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***Tokyo Launch Seminar on
“Infrastructure in East Asia: The Way Forward”***

REPORT

January 23, 2004 (Friday) 13:30 ~ 17:15

Auditorium (9th floor), Japan Bank for International Cooperation

***Co-organized by: Japan Bank for International Cooperation (JBIC),
Asian Development Bank (ADB), and The World Bank,
Supported by Japan Institute for Overseas Investment (JOI)***



***Tokyo Launch Seminar on
“Infrastructure in East Asia: The Way Forward”***

Program

- 13:00- Registration
- 13:30- Opening Remarks
- Mr. Kyosuke Shinozawa, Governor, JBIC
- 13:40- Welcome Remarks
- Mr. Kiyoto Ido, Senior Deputy Director-General, International Bureau, Ministry of Finance, The Government of Japan
- 13:50- Introduction of Seminar Program, Speakers and Commentators
- 13:55- Three Institutions’ Presentations on the Study “Infrastructure in East Asia: The Way Forward”
- Mr. Jemal-ud-din Kassum, Vice President, The World Bank
- Mr. Geert van der Linden, Vice President, ADB
- Mr. Toru Tokuhisa, Director General, JBIC Institute, JBIC
- 14:40- Framework and Progress of the Study “Infrastructure in East Asia: The Way Forward”
- Mr. Mark Baird, Study Core Team Leader
- 15:30- Coffee Break
- 15:45- Comments
- Mr. Shinji Asanuma, Professor and Director, Asian Public Policy Program, Hitotsubashi University
- Mr. Makoto Nagahata, Researcher, Japan NGO Center for International Cooperation
- Mr. Hideaki Tanaka, Acting General Manager, International Affairs Department, Tokyo Electric Power Company, Inc.
- 16:15- Q & A
- 17:00- Summary
- Mr. Shozo Kitta, Executive Director, JBIC Institute, JBIC
- 17:05- Closing Remarks
- Mr. Yukio Yoshimura, Vice President and Special Representative, Japan, The World Bank
- Mr. Jungsoo Lee, Regional Representative, Japanese Representative Office, ADB
- (17:15~17:30 Q & A with the press)

Opening Remarks*

Mr. Kyosuke Shinozawa
Governor, JBIC

Welcoming Remarks*

Mr. Kiyoto Ido
Senior Deputy Director-General, International Bureau,
Ministry of Finance, The Government of Japan

* In the seminar, these speeches were provided in Japanese. For this report, they were translated into English by Development Policy Research Division, JBIC Institute.

Opening Remarks

Mr. Kyosuke Shinozawa (Governor, JBIC)

(Rationale of the Tokyo Launch Seminar)

I am Shinozawa, the Governor of Japan Bank for International Cooperation. I would like to express my appreciation to you all for your participation today in your busy time. This Seminar is held as part of the Flagship Study “Infrastructure Development in East Asia: The Way Forward,” jointly conducted, since last September, by Japan Bank for International Cooperation, the World Bank and Asian Development Bank, with the support of the Government of Japan.

On behalf of the three institutions, please allow me to address the opening of the Seminar.

(Objectives of the Study)

The international community is intensifying its efforts to attain the Millennium Development Goals (MDGs) unveiled in 2000. Since indicators put forward by the MDGs are related to mainly health, medical care, education and social development, the efforts initially tended to focus on providing direct assistance in those areas. In this context, some research results have shown that infrastructure has positive effects on poverty reduction in addition to promoting economic growth, and the multi-dimensional effects and importance of infrastructure are increasingly being recognized.

Since the Asian currency crisis in 1997, however, the volume of infrastructure provision in East Asia has slowed sharply and to date remains well below pre-crisis levels despite its need. Eliminating the supply shortage of infrastructure has become an urgent task. Just last week, at the first workshop for this study held in Manila, the Philippines, many participants from Asian developing countries pointed out the serious shortage of infrastructure.

Nevertheless, when increasing infrastructure supply, we should not revive the old type of “physical infrastructure building” alone. New frameworks and approaches need to be established, based on past experiences and lessons as well as future issues and needs, and in consideration of environmental aspects. I would like to present five important perspectives.

First, infrastructure provision must contribute to economic development and poverty reduction in developing countries. Based on development experiences in East

Asia, we believe that infrastructure development will promote domestic and foreign direct investment, and that economic development and employment expansion induced by the investment will contribute to alleviate poverty. But, we should still look into how such mechanisms work most effectively, and what projects bring the best results.

Second, although the private sector plays a great role in infrastructure development, it is not necessarily the case that all private sector participated projects have shown the positive results that were expected. It is probably a reality that the public sector, private companies and beneficiaries related to private sector participated projects are, to some extent, unsatisfied with this outcome. There is a need to draw lessons from past successes and failures, before and after the Asian currency crisis, and to establish a new public-private partnership.

Third, environmental and social considerations are important, as is the improvement of governance in the public and private sectors. There are criticisms that some large-scale infrastructure projects brought environmental and community destruction in the past. Although we have been strengthening environmental and social considerations, we need to pursue further efforts thoroughly. Moreover, governments and private companies --the main suppliers of projects-- should act in accordance with certain disciplines, improve regulations and institutions, and strengthen their capacity, in order to provide project benefits to people.

Fourth, it is vital to respond to the challenges and needs arising from the new trends in the East Asian region, including changes in its economic and trade structures, regional integration, urbanization and decentralization. These new changes are accelerating even more in the 21st century. Considering these trends, we must anticipate the needs in times to come, and establish and implement infrastructure development strategies.

Fifth, in addition to the above four aspects, the remaining is how to mobilize funds for infrastructure provision. Budgets of developing countries in East Asia are not ample, and private companies are hesitant to invest in infrastructure projects. In order to most effectively use limited funds, it is crucial to comprehensively study various issues, including taxation system, subsidies, tariff system, development of domestic capital markets, exchange risk-bearing, the Asian bond market receiving much attention now, the balance between public and private sector funds, and the role of public funds to stimulate private financing.

(Method of Study Implementation)

These are the main issues we are planning to study. We would like to point out

that this research project is very unique in the manner of its implementation. To date, the three institutions have been engaged in various cooperation and coordination activities, including policy dialogues and co-financing. Moreover, in the past, we put forward views and comments with each other in numerous studies conducted by the three institutions individually. However, this is our first attempt to form one study team for conducting a study. It is based on nothing less than the importance of this project.

Afterwards, the respective institutions' efforts and expectations towards the study will be explained by Mr. Kassum, Vice President of the World Bank, Mr. van der Linden, Vice President of ADB, and Mr. Tokuhisa, Director General for JBIC Institute of JBIC. Each institution has some characteristics in terms of its views and policies regarding assistance for infrastructure provision. However, in order to attain economic development and poverty reduction in East Asia with limited resources, we would like to use this study to build a common understanding among the three institutions, and present practical recommendations to the developing countries and stakeholders in the development activities.

(Conclusion)

The final report is planned to be completed in early 2005. During the course of the study, a series of seminars and workshops will be organized to exchange views with governments of the region, the private sector, NGOs, academics and organizations concerned. As mentioned, the first workshop was held on January 15-16, at the ADB headquarters in Manila. Active discussions were held with more than 100 participants including government officials of developing countries of the region.

