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Operational Plan for Private Sector Operations 2019–2024

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Asian Development Bank

ABBREVIATIONS

ADB	-	Asian Development Bank
ADF	-	Asian Development Fund
AML	-	anti-money laundering
BDT	-	Business Development Team
CFT	-	counter financing of terrorism
CPS	-	country partnership strategy
DMC	-	developing member country
EBRD	-	European Bank for Reconstruction and Development
ELR	-	equity-to-loan ratio
FAST	-	Faster Approach to Small Nonsovereign Transactions
FCAS	-	fragile and conflict-affected situations
FI	-	financial institution
GDP	-	gross domestic product
ICT	-	information and communications technology
IFC	-	International Finance Corporation
IPO	-	initial public offering
LIC	-	lower-income country
LMIC	-	lower middle-income country
MDB	-	multilateral development bank
MFI	-	microfinance institution
MFP	-	Microfinance Risk Participation and Guarantee Program
MSME	-	micro, small, and medium-sized enterprise
MIC	-	middle-income country
NBFI	-	nonbank financial institution
NPL	-	nonperforming loan
NSO	-	nonsovereign operations
OCR	-	ordinary capital resources
OGC	-	Office of the General Counsel
OPPP	-	Office of Public–Private Partnership
ORM	-	Office of Risk Management
PCG	-	partial credit guarantee
PEF	-	private equity fund
PFI	-	partner financial institution
PPP	-	public–private partnership
PRG	-	partial risk guarantee
PSO	-	private sector operations
PSOD	-	Private Sector Operations Department
RD	-	regional department
S2030	-	Strategy 2030
SCFP	-	Supply Chain Finance Program
SDCC	-	Sustainable Development and Climate Change Department
SIDS	-	small island developing states
SMEs	-	small and medium-sized enterprises
SOE	-	state-owned enterprise
TA	-	technical assistance
TAS	-	transaction advisory services
TFP	-	Trade Finance Program
UMIC	-	upper middle-income country

NOTE

In this operational plan, "\$" refers to United States dollars.

Vice-President	Diwakar Gupta, Private Sector Operations and Public–Private Partnerships
Director General	Michael Barrow, Private Sector Operations Department (PSOD)
Team leader	Christopher Thieme, Deputy Director General, PSOD
Team members	Eduardo Abello, Principal Operations Coordination Specialist, PSOD Marife Apilado, Director, Office of Risk Management (ORM) Steven Beck, Advisor, PSOD Shantanu Chakraborty, Director, PSOD Christine Engstrom, Director, PSOD Jonathan Grosvenor, Advisor, Treasury Department Janette Hall, Director, PSOD Jamie Kho, Senior Investment Officer, PSOD Hisaka Kimura, Advisor, PSOD Michael Kjellin, Director, ORM Mark Kunzer, Director, PSOD Lesley Lahm, Advisor, Strategy, Policy and Partnerships Department (SPD) Martin Lemoine, Principal Investment Specialist, PSOD Trevor Lewis, Principal Planning and Policy Specialist, SPD Yoji Morishita, Head, Office of Public–Private Partnership (OPPP) Gloria Paniagua, Senior Results Management Specialist, PSOD Aniruddha Patil, Principal Investment Specialist, PSOD Xiaowen Pu, Principal Investment Specialist, PSOD Bart Raemaekers, Advisor, PSOD Craig Lee Roberts, Senior Advisor, PSOD Siddhartha Shah, Director, OPPP Jackie Surtani, Director, PSOD Timo Teinila, Advisor, PSOD Kenji Yuhaku, Senior Advisor, SPD

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EXECUTIVE SUMMARY

A. Rationale and Overview

Rationale for Asian Development Bank private sector operations. Asian Development Bank (ADB) private sector operations (PSO) promote investment of private capital for development purposes. The private sector is the largest contributor to economic growth in Asia and the Pacific (the region), generating most quality jobs, tax revenues, and many innovations that improve efficiency and productivity. A dynamic future for the region depends upon a dynamic private sector.

Yet, notwithstanding the tremendous contribution of the private sector to the success of the region, enormous gaps and challenges still exist. The single largest gap relates to the supply of available financing, whether long term for infrastructure and other productive assets or short term for trade, early-stage, or micro enterprises. Some Asian capital markets, particularly in smaller markets in developing Asia, lag most of the developed world, and specialized but critical areas such as project and climate bonds are still in their infancy. Long-term local currency financing remains lacking in many parts of Asia and the Pacific. Supply aside, many in the region remain excluded from the formal financial system and needs go unmet and unfinanced because of a myriad of real or, even more prevalent, perceived risks. Financial products to meet this demand, such as leasing, insurance, and affordable housing loans, are well below their potential and the needs of the market.

ADB's PSO will lead by example to bridge these gaps and lessen these challenges. ADB will champion new products, financing structures, and companies, and provide the least amount of ADB's own funding necessary to attract commercial cofinancing, all without distorting private markets. ADB, through its PSO, will engage in developmentally impactful projects providing additionality and strong development outcomes, with a focus on environmental, social, and governance standards, and make good private sector projects happen where they might otherwise not.

ADB's PSO are financed by the proceeds of ADB bond issuances to institutional investors and supported by a taxpayer-financed capital base, while PSO activities benefit the private sector and commercial recipients. It is thus essential that ADB's PSO always justify the use of such funds based on full alignment with ADB's overall mission and country strategies, minimum market distortion, strong development impact, additionality and market complementarity, and strong market mobilization and market deepening. Over the business cycle, and on average, ADB's PSO should produce net income and be financially sustainable.

Development impact and profitability are strongly linked, and the financial sustainability of ADB's PSO will be emphasized. New tools will be implemented to enable ADB to further improve its management of economic capital and risk, price financial risk appropriately, and assess additionality and development impact. An increasing portion of PSO will be higher risk, experimental, innovative, and strongly developmental. To balance the risk, PSO will need to finance or invest in projects that are either lower risk or generate higher return (but may have relatively lower development impact) while always meeting ADB's core policy objectives. This portfolio approach is expected to result in a balance between development results and financial sustainability.

ADB will prioritize development impact, pursue quality of investment over volume, and proactively maximize the crowding-in of private sector financing. ADB will grow operations at a level

consistent with the capacity of ADB's resources to support that business. In determining what engagement and activities to pursue, ADB will promote the highest level of integrity in its operations, be disciplined and selective, and ensure that lending and investment decisions are based on a thorough understanding of the risks and that risks and rewards are balanced appropriately.

B. What Private Sector Operations Will Do to Achieve the Goals of Strategy 2030

Strategy 2030 operational priorities. The Operational Plan for Private Sector Operations (Operational Plan) is fully aligned with Strategy 2030 and its operational priorities. PSO will deal with remaining poverty, reduce inequalities, and accelerate progress in gender equality by supporting projects that generate quality jobs and livelihood opportunities, increase access to finance, and improve health and educational outcomes. PSO will be a core contributor to tackling climate change and boosting environmental sustainability, with a focus on supporting new technologies, financing climate adaptation, and scaling up best practices. PSO will make cities more livable by improving urban infrastructure, helping unlock low-carbon energy solutions, promoting energy efficiency, and supporting new smart city technologies. PSO will support rural development and food security primarily through its agribusiness operations. PSO will strengthen governance and institutional capacity of private sector players through ADB's debt financing and equity investments, which will require transparency and good corporate governance from borrowers and investees. Finally, PSO will foster regional cooperation and integration by supporting global and regional trade through ADB's trade finance program, developing cross-border value chains and economic corridors, deploying and scaling technologies by encouraging partnerships across countries and regions, and promoting infrastructure projects with cross-border benefits.

Geography and sectors. PSO will focus more on poor countries, fragile and conflict-affected situations, small island developing states, and underserved markets; and expand into more challenging sectors (agribusiness, education, health, and areas of infrastructure beyond energy, such as environmental infrastructure, transportation, and information and communications technology). ADB will deepen ADB's focus on inclusion through projects that benefit the poor by better integrating the base of the income pyramid into markets; reducing inequality; increasing financial inclusion through micro, small, and medium-sized finance; and supporting the global integration of countries through support of trade and supply chain finance, particularly in challenging markets. ADB will support nascent businesses and innovative project development, particularly with newer technologies, through new donor- and technical assistance-funded business incubation platforms such as the proposed ADB Ventures. One ADB activities will include PSO for sub-sovereign finance and state-owned enterprises in full coordination with the regional departments and the Sustainable Development and Climate Change Department. Energy-related infrastructure financing will remain critical given ADB's climate change goals. In addition to renewable energy projects, PSO will pursue projects for energy efficiency, waste to energy, battery storage, other emerging technologies, and climate adaptation.

Product priority areas. The provision of loans to projects will continue to be a core financing modality for PSO. To remain competitive and provide solutions, however, ADB will need to deliver tailored products (including first-loss risk participation, partial guarantees, and third-party funding platforms for co-investment) and bolster its existing local currency offerings. ADB will continue to strengthen its equity operations and rebuild the portfolio, given the strong developmental role equity can play by promoting good governance and adherence to safeguard standards, providing risk capital, and supporting early-stage companies looking to innovate and grow. A specialized equity unit has been established that will allow ADB to upgrade its PSO to industry best practice

and increase focus on corporate governance and value addition to clients. Finally, PSO will strategically use concessional finance to enable bankability of commercially challenging projects with high development impacts, and technical assistance to improve project outcomes.

Increased mobilization and investment. Mobilization of finance from third parties will be a key priority of PSO, and ADB will meet this objective and achieve scale by relying on its full suite of financing products, such as lending instruments, credit enhancement products, risk transfers, blended finance structures, and funding platforms. ADB will expand partnerships with institutional investors such as insurance companies and pension funds within and outside the region, including through managed cofinancing platforms; strengthen collaboration with multilateral, bilateral, and private sector partners; and seek out finance from commercial sources. ADB will look to heighten its financing profile by acting increasingly as a lead arranger for multiparty financings.

Support for public–private partnerships. Public–private partnerships (PPPs) provide ADB with numerous avenues to help mobilize private investment and participation for development. An integrated approach is optimal. The regional departments can support governments in attracting private sector investment by providing policy advice, financing sovereign equity contributions to projects, providing financing for policy support and viability gap funding, and/or using conduit structures to channel long-term debt through local financial intermediaries. ADB will increase its support for PPPs by advising governments and the private sector through transaction advisory services and the Asia Pacific Project Preparation Facility. PSO can provide debt and equity to PPP projects and mobilize third-party funds (commercial and concessional). Sovereign operations and PSO can make available credit enhancement and risk mitigation products to improve the viability of projects.

C. Sustainability and Risk

Financial sustainability. PSO will operate on a financially sustainable basis, charging market-based rates for its loans and guarantees and seeking market returns on its equity investments and debt securities. Financial performance may include periods of volatility and annual returns will vary over the operating period. PSO will follow a portfolio approach to development impact, risk, and financial returns. ADB will invest in staff resources to build robust competencies to deliver this Operational Plan.

Risk framework. ADB applies certain exposure and investment limits on its nonsovereign operations, stipulated in ADB's Charter, by the Board, and by bank management. These risk frameworks aim to safeguard ADB's financial strength (including the AAA credit rating) and provide for adequate diversification of risk in the nonsovereign portfolio. With the transfer of the Asian Development Fund's lending operations to ordinary capital resources in 2017, ADB's risk-bearing capacity roughly tripled, allowing for a substantial increase in lending and investment operations.

Risk appetite. In the course of executing its development finance mandate, ADB assumes various risks in relation to PSO. Active management of these risks is critical to ADB's ability to maintain financial sustainability and achieve development impact. Such management will be improved. To have greater development impact, however, ADB will have to be prepared to increase its risk tolerance and develop its culture of risk-taking, especially in PSO. To encourage staff to pursue complex or riskier but still highly developmental projects in newer sectors or frontier markets, incentives and an openness to accept project failures (for the right reasons) must be created and encouraged. Therefore, the Private Sector Operations Department (PSOD) staff performance evaluation will be more qualitative to adjust to and provide context for transactions

in challenging areas.

Project selection and financing quantum. PSO will focus on project count rather than volume (moving to one-third of ADB operations by 2024); provide incentives to staff members who work on smaller and riskier but highly developmental projects; use capital sparingly; and diversify portfolio risk by reducing average deal size and increasing the coverage of countries, sectors, and clients.

D. Operational Approaches to Support Strategy 2030

Process change. ADB will improve processes and internal efficiency to deliver solutions more quickly to the private sector, the quality of risk and portfolio management, and support for critical areas such as integrity and tax due diligence. ADB has prioritized the rollout of a comprehensive new information technology system to support nonsovereign operations. This cross-departmental initiative is critical for the sound management, monitoring, and reporting of a growing business and will allow PSOD to dramatically modernize its business processes. ADB will champion greater collaboration and better shared processes with the European Bank for Reconstruction and Development, the International Finance Corporation, and other multilateral financial institutions in delivering private sector financing.

Decentralization. Increased presence of PSO staff members in locations around the region is a key pillar of ADB's growth strategy, and PSOD plans to further decentralize operations. The expectation is that by 2021 more than a quarter of PSOD staff members will be outside headquarters, and in the long term, half will be assigned to field offices. ADB is launching an office in Singapore to enable ADB to partner more closely and readily with international companies and organizations with extensive Asian infrastructure, agribusiness, and finance operations—all key focus areas for PSO.

Integration of operations to achieve One ADB. ADB's sovereign and nonsovereign operations reside under one roof. ADB is well placed to effectively and efficiently support the private sector using an integrated approach, including advocacy, policy, reform, advice, financing, and more with upstream work identifying gaps and informing financing options and choices. Private sector-led development cannot be achieved without a strong enabling investment climate and a willingness to finance areas of the economy beyond the means or interest of the private sector. ADB's sovereign investment decisions will be increasingly informed by private sector development requirements, including the need to fill market gaps and overcome obstacles to private sector investment. ADB is increasingly mainstreaming comprehensive market assessments and inputs relevant for private sector development and PSO into each country partnership strategy (CPS). These assessments focus on targeted PSO, including PPPs, in developing member countries (DMCs) and on reforms enabling the business environment. Each CPS will identify priorities for private sector investment, policy dialogue, and technical advisory services. The CPS will explain how ADB intends to utilize private sector solutions to help achieve CPS objectives and support agreed priority sectors, as well as indicate how ADB will help the DMC mobilize more private finance. In addition to an expanded focus on PSO, the CPS will emphasize integrated One ADB solutions to development challenges, including targeted sector needs, potential state-owned enterprises, and sub-sovereign financing; and introduce knowledge solutions and innovative technology into operations.

ADB's private sector operations will reach one-third of ADB operations in number by 2024.
—Strategy 2030: Achieving a Prosperous, Inclusive, Resilient,
and Sustainable Asia and the Pacific, July 2018

I. OVERVIEW

1. **Rationale for supporting the private sector in Asia and the Pacific.** The private sector is the largest contributor to economic growth in developing economies. It not only generates most quality jobs but also contributes to government revenues through the payment of taxes and introduces innovations that heighten economy-wide efficiency and productivity. While the future of Asia and the Pacific (the region) depends upon a dynamic private sector, significant challenges in business environments and gaps in financial markets continue to prevent the region from realizing more inclusive and sustainable growth.

2. In some parts of Asia, these challenges and gaps are massive. The single largest gap relates to the supply of available financing, whether long term for infrastructure and other productive assets, or short term for trade, early-stage, or micro enterprises. Developing Asia alone will require annual infrastructure investments of \$1.7 trillion¹ (or \$26 trillion from 2016 to 2030). A notable 30% of the \$1.5 trillion global trade finance gap originates from developing Asia.² Asian capital markets, especially in developing Asia, lag most of the world, and specialized, important financial products such as project bonds and climate bonds remain underdeveloped. The lack of long-term local currency financing impedes investment and reinforces a real gap in further growth and/or creates potential foreign exchange imbalances. Critical areas of financial inclusion such as leasing, insurance, and affordable housing loans are well below the potential of these instruments and the needs of the market.

3. Many in the region remain excluded from the formal financial system and needs go unmet and unfinanced because of a myriad of real or, even more prevalent, perceived risks. The needs of Asia's financial markets sit side by side with the additional and significant challenges of greater inequality, higher levels of indebtedness, increasing climate threats, growing gender disparity, and generally poor compliance and corporate governance.

4. Leveraging its sovereign and nonsovereign operations, ADB is best suited to respond to and tackle these gaps and challenges. Through policy advice, technical assistance (TA), policy-based lending, and project lending, sovereign operations help developing member countries (DMCs) foster enabling market conditions and the institutional capacity required to attract private sector investment. Through its nonsovereign operations (NSO), ADB can help raise environmental, social, and governance standards; provide financing that may not be available from the market (either at all or on reasonable terms); improve project design and development outcomes; and mitigate perceived risks to design, accelerate, and achieve meaningful development results. In this way, ADB can apply its complementary strengths: (i) public sector experience in (a) institutional arrangements; (b) sector analysis; (c) relationship management with governments, regulators, and state-owned enterprises (SOEs); and (d) policy frameworks and safeguard requirements; and (ii) PSO knowledge of pricing, risk-bearing arrangements,

¹ ADB. 2017. *Meeting Asia's Infrastructure Needs*. Manila. <https://www.adb.org/sites/default/files/publication/227496/special-report-infrastructure.pdf>.

² Kim, K., Beck, S., Tayag, M.C., and Latoja, M.C. 2019. *2019 Trade Finance Gaps, Growth, and Jobs Survey*. Manila. <https://www.adb.org/sites/default/files/publication/521096/adb-brief-113-2019-trade-finance-survey.pdf>.

guarantees, and project structuring.

5. **Operational Plan.** ADB's private sector operations (PSO)³ finance and/or invest in private companies or commercially oriented SOEs for development purposes. The Operational Plan for Private Sector Operations 2019–2024 (Operational Plan) outlines how PSO will contribute to Strategy 2030 (S2030) operational priorities.

6. This Operational Plan covers sectoral, product, and special initiative priorities of PSO. ADB is extending its geographic and sector reach, expanding its client base, moving closer to its clients and partners, and using more integrated approaches to tailor its support to client needs. ADB will continue to support core infrastructure and financial sectors, which represent the basic building blocks of and provide the enabling environment for economic development. ADB will pursue more investments in challenging sectors such as agribusiness; education; health; and areas of infrastructure beyond energy such as environmental infrastructure,⁴ transportation, and information and communications technology (ICT); and in poor countries, fragile and conflict-affected situations (FCAS), small island developing states (SIDS), and less developed DMCs.

7. ADB is adapting existing products and championing new products and policies that are innovative or best practices to increase and ensure ADB's competitiveness, market relevance, and leadership. By way of example, ADB will deploy broader and deeper local currency product offerings and expand and professionalize ADB's operational capacity to grow ADB's equity business. ADB will make more strategic use of concessional finance to improve project bankability and TA to improve project outcomes.

8. This Operational Plan underscores ADB's commitment to the sourcing and mobilization of financial resources for development. In line with the S2030 target of \$2.50 long-term cofinancing for every \$1.00 ordinary capital resources (OCR) of own-account financing, ADB will seek to arrange and/or facilitate third-party development financing and crowd in private capital through its various credit enhancement products, third-party funding platforms for co-investment, and public–private partnerships (PPPs). ADB will go beyond its own financing and crowd others in because ADB's capital base is ultimately taxpayer funded and ADB needs to use smaller own-account funding for its transactions.

9. ADB will maintain a balanced PSO portfolio and manage its operations in a financially sustainable manner.⁵ The risk of expanding to more countries, sectors, and/or clients will be mitigated through smaller average individual transaction sizes. ADB's aspirations for PSO are no longer predicated on operational volume targets but rather based on number of transactions, quality, and development targets. ADB is changing the metrics by which performance is measured, expecting staff to pursue smaller, more highly developmental projects to diversify the portfolio while still supporting landmark private sector and SOE transactions to maintain market presence and visibility. In larger transactions where demand for financing is high, ADB will restrict its own-account financing to a level commensurate with the risks taken. Committed to quality, ADB is improving its business processes, including by rolling out a comprehensive new

³ As used in the Operational Plan, PSO refers to the provision of any loan, guarantee, equity investment, or other financing arrangement without a government guarantee. The terms "PSO" and "NSO" are used interchangeably.

