DEVELOPMENT EFFECTIVENESS REPORT 2016

PRIVATE SECTOR OPERATIONS

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Foreword

2016 marks the 50th anniversary of the Asian Development Bank (ADB). Since introducing the option of financing projects without sovereign guarantee in the 1980s, ADB has approved \$23.9 billion in private sector operations. A special chapter in this report retraces ADB's experience with nonsovereign operations and how ADB's work with the private sector evolved.

2016 was the first full year the Sustainable Development Goals (SDGs) and the Paris Agreement on Climate Change were in effect. ADB's Private Sector Operations Department (PSOD) remains firmly committed to working with the private sector in Asia and the Pacific toward reaching these goals. PSOD's work has mainly focused on two SDGs, affordable clean energy and promoting inclusive economic growth by expanding access to financial services. In doing so, private sector operations also contribute to full and productive employment. In addition to this, PSOD continues to ramp up its investment in agribusinesses, supporting food security and improved nutrition while also improving rural livelihoods.

The SDGs and the Paris Agreement are interlinked with ADB's strategic priorities. In 2016, PSOD continued to strengthen alignment of its operations with these priorities compared to previous years. The share of projects in frontier economies increased, exceeding the 40% target for the second consecutive year. Nearly half of PSOD's approvals in 2016 addressed climate change, almost double the target of 25%. The proportion of projects with gender elements and the number of inclusive business projects also grew for the third consecutive year.

ADB's approvals of own account financing for nonsovereign operations reached \$2.5 billion, nearly matching the record approvals of 2015. At the same time, the total amount of financing made available, including financing mobilized from third parties, grew by 15% to \$8.3 billion.

PSOD is in the process of finalizing a new operational framework for 2017–2020 to further strengthen its ability to support ADB's development and growth targets. The framework will take into account operational lessons as well as findings by ADB's Independent Evaluation Department to ensure that PSOD's future projects will balance development impact with operational and financial sustainability.

I am happy to invite you to review our achievements and activities in this *Development Effectiveness Report 2016: Private Sector Operations*.

Diwakar Gupta
Vice-President, Private Sector and Cofinancing Operations

ADB's PRIVATE SECTOR OPERATIONS AT A GLANCE

2016 PRIVATE SECTOR OPERATIONS DEPARTMENT APPROVALS

Growth in ADB's Private Sector Operations, 2012–2016

Total Private Sector Portfolio, 2012–2016

Share of Climate-Related Approvals by Number of Transactions, 2014–2016

Share of Approvals in Frontier Economies by Number of Transactions, 2014–2016

Inclusive Business Projects, 2014–2016

Approvals with Gender Elements, 2014–2016

Value-Added Cofinancing, 2016

Financing Product	Amount (\$ million)
Official Cofinancing	238
Commercial Cofinancing	5,596
B Loan	203
Guarantees	141
Parallel loans	3,245
Risk transfer	141
TFP cofinancing	1,765
SCFP cofinancing	101
Direct Value-Added Cofinancing	5,834

SCFP = Supply Chain Financing Program, TFP = Trade Finance Program.

Results expected from new projects approved in 2016

**Payment to
government**
\$10.2 billion

**Domestic
purchases**
\$3.3 billion

Employment
67,000

**Employment,
female**
20,000

**Emissions
reductions**
3.5 million tCO₂e

**Generation
capacity**
2,000 MW

**Power
delivered**
4,000 GWh

**Wastewater
treated**
756 million m³

**MSMEs
reached**
23.0 million

**MSMEs reached,
female**
22.4 million

**Farmers
reached**
410,000

Results achieved by PSOD's active portfolio

**Payment to
government**
\$379 million

**Domestic
purchases**
\$1,143 million

Employment
49,172

**Employment,
female**
2,568

**Emissions
reductions**
2.7 million tCO₂e

**Generation
capacity**
4,242 MW

**Power
delivered**
14,037 GWh

**Wastewater
treated**
132.2 million m³

**Volume of drinking
water produced**
15.8 million m³

**MSMEs
reached**
1,075,539

**MSMEs reached,
female**
776,287

**Farmers
reached**
197,034

**Houses built
or improved**
2,140

**Students
reached**
5,423

**People
trained**
4,212

GWh = gigawatt-hour; m³ = cubic meter; MSMEs = micro, small, and medium-sized enterprises; MW = megawatt; PSOD = Private Sector Operations Department; tCO₂e = tons of carbon dioxide equivalent.

Note: Thirty percent of 209 projects are reporting.

Abbreviations

ADB	Asian Development Bank
CO ₂	carbon dioxide
CTF	Clean Technology Fund
DFI	development finance institution
DMC	developing member country
FAST	Faster Approach to Small Nonsovereign Transactions
GWh	gigawatt-hour
LEAP	Leading Asia's Private Sector Infrastructure fund
m ³	cubic meter
MSMEs	micro, small, and medium-sized enterprises
MW	megawatt
PRC	People's Republic of China
PSD	Private Sector Development
PSOD	Private Sector Operations Department
PSOs	private sector operations
SCFP	Supply Chain Financing Program
SDG	Sustainable Development Goal
SMEs	small and medium-sized enterprises
tCO ₂ e	tons of carbon dioxide equivalent
TFP	Trade Finance Program
XARR	extended annual review report

Summary

As the main driver of economic growth, employment, and innovation, the private sector is making critical contributions to global development. Without these contributions, we would not have come so far in fighting absolute poverty and it will be impossible to meet the globally agreed goals of ending poverty and allowing all human beings to fulfill their potential. The private sector is also crucial to the quest for solutions to prevent global temperatures rising above the agreed international target of no more than 2° Celsius, and to mitigate the potentially devastating effects of climate change.

In 2016, the Asian Development Bank (ADB) approved \$2.5 billion to support private sector operations (PSOs), nearly matching the record levels reached in 2015. In addition to this, PSOs mobilized \$5.8 billion in direct value-added cofinancing. This represents 41% of ADB's total cofinancing. Combined, our own private sector financing and the cofinancing that we raised from the market was 15% higher in 2016 than in 2015. In 2016, ADB's total private sector portfolio grew to \$9.3 billion, an increase of 17% compared to 2015.

Private sector transactions contributed to key strategic priorities:

- 42% of approvals were located in frontier countries, or lower-middle-income and low-income countries, excluding India;
- 46% of approvals contributed to climate change mitigation or adaptation, helping to avoid an expected 3.5 million tons of carbon dioxide equivalent (tCO₂e) emissions;
- 53% of approvals contained specific gender elements; and
- 31% of approvals supported inclusive businesses.