The main purposes of this Seminar are to present a framework and key issues of the study as well as efforts and expectations of the three institutions to the participants, and to exchange views on them. The outcome of the Manila workshop will also be presented. We would appreciate your understanding and kind cooperation to this study through the discussions today.

Thank you very much for your kind attention.

Welcoming Remarks

Mr. Kiyoto Ido (Senior Deputy Director-General, International Bureau, Ministry of Finance, The Government of Japan)

I am delighted that this seminar on “Infrastructure in East Asia: the Way Forward,” hosted jointly by the World Bank, Asian Development Bank and Japan Bank for International Cooperation, is being held today with the attendance of so many distinguished participants.

As the Governor Shinozawa pointed out a few moments ago, because the Millennium Development Goals contained mostly social-sector targets, there has been a tendency for the international community to focus its assistance on social services in the areas of health and education, and place less emphasis to economic growth as well as infrastructure development. More recently, however, the international society has increasingly recognized that effective poverty reduction requires sustained economic growth. For this reason, we are beginning to see greater emphasis placed on economic growth, the investment environment and infrastructure provision in the poverty reduction strategies of various developing countries such as Vietnam.

This study is timely as the Japanese Government is also highlighting the importance of sustainable growth as one of the priorities in the recently revised ODA Charter.

The World Bank’s past report, East Asian Miracle, pointed out that sufficient infrastructure development was indispensable as a basic policy. It is a historical fact that infrastructure development has contributed significantly to economic growth in East Asian countries. The impact of infrastructure development on poverty reduction, however, has been often overlooked. For this background, I think we have to recognize that there has been a lack of analysis on how infrastructure development contributes to poverty reduction. I am hoping, therefore, that this study will clarify the links between infrastructure, economic growth and poverty reduction, as well as the effectiveness of infrastructure development, and contribute to deepening the understanding of poverty reduction through economic growth.

As was also mentioned by the Governor, expectation increased since the mid-1990s for the use of private-sector funds in infrastructure development, in other words, private sector-participated infrastructure. Such private sector participation, however, declined sharply due to the economic and financial crisis that hit the East Asian region

and the increased awareness of long-term project risks associated with infrastructure investment. These experiences point to the need to reconsider the role of government and international institutions in promoting infrastructure development. On the other hand, it is true that it will be difficult for the public sector to play a major role in financing enormous infrastructure projects to sustain further economic growth in East Asia. Hence, we should consider policy measures to facilitate the provision of private funds in infrastructure investments through improving the predictability of project risks.

This study's agenda also includes such matters as the need for environmental and social considerations in infrastructure investment, and methods for risk reduction. For instance, dam construction projects for hydroelectric power generation would require measures to mitigate their high risks, ensure appropriate social and environmental considerations, and establish rapport between local residents, local governments and private sector organizations. We would expect the World Bank and ADB to play a more active role in these areas.

It is appropriate that this study is taking place in East Asia given the important role that infrastructure development has played in achieving sustainable and equitable growth in the region. We would also like to utilize the outcome of this study in formulating our assistance policy in the future. Thank you very much.

Three Institutions' Presentations on the Study “Infrastructure in East Asia: The Way Forward”

Mr. Jemal-ud-din Kassum
Vice President, The World Bank

Mr. Geert van der Linden
Vice President, ADB

Mr. Toru Tokuhisa*
Director General, JBIC Institute, JBIC

* In the seminar, this presentation was provided in Japanese. For this report, it was translated into English by Development Policy Research Division, JBIC Institute.

Mr. Jemal-ud-din Kassum (Vice President, The World Bank)

It is a great pleasure for me to join this launch seminar in Tokyo today. I was personally involved in the early discussions with the Japanese Ministry of Finance, JBIC and ADB on the importance of undertaking a joint review of infrastructure in the region, and the role of development agencies in this area. It's therefore very encouraging for me to see the good progress that has been made over the past few months in getting this study off the ground, and the promising work program that lies ahead. I can assure you that the World Bank Group fully supports this endeavor and will do whatever it can to ensure a successful outcome.

Today I would like to speak briefly on three related topics: first, the important role that infrastructure can play in poverty reduction; second, the role of the World Bank in infrastructure development; and third, the potential contribution of this flagship study to our understanding of infrastructure issues in the region.

(The Role of Infrastructure in Poverty Reduction)

Infrastructure has always played a central role in East Asia's approach to development¹. This is evident of course here in Japan, as well as in the unprecedented development record of the Asian tigers over the past three decades, and more recently in the strong growth of China and Vietnam. It's no coincidence that East Asia has also been more successful than any other region in the world in reducing poverty: through both sustained economic growth and expanded access to basic services. The number of people living in extreme poverty in this region has fallen by 500 million since 1975. This simply would not have been possible without the large investments made by governments and private firms in developing infrastructure, especially for power, transport, water supply and telecommunications. East Asia also invested heavily in human development by providing basic health and education services for the poor. Without these, the poor would not have been able to take advantage of the benefits provided by a growing economy. It was this total package which underpinned East Asia's unrivaled record in poverty reduction.

But the successes of the past should not blind us to the realities of the present. East Asia and the Pacific is still home to 200 million people living on less than US\$1 per day and 700 million people living on less than US\$2 per day. There are also large gaps

¹ For a historical review of development in East Asia, see Joseph Stiglitz and Shahid Yusuf (Editors), "Rethinking the East Asia Miracle" (World Bank and Oxford University Press, 2001). For more recent developments and short-term prospects, see the World Bank's "East Asia Update: From Cyclical Recovery to Long Run Growth" (EAP Region, October 2003).

in achieving the Millennium Development Goals (MDGs). Close to 500 million people in the region still don't have access to clean water, and child mortality is greater than 100 per 1,000 in Cambodia, Lao PDR, Mongolia and Papua New Guinea. Recent evidence clearly shows that infrastructure to provide clean water and access to health facilities is one of the primary determinants of health outcomes.² More generally, the opportunities provided by economic growth are essential to increase the incomes of poor families and allow them to access the basic social services they need to improve their lives. While growth is now recovering, averaging more than 6% per annum for the developing countries in the region, not all countries and regions are sharing equally in this recovery. In particular, average growth in the smaller low-income countries and the Pacific Islands is still below 4% per annum. Business surveys routinely point to infrastructure bottlenecks as one of the primary factors constraining private investment and growth in these countries.

Countries in the East Asia and Pacific region will require at least US\$200 billion per annum and perhaps a lot more to meet their infrastructure needs over the remainder of this decade.³ However, while the needs are large, sources of financing for infrastructure have significantly declined in recent years. Worldwide, investment in infrastructure projects with private participation peaked at over US\$120 billion in 1997, but has since fallen back to less than half that level.⁴ In this region, private interest in infrastructure projects was adversely affected by the Asian crisis – which reduced demand forecasts and caused some private contracts to be broken or renegotiated. At the same time, many governments had to reduce unmanageable levels of public debt, which meant that less fiscal resources – from both domestic and external sources – were available for infrastructure spending. There are now encouraging signs that private interest in investing in the region, including for infrastructure projects, is returning. However, future flows are likely to be much more cautious about country and contractual risks than in the past.

