

## ADB Support for Public–Private Partnerships, 2009–2019

### RECOMMENDATIONS

#### Strategic

1. ADB should prepare a PPP directional guidance paper, including a PPP strategic approach, a clear underlying theory of change, a results framework and implementation guidelines that takes into account the need for an increased focus on Pillars 1 and 2 and ex ante value addition in line with Strategy 2030 Operational Priorities and Quality Infrastructure outcomes.
2. ADB should strategically engage with DMC client governments from an early stage of project development to enhance local capacity for screening and selection of projects for alternative procurement modes, including public, Official Development Assistance supported and PPP, using cost benefit and value-for-money analysis.

#### Operational

3. ADB should seek to rapidly expand the use and scale of available risk mitigation products and provide political risk and partial credit guarantees to facilitate private sector investment in PPP infrastructure projects.
4. ADB should improve its monitoring and evaluation systems for PPP transactions to document outcomes across the entirety of the project cycle and cover long-term outcomes beyond project closure (RDs), early operating maturity (PSOD) and commercial close (OPPP).

#### Organizational

5. ADB should operationally and organizationally separate the PPP Thematic Group Secretariat from OPPP to strengthen its cross institutional role and function in the promotion of a holistic One ADB approach to PPPs aligned with Quality Infrastructure principles and to avoid any potential conflict of interest, in fact or appearance.
6. ADB should assign the management of Asia Pacific Project Preparation Facility (AP3F) funds and other key donor and institutional relationships in support of PPPs to the newly created PPP Thematic Group Secretariat.

This evaluation covered the extent, nature, and development results of ADB's support for public–private partnerships during 2009–2019. The evaluation's overarching question was: "To what extent has ADB's facilitation of private sector participation in the provision of quality infrastructure and social services through public–private partnerships in Asia and the Pacific delivered the intended results?"

During 2009–2018, ADB approved \$22.1 billion of PPP interventions spread across 278 projects and technical assistance projects. These interventions comprised \$10.8 billion in 66 sovereign loans, \$11.1 billion in 86 nonsovereign operations (NSO) facilities and \$226 million in 126 TA projects with significant PPP elements. The PPP Operational Plan was approved by management in 2012 and the Office of Public–Private Partnership was formed in 2014.

Five countries accounted for 65% of total PPP-related project approvals during 2009–2018: India (21.4%), Indonesia (14.3%), PRC (13.8%), Bangladesh (7.9%) and the Philippines (7.8%). By region, Southeast Asia (33.6%) and South Asia (31.1%) had the biggest shares. The shares by sector were energy (41%), followed by finance (14%), water and other urban infrastructure and services (14%), public sector management (9%), and transport (8%).

### OVERALL ASSESSMENT

1. ADB support for PPPs in Asia and the Pacific has delivered mostly positive developmental outcomes through targeted downstream investments. Evaluated nonsovereign PPP projects performed particularly well (an average success rate of 91%); significantly higher than sovereign PPP-related projects, which involved a combination of upstream and downstream activities (65%).
2. While ADB's upstream work in support of PPPs was relevant, it has not been able to achieve the transformational change needed to crowd in the private sector and promote quality infrastructure outcomes. Lack of VFM, high associated risk, high costs in relation to benefits of PPP projects and minimal advocacy for linked sectoral and SOE reform have undermined ADB's contributions.

3. Engagement with policy, sectoral and regulatory reform requires long-term support if the beneficial outcomes that PPPs can deliver are to be achieved. ADB has delivered strong support for institutional capacity building in key markets such as the People's Republic of China, India, Indonesia, and the Philippines, including developing PPP centers, supporting the development of government-led infrastructure funds, and training local government officials. However, it has not consistently supported the long-term enabling environment for by promoting policy, sectoral and regulatory reforms.
4. A wide range of downstream ADB operational outputs supporting PPPs have been identified, but clear links with positive and measurable development outcomes aligned with improved accessibility or sustainable infrastructure and services have been only weakly documented.
5. ADB's work on the upstream enabling environment has not been consistently coordinated with downstream advice and financing activities. A "One ADB" approach to delivering optimal results for DMC clients has produced good collaboration between the regional departments, OPPP, and PSOD on some PPP projects, but it has not been consistently demonstrated.
6. ADB's organizational arrangements for the delivery of support for PPPs are geared toward downstream interventions. They fall short of the PPP Operational Plan's strategic vision for holistic life-cycle support to DMCs and proactive engagement with PPP development programs outlined in country partnership strategies.

## ISSUES

### External

#### **Interventions in support of PPPs are affected by policy risks, political risks, and weak regulatory frameworks.**

If there is no political will, local capacity, or enabling environment to utilize PPPs, deals will not close.

**Risk mitigation products designed to address the needs of private project developers and institutional investors in PPP projects are not sufficiently available.** Availability of finance is not the main issue in delivering PPP infrastructure projects; managing and appropriately pricing project risk in a way that can mobilize existing private sector capital resources is a much more substantive challenge.

**A lack of updated sector regulatory and policy frameworks has slowed the pace of PPP investments in DMCs.** Incorporating the private sector and accommodating rapid technological change in areas such as energy generation, digital communications, and urban transport infrastructure requires a flexible regulatory environment.

**As a result of the coronavirus (COVID-19) pandemic, pressures on government budgets will increase.** PPP projects, particularly in demand-sensitive sectors such as transport, will likely be adversely impacted. Careful selection and prioritization of projects must be undertaken to maximize beneficial development outcomes and minimize placing additional strain on government finances.

### Internal

#### **ADB PPP Operational Plan has not been updated.**

ADB's activities in support of PPPs lack a clearly articulated connection with ADB Strategy 2030 operational priorities and outcomes. The PPP Operational Plan's results and monitoring framework covering Pillar 1-4 activities was set aside when OPPP was formed in 2014, and it was replaced with key performance indicators (KPIs) focused primarily on the number of PPP transaction advisory mandates signed in a year.

**ADBs upstream PPP activities are compromised by a lack of a coordinated "One ADB" approach.** Not all ADB country directors, who are the government client's first point of contact for PPP support, are well versed in the complexities of PPP as an infrastructure procurement option. OPPP's coordination and support role for Pillar 1 and Pillar 2 activities as well as its knowledge management and capacity development role were de-emphasized in 2019 when OPPP was reorganized with most staff allocated to the transaction advisory services (TAS) business.

**A potential conflict of interest hampers OPPP's ability to deliver upstream policy or advocacy support.** OPPP's KPIs, which emphasize the number of signed transaction advisory mandates, are prioritized over coordinating and supporting the regional departments Pillar 1 and Pillar 2 work. ADB's honest broker role has the potential to be compromised by the desire to consistently promote and secure PPP-focused TAS mandates. The TAS divisions' operational control over AP3F introduces a potential conflict of interest. As TAS staff will be screening applications to AP3F, there will be a natural tendency to favor applications that are tied to TAS mandates over applications that are stand-alone Pillar 1 or Pillar 2 projects.

**ADB's current PPP monitoring system and transaction databases are not suited to the task of monitoring the full scope of ADB's PPP interventions.** Monitoring often stops at the completion of project outputs, whether that is completion of a TA project (for Pillar 1 and Pillar 2 activities), achievement of commercial closure (for transaction advisory services) or completion of project construction (for Pillar 4 financing). Long-term results such as the achievement of financial closure (for TAS), the amount of private sector resources crowded in by Pillar 1-3 activities, and the longer term operational performance of projects are not monitored and recorded.