative financial instruments such as guarantees; (iv) strategic alliances and partnerships should be developed with other international financial institutions (IFIs); and (v) ADB's internal controls should be revised by increasing the maximum amount of capital allocated to PSO, raising project limits, and streamlining procedures for approving restructuring proposals. It was proposed that there be an increase in PSO staff numbers to support greater levels of activity, strengthen risk management procedures, and upgrade financial reporting systems. The PSO Group was redesignated as PSO Department (PSOD).

3. Over the period 2000–2005, there has been strong growth in ADB's PSO investment and lending activities, with annual approval rates more than doubling in size from a small base.

The increasing importance of PSOD within ADB's operations, in tandem with an elapsed period of 5 years since the PSD strategy was approved by the Board, indicate it is an opportune time to review PSO. Reflecting these considerations, this paper provides a preliminary description of the external context within which PSO occurs, reviews internal developments within PSOD, and briefly summarizes the findings of previous reviews of ADB's PSO projects. The paper then sets out the proposed evaluation approach for an Operations Evaluation Department (OED) special evaluation study (SES) to assess PSO. OED management approval is sought to implement the proposed study.

## **B. External Context for Private Sector Operations**

4. There are two critical dimensions that define the external context for PSO, consisting of: (i) the quality of the enabling environment and (ii) local and international support for PSD. The enabling environment will be influenced by the activities of ADB's public sector regional departments (RDs) as well as other IFIs such as the World Bank (WB), International Finance Corporation (IFC), and European Bank for Reconstruction and Development (EBRD). Independent actions by the governments of DMCs will also affect the quality of the investment climate. The interaction between these factors is briefly reviewed in this section.

### **1. Investment Climate**

5. The Asia Pacific region has been experiencing high rates of growth that have averaged 6% per annum (pa) over the last 5 years. This development has had a significant impact on the level of poverty in DMCs and the proportion of the population in the region living on \$1/day or less has fallen from 34% in 1990 to 19% in 2003.<sup>1</sup> At the same time, significant reductions in the incidence of poverty tend to be concentrated in a small number of the larger economies while income disparities increase within countries. A key driver of economic growth has been private investment, which accounts for approximately 70% of total investment in the region.<sup>2</sup> While private investment has been substantial, the rate of growth in private investment flows has been slowing and significant investment risks persist. In the Asian Pacific region, a rather unusual situation has arisen where there are very high levels of domestic savings and yet there is a shortage of funds available for investment due to a net outflow of funds. In a joint study prepared in 2005 by ADB, WB, and the Japan Bank for International Cooperation, it was estimated that \$200 billion pa was required to meet infrastructure needs in 21 DMCs in East Asia, with the Peoples' Republic of China accounting for 80% of this total.<sup>3</sup> Given this result, there is high potential for ADB's sovereign and non-sovereign financial transactions to help catalyze greater levels of private investment and accelerate poverty reduction in the region.

### **2. Support for Private Sector Development**

6. There continues to be strong support from donor countries and DMCs for PSD related reforms that help facilitate private investment and poverty reduction.<sup>4</sup> IFIs such as ADB, IFC, and EBRD have been expanding their PSO, although levels of direct investment activity are still quite low compared to the potential for private investment in the Asia Pacific Region. DMCs continue to be challenged by basic issues in the investment climate, small market size, and lack

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<sup>1</sup> ADB. 2005. *Annual Evaluation Review*. Manila

<sup>2</sup> IMF. *Regional Outlook September 2005: Asia and Pacific Department*.

<sup>3</sup> ADB, JBIC, and WB. 2005. *Connecting East Asia: A New Framework for Infrastructure*.

<sup>4</sup> In OED's annual report to the Board of Directors on Loan and Technical Assistance Portfolio Performance for the Year Ending 31 December 2004, it was reported that there were calls from middle-income countries/ordinary capital resources countries for an increase in ADB's PSO and this proposal deserved serious consideration.

of institutional capacity in both the private and public sectors. The rapid growth in Asia has put pressure on existing infrastructure and there is substantial unmet demand. In the financial sector, small and medium enterprises experience difficulties accessing finance due to problems such as lack of collateral. In many cases, financial institutions suffer from insufficient capital, high levels of non performing loans, and ineffective regulatory and judicial institutions.

