

**Partnering to Develop Asia's Infrastructure  
– Opportunities and Challenges**

Keynote Address

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FIDIC Annual Conference  
10 September 2007  
Singapore

Distinguished guests, ladies and gentlemen, I am very pleased to have this opportunity to address all of you today on the important issue of partnering for infrastructure development in Asia and the Pacific. I would like to thank FIDIC for organizing this conference on Global Services, Enhancing Partnerships, with a timely focus on Asia.

The Asia-Pacific is today the most dynamic region in the world, with high growth rates sustained over several years. Last year was a particularly good year, with regional GDP rising 8.3%, the highest since 1995. We all know about the impressive performance of the Chinese and Indian economies growing at 10.7% and 9.2% respectively. But growth in the region is far broader. South Asia as a whole boosted its growth rate from a meager 3.7% in 2002 to a robust 8.7% last year. Economies as disparate as Azerbaijan and Cambodia turned in double digit growth in 2006 and two key Southeast Asian economies, Indonesia and the Philippines, have finally and firmly moved out of the shadow of the 1997 financial crisis with solid economic performance. We expect growth to remain brisk in 2007 and 2008.

One key factor underlying this strong growth is that countries have embraced globalization. Countries in the region have combined sound macroeconomic policies, increasingly liberal trade and investment regimes, and a passion for export competitiveness. Exports are driving growth as trade levels have soared both between Asia and the rest of the world and within Asia itself. Export-based growth has been a highly successful growth strategy for Asian economies, but that means that Asia is more dependent on growth in other areas of the world, which means we must closely monitor the real economy impact of recent the credit crisis, in particular the possible knock-on impact on Asia.

Despite the overall positive outlook for the region, many challenges remain. Let me address two such challenges. First, rising prosperity is being accompanied by growing inequality. This is a region with two faces – one, the glittering face of a prosperous, confident Asia that has raised more people out of poverty over the past 20 years than in any other time in human history; the other is that of continuing poverty for nearly 1.9 billion people who live on \$2 or less a day. To create economic opportunities for these people will require continued growth, but it will also require steps to ensure their access to education, health and financing that will allow them to boost their productivity and therefore their standard of living.

The second challenge is environmental degradation and an explosion of demand for, and intensity of, use of energy. These trends are raising serious questions about the sustainability of the Asian growth model. Environmental damage undermines both the quality of living – that is, the ability of citizens in the region to enjoy clean air, water and land – as well as the standard of living – that is, prosperity that comes from an expanding economy. In the short term, the cost of pollution to an economy will increasingly drag growth; in the long-term climate change stemming from high energy intensity use could wipe out tremendous amounts of wealth and increase poverty, particularly in those countries that can least afford adaptation measures.

Massive infrastructure investment is needed to address both challenges. Inadequate infrastructure is a critical bottleneck to future growth and to a broader sharing of the benefits of that growth. In India, for example, poor rural infrastructure is taking its toll on agriculture productivity growth, keeping million so farmers in

poverty. In the Philippines, infrastructure gaps have played a role in hampering industrialization and job creation for a young and fast growing population. In Asia's megacities, high levels of congestion and squalor are a result of years of neglect of infrastructure maintenance and development. Investment in clean and renewable energy, water and solid waste treatment plants, and in climate-proofed infrastructure facilities will be an important part of the solution to the environmental degradation plaguing Asia. Let me examine in more detail how infrastructure can address these two challenges.

## **Pro-Poor Growth: The Role of Infrastructure**

How does infrastructure investment help the poor and how can we mobilize resources to make the needed investment?

First, it is clear these needs are massive. A recent study of infrastructure needs in 29 of ADB's developing member countries<sup>1</sup> shows that together these countries need a minimum of \$3.7 trillion in investments in infrastructure over the next decade. This represents 7.5% of their combined GDP. Currently these countries are only investing about 1% in infrastructure, representing a huge gap. About 80% of this investment is needed in the PRC and India. Governments and multilateral institutions will need to partner with the private sector to meet these enormous requirements.