Expected Results of Projects Approved in 2016

Transactions approved in 2016 will make significant contributions to the economies of developing member countries (DMCs). They are expected to generate more than \$10.2 billion in government revenues and enable procurement of \$3.3 billion of goods and services from local firms. 2016 approvals are expected to provide 67,000 new jobs, of which 20,000 are directly targeted for women.

These transactions should provide over 23 million individuals, as well as micro, small, and medium-sized enterprises (MSMEs), with access to financial services. Over 95% of these are expected to be women or enterprises owned by women. Agribusiness projects approved in 2016 are designed to help improve the livelihood of more than 4,000 farming households. In addition, more than 400,000 farmers and rural households will benefit from financial services. In addition to improving rural livelihoods, these transactions will also contribute to improved food security.

Transactions approved in 2016 will also improve access to infrastructure services in ADB's DMCs. They will generate some 4,000 gigawatt-hours (GWh) annually, enough to serve 450,000 average households in Asia. PSOs approved in 2016 will also help to treat 756 million cubic meters (m³) of wastewater per year when they are fully operational.

Results Delivered

The Private Sector Operations Department (PSOD), which is tasked with ADB's PSO activity, has collected data on development results from ongoing projects starting with 2012 approvals. At present, 30% of active projects are reporting results, allowing inclusion of aggregate results in the *Development Effectiveness Report* for the first time.

In 2016, ADB's active PSOs (with reporting requirements embedded in them) have contributed to DMC economies by purchasing goods and services worth more than \$1.1 billion locally, and have contributed \$379 million in government revenues. Projects have provided employment for an additional 49,172 people. ADB's private sector clients have achieved emissions reductions of 2.7 million tCO₂e annually.

Active projects reported that they have installed 4,242 megawatts (MW) in electrical generation capacity. They are generating 14,037 GWh of power per year, enough to power 1.5 million typical homes in Asia. Every year, ADB's private sector clients treat 132.2 million m³ of wastewater, and produce 15.8 million m³ of drinking water.

Active projects are supporting access to finance for approximately 1.1 million individuals and MSMEs, of which 72% are women or enterprises owned by women. Projects directly provide services to 56,741 small and medium-sized enterprises, which help create employment and build a more diversified and resilient economy. Projects contributed to improving the livelihood of 197,034 farming households either through inclusion in agribusiness supply chains, or financial inclusion of small-scale farmers and farming households. Other projects contributed to the education of 5,423 additional students, mostly at the early school stage.

Introduction

With the adoption of the Sustainable Development Goals and the ratification of the Paris Agreement, the international community has set ambitious targets for itself. Achieving these goals will depend on utilizing the strengths of both the public and the private sector to complement each other.

The private sector is the primary source of economic value addition in modern economies, generating growth, employment, and government revenues. Private innovation also contributes to finding better and more efficient ways to provide basic products and services. Private sector operations (PSOs) can also help governments and development institutions mobilize private financing for public priorities. In Asia and the Pacific, international aid and government revenues are \$26 billion and \$3 trillion, respectively. This compares to foreign investments of \$568 billion, remittances of \$205 billion, and private savings of \$6 trillion.¹ For these reasons, the Asian Development Bank (ADB) has placed private sector development and operations at the center of its long-term strategy.

The Private Sector Operations Department (PSOD) is partnering with private financiers to mobilize resources in support of these priorities by financing projects with significant development impact, and where ADB's involvement adds significant value. ADB's PSOs emphasize working in poorer and more challenging markets and funding projects that serve the bottom of the pyramid or promote gender equity. Rigorous application of environmental and social safeguards promotes the use of sustainable business practices by PSOD's clients.

ADB's PSOs help demonstrate the viability of products or business models so that private firms can replicate them or scale up delivery without support from international finance institutions such as ADB. For example, in most emerging markets, telecommunications investments are now made on a purely commercial basis. Support from international finance institutions now focuses on especially risky markets such as fragile and postconflict countries (ADB has financed private telecommunications projects in places such as Afghanistan, Bangladesh, Myanmar, and Papua New Guinea).

This development is mutually reinforcing with the private sector's ability to innovate and find cost-effective solutions. Notably, technological progress has significantly reduced the cost of renewable power generation. Investments in this area are now increasingly viable without public support (by way of tariffs with concessional elements). For example, in 2016, PSOD for the first time provided support for a solar project in Thailand that supplies power directly to the spot market at fully commercially competitive rates. At the same time, support is still required in low-income and lower middle-income countries to help make projects viable and to arrange financing for longer-term investments where such financing can still be scarce.

¹ ADB. 2015. *Making Money Work: Financing a Sustainable Future in Asia and the Pacific*. Manila.

ADB at 50— Working with the Private Sector

The Asian Development Bank (ADB) was established in 1966 to help “foster economic growth and cooperation in the region and to contribute to the acceleration of the process of economic development.” At the time, Asia and the Pacific was the poorest region in the world. For the first 15 years, ADB private sector support was limited to financing firms through domestic development finance institutions (DFIs), which borrowed from ADB with sovereign guarantees.

The Early Years of Nonsovereign Operations

ADB introduced equity investments without sovereign guarantee in 1982. In 1983, ADB’s Board of Directors approved the first two projects for a total of \$2.96 million to domestic DFIs in the Republic of Korea and Pakistan.² These were followed by investments in Indonesia, the Philippines, and Thailand shortly thereafter.

In 1985, ADB explored expansion of services available to private clients, and in 1986, approved a new lending program.³ The total amount available for loans was limited to \$100 million. In 1986, ADB established a Private Sector Division to act as a focal point for all private sector operations (PSOs). ADB approved its first nonsovereign loans that

same year. The first two loans were extended to a cement plant and a leasing company, both located in Pakistan. In 1987, ADB introduced B loans⁴ to mobilize third party financing and promote private investments in developing member countries (DMCs).

A comprehensive review of ADB’s PSOs in 1988 resulted in process enhancements to improve ADB’s responsiveness to private sector clients.⁵ ADB increased the amounts available for nonsovereign loans to \$375 million. In 1989, the Private Sector Division was transformed into the Private Sector Department to better support nonsovereign operations across ADB. A further review of ADB’s nonsovereign projects in 1990 highlighted the importance of demonstrability, catalytic function, and policy dialogue.⁶ Approvals grew steadily, reaching \$116 million in 1990.

During this time, ADB diversified its support for private sector operations. Investments in domestic DFIs accounted for more than half of the number of approvals and a third of approval amount. ADB started to provide financing for agribusinesses and manufacturing with an initial focus on industrial inputs like cement plants, unfinished textiles, steel, chemicals, and fertilizers. New sectors included infrastructure, particularly power generation and roads. ADB also started to finance new types of financial service providers, including private equity funds and insurance companies.

