ADB




Development Effectiveness Report 2012

PRIVATE SECTOR OPERATIONS

Asian Development Bank

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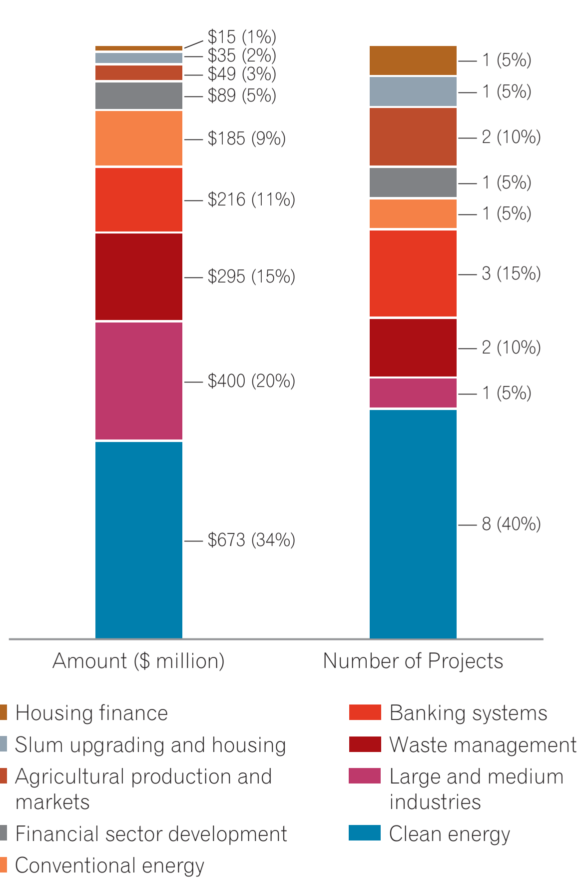
Abbreviations

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AfDB	–	African Development Bank
CoP	–	Community of Practice
CPS	–	country partnership strategy
CRF	–	corporate results framework
DFI	–	development finance institution
DMC	–	developing member country
IFC	–	International Finance Corporation
MW	–	megawatt
OCR	–	ordinary capital resources
ORM	–	Office of Risk Management
PEF	–	private equity fund
PPP	–	public–private partnership
PRC	–	People's Republic of China
PSO	–	private sector operations
PSOD	–	Private Sector Operations Department
QAE	–	quality at entry
SMEs	–	small and medium-sized enterprises
TFP	–	Trade Finance Program
XARR	–	extended annual review report

Private Sector Operations Department Operational Highlights

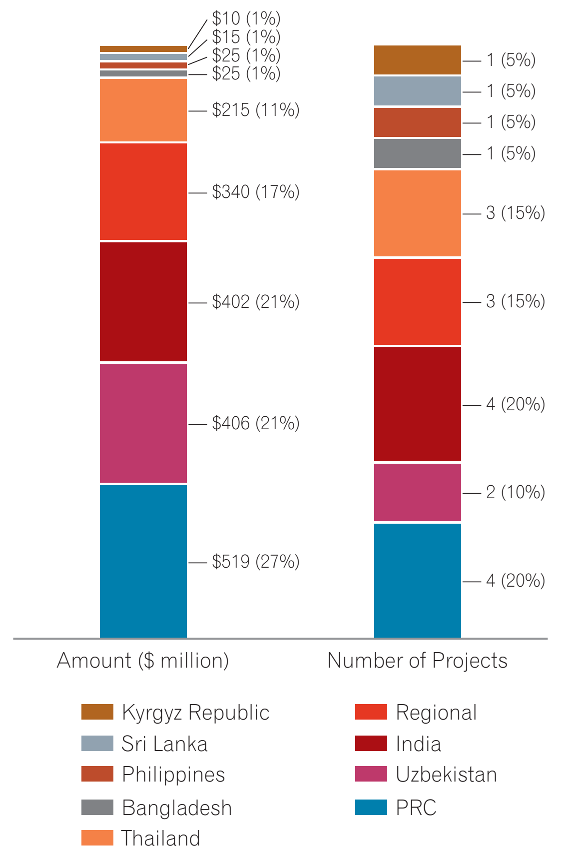
Approved Assistance by Subsector, 2012



Note: In this report, "clean energy" refers to renewable energy projects, and energy efficiency and conservation projects.

Source: Asian Development Bank Private Sector Operations Department.

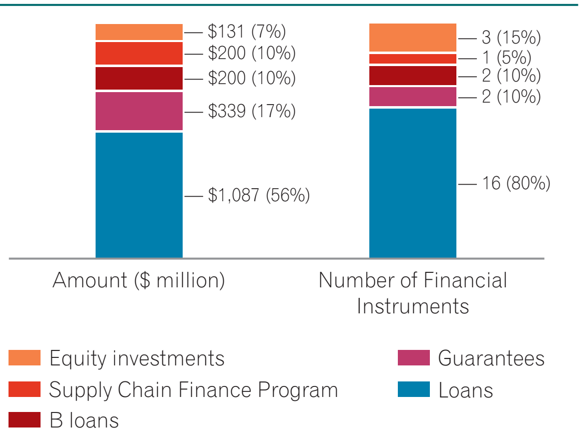
Approved Assistance by Country, 2012



PRC = People's Republic of China.

Source: Asian Development Bank Private Sector Operations Department.

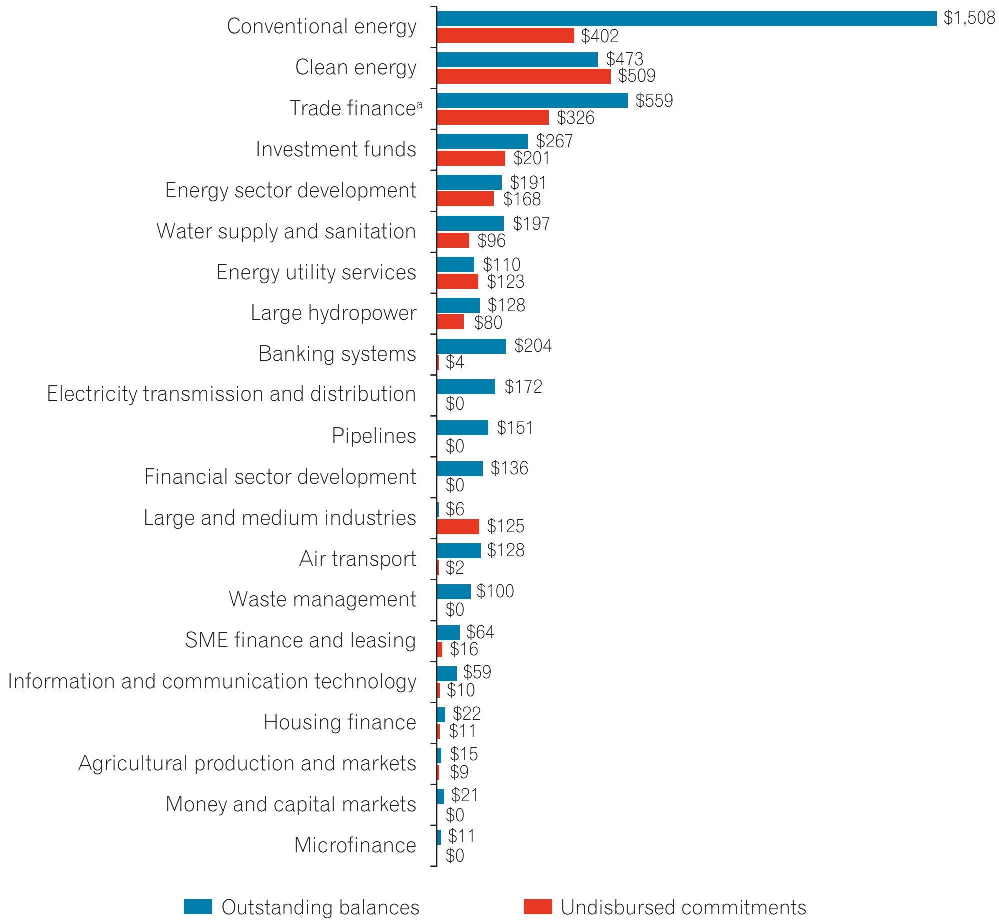
Approved Assistance by Financial Instrument, 2012



Notes:
1. Approved assistance in 2012 includes $1,957 million in new assistance (loans, equity investments, B loans, and guarantees). A project may involve more than one financial instrument.
2. Equity investments include direct equity investment (in the form of common shares, preferred stock, or convertibles) and private equity funds.
3. B loans (Complementary Financing Scheme) are funded by commercial lenders, with the Asian Development Bank acting as "lender of record." For 2012, the B loans of $200 million include $100 million in local currency complementary loans.
4. The Supply Chain Finance Program was approved in November 2012.

Source: Asian Development Bank Private Sector Operations Department.

Portfolio Distribution by Subsector, Year-End 2012 ($ million)



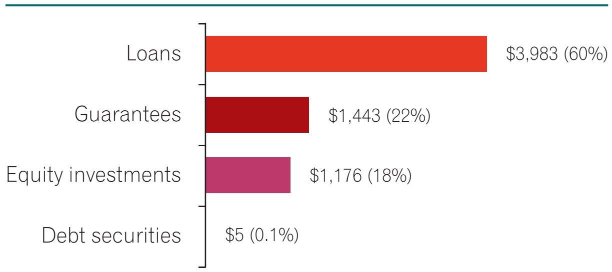
SME = small and medium-sized enterprises.

[a] The Trade Finance Program (TFP) supported $4 billion in trade over 2012. Average tenors for TFP are less than 180 days and the program attracts a significant amount of cofinance, which explains the relatively high value of support. The figure shown above represents only TFP's exposure at year-end 2012.

Note: Clean energy refers to renewable energy projects and energy efficiency and conservation projects.

Source: Asian Development Bank Private Sector Operations Department.

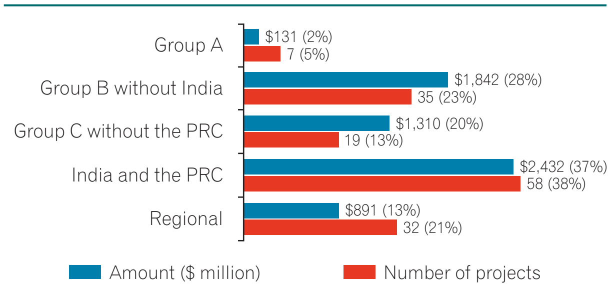
Portfolio Exposure by Financial Instrument, Year-End 2012 ($ million)



Note: Exposure is the sum of outstanding balances and undisbursed commitments. Equity investments include direct equity investment (in the form of common shares, preferred stock, or convertibles) and private equity funds.

Source: Asian Development Bank Private Sector Operations Department.

Portfolio Distribution by Country Grouping, Year-End 2012

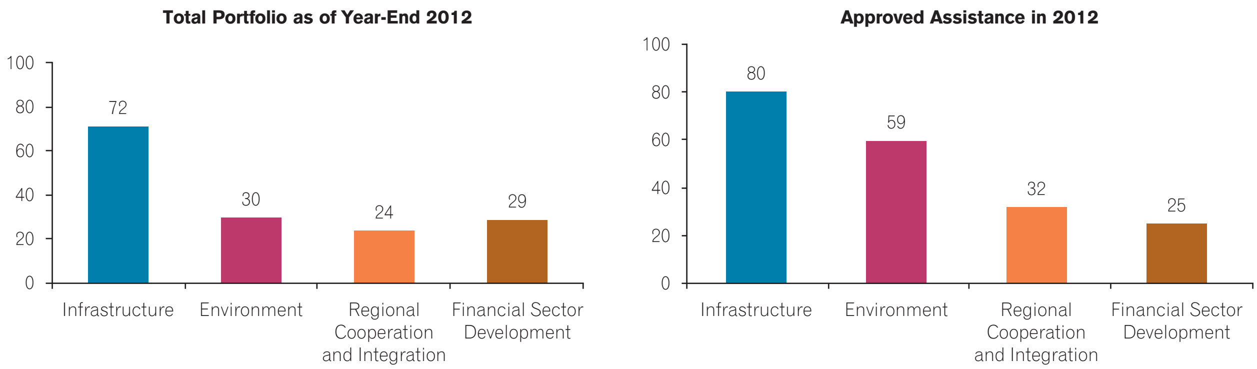


PRC = People's Republic of China.

Note: Group A countries assisted by the Private Sector Operations Department (PSOD) are Afghanistan, Cambodia, the Kyrgyz Republic, the Lao People's Democratic Republic, the Maldives, and Tajikistan. Group B countries assisted by PSOD are Armenia, Azerbaijan, Bangladesh, Georgia, India, Mongolia, Pakistan, Papua New Guinea, Sri Lanka, Uzbekistan, and Viet Nam. Group C countries assisted by PSOD are the PRC, Indonesia, Kazakhstan, the Philippines, and Thailand.

Source: Asian Development Bank Private Sector Operations Department.

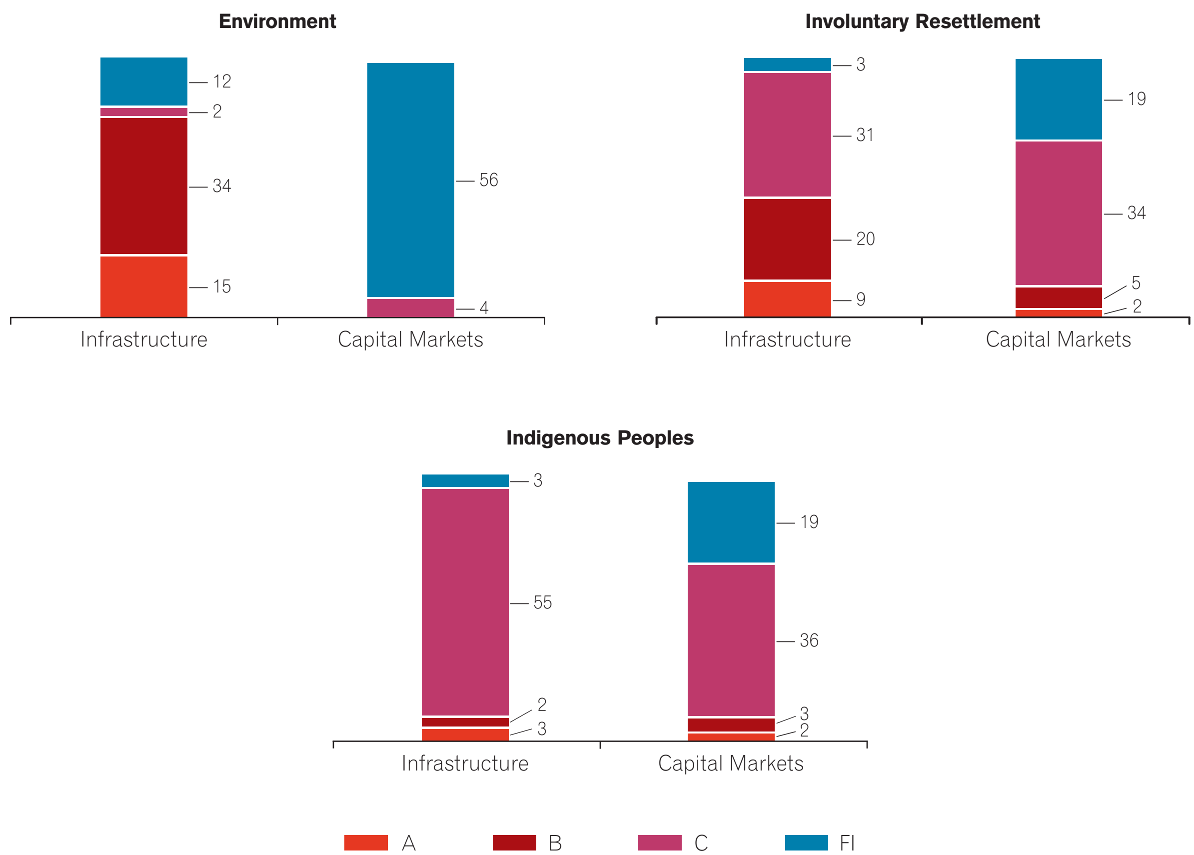
Alignment with Strategy 2020 Core Operational Areas (%)



Note: Operations may contribute to more than one core operational area. Percentages are based on volume of operations.

Source: Asian Development Bank Private Sector Operations Department.

Private Sector Operations Department's Portfolio by Safeguards Classification, 2002–2012
(number of projects)



Note: Details on safeguard requirements by category (A, B, C, and FI) are provided in Table 6.

Source: Asian Development Bank Regional and Sustainable Development Department.

Disbursement Ratio for Private Sector Operations, 2010–2012 (%)

Financing Instruments	2010	2011	2012[a]
Loans	**54.3**	**62.9**	**24.4**
Project finance loans	48.7	52.1	28.1
Corporate loans	58.6	91.0	15.1
Infrastructure	53.1	86.1	12.9
Capital markets	80.5	93.5	44.3
Trade Finance Program	72.3	97.3	100.0
Equity	**43.7**	**20.2**	**22.1**
Private equity funds	14.9	15.1	31.2
Direct equity—financial institutions	98.4	89.8	29.2
Direct equity—infrastructure	75.3	20.8	38.5
Overall	**51.5**	**52.2**	**23.9**

[a] From 2012, all signed transactions are considered effective.

Note: Disbursement ratio for the year is computed as the amount disbursed during the year divided by the unwithdrawn balance at the beginning of the year, plus signed amounts during the year less any canceled amounts.

Source: Asian Development Bank Private Sector Operations Department.

Direct Value-Added Cofinancing, 2010–2012 ($ million)

Indicator	2010	2011	2012
Direct Value-Added Cofinancing[a]	2,349	4,205	6,116
Official cofinancing—grants	0	0	19
Commercial cofinancing:	2,349	4,205	6,097
B loans[b]	320	200	200
Debt portion of project costs financed by commercial loans (parallel loans)	479	1,623	3,341
Risk transfer[c]	0	0	126
Guarantee	0	0	87
Subtotal (without TFP)	799	1,823	3,753
Trade Finance Program	1,549	2,381	2,344
Technical assistance cofinancing	1	1	0

[a] Direct value-added cofinancing is "cofinancing with the active coordination and formal agreements among financing partners that bring about defined client benefits, including contractual commitments by the Asian Development Bank (such as credit enhancement, syndication, or financial administration) to facilitate mobilization, administration, or participation in cofinancing."

[b] B loans (Complementary Financing Scheme) are funded by commercial lenders with the Asian Development Bank acting as "lender of record." For 2012, the B loans of $200 million include $100 million in local currency complementary loans.

[c] This comprised of $50.51 million for private nonsovereign operations and $75.50 million for public nonsovereign operations.

Source: Asian Development Bank Private Sector Operations Department.

Contribution of Private Sector Operations Department to ADB Corporate Results

Indicator	ADB Programmed Outputs (2009–2012) (A)	Total ADB Outputs Delivered by 2012 (B)	PSOD Outputs Delivered by 2012 (C)	PSOD Share of Total ADB Outputs Delivered (%) (D) = (C)/(B)
Level 2: Core Outputs and Outcomes				
Sector and Core Sector Outputs				
Energy:				
Installed energy generation capacity (MW equivalent)	15,700	14,183	11,067	78
Transmission lines installed or upgraded (km)	6,200	4,605	1,150	25
Distribution lines installed or upgraded (km)	68,200	59,803	40,227	67
Greenhouse gas emissions reduction (tCO_2-equiv/yr)	10,808,000	9,635,495	3,478,580	36

Indicator	2010	2011	2012	ADB 2012 Target
Level 3: Operational Effectiveness				
Quality of Completed Operations				
Completed nonsovereign operations rated *successful* (%)	69	72	68	80
Completed technical assistance projects rated *successful* (%)	25	33	75	80
Quality at Entry and Portfolio Performance (estimated every 2 years)				
Quality at entry of nonsovereign projects rated *satisfactory* (%)	71	...	84	85
Finance Transfer and Mobilization				
Disbursement ratio for nonsovereign loans and equity (%)	51	52	24	At least 50
DVA cofinancing relative to ADB financing approved annually (%)	64	53	30	20
Financing for Strategy 2020 Core Operational Areas and Themes				
Financing for Strategy 2020 core operational areas (%)	100	100	74	80
Projects supporting private sector development (%)	100	98	96	30
Projects supporting regional cooperation and integration (%)	7	12	9	15
Projects supporting environmental sustainability (%)	51	53	48	25
Level 4: Organizational Effectiveness				
Human Resources				
Share of women international staff in total staff (%)	26	32	33	35

... = not applicable, ADB = Asian Development Bank, DVA = direct value-added, km = kilometer, MW = megawatt, PSOD = Private Sector Operations Department, tCO_2-equiv/yr = tons of carbon dioxide equivalent avoided per year.

Source: ADB Strategy and Policy Department.

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Executive Summary

Introduction

The *Development Effectiveness Report 2012: Private Sector Operations* presents the fourth annual assessment of the contribution of private sector operations (PSO) to the development agenda of the Asian Development Bank (ADB). This year's report presents key features such as (i) the contribution of PSO to ADB's corporate results, (ii) reflection on lessons learned from operations, (iii) presentation of financial and economic returns evaluated by the Independent Evaluation Department, and (iv) discussion of three nonsovereign projects developed with regional departments.

Although growth in the Asia and Pacific region has moved millions of people out of absolute poverty, this agenda remains unfinished. About 20% of the population continues to live on less than $1.25 a day. Asia's experience has also shown that without adequate public policies, economic growth creates new and socially divisive challenges. These include rising income inequalities, environmental degradation, and unsustainable patterns of migration. In addition, weak financial intermediation systems, infrastructure deficits, poor safeguards, and ineffectual systems of accountability can decrease investment and prospects of sustained development.

Recognizing these challenges, ADB adjusted its development approach in 2008 under Strategy 2020 to focus on the three complementary agendas of inclusive growth, environmentally sustainable growth, and regional integration. It also adopted a corporate results framework (CRF) to assess ADB's operational and institutional performance.

ADB's PSO, are an integral part of ADB's Strategy 2020 and its "Finance ++" approach, which entails not only providing direct finance, but also leveraging resources and knowledge. PSO partly finance projects, take an equity stake, share risks, and provide guarantees to attract private investment. This report begins by describing how PSO contribute to inclusive and environmentally sustainable patterns of economic growth. It then gauges the contribution of PSO to the CRF outputs in the core areas of operations and other areas where ADB supports the private sector. This is followed by an assessment of the contribution to other corporate priorities, such as increased financing to low-income countries and greater leveraging of resources through partnerships. Lastly, improvements in the organizational and operational efficiency of the Private Sector Operations Department (PSOD) are discussed, and actions to be taken during 2013, to improve development effectiveness of PSO are outlined.

