

Corporate Evaluation

ADB's Private Sector Operations Strategic Approach and Results, 2019–2024



Independent
Evaluation 

Raising development impact through evaluation

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Independent Evaluation: CS-25



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NOTE

In this report, "\$" refers to United States dollars.

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Abbreviations

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
CPS	–	country partnership strategy
DMC	–	developing member country
FAST	–	Faster Approach to Small Nonsovereign Transactions
FCAS	–	fragile and conflict-affected situations
IED	–	Independent Evaluation Department
KPI	–	key performance indicator
NSO	–	nonsovereign operations
OP	–	operational priority
PSD	–	private sector development
PSO	–	private sector operations
PSOD	–	Private Sector Operations Department
SIDS	–	small island developing states

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IED remains fully responsible for the contents of this report.

Foreword

The Asian Development Bank (ADB) has long recognized the pivotal role of the private sector in driving economic growth, fostering innovation, and tackling development challenges across Asia and the Pacific. As we navigate an increasingly complex and dynamic global landscape, the importance of a robust and strategic approach to private sector operations cannot be overstated.

The corporate evaluation of ADB's Private Sector Operations Strategic Approach and Results, 2019–2024, provides a comprehensive analysis of ADB's efforts to scale up its private sector operations (PSO) in alignment with Strategy 2030. The report highlights the achievements and challenges since 2019, offering valuable insights into how ADB can strengthen its support for the private sector in the region.

The period covered by this evaluation has been marked by significant global disruptions, including the coronavirus disease (COVID-19) pandemic and geopolitical tensions, which have underscored the need for resilience and adaptability in our operations. Despite these challenges, ADB has made notable progress in expanding its PSO portfolio, diversifying into new sectors and increasing cofinancing. However, the evaluation identifies areas where improvements are needed, particularly in strategic prioritization, resource allocation, incentives, and the integration of private sector diagnostics into country partnership strategies. As we look ahead, the findings and recommendations of this evaluation will be instrumental in shaping the next phase of ADB's PSO operational plan.

I would like to extend my gratitude to the Independent Evaluation Department team for their diligent work in preparing this report. I also wish to thank our partners, stakeholders, and ADB staff for their continued commitment and collaboration in advancing our shared development goals.



Emmanuel Jimenez
Director General
Independent Evaluation Department

Executive Summary

Private Sector Growth: Crucial to Economic Growth and Development in Asia

Despite the strong growth and development achieved in Asia and the Pacific, large financing gaps remain, particularly in infrastructure, financial inclusion, and climate financing. The gaps are too large for public institutions to handle on their own because of limited fiscal space. Hence, the private sector plays a vital role in financing development, with multilateral development banks (MDBs) in a strong position to leverage private sector finance.

The Asian Development Bank (ADB) has recognized the importance of the private sector in contributing to development in the region since 2000. ADB designated private sector development (PSD) and private sector operations (PSO) as one of the five “drivers of change” in its Strategy 2020. PSD referred to the upstream work of ADB’s sovereign operations (advocacy, and policy and regulatory reform to create an enabling environment for the private sector), while PSO signified the downstream work of ADB’s nonsovereign operations (NSO) (direct financing, credit enhancements, and risk mitigation guarantees).

To respond to growing regional needs, ADB’s Strategy 2030 (S2030) focuses on expanding PSO, targeting PSO to account for one-third the number of ADB operations by 2024, and increasing long-term cofinancing, aiming for a long-term cofinancing ratio of 2.5x for PSO by 2030.

ADB intended to expand PSO to support S2030’s broad operational priorities (OPs) in (i) addressing remaining poverty and reducing inequalities (OP1), (ii) accelerating progress in gender equality (OP2), (iii) tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability (OP3), (iv) making cities more livable (OP4), (v) promoting rural development and food security (OP5), (vi) strengthening governance and

institutional capacity (OP6), and (vii) fostering regional cooperation and integration (OP7). The guiding document in place to support this ambition, the Operational Plan for Private Sector Operations 2019–2024 (Plan), and the related portfolio, are the main subjects of this evaluation.

Purpose and Scope of the Evaluation

The purpose of the evaluation is to assess ADB’s strategic approach to PSO and its likely effectiveness in achieving ADB’s overall objectives for the private sector and developing member countries (DMCs) in Asia and the Pacific. The evaluation scope includes relevant NSO commitments and project evaluations in 2017–2023, 3 years before and 4 years after the Plan was published, to track changes and assess the likelihood of achieving the Plan’s objectives. The evaluation covers 247 NSO long-term investments totaling \$13.9 billion. NSO includes PSO and financing and investments in commercially oriented state-owned enterprises. The terms PSO and NSO are used interchangeably in the Plan and in this report.

Evaluation Findings

Broad and Flexible but Weakly Prioritized Plan

The Plan was relevant when it was launched in 2020. It provided a descriptive overview of how Private Sector Operations Department (PSOD) activities align with S2030. The Plan elaborated broad approaches to potential private sector interventions in relation to OPs, sectors, products, and special initiatives. A consequence of this broad, all encompassing, approach was the Plan’s flexibility, which allowed PSOD to respond to unexpected market changes.

However, the Plan lacks clear prioritization among the many sectors and the seven OPs. The Plan’s lack of a clear theory of change and results framework provides insufficient guidance on project selection amid competing priorities. The lack of clearly

articulated links between PSO inputs, outputs, and expected (and evidenced) outcomes undermined the demonstration of development effectiveness.