² ADB. 1982. *Equity Investment Operations by the Bank*. Manila (R38-82); ADB. 1986. *Review of Bank’s Equity Investment Operations*. Manila (R33-86).

³ ADB. 1986. *Bank’s Lending to the Private Sector without Government Guarantee*. Manila (R93-85).

⁴ B loans (Complementary Financing Scheme) are funded by commercial lenders with ADB acting as lender of record.

⁵ ADB. 1988. *A Review of Private Sector Operations*. Manila.

⁶ ADB. 1990. *Second Review of Private Sector Operations*. Manila.

The 1990s—Mainstreaming Private Sector Operations

In 1992, ADB mainstreamed PSOs into its overall operational activities, based on the recommendations of a private sector task force.⁷ Regional departments started originating private sector transactions. A Private Sector Unit replaced the Private Sector Department and was tasked to originate regional investments in capital markets and oversee portfolio management. From 1992 to 1995, ADB's PSOs increasingly focused on infrastructure, particularly power generation, and investment funds. Investments into development finance institutions and manufacturing declined.

In 1995, ADB approved the strategy, Assistance for Private Sector Development, calling for a focus on capital market and infrastructure development.⁸ Beyond this, ADB's support

for the private sector focused on providing advice to improve the business environment, including regulatory and institutional reform. By 1995, approvals reached \$194 million.

From 1995 to 2000, PSOs continued on an overall growth trend, albeit with significant fluctuations in approval amounts between years. The Asian financial crisis in 1997 caused approvals to drop by 42% and funding for B loans to dry up. In line with the 1995 strategy, ADB's approvals shifted further toward infrastructure and investment funds. The average project size doubled during the latter half of the 1990s. While power projects accounted for the majority of approved funding, ADB diversified its infrastructure investment with sizable transactions in transport and water. By 2000, the amount of annual approvals had increased to \$352 million.

Figure 1: ADB Timeline

ADB = Asian Development Bank, PSD = Private Sector Development.
Source: ADB Private Sector Operations Department.

⁷ ADB. 1992. *Report of the Private Sector Task Force*. Manila.

⁸ ADB. 1995. *Strategy for the Bank's Assistance for Private Sector Development*. Manila.

Figure 2: Growth in ADB's Private Sector Operations, 1983–2016

ADB = Asian Development Bank.

Note: Includes private sector approvals funded from ADB's ordinary capital resources.

Source: ADB Private Sector Operations Department.

2000 to 2010—Establishment of Private Sector Operations Department

In 2000, ADB introduced a new Private Sector Development (PSD) Strategy.⁹ One of its three pillars focused directly on private sector operations that have clear development impact and demonstration effects to mobilize additional private financing (i.e., projects with considerable development impact and ability to pull in commercial cofinancing). In 2001, the PSD Strategy was complemented by a paper outlining strategic directions for PSOs.¹⁰ The strategy paper reaffirmed the emphasis on infrastructure and capital markets while expanding into new areas like telecommunications and the social sector on a pilot basis. In addition to the existing investments in middle-tier and larger DMCs, the strategy aimed to expand operations to smaller countries and to diversify the use of financial instruments, with a particular focus on guarantees. The 2001 strategy paper also called for additional revisions to ADB's internal processes to optimize capital use and increase efficiency. In the same year, the Private Sector Unit was converted into the Private Sector Operations Department (PSOD).

In 2004, ADB established a Trade Finance Facilitation Program, later renamed Trade Finance Program (TFP) to fill market gaps for trade finance. ADB's TFP works with partner banks to provide companies with the financial support to engage in import and export activities in Asia's most challenging markets. TFP particularly aims to support SMEs and intraregional transactions, especially between DMCs, to help create sustainable jobs and economic growth. In effect, the TFP is an intermediary between banks in DMCs and international banks.

A 2006 review of ADB's PSD strategy concluded that its objectives were valid and continued to be important.¹¹ The review identified a number of operational lessons to strengthen PSOD's operations, including the introduction of performance indicators for operations and improved collaboration with the public sector regional departments.

In 2008, ADB adopted its Strategy 2020, identifying engagement with the private sector as one of the five drivers of change. Strategy 2020 recognized that ADB's role in supporting the private sector was both to promote growth and to broaden access to economic opportunities, especially for the disadvantaged, while at the same time promoting environmental sustainability. These priorities were reaffirmed by the midterm review of Strategy 2020, completed in 2014.¹²

⁹ ADB. 2000. *Private Sector Development Strategy*. Manila (R78-00).

¹⁰ ADB. 2001. *Private Sector Operations: Strategic Directions and Review*. Manila (R122-01).

¹¹ ADB. 2006. *Private Sector Development: A Revised Strategic Framework*. Manila (IN.27-06).

¹² ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

Between 2000 and 2010, annual approvals grew at an average annual rate of 16.3% despite setbacks caused by the financial crises in 2001 and 2008. The share of infrastructure projects in annual approvals further increased, with power projects making up the largest share of PSOD's approvals. Toward the end of the decade, annual approvals reached \$1.6 billion.

2010 to Present—Scaling up Private Sector Operations

In 2010, ADB created the Microfinance Risk Participation and Guarantee Program to facilitate local currency lending to microfinance institutions across DMCs. A Supply Chain Financing Program (SCFP) was instituted in 2012 to work with corporations and financial institutions to enhance SME access to working capital. The SCFP offers guarantees to partner financial institutions that advance payments for goods sold to SMEs.

ADB's Independent Evaluation Group comprehensively reviewed ADB's PSOs in 2013.¹³ The evaluation found that PSOD's operations are mainly focused on Strategy 2020's first pillar: creating and expanding economic opportunities. It also noted that PSOs were an important channel for operationalizing ADB's promotion of renewable energy sources, accounting for 69% of related ADB investment volumes. The review recommended emphasizing income distributional aspects of growth to ensure that more benefits of growth reach the poor, e.g., by a stronger focus on inclusive business transactions, and by more actively participating in sector dialogue. The study also noted PSOD's emphasis on frontier markets and recommended continuing on this trajectory.

ADB introduced a number of reforms to address lessons from the midterm review, taking into account the results from the review of PSOs by the Independent Evaluation Group in 2013. In 2015, PSOD established a dedicated agribusiness investment team to focus on food security and rural livelihoods. The introduction of a “one ADB” approach aims to facilitate stronger collaboration and sharing of resources among PSOD and regional departments. The Faster Approach to Small Nonsovereign Transactions (FAST) simplified project processing for smaller transactions through speedier internal review and delegation of approval. This primarily benefits small and more innovative projects and work in frontier countries. Testing of an economic capital planning model in 2015 also aims to help PSOD better plan and implement its business activities.