All ADB operations measure development results using a design and monitoring framework. This outlines development objectives, performance indicators, and underlying assumptions and risks to the attainment of objectives. PSOD established a results monitoring system in 2010. This was further strengthened in 2012 by the inclusion of reporting requirements in legal agreements. For private equity funds (PEFs), the Private

Investment Securities Management System is in place. Data collection and analysis for PSO has been accorded high priority by Management and continues to be strengthened.

The data presented in this report is consistent with that reported for the CRF (2008–2012), and is complemented with additional information where relevant. Information and lessons are drawn from monitoring reports, extended annual review reports, and independent evaluation reports and validation reports, where available. Case studies are used to illustrate the direct and indirect development impacts of transactions.

Contribution of Private Sector Operations to ADB's Strategic and Development Priorities

PSOD is allocated $1.5 billion–$2.0 billion per annum for investment in infrastructure and financial sector projects. During 2012, the Board approved $1,957 million for 20 projects, including nonsovereign projects, compared with $1,730 million for 14 projects in 2011. During late 2011, Management assigned responsibility for all nonsovereign projects (public and private) to PSOD, and shifted public–private partnership (PPP) advisory responsibilities to the regional departments. In 2012, three public nonsovereign operations were approved; two were led by the regional departments and one by PSOD.

The PSO portfolio is valued at $6,607 million (as of December 2012), and comprises loans and quasi-equity investments (60.0%), guarantees (22.0%), equity (18.0%),[3] and debt securities (0.1%). Equity investments include direct equity ($651 million or 55%) and private equity funds ($524 million or 45%).

Private sector transactions tend to contribute to more than one core operational area. Currently, 72% of the portfolio contributes to infrastructure development, 30% supports the environment, 30% supports the financial sector development, and 24% promotes regional cooperation. Although no projects have yet been approved for education (the fifth core area), PSOD is pursuing opportunities in this area (Figure 1).

While most approved projects in 2012 were in energy (renewable energy, and energy efficiency and conservation), PSOD also moved into three new areas: supply chain finance, slum rehabilitation, and agribusiness. In support of ADB's PPP Operational Plan, projects approved in 2012 included 12 PPP projects. Given the importance of stimulating business activity in low-income countries, PSOD has established a target that 40% of all new projects approved (by number) will be in Asian Development Fund (ADF) countries by 2015. During 2010–2012, 37% of all new projects were in ADF countries, including PSOD's first investment in the Kyrgyz Republic. This entailed a loan to a commercial bank to increase financing for small and medium-sized enterprises (SMEs). Trade finance is a critical means of supporting trade, investment, and growth in the region. During the year, more than 2,000 transactions were supported by the Trade Finance Program (TFP), benefiting nearly 1,600 SMEs. Over 90% of these transactions were in ADF countries.

Contribution to the Economic and Social Development of the Region

Development finance institutions increasingly recognize the important role the private sector plays in economic and social development. ADB's support to the private sector promotes development in a number of ways. First, PSO contribute to inclusive growth by creating work opportunities. Second, PSO contribute to environmentally sustainable growth through the development and deployment of low-carbon technologies that can be accessed even by those with low incomes. Third, a thriving and vibrant private sector contributes to government revenues, which can be used for social development. Fourth, by continuously innovating and improving the availability and quality of goods and services, such as housing, infrastructure, health, and education, the private sector can help increase standards of living beyond the reduction of extreme poverty envisaged in the Millennium Development Goals.

It should be noted that a core principle of support to the private sector is to catalyze investment, rather than crowd it out. ADB therefore makes a minority contribution to the overall project cost (in the case of project finance) and has minority ownership (in the case of direct equity in a company). Hence, an important channel by which PSO contribute to social and economic development is by demonstrating the viability of investments. This helps catalyze private investment which, along with other public policy measures for inclusive growth, delivers benefits to society.

ADB takes a stake in infrastructure projects that it considers to be critical to supporting economic growth by (i) boosting power production (e.g., both conventional and renewable power); (ii) increasing the flow of goods and services (including rail, roads, ports, and airports); and (iii) enhancing information and communication flows. It also finances projects that directly improve living conditions (e.g., water treatment, wastewater treatment, and solid waste management). Increasingly, ADB is investing in PSO that address more than one of the above objectives, such as waste-to-energy projects that tackle both waste management and power generation.

During 2012, ADB continued its support for solar, wind, gas, and waste-to-energy projects with state-of-the-art technologies. In India, it invested $103 million in a 100-megawatt concentrating solar power project, one of the largest projects of its kind in the world using linear fresnel reflector technology. This technology can concentrate the sun's energy by a factor of 30, generating steam that is used to run turbines. In Thailand, ADB supported the development of the $185 million Ayudhaya Natural Gas Power Project, which is being built with provisions for flood protection. In Uzbekistan, it provided a $125 million loan for a $2.5 billion integrated gas-to-chemicals project. In the People's Republic of China (PRC)—the world's largest generator of municipal solid waste—ADB's strategy has been to develop replicable PPP models of waste-to-energy, especially for smaller cities and rural areas.

The agriculture sector in Asia and Pacific is critical for meeting basic food consumption needs and employment. It also has tremendous potential to improve productivity along the food value chain. Large, professionally managed agribusinesses, which are mainly commodity processors and retailers, play an important role in improving efficiency. By reducing losses and improving productivity, these businesses also make a vital contribution to enhancing food security. PSOD made two key investments in agribusiness during 2012: the Tianjin Cold Chain Logistics Facility Development Project in the PRC, which is expected to increase the trade in frozen foods with Mongolia; and the PRAN Agribusiness Project in Bangladesh, which is expected to benefit some 50,000 farmers by guaranteeing purchase of their produce and increasing employment of women.

PSO have also played a pioneering role in several countries' financial sector. In post-conflict Afghanistan, ADB supported the establishment of the first commercial bank: Afghanistan International Bank. In India, ADB helped restore confidence in the microfinance sector through an innovative risk participation and guarantee program. In 2012, $22.7 million was disbursed to six microfinance institutions, resulting in over 100,000 individual loans, the majority of which were to women, with an average loan size of $300. In Central and West Asia, ADB's strategy has been help commercial banks grow and diversify their SME portfolios by extending services to remote areas and new sectors, while improving their risk management capabilities.

Another area that has large development impacts is the provision of secure and affordable housing. ADB's support for housing finance in South and Southeast Asia is expected to benefit local suppliers, construction workers, and lead to the development of ancillary services such as retail. In this regard, ADB made an equity investment to establish the India Mortgage Guarantee Corporation, the first mortgage guarantee company in India. The Supply Chain Finance Program, approved in November 2012, will provide loans to SMEs, accelerating payments, improving cash flows, and enabling companies to grow and create jobs. In the Philippines, ADB is an anchor investor in a $625 million infrastructure fund, approved in 2012 and managed by the world's largest infrastructure fund manager—Macquarie Infrastructure and Real Assets. A new business plan for PEFs initiated in 2012 seeks to balance development and financial returns and to report more fully on benefits from the growth of investee companies.

ADB promotes corporate social responsibility with regard to the environment and social protection through technical support to its clients. Project teams, including safeguard specialists, are responsible for ensuring a safe working environment, fair remuneration, adequate compensation for resettlement, and adherence to social and environmental standards. In 2012, PSOD built gender-sensitive elements into its SME financing projects. It continued to promote high standards of corporate governance in ADB's investee companies, emphasizing financial transparency, good management, and the protection of stakeholder interests.

Development Outputs and Outcomes of Private Sector Operations

The ADB corporate results framework tracks core sector outputs and outcomes delivered during 2009–2012 from projects approved in 2003–2006. Besides covering four of the five core sectors (all except education), PSO also cover telecommunications and PEFs, which are tracked using additional indicators.

The development outputs of PSO contributed significantly to the CRF energy sector outputs. PSO delivered 78% of ADB's installed energy generation outputs. For the transport and water sectors, delivered outputs benefited a significant number of people (Table 7). Similarly, PSOD delivered highly successful projects in telecommunications in Group A and B countries. There are no CRF outputs for PEFs, but 287 companies have been assisted with $2,802 million in equity capital, of which $466 million was invested by ADB.

In addition, some PSO approved during 2007–2011 had already delivered outputs by 2012. For example, 679 megawatts (MW) of power generation capacity were added, of which 229 MW are from wind power. ADB also provided $207 million to 11 banks in Armenia, Azerbaijan, Georgia, Mongolia, and Viet Nam for lending to SMEs. Details on additional output and outcomes by sector are provided in Annex 2.

PSOD has gathered significant experience from its investments in diverse operating environments. These lessons indicate the need to improve demand projections and risk assessments; continue efforts to improve tariff rates and revenue collection; and choose sponsors with strong commercial, technical, and financial capabilities. They also outline the important role of partnerships in pioneering projects in difficult operating environments and of public policy in setting appropriate tariffs and subsidies to render private sector investments commercially viable over the long term. The economic and financial returns of 20 projects at approval and post completion were independently evaluated. The economic returns generally exceeded the social discount rate of 12%. Similarly, the financial returns generally exceeded the cost of capital, indicating financial viability.

Operational Effectiveness

PSOD continues to make a significant contribution to the net income of ADB, with expected gross income from PSO for 2012 of about $227 million. The quality at entry (QAE) assessment shows an increase in the percentage of nonsovereign operations rated *satisfactory* from 71% in 2010 to 84% in 2012. The success rate of completed operations was 68%, falling short of the 80% target, but is expected to improve as a result of the recent improvements in QAE and improving macroeconomic conditions. The overall disbursement ratio decreased to 24% in 2012 from 52% in 2011, mainly due to the threefold increase in newly signed loans, one-third of which were signed in the fourth quarter of 2012 and could not be disbursed by the end of the year. In terms of leveraging resources, 2011 and 2012 were exceptionally good years. Direct value-added cofinancing reached $6.1 billion in 2012, mainly due to a large increase in commercial cofinancing. In addition, $19 million from the Clean Technology Fund was used to cofinance two renewable energy projects in Thailand. The percentage of projects with high credit risk increased from 2% (2011) to 12% (2012), primarily due to the risk rating of one country in which PSOD has significant operations.

Organizational Effectiveness

PSOD generally maintained its performance on metrics related to organizational effectiveness. To further improve its internal efficiency, PSOD (i) split the Capital Markets and Financial Sectors Division into two separate divisions: the Private Sector Financial Institutions Division and the Private Sector Investment Funds and Special Initiatives Division, and (ii) transferred the guarantees and syndications team from the Operations Coordination Division to the Office of the Director General.

Conclusions and Actions

PSO have made a substantial contribution to the attainment of outputs and outcomes under the CRF, the first phase of which concluded in 2012 (Table 7). PSO are making a significant contribution to the economic and social development of the region by supporting innovative, commercially and economically viable and replicable projects that remove constraints to development and help attract additional private investment. PSOD undertook a number of initiatives during 2012 to improve its operational and organizational effectiveness. These included improvements to credit files, inclusion of development effectiveness monitoring and reporting requirements in legal agreements, and the reorganization of PSOD.

PSOD will undertake a number of initiatives in 2013, including (i) the introduction of new indicators for PSO in the revised results framework, (ii) obligatory reporting on development indicators by clients, (iii) refining the PEF business plan, (iv) pursuing opportunities in health and education, (v) making more direct equity investments, and (vi) establishing pricing of local currency financing.

Introduction

The *Development Effectiveness Report 2012: Private Sector Operations* presents the fourth annual assessment of the contribution of private sector operations (PSO) to the development agenda of the Asian Development Bank (ADB).

ADB's strategic vision outlined in Strategy 2020 is built on the recognition that while there has been commendable growth in much of the Asia and Pacific region,[1] many challenges to sustained and inclusive economic growth remain.[2] With burgeoning populations and rising incomes and expectations, the investment needs of developing member countries (DMCs) are growing, and cannot be met solely through public or domestic resources. ADB has therefore accorded a high priority to leveraging resources, including from the private sector and through regional cooperation. Additional priorities include the development of infrastructure, financial markets, education, and environmental protection that are essential for sustained growth and poverty reduction. Despite economic success, there are rising disparities within the region. To achieve greater inclusiveness, Strategy 2020 highlights the need for investments in social protection alongside those for economic growth.[3]

1 The growth can be largely attributed to market reforms and growth led by the private sector.

2 ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020.* Manila.

3 ADB. 2012. *Review of the ADB Results Framework.* Manila.

ADB's regional departments work with governments to create enabling conditions for private sector development, while the Private Sector Operations Department (PSOD) directly finances projects, or takes an equity stake in projects or investment funds. It also shares risk through the provision of guarantees, where needed, such as in countries with weak legal and regulatory systems or high security risks, and for risks associated with the deployment of new technologies. It strives to meet clients' needs in uncertain and changing business environments through the provision of local currency financing, refinancing, and short- and long-term financing. Since PSO in infrastructure and financial sector development are small compared to the needs of DMCs, it is essential that investments maximize the leveraging of resources, yield commercially viable returns, and boost business confidence.[4] PSOD therefore makes careful use of its limited ordinary capital resources (OCR) in choosing projects to support in the private sector that are strategic, fill existing market gaps, and help spur business activity in socially responsible ways.

This report reviews how ADB's PSO have supported the strategic and development priorities outlined in Strategy 2020. Using selected case studies, it discusses how ADB's resources have contributed to the region's development. As 2012 marked the end of ADB's first corporate results framework (CRF) period, the report examines the contribution of PSO to the achievement of ADB's outputs. PSOD's operational and organizational effectiveness are also discussed with reference to the corporate results framework targets and actions taken to improve performance. The report concludes by proposing a number of actions to further strengthen operations and the development effectiveness of PSO. Qualitative information is used to report on both the direct and indirect development impacts of PSOD's investments. This is derived from monitoring reports, extended annual review reports (XARRs), and the Independent Evaluation Department's evaluation and validation reports.

4 PSO in infrastructure include sustainable transport, renewable energy, water and sanitation, and waste to energy. PSO in financial sector development include finance for micro, small, and medium-sized enterprises; trade; housing; and private equity.

Contribution of Private Sector Operations to ADB's Strategic and Development Priorities

Alignment of Private Sector Operations with Strategy 2020

Strategy 2020 seeks to deliver three complementary development agendas: inclusive growth, environmentally sustainable growth, and regional integration.[5] Private sector development and PSO are identified as one of the five drivers of change.[6]

PSO support inclusive growth through the creation of work opportunities and income. PSO also foster environmentally sustainable and socially responsible growth, which especially benefits the poor. The growing volume of private sector investments in renewable energy directly supports environmentally sustainable patterns of growth. All investments, whether they are for project finance or implemented through financial intermediaries, are screened for safeguard issues, and the highest environmental and social safeguard standards are adopted by investee institutions. In addition, PSO facilitate regional integration through the Trade Finance Program (TFP), which supports cross-border trade, particularly among small and medium-sized enterprises (SMEs).

5 ADB's Strategy 2020, approved in April 2008, reaffirms both ADB's vision of an Asia and Pacific region free of poverty and its mission to help its DMCs improve the living conditions and quality of life of their people.

6 The four other drivers of change are good governance and capacity development, gender equity, knowledge solutions, and partnerships. The theme of private sector development encompasses four elements: policy reforms, private investment, public–private partnership (PPP), and privatization. ADB. 2009. *Staff Instruction for the Revised Project Classification System.* Manila.

PSO support inclusive growth through the creation of work opportunities and income. PSO also foster environmentally sustainable and socially responsible growth, which especially benefits the poor

Currently, PSO cover four of the five core operational areas of Strategy 2020: infrastructure, environment, regional cooperation and integration, and financial sector development. There has been no investment to date in the fifth core sector—education, but viable investments are being proactively sought. Figure 1 shows the alignment of PSOD's portfolio at the end of 2012 and approvals in each of the four areas. Seventy-two percent of PSOD's portfolio by amount is for infrastructure. A number of projects also make a significant contribution to improving the environment. Although 30% of all projects in the portfolio contribute to improving the environment, nearly 60% of all projects approved in 2012 met this objective.

Profile of Private Sector Operations

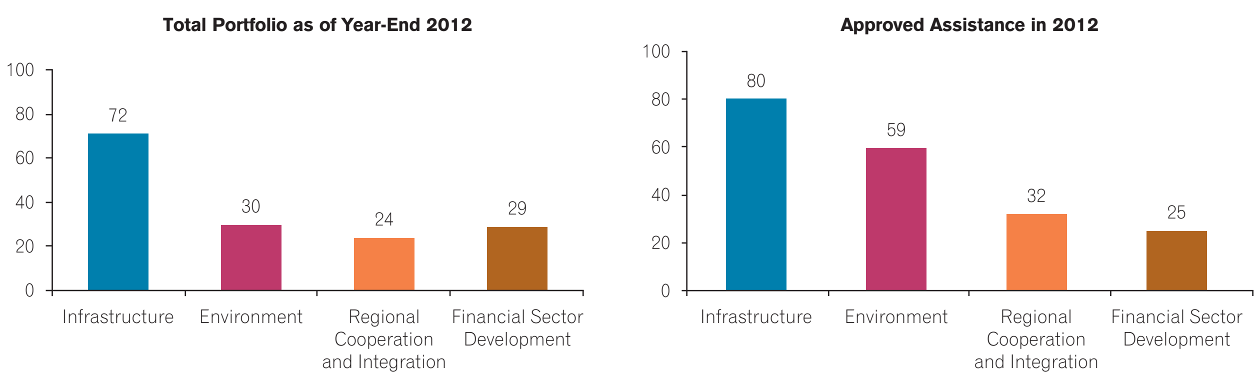
Private Sector Approvals in 2012

In 2012, ADB approved $1,957 million for 20 projects. This comprised $1,087 million in loans, $339 million in guarantees, $200 million in supply chain finance, $200 million in B loans,[7] and $131 million in equity investments. In support of ADB's PPP Operational Plan, projects approved in 2012 included 12 public–private partnership (PPP) projects.

Table 1 shows private sector approvals disaggregated by sector and financial instrument. Investment in the energy sector, covering renewable energy (solar, wind power, and waste-to-energy), energy efficiency and conservation, and a gas project, dominated private sector assistance.

In 2012, ADB approved $1,957 million for 20 projects

Figure 1
Alignment with Strategy 2020 Core Operational Areas (%)



Note: Operations may contribute to more than one core operational area. Percentages are based on the volume of operations.
Source: Asian Development Bank Private Sector Operations Department.

[7] B loans are funded by commercial banks and other eligible financial institutions with ADB acting as "lender of record."

Table 1 Private Sector Approvals by Sector and Financial Instrument, 2012 ($ million)

Sector	Loans	Equity Investments[a]	Total ADB Funds	Complementary Loans (B loans)[b]	Partial Credit Guarantees[c]	Political Risk Guarantees	Supply Chain Program[d]	Total ADB Approvals
Agriculture and natural resources	49.1		49.1					49.1
Energy	657.7		657.7	100.0				757.7
Finance	25.0	31.0	56.0				200.0	256.0
Industry and trade	125.0		125.0			275.0		400.0
Multisector		100.0	100.0		64.0			164.0
Water and other infrastructure and municipal services	230.0		230.0	100.0				330.0
Total	1,086.8	131.0	1,217.8	200.0	64.0	275.0	200.0	1,956.8

ADB = Asian Development Bank.

[a] Equity investments include direct equity investment (in the form of common shares, preferred stock, or convertibles) and private equity funds.

[b] B loans (Complementary Financing Scheme) are funded by commercial lenders with ADB acting as "lender of record." For 2012, B loans of $200 million include $100 million in local currency complementary loans.

[c] Guarantees include $64 million of a $128 million partial credit guarantee for the Partial Credit Guarantee Facility for Credit Enhancement of Bonds in India, a nonsovereign public sector project processed jointly by the South Asia Department and Private Sector Operations Department. This project is excluded from the number of Private Sector Operations Department projects approved in 2012.

[d] The Supply Chain Finance Program was approved in November 2012.

Source: Asian Development Bank Private Sector Operations Department.

This was followed by industry and trade, and municipal water supply and other infrastructure services sectors.

PSOD continued to support renewable energy generation through solar, waste-to-energy, and wind projects. In 2012, the clean energy[8] projects ($673 million) in the People's Republic of China (PRC), India, and Thailand, together with a regional project, accounted for the largest share of approved assistance (Figure 2). PSOD has committed to deliver 25% of its annual approvals (by number) in clean energy by 2015. In 2012, 40% of approvals (8 of 20 projects) were in clean energy, exceeding the target by a considerable margin.

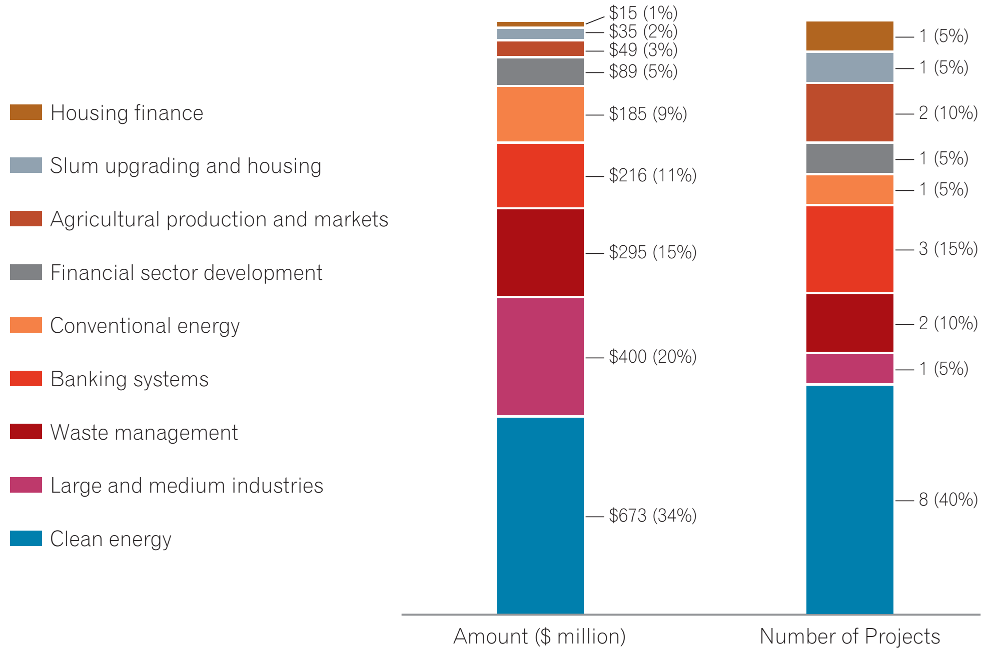
In 2012, PSOD approved funding for new sectors such as slum rehabilitation and housing provision in India, and agribusiness in Bangladesh and the PRC (Figure 2). PSOD and the South Asia Department helped develop the financial sector in India by jointly processing an innovative facility that provides credit enhancement in the form of first loss guarantee to infrastructure project bonds. The facility provides a new financing modality for the Indian market.