Looking forward, therefore, the challenge is to find ways to finance infrastructure that will attract private capital and management expertise, at minimum fiscal costs to

² See, for example, Adam Wagstaff, “Intersectoral Synergies and the Health MDGs: Preliminary Cross-Country Findings, Corroboration and Policy Simulations” (First Draft, December 6, 2002); and Danny Liepziger, Marianne Fay, Quentin Wodon and Tito Yepes, “Achieving the Millennium Development Goals – A Multi-Sectoral Approach Revisited” (Abstract, May 17, 2003).

³ See, for example, Marianne Fay and Tito Yepes, “Investing in Infrastructure: What is Needed from 2000 to 2010?” (World Bank Policy Research Working Paper, July 2003). The infrastructure study will attempt to update the estimates of resource requirements for infrastructure development and maintenance in the East Asia and Pacific region.

⁴ From the World Bank, PPI Projects Database.

the government. Above all else, private investors are looking for a clear and predictable investment climate. This is especially true for infrastructure projects, which often involve large upfront costs and long gestation periods. Global experience also shows the problems that can occur when private participation is encouraged in a non-transparent manner, without adequate attention to the regulatory environment and market competition. The infrastructure study should look closely at the lessons from East Asia and other regions on how to structure markets in ways that lead to efficient and affordable service delivery, and tailor its recommendations to different country and sector situations. Too often in the past, infrastructure has been subjected to an ideological one-size-fits-all approach – from supporters of both the public and private sectors.

Infrastructure investments are inherently long-term decisions, which often cut across sector and line responsibilities within government. Therefore it is no coincidence that countries that have successfully implemented infrastructure programs have strong mechanisms for policy coordination and expenditure planning. We saw this in Indonesia in the 1970s and 1980s, and in China and Vietnam today. However, these functions become more complex as countries open up their political systems, decentralize more fiscal and administrative responsibilities to local levels of government, and increasingly rely on the private sector to finance and manage infrastructure services. The regional study should help us think through the institutional implications of these changes for how we approach infrastructure development in the future.

The task of infrastructure development is made even more challenging by the major structural changes underway in the region. Perhaps the most striking is the rapid pace of urbanization. Over the next 20 years, the urban population in East Asia and the Pacific is projected to increase by 500 million people, or 60%. The population of “mega-cities” with populations over 10 million will rise from 80 to 120 million. This growth will place enormous pressures on urban infrastructure, especially the provision of basic services for the poor. At the same time, we will have to address infrastructure bottlenecks in rural areas, which reduce income-generating opportunities in agriculture and non-farm activities, and induce the migration of people to the cities to find work. Greater decentralization will potentially improve the ability of governments to respond to these local needs – provided the necessary capacity, financing and accountability are put in place.

At the same time as governments are becoming more decentralized, the region as a whole is becoming more integrated. The role of external trade as a dynamo for

growth in East Asia is well known. But what is perhaps less well known is that trade between the emerging economies in East Asia has grown faster than their trade with any other market, and now makes up 6.5% of global trade.⁵ This reflects the complementarities of production and exports among what are very diverse economies. The recent emergence of China as a major regional supplier and market has reinforced this trend. But economic integration has to be managed carefully so that its benefits can be broadly shared by poorer countries and the poor within countries. This requires attention *inter alia* to the infrastructure bottlenecks that prevent poorer regions and countries from actively competing in regional and global markets. Many of these are country-specific problems that need to be addressed in national strategies. But there will also be a need for regional solutions, especially for isolated and land-locked countries. This is where the new sense of regionalism that I sense is emerging in East Asia can be harnessed to improve policy integration and coordination.

Apart from trade, one of the main ingredients of East Asia's development success has been the region's high levels of savings and investment. Looking forward, demographic changes will result in more people moving into the work force, reducing dependency rates and raising savings rates even higher in many countries. The challenge will be to find ways to intermediate these savings into longer-term financing for infrastructure projects, as the investment climate for infrastructure improves. Some of this may come through the budget in the form of higher tax revenues and fiscal space. But the primary mechanism should be through the financial sector. To date, most of the financial sector reforms in the region have focused on restoring confidence in the banking system following the Asian crisis. But it's now time to give more attention to developing non-bank financial institutions as well as equity, bond and municipal finance markets. With progress in these areas, it is likely that domestic financing will be able to play a much larger role in future infrastructure investments.

One of the most difficult issues on the infrastructure agenda is how to manage the environmental and social impact of large-scale projects, such as dams. Increased public awareness of these impacts led development agencies such as the World Bank to adopt more stringent safeguards during the 1990s. Because of the higher transaction costs involved, many governments decided that they would go ahead without official support or cancel these projects. It's obvious to me that this is not the best outcome – especially when we focus on the needs of the poor. That's why the World Bank, working very closely with the Asian Development Bank, are now actively engaged in completing our due diligence on the Nam Theun 2 hydropower project in Lao PDR.

5 From the World Bank, "East Asia Integrates: A Trade Policy for Shared Growth" (June 2003).

This project clearly demonstrates our willingness to leverage private sector resources for large infrastructure projects – when we are confident that they will serve the poor, and when environmental and resettlement issues have been properly addressed. And as I have said, we are still completing our due diligence. Nam Theun 2 is also a good example of a regional project, which will benefit more than one country.

More generally, we should encourage and assist governments to adopt their own environmental and social standards and procedures – which would guide all infrastructure investments, including those financed by development agencies. Better practices could be reinforced by greater public voice in decision making and accountability. We have seen remarkable progress in this area in community-based programs throughout the region. The challenge now is to bring these grassroots initiatives into the mainstream of local and central government programs.

(Role of the World Bank in Infrastructure Development)

Let me now turn briefly to the role of the World Bank in infrastructure development. As most of you may be aware, the Executive Board on the World Bank recently reviewed and endorsed a new Infrastructure Action Plan.⁶ This recognized the “growing consensus on the part of clients, the Board and Management that the Bank Group needs to increase its engagement in infrastructure in light of the growing investment needs, withdrawal of private investors, and growing recognition that the MDGs can only be met in a multisectoral way.” The key now is turning that commitment into action, by responding to client demands for infrastructure, by rebuilding our knowledge base on infrastructure issues at the sector, country and regional level, and by using our resources to leverage greater participation by the private sector in ways that serve our common goal of poverty reduction.

Within the East Asia and Pacific Region, our commitments for infrastructure lending fell by more than 50% from an average of US\$3.4 billion per annum in FY93-97 to US\$1.6 billion in FY98-02. The sharpest decline was in lending for the power sector, reflecting the shift to private financing of new generation capacity, concerns about the environmental and social impact of large-scale projects, and the deteriorating financial health of public utilities, especially in the crisis countries. More generally, high public debt levels in the crisis countries limited spending on new projects and the scope for additional borrowing, even on concessional terms. As country conditions improve, so has our ability to finance infrastructure projects, with lending levels rising in FY03 and again this year.

⁶ World Bank Group Infrastructure Action Plan, discussed at an Informal Board Meeting on July 8, 2003.