Since the adoption of Strategy 2020 and its midterm review, ADB's PSOs have continued to grow at a rapid pace. The share of projects addressing renewable energy and financial inclusion grew. These sectors now make up the 84% of PSOD's annual approvals which grew to \$2.5 billion in 2016. PSOD has set targets for climate finance and work in frontier economies. In addition to these priorities, PSOs also focus on projects with positive gender impacts and on promoting inclusive businesses. Notwithstanding the rapid overall growth, PSOD maintains excellent portfolio quality with credit rated satisfactory or better for 98.7% of ADB's portfolio.

¹³ ADB. 2013. *Special Evaluation Study of ADB Private Sector Operations: Contributions to Inclusive and Environmentally Sustainable Growth*. Manila.

ADB's Private Sector Activities and Accomplishments in 2016

The Private Sector Operations Department (PSOD) structures and finances transactions with private enterprises (as well as with 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 finance institutions.

Approvals

In 2016, ADB's Board of Directors approved 26 nonsovereign operations for a total amount of \$2.5 billion, a slight decrease compared to the record approvals in 2015 (Figure 3). In addition, PSOD mobilized \$5.8 billion in direct value-added cofinancing, \$1.2 billion more than 2015. This includes \$238 million in official cofinancing to support PSOs, and \$1.9 billion from ADB's Trade Finance Program and Supply Chain Financing Program (Table 1). PSOD contributed 41% to the total amount of cofinancing mobilized by ADB. Taken together, the amount of its own and third party financing that ADB made available for the private sector was 15% higher in 2016 than in 2015.

Figure 3: Growth in ADB's Private Sector Operations, 2012–2016

ADB = Asian Development Bank.

Note: Includes private sector approvals funded from ADB's ordinary capital resources.

Source: ADB Private Sector Operations Department.

The regional distribution of approvals is similar to previous years. South Asia, with its enormous population and large share of the poor, remains the region with the largest approval amounts, followed by Southeast Asia and Central and West Asia (Figure 4).

Figure 4: Approvals by Region, 2016 (\$ million)

Source: ADB Private Sector Operations Department.

Over 96% of approvals were in the form of project or corporate loans, an increase of 10 percentage points over the previous year. Equity accounted for 3% of approvals and guarantees for 1% (Figure 5).

Figure 5: Approvals by Product, 2016 (\$ million)

Source: ADB Private Sector Operations Department.

Table 1: Value-Added Cofinancing, 2012–2016 (\$ million)

	2012	2013	2014	2015	2016	Total
Direct value-added cofinancing	6,117	2,931	5,002	4,589	5,834	24,473
Official cofinancing	19	135	194	25	238	611
Commercial cofinancing	6,098	2,796	4,808	4,564	5,596	23,862
B loans	200	220	863	1,085	203	2,571
Guarantees	87	75	8	114	141	425
Parallel equity			339	393		732
Parallel loans	3,341	109	1,503	1,128	3,245	9,326
Risk transfers	126	113	56	383	141	819
TFP cofinancing	2,344	2,279	2,039	1,415	1,765	9,842
SCFP cofinancing				46	101	147

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.

In August 2016, ADB and the Japan International Cooperation Agency launched the Leading Asia’s Private Sector Infrastructure fund (LEAP). LEAP is managed by PSOD and was seeded with a commitment of \$1.5 billion from the Japan International Cooperation Agency. It targets a wide range of infrastructure sectors with a focus on renewable energy and improvements in energy efficiency. LEAP has a flexible mandate to invest in projects at different stages of development through a variety of modalities, including public–private partnerships, joint ventures, infrastructure concessions, and corporate financing, while using a range of debt, equity, and mezzanine instruments. In December, within the first 5 months of LEAP’s operation, ADB confirmed the first two projects to benefit from LEAP financing. LEAP will provide \$20 million to develop the Muara Laboh geothermal power plant in Indonesia. The transaction also includes \$70 million from ADB’s ordinary capital resources and a \$19.25 million loan from the Clean Technology Fund. LEAP will also contribute \$195 million to a loan of \$390 million to ReNew Power Ventures that will finance 709 MW of solar and wind generation capacity in India.

Supporting ADB’s Strategic Priorities

ADB’s Strategy 2020 calls for activities to “focus onto the region’s three critical strategic agendas: inclusive economic growth, environmentally sustainable growth, and regional integration”¹⁴ (Figure 6). In line with this strategy, 84% of PSOD financing approved in 2016 focused on access to reliable energy and financial inclusion. These areas are particularly relevant to inclusive economic growth. The balance consists of financing for other core infrastructure areas and agribusiness, which also make important contributions to this priority.

Figure 6: Strategic Areas Addressed by Number of Approved Transactions, 2016 (%)

Note: Transactions can contribute to more than one strategic area.

Source: ADB Private Sector Operations Department.

¹⁴ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila. p. iii.

Box 1

Supporting Innovation in Renewable Energy Delivery

Cambodia Solar Power Project

Cambodia is transitioning from a postconflict to a market-oriented economy. In recent years, the country's annual growth rates have exceeded 7% and poverty has fallen from 47.8% in 2007 to 13.5% in 2014. However, the legacy of the civil conflict, which devastated national infrastructure, remains. Access to electricity in Cambodia is among the lowest in Southeast Asia, despite its rapid economic development. The electrification rate has risen from 20.3% in 2007 to 55.0% in 2015, but is still not comparable with regional peers.

While solar power has great potential in Cambodia, it contributes less than 0.1% to the energy mix and is not used at utility scale. Development was hindered by the previously high cost of solar technology and the scarcity of long-term commercial financing. With recent technological advances, utility-scale solar plants are now available at a cost that allows production of power that can compete with existing sources.

Sunseap Group was selected competitively by the Government of Cambodia to install the first utility scale solar power plant in the country. The plant has a capacity of 10 megawatts and delivers electricity below the average cost of electricity supply in the country. The project does not rely on government subsidies or a feed-in-tariff. In December, the Asian Development Bank (ADB) approved a loan of \$9.85 million to Sunseap and a local partner. In addition to \$3.6 million from ADB's own resources, the loan also mobilizes \$3 million of financing from an international commercial bank and \$3.25 million from the Canadian Climate Fund for the Private Sector in Asia, under the Clean Energy Financing Partnership Facility administered by ADB.

Source: ADB Private Sector Operations Department.

Inclusive Economic Growth

Private sector operations approved in 2016 are expected to support inclusive economic growth by generating over \$10.2 billion in revenues, which would allow DMC governments to invest in their economies. Projects will contribute \$3.3 billion to local economies by purchasing local goods and services. At full implementation, PSOD transactions are expected to support nearly 27,000 permanent jobs, of which 75% will directly target the employment of women. Transactions are expected to create a further 40,000 temporary jobs during the construction of project infrastructure.

