

MANAGEMENT RESPONSE TO IED'S THEMATIC EVALUATION OF ADB SUPPORT TO PUBLIC-PRIVATE PARTNERSHIP, 2009-2019

On 20 August 2020, the Director General, Independent Evaluation Department, received the following response from the Special Senior Advisor to the President on behalf of Management:

1. Management appreciates IED's Thematic Evaluation of ADB's Support to Public-Private Partnerships (PPPs), 2009-2019. Overall, the evaluation is well prepared and provides useful insights to guide and enhance the overall PPP support of ADB to its clients in light of changing client profiles and demands.
2. We agree that PPPs are an important procurement option for the developing member countries (DMCs) of ADB. Well designed and implemented PPPs can optimally transfer risks from the public sector to the private sector and effectively mobilize private sector-led design, construction, operations, maintenance, and/or financing to deliver improved efficiency gains and service quality. As such, the scaling up of support for PPPs has been highlighted in Strategy 2030 (S2030) and its seven operational plans, and the Operational Plan for Private Sector Operations 2019-2024.
3. The support of ADB for PPPs has delivered mostly positive developmental outcomes particularly through downstream investments and financing, while recognizing the need for ADB to more consistently coordinate its vital upstream support for capacity development and strengthening the enabling environment with its downstream advisory and financing support. IED has concluded that targeted interventions are required by ADB to further enhance its upstream support, as PPPs need a predictable, robust ecosystem for governments to realize the full potential of PPPs.
4. As the PPP Operational Plan 2012-2020 covers operations until the end of 2020, this evaluation will help ADB develop a directional guidance paper that will give clear and enhanced directions to shape the support of ADB for PPPs in the context of S2030 and its operational priorities. Also, at the time of this evaluation, the COVID-19 pandemic is placing significant stress on already stretched public sector resources in DMCs. Procurement through PPP should be appropriately considered as a part of the plans of DMCs for delivering green, resilient, inclusive, and sustainable infrastructure and services in the context of broader economic recovery.

I. General Comments

5. ADB Management approved the PPP operational plan in April 2012 in response to the 2009 Special Evaluation Study of IED, which called for ADB to enhance support to deliver PPPs to its DMCs. The operational plan identified project preparation and development as a missing link in the services offered by ADB to clients in terms of support for PPPs. After the first two years of its implementation, the operational plan required an internal review of the PPP work of ADB. Subsequent to that review, Management approved the establishment of Office of Public-Private Partnership (OPPP) in 2014. The memo issued in September 2014, articulated the roles and responsibilities of OPPP, Private Sector Operations Department (PSOD), and the regional departments (RDs). OPPP was established to function as the control tower responsible for (a) planning and coordinating ADB-wide PPP operational issues, (b) screening, prioritizing, and monitoring all PPP activities, and (c) originating and delivering all Transaction Advisory Services (TAS) work. OPPP was also mandated to work jointly with the RDs to provide the appropriate upstream support to facilitate DMCs in making use of PPP as a procurement modality, where

appropriate. ADB initiated the work to update the operational plan in late 2018, but this was delayed as a result of the advice of IED that it would be prudent to wait until the evaluation was completed before the operational plan is updated.

6. ADB counsels its public sector clients that PPP structures do not function as a panacea and are one of many procurement options for delivering infrastructure and services. Furthermore, PPPs are not a financing modality. Through various levels of engagement, ADB has also strongly advocated that, first and foremost, an appraisal of any potential investment decision for any project must be undertaken, including making use of a value-for-money (VfM) analysis. Any such analysis must also be based on the relevant national, regional, and sector priorities. There should be recognition that, in some cases, the data may be insufficient to enable a meaningful VfM analysis to be performed and that DMC regulatory frameworks may require different types of analyses to be undertaken. Nonetheless, ADB agrees that it is relevant to undertake a VfM-type of analysis prior to recommending PPP as a procurement option for a given project.

