In 2015, the international community agreed on ambitious new Sustainable Development Goals and adopted the Paris agreement to fight the effects of global climate change. Ending poverty without further exacerbating climate change will only be possible if the private sector takes a leading role in supporting green economic growth and creating quality jobs. Private capital and expertise will be needed to address poverty in all its dimensions—from food security through the effective and efficient delivery of social services and infrastructure. The Asian Development Bank (ADB) strongly recognizes this salient role of the private sector in meeting the development challenges in Asia and the Pacific. Through its Private Sector Operations Department, it provides various forms of assistance to the private sector in order to help address these development challenges.

This sixth annual report on the development effectiveness of ADB’s private sector operations reviews the contributions of ADB’s Private Sector Operations Department during 2014 and 2015 to promoting its development effectiveness agenda.

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 the majority of the world’s poor. 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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# ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>CO₂</td>
<td>carbon dioxide</td>
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<tr>
<td>CTF</td>
<td>Clean Technology Fund</td>
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<tr>
<td>FAST</td>
<td>Faster Approach to Small Nonsovereign Operations Transactions</td>
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<tr>
<td>GWh</td>
<td>gigawatt-hours</td>
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<td>IED</td>
<td>Independent Evaluation Department</td>
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<tr>
<td>IFI</td>
<td>international financial institution</td>
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<tr>
<td>LNG</td>
<td>liquefied natural gas</td>
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<tr>
<td>MSMEs</td>
<td>micro, small, and medium-sized enterprises</td>
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<tr>
<td>MW</td>
<td>megawatt</td>
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<tr>
<td>PRC</td>
<td>People’s Republic of China</td>
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<td>PSOD</td>
<td>Private Sector Operations Department</td>
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<tr>
<td>SCFP</td>
<td>Supply Chain Finance Program</td>
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<td>SDGs</td>
<td>Sustainable Development Goals</td>
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<tr>
<td>SMEs</td>
<td>small and medium-sized enterprises</td>
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<tr>
<td>TA</td>
<td>technical assistance</td>
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<tr>
<td>TFP</td>
<td>Trade Finance Program</td>
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<td>XARR</td>
<td>extended annual review report</td>
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</table>
ADB’s Private Sector Operations at a Glance

2014 PSOD Approvals
Total $1,919 million

2015 PSOD Approvals
Total $2,626 million

14.3% annual growth in approvals from 2012 to 2015

Exceeded 40% target for approvals, by number, in frontier economies in 2015

Exceeded 25% target for approvals, by number, for climate-related transactions

Value-added cofinancing, 2014–2015 ($ million)

<table>
<thead>
<tr>
<th>Type of Cofinancing</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct value-added cofinancing</td>
<td>5,003</td>
<td>4,589</td>
</tr>
<tr>
<td>Official cofinancing</td>
<td>164</td>
<td>264</td>
</tr>
<tr>
<td>Commercial cofinancing</td>
<td>4,809</td>
<td>4,564</td>
</tr>
<tr>
<td>IB loans</td>
<td>863</td>
<td>1,085</td>
</tr>
<tr>
<td>Guarantees</td>
<td>8</td>
<td>154</td>
</tr>
<tr>
<td>Parallel equity</td>
<td>339</td>
<td>293</td>
</tr>
<tr>
<td>Parallel loans</td>
<td>1,503</td>
<td>1,128</td>
</tr>
<tr>
<td>Risk transfers</td>
<td>56</td>
<td>383</td>
</tr>
<tr>
<td>TFP cofinancing</td>
<td>2,039</td>
<td>1,415</td>
</tr>
</tbody>
</table>

6.1% annual growth of the portfolio from 2012 to 2015
Outcomes of private sector transactions approved in 2014 and 2015

**Energy**
- 4,700 MW installed capacity
- 8,800 GWh power generation and transmission
- 985,000 households supplied with power

**51 million people**
will have access to telecommunications

**8 million passengers**
will benefit annually from transport services

**6.6 million tons**
carbon dioxide equivalent emissions reduced or avoided annually

**32,300 affordable homes**
built or upgraded

**Water**
- 700,000 households benefiting from sanitation
- 167 million m³ drinking water
- 346 million m³ wastewater treated annually

**$3.5 billion**
domestic purchases during construction and early stages of operation

**$14.9 billion**
in government revenues

**Nearly 89,000 jobs**, out of which more than 28,000 directly target women

**750,000**
MSME farmers or farm employees with improved livelihoods

**3.5 million**
additional individuals and firms with access to financial services including
- 90% women or women-owned businesses and 144,000 SMEs
I am delighted to present to you the sixth Development Effectiveness Report of the Asian Development Bank’s (ADB) Private Sector Operations Department (PSOD). The report seeks to illustrate the continued commitment of ADB’s private sector operations to the institution’s strategic agenda of inclusive and environmentally sustainable growth. It covers key achievements of PSOD during the last 2 years.

2014 and 2015 represented landmark years for PSOD. We recorded impressive growth in our operations during this period. Approvals of private sector operations grew to record levels and mobilization of funds from third parties remained strong. As private sector operations grew, we continuously ensured that our activities are closely aligned with ADB’s Strategy 2020. The last 2 years showed record approvals in “frontier economies” and strong contributions to gender mainstreaming, inclusive business, and combating climate change. Specific targets that PSOD had set out for itself in these areas were met, or surpassed.

2015 also marked a watershed year in the global development agenda. A new set of ambitious Sustainable Development Goals (SDGs) were adopted, calling for eradication of extreme poverty by 2030. The global community also adopted the Paris Agreement, making a fresh commitment to combat the effects of climate change. Ending poverty without further exacerbating climate change will only be possible if the private sector takes a leading role in supporting green economic growth and creating quality jobs. Private capital and expertise will be needed to address poverty in all its dimensions—from food security through the effective and efficient delivery of social services and infrastructure. ADB recognizes this strongly and continues to place its private sector operations at the heart of its long-term strategies. In 2014 and 2015, PSOD made record contributions to promoting clean power generation and inclusive financial services, both crucial to fostering green growth and employment generation. During this period, we also broadened our engagement in other areas that strongly contribute to economic development and growth—for example—by creating a dedicated team to invest in the agribusiness sector.

To strengthen our ability to deliver on these ambitious goals, and enhance our responsiveness to stakeholders, we have focused on implementing the various recommendations from the midterm review of ADB’s Strategy 2020, carried out in 2014. We have streamlined and simplified our various internal processes without compromising on the quality of our engagement, expanded our product offerings to make ourselves more relevant, and undertaken various initiatives to more efficiently deploy and recycle our capital. We expect these initiatives to particularly benefit our clients in lower-income countries and they have already started yielding tangible results. We will continue to refine our business processes and increase our efficiency in the coming years.

I invite you to review our achievements and activities during the last 2 years. I also look forward to strengthening our value-added relationship with all our stakeholders in the future.

Diwakar Gupta
Vice-President, Private Sector and Cofinancing Operations
Private sector operations of the Asian Development Bank (ADB) catalyze, structure, and fund investments in privately held and state-sponsored companies across a wide range of industry sectors throughout developing Asia. In 2014 and 2015, ADB’s approvals of private sector transactions reached record levels of about $1.9 billion and $2.6 billion, respectively. This represents a growth of 20% in 2014 and 37% in 2015. Concurrently, ADB’s private sector investment portfolio grew 16% in 2014, reaching $7.2 billion. The portfolio increased by a further 9% to $7.9 billion in 2015. By 2020, annual approvals for ADB’s private sector operations are expected to double from their current levels.

ADB’s Private Sector Operations Department (PSOD) is tasked with identifying commercially viable transactions that generate attractive financial returns while also delivering on ADB’s mission to promote environmentally sustainable and inclusive economic growth. PSOD’s primary products and services include (i) debt, by way of direct loans, B loans,1 and unfunded risk participations; (ii) equity, by way of investment in common shares, preferred stock, or convertibles, both direct as well as through private equity funds; (iii) guarantees, through protection against political and credit risks; and (iv) technical assistance, primarily in support of project preparation and institutional capacity building.

As well as deploying its own funds, ADB taps various cofinancing and risk mitigation products to catalyze third-party commercial financing. In 2014, PSOD cofinancing reached more than $5 billion, representing 55% of ADB’s total cofinancing for the year. In 2015, private sector cofinancing remained at a robust level, at about $4.6 billion, accounting for more than 40% of ADB’s cofinancing.

Alongside the growth in overall volume, ADB’s private sector operations also reached record levels in strategic priority areas in 2015, including climate change, support for frontier countries,2 promoting gender equality, and inclusive business.

2014 was a record year for climate-related transactions with 40% of PSOD approvals addressing climate change. PSOD continued to exceed its target of 25% climate-related approvals in 2015 with 33% of approved transactions focusing on climate change. In 2015, PSOD supported the first climate bond certified in the region for a geothermal operator in the Philippines. Transactions approved in 2014 and 2015 are projected to help avoid 6.6 million tons of carbon dioxide (CO₂) equivalent of greenhouse gases.

In 2015, more than 40% of ADB’s private sector transactions were in frontier countries, up from 32% in 2014. PSOD has made investing in frontier countries a priority, as the institution focuses its capital on countries that have traditionally had more difficulty in securing private sector financing.

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1 B loans (Complementary Financing Scheme) are funded by commercial lenders with ADB acting as lender of record.

2 Frontier countries are defined as lower-middle-income and low-income countries, but excluding India.
Half the private sector transactions in 2015 contained specific gender elements. This represents a further improvement over the already notable 2014 figure of 48%. In addition, inclusive business transactions, targeting the economically disadvantaged, accounted for 26% of ADB’s private sector financing during 2015, compared with 24% in 2014. The majority of PSOD’s over $750 million of financing to financial institutions in 2015 was directed to financial inclusion and gender equality in diverse markets such as Georgia, India, the Kyrgyz Republic, and Sri Lanka. Some 3.5 million individuals and firms, 90% of whom are women or businesses owned by women, will have access to financial services from the transactions approved in 2014 and 2015.