PSOD has committed to deliver 25% of its annual approvals (by number) in clean energy by 2015. In 2012, 40% of approvals (8 of 20 projects) were in clean energy, exceeding the target by a considerable margin

In 2012, PSOD invested in new sectors such as slum rehabilitation and housing provision, and agribusiness

[8] In this report, "clean energy" refers to renewable energy projects and energy efficiency and conservation projects.

Figure 2
Approved Assistance by Subsector, 2012



Note: In this report, "clean energy" refers to renewable energy projects, and energy efficiency and conservation projects.
Source: Asian Development Bank Private Sector Operations Department.

Loans and guarantees were the main financial products used in 2012, accounting for 73% of total assistance (Figure 3). Equity investments amounted to $125 million in private equity funds (PEFs) and $6 million in direct equity in a commercial bank. The new Supply Chain Finance Program extends guarantees and debt financing without a government guarantee through partner financial institutions. The program supports payments to suppliers and distributors in ADB's DMCs.[9]

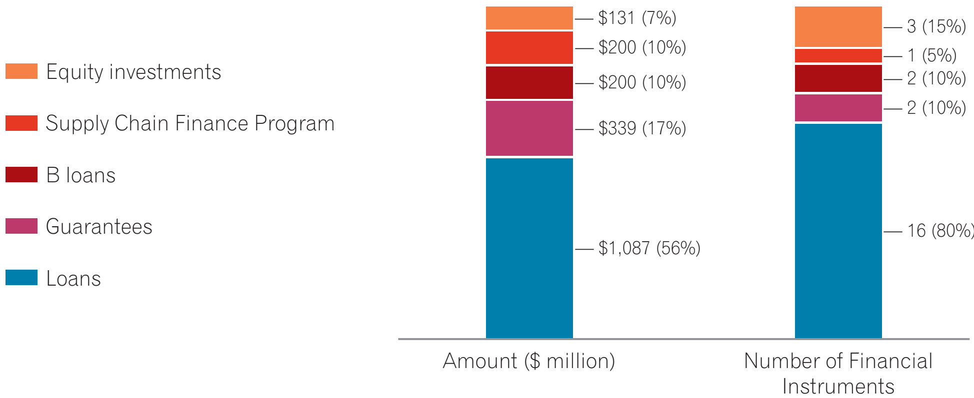
In keeping with its mandate, ADB is striving to increase its assistance to promoting private sector development in frontier economies. By the end of 2015, PSOD targets having 40% of its annual approvals by number of projects in Group A and B countries (excluding India). Group A and B countries are low-income countries classified by ADB as eligible for concessionary financing under the Asian Development Fund (ADF).[10]

During 2010–2012, ADB approved 54 projects, of which 37% (20 projects) were in ADF countries—slightly lower than the target of 40%. In 2012, 25% of projects approved were in Group A and B countries (Figure 4). The low figure can be

[9] The Supply Chain Finance Program has a ceiling of $200 million and is used on a revolving basis. Sharing at least 50% of risk with partner financial institutions, the program will bring at least $400 million in new support to companies operating in supply chains. Given the short maturities, often as brief as 60 days, it is anticipated that the program will generate approximately $1 billion of additional support each year on a cumulative basis.

[10] ADB classifies its DMCs into three categories: Group A countries are eligible for ADF financing only for public sector projects, Group B countries are eligible for both ADF and ordinary capital resources (OCR) financing, and Group C countries are eligible for OCR financing only. All PSOD assistance is on market-based terms and conditions from ADB's OCR financing even when the assistance is to Group A and B countries.

Figure 3
Approved Assistance by Financial Instrument, 2012



Notes: 1. Approved assistance in 2012 includes $1,957 million in new assistance (loans, equity investments, B loans, and guarantees). A project may involve more than one financial instrument.

2. Equity investments include direct equity investment (in the form of common shares, preferred stock, or convertibles) and private equity funds.

3. B loans (Complementary Financing Scheme) are funded by commercial lenders, with the Asian Development Bank acting as "lender of record." For 2012, the B loans of $200 million include $100 million in local currency complementary loans.

4. The Supply Chain Finance Program was approved in November 2012.

Source: Asian Development Bank Private Sector Operations Department.

In keeping with its mandate, ADB is striving to increase its assistance to promoting private sector development in frontier economies. During 2010–2012, ADB approved 54 projects, of which 37% (20 projects) were in ADF countries—slightly lower than the target of 40%. However, PSOD extended its geographical reach in ADF countries by making its first investment in the Kyrgyz Republic

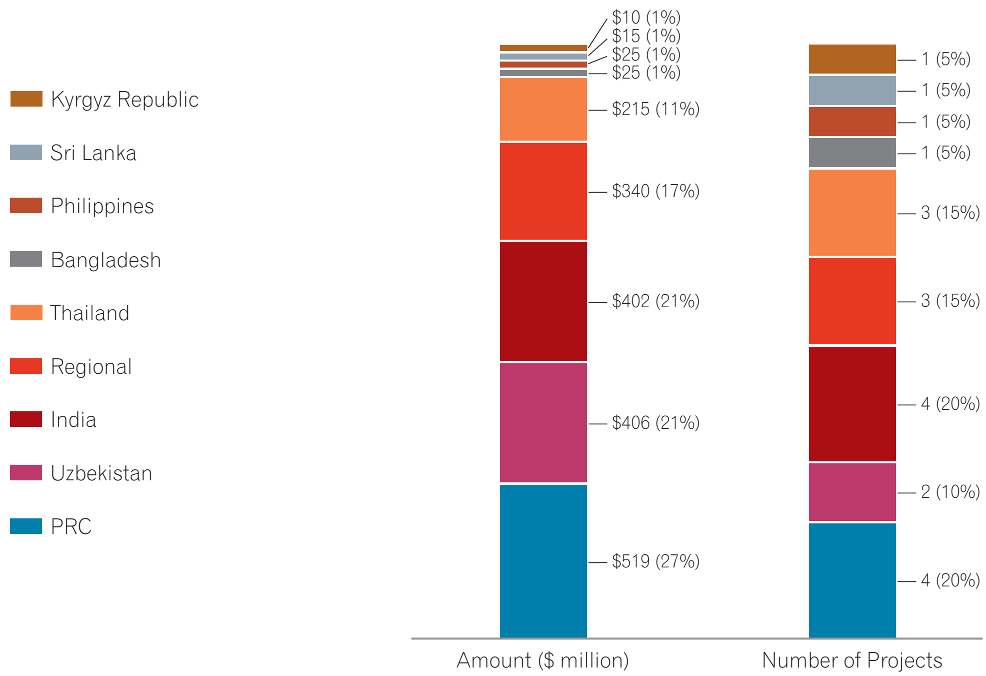
partially explained by PSOD's severe constraints to undertaking any further lending to sponsors in Pakistan, as PSOD has reached its exposure limits for the country and the power sector. Another contributing factor is the slow pace of private sector development in ADF-eligible Central and West Asia countries. PSOD has already made a number of investments in the few sectors that have active private sector borrowers in these countries. These include the financial sector (banks), infrastructure (power and airports), and natural resources (gas). Nonetheless, opportunities for viable investments in ADF countries are continuously being explored to help reach the 40% target by 2015.

During the year, PSOD extended its geographical reach in ADF countries by making its first private sector investment in the Kyrgyz Republic. This project is helping the Kyrgyz Investment and Credit Bank broaden its support for SME financing. The 20 projects approved in 2012 covered three Group B countries (Bangladesh, Sri Lanka, and Uzbekistan) and one Group A country (the Kyrgyz Republic).

Annex 1 presents the data for $1,456 million in signed assistance in 2012 disaggregated by subsector, country, and alignment with

Figure 4

Approved Assistance by Country, 2012



PRC = People's Republic of China.

Source: Asian Development Bank Private Sector Operations Department.

Strategy 2020.[11] The majority of signed assistance was for the energy sector. ADB helped to launch the India Mortgage Guarantee Corporation, which is the first mortgage guarantee company in India, with an initial equity investment of Rs15.6 million representing 13% of the company's shareholding.

Private Sector Portfolio as of Year-End 2012

Figure 5 presents the PSOD portfolio as of year-end 2012, disaggregated by sector, outstanding balances, and undisbursed commitments.[12] Outstanding balances equal cumulative disbursements less loan repayments less cancellation after effectiveness.[13]

While the bulk of the current portfolio is composed of conventional energy (coal, liquefied gas, thermal power, and combined cycle), investments in clean energy have increased rapidly. In recent years, PSO have also supported energy sector development projects, including those related to energy trade. In the financial sector, trade finance dominates.[14] The rest of the financial sector portfolio is primarily divided between assistance to investment funds and the banking subsector. Investment funds

11 The signed amounts reflect the commitments based on the terms and conditions in the legal documentation.

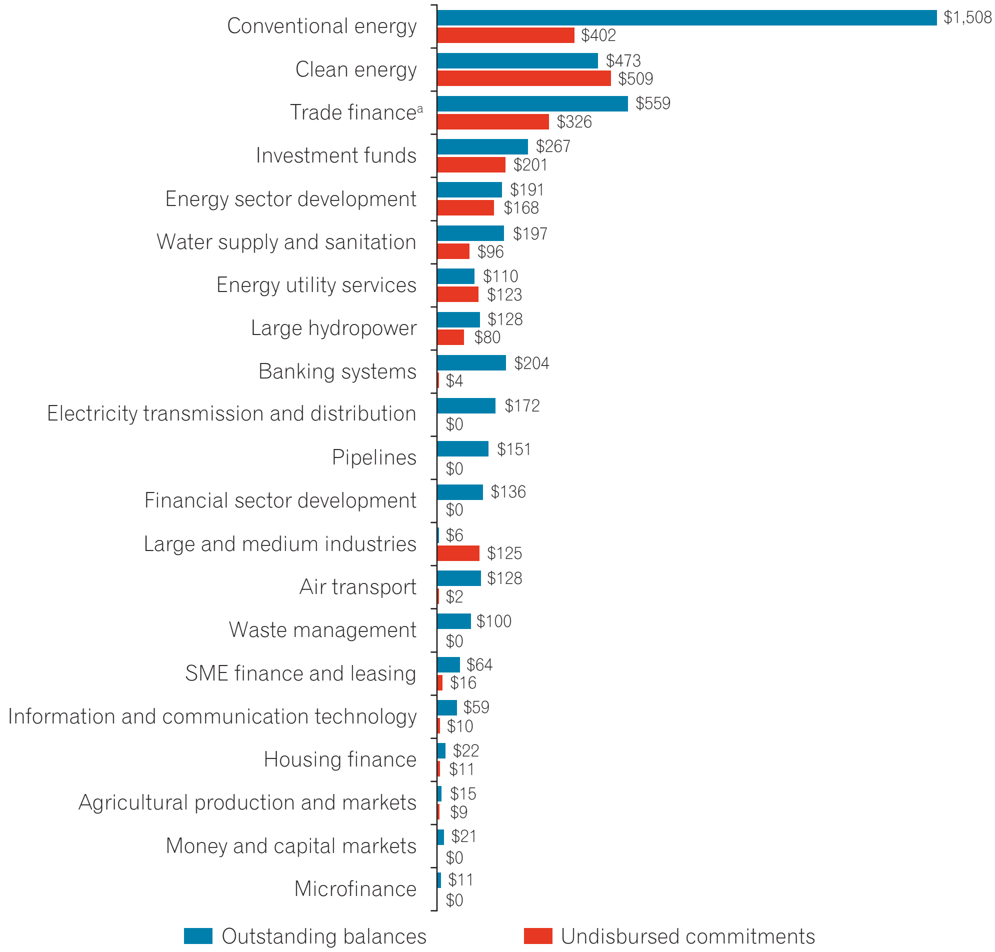
12 The committed portfolio consists of effective investments only. An investment, such as loan, equity investment, or guarantee, approved by ADB's Board of Directors becomes committed upon the fulfillment of certain conditions or upon the date of effectiveness stipulated in the legal agreements signed by the client company and ADB. Since 2012, all transactions become effective upon signing of the legal agreements.

13 Any write-downs, write-offs, or conversion to equity reduce the outstanding balance. Undisbursed commitments are undisbursed and/or unissued obligations of ADB, based on signed legal documentation (loan, shareholders', and guarantee agreements).

14 The figures for trade finance in the portfolio do not include the roll-over effect.

Figure 5

Portfolio Distribution by Subsector, Year-End 2012 ($ million)



SME = small and medium-sized enterprises.

[a] The Trade Finance Program (TFP) supported $4 billion in trade over 2012. Average tenors for TFP are less than 180 days and the program attracts a significant amount of cofinance, which explains the relatively high value of support. The figure shown above represents only TFP's exposure at year-end 2012.

Note: Clean energy refers to renewable energy projects and energy efficiency and conservation projects.

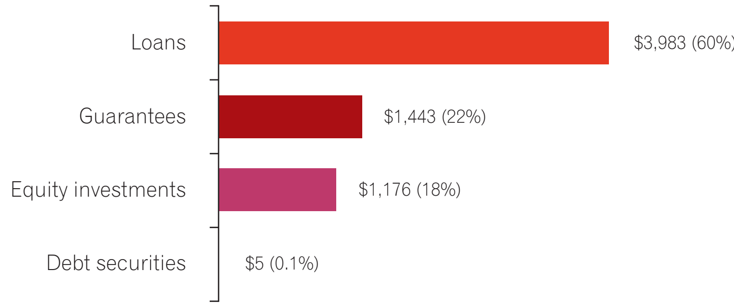
Source: Asian Development Bank Private Sector Operations Department.

promote infrastructure, clean energy, and SME finance, among others.

Figure 6 presents PSOD's $6,607 million portfolio exposure by financial instrument. Loans continue to dominate the portfolio (60%), followed by guarantees (22%), and equity investments (18%). Equity exposure included direct equity investments ($651 million or 55%) and PEFs ($524 million, or 45%). Exposure in debt securities resulted from loan restructuring. At the end of 2012, PSOD's portfolio of 139 projects consisted of various financial instruments, such as 91 loans, 65 equity investments (27 direct and 38 PEFs), 17 guarantees, and 1 debt security.

At the end of 2012, PSOD's $6,607 million portfolio of 139 projects consisted of various financial instruments, such as 91 loans, 65 equity investments (27 direct and 38 PEFs), 17 guarantees, and 1 debt security

Figure 6
Portfolio Exposure by Financial Instrument, Year-End 2012 ($ million)



Note: Exposure is the sum of outstanding balances and undisbursed commitments. Equity investments include direct equity investment (in the form of common shares, preferred stock, or convertibles) and private equity funds.

Source: Asian Development Bank Private Sector Operations Department.

As Figure 7 shows, 30% of the portfolio by amount and 28% by number consisted of investment projects in Group A and B countries (excluding India).[15] Group C countries (excluding the PRC) make up a further 20% of the portfolio by volume and 13% by number.[16] Combined, the PRC and India represent 37% of the portfolio by volume and 38% by number.[17] The balance is made up of regional assistance.

ADB's TFP fills market gaps by providing guarantees and loans to banks in support of trade. In 2012, the program supported approximately $4 billion in trade: $1.6 billion on a stand-alone basis (ADB financing) and $2.3 billion via cofinancing with partner commercial banks and risk distribution partners (insurance companies, export credit agencies, and development entities). In 2012, 96% of the TFP's transactions were in ADF countries (Figure 8). A total of 2,032 transactions were supported, of which 1,366 supported intraregional trade and 296 supported trade between DMCs. The program covered 1,577 SMEs in 18 countries and is expanding to Myanmar. Its most active markets were Bangladesh, Mongolia, Pakistan, Sri Lanka, Uzbekistan, and Viet Nam.

Thirty percent of the portfolio by amount and 28% of the portfolio by number consisted of investment projects in Group A and B countries (excluding India)

In 2012, 96% of the TFP's transactions were in ADF countries

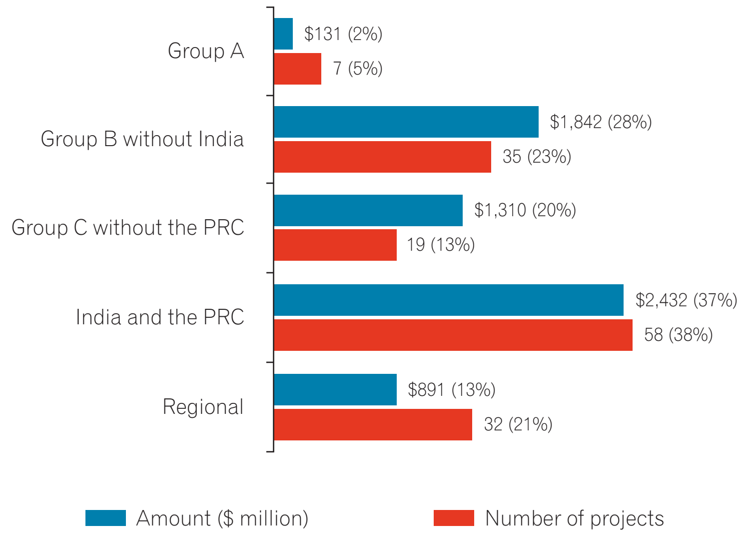
One of the important characteristics of PSO is their catalytic effect through co-investment and cofinancing with other financiers. Box 1 quantifies these effects.

15 Group A countries assisted by PSOD are Afghanistan, Cambodia, the Kyrgyz Republic, the Lao People's Democratic Republic, the Maldives, and Tajikistan. Group B countries assisted by PSOD are Armenia, Azerbaijan, Bangladesh, Georgia, India, Mongolia, Pakistan, Papua New Guinea, Sri Lanka, Uzbekistan, and Viet Nam.

16 Group C countries assisted by PSOD are the PRC, Indonesia, Kazakhstan, the Philippines, and Thailand.

17 Currently, there are 27 projects in the PRC portfolio of $1,310 million (20%) and 31 projects in the India portfolio of $1,122 million (17%).

Figure 7
Portfolio Distribution by Country Grouping, Year-End 2012

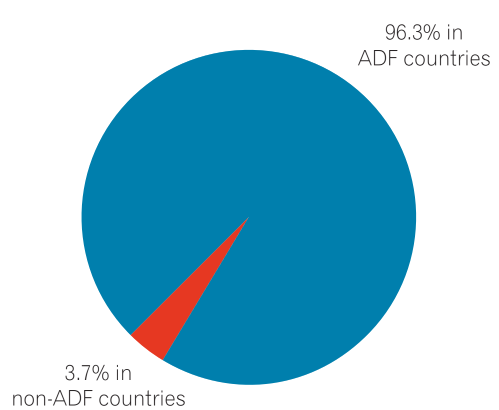


PRC = People's Republic of China.

Note: Group A countries assisted by PSOD are Afghanistan, Cambodia, the Kyrgyz Republic, the Lao People's Democratic Republic, the Maldives, and Tajikistan. Group B countries assisted by PSOD are Armenia, Azerbaijan, Bangladesh, Georgia, India, Mongolia, Pakistan, Papua New Guinea, Sri Lanka, Uzbekistan, and Viet Nam. Group C countries assisted by PSOD are the PRC, Indonesia, Kazakhstan, the Philippines, and Thailand.

Source: Asian Development Bank Private Sector Operations Department.

Figure 8
Trade Finance Program, 2010–2012



Trade Finance Program ($ million)

	2010	2011	2012
TFP Exposure[a]	1,216	1,142	1,575
Cofinance in TFP	1,549	2,381	2,344
Total TFP Support	2,765	3,523	3,919

ADF = Asian Development Fund, TFP = Trade Finance Program.

[a] Trade Finance Program exposure is the cumulative value of the Asian Development Bank Trade Finance Program transactions per annum, net of cofinancing.

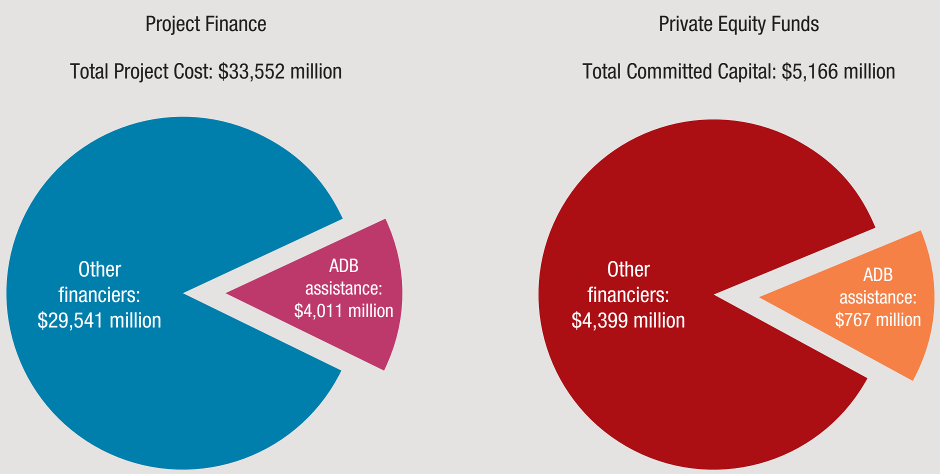
Source: Asian Development Bank Private Sector Operations Department.

Box 1

Total Resources Invested in Project Finance and Private Equity Funds Supported by the Private Sector Operations Department

The Asian Development Bank (ADB) co-invests with other financiers in project finance transactions and private equity funds. The figure shows the size of ADB's investment compared with the overall project finance and equity investments in signed transactions. ADB's loans of $4,011 million for project finance contributed to projects with a total estimated cost of $33,552 million (co-investments from other financiers amounted to seven times ADB's funded participation). Likewise, ADB's $767 million investment in private equity funds was matched by $4,399 million from other financiers (six times ADB's committed capital).

Share of ADB's Assistance in Project Finance and Private Equity Funds Supported as of Year-End 2012



Notes: 1. Co-investment is not the same as direct value-added cofinancing.
2. The data in the figure above cover all project finance and private equity funds in the Private Sector Operations Department's committed portfolio.

Source: Asian Development Bank Private Sector Operations Department.

Collaboration between the Private Sector Operations Department and Regional Departments

PSOD is actively engaged with ADB's regional departments in country strategy discussions and planning exercises. The department nominates focal persons to specific country teams to ensure that their experience of working directly with the private sector helps inform ADB's country planning and programming, especially with regard to the enabling environment for private sector development. PSOD staff also provide advice to regional departments in the areas of their technical expertise. Similarly, PSOD benefits greatly from the sector analyses and policy initiatives of the regional departments. PSOD is increasingly requesting regional department staff join project due diligence missions.

