

SYNOPSIS

**Private Sector Development Strategy:
Strengthening the Role of the Private Sector**

Development of a strong and dynamic private sector is essential to long-term economic growth, a necessary condition for sustainable poverty reduction. ADB's Private Sector Development (PSD) Strategy (approved March 2000) aims at strengthening the role of the private sector in Asia and the Pacific by addressing the complex challenge of how ADB's public and private sector operations can better promote private sector-led growth. Such a combination requires public sector assistance to pay more systematic attention to private sector interests and concerns, and private sector assistance to promote development impacts in their activities.

The PSD Strategy has three mutually reinforcing strategic thrusts: creating enabling conditions, generating business opportunities, and catalyzing private investment.

Creating enabling conditions: The right policy environment is critical for the long-term viability of the private sector. One of ADB's strengths lies in conducting policy dialogue with governments on needed reforms. Under the PSD Strategy, the reform agenda seeks to achieve a stable macroeconomic environment; investment, trade, and price liberalization; reduced barriers to competition; well-functioning financial and capital markets; flexible labor and land markets; appropriate physical, social, and technological infrastructure; equitable tax systems; and legal and judicial systems that protect property rights, enforce contracts, and provide for dispute resolution.

Generating business opportunities: Under the PSD Strategy, ADB takes deliberate steps to ensure that, where appropriate in its public sector projects, business opportunities are generated for the private sector, particularly for the domestic private sector. ADB's public sector operations can be formulated to provide specific opportunities in which the private sector can participate. Such opportunities may include model private sector projects designed to include poverty reduction impacts.

Catalyzing private investments: ADB provides direct financial assistance to private sector projects. While ADB's participation is usually limited, it leverages a large amount of funds from commercial sources to finance these projects. As a multilateral development organization, ADB does not finance private sector projects based solely on their financial viability. Projects must also have clear development impacts and/or demonstration effects that go beyond the benefits captured in the financial rate of return.

The three strategic thrusts of the PSD Strategy are pursued in four priority operational areas: governance, financial intermediation, public-private partnerships, and regional cooperation.

**Private Sector Operations Strategy:
Catalyzing Private Investments**

The third thrust of ADB's Private Sector Development (PSD) Strategy is to catalyze private investments through direct financing, credit enhancements, and risk mitigation instruments. ADB performs this function through its Private Sector Operations Department. ADB approved the Private Sector Operations: Strategic Directions and Review (PSO Strategy) in September 2001 to enhance the impact of such operations.

ADB's strategic objective for private sector operations is to increase the flow of capital into and within its developing member countries (DMCs) and, more importantly, to broaden the flow into more countries and sectors. The PSO strategic framework demands a sharper focus on development impact, and emphasizes private sector participation in infrastructure and capital market development, gradual broadening of the country and sector reach, wider use of credit enhancement and other instruments, and strategic alliances with other development agencies.

In its PSO, ADB builds on its existing strengths in infrastructure and capital market development and seeks to assist private sector projects in these two areas in more DMCs. Priorities include infrastructure projects in the energy, water, telecommunications, and transport sectors. In capital markets, ADB emphasizes investments in key market institutions and investment funds that can serve as vehicles for mobilizing resources to finance small-scale infrastructure and small-and medium-sized enterprises. ADB also intends to gradually extend its reach to new sectors, such as education and health care. This is being done selectively on a pilot basis.

ADB provides direct funding assistance through loans and equity investments. In addition, it uses its political risk guarantee and partial credit guarantee instruments to enhance transactions, thus attracting foreign commercial lenders to projects in the DMCs or domestic banks and institutions to stretch the maturities of their local currency loans.

ADB has long enjoyed constructive partnerships with other international financial institutions and development agencies. Such strategic alliances are being intensified to facilitate the knowledge and risk sharing needed to make challenging projects bankable. Joint support by multiple agencies for a given project also gives a strong signal of confidence in the overall country environment and paves the way for further private capital.

Investment officers in the resident missions enhance ADB's private sector activities in-country and help facilitate processing of new projects. More importantly, in-country presence allows closer project administration and risk management, which are critical for sustained operations.