7. As a result of these developments, there has been a renewed interest amongst the development community to identify ways to further increase the level of involvement of private sector in areas such as infrastructure and the financial sector. At the same time, there has been an increasing recognition of differences in the type of interventions that can be used to improve the enabling environment, as opposed to interventions that are primarily focused on directly stimulating investment. As noted in a recent World Economic Forum paper,<sup>5</sup> there is a need to strengthen the enabling environment in areas such as property rights, contract dispute adjudication, bankruptcy procedures, accounting and auditing practices, banking supervision, and securities market development. There is also a requirement to develop new risk management instruments that help mitigate regulatory and contractual risks for infrastructure and support domestic capital markets development.

### **C. Internal Developments within PSOD**

8. Reflecting the increasingly important role of the private sector in the Asia Pacific Region, the size of the PSOD portfolio grew from \$0.94 billion in 2000 to \$1.26 billion in September 2005. The largest country exposures at September 2005 were: India (14.6%), Bangladesh (12.5%), Sri Lanka (12.9%), and the People's Republic of China (9.8%). From a sector perspective, infrastructure accounted for 54% of the portfolio, followed by funds and capital markets (20.7%), and financial institutions (16.5%). The portfolio was made up of 46% debt, 31% equity, and the balance related to risk mitigation instruments such as swaps and guarantees.

9. PSO interventions were very volatile, and in the last 2 years, the South Asia Regional Department and the South East Regional Department have been the most important geographic areas for PSO. The main drivers of growth have been a rise in the number of investments in funds and an increase in the size of individual infrastructure investments, especially in the power sector, using traditional debt and equity facilities. Risk mitigation instruments remain at a low level and there has been a shift away from complementary finance schemes towards guarantees. Total annual financing activity in 2005 was \$821.5 million and is planned to increase to about \$1.5 billion pa within the next 3 to 5 years. In 2005, PSOD received an initial allocation of technical assistance (TA) funds of \$3 million and is seeking improved access to this type of funding for structuring interventions. PSOD aims to develop a portfolio that comprises 25–30% of total ADB financing by 2008. PSOD is pursuing strategic interventions through public-private partnerships, particularly in the energy, transport, and urban sectors. In the financial sector, the focus is on the development of the capital market, banking sector, investment funds, housing finance, small and medium enterprises, and new funding structures such as securitization.

10. PSOD undertakes projects that reinforce activities undertaken by the RDs and works with the public sector to identify priority projects in the Country Strategy Programs (CSPs) and Country Strategy and Program Updates (CSPUs). There are plans to expand operations into a

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<sup>5</sup> World Economic Forum. 2006. *Building on the Monterrey Consensus: The Untapped Potential of Development Finance Institutions to Catalyze Private Investment*.

broader range of DMCs in frontier countries such as Central Asian Republics, Mongolia, and the Pacific Islands. There is an intention to increase local currency initiatives through the use of direct loans, swaps, and guarantees. PSOD will consider providing loans to municipalities and state-owned enterprises on a non-sovereign guaranteed basis. To enhance the alignment of PSO with DMC policies and strategies, improve marketing opportunities, and strengthen project processing and administration, it is envisaged that PSOD representatives will be placed in key resident missions such as Beijing, New Delhi, Bangkok, and Jakarta. Changes are being sought in ADB's policies and procedures in areas such as raising the summary procedure limit from \$10 million to \$50 million and lifting the current maximum project finance limit of \$75 million or 25% of total project cost.

11. As the PSOD portfolio increases in size, risk management will become an increasingly important issue. From the perspective of ADB as a whole, this issue will be further complicated by an expected increase in non-sovereign funding activities following Board approval of a series of recommendations embodied in the Innovation and Efficiency Initiative (IEI). At present, PSO credit risks appear to be under control, although experience during the Asian Crisis showed that this situation can change rapidly. At 30 September 2005, out of a total of 105 companies in the PSOD portfolio, 75 companies (87.6% of PSOD's total exposure) were rated strong or satisfactory. Only five companies were in arrears and the loan infection rate was 4.9%. Project administration and risk management procedures are being strengthened. Following the approval of the IEI paper, an independent Risk Management Unit has been established. Periodic risk assessments and credit reviews are being conducted as well as ongoing monitoring of projects' compliance with stipulated covenants. Restructuring and recovery plans have been developed to address PSOD impaired accounts.

