

Management Response to IED's Corporate Evaluation of ADB's Private Sector Operations Strategic Approach and Results, 2019-2024

On 21 October 2024, the Director General, Independent Evaluation Department, received the following response from the Officer in Charge, Strategy, Policy, and Partnerships Department on behalf of Management:

A. General Comments

1. Management welcomes the report on the Corporate Evaluation of ADB's Private Sector Operations (PSO) Strategic Approach and Results of the Independent Evaluation Department (IED). This evaluation is very timely as the Private Sector Operations Department (PSOD) is currently preparing the new PSO Operational Plan 2025-2030.

B. Response to Recommendations

1. **Recommendation 1: Prepare a new Plan to factor in the evolving development landscape, the updated ADB corporate strategy, and the New Operating Model context. The Plan should (i) include a more selective and differentiated operational approach to meet individual client needs by geography and sector; (ii) include a clear theory of change and a results framework aligned with the Private Sector Development Action Plan and the Corporate Results Framework with well-defined indicators (baseline and target) for gender equity theme, climate mitigation and adaptation, and FCAS and SIDS; and (iii) identify resource requirements that will be reviewed and discussed through the bank-wide work program and budget framework.**

Management agrees to the recommendations with the following comments:

(i) Management agrees that the new PSO Operational Plan (the Plan) will include a differentiated operational approach across sectors and regions. The Plan will identify the strategic priorities for action drawn from the corporate strategy and the New Operating Model context of ADB. As an implementation roadmap, the Plan describes the actions needed between 2025 and 2030 to increase climate finance investments of ADB for the private sector in developing member countries (DMCs), and ensure that development impact, profitability, commercial sustainability, additionality, and mobilization objectives are achieved. The Plan will contribute to the delivery of the downstream portion of the Private Sector Development Shift while helping elevate midstream and upstream operations and the realization of the ambition of ADB to become the climate bank of Asia and the Pacific.

(ii) Management agrees with the importance of a clear Theory of Change (ToC). To ensure alignment and consistency, the Plan will provide clear references (or articulate the need to refer) to established ToCs within the Private Sector Development (PSD) plans embedded in Country Partnership Strategies (CPS), as these serve as the most appropriate platform for such articulation. Management agrees to align the Plan with the Corporate Results Framework (CRF), 2025-2030, which includes specific strategic alignment indicators for gender, climate, and FCAS and SIDS, where nonsovereign operations (NSO) will also play a contributing role.

(iii) Management agrees to identify staff resource requirements. Management will tangibly review and discuss the requirements through the annual Work Program and Budget Framework (WPBF) process, rather than in the PSO Operational Plan, to duly assess the requirements within a bank-wide context.

2. **Recommendation 2: Better operationalize the new Plan through a One ADB approach, linking and aligning it to targeted long-term PSD outcomes in DMCs. The approach should be anchored on Private Sector Development Plans, as part of the CPS, and informed by diagnostics to identify priority areas and constraints, which will be addressed through upstream operations' policy, regulatory, and institutional support and midstream advisory.**

Management agrees. The new Plan is being prepared to align with the ADB long-term targets of PSD outcomes in DMCs. PSOD will work with other stakeholder departments, specifically with PSD regional heads, through a One ADB approach to ensure better operationalization of the new Plan guided by the Private Sector Development Plans. The Plan will also be prepared to enable linkages to the Private Sector Development Action Plan, which is to be scheduled for implementation in 2025.

3. **Recommendation 3: Implement measures to scale up NSO through better-aligned incentives and improved local project origination capacity. KPIs to align incentives should capture project volume in addition to the number of projects, project origination and selection, financial return measures, project screening and processing times, and mobilization volume based on MDB harmonized approaches.**

Management agrees to implement measures to support the scaling up of NSO and ensure alignment with the newly approved targets and indicators of the CRF. Management will consider establishing and measuring appropriate internal key performance indicators (KPIs) that are consistent with the CRF. These KPIs will not be limited to financing volume, commitments, and mobilization, but may also include other ancillary metrics aligned with impact-related outcomes. As part of the WPBF, PSOD continues to work with the Budget, People, and Management Systems Department to optimize its presence in field offices to improve NSO client engagement.

4. **Recommendation 4: Ensure the implementation of business process reform initiatives to enhance project selectivity, design, and process efficiency, including the execution and mainstreaming of the ex-ante development impact framework, credit screening tools, and NSO Change information management systems by the end of 2025.**

Management agrees. Business process reform initiatives are currently underway. These initiatives are aimed at improving project selectivity, design, and process efficiency. Training modules for implementation of the ex-ante development impact framework have been available on Indigo since May 2023. Refreshed training is being developed now in Q4 2024. The related training on additionality will begin later in October 2024, initially with the staff of Strategy, Policy, and Partnerships Department. Further, PSOD has restructured the Development Effectiveness team in the Private Sector Transaction Support Division to strengthen ex-ante implementation through to the final review stage and contribute to the consistent development of ToC and monitoring indicators (i.e., strengthened results chain) of projects. As agreed earlier with IED, delivery of the rest of the credit screening tools will be within 2025. Finally, on NSO Change, Management will follow the project

timeframes agreed among multiple stakeholders for the design and implementation of the information management systems.