To ensure that operations focus on the geographies where support is needed most, PSOD has set a target to ensure that at least 40% of approvals benefit frontier countries.¹⁵ Forty-two percent of approved PSOs will support operations in frontier countries, slightly exceeding the result of 2015 (Figure 7). These include support for the nascent solar energy sector in Cambodia (Box 1), the expansion

of financial services to agribusinesses and MSMEs in Pakistan (Box 2), and the expansion of mobile phone coverage in Myanmar, with a loan of \$50 million to Irrawaddy Towers Asset Holding.

Figure 7: Share of Approvals in Frontier Economies by Number of Transactions, 2014–2016 (%)

Note: Frontier countries are defined as lower-middle-income and low-income countries, but excluding India.

Source: ADB Private Sector Operations Department.

¹⁵ Frontier countries are lower-middle-income and low-income countries, excluding India.

Figure 8: Geographical Distribution of 2016 ADB Private Sector Approvals

Country	Project Name	Amount (\$)
Armenia	Rural Financial Inclusion Project	6,000,000
Azerbaijan	Shah Deniz Gas Field Expansion Project	500,000,000
Bangladesh	Sustainable Projects in the Textile and Garment Sector	20,000,000
Cambodia	Cambodia Solar Power Project	3,600,000
China, People's Republic of	Inclusive and Sustainable Livestock Farming Project	62,500,000
	Integrated Wastewater Management Project	150,000,000
	Microfinance in Poverty-Stricken Counties	50,000,000
	Sustainable Dairy Farming and Milk Safety Project	62,500,000
India	Debt Financing to Janalakshmi Financial Services Private Limited	150,000,000
	Expanding Micro and SME Lending in Semi-urban and Rural Areas Project	75,000,000
	Mytrah Wind and Solar Power Development Project	175,000,000
	ReNew Clean Energy Project	195,000,000
	Supporting Access to Finance for Women in Less-Developed States Project	200,000,000
Indonesia	Muara Laboh Geothermal Power Project	70,000,000
	Tangguh Liquefied Natural Gas Expansion Project	400,000,000
Myanmar	MYA: Yangon Urban Renewal and District Cooling Project	50,000,000
	Telecommunication Towers Infrastructure Project	50,000,000
Pakistan	Expanding Access to Credit for Agriculture and Micro, Small and Medium-Sized Enterprise Borrowers	20,000,000
	Triconboston Wind Power Project	75,000,000
Regional	Distributed Energy Storage Solutions Project	5,000,000
	Strengthening the Microfinance Ecosystem Project	1,500,000
	High-Value Horticulture Development Project	20,000,000
	VI (Vietnam Investments) Fund III, LP	20,000,000
Sri Lanka	Supporting Growth of Private Sector Banking	50,000,000
Thailand	Distributed Commercial Solar Power Project	47,000,000
	Grid-parity Rooftop Solar Project	43,600,000
Total		2,501,700,000

Note: Includes all transactions from ordinary capital resources.

Source: ADB Private Sector Operations Department.

Box 2

Expanding the Frontiers of Financial Inclusion

Expanding Access to Credit for Agriculture and Micro, Small, and Medium-Sized Enterprise Borrowers

Despite substantial growth in Pakistan's financial sector, many individuals and firms remain underserved by its banks. Only 10% of Pakistanis have a bank account compared to an average of 41% in other lower-middle-income countries. The rate of women with a bank account is a very low 3%. Micro, small, and medium-sized enterprises (MSMEs) contribute 40% to Pakistan's gross domestic product but only account for 7% of the total bank credit to the private sector. Some 85% of farmers do not use financial services.

In November, the Asian Development Bank (ADB) approved a loan of \$20 million to Khushhali Bank to support the financial inclusion of agribusinesses. Khushhali Bank has recently introduced a loan product for individual MSMEs to complement its group loans and loans to individuals focusing on the lower end of the microfinance sector. The project will support the expansion of this nascent product and allow the bank to increase its loan tenors for this market segment. ADB's support will help the bank increase its share of female customers to 30%.

With support from ADB, Khushhali Bank is expected to grow the number of its agribusiness customers by 75%. By the time the project is fully implemented, it is expected to have 750,000 active agribusinesses borrowers including 200,000 loans to women. The project will support the expansion of the MSME product from 300 to 15,000 customers including 3,000 women-owned enterprises.

Source: ADB Private Sector Operations Department.

PSOD works with clients to promote gender equity. For the first time, more than half of ADB's private sector approvals included products targeted toward women or which help improve their livelihoods (Figure 9).

Figure 9: Approvals with Gender Elements, 2014–2016 (number)

Source: ADB Private Sector Operations Department.

Two projects target gender equality and/or women's empowerment. A loan of \$200 million will support IndusInd Bank in doubling the size of its inclusive finance business in India with a special focus on female clients. The transaction is complemented with technical assistance to support financial literacy for women. A \$50 million loan to the CFPA Microfinance Management in the People's Republic of China (PRC) will also help increase access to financial services for women. The project will provide staff with training to specifically address the needs of female clients and organize outreach activities to potential female beneficiaries. An additional four projects support effective gender mainstreaming, providing services directly targeted to women, while eight include design elements that benefit women.

PSOD also finances many projects that contribute to making basic services universally available. Many of these services provide enormous benefits for women. For example, improved access to energy reduces the use of dirty fuels for cooking and lighting. Dirty fuels expose women (and children) to indoor air pollution, causing respiratory and other illnesses.

Box 3

Enhancing Food Security and Improving Rural Livelihoods

Sustainable Dairy Farming and Milk Safety Project

The emergence of a large urban middle class in the People's Republic of China (PRC) has resulted in a large increase in the demand for safe, nutritious food. This includes a growing demand for milk, which currently cannot be met through domestic production. At the same time, inequalities are rising, with urban per capita incomes outpacing those of rural areas by a factor of 2.75. To address these two issues, the PRC government has introduced policies to modernize agricultural practices in an environmentally sustainable way.

In June, the Asian Development Bank approved a loan of \$125 million to Inner Mongolia Saikexing Breeding and Biotechnology Group (SKX) to support the Sustainable Dairy Farming and Milk Safety Project. The project, which includes a B loan of \$62.5 million, will allow SKX to more than double its capacity for processing milk and expand its farming operations in a sustainable manner. The project will finance an increase in SKX's capacity to treat wastewater, process manure into fertilizers, and introduce biogas digesters to generate clean energy.