As a multilateral development bank, ADB has played a key role in helping to meet the region's infrastructure needs over the past 40 years. But the ADB does not simply offer loans and technical assistance grants to countries for infrastructure development. We bundle that financing with knowledge, project management, problem-solving, and technology. This is aimed in particular at ensuring that the projects benefit the poor, both through direct impact on living standards as well as indirectly through increased growth and economic activity. Thus when we finance a toll road in the People's Republic of China, we work closely with the local governments to ensure that rural roads are upgraded and linked to the new toll road. We help local residents get access to education, health and financing so they can better take advantage of the economic opportunities created by the road. And of course we and the Government ensure that those people who are resettled are compensated and their livelihoods restored.

The region's huge infrastructure investment needs can only be met with robust private sector investment. However, private sector investment in this sector, which constituted more than 25% of total infrastructure spending in the mid-1990s collapsed following the financial crisis. Although we are seeing signs of resurgence in private sector interest in infrastructure in developing Asia, the pace must quicken to meet the urgent needs of the region. ADB is increasingly playing the role of catalyst, facilitating additional financing from the enormous global private capital markets to fund needed infrastructure projects.

We facilitate this additional financing in four major ways.

One, we work closely with our developing member countries to help them strengthen governance and improve their legal and regulatory environments to make them more conducive to private sector growth. Because ADB has a 40 year track record of working with the region's governments to promote development, we have long been viewed as an honest broker and a close partner in development. This privileged relationship with our members allows us to promote in a constructive manner sensitive reforms needed to improve the investment climate.

Two, we continue to invest directly in public infrastructure projects around the region. Infrastructure is one of ADB's core competencies and a major share of our public sector lending will continue to go to this sector. In 2006, ADB approved a total of 30 public infrastructure loans providing \$3.051 billion that covers energy, transport and communications, water supply, sanitation and waste management.

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<sup>1</sup> Building Asia's Infrastructure: Issues and Options, by Haruhiko Kuroda, Rajat Nag, and Rita Nangia.

Three, we mobilize private investment and promote public-private partnerships. To support these aims, we offer innovative financing mechanisms such as multitranche financing, direct financing to subsovereigns, quasi-sovereigns and state-owned enterprises. Our innovative risk mitigation products include political and commercial risk insurance.

Four, we promote regional cooperation in infrastructure development, including highway projects through two or more countries, power projects that benefit a subregion rather than a single country, tourism projects that develop infrastructure and promote a subregion as a single tourist destination.

## **Clean Energy Initiatives**

Let me now briefly address how ADB is working to invest in infrastructure that can help ensure adequate energy resources for fast-growing economies while protecting the environment.

Under its Energy Efficiency Initiative, ADB actively promotes the use of “clean energy” on both the supply side and the demand side. On the supply side, we encourage our developing member countries to explore and develop renewable energy sources, such as wind, solar and bio fuels. At the same time, we promote an exchange of knowledge and experience between countries and help build domestic capacity.

On the demand side, we promote the use of efficient lighting, temperature control, and other energy-saving technologies. With residential and commercial buildings accounting for 60% of electricity demand in Asia, the potential savings are significant. Our own headquarters building in Manila is an ISO-certified energy efficient building that we hope may serve as an example to others.

Given the enormity of the task, we are not trying to do it all ourselves. In April this year, ADB established the Clean Energy Financing Partnership Facility to support the Energy Efficiency Initiative. The facility is made up of a multilateral and several bilateral clean energy funds. This facility mobilizes additional funds through co-financing, supports knowledge dissemination and exchange, and shares the risks of using new technologies with local financial institutions and other investors in developing countries.