7. The financing of PPPs requires feasible risk-sharing arrangements and proposals, and the mobilization of private financing in many DMCs is challenged by real and perceived risks in PPP proposals. ADB is actively expanding the use of credit enhancement products (CEPs) to support PPP projects. ADB now has a dedicated resource in the Guarantees and Syndications Unit focused on supporting the sovereign operations for work on early stage PPP operations. The focus will remain on expanding the use of existing CEP products which include Partial Credit Guarantees (PCGs) and Political Risk Guarantees (PRGs) of project debt financing to backstop the payment obligations of government clients in PPP contracts. In addition, donor funds administered by ADB are being employed to expand CEP operations and other credit enhancement tools are being deployed, such as blended concessional finance solutions, to support the bankability of PPP projects.

II. Management Response to the Recommendations

8. Recommendation 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.

Management agrees. At this time, the overall PPP strategy of ADB is articulated in the current operational plan and PPPs are stated as a potential delivery modality in each of the seven operational priorities of S2030. Management will prepare a PPP directional guidance paper, in line with S2030 operational priorities, quality infrastructure outcomes, and recommendations of IED. The PPP Thematic Group Secretariat will lead and coordinate the preparation of this guidance paper, which will map out the support of ADB to its clients across the entire cycle and all four pillars of the current operational plan. This paper will highlight operational adjustments to further enhance the support of ADB for PPP capacity development (Pillar 1) and building an enabling environment (Pillar 2). The paper will also address appropriate ex ante value addition, including project screening, identification and prioritization, to ensure that project preparation activities are undertaken with more comprehensive fundamentals. To further improve the overall governance and accountability of PPP interventions by ADB, the paper will include clear, verifiable, and measurable key performance indicators across all PPP operations within ADB.

9. Recommendation 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.

Management agrees. Management firmly believes that successful and sustained outcomes from the support of ADB for PPPs requires increased support during the early stages of engagement of ADB with its clients. The PPP Thematic Group Secretariat will coordinate a One ADB approach during the formulation of the Country Partnership Strategy (CPS) and Country Operations Business Plan (COBP) with regards to the PPP agenda in every DMC and will engage in country programming to support the RDs. Notwithstanding the participation of OPMP under the One ADB approach, at least one staff from the thematic group secretariat would be included as a team member for all CPS and COBP teams. The thematic group secretariat will proactively support DMC governments in identifying and screening projects that meet national and economic development strategies. Once an investment decision is made, and prior to any firm determination of the most appropriate ADB support modality, ADB would continue to assist DMC governments holistically in assessing and exploring whether candidate projects may best be procured through PPP structures, including whether such procurement modality is likely to present better value for money than if conventionally procured with public funding. This would include support for screening and prioritizing projects that have undergone a VfM-type of analysis to establish the suitability for an investment to be delivered through a PPP modality.

10. Recommendation 3: ADB should seek to rapidly expand the scope and scale of available risk mitigation products and provide political risk and partial credit guarantees to facilitate private sector investment in PPP infrastructure projects.

Management agrees. The increasing use of CEPs is critical for enhancing the overall bankability of PPP projects in many DMCs, and significant work is already underway in this area. ADB now has a dedicated resource focused on supporting its sovereign operations for work on early stage PPP operations and planning and structuring potential CEPs. This support includes the use of country specific or regional guarantee facilities. In terms of products, the focus includes expanding the use of existing products as opposed to creating new ones. ADB is seeing increasing interdepartmental collaboration to jointly develop and process CEPs and risk mitigation instruments. In the post COVID-19 situation, DMC client governments may seek support from ADB in the form of PPP projects, particularly in the social (health) and urban (water and solid waste management) sectors. The bankability issues inherent in social sector and municipal projects make a compelling case for ADB to expand its deployment of CEPs as well as blended concessional finance solutions, including those offered under the new Private Sector Window under ADF13, alongside sovereign financing facilities supporting DMC availability payment obligations.