The project will result in both a significant increase in milk production as well as an improvement in the quality of the milk produced and a reduced impact on the environment. At full implementation, the use of biogas digesters will reduce the amount of methane emissions by 66,000 tons carbon dioxide equivalent per year and deliver an additional 70,000 tons of organic fertilizer. In doing so, the project will create 600 jobs and provide business for an additional 2,500 smallholder farmers, contributing to a reduced rural–urban income gap.

Source: ADB Private Sector Operations Department.

Inclusive business transactions support financially viable projects that generate high development impact. They provide goods or services tailored to the needs of the poor or allow the poor to improve their livelihood by generating employment or providing business opportunities. The number of inclusive business transactions has grown from six in 2014 to eight in 2016 (Figure 10). An example of a project supporting the livelihoods of people at the bottom of the pyramid is the Sustainable Dairy Farming project (Box 3). PSOD also supports inclusive businesses through its Microfinance Risk Participation and Guarantee Program.

Environmentally Sustainable Growth

All of PSOD's transactions are screened for adverse environmental impacts and require clients to mitigate such impacts where appropriate. In addition, a number of projects finance investments that actively support mitigation of climate change impacts by reducing emissions or by supporting climate adaptation measures. In 2016, 46% of approvals were related to climate change, the highest share since the measure was introduced (Figure 11).

Figure 10: Inclusive Business Projects, 2014–2016
(number)

Source: ADB Private Sector Operations Department.

Figure 11: Share of Climate-Related Approvals by Number of Transactions, 2014–2016 (%)

Note: Climate-related investments include clean or renewable energy transactions and transactions with climate adaptation components.

Source: ADB Private Sector Operations Department.

PSOD projects approved in 2016 are expected to result in emissions reductions of nearly 3.5 million tCO₂e. The total amount of approvals for projects providing clean energy tripled to \$609 million.

Regional Integration

PSOD supports regional integration through its TFP and SCFP. Over 280 of 2,079 trade finance transactions facilitated by the TFP in 2016 were carried out between DMCs. In 2016, the SCFP supported more than 188 transactions valued at over \$203 million.

PSOD also supports regional integration by financing cross-border infrastructure and investments in companies that transfer technology and best practices between DMCs. For example, ADB also approved a \$20 million loan to Agripacific Holdings and Kunming Hasfarm Flowers to support the livelihoods of farmers in the PRC, Indonesia, and Viet Nam. The project will foster regional integration by strengthening regional markets and cross-border trade, investment, and technology transfer. An example of the transfer of best practices is the approval of a \$1.5 million equity investment in Micro Credit Ratings International. This Indian microcredit rating company will expand its rating and advisory services across the region.

Contributions to Sector Priorities

PSOD projects approved in 2016 focus on infrastructure and finance, ADB's core areas of operations as outlined in the midterm review of Strategy 2020. This is complemented by targeted support for other operational priority areas including agribusiness.

Infrastructure

In 2016, ADB approved 13 private sector infrastructure projects. The amount approved for infrastructure projects increased by 10% to a total of \$1.8 billion (Figure 12).

ADB approved \$609 million for private sector clean energy projects, the highest volume approved so far. These are expected to install additional electricity generation capacity of 1,958 MW, all of which will use renewable energy. When fully implemented, projects are expected to deliver over 4,000 GWh of power per year, enough to provide energy to nearly 450,000 typical Asian households.

The composition of ADB's renewable energy projects has evolved in recent years. Earlier projects tended to finance

hydropower or smaller-scale pilot projects. These projects typically received financial support from host governments through power purchasing agreements with concessional elements in the tariff structure (Box 4). With increasing experience and technological progress, the private sector is developing renewable power generation projects that do not call for any tariff subsidy, especially in middle-income countries (Box 5). In Thailand, ADB approved loans of \$47 million to Stumpf Energy Solutions and \$44 million to Thai-Sunseap Asset Company. Each of these clients will install 100 MW of solar energy generation capacity on the rooftops of commercial and industrial buildings that will produce power sold directly into the commercial market.

PSOD also works to boost renewable power generation in lower-income and postconflict countries (Box 1).

PSOD continues to support geothermal energy. ADB approved \$109 million in financing to develop geothermal steam resources in the South Solok Regency of West Sumatra in Indonesia. The loan consists of \$70 million from ADB's ordinary capital resources, \$20 million from LEAP, and \$19.25 million loan from the Clean Technology Fund.

The ADB Board of Directors approved an equity investment of \$5 million in Fluidic, a company producing energy storage solutions. The project helps make renewable power generation more viable, especially for off-grid uses such as solar home systems or telecommunications towers. By providing energy storage, the project also reduces the relative volatility of renewables when providing power to the grid.

Figure 12: Approvals by Sector, 2012–2016—Infrastructure

Note: Includes private sector approvals funded from ADB's ordinary capital resources.

Source: ADB Private Sector Operations Department.

Box 4

Building Nascent Renewable Energy Markets

Theppana Wind Power Project

In November 2012, the Asian Development Bank (ADB) approved financing for the installation and operation of the 7.5-megawatt (MW) Theppana wind farm in Thailand. The project consists of a local currency loan of Thai baht 145 million and a loan of \$4 million funded by the Clean Technology Fund (CTF). The oldest independent power producer in Thailand, Electricity Generating Public Company, undertook this project, which aimed to demonstrate the viability of wind power generation in the country.

The Theppana wind farm was implemented under Thailand's Very Small Power Producer program, which pays a fixed addition to the base tariff for the first 10 years of commercial operation of renewable energy infrastructure. The project became operational in July 2013. As of the end of 2015, it has delivered a total of 31 gigawatt-hours and avoided the emission of 20,000 tons of carbon dioxide equivalent, exceeding projections by 20%.

ADB's local currency loan and CTF cofinancing have a significantly longer tenor than other financing available in the market. This long-term commitment enhanced private investors' confidence in wind power in Thailand. As a result, local commercial banks were able to extend loans with significantly longer repayment periods. The project structure provided the basis for several follow-on projects. These include scale-ups such as the 81 MW Subyai Wind Power Project as well as an increasing number of projects that deliver renewable energy at spot market prices, such as the Grid Parity Rooftop Solar project approved in 2016.

Source: ADB Private Sector Operations Department.

Box 5

Scaling up Renewable Energy

ReNew Clean Energy Project

The Government of India has set for itself ambitious targets to increase the share of renewable power generation in the country's energy mix. The country aims to have a total installed renewable generation capacity of 175 gigawatts by 2020. At the beginning of 2016, progress against this target stood at 24%.

In December 2016, the Asian Development Bank approved a loan facility of \$390 million to support this priority. This includes \$195 million in funds from the Leading Asia's Private Sector Infrastructure Fund (LEAP). The loan facility will assist seven special purpose vehicles owned by ReNew Power Ventures, which were established to develop seven separate solar and wind power projects. Aggregate generation capacity will total 709 megawatts (MW), comprising 398 MW of solar power and 311 MW of wind power projects, located across six different states in India.

