

ADB Operations

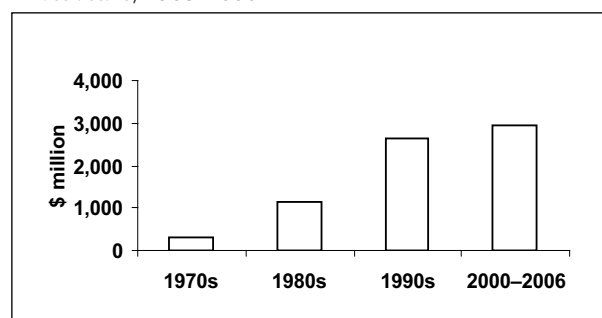
ADB has been a partner for Asia and the Pacific in building infrastructure and in reform efforts.²¹

A. Public Sector Lending

ADB's infrastructure lending has been rising (Figure 20 and Appendix table 6.1), from an annual average of about \$0.3 billion in 1970s to about \$3.0 billion during 2000–2006. The annual lending level after 2000 varied between \$2 billion and \$4 billion. In 2006,²² about \$3.3 billion in loans were provided for infrastructure. By 2006, ADB had provided a total of \$62.3 billion in loans for infrastructure, or 51.7% of the lending from its public sector window. Lending for infrastructure has remained high (above 50% of ADB's total lending) and generally stable since the 1970s (Figure 21). The only notable variation was a gradual decline in proportion, from 53.9% in the 1970s to 50.2% in the 1990s, followed by a rebound to 52.8% during 2000–2006. Feedback and demand from DMCs indicate that future lending for infrastructure could rise.

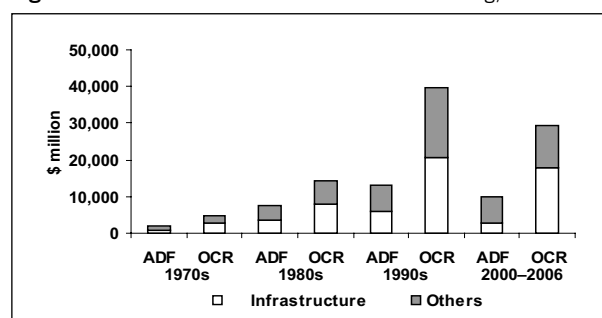
Up to 2006, ADB's lending for infrastructure included \$49.3 billion from the ordinary capital resources (OCR) and \$13.0 billion from the Asian Development Fund (ADF), accounting for 79.2% and 20.8% of the total lending for infrastructure, respectively. The composition of ADB's lending for infrastructure has changed significantly. After declining slightly between the 1970s and 1980s, the proportion of OCR in total lending for infrastructure rose steadily from 69.9% in the 1980s to 78.3% in the 1990s, and again to 85.9% during 2000–2006. Correspondingly, the proportion of ADF in total infrastructure lending declined from 30.1% in the 1980s to 14.1% in 2000–

Figure 20: ADB's Average per Annum Public Sector Lending in Infrastructure, 1968–2006



Sources: ADB internal database on Loan, TA, Grant, and Equity Approvals; and Project Processing Information System (PPIS) as of 8 December 2006.

Figure 21: Breakdown of ADB Public Sector Lending, 1968–2006



ADF = Asian Development Fund; OCR = ordinary capital resources.
Sources: ADB internal database on Loan, TA, Grant, and Equity Approvals; and Project Processing Information System (PPIS) as of 8 December 2006.

2006. This trend is suggestive of declining overall concessionality in infrastructure lending by ADB. This adds to the challenges facing ADB's infrastructure operations in countries with access to both ADF and OCR resources.

Detailed sectoral trends can be seen in Figure 22 and Appendix tables 6.1–6.5, and are summarized in the following paragraphs.