Collaboration in relation to Country Strategy and Planning Exercises

In 2012, PSOD contributed to eight country partnership strategy exercises. Activities included participation in country partnership strategy related missions; sector and thematic assessments; strategic planning and programming exercises; and contribution to informal Board seminars. PSOD provided inputs to 15 country operational business plans, 5 private sector assessments, and 3 country assistance program evaluations (Table 2). PSOD also participated in meetings with governments.

Table 2 Contribution to Country Strategy and Planning Exercises, 2012

Item	Number
Country partnership strategies	8
Country operations business plans[a]	15
Private sector assessments	5
Country assistance program evaluations	3

[a] Includes one Pacific Department regional country operations business plan.

Source: Asian Development Bank Private Sector Operations Department.

Participation in Knowledge Networks

Communities of practice (CoPs) are peer-to-peer knowledge networks for learning and building staff capacity in particular sectors and thematic areas. Each CoP has a technical committee that is responsible for determining the sector and thematic priorities and developing related staff skills. PSOD staff participated in 13 of the 15 CoPs, taking a leadership role in 7. Staff were more active in the energy, financial sector development, transport, environment, and water CoPs, reflecting PSOD's operational focus (Table 3).

Table 3 Participation in Knowledge Networks, 2012

	Number of Private Sector Operations Department Staff	
Communities of Practice	In Committee Leading the Networks	As a Member of the Networks
Energy	4	16
Financial Sector Development	3	16
Transport	0	11
Environment	1	10
Water	2	8
Social Development and Poverty	0	6
Public–Private Partnership	1	4
Health	0	4
Public Management and Governance	1	3
Urban	0	2
Education	0	2
Regional Cooperation and Integration	1	1
Gender	0	1

Source: Asian Development Bank Regional and Sustainable Development Department.

Nonsovereign Operations—Public

During 2011, Management assigned responsibility for all nonsovereign projects (public and private) to PSOD, and moved responsibility for PPP advisory activities to the regional departments.

In 2012, ADB approved $2,040 million for 22 nonsovereign operations (19 private, i.e., PSO, and 3 public), including 3 regional projects. Three public nonsovereign operations were developed jointly by ADB's private and public sector staff: the Partial Credit Guarantee Facility for Credit Enhancement of Project Bonds in India, the Microfinance Wholesale Lending Facility in the PRC, and the Tianjin Cold Chain Logistics Facility in the PRC.[18]

[18] ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Partial Credit Guarantee Facility for Credit Enhancement of Project Bonds in India.* Manila; ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for the Microfinance Wholesale Lending Facility in the People's Republic of China.* Manila; ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for the Tianjin Cold Chain Logistics Facility Development Project in the People's Republic of China.* Manila.

As commercial banks in India near their sector exposure limits for infrastructure, the country faces a paucity of infrastructure finance. The $128 million credit enhancement facility, developed jointly by ADB with the India Infrastructure Finance Company and domestic finance companies, is designed to harness the capital markets for infrastructure investment by providing credit enhancement to infrastructure bond issuers to raise their credit ratings to AA and above. This will allow investments from Indian pension funds and insurance firms, which are under statutory obligation to invest only in assets rated AA or above.

The Microfinance Wholesale Lending Facility in the PRC, approved in March 2012, will offer participating partner banks CNY130 million ($20 million) to develop the wholesale lending market for microcredit. The facility will promote access to credit for households and micro and small enterprises, particularly in rural areas.

ADB's loan of up to CNY150 million ($24 million) for the Tianjin Cold Chain Logistics Facility Development Project is its first participation in the logistics sector in the PRC. The project is located in the Tianjin Port Container Logistics Center, and will feature a large-capacity cold storage food facility combined with a customs inspection service facility.

Contribution to the Economic and Social Development of the Region

There has been increasing recognition among development finance institutions (DFIs) of the important role the private sector plays in economic and social development, and a clearer articulation of how this role may be supported.[19] The most prominent and easily understood contribution of the private sector is toward economic growth. Research continues to demonstrate the importance of economic growth for poverty reduction and improving the living standards of the poor.[20] The private sector raises levels of investment and capital formation by bringing in financing and expertise for projects that are critical for growth; stimulates backward and forward linkages along international supply chains; and increases competition, innovation, and productivity.[21] Other important attributes of the private sector are rewarding risk-taking and value-creating behaviors with wealth, employment, and income.

Asia's experience has shown that economic growth without adequate public policies creates new and socially divisive challenges, such as rising income inequality, environmental degradation, and

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19 International Finance Corporation (IFC) et al. 2011. *International Financial Institutions and Development through the Private Sector.* Washington, DC: IFC. A joint report of 31 Multilateral and Bilateral Development Finance Agencies.

20 Ferreira, F. and Ravallion, M. 2008. Global Poverty and Inequality: A Review of the Evidence. *World Bank Policy Research Paper.* No. 4623. Washington, DC: World Bank; Commission on Growth and Development. 2008. *The Growth Report: Strategies for Sustained Growth and Inclusive Development.* Washington, DC: World Bank.

21 The increase in economic growth unexplained by traditional inputs is attributed to total factor productivity which captures aspects such as technological change and innovation.

unsustainable patterns of migration.[22] Moreover, the devastating effect on the real economy following the 2008 housing and financial crisis in the United States, its knock-on effects in Europe, and the subsequent deceleration of growth in Asia,[23] also lay bare the relationship between international financial markets, growth in the real sectors, investor sentiment, and public confidence. The financial crisis has led to heated public debate, including on the need to protect investors and consumers. For instance, the United Kingdom has decided to dismantle the Financial Services Authority and replace it with the Prudential Services Authority and the Financial Conduct Authority. The Financial Conduct Authority is being established specifically to protect consumers. In developing Asia, the microfinance sector has taken the lead in adopting principles for responsible finance and consumer protection.

While private sector activity cannot address such challenges directly (because they are in the realm of public policy), it can indirectly temper their adverse impacts. First, the private sector can contribute to inclusive patterns of economic growth by creating work opportunities and incomes where they are needed most.[24] Large infrastructure projects are often located in rural or peri-urban areas where they directly create additional jobs. Financial intermediaries develop business expansion strategies for new geographic areas and market segments, including SMEs with good growth prospects. Second, the private sector can contribute to environmentally sustainable growth through the development and deployment of low-carbon and environmentally friendly technologies that can also be accessed by those with low incomes. Third, a thriving and vibrant private sector can be a reliable contributor to government revenues through corporate tax, wealth tax, income tax, value-added tax, royalties, and duties. Fourth, by continuously innovating and improving the availability and quality of goods and services, such as housing, infrastructure, health, and education, the private sector can help increase standards of living beyond the reduction of extreme poverty envisaged in the Millennium Development Goals. Moreover, the private sector can work with the public sector through PPPs to improve service delivery across a range of sectors.[25]

This chapter describes how ADB supports the private sector across its DMCs, and how these operations in turn contribute to the economic and social development of the region.[26] It should be noted that one of the core principles of DFI support for PSO is to catalyze private investment, rather than crowd it out. This means that ADB makes a minority contribution to the overall project cost (in the case of project finance) or has minority ownership (in the case of direct equity in a company).[27] Hence, the main way ADB's PSO contribute to social and economic development is by demonstrating the viability of investments.

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22 Ali, I. and Zhung, J. 2007. Inclusive Growth Towards a Prosperous Asia: Policy Implications. *ERD Working Paper Series.* No. 97. Manila: Asian Development Bank.

23 India's gross domestic product growth rate decelerated from 9.3% in 2010 to 5% in 2012. The PRC's growth rate declined from 10.4% (2010) to 7.8% (2012). Growth is expected to improve to 6% for India and 8.2% for the PRC in 2013. ADB forecasts a rebound in gross domestic product growth rate for Asia and Pacific from 6.1% in 2012 to 6.6% in 2013 and 6.7% in 2014.

24 IFC. 2012. *The Jobs Study: Assessing Private Sector Contributions to Job Creation and Poverty Reduction.* Washington, DC: IFC.

25 Commission on Growth and Development. 2008. *The Growth Report: Strategies for Sustained Growth and Inclusive Development.* Washington, DC. The report states that in some countries private sector participation in infrastructure now accounts for as much as half of infrastructure spending.

26 In 2012, PSOD was tasked to lead the development and implementation of all nonsovereign operations. Nonsovereign operations refer to direct financial and technical support to entities majority owned by the private sector (private nonsovereign operations), as well as subsovereign entities majority owned by the public sector that can contract and obtain financing independently without a sovereign guarantee (public nonsovereign operations).

27 Equity investments are to be $75 million or up to 25% of the net worth of a company, whichever is less. The maximum counterparty (client) limit is up to $400 million. For projects of less than $50 million, 50% of the total project cost can be financed; and for project costs between $50 million and $250 million, the percentage of financing could decrease to 25%.

This helps catalyze additional private investment, which, along with other measures for inclusive and environmentally sustainable economic growth, delivers benefits to society.[28]

Infrastructure

ADB takes a stake in infrastructure projects that it considers critical to supporting economic growth by (i) boosting power production and energy efficiency (for both conventional and renewable energy sources); (ii) increasing the flow of goods and services (including rail, roads, ports, and airports); and (iii) enhancing communication (through mobile and fixed information and communication technologies). It also finances projects that improve living conditions more directly (water treatment, wastewater treatment, and solid waste management). Increasingly, ADB is investing in projects that address more than one of the above objectives, e.g., waste-to-energy projects that tackle both waste management and power generation.

ADB requires private sector sponsors to adhere to sound principles of corporate governance, as well as standards for environmental sustainability and social safeguards during construction and operations.

Energy

The rising energy demand in the fast-growing economies of Asia is expected to be met predominantly from conventional sources. This has major implications for energy markets, greenhouse gas emissions, and climate change.[29] Although PSOD's portfolio continues to be dominated by legacy projects in conventional energy, recent investments are geared toward the adoption of cleaner conventional energy resources (natural gas and hydropower), and the development of renewable energy (solar, wind, and waste-to-energy) and energy efficiency projects. When PSOD supports conventional energy projects, it promotes combined-cycle, supercritical, and other advanced technologies that lead to lower emissions.

The rising energy demand in the fast-growing economies of Asia is expected to be met predominantly from conventional sources. This has major implications for energy markets, greenhouse gas emissions, and climate change

During 2012, ADB continued its support for solar, wind, gas, and waste-to-energy projects with state-of-the-art technologies. Two common development impacts of these investments are increased power production and avoidance or reduction of greenhouse gas emissions. In Rajasthan, India, ADB provided a loan of $103 million toward the construction of a $415 million 100-megawatt (MW) concentrating solar power project. This is one of the largest such projects in the world using linear fresnel reflector technology, which can concentrate the sun's energy to approximately 30 times its normal intensity, generating steam that is used to run turbines. The success of this project is expected to have strong demonstration effects for

28 For instance, in countries with poor access to finance by SMEs, ADB's investment in financial intermediaries for an SME finance program is expected to have a demonstration effect that would (i) profitably grow the SME portfolio of the financial intermediary beyond the value of ADB's investment, (ii) offer needed products and services, and (iii) encourage other financial intermediaries to establish and grow their SME business. The increased financing and growth of SMEs, including in low-income and rural areas, would have positive impacts on the local economy.

29 If energy consumption patterns do not change, energy demand in Asia and Pacific is expected to increase by 80% during 2005–2030. Coal will continue to be the dominant source of power for electricity and heat generation, followed by oil, gas, and new and renewable energy. Doi, N. et al. 2010. Energy Outlook for Asia and the Pacific. *Energy Journal.* 5 (2). Japan: Institute of Energy Economics; ADB. 2013. *Asian Development Outlook 2013.* Manila.

Box 2
Adding Value, Creating Jobs

Surgil Natural Gas Chemicals Project, Uzbekistan

Uzbekistan is the second-largest gas producer in the Commonwealth of Independent States, with total reserves of 59.4 trillion cubic feet. Given its low-cost gas supply, the country is well positioned to establish a competitive chemicals industry, significantly adding to its export earnings. Despite this potential, Uzbekistan requires large foreign investments to develop the petrochemicals industry.

The Asian Development Bank is a cornerstone lender to the Surgil Natural Gas Chemicals Project, playing a key role in the commercial syndication of the $2.54 billion facility. The integrated gas-to-chemicals project adds economic value to the gas supply by deriving two additional products: purified methane for commercial use, and polymer products for plastics and textiles manufacturing. The polymers will mostly be sold to the People's Republic of China, Turkey, the Russian Federation, and Western Europe. The project will boost long-term employment by adding approximately 3,500 direct jobs during construction and 630 jobs during operations, in addition to indirect employment opportunities.

Approved in 2011, the project features a number of industry firsts: It is the first internationally financed oil and gas project in Uzbekistan, the largest project financing in Central Asia, the largest petrochemical project financing in the Commonwealth of Independent States, and the first Equator Principles compliant project in Uzbekistan.

Source: Asian Development Bank Private Sector Operations Department.

replication of the technology. In Thailand, ADB has supported the development of power from gas, solar, and wind energy sources. The $185 million Ayudhaya Natural Gas Power Project is being built with provisions for flood-protection. In Uzbekistan, a $125 million loan has been provided toward a $2.54 billion integrated gas-to-chemicals project that includes gas development and petrochemicals processing (Box 2).

In the PRC, which is the world's largest generator of municipal solid waste, ADB's strategy has been to develop replicable PPP models of waste-to-energy, especially for smaller cities and rural areas. Following the success of the first municipal waste-to-energy project in the PRC (Box 3), a second $200 million loan was made for a follow-on waste-to-energy project designed for the country's smaller towns. In addition, ADB invested in its first agriculture biomass waste-to-energy project in the PRC in 2012 through a strong PPP model that incentivizes the private sector to participate in and manage multiple subprojects. The waste-to-energy plants will use advanced clean technologies to incinerate waste, recover waste heat for power generation, purify waste gas, and safely dispose of ash.

Telecommunications

Telecommunications are a prime example of how the private sector supports inclusive economic growth by making voice and data technologies available at affordable prices to people of all income levels, increasing communication and information flows, and thereby enhancing productivity and employment opportunities. ADB has been

Telecommunications are a prime example of how the private sector supports inclusive economic growth by making voice and data technologies available at affordable prices to people of all income levels

Box 3
Waste-to-Energy Gathers Pace

Municipal Waste-to-Energy Project, People's Republic of China

The People's Republic of China (PRC) is the world's largest generator of municipal solid waste, producing more than 220 million tons annually. As of 2010, 36.5% of it was still untreated and dumped in unsuitable landfills, putting residents at risk from air and water pollution.

Waste-to-energy (WTE) is recognized as the most effective method of municipal solid waste treatment. It reduces waste volume by up to 90% and eliminates methane gas emissions. It also recovers waste heat from incineration to generate electricity. Although WTE technologies are effective in mitigating environmental degradation, local governments in the PRC have found it challenging to raise financing for WTE projects. Private sector participation through public–private partnerships is expected to (i) provide new investments; (ii) introduce advanced technologies, management, and operational capabilities; and (iii) improve timely delivery of services.

The Asian Development Bank (ADB) provided its first investment to private sector municipal solid waste management in 2009, with a loan of up to $200 million to China Everbright International to develop WTE plants in secondary cities across the country. Four new WTE plants in Jinan, Jiangyin, Zhenjiang, and Suzhou, have been identified. The first three plants have successfully commenced commercial operations, and are generating approximately 350 gigawatt-hours of on-grid electricity annually. The new plant in Suzhou is expected to be commissioned by 2013. These four plants will treat a total of 4,900 tons of municipal solid waste daily.

China Everbright International has established an environmental and social management system in accordance with ADB's safeguard policy, and all its WTE plants are now in compliance with the EU2000 standards for flue gas emission. The Zhenjiang plant is already registered for the Clean Development Mechanism.

Source: Asian Development Bank Private Sector Operations Department.

supporting the development of telecommunication services in low-income, high-risk countries with weak capital markets and undeveloped policies and regulations since 1998.

ADB's first project was Grameenphone in Bangladesh, where ADB made both debt and equity investments. The project helped reduce rural–urban disparities in access to telephone services, and provided job opportunities to poor women members of Grameenbank, who were employed as village pay telephone operators. The project was also found to have supported small business development.

In Afghanistan, ADB supported the start-up, expansion, and roll out of auxiliary services (mobile banking and telemedicine) for Roshan Telecommunications. The development impact of this support exceeded expectations. Roshan's successful entry into the telecommunications market drew in other investors and increased competition. National retail tariffs dropped from $0.30 per minute in 2003 to $0.09 per minute in 2011, with promotional and off-peak offers in the market down to $0.03 per minute. In addition, Roshan trained more than 800 Afghan nationals in English, finance, management, marketing, logistics, and customer relationship management; building the skills base within the market.

ADB's first private sector transaction in the Pacific was a $25 million loan in 2009 to Digicel Papua New Guinea, to help the company extend its reach beyond urban areas. This was followed by a project with a regional telecommunications company covering Papua New Guinea and Solomon Islands. Given the well-documented development impacts of mobile technology, ADB will continue striving to attract private investors to this area, where feasible.

Transport

Transport projects increase connectivity between regions, making the flow of intermediate and final goods faster and cheaper, and promoting the mobility of people. ADB's support to the sector covers ports and airports, urban transport, and national highways and toll ways. The negative impacts of road transport projects, including increased air pollution, noise, and accidents, are being addressed by the use of cleaner fuels, energy efficient engineering, and the promotion of mass transit and road safety measures.[30]

In 2009, ADB supported the expansion of Zvartnots International Airport in landlocked Armenia with a $40 million loan. The airport design incorporates energy efficiency measures, as well as safety features given its location in a seismic region. The project is expected to have both direct and indirect benefits for the local economy by increasing air connectivity between Armenia and other countries, expanding cargo and passenger handling capacity, integrating Armenia into global supply chains, and generating new jobs.

The negative impacts of road transport projects, including increased air pollution, noise, and accidents, are being addressed by the use of cleaner fuels, energy efficient engineering, and the promotion of mass transit and road safety measures

[30] ADB. Transport. http://www.adb.org/sectors/transport/key-priorities

ADB also supports the development of mass transit systems. The earliest example was technical assistance for the Bangkok mass transit system in 2007. In 2010, PSOD worked with the South Asia Department to support a major metropolitan mass transit system in Bangalore, India. The project, which includes 42.3 kilometers of railway, 40 stations, and ancillary facilities, is designed to provide rapid transit services for 1.8 million people daily. Due for completion in 2013, the mass transit system will generate 1,700 jobs and reduce emissions of carbon monoxide, nitrous oxide, and hydrocarbons in Bangalore by 2.5% by 2020. Another mass transit system is being explored in the Philippines to reduce urban congestion.

Access to a reliable supply of potable water and sanitation facilities is an important Millennium Development Goal. Despite these clear benefits, this has been a challenging sector for PSO, mainly because the enabling environment for bankable projects has not existed in many DMCs

Water, Wastewater, and Solid Waste Management

Access to a reliable supply of potable water and sanitation facilities is an important Millennium Development Goal, with many benefits, such as good health, which in turn raises labor productivity. In addition to improving the quality of water, water conservation through appropriate technologies is an important goal in itself. Water is an essential resource not only for agriculture, industry, and power production, but also for life-supporting ecosystems.

Despite these clear benefits, this has been a challenging sector for PSO, mainly because the enabling environment for bankable projects has not existed in many DMCs. In addition, high rates of nonrevenue water adversely affect the commercial viability of projects.[31] In recent years, the situation has improved, with opportunities for private sector participation in PPP projects at the local and municipal levels, and establishment of clear tariff-setting mechanisms.[32] Although many municipalities in emerging markets still struggle with the collection of water dues and timely payments to private sector providers, continuous efforts are being made to improve revenue flows.[33]

In 2007, ADB made an investment of $50 million (Rp455 million) in the West Jakarta Water Supply Development Project in Indonesia. The project is expected to increase the proportion of west Jakarta residents with access to safe piped water to 70% by 2015. ADB also invested $26.5 million, with a complimentary finance scheme of $21.5 million, in the Chengdu Waterworks Project—the first competitively bid build–operate–transfer urban water contract in the PRC financed with foreign capital. The project had high development impacts as it successfully built a private sector water supply project, attracted foreign capital, introduced new technologies, and supplied water that met European water quality standards. The positive

31 Nonrevenue water can result from physical loss of water due to poor infrastructure, inefficient management, pilferage of water, and nonpayment of bills.

32 In some cases, although water tariffs were established and were relatively high compared with other Asian countries, unit production costs were also high before the water concessions were granted to the private sector. A case in point is Jakarta, Indonesia, where negotiated tariff increases could not be implemented following the 1998 Asian financial crisis, which affected the concessionaire's investment plans.

33 In the PRC, for instance, small towns are beginning to consider tariff reforms and cost recovery through user charges for water, and are encouraging private sector participation in water distribution and bill collection.

Box 4
Forging Public–Private Partnerships for Safe Wastewater Disposal

Songhua River Basin Water Pollution Control and Management Project Private Sector Facility, People's Republic of China

About 80%–90% of sewage sludge (the waste by-product of wastewater treatment) in the People's Republic of China (PRC) is left untreated and improperly disposed of, usually in landfills, posing serious health and environmental risks. Remedying this situation is an explicit priority for the government of the PRC as it imposes stricter effluent standards for existing wastewater treatment plants. This necessitates additional investments in treatment processes.

The cost of developing the PRC's water infrastructure is thus immense. To help meet these challenges, the Asian Development Bank (ADB) is increasingly adopting the use of a multiproject facility to extend its reach to a portfolio of smaller subprojects, particularly in small towns. Each subproject operates as a public–private partnership with a municipal government.

In 2010, ADB made an equity investment of $9 million and provided a loan of $37.5 million to scale up the wastewater operations of Longjiang Environmental Protection Group, operating in the northeastern province of Heilongjiang, home to the Songhua River Basin. The Songhua River Basin is the PRC's third-largest river basin and one of the five most polluted. In 2012, ADB provided an additional loan of CNY600 million ($95 million equivalent) to finance Longjiang Environmental Protection Group's sludge treatment and disposal facilities and upgrade its existing wastewater facilities to meet the PRC's higher effluent standards.

The project features an efficient and replicable model for private participation in water infrastructure for urban governments across Asia and Pacific.

Source: Asian Development Bank Private Sector Operations Department.

results of this pioneering build–operate–transfer model had considerable demonstration impacts; in 2002, the Government of the PRC opened all municipal services to investment by foreign and domestic private companies. PSOD has also invested in two wastewater treatment projects to help reduce the pollution levels in the Songhua River Basin in the PRC (Box 4).

Agribusiness

Asia's agriculture sector is critical in terms of employment and basic food consumption needs. However, there is tremendous potential to improve productivity along the food value chain. Large, professionally managed agribusinesses, which are predominantly commodity processors and retailers, play a critical role in improving efficiencies along the agricultural supply chain. By reducing losses and improving productivity, these businesses also make a vital contribution to enhancing food security.