⁴ As used in the Operational Plan, environmental infrastructure refers to water, sanitation and waste management, and related sectors.

⁵ Financial sustainability relates to the ability of an enterprise to meet its growth objectives and other targeted metrics using solely its agreed capital allocation and internally generated net income, without requiring injections of additional equity capital to continue its operations.

information technology system to support PSO, establishing dedicated middle-office deal-processing functions, improving the quality of risk and portfolio management, and scaling up critical areas such as integrity and tax due diligence. ADB's safeguard policy applies to both sovereign and nonsovereign operations, and Private Sector Operations Department (PSOD) will continue to ensure compliance with policy requirements.⁶

10. Through its PSO, ADB leads by example, investing in developmentally impactful projects with a focus on moving markets; promoting inclusive businesses; maintaining environmental, social, and governance standards; providing value to private clients that is in addition to what is accessible in the market; and supporting the development and/or reinforcement of private markets. The Operational Plan outlines the approach to balancing development impact, risk appetite, and financial returns, which will guide ADB's decision making over the operating period. ADB will avoid distorting private financing markets by observing the principles of charging market-based rates for loans and guarantees and seeking market returns on equity investments and debt securities, except when no such markets functionally exist. ADB has improved its capacity and approach to gender equity in PSO and is developing new tools to better assess ADB's additionality as well as anticipated development impact. ADB adheres to the 2018 Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations,⁷ which built upon the 2012 Multilateral Development Bank Principles to Support Sustainable Private Sector Operations,⁸ which were agreed to guide multilateral development banks' (MDBs') engagement with, and support of, the private sector. The principles stipulate that MDBs should

- (i) contribute beyond what is available or otherwise absent from the market;
- (ii) catalyze market development and mobilize private sector resources;
- (iii) ensure sustainability of investments, including commercial viability of private sector clients;
- (iv) tackle market failures while minimizing the risk of disrupting or unduly distorting markets; and
- (v) promote adherence to high standards of conduct in private sector clients.

11. ADB will continue to report on the effectiveness of its PSO. The S2030-aligned corporate results framework measures ADB's overall performance, including specific results, indicators, and targets for NSO. The first framework aligned with S2030 will cover 2019–2024. ADB's institutional performance, including the performance of PSO, will be reported annually in the Development Effectiveness Review.

12. S2030 prioritizes the coordinated and effective use of ADB's two financing windows for an integrated One ADB approach, whereby NSO will support and complement sovereign and PPP-related operations and similarly, sovereign and PPP-related operations will contribute to greater private sector development and ultimately PSO. Better and more frequent interdepartmental collaboration will enable ADB to better identify and work on solving market gaps in and bottlenecks to private sector development, investment, and growth. One ADB collaboration areas and

⁶ ADB. 2009. *Safeguard Policy Statement*. Manila.

⁷ African Development Bank, Asian Development Bank, Asia Infrastructure Investment Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank Group, Islamic Development Bank Group, New Development Bank, and World Bank Group. 2018. *Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations*. <https://www.adb.org/sites/default/files/institutional-document/456886/mdb-additionality-private-sector.pdf>.

⁸ European Bank for Reconstruction and Development. 2012. *Multilateral Development Bank Principles to Support Sustainable Private Sector Operations*. <https://www.ebrd.com/downloads/news/mdb.pdf>.

mechanisms are integrated throughout the Operational Plan as well as in each individual operational plan for S2030's seven operational priorities. Among others, PSOD, regional departments (RDs), Office of Public–Private Partnership (OPPP), and sector and thematic specialists in the Sustainable Development and Climate Change Department (SDCC) will coordinate closely to ensure a collaborative One ADB approach to PSO.

II. OPERATIONAL PRIORITIES THROUGH PRIVATE SECTOR OPERATIONS

13. The Operational Plan is consistent with S2030 and the overarching objective of achieving an Asia and Pacific region that is prosperous, inclusive, resilient, and sustainable. The plan pursues an integrated approach to contribute to each of the seven operational priorities in S2030 through a combination of sector, product, and thematic priorities, as well as special initiatives. The plan will focus on tackling climate change and accelerating progress in gender equality; promoting the latest technologies; financing know-how across all operational priority areas; and helping fill gaps in the capacity of the private sector to contribute to S2030's operational priorities.

A. Alignment with and Contribution to Strategy 2030

14. **Addressing remaining poverty and reducing inequalities.** PSO will strive to reduce inequalities by supporting inclusive businesses and projects designed to generate quality jobs, enhance financial inclusion, improve education and training outcomes, achieve better health for all, and/or strengthen social protection systems and service delivery for those in need. One recent effort is a telecommunications project in Myanmar, which will increase the availability and quality of voice and data connectivity services throughout the country, leading to greater sustainable socioeconomic growth and poverty reduction. The project includes a gender equity–focused implementation plan, which will support gender equality and women's empowerment.

15. **Accelerating progress in gender equality.** ADB works with clients to advance gender equality by integrating, into both the design and implementation of projects, actions that empower women and narrow gender gaps. PSO has committed that at least 75% of its projects will have gender-inclusive project designs by 2030. The plan to achieve these targets is based on five core pillars: (i) economic empowerment of women through skills building, greater financial inclusion, enabling infrastructure, inclusive agricultural value chains and safe and inclusive workplaces, for example, by financing the development of agricultural value chains that drive empowerment through women's participation in production, processing and/or marketing; (ii) enhancing gender equality in human development by investing in educational and health projects that narrow gender gaps, for example, by investing in projects that close gaps in women's health services and outcomes; (iii) enhancing gender equality in decision-making and leadership through tailored programs with corporate clients, for example, through corporate-sponsored mentorship programs for aspiring women leaders and women in non-traditional – particularly science, technology, engineering and mathematics (STEM) – fields; (iv) reducing women's time poverty and drudgery through investments that utilize technologies, infrastructure or innovation, for example, to reduce women's time spent collecting fuel/water, preparing food and child care; and (v) strengthening women's resilience to external shocks by driving their participation in the green economy, building their resilience to climate change, ensuring gender responsive post-conflict reconstruction efforts and tackling gender-based violence, for example, corporate-sponsored programs that tackle domestic violence affecting staff through preventative measures and survivor support. ADB will deliver gender integrated projects by focusing on staff and client capacity building, refining internal processes and guidance, leveraging and sharing knowledge across ADB and with external partners, enhancing partnerships (e.g. with clients, MDBs and others), and vigorous monitoring

and effective feedback. PSO is also working to innovate and undertake pilots, for example, it is currently co-developing with private equity investors an easy to use Investee Gender Scorecard for gender lens investing. PSOD is building a dedicated gender team which will work closely with the gender thematic team in SDCC and gender experts in RDs.

16. Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability. ADB will continue to play a major role in financing climate-related private sector projects in Asia and the Pacific, including support for greater use of cutting-edge renewable energy technologies throughout the region.⁹ Concurrently, ADB will prioritize potential transactions that include low-carbon energy solutions such as energy efficiency initiatives; geothermal, solar, and wind power projects; and new and hybrid climate mitigation and adaptation technologies, including battery storage; and other infrastructure (such as transportation, environmental infrastructure) and agribusiness projects that are climate adapted. Where required, ADB will use concessional resources to support blended finance solutions for PSO to accelerate the scaling up of climate change mitigation and environmental sustainability projects, including projects procured through PPP. ADB will support and champion greater green bond¹⁰ issuances throughout the region to mobilize significantly more commercial financing for Asia's energy transformation. In this context, the private sector can play a material role in accomplishing the objectives of the Paris Agreement. The bottom-up approach of the Paris Agreement is centered around nationally determined contributions, which DMCs need to translate into investment opportunities on the ground. While implementing nationally determined contributions, governments are expected to encourage private sector investments in key priority sectors, providing better business opportunities for PSO.

17. Making cities more livable. ADB will, through multifaceted and cross-sectoral support, focus on bringing private sector investment and transaction advisory services (TAS) to urban development projects. PSO will focus on financing essential transport, energy, and environmental infrastructure to develop effective urban infrastructure and climate-resilient solutions; and on delivering new technologies for smart cities, such as latest-technology waste incineration and waste-to-energy projects. PSO recently supported, for example, a developer of waste-to-energy solutions in the People's Republic of China (PRC), and then supported the same developer in deploying its technology to projects in Viet Nam.¹¹ ADB will provide long-tenor financing through financial intermediaries for mortgage finance and home improvement loans and will expand into micro-housing products, which will include smaller home-improvement loans in peri-urban areas. In health and education, ADB will promote affordable solutions for urban populations. Recent examples include investments in dialysis centers in urban areas in India¹² and affordable medical clinics in Indonesia.¹³

18. Promoting rural development and food security. Financing rural development, modern agricultural value chains, and food security will require a multisector approach. Infrastructure

⁹ S2030 establishes a target that 75% of ADB's committed operations (on a 3-year rolling average, including sovereign and nonsovereign operations) will support climate change mitigation and adaptation by 2030.

¹⁰ ADB supported the issuance of the first certified climate bonds in the Philippines and Thailand. The scope for green bond financing growth is enormous, considering the infrastructure gaps throughout Asia and the Pacific.

¹¹ ADB. 2017. *Report and Recommendation of the President to the Board of Directors. Proposed Loan to China Everbright International Limited for the Municipal Waste-to-Energy Project (Viet Nam)*. Manila.

¹² ADB. 2018. *FAST Report. Equity Investment and Administration of Equity Investment in DCDC Health Services Private Limited for the DCDC Dialysis Network Project (Regional)*. Manila.

¹³ ADB. 2018. *FAST Report. Equity Investment and Administration of Equity Investment in PT Medikaloka Hermina for the Maternity and Child Care Hospital Project (Indonesia)*. Manila.

investment is crucial to enable other productive investments and job creation in rural areas, ensure market connectivity, and support efficient food supply chains and food safety. PSO will focus on crowding in private sector investment in transport, ICT, and off-grid electric power solutions in rural areas. ADB will promote financial inclusion of rural small and medium-sized enterprises (SMEs) and farmers through credit lines to banks, nonbank financial institutions (NBFIs), and microfinance institutions (MFIs). Beneficiaries of these projects—employees, contract farmers or suppliers, micro-entrepreneurs, or consumers—are often from low-income groups and may be vulnerable to falling into, or back into, poverty. ADB is pursuing approaches to inclusive business that focus on integrating people from the base of the income pyramid into the market economy, such as TFP and Supply Chain Finance Program (SCFP). PSO will provide direct support to food and agribusiness companies to promote financially sustainable and market-oriented solutions as ADB has done recently with a company that promotes smallholder coffee growing in Indonesia, Papua New Guinea, Timor-Leste, and Viet Nam. ADB will work with sponsors across the food value chain, focusing on quality standards; traceability; reduction of waste; efficient use of inputs such as power and water; and affordable, safe, and nutritive food production.

19. Strengthening governance and institutional capacity. PSO will build on the foundations of strengthened public sector management instituted by ADB's sovereign operations. ADB will focus on providing clients with financial stability that creates new jobs and expands the range of clients' businesses and tax base. ADB will encourage good corporate governance by appointing qualified and diverse nominee directors to investee company boards, coordinating with corporate governance initiatives and forums of other international financial institutions, and joining corporate governance-focused professional bodies. ADB will work with clients to strengthen integrity and tax transparency. In accordance with ADB's Tax Integrity Principles,¹⁴ ADB carries out improved tax integrity due diligence when a transaction involves an intermediate jurisdiction and will not finance transactions where ADB cannot obtain reasonable assurances on tax integrity. ADB will provide greater TA targeting client gaps in governance and capacity development, and maintain and, where feasible, try to raise the quality of its clients through conditions and/or covenants agreed in the course of PSO financings. An example of PSO support for strengthened governance is TFP, which has rolled out training programs for banks throughout Asia and the Pacific, covering implementation of anti-money-laundering measures as well as promotion of environmental and social safeguards.

20. Fostering regional cooperation and integration. In addition to what clients can source from commercial financing markets, ADB seeks to provide targeted advice, value-added structures, and innovative finance for private sector projects that have regional cooperation themes. PSO will provide clients with greater access to finance in support of global and regional trade through TFP and SCFP, and investment opportunities for regional expansion in ADB target sectors, particularly in agribusiness and social sectors where successful business models can be replicated. PSO will develop cross-border value chains and economic corridors and will help deploy and scale up new technologies by encouraging partnerships across regions. Opportunities will be sought to support landmark projects such as hydropower projects with cross-border sales of electricity and energy projects that connect domestic consumers to global liquefied natural gas (LNG) markets, as ADB has done recently in Indonesia and Pakistan.

21. Mobilizing financial resources for development. ADB will mobilize greater financial

¹⁴ ADB. 2016. *Anticorruption Policy: Enhancing the Role of the Asian Development Bank in Relation to Tax Integrity*. Manila.

resources for development by targeting a substantial increase in long-term commercial cofinancing by 2030. Building strong partnerships for resource mobilization will be a major focus of S2030. ADB will maximize cofinancing opportunities by investing where its participation will make a difference in development outcomes and mobilize commercial financing whenever possible while ensuring that ADB does not crowd out other sources of commercial financing. To attract finance from commercial and concessional resources, ADB will strengthen its collaboration with multilateral, bilateral, and private sector partners, including private and public financial institutions (FIs); seek out relationships with new development partners; and expand its partnerships with institutional investors and pension funds within and outside the region. This effort will include harmonizing and eliminating duplication of processes with key partners. ADB will use B-loans, partial credit guarantees (PCGs), partial risk guarantees (PRGs), and risk transfers of ADB exposure, as well as promote PPP, to mobilize additional development financing and crowd in private capital. ADB will create platforms to manage third-party funds to cofinance PSO and will syndicate or lead-manage the financing of large projects. A key measure of ADB's success will be the volume and quality of resources it mobilizes in addition to its own financing. Mobilized resources include funds mobilized from traditional financiers such as commercial banks, as well as from NBFIs (including pension funds, insurance companies, and impact funds).

22. Strengthening knowledge services. ADB will strengthen its role as a knowledge provider in the region by forming close partnerships with DMCs to identify their needs and meet them with knowledge products and services. ADB will proactively undertake research, provide high-quality policy advice to DMCs, strengthen DMCs' institutional capacity to solve development issues and deliver projects, and expand knowledge partnerships. Recent examples of knowledge products and services include the Asia-Pacific Trade Facilitation Report 2019,¹⁵ jointly prepared by ADB and the United Nations Economic and Social Commission for Asia and the Pacific, and the 2019 Trade Finance Gaps, Growth, and Jobs Survey,¹⁶ a joint effort between PSOD and the Economic Research and Regional Cooperation Department. ADB will promote knowledge generation and sharing across the organization and the region. ADB will develop PSO knowledge products when relevant and ensure that private sector clients are available to contribute to workshops, think tanks, conferences, forums, and panels. PSOD will ensure that ADB's profile is maintained at international conferences and within professional circles. PSOD will work closely with other departments across ADB (including all thematic and sector groups) to ensure that private sector perspectives are included in knowledge products and to leverage active and tacit knowledge in all ADB operations—sovereign and nonsovereign. This effort includes working with ADB Institute to undertake and disseminate research and carry out capacity-building and training initiatives relevant to private sector development (e.g., on trade, SMEs, agriculture, water and sanitation).

B. Strategic Focus—Sector Priority Areas

23. Profile by sector. The Operational Plan focuses more attention on new sectors and geographies than does the existing PSO portfolio, which reflects PSO's historical concentration and specialization in core infrastructure and the financial sector. The total portfolio as of 30 June 2019 was \$13.08 billion, of which 23.4% was in conventional energy; 18.5% in clean energy; 5.6% in environmental infrastructure; 9.5% in transportation; 0.5% in ICT; 2.6% in agribusiness; 0.2%

¹⁵ Asian Development Bank and United Nations Economic and Social Commission for Asia and the Pacific. 2019. *Asia-Pacific Trade Facilitation Report 2019: Bridging Trade Finance Gaps through Technology*. Manila. <https://www.adb.org/sites/default/files/publication/523896/asia-pacific-trade-facilitation-report-2019.pdf>.

¹⁶ Kim, K., Beck, S., Tayag, M.C., and Latoja, M.C. 2019. *2019 Trade Finance Gaps, Growth, and Jobs Survey*. Manila. <https://www.adb.org/sites/default/files/publication/521096/adb-brief-113-2019-trade-finance-survey.pdf>.

in education and health; 21.5% in finance through direct FIs; 12.3% in finance through FI programs (TFP, SCFP, and MFP); and 6.0% in other areas (5.2% in private equity funds and 0.7% in urban infrastructure). Additional information on the historical and projected composition of the PSO portfolio is in Appendixes 1 and 2.

1. Energy

24. Access to energy plays a pivotal role in economic growth and social development. Worldwide, and specifically in the region, the energy sector is poised for the next wave of disruption given the continued decline in renewable energy prices, innovations in energy storage, and new models of commercially viable distributed generation systems. These disruptions present a unique set of opportunities for ADB to support demonstrational, replicable, and high-impact solutions to the many issues facing the energy sector, including inadequate electrification and high electricity prices. ADB will continue to focus on delivering green, sustainable, resilient, and inclusive energy infrastructure and improving access to energy for all. This will be achieved through greater mobilization and utilization of indigenous low-carbon energy resources; a regime of transparently and competitively bid-out energy infrastructure projects throughout the value chain; ensuring of adequate risk-weighted returns for the private sector as the engine of growth for the energy sector; a core and overwhelming focus on renewable forms of energy generation; and continuous support, where appropriate, for natural gas midstream and downstream projects.

25. **Portfolio to date.** Energy infrastructure was a core area of ADB operations under Strategy 2020, with a focus on sustainably meeting growing energy demand in the region by increasing supply, promoting energy efficiency, supporting clean energy, and improving regulations and technology. ADB has invested primarily in renewable energy electricity generation, heat generation, power grid and natural gas last-mile distribution infrastructure, LNG terminals, and upstream and/or midstream oil and natural gas pipelines. Over the years, the private sector has evolved in varying degrees as the dominant investor in DMCs. Consequently, ADB has been involved in many landmark, pathfinder, and award-winning energy sector transactions in its DMCs, resulting in exceptional visibility and paving the way for private sector investors to follow ADB into targeted sectors and markets. As of 30 June 2019, the energy portfolio amounted to \$5.49 billion in commitments made up of 71 transactions with an average transaction size of \$77 million. Energy transactions in 2014–2018 totaled 41 with an average transaction size of \$124 million.

26. **Target portfolio by 2024.** By 2024, ADB's energy portfolio is expected to total close to 110 transactions. Energy transactions in 2020–2024 are expected to total 65 or more. New private sector investments in the sector are expected to account for more than 25% of ADB's total PSO by project count annually.

- (i) **Subsectors.** The key trends and opportunities in the energy sector are related to energy security, accessibility, affordability, and sustainability. ADB will continue to focus on financing competitively and transparently bid-out private sector-led renewable energy projects. Financing will support regional energy trading and development of regional power markets and selective engagement in natural gas last-mile distribution, natural gas generation to solve intermittency of wind and solar generation and promote stability of the grid, and natural gas heat and power generation to reduce air pollution. The key challenges facing the sector include slow progress in policy and regulatory reforms across several DMCs; the lack of a transparent PPP regime for project awards; and affordability issues, which

necessitate concessional finance to enable new and existing technologies to penetrate new markets.