A large number of people in ADB’s member countries will also have access to infrastructure. Power generated by PSOD transactions approved in 2014 and 2015 will be enough to power 985,000 average Asian households, and 700,000 households will have access to sanitation. PSOD is also working with the private sector to treat over 346 million cubic meters of wastewater annually. Some 51 million people in frontier markets will receive access to telecommunications services through PSOD-supported transactions during the last 2 years.

ADB’s financing for the private sector will also support the growth of local businesses and jobs. These will generate and deliver 8,800 gigawatt-hours of power annually, addressing one of the constraints to growth most frequently cited by local businesses. The livelihoods of 750,000 smallholders and farm employees will be improved. By supporting private agribusinesses, PSOD also contributes to the availability of more affordable, nutritious food.

During their implementation, transactions supported in 2014 and 2015 will make significant contributions to the domestic economies of member countries. They are expected to generate more than $14.9 billion in government revenues and enable procurement of $3.5 billion of goods and services from local firms.

“ADB believes that the private sector is a key engine of growth in developing Asia and a critical partner in alleviating poverty. As a result, we are substantially expanding our private sector financing and investment operations to meet the rapidly changing needs of this dynamic region... By promoting an improved business climate, with enhanced access to more flexible financing solutions and trade facilitation tools, ADB is helping the private sector create high quality jobs and increase living standards across Asia and the Pacific.”

Takehiko Nakao
President
Asian Development Bank
Asia’s developing countries have experienced 35 years of unprecedented economic growth, averaging 8.2% a year between 1980 and 2014.1 Substantially led by the private sector,2 this growth has allowed Asia to achieve the Millennium Development Goal of halving the number of people living on less than $1.25 a day. But challenges remain. Not all have been able to share in this success. The international poverty line was recently adjusted to $1.90 a day and, using this measure, around 415 million people in Asia and the Pacific were still living in extreme poverty in 2012.

As a result of Asia’s growth, many former lower-income countries are graduating to the status of middle- and upper-middle-income countries. It is expected that the majority of the absolute poor will live in middle- and upper-middle-income countries by 2030.3 This graduation is likely to create a significantly wider role for the private sector to expand its operations, and enhance ADB’s opportunity to engage with the private sector as many of its member countries move on to a higher growth trajectory.

A new set of Sustainable Development Goals (SDGs) was globally agreed upon in September 2015. The SDGs call for the eradication of extreme poverty by 2030 and a halving of people who live in poverty “in all its dimensions.” Effectively and sustainably eradicating absolute poverty will depend on providing the poor with productive employment that allows them to earn a stable income.

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This task falls largely on the private sector. Nine in 10 jobs in developing countries are provided by the private sector\(^4\) and so eradicating poverty will only be possible with strong private sector-led growth. This notion is also reflected in SDG 8: Decent Work and Economic Growth, which targets sustained economic growth of at least 7% through increased productivity and entrepreneurship, and achievement of full and productive employment by 2030.

This is why the Asian Development Bank (ADB) has placed private sector development and operations at the center of its long-term strategies.

The SDGs reflect a broad concept of poverty with goals targeting the eradication of hunger, universal access to health, education, clean water and sanitation, and clean energy. In all of these areas, the private sector has a vital role to play. For example, as a result of changing diets and population growth, the demand for food is expected to grow by 70% by the middle of the century.\(^5\) This will require more efficient and sustainable use of resources as well as improvements in food supply chains—from financing inputs, to improved storage and processing, to reduction of waste. These are at the core of the focus areas of ADB’s Private Sector Operations Department (PSOD), and PSOD has recently set up a dedicated agribusiness team to contribute to this priority.

In December 2015, the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change reached the Paris Agreement. The agreement calls for a limit to global warming to at most 2 degrees Celsius. Notably, it encourages the private sector, with the support of multilateral and other sources, to combat climate change and address its adverse effects.\(^6\) ADB is doubling its already significant commitments to finance climate change mitigation and adaptation. PSOD is at the forefront of these efforts.

\(^4\) “Let’s Work Partnership.” https://www.letswork.org/overview/


The ambitious global development agenda will require significant investments both by the public and the private sector. Official development assistance for Asia and the Pacific stands at $26 billion annually; government revenues at $3 trillion. This compares to $568 billion of international private investments, $205 billion of remittances, and $6 trillion in private savings.\(^7\) To maximize impact, it is critical that the relatively small amount of official development assistance be deployed in the most efficient way that multiplies its impact manifold.

As more and more countries in Asia graduate to the status of middle- and upper-middle-income countries, the role of the private sector will continue to grow significantly.

These countries typically have a stronger business environment and are well positioned to attract and absorb private finance. PSOD can partner with private financiers, leveraging its resources, and channeling funds to where they have the maximum development impact; for example, by addressing infrastructure gaps or providing access to financial services. By focusing on innovative transactions where PSOD provides significant additionality, particularly in middle- and upper-middle-income countries, PSOD can help demonstrate the viability of new technologies, new financing approaches, and new asset classes for the private sector to invest in. For example, PSOD is investing in new forms of renewable energy and wastewater management, and is strongly backing the development of an infrastructure bond market for developing Asia.

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The private sector is also a critical source of government revenue. Taxes and royalties paid by a thriving and dynamic private sector provide support to public investments and spending on socially beneficial programs.

Private sector, growth, and employment

ADB’s private sector operations contribute to economic growth and job creation by directly financing the growth of private sector companies and by financing intermediaries, such as commercial banks and equity funds, which in turn finance such companies.

PSOD-supported transactions also seek to improve the general conditions for economic growth outside the direct scope of the intervention. Firms in emerging markets frequently cite lack of access to quality infrastructure and financial services as key impediments to growth.8 PSOD provides support by helping to make basic services universally available and fostering the deployment of more specialized financial services such as trade finance or project bonds. Transactions in other sectors, such as education, health care, or agribusiness also have externalities that support growth and job creation beyond the intervention itself.

One important driver of inclusive growth in ADB’s private sector operations is its work with micro, small, and medium enterprises (MSMEs), which provide half of all jobs worldwide. An ADB study of employment in Asia shows that MSMEs account for between 50% and 90% of manufacturing jobs.9 Support to the private sector can target MSMEs in a variety of ways; for example, by providing the key infrastructure such as power, clean water, or roads; or by supporting financial services, facilitating trade, or creating stable supply chains. PSOD’s support for MSMEs more than doubled in 2014 compared to 2013 and grew further in 2015. Approvals stood at $670 million and $750 million, respectively.

Private sector operations can also play an important role in supporting medium-sized enterprises that have graduated from being small but have not reached a size that allows them full access to financial markets. PSOD works with private-equity funds to provide such firms with much needed growth capital, and with commercial banks to boost their lending to this critical sector. This allows such firms to expand their operations, providing jobs that are more secure and offer better benefits than those in micro and small enterprises.

Investing in development priorities

Official development assistance and public resources will always be limited in the context of enormous overall needs. PSOD’s transactions supplement these resources by helping ensure that affordable basic goods and services, such as household access to water, sanitation, and electricity, as well as health and education, are delivered to all.

In addition to directly providing basic services, the private sector also plays an important role in producing and financing crucial inputs across most areas of the economy including key social services, such as medical equipment, teaching materials, and many others.

Financial inclusion, another focus area for ADB’s private sector operations, is a key pillar of inclusive economic growth and individual empowerment and opportunity. Having access to bank accounts allows the poor to better manage their finances. Such services range from traditional savings accounts to store money safely and build wealth, to electronically enabled transaction accounts that allow their owners to send and receive funds efficiently, reducing transaction costs and the risks involved with carrying cash. Financial inclusion is at the core of over one-third of the transactions approved by PSOD in 2014 and 2015.

Supporting environmental and social sustainability

The poor are particularly vulnerable to environmental degradation and the sometimes harmful social practices of their employers. Poorer strata of the population tend to live in neighborhoods where they are most exposed to environmental risks. PSOD’s transactions adhere to sound environmental and social standards that minimize adverse effects and help sponsors to implement good practices that remain in place even after PSOD’s assistance has ended.

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The private sector can actively address environmental challenges, for example by investing in renewable energy, energy efficiency, or climate change adaptation—all key priority areas for ADB’s private sector operations. These investments make good business sense but also help address climate change and its negative effects. For example, in 2013, ADB’s Independent Evaluation Department (IED) evaluated completed PSOD energy projects approved between 2000 and 2008. IED found that PSOD’s focus on renewable energy helped to bring down average CO₂ emissions per kilowatt-hour in its energy sector projects from 729 grams to 332 grams during this time.10 Similarly, private firms are active in the area of solid and liquid waste management, earning money by improving the environment. The biggest beneficiaries of these investments are often the poorest and most vulnerable.

Private sector operations help set standards for sound environmental and social practices that minimize the risk of adversely affecting the local population, their employees, and the environment.

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A DB’S PRIVATE SECTOR ACTIVITIES AND ACCOMPLISHMENTS DURING 2014–2015

PSOD structures and finances transactions with private and commercially run state-owned enterprises across a wide range of industry sectors throughout developing Asia. To maximize impact and help create viable, demonstrable, and replicable financing models, PSOD also mobilizes significant financing from private investors, commercial lenders, and international financial organizations (IFIs).

Approvals

PSOD’s strategic priorities in 2014 and 2015 were informed by the findings of the Midterm Review of Strategy 2020.¹¹ The review affirmed ADB’s existing focus of having private sector development and operations at the core of its activities. ADB aims to systematically expand assistance for such interventions to 50% by 2020. Between 2012 and 2014, the amount of private sector approvals grew by 4.5% annually. In 2014 and 2015, PSOD financing to the private sector saw a much steeper rise of 20% and 37%, respectively. PSOD approvals from ADB’s own resources amounted to $1.9 billion in 2014 and $2.6 billion in 2015 (Figures 1a, 1b, 2).

