



NONSOVEREIGN OPERATIONS

Strategy 2020 reinforces ADB's philosophy that development and poverty reduction can be attained only with a vibrant, confident, and healthy private sector. Beyond providing money, ADB assists host countries and private companies by creating a conducive investment climate, mitigating risks, facilitating regulatory dialogue, and providing technical expertise.

The adoption of Strategy 2020 is a milestone for nonsovereign operations. As ADB's paramount strategic document that covers 2008–2020, it defines the directions and framework for the planning and financing of ADB's operations, organization, and business processes. It prioritizes private sector development as a key driver of change in ADB's operations. By 2020, 50% of ADB's lending operations will be in private sector development and operations.

In support of these objectives, ADB assumes greater, thoroughly assessed risks and acts as a catalyst for investments that the private sector does not normally make. It

helps developing member countries attract direct private sector investments that support inclusive growth and improve the environment. To do so, ADB's tools include direct financing, credit enhancements, risk mitigation guarantees, and innovative new financial instruments.

The Private Sector Operations Department (PSOD) directly assists developing member countries through projects with development impact that may have limited access to capital. The department participates in projects through nonsovereign loans (loans to private and/or public sector entities, including state-owned enterprises, without sovereign counter-guarantees); equity investments; and credit

Banking on Afghanistan

An ADB-backed bank supports local businesses that put people back to work and reduce violence

Habibullah Hamidi has seen the number of his employees nearly double this year. His construction company, Ariana Saz, now employs 56 people, compared with 32 the previous year. This is thanks to a \$79,000 loan from the Afghanistan International Bank (AIB), partly owned by ADB.

In Afghanistan, these jobs don't just put food on the table for the families of workers, they also stabilize the nation and decrease violence.

"Instability and unemployment are very closely linked," Mr. Hamidi said. "If people have work they won't fight. If there's no work, they will take up arms to survive."

The ADB-backed AIB has issued \$7.6 million in loans



Construction companies are among local businesses benefiting from ADB-backed Afghanistan International Bank loans

to small and medium-sized enterprises (SMEs), with at least eight new applications arriving each month. The bank has established eight branches nationwide and plans are under way to open six new branches in 2009, growing to 28, by 2013.

AIB was founded in 2003, when ADB brought together three members of the Afghan diaspora to create Afghanistan's first private bank. Today, AIB is set to have a capital of \$20 million, mostly from the retention of earnings.

Kabul's best-known bakery has also benefited from AIB. The family firm is famous citywide for its cakes and cookies. The 30-year old business borrowed \$40,000 to open a new store in Khair Khana, an upmarket suburb north of the capital. It's their fifth shop in the city.

"After we took the loan, we increased our employees from 50 to 70," said Assadullah, one of owners of the business. "We are well known in Afghanistan and we have a really good product. People come from other provinces, even from other countries, to buy our cakes." The company now boasts a turnover of more than \$50,000 a month.

"I believe that SME loans are one of the main contributors to rural development in Afghanistan," said Khalil Sediq, AIB's chief executive. "This is a private bank, but we don't only look for profit. At AIB, we want to play a role in Afghanistan's development."

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Nonsovereign projects are being administered in 20 developing member countries

enhancement products (including guarantees and B-loans, where ADB arranges a complete financing package for a project and thus encourages local and international commercial banks to participate). Entities seeking assistance from ADB for a private sector project benefit not only from financial assistance but also from the expertise and guidance of the ADB team. PSOD's operations focus principally on the finance and infrastructure sectors.

As in the previous year, the focus of ADB's nonsovereign operations was on core priority sectors aligned with Strategy 2020, such as energy, urban infrastructure, and finance. Also included were strategic interventions through public-private partnerships, focusing on broadening partnerships in energy, energy efficiency, transport, water, wastewater treatment and disposal, and power distribution. Nonsovereign projects are being administered in 20 developing member countries.

Nonsovereign operations have grown, with new financing reaching \$2.5 billion (including a \$225.0 million loan



Afghanistan's communications system is getting a boost through an expansion of its cellular phone services and a nationwide mobile phone infrastructure, with funds from ADB's private sector operations

processed by the South Asia Department) from \$1.4 billion in 2007. The Board of Directors approved 15 PSOD projects, consisting of \$1.5 billion in loans, \$123.1 million in equity investments, \$10.0 million in political risk guarantees, and \$565.0 million in B-loans. Fourteen projects focused on infrastructure, capital markets, and finance sectors. In line with Strategy 2020, seven of these projects (representing 62% of the approved amount) concentrated on energy, five of which relate to renewable and clean energy. Four projects, representing 16%, were in the finance sector, while two were in telecommunications (10%), one in transport (10%), and one in health (2%). Credit enhancement products—such as guarantees and B-loans—supplemented direct loan financing and equity investments. The average size of projects increased from \$44.0 million for 9 projects in 2000 to \$150.0 million for 15 projects in 2008.

ADB targets projects with significant development impact and focuses on initiatives that stimulate the private sector and lead to accelerated, sustainable, and inclusive growth. One example is the financing of Roshan, the leading mobile telecommunications services provider in Afghanistan. ADB's first financing to Roshan was in 2004, soon after start-up. After its enormous business and development success, ADB supported Roshan's expansion with new debt and guarantee facilities in 2006 and 2008. The most recent assistance is a \$60 million loan to help Roshan reach even more remote communities, introduce the first mobile banking facility in Afghanistan and the entire region, and make its operations more environment-friendly by installing solar power generation at many of its telecommunications towers. Roshan also undertakes important charitable operations through telemedicine, soup kitchens, and education for street children. The most recent Roshan financing took only 4 months from client approach to first disbursement, showing how market-responsive ADB can be with an equally responsive client.