12. PSOD is strengthening management procedures and has developed a set of financial statements that will enable the tracking of departmental performance. It is envisaged that the PSOD accounts will be circulated to Management on a quarterly basis and the Board once per year. PSOD has been creating a database of performance indicators on its funds and is working to update its project performance evaluation system in association with OED. A critical issue that will influence the effectiveness of these reforms is the availability of staff to process interventions and administer the portfolio. The number of staff in PSOD has been increasing since 2000, when the PSD strategy was approved. There is currently 59 staff in PSOD in professional, national, and support functions. Due to the rapid growth in the PSOD portfolio, there was a proposal in the last annual ADB budget round to increase the number of professional PSOD staff in 2006 by 12–15 people, which would require a complementary increase in administrative support staff. OED has initiated a benchmarking exercise against IFC and EBRD to assess the adequacy of these staffing arrangements and investigate the quality of the information and reporting systems currently in place. The findings of this review are expected to be available in the second quarter of 2006.

#### **D. Evaluation and Rating of PSO Performance**

13. The success of PSO will be a function of project impacts on the enabling environment/investment climate and benefits directly arising from investments. PSOD has reviewed 31 projects and presented the results in project completion reports (PCRs). These reports are prepared by PSOD project staff and are primarily concerned with identifying lessons rather than seeking to provide an independent measure of performance, although projects are rated. The PCRs are performed sporadically and only cover a small proportion of the total portfolio of projects approved since 1995. The formats are not consistent, development impacts are not assessed in a systematic fashion, and financial internal rates of return and economic internal

rates of return are only calculated for approximately 60% of PCRs. OED has prepared six Project Performance Audit Reports (PPARs) over the period 1995–2005. The PPARs cover both infrastructure projects and investment funds and performance ranges from partly successful to successful.