PSOD has undertaken two key investments in the agribusiness sector during 2012. The Tianjin Cold Chain Logistics Facility Development Project in the PRC is a nonsovereign public project to develop large-capacity cold storage facilities combined with customs inspection services. The project is expected to serve as a model for other upcoming facilities around the PRC to adopt best practices in international warehouse and logistics management. In Bangladesh, ADB is supporting the development of new production facilities by PRAN, the largest food and agribusiness group in the country (Box 5).

Asia's agriculture sector is critical in terms of employment and basic food consumption needs. However, there is tremendous potential to improve productivity along the food value chain

Finance

Access by households, SMEs, and large infrastructure projects to adequate, competitively priced, and timely financial services remains the hallmark of well-developed financial systems, which comprise banks, nonbank financial institutions, leasing companies, and capital markets.

While the banking sector in Asia and Pacific has been strengthened considerably since the Asian Financial crisis of 1997–1998, more remains to be done to support DMCs at different stages of financial sector development. This includes (i) improving access to finance for individuals and businesses; (ii) developing capital markets to channel resources from institutional investors, such as pension funds and insurance companies, toward needed investments; and (iii) building investor confidence in markets through adequate supervision, oversight, and protection.

PSOD has played a pioneering role in several countries' financial sectors. This includes investments to develop commercial banking, housing finance, microfinance, leasing finance, and trade finance.

In post-conflict Afghanistan, PSOD helped restore confidence in the formal banking system through the establishment of the first commercial bank, the Afghanistan International Bank (AIB), through an equity investment. Following the bank's establishment, five local commercial banks were set up in the country.

PSOD has made a number of investments since 2009 in Central and West Asia to help commercial banks expand and diversify their SME portfolios while improving their risk management capabilities. In 2012, ADB approved a loan of $10 million for a bank in the Kyrgyz Republic for financing SMEs. In the same year, PSOD made a $6 million equity investment in a commercial bank in Uzbekistan to provide capital to expand SME operations (Box 6).

Box 5
Boosting Productivity along the Food Value Chain

PRAN Agribusiness Project, Bangladesh

In November 2012, the Asian Development Bank (ADB) signed a $25 million loan agreement with PRAN, Bangladesh's leading food and agribusiness group. The loan will partly finance the $36 million construction cost of three new production facilities: a liquid glucose plant, a flourmill, and a frozen-food processing plant. These facilities will buy maize (to produce liquid glucose) and wheat (to produce flour) from local farmers. The two products will be used as ingredients for PRAN's food products, and support the group's vertical integration strategy.

The project will help sustain high agricultural growth in Bangladesh by connecting farmers to local and global food markets. It will also improve nutrition, as PRAN is at the forefront of efforts to bring flour fortified with vitamins and minerals to the Bangladesh market. The project will also create significant employment opportunities, with the company hiring about 1,000 workers, at least 30% of whom will be women. Meanwhile, some 50,000 farmers will benefit from guaranteed purchases under the project. PRAN has been leading the development of contract farming in Bangladesh, with 42,000 farmers already under contract with the group.

This engagement is ADB's first nonsovereign agribusiness project since 1985, and the Private Sector Operations Department's (PSOD) first direct investment in Bangladesh since 2004. It reflects PSOD's strategy to be more active in sectors with high development impact potential, particularly in Asian Development Fund countries such as Bangladesh. The project is also consistent with ADB's Operational Plan for Sustainable Food Security in Asia and Pacific, 2010–2012, which calls for an expanded partnership with the private sector to attract more direct investments in productivity, agro-processing, agro-retailing, and other nonfarm rural business.

Source: Asian Development Bank Private Sector Operations Department.

The mortgage finance market remains underdeveloped in Asia, even in countries that may have an otherwise well-functioning financial sector

Another area with large development impacts is the provision of secure and affordable housing. As Asia's population and income levels grow, housing shortages are emerging in many countries. A well-designed housing finance program can help broaden access for families to affordable mortgage loans. The mortgage finance market remains underdeveloped in Asia, even in countries that may have an otherwise well-functioning financial sector. During 2012, PSOD initiated work with a private sector bank in Sri Lanka that is seeking to increase its share of the market for mortgage services to underserved areas that have traditionally been dominated by state-owned banks. PSOD also made its first investment in a slum rehabilitation project in India.

Microfinance is another area increasingly associated with the private sector. Here again, PSOD has taken a highly innovative approach by establishing a risk participation and guarantee program. This has been particularly beneficial in restoring confidence in microfinance in India. In 2012, ADB signed a guarantee facility agreement, with two nonbank finance companies in India,

Leasing has certain advantages over alternate forms of finance especially for SMEs, such as lower down payment, simpler documentation and security arrangements, faster credit approval, and tax incentives

Box 6
Raising Banking Standards

Equity Investment in Ipak Yuli Bank, Uzbekistan

Uzbekistan's banking system is at a nascent stage of development. Bank loans and deposits are among the lowest in the region. Lending to the private sector is weak, with the ratio of domestic credit to the private sector estimated at 14.6% of gross domestic product (2009). The efficiency of the banking sector needs to be enhanced through a focus on core banking functions, private sector participation, diversification of services, and increased competition. Even more underserved are the micro, and small and medium-sized enterprises (SMEs).

In December 2012, the Asian Development Bank (ADB) invested in Bank Ipak Yuli, a universal bank that seeks to grow its business with micro and SMEs. The investment of up to $6 million was conducted through an issuance of new shares to strengthen Bank Ipak Yuli's capital position. This is ADB's first equity investment in Uzbekistan's banking sector. ADB's equity investment will help bolster the expansion of the bank's operations. Bank Ipak Yuli's total SME borrowers are expected to more than double from 2,700 in 2011 to 7,000 in 2017.

ADB is also providing Bank Ipak Yuli with technical assistance in areas such as corporate governance and internal controls, risk management, credit risk management, micro-credit and SME financing, and environmental and social safeguards.

Source: Asian Development Bank Private Sector Operations Department.

Box 7

Building Investor Confidence in the Philippines

Equity Investment in Philippines Investment Alliance for Infrastructure, Philippines

One recent report describes the Philippines as "teeming with potential, but without the infrastructure to support it." With a fast-growing middle class, rising per-capita income, and growing demand, investments in infrastructure are needed to herald the next phase of high economic growth in the Philippines.

Within this context, the Asian Development Bank (ADB) committed $25 million to the Philippines' first and largest private equity fund, the $625 million Philippines Investment Alliance for Infrastructure (PINAI). Exclusively focused on the country's core infrastructure, the fund is capitalizing on policy-driven efforts to encourage infrastructure development, as well as increasing investor interest in the Philippines.

Not only is ADB an anchor investor in the PINAI fund, it also played an early role in the conceptualization of the fund, the selection of the fund manager, as well as mobilization of a new class of investors in the Philippines' private equity market and infrastructure space. These include the Philippines' domestic pension funds; the Government Service Insurance System; and the Dutch pension fund asset manager, APG.

PINAI had its first and final close in July 2012. The fund will be managed by Macquarie Infrastructure and Real Assets, the largest infrastructure fund manager globally, with approximately $97 billion of assets under management across 24 countries.

Source: Asian Development Bank Private Sector Operations Department.

guaranteeing local currency loans to selected microfinance institutions. As of 2012, a total of $22.7 million (rupee equivalent) has been disbursed under this facility to six microfinance institutions, resulting in more than 100,000 individual loans. The majority of these loans are in rural areas, and 90% are to women. The average loan size is just under $300.

Nonbank financial institutions, such as leasing companies, are another important source of finance. Leasing has certain advantages over alternate forms of finance—especially for SMEs such as lower down payment, simpler documentation and security arrangements, faster credit approval, and tax incentives. In the past, PSOD invested in leasing companies in Sri Lanka to extend support to SMEs. PSOD is exploring investments in the leasing industry for public transport to help expand the use of energy efficient vehicles and cleaner fuels.

Trade finance is essential to ensure the continuity of cross-border trade and to maintain the momentum of economic growth. In 2012, the TFP supported $4 billion in trade through 2,032 transactions among 1,577 SMEs.

Private Equity Funds

Businesses require various types of capital during different stages of growth. Young and small companies, which are not yet attractive for commercial bank financing, are prime candidates for investment and growth by private equity, especially when deployed through a PEF mechanism. Such a mechanism not only provides access to equity capital, but also incentivizes the PEF manager to introduce better management practices, develop effective governance mechanisms, and increase investment in assets and technology to enhance productivity. The growth of portfolio companies increases their value proposition and enables them to raise capital through initial public offerings, re-sale of shares,

Table 4 Sector Distribution of ADB's Investment in Private Equity Funds, 2000–2012

Fund Category	ADB's Contribution to PEFs by Category ($ million)	Total Capital Raised by these PEFs ($ million)
Small and medium-sized enterprises	362 (47%)	2,495
Private sector infrastructure	185 (24%)	1,345
Environment and clean technology	146 (19%)	773
Others[a]	80 (10%)	665
Total	773 (100%)	5,278

ADB = Asian Development Bank, PEF = private equity fund.

[a] This category includes funds focused on microfinance institutions and debt restructuring.

Source: Asian Development Bank Private Sector Operations Department.

mergers or acquisitions by a strategic investor, or secondary sales. The growth of portfolio companies has consequent effects on the real economy.

Table 4 outlines the sector distribution of ADB's investment of $773 million in 40 PEFs during 2000–2012.[34]

These PEFs have in turn invested in 342 companies (both active and exited), in 25 countries, of which 31 companies are in group A and B countries.[35] Table 5 shows the industry distribution of the companies supported by PEFs. More than half of the PEF investments have been made in manufacturing, clean technology, and

Table 5 Industry Distribution of Companies Receiving Investment from ADB-Supported Private Equity Funds

Nature of Industry	Number of Investee Companies
Biotechnology	35
Environment and clean technology	54
Consumer products and services	27
Financial services	33
Information technology	26
Infrastructure and logistics	56
Manufacturing	74
Nonfinancial services	10
Others	15
Retailing and affiliated services	12
Total	342

ADB = Asian Development Bank.

Source: Asian Development Bank Private Sector Operations Department.

[34] ADB's core competencies include (i) expertise in sectors essential to sustainable development; (ii) reach and long presence in the region that is becoming increasingly attractive for private equity investors; (iii) unique products and risk mitigating instruments not developed by the private sector; (iv) access to investors (sovereigns and DFIs); and (v) environmental, social, and corporate governance credentials.

[35] Afghanistan, Bangladesh, Cambodia, the Lao People's Democratic Republic, Mongolia, Pakistan, Papua New Guinea, Samoa, Sri Lanka, Tajikistan, Tonga, and Vanuatu.

Box 8
The Case for Private Equity Funds

ASEAN–China Investment Fund

A key priority for the Association of Southeast Asian Nations (ASEAN) is promoting regional cooperation and economic integration. ASEAN as a bloc is a large trading partner of the People's Republic of China (PRC). It was envisaged that the region's small and medium-sized enterprises (SMEs) would benefit from the ASEAN Free Trade Agreement. However, SMEs in the region lacked access to the necessary capital, management and technical skills, and corporate governance expertise to fully capitalize on this emerging cross-border trade opportunity.

In January 2003, the Asian Development Bank (ADB) approved a $15 million investment in the ASEAN–China Investment Fund, to facilitate ASEAN intraregional and ASEAN–PRC trade and investment. The fund was expected to make investments in SMEs operating in the ASEAN–PRC region, specifically targeting companies with attractive growth prospects in the overseas market.

Besides benefiting SMEs, the fund was expected to catalyze long-term capital from institutional investors. The fund successfully raised $15 million from the Swiss Government's State Secretariat for Economic Affairs, and $10 million from United Overseas Bank. In addition, as a result of direct efforts by the fund manager and ADB, China Development Bank became the first PRC-based entity to receive approval to invest in an offshore private equity asset class by investing $15 million in the fund. The fund invested a total of $55 million in 15 companies in the PRC, Indonesia, Malaysia, Thailand, and Viet Nam.

The fund has been highly successful in light of its significant development results and strong financial performance to date. It guided 11 companies to their initial public offering, which not only opened new capital-raising routes for SMEs, but also helped in the development of capital markets by widening the profile of listed entities. In the process of going public, the fund's portfolio companies strengthened their corporate governance and management practices, implemented international accounting standards, engaged international audit services and expanded disclosure standards, and established environmental and social safeguard policies and practices as an integral part of their operations. The portfolio companies raised over $700 million, strongly illustrating the role of private equity funds as vehicles to stimulate private sector and capital market development.

Source: Asian Development Bank Private Sector Operations Department.

infrastructure and logistics. These have helped expand core production capacities, export competitiveness, and the infrastructure base of the host countries. About 11% of PEF investments focus on local consumer-oriented businesses and retailing. More than 50 companies supported clean technology and the environment.

ADB has invested in PEFs since 1983, and during this period it has undertaken periodic reviews and assessments of its private equity operations. In the initial years, ADB's PEF business approach followed sector trends in the region and tried to fulfill development priorities set by DMC governments, such as financing debt restructuring and SMEs, and leveraging financial resources. While tangible development impacts were achieved through such interventions, recent changes in the private equity market, pressure on ADB's available financial resources, and the emergence of new development challenges in the DMCs have necessitated a rethinking of ADB's private equity strategy. A draft private equity business plan has been developed and is currently being refined.

Box 7 provides details of the recently established Philippines Investment Alliance for Infrastructure fund, which is expected to encourage private investment from regional funds in rehabilitating the aging infrastructure in the Philippines. Box 8 illustrates how a PEF has supported trade and investment between the Association of Southeast Asian Nations and the PRC.

Corporate Social Responsibility

PSOD promotes corporate social responsibility with regard to the environment and social protection through technical support to its clients. Project teams that include safeguard specialists are responsible for ensuring a safe working environment, fair remuneration, adequate compensation for resettlement, and adherence to social and environmental standards. Specialized safeguards teams ensure that environmental and social safeguard requirements are met and that principles of good governance are adopted by clients.

Environmental and Social Standards

When required, PSOD guides clients in managing the environmental and social risks of projects and in complying with ADB mandated safeguards requirements. PSOD also helps clients meet international standards on environmental and social practices that might not have been adopted otherwise. PSOD assists in identifying social issues related to gender and development, and labor and social protection that need to be addressed during project design, and proposes appropriate measures as needed. Box 9 illustrates how PSOD identifies opportunities for gender mainstreaming.

A project is assigned a safeguard category based on the anticipated impact on the environment, involuntary resettlement, and indigenous peoples

Table 6 ADB's Safeguard Policy Requirements by Category

Category	Environment	Involuntary Resettlement	Indigenous Peoples
A	Environmental Impact Assessment with Environmental Management Plan (EMP)[a]	Resettlement Plan	Indigenous Peoples Plan
B	Initial Environmental Examination with EMP	Resettlement Plan	Indigenous Peoples Plan
C	(Desk review)	(Desk review)	(Desk review)
FI	Environmental and Social Management System (ESMS)[b]	ESMS	ESMS

ADB = Asian Development Bank.

[a] The EMP includes provision for meeting the ADB Social Protection (Labor) requirements during construction and operation phases.

[b] One consolidated ESMS covering environment and social safeguards.

Source: ADB. 2010. Safeguard Review Procedures for the Safeguard Policy Statement. *Operations Manual.* OM F1/OP. Manila.

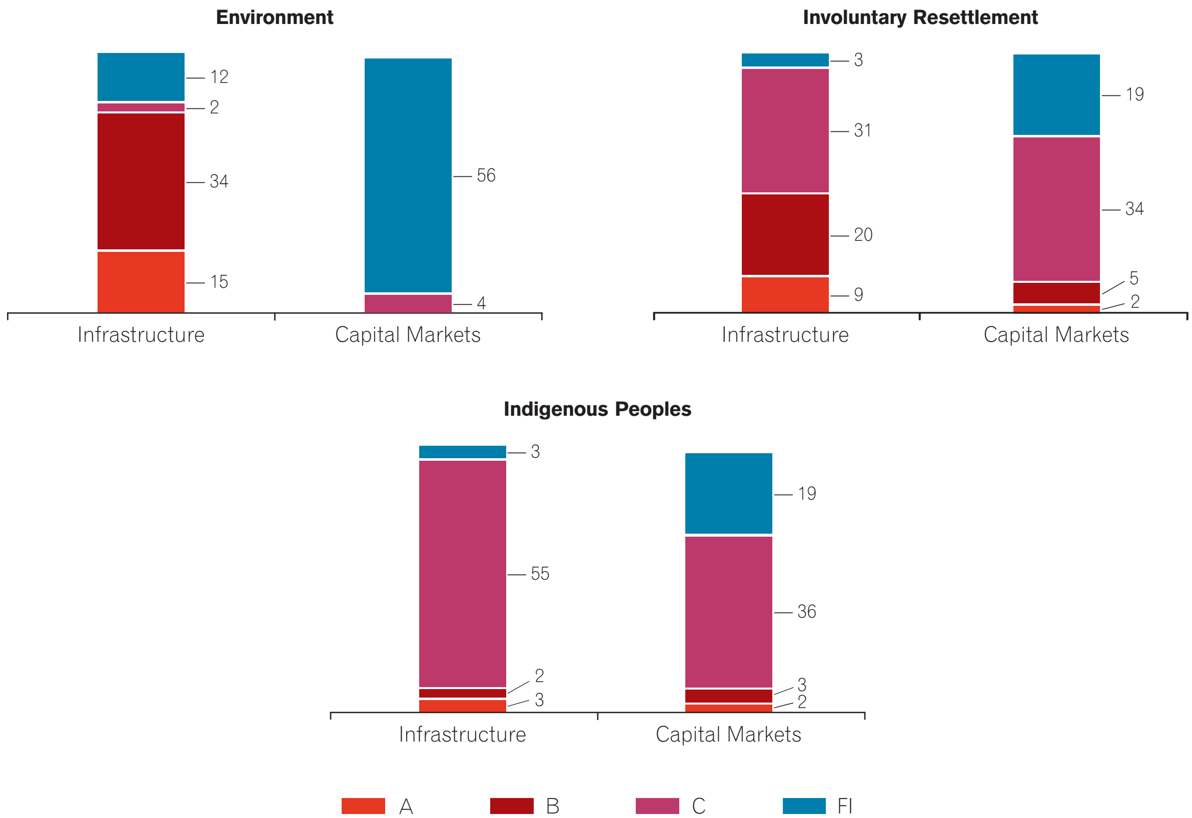
Box 9
Enhancing Opportunities to Mainstream Gender and Social Protection in Private Sector Operations

The Asian Development Bank (ADB) Policy on Gender and Development, approved in 1998, adopts gender mainstreaming as a key strategy for promoting gender equity. The policy requires staff to consider gender issues in all aspects of ADB's operations and to make efforts to encourage women's participation in development activities. ADB's Strategy 2020 identified gender equity as one of the five drivers of change. Private Sector Operations Department staff work with clients to identify opportunities for gender mainstreaming. They also ensure compliance with ADB's 2009 Safeguard Policy Statement and the 2001 Social Protection Strategy by

(i) conducting meaningful consultations with affected people and ensuring women's active participation;
(ii) undertaking a culturally appropriate and gender-sensitive social impact assessment or using similar methods to assess potential project impacts, both positive and adverse, on indigenous peoples;
(iii) considering gender issues and measures related to resettlement impacts and risks, and preparing a social impact assessment report that includes gender disaggregated information pertaining to the economic and sociocultural conditions of displaced persons;
(iv) carrying out activities with the intent of ensuring legally permissible equal opportunity and fair treatment and nondiscrimination in relation to recruitment and hiring, compensation, working conditions and terms of employment (i.e., providing equal pay for equal work);
(v) engaging contractors, subcontractors, and other providers of goods and services who have appropriate management systems in place to meet ADB's social protection requirements; and
(vi) reporting regularly on compliance with these measures.

Source: Asian Development Bank Private Sector Operations Department.

Figure 9
Private Sector Operations Department's Portfolio by Safeguards Classification, 2002–2012
(number of projects)



Source: Asian Development Bank Private Sector Operations Department.

(Table 6). Category A projects have the most extensive expected impact, and Category C have the least. Category FI projects are financial institutions that have subprojects that are not fully identified at the outset. The breakdown of the number of projects by category in PSOD's portfolio is shown in Figure 9.

Clients are responsible for establishing their own procedures to measure, monitor, and report on the implementation of plans to mitigate environmental and social impacts. Where a project's environmental and social impacts are significant, the client is required to establish an external monitoring team that publicly discloses actions taken to address relevant issues as well as the results. PSOD conducts site visits, and reviews internal and external monitoring plans and reports. Monitoring reports are available on ADB's website. Box 10 illustrates the monitoring mechanism for the Tangguh Liquefied Natural Gas Project in Indonesia.

Corporate Governance

The continuous promotion of corporate governance standards in ADB's investee companies is essential for financial transparency, good management, and the protection of stakeholder interests. PSOD has promoted corporate governance mainly through its presence on the boards of corporations and commercial banks where it has an equity stake. It also participates as a member of the investment committees of PEFs.

Box 10
Leading in Excellence

Tangguh Liquefied Natural Gas Project, Indonesia

The Tangguh Liquefied Natural Gas (LNG) Project, completed in 2011, was Indonesia's first greenfield LNG plant in 30 years. Located in Papua Barat, Indonesia's least developed province, it was developed to maintain the country's position as a major LNG exporter and to meet surging global demand. The project was led by BP, one of the world's leading international oil and gas companies. The Asian Development Bank, in partnership with other lenders, contributed a direct loan of $350 million to the project cost of about $6 billion. The facility is the world's first integrated LNG operation covering offshore gas production, gas processing and liquefaction, and shipping to international markets.

The project is recognized for adopting a comprehensive approach to sustainable resource development. It integrated environmental, social, and economic considerations into all aspects of project design and management.

Extensive public consultations were conducted with the local communities and government to assess needs and understand the project's environmental and social impacts. As a result, the project implemented effective approaches for sustainable community development through the Integrated Social Program. This program has brought significant improvement in local livelihoods, health and education, and public infrastructure. It contributed to inclusive growth by creating thousands of jobs and work opportunities in a very poor locality. During construction, 10,920 people were employed while 2,800 are employed during operations.

The project was classified as Category A for environment risks. It therefore developed a management plan and mitigation measures for dealing with potentially negative environmental impacts arising from wastewater discharge, air emissions, spills, and solid and hazardous waste. The implementation of these environmental safeguards measures along with social, health and safety measures has been evaluated to be excellent. The project has established strict safety standards (zero tolerance policy), and its safety record is in the first quartile of BP's global operations.

Source: Asian Development Bank Private Sector Operations Department.