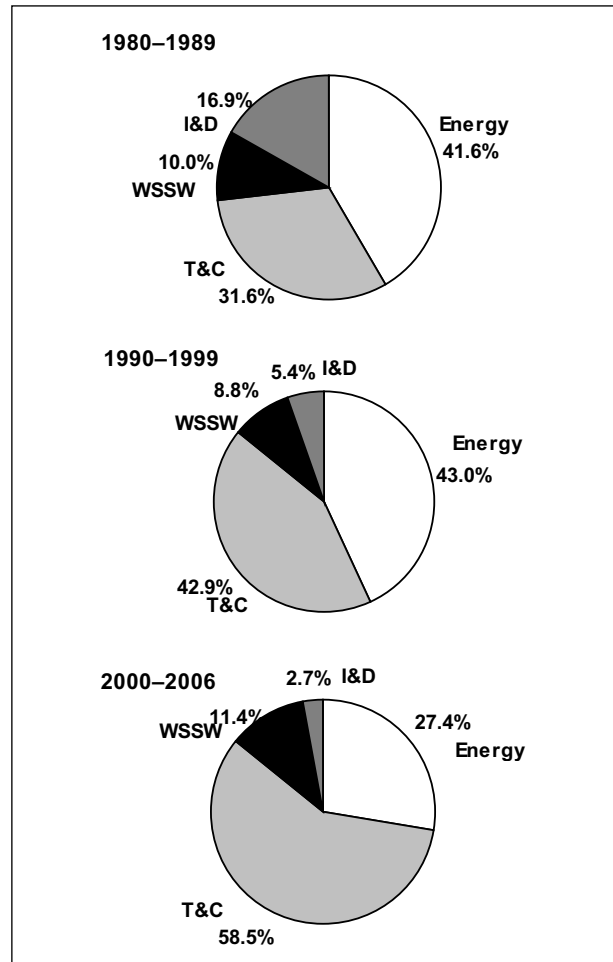
Energy. During the 1980s and 1990s, energy (above 40%) accounted for the highest proportion of ADB's total infrastructure lending. Although the level of lending has generally been rising throughout, the share of lending for energy declined sharply to 27.4% during 2000–2006. Average lending per annum for energy was about \$810.6 million in 2000–2006. This includes a rise in lending to \$1.0 billion in 2006.

ADF accounted for 9.3% of energy sector lending in 2000–2006, reflecting the low concessionality in ADB's lending in this sector. Further, the energy sector had the lowest proportion among infrastructure sectors of ADF in ADB's lending operations (Appendix table 6.1). However, under its Clean Energy and Environment Initiative, ADB is seeking grant funds from donors to soften terms and conditions of its assistance and thus enable DMCs to adopt more efficient and cleaner technologies.

In the past, ADB operations have increasingly focused on transmission and distribution and on energy sector development, while generation has been a small and declining component of the energy sector operations (Appendix table 6.2). This partly reflects a greater flow of private funds especially in generation, and reduced borrowing for hydropower projects reflecting safeguard considerations. The share of generation fell from about one third of the total energy sector lending during 1990s to less than one tenth during 2000–2006. This included a sharp fall in conventional energy generation from 21.3% of the total energy sector lending in the 1990s to 1.3% in 2000–2006, and in hydropower generation, from 12.3% to 0.8% of the total. Renewable energy generation rose modestly, from a negligible 0.9% to 3.9% of total energy sector lending between the 1990s and 2000–2006. The share of transmission and distribution and energy sector development in total energy sector lending increased from 34.0% and 31.5% to 50.1% and 43.9%, respectively. Together their share increased from about two thirds to more than 90% of the total. The sharp rise in energy sector development reflects ADB's increasing focus on reforms in the energy sector. Transmission and distribution has been less amenable to private financing than has generation. Thus, the relative reliance of DMCs on ADB financing for this purpose had been high.

Transport and communications. The proportion of ADB's total infrastructure lending that went for transport and communications rose steadily, from 31.6% in the 1980s to 58.5% during 2000–2006 (Appendix table 6.3). This reflects an increasing

Figure 22: ADB Public Sector Lending by Infrastructure Sector, 1980–2006



I&D = irrigation and drainage; T&C = transport and communications; WSSW = water supply, sanitation, and waste management.
Sources: ADB internal database on Loan, TA, Grant, and Equity Approvals; and Project Processing Information System (PPIS) as of 8 December 2006.

emphasis in the region on development of roads, particularly in South Asia; a lower flow of private funds; and the less complex nature of these projects from the borrowers' point of view. During 2000–2006, the average lending per annum was about \$1.7 billion for this sector. ADF accounted for 12.1% of total lending for the sector during 2000–2006, below its higher historic average of 21.6%. Historically, roads and highways have dominated ADB's lending in the transport and communications sector. The proportion of lending for roads and highways increased from 65.6% during the 1990s to 79.3% during 2000–2006. The only other subsector with lending above 10% during the 1990s was railways (13.2%), which also increased its proportion to 19.5% during 2000–2006. The other subsectors (civil aviation; multi-modal transport and sector development; and ports, waterways, and shipping) together dropped from 12.8% to a negligible

1.1%. This contrasts notably with the energy sector, where sector development formed a significant part of ADB operations.

