

MANAGEMENT RESPONSE TO INDEPENDENT EVALUATION DEPARTMENT PERFORMANCE EVALUATION ON THE PACIFIC PRIVATE SECTOR DEVELOPMENT INITIATIVE

On 13 February 2018, the Director General, Independent Evaluation Department, received the following response from the Special Senior Advisor to the President on behalf of Management:

A. General Comments

1. Management thanks the Independent Evaluation Department (IED) for reviewing the Pacific Private Sector Development Initiative (PSDI). PSDI commenced operations in 2007 and strives to support an enabling environment for the private sector in the Pacific. Across its six areas of focus, i.e., access to finance, business law reform, state-owned enterprise reform, public-private partnerships, competition and consumer protection, and economic empowerment of women, PSDI has supported 276 subprojects in all of ADB's 14 Pacific Developing Member Countries (PDMCs), and contributed to an improved enabling environment for the private sector in these countries. Since 2007, \$60.4 million has been allocated to PSDI, with over \$54 million in grant funding coming from the Australian and New Zealand Governments. This level of cofinancing from these two key development partners reflect the importance and value they place on introducing reform and capacity building measures to support private sector development in PDMCs.

2. IED's review recognizes many of PSDI's positive attributes, acknowledging that:

- i. PSDI has contributed many important inputs necessary for a modern, functioning private sector in the Pacific;
- ii. PSDI's demand-driven model is responsive and highly valued by PDMCs;
- iii. PSDI is relevant and remains well aligned to the needs of the PDMCs and ADB's country partnership strategies;
- iv. PSDI provides significant value-addition, and complements many ADB products and initiatives;
- v. PSDI's explicit focus on the economic empowerment of women has improved PSDI's effectiveness and inclusiveness; and
- vi. PSDI's mode of delivery is efficient, with a mixture of long- and short-term consultants enabling sustained and long-term engagement with PDMCs which, in turn, builds trust, confidence, and commitment.

3. IED's review also noted that after a decade of operation, PSDI's strategy and governance arrangements need to evolve to ensure the program's continued relevance, effectiveness, and efficiency. When PSDI was launched in 2007, it was much smaller in size, narrower in scope, and had fewer resources. PSDI's operational arrangements and its demand-driven nature were appropriate at that time. In subsequent phases (PSDI Phases II and III), PSDI has grown and expanded its areas of coverage. With a much larger scale and scope, PSDI has outgrown its original governance and management structures.

4. In this context, Management accepts that ADB can provide more strategic guidance to PSDI going forward and work with other partners to refine PSDI's governance arrangements. The review is timely given that Phase III of PSDI will be drawing to a close in mid-2019, and IED's review findings and recommendations will provide valuable inputs for designing Phase IV.

B. Management Response

5. **Recommendation 1:** ADB should increase its value added by initiating the development of a roadmap for the remaining activities in PSDI III. Should PSDI's Phase IV expansion proceed, a strategy that provides the program with clear priorities and identifies intended outcomes and objectives should be prepared.

6. *Management agrees.* Since 2017, we have taken steps to enhance PSDI's planning of activities and outputs. PSDI now has a comprehensive work plan to the end of PSDI III in mid-2019 that provides a detailed roadmap for remaining activities under Phase III. As with previous phases, a comprehensive planning and design process will be undertaken for PSDI IV. This process will draw on our experiences over the past decade, recommendations included in IED's review, and close consultations with the Governments of Australia and New Zealand to ensure that Phase IV is anchored on a strategy with clear priorities and intended outcomes.

7. **Recommendation 2:** ADB should require that all new PSDI designs include a clearly defined results chain as part of the concept note for each intervention.

8. *Management agrees.* This recommendation will be fully implemented following the review of PSDI's monitoring and evaluation (M&E) system which will examine how concept notes can be better linked to PSDI's outcomes. The strategy for PSDI IV will incorporate results chains for the overall strategy, focal areas, and individual subprojects. The scope of subproject concept notes may also be further refined following consultation with key stakeholders.

9. **Recommendation 3:** ADB should lead the redesign of the M&E system.

10. *Management agrees.* We have started to redesign the M&E system for PSDI III. An M&E specialist has been engaged to review the M&E system and provide advice on how it can be improved in light of the recommendations from IED's review and discussions with the Governments of Australia and New Zealand. The M&E review is expected to be completed in mid-2018. Developing a stronger M&E system will form part of the overall design and implementation for PSDI IV.

11. **Recommendation 4:** ADB should review the PSDI management structure to identify an appropriate and effective model to increase its value added.

12. *Management agrees.* As part of the design process for PSDI IV, we will review the governance and management arrangements for PSDI, drawing from our own experience in implementing PSDI as well as alternative arrangements applied to large programs by other development partners, such as the International Monetary Fund's Pacific Financial Technical Assistance Centre. In terms of

immediate actions, we are cognizant of the need for more resources to provide greater strategic oversight of PSDI and managing its implementation, including guiding the critical analytical work and designing of PSDI IV.

13. **Recommendation 5:** ADB should rethink and enhance the focus area on the economic empowerment of women.

14. *Management agrees.* As part of the planning for the remainder of PSDI III, we have programmed more resources for this focus area. In addition, we will ensure that the design phase of PSDI IV considers how the economic empowerment of women can become more mainstreamed into subprojects in PSDI IV. Mainstreaming will incorporate IED's review findings and recommendations, our experience with previous and ongoing PSDI activities on the economic empowerment of women to date, as well as feedback from Australia and New Zealand. Both the review and stakeholder feedback indicate that dedicated, small-scale gender piloting activities may not be fully aligned with PSDI's strengths, are costly, and less likely to generate sustainable impacts on women's empowerment. The reorientation of the work under this stream has already started in PSDI III and will continue into the designing of PSDI IV. Please note that the term "gender disaggregated" used in the IED review should instead be "sex disaggregated".