11. Recommendation 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 (OPMP)

Management agrees. ADB will improve its monitoring and evaluation (M&E) systems for PPP transactions across the project cycle and introduce consistent and coherent monitoring and tracking criteria, methodologies, and M&E systems for PPP transactions. These new systems will be detailed in the forthcoming PPP directional guidance paper. ADB will consult with all relevant stakeholders to develop more reliable data and monitoring systems to better track and deliver impact for all PPP transactions and activities, with the PPP Thematic Group Secretariat leading this work. As the PPP operations of ADB are spread across departments and span the PPP value chain, any proposed improvement in M&E for PPP would consider the specific nature of PPP operations within ADB. Subject to the needs of DMCs and priorities identified in each CPS through a One ADB approach, programmatic approaches, including M&E systems, would be formulated comprising a combination of advocacy and capacity development (Pillar 1), policy reforms and enabling environment activities (Pillar 2) to enable project development and preparation (Pillar 3), and/or financing activities (Pillar 4). The coordination by the thematic group secretariat of a One ADB approach during country programming and in CPS and COBP discussions on the PPP agenda will ensure a more holistic review of the needs of DMCs and better informed design inputs, while ensuring more effective design monitoring frameworks for PPP operations of ADB.

12. Recommendation 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.

Management partially agrees. While Management agrees with the objective of promoting a holistic One ADB approach to PPPs, it does not support the organizational change proposed to achieve this objective as it would dilute the synergies enjoyed under a centralized PPP office. Instead, Management agrees to strengthen the cross-institutional role of the PPP Thematic Group Secretariat, particularly providing a One ADB support in the CPS and COBP formulation with the RDs, with the thematic group secretariat leading the identification of DMC PPP requirements and coordinating PPP support across the four pillars.

Moving forward, the utmost priority of the Management will be to (i) strengthen the thematic group secretariat with commensurate staffing and resources, including reallocating staff from the transaction advisory services of OPPP to the thematic group secretariat to increase its capacity to support ADB departments on PPP operations; (ii) enhance the independence, visibility, and reach of the thematic group secretariat across ADB; (iii) install a new governance structure to mitigate potential conflicts of interest, in appearance or otherwise, by ensuring the thematic group secretariat is functionally separate from the provision of transaction advisory services by OPPP, as well as requiring the thematic group secretariat, including its Chief, to report jointly to the Head of OPPP and the Director General of the Sustainable Development and Climate Change Department (SDCC).

Management will empower the thematic group secretariat with increased dedicated capacity, a clear ADB-wide coordinating and support mandate, and an improved governance arrangement that promotes enhanced coordination with ADB's other Sector and Thematic Groups while still realizing synergies within OPPP for the effective provision of one-stop-shop demand driven support for PPPs.

13. Recommendation 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.

Management partially agrees. Further to its support for a holistic One ADB approach to PPPs as noted in its response to Recommendation 5, Management agrees that the management of the AP3F should be assigned to the PPP Thematic Group Secretariat. However, Management does not consider it necessary for the thematic group secretariat to be organizationally separate from OPPP as this may dilute synergies. Noting also the response to Recommendation 2, the coordination by the thematic group secretariat of a One ADB approach to the PPP agenda during the formulation of the CPS and COPB is well aligned with managing AP3F support and may increase demand for AP3F support from DMCs. The new dual reporting line of the thematic group secretariat will also enhance the independence of the management of AP3F while remaining consistent with its establishment paper and the fiduciary responsibility of ADB for managing donor funds. Management will consult with the three main financing partners of AP3F and consider ways to further strengthen its effectiveness through improvements in pipeline development, processing and procurement support, and governance arrangements to address any perceived conflict of interests.

14. Management will undertake a review by the end of 2022 to determine the adequacy of measures taken to reallocate staff resources to the PPP Thematic Group Secretariat, improve its independence, effectiveness, visibility, and reach to deliver the ADB-wide PPP agenda, in line with the forthcoming directional approach paper. Management will also consider whether the steps taken, as outlined in paragraphs 12 and 13, have had any impact on mitigating conflicts of interest, in fact or appearance, including with respect to the allocation of AP3F resources. Management will consider alternative measures should sufficient improvements not be achieved in strengthening the cross institutional role and capacity of the thematic group secretariat.