- (ii) **Countries.** ADB will significantly expand its energy investments into new and frontier markets, including FCAS and SIDS, through smaller transactions with higher (but sufficiently mitigated) risk profiles and development impacts, such as off-grid, micro-grid, rooftop solar, and small-scale renewable generation. In low-income countries (LICs) and lower middle-income countries (LMICs), ADB will support the long-term finance requirements of utility-scale energy infrastructure assets, which have long, useful economic lives. In upper-middle-income countries (UMICs), ADB will focus on supporting demonstrational projects with high efficiency, involving battery storage, mitigation of carbon emissions, or employment of technologies that mitigate air pollution and environmental degradation. ADB will employ innovative financing modalities, such as green bonds, to mobilize funds from institutional investors for climate change mitigation.
- (iii) **Types of companies.** Special purpose vehicles, international and local private sector utilities, energy service companies, and selected SOEs will be target beneficiaries of private sector energy investments. Government-granted infrastructure concessionaires and PPP special purpose vehicles will remain core beneficiaries of limited-recourse project finance. ADB expects an increasing percentage of energy sector sponsors to be local or from within the region. The proposed ADB Ventures¹⁷ will support earlier-stage companies developing new climate-related technologies for the energy sector.
- (iv) **Instruments.** Project and corporate finance utilizing direct loans, parallel loans, B-loans, and concessional financing (where warranted) will continue to be the primary instruments for private sector energy investments. PCGs and PRGs will be innovatively utilized to mobilize cofinancing, including under a programmatic approach as has recently been done with a PRG facility to mitigate renewable energy offtake risks in the Pacific. Equity investments will be selectively deployed to high-growth platforms that will benefit from not only equity capital but also adoption of ADB's safeguards and corporate governance best practices. Where it has the capability to do so, ADB will aim to deploy local currency financing in DMCs to mitigate foreign exchange risks.

27. **One ADB.** PSOD will harness knowledge and expertise across ADB to deliver on its goals and improve the developmental results of private sector energy financing. PSOD, OPPP, RDs, and resident missions (RMs) will collaborate and jointly work on new business opportunities, thereby improving organizational coordination and associated efficiency in processing energy sector projects. Working together, PSOD, RDs, and RMs will identify how best to leverage sovereign operations to de-risk projects (e.g., through grant-backed viability gap funding) and mobilize commercial cofinancing. Projects will be identified early in the project cycle, where RDs have helped create the enabling environment to promote private sector project tendering and financing opportunities. Support from sector and thematic groups as well as knowledge centers will be proactively sought and mainstreamed to introduce new energy sector initiatives and technologies. Comprehensive energy sector solutions will be delivered by effectively combining ADB's expertise in upstream public sector energy work and PPP-related initiatives with

¹⁷ ADB Ventures is discussed under Strategic Focus—Special Initiatives.

downstream PSOD investment activities. PSOD will contribute to the development of each country partnership strategy (CPS) to ensure that private sector participation is incorporated into the energy sector.

2. Environmental Infrastructure

28. Access to safe and stable drinking water supply, sanitation, and waste management is vital to the economic and social development of a country as well as to the well-being and security of its citizens. Climate change and increasing urbanization are expected to exacerbate existing water stress across DMCs. By 2030, cities are projected to house 55% of the region's population (estimated at 2.5 billion). Cities occupy only 2% of the world's land but consume 75% of its water resources, requiring new and innovative approaches to ensure access to sustainable water and to wastewater and waste services. Asia is the world's leading municipal solid waste generator: its cities will produce an estimated 1.8 billion tons of waste per year by 2025. Much of this domestic waste is left untreated, with additional plastic waste imported and often dumped into the region's rivers and oceans. Consequently, environmental pollution (including air, soil, and water) arising from inadequate solid waste and sewage management is now threatening regional and global health and livelihoods.

29. To solve this crisis, ADB will scale up support for advanced technologies and delivery models and greater private sector participation in the environmental infrastructure sector through increased financing and mobilization to private sector clients, regional provision of environmental infrastructure and services, privatization of SOEs, and PPPs. In addition to its core focus on green, sustainable, resilient, and inclusive urban water and waste infrastructure, ADB will adopt an integrated approach to expand support for sanitation and fecal sludge management, flood risk management and sustainable urban drainage systems, climate-resilient infrastructure, city regions, economic corridors, and low-carbon transformation. ADB will leverage technologies and digital solutions to improve access to water and sanitation services for the poor, women, and vulnerable groups. ADB will scale up the use of proven, advanced technologies such as geographic information systems; smart meters; real-time data analytics; remote sensors for leak detection; pressure management; nonrevenue water reduction; and digital payments in smart, integrated, and climate-resilient water systems. In addition to implementing advanced waste treatment systems using state-of-the-art incinerator technology and advanced flue gas emission control that can meet stringent emission standards, ADB will support smart and efficient waste management systems that leverage electronic sensors, mobile applications, and automation across waste collection, transportation, sorting, recycling, and payment processes. Investments along the waste management supply chain—spanning collection, transportation, sorting, recycling, and treatment infrastructure such as waste-to-energy and biogas facilities—will help make cities more livable and resilient.

30. **Portfolio to date.** Under Strategy 2020, investments in water, sanitation, and waste infrastructure formed a small but core component of ADB operations in infrastructure and the environment. ADB focused on clean water, sanitation, and waste systems to promote public health, irrigation, and water management for improved rural infrastructure, sustainable management of water resources to protect biodiversity, and reduced air and water pollution to mitigate climate change. These investments, however, were concentrated in a limited number of markets largely because of the poor state of sector preparation in most DMCs. As of 30 June 2019, the environmental infrastructure portfolio totaled \$737 million in commitments, composed of eight transactions with an average transaction size of \$92 million. Environmental infrastructure transactions in 2014–2018 totaled nine with an average transaction size of \$98 million.

31. **Target portfolio by 2024.** By 2024, ADB's environmental infrastructure portfolio is expected to span many more DMCs as sector reforms, utility strengthening, and PPP rollout gain momentum. The portfolio is expected to increase to more than 15 transactions. The total number of environmental infrastructure transactions in 2020–2024 is expected to total just under 20. New private investments in the sector are expected to total just under 10% of total PSO by project count annually.

- (i) **Subsectors.** The key trends and opportunities in the environmental infrastructure sector are related to resource security, accessibility, affordability, and sustainability. ADB will continue to focus on financing competitively and transparently bid-out private sector–led projects and to support small-to-large corporates in expanding their operations, particularly relating to applying new and innovative technologies in new markets. The key challenges and threats facing the water and waste sectors include environmental and social sensitivities, weak local governance and capacity, municipality counterparty creditworthiness, and slow policy and regulatory reforms. The work of RDs and OPPP in preparing sectors and projects will be essential to creating a pipeline of projects ready for PSO financing.
- (ii) **Countries.** In LICs and LMICs, ADB will target projects using PPPs, concessions, and service contracts. In UMICs, ADB will focus on providing smart and climate-resilient urban and rural water and waste management systems. Given that the environmental infrastructure sector is not as developed as the energy sector, fewer DMCs are expected to be able to utilize such financings, which will be concentrated in the few, often larger, DMCs that are pioneering reforms in this area.
- (iii) **Types of companies.** International and local private sector utilities and selected SOEs will benefit from equity and corporate finance. Limited-recourse project finance can be considered for projects based on robust contractual structures and strong regulatory frameworks. Companies with new and climate-resilient technologies will be particularly sought out. ADB expects opportunities to support new water and waste technology start-ups through the proposed ADB Ventures.
- (iv) **Instruments.** Project and corporate finance utilizing direct loans, parallel loans, and B-loans will continue to be the primary investment instruments. B-loans have been particularly effective in catalyzing commercial cofinancing for water and waste infrastructure and will be replicable in major markets and for larger projects. PCGs and PRGs will be utilized to mobilize cofinancing in LICs and LMICs if opportunities arise. Equity investments will be selectively deployed to high-growth platforms, which will benefit not only from equity capital but also from adoption of ADB's safeguards and corporate governance best practices. Availability of local currency financing is even more important for environmental infrastructure than for energy, as typically offtake contracts for water and waste are at the sub-national level and local currency denominated. To a large extent, therefore, PSO activity in environmental infrastructure will be determined by the availability of local currency at suitable tenors and terms. Given the enormous bankability challenges in this sector, blended finance will be an important tool for spreading the geographic reach of PSO; concessional resources for PSO dedicated to environmental infrastructure are limited.

32. **One ADB.** There is significant scope to develop both sub-sovereign and nonsovereign

lending in water and waste management, subject to appropriate regulatory frameworks being in place. Given the significant bankability challenges in this sector, PSOD, RDs, and RMs will collaborate to facilitate greater private sector participation in the form of PPPs, concessions, and service contracts; strengthen regulatory frameworks; remove entry barriers; support tariff reform; and improve access to financing. PSOD and SDCC will collaborate to advance a circular economy, closing energy and material loops in the water sector (wastewater sludge management) and municipal waste sector (source-separated collection of dry recyclables, biowaste treatment and recovery through composting or anaerobic digestion, and reuse of construction and demolition waste). OPPP will keep PSOD informed of OPPP's activities in the sector, which include advisory projects in numerous DMCs, including Indonesia, Pakistan, Uzbekistan, and Viet Nam. Support from sector and thematic groups as well as ADB knowledge centers will be proactively sought and mainstreamed to introduce new environmental infrastructure initiatives and technologies. Comprehensive water and waste solutions will be delivered by combining ADB's expertise in upstream public sector environmental infrastructure work with PPP-related initiatives in downstream PSO investment. PSOD will contribute to formulating CPSs, which will encompass greater private sector participation in environmental infrastructure.

3. Transport

33. Transport is integral to supporting and improving people's lives. However, transport improvements have not kept pace with demand, and transport remains a critical development bottleneck. Over the next decade, Asia and the Pacific will need to invest \$2.5 trillion in transport alone. Urban transport is a priority as cities generate more than 80% of GDP in many countries and are engines of growth that have lifted millions out of poverty. As population density grows with urbanization, traffic congestion resulting from increased motorization poses a major obstacle to productivity and hinders inclusive growth. The urban poor are the worst victims of long commuting hours as a result of poor public transportation. ADB will assist DMCs in building transport infrastructure and services that contribute to low-carbon, safe, accessible, and affordable transport systems. In addition to supplying critical financing, ADB will share its expertise and knowledge to identify, design, and implement bankable transport projects by supporting cleaner and more advanced technology. ADB will add value by attracting private sector investment through improvements in project design and financing structures.

34. **Portfolio to date.** As of 30 June 2019, the transportation portfolio totaled \$1.24 billion in commitments composed of five transactions with an average transaction size of \$247 million, concentrated in India, Myanmar, the Philippines, and Thailand. Transportation transactions in 2014–2018 totaled four with an average transaction size of \$54 million.

35. **Target portfolio by 2024.** By 2024, ADB's transportation portfolio is expected to total more than 10 transactions concentrated in a few DMCs. Many transport projects are inherently not financially viable on a standalone basis and require committed, long-term government support and a robust and bankable regulatory regime. Such support and regulations are not yet available in most DMCs. The total number of transportation transactions in 2020–2024 will, nonetheless, grow and is expected to be close to 15. New private sector investments in transport are expected to account for more than 5% of ADB's total PSO by project count annually.

- (i) **Subsectors.** Urban transport will be a priority. Growing urban populations in many DMCs, coupled with geographical constraints and high population density, make it critical for the public and private sectors to collaborate to provide affordable, efficient, and sustainable transport infrastructure and safe and convenient mobility. Environmental and social sustainability will be important project features, with the

goal of decreasing overcrowding and congestion; improving accessibility for the elderly, women, children, and passengers with disabilities; and promoting the adoption of new and beneficial technology. ADB will support private sector involvement in developing sustainable transport modalities extending to non-urban road, rail, port, airport, inland water, and national and regional logistics, particularly where such projects and business models promote increased connectivity, safety, climate resilience, environmental sustainability, and inclusiveness.

- (ii) **Countries.** Common challenges in transport projects include high upfront capital expenditures (predominantly in hard currencies), traffic risks, consumer affordability, and currency mismatches (end-user pricing in local currency). In certain MICs and UMICs, currency mismatches can be borne to a great (but rarely to the full) extent by the private sector, particularly where long-term local currency financing is available (such as in India, the Philippines, or Thailand), and ADB expects most PSO transport financing to be in such DMCs. In other countries such as LICs and even MICs without long-term local currency financing, government support (such as availability payment schemes or viability gap funding) will be required to make projects bankable. Such support is often difficult to obtain and difficult to translate into bankable long-term contracts required by the private sector. A One ADB approach will be critical in successfully implementing transport projects in more DMCs, but the number of DMCs where private sector transport projects can be pursued will be limited.
- (iii) **Types of companies.** Sponsors of large transport projects are typically established multinational transport and/or trading companies headquartered in developed countries or local or regional market leaders. This is because their track record, experience, and strong credit profile all play an important role in ensuring robust project financing. ADB will work with other international players and large local corporates on a corporate finance basis. The proposed ADB Ventures will support earlier-stage companies in promoting new (often climate-related) technologies.
- (iv) **Instruments.** For large transport projects, long-term project finance loans will remain the key instrument, particularly in local currency. Indeed, as with environmental infrastructure and many other sectors, the availability of local currency financing at appropriate terms will significantly determine the pace and spread of PSO activity in transport. In parallel with direct loans, risk-sharing instruments, including commercial cofinancing such as B-loans, and PRGs could be important for projects with high perceived risks. Long- and medium-term corporate loans are likely to be increasingly deployed in support of transport. To maximize ADB's value addition, and considering the high-risk nature of certain transport projects, concessional donor funds may be tapped for both project and corporate finance transactions, as appropriate. Equity investments will be considered selectively to support new technology adoption, sustainable transport, or business models for smart cities. Blended finance will be extremely important for projects in less mature markets; the amount of concessional resources for PSO dedicated to transport is limited.

36. **One ADB.** Given the significant bankability challenges in transport, PSOD, RDs, RMs, and SDCC's Transport Sector Group will coordinate to maximize knowledge sharing, complementarity, and collaboration across sovereign and nonsovereign operations. Given the

lack of bankable transport opportunities in the region, the work of OPPP in preparing projects will be critical to the delivery of new PSO financing in transport. As ADB aims to mainstream sustainable transport, preparing projects will involve working across all elements of sustainable transport and finding the best balance among them to develop transport systems that are accessible, affordable, safe, and environment-friendly. Synergies with RDs can be realized, particularly in the social and environmental aspects of transport projects, to optimize the implementation of ADB policies. PSOD, SDCC, and RDs will proactively coordinate to provide selective nonsovereign input to ADB transport initiatives, such as transport development plans to increase private participation and support developmental outcomes.

4. Information and Communications Technology

37. ICT is increasingly becoming a critical driver in improving the social and economic development of DMCs. ICT helps accelerate economic growth, improve labor productivity, create jobs, and improve quality of life. ICT has experienced unprecedented growth in the region over the past decade. In most UMICs and MICs the sector is well developed and well banked, and there will be no, or limited, need for ADB. However, there are still major barriers to access and a significant portion of the population remains unserved, particularly in less developed DMCs and in remote areas. ADB will help meet these challenges by supporting projects that expand and upgrade network infrastructure; provide affordable and sustainable services; remove urban–rural and gender gaps; scale up e-services, applications, and local content; and promote jobs and build skills and competitiveness. Often these efforts will be focused on FCAS and SIDS (e.g., ADB’s recent ICT transactions in Afghanistan, Myanmar, Papua New Guinea, and the Pacific).

38. **Portfolio to date.** As of 30 June 2019, the ICT portfolio amounted to \$64 million in commitments composed of only one transaction (previous transactions have largely been successfully refinanced or divested). There were two ICT transactions in 2014–2018, with an average transaction size of \$96 million.

39. **Target portfolio by 2024.** By 2024, ADB’s ICT portfolio is expected to have about 10 transactions. ICT transactions in 2020–2024 are expected to total about 12. New private sector investments in ICT are expected to account for about 5% of ADB’s total PSO by project count annually.

- (i) **Subsectors and types of companies.** ADB will remain highly selective and opportunistic in targeting ICT subsectors and companies for investment and will focus on strengthening ICT connectivity and access. ADB will look to support the intersection of mobile technology and banking (as it did with support for mobile banking in Afghanistan) and other emerging ICT-based sector cross-overs.
- (ii) **Countries.** ADB’s primary focus will remain on underserved needs and constraints in FCAS and SIDS.
- (iii) **Instruments.** ADB will look to leverage the full range of available financing instruments to support ICT. Besides deploying long- and medium-term corporate loans, ADB will look to potential equity investment opportunities in ICT, which is a mode of investment well suited to support the adoption of new technology. To maximize developmental outcomes, ADB will provide capacity-building TA to support ICT sector participants so they can maximize sustainability, poverty reduction, greater inclusion, gender equality, and governance. Availability of local

currency is a key limitation in extending the range of ICT support, and expansion of ADB local currency options will help grow ADB's activity.

40. **One ADB.** PSOD, RDs, and SDCC will continue to coordinate to ensure knowledge sharing, complementarity, and collaboration. ADB established the High-Level Advisory Group on Digital Technology for Development in September 2019. This eight-person expert group will advise on the use of digital technologies and their implications for ADB's development work and provide inputs for digital strategies to advance ADB's S2030 operational priorities. ADB established the Digital Technology for Development Unit in 2018. This unit; the seven sector groups (education, energy, finance, health, transport, urban, and water); and eight thematic groups (climate and disaster, gender, governance, social development, environment, food security, regional cooperation, and public-private partnership) have been expanding the use of more advanced technologies, especially digital technologies, in every area of ADB operations. PSOD, RDs, and SDCC will work together to integrate selected nonsovereign initiatives with public sector initiatives, such as strategic sector reform, to encourage greater competition that could lead to increased private sector ICT investment opportunities.

5. Agribusiness

41. Agribusiness is critical to economic and social development. Agribusiness contributes as much as a third of GDP in most DMCs, as the sector includes not only agricultural production but also manufacturing (e.g., fertilizer production, food processing) and services (e.g., logistics, food retail). For many DMCs, agribusiness is critical for generating foreign currency through exports and foreign direct investments. The social importance of agribusiness is reflected in its contribution to livelihood opportunities for smallholder farmers, job creation (particularly for women), and food security. Given the importance of agribusiness to the region's economic growth and social welfare, ADB's PSO activities in this sector will focus on agricultural productivity, inclusive business, value chain integration and inclusiveness, local value addition and export, food quality, food safety, adequate nutrition, and climate resilience and environmental sustainability.

42. **Portfolio to date.** As of 30 June 2019, the agribusiness portfolio totaled \$335 million in commitments, composed of 12 transactions with an average transaction size of \$28 million. The portfolio is concentrated in farming (44%) and processing (45%), with a small exposure in agricultural inputs and logistics (6%) and food brands and food retail (5%). Agribusiness transactions in 2014–2018 totaled nine with an average transaction size of \$44 million.

43. **Target portfolio by 2024.** By 2024, ADB's agribusiness portfolio is expected to total about 35 transactions. Transactions in 2020–2024 are expected to total 25 or more. New private sector investments in agribusiness are expected to account for more than 10% of ADB's total PSO by project count annually.

- (i) **Subsectors.** While ADB will endeavor to achieve an even split across segments of the value chain (i.e., about 25% exposure to each subsector), the focus and type of intervention will vary for each subsector. Growing the agricultural inputs and logistics subsector is a priority as it is a vehicle for introducing more efficient, less polluting, and climate-resilient technologies to a large number of farmers and

because it offers a relatively high return on capital (20%).¹⁸ While farming and processing have had relatively lower return on capital (12% and 7%, respectively), ADB still has a role to play in mobilizing funds to subsectors that are particularly capital intensive (in terms of capex and working capital) and in promoting business models that are inclusive (e.g., integrating contract farmers); climate resilient (e.g., greenhouses); and more environmentally sustainable (e.g., sustainable livestock, forestry, and fishery). Finally, growing the share of food brands and food retail in the portfolio is another priority as transactions in this downstream subsector have the highest return on capital (28%); the lowest level of risks; and the potential to drive and structure upstream subsectors (e.g., on quality standards, traceability) and impact a large number of farmers and consumers. By supporting all subsectors, ADB can achieve a systemic impact on the food value chain. A growing number of leading agribusinesses are pursuing vertical integration along several segments of the value chain for better control over costs, risks, and quality, and ADB will support these business models.

