

Fact Sheet

Asian Development Bank (ADB) and private finance for development

What is ADB?

The Asian Development Bank was founded in December 1966. From 33 countries in 1966, the ADB is now owned by 67 member countries, of which 48 are from within the region and 19 from outside. Of these 67 members, 46 are considered Developing Member Countries (DMCs).¹

Its charter states that its main purpose is “to foster economic growth and co-operation in the region of Asia and the Far East and to contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually.” It claims that it is committed to “improving people’s lives in Asia and the Pacific” and working for “an Asia and Pacific free from poverty” and “help create a world in which everyone can share in the benefits of sustained and inclusive growth.”²

In the past five years, the net income of the ADB has been declining. Its net income for 2012 was \$142.5 million compared to the \$625.8 and \$609.5 million of years 2010 and 2011 respectively. The decrease, according to the ADB, was mainly due to reductions in fair value of some of ADB’s derivatives and associated borrowings.

Operations

The ADB provides sovereign as well as non-sovereign financial assistance. Non-sovereign assistance includes financing extended to private enterprises and institutions as well as financing to selected sub-sovereign public sector entities which are not covered by sovereign guarantees (guarantees by the national government).

ADB sources of finance are as follows:

- Ordinary capital resources, which include paid-in capital, retained earnings (reserves), and proceeds from issuing debt securities in the international and domestic capital markets. Its debt securities carry the highest possible investment ratings from major international credit rating agencies.
- Special funds.
- Trust funds, which are generally financed by contributions and administered by ADB as the trustee.

Key figures

| \$ million unless noted otherwise | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|----------|-----------|-----------|----------|-----------|
| Revenue from loans | 770.5 | 649.6 | 680.5 | 959.8 | 1,358.00 |
| Revenue from investments | 390.2 | 365.3 | 367.5 | 459.4 | 677.20 |
| Total Revenue | 1,238.10 | 1,095.10 | 1,141.90 | 1,471.50 | 2,064.50 |
| Total Expenses | 887.1 | 681.4 | 639.1 | 1056.2 | 1360.6 |
| Net Income (Loss) | 142.5 | 609.5 | 625.8 | (28) | 1,126.3 |
| Average Earning Assets | 76,361 | 69,111.90 | 62,444.50 | 54,655 | 50,394.00 |
| Annual Return on Average Earning Assets (%) | 0.19 | 0.88 | 1 | -0.05 | 2.24 |

Sovereign and Non-Sovereign Approvals from 2013 to 2009 (\$ million)

| Year | 2013 | 2012 | 2011 | 2010 | 2009 |
|---------------|--------|--------|-----------|--------|--------|
| Sovereign | 16,482 | 13,432 | 15,396 | 14,845 | 17,251 |
| Non-Sovereign | 4,538 | 7,861 | 6,319 | 2,284 | 1,904 |
| TOTAL | 21,020 | 21,293 | 21,571.00 | 17,128 | 19,156 |

ADB and the private sector: objectives and practices

The ADB believes that the development of a strong and dynamic private sector is “essential to long term economic growth and is thus a necessary condition for sustainable poverty reduction,” and is “essential for the government sector to fulfill its role of creating long term development capacity, sustainable growth and employment generation.”

The importance it gives to the private sector is reflected in its 2008 – 2020 Long-Term Strategic Framework (LTSF) which identifies Private Sector Development at the top of its list of five “Key Drivers for Change” and mentions “closer collaboration with the private sector” as one of the major operational changes introduced by the LTSF. Furthermore, it states that one of the operational and institutional goals of ADB for this period is to “scale up private sector development and private sector operations in all operational areas, reaching 50% of annual operations by 2020.”

The core sectors of the ADB’s Private Sector Operations are:

- **Infrastructure** – mainly focusing on energy (e.g. power, generation transmission and distribution, renewable power), transport (e.g. roads, ports, railways, airports), telecommunications, water (e.g. water supply and waste treatment), and urban infrastructure;
- **Capital markets and Financial Sector** – banks, capital market institutions, leasing or non-bank financial institutions; insurance companies; and funds including private equity funds, venture capital funds, mutual funds, distressed asset funds, infrastructure funds and thematic funds (i.e. environment funds).