In addition to this, PSOD mobilized about $4.6 billion in direct value-added cofinancing in 2015, compared to about $5 billion mobilized in 2014 (Table 1). The amount of commercial cofinancing remained stable at $4.8 billion in 2014 and $4.6 billion in 2015. While the amounts mobilized by ADB’s Trade Finance Program (TFP) decreased from 2014 to 2015, reflecting weaker global commodity prices, the amount of cofinancing mobilized related to loans and equity investments increased from $2.8 billion to $3.1 billion.

Figure 1a: Geographical Distribution of 2014 ADB Private Sector Approvals

2014 PSOD APPROVALS
Total $1,919 million

FINANCIAL MARKETS
- Banking
- Private Equity

INFRASTRUCTURE
- Renewable Energy and Energy Efficiency
- Other Energy
- Transport
- Water
- Information and Communication Technology
- Housing and Urban Infrastructure
- Agriculture
- Health and Education

AZERBAIJAN, $20 million
- Supporting Micro, Small and Medium-Sized Enterprises

BANGLADESH, $75 million
- Bibiyana II Gas Power Project

PEOPLE’S REPUBLIC OF CHINA, $330 million
- Rural Smart Wastewater Treatment Project
- Natural Gas for Land and River Transportation Project
- Greenhouse Agricultural Development Project

GEORGIA, $75 million
- Adjarsqtali Hydropower Project

INDIA, $247 million
- Rural Education Project
- ReNew Power Investment Project
- Dewan Housing Finance Corporation for Low-Cost Affordable Housing
- ACME-EDF Solar Power Project
- Ocean Sparkle Expansion
- Strengthening Rural Financial Inclusion and Farmer Access to Markets Project
- India Agribusiness Fund II

LAO PEOPLE’S DEMOCRATIC REPUBLIC, $144 million
- Nam Ngiep I Hydropower Project

MONGOLA, $40 million
- Senior Loan to Khan Bank for MSMEs

MYANMAR, $190 million
- Yangon Urban Renewal and District Cooling Project
- Connectivity Infrastructure Development Project

PHILIPPINES, $75 million
- Mactan-Cebu International Airport Terminal Project

SRI LANKA, $75 million
- Senior Loan to Hatton National Bank

TAJIKISTAN, $8 million
- Promoting Financial Inclusion through Greenfield Banking

THAILAND, $53 million
- Subay Wind Power Project

REGIONAL, $87 million
- Spice Value Chain
- Equity Investment in Asia Environmental Partners II
- Olympus Capital Asia Fund

ADB = Asian Development Bank.

Note: Includes all transactions from ordinary capital resources. Excludes Rantau Dedap Geothermal Power Project in Indonesia funded by Clean Technology Fund.

Source: ADB Private Sector Operations Department.
Figure 1b: Geographical Distribution of 2015 ADB Private Sector Approvals

2015 PSOD APPROVALS
Total $2,626 million

FINANCIAL MARKETS
- Banking
- Private Equity

INFRASTRUCTURE
- Renewable Energy and Energy Efficiency
- Other Energy
- Water
- Information and Communication Technology
- Housing and Urban Infrastructure
- Agriculture
- Health and Education

AZERBAIJAN, $345 million
- Shah Deniz Stage II Gas Field Expansion Project
- Improving Financial Service Outreach for Agriculture - AccessBank
- Improving Financial Service Outreach for Agriculture - Finca

BANGLADESH, $30 million
- Sustainable Projects

BHUTAN, $3 million
- Hazelnut Value Chain Development Project

PEOPLE’S REPUBLIC OF CHINA, $235 million
- Western Counties Water and Wastewater Management Project
- Small and Medium-sized Enterprise Industrial Wastewater and Sludge Treatment Project
- Yingda International Leasing for Healthcare Finance in Underdeveloped Regions

GEORGIA, $90 million
- Financial Inclusion for Micro and Small Business Growth - Credo
- Financial Inclusion for Micro and Small Business Growth - Finca Bank
- Financial Inclusion for Micro and Small Business Growth - TBC Bank

INDIA, $836 million
- Shapoorji Affordable Housing Project
- Low Cost Affordable Housing
- Supporting Financial Inclusion Project
- Green Energy Corridor and Grid Strengthening Project

KYRGYZ REPUBLIC, $10 million
- Broadening Access to Finance

MYANMAR, $302 million
- Nationwide Telecommunications Project
- Myingyan Natural Gas Power Project

PAKISTAN, $95 million
- Engro Fast-Track Liquefied Natural Gas Regasification Project
- Gulpur Hydropower Project

PHILIPPINES, $242 million
- 150-Megawatt Burgos Wind Farm Project
- Tiwi and MakBan Geothermal Power Green Bonds Project

SRI LANKA, $55 million
- Senior loans to LOLC Finance Plc and LOLC Micro Credit Limited

THAILAND, $158 million
- Northeastern Thailand Wind Power Project

REGIONAL, $95 million
- Microfinance Risk Participation Program
- Creador III, L.P. Fund

ADB = Asian Development Bank.
Note: Includes all transactions from ordinary capital resources. Excludes Off-Grid Prepaid Solar Leasing Project in India funded by Clean Technology Fund.
Source: ADB Private Sector Operations Department.
South and Southeast Asia account for nearly two-thirds of the amounts approved in 2014 and 2015. Approvals grew fastest in Central and West Asia as well as Southeast Asia (Figure 3).

Nearly 85% of financing approved in 2014 and 2015 was in the form of project and corporate loans. The use of guarantees increased significantly (Figure 4). For example, sizable guarantee transactions provided credit enhancement for the first climate bond certified in Asia (Box 4) and in India (see section on Resource Mobilization). PSOD also invests in equity, both through private equity funds and in the form of direct investments in infrastructure-related entities and in financial institutions.

Resource Mobilization

PSOD operates within a wide network of strategic partnerships. By mobilizing private commercial financing through the use of various credit enhancement products, PSOD strives to extend its reach beyond what would be possible with only its own resources (Table 1). In addition, concessional cofinancing is deployed to address gaps in commercial viability in priority areas. This includes climate change transactions that introduce new technologies with a risk profile that may not attract private investments. In such cases, a blend of commercial and concessional finance helps improve the risk profile to attract private investors.

For example, for the Sarulla Geothermal Power Generation Project approved in December 2013, ADB-administered concessional funding helped bridge the financing gap to attract commercial lenders and equity investors. ADB’s $250 million direct loan was blended with an $80 million loan funded from the Clean Technology Fund (CTF) and a further $20 million loan from the Canadian Climate Fund for Private Sector in Asia, funded by the Government of Canada under ADB’s Clean Energy Partnership Facility.

Innovative use of credit enhancement products to open up the local project bond markets to infrastructure financing was one of the hallmarks of PSOD’s activities in 2014 and 2015. One such example is a $59 million credit enhanced project bond, issued by ReNew Power Ventures in India in 2015 to refinance its existing renewable power assets. The bond is backed by PSOD and Indian Infrastructure Finance Company. This structure allows investors to benefit from ADB’s AAA rating and its ability to manage risks in the region, including protections afforded by ADB’s preferred creditor status in its member countries. It will also help demonstrate the viability of such underlying transactions, contributing to the development of the nascent project bond market in developing member countries.
Trade Finance

The TFP helps close market gaps for trade finance by providing banks with guarantees and loans in support of cross-border trade. In 2015, the TFP facilitated more than 1,900 transactions valued at over $2.5 billion. This is a decline compared to 2014 where TFP facilitated almost 2,000 transactions with a total value of $3.8 billion. In 2015, more than $1.4 billion were cofinanced by banks, private insurers, an export credit agency, and International Enterprise Singapore, compared to over $2 billion in 2014. In 2015, the decline in trade volume is mainly caused by a global decline in commodity prices.

In 2015, TFP reached a milestone with the start of operations in Myanmar. During that year, TFP laid the foundations for its expansion into the Pacific, initiating interactions with 18 banks from 12 countries in the region to identify prospective new participants in the program and to provide training in trade finance. In 2015, TFP also added new participating banks in Bangladesh and Viet Nam. It conducted its first annual awards ceremony with partner banks during an International Chamber of Commerce, Banking Commission annual meeting in Singapore, which was well received.

Portfolio

A strong growth in approvals and disbursements resulted in a solid growth in ADB’s private sector portfolio, from $6.6 billion to $7.9 billion between 2012 and 2015 (Figure 5). This translates to an average annual increase of 6.1% per year despite a slight decline in 2013 due to loan prepayments and successful equity divestments.

Table 1: Value-Added Cofinancing, 2012–2015 ($ million)

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct value-added cofinancing</td>
<td>6,117</td>
<td>2,931</td>
<td>5,003</td>
<td>4,589</td>
<td>18,640</td>
</tr>
<tr>
<td>Official cofinancing</td>
<td>19</td>
<td>135</td>
<td>194</td>
<td>25</td>
<td>373</td>
</tr>
<tr>
<td>Commercial cofinancing</td>
<td>6,098</td>
<td>2,796</td>
<td>4,809</td>
<td>4,564</td>
<td>18,267</td>
</tr>
<tr>
<td>B loans</td>
<td>200</td>
<td>220</td>
<td>863</td>
<td>1,085</td>
<td>2,368</td>
</tr>
<tr>
<td>Guarantees</td>
<td>87</td>
<td>75</td>
<td>8</td>
<td>114</td>
<td>284</td>
</tr>
<tr>
<td>Parallel equity</td>
<td>339</td>
<td>393</td>
<td>1,503</td>
<td>1,128</td>
<td>6,081</td>
</tr>
<tr>
<td>Parallel loans</td>
<td>3,341</td>
<td>109</td>
<td>56</td>
<td>383</td>
<td>678</td>
</tr>
<tr>
<td>Risk transfers</td>
<td>126</td>
<td>113</td>
<td>3,341</td>
<td>1,090</td>
<td>6,081</td>
</tr>
<tr>
<td>TFP cofinancing</td>
<td>2,344</td>
<td>2,279</td>
<td>1,415</td>
<td>1,128</td>
<td>8,077</td>
</tr>
<tr>
<td>SCFP cofinancing</td>
<td></td>
<td></td>
<td>46</td>
<td>46</td>
<td>46</td>
</tr>
</tbody>
</table>

SCFP = Supply Chain Financing Program, TFP = Trade Finance Program.
Note: B loans (Complementary Financing Scheme) are funded by commercial lenders, with ADB acting as “lender of record.”
Source: ADB Private Sector Operations Department.