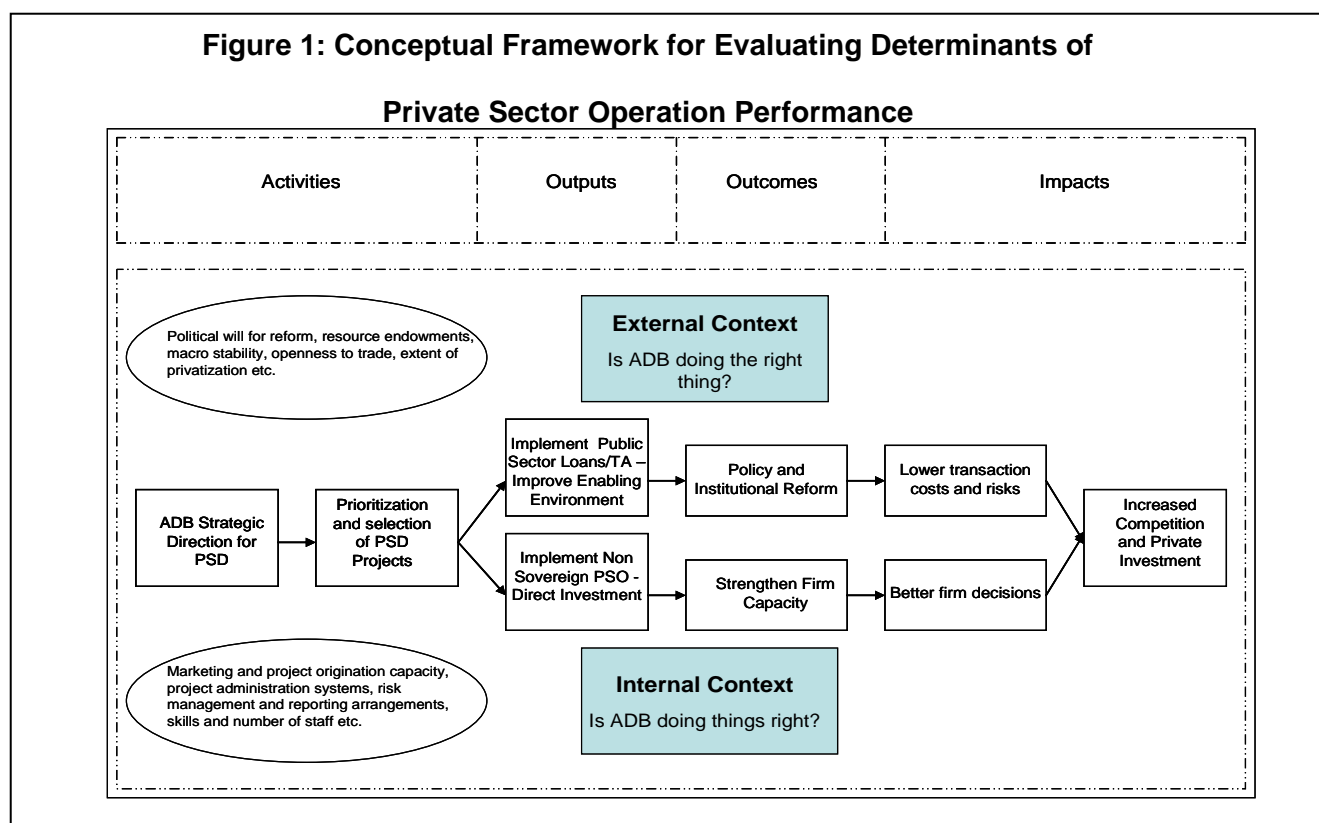
14. Two important issues that emerged from a review of the PCRs and PPARs are the small size of the sample set and the lack of standardization of data and reporting formats. In 2005, in consultation with OED, PSOD changed the format for project evaluations to reflect a new draft set of evaluation guidelines for private sector direct investments that has been harmonized across IFIs. While this reform is extremely important, it will not help resolve issues associated with the lack of high quality data on PSO projects. Nevertheless, the new guidelines provide an important conceptual framework for looking at PSO projects.

## **E. Conceptual Framework**

15. The two key questions that need to be answered by the SES are whether ADB is doing:

- (i) the right things in terms of providing outputs to enhance the private sector enabling environment and/or direct investment (PSD dimension) and
- (ii) things right in terms of the scale of its operations, structure, resource mix, and adequacy of its systems (PSO dimension).

16. ADB outputs can impact on the private sector through two main channels: (i) *public sector operations*, which can directly influence the enabling environment through policy dialogue, TAs, and sovereign-guaranteed loans and indirectly influence firms through credit lines and (ii) *private sector operations*, which can indirectly influence the enabling environment and directly strengthen firms through non-sovereign guaranteed direct investment outputs in the form of TA, equity, loans, and risk mitigation instruments. The primary focus of this study is the second form of intervention—although in order to form a view on the relevance and significance of PSO interventions, it will be necessary to consider these interventions in the context of the quality of the enabling environment and the more general concept of PSD. The conceptual framework that will be used in the SES to assess these interventions and methods of doing business is illustrated in Figure 1. The approach adopted in the SES will consist of a combination of top-down studies to identify how ADB projects were used strategically as an instrument of PSD to improve the enabling environment and bottom-up studies of how well the PSO projects achieved their intended and potential investment outcomes and identify critical constraints encountered on its operations.



17. Focusing on the external PSD context, ADB outputs can be used to improve the enabling environment in a number of ways including: (i) identifying legal and regulatory constraints to investment, (ii) conducting policy dialogue and helping draft new legislation and regulations, and (iii) strengthening public sector institutional capacity to eliminate legal and regulatory bottlenecks. Referring to the internal PSO context, direct investment operations can complement enabling environment improvements by strengthening firm capacity through catalyzing investment, testing the environment, providing demonstration effects, increasing competition and linkages, or bringing about improvements in regulation. ADB's ability to realize the full potential of these reforms will be a function of its internal institutional arrangements for screening, appraising, structuring, monitoring, and supervising projects that generate an acceptable risk adjusted return.