Regions

Although the ADB works in five different sub-regions of Asia and the Pacific, the bulk of its non-sovereign and private sector financing goes to China and India, which received 44% of total approved non-sovereign financing in 2012. In the same year, China, India and

Total nonsovereign approvals by country 2011 (\$ million)

| Country | Loans | Equity investments | B loans | Guarantees | Total |
|----------------------------------|-------|--------------------|---------|------------|--------|
| Armenia | 65 | - | - | - | 65 |
| Bangladesh | 30 | - | - | - | 30 |
| China, People's Republic of | 100 | 25 | 100 | - | 225 |
| India | 548 | 20 | - | 150 | 718 |
| Indonesia | 100 | - | 100 | - | 200 |
| Lao People's Democratic Republic | 350 | - | - | - | 350 |
| Pakistan | 97 | - | - | 66.6 | 163.6 |
| Thailand | 170 | - | - | - | 170.0 |
| Uzbekistan | 100 | - | - | 200 | 300 |
| Regional | 40 | 44 | - | - | 84 |
| Total | 1600 | 89 | 200 | 416.6 | 2305.6 |

*Includes projects processed by PSOD and regional departments

Indonesia together accounted for 48% of the total non-sovereign outstanding portfolio.

Instruments

The main instruments include loans, technical assistance (TAs), grants, guarantees and equity investments. Loans are by far the most important instrument. In 2009, however, the ADB predominantly used trade finance.

Use of instruments for capital markets and the financial sector

Support is extended to sub-sovereign, municipal, corporate and privatisation of infrastructure projects in the form of equity, loans and guarantees, as well as B loans (complementary financing scheme). ADB also assists in arranging parallel financing, as well as financial restructuring of existing infrastructure projects that were financed with debt denominated in foreign currency and/or used short-term facilities.

Support for Capital Markets and the Financial Sector is aimed at facilitating the "mobilization of foreign and domestic capital to productive sectors of the economy" and comes in the form of equity, loans and guarantees.

How does ADB determine development impacts?

The ADB releases a yearly report, the ADB Development Effectiveness Review,⁵ which assesses progress in implementing its long-term strategic framework, Strategy 2020, and covers all operations financed by ADB's ordinary capital resources and the Asian Development Fund, ADB's concessional lending window. Seven annual reports have been released. The most recent one, the 2013 Report, states that ADB has improved its performance in several areas and highlights that:

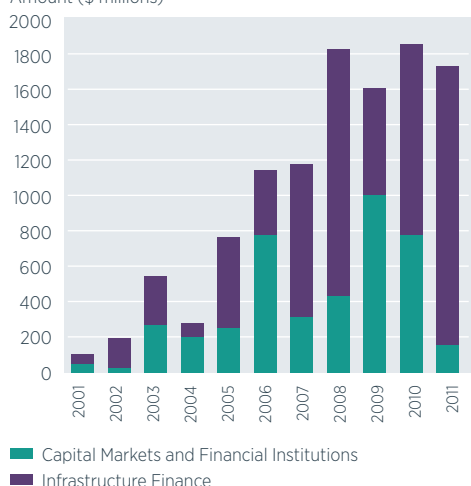
- Its success rates of completed operations improved.
 - Most core area results targets were met or exceeded.
 - Human resources management and business process efficiency improved.
- The 2013 report also mentions a number of "challenges" that the ADB encounters in the course of its operations:
- A substantial proportion of successful operations encountered cost and time overruns.
 - Less successful operations continued to suffer from design, start-up, and implementation problems.
 - Ongoing operations continue to face delays.
 - Disbursement declined marginally.
 - Direct value-added co-financing dipped and leveraging from public-private partnerships was modest.
 - Several Strategy 2020 areas are off track.

The actions proposed to meet these "challenges" include the expansion of co-financing and the strengthening of support for Public-Private Partnerships (PPPs).

At the same time, the ADB Private Sector Operations Department has also issued an annual "Development Effectiveness Report: Private Sector Operations" for the years 2009 to 2012. The 2012 Report has a chapter on the ADB's Private Sector Operation's contribution to the economic and social development of the region. The chapter is intended to show how the ADB supports the private sector across its Developing Member Countries (DMCs), and how these operations in turn contribute to economic and social development in terms of 5 areas: 1) Infrastructure – covering Energy, Telecommunications, Transport, Water, Agribusiness; 2) Finance – the development of the financial and banking sector; 3) Private Equity Funds; 4) Corporate Social