Figure 5: ADB’s Outstanding Private Sector Portfolio, 2012–2015

The two largest components of PSOD’s portfolio are energy and financial institutions. While the energy portfolio reduced slightly, the finance portfolio grew by 16% from 2014 to 2015 (Figure 6). The highest percentage increases were recorded in transport and agribusiness, which grew by 84% and 34%, respectively.

Figure 7 shows the breakdown by country categories, while Figure 8 shows the geographic coverage of ADB’s private sector portfolio. Loans represent the largest share (72%), followed by guarantees (15%), then equity (13%). 54% of PSOD’s equity exposure is composed of private equity funds. The remaining 46% are direct equity investments.
Disbursements

PSOD realizes that in order for its transactions to have their intended impact, maximization of disbursements and utilization is critical. Given this focus, there has been a marked increase in disbursements in 2014 and 2015. In 2014, disbursements grew by 55% to $1.3 billion. 2015 saw an additional growth of 23% in disbursements—increasing to $1.6 billion. The disbursement ratio\(^\text{12}\) grew from 41% in 2013 to 45% in 2015.

Earnings

ADB’s private sector operations have been a consistent and major contributor to ADB’s net income. In 2014, private sector operations generated a total gross income of $402 million. This represented a 4% increase over 2013. $258 million of this was from equity divestments, $125 million from interest income from loans, and $19 million from guarantee operations.\(^\text{13}\)
Box 2
Using Information to Reduce Market Gaps

Trade Finance Program

ADB’s Trade Finance Program (TFP) works with over 200 partner-banks to provide companies with the financial support they need to engage in import and export activities in Asia’s most challenging markets. Beyond supporting trade transactions, TFP acts as a bridge between the private and public sectors. TFP gathers and disseminates information used to identify and reduce market gaps in trade finance. A major accomplishment of TFP in this area was the creation of the Trade Finance Register, which is housed at the International Chamber of Commerce (ICC), to collect the first-ever statistics on defaults and losses in trade finance. This led to the Basel Committee on Banking Supervision (BCBS) amending regulatory guidelines, and contributed billions of dollars to support trade in emerging markets.

ADB initiated and funded the pilot phase of the Trade Finance Register in 2010 with the ICC. Nine international banks provided data on over 5 million trade finance transactions valued at $2.5 trillion. The data showed a default rate of 0.02%, and an average maturity of only 115 days for all trade finance products.

Reflecting the fact that trade finance transactions mature in less than 360 days, in October 2011, BCBS waived the requirement for banks to hold capital for at least 360 days against trade transactions. In addition, in 2014, the BCBS reduced capital requirements from 100% to 20% for letters of credit (the primary instrument in trade financing). These amendments would not have been possible without the substantiation of statistical evidence through the Trade Finance Register. The Register effectively reduced capital requirements for trade finance, freeing it to support more trade and thereby more growth and job creation.

Since TFP’s initiation and pilot of the Register in 2010, the private sector has funded the Register, and ICC has published a report every year. The Register serves as an example of ADB’s convening power, its capacity to play a lead role in bringing the private and public sectors together as an honest broker, to close market gaps through knowledge products.

Source: ADB Private Sector Operations Department.

Postcompletion evaluation of transactions

In addition to reporting new approvals and their expected results, PSOD tracks the implementation of transactions and prepares extended annual review reports (XARRs). XARRs are self-assessments to evaluate performance at the time of completion, and are further validated by IED. XARR ratings are based on four criteria: development results, investment profitability, work quality, and additionality. The transactions covered by the 2014 and 2015 XARRs were approved between 2000 and 2012.

The number of transactions evaluated each year varies significantly, reflecting high variations in number of completed transactions. In 2014, XARRs were prepared for 18 transactions, compared to nine in 2015 (refer to Figure 9).

In 2014, a number of private equity funds were evaluated that had not been able to meet their fund-raising targets, primarily due to market conditions. As a result, these transactions were rated as less than successful or unsuccessful. This impacted overall rate of success, with only 50% of XARRs rated as successful in that year. All four energy and education transactions evaluated in 2014 were rated successful or highly successful.

Of the nine transactions evaluated in 2015, five had a sectoral focus on energy and other infrastructure areas. Two provided funding to financial institutions, and two invested in private equity funds. All transactions evaluated in 2015 were rated as successful.

Figure 9: Ratings for Completed Transactions, 2014–2015

<table>
<thead>
<tr>
<th>Number of transactions</th>
<th>Unsuccessful</th>
<th>Less than successful</th>
<th>Successful</th>
<th>Highly successful</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2</td>
<td>3</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>2014</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>1</td>
</tr>
</tbody>
</table>

Note: The ratings reflect extended annual review reports used to assess performance at the time of completion.

Source: ADB Private Sector Operations Department.

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14 XARRs for each year are validated by the Independent Evaluation Department during the subsequent year. Accordingly, 2014 XARR data refers to validated ratings, while 2015 data is based on PSOD self-ratings that are yet to be validated.
In 2008, ADB introduced its Strategy 2020 to “redirect our focus onto the region’s three critical strategic agendas: inclusive economic growth, environmentally sustainable growth, and regional integration.” In doing so, ADB aims to address poverty in all of its forms and to ensure that growth in Asia is truly inclusive, benefiting households at the bottom of the pyramid while also being environmentally sustainable. A midterm review of Strategy 2020 was completed in 2014 and found that the strategy remains valid and relevant in its broad strategic directions. The midterm review continued to highlight the importance of ADB’s support to developing Asia’s private sector.

In line with these priorities, all PSOD transactions approved in 2014 and 2015 have focused on inclusive economic growth, and more than half have explicitly addressed environmentally sustainable growth (Figure 10). One in four transactions explicitly contributes to regional cooperation and integration.

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Inclusive growth has two components: high sustainable growth to create economic opportunities for Asia's people; and broader access to these opportunities to ensure that all members of society can benefit from growth. The main constraints to inclusive growth identified by private firms in Asia include access to finance and to infrastructure, particularly reliable energy supply. Access to finance and reliable power are especially pressing for MSMEs, which provide the majority of jobs in the region. PSOD is strongly focused on these priorities, with over 80% of PSOD's portfolio dedicated to infrastructure, particularly energy, and finance, two of the core operational areas of Strategy 2020. The balance of PSOD's activities consists of interventions in other priority areas including other core infrastructure, agribusiness, health and education.

As a part of ADB’s inclusive growth agenda, PSOD is increasing its support to inclusive business transactions. Inclusive business transactions target financially viable activities that generate high development impact, and provide services to the poor. PSOD's support for inclusive business transactions grew from six transactions in 2014 (24% of approvals) to seven in 2015 (26% of approvals).

Environmentally sustainable growth

PSOD actively works to support transactions that seek to avoid degradation of the environment and depletion of the region’s natural resources. One major focus of this work is the reduction or avoidance of greenhouse gas emissions to mitigate climate change and its effects. PSOD has increased its focus on climate-change related investments in recent years and set a target that 25% of its approvals be related to climate change by 2015. Figure 12 shows that this target was met. Ten transactions approved in 2014 (40%) were either dedicated to clean energy or contained climate adaptation components compared to nine in 2015 (33%). In 2014, PSOD contributed 21% to ADB's overall climate-related financing. The most sizable contribution to this target came from the energy sector. Nine energy transactions in 2014 and eight energy transactions in 2015 were in the area of clean energy.

Note: Transactions can contribute to more than one strategic area.
Source: ADB Private Sector Operations Department.

Figure 10: Strategic Areas Addressed by Number of Approved Transactions, 2014–2015

Inclusive economic growth

Inclusive economic growth

Figure 11: Share of Frontier Countries in Total Approvals by Number, 2014–2015

Note: Frontier countries are defined as lower-middle-income and low-income countries, but excluding India.
Source: ADB Private Sector Operations Department.

Footnote 8.

At the time of publication of this report the 2015 data of climate-related financing has not yet been finalized.
ADB supports the use of environmentally friendly technologies and requires that all transactions comply with environmental and social safeguard standards. This support includes transfer of knowledge and technologies on environmental management as well as capacity building in environmental and social management.

Regional integration

PSOD contributes to regional integration primarily through its support for trade finance as well as infrastructure transactions with cross-border elements. Over 90% of the more than 1,900 transactions facilitated by PSOD’s TFP in 2015 were carried out in lower-income countries. Support was provided to about 1,450 SMEs, with 280 trade transactions conducted between DMCs.

One example of an infrastructure transaction that supports regional integration is the Adjaristsqali Hydropower Project in Georgia (Box 3), approved in 2014. The transaction is expected to generate 450 gigawatt-hours (GWh) of electricity annually, of which nearly 90% will be exported to Turkey. It contributes to Georgia’s strategy of establishing the country as a regional energy trading hub in the Caucasus region based on its central location and large potential for generating clean hydropower.

Approved in May 2014, the Adjaristsqali Hydropower Project is ADB’s first nonsovereign infrastructure financing in Georgia’s power sector. The project is financed by a $75 million loan from ADB, a $90 million loan from the European Bank for Reconstruction and Development, a $79 million loan from the International Finance Corporation, and concessional financing of $15 million from the Canadian Climate Fund for the Private Sector in Asia under the Clean Energy Financing Partnership Facility. The project involves the construction and operation of a run-of-the-river hydropower plant with an installed capacity of 187 megawatts in the Adjara Region in South West Georgia. Surplus power generated in summer will primarily be exported to Turkey. During winter, before the snow melts and when local electricity supply is low, the energy will be used to meet Georgia’s own demand.

Upon completion in 2017, Adjaristsqali will be Georgia’s second largest private independent hydropower exporter and the first to be financed on a limited recourse basis. The plant is expected to generate 450 GWh of electricity annually, nearly 90% of which will be exported to Turkey. The electricity generated will replace conventional generation, resulting in about 200,000 tons of carbon dioxide emissions avoided each year. Increased energy trade with Turkey will not only generate additional revenues for the Government of Georgia, but will also contribute to regional integration and improvement in energy security.