Looking forward, our renewed commitment for infrastructure will be reflected in our Country Assistance Strategies (CASs). Take for example the Indonesia CAS, reviewed by our Executive Board in November and now available on our website. It shows clearly the importance of infrastructure to restoring growth and access to basic services for the poor. With progress over the past few years on budget and financial sector reforms, there is now some prospect of greater fiscal space and domestic financing for infrastructure investment. But the key lies in governance reforms to restore the confidence of the private sector in the legal enforcement of contracts and of the public that budget funds will be used wisely. This applies at all levels of government, and in the relevant public utilities. Our strategy provides for a possible increase in lending, including for infrastructure, provided these governance issues are addressed. We will also assist government efforts to improve the policy environment for infrastructure development. The ongoing dialogue with the Government of Indonesia on power sector reforms, undertaken jointly with ADB and JBIC and the World Bank, is a good example of how we can work together.

The regional study will play a pivotal role in helping us to assess client demand for infrastructure projects and opportunities for World Bank support. I am especially pleased to see the process of consultations that has been built into the study through regional workshops and country visits. This will ensure that we benefit from a wide range of views – and also provide an opportunity for early feedback on the main issues to be addressed. Already, in Manila last week, we have heard about the important role official lending can play in catalyzing private participation and funding infrastructure projects that will not attract private investors. We've also heard that countries want us to take a longer-term view of infrastructure needs, better coordinate our activities at the country and project level, and simplify and speed up our business practices. I can assure you that we have heard this feedback and will respond quickly. We also look forward to receiving regular updates and intermediate outputs as the study progresses.

(The Contribution of the Flagship Study)

Finally, let me explain why we have such high hopes for the joint study on “Infrastructure in East Asia: The Way Forward”. While it is clearly an ambitious agenda, and much has been written on this topic in the past, I believe the study is very important for the following reasons:

- First, the study is timely, now that the region is integrating more, growing more and resuming its central role in world trade. Growth has resumed in many countries and there are signs that the business cycle on private investment may be reversing

itself again.

- Second, the study looks at longer-term trends as well as the short-run business cycles. Infrastructure decisions made today will influence generations to come as they benefit from the fruits of growth. This is vitally important for poverty reduction. But those infrastructure decisions will also impact the use of natural resources. Mistakes will be costly, so we must get this right.
- Third, infrastructure as a field is evolving rapidly from a bricks and mortar approach to software-type issues, such as logistics and productivity centers. Understanding these trends and looking at their institutional implications will be paramount in adapting our advice and lending products and services to the needs of our clients.
- Fourth, I am delighted that the three major official lenders for infrastructure development in East Asia – ADB, JBIC and the World Bank – have adopted a joint approach to this study. In many respects this will be a first for the three institutions. We have co-financed many projects together but this is a path-breaking study. I do not underestimate the difficulties in coming up with a common framework for decision makers. But, if we succeed, it will greatly enhance our catalytic role – providing sound policy advice based on the diverse characteristics of the countries in the region.
- Fifth, I am also delighted to see the participatory approach being taken, integrating the views and advice of the best minds in the region, and of all the parties concerned: public officials, private sector, academia and civil society. Our common objective is to build a shared vision for infrastructure development and service provision in the region, based on country realities and the broader development challenges facing the region.

In conclusion, I want to personally thank the Government of Japan for providing generous financing, and JBIC, Mr. Shinozawa's presence signals his personal support, and ADB for joining with us in this effort, President Chino attended the workshop in Manila last week. The World Bank is firmly committed to this study – and to enhancing its support for infrastructure development in the region. But, at the end of the day, our lending will be a very small part of the overall story. What matters is having the right policies in place to attract private investment, and to ensure that all public and private resources are used efficiently. And we must always keep our eye on the ultimate objective – providing a better future for the poor of the region. Recognizing the important role that infrastructure can play in development, and doing it in ways that meets the needs of the poor, are important steps towards achieving that goal.

Mr. Geert van der Linden (Vice President, ADB)

Distinguished Guests, Ladies and Gentlemen:

Infrastructure is essential to the economic development of Asia. It plays a central role in improving the quality of life of all Asians. It can bring new opportunities, new access and new hope to hundreds of millions of people.

East Asia's remarkable development over the past 30 years is proof positive that investments in infrastructure reap dividends across a range of sectors, from health to education to transport to market development.

Infrastructure and its related services cut costs and raise competitiveness. They support productivity and efficiency in manufacturing and distribution. They create and sustain domestic markets while linking them to international trade networks. Infrastructure is central to the creation and sustainability of efficient industrial clusters and city clusters. They reduce poverty and open the way for more employment, more income and more prosperity.

It is East Asia's experience that makes this Joint Infrastructure Study so important. This is the first time our three institutions—the Japan Bank for International Cooperation, the World Bank, and ADB—have come together to chart a detailed infrastructure strategy for this region. Done well our work will support further economic expansion for decades to come. Done poorly our work will lead to missed opportunities for growth and development across the region.

As our study progresses, we must remember that infrastructure has a typical network character—all parts of the system must be developed if any one part is to be effective. The Manila Workshop last week reminded us that given these special characteristics, the design of efficient infrastructure provision requires a long-term vision. In the past decade, the perceived importance of strategic planning for infrastructure declined. This must be corrected. As robust economic growth returns in many Asian countries, urgent action is required to ensure that infrastructure shortfalls do not become a constraint to growth and to our mandate to reduce poverty and improve living conditions in this region.

Success of this joint effort lies in determining a comprehensive and integrated vision; developing a workable balance between the roles of the public and private sectors; identifying financing options and ensuring sustained financial support to make the vision reality; and exploring innovative projects.

A number of projects supported by ADB illustrate some new possibilities.

The Meghnaghat power project in Bangladesh is interesting in terms of the roles of the public and private sectors. The Government of Bangladesh had limited capacity for structuring complex large-scale deals. At the same time, it was recognized that private investments were crucial in dealing with the country's very low level of electrification, and reducing the frequency of black outs. To help bridge the gap, ADB provided technical assistance to the government to develop and implement a transparent framework for soliciting and selecting the best private sector options.

In the transport sector, ADB has worked with the countries of the Greater Mekong Subregion to create new transport corridors linking economic centers as well as remote areas. One such corridor links Yunnan Province of the People's Republic of China to northern Lao People's Democratic Republic, and northern Thailand. ADB worked with the three governments to put in place innovating financing. A second corridor, supported by ADB, the Japan International Cooperation Agency, JBIC, and others, links Thailand, Lao PDR, and Viet Nam. The direct transport investments in this project are being backed by action on softer aspects of infrastructure such as the harmonization of customs procedures and the simplification of trade and transport regulations, which culminated in the signing of a three-way trade and transit agreement.

In its private sector operations, ADB worked with the PRC Government in 1999 to prepare China's first privately funded build-operate-transfer water supply project in Chengdu through a transparent and competitive process. This project was among the first water sector projects in China to be done at the municipal level.

In the years ahead, ensuring the availability of adequate infrastructure to support continuing economic growth will require significant investments. After hitting a peak of over \$40 billion in 1997, private sector infrastructure investments in East Asia have fallen to about \$12 billion. This compares with conservative estimates for required infrastructure investment of \$180 billion, or 6% to 7% of GDP, annually during 2005-2010 for both new assets and the maintenance of existing assets in infrastructure development. It is clear that all parties—the private and public sectors, multilateral institutions, bilateral donors—will need to remain engaged to meet the region's future needs.