Water supply, sanitation, and waste management.

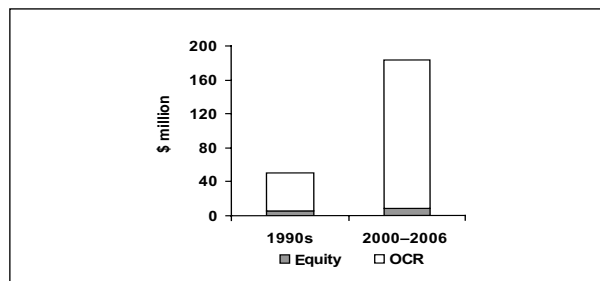
WSSW management has maintained a generally stable level at about 10% of total infrastructure lending since the 1970s (Appendix table 6.4). During 2000–2006, the average lending per annum for this sector was about \$0.3 billion but a sharp rise in the share of ADB’s lending for this sector is programmed for the next 3 years. WSSW management is considered a soft sector, and ADF accounted for about one third of total lending for it during 2000–2006 although some countries without access to ADF continue to borrow OCR funds in this sector. While historically, ADB has predominantly supported specific water supply and sanitation or waste management projects, the focus on projects covering both subsectors and sector developmental issues is increasing. While the proportion of lending for water supply and sanitation fell from 66.6% in the 1990s to 34.0% in 2000–2006, the proportion of integrated subsector projects rose sharply, from 7.3% to 48.1% of the total WSSW lending. This reflects a broadening of ADB’s approach to addressing the sector’s interlinked problems.

Irrigation and drainage. Irrigation and drainage was a significant proportion of ADB’s infrastructure lending (16.9%) in the 1980s but declined steadily thereafter, to a meager 2.7% during 2000–2006 (Appendix table 6.5). This appears to be largely a consequence of major resettlement issues raised by NGOs, which led to decline in interest in ADB and borrowers. During 2000–2006, the average lending per annum for this subsector was a modest \$79 million but with a substantial ADF component accounting for 29.4% of total subsector lending.

B. Private Sector Window

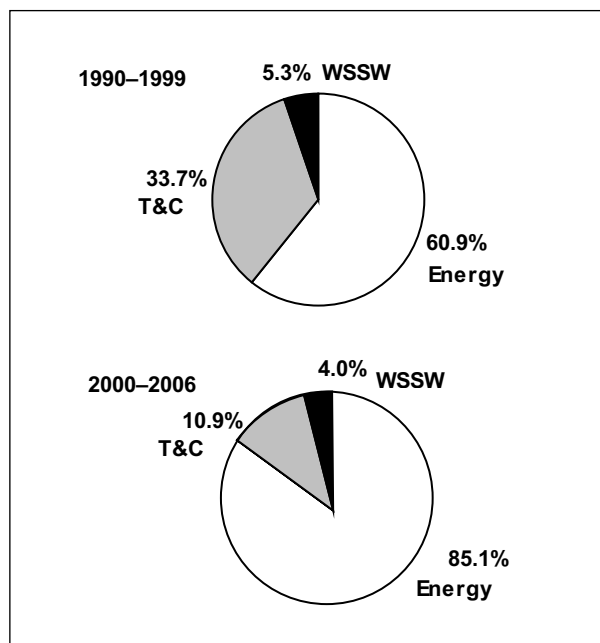
Infrastructure also forms a major part of ADB’s private sector operations (Appendix tables 7.1–7.4). By the end of 2006, ADB had provided cumulative funds of nearly \$2 billion for infrastructure from its private sector window. This included \$1,702.3 million in OCR loans and \$113.8 million in equity investments. By 2006, infrastructure accounted for 44.2% of total financing from the private sector window. ADB’s private sector operations for infrastructure have shown strong growth—from only 10.8% of its total in the 1980s to 37.6% in the 1990s and to 52.1% in

Figure 23: Average Private Sector Facilities in Infrastructure, 1990–2006



OCR = ordinary capital resources.
Sources: ADB internal database on Loan, TA, Grant, and Equity Approvals; and Project Processing Information System (PPIS) as of 21 December 2006.