Source: ADB Private Sector Operations Department.
Drivers of change

ADB Strategy 2020 has identified drivers of change that are crucial to addressing its strategic priorities. PSOD’s operations are aligned to these drivers of change (Figure 13).

PSOD transactions seek to promote private sector development and investment with the objective of generating greater economic growth in Asia and the Pacific. PSOD enters into partnerships with private investors and other stakeholders to help DMCs attract private sector investments that support inclusive and environmentally sustainable growth (see section on Resource Mobilization).

Gender equity and mainstreaming is another important priority, and the number of transactions focusing on or significantly impacting this area grew from 12 to 14 (Figure 14). In addition to transactions that directly target women, PSOD also heavily invests in transactions that connect households to services that are relatively more beneficial to women. Access to energy and water reduces household work traditionally performed by women (and children) and reduces women’s (and children’s) exposure to health hazards such as indoor air pollution and caring for household members suffering from waterborne diseases.

How PSOD does business

Improved business processes

The Midterm Review of Strategy 2020 called for further simplification of business processes with the goal of transforming ADB to make it more responsive to its clients. PSOD implemented a number of reforms to optimize business procedures as a part of this initiative.

A streamlined approval process, coupled with higher levels of delegation and simplified procedures, has significantly contributed to a decrease in average transaction processing time by about 1.6 months. Reforms included the introduction of a new approach to processing smaller transactions, named Faster Approach to Small Nonsovereign Operations Transactions (FAST), which is particularly relevant for frontier and fragile countries in the region and for companies at an early stage of growth.

ADB has also introduced more flexibility in the way PSOD can deploy resources and improved its ability to recycle capital. At the same time, PSOD increased emphasis on a number of new and innovative product offerings in the areas of local currency financing, credit enhancement products, and infrastructure bonds.

A dedicated agribusiness investment team was created in PSOD in January 2015 to better support ADB’s focus on food security, inclusive business, and improving rural livelihoods in the region. The team is expected to grow with the increasing number and volume of PSOD transactions in the sector.
Box 4
Creating a Market for Climate Bonds to Support Clean Energy
Tiwi and Makiling–Banahaw

Economic growth in the Philippines is constrained by unreliable and costly energy. The Philippine government sees geothermal power as part of the solution. But as much as 2,900 megawatts of geothermal generation capacity remains untapped because local lenders and developers view it as risky.

In 2009, the Tiwi and Makiling–Banahaw (Tiwi–MakBan) complexes, which are among the five largest geothermal power plants in the world, were successfully privatized. Unable to obtain project financing from commercial banks, Aboitiz Renewables (ARI), a subsidiary of Aboitiz Power Corporation (APC), acquired and rehabilitated the plants on an all-equity basis. The rehabilitation was successful, resulting in increased plant availability and improved efficiency, making Tiwi–MakBan the source of 14% of the Luzon grid’s renewable energy capacity.

In July 2015, ADB approved a partial credit guarantee of $181 million and a loan of $41 million to support Tiwi-MakBan’s capital restructuring from all-equity financing to a more conventional and efficient combination of debt and equity. The guarantee will support the issuance of the first Climate Bond in Asia and the Pacific certified by the Climate Bonds Initiative. This will help APC redirect capital to new projects, including renewable energy projects.

The transaction furthers capital market development in the country and represents a milestone in the emerging climate bond market in the region. It demonstrates the ability of project bonds to supplement bank financing and meet the needs of the Philippines’ enormous public–private partnership and infrastructure programs. It will also encourage further investment in geothermal power and other renewable energy, supporting the country’s energy diversification efforts, increasing energy security, and reducing greenhouse gas emissions.

Source: ADB Private Sector Operations Department.

Development effectiveness

In March 2015, ADB introduced updated design and monitoring framework guidelines to fully integrate private sector operations into the tracking of ADB’s overall development effectiveness.20 A design and monitoring framework is used in the design of all transactions, to ensure that they are aligned with ADB’s mission, country priorities, and Strategy 2020. The design and monitoring framework focuses on outputs and outcomes to be achieved by each transaction. During implementation, ADB tracks the delivery of these tangible development objectives, to ensure their alignment with the originally envisioned impact.

Many transactions involve funding from more than one IFI, donor, and/or other development partner. These stakeholders have an interest in increased transparency in reporting of development results and sharing lessons learned across institutions. To address this, a group of bilateral and multilateral institutions, formed in 2010, agreed to harmonize core indicators to measure development effectiveness. ADB is one of the signatories to the Memorandum Regarding IFIs Harmonized Development Results Indicators for Private Sector Investment Operations. Wherever possible, PSOD transactions rely on these harmonized standard indicators to simplify reporting requirements for transactions.

The new results management framework of PSOD requires regular reporting of key development indicators for all new transactions during their implementation. In 2012, PSOD initiated a pilot to have active portfolio transactions report development results indicators. This practice was rolled out to all newly approved transactions in 2014. PSOD will start reporting aggregate results of ongoing transactions once a sufficient number of transactions reach operational maturity. This will complement the current reporting of XARR-based results, which are collected at the time transactions are completed.

Most private sector operations invest in specific sector outcomes, such as power generation, financial inclusion, or health care. In addition to this, they contribute to growth and job creation by generating government revenues, procuring goods and services from the local economy, and providing direct employment (Table 2). The sectors PSOD is most active in, infrastructure and finance sector development, address some of the most pressing challenges to growth identified by local businesses and governments.

The data collected on ADB’s private sector operations focuses on direct improvements at the level of the transaction. In addition to this, transactions create multiplier effects in the broader economy that cannot be directly observed and reported.21

The transactions approved in 2014 and 2015 will inject $3.5 billion into local economies by making domestic purchases during their construction and initial stages of operation. They will also contribute $14.9 billion in government revenues to their host governments, supporting the “financing for development” agenda. Transactions reporting on employment will provide new jobs for nearly 89,000 people. Transactions that have specifically identified female employment as an objective will lead to women accounting for more than 30% of this total employment figure.

PSOD’s transactions across all sectors are expected to reduce or avoid CO₂ emissions by 6.6 million tons annually.

### Table 2: Contributions to Growth and Employment, 2014–2015

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic purchases</td>
<td>$2.1 billion</td>
<td>$1.4 billion</td>
</tr>
<tr>
<td>Government revenues</td>
<td>$2.1 billion</td>
<td>$12.8 billion</td>
</tr>
<tr>
<td>Total employment</td>
<td>38,200</td>
<td>50,700</td>
</tr>
<tr>
<td>Of which female</td>
<td>5,800</td>
<td>22,700</td>
</tr>
</tbody>
</table>

Source: ADB Private Sector Operations Department.

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21 ADB is part of the Let’s Work Partnership of 28 leading IFIs working together to address the issue of job creation. The partnership develops knowledge and practical approaches to the jobs agenda, among other things, to better understand multiplier effects.
Infrastructure

In line with Strategy 2020, ADB has been increasing its funding for infrastructure development. In 2014, ADB approved 16 private sector operations financing the construction and operation of infrastructure, for a total of $1.3 billion. In 2015, ADB approved funding for 15 infrastructure transactions for a total of $2 billion (Figure 15). This includes transactions working with financial intermediaries and capital markets to support infrastructure delivery. In 2014, PSOD supported two such projects for $200 million, increasing to three projects for $400 million in 2015.

Figure 16 shows approvals of ADB ordinary capital resources in various infrastructure sectors. In 2014, all of eight energy transactions financed by ADB contained climate-friendly components. In 2015, seven of eight energy transactions were climate related. In addition, PSOD supported one clean energy transaction from ADB-administered third-party funds in both years.

The majority of 2014 infrastructure approvals focused on energy with eight transactions for a total approval amount of $677 million. Four investments were made in renewable energy ($233 million), two in large hydropower generation ($219 million), and one that promotes the use of natural gas in transportation ($150 million). The remaining transaction involves the financing of a gas-fired power plant ($75 million).

In 2015, the amount of ADB financing approved for energy transactions doubled compared to 2014, to $1.4 billion. The number of approvals in this sector remained constant at eight. Of these three investments were made in renewable energy generation ($399 million) and one each in green energy transmission ($500 million) and large hydropower generation ($65 million). Two additional transactions supported gas-based conventional generation ($152 million) and a gas transportation terminal ($30 million), both of which help substitute energy sources with higher carbon intensity. The remaining transaction supports the development of a gas field ($250 million).

In addition to this, PSOD supported two transactions through the use of concessional financing from external sources. In 2014, a transaction of $50 million funded by CTF was approved to support geothermal energy generation. In 2015, PSOD supported a renewable energy transaction of $6 million funded by CIF.

Transactions approved in 2014 and 2015 are expected to add 4,700 MW of electricity generation capacity, resulting in generation of more than 8,800 GWh of power annually, enough to provide electricity to more than 985,000 average Asian households.

Figure 16: Infrastructure Approvals by Sector, 2014–2015

<table>
<thead>
<tr>
<th>Sector</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>10</td>
<td>14</td>
<td>16</td>
<td>18</td>
</tr>
<tr>
<td>Urban and water</td>
<td>7</td>
<td>5</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>ICT</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
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<td>Transport</td>
<td>3</td>
<td>5</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Multisector</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Note: Includes private sector approvals funded from ADB’s ordinary capital resources. Source: ADB Private Sector Operations Department.
In 2014, three transactions supported urban infrastructure, water and sanitation ($315 million). Approvals in these sectors increased to five in 2015 ($465 million). These transactions are expected to process 167 million cubic meters of drinking water and 346 million cubic meters of wastewater annually, providing 700,000 beneficiaries with access to sanitation. One additional B loan of $100 million will finance the expansion of water utilities in the People’s Republic of China (PRC), following a transaction approved in 2013. Transactions focusing on housing are projected to finance the construction of 32,300 affordable housing units.