While country diagnostic work currently remains primarily under the purview of Country Offices and Regional Departments, PSOD specialists have a valuable contribution to make in terms of identifying constraints on the development of the private sector in each country context. Given the region's enormous gross domestic product and the disparate development needs across many countries, ADB must purposefully and carefully select its areas of operations and projects. All CPSs approved after the Plan was published identified PSD as a strategic priority. They indicated which sectors sovereign operations and NSO would work on, although the use of private sector diagnostics to identify constraints, opportunities, and actions to achieve greater private sector-led growth was inconsistent.

Progress in Reaching the Plan's Objectives

Despite the challenging macroeconomic and geopolitical environment, ADB has made progress in expanding the number of NSO projects. However, reaching the Plan's goal of one-third of ADB's operations (by number of commitments) by 2024 is unlikely. The number of annual NSO commitments grew by only 5%, from 38 projects in 2020 to 40 in 2023. The number of sovereign operations projects is expected to return to higher levels seen prior to the onset of the coronavirus disease (COVID-19), which will, in turn, put pressure on the share of PSO.

While ADB was successful in diversifying into new sectors, expansion of operations in small island developing states (SIDS) and countries ADB classified as fragile and conflict-affected situations (FCAS) lagged. The number of operations in frontier economies and/or new sectors (25 out of 40 projects) accounted for 63% of NSO in 2023, well ahead of the target of 55% by 2024. However, it is notable that PSOD is reaching this target mainly through activity in new sectors such as clean energy, agribusiness, water and other urban infrastructure and services, transport, and information and communication technology. From 2017–2019 to 2020–2023, NSO committed projects in FCAS and SIDS declined from eight to six. This reflects the lack of an enabling environment for the private sector, the lack of bankable private sector projects, and

other external and internal constraints on doing business in FCAS and SIDS.

Switching to a key performance indicator (KPI) based on the number of projects, rather than dollar volume, possibly incentivized staff to focus on smaller projects. The pursuit of smaller projects was also driven by a desire to increase portfolio granularity. This shift expedited NSO portfolio diversification into agribusiness, social, and non-energy infrastructure (water, urban, transport) sectors, and increased transactions in lower middle-income countries (LMICs). Consequently, the average PSOD project commitment size declined by 48%, from \$85 million in 2017 to \$44 million in 2023. Projects committed in LMICs rose to 57% of total NSO committed projects in 2020–2023, up from 48% in 2017–2019. In dollar volume terms, however, the share of LMICs in total NSO commitments remained unchanged at 53%. Annual NSO commitment volume peaked at \$3.1 billion in 2018 but decreased 45% to \$1.7 billion in 2023.

ADB is on track to meet the target of achieving \$2.50 of long-term cofinancing for every \$1.00 in long-term financing for NSO by 2030. However, the increased ratio as of 2023 reflects modest growth in the dollar volume cofinanced compared with 2019. Setting a volume target for mobilization can incentivize growth in both absolute mobilization volumes and share. ADB's cofinancing measurement criteria, last revised in 2014, differ significantly from MDB harmonized mobilization measurement and attribution methodologies, which count only financing from the private sector. [Confidential information deleted.]

While ADB's NSO has generally been profitable, some concerns persist regarding declining commitment volume, net interest margin, and contribution to ADB's net income. The reduction in PSOD's average project commitment size, coupled with the small increase in number of projects, led to a decrease in annual commitment value from \$2.3 billion during 2017–2019 to \$1.2 billion during 2020–2022. Without a corresponding decrease in costs, the reduction has contributed to declining margins and net income. Although the PSOD net income contribution since 2017 has been positive at \$816 million, its share of ADB's net income declined during 2017–2022 compared with 2009–2016.

Scaling Up of Nonsovereign Operations

Given the lack of data from pipeline tracking systems during the review period, IED could not confirm that an adequate pipeline of potential transactions was being originated. A robust pipeline generated by origination staff is crucial, as it enables the business to pick the best transactions and growth opportunities, thereby supporting a successful portfolio approach. Limited local PSO presence in many DMCs and lack of scale in transaction origination have contributed to weak business growth and even recent portfolio contraction.

Scaling up NSO has been hampered by the Plan's lack of clarity regarding the resources needed to achieve its ambitions. The staffing composition and available staff resources are not well-aligned with the goal of scaling up NSO.

In recent years, the share of Faster Approach to Small Nonsovereign Transactions (FAST) has increased substantially, potentially affecting the nature of transactions implemented, with implications for the total volume of transactions.

Delays in implementing business process reform initiatives, such as the NSO Change Project and credit screening tools (previously risk appetite frameworks), have hindered efforts to gain efficiency in processing deals. [Confidential information deleted.] Barring significant improvements in processing efficiency, the current origination staff can only be expected to originate and execute 41 transactions annually, indicating no effective scaling up from current levels.

Challenges in Achieving Stated Plan Outcomes

After the Plan was published, ADB increased support for addressing remaining poverty (OP 1), gender equality (OP 2), climate action (OP 3), and agricultural value chains (OP 5). For projects approved prior to December 2019, the study used the backtagging done by the Strategy, Policy, and Partnerships Department (SPD) for identification of OPs that the projects were supposed to contribute to. However, assessing the achievement of targeted outcomes has been challenging as many projects do not have a fully articulated results chain. For example, 57% of NSO projects (2017–2023) tagged

under OP 2 have gender-related outputs only and no outcome targets. The absence of outcome targets was more prevalent for some OPs after the Plan's launch: OP 1 (53%), OP 2 (79%), OP 3 (32%), OP 4 (45%), and OP 7 (39%).

Recommendations

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.
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.
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.
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.