The facility supports the design and implementation of innovative financing mechanisms to make new technologies commercially attractive. To support investment in such new technologies, ADB is working on a new financing mechanism that would include a contingent loan to offset the higher initial investment that clean energy technologies might require. This financial product is still at the development stage, but the idea is that the repayment of the loan would be contingent on savings made through energy efficiency gains.

Like the Energy Efficiency Initiative, ADB’s Carbon Market Initiative addresses the pressing global issues of energy security and climate change. ADB provides up-front financing and technical support to developers and sponsors of projects with GHG mitigation benefits that meet the criteria of the Clean Development Mechanism under the Kyoto Protocol.

The Carbon Market Initiative provides a project cofinancing facility, carbon credit marketing program, and technical support for preparation and implementation of eligible projects. More broadly, it represents a unique opportunity for ADB and its shareholders – both regional and non-regional – to channel investment and technical support to clean energy projects.

This initiative has the potential to substantially benefit both project sponsors in developing countries, and carbon credit buyers in developed countries striving to meet their commitments under the Kyoto Protocol. Developing countries benefit from having additional upfront financing for clean energy projects with appropriate carbon market technical support. Developed countries benefit from having alternative sources of reliable carbon credits to meet their Kyoto commitments. Risks to all parties are reduced, additional funding is mobilized, and the number of clean energy projects increases.

We welcome the involvement and partnership of your firms in this existing new area.

Ladies and gentlemen, developing Asia needs your participation, investment and expertise to reach its enormous potential. I hope that ADB's efforts to promote infrastructure development in Asia encourages *your* involvement in this effort.

### **FIDIC as a partner**

Infrastructure projects (transportation, communication, energy, water supply and sanitation) account for about 60% of ADB total lending operations. Over 90% of the project preparation, design and implementation are done with inputs by consultants. Clearly, consultants, particularly consulting engineers, play a critical role in ADB-financed infrastructure projects. ADB considers FIDIC as an important partner in promoting inclusive and sustainable economic growth in Asia.

Sustainable economic growth needs sustainable projects. An old Chinese saying warns people that one ant-hole may cause the collapse of an entire dike. A flaw in project preparation and design may lead to the failure of the entire investment project. Projects that fail to achieve the expected results, or impose excessive financial burdens for maintenance and repair, will consume financial resources and cause delays. Design and implementation consultants play a critical role in ensuring high quality projects.

Corruption is one factor that often contributes to project failure, and of course it also has broader debilitating effects on societies in which it is prevalent. Last year, ADB launched the Second Governance and Anticorruption Action Plan to improve the implementation of effective governance and anticorruption measures in ADB-financed projects. Through its governance work and active involvement in the ADB/OECD Anti-Corruption Initiative for Asia-Pacific, ADB also supports the efforts of governments to establish effective and transparent systems for public service, discourage bribery, and promote business integrity. I am glad to learn that FIDIC is developing an integrity tool called the Government Procurement Integrity Management System (GPIMS) that mirrors FIDIC's Business Integrity Management System (BIMS) but is geared to addressing the integrity of government procurement processes. ADB and FIDIC have common goals in this important area, and we look forward to working together.

High quality development projects and sound development management cannot be achieved without building up institutional capacity both in the government and in the national consulting industry in developing countries. The revised Guidelines on The Use of Consultants by Asian Development Bank and Its Borrowers stress the importance of capacity development in ADB's developing member countries and the transfer of knowledge from international consultants to national consultants. I should also point out that we have taken the opportunity, when modernizing our procurement and consulting guidelines, to harmonize our procedures with those of the World Bank.

In recent years, we have observed a significant trend of more borrowing country consultants being involved in ADB-financed projects either in their home country or in other borrowing countries. I believe there will be tremendous opportunities for FIDIC consultants to work together with ADB to build capacity in Asia's developing countries to design, implement, and manage high quality infrastructure projects.

ADB stands ready to partner with you to help build a prosperous region in which all the people of Asia and the Pacific benefit from responsible and inclusive development.

Thank you.