## F. Study Objectives

18. The objective of the OED review will be to take stock of ADB's experiences and lessons to help identify ways in which PSOD's contribution to support development of the private sector can be enhanced. In line with this objective the study will seek to address four main questions:

- (i) What has been ADB's strategic approach to PSD?
- (ii) To what extent has PSO helped catalyze private investment?
- (iii) What are the key drivers and critical constraints impacting on the quality of PSOD's operations?
- (iv) What are the implications for current and future PSO activities?

## **G. Scope and Methodology**

### **1. Overview**

19. Initially, the study would provide a broad-based exploratory review to identify critical PSD and PSO issues. Having established the general context for PSO within ADB, a series of focused country case studies would then be conducted; encompassing India, Philippines, and Viet Nam. A case study approach has been adopted due to the large number of PSOD projects across a wide range of countries and sectors. For this reason, three countries were selected that provided a reasonable cross section of the types of countries in which PSOD operates. The analysis will then focus on how well PSOD implemented projects and provided direct financial assistance from the perspective of various key stakeholders. The SES will use the private sector evaluation criteria identified by the Evaluation Coordination Group of Multilateral Development Banks on PSO and presented in ADB's draft Guidelines for the Preparation of Performance Evaluation Reports of PSO. These guidelines differentiate between private development and investment outcomes and operational effectiveness. The evaluation design matrix is summarized in Appendix 1.

### **2. Historical Review of Private Sector Operations in ADB**

20. The orientation of this initial section of the SES will be top-down, focusing on identifying the desired strategic outcomes and impacts and determining the key factors influencing the enabling environment for PSD and PSO. While PSO has been in place within ADB since the late 1980s, the PSD strategy introduced in 2000 was meant to be the key catalyst for private sector investment. Given this result, it is proposed that a broad desk-based review of trends in the PSO portfolio over the period 1995–2005 is performed, providing the opportunity for an ex-ante and ex-post review of PSO in light of the PSD strategy.

21. The exploratory analysis will include a brief review of the literature on PSD and the way in which PSO contributes to this activity, including OED's 2000 review of the performance of PSOD funds, the ADB Institute study on private sector investment in infrastructure, and various OED and WB assessments of PSD and PSO from a country and sector perspective. Objectives of the PSD strategy and ways in which the objectives were incorporated in ADB's country and corporate planning process will be considered, differentiating between the different types of assistance and trends in various forms of outputs. CSPs and project review documents pertinent to PSO will be reviewed and critical issues arising from the implementation of the PSO projects and possible hypotheses for detailed analysis identified. Discussions will be held within ADB with RDs and support departments such as Treasury, Office of Cofinancing Operations, Regional and Sustainable Development, and the Integrity Unit to determine the nature of relationships and usefulness of their products and support services. The key issues considered will revolve around factors such as: (i) what was the strategic direction of the PSO initiatives? (ii) how were projects prioritized and selected? (iii) were there any specific issues arising associated with project formulation? and (iv) were there any specific issues associated with implementation and project management in areas such as financial risk management, social and environmental protection, and corruption? On the basis of this information, structured questionnaires will be prepared for PSOD project sponsors and actual and potential cofinancing partner banks to investigate key hypotheses.

### **3. Enabling Environment in Selected Countries**

22. This section will provide the environmental context for achieving PSD outcomes by producing PSO outputs within the three case study countries. The quality of the enabling environment will be identified by referring to macroeconomic data; OED's country reviews for Pakistan, Indonesia, and sector studies for Power in Bangladesh, the Philippines and India; ADB's private sector assessments; ADB country assessments; WB's Doing Business indicator databases; and Heritage Foundation statistics. The review of the enabling environment in the selected countries will provide the context for assessing ADB's PSD activities and help define a counterfactual in terms of what would have happened without ADB assistance. Similar to the previous section, as the analysis of the enabling environment is mainly concerned with setting the context for a review of PSO transactions, it will primarily be descriptive.