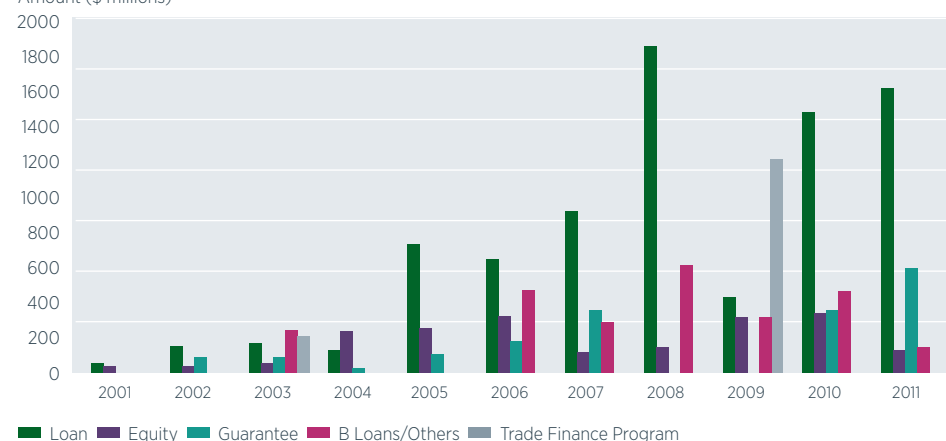
Sector focus 2001-2002

Amount (\$ millions)



Use of instruments 2001-2011

Amount (\$ millions)



* Includes projects processed by Private Sector Operations Department only

Responsibility – environmental and social standards and corporate governance standards; 5) Technical Assistance and Advisory Services.

The report has a separate chapter on “Development Outputs and Outcomes” of its Private Sector Operations in terms of indicators provided for by ADB’s Corporate Results Framework from the period 2009 to 2012 and also presents outputs and outcomes delivered by 2012 from more recent projects. The indicators used are, almost solely quantitative – for instance the energy sector outputs relate to increased capacity for energy generation in megawatts equivalent, transmission and distribution lines in kilometers, and reduced greenhouse gas emissions in tons of carbon dioxide equivalent per year.

ADB also has an Independent Evaluation Department (IED) – formerly called the Operations Evaluation Department (OED) – to “help improve its development effectiveness and accountability to stakeholders.”⁶ It reports directly to the ADB Board and is independent of ADB Management.

In July 2012, the IED released a Thematic Evaluation Study report on “ADB Private Sector Operations: Contributions to Inclusive and Environmentally Sustainable Growth.” Only a redacted version of the main report is available in the ADB website. The IED also released a 2013 December report on “ADB Support for Strengthening the Enabling Environment for Private Sector Development.” Both reports have generated responses from the management of the ADB.

Recent policy changes and the way forward

Safeguards policy

The current ADB Safeguard Policy Statement (SPS) was approved in July 2009 and became effective in 2010. It is a consolidation of three previous safeguard policies: 1) on the environment, adopted in 2002; 2) on involuntary resettlement, adopted in 1995; and 3) on indigenous peoples, adopted in 1998.

According to the ADB⁷ the SPS aims to “promote the sustainability of project outcomes by protecting the environment and people from projects’ potential adverse impacts. The objectives of ADB’s safeguards are to (i) avoid adverse impacts of projects on the environment and affected people, where possible; (ii) minimize, mitigate, and/or compensate for adverse project impacts on the environment and affected people when avoidance is not possible; and (iii) help borrowers/clients to strengthen their safeguard systems and develop the capacity to manage environmental and social risks.”

Revisions and additions were also done to adapt ADB’s new lending modalities and financing instruments and to cater to the “varying capacities and needs of DMC clients in both the public and private sectors.”

The previous safeguards policies were designed when the dominant mode of ADB financial assistance was in the form of direct project lending. In August 2004, the ADB adopted a comprehensive reform agenda and introduced new lending modalities and instruments.

The new Safeguards Policy Statement was revised and expanded to cover its new and evolving lending products and “innovative financing” instruments. The 2009 SPS acknowledges that with the increasing portfolio of projects with financial intermediaries, primarily in its private sector operations, brings “special challenges” with respect to safeguards. The paper recognizes that “ADB does not have direct oversight of or strong leverage in relation to subprojects, because subprojects are often unknown when a financial intermediary is appraised and funds are dispersed widely to many subprojects and financial intermediation can entail several layers that complicate social and environmental risk management.”⁸

The ADB started preparing for an Independent Evaluation process in 2013, phase one of which will be an operational review to assess the progress on the use of country safeguard systems as well as the implementation of safeguard requirements for financial intermediary projects.

Transparency policies and accountability

ADB’s transparency policies and accountability provisions are primarily contained in its 1) Public communications policy – the latest version of which was adopted in 2001 and its 2) Accountability Mechanism – the latest version of which took effect in 2012.