As we develop our plans and clarify our vision, it will be important to remember that negative issues such as corruption, environmental damage and the displacement of communities are often linked to large infrastructure projects. We must remain committed to infrastructure, but we must also commit ourselves to ensuring that projects are handled in a fair and transparent manner, that environmental concerns are

factored into project designs at an early stage and taken seriously, and that any resettlement is managed with a fair and humane resettlement plan.

I would now like to share with you a number of important issues raised at the Manila Workshop last week. Government participants highlighted the crucial issue of establishing a balance between the creation of new assets and the maintenance of existing assets. The shift from quantity of infrastructure to quality of infrastructure will remain a key element in maintaining East Asia's regional competitiveness.

- The Manila Workshop emphasized that multilateral and bilateral investments will play a central role in both filling the void left by the private sector in the immediate years ahead, and in helping create an environment that will attract private sector funds back to infrastructure.
- The workshop also noted that while world capital markets have the capacity to channel the funds required for infrastructure projects, it is even more important to refocus on developing local and regional capital markets. The Asian financial crisis has created new political support for this challenge.
- Participants underlined the great importance of intra-regional trade, with China being a major engine of growth for Asian economies. This requires that the infrastructure development agenda move beyond borders and that the physical infrastructure development model be supplemented by softer issues. Any improvement in logistic systems would require a harmonizing policy environment with cooperation on trade agreements and customs facilitation to bring maximum benefit.
- The workshop highlighted the fact that over the next 20 years, the urban population in East Asia and the Pacific is expected to grow by 500 million. This will place enormous pressures on urban infrastructure, and especially on the provision of basic services to the poor. Creating urban clusters that promote development and growth might be an answer for this growing urbanization challenge.
- Participants reminded us that it is important to work at the central government level, but equally important to strengthen provincial and local government capacities to meet the infrastructure challenge.
- And finally, it was recognized that linkages between infrastructure, economic growth and poverty reduction are positive and develop over the long term. Achievement of the Millennium Development Goals would require substantial increases in infrastructure investments to sustain growth and ensure the delivery of basic services to the poor. Transport, energy, water, and sanitation infrastructure

facilitate connections to networks of information, education, health, and markets. This expands access to many goods and services.

The study team has a challenging task ahead. We need to recognize that reaching consensus on all these issues will not be easy. But this challenge is dwarfed by the need to create a consensus and ownership of the study and its vision by all stakeholders.

It is appropriate that this study is launched in Tokyo. This city's infrastructure and the legendary efficiency with which it is managed remain something developing Asia aspires to achieve.

Thank you.

Mr. Toru Tokuhisa (Director General, JBIC Institute, JBIC)

First of all, I would like to express my appreciation to a large number of participants from various areas in this Tokyo Launch Seminar on the study “Infrastructure in East Asia: The Way Forward.”

This is the first joint study between the three institutions of the Japan Bank for International Cooperation, Asian Development Bank and the World Bank, which are all playing central roles in providing assistance for economic development in the East Asian region. The study is also being implemented with various supports from the Government of Japan. The East Asian region, which has strong political, economic and culture ties with Japan, was able to sustain its high economic growth rate until the late 1990s. However, upon experiencing the Asian currency crisis in 1997, it has been recognized that it is necessary to address various challenges so as to ensure sustainable economic growth and poverty reduction.

How to promote effective infrastructure development, as a prerequisite for economic growth, is re-acknowledged as one of the most important challenges. It is very important for us as well as the developing countries in the region that the three institutions are jointly studying a new framework for such infrastructure provision.

Hence, with this in mind and in light of the East Asian region’s strong ties with Japan, it is a great pleasure for JBIC to join the study targeting the East Asian region and hold this Tokyo Launch Seminar.

The representatives of the World Bank and ADB have presented their expectations and enthusiasm. Now, I would like to explain the rationale and importance of this study from JBIC’s perspective.

Firstly, allow me to explain briefly the importance of the East Asian region and support to infrastructure development in our operations. JBIC provides ODA loans to the governments of developing countries to support their economic and social development, while providing export-import credits and overseas investment loans, called as “International Financial Operations (IFO)” to promote imports of resources to Japan from these countries and the overseas business of Japanese private companies.

According to the recent statistics of JBIC’s lending operations, the East Asian region has accounted for approximately 60 percent of JBIC’s total ODA loan commitments over the past 13 years (FY 1990-2002), amounting to around 13 trillion yen (about 120 billion dollars at the exchange rate of 1 dollar = 105 yen). The ratio is higher if the South Asian region, including India, is included. Moreover, about 70

percent of our ODA loans for the East Asian region has been allocated to infrastructure related sectors. Consequently, ODA loans for infrastructure provision in the East Asian countries account for more than 40 percent of the total ODA loan commitments. Please note that by definition here, the infrastructure comprises the following five fields: power and gas; transportation; telecommunications; irrigation, flood control and reclamation; and water supply, sewerage and sanitation. In addition, the two sectors, the transportation sector at around 50 percent, and the power and gas sector at around 30 percent, account for a large portion of our ODA loans for infrastructure East Asia.

With regard to JBIC's IFO, mainly supporting private sector activities, loans to East Asian countries accounted for around 40 percent of our total IFO commitments during the above-mentioned 13-year period, or about 21 trillion yen (over 200 billion dollars). About a quarter of the loans is related to the infrastructure sector, with a great proportion provided as export credits, investment loans and untied loans for power sector projects and others relating to roads, railroads, airports, ports and the telecommunications sector in countries such as the Philippines, Indonesia, Thailand and China.

JBIC has contributed to the economic development of East Asia by supporting the region in various aspects through ODA loans and IFO. The governments of developing countries in East Asia have recognized the importance of infrastructure, which JBIC has been placing emphasis on, and have continued to expand the infrastructure provision since the 1980s, with support also from the World Bank and ADB. As a result of large increase of foreign direct investment whose major providers were Japanese companies, partly facilitated by the infrastructure, the East Asian countries consequently achieved a high economic growth rate, called the "East Asian miracle," by the mid 1990s. Consequently, the region can be said to have succeeded in moderately reducing economic poverty, though the issue of income distribution still remains. The average real GDP per capita in East Asia almost tripled from 300 dollars in the early 1980s to 850 dollars in the mid 1990s, in terms of macroeconomic statistics. This was a major advancement of the region, in view of the fact that during the same period the average real GDP per capita in South Asia increased only from 250 dollars to 400 dollars, and that of the Sub-Saharan African region grew at a sluggish pace of 500 dollars to 600 dollars.

Due to the Asian currency crisis in 1997, however, the growth of the East Asian economy sharply slowed down temporarily, and various issues which had yet surfaced became exposed. Infrastructure provision also sharply slowed down in spite of its large demand, and so-called "infrastructure gap" emerged, which is becoming a major

bottleneck in the regional economic development. Particularly, a contraction in investment and finance by private companies and banks, which were expected to play a large role in infrastructure development prior to the Asian currency crisis, had a great impact. Moreover, developing country governments, international organizations like the World Bank, and ADB, and public organizations such as JBIC could not sufficiently respond to infrastructure development needs, due to the contracted fiscal base of these governments, decreased borrowing capability and various issues including governance, risk sharing and decentralization.

The importance of infrastructure provision in achieving sustainable economic growth and poverty reduction is becoming increasingly tangible through recent research results. Based on the experiences of Japan's postwar reconstruction and economic assistance for developing countries, we believe that the role which infrastructure played in East Asia's rapid development was extremely large. Moreover, from the viewpoint of achieving the Millennium Development Goals, sustainable economic growth and infrastructure development, which supports the growth, are indispensable.