23. Country profiles for a sample of three representative DMC countries will be prepared. India, Philippines, and Viet Nam were selected, as they feature prominently in PSOD's portfolio and yet have each very different characteristics. India is the primary recipient of PSOD assistance and has a large sophisticated financial sector that is growing rapidly. The Philippines has a moderately well developed financial sector, although there continues to be important gaps in areas such as property rights—and growth is uncertain. The final candidate, Viet Nam, has not traditionally received as much financial assistance from PSOD as the other two countries, but is becoming an increasingly important DMC from a PSD perspective and is growing rapidly. The quality of the enabling environment within the selected sample of countries and PSD reform programs happening within these countries will be assessed. ADB public sector interventions will be considered to the extent they helped improve the legal and regulatory environment and/or strengthened capacity of the government to implement PSD related reforms. Information will be gathered by conducting desk research to identify the quality of the enabling environments within the selected countries, the main forms of enabling environment interventions, and the types of PSD related reform programs pursued in those countries by ADB and other IFIs.

24. The desk review will be supplemented by information gathered from interviews with key stakeholders such as ADB staff to understand the country programming context and PSD project prioritization process. Critical issues considered will include: (i) to what extent was the enabling environment capable of supporting PSO (focusing on headline issues such as availability of regulators for administering infrastructure concessions and quality of property right systems underpinning financial sector)? (ii) did the Government have an active program in place to improve the enabling environment and stimulate investment? (iii) how did ADB's operations contribute to the improvement of the enabling environment? (iv) how did this program fit relative to Government and other IFI PSD reform programs? and (v) what were the expected results?

### **4. Direct Investment in Selected Countries**

#### **a. Overview**

25. In line with the recent development of OED guidelines for PSO that have been harmonized with standards used by other IFIs, it is proposed that the following criteria will be used to evaluate the selected direct investment projects undertaken by PSOD:

- (i) **Development outcome:** draw lessons and recommendations to guide future actions supporting PSD, based on the development outcomes of the project and how it influenced the enabling environment for the private sector;

- (ii) **Investment outcome:** evaluate the performance of the various PSOD financial modalities including equity, loans, and risk mitigation instruments; and
- (iii) **Operational Effectiveness:** assess the quality of PSOD's systems and operations.

26. Within the three designated countries, OED will randomly select representative projects from each of the infrastructure and financial sectors that will be used as case studies. The initial assessment of PSOD projects will be based on interviews with key stakeholders, including representatives of the private and public sectors, and ADB staff.

#### b. Development and Investment Outcomes

27. OED will review project financial internal rates of return and economic internal rates of return and seek responses to the following questions from the project companies that are interviewed in the selected case study countries: (i) what characteristics of the enabling environment were important for the project? (ii) what contribution did the project make to the enabling environment and did the project indirectly generate additionality? (iii) did the project directly generate additionality through the investment; (iv) did ADB participation add value to the project and, if so, what was the source of additionality? (v) did the choice of ADB's financial instrument impact on the development outcome? (vi) how well did PSOD respond to project needs? (vii) how could interventions have been improved in areas such as timeliness, availability, and cost? and (viii) were social, environmental, corruption, and financial risks adequately addressed? Answers to these questions will help identify the countries and sectors where PSO had the greatest development impact and the types of interventions/financial instruments that were most effective. This information will be used to determine the regions, sectors, and types of outputs that were most effective and help identify critical operational constraints.

#### c. Operational Effectiveness

28. The information on PSO development and investment outcomes can then be used to provide the context for evaluating PSOD's operational effectiveness. The operational review would build on the findings of OED's current benchmarking exercise comparing PSOD against equivalent operations in IFC and EBRD. In the context of the findings of the country case studies and benchmarking exercise, the SES will consider the adequacy of ADB's *screening* requirements in light of the following issues: (i) was the direct investment interventions designed and implemented in accordance with ADB's country and sector assistance strategies? (ii) did the country plans target critical PSD constraints? (iii) did ADB's planning processes help create an enabling environment for specific PSO transactions, or was it necessary for PSOD to rely upon enabling conditions put in place by third parties? (iv) were enabling environment initiatives relevant to PSO transactions, and if not, should they have been? (v) were there synergies for PSOD by operating under one roof? (vi) did the public sector side of ADB help PSOD resolve implementation problems? (vii) was PSOD's transaction experience fed back into policy dialogue and the country planning process? (viii) why was ADB participation important for the client? (ix) how were ADB's environmental and social safeguard policies applied to the projects? (x) did the safeguard policies add unnecessarily to transaction costs or were they seen as a source of value by the sponsors? (xi) were there problems complying with the safeguards? (xii) how were problems of corruption addressed? (xiii) how did the private sector firms manage problems with corruption in areas such as procurement, minority shareholder rights, and interactions with the regulatory authorities? and (xiv) how did the source and intensity of corruption change over time?