The original 2005 public communications policy (PCP) covered both communications and external relations. The policy was reviewed in 2010, resulting in the affirmation of its general approach and implementation, but with several revisions, including:

1. The addition of an Independent Appeals Panel to the already existing Public Disclosure Advisory Committee which is an internal mechanism;
2. Further clarifications to the list of exceptions to disclosure – main restructuring of the list for further clarity and in some cases the inclusion of explanations of the harm that disclosure may generate;
3. Increased access to board documents before decision making – with many of the documents to be disclosed to the public at

the same time as it is made accessible to the Board;

4. Updating of the Public Communications approach which involves “streamlining of the 2005 paper to focus on public communications” – going beyond information disclosure towards ensuring pro-active communications;
5. Increased disclosure – mainly referring to the disclosure of verbatim transcripts of Board meetings after 10 years on request, and the disclosure of audited project accounts, translated versions of project data sheets, base salaries of Management and Board Members.

The most recent review of ADB’s Accountability Mechanism (AM) was initiated in 2010, looking at the mechanism and policies that were adopted in 2003. The recent review resulted in a new policy that became effective starting May 2012.

The current ADB accountability mechanism is designed to cover two functions: 1) the problem solving function, which focuses on finding “satisfactory solutions” to problems caused by ADB-assisted projects; and 2) the compliance review function, which focuses whether the ADB has or has not complied with its operational policies and procedures that directly, materially, and adversely affect local people.

The ADB’s Accountability Mechanism (AM) is run by two separate offices: 1) the Office of the Special Project Facilitator (OSPF) which is in charge of the problem solving function; and 2) the Office of the Compliance Review Panel (OCRP).

Sectors and development outcomes

Energy

From 1990 to 2009, ADB lent over \$25.8 billion for energy projects. The updated Energy Policy – the Energy Efficiency Initiative – aims “to promote energy efficiency and renewable energy”. As of 2013, the bank reported being on track in its investment target of \$2 billion a year, having previously invested \$2.8 billion in the past two years in renewables, and other “energy efficiency, and clean technology deployment”. It issued thematic bonds for Clean Energy for the first time in 2010, raising \$244 million.

This policy is fleshed out by the bank’s Clean Energy Program, which focuses on facilitating the adoption of low carbon technologies throughout the region, especially by smaller Developing Member Countries (DMCs). The new technology-focused initiatives seeks to “increase the amount of solar and wind power generated in

the region and accelerate the transfer of low carbon technology through a private-sector led, ADB-backed market model”.

New initiatives include the following:

- The Asia Clean Energy Venture Initiative - early equity to start-up Asian companies with readily deployable clean energy technology to kick-start development and minimise perceived risks of investing in clean energy technologies.
- Carbon Capture and Storage (CCS) – ADB, in partnership with the Global CCS Institute of Australia develops demonstration projects.
- Renewable Energy Certificates - a production subsidy to electricity generated from renewable sources to incentivise clean energy technology.
- The Low-Carbon Technology Transfer Market Place - supports entrepreneurs and prospective buyers of low carbon technologies to encourage the transfer of technology from developed to developing nations.
- The Solar Energy Initiative’s dedicated Solar Energy Forum – a platform for knowledge sharing and incentives for faster solar technology deployment.

The Clean Technology Fund is supported under the Climate Investment Funds, a joint undertaking with other countries and multilateral development banks.

The Clean Energy Financing Partnership Facility’s (CEFPF) established in 2007 is described as *“a partnership platform between ADB and its financing partners”* for the purpose of helping DMCs achieve energy security and low carbon use mainly through clean energy investments.

Finance

The Financial Sector Operational Plan issued in May 2011 substantiates and guides implementation of the sector agenda of Strategy 2020. The Plan identifies the following five common strategic agendas for FSD, and the focus of ADB financial sector operations:

- Supporting developing public debt market, strengthening central banking, and establishing basic infrastructure to build public confidence in the financial system;
- Promoting enhanced financial access for the *“traditionally underserved including households and SMEs”*;
- Developing capital markets and institutional investor base that generate long-term finances and risk capital (includes subnational debt markets and access to long-term finances by infrastructure);

- Improving macro- and micro-prudential regulation and supervision of financial institutions and markets and promote their accountability and transparency;

- Supporting the liberalisation of capital accounts and foreign direct investments in the financial sector.

Health

Strategy 2020 and an Operational Plan for improving health access and outcomes under Strategy 2020 contain ADB’s core operations vis-à-vis the health sector. ADB is shifting its focus from stand-alone projects to improving in the area of health, *“infrastructure operations, economic governance and public expenditure, regional public goods, partnerships, and knowledge management”*. This has and will continue to be done through grants, loans, and technical assistance.