Another example of how ADB seeks to promote and support innovative transactions and financing structures is through the financing of a toll road in India. This major highway helps connect key agrarian, industrial, and manu-

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A Breath of Fresh Air in India

An ADB-supported Petronet expansion project in Gujarat state is providing households and industry with cleaner, cheaper fuel

The downtown streets of Vadodara pulsate with buses and auto-rickshaws but, unlike some other Indian cities, the air is breathable.

Vishinath Jagtap is a big part of the reason why. The auto-rickshaw driver has switched from a petrol-run three-wheeler to a compressed natural gas (CNG)-powered one. He has doubled his earnings: not only is CNG cheaper than petrol but many passengers also prefer less-polluting vehicles.

Narendra Rana also plays a part. He is the manager of a privately owned fleet of nearly 100 CNG-powered buses that ferry passengers to and from downtown. The buses cost 15% more than those that run on diesel, he says, but they are cheaper to fuel, need less maintenance, and cause less air and noise pollution.



Like 70% of auto-rickshaw drivers in Vadodara, India, Vishinath Jagtap has doubled his income since switching to compressed natural gas

Around the city, factories are switching to cleaner natural gas, and households are making the change as well, giving up the more expensive and polluting kerosene.

The transformation to a cleaner fuel source is driven by government policy as India switches from oil and coal to natural gas to meet energy needs that grew at a yearly average of 4.5% over the past decade. Natural gas contributes only 8% to the country's energy requirement, compared with nearly 90% by oil and coal. The government wants to lift the share of natural gas to 15% by 2012 and 20% by 2025.

To support this effort, in April 2004, the country's first liquefied natural gas (LNG) import and regasification terminal at Dahej started operations. The project, owned by Petronet LNG Limited and supported by equity and debt financing by ADB, imports LNG, mostly from Qatar, converts it back to gas, and sells the gas to industry and household consumers.

Vadodara uses more gas than most other cities in India because of its proximity to gas pipelines and to Petronet's terminal at Dahej, 150 kilometers away on the coast.

Since Delhi, Mumbai, and Vadodara were chosen to pilot-test CNG vehicles, the number of gas-fueled vehicles has soared. Today, an estimated 70% of Vadodara's three-wheelers and all its inner-city buses run on CNG.

As other urban centers and industries increasingly follow Vadodara's example, natural gas will continue to displace oil-based fuels to the benefit of industry, agriculture, and transport. And it will give people in the participating cities a breath of fresh air.

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facturing areas and will be India's first toll road financed on a design-build-finance-operate structure basis. The project also employs a revenue-sharing model with the National Highways Authority of India—a first for an Indian road project. This model allows resources to be leveraged, allocates risks efficiently, and potentially controls project development time and costs. If successful, the project could be a model for other public-private partnerships.

A final example of ADB's role in structuring and executing new transactions in the market was the call for proposals for clean energy funds—the first of its kind in the Asian market. In a process that spanned several months, ADB solicited proposals from fund managers to establish clean energy private equity funds. Then, through a competitive process, 5 funds from the 19 submissions were selected to receive funding of up to \$20 million each, or

\$100 million in total. This effort successfully catalyzed interest from new funds and has helped the industry evolve toward higher-caliber, more experienced fund managers.

ADB responds on an ongoing basis to the shifts in the role required from the private sector in developing member countries. In the People's Republic of China, as financing for traditional power generation became more widely available, PSOD focused its efforts on financing renewable energy generation and energy-efficiency initiatives.

The innovative work planned for 2009 supports ADB's overall focus on public-private partnerships, the

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water sector, and urban renewal. ADB is developing several possible water supply and wastewater projects in three cities of Gujarat, India. It is taking the lead in developing public-private partnership projects that are equitable and sustainable in severely underserved sectors. ADB is providing assistance in initial project development, which includes identification and selection of suitable projects, development of a concession structure, establishment of a bidding process, and project marketing. This will enable successful private sector participation in an open and transparent manner. ADB may separately support successful bids through equity, loans, and/or guarantees.

COFINANCING

ADB's policy is to fund no more than 25% of the total cost of any one project directly. However, in rare circumstances where small transactions are accepted for their high development impact, it will directly support a higher percent-



"Petronet represents a classic example of a public-private partnership that operates as commercially as a private sector entity with an independent board"—Shantanu Chakraborty, ADB senior investment specialist



"The Manila North Tollways project encouraged private sector involvement in infrastructure that resulted in a major, modern toll road with international standards in technology, safety, and operations"—Mary Abad, ADB investment specialist

age of the overall financing. It is therefore important that PSOD build a close and collaborative relationship with the finance community, which is enhanced by ADB's various guarantee and cofinancing products. The demand for these products has increased substantially, particularly given recent finance market turmoil.

ADB helped mobilize cofinancing from partners (using ADB's cofinancing instruments), catalyzing \$565.0 million of direct new money for developing member countries, which went to three projects with an aggregate cost of \$2.7 billion.

MOVING FORWARD

ADB's nonsovereign operations will continue to prioritize projects with strong and long-term economic benefits within the finance and infrastructure sectors, especially

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those that promote the cost-effective supply of basic needs and services to a wide segment of the population. It will continue to promote technology transfer and know-how to developing member countries as well as expand the private sector's role or improve the quality of private sector participation or finance sector intermediation.