As for the contents of this study, as the study team leader will explain the details later, there are roughly five major themes as fundamental pillars. They are: the effects of infrastructure on poverty reduction, the division of roles between the public and private sectors in infrastructure provision, the issues of environmental and social considerations, and governance, new issues such as population inflows into cities, decentralization and regional integration, and the issue of infrastructure financing.

Among these very important issues for effective infrastructure provision, JBIC can contribute to this study from our expertise in terms of division of roles between the public and private sectors. As mentioned previously, one reason why infrastructure investment slowed down after the Asian currency crisis was that due to the exposed risk, private sector-infrastructure investment and finance largely declined. However, it is not possible for the public funds such as financial funds or external borrowing to cover all financial requirements to fill this infrastructure gap due to the fiscal situation and external debt of the developing countries. Therefore, there is a need to review the division of roles between the public and private sectors, especially the ways of risk sharing, and to build a sound environment where private funds flow into infrastructure investment again. At the same time, this will imply a reconfirmation of the inherent role of the public sector in infrastructure development.

From this perspective, as mentioned previously, JBIC's two aspect functions and experiences as an official aid agency, and a financial institution supporting private

activities will be very useful for considering a new framework of division of roles between the public and private sectors in infrastructure provision. I would like to mention a recent example of power project in Batangas Province, the Philippines. JBIC provided export finance on a project finance basis for the construction of the natural gas-fired combined-cycle power plant, a BOT scheme-based IPP by private investors including Japanese companies. On the other hand, JBIC extended an ODA loan to support the Government of the Philippines in the construction of transmission lines, which is not usually profitable for the private sector. Moreover, JBIC has guaranteed a loan extended by Japanese private financial institutions to finance the construction of a pipeline for natural gas, the main fuel for the power plant. Like this example, it will be even more so important to clarify the division of roles between the public and private sectors, to entrust the private sector with what they can do, to let the public sector take responsibility because of economic viability and environmental/social considerations, and for each sector to take charge of implementation in fields where each sector is better at. Of course, as there are many options on a case-by-case basis, we hope this study will establish policy options regarding the division of roles between the public and private sectors.

Another important point for infrastructure provision, from JBIC's point of view, is to appropriately grasp and respond to the demands of private companies, who are infrastructure users. Investment by private companies, particularly foreign companies, is one of the important driving forces for sustainable economic growth, the increase of employment and income, and the promotion of local industries thereafter in developing countries. In addition, an attractive and sufficient investment environment, especially infrastructure, is essential to promote foreign direct investment.

According to JBIC's annual questionnaire survey on overseas operations of Japanese manufacturing companies, infrastructure continues to be an important determinant for the Japanese manufacturing industry's direct investment, and infrastructure provision is a great issue particularly in countries at the initial stage of development. For example, Vietnam was cited as the fourth promising overseas destination for expanding operations by respondent companies, following China, Thailand, and the United States in this year's survey results, and it was pointed out that infrastructure provision is still the biggest issue for foreign direct investment. It is also worthwhile noting that after the Asian currency crisis, a number of issues related to software aspects have been cited, such as political and social situations, currency stability and enforcement of laws. In terms of infrastructure provision, not only dialogues with local people, but dialogues with private companies as "infrastructure

user” are also very important. Therefore, we will conduct the dialogues with private firms in the process of the study.

Environmental and social considerations in infrastructure development are also an essential item in this study. JBIC started adopting the new guidelines for confirmation of environmental and social considerations since last October. We fully recognize that more consideration must be given to the impacts on environment and society than ever before. In this study, we would like to reconfirm the importance of environmental and social considerations in infrastructure development, and seriously explore the measures in which infrastructure provision leading to sustainable economic growth and poverty reduction is implemented without raising environmental or social problems.

As mentioned, this study intends to review and analyze from various points of views, East Asia’s experiences and lessons regarding new challenges in infrastructure development, which have become evident since the Asian currency crisis, and examine the framework of more effective infrastructure assistance. We expect to broadly share a common understanding for such of infrastructure development among the East Asian countries and the public and private sectors of donor countries, and enable smooth and appropriate infrastructure assistance by public financial institutions, including JBIC. I strongly believe that appropriate infrastructure provision would bring economic growth and poverty reduction in a new form to the East Asian countries in the 21st century, and that it would have large positive impact on the economic development of all East Asia including Japan, and then furthermore on that of the entire world.

This study is scheduled to be completed in January next year. We will make best efforts to formulate as realistic and practical policy recommendations regarding infrastructure development as possible. Lastly, please allow me to use this occasion to ask your active support and help to the study.

Thank you very much.

**Framework and Progress
of the Study
“Infrastructure in East Asia:
The Way Forward”**

Mr. Mark Baird
Study Core Team Leader

Mr. Mark Baird (Study Core Team Leader)

Thank you very much, Governor Shinozawa, Mr. Ido, distinguished guests, ladies and gentlemen.

Last night we were discussing what the primary objective of this seminar today was, and one of our Japanese colleagues pointed out that the idea of a launch seminar does not translate very well in Japanese and may not actually be appropriate given that we have already been working for some time on the study. He mentioned that when you build a house in Japan, you celebrate the groundbreaking, but you also celebrate when the foundation has been laid and the beams have been put in place. And perhaps that is where we are today. We have had a lot of time to talk to people, to read materials, and we started to put a framework together for the study, and we want to give a progress report on that. But equally, we will need your help to complete the house and furnish it properly so that, at the end of the day, we come away with a very good product and one that is useful, not just to the three institutions but hopefully, more generally, in the region.

I would like to start with a brief summary of what the objectives of the study are **(Slide 1)**. These have been referred to by all of the previous speakers, but I want to highlight why these objectives are important: The first one, is to highlight the importance of infrastructure to reduce poverty and achieve the Millennium Development Goals, through both sustained, pro-poor economic growth and improved access for the poor to basic services. Now many of you may say that is obvious. And everywhere we go, everybody says, "We knew that." But if you look at country programs, development plans, or even at some of the country strategies of our institutions, it is not always clear that infrastructure has been given that prominent role. So the purpose of the study is to try to counter some of the pendulum swings that have occurred in the past.

This is a diagram that I think captures very well the relationship between the various elements of the poverty agenda **(Slide 2)**. This is based on the Monterrey Consensus that was agreed when people were meeting at the UN conference in Monterrey back in 2002.

The key elements are that you need, of course, better policies and institutions, and more aid and market access. But there are two transmission routes through economic growth and service delivery to achieve, not just poverty reduction in the income sense, but the broader achievement of the Millennium Development Goals, whether on education, health and the environment. What I think is the key here is that

infrastructure can help both economic growth and service delivery. I think in the '70s and '80s we had a very strong focus on the growth leg of this diagram. In the '90s, with the Millennium Development Goals coming into prominence, I think there was greater focus on service delivery, and now we need to see if the balance is right and the contribution of infrastructure.

Infrastructure is directly included in some of the Millennium Development Goals: availability of water for the poor, slum upgrading—these are issues that are very directly related to infrastructure. But we also know from recent researches that basic rural roads, for example, are a very key element of getting access of the poor people to basic health and education services. When you go to a village and you ask people what they want, most of the time they will say “a road”, and if not, they will say “clean water”. They know those two provide a lot of opportunities to do other things.