In 2014, two transactions supported the transport sector ($115 million). In the same year, PSOD also invested in a bank in Sri Lanka for onlending to various infrastructure subsectors ($75 million). In 2014 and 2015, PSOD supported two telecommunication transactions ($250 million), expecting to reach a total of 51 million additional beneficiaries.

These investments over the 2-year period will significantly contribute to addressing poverty by providing access to quality basic services. In addition, investments in the energy sector will address one of the two main constraints to growth and job creation identified by regional firms. By providing access and reliable service to previously underserved individuals and firms, these investments will contribute to inclusive growth.

Box 5
Natural Energy Development Solar Power Project

This transaction was at the forefront of Thailand’s renewable energy drive and its successful financing acted as a foundation and model for the local banking market to replicate and expand. At the time the Natural Energy Development (NED) solar project was approved in 2010, lending for renewable energy projects in Thailand was at a nascent stage. The regulatory framework for renewable energy was untested and commercial banks still considered solar technology to be unproven.

ADB financed the construction and operation of this 55 megawatt thin-film photovoltaic facility in Lopburi province. A loan of up to $70 million equivalent in Baht secured long-term local currency funds using cross-currency swaps. ADB also approved a $2 million grant from the Clean Energy Financing Partnership Facility to mitigate some inherent renewable energy risks. With assistance from ADB’s Carbon Market Initiative, the project was able to register and prefinance certified emission reductions under the Clean Development Mechanism of the United Nations’ Framework Convention on Climate Change.

The project was the first private sector, utility-scale solar power plant in Thailand and the largest in Southeast Asia when it was completed in 2014. NED had conducted a comprehensive environmental, social, and health impact assessment as well as a series of public consultations, exceeding the requirements under Thailand’s laws and regulations, which resulted in broad-based support for the project.

The successful and innovative financing arrangement in this project demonstrated the viability of nonrecourse financing for renewable energy. Risks from intermittent solar energy were successfully mitigated. The project was able to secure an attractive fixed rate local currency loan with a long tenor. The project remains financially sound, environmentally sustainable, and has exceeded all of the initially designed development objectives.

Source: ADB Private Sector Operations Department.
Increased access to telecommunications services allows the poor to save money on everyday transactions that otherwise might require a trip to relay a message in person. These services also provide access to a range of other benefits such as mobile financial services, information shared through agricultural extension services, or telemedicine.

Information and communication technologies are one of the biggest success stories of private sector-led development. In many developing countries, telecommunication was traditionally provided by public companies or cooperatives with limited ability to invest in new technologies and universal coverage. Most countries have now liberalized the sector, combining the right to use bands of frequency with mandates to ensure universal access. This process is already in an advanced stage in most of ADB’s DMCs, with the exception of some frontier countries. PSOD focuses on a small number of frontier countries that have recently liberalized the telecommunication sector.

PSOD works closely with sponsors to ensure that infrastructure investments are made in an environmentally and socially sustainable way. In addition to applying strict environmental and social safeguards standards to transactions and supervising their implementation, many transactions actively contribute to reduction or avoidance of carbon emissions. During the last 2 years, PSOD has also invested in a number transactions managing liquid or solid waste to reduce environmental degradation.

AT A GLANCE

NEW INFRASTRUCTURE APPROVALS

**Renewable Energy**

- A transaction approved in March 2014 invests $50 million of equity in India’s ReNew Power Ventures to support a portfolio of renewable energy projects at various stages of development. The projects, located across India, are expected to have a total capacity in excess of 1,000 MW. The transaction is expected to generate and sell at least 1,200 GWh of electricity annually, and avoid over 950,000 tons of CO₂ annually from 2016 onward.
- A $50 million loan from the ADB-administered CTF was approved in June 2014 to finance the drilling of exploratory geothermal wells by Supreme Energy Rantau Dedap in Indonesia. The transaction aims to confirm the financial viability of phase 2 of the Rantau Dedap Geothermal Development Project, which is expected to provide at least 240 MW of electricity generation capacity.
- In October 2014, a $100 million private sector loan was approved to help India’s ACME Solar Energy finance 200 MW of solar photovoltaic projects, which are expected to lead to 280,000 tons of annual CO₂ avoidance from 2018 onward.
- An equity investment of $30 million in Asia Environmental Partners II was approved in November 2014. This private equity fund targets middle market clean energy and environmental services companies in Asia, with a focus on the Association of Southeast Asian Nations, the PRC, and India.
- A local currency loan equivalent to $53 million and a $30 million loan by the CTF were approved in December 2014 to enable the construction of an 81 MW wind farm in Thailand.
- PSOD supported the financing of the 150 MW Burgos Wind Farm Project in the Philippines with a $20 million loan approved in January 2015. In addition to installing 50 wind turbines, the transaction will invest in transmission lines and the construction of substations.
- A partial credit guarantee of $181 million and a loan of $41 million to the Tiwi and Makiling–Banahaw geothermal power plant complexes in the Philippines were approved in July 2015 to support a highly innovative climate bonds issue (Box 4).
- A $6 million loan from the CTF to Simpa Energy India was approved in December 2015. The transaction is financing the installation of solar home systems to deliver power through an innovative prepaid scheme. Simpa also received support from PSOD in 2012. The transaction’s successful implementation will result in the generation of at least 103.3 GWh per annum from clean energy, providing access to 250,000 households by 2017. The transaction will help avoid over 162,000 tons of CO₂ emissions annually.
- In December 2015, PSOD supported the construction and operation of 260 MW wind power capacity in Thailand with a local currency loan equivalent to $157.5 million. The transaction, which includes a $18.9 million component from the CTF, will also finance the construction of a substation and three 180-kilometer transmission lines. When the transaction is fully operational in 2020, it will result in yearly avoidance of 222,000 tons of CO₂ equivalent.
Box 6
A Demonstration of Commitment to Privatization
Karachi Electric Supply Company

In 2006, only 55% of Pakistan’s population was connected to the national grid. Pakistan’s electricity consumption was growing at 6.8% annually, and in Karachi, was growing at an even faster rate of 7%–8%. The recently privatized Karachi Electric Supply Company (KESC), an integrated electric utility serving a metropolitan area of 23.5 million people, faced high capacity shortages due to persistent underinvestment, resulting in blackouts, sharp voltage fluctuations, and enormous billing inefficiencies.

By the end of 2006, a turnaround strategy was formulated, which ADB and International Finance Corporation partially financed. In May 2007, ADB’s Board approved a PSOD loan equivalent of $150 million for KESC to implement the turnaround strategy, which included the rehabilitation and expansion of generation facilities, investments in transmission and distribution networks, and upgrading of commercial systems. ADB’s financing included an option to convert part of the loan into equity shares at a preagreed price.

Before the ADB loan could be fully disbursed, KESC’s original sponsors and operation and maintenance contractor needed to be changed to help ensure successful implementation of the turnaround. In September 2008, Abraaj Capital took management control over KESC. To give the new management flexibility during the transition, ADB restructured part of the loan and the new owners quickly got the turnaround back on track.

By June 2012, KESC had achieved net profitability for the first time since 1995, and has remained profitable ever since. In December 2012, ADB converted a part of its existing loan into shares in the company. In January 2014, KESC officially changed its name to K-Electric (KEL) and launched sukuk (Islamic bonds) worth $217 million to refinance existing debt, including the remaining ADB portion. ADB remains a shareholder in KEL.

Since the approval of ADB’s financing, KEL has added 1,010 megawatts of new power generation capacity. Annual power generated has gone from 9,100 gigawatt-hours in 2006 to over 16,500 gigawatt-hours in 2013. KEL has installed 62 kilometers of new transmission lines, and rehabilitated 189 kilometers of existing transmission lines. Transmission losses have fallen to 26.3% in 2013 from 35% in 2006, and generation efficiency has increased from 25% to 37.7% during the same period. KESC is seen as a privatization and turnaround role model.

Source: ADB Private Sector Operations Department.
Large Hydropower

- PSOD supported the construction of the 187 MW Adjaristsqali Hydropower Project in Georgia with a $75 million loan approved in May 2014. This transaction also received a $15 million loan from the ADB-administered Canadian Climate Fund for the Private Sector in Asia (Box 3).
- A loan of $221 million, including $77 million in B loans, was approved in August 2014 to finance a 290 MW hydroelectric power generation facility on the Nam Ngiep River in the Lao People’s Democratic Republic. The transaction will contribute to increased regional cooperation between the Lao People’s Democratic Republic and Thailand through the trade of clean energy.
- In April 2015, a $65 million loan to Mira Power was approved for the construction and operation of a 102 MW run-of-river hydroelectric power generation facility on the Poonch River in Pakistan. The transaction will generate an additional 465 GWh of electricity annually, substituting expensive imported fuel, and avoid greenhouse gas emissions of about 254,000 tons of CO$_2$ equivalent per year.

Conventional Energy Generation

- In December 2014, a $75 million loan to Bangladesh’s Summit Bibiyana II Power was approved for the construction and commissioning of a 341 MW combined-cycle gas power plant with low-carbon emission technology.
- In December 2015, PSOD provided support of $152 million for the construction of the 225 MW Myingyan gas–powered generation plant in Myanmar. The transaction consists of a loan of $42 million and a partial risk guarantee of $110 million covering a B loan in the same amount. It is the first transaction in the country using a competitive tender process to build a power plant adopting international standards.

Other Energy Projects

- PSOD provided a $450 million loan facility to China Gas Holdings in December 2014. The transaction, which includes a $300 million B loan, is financing the construction and operation of 600 compressed natural gas and 200 liquefied natural gas (LNG) refueling stations for use by land-based vehicles and 20 LNG refueling stations for inland waterway transport vessel use.
- A $30 million loan to Engro Elengy Terminal for the construction and operation of Pakistan’s first LNG regasification terminal was approved in February 2015. The terminal and associated gas infrastructure, which at full implementation will have a capacity of 3 million tons, will contribute to Pakistan’s energy security and help stimulate regional and national economic growth.
- Loan facilities amounting to $475 million were approved in August 2015 to develop the Shah Deniz gas field in Azerbaijan. The transaction, which comprises a direct loan of $250 million and a B loan of $225 million, will result in environmentally safe and technically sound development of the country’s largest proven gas reserve. It is expected to employ over 16,000 people during 2014–2022 and increase government revenues by $12.8 billion.
- In December 2015, PSOD provided support to the Power Grid Corporation of India, a state-owned enterprise, through the provision of a loan of $500 million to partly finance its power transmission system upgrade program. The transaction, which also includes a $500 million government-guaranteed loan from ADB’s sovereign operations, will facilitate transfer of power from renewable energy-rich areas to other parts of the country, and increase interregional connectivity between India’s western and southern regional power grids.