Figure 24: ADB Private Sector Facilities in Infrastructure by Sector, 1990–2006



T&C = transport and communications; WSSW = water supply, sanitation, and waste management.
Sources: ADB internal database on Loan, TA, Grant, and Equity Approvals; and Project Processing Information System (PPIS) as of 21 December 2006.

2000–2006. Average annual private sector operations for infrastructure rose from about \$50 million in the 1990s to close to \$200 million during 2000–2006 (Figure 23). In 2000–2006, \$1.2 billion in OCR loans and \$57.3 million in equity were provided. The lending component has risen from 88.9% of the total private sector infrastructure operations in the 1990s to 95.5% in 2000–2006. In addition to providing finance, ADB’s regular contact and policy dialogue with governments, ADB’s participation in these projects often provides additional comfort to the private sector, thus attracting its funding.

Energy accounted for the largest and a consistently rising proportion of ADB’s private sector operations in

infrastructure, increasing from 60.9% in the 1990s to 85.1% during 2000–2006 (Figure 24). Transport and communications, which accounted for a substantial 33.7% during the 1990s, declined to 10.9% of the total during 2000–2006. WSSW management declined from a low 5.3% to a negligible 4.0% between the same periods. There have been no private sector operations in irrigation and drainage. The pattern of lending for energy, transport and communications, and WSSW management sector is similar to that of private investments in infrastructure. The demand for lending from the private sector window confirms these sectors' current feasibility and attractiveness, and development of the legal and regulatory environment for private sector participation.

C. General Features

Some general trends and features emerging from the review and analysis of ADB operations are as follows.

Stability of infrastructure lending. The broad division between infrastructure and other lending by ADB has remained reasonably stable at about 50% each. However, the nature and range of issues addressed in ADB's infrastructure operations have changed substantially, as explained in section VIII.

Responding to the gaps. The sectoral or subsectoral composition of ADB's infrastructure lending operations generally reflects the region's gaps. For example, the gap between the Asia and Pacific region and industrialized countries is the largest for electricity generation per capita (about 1:9) and road network per million people (about 1:8), which are also the two main areas of ADB's lending. Although private sector participation in energy is feasible in many areas, it is perceived as a more risky sector than telecommunications. As ADB's participation in private sector projects improves market confidence, greater focus on the energy sector from ADB's private sector window reflects its response to these issues. ADB has also supported some ventures that demonstrated and catalyzed financing in relatively new and risky businesses. Thus, ADB operations generally seem to respond to quantity and market gaps in the region.

Greater focus. In the recent past, ADB's lending for infrastructure appears to have been becoming more specialized. For example, ADB lending has become focused on roads and highways in transport and

communications, and transmission and distribution and energy sector development in energy. During 2000–2006, these three subsectors accounted for 70% of ADB's total lending for infrastructure from the public sector window. This demonstrates ADB's responsiveness to the needs and demands of the region, where private sector participation is less forthcoming or where there is greater scope for reform that needs ADB support.

Traditional versus new areas. Rather than moving into major new areas of infrastructure, ADB's operations have become more focused on some subsectors, as previously noted. For example, lending to some traditional areas such as irrigation, ports, and telecommunications has decreased, and ADB is expanding private sector operations and increasingly engaging with new clients and using new modalities to assist DMCs in some of its traditional areas of operations.

Financing versus knowledge. Beginning with the Long-Term Strategic Framework (LTSF) in 2000²³ and adoption of the Knowledge Management Framework in 2004,²⁴ ADB has moved toward becoming a more knowledge-based organization, which largely reflects a response to demands of the clients. Such demands are also reflected in the Innovation and Efficiency Initiative (IEI) and the MIC-OCR partnership framework documents. The result is a greater focus on developing ADB's knowledge base to support its infrastructure operations through a focus on good practice papers, technical notes, and selected flagship studies.

Demand versus supply. As noted previously, ADB's infrastructure operations have been strongly demand driven. This may not be equally true for the other operations, as a partly supply driven agenda is inherent in the mandate of all multilateral development banks.

Because of ADB's long experience in infrastructure, it is widely recognized as an area in which ADB has a comparative advantage. ADB has also established a track record of adding value by filling in physical and market gaps, and catalyzing private financing through support to reform or direct participation. There is an increasing emphasis on adding knowledge to finances provided by ADB. As the regional development bank, ADB also has superior local knowledge, contacts, and confidence of the region, which adds to the comparative advantages.