Industry and Trade

In the bank’s city cluster economic development approach, ADB reports a *“new approach”* to urban development in recent years that lies in supporting the growth of SMEs around industry clusters. The main goal is *“to create an enabling environment for business which activates industrial growth, triggers local economic development and increases income and job opportunities.”*

Trade and investment cooperation and integration is identified as the second of four pillars in ADB’s regional cooperation and integration (RCI) strategy. As the name suggests, the strategy aims to expand trade and joint investment in the region, strengthen trade integration, intraregional supply chains, and financial links among DMCs. The bank also cites the need to consolidate free trade agreements *“in order to engage in ‘open regionalism’”*.

ADB’s role in trade and investment cooperation and integration, which is primarily of a non-lending nature, includes: a) support to regional and subregional forums (such as ASEAN, ASEAN+3, SAARC, CAREC, GMS, BIMSTEC, and BIMP-EAGA); b) capacity and institutional development for DMCs on issues related to FTAs and trade facilitation; c) research and information dissemination, including support for establishing a database on FTAs in Asia and the Pacific; d) building stronger partnerships with other entities such as WTO, World Bank, Inter-American Development Bank and OECD.

Transport

ADB approved in 2010 the Sustainable Transport Initiative-Operational Plan (STI-OP). It is aligned with Strategy 2020 in terms of *“inclusive economic growth, environmentally sustainable growth, and regional integration”*. The four key areas for new and enhanced lending are investments in urban transport, support for low-carbon

and climate resilient transport, integration of safety in road investments, and cross-border transport and logistics.

Water

ADB formulated in 2001 a policy and investments approach to the sector which it called its *“Water for All”* policy and subsequently established the Cooperation Fund for the Water Sector (CFWS) to initiate the policy’s implementation.

Under this policy, the CFWS financed activities that:

- Raised awareness of water issues and challenges in the region and the urgent need to address them;
- Expanded knowledge of water sector issues and challenges through various comparative research studies and analyses;
- Tested innovative water project ideas on a small scale through a series of pilot and demonstration activities for scaling up and replication;
- Established water partnerships and networks with and among water utilities, knowledge and advocacy-based agencies, and river basin organisations toward stronger regional cooperation.

After the release of its study *“Asia Water Watch 2015”* in 2005 that estimated water investments for Asia and the Pacific at \$8 billion dollars annually to meet the MDGs, the bank launched the Water Financing Program (WFP) in 2006. WFP doubled ADB’s investments to over \$2 billion annually during the period 2006-2010 or a total of \$10 billion by the end of 2010. The Program continues until 2020 with target investments to be sustained at \$2-\$2.5 billion annually or a total of over \$20-25 billion by the end of 2020.

Supporting WFP implementation is the Water Financing Partnership Facility (WFPF), also set up by the bank in 2006. The WFPF reportedly increased project investments in rural, urban, and basin water, and sped up policy and institutional reforms in the area of regulations, coordination mechanisms, regional cooperation, and civil society engagements.

ADB has a new Water Operational Plan 2011-2020 (its *“blueprint for a water secure and sustainable future”* for the region) identifying priority actions for the bank to replenish the WFPF and ensure continued support for the WFP until 2020. Among the elements of the Plan is *“sustaining annual public investment levels at \$2-2.5 annually during the period 2011-2020 or a total of \$20-25 billion by the end of 2020, plus attracting much more private sector investment and expertise to accelerate results”*.

Endnotes

- 1 Developing Country Members: Afghanistan, Armenia, Azerbaijan, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, Cook Islands, People's Republic of China, Georgia, India, Indonesia, Fiji, Hong Kong, China, Kazakhstan, Kiribati, the Republic of Korea, Kyrgyz Republic, Lao People's Democratic Republic, Malaysia, Maldives, Marshall Islands, Federated States of Micronesia, Mongolia, Myanmar, Nauru, Nepal, Pakistan, Palau, Papua New Guinea, Philippines, Samoa, Singapore, Solomon Islands, Sri Lanka, Taipei, China, Tajikistan, Thailand, Timor-Leste, Tonga, Turkmenistan, Tuvalu, Uzbekistan, Vanuatu, Vietnam
- 2 ADB Website
- 3 ADB's Private Sector Operations brochure, ADB Website
- 4 The other four key drivers for change are: a) encouraging good governance; b) supporting gender equity; c) helping developing countries gain knowledge; d) expanding partnerships with other development institutions, the private sector, and with community-based organisations.
- 5 <http://www.adb.org/documents/series/development-effectiveness-review>
- 6 ADB Website
- 7 Ibid
- 8 ADB Safeguard Policy Statement, Paragraph 34 on Managing Environmental and Social Risks in Financial Intermediation, under section IV Key Policy Issues and Considerations

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