In 2005, ADB approved a $75 million equity investment in the Bank of China, representing a 0.2% ownership stake in one of the largest banks in the PRC. Despite its minimal equity share, ADB provided technical assistance and advisory services that were very effective in improving corporate governance, strengthening lending policies and procedures, and raising safeguards standards. These reforms helped enhance the Bank of China's reputation and contributed to its successful initial public offering in June 2006 that raised $9.7 billion—one of the largest in the world.

The Afghanistan International Bank has established a sound reputation by focusing on good corporate governance despite experiencing recurring losses in its early years of operation. ADB's presence on the board has helped guide the bank's business strategy leading it to become profitable in 2008. During 2012, the majority of the bank's board members were not only independent, but included international professionals from reputed investment banks and advisory firms.

Technical Assistance and Advisory Services

PSOD has taken measures to improve the quality and consistency of the processing of technical assistance projects. In 2012, nine technical assistance projects were approved for $5.2 million, of which two were project preparatory and amounted to about $2 million. Of the nine technical assistance projects, three were for clean and renewable energy, four were in the financial sector, one was in education, and one was to strengthen monitoring and reporting on the development effectiveness of PSOD operations.

Development Outputs and Outcomes of Private Sector Operations

While the previous section focused on the expected development impacts of PSO, this section focuses on the outputs and outcomes that are key to achieving such impacts. The section starts with a discussion on the contribution of PSO to the outputs in ADB's CRF.[36] It should be noted that 2012 is the end of the first CRF period. This is followed by a review of outputs and outcomes already delivered by private sector projects approved during 2007–2011. Detailed data are provided in Annex 2. Lessons emerging from PSO are then discussed, followed by generic indicators for outputs and outcomes. These are common across sectors and include direct employment, markets for local goods and services, and the contribution to government revenue. Finally, the economic and financial returns from operations are discussed.

The primary data sources for delivered outputs and outcomes are Independent Evaluation Department validation reports and project performance evaluation reports. Where these assessments are not available, data are sourced from annual monitoring reports and private sector project completion reports, referred to as extended annual review reports.[37] Computations are based on available project information, including approved changes in scope and an update of the expected project completion dates.

[36] The indicators for ADB's corporate results framework are those provided in Level 2 of ADB's *Development Effectiveness Review 2012 Report.*

[37] Independent Evaluation Department ratings supersede extended annual review report ratings.

Outputs and Outcomes Achieved by 2012

The CRF tracks outputs and outcomes delivered during 2009–2012 from operations in Strategy 2020's core sectors approved during 2003–2006. The core sectors are education; environment; regional cooperation; infrastructure (energy, transport, and water); and finance. PSO currently cover all core sectors except education. In addition, PSO cover telecommunications and private equity funds, which are tracked separately.

Table 7 documents PSOD's contribution to the outputs tracked by the CRF. It also illustrates additional outputs from PSO approved between 1998 and 2002. The development results of PSO contributed significantly to the energy sector outputs. PSO delivered 11,067 megawatts (MW) (78%) of the 14,183 MW of installed energy generation outputs delivered by ADB, thus meeting 99% of projected outputs for PSO. Box 11 features a notable energy sector project that is contributing to these outputs. Performance in other energy-related infrastructure was equally strong. For the transport and water sectors, although none of PSOD's projects fell within the CRF period, a number of outputs were delivered with a significant number of beneficiaries (Table 7). Although there are no corporate results framework outputs for telecommunications, PSOD has delivered highly successful projects in Group A and B countries. PSOD's outputs for SMEs were not estimated due to credit-related difficulties in two banks in Kazakhstan, which made the estimation of their SME outreach difficult. There are no CRF outputs for private equity funds, but 287 companies have been assisted with equity capital and improvements in management and governance by PEF managers. Box 12 illustrates how development of the subsovereign debt market was supported in the Philippines.

The development results of PSO contributed significantly to the energy sector outputs. PSO delivered 11,067 megawatts (MW) (78%) of the 14,183 MW of installed energy generation outputs delivered by ADB, thus meeting 99% of projected outputs for PSO

Outputs and Outcomes from Projects Approved during 2007–2011

While the previous section discussed PSOD's contribution to the achievement of CRF outputs, this section presents outputs and outcomes delivered by 2012 from more recent projects. Additional data are in Annex 2.

Energy

The main indicators used to track energy sector outputs relate to increased capacity for energy generation in MW equivalent, transmission and distribution lines in kilometers, and reduced greenhouse gas emissions in tons of carbon dioxide equivalent per year. Since 2007, PSOD has been increasing its investments in clean energy. Four energy generation projects (three new wind energy projects and one that rehabilitated a coal-fired power plant) approved during 2007–2008 have been completed and had delivered about 679 MW of additional capacity by the end of 2012. The wind projects delivered 229 MW of this capacity. Two of the wind projects were in India (Box 13); the third was in Inner Mongolia, the PRC (Box 14). These projects collectively contribute to the annual avoidance of 430,000 tons of carbon dioxide equivalent.

Table 7 Contribution of Private Sector Operations Department to the Corporate Results Framework Outputs, 2009–2012

Indicator	ADB CRF Outputs Programmed for 2009–2012 (A)	Targets of PSOD Projects Contributing to CRF (B)	Total ADB Outputs Delivered by 2012 (C)	CRF Outputs Delivered by PSOD by 2012 (D)	PSOD Share of Total ADB Outputs Delivered (%) (E) = (D)/(C)	Share of PSOD Targets Delivered by 2012 (%) (F) = (D)/(B)	Additional PSOD Outputs Delivered by 2012[a] (G)
	Based on Approved Projects from 2003–2006						
INFRASTRUCTURE							
Energy							
Installed energy generation capacity (MW equivalent)	15,700	11,146	14,183	11,067	78%	99%	2,765
Transmission lines installed or upgraded (km)	6,200	1,150	4,605	1,150	25%	100%	0
Distribution lines installed or upgraded (km)	68,200	48,000	59,803	40,227	67%	84%	0
Greenhouse gas emission reduction (tCO_2-equiv/yr)	10,808,000	3,478,580	9,635,495	3,478,580	36%	100%	0
Transport							
Expressways built or upgraded (km)	1,300	…	1,157	…	…	…	84
Beneficiaries from road projects (number)	194,615,000	…	180,991,950	…	…	…	4,738,877
Water							
Water supply pipes installed or upgraded/length of network (km)	16,200	…	12,798	…	…	…	27
New households served with water supply (number)	4,574,000	…	3,339,020	…	…	…	50,000
Telecommunications							
Active customers (number)	…	…	…	…	…	…	23,098,000
Indirect employment generated (number)	…	…	…	…	…	…	135,000
FINANCIAL SECTOR							
Financial Institutions (Bank and Nonbank)[b]							
SME loan accounts opened/ end-borrowers reached (number)	482,500	1,915	472,850	Not estimated	Not estimated	Not estimated	0
SME loans provided (amount in $ million)	…	…	…	…	…	…	0
Funds							
Resources made available to portfolio companies (amount in $ million)	…	…	…	…	…	…	2,802
Companies assisted (number)	…	…	…	…	…	…	287

… = not applicable, ADB = Asian Development Bank, CRF = corporate results framework, km = kilometer, MW = megawatt, PSOD = Private Sector Operations Department, SME = small and medium-sized enterprises, tCO_2-equiv/yr = tons of carbon dioxide equivalent per year.

[a] These outputs are from projects approved during 1998–2002 (before the CRF period), and 2003–2006 (during the CRF period). Outputs delivered from projects approved in non-CRF sectors (e.g., telecommunications and private equity funds) are also reported.

[b] PSOD is not reporting outputs for two banks in Kazakhstan with credit-related difficulties, as these made evaluation of their SME outreach difficult.

Notes: Indicators in green are included in ADB's corporate results framework, and indicators in blue are additional indicators for private sector operations for which CRF outputs are not applicable. In previous years, the expected greenhouse gas emission reduction was 2,844,580 tCO_2-equivalent. The additional 634,000 tCO_2-equivalent is the reduction in emissions delivered from another project that was approved in the CRF period, but for which targets were not set during approval. Annex 3 lists the indicators to be tracked in the CRF for 2013–2016.

Source: Asian Development Bank Private Sector Operations Department.

Box 11
Advancing India's Gas Infrastructure
Dahej Liquefied Natural Gas Terminal Project

India is among the largest consumers of gas in the world, using about 185 million cubic meters per day. Domestic gas supply in the country is limited with only about 140 million cubic meters per day in 2011–2012 against the estimated demand of 243 million cubic meters per day. The deficit is expected to double by 2017, highlighting the critical importance of increasing liquefied natural gas (LNG) imports to address the growing supply–demand gap.

The Dahej LNG Terminal was the first LNG import and regasification terminal in India, designed with a phase 1 capacity of 5 million tons per annum, expandable to 10 million tons per annum. The Asian Development Bank (ADB) helped finance its first phase in January 2004 through an equity investment to Petronet LNG. In August 2006, ADB also supported the expansion of the terminal's capacity to 7.5 million tons per annum through a direct loan with a partial credit guarantee.

The project helped promote sustainable economic development by providing cleaner and lower cost energy in the country. It increased the supply of energy by providing additional natural gas to industry and household users, and enhanced energy security by diversifying the energy base. Following the commissioning of the terminal, new pipelines (notably the expansion of the Hazira–Bijaipur–Jagsihpur, Dahej–Uran, and Gujarat State Petronet pipelines) improved connectivity, resulting in access for new customers.

ADB's close cooperation with the government in developing the Dahej LNG terminal supported the creation of an enabling environment for private sector investment to develop infrastructure for gas imports. The project has had excellent demonstration effects and promoted strategic private investments in the gas sector while setting high efficiency benchmarks in LNG operations.

Source: Asian Development Bank Private Sector Operations Department.

Box 12
Deepening the Subsovereign Debt Market

Equity Investment in LGU Guarantee Corporation, Philippines

The subsovereign debt market in the Philippines has been dominated by national government agencies and government financial institutions. Private financial institutions have been reluctant to lend to local government units (LGUs), mainly due to concerns regarding LGUs' creditworthiness and political influence.

The LGU Guarantee Corporation (LGUGC), established in 1998, was the first private credit guarantee institution in the Philippines to provide a credit enhancement facility that caters to the subsovereign debt market. Prior to the LGUGC's operations, loans to LGUs typically had a 3-year tenor carrying the maximum permissible interest rate. This did not match the long-term nature of LGU projects and it overestimated the underlying risks. The LGUGC's involvement increased competition, which in turn led to an extension of loan tenors to 7 years and reduced credit margins (by nearly 2%, according to industry estimates). This has benefited borrowing LGUs and the populations they serve.

LGUGC's total guarantee transactions reached P1.5 billion in 2003 consuming much of its reserve capital and leaving the company unable to provide new guarantees for projects in the pipeline. In January 2004, the Asian Development Bank (ADB) approved an equity investment of $2 million, to facilitate the expansion of the LGUGC's capital base. The investment was aimed at supporting the LGUGC's credit enhancement facility, which paved the way for creditworthy LGUs to access private capital from private financial institutions for financing municipal and urban infrastructure projects. With ADB's capital injection, the LGUGC was able to increase its guarantee portfolio and simultaneously maintain its credit standing.

Source: Asian Development Bank Private Sector Operations Department.

The fourth energy project, the rehabilitation of a coal-fired power plant in the Philippines, was critical to meeting the electricity requirements of the Luzon power grid—the largest in the country with 73% of total demand and estimated growth of 4% per year. The rehabilitation involved upgrading the dependable capacity of the plant from 150 MW in 2008 to 600 MW in 2010, reducing emissions, and ensuring that the wastewater discharge is not hazardous. Major activities carried out under the rehabilitation plan included the installation of electrostatic precipitators for both generating units; overhauling of both turbines; and repairs to the ash storage facility and upgrading of the transport, and geographic information systems. The success of this project highlighted the benefits of having a world-class and experienced sponsor to manage a complex rehabilitation project.

The construction of a power transmission project in Cambodia, which began in 2006, was completed by 2007. This project was significant because (i) it was Cambodia's first commercially financed transmission line, and therefore a pioneer in project finance in the country; and (ii) it exemplified regional cooperation, as power from Thailand was brought to Cambodia's poor northwest provinces Banteay Meanchey, Battambang, and Siem Reap. The project delivered its target of 221 kilometers of 150-kilovolt transmission lines in addition to three substations, and a switching station.

Telecommunications

PSOD telecommunication projects track the number of active customers and the number of persons employed. One of the most well-recognized telecommunication projects supported by ADB is the Telecom Development Company in Afghanistan (Roshan). ADB provided three corporate loans and a guarantee to Roshan to expand operations. Roshan's reported outputs far exceeded expectations. The subscriber base grew from 158,000 in 2004 to more than 5 million in 2011 (Annex 2). Roshan also partnered with the First

Box 13

Boosting Wind Power

Tata Power Wind Energy Financing Facility and Gujarat Paguthan Wind Energy Financing Facility

India is the third-largest electricity consumer in Asia behind the People's Republic of China and Japan but suffers frequently from power shortages. Increasing power generation capacity is one of the key priorities of the government. Wind energy is the most promising among renewable energy sources for India with a potential to contribute 48–60 gigawatts to meet the government's power generation goal of additional 79-gigawatt capacity for grid power under the 11th Five-Year Plan, 2007–2012.

Tata Power Wind Energy Financing Facility approved in 2007 was the first assistance to a private sector wind energy project by the Asian Development Bank (ADB). ADB arranged the project's entire financing package, providing a direct rupee-denominated loan up to Rs3,520 million that was not readily available from the financial market, bringing in the Indian Renewable Energy Development Agency as a cofinancier, and tapping Deutsche Zentral-Genossenschaftbank of Germany as an unfunded risk participant. In 2008, ADB approved a loan of up to Rs4.45 billion for the Gujarat Paguthan Wind Energy Financing Facility. Together, the projects delivered 252 megawatts (MW) of clean energy. Wind farms from these projects were registered under the Clean Development Mechanism. Tata Power Wind Energy project is the first Clean Development Mechanism project supported by ADB's private sector operations.

The use of renewable energy sources not only mitigates India's dependence on fossil fuels, but also improves the country's energy security and diversification.

The projects promoted private sector participation in reducing India's growing power supply deficit by harnessing wind power. In 2009, the private sector share of India's generation mix was only 15%, or roughly 22,000 MW. As of 2012, the private sector accounted for 28% of India's total installed capacity or about 55,500 MW. In the wind industry, more than 17 new manufacturers of wind turbine generators have appeared as a result of increased domestic demand, while more banks and lending institutions are showing interest in funding renewable energy projects. India's clean energy sector flourished in 2011, with private investment of $10.2 billion (54% greater than in 2010, and 600% greater than in 2004).

Source: Asian Development Bank Private Sector Operations Department.

Microfinance Bank to help entrepreneurs establish public call offices including women-only public call offices—an important feature in a culture where activities are often segregated by gender. The project also introduced mobile money transfer (*M-Paisa*) and a mobile agricultural trade data service (*Malomat*). *Malomat* allows farmers and traders to secure the best possible prices for their crops. The company is providing employment to more than 1,200 people, of which 97% are Afghan nationals and 20% are women.

Water and Wastewater Management

Indicators used to track performance in this sector include length of pipes installed (kilometers) and new households served. A water distribution project in West Jakarta, Indonesia, is providing safe drinking water through 63,000 additional connections, making good progress toward the target of providing safe drinking water to 65,000 households by 2015. The operational performance of the water utility has also improved, with nonrevenue water steadily decreasing from 49% in 2007 to 39% in 2011. A wastewater project in the PRC that was approved in 2010 targeted a capacity of 2 million cubic meters per day. As of 2012, it was already treating 1.95 million cubic meters of wastewater per day.

Transport

PSOD uses a number of indicators to track the operational capacity, safety standards, and efficiency of its transport projects. In 2007, ADB approved an equity investment in a company that privatizes, rehabilitates, upgrades, and operates small and medium-sized airports in the PRC. The number of passengers served by these airports grew from 13.4 million in 2006 to 15.6 million in 2011. Cargo throughput also expanded from 109,000 tons in 2006 to 168,000 tons in 2011. The company implemented an environmental management system and a social monitoring framework in fulfillment of its legal commitments to ADB. It has also established an environmental and social protection unit to coordinate safeguards issues.

The expansion of an airport terminal in Armenia was approved for ADB financing in 2010 and completed in 2012. The airport was privatized in 2002 and is operating under a 30-year concession. The terminal expansion increased passenger capacity from 2.0 million to 3.4 million per annum, ensured that operations were in compliance with International Civil Aviation Organization and European Aviation Safety Agency safety standards, and reduced gas use by 50% and electricity use by 30%. In terms of outcomes, by the end of 2011 the airport was facilitating travel for 1.6 million passengers per annum, and accommodating over 19,000 aircraft arrivals and at least 18,800 departures, exceeding targets. In addition, the airport handled 10,000 tons of cargo per annum, and generated $10 million in taxes in 2011, far exceeding the annual target of $4 million.

Finance

PSOD tracks the number and amount of SME loans to assess performance in financing SMEs. ADB assistance is estimated to have enabled banks in Armenia, Azerbaijan, Georgia, Mongolia, and Viet Nam to use an aggregate amount of $138 million for about 2,440 loans during 2010–2012.

During 2007–2012, ADB invested $306 million in 13 PEFs. These funds have in turn invested $436 million in 55 investee companies (Annex 2). Of the 13 funds, 2 are in their divestment period, and 11 are still in their investment period. Nine of the funds are regional, and three are country-specific (the PRC, Pakistan, and the Philippines). Seven funds support clean energy generation and energy efficient technologies, two promote infrastructure development, two support SME development, and one helps develop the water sector.

Box 14
Promoting Environmentally Sustainable Indigenous Energy Sources

Inner Mongolia Wind Energy Project, People's Republic of China

Expanding the share of renewable energy in its energy mix is a key pillar of the low-carbon development strategy of the People's Republic of China (PRC). Fossil fuels, primarily coal and oil, provide 90% of the primary energy consumed and nearly 80% of electricity generation in the country. This high proportion of fossil fuel consumption, driven by the surging demand for energy to support rapid economic growth, has raised serious environmental concerns.

In September 2008, the Asian Development Bank (ADB) approved a loan of up to CNY164 million ($24 million) to Datang Sino-Japan (Chifeng) Renewable Power Corporation for the installation and operation of a 49.5 megawatt (MW) wind power generation facility in the northwest of Chifeng City, Inner Mongolia Autonomous Region. The project contributes to targets for the share of renewable energy in energy generation capacity and for wind power generation in particular. ADB mobilized a long-term yuan-denominated loan, backed by its local currency bond, the Panda Bond, which took advantage of ADB's pioneering role in the PRC's local bond market, channeling international institutional investors to clean energy projects in the country.

From the start of commercial operations in late September 2009, about 400 gigawatt-hours of electricity per annum was produced by the project. Production was sold to Northeast China Grid Company, a regional subsidiary of the PRC's state grid corporation, and the East Inner Mongolia Electric Power Company.

The project continues to significantly mitigate greenhouse gas emissions and improve energy security. It was registered under the Clean Development Mechanism, and from 22 December 2010 to 30 June 2012 contributed to a reduction of 211,466 tons of carbon dioxide emissions.

The project assists the PRC in promoting the commercialization of renewable energy technologies and markets. The successful implementation of the project, leveraging private sector participation and demonstrating a sustainable operational approach, serves as a model for future infrastructure development in similar environments in ADB's developing member countries.

Source: Asian Development Bank Private Sector Operations Department.

Lessons Learned

PSOD has gathered significant experience from its investments in diverse operating environments. The key findings are discussed as follows.

Select strong sponsors. In several projects, such as Roshan Telecommunications, Afghanistan International Bank, Tangguh Liquefied Natural Gas, and Masinloc Coal-Fired Thermal Power Plant Rehabilitation, a sponsor with prior sector experience and strong commercial, technical, and financial capability contributed significantly to project success.

Test supply and demand projections rigorously. The financial and economic viability of a project is highly dependent on projections, whether these relate to resource supply or demand for outputs produced. For instance, in two energy projects, there was substantial variance between predicted and actual wind resources—some of the project sites had wind resources that were 20%–30% lower than anticipated. Although a prudent decision to reduce the size of the wind farms was taken to enable them to operate at capacity, this experience highlights the need for more rigorous resource assessments during due diligence.

For a water utility in the PRC, demand projections from the industry sector were overoptimistic and household consumption was lower than expected due to factors such as metering, higher tariffs, and behavioral change toward water conservation. Nonetheless, the project encouraged the entry of private capital into the PRC water sector.

In India, the financial returns of a piped gas project were half of the projected returns due to lower-than-expected demand. This situation arose partially from fluctuating prices of imported regasified liquefied natural gas and the continuing high government subsidy on liquefied petroleum gas cylinders, which reduced demand for piped gas.[38] The above examples highlight the importance of managing subsidies that may run counter to desired public policy goals and adversely affect the commercial viability of private sector investments.

Track and seek support for needed reforms. A housing finance project in Sri Lanka was based on certain assumptions regarding needed reforms within the Sri Lankan mortgage market that did not materialize. At project completion, housing loan approvals fell short of the target. The main reasons were (i) the client did not have *parate* execution rights, i.e., the right to foreclose mortgaged properties in case of default (this was requested by the client, but was not granted by the central bank); and (ii) payroll deduction for mortgages proved difficult in Sri Lanka due to frequent job changes; and (iii) lengthy processing times for legal documentation. The design of a PSOD housing finance project in Sri Lanka approved in 2012 took into account issues associated with this previous project.

Treat rapid loan portfolio growth and payment restructuring with caution. The rapid expansion of a loan portfolio needs to be viewed with caution. In some banks in central Asia, rapid loan growth concealed weaknesses in the loan portfolio, as the problems emerged several years later. Similarly, restructuring and rescheduling of interest payments on outstanding loans could be an indication of problems with the clients' ability to pay, and could eventually result in an increasing number of nonperforming loans.

[38] Domestic prices for liquefied petroleum gas have been subsidized to a level that has made it much less costly for consumers compared to the cost of piped gas.

Generic Outputs and Outcomes

Generic indicators measure outputs and outcomes that are common to all sectors. They are used to assess the effect of PSO on local market development, employment, and government revenues. The indicators measure the (i) amount of goods and services purchased locally as a result of the project, (ii) project's contribution to government revenue, (iii) number of people employed during construction, (iv) number of people employed during operation, and (v) number of people indirectly employed as a result of the project (where measurable). Generic indicators have been systematically included in project monitoring frameworks since 2010 and, where available, their results have been outlined in the preceding discussion.