- (ii) **Countries.** ADB will focus on underserved Asian Development Fund (ADF) countries, FCAS, and SIDS while increasing portfolio diversity across countries (about 20 by 2024). While the long-term vision is to invest in agribusiness in almost all DMCs, the medium-term strategy (until 2024) will give priority to a few countries with high agribusiness potential, but where other international financial institutions such as the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC) are relatively less active and where ADB can build a critical mass of transactions.
- (iii) **Types of companies.** ADB will continue to finance three types of companies to build a blend of low-risk and diverse assets. Tier-1 companies are headquartered in developed countries and invest in DMCs (e.g., a Singapore-based company that grows coffee in Indonesia, Papua New Guinea, Timor-Leste, and Viet Nam, to which ADB recently extended a loan). Tier-2 companies are large and from large DMCs such as the PRC, India, Indonesia, and Thailand. While the risk profile of these companies may be harder to analyze, it is strategically important for ADB to engage with companies that will at some point expand beyond their borders and invest in other DMCs. Finally, Tier-3 companies are smaller entities that are leaders in their country or in their niche. The proposed ADB Ventures will support new companies developing agritech solutions. ADB will target agriculture through FI financing.
- (iv) **Instruments.** ADB will leverage all available financing instruments to support agribusiness. In addition to traditional long- and medium-term corporate loans, which will continue to be the core of ADB's debt offering, working capital facilities may be required to help clients finance inventory needs and agricultural inputs for farmers. Local currency availability will be critical to the pace and reach of ADB's involvement in scaling up agribusiness. Commercial cofinancing will be mobilized, especially for tier-1 and tier-2 companies. Equity investments are well suited to support new technology adoption, high-value production, value chain integration,

¹⁸ Goedde, L., Horii, M., and Sanghvi, S. 2015. Pursuing the global opportunity in food and agribusiness. *McKinsey & Company*. <https://www.mckinsey.com/industries/chemicals/our-insights/pursuing-the-global-opportunity-in-food-and-agribusiness>.

and businesses serving the emerging middle class. In the more challenging and underserved markets (such as FCAS and SIDS), ADB will continue to look for opportunities to leverage concessional donor funds to de-risk investment projects (blended finance). To maximize developmental outcomes, ADB will continue to provide capacity-building TA, for example, to farmers supplying agribusiness companies that ADB is financing. ADB will ensure that requisite skills are drawn upon internally and externally to support expansion.

44. **One ADB.** PSOD; SDCC; and RD environment, natural resources, and agriculture divisions will continue to coordinate to ensure knowledge sharing, complementarity, and synergies across sovereign and nonsovereign operations, particularly in DMCs where RDs are processing agricultural value chain projects and where PSOD and RDs can focus on the same subsectors (e.g., livestock in Central Asia, horticulture in the Greater Mekong Subregion, fishery in the Pacific). PSOD and RDs will work together to provide selective nonsovereign assistance to highly strategic public sector projects, such as wholesale market infrastructure. In DMCs where PSOD has reached a critical mass of agribusiness projects, ADB will be in a good position to initiate private sector–led policy dialogue with the government to unlock the sector’s potential.

6. Social Sectors

45. Education and health are fundamental to sustainable development. The development benefits of education extend beyond economic growth and include technological advancement, better health choices, improved civic participation, and many others. Similarly, good health allows full economic participation, improves productivity, and reduces poverty. The sectors span many of S2030’s operational priorities. To place greater emphasis on these sectors, PSOD established a social sector team in 2018. ADB will continue to build this team, and PSO activities will focus on improved access to affordable and quality services, employability and job creation, and demonstration of commercial viability of private service delivery models in developing areas such as elderly care and PPPs. Industry partnerships for skills development will be an important area of focus as the private sector’s full participation is needed to make them work.

46. **Portfolio to date.** As of 30 June 2019, the social sector portfolio in this new area of focus totaled \$24 million in commitments, composed of four transactions with an average transaction size of \$6 million. Social transactions in 2014–2018 totaled three with an average transaction size of \$5 million.

47. **Target portfolio by 2024.** By 2024, ADB’s social sector portfolio is expected to total close to 20 transactions. Social sector transactions in 2020–2024 are expected to total more than 15. New private sector investments in education and health are expected to account for well over 5% of ADB’s total PSO by project count annually.

- (i) **Subsectors.** In education, ADB will focus on projects that improve equitable access to high-quality primary, secondary, and tertiary education; technical and vocational education and training for skills development in the formal and informal labor markets; and use of innovative approaches, including PPPs and ICT, for education service delivery. In health, ADB will focus on expanding healthcare services to the poor and underserved, hospital services, diagnostic services, affordable pharmaceuticals and medical supplies, elderly care, and use of PPPs to improve efficiency. Private sector participation in the regional provision of education and health services will be supported.

- (ii) **Countries.** ADB will focus initially on the PRC; India; and Southeast Asia (Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam) given the significant participation of the private sector in providing healthcare and education in these countries as well as ongoing government programs to solve affordability issues (e.g., Ayushman Bharat, the national health protection program in India; the Universal Access to Quality Tertiary Education Act in the Philippines). Investments outside these countries will be taken up on a case-by-case basis. Any financings in ADF countries, FCAS, and SIDS will depend on the availability of concessional donor funds to de-risk such projects. PSOD and OPPP will work together closely to develop a pipeline of projects in other countries.
- (iii) **Types of companies.** ADB will focus on established companies with a proven track record of profitability. Typically, target companies will be among the top five players in their geographies. While private provision of healthcare and education services is increasing across DMCs, these sectors continue to face challenges related to unclear regulations, ownership restrictions, and limits on foreign investment. As a result, healthcare and education services tend to be dominated by localized businesses. Most PSO financings will be to local companies from DMCs. ADB will help established local companies expand to other DMCs. The proposed ADB Ventures will support new companies developing novel social sector technology solutions. ADB will target the social sectors through its FI financing.
- (iv) **Instruments.** ADB will leverage all available financing instruments to support health and education. Financings are expected to be split equally by number between corporate loans and equity investments. Equity financings are expected to be particularly important given the need to provide longer-term risk capital to support expansion across geographies and customer segments. ADB will pursue equity co-investments with healthcare- and education-focused private equity funds (PEFs) in the PSO portfolio. This will help ADB participate in larger-ticket equity financings with established companies. At the same time, partnering with healthcare- and education-focused funds will help the social sector team develop valuable market and sector knowledge. In more challenging and underserved markets, ADB will continue to look for opportunities to leverage concessional donor funds to de-risk investment projects, although noting that the scale of concessional resources for PSO dedicated to these sectors is limited.

48. **One ADB.** PSOD, SDCC, OPPP, RDs, and RMs will continue to coordinate to ensure knowledge sharing, complementarity, and synergies across sovereign and nonsovereign operations; joint teams will be an important part of the work in social sectors. Collaboration will be particularly important to support the expansion of PSO into these nontraditional areas of operations.

7. Financial Sector

49. Vibrant, stable, and efficient FIs and capital markets are critical for inclusive economic growth and job creation in DMCs. Recent economic and financial crises underscore the importance of building resilient markets and institutions. However, close to half of the adult population in low- and middle-income Asian economies do not have a bank account and less than

10% have borrowed from formal FIs.¹⁹ The financial sector remains underdeveloped in most DMCs, with large funding gaps. For instance, ADB's Trade Finance Gaps Growth and Jobs study has identified a \$1.5 trillion trade finance market gap, with SMEs and women-led companies finding it most difficult to get the financing they need to grow and create jobs.²⁰ Through its interventions in the financial sector, ADB often funds the same entity through different products and programs, thereby providing funding for different needs. For example, ADB operates programs under which shorter-tenor financing is provided (MFP, TFP, and SCFP) while extending longer-tenor funding and taking equity stakes (direct FI transactions). Relationships established through programs are often leveraged to create financing opportunities for direct FI transactions. By working with financial intermediaries to target S2030 operational priorities, PSO activities in the financial sector will continue to supplement direct interventions in agribusiness, infrastructure development, and climate change mitigation and adaptation. ADB will focus on trade finance; financial inclusion for underserved borrowers (e.g., women, MSMEs); insurance; and fintech.

50. **Portfolio to date.** Commitments to financial institutions are diverse and include both direct and programmatic interventions.

- (i) **Direct financial institution transactions.** As of 30 June 2019, the direct FI transaction portfolio totaled \$2.81 billion in commitments composed of 46 transactions with an average transaction size of \$61 million. Direct FI transactions in 2014–2018 totaled 37 with an average transaction size of \$87 million.
- (ii) **Microfinance Risk Participation and Guarantee Program.** MFP has a program limit of \$340 million. It facilitates access to local currency funding for MFIs²¹ from onshore commercial FIs through risk participations and guarantees. ADB guarantees or participates in the risk of up to 50% of loans. MFP has facilitated \$1.08 billion in local currency financing to MFIs through these onshore commercial FIs (referred to as partner financial institutions [PFIs]), and as of 30 June 2019, outstanding exposure was \$64.8 million distributed between India and Myanmar, with \$63 million of exposure in India.²² The program has reached almost 6 million borrowers (about 95% of whom are women living in rural and peri-urban areas) with loans averaging less than \$200, making the program pro-poor and inclusive.
- (iii) **Trade Finance Program and Supply Chain Finance Program.** TFP has a program limit of \$1.35 billion and SCFP \$300 million. TFP provides guarantees and loans to banks in support of trade and has two funded and two unfunded products. About 80% of companies supported by TFP are SMEs. TFP mobilizes a substantial amount of short-term cofinancing. With more than half the value of its transactions cofinanced, TFP is the single largest mobilizer of short-term private sector financing to DMCs in ADB. The program has grown more than 35% year-

¹⁹ International Monetary Fund (IMF). 2018. *Financial Inclusion in Asia-Pacific*. Washington, DC: IMF. <https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2018/09/18/Financial-Inclusion-in-Asia-Pacific-46115>.

²⁰ Kim, K., Beck, S., Tayag, M.C., and Latoja, M.C. 2019. *2019 Trade Finance Gaps, Growth, and Jobs Survey*. Manila. <https://www.adb.org/sites/default/files/publication/521096/adb-brief-113-2019-trade-finance-survey.pdf>.

²¹ These entities include nonbank finance companies, nongovernment organizations, private sector investment funds, as well as FIs extending on-balance-sheet support for microfinance and financial inclusion products for lower-income borrowers.

²² The midyear exposure is typically low, as several of the prominent partner banks are still drafting their operational plans, and utilization levels generally start increasing in September. The 2019 figures are low because of regulatory process delays in Bangladesh (a critical market for MFP).

on-year for the past 2 years, executing about 4,500 transactions valued at \$6.2 billion per annum. As of 30 June 2019, TFP's outstanding exposure was \$1.3 billion, of which about half was cofinanced. As a complementary product to support SMEs, SCFP works with PFIs to provide supply chain finance by leveraging the strength of a larger corporate entity and incorporating the history of performance and interdependence of relationships with SMEs in a supply chain. Since its inception, SCFP has supported more than 1,100 transactions with a volume of about \$750 million, including cofinancing of \$375 million. As of 30 June 2019, SCFP's outstanding exposure was \$10.8 million, half of which was cofinanced.

51. **Target portfolio by 2024.** The financial institutions portfolio will expand in key areas of activity, including direct financial institution investments, the microfinance risk participation and guarantee program, the trade finance program, and the supply chain finance program.
- (i) **Direct financial institution transactions.** By 2024, ADB's direct FI transaction portfolio is expected to be made up of about 70 transactions. Direct FI transactions in 2020–2024 are expected to total about 55. New direct FI transactions are expected to account for about 25% of ADB's total PSO by project count annually.
 - (ii) **Subsectors.** Given low rates of access to formal finance in the region and the potential for many underserved segments to contribute to employment and GDP growth, ADB will continue to provide funding with an emphasis on financial inclusion, including onlending to microfinance entrepreneurs, SMEs, women, home loan borrowers, and farmers. Subsectors where direct FI transactions will increase are infrastructure and climate change adaptation and mitigation as banks and capital markets will increasingly need to play a critical role in channeling financing to these projects.²³ ADB will expand into newer subsectors and product applications, including insurance and fintech. The insurance sector is underdeveloped in emerging Asia, with penetration at less than 3% in the PRC, India, and Indonesia. The financial sectors in many DMCs are undergoing rapid change driven by fintech innovations, which can expand financial inclusion and GDP growth. ADB has provided TA to several FIs involved in adopting fintech solutions but is now looking to further this effort by either investing in or lending to such FIs and other types of entities (payment platforms, mobile wallet providers, among others).
 - (iii) **Countries.** The direct FI transaction portfolio will increasingly diversify across several countries, particularly in ADF countries, FCAS, and SIDS. A meaningful presence will be maintained in the PRC and India given the size of their populations and underbanked segments. In the PRC, transactions will be primarily in support of the nonbank sector, which is still developing and in need of long-tenor financing for segments such as microfinance, SMEs, healthcare, and climate adaptation. ADB has been building a small project pipeline in the Pacific and targets closing four transactions by 2024. ADB has been approached by insurance companies in Armenia, Georgia, India, Pakistan, Thailand, and Uzbekistan, where ADB can

²³ The International Finance Corporation estimates, based on a sampling of 21 emerging market banks, that these banks' combined climate-related financing portfolios would have to rise from 7% in 2016 to 30% in 2030 to meet the funding gap. P. Stein, G. Rooprai, and T. Kludovacz, 2018. Raising US\$23 Trillion Greening Banks and Capital Markets for Growth G20 Input Paper on Emerging Markets. Washington, DC.

potentially provide equity and help them grow and develop new insurance products for underserved groups such as lower-income people, rural populations, and women. Direct lending to FIs to support infrastructure onlending will target countries where infrastructure development is a policy priority and where FIs have established track records (e.g., the PRC, India, Indonesia, and the Philippines).

- (iv) **Types of companies.** ADB will continue to fund a variety of FIs, and the allocation is expected to remain largely the same and balanced between banks and NBFIs. Financial systems in developing countries are primarily built on banks. Gradual introduction of other FIs is, therefore, important, particularly to help certain underserved segments. Insurance and fintech companies are expected to be added to NBFIs' portfolios. Financial ecosystem companies (credit bureaus and rating agencies, and exchanges) may be funded but they are expected to represent a small proportion of the portfolio. The proposed ADB Ventures will support new companies developing fintech solutions.
- (v) **Instruments.** ADB will continue to deploy all products to support the financial sector. Equity investments are expected to increase in line with the needs of FIs in DMCs (e.g., for growth capital, new technology investments, Basel requirements, privatizations). With respect to debt, local currency will be used when available as FIs and their clients must mitigate foreign exchange risk. ADB will support shariah-based products and use sub-debt as needed. ADB will continue to look for opportunities to leverage concessional donor funds to de-risk investment projects and to encourage lending to certain high-development segments, such as base-of-the-pyramid and women borrowers. FIs can be supported through green and sustainable bond issuance programs. TA for capacity building will continue to be an important product for FI clients, including MSME borrowers, women, and farmers; for strengthening of anti-money-laundering (AML) efforts and counter financing of terrorism (CFT) standards; and for improvement of corporate governance and risk management. ADB is working with FIs to help develop fintech strategies and products.
- (vi) **Microfinance Risk Participation and Guarantee Program.** MFP will continue to grow in absolute volume and broaden its product offering and end-segment coverage, entailing an increase in the overall program limit. ADB will introduce guarantees for capital market products (bonds and securitization) to help MFIs improve their issuance ratings and access a more diversified funding base. These structures are expected to be launched in India, where highly rated and larger MFIs are now active but lower-rated and smaller MFIs have difficulty accessing the market. As MFIs broaden their financial products to meet the changing demands of micro borrowers (e.g., for micro housing, small-scale on-farm income-generating activities, rural microenterprises, finance for adoption of green technologies),²⁴ the program's product suite will expand TA for financial literacy, gender mainstreaming in microlending, consumer protection, and digital finance, among other areas.
- (vii) **Countries.** Since its inception, MFP has steadily built a network with 8 PFIs and 35 MFIs in key markets, including Bangladesh, Cambodia, India, Indonesia, Myanmar, and the Philippines. The program has 14 MFIs active in India, 3 in

²⁴ Such as for solar home systems.

Myanmar, and 2 in Bangladesh. Further expansion into Myanmar is anticipated where the microfinance market is growing, and local currency funding solutions are needed. The program is targeting expansion into Nepal, Pakistan, and Sri Lanka given the need for access to finance by lower-income people as well as the potential to partner with active PFIs in these markets.

- (viii) **Trade Finance Program and Supply Chain Finance Program.** Projections for TFP through 2024 are to support about \$7 billion in trade per annum through about 5,000 transactions. About half of this annual support will be cofinanced. Building on its drive for efficiency and “best in class” client service, TFP will implement more technical innovations. The knowledge strategy of TFP is to leverage its substantial business network to introduce initiatives that deliver greater gender equality through banks’ human resource policy improvements, more transparency in the financial system through AML and CFT measures, higher environmental and social standards, and standards for digitization of trade. SCFP remains a relatively new area for ADB. ADB initiated the program by offering post-shipment and post-acceptance products, which was a low-risk entry point, and has experienced limited uptake. The near-term strategic focus of SCFP will be to expand by leveraging TFP’s relationships with banks in numerous markets while expanding to selective global banks. ADB will establish an operational and monitoring foundation to prudently enter the distributor finance end of the supply chain, where demand is particularly high. ADB intends to launch distributor finance by the second quarter of 2020, followed by a pre-export finance supply chain product in late 2021/22. Deal sizes will be smaller, which has resource implications.
- (ix) **Countries.** More than 90% of TFP’s business is in ADF countries (75% of transactions support intra-regional trade). This geographical focus is not expected to change. The three most active countries are Bangladesh, Pakistan, and Viet Nam. While operating in two Pacific countries (Fiji and Samoa), TFP plans to expand its reach in the Pacific. SCFP is active in the PRC and Malaysia. Further expansion into India, Mongolia, Uzbekistan, and Viet Nam is being targeted.

52. **One ADB.** PSOD, SDCC, RMs, and RD finance sector divisions will increase coordination to ensure knowledge sharing, complementarity, and synergies across sovereign and nonsovereign operations, particularly in DMCs where the financial sectors are nascent. Broader and more frequent discussions will be held about regulatory bottlenecks that need to be solved to encourage more private sector participation, such as through stronger nonperforming loan (NPL) resolution to promote housing finance or moveable collateral registries to help SMEs access finance. ADB has the advantage of serving client DMCs by deploying well-coordinated sovereign and NSO financing. Sovereign operations can support financial sector resilience through policy-based loans. PSOD and SDCC will work closely together on building fintech and insurance expertise and promoting gender initiatives. TFP, the Office of the General Counsel (OGC), and the Office of Anticorruption and Integrity will continue their close collaboration on AML and CFT initiatives.

C. Strategic Focus—Product Priority Areas

53. ADB has developed a wide set of financial tools and products to support its engagement with the private sector as well as with SOEs on commercial terms. These tools and products include debt (in foreign and selected local currencies, project and/or green bonds); guarantees (PCGs, PRGs); and equity investments (listed and unlisted direct equity, PEFs, and open-ended

equity investments). Within these categories, ADB has specific products and platforms designed to more effectively encourage private investment. These include B-loans (ADB acts as lender of record), local currency complementary loans (principally used to mobilize finance from local banks), and risk transfer agreements (used for risk distribution to insurance companies); asset management platforms; and concessional resources available for blended finance transactions. TA is a valuable tool to raise standards and build capacity.