Water and Other Urban Infrastructure

- In June 2014, PSOD provided support to Meehyahta Development to revitalize approximately 10 acres of downtown Yangon into a central business district and build Myanmar’s first district cooling plant. The $120 million financing package consists of an A loan of $50 million, a B loan of $30 million, an equity investment of $20 million, and a partial risk guarantee of $20 million. The transaction envisages the construction of a modern wastewater treatment plant on a site where treated water will be recycled to supply the cooling tower, fire-fighting tank, and site irrigation.
- A $468 million loan facility, including B loans of $368 million, was approved in July 2014 to support Beijing Sound Environmental Engineering. The transaction will build and operate water treatment plants and corresponding sewage trunk pipelines in the PRC, treating 78 million tons of wastewater annually, and benefiting 700,000 households when it reaches full capacity.
- A $300 million loan to support the water and wastewater operations of Beijing Capital was approved in October 2015. The transaction, which includes a $150 million B loan, involves collaboration with SMEs in the western counties and townships in the PRC. It is expected to result in daily water supply capacity of 500,000 tons and wastewater treatment capacity of 540,000 tons.
Financial institutions and capital markets

PSOD transactions supporting financial institutions and the development of capital markets have been steadily growing in recent years, from seven transactions with a total volume of $298 million in 2012, to 14 transactions with a volume of about $1 billion in 2015. Investments in private equity funds accounted for approximately 20% of this figure (Figure 17).

In 2014 and 2015, the Board of Directors approved 23 transactions supporting financial institutions and private equity funds. The majority of these transactions focus on financial inclusion of individuals and financing MSMEs, including small agribusinesses. The remaining transactions support other priority areas including a growing housing finance portfolio as well as investments in businesses that improve the environment, mitigate climate change impacts, and provide health care services. The majority of approvals (15 out of 23) contain explicit gender elements. Five transactions have fully incorporated gender mainstreaming in their operations.

PSOD has introduced a revised strategy to guide its operations with private equity funds in coming years. The strategy will take into account lessons learned from past experiences in this area, where a number of investments were unsuccessful, primarily due to fund managers’ inability to meet fund raising targets on account of adverse market conditions.

By investing in funds and financial intermediaries, PSOD helps develop local capital markets with an aim to catalyze ongoing support for local businesses. Transactions are structured in a way that allows investees to continue on their growth path after PSOD–supported funds exit an investment.
to scale up their operations can be a major contributor to sustainable employment creation and economic growth in emerging markets and will be important for meeting the relevant SDGs.

The financial institution and capital market transactions supported in 2014 and 2015 are expected to reach 3.5 million additional individuals as well as MSMEs through PSOD’s borrowers and investees. Nearly 90% of this support will be targeted to women or enterprises owned by women. The largest share of expected beneficiaries will be contributed by transactions with a primary focus on rural areas. Specifically, targeted support to SMEs is projected to reach at least 144,000 firms.

While aiming for these ambitious targets, PSOD is monitoring the end-use of funds and the portfolio quality of its transactions to ensure that financial inclusion is pursued in a prudent, responsible, and sustainable manner. A number of transactions also include components to foster financial literacy in beneficiaries.

A significant number of PSOD engagements with financial institutions also include a TA component. Such TA components often work to strengthen operations by improving borrowers’ credit risk assessment capabilities; or support the development of new products to better target poor customers. Increasingly, this includes supporting financial institutions in rolling out digital distribution channels that reduce transaction costs and facilitate serving poorer beneficiaries and remote locations that previously could not be reached in a financially sustainable way. The recipients of the TA regularly report on the progress made toward these objectives during the TA implementation period.

Transactions also serve to demonstrate the commercial viability of investments in targeted sectors and segments of the markets. This allows for demonstration effects that provide an important multiplier effect for future investments.

PSOD’s work with private equity funds has traditionally focused on specialized funds supporting sectors such as clean and renewable energy and energy efficiency. In addition to providing support to such specific sectors, PSOD is also working through funds to provide SMEs and middle market firms with access to scarce growth equity, which often prevents successful SMEs from scaling up their businesses. Providing an opportunity to these businesses

**AT A GLANCE**

**NEW FINANCIAL INSTITUTIONS AND CAPITAL MARKET APPROVALS**

**MSME Financing**

- A private sector loan of $40 million to Khan Bank in Mongolia, approved in June 2014, supports MSMEs with the aim of diversifying the Mongolian economy. The borrower is working to increase female employment and is providing tailored support to beneficiaries through business incubation centers.
- A $20 million investment in Demir Bank Azerbaijan, approved in December 2014, aims to support the growth of MSMEs with the goal of strengthening the country’s non-oil economy. The transaction focuses on regions outside of the capital Baku, which have been traditionally underserved.
- In the Kyrgyz Republic, PSOD is supporting Bai Tushum Bank with a $10 million investment, approved in June 2015, to expand its impact on the local MSME sector. The investment was processed under the FAST initiative and includes a TA component with a particular focus on financial literacy and low-cost distribution channels to develop products to support MSMEs (Box 7).
- In October 2015, the Board of Directors approved an additional $50 million for the Microfinance Risk Participation Guarantee Program, raising the total volume available to $240 million. The program duration was also extended, subject to ADB Board review every...
Box 7
Broadening Access to Finance in the Kyrgyz Republic

Bai Tushum Bank

Low global commodity prices and slow economic recovery in the Russian Federation continue to affect economic performance in the Kyrgyz Republic. Growth is also hampered by a slowdown in major trading partners, especially the People’s Republic of China. Both rural and urban areas face high rates of poverty and unemployment. Micro, small, and medium-sized enterprises (MSMEs) play a key role in stimulating economic growth in the Kyrgyz Republic by raising individual incomes and creating jobs, resulting in contributions to poverty reduction. But lack of access to financial services is limiting the growth of the MSME sector.

ADB provided a senior unsecured loan of up to $10 million for Bai Tushum Bank (BTB) to extend medium- and long-term financing to MSMEs to help them expand their business and increase productivity and competitiveness. BTB will ensure that at least 39% of all loan accounts will be held by female-owned SMEs and that these firms will comprise at least 20% of the total loan portfolio of BTB.

ADB’s support also includes technical assistance for developing mobile banking services to reduce the transaction cost of serving the poor, and to provide financial literacy training. The project was processed under the newly introduced Faster Approach to Small Nonsovereign Transactions framework (see section How PSOD does business, p. 16).

BTB is the first Kyrgyz microfinance institution to obtain a banking license. Its strategic mission is to promote inclusive growth by funding and supporting socially relevant projects and initiatives. With a platform serving 32,000 MSMEs, BTB provides banking services and offers comprehensive financing solutions through its regional outlets to the MSME segment, capitalizing on cross-sale opportunities.

“ADB support will allow BTB to deliver affordable banking solutions to remote areas. Even in rural areas people need to have access to financial services, and to enable them to access the services, we provide financial literacy education.”

- Gulnara Shamshieva, BTB General Manager

Source: ADB Private Sector Operations Department.
the Creador III fund was approved in November 2015. The fund has a target capitalization of $450 million, which translates into significant multiplier effects for PSOD’s funding.

- In December 2015, ADB supported three transactions in Georgia to expand access to finance for MSMEs with a particular focus on women. TBC Bank is receiving a loan of $100 million and a TA to expand its MSME Academy program, which was introduced in 2013 with PSOD assistance. In addition to the existing training in financial literacy and business processes for MSMEs, the academy will offer training in farm management and logistics. Meanwhile, a $23 million loan to Finca Bank Georgia will be complemented by TA to support the introduction of branchless banking. A loan of $7 million is being provided to Credo Microfinance Organization, which will also benefit from a TA to facilitate its conversion into a regulated bank.

**Support for Agribusiness and Rural Development through Financial Intermediaries**

- A $30 million equity investment in the India Agri Business Fund II, approved in June 2014, will support agribusiness companies in India. New investments and farm-to-market linkages will increase agricultural productivity, diversification and value addition, farm-level income and employment opportunities, and exports and regional trade.
- Two senior unsecured loans of $200 million each to Yes Bank and Axis Bank in India were approved in November 2014 to strengthen farmers’ access to markets and rural financial inclusion. PSOD’s investment and TA will provide sustainable finance to low-income women and their families. The borrowers will work with women self-help groups to support income-generating activities, and aim to integrate farmers into agricultural value chains.
- In December 2014, PSOD’s first investment in Tajikistan was approved. The transaction consists of $3 million in equity, a $5 million senior unsecured loan, and a $3 million B loan to AccessBank Tajikistan, a greenfield bank set up with the support of various IFIs in 2012. The investment was built on a tested business model of Access Holding, the bank’s sponsor, in various other markets. AccessBank will also benefit from a TA to support the bank’s outreach to underserved rural areas and strengthen the institution’s risk management abilities.
- A transaction approved in October 2015 supports two local subsidiaries of established microfinance networks, AccessBank Azerbaijan and Finca Azerbaijan, in providing financial services to small and medium agribusinesses. The transaction will provide $75 million to AccessBank; and $25 million, including a B loan of $5 million, to Finca. The transaction also includes TA to improve agriculture finance product offerings and enable expansion to remote areas through mobile banking and financial literacy programs for both borrowers.
- In October 2015, ADB approved a loan of $100 million and an equity investment of $51 million to support RBL Bank in India in its expansion into new customer segments and areas with low financial penetration. PSOD’s investment supports the expansion of the bank’s branch network and will introduce technology-enabled financial services such as micro-ATMs that will allow RBL Bank to reach beneficiaries in remote areas, reducing barriers to financial inclusion while keeping transaction costs manageable.