Financial and Economic Performance of Private Sector Operations

Table 8 provides information on 20 projects which have been independently evaluated.[39] These include 13 in infrastructure and seven in financial institutions. In general, economic internal rates of return and economic returns on invested capital far exceed the social discount rate of 12%. For the water sector, only one evaluation report has been prepared. The difference between the financial internal rate of return, or the return on invested capital, and the weighted average cost of capital is a key measure of financial sustainability. Most projects have financial internal rates of return or returns on invested capital that exceed their weighted average cost of capital.

Table 8 Financial and Economic Performance of Private Sector Operations (%)

	FIRR		WACC		EIRR/EROIC	
Sector	Appraisal	XVR/PPER	Appraisal	XVR/PPER	Appraisal	XVR/PPER
Infrastructure						
Conventional energy	12.5	9.9	7.6	6.5	22.4	21.4
Energy pipelines	11.6	15.8	6.5	3.6	14.1	25.7
Electricity transmission and distribution	9.1	6.5	6.0	7.4	20.8	18.5
Transport	16.3	18.3	11.7	10.2	22.8	24.7
Water supply	9.0	10.4	6.3	9.2	17.8	6.0
Financial Institutions						
Banking institutions	21.6	16.9		10.7		27.8
Nonbank institutions		21.1		15.9		22.2

EIRR = economic internal rate of return, EROIC = economic return on invested capital, FIRR = financial internal rate of return, PPER = project performance evaluation report, WACC = weighted average cost of capital, XVR = extended annual review validation report.

Note: Numbers are not statistically representative of the Private Sector Operations Department portfolio.

Source: Independent Evaluation Department validation reports and project performance evaluation reports.

[39] Unlike in previous years, Table 8 only includes financial and economic returns evaluated by the Independent Evaluation Department.

Operational Effectiveness

PSOD's continued efforts to improve its operational performance led to increased business in 2012 and a well-performing portfolio. This in turn resulted in a significant contribution to the net income of ADB. Expected gross income from PSOD operations in 2012 was about $227 million: $109 million from equity investments, $108 million from loans, and $10 million from guarantees.[40]

The operational effectiveness of nonsovereign operations is assessed by indicators in ADB's corporate results framework. These cover operational quality and portfolio performance, including finance mobilization; and partnerships. The information presented here is consistent with that reported in the ADB *Development Effectiveness Review 2012 Report*.

Operational Quality and Portfolio Performance

The quality of the nonsovereign portfolio is measured in terms of quality at entry (QAE), project performance during implementation, quality of completed operations, disbursements, and finance mobilization. In addition, PSOD manages accounts at risk, undertakes rigorous integrity due diligence, and establishes extensive credit files as it deals with riskier and more difficult projects.

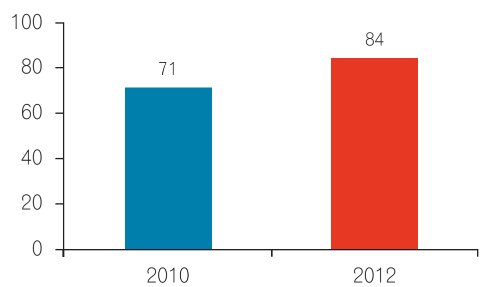
Quality at Entry of Nonsovereign Projects

Every 2 years, ADB undertakes a QAE assessment of projects that examines 10 dimensions of

40 These are indicative figures. Official numbers have not been released at the time of this report's publication.

project quality. The 2012 QAE exercise, which used a revised methodology, showed a significant improvement over the 2010 scores. The revised 2010 score rates 71% of nonsovereign operations *satisfactory* for QAE, while the 2012 assessment rated 84% (16 of 19 nonsovereign operations) *satisfactory* (Figure 10). This is just short of the 2012 target of 85%.

Figure 10
Quality at Entry of Nonsovereign Operations Rated *Satisfactory* (%)



Source: Asian Development Bank Private Sector Operations Department.

The QAE dimensions that scored considerably better in 2012 were (i) definition of development objectives, outcomes, and impact; (ii) ADB's profitability and investment management; (iii) risk assessment and management; and (iv) achievability of development objectives. Environmental and social responsibility remained the highest scoring category, with a *highly satisfactory* rating.

Project Performance during Implementation

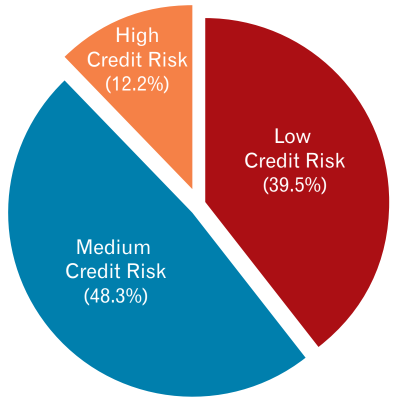
A rating based on pertinent risk factors is assigned to each nonsovereign loan and guarantee in PSOD's portfolio by ADB's Office of Risk Management (ORM). ADB considers both country risk and project risk in its ratings. Where country risk is greater, it overrides project risk. Projects with high risk ratings require close and frequent monitoring. Debt and guarantee transactions rated 10–12 (significant to high credit risk) undergo quarterly reviews. Transactions rated 13 (very high credit risk) and 14 D (defaulted) are required to undergo monthly reviews. For defaulted projects that require restructuring, the account is transferred to ORM.[41]

By the end of 2012, 40% of PSO were rated low risk, 48% medium risk, and 12% high risk (Figure 11). The percentage of high risk projects has increased since 2011 due primarily to the downgrade of the risk rating of one country where PSOD had significant operations. However, the credit risk rating of the outstanding loan and guarantee portfolio improved between 2010 and 2012. PSOD prepares semiannual reports for the Board covering essential credit milestones, including the implementation progress of projects.

By the end of 2012, 40% of PSO were rated low risk, 48% medium risk, and 12% high risk. The percentage of high risk projects has increased since 2011 due primarily to the downgrade of the risk rating of one country where PSOD had significant operations. However, the credit risk rating of the outstanding loan and guarantee portfolio improved between 2010 and 2012

41 ADB. 2010. Nonsovereign Operations. *Operations Manual* D10/BP. Manila.

Figure 11
Private Sector Operations Exposure by Credit Quality (%)



Notes: Low credit risk = exposures with risk rating of 1–5, medium credit risk = exposures with risk rating of 6–11, high credit risk = exposures with risk rating of 12–14.

Source: Asian Development Bank Office of Risk Management.

Quality of Completed Nonsovereign Operations

The success rate of completed nonsovereign operations was 68% in 2010–2012, 4 percentage points lower than in 2009–2011. Of the extended annual review reports completed in 2010–2012, the 11 in infrastructure (energy and transport) had an average success rate of 91%, and the 23 in finance had an average success rate of 57% (Table 9).

However, the overall success rate is 80% when calculated using approved amounts. Although projects in the financial sector were rated *less than successful*, these accounted for only 35% of the total operations assessed, with the remainder in the infrastructure sector.

The main reasons for the lower percentage of projects rated *successful* include weak financial returns in the aftermath of the Asian financial crisis of 1997–1998, an increase in defaults following the global financial crisis of 2007–2008, internal security concerns (notably in Afghanistan during 2006–2007), and prepayments and/or low utilization of some of ADB's facilities due to constricted post-crises demand for funding. Other reasons pertained to weaknesses in ADB's project structuring, risk assessment, and monitoring. The rating of completed nonsovereign operations is expected to improve in the future as a result of sustained improvements in project QAE and macroeconomic recovery across the region.

Disbursement Ratio for Nonsovereign Loans and Equity

The overall disbursement ratio decreased to 24% of the total available financing in 2012 (Table 10).[42] The considerable decline in the disbursement

Table 9 Quality of Completed Nonsovereign Operations

Indicator	No. of projects and TA	Rated *successful* or *highly successful* No.	%	2012 Target (%)
Completed operations rated *successful*[a]	34	23	68	80
Infrastructure (energy and transport)	11	10	91	
Finance	23	13	57	
Completed technical assistance projects rated *successful*[b]	4	3	75	80

No. = number, TA = technical assistance.

[a] Based on 34 extended annual review reports, validation reports, and project performance evaluation reports prepared during 2010–2012.

[b] Based on 4 TA projects completed for 2010 to 2012 for PSOD.

Source: Asian Development Bank Private Sector Operations Department.

[42] The disbursement ratio for the year is computed as the amount disbursed during the year divided by the unwithdrawn balance at the beginning of the year, plus signed amounts during the year less any canceled amounts. A target of 50% was set based on disbursement ratios of 43% in 2006 and 61% in 2007.

Table 10 Disbursement Ratio for Private Sector Operations, 2010–2012 (%)

Financing Instruments	2010	2011	2012[a]
Loans	**54.3**	**62.9**	**24.4**
Project finance loans	48.7	52.1	28.1
Corporate loans	58.6	91.0	15.1
Infrastructure	53.1	86.1	12.9
Capital markets	80.5	93.5	44.3
Trade Finance Program	72.3	97.3	100.0
Equity	**43.7**	**20.2**	**22.1**
Private equity funds	14.9	15.1	31.2
Direct equity—financial institutions	98.4	89.8	29.2
Direct equity—infrastructure	75.3	20.8	38.5
Overall	**51.5**	**52.2**	**23.9**

[a] From 2012, all signed transactions are considered effective.

Note: Disbursement ratio for the year is computed as the amount disbursed during the year divided by the unwithdrawn balance at the beginning of the year, plus signed amounts during the year less any canceled amounts.

Source: Asian Development Bank Private Sector Operations Department.

ratio in 2012 was partly a result of the significant increase in newly effective loans from $619 million in 2011 to $1,862 million in 2012. In addition, 30% of the newly effective loans became effective in the fourth quarter of 2012, so their disbursement will only occur in 2013 and beyond. Consequently, there was a net decrease in overall disbursements by 16%, totaling $127 million.

While equity disbursements increased by 46% ($35.7 million), loan disbursements decreased by 23% ($162.7 million). Disbursements were constrained by factors such as delays by project counterparts in meeting the conditions precedent to disbursement, and credit considerations that required ADB to prudentially slow down its disbursements on certain loans.

Finance Mobilization

Strategy 2020 promotes increased partnership-based cofinancing and has mandated that ADB's cofinancing activities should increase at a faster rate than its stand-alone financing. ADB defines direct value-added cofinancing as "cofinancing with the active coordination and formal agreements among financing partners that bring about defined client benefits, including contractual commitments by ADB (such as credit enhancement, syndication, or financial administration) to facilitate mobilization, administration, or participation in cofinancing."

In terms of leveraging resources, 2011 and 2012 were exceptionally good years (Table 11). In 2012, ADB signed legal agreements for transactions where it committed $3.8 billion and its cofinanciers committed $6.1 billion in direct value-added cofinancing.[43] The increased finance mobilization was mainly due to a large increase in commercial cofinancing. Commercial cofinancing comprised $200 million in B loans (including $100 million in local currency), $3,341 million in parallel loans, $86.5 million cofinancing for guarantees, and $126.0 million for risk transfer ($50.5 million for private nonsovereign operations and $75.5 million

[43] ADB's commitment of $3.8 billion is comprised of the following: TFP ($1,574.57 million), loans ($676.81 million), B loans ($200 million), guarantees ($550 million), and risk transfers ($850 million).

In terms of leveraging resources, 2011 and 2012 were exceptionally good years. In 2012, ADB signed legal agreements for transactions where it committed $3.8 billion and its cofinanciers committed $6.1 billion in direct value-added cofinancing. The increased finance mobilization was mainly due to a large increase in commercial cofinancing. In addition, $19 million from the Clean Technology Fund was used to cofinance two renewable energy projects in Thailand

for public nonsovereign operations). In addition, $19 million from the Clean Technology Fund was used to cofinance two renewable energy projects in Thailand: a $15 million loan for provincial solar power project and a $4 million loan for a wind power project. The TFP generated the remaining cofinancing of $2,344 million.

Monitoring of Accounts at Risk

ORM identifies "accounts at risk" as those nonsovereign operations rated 10–12 (significant to high credit risk), and places them on a watch list. PSOD has a dedicated Special Accounts Unit that supports the management and monitoring of these accounts in coordination with ORM and PSOD's

Table 11 Direct Value-Added Cofinancing, 2010–2012 ($ million)

Indicator	2010	2011	2012
Direct Value-Added Cofinancing[a]	2,349	4,205	6,116
Official cofinancing—grants	0	0	19
Commercial cofinancing:	2,349	4,205	6,097
B loans[b]	320	200	200
Debt portion of project costs financed by commercial loans (parallel loans)	479	1,623	3,341
Risk transfer[c]	0	0	126
Guarantee	0	0	87
Subtotal (without Trade Finance Program)	799	1,823	3,753
Trade Finance Program	1,549	2,381	2,344
Technical assistance cofinancing	1	1	0

[a] Direct value-added cofinancing is "cofinancing with the active coordination and formal agreements among financing partners that bring about defined client benefits, including contractual commitments by the Asian Development Bank (such as credit enhancement, syndication, or financial administration) to facilitate mobilization, administration, or participation in cofinancing."

[b] B loans (Complementary Financing Scheme) are funded by commercial lenders with the Asian Development Bank acting as "lender of record." For 2012, the B loans of $200 million include $100 million in local currency complementary loans.

[c] This comprised of $50.51 million for private nonsovereign operations and $75.50 million for public nonsovereign operations.

Source: Asian Development Bank Private Sector Operations Department.

operations divisions. Besides its monitoring function, the Special Accounts Unit also leads divestment. During 2012, the unit initiated work on five upcoming divestments in Central and West, South, and Southeast Asia.

Development Effectiveness Monitoring Reports

Business processes for nonsovereign operations include monitoring requirements to help gauge how projects deliver their intended development results.[44] Although the annual project monitoring reports developed in 2010 included a section on development indicators, reporting on these has been weak. In 2012, a development effectiveness monitoring schedule was included in legal agreements to strengthen data collection, analysis, and reporting.

Integrity Due Diligence

PSOD undertakes integrity due diligence during project processing and administration to ensure it is adequately informed about risks related to money laundering and the financing of terrorism and has the capacity to address these risks appropriately. Red flags are further investigated with the support and assistance of the Office of Anticorruption and Integrity and the Office of the General Counsel. To facilitate coordination, knowledge sharing, and the improvement of PSOD's integrity due diligence, PSOD has designated a departmental focal point for this function.

Credit File Checklist

PSOD transactions are subjected to continuous and rigorous due diligence. This includes reviews of the legal framework, project structure, risks, integrity matters, financing, and commercial viability; and the developmental, environmental, and social impacts. Maintaining up-to-date information on these important aspects is critical.

A credit file is established after transaction approval and then regularly maintained to record all of the due diligence on each project, including transaction and administration documents. PSOD has set up the structure for this file on an electronic platform, and will continue to refine it to enhance its user friendliness and utility.

Partnerships

Partnering with other institutions enables PSO to effectively share risk and maximize synergies. PSOD's partnerships involve commercial lenders, sponsors, and bilateral and multilateral institutions and agencies. To date, PSOD has partnered with 8 multilateral institutions, 15 bilateral agencies, and 5 export and import banks from ADB's member countries.

Partnerships were instrumental in establishing projects in the most risky operating conditions. For the Roshan Cellular Telecommunications Project in Afghanistan, ADB partnered with the Aga Khan Fund for Economic Development; Promotion et Participation pour la Cooperation Economique (PROPARCO); and later with DEG, the German Investment and Development Corporation. Armenia International Airport was PSOD's first project, cofinanced by the European Bank for Reconstruction and Development. Debt financing for the Surgil Natural Gas to Chemicals Project in Uzbekistan was syndicated between ADB, the Export–Import Bank of Korea, the China Development Bank, and the National Bank of Uzbekistan. The loan for the Kandym Gas Field Development Project in Uzbekistan was also financed and guaranteed jointly by ADB, the Islamic Development Bank, and the Multilateral Investment Guarantee Agency. In addition, several energy projects have been undertaken with the International Finance Corporation (IFC) and the

[44] ADB. 2010. Nonsovereign Operations. *Operations Manual* D10/BP. Manila.

Japan Bank for International Cooperation. Even in countries at a more advanced stage of economic development such as India, partnerships play a crucial role in creating new market opportunities and improving access to financial services. During 2012, ADB partnered with Genworth Financial, the National Housing Bank of India, and the IFC to establish India's first mortgage guarantee company: India Mortgage Guarantee Corporation.

In addition to project-specific partnerships, PSOD shares knowledge and experience with clients and development partners in endeavors such as harmonizing the use of development indicators, helping establish other regional trade finance programs, and agreeing on a corporate governance development framework.

Harmonizing Development Indicators

ADB is a principal contributor to the harmonization of development results monitoring and reporting of PSO. PSOD is part of the working group of DFIs that is leading the assessment of development indicators used in 13 sectors by at least 22 bilateral, regional and global DFIs. The assessment will make recommendations to adopt a core set of indicators with common definitions and data collection methodologies. This will provide private sector clients with consistent, relevant, and traceable development results indicators, thereby reducing transaction costs.

Supporting Trade Finance Programs and South–South Trade with Multilateral Development Banks

ADB's TFP has supported the creation of a trade finance program for the African Development Bank (AfDB). ADB has shared the TFP's legal documents, operations manuals, information technology, and its operational knowledge of the program. It also hosted a delegation in 2012 from AfDB to provide advice and training. More broadly, ADB has been working with AfDB and the Inter-American Development Bank to promote South–South trade.

Agreeing on a Corporate Governance Development Framework

In 2012, ADB began the implementation of the Corporate Governance Development Framework signed by ADB and 28 other DFIs in September 2011. The framework seeks to integrate corporate governance in the DFIs' investment operations, ensure internal responsibility for corporate governance issues, provide and procure relevant training, collaborate with other signatories, and report on the implementation of the framework.

ADB contributed to the production of case studies highlighting corporate governance best practice in various sectors and the development of a long-term study into the link between the commercial performance of companies and their corporate governance maturity in emerging markets. ADB also worked with other DFIs to produce and deliver dealing officer training to further develop its own capabilities and credentials.

ADB contributed to workshops on director development in a number of emerging market countries, and presented an Asian perspective to Latin American State Owned Enterprises as part of a South–South cooperation initiative aimed at sharing experiences and best practices across DMCs.

Increasing Awareness of Credit Enhancement Products

ADB continued to provide capacity building and knowledge management support to DMCs in the use of credit enhancement products, including guarantees and B loans. In March 2012, ADB conducted two workshops in Nepal attended by 85 senior government officials representing a variety of economic sectors. The workshops introduced participants to the credit enhancement products available from ADB, other multilateral development banks, export credit agencies, export–import banks, and private insurance companies. To date, ADB has held 16 workshops on credit enhancement products in 11 DMCs for 625 senior government officials. The results and recommendations of the workshops are described in two reports titled *Strengthening Capacity of Developing Member Countries for Managing Credit Enhancement Products* (Phase 1 and Phase 2) available on the internet.

ADB also organized a 1 day conference in Manila, Philippines, on 30 April 2012 titled *Asia Finance and Risk Mitigation Forum 2012: Catalyzing Private Capital for Investment and Trade in Developing Asia.* Approximately 375 people participated in the conference led by prominent speakers from the public and private sectors.

Awards and Recognition

ADB continues to be recognized for its contribution to project finance. In 2012, *Islamic Finance News* presented the Foundation Wind Energy I and II projects with the Pakistan Deal of the Year award, while *Euromoney Project Finance* magazine presented these projects with the Middle East Renewable Deal of the Year award. ADB also won the Asia-Pacific Power Deal of the Year award for the Ayudhaya Natural Gas Project in Thailand and the European Petrochemical Deal of the Year award for the Surgil Natural Gas Chemicals Project in Uzbekistan from *Project Finance International* magazine. The *Asia Legal Business* magazine recognized the Kandym Gas Field Development Project in Uzbekistan with an award for Project Finance Deal of the Year for 2012. *Trade Finance* magazine recognized ADB with an award for the Best Development Finance Institution in Asia-Pacific, while the *Trade and Forfaiting Review* presented an Excellence award to ADB for Best Development Finance Institution. The United States Treasury Department honored the Roshan Cellular Telecommunications Project in Afghanistan with a Development Impact Award. The Afghanistan International Bank was also recognized. It received the Best Afghan Bank of the Year Award 2012 by *The Banker* magazine.

Organizational Effectiveness

PSOD's organizational effectiveness is measured in terms of human resources management (including gender balance), business processes and processing time. PSOD continues to enhance its overall organizational effectiveness by utilizing its resources more efficiently, streamlining its operations, and improving its processes.

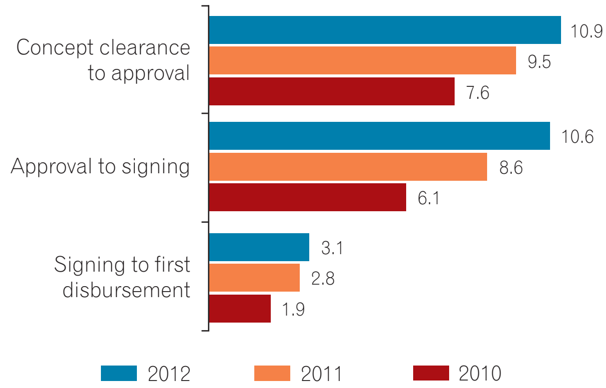
Reorganization

Reorganization was undertaken in 2012 to improve managerial efficiency within PSOD. Before reorganization, the variety of product lines of the Capital Markets and Financial Sectors Division and the diversity of roles of the Operations Coordination Division had made it difficult for directors to fully execute their management responsibilities. The Capital Markets and Financial Sectors Division was reorganized into two separate divisions: the Private Sector Financial Institutions Division and the Private Sector Investment Funds and Special Initiatives Division. The guarantees and syndications team was transferred from the Operations Coordination Division to the Office of the Director General.

Business Processes and Processing Time

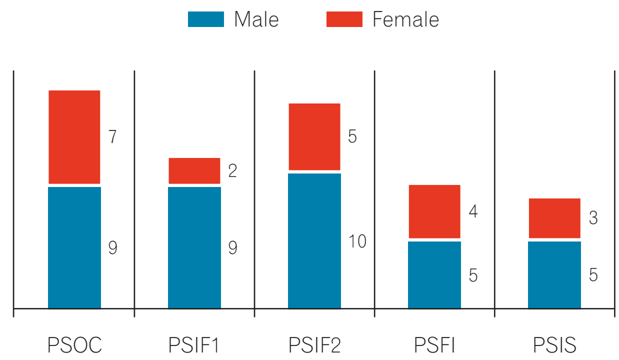
The four milestones of PSOD business process are concept clearance, Board approval, signing of legal documents, and effectiveness. The Investment Committee clears the project for due diligence. Then, the report and recommendation of the President is endorsed by the Investment Committee for Board approval. After Board approval, the financing terms are formalized with the client with the signing of the legal documents. The assistance becomes effective at the signing of legal agreements (Figure 12).