54. **Loans and guarantees.** ADB's principal private sector financing instruments are loans and guarantees. For ADB to be a leading solution provider and remain competitive, it must provide tailored debt products and strengthen its local currency offerings. Typically, PSO loans are aligned with the commercial market. However, where debt of required tenors and structures is largely unavailable, ADB must provide differentiated financing, such as longer-tenor loans, when required by development projects. Debt is the largest instrument of the PSO portfolio and will remain the major form of activity as PSO grow, although the percentage of deals financed by debt will decrease marginally as the equity and guarantee businesses grow.

55. **Local currency products.** ADB's annual private sector local currency funding operations have grown rapidly to \$564 million in accumulated volume, with the PRC yuan, Indian rupee, and Thai baht representing more than 31% of total PSO loan disbursements in 2018. ADB offers funding in 22 DMC currencies²⁵ and is focused on broadening the currency mix, extending the maturity profile, and deepening the pool of competitive local currency liquidity available to clients. Expanding competitive local currency financing is critical for PSO to grow. Without local currency financing options and instruments, PSO would be limited to covering the few sectors (typically energy infrastructure and large companies and banks) that can borrow in US dollars, and ADB would miss many opportunities to widen the scale and reach of its operations, especially in FCAS and SIDS. ADB is working to expand the range of currencies available and, over the planning period, most of ADB's financing for PSO is expected to be provided in local currencies.

56. **Equity.** Equity investments provide long-term finance to private sector companies in the form of risk capital. Such investments contribute to economic development by driving growth and employment, filling critical financing gaps, promoting good corporate governance and adherence to safeguard standards, extending market reach, and mobilizing additional capital. As of 30 June 2019, the fair value of PSOD's equity portfolio was \$1.3 billion, comprising direct equity of \$761 million, PEFs of \$442 million, and open-ended investments (strategic investments undertaken by ADB with sub-commercial return expectations) of \$140 million. ADB makes equity investments either directly or through PEFs. These modalities are inherently riskier than debt financing as equity investments bear the same risks and rewards as the investee company. A portfolio approach to direct equity investment is particularly important as any single equity investment does not provide the portfolio diversification benefits associated with PEF investments. The financial outcomes of a direct equity portfolio, particularly for developmental institutions such as ADB that have a dual mandate of development impact and financial returns, are sometimes determined by a few outside equity winners, which must compensate for investments that may either return minimal or no gains or be completely or partially written off. ADB aims to significantly scale up the equity portfolio by implementing a focused country and/or sector equity strategy that leverages ADB's extensive relationship networks (while still leaving some room to be opportunistic when frontier market opportunities arise). ADB is tentatively targeting more than doubling its equity

²⁵ ADB has Charter approvals for the Armenian dram, Azerbaijan manat, PRC yuan, Fiji dollar, Georgian lari, Indian rupee, Indonesian rupiah, Kazakhstan tenge, Kyrgyz som, Malaysian ringgit, Mongolian togrog, Philippine peso, Thai baht, and Uzbekistan sum. Eight more currencies are available through other funding sources.

activities from today's level.

57. ADB's direct equity investments will generally target established medium-sized to large companies with significant growth prospects and/or the potential to gain significant market share in their industries. These opportunities can include companies with existing relationships with ADB (accessing debt or debt-like products) during their earlier phases of growth. Opportunities can include relatively more mature growth companies at any stage up to and including the time when they decide to raise capital through an initial public offering (IPO). These stages may arise in the years prior to an IPO or in the shorter period immediately prior to an IPO, when clients may request ADB to participate as a cornerstone or anchor investor. ADB will often add value in these situations by helping improve clients' environmental and social safeguard systems and corporate governance. ADB may selectively seek direct equity opportunities in early-stage companies, at times pre-revenue but post-commercialization. These investments will follow a portfolio approach given the inherently higher-risk nature of early-stage investments, and in most cases will be in the form of co-investments with established and proven partners (such as venture capital funds) that can share the management of the investment because requisite hand-holding will likely be greater for such investments. However, most of these types of early-stage investments, particularly those focused on new technologies, will be undertaken by the proposed ADB Ventures.

58. **Private equity funds.** Investments in PEFs allow ADB to efficiently deploy and mobilize equity capital to support a portfolio of mostly privately owned SMEs and/or middle-market companies in realizing their expansion plans. Investing in sector-specific PEFs allows ADB to achieve targeted developmental outcomes in strategically important thematic areas such as climate change, gender equality, health, and food security and safety. PEFs invest in a portfolio of companies across multiple sectors (in case of multisector funds) or multiple countries (in case of regional funds), thereby enabling ADB to significantly broaden its reach into sectors and/or countries where direct equity and lending programs may have limited penetration and/or experience. In such cases, ADB can leverage a PEF's local market knowledge and domain expertise to strengthen ADB's own understanding of a sector or market. Through their investments, PEFs help spur overall economic growth by driving job creation, tax revenue generation, technology adoption, and increased regional trade. Seasoned and established PEFs can leverage their local networks, financial and regulatory knowledge (especially for exits or in the case of cross-border mergers and acquisitions), and operational and management expertise to benefit and add value to their investee companies. With ADB's guidance, PEFs often support improvements in the environmental, social, and governance systems of investee companies, while elevating the social consciousness of management teams in targeting developmental outcomes, tracking developmental indicators, and promoting gender parity.

59. **Technical assistance.** TA will be deployed to support capacity development of ADB's clients in corporate governance, environmental and social standards, and risk management, among other areas; support capacity development of stakeholders in the value chains of ADB's clients (such as farmers, distributors); and develop new products for underserved segments.²⁶ Particular focus will be placed on TA supporting improved corporate governance in ADB's equity positions as well as standards in FCAS and SIDS markets. The use of TA in PSO is modest at present. As work with less sophisticated and less prepared clients in newer areas of PSO increases, the need for PSO-focused TA will increase.

²⁶ Demonstration projects will be emphasized to pilot new product segments or business models, with attention to energy efficiency, environmental conservation, blue and green business models, and waste management.

D. Strategic Focus—Mobilization

60. ADB's mobilization efforts amplify the impact of PSO by leveraging ADB's financing to attract financing from other parties. S2030 directs ADB to achieve \$2.50 of long-term cofinancing for every \$1.00 of OCR deployed for PSO.²⁷ Mobilization is a central tenet of PSO and ADB will rely on its full suite of financing products to meet the S2030 target and achieve scale, including lending instruments, credit enhancement products, risk transfers, blended finance structures, and funding platforms. The Guarantees and Syndications Unit supports mobilizing debt from private sources and has a centralized mandate to support ADB's sovereign and nonsovereign operations, allowing ADB and its clients to choose the most optimal debt mobilization strategy and products for every transaction. Information on the historical and projected composition of long-term cofinancing is in Appendix 3.

61. **B-loans.** B-loans, a loan product for which ADB acts as lender of record while commercial lenders provide funding, enable ADB to introduce new sources of financing to its clients and thus mobilize funds for development projects. B-loans are an intermediate product used in markets where lenders may not require PRGs but may not be ready to lend on a fully uncovered basis. Participants in B-loan syndications are typically international and regional commercial banks lending cross-border in US dollars but may also include institutional investors and impact funds. A local currency product has been developed (the local currency complementary financing scheme), which can be used to mobilize onshore finance in local currency. ADB has expanded its staff resources and product expertise to increase B-loan operations. As of 30 June 2019, outstanding B-loans totaled \$754 million. ADB often used to rely on commercial banks to arrange the B-loan but is now more active in putting together lending groups, often in exchange for a mobilization fee.

62. **Parallel cofinancing.** Parallel loans are debt facilities provided by other lenders on commercial terms to the same project that ADB is financing. Close cooperation between ADB and such other lenders is evidenced by common documentation. Often, ADB acts as the anchor lender, so as to attract other lenders. ADB's key value addition often consists of extensive environmental and social work on a cofinanced project and can be evidenced by payment of a mobilization fee.²⁸ While ADB will prioritize cofinancing with commercial fund providers, such as commercial banks, insurance companies, and pension funds, it will also seek to improve coordination, cooperation, and, where feasible, harmonization, to promote greater and more efficient cofinancing with international financial institution peers for transactions where commercial cofinancing is insufficient. Prioritizing such cofinancing may include reduced duplication of due diligence and project processing, better alignment of key policies, some reliance on and delegation to and from others, and potentially pooling of portfolio management responsibilities (particularly in FCAS and SIDS). An example of a successful partnership is ADB's relationship with the Japan Bank for International Cooperation. ADB's recent memorandum of understanding with the Multilateral Investment Guarantee Agency is another example of a framework for joint projects to be supported through increased cooperation in marketing, structuring, and implementation of complementary or collaborative financial products. Regular

²⁷ The cofinancing ratio is the ratio of long-term cofinancing to NSO borrowers divided by PSO OCR (net of risk transfers). Long-term cofinancing to NSO borrowers includes concessional funding, B-loans, parallel cofinancing, bonds and equity, risk transfers of ADB exposure to independent counterparties, the uncovered portion of loans and bonds guaranteed by ADB, and financing by third parties of projects that are closed following an OPPP advisory mandate.

²⁸ ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to HSBC Bank USA, National Association for the Tangguh Liquefied Natural Gas Expansion Project*. Manila.

discussions between deal teams at the Asian Infrastructure Investment Bank, EBRD, and IFC are further examples and such collaboration will be intensified. With regard to equity investments, there is scope for increasing parallel cofinancing through direct and fund investments. ADB has participated in several IPOs as anchor and/or cornerstone investor, facilitating the book-building exercise and crowding in other direct equity investors. ADB's PEF business similarly generates opportunities for fund managers and other limited partners to co-invest with ADB in target geographies and sectors.

63. **Guarantees.** Crowding-in of commercial players through the issuance of guarantees to mitigate credit and political risks, particularly in frontier markets, will be a core theme of PSO expansion. Guarantees diversify the range of funding options available to a client and mobilize private financial flows to DMCs. ADB extends (i) PCGs that offer lenders and investors comprehensive credit cover on the portion of the loan or bond guaranteed by ADB, and (ii) PRGs that cover lenders against nonpayment by the borrower caused by political risk events only. ADB has expanded its staff resources and product expertise to increase sovereign and nonsovereign guarantee operations. PSOD, OPPP, and RDs will further expand their partnership to proactively identify sovereign and nonsovereign credit enhancement opportunities and provide structuring advice at an early stage. ADB's cover on sovereign risks, such as breach of obligations by government agencies under concession agreements, should attract high-quality bidders for infrastructure projects in LICs and MICs and mobilize private finance for sovereign and nonsovereign operations. ADB will deploy PRGs to swap providers to infrastructure projects in DMCs. To manage risks in its guarantee operations and improve the terms thereof, ADB will seek donor support, sovereign counter indemnities, and/or commercial reinsurance. ADB will increase the use of PCGs, for example, to mobilize local currency financing, where ADB cannot efficiently lend in local currency. Where viable, ADB will use credit guarantees to improve project bond issuances and attract new investors. ADB will continue to expand MFP to encourage capital market funding of MFIs, which will allow them to lend greater amounts of local currency financing to SMEs. From 2015 to 30 June 2019, ADB issued \$1,219 million in PCGs and PRGs. In 2019, ADB closed two PRGs in support of ADB B-loan participants funding infrastructure projects in Indonesia and Myanmar.

64. **Risk transfers.** Risk transfers are contracts between ADB and third parties such as insurance companies and banks, where ADB's counterparty agrees to assume a portion of the credit risk in a loan or guarantee provided by ADB in exchange for payment of a premium. Risk transfers allow ADB to lend or guarantee amounts that are beyond ADB's prudential limits or risk appetite without the need for the borrower to interact with additional lenders. The provision of a relatively large loan is often required to give ADB a key seat at the table when financing large projects, to impose its safeguard and other requirements and mobilize third parties. Among MDBs, ADB has pioneered the unfunded risk transfer product for NSO loans. Insurance companies provide a flexible and important distribution channel of NSO exposure, often at attractive terms, or where commercial banks lack credit appetite or local currency capabilities. ADB's risk-transfer product enables a new class of institutional investors to expand their exposure to emerging markets, thus serving as an effective means of mobilizing greater private resources for development. Generally, however, ADB will prioritize funded distribution options to banks and investors, where markets are available, over unfunded risk transfers because of counterparty and documentation risks that are inherent to risk transfers. ADB expects balanced growth of its risk-transfer activities that reflects higher amounts of financial support to clients without increasing exposure. From January to 30 June 2019, ADB transferred \$575 million of its credit exposure on loans and guarantees to independent counterparties, thus mobilizing an equivalent amount of private finance. To facilitate further growth and diversify counterparty exposure in risk transfers, ADB will increase the number of independent counterparties with which it works. To attract more

third-party insurers, ADB will intensify its transfer of knowledge on ADB target sectors to insurance companies.

65. **Environmental, social, and corporate governance bonds.** ADB's support of capital market issuances (particularly green and climate bonds) will deepen local currency-denominated capital markets by attracting new institutional and financial investors. Green bonds lessen the reliance on banks as the primary source of financing in DMCs, provide new investment and savings products, and enhance transparency and corporate governance to support local currency-denominated capital markets. ADB's value addition consists of its expertise in climate and environmental issues, the support ADB can provide to the issuer to obtain formal green bond certification, and the confidence that ADB creates in investors by acting as an anchor investor. In 2019, ADB facilitated the provision of certification services by existing commercial players through specialist advice and/or acted as anchor investor in two green bond issuances mobilizing \$310 million from third-party investors. ADB will intensify its efforts to support bond issuances for financial sector and infrastructure clients. ADB will examine opportunities to support blue bond issuance and attract impact investors with a marine-protection agenda.

66. **Third-party funds and asset management.** To extend the impact and effectiveness of PSO, ADB manages a series of third-party funds (such as the Japan International Cooperation Agency-funded Leading Asia's Private Sector Infrastructure Fund). These funds allow ADB to expand mobilization efforts, particularly in areas such as infrastructure and climate change. ADB will seek to expand its asset management capabilities and develop third-party fund programs to leverage financing at scale from institutional investors such as insurance companies and pension funds. In this way, ADB aims to play a key strategic role in directing commercial capital flows toward development-oriented objectives, magnifying the impact of its operations, and increasing commercial cofinancing. One such new infrastructure-focused fund platform is under development and is expected to be rolled out in 2020.

67. **Concessional (blended) finance.** Concessional finance refers to finance deployed on terms that are more favorable than those provided to market-based financing transactions. Concessional financing may involve lower pricing, longer grace periods and/or tenors, subordination, sculpted repayment profiles, reduced security and/or collateral, and/or capped or collared returns. When combined with market-based financing, concessional financing is deployed as a "blended finance" product. By improving commercial financiers' risk and/or return profiles, blended finance transactions help crowd in private capital, de-risk investments, and bring projects to market that would not otherwise proceed in the absence of concessional financing. Combined with TA, blended finance structures can help build capacity with key actors to create better enabling environments for private sector investment. Common principles have been adopted by ADB and other development finance institutions, including additionality, crowding-in of private and/or public capital, commercial sustainability, reinforcement of markets, and promotion of high standards.²⁹ ADB adheres to and implements these principles in its blended finance operations and will apply all other principles that may be agreed among all DFIs, including on blended finance reporting, in the future .

²⁹ Principles of blended finance transactions include (i) a demonstrated need for blended finance and inability to proceed solely on a commercial basis; (ii) attraction of additional financing (private sector, direct foreign investment, others); (iii) interventions leading to improved commercial viability, not permanent subsidy; (iv) financing that tackles market failures and minimizes the risk of disrupting and/or distorting markets or crowding out private finance; and (v) use of public funds to support high standards of corporate governance, environmental impact, social inclusion, transparency, integrity, and disclosure.

68. ADB manages \$709 million of concessional financing through eight blended finance funds and facilities. Since 2012, ADB has signed 18 transactions using a blended finance approach. ADB resources of \$894 million, combined with ADB-managed concessional capital of \$369 million (from the Clean Technology Fund and the Canadian Climate Fund for the Private Sector in Asia I and II and the Leading Asia's Private Infrastructure Fund) have helped mobilize \$2.3 billion in commercial financing and \$1.6 billion in additional public financing. This has resulted the development of projects with a total cost of over \$5.1 billion. In line with the expansion of PSO into new markets, ADB is seeking to expand the scope of concessional resources available for additional sectors such as sustainable agribusiness, health and education, inclusive business, financial services (including SMEs and microfinance), gender equality, environmental infrastructure, and ICT. ADB is seeking to broaden the geographic scope of its blended finance activities and increase the focus on frontier economies, FCAS and SIDS. ADB is looking to expand the range of financial instruments available to PSO on a concessional basis (including equity and quasi-equity products) and the range of financing mechanisms employed (including trade finance, supply chain finance, and insurance products).

69. **Scaling up support for public–private partnerships and transaction advisory services.** Under S2030 ADB will expand its support for DMCs that seek to use PPP to mobilize private sector participation and investment in the delivery of services by (i) assisting in policy advocacy and capacity building; (ii) helping establish or improve enabling environments; (iii) helping prepare, develop, and structure projects, particularly through mandated TAS led by OPPP; and (iv) providing financing to projects through sovereign and nonsovereign lending.

70. ADB's provision of TAS through OPPP's mandates can also directly mobilize commercial financing. ADB will scale up its TAS to advise and help more clients structure PPP transactions that can attract commercial financing. OPPP is responsible for origination and provision of TAS and, as of 30 June 2019, was advising clients on 13 mandates in energy, health, transportation, ICT, and urban sectors, with an aggregate estimated project cost of more than \$4 billion. Through such TAS mandates, ADB has already successfully assisted in the commercial close (contract award) of four projects in Bangladesh and the Philippines; total commercial financing (including equity and debt) to be mobilized is estimated at \$910 million, upon financial close of these projects.

71. PSO-specific support for PPPs will continue to focus on financial support, by providing equity, debt, and guarantees to private sponsors participating in PPP markets in DMCs. Such support may selectively include blended finance solutions (with concessional funds and other trust funds) to improve project viability for qualifying proposals.

72. Given the complexity of PPPs, DMCs need to build robust policy, regulatory, and financial frameworks; and strengthen public financial management and government institutional capacity. Prudent approaches to developing PPPs and sustained efforts to create dedicated expertise in PPPs in public institutions, supported by One ADB (PSOD, RDs, and SDCC), can be crucial to helping DMCs extract positive development impacts from PPPs. It will, therefore, be important to work across RDs and SDCC in capacity development, enabling environment, project preparation and development, and project financing. ADB is unique in possessing capacity to support PPPs comprehensively across the different dimensions of PPP programs and projects. An overview of PPPs and how ADB is well-suited to its role in supporting PPPs can be found in Appendix 4.

E. Strategic Focus—Special Initiatives

73. **New business development and technology initiatives (e.g., ADB Ventures).** PSOD's Business Development Team (BDT) will explore, identify, coordinate, and process early-stage developmental initiatives; and establish a long-term project pipeline. The focus will be on the upstream work of creating bankable projects across sectors and countries. A high degree of collaboration within PSOD and with RDs, SDCC, and OPPP will be required. ADB Ventures may have a relatively high drop rate and long lead time in processing because of the nature of early-stage developmental work.

74. ADB Ventures, to be housed in BDT initially, is a proposed multi-donor trust fund facility that will de-risk, finance, and scale early-stage companies with technology solutions for sustainable impact in emerging Asian markets.³⁰ This facility will focus on cleantech, fintech, agritech, and healthtech solutions; and have a climate and gender lens on all investments. ADB Ventures can add value beyond traditional venture capital and impact funds through ADB's capacity to provide patient capital and TA, extensive corporate client networks and government relationships, and regional convening power.