**Other Priority Areas**

- A transaction with PNB Housing Finance in India entails investment of $150 million to address a shortage of affordable housing in the country. This follows an investment of $125 million in India’s Dewan Housing Finance, approved in October 2014, which also focused on affordable housing with a special emphasis on women.
- PSOD supported the private equity fund Asia Environmental Partners II with an equity investment of $30 million, approved in November 2014. The fund aims to raise at least $120 million to invest in clean energy, energy efficiency, as well as water and waste management.
- PSOD supported Hatton National Bank with a $100 million loan, including a $25 million B loan. The transaction, approved in December 2014, will support infrastructure development in Sri Lanka. With PSOD’s support, Hatton National Bank will be able to grow its infrastructure portfolio by increased financing of infrastructure projects, including renewable energy projects.
- PSOD supported the Shapoorji Affordable Housing transaction with a $35 million equivalent equity investment in Drashti Developers approved in July 2015. The transaction will finance the construction of approximately 20,000 affordable residential units, to be built, to the extent possible, in line with green building principles.
- A $30 million senior loan to BRAC Bank in Bangladesh, approved in September 2015, will finance the construction of wastewater treatment plants and the implementation of work safety measures in the garment industry.
Agribusiness

In 2015, four private sector transactions amounting to $249 million were approved in support of agribusinesses (Figure 18). This compares with five transactions approved in this sector in 2014, aggregating to $535 million. In addition to these amounts, PSOD mobilized $68 million in B loans in this sector during 2014 and 2015.

Figure 18: Agribusiness-Related Approvals, 2012–2015

<table>
<thead>
<tr>
<th>Approvals ($ million)</th>
<th>Number of transactions</th>
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<tbody>
<tr>
<td>100</td>
<td>1</td>
</tr>
<tr>
<td>200</td>
<td>1</td>
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<td>500</td>
<td>1</td>
</tr>
<tr>
<td>600</td>
<td>1</td>
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</table>

Note: Includes private sector approvals funded from ADB’s ordinary capital resources. Source: ADB Private Sector Operations Department.

PSOD is increasingly working with specialized financial intermediaries and funds to expand its footprint in agribusiness, reaching out to a larger number of micro, small, or medium-sized farms. These transactions have a particular focus on the financial inclusion of women and people in areas previously unserved and underserved (as described in the previous section on financial intermediaries).

Transactions approved in 2014 and 2015 are expected to benefit at least 750,000 farming MSMEs and farm employees. The majority of these farmers will benefit from financial services that will allow them to expand operations and better manage risks. PSOD transactions also reach farmers through inclusion in value chains and direct farm employment.

By working with sponsors to support these farmers, PSOD’s agribusiness transactions support the twin objectives of promoting food security and improving rural livelihoods. PSOD’s strategy is informed by a report of ADB’s Independent Evaluation Department, which concluded that PSOD’s “assistance to commercial agriculture transactions was mostly successful in increasing farmer incomes through greater market opportunities for their produce.” The report also “highlights the need to develop inclusive value chains for food and agriculture to significantly enhance food security.”22

AT A GLANCE
NEW APPROVALS IN AGribUSINESS

Direct Investments in Agribusiness

- PSOD is supporting Akay Flavours & Aromatics, a spice ingredient company, in its expansion into various food processing and farming-related activities. The $21.5 million financing approved in August 2014 includes an equity investment of up to $10 million and debt financing of up to $11.5 million, including a $5 million loan by the ADB-administered Strategic Climate Fund to support climate-resilient farming. The transaction supports an expansion in India, the home market of Akay, as well as south–south investments in Cambodia, leading to increased regional cooperation. The number of Akay’s contract farmers in the two countries is expected to grow from 2,000 to 8,000.

- PSOD’s first direct investment in agribusiness in the PRC was approved in November 2014. The transaction consists of a $140 million loan, including a B loan of $60 million, to support the expansion of greenhouse vegetable production by Le Gaga Holdings. In addition to producing vegetables for the Chinese markets, the transaction is creating employment and increasing the incomes of farm workers.

- In June 2015, ADB’s first private sector transaction in Bhutan, a direct equity investment of $3 million in Mountain Hazelnuts Group, was approved. The transaction also includes a TA to set up an inclusive and climate-resilient hazelnut value chain. The project will help 15,000 smallholder farmers double their income through the incremental revenue generated by hazelnut trees. The investment aims to support rural livelihoods by doubling the income of participating farmers, while at the same time reducing soil erosion.

Health and education

In line with Strategy 2020’s support to education and health, two private sector transactions were approved in 2014 and 2015 to support students and women. These transactions are expected to benefit over 84,000 students; train and employ over 2,300 women as teachers; and support the upgrading of more than 170 health and education facilities in underserved areas.

Box 8
Expanding Access to Quality and Affordable Education in India

Rural Education (Hippocampus), India

In recent years, India has made great progress toward ensuring universal primary education. The focus is now on ensuring retention and improving learning outcomes, particularly in rural areas. According to surveys conducted by Pratham, an Indian nongovernmental organization, differences in the quality of education persist between urban and rural areas. This disparity has resulted in poorer learning outcomes and higher dropout rates in the countryside.

In June 2014, ADB made an equity investment of $2 million in Hippocampus Learning Centres (HLC), a social enterprise, to support quality affordable education in rural India. HLC offers kindergarten programs to prepare 3–6-year-olds for school; and afterschool programs to support 6–12-year-olds in mathematics and language skills. HLC uses a low-cost, nontraditional way of learning that involves female teachers recruited from local communities. Tuition costs are between $60–$100 per year for kindergarten, and $30 for the afterschool program.

“I have been teaching in HLC for 4 years. I now know how to effectively communicate with young as well as older children. Through the rigorous training given by HLC, I know how children think and I know how to respond to them. I am now recognized in my community as Suma from HLC. I have taught the same group of children from pre-kindergarten to upper kindergarten and I am proud to say that I have been their first teacher.”

– Suma, Kadaluru

HLC’s initial operational experience in rural regions of Karnataka has demonstrated market demand and commercial viability of the concept. Based on this experience, HLC has expanded to other Indian states. The program is being considered for replication in other developing countries. By 2017, HLC is expected to provide education to over 84,000 children across 500 villages and employ 2,300 women teachers.

“We are happy to say that our daughter has made a lot of improvement. My daughter’s learning capacity and confidence level has improved after joining Hippocampus Learning Centre. She now tries to speak in English at home. We are really thankful to the authorities of HLC.

– Shambulingappa, Makanur

Source: ADB Private Sector Operations Department.

AT A GLANCE

NEW APPROVALS IN HEALTH AND EDUCATION

- PSOD supported an equity investment of $2 million in Hippocampus Learning Centres in April 2014. The transaction offers nontraditional, low-cost kindergarten, and afterschool programs in mathematics and language administered by teachers from local communities (Box 8).

- A loan of $75 million to Yingda International Leasing was approved in September 2015. The proceeds will be used to finance hospital facilities in rural areas and smaller cities in the central and western regions of the PRC. The transaction will finance the lease of modern medical equipment and hospital fixed assets investments through sale and lease-back transactions.
<table>
<thead>
<tr>
<th>Project Name</th>
<th>Awards</th>
</tr>
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<tbody>
<tr>
<td>Simpa Energy (India)</td>
<td>2015 Climate Solver Award for low carbon innovation technologies, WWF-India</td>
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<tr>
<td>Wastewater Treatment and Reuse Project (PRC)</td>
<td>2015 Project Finance of the Year, China Law &amp; Practice</td>
</tr>
<tr>
<td>Mactan-Cebu International Passenger Terminal Project (Philippines)</td>
<td>2015 Asia-Pacific Transport Deal, Project Finance International</td>
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<tr>
<td>Hippocampus Learning Centers (India)</td>
<td>2015 Mobile for Good Award in India - category for profit education, Vodafone &amp; NASSCOM</td>
</tr>
<tr>
<td>UCH 2 Power Project (Pakistan)</td>
<td>2015 Asia Best Practice Citation, Project Finance International</td>
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<tr>
<td></td>
<td>2014 Asia-Pacific Power Deal of the Year, IJGlobal</td>
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<td></td>
<td>2014 Best Project Financing, Global Capital AsiaMoney</td>
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<tr>
<td>150 MW Burgos Wind Farm Project (Philippines)</td>
<td>2014 Asia-Pacific Renewables Deal of the Year, Project Finance International</td>
</tr>
<tr>
<td></td>
<td>2014 Best ECA-Backed Green Deal, Trade Export Finance Magazine</td>
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<tr>
<td>Nam Ngiep 1 Hydropower Project (Lao PDR)</td>
<td>2014 Asia-Pacific Hydroelectric Deal of the Year, IJGlobal</td>
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<td>Trade Finance Program</td>
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<td>Gulpur Hydropower Project (Pakistan)</td>
<td>2015 Asia Pacific Hydro Deal of the Year Award, IJGlobal</td>
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<td>Shah Deniz Stage II Gas Field Expansion Project (Azerbaijan)</td>
<td>2015 European Oil and Gas Deal, IJGlobal</td>
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In 2015, the international community agreed on ambitious new Sustainable Development Goals and adopted the Paris agreement to fight the effects of global climate change. Ending poverty without further exacerbating climate change will only be possible if the private sector takes a leading role in supporting green economic growth and creating quality jobs. Private capital and expertise will be needed to address poverty in all its dimensions—from food security through the effective and efficient delivery of social services and infrastructure. The Asian Development Bank (ADB) strongly recognizes this salient role of the private sector in meeting the development challenges in Asia and the Pacific. Through its Private Sector Operations Department, it provides various forms of assistance to the private sector in order to help address these development challenges.

This sixth annual report on the development effectiveness of ADB’s private sector operations reviews the contributions of ADB’s Private Sector Operations Department during 2014 and 2015 to promoting its development effectiveness agenda.

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 the majority of the world’s poor. 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.