

"Investing in Infrastructure Development for the Future"



Dr. B.N. Lohani
Vice President (Finance and Administration)
Asian Development Bank

I. Introduction

I would like to share some of my thoughts on the importance of infrastructure development in developing Asia and how the Asian Development Bank (ADB)—the region's development financial institution—has been helping sustain infrastructure investments, even during a time of global financial crisis.

II. Infrastructure—A Comprehensive Development Agenda

Infrastructure plays a very crucial role in underpinning investment, growth, and poverty reduction. It promotes inclusive economic growth and provides access for the poor to basic services and income opportunities. However, developing Asia has been chronically under-investing in critical infrastructure such as energy, climate change, transport, water, and urban development. Even before the crisis, developing Asia's need for infrastructure was already significant at \$4.7 trillion over the next decade. Investments for addressing environmental issues alone could reach \$100 billion a year.

The face of Asia is changing. Today, hundreds of millions of people enjoy a better quality of life. Despite the very real impact of the global financial crisis, Asia is still on a positive growth track overall. ADB estimates that developing Asia and the Pacific will grow by around 3.4% this year and around 6% in 2010—which will be possible with strong national and regional efforts and a mild recovery in the global economy next year.¹ However, there is another face of Asia. Around 900 million people in the Asia and Pacific region still live in absolute poverty (defined as less than \$1.25 a day). Although absolute poverty is declining, inequality is growing.

From the experience of the 1997/98 Asian financial crisis, countries which continued their significant investments in infrastructure recovered faster. In the present global financial crisis, investments in infrastructure will again be critical for recovery and for underpinning long-term economic inclusive growth.

We see significant resources being made available for infrastructure under the stimulus packages of both developed and developing countries. However, we need to look at several key dimensions of infrastructure to get the maximum development impact. We have learned that infrastructure operations have to be more than just "bricks and mortar"; they should be part of a larger, comprehensive development agenda. We have to look at five interrelated dimensions in addressing the challenges of infrastructure development—the economic, demographic, environmental, governance, and financing dimensions.

The economic dimension speaks of the role of infrastructure in sustainable, inclusive economic growth. Infrastructure both promotes economic growth and makes growth more inclusive, particularly in remote areas and small and landlocked countries. In contrast, lack of adequate infrastructure can hinder potential growth, weaken international competitiveness, and adversely affect poverty reduction efforts.

The demographic dimension addresses the contributions and the needs of rapidly growing cities to stay competitive, link with the poor in the rural areas, and provide regional infrastructure supporting cross-border trade. On average, cities provide 80% of the economic wealth of countries. Cities are engines of national and subnational economic growth. A key spatial and demographic dimension is regional cooperation. Regional cooperation in developing cross-border infrastructure is critical for enhancing physical connectivity and sharing scarce resources such as energy, capital knowledge, and services. We would like to see an Asia with seamless world-class infrastructure networks. This involves developing "hard" infrastructure (physical assets) and "soft" infrastructure (policies, regulations, and institutions) that enable the development and operation of physical infrastructure.

Environmental and safeguards dimension looks at the impact of infrastructure on the environment, including air quality, availability of clean water and sanitation, and protection of the ecosystem. If not properly planned, infrastructure will have costly implications. The "let's

grow first and clean later" attitude is no longer an option in Asia. Certainly, Asia has the huge opportunity to direct today's investments to support a transition to a low-carbon growth. In designing fiscal stimulus packages, policy makers are already taking steps to ensure that public funds are channeled to building long-term productive capacity and sustainable energy systems. It is encouraging that development of renewable energy technologies, energy efficiency efforts, and education of a new generation of engineers and scientists are part of fiscal stimulus programs.

The fourth dimension of infrastructure—a critically important one—is governance. Relevant questions we ask in our review of infrastructure investments are: "Who captures the benefits of infrastructure? Who provides it? At what price and at what cost?"

The final dimension is financing. The private sector is an integral partner in financing infrastructure development. Private sector financing for infrastructure is critical so that public sector resources can be channeled to public goods like health care, education, and other social safety nets. Public-private partnerships are therefore important models to catalyze private capital into infrastructure.

III. How can ADB Help? How is ADB Helping?

In the midst of the current crisis, it is even more important that development finance partners such as ADB help countries enhance infrastructure investments to regenerate growth in Asian economies. ADB is a key development partner in the region. ADB's long-term strategic framework 1998–2020 (Strategy 2020) focuses on five core areas of operation—infrastructure, environment and climate change, finance sector development, education, and regional cooperation. These will comprise 80% of our operations in the next decade. By 2020, we expect 50% of our work to be in support of the development of the region's private sector. ADB assists in policy and regulatory reforms in infrastructure, and makes direct investments in infrastructure projects. ADB promotes meaningful public-private partnerships through loans, equity, and credit enhancements (partial credit and political guarantees). Our local currency loans help mitigate the foreign currency mismatch risks. By issuing local currency bonds, we assisted in deepening domestic debt markets in the People's Republic of China, India, Malaysia, the Philippines, and Thailand. ADB's Asian Infrastructure Financing Initiative is a cofinancing platform to pool financial resources from development partners. ADB also has safeguard policies to avoid, minimize, or mitigate adverse environmental impacts, social costs to third parties, or marginalization of vulnerable groups that may result from development projects.

V. Conclusion

Let me conclude with three important ways that Asia can help itself in its infrastructure investment challenges. First, investment in infrastructure is essential to help countries and the region ride out the global crisis. Second, opportunities exist to make the right investments in green infrastructure with a focus on achieving a low-carbon economy and for addressing the global challenge of climate change. These are complex and time-consuming investments but certainly worth pursuing for achieving long-term, environmentally sustainable growth in the region. Third, the demand for infrastructure financing in Asia is high but Asia is flush with capital. Therefore, we should remove the binding constraints for infrastructure development to mobilize private sector resources. Multilateral financial institutions like ADB can partner with governments and the private sector to build public sector capacity, enhance the enabling environments, deepen local capital markets, and provide risk-mitigating instruments for greater private sector involvement in infrastructure development in developing Asia.

¹Kuroda, Haruhiko. 2009. Crisis and Opportunity: Greening Energy for Sustainable Development. Asian Development Bank. 9 June.

Disclaimer: The views expressed in this discussion note are those of the author and do not necessarily reflect the views and policies of the Asian Development Bank, or its Board of Governors, or the governments they represent.

References:

- ADB. 2009. *Global Financial Crisis and Proposed ADB Response*. Manila.
- . 2008a. *The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.
- . 2008b. *Asian Economic Monitor*. December. Manila.
- . 2008c. *Asian Infrastructure Financing Initiative*. Manila.
- ADB, Japan Bank for International Cooperation, and The World Bank. 2005. *Connecting East Asia: A New Framework for Infrastructure*.
- Ali, I., and E. Pernia. 2003. ERD Policy Brief. Infrastructure and Poverty Reduction – What is the Connection? Manila.
- Economist Intelligence Unit. 2009. *Global Recession gives Boost to Corporate Energy Efficiency Drives*. 25 February.
- President Haruhiko Kuroda of the Asian Development Bank (ADB). 2009. Plunging Assets Cost \$50,000 bn. *Financial Times*. 8 March.
- Sharan, D., B.N. Lohani, M. Kawai, and R. Nag, R. 2007. *ADB's Infrastructure Operations*. Manila.
- World Economic Forum. 2009. *Green Investing: Towards a Clean Energy Infrastructure*.