75. At inception, ADB Ventures will consist of an investment fund and a complementary TA program. The proposed ADB Ventures Investment Fund 1 will provide patient capital through equity and quasi-equity from \$100,000 to \$4 million per investment. The fund will co-invest with the private sector, including impact funds, family offices, and corporate venture funds. The ADB Ventures Technical Assistance Program will complement investment fund activity by leveraging ADB's expansive corporate networks, relationships, and strategic partners for two core activities: (i) the proposed ADB Ventures Seed Program, which will provide grant funding for rapid solution validation in emerging markets of Asia and the Pacific, de-risk expansion into emerging markets that early-stage companies might not otherwise prioritize, and evaluate future investment candidates for the investment fund; and (ii) the proposed ADB Ventures Impact Labs series, which will generate Seed Program pilot opportunities by identifying commercially attractive technology solutions and matching them with local corporate customers in emerging markets.

76. ADB Ventures will fill an operational gap by allowing ADB to provide funding at earlier stages of the business life cycle. ADB Ventures will fill a risk capital gap that is particularly acute for early-stage companies accessing smaller markets and/or more remote geographic areas, companies serving public sector customers, and innovators in capital-intensive sectors. ADB Ventures will encourage technology transfers - between developed and developing countries and between developing countries - global and regional technology solutions to underserved markets. ADB will seek partners, including (i) innovation network partners such as leading accelerator and corporate innovation programs to source the best technology solutions, and (ii) funding partners—co-financiers of the facility as well as potential co-investors—as ADB Ventures will be mandated to mobilize significant private capital financing. ADB's vision is for ADB Ventures to become the largest impact technology platform in the region, crowding in more than \$1 billion of risk capital to contribute to achieving the Sustainable Development Goals by 2030.

77. **State-owned enterprises.** Central governments are increasingly looking to reform SOEs so that they may ultimately access commercial and capital markets without government support, thereby enabling governments to better fund and support other social programs that may not be commercially viable. A willingness to engage in markets on a commercial basis and phased

³⁰ Design parameters for ADB Ventures are indicative and may be subject to change.

graduation away from sovereign borrowing should guide ADB engagement with any SOE. Recognizing that SOEs vary in their level of readiness to borrow on commercial terms, ADB will employ a coordinated approach to SOE engagement while supporting the underlying principles of free markets, open competition and integrity, and good corporate governance, while avoiding adverse incentives. Requiring full engagement of staff and expertise across ADB, this coordinated approach will be embedded in each CPS and involve joint teams providing end-to-end support for qualifying SOEs. ADB will explore collaborative approaches to financing of SOEs, where appropriate, to facilitate SOE entry into commercial market borrowing, and staff of RDs and PSOD will work together to deliver solutions to ADB's SOE clients. ADB will focus on targeting SOEs where there is clear government support for relevant reforms, good corporate governance, a move toward commercialization, and private participation where appropriate. SOE financing comprises a substantial portion of PSO activity: about a fifth in dollar and deal number terms in 2018 but it could potentially increase to a quarter or more. To incentivize joint processing of SOE-related projects, and in alignment with the Corporate Results Framework, a special crediting system has been established whereby SOE financing volumes will be credited to RDs and deal count to PSOD. Under this structure, all SOE financings on nonsovereign terms will include PSOD and the relevant RDs and will be required to meet the same credit, integrity, pricing, and other standards and policies applicable to all NSO financings.

78. **Sub-sovereign entities.** Direct financing of sub-sovereign entities, such as states, provinces, agencies, and municipalities, is a commercially and operationally complex area that is relatively undeveloped in developing markets. Engaging these government entities will require a specialized approach, including expertise in advocacy, enabling legislation, policy advice on debt management, capacity building, commercial evaluation of government agencies, safeguard coordination, procurement coordination, robust financial audit capabilities, and integrity due diligence.³¹ ADB expects sub-sovereign finance to mature slowly in the region, with bankable sub-sovereign entities first gaining exposure to markets through contractual obligations with PPPs (as a project offtaker, subsidy provider, or concessionaire). This market segment should be monitored closely, with inputs from across ADB to identify potential opportunities for successful demonstration projects for PSO, and staff capacity should be added as appropriate.

79. **Fragile and conflict-affected situations.** ADB's sovereign operations will continue to lead activities in FCAS. The foundations for private sector development require support for security and institutional strengthening best led by public sector financing, knowledge, and TA. ADB's private sector support in such markets will likely focus on infrastructure with strong commercial viability and shorter-term paybacks, such as ICT and off-grid electricity, as well as on improvement of banking systems and banking services and funding of agriculture. Building on the foundations for private sector development led by sovereign operations, ADB will take a highly flexible approach to PSO in FCAS. ADB must consider projects in sectors (such as tourism, manufacturing, or services as long as they are small individually and a minor part of the overall portfolio in aggregate) that it would not typically support in larger or more mature markets. The aim is to respond to the unique challenges facing FCAS, including political instability; weak governance; economic and social insecurity; and vulnerability to economic, environmental, and disaster-related shocks. ADB will take on more risk when financing smaller businesses than it would undertake elsewhere, relying on portfolio diversification to manage risk and expedited policies to manage the flow of smaller transactions, as well as the considered use of concessional

³¹ For example, an area of innovation in municipal finance involves the pooling of obligors to provide cross-collateralization, access to finance, and lower borrowing rates. Such arrangements will require enabling legislation, complex multi-party negotiations, and market acceptance.

resources for blended finance and TA. Incentives, including strong management support and performance measures, will be created for staff to increase the level of PSO in FCAS (and SIDS).

80. **Small island developing states.** ADB recognizes the special characteristics of SIDS and the need for a customized approach to development challenges of these economies. ADB's traditional strengths in infrastructure finance (conventional energy, environmental infrastructure, transportation) through PSO may for the foreseeable future be largely provided by sovereign entities in SIDS, while the private sector focuses on such areas as renewable energy; tourism; agribusiness, including fisheries; financial services; and ICT, including the internet. SIDS are often highly vulnerable to climate change and disaster-related shocks, and fragile island ecosystems are susceptible to environmental degradation. Domestic economic activity may be small or micro. ADB is firmly committed to engaging with these specialized development conundrums, using an approach tailored to specific opportunities and challenges. As with FCAS, ADB will take a highly flexible approach and be willing to consider smaller and much higher-risk transactions with the considered use of blended finance and TA.

81. **Middle- and upper-middle-income countries.** PSO will have a differentiated but important role in MICs and UMICs. The development challenges in MICs and UMICs are different but as important. MICs and UMICs contain most of the poor in the region, generate the bulk of carbon emissions, suffer the worst air- and water-quality challenges, and are often highly susceptible to climate change. Despite their development, these countries are subject to significant market and financing gaps. PSO will take a targeted approach to MICs and UMICs, focusing on bridging the main gaps with a special emphasis on lagging and poorer areas, water- and air-quality improvements, promotion of newer financial products, introduction of the latest technologies (particularly those related to climate change), access to quality food and affordable health and education solutions, and acceleration of progress in gender. This will be done with a heavy focus on minimizing own financing and strong mobilizing of commercial cofinancing and on ensuring the overall financial sustainability of such operations.

82. **Enhanced inter-agency cooperation.** Private sector perspectives are increasingly at the core of ADB's engagement with entities such as G20 on the global development and Sustainable Development Goal financing agenda, and of ADB's joint work with stakeholders and peers, including multilateral and bilateral development finance institutions, to harmonize approaches to NSO. ADB will continue to contribute to these work streams, including by pushing the quality infrastructure agenda, developing harmonized principles for additionality and blended concessional finance, reviewing pricing methodologies, and developing joint approaches to PSO in FCAS. Opportunities will be sought for greater harmonization and delegation of safeguards and other policies and project work with ADB's major peers.

III. OPERATIONAL APPROACHES

A. Country Partnership Strategies and Private Sector Development

83. ADB is increasingly mainstreaming into each CPS comprehensive market assessments and inputs relevant to private sector development and PSO. These assessments focus on targeted PSO in DMCs, including through PPPs, and business environment-enabling reforms. PSOD staff members will work closely with their RD counterparts during CPS preparation to ensure that appropriate, comprehensive, and well-integrated solutions are provided and available to DMCs. At the diagnostics phase ADB must identify bottlenecks, opportunities, and actions to achieve greater private sector-led growth and to address constraints to creating and

strengthening markets. Deeper consultations with stakeholders will allow each CPS to identify priorities for private sector investments, policy dialogue, and TAS. The CPS will explain how ADB intends to utilize private sector solutions to help achieve the CPS objectives and will identify agreed priority sectors for ADB support as well as indicate how ADB will help the DMC mobilize more private finance. ADB will engage more regularly with DMCs in discussions on the PSO pipeline.

84. In addition to an expanded focus on PSO, CPSs will emphasize integrated One ADB solutions to development challenges, including targeted sector needs and market creation and potential SOE and sub-sovereign financing, and introduce knowledge solutions and innovative technology into operations. To maximize impact, ADB will exercise selectivity at the country level to ensure its resources are not thinly spread, while maintaining scope for flexibility, particularly in FCAS and SIDS. Following a review of country and sector dynamics, ADB will identify sponsors that meet minimum integrity, governance and credit standards before undertaking a thorough assessment of proposed investments. PSO must always justify the use of ADB capital based on full alignment with its overall mission and country strategies, minimum market distortion, strong development impact, additionality and market complementarity, and strong market mobilization and market deepening.

85. Following through from the CPS, ADB will help DMCs develop an enabling policy environment and the institutional capacity required to attract private sector investment, through policy advice, TA, policy-based lending, and project lending. Updated analyses on critical market constraints gained through PSO will inform public sector interventions in these areas. PSOD and RDs will work to ensure close alignment of operations. Efforts will focus on gender equality, inclusiveness, and enhanced energy efficiency—priority themes across all private sector development initiatives.

B. Financial Sustainability, Risk, and Portfolio Management

86. **Financial sustainability.** PSO will be financially sustainable, generally charging market-based rates for loans and guarantees and seeking market returns on equity investments and debt securities. Financial performance may include periods of volatility and annual returns will vary over the operating period. PSO will follow a portfolio approach with respect to development impact, risk, and financial returns, aiming to make a profit but not maximize it.

87. **Risk framework.**³² ADB imposes certain exposure and investment limits on its PSO, stipulated in ADB's Charter, by the Board, and by ADB management. The risk frameworks of ADB aim to safeguard its financial strength (including its AAA credit rating)³³ and provide for adequate diversification of risk in the nonsovereign portfolio. The Board's review of the exposure limits was most recently accomplished in September 2017 and provided for risk-based limits on country, industry, and single obligors. PSO function within these limits. With the transfer of the ADF's lending operations to OCR in 2017, ADB's risk-bearing capacity roughly tripled, allowing for a substantial increase in lending and investment operations.

88. The capital adequacy framework (CAF) aims to ensure that large risk events will not lead to a downgrade of ADB's AAA-rating or to an erosion of investor confidence. The framework is designed to protect the risk-bearing capacity of ADB without relying on callable capital, and to

³² ADB. 2017. *Review of the Asian Development Bank's Exposure Limits on Nonsovereign Operations*. Manila.

³³ ADB. 2014. *Review of the Asian Development Bank's Capital Adequacy Framework*. Manila.

maintain ADB's ability to lend even during crisis.³⁴ Under the framework, ADB monitors capital adequacy using a capital utilization ratio, which divides capital required with usable equity. The capital required for PSO is mainly a function of the portfolio's credit quality and volume. The latest review of ADB's CAF assumes that the average credit quality of the nonsovereign portfolio is NSO 9 (the 2017 policy assumed NSO 8), as PSOD aims to increase activities in frontier markets. It also assumes that the portfolio granularity will increase relative to the current mix, as it is expected that the transactions in frontier markets on average will be smaller than the transactions originated in larger and more advanced economies.

89. **Risk appetite statement.** In the course of executing its development finance mandate, ADB assumes various PSO risks. Active management of these risks is critical to ADB's ability to maintain financial sustainability and achieve development impact. Such management will need to be improved to respond to the evolving risk profile of PSO. To have greater development impact, ADB must increase its risk tolerance and develop a culture of risk-taking. ADB must be prepared to accept a tolerable rate of NPLs³⁵ under the business-as-usual case and when there is stress in the market. Average NPL rates of up to 5% should be considered the cost of doing business in emerging markets, although this will not be a target. PSO intend to increase the number of transactions in FCAS and SIDS, in other less developed markets, and in higher-risk sectors. While developmentally compelling, such transactions will likely have a weaker inherent credit quality and will be more exposed to governance and business environment risks. This could lead to more volatility in PSO portfolio quality. PSO will balance the portfolio by continuing to originate transactions that are larger and of higher credit quality in traditional sectors of focus, including infrastructure and finance and in UMICs and MICs.

90. **Portfolio approach.** An emerging key insight in PSO's recent portfolio-quality trend is the need for portfolio granularity. A concentrated portfolio is more volatile than a well-diversified one as it is highly sensitive to the weakening of a few large exposures. A concentrated portfolio does not mix well with the substantial degree of uncontrollable business environment risk typical in PSO markets. Changes in law and policy, political risks, changes in administration, and currency devaluations are difficult to anticipate at the origination stage and can arise unexpectedly.

91. **Risk appetite frameworks.** Standardized risk appetite frameworks (RAFs) are being developed to articulate the baseline risk appetite for various types of PSO transactions. RAFs for corporate finance, FIs, and programs will be the starting point. Establishing transparent and clear guidance on risk acceptance criteria and translating this into risk-differentiated investments and structuring decisions will enable swift, efficient, and commercially sound decision making in PSOD and the Office of Risk Management (ORM). Coupled with appropriate levels of delegation and a move toward more standardized templates and documentation (e.g., baseline term sheets for various debt and equity products jointly prepared by PSOD, OGC, and ORM), this initiative can materially expand PSO approval capacity by systematically reducing deal-processing time for RAF-compliant transactions, while emphasizing deals outside RAF parameters. This will allow for strategic sculpting of portfolio risk profile through clear dissemination of principles-based risk criteria to achieve more stable portfolio quality.

92. In addition to the above, ADB will mitigate increased risk assumption in PSO through the following:

³⁴ A new capital adequacy framework is being proposed and PSO will be guided by the applicable framework.

³⁵ NPLs measure the segment of the portfolio with a high probability of loss. However, not all NPLs will necessarily translate into losses, especially with proactive remedial management.

- (i) **Portfolio granularity.** A deliberate strategy to reduce concentration through a smaller average deal size will be implemented. ADB will naturally limit its investment volumes and maximize cofinancing in frontier sectors but will do so even where demand for financing is high. The strategy will help reduce portfolio concentration risks and improve capital consumption of PSO.
- (ii) **Robust credit processes.** Deal-processing cycle time will be shortened by strengthening the concept clearance process, and by frontloading the most essential information critical for risk profiling to achieve quick alignment in deal structure necessary to deal with the key risk drivers of a transaction.
- (iii) **Optimizing expert resources.** ADB will increase the expertise and resources available to support higher-risk transactions. More PSO specialists will be on the ground and more highly seasoned consultants with relevant country and sector backgrounds will be engaged (in PSOD but also in ORM and OGC). Close coordination with RDs and sector specialists in SDCC will be emphasized, as will enhanced and focused support from the portfolio and workout teams in PSOD and ORM.
- (iv) **Proactive portfolio management.** Strengthening processes and supplementing skilled resources to allow for more proactive portfolio management for PSO transactions throughout the transaction life cycle will be prioritized. The process includes management of not only credit risks but also reputational risks, safeguard compliance, and developmental effectiveness. Standardized and resilient processes, including the creation of a middle office in PSOD dedicated to seamless and high-quality banking operations and client management, will be established.

93. Overall, in terms of annual activity, ADB's PSO average new committed deal size is expected to significantly fall from current levels (2018 average PSO financing of \$98 million) and, over time, the number of annual committed transactions will about double. Thus, while PSO have no annual volume targets, the annual volume can be expected to decrease or rise modestly, depending upon ADB's ability to drive efficiencies in the process and provide the resources to support such a significant number of new deals each year. The volume increase in the PSO portfolio is, therefore, expected to be modest and well diversified from a risk perspective.

C. Additionality and Development Effectiveness

94. **Additionality.** Additionality is the support provided by ADB PSO, making a contribution beyond what is available in the market, or that is otherwise absent from the market, and does not crowd out the private sector. Notably, additionality is different from development impact. Additionality refers to key financial and non-financial inputs brought by ADB to a client and project to make the project or investment happen, make it happen much faster than it would otherwise, or improve its design and/or its development impact. Development impact captures the development results that the project or investment is expected to deliver. The unique inputs and attributes provided by MDBs—as sources of additionality—are essential for development impact to actually materialize, but the concepts are distinct from one another. Additionality is categorized into two types: (i) financial, such as financing structure (e.g., financing that is not available in the market on reasonable terms, including longer tenor, local currency); innovative financing structure and/or instruments (e.g., new to market); own-account equity (e.g., equity that is not available in the market in a way that strengthens the project or client); and mobilization of additional resources;

and (ii) nonfinancial, such as risk mitigation (e.g., often through provision of general comfort through ADB's presence); assistance in driving policy, sector, institutional, or regulatory change (e.g., triggering of change or improved practices at the sector or country level); standard setting (e.g., assistance to projects and clients to achieve higher standards); and knowledge, innovation, and capacity building.

95. In order to implement an effective portfolio approach to PSO, it is critical to assess objectively the additionality of any ADB investment (e.g. what ADB is bringing that is additional to what the market already offers) so as to enable decision makers to weigh ADB's value addition and the expected development impact against the associated risks, and help address issues of market gaps. ADB assesses its additionality for each PSO in alignment with the MDBs' Harmonized Framework on Additionality.³⁶ To ensure that project officers are well versed in the principles of additionality for PSO, ADB has developed a guidance note for operational teams on how to consider and assess the principles of additionality (financial and nonfinancial) during the selection and preparation of projects and throughout the project-processing cycle. To strengthen the additionality narratives and development impact rationale for PSO, new business processes mandate the involvement of relevant RDs and SDCC in reviewing proposals at the concept stage.

96. **Results monitoring and development effectiveness.** Results indicators and extended annual reviews continue to play an important role in monitoring and improving operational performance. Active PSOD projects report at least once a year on their performance in achieving agreed targets. PSOD monitors these results and summarizes expected and achieved results in the annual publication on development effectiveness. As part of the new corporate results framework, PSOD has developed and is implementing a new tracking mechanism ("development effectiveness flag") to identify in a timely manner if a project is "at risk" of not achieving its development results. This will allow for timely course correction to help steer projects back on track and is expected to contribute to better overall performance at project completion. After completion of each project, a retrospective review (extended annual review report) is undertaken and independently validated by the Independent Evaluation Department, resulting in a development effectiveness rating.

97. **New ex-ante development effectiveness tools.** ADB will improve its ability to objectively evaluate the additionality and anticipated development results of each project. ADB is developing a tool that will enable ADB to assess on an ex-ante basis the impact of proposed investments and to ensure these are aligned with operational priorities.³⁷ This tool will enable ADB to select projects with the highest potential for financial viability, environmental sustainability, and development impact by setting achievable and monitorable targets. The tool will help ADB assess PSO on a portfolio basis, thus enabling a more comprehensive analysis of how ADB is achieving its dual mandate of financial sustainability and development impact. Minimum thresholds will be established and reported upon for each prospective transaction, and rigorous reporting will be undertaken during each project's life cycle. Work on the ex-ante tool will begin in 2020 and its development is expected to be a multi-year program of testing, monitoring and refinement.

³⁶ African Development Bank, Asian Development Bank, Asia Infrastructure Investment Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank Group, Islamic Development Bank Group, New Development Bank, and World Bank Group. 2018. *Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations*. <https://www.adb.org/sites/default/files/institutional-document/456886/mdb-additionality-private-sector.pdf>.