At full implementation, the project will deliver 1,400 gigawatt-hours of clean energy per year to the Indian grid. The energy produced will enable emissions reductions of some 1.2 million tons of carbon dioxide equivalent per year. Construction of the project will provide 6,000 people with employment and contribute over \$400 million to India's economy.

Source: ADB Private Sector Operations Department.

Two projects support the extraction of natural gas in a safe and environmentally friendly way. A loan of \$500 million to Southern Gas Corridor CJSC will finance the expansion of the Shah Deniz Gas Field in Azerbaijan. The project will increase gas production by 16.2 billion cubic meters (m³) a year, contributing \$9.7 billion in government revenues. ADB also approved \$400 million to help meet Indonesia's rapidly expanding demand for gas. The Tangguh natural gas liquefaction facility, in Papua Barat Province, is enabling the switch from coal and diesel-based energy production to less carbon-intensive natural gas. Through the project, ADB is helping to create 7,000 jobs during construction and investing in energy services that will benefit the local population.

PSOD will also support projects in water and sanitation, urban development, and telecommunications. When fully operational, these are expected to treat over 756 million m³ of wastewater per year in the PRC's central and western provinces and support the installation of 5,000 mobile telecommunications towers in Myanmar, helping to increase telecommunications coverage to 80% of the country.

Financial Institutions and Investment Funds

In 2016, PSOD approved 10 projects in the financial sector with a total approval amount of \$593 million (Figure 13). This represents a decline from the record levels in 2014 and 2015, but is in line with the long-term growth trend of the sector.

Projects supporting financial institutions are expected to increase the number of people and MSMEs served by ADB's clients by 23 million customers, over 95% of whom are expected to be women or enterprises owned by women.

Figure 13: Approvals by Sector, 2012–2016—Finance

Note: Includes private sector approvals funded from ADB's ordinary capital resources.

Source: ADB Private Sector Operations Department.

At least 700,000 individuals are expected to gain access to savings and transaction accounts. Three projects are targeting SMEs with specialized financial services, expecting to reach 31,000 SMEs including 4,500 SMEs owned by women. Two projects are working to provide access to 400,000 rural customers and agribusinesses.

ADB's financial institutions clients frequently offer specialized products that address the needs of a poor target group. For example, in June, ADB approved a \$150 million investment in debt securities of Janalakshmi Financial Services. In addition to providing finance to MSMEs with a focus on women, the project also provides technical assistance to support the development and rollout of a loan to finance the installation of toilets. In Bangladesh, ADB approved a loan of \$20 million to Eastern Bank to support socially and environmentally sustainable investments in the garment industry. ADB is helping to ensure that textiles and garments comply with recently enhanced fire and safety standards, and to increase the energy efficiency of production facilities.

PSOD works through private equity funds to support more mature SMEs and the local middle market firms that lack access to capital markets. These are often enterprises that have reached a stage where internal revenue generation is not enough to sustain growth. In many cases, the private equity funds ADB invests in are the first external investor in such companies. They help less mature firms to introduce good corporate governance practices that allow more sustainable growth and job creation (Box 6).

Agribusiness

PSOD continued to ramp up its operations in agribusiness with three approvals in 2016. The total approved amount of \$145 million is the highest for this sector so far (Figure 14). PSOD's agribusiness projects support rural livelihoods and contribute to the availability of safe, affordable, and nutritious food. Projects approved in 2016 will support the livelihood of over 4,000 farming households through contract farming or direct employment. Some 20% of the support will directly benefit women.

PSOD Programs

Through its TFP, ADB helps close market gaps by providing banks with guarantees and loans in support of cross-border trade finance. In 2016, the TFP facilitated 2,079 transactions valued at over \$3.0 billion, with over \$1.8 billion cofinanced by banks, private insurers, an export credit agency, and

Box 6

Fostering Inclusive Growth in Priority Sectors

VI (Vietnam Investments) Fund III, LP

Capital markets in Cambodia, the Lao People's Democratic Republic, Myanmar, and Viet Nam are relatively small and illiquid compared with those in countries at a similar stage of development. As a result, medium-sized enterprises lack access to growth capital, which would allow them to reach a size where they can provide a larger number of jobs that are more stable and offer better benefits.

In 2016, the Asian Development Bank approved an investment of up to \$20 million into Vietnam Investments Fund III (VIF III). VIF III is a \$250 million fund targeting consumer goods and services, health care, education, and logistics primarily in Viet Nam; it also envisages such investments in Cambodia, the Lao People's Democratic Republic, and Myanmar. In addition to much-needed growth capital, VIF III also works with investees to standardize corporate governance, often an important step for targeted companies to professionalize management and continue growing. The investment will also strengthen the environmental and social management practices of investees to ensure sustainable growth.

The transaction focuses on priority sectors that are expected to yield significant employment effects as well as important contributions to sector priorities including accessible health care and quality education. VIF III aims to facilitate employment growth of at least 50% in portfolio companies during the holding period, and to ensure that female employment in investees grows to at least 20%. By achieving a good rate of return, the transaction also intends to demonstrate the viability of private equity investment in middle market firms in the targeted sectors.

Source: ADB Private Sector Operations Department.

International Enterprise Singapore. Among the TFP's 20 countries of operation, the six most active were Armenia, Bangladesh, Mongolia, Pakistan, Sri Lanka, and Viet Nam. The TFP provided support to 1,597 SMEs, with about 280 trade transactions between DMCs.

In 2016, the TFP expanded into the Pacific for the first time, signing trade finance agreements with two banks in Samoa and one bank in Vanuatu. It also expanded operations in Bangladesh, Kazakhstan, Myanmar, Uzbekistan, and Viet Nam, partnering with 11 new banks. The TFP conducted training and capacity-building seminars and workshops in Cambodia, Myanmar, and Mongolia. It also held regional training in Uzbekistan, drawing 36 banks from seven Central and West Asian countries.

Figure 14: Approvals by Sector, 2012–2016—Agriculture

Note: Includes private sector approvals funded from ADB's ordinary capital resources.

Source: ADB Private Sector Operations Department.

ADB's SCFP complements the TFP. Both work with partner banks to close market gaps for cross-border trade. SCFP assumes direct risk on importers and exporters, and can support domestic supply chains. In 2016, the SCFP supported more than 188 transactions valued at over \$203 million, 50% of which was cofinanced with partner financial institutions. All of the SCFP's transactions supported SMEs.