And of course the growth link has been very clearly shown in East Asia, and the role of infrastructure in growth for poverty reduction. You cannot reduce poverty unless you have a growing part. You cannot simply redistribute a stagnant pie to the poor. You must have a pie that is growing so that you can find resources and then provide the poor with the access to those resources. So I think that is the framework that we have started with in this study.

There are three other objectives that I would say support that focus on poverty reduction (Slide 3).

The first is to provide practical and realistic guidance to senior policy makers in the region. One of the things that we have also found as we have gone around is that a lot of the work on infrastructure is very technical, often done by engineers, and very fragmented. People like to focus on one aspect of infrastructure. That is good because it helps you know how to do that project better, but it does not tell you very much about what you need as a Minister of Finance or a Minister of Planning to know, when you make decisions on allocating resources or basic policy decisions. So we are trying to get up above that level, look at the broader issues, the cross-sectoral issues that affect infrastructure development, and come up with very practical ideas on how that could be relevant to a Minister of Finance. Of course we are finding that there is no one answer to that question, it depends very much what country you are in, what options you have, and so finding some way to present those options will be one of the challenges of this study.

Secondly, we want to support a process of dialogue and communication with regional partners. In Manila, where we met, we had an opportunity to talk to government officials from many countries in the region. We also had some private sector

and civil society participants. But we will have to find other vehicles also for reaching these various stakeholders. Not all of the non-governmental organizations (NGOs) will want to participate in a large workshop. Some will want to be able to talk to us one-on-one. For the private sector, they often want to really keep their activities to themselves but still want to give very clear messages in terms of what is important to them. So we will have to experiment with different vehicles for this dialogue, and we are starting that process through all of our country visits.

Finally, in this one I have added and I think it is an important distinction, is that we also want to inform the future strategies and programs of these three institutions: ADB, JBIC and the World Bank. This is not just about the three institutions having good ideas for others. What we found in Manila and what Mr. Kassum mentioned is others have some very good ideas also for these three institutions. That is a very core objective of this study.

We wanted to start the study by “what countries in the region would the study cover?” This diagram simply divides up the developing countries of East Asia and the Pacific by income level and population (**Slide 4**). Income level is the standard definition used by the World Bank which is around US\$745 per capita. If you are above that, you are considered of middle income and below that, of low income, though it is obviously arbitrary. With regard to the population size, since there are very large countries in East Asia, we used a cut-off of 70 million to divide large countries and medium sized countries. We have four large countries, which are China, the Philippines, Indonesia and Vietnam. And at the other end, we have very small countries with populations of less than 1 million. They are all the Pacific Islands and Timor Leste. Other countries grouped in the middle.

All the diagram does is to help us understand the diversity of the region. Clearly, the four large countries all deserve special attention and we will give them all special attention. But what can we also say about what is interesting and what is relevant to the Pacific Islands, and what about those countries in the middle? Malaysia and Thailand have already pretty much graduated up the middle income spectrum, but a lot of their experiences are still relevant to this study, and other countries at the low income level—Cambodia, Laos, Mongolia, PNG and Myanmar—still have a lot of infrastructure needs and need to move up the scale.

In our discussions, what we have found is that there is a third criterion that is probably equally important, which is growth prospects, because growth prospects not only determine infrastructure needs, but also, to some extent, generate the confidence needed for private investment. So if you look at those large countries, China and

Vietnam clearly have very strong growth prospects and that creates a momentum. For Indonesia and the Philippines, there is much more difficult post-crisis situation to attract private investors, and so we will have to find what the appropriate criteria to use are.

But for now, the key message here is one of diversity. We cannot treat the region as homogenous; we will have to look at what makes sense in very different environments. Same applies to sectoral coverage (Slide 5). As a non-infrastructure specialist, my first question was, what is infrastructure? I have found that it is very hard to get an answer to that question. Everybody has his/her own view on what we mean. We have defined it as economic infrastructure.

We are not looking directly at the building of schools, and health facilities, even though it is very important. We are looking at power and piped gas; we are looking at transport, information and communications technology, water and sanitation. Of course what you find, particularly when you look at water or power, is that it is very hard to separate the infrastructure issues from the upstream issues of water resource management or fuel supply. We will also include those, but only insofar as they relate to the infrastructure agenda. And of course, we also want to look at how infrastructure contributes downstream to production and social services. But again it is the infrastructure link we will focus on. We will be looking at broad themes and the delivery of infrastructure services rather than themes especially to the poor.

So that is the broad coverage from a country perspective and a sectoral perspective. Now let me turn to the regional context (Slide 6). This has been very much covered in what earlier speakers have mentioned, but the key point is that in East Asia, infrastructure has always played a very central role. If you look back at the early industrialization, the push on external trade, investments in sites and services including special economic zones, investment in transport and port facilities and energy supplies were all very much part of that initial push to get the East Asia miracle off the ground.

That was supplemented by a focus on urbanization very quickly. As people moved to cities, as the economic activity shifted from production to services, there was a need to provide urban amenities, urban roads and housing, and to make sure that the urban environment was livable and that the environmental aspects were well managed. So the second major shift was the urbanization shift. Now of course we are seeing the focus on logistics and IT services. The supply chain is becoming the important focus, trying to get just-in-time delivery, production networking and speedy fulfillment of orders. That is what the modern industry and service providers require, and we are seeing a real boom

in that area of infrastructure.

This has all had an impact on productivity of course, contributing to growth. It has been used by some countries to manage demand. When there is not adequate demand in the economy, infrastructure spending tends to rise and that also has an impact on economic activity. It has impacted regional integration, both within countries like China and Indonesia, and also between countries. We had a chance to visit in recent months both Singapore and Hong Kong—two countries or areas that have a clear role as hubs, but are facing very strong competition whether from Kuala Lumpur or Southern China. That ability to provide the links between countries is one of the major drivers of infrastructure development and logistics development in the region now.

All of that was fairly straightforward until the Asian crisis came long. With the Asian crisis three fundamental changes occurred (Slide 7).

First, the growth projects for the regions started to slow down. In some countries like Indonesia you had a significant decline in economic activity. That meant the profitability of many infrastructure investments were undermined and, as we heard, it led to some private ventures being closed, cancelled and renegotiated. That of course changed fundamentally the financing options. Private investors became more wary, and governments, who now had very high levels of public debt, were unable to pick up the slack and did not have the resources necessary to invest in infrastructures. But perhaps the longer-term trend was a growing awareness of governance problems. This meant that there was an increased focus on corruption in infrastructure projects. As a result there was a change in the environment for private investors, and in some respects increased uncertainty and lessened predictability in the way that private investors approached infrastructure projects.

Of course this did not apply to the whole region, and even in the countries affected by the crisis we are now seeing a resumption of growth. Recently, we heard of the growth in China exceeding 9% over the past year with Vietnam in 7 to 8% growth range. That has enormous implications for infrastructure requirements. South Korea, Malaysia, Thailand—all of these countries have now come out of the crisis phase. Indonesia, which had a significant fiscal problem, is starting to sort it out with public debt levels having come down, which is generating some fiscal space. On the other hand, the Philippines is still very much struggling to get the budget under control. Both of the two countries have significant weaknesses in both public sector governance and the private sector investment climate. Then, of course, we should not forget those countries in the middle, such as Cambodia, Laos, PNG, who really have never had the high growth that the rest of the region has shared. Those countries have major

infrastructure requirements, but are unlikely to get a lot of private investment in the near term.