³⁷ Jointly with SPD, PSOD has undertaken an ex-ante development impact framework stock-taking exercise to learn more about what other MDBs (six in total) and development finance institutions (three) have developed and are implementing for their relevant institutions.

D. Annual Work Plan and Indicative Business Plans

98. PSO can be episodic, with significant variations from year to year. Annual operational targets that grow in a linear fashion are more relevant for other operational departments, where long lead times allow for multiyear planning of projects to meet such targets. The pipeline of PSO projects entails greater uncertainty, particularly for commercial cofinancing opportunities, which are not typically found consistently on an annual basis. Therefore, it should be expected that PSO will experience some level of variation year on year. The key consideration is whether the trajectory over time satisfies expectations. Strict annual targets may lead to the wrong incentives to push projects and finance prematurely. In such cases, PSOD may have a weakened negotiating position with sponsors, which could be detrimental to closure on the best terms and conditions. To avoid adverse incentives that can potentially accompany hard annual targets, PSOD will move toward evaluations based on rolling operational targets (for example, where possible, results in the corporate scorecard are being measured based on levelized multiyear results).

99. PSOD participates in ADB's annual work plan, which sets targets for operations. These targets include nine operational performance metrics (number of projects, gender impact deals, climate change operations by deal count and by volume, long-term cofinancing ratio, sectoral and geographic diversification as a percentage of deals, knowledge, and innovation). Targets also include alignment measures with the seven operational priorities of S2030. A list of 31 underlying tracking measurements (not targets) inform management on the composition and quality of PSO. The departmental work plan cascades to divisions, units, teams, and individual staff members to create a fully integrated departmental work plan that closely connects ADB's strategic objectives to PSOD's departmental goals and individual staff members' workplans.

IV. IMPLEMENTATION AND RESOURCES

A. Interdepartmental Cooperation and One ADB Collaboration

100. **Integration in operations to achieve One ADB.** The aspirations for private sector-led development cannot be achieved without a strong enabling investment climate and a willingness to finance areas of the economy beyond the means or interest of the private sector. ADB will need to deliver solutions to its clients that span the spectrum of development challenges. ADB's sovereign investment decisions will be increasingly informed by private sector development requirements, including the need to fill market gaps and overcome obstacles to private sector investment. ADB's support of private sector development in DMCs can also come through PPP-related operations and activities. To this end, interdepartmental collaboration is both essential and improving.

101. **Optimizing the One ADB principle.** To achieve greater interdepartmental collaboration, ADB is pursuing continuous and full information sharing across the institution; identifying and resolving policy, institutional, legal, and regulatory bottlenecks; collaborating more closely on CPS and country programming activities (thus strengthening ADB's policy advice and financing and nonfinancing operations); and identifying high-value projects and transactions to jointly develop and collaborate on, utilizing ADB's sovereign and nonsovereign activities and products. In addition to joint work on individual projects and CPS preparation, PSOD will continue to engage with staff across departments to develop customized ways of strengthening collaboration to meet individual country needs. PSOD and certain RDs have entered into formal agreements outlining the areas and specific means of collaboration, and this improved cooperation is expected to be replicated

across ADB. PSOD and SDCC will also work closely on upstream knowledge initiatives that lead to pipeline development and policy dialogue with governments. In addition, the gender teams of SDCC, RDs, and PSOD are leveraging knowledge and partnerships to develop and implement more gender responsive projects. Staff recognition and other measures are needed to intensify efforts to achieve the potential of One ADB and to drive change across two different business cultures in the organization.

B. Resource Requirements

1. Strategy 2030's Directions

102. **Resources and incentives.** ADB must improve and invest in recruitment, training, and development of staff (including operations, leadership, digital technologies, and, in particular, PSO skills). As priorities change and/or requirements for specialized technical expertise are identified, ADB will need to consider external hires who have the skills to implement the Operational Plan. Consultant recruitment for specialized and shorter-term needs will be necessary. While improved collaboration with SDCC sector and thematic groups and with RD sector specialists can fill many technical and sector gaps, and PSOD is already relying on this expertise in many areas, collaboration can be expanded further. Technical skills in areas such as equity, corporate finance, and troubled account workout will largely need to be recruited at senior levels, with some retraining possible at junior levels in PSOD and ORM. Training programs will improve understanding and collaboration among staff members who will be supporting both sovereign and nonsovereign operations.

103. To encourage staff to pursue riskier but highly developmental projects in newer sectors or frontier markets, including FCAS and SIDS, appropriate incentives and an openness to accept project failures (for the right reasons) must be created and encouraged. The move to operational targeting for project number (count), rather than dollar (volume) targeting, is part of the incentives. Staff evaluations will include a qualitative element to adjust and provide context for transactions in challenging areas. Incentives such as double-counting in staff evaluations for closing challenging deals will be introduced. However, such incentives should be balanced by considering the performance of the transactions. Staff mobility, including short-term assignments and rotations across departments and between RMs and headquarters, will be boosted to broaden staff skills, facilitate knowledge sharing, and promote innovation.

104. ADB's commitment to diversity in the workforce, including promoting gender balance and a respectful work environment for all, will continue to underpin how talent is sourced, developed, and retained for PSO. ADB aims for women to make up 40% of international staff members by the end of 2022. As of 31 December 2018, 34% of PSOD international staff members were women. This ratio is expected to improve.

105. **Business process and policies.** ADB will further reform its PSO business processes and procedures to achieve greater efficiencies, including shortening project-processing time, and market responsiveness. In 2015, ADB introduced the faster approach to small nonsovereign transactions (FAST)³⁸ to enable faster processing of smaller projects by, among other measures, delegating the final approval authority from the Board to the President. This framework has been implemented on a pilot basis for the aggregate framework limit (following Board-agreed expansion in December 2018) of \$300 million. In light of FAST's success, ADB will propose to further expand

³⁸ ADB. 2015. *Faster Approach to Small Nonsovereign Transactions*. Manila.

and mainstream FAST as well as streamline ADB's ability to co-invest directly in subprojects invested in by ADB-funded PEFs. ADB will introduce streamlined mechanisms for managing the PSO portfolio.

106. **Digital agenda and nonsovereign operations change.** To facilitate the processing and management of PSO, ADB has prioritized the rollout of a comprehensive new information technology system (the "digital change" project), which will support the modernization of its PSO business processes. The digital change project is a cross-departmental initiative that is critical for the sound management, monitoring, and reporting of ADB's growing PSO business. Component systems will be integrated to facilitate data flows and straight-through processing. These components include a modernized accounting and billing platform; a customer relationship management system to manage contacts, record interactions, and track leads; a transaction workflow and portfolio management system; and an integrated database with real-time dashboards. In parallel, ADB will introduce new standards of data management and analytics to improve decision making and risk management. The new digital platforms will increase productivity and operational efficiency while increasing quality and integrity of PSO processes, decision making, and overall transactions. Dedicated support teams within PSOD will be required to sustain data quality and maintain and improve systems on an ongoing basis. This digital change project will involve organizational and process change across departments (specifically PSOD, ORM, and the Controller's Department) to ensure that ADB's underlying banking processes become more efficient, align with best practices, improve controls, and deliver better-quality and more timely service to ADB's clients. The new system is expected to show visible results by 2021.

107. **Increased presence in the field.** Increased presence of PSO staff members in locations around the region is a key pillar of ADB's growth strategy to achieve impact, project count, profitability, and client satisfaction targets. To capitalize on its competitive advantage of having deeper insights in countries and regions where it operates, ADB plans to further decentralize its operations to be faster and more visible to ADB's clients. The expectation is that by 2021, more than 25% of PSOD staff members will be outside Manila. The long-term goal is to outpost half of PSOD's staff members to field offices. A strong cadre of analysts will be anchored in each key location to drive efficiencies in business development, transaction processing, and portfolio supervision. The key is to be close to clients and market developments. Locations will need to be close to commercial centers in these countries and provide easy access to DMCs in the immediate region. Outposting will be complemented by a requirement for country directors and deputy directors to understand and support all of ADB's operations, including PSO and PPP. Ideally, some future country directors and deputy country directors will be PSO experts.

108. ADB will open an office in Singapore, which will enable ADB to deepen relationships with prospective and existing clients and expand PSO, including business development and processing. A presence in Singapore—a leading financial and commercial hub—will provide ADB with greater access to other lenders, insurers, and new sources of funding to meet its S2030 cofinancing and mobilization targets, as well as to contractors, advisors, other international FIs, and professional service providers to support ADB's drive for innovation, knowledge sharing, and regional cooperation. The Singapore office is consistent with ADB's plans to decentralize and increase its PSO field presence in regional markets.

V. CONCLUSION

109. For more than a decade, the Asia and Pacific region has been one of the most dynamic in the world, with upgraded access to health and primary education, large improvements in

infrastructure, and significant reductions in poverty. The region is less prone to currency shocks and has become more resilient because of prudent management of fiscal balances, leading to the buildup of foreign exchange reserves and current account surpluses. Our operating environment has changed tremendously, with an increasing number of DMCs achieving investment-grade ratings from international rating agencies, and corporates looking outside their home countries to invest in other developing countries.

110. Private sector development needs and opportunities afforded to ADB change daily and short- to medium-term plans require frequent updates to match this dynamic environment. For ADB's PSO to remain financially sustainable and relevant in DMCs, ADB must have a balanced approach to impact, profitability, and risk. The absence of any of the three will erode ADB's ability to prudently grow its PSO in a manner that will allow us to fulfill ADB's developmental mandate and stay relevant in the region. The addition of minimum impact benchmarks, a drive to be profitable over the business cycle (but with no specific profitability target), and specific deal count targets reinforce ADB's commitment to this framework. PSOD's annual program will seek to balance these issues while maintaining a healthy portfolio with a prudent level of overall risk. PSOD will be accountable for achieving these targets. To create an optimal PSO portfolio and annual program that contribute to sustainability, individual projects should not be expected to deal with every priority on a standalone basis. Rather, a project's contribution to the construct of the overall portfolio should be clear and communicated. Every transaction must have minimum levels of development impact, including a strong gender focus, and additionality to justify the deployment of ADB capital.

111. To remain relevant to its clients, ADB must become more efficient and responsive and transition to an even more client-centric model. Governments, SOEs, and private sponsors have more options than ever for knowledge and financing. The needs of MICs and UMICs have evolved and include attaining economic diversification, crowding in private sector financing, supporting PPPs, absorbing new technology, and mitigating the impacts of climate change.

112. Under S2030, ADB will expand its PSO to reach one-third of total operations in number by 2024. These operations will be closely aligned with the priority areas as set out in the Operational Plan, with development impact as the key objective. ADB will ensure long-term profitability and financial sustainability in the context of the underlying market. ADB will expand and diversify its PSO in new and frontier markets, such as FCAS and SIDS, and from early-stage companies to mature companies with developmental endeavors. Guided by the Operational Plan, ADB will engage in PSO that actively promote investment of private capital for development purposes, with a heavy focus on tackling climate change and accelerating progress in gender equality and with ADB's primary role being to seed investments with ADB's own capital but to bring in far more capital from the private markets.

INDICATIVE COMMITMENTS AND PORTFOLIO PROFILE OF PSOD, BY PROJECT COUNT

Commitment by Project Count	Actual					Projected					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
A. Energy	9	6	5	11	10	10	10	12	13	15	16
Clean Energy	6	3	4	6	5	8	7	8	8	9	10
Conventional Energy	3	3	1	5	5	2	4	4	5	5	6
B. Environmental Infrastructure	2	-	2	2	3	1	3	3	4	4	4
C. Transportation	1	2	-	1	-	2	2	3	3	3	3
D. Information & Communications Technology	-	1	-	1	-	1	2	2	2	3	3
E. Agribusiness	1	2	1	2	3	4	4	5	5	6	6
F. Social Sectors	1	-	-	-	2	2	2	3	3	4	4
G. Financial Institutions (FIs)	4	8	7	8	10	8	9	10	11	12	13
Direct FIs	4	8	7	8	10	8	9	10	11	12	13
Programs	-	-	-	-	-	-	-	-	-	-	-
H. Others	3	3	3	2	4	4	4	5	6	6	7
Private Equity Funds	3	1	3	2	4	4	4	5	6	6	7
Other Sectors	-	2	-	-	-	-	-	-	-	-	-
I. Total	21	22	18	27	32	32	37	42	47	52	57
J. Average Deal Size (in \$ millions)	90	74	97	85	98	98	92	85	76	69	67
K. ADB Ventures	-	-	-	-	-	-	5	7	9	10	11

Portfolio by Project Count	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
A. Energy	54	59	57	64	67	73	78	84	90	98	107
Clean Energy	32	35	34	40	41	48	52	56	61	67	73
Conventional Energy	22	24	23	24	26	25	26	27	29	31	33
B. Environmental Infrastructure	7	7	7	6	9	8	9	11	12	14	16
C. Transportation	2	3	3	4	3	5	6	8	9	10	12
D. Information & Communications Technology	1	2	1	2	2	2	4	5	7	9	11
E. Agribusiness	5	7	8	8	11	15	18	22	26	30	35
F. Social Sectors	1	1	1	1	3	5	7	10	12	15	18
G. Financial Institutions (FIs)	34	36	39	43	49	54	56	59	63	67	72
Direct FIs	31	33	36	40	46	51	53	56	60	64	69
Programs	3	3	3	3	3	3	3	3	3	3	3
H. Others	34	34	35	32	34	38	39	41	43	45	48
Private Equity Funds	34	32	33	30	32	36	37	39	41	44	46
Other Sectors	-	2	2	2	2	2	2	2	2	2	2
I. Total	138	149	151	160	178	200	218	238	262	289	318
J. Average Deal Size Excluding Programs (in \$ millions)	46	48	52	58	61	66	66	65	63	60	58

Distribution of Commitment by Project Count	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
A. Energy	43%	27%	28%	41%	31%	31%	28%	28%	28%	28%	28%
Clean Energy	29%	14%	22%	22%	16%	25%	18%	18%	18%	18%	18%
Conventional Energy	14%	14%	6%	19%	16%	6%	10%	10%	10%	10%	10%
B. Environmental Infrastructure	10%	0%	11%	7%	9%	3%	8%	8%	8%	8%	8%
C. Transportation	5%	9%	0%	4%	0%	6%	6%	6%	6%	6%	6%
D. Information & Communications Technology	0%	5%	0%	4%	0%	3%	5%	5%	5%	5%	5%
E. Agribusiness	5%	9%	6%	7%	9%	13%	11%	11%	11%	11%	11%
F. Social Sectors	5%	0%	0%	0%	6%	6%	7%	7%	7%	7%	7%
G. Financial Institutions (FIs)	19%	36%	39%	30%	31%	25%	24%	24%	24%	24%	24%
Direct FIs	19%	36%	39%	30%	31%	25%	24%	24%	24%	24%	24%
Programs	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
H. Others	14%	14%	17%	7%	13%	13%	12%	12%	12%	12%	12%
Private Equity Funds	14%	5%	17%	7%	13%	13%	12%	12%	12%	12%	12%
Other Sectors	0%	9%	0%	0%	0%	0%	0%	0%	0%	0%	0%
I. Total	100%										

Distribution of Portfolio by Project Count	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
A. Energy	39%	40%	38%	40%	38%	37%	36%	35%	34%	34%	34%
Clean Energy	23%	23%	23%	25%	23%	24%	24%	24%	23%	23%	23%
Conventional Energy	16%	16%	15%	15%	15%	13%	12%	11%	11%	11%	10%
B. Environmental Infrastructure	5%	5%	5%	4%	5%	4%	4%	5%	5%	5%	5%
C. Transportation	1%	2%	2%	3%	2%	3%	3%	3%	3%	4%	4%
D. Information & Communications Technology	1%	1%	1%	1%	1%	1%	2%	2%	3%	3%	3%
E. Agribusiness	4%	5%	5%	5%	6%	8%	8%	9%	10%	10%	11%
F. Social Sectors	1%	1%	1%	1%	2%	3%	3%	4%	5%	5%	6%
G. Financial Institutions (FIs)	25%	24%	26%	27%	28%	27%	26%	25%	24%	23%	23%
Direct FIs	22%	22%	24%	25%	26%	26%	24%	24%	23%	22%	22%
Programs	2%	2%	2%	2%	2%	2%	1%	1%	1%	1%	1%
H. Others	25%	23%	23%	20%	19%	19%	18%	17%	16%	16%	15%
Private Equity Funds	25%	21%	22%	19%	18%	18%	17%	16%	16%	15%	15%
Other Sectors	0%	1%	1%	1%	1%	1%	1%	1%	1%	1%	0%
I. Total	100%										

Note: Numbers may not sum precisely because of rounding.

Source: Asian Development Bank estimates.