The Microfinance Risk Participation and Guarantee Program facilitates local currency lending to microfinance institutions across DMCs. It expands access to finance for businesses and people at the bottom of the pyramid. The program partners

with local and international banks to share the risk of loan defaults. Since 2010, it has supported more than \$420 million in loans to more than 2.4 million poor borrowers, with cofinancing of over \$220 million. In 2016, Citibank joined the program as a new regional partner. The program is active in Bangladesh, India, and Indonesia, and is scheduled to expand to Myanmar and Sri Lanka in 2017.

Portfolio

ADB's total portfolio of PSOs grew by 17% to \$9.3 billion (Figure 15). As a result of improved portfolio management and enhanced focus on operational readiness, the amount of outstanding portfolio grew by 28% to \$7.3 billion.¹⁶

Figure 15: Total Private Sector Portfolio, 2012–2016

Source: ADB Private Sector Operations Department.

Figure 16: Total Private Sector Portfolio by Region, 2016 (\$ million)

Source: ADB Private Sector Operations Department.

ADB's total portfolio in Southeast Asia grew by 56% in 2016, making it the largest region, followed by South Asia (Figure 16). PSOD's exposure in frontier countries has grown to 30% of total portfolio.

Disbursements

An important step in the project cycle toward achieving impact is the disbursement of funds. PSOD has been working to improve processes to maximize and accelerate disbursements, taking into account the nature of output financed by each project.

Disbursements continued to grow in 2016 despite the small decrease in approvals (Figure 17). Funds disbursed during 2016 reached a record \$1.7 billion and the disbursement ratio for the first time exceeded 50%.¹⁷

Figure 17: Private Sector Disbursements, 2012–2016

Source: ADB Private Sector Operations Department.

Delivering Development Results

PSOD started piloting regular reporting of development data for newly approved projects in 2012. Starting in 2014, all new approvals have been required to regularly report results. In 2016, the share of PSOD's portfolio reporting such data reached 30%, allowing for the first time to include aggregate data in the Development Effectiveness Report. This data complements the reporting of results

¹⁶ Outstanding portfolio refers to the amount of total portfolio that was disbursed to the client.

¹⁷ The disbursement ratio for the year is computed as the amount disbursed during the year divided by the undrawn balance at the beginning of the year, plus signed amounts during the year, less any cancellation.

of completed transactions captured through extended annual review reports (XARRs), which were part of previous Development Effectiveness Reports. The share of projects reporting development results will increase as old projects without reporting requirements exit the portfolio.

Projects with PSOD financing are providing employment for 73,172 additional people. Of these, 62,672 are temporary employees during project construction. Active projects contributed \$379 million to government revenues and contribute to local economies by purchasing domestic goods and services in the amount of \$1.1 billion. PSOD's active portfolio contributed to avoiding emissions reductions of 2.7 million tCO₂e per year.

Infrastructure

PSOD's portfolio in infrastructure is \$4.9 billion, 53% of PSOD's total. The largest share supports renewable energy generation, followed by conventional energy, water and urban development (Table 2).

Table 2: Portfolio by Primary Transactions Sector, 2014–2016 (\$ million)

	2014	2015	2016
Infrastructure	4,635	4,837	4,870
Clean Energy	2,077	1,992	1,905
Conventional Energy	1,857	1,798	1,811
Water and Urban	465	464	542
ICT	2	152	150
Transport	234	431	462
Finance	2,298	2,673	3,921
Agriculture	184	245	299
Others	127	126	112

ICT = information and communication technology.

Source: ADB Private Sector Operations Department.

PSOD's active projects have installed power generation capacity of 4,242 MW, delivering 14,037 GWh of electricity every year. This is enough to power 1.5 million average Asian households. ADB's private sector water projects treat 132.2 million m³ of wastewater per year and produce 15.8 million m³ of drinking water.

Finance

PSOD's financial sector portfolio has grown significantly in the last few years and is now \$3.9 billion. PSOD's active projects have provided financial services to over

1 million individuals or MSMEs, 72% of which are women or enterprises owned by women. This includes 45,548 SMEs reached with dedicated financial products.

Agribusiness

ADB's agribusiness portfolio has grown to \$306 million. Active PSOs have improved the lives of 197,034 farmers or farming households through the provision of financial services or inclusion in agribusiness value chains.

Postcompletion Evaluation of Transactions

At the time of project completion, PSOD prepares XARRs for transactions. XARRs evaluate the success of transactions based on the development results achieved, investment profitability, work quality and additionality. These findings are validated by ADB's Independent Evaluation Department.

XARRs prepared in 2016 cover 10 completed transactions approved between 2005 and 2013. Eight of these were rated *successful* or *highly successful* (Figure 18). Projects rated as *successful* or higher included infrastructure transactions as well as transactions working with financial intermediaries that were approved after 2007.

Figure 18: Ratings for Completed Transactions, 2016

Source: ADB Private Sector Operations Department.

The two projects rated *less than successful* and *unsuccessful* are financial intermediary projects approved in 2007 and earlier. Projects of these vintages have been performing relatively poorly in part due to the 2008 financial crisis.

Awards Received by ADB's Investees and Transactions

**Tiwi MakBan
Geothermal Power
Green Bonds
Project (Philippines)**

**Project Finance International
2016 Asia-Pacific Bond
Deal of the Year**

**Thomson Reuters'
Asian Legal Business Awards
2016 Debt Market
Deal of the Year**

**IJ Global Awards
2016 Asia Pacific Project
Bond Deal of the Year**

**Trade Finance
Program**

**Global Finance Magazine
2016 Best Multilateral Institution
for Trade Finance**

**Tangguh LNG
Project (Indonesia)**

**FinanceAsia
2016 Best Project
Financing Deal**

**IJ Global Awards
2016 Asia Pacific Oil & Gas
Deal of the Year**

**Mactan Cebu
International
Passenger Terminal
Project (Philippines)**

**Thomson Reuters' Asian Legal Business Awards
2016 Project Finance Deal of the Year**

**Credo LLC-
Financial Inclusion
for Micro Small
Business Growth
(Georgia)**

**CNBC Awards
Best Transaction Award for 2015**

**Mountain Hazelnuts-
Hazelnut Value
Chain Development
Project (Bhutan)**

**CNBC Awards
Best Transaction Award for 2015**

**Gulpur Hydropower
Project (Pakistan)**

**The Asset Triple A Asia Infrastructure Awards
2016 Best Energy/Renewable Energy Deal of the Year**

Development Effectiveness Report 2016

Private Sector Operations

2016 marks the 50th anniversary of the Asian Development Bank (ADB) and the first full year with the new Sustainable Development Goals and the Paris agreement to fight 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. 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, ADB provides assistance to the private sector to help address these development challenges. This seventh annual report reviews the contributions of ADB's Private Sector Operations Department during 2016 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 a large share 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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