29. When considering the PSO systems and procedures for *appraising, structuring, and monitoring* projects, the following issues would be assessed: (i) were the existing products and processes sufficiently flexible and responsive to meet customer requirements and ensure there was meaningful PSD potential? (ii) did the projects meet with ADB's operational requirements in terms of managing commercial risk and ensuring compliance with its safeguard policies in the areas of procurement, resettlement, and environment (iii) how did PSOD interface with its clients? (iv) how did PSOD screen and prioritize its interventions? (v) how did PSOD structure its investments in order to maximize developmental impact and provided a source of additionality while managing ADB's financial, social, environmental, and reputation risks? (vi) how did PSOD monitor and supervise contracts and manage financial, social, environmental, and reputation risks in areas such as corruption on an ongoing basis? (vii) did the organization's structure and allocation of resources provide requisite direction and capacity to meet acceptable levels of performance? (viii) did staff have the necessary skills and were incentives appropriate for optimizing performance? (ix) were the systems in place sufficient to manage the drawdown and repayment of ADB funds in a timely and cost effective fashion? and (x) were PSOD's systems and reporting arrangements adequate to manage resources and meet stakeholder requirements including clients, management, and the Board?

30. Weaknesses and constraints identified during the evaluation can then be used to determine answers to the questions of what has worked, what has not, and why. This information can then be used as the basis for identifying potential areas of improvement in PSO such as: (i) introducing better ways of prioritizing projects; (ii) enhancing coordination mechanisms with public sector operations in areas such as provision of critical enabling PSD public goods and PSO follow-through with demonstration projects; (iii) developing stronger linkages and partnerships with other IFIs; (iv) formulating better project structuring and risk screening criteria; (v) enhancing marketing and project administration capacity within PSOD and other relevant departments of ADB; (vi) increasing levels of resources, improving resource allocation, or strengthening staff incentives to improve project origination and administration; and (vii) enhancing reporting systems and procedures to more effectively and efficiently measure performance, manage critical risks, and achieve project objectives. Answers to these questions will then allow conclusions to be drawn on the implications of potential reforms and how changes might be managed.

## **H. Study Implementation**

31. The evaluation program will be divided into three phases.

32. In Phase 1, OED will conduct: (i) a desk-based literature review on the enabling environment for private sector generally; (ii) a global review of 31 PCRs prepared by PSOD and assess 11 PPARs produced by OED to identify common issues impacting on PSO projects; (iii) review the CSPs and CSPUs in the three selected countries and identify PSD-enabling environment initiatives; and (iv) conduct a portfolio review of approximately 39 PSO projects approved and completed since FY1995 in each of the selected countries, including an assessment of risk ratings and safeguard compliance reports where appropriate. Interviews will be undertaken with various ADB staff in both public and private sector operations to clarify the PSO project origination and management process. An interim report will be concluded within 3 weeks that provides an overview of PSD and PSO and presents a list of sample companies in each country and a series of testable hypotheses that can be evaluated in Phase 2. A list of indicative hypotheses that could be tested is presented in Appendix 2.

33. In Phase 2, OED will incorporate the responses of Management and staff in the Interim Report on areas where further research and evaluation are required. This information will then form the basis for visiting mature PSO projects in the three selected countries that will be used as a source of case studies (Philippines, India, and Viet Nam). The case studies will integrate the findings on the private sector enabling environment and operational elements of the Phase 1 review in each country. The preparation of the case studies will provide the opportunity for consultations with key stakeholders, including private sponsors and lenders, and public sector executing agencies. To the extent possible, the impact of ADB's current operations on PSD will be evaluated, including separate sections on improvements to the enabling environment, and development impacts of PSO, differentiating by sector and ADB financial instrument.