INDICATIVE COMMITMENTS AND PORTFOLIO PROFILE OF PSOD, BY VOLUME

Commitment by Volume (in \$ millions)	Actual					Projected					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
A. Energy	935	495	721	1,478	1,565	505	1,394	1,460	1,460	1,473	1,565
Clean Energy	620	140	321	290	738	313	850	890	890	898	955
Conventional Energy	315	355	400	1,188	828	192	544	570	570	575	611
B. Environmental Infrastructure	200	-	200	160	335	100	340	356	356	359	382
C. Transportation	100	115	-	4	-	1,084	204	214	214	216	229
D. Information & Communications Technology	-	150	-	43	-	525	102	107	107	108	115
E. Agribusiness	10	83	63	78	200	145	170	178	178	180	191
F. Social Sectors	2	-	-	-	14	15	85	89	89	90	95
G. Financial Institutions (FIs)	455	693	676	364	901	626	935	979	979	988	1,050
Direct FIs	455	693	676	364	901	626	935	979	979	988	1,050
Programs	-	-	-	-	-	-	-	-	-	-	-
H. Others	187	97	91	160	120	150	170	178	178	180	191
Private Equity Funds	187	43	91	110	120	150	170	178	178	180	191
Other Sectors	-	54	-	50	-	-	-	-	-	-	-
I. Subtotal (A to H = I)	1,889	1,633	1,750	2,287	3,136	3,150	3,400	3,560	3,560	3,592	3,818
J. Project Cofinancing	4,565	3,754	5,652	5,946	7,415	6,600	7,200	7,650	8,202	8,900	9,900
Short-term	2,039	1,462	1,867	2,930	3,855	3,150	3,200	3,250	3,300	3,400	3,400
Long-term	2,526	2,292	3,785	3,016	3,560	3,450	4,000	4,400	4,902	5,500	6,500
Long-term cofinancing ratio	1.4	1.8	2.4	1.8	1.2	1.3	1.4	1.5	1.6	1.8	2.0
K. ADB Ventures	-	-	-	-	-	-	5	15	30	20	22
L. Technical Assistance	8	10	13	9	16	23	20	22	24	26	27
M. Total	6,462	5,397	7,415	8,242	10,567	9,773	10,625	11,247	11,816	12,538	13,767
Portfolio by Volume (in \$ millions)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
A. Energy	3,748	3,639	3,766	4,955	5,602	5,701	6,149	6,588	6,954	7,272	7,630
Clean Energy	1,892	1,844	1,968	2,169	2,322	2,634	3,047	3,431	3,752	4,027	4,313
Conventional Energy	1,856	1,796	1,798	2,786	3,280	3,067	3,102	3,157	3,202	3,245	3,318
B. Environmental Infrastructure	564	510	580	565	833	737	955	1,152	1,317	1,457	1,597
C. Transportation	35	165	215	200	160	1,260	1,255	1,260	1,265	1,270	1,288
D. Information & Communications Technology	23	170	150	170	128	589	593	601	608	615	628
E. Agribusiness	184	245	270	231	402	466	558	644	715	776	838
F. Social Sectors	2	1	1	0	12	29	109	180	239	289	337
G. Financial Institutions (FIs)	2,136	2,600	3,665	3,987	4,474	5,004	5,407	5,787	6,104	6,378	6,668
Direct FIs	1,022	1,613	2,106	2,178	2,685	3,204	3,607	3,987	4,304	4,578	4,868
Programs	1,114	986	1,559	1,809	1,788	1,800	1,800	1,800	1,800	1,800	1,800
H. Others	606	619	669	784	870	930	945	966	984	1,000	1,025
Private Equity Funds	606	570	617	680	768	833	865	899	928	953	986
Other Sectors	-	49	52	104	101	97	81	67	56	47	39
I. Total	7,297	7,950	9,316	10,893	12,480	14,715	15,971	17,178	18,186	19,058	20,011
Distribution of Commitment by Volume	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
A. Energy	49%	30%	41%	65%	50%	16%	41%	41%	41%	41%	41%
Clean Energy	33%	9%	18%	13%	24%	10%	25%	25%	25%	25%	25%
Conventional Energy	17%	22%	23%	52%	26%	6%	16%	16%	16%	16%	16%
B. Environmental Infrastructure	11%	0%	11%	7%	11%	3%	10%	10%	10%	10%	10%
C. Transportation	5%	7%	0%	0%	0%	34%	6%	6%	6%	6%	6%
D. Information & Communications Technology	0%	9%	0%	2%	0%	17%	3%	3%	3%	3%	3%
E. Agribusiness	1%	5%	4%	3%	6%	5%	5%	5%	5%	5%	5%
F. Social Sectors	0%	0%	0%	0%	0%	0%	3%	3%	3%	3%	3%
G. Financial Institutions (FIs)	24%	42%	39%	16%	29%	20%	28%	28%	28%	28%	28%
Direct FIs	24%	42%	39%	16%	29%	20%	28%	28%	28%	28%	28%
Programs	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
H. Others	10%	6%	5%	7%	4%	5%	5%	5%	5%	5%	5%
Private Equity Funds	10%	3%	5%	5%	4%	5%	5%	5%	5%	5%	5%
Other Sectors	0%	3%	0%	2%	0%	0%	0%	0%	0%	0%	0%
I. Subtotal (A to H)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Distribution of Portfolio by Volume	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
A. Energy	51%	46%	40%	45%	45%	39%	39%	38%	38%	38%	38%
Clean Energy	26%	23%	21%	20%	19%	18%	19%	20%	21%	21%	22%
Conventional Energy	25%	23%	19%	26%	26%	21%	19%	18%	18%	17%	17%
B. Environmental Infrastructure	8%	6%	6%	5%	7%	5%	6%	7%	7%	8%	8%
C. Transportation	0%	2%	2%	2%	1%	9%	8%	7%	7%	7%	6%
D. Information & Communications Technology	0%	2%	2%	2%	1%	4%	4%	4%	3%	3%	3%
E. Agribusiness	3%	3%	3%	2%	3%	3%	3%	4%	4%	4%	4%
F. Social Sectors	0%	0%	0%	0%	0%	0%	1%	1%	1%	2%	2%
G. Financial Institutions (FIs)	29%	33%	39%	37%	36%	34%	34%	34%	34%	33%	33%
Direct FIs	14%	20%	23%	20%	22%	22%	23%	23%	24%	24%	24%
Programs	15%	12%	17%	17%	14%	12%	11%	10%	10%	9%	9%
H. Others	8%	8%	7%	7%	7%	6%	6%	6%	5%	5%	5%
Private Equity Funds	8%	7%	7%	6%	6%	6%	5%	5%	5%	5%	5%
Other Sectors	0%	1%	1%	1%	1%	1%	1%	0%	0%	0%	0%
I. Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Note: Numbers may not sum precisely because of rounding.

Source: Asian Development Bank estimates.

INDICATIVE LONG-TERM COFINANCING PROFILE

Long-Term Cofinancing (in \$ millions)	Actual					Projected					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Risk Transfers	56	383	141	566	135	473	510	534	534	539	573
B-Loans	360	245	239	240	135	250	300	360	432	518	622
Guarantee Cofinancing	8	114	141	136	137	100	120	144	173	207	249
Parallel Cofinancing	1,842	1,521	3,245	1,890	2,547	2,202	2,623	2,889	3,260	3,670	4,421
Official Cofinancing	259	30	19	185	356	150	173	198	228	262	302
OPPP	-	-	-	-	250	275	275	275	275	303	333
Total	2,526	2,292	3,785	3,016	3,560	3,450	4,000	4,400	4,902	5,500	6,500

Note: Numbers may not sum precisely because of rounding.

Source: Asian Development Bank estimates.

PUBLIC–PRIVATE PARTNERSHIPS AND ADB OPERATIONS

1. **A public–private partnership (PPP) is a long-term contractual scheme where a government procuring authority tenders for private partners to bid for and undertake specified, contracted risks (design, build, finance, and/or operational and/or maintenance obligations) and ultimately assume responsibility for delivering public services to constituents on behalf of the government procuring authority.** PPPs are not a sector or thematic type of project but rather a delivery modality that can be used in different sectors or circumstances by governments that seek to use a private partner–based delivery mechanism. Not all projects can be simply and viably tendered to private partners.

2. When a government undertakes to assess and make use of PPP as a method of procurement, ADB can provide support in several ways to help mobilize private investment and/or increase private sector participation in projects with development objectives. An integrated approach prior to tender, including capacity development, policy support, project preparation assistance, and transaction advisory services (TAS), can help government clients come to an optimized, structured proposal that can be tendered and can attract private participation and investment. PSO can support private sector sponsors and financiers seeking to finance such project proposals through PPP bids, as well as provide reliable feedback on market appetite and acceptance.

3. **Scaling up support for public–private partnerships.** ADB’s PPP Operational Plan (2012–2020) was approved in 2012. Under Strategy 2030, ADB will expand its support for PPPs while maintaining the same engagement in PPP markets—for sovereign and nonsovereign activities—through a categorized system of four pillars:

- (i) Pillar 1: Support for capacity development in developing member countries (DMCs), assisting in policy advocacy and capacity building.
- (ii) Pillar 2: Support for establishing and/or improving the PPP enabling environment, including policy in DMCs.
- (iii) Pillar 3: Project preparation support for DMCs, project development, and advisory services provided to either government or private clients.
- (iv) Pillar 4: Financing and credit enhancement products from sovereign and nonsovereign windows (loans, equity, among others) to support financing and crowd additional financiers to PPP projects in DMCs.

4. ADB is unique in possessing capacity to support development of PPPs comprehensively across these pillars. It will exercise a One ADB approach to providing effective support through strong coordination across departments and joint work where appropriate. The Independent Evaluation Department is assessing ADB’s PPP-related operations, with expected completion in 2020.

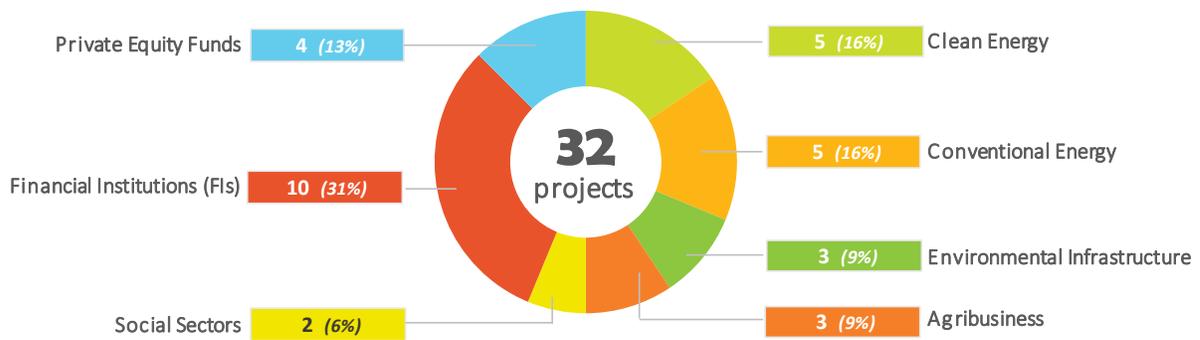
5. **Financing support for public–private partnerships.** ADB will provide a range of financing products to support PPPs, which can enhance the project viability and help to secure private sector financing. The regional departments will support PPPs through sovereign financing operations, including providing sovereign clients with financing for viability gap funding, channeling long-term debt through local financial intermediaries, contributing government equity, and guaranteeing government payment obligations. ADB has recently launched a pilot for a sovereign financing product that can be tailored to support government payment obligations to private PPP concessionaires. PSO can provide various types of financing and investment (project finance, political risk guarantees, and/or equity investment, typically) needed by private entities to

secure and deliver their PPP contracts. PSO can mobilize third-party financing (commercial and concessional) to help complete financial plans as well as crowd commercial financiers to new markets and sectors, deepening debt market through syndicated project finance debt and/or credit enhancement and risk mitigation products that can bear risks deemed untenable by private investors. Blended finance solutions (with concessional funds and other trust funds) may also be deployed to improve PPP project viability.

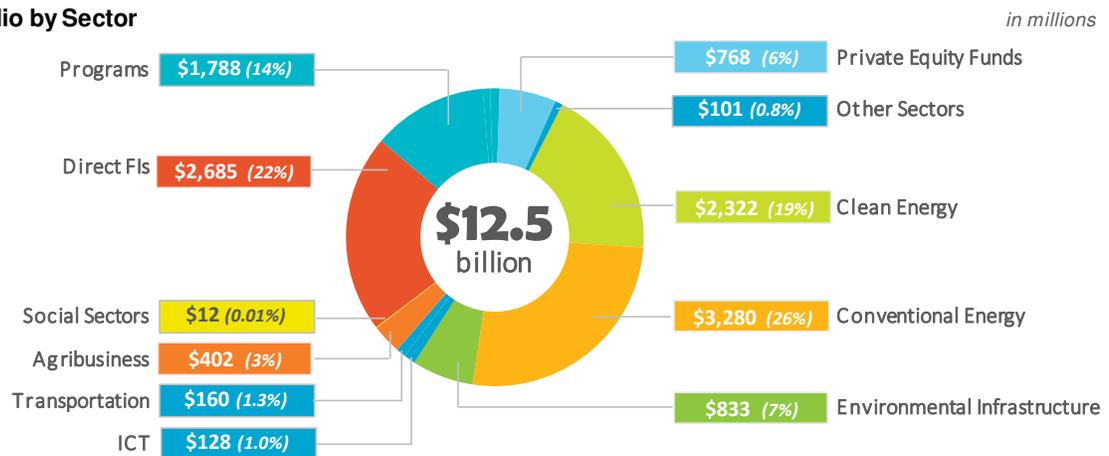
6. Office of Public Private Partnership. Governments often do not have sufficient resources to adequately prepare PPPs, which require significant expertise and resources across the planning, design, operating and monitoring cycle of investment. Going beyond its role as a provider of finance, since 2014, ADB has had a dedicated central office (Office of Public–Private Partnership [OPPP]) responsible for providing ADB’s TAS to governments as well as private clients. OPPP manages the ADB-wide project preparation support facility for PPP, the \$73 million donor-funded Asia Pacific Project Preparation Facility (AP3F). OPPP was established primarily to centralize ADB’s origination and provision of TAS to DMCs. ADB will scale up its TAS to help public sector clients structure PPPs that can attract private sector investment. TAS improves planning and project preparation that will lead to better, more efficient projects. The failure of DMCs to close PPP transactions, subsequent delays, underperformance, and/or cancellation of PPP projects that do progress can be directly attributed to insufficient project preparation. ADB has (i) the resources to support DMCs in their PPP efforts and a deep understanding of DMC sector issues through ADB’s sovereign operations; and (ii) a well-informed understanding of the issues and investment criteria applied by private sector sponsors and developers, investors, and financiers through ADB’s nonsovereign operations; as well as the ability to catalyze financing by the private sector. ADB will use the combination of these skills, resources, and knowledge to help DMCs develop PPP initiatives. Advising governments on structuring PPP transactions is the missing link required to enable a flow of well-prepared and structured projects, capable of being externally financed, ensuring that ADB leverages its scarce resources. As of 30 June 2019, OPPP had mandates to provide TAS to nine government agencies in their preparation of PPP projects, and to one private sector client to assist in structuring and raising financing in DMCs. OPPP has successfully assisted in the commercial close of four projects in Bangladesh and the Philippines. The total value of all OPPP TAS mandates is more than \$4.1 billion of commercial investment and financing to be deployed in ADB DMCs upon financial close. The AP3F provides both grant and reimbursable support to governments that need support to prepare successful PPP contracts for implementation. A total of 36 AP3F applications have been approved, of which 24 are under implementation. The total size of private capital to be mobilized is forecast at \$3.5 billion. To bring more projects to market faster, OPPP has integrated its transaction advisory function with AP3F, which will provide end-to-end delivery of PPP services to DMC clients with the alignment of AP3F efforts in capacity building and project definition with downstream project preparation and execution during the provision of TAS.

PSOD PROFILE IN 2018

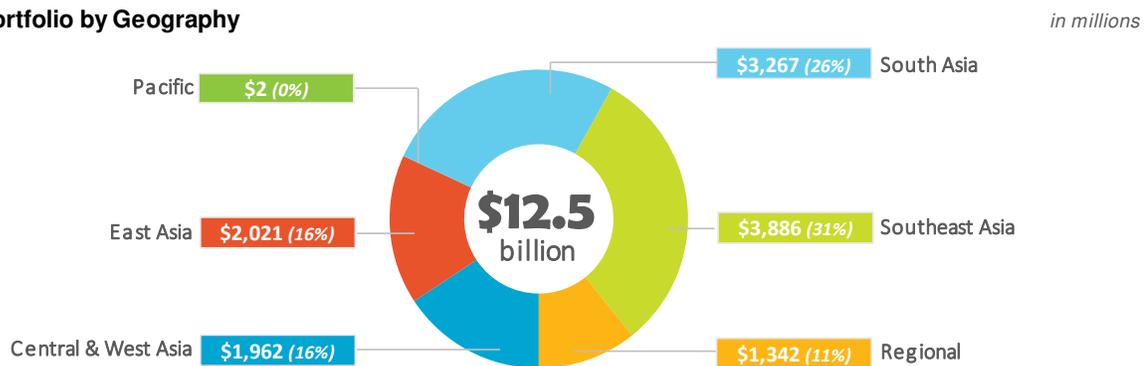
I. Committed Projects by Sector



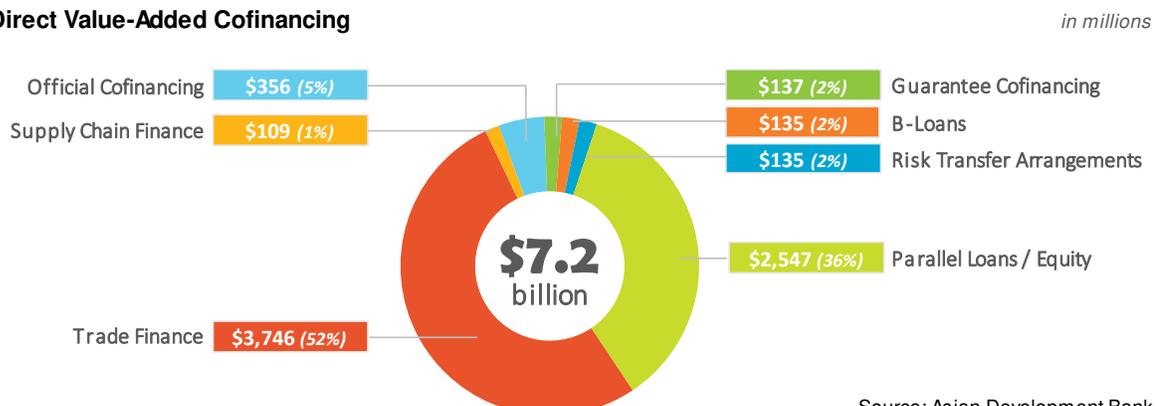
II. Portfolio by Sector



III. Portfolio by Geography

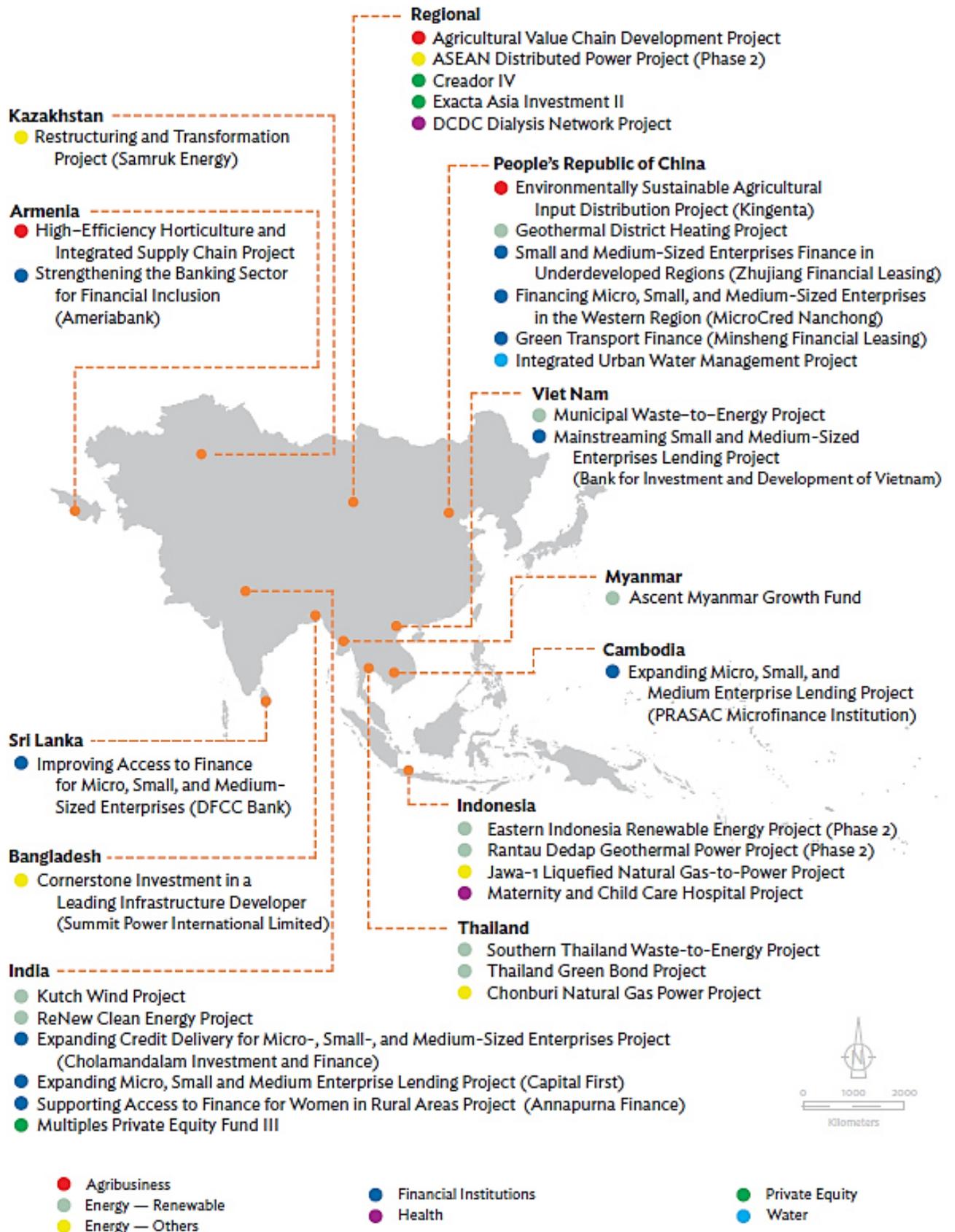


IV. Direct Value-Added Cofinancing



Source: Asian Development Bank

PSOD ACTIVITIES IN 2018



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