Figure 12
Project Processing Time, 2010–2012 (months)



Note: Since May 2012, the signing date is considered the effectivity date.
Source: Asian Development Bank Private Sector Operations Department.

Figure 13
Private Sector Operations Department International Staff Distribution, 2012 (number)



PSOC = Private Sector Operations Coordination Division, PSIF1 = Private Sector Infrastructure Finance Division 1, PSIF2 = Private Sector Infrastructure Finance Division 2, PSFI = Private Sector Financial Institutions Division, PSIS = Private Sector Investment Funds and Special Initiatives.
Source: Asian Development Bank Private Sector Operations Department.

Human Resources and Gender Balance

As of 31 December 2012, PSOD had 81 international staff positions distributed across its six divisions: the Office of the Director General (OPSD), the Financial Institutions Division, the Investment Funds and Special Initiatives Division, Infrastructure Divisions 1 and 2, and the Operations Coordination Division (Figure 13). Table 12 lists the positions by seniority and gender.

PSOD continued to strengthen the department's gender balance as part of ADB's overall efforts to increase the share of women in international staff. To this end, PSOD employed a search firm and advertised vacancies in specialized publications to increase the pool of qualified candidates, including women. At the end of 2012, women comprised 28% of international staff in the department.

At the end of 2012, women comprised 31% of international staff in the department

Table 12 Private Sector Operations Department International Staff by Seniority and Gender, 2012 (number)

International Staff Positions[a]	Gender		Vacant	2012
	Male	Female		
Director level and above	5	0	2	7
Advisor/lead specialist	1	1	1	3
Principal investment specialist and above	7	6	2	15
Senior investment specialist, project administration unit head, senior specialist	13	5	2	20
Investment specialist, specialist	17	11	8	36
Total	**43**	**23**	**15**	**81**

[a] Secondees are excluded from the count.
Source: Asian Development Bank Private Sector Operations Department.

Conclusions and Actions

Conclusions

In 2012, ADB's PSO made a substantial contribution to meeting the outputs specified in ADB's corporate results framework, the first phase of which concluded in 2012. The output and outcome targets for private sector transactions were largely met, and the expected economic and financial returns were exceeded. The quality at entry report of ADB operations rated 84% of the sampled nonsovereign operations *satisfactory*. Project completion reports and validation reports rated 68% of completed nonsovereign operations *successful* or *highly successful*.

Although the amount of ADB's PSO is small compared with the large and growing needs of DMCs, these projects are critical in demonstrating how commercially viable investments can be undertaken in environmentally and socially responsible ways. ADB's PSO add considerable value by ensuring technical standards and integrity requirements are met, corporate governance practices are improved, and corporate social responsibility is practiced.

PSOD operations have also made a significant contribution to the economic and social development of the region by supporting innovative and replicable projects that remove constraints to development and help attract additional private investment. The report outlined the channels through which PSO contribute to inclusive and environmentally sustainable growth, and drew on case studies to illustrate projects, some of which have been recognized internationally with awards. Noteworthy areas with a positive impact include (i) renewable energy with consequent effects for greenhouse gas emissions and diversification of energy sources; (ii) support to bank and nonbank financial institutions, especially during liquidity crunches, to enable them to finance SME growth, infrastructure projects, and energy efficiency initiatives; (iii) expansion of capital markets through private equity funds, leasing companies, credit rating agencies, and a central depository; and (iv) development of mass transit and telecommunications projects with far reaching and positive effects for beneficiaries, both households and businesses.

As with any initiative involving risks, not all private sector investments succeed fully. This report therefore reflects on lessons drawn from PSOD's own assessments as well as Independent Evaluation Department evaluations. These lessons indicate the need to improve demand projections and risk assessments, continue efforts to improve tariff rates and revenue collection, choose strong sponsors, and undertake responsible monitoring of transaction performance. They also emphasize the strong role of partnerships in pioneering projects in difficult operating environments. These lessons are being considered in developing new transactions.

A number of initiatives were undertaken by PSOD during 2012 to improve its operational and organizational effectiveness. These included improvements to credit files, the introduction of more rigorous integrity due diligence requirements, the inclusion of development effectiveness monitoring and reporting requirements in legal agreements, and improved methodologies for undertaking the economic analysis of renewable energy projects.

During 2012, the responsibility for developing and managing public nonsovereign operations was transferred to PSOD, while responsibility for PPP advisory was transferred to the regional departments. PSOD also undertook organizational realignment. These initiatives have been undertaken to improve the quality of operations and the efficiency with which resources are managed.

Actions

PSOD has commenced or planned a number of initiatives for 2013 to strengthen the development effectiveness of its operations. These include the following:

- **Include new indicators for private sector operations in the revised corporate results framework.** These measure (i) performance of nonsovereign operations at implementation, credit rated *satisfactory* (%), (ii) project design and monitoring frameworks rated *satisfactory* (%), (iii) nonsovereign operations processing time (from start of due diligence to Board approval, months), and (iv) disbursement ratio for nonsovereign project finance loans (age standardized, %) (Annex 3). In addition to tracking access to microfinance and SME loans, the revised CRF will also track trade finance supported ($ million per year).
- **Continue work on indicator harmonization with other multilateral development banks.** This initiative is expected to greatly reduce the reporting requirements for clients, and lead to comparable data collection and analysis across projects. PSOD is also engaged with other DFIs for the harmonization of indicators for SME development.
- **Refine the private equity funds strategy.** PSOD will further refine the private equity funds strategy and development of appropriate indicators. A small working group comprising the Development Effectiveness team, Investment Funds and Special Initiatives Division staff, and interested DFIs will develop the indicators in 2013.
- **Develop operations in the health and education sectors.** During 2013, PSOD will seek opportunities to develop PSO in the health and education sectors. Initiatives in South and Southeast Asia are being explored.

- **Take more direct equity positions in projects.** ADB Management is considering different options for increasing the organization's direct equity stake in companies within the available capital for equity investments.
- **Continue to explore local currency funding opportunities.** ADB continues to explore and, when possible, arrange local currency financing in response to demand from potential investees whose revenues are denominated in local currency. The increase in liquidity of the regional financial markets has allowed ADB to generate local currency funds with tenors exceeding 10 years, which could then be used for long-term projects, particularly those related to infrastructure. In 2012, several guarantees denominated in local currencies were processed and approved.
- **Explore the pricing of investments made in local currency.** One important issue that needs to be explored in the future is the pricing of investments made in local currency.

Annex 1 Signed Assistance in 2012

Table A1.1 Signed Assistance by Subsector, 2012 ($ million)

Subsector	Amount	%
Energy sector development	300	20.6
Clean energy	275	18.9
Energy utility services	250	17.2
Conventional energy	184	12.6
Large and medium industries	125	8.6
Waste management	100	6.9
Water supply and sanitation	96	6.6
Agricultural production and markets	49	3.4
Investment funds	25	1.7
Housing finance	20	1.4
Microfinance	17	1.2
SME finance and leasing	10	0.7
Banking systems	4	0.2
Total	1,456	100.0

SME = small and medium-sized enterprises.

Notes: Clean energy is used in this report to refer to renewable energy projects and energy efficiency and conservation projects.

Source: Asian Development Bank Private Sector Operations Department.

Table A1.2 Signed Assistance by Country, 2012 ($ million)

Country	Amount	%
PRC	570	39
Uzbekistan	429	29
Thailand	209	14
India	117	8
Pakistan	33	2
Bangladesh	31	2
Philippines	25	2
Sri Lanka	15	1
Kyrgyz Republic	10	1
Regional	17	1
Total	1,456	100

PRC = People's Republic of China.

Source: Asian Development Bank Private Sector Operations Department.

Table A1.3 Signed Assistance by Alignment with Strategy 2020 ($ million)

Core area	Amount	%
Infrastructure	1,374	94
Environment	656	45
Regional cooperation and integration	280	19
Financial sector development	76	5

Note: Operations may contribute to more than one core operational area.

Source: Asian Development Bank Private Sector Operations Department.

Annex 2 Development Indicators and Targets, 2013–2018

Table A2.1 Energy

Indicator	Delivered up to 2012 by Projects Approved in: 1998–2006	2007 onward	Targets of Projects Approved by the End of 2012: 2013	2014	2015	2016	2017	2018
1. Installed energy generation capacity (MW equivalent):	13,832	679	951	4,233	1,125	1,331	2,457	2,315
1a. Installed power generation capacity (MW equivalent)	9,749	679	951	4,233	1,125	1,331	2,457	2,315
1b. District heating capacity created (MW)								
1c. Combined heat and power capacity created (MW)								
1d. Refinery capacity installed (MW equivalent)	4,083							
2. Transmission lines installed or upgraded (km)	1,150	221						
2a. Power transmission lines installed or upgraded (km)	1,113							
2b. Pipeline (oil/gas) built (km)	37	221						
3. Distribution lines installed or upgraded (km)	40,227	–				1,500		
4. New households connected to electricity (number)			1,568,000					
5. New households connected to natural gas pipeline (number)						500,000		
6. New industries connected to natural gas pipeline (number)						70		
7. Greenhouse gas emission reduction (tCO_2-equiv/yr)	3,902,145	434,828	225,000	16,840,000	2,850,000	2,066,024	9,067,250	5,593,368
8. Reduction in greenhouse gas emission intensity (tCO_2/MWh)								
9. For renewable energy: Reduction in capital cost per installed capacity ($)								
10. For energy efficiency projects: Energy savings per year (GWh)							350	150
11. Reduction in transmission losses (%)								
12. Reduction in distribution losses (%)								

GWh = gigawatt-hour, km = kilometer, MW = megawatt, MWh = megawatt-hour, tCO_2 = tons carbon dioxide, tCO_2-equiv/yr = tons of carbon dioxide equivalent per year.

Notes: Indicators in green are those included in the Asian Development Bank's corporate results framework, and indicators in blue are additional indicators for private sector operations. In the Development Effectiveness Report for Private Sector Operations 2011, the greenhouse gas emissions reduction from projects approved from 1998 to 2006 was 3,268,145 tCO_2-equiv. This comprised 2,844,580 tCO_2-equiv in the CRF and an additional reduction in emissions of 423,565 tCO_2-equiv. By 2012, these projects reduced emissions by a further 634,000 tCO_2-equiv, bringing the total greenhouse gas emissions reduction to 3,902,145 tCO_2-equiv. The 1,568,000 new households to be connected to electricity are from a project in Pakistan for which an extended annual review report will be prepared.

Source: Asian Development Bank Private Sector Operations Department.

Table A2.2 Telecommunications

Indicator	Delivered up to 2012 by Projects Approved in:		Targets of Projects Approved by the End of 2012					
	1998–2006	2007 onward	2013	2014	2015	2016	2017	2018
1. Active customers (number)	23,098,000	5,500,000					300,000	
2. Reduction in cost of services (%)			20					
3. Public call offices and village telephone networks (number)								
4. Reduction in call drop rates (%)								
5. Customers availing of ancillary services (number)								
6. Indirect employment generated (number)	135,000							

Note: Indicators in blue are additional indicators for private sector operations.

Source: Asian Development Bank Private Sector Operations Department.

Table A2.3 Transport

Indicator	Delivered up to 2012 by Projects Approved in:		Targets of Projects Approved by the End of 2012					
	1998–2006	2007 onward	2013	2014	2015	2016	2017	2018
1. Expressway built or upgraded (kilometers)	84							
2. National highways, provincials, district, and rural roads built or upgraded (km)								
3. Railways constructed and/or upgraded (km)								
4. Beneficiaries from road projects (number of people)	4,738,877							
5. Airport passenger capacity (number)						1,400,000		
6. Cargo handling capacity developed (tons)								
7. Aircraft movements (number)						18,800		
8. Vehicle movement (number)								
9. Passenger-kilometer (number)								
10. Ton-km (number)								
11. Airport passenger traffic per year (number)						300,000		
12. Port containers (number)								
13. Tons of cargo per year (number)								

Note: Indicators in green are those included in the Asian Development Bank's corporate results framework, and indicators in blue are additional indicators for private sector operations.

Source: Asian Development Bank Private Sector Operations Department.

Table A2.4 Water

Indicator	Delivered up to 2012 by Projects Approved in:		Targets of Projects Approved by the End of 2012					
	1998–2006	2007 onward	2013	2014	2015	2016	2017	2018
1. Water supply pipes installed or upgraded/ length of network (km)	27							
2. New households served with water supply (number)	50,000				65,000		5,000,000	
2a. New households connected to water supply (nonpiped)								
2b. New households connected to water supply (piped)					65,000		5,000,000	
2c. Already connected households with improved water supply (piped)	50,000							
2d. New households served with potable water supply								
3. Reduction in water losses (nonrevenue water) (%)					9			
4. Wastewater treatment capacity added (m^3/day)						2,000,000	20,000,000	
5. New household served with sanitation (number)								
5a. New households served with piped sanitation (number)								
5b. New households served with non-piped sanitation (number)								
6. Amount of wastewater properly treated annually (tons)						750,000,000		55,000,000
7. Land improved through drainage services (hectares)								
7a. Land improved through drainage services (hectares)								
7b. Land improved through flood management (hectares)								

km = kilometer, m^3 = cubic meter.

Note: Indicators in green are those included in the Asian Development Bank's corporate results framework, and indicators in blue are additional indicators for private sector operations.

Source: Asian Development Bank Private Sector Operations Department.

Table A2.5 Bank and Nonbank Financial Institutions

Indicator	Delivered up to 2012 by Projects Approved in: 1998–2006	2007 onward	Targets of Projects Approved by the end of 2012: 2013	2014	2015	2016	2017	2018
1. Customers reached (number)		2,901.9	771.6	497.3	283.3	73.6	23.5	19.2
1a. Microfinance accounts opened/ end-borrowers reached (number)								
1b. SME loan accounts opened/end-borrowers reached (number)		2,440.9	680.5	448.6	248.6	45.5		
1c. Housing loans availed (number)		43.3	57.7	45.4	34.6	28.1	23.5	19.2
1d. Number of leasing contracts		417.7	33.4	3.3				
2. Resources made available for SME and microfinance clients ($ million)		143.5	39.8	27.3	14.5	3.4	0.6	0.5
2a. Microfinance loans provided ($ million)								
2b. SME loans provided ($ million)		138.4	37.9	26.1	13.7	12.7		
2c. Housing loans availed ($ million)		1.1	1.4	1.2	0.9	0.7	0.6	0.5
2d. Lease amounts ($ million)		4.0	0.5	0.0				
3. Rural branches installed (number)								
4. New financial products launched (number)		10.0	4.0					

SME = small and medium-sized enterprises.

Note: Indicators in green are those included in the Asian Development Bank's corporate results framework, and indicators in blue are additional indicators for private sector operations. Targets in this table are from signed projects only. Figures for SME loans only include Asian Development Bank loans.

Source: Asian Development Bank Private Sector Operations Department.

Table A2.6 Private Equity Funds

Indicator	Delivered up to 2012 by Projects Approved in: 1998–2006	2007 onward	Targets of Projects Approved by the end of 2012: 2013	2014	2015	2016	2017	2018	2019
1. Fund investees with positive growth/ good financial performance (%)									
2. Fund investees with improved governance and transparency (%)									
3. Investments in portfolio companies ($ million)	2,802	436				65	317	99	438
3a. ADB investment	466	306							
3b. Other investment	2,336	130							
4. Companies assisted (number)	287	55				15	48	32	15

Note: Indicators in blue are additional indicators for private sector operations. Targets in this table are from signed agreements only and based on fulfillment of projected fund size. An investment period of 6 years from closing date is assumed. Actual investments (from ADB and other investors) in investee companies are shown under delivered outputs (3a and 3b).

Source: Asian Development Bank Private Sector Operations Department.

Table A2.7 Generic Indicators

Indicator	Delivered up to 2012 by Projects Approved in: 1998–2006	Delivered up to 2012 by Projects Approved in: 2007 onwards	Additions to Targets by Projects Approved by the End of 2012: 2013	2014	2015	2016	2017	2018
1. Goods and services purchased locally ($ million)								
2. Contribution to government revenues ($ million)						2,411	435	1,429
3. Number of direct employment generated by the project						89	117	22
3a. Number of regular employees								
3b. Number of temporary employees						396	7,430	8,430
4. Number of indirect employment generated by the project						23,090	9,420	50,745

Note: Indicators in blue are additional indicators for private sector operations.

Source: Asian Development Bank Private Sector Operations Department.

Annex 3 ADB's Corporate Results Framework, 2013–2016

LEVEL 2: ADB CONTRIBUTION TO DEVELOPMENT RESULTS	
Quality at Completion (country strategies and assistance programs successfully completed)	
1.	Completed country strategies and assistance programs rated *successful*
	Completed sovereign operations rated *successful*:
2.	Projects
3.	Policy-based operations
4.	Rated *likely sustainable*
5.	Completed nonsovereign operations rated *successful*
6.	Completed technical assistance projects rated *successful*
7.	Completed sovereign operations delivering intended gender equality results
Core Operational Results (results in Strategy 2020 core operational areas achieved)	
Infrastructure:	
	Energy
8.	✱ Greenhouse gas emission reduction (tCO_2-equiv/year)
9.	New households connected to electricity (number)
10.	✱ Installed energy generation capacity (megawatts): Renewable
11.	Transmission lines installed or upgraded (kilometers)
12.	Distribution lines installed or upgraded (kilometers)
	Transport
13.	Use of roads built or upgraded (average daily vehicle-kilometers in the first full year of operation)
14.	✱ Use of railways built or upgraded (average daily ton-kilometers in the first full year of operation)
15.	Roads built or upgraded (kilometers)
16.	✱ Railways constructed or upgraded (kilometers)
17.	✱ Urban rail- and bus-based mass transit systems built or upgraded (kilometers)
	Water
18.	Households with new or improved water supply (number)
19.	✱ Households with new or improved sanitation (number)
20.	✱ Wastewater treatment capacity added or improved (cubic meters per day)
21.	Water supply pipes installed or upgraded (length of network in kilometers)
22.	Land improved through irrigation, drainage, and/or flood management (hectares)
Finance:	
23.	Trade finance supported ($ million per year)
24.	Microfinance loan accounts opened or end borrowers reached (number): Female, Male
25.	Small and medium-sized enterprise loan accounts opened or end borrowers reached (number)
Education:	
26.	Students benefiting from new or improved educational facilities (number): Female, Male
27.	Students educated and trained under improved quality assurance systems (number): Female, Male
28.	Teachers trained with quality or competency standards (number): Female, Male
Environment:	
	✱ Indicators: 8, 10, 14, 16, 17, 19, and 20
Regional cooperation and integration:	
29.	Cross-border transmission of electricity (gigawatt-hours per year)
30.	Cross-border cargo volume facilitated (tons per year)

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LEVEL 3: ADB OPERATIONAL MANAGEMENT	
Implementation Quality (operations satisfactorily implemented)	
1.	Performance of sovereign operations at implementation rated *satisfactory* (%)
2.	Performance of nonsovereign operations at implementation, credit rated *satisfactory* (%)
3.	Time from approval to first contract in sovereign projects (months)
Quality at Entry (high-quality country partnership strategies and operations prepared)	
4.	Quality at entry of country partnership strategies rated *satisfactory* (%)
5.	Quality at entry of sovereign projects rated *satisfactory* (%)
6.	Quality at entry of nonsovereign projects rated *satisfactory* (%)
7.	Quality at entry of country partnership strategies in supporting inclusive economic growth rated *satisfactory* (%)
8.	Project design and monitoring frameworks rated *satisfactory* (%)
Development Finance (development finance mobilized and transferred)	
9.	Disbursement ratio for sovereign projects (age standardized, %)
10.	Disbursement ratio for nonsovereign projects finance loans (age standardized, %)
11.	Direct value-added cofinancing (% of ADB financing approved)
12.	Project development transactions for public–private partnerships (total number from 2013)
13.	Cumulative public–private partnership leveraging achieved using ADB financing ratio (ratio of leveraging amount to ADB financing approved)
Strategy 2020 Development Agendas and Core Operations (ADB operations focused on strategic agendas and core operational areas)	
	Operations contributing to inclusive growth focusing on:
14.	growth and creation of jobs and opportunities (%)
15.	inclusive access to jobs and opportunities (%)
16.	social protection (%)
17.	Operations supporting environmental sustainability (%)
18.	Operations supporting climate change mitigation and/or adaptation (%)
19.	Operations supporting regional cooperation and integration (%)
20.	Financing for Strategy 2020 core operational areas (%)
Strategy 2020 Drivers of Change (ADB operations promote drivers of change)	
21.	Operations supporting private sector development and private sector operations (%)
22.	Operations supporting governance and/or capacity development (%)
23.	Perceived ADB performance in promoting knowledge sharing and best practices (%)
24.	Web-distributed knowledge solutions (number of downloads)
25.	Civil society organization participation in sovereign operations (% of approved operations) Indicators to be added in support of the Global Framework of Indicators and Targets for Monitoring Busan Commitments
LEVEL 4: ADB ORGANIZATIONAL MANAGEMENT	
Human Resources (sufficient staff resources maintained, and staff motivation and diversity increased)	
1.	Budgeted international and national staff in operations departments (%)
2.	Representation of women in the international staff category (%)
3.	Staff engagement (index)
Budget Resources (budget efficiency and adequacy improved)	
4.	Internal administrative expenses per $1 million disbursement ($'000)
5.	Share of operational expenses for portfolio management (% of total operational expenses attributable to portfolio management and processing of operations)
Process Efficiency and Client Orientation (business process efficiency and client orientation improved)	
6.	Sovereign operations administered with substantial resident mission involvement (%)
7.	Sovereign operations processing time (from start of loan fact-finding to Board approval, months)
8.	Nonsovereign operations processing time (from start of due diligence to Board approval, months)
9.	Processing time for procurement contracts for sovereign operations (more than $10 million, days)

Source: Asian Development Bank Strategy and Policy Department.

Development Effectiveness Report 2012
Private Sector Operations

The private sector contributes to economic development by generating jobs and incomes, as well as through investments, new technologies, knowledge transfer, and enhanced productivity. This is particularly true in Asia and the Pacific, where much of the recent success in reducing poverty has been due to robust economic growth stimulated by the private sector. The development challenges and investment needs of the region remain large and diverse. The Asian Development Bank (ADB) helps address these challenges and investment needs by assisting the private sector through the Private Sector Operations Department.

This fourth annual report on the development effectiveness of ADB's private sector operations reviews how the Private Sector Operations Department has contributed to promoting ADB's development effectiveness agenda. The report features the direct and indirect impact of private sector assistance. It considers the value added of this assistance, highlighting performance trends and identifying actions required to improve results.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.7 billion people who live on less than $2 a day, with 828 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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