34. In Phase 3, the findings of Phases 1 and 2 will be synthesized and the results used as a basis for drawing conclusions on the performance of PSO, identification of critical PSO constraints, and consideration of areas where further improvements could potentially be introduced to strengthen operations. Various aspects of PSOD's operations will be reviewed. This section of the study will draw upon the findings of the separate OED benchmarking exercise that has already been initiated to determine the capacity of PSOD's operations relative to comparable private sector activities in IFC and EBRD, focusing on resource levels and reporting arrangements.<sup>6</sup> A final report will be prepared that provides a summary of the findings of the three stages of the analysis. These results would be presented to selected stakeholders for comment and validation prior to circulation of a final draft report to OED management.

## I. Schedule and Resource Requirements

35. It is proposed that the study be prepared between March and December 2006. In March–April, the Phase 1 desk studies will be conducted at ADB. The country case study for the Philippines can be initiated in May and used as a pilot to test the Phase 2 evaluation methodology. Country case studies for India and Viet Nam would be conducted in June and July. The draft final report prepared in Phase 3 will be circulated in late September with a view to finalizing the report by December. The proposed work plan set out below provides a tentative schedule for the SES, subject to government clearance of missions and availability of suitable consultants.

### Phase 1

Submission and Approval of Position Paper	II Mar–IV Mar 2006
Desk studies and initial interviews at ADB	II Apr–IV Apr
Interim Report	IV Apr

### Phase 2

Country Case Study for Philippines	I May – III May
Country Case Studies India/Viet Nam	II June–II July

### Phase 3

Initiate PSOD Operational Review	II Aug
Summary Presentation to OED Management	IV Aug
Draft Final Report	II Sept
Consultations at Director General Level	II Oct–IV Oct
Approval by Director General, OED	II Dec

<sup>6</sup> Among other things, this operational review may highlight in recommendations the need for more detailed consideration of financial reporting arrangements of ADB PSO.

36. The author of the position paper will be the team leader and the team will include an evaluation officer, an international consultant, and domestic consultants in each of the three case study countries. Draft terms of reference are presented in Appendix 3, with the main external consultant roles as follows:

- (i) Private Sector Development/Financial Specialist – (international consultant, 5 person months, intermittent) with extensive experience of preparing/ evaluating ADB PSD strategies and experience working in DMCs on PSO transactions. This expert will lead the consulting team, conduct three country studies, perform an internal review of PSOD, and coordinate preparation of the overall evaluation report;
- (ii) Development Research Specialists (three) – (domestic consultants, 3 person months, intermittent) to conduct desk studies, collect and analyze information requested by the team leader and international consultant, arrange field visit itineraries, and follow up information.

#### **J. Issues for Consideration by OED Management**

37. While the review is primarily focused on PSO, it will not be possible to draw conclusions on the relevance of the associated outputs without looking at the enabling environment as defined by the PSD strategy. To the extent possible, the study should build upon the findings of the internal review of the PSD strategy that is currently underway. The study also needs to identify opportunities to increase synergies between public and private sector operations and take into account the quality of PSOD's systems and operations in terms of transaction capacity and risk management. OED management needs to consider how the evaluation team should prioritize its efforts when evaluating the quality of the enabling environment and project additionality (PSD perspective) versus operational issues such as efficiency and risk management (PSO perspective). OED is already conducting a benchmarking exercise that will take into account risk management and resource-based operational issues and may help reduce the amount of work that might otherwise need to be done in this area. Offsetting this result, the IEI initiative will potentially impact on PSOD in the sense that it may place additional demands on the existing transaction management systems for non-sovereign guaranteed projects. The relative emphasis of the review will influence the evaluation report outputs and the preferred qualifications of the consultants.

#### **Appendixes**

Appendix 1: Evaluation Design Matrix

Appendix 2: A List of Indicative Hypotheses for Phase II

Appendix 3: Terms of Reference