So what are the options now under the recovering growth and such a variety in outcomes? I think it is important in that context to always remember that even within countries this variety of outcomes is occurring. If you compare Western China to Southeastern China, or Eastern Indonesia to Java, they are not in a homogenous situation. And that diversity has major implications for the way we approach infrastructure development, and the impact that it can have on the poor.

Now I would like to turn to two sets of numbers. I think Mr. Kassum mentioned the global number on investment in projects with private participation, peaking at around US\$140 billion in the mid-1990s, and now having come down back to about US\$40 billion in 2002 (Slide 8). But of more immediate interest to us is the second line, which is East Asia, which Mr. van der Linden referred to, where there had been a steady buildup in investment in projects with private participation until 1997. I use that complex term, because sometimes some people translate this as private investment. It can also include public investment in projects with private participation. I must also caveat that it is commitment, not necessarily actual expenditure, so we have some work to do to get better numbers, but this is the best we have.

What I think is interesting about the East Asian number is how sharply it fell because of the crisis, but then how stable it has been since. I think that the reason for that is probably the fact that China and other countries have sustained growth over this period, offsetting the declining and continued declines in other countries, such as the Philippines and Indonesia. We will want to look more closely at the underlying data, but this picture is very clear.

The same can be said on the official lending for infrastructure projects in the East Asia region (Slide 9). We have divided up the date into two 5-year periods. Each institution has different fiscal years and so again the data are not strictly comparable. When we say 2002, for example, we mean the fiscal year that ended in 2002, which for JBIC is in March and the World Bank is June and for the ADB is December.

Though we still have to refine those mismatches, the underlying trend is very clear. When you take out the program lending, which was a very important part of the response to the crisis, the project lending in infrastructure of both the World Bank and ADB came down significantly, on average by about 45%. In JBIC there was a decline in the official development assistance (ODA) funding and a little increase in the IFO funding including the export credit funding. But overall, if you look at these three institutions, lending that had been in excess of US\$10 billion per annum is now

roundabout less than US\$8 billion per annum—a decline in the total of about 25%.

What I would like to highlight is that if you add these two numbers together, about US\$12 billion from the investment projects with private participation and about US\$8 billion from official lending, that comes to around US\$20 billion. Mr. Kassum and Mr. van der Linden both mentioned that needs for infrastructure development probably exceeds US\$200 billion. So we have a gap that we have to look at. That gap, in my view, is not going to be funded by the private sector in isolation, nor by the public sector in isolation. So we have to find mechanisms that can leverage official lending, to get all sectors working together and contributing to solving the problem.

Let's finish on the context. It is important that we do not focus just on the past and the short-term impact of the Asian crisis, but that we do look at what is happening at East Asia going forward **(Slide 10)**.

I think it is important that we take a pause and consider the numbers on urbanization. The fact that the number of people living in cities over the next 25 years will grow by 500 million people is an extraordinary number in East Asia. I think by the end of that period in 2025, more than half of the population in these developing countries will be living in cities. If you look at cities with more than 10 million people, this total population will be rising from about 80 million to 120 million.

Look at the following graph **(Slide 11)**. The top one is Tokyo. As you may be familiar with, the population of Tokyo will be reaching a sort of stabilization around 25 million. But it is extraordinary how rapid Jakarta, in Shanghai, in Beijing, in Bangkok are growing. We have to think not just about what it means for cities, but also what it means for rural areas, because it will lead to growing diversity, and it is important that people also have economic opportunities outside cities. So this has big implications at both ends of the spectrum.

The second trend that has been mentioned is decentralization. The graph shows how much of public spending is handled by sub-national governments **(Slide 12)**. The experience of China at the very bottom shows that China has always been a relatively decentralized economy, and that has created its own challenges for economic management with over 60% of expenditure now spent at the sub-national level. But Philippines now more than 40% spent at the local level, and Indonesia 30%.

A lot of the future infrastructure development in the region will be done by these local governments. It poses very new challenges. Of course, not all projects can be done at that level; some projects require coordination across government units. Are central governments really prepared to take on this new integration and coordination role?

Demographic changes that were mentioned by Mr. Kassum—I know it is different

in Japan, but in the developing countries of the region we are seeing a shift into the work force, meaning that savings rates will be kept relatively high. It generates an opportunity with more resources available, but the financial mechanisms are not yet in place to allow those resources to be used for longer-term infrastructure development. That is, I think, one of the challenges we will have to look at.

Finally, I would like to mention about regional integration. I think that not only is trade growing rapidly, but trade within the region is the fastest growing component. People benefit by hooking on to their trade, but what about the poorer regions and the more remote countries that find it more difficult? How will they get the infrastructure and the competitiveness to survive and thrive in that environment? These are very big trends, but infrastructure is a very long-term investment. If we do not anticipate them now, we may give recommendations that might have been useful in the 1990s, but not so useful in the future.

So there are the two points of the bottom line (Slide 13). First, infrastructure requirements, financing sources and service provision will be very different in the future, and we have to find ways of building that into our recommendations. Secondly, they vary greatly across countries and sectors, so we will have to account for and reflect that diversity.

Let me now turn to the major themes of our study (Slide 14). I have regrouped the five themes Mr. Tokuhisa has already mentioned here, just for simplicity, but they are the same five.

First one, as we have already discussed, is the role of infrastructure in poverty reduction. Poverty reduction defined in a broad way, and not as an academic exercise about the link, but more of a practical focus on what has worked, what has not worked and what we have learned for the design of future policies and programs. As for lessons of experience, they are the roles of the public and private sector, as well as the issues of environmental and social impact and governance concerns. We have a lot of experience out there. We now have to say, "Will those experiences and lessons be relevant to apply to the different East Asia and the Pacific of the future?" The future has major structural changes and a very different economic and financial context, which will affect the financing options that are available for infrastructure development.

This table is the summary of the progress we have made to date (Slide 15). Some of you may have seen the press release that was issued in September of 2003 announcing the study, getting the work initiated. We then were able to visit the Philippines and Vietnam in November of 2003 and Indonesia in December 2003. This month we have issued a draft issues paper, the basis for our workshop in Manila. It will now be revised

and finalized. In Manila, we were delighted with the response, the interest and the willingness to contribute by more than a 100 people. And of course, I will be delighted to have those responses today's launch seminar in Tokyo.

Let me proceed onto the feedback we received in Manila, because I think it is important for the study **(Slide 16)**.

The first advice that we received was to make sure to take a broad and long-term view of poverty reduction. Broad—not just a narrow income approach—but looking at all of the dimensions as reflected in the Millennium Development Goals; and a long-term view—not just how do you reduce poverty today, because perhaps you can do that by charity by just giving people money, but—how do you sustain it over the longer term? That is where the contribution of infrastructure is most needed. And do not try to revisit or revise all of the research that has been done, but try to look at specific projects and programs. Learn what has worked from some of the examples mentioned today. And then how to make sure that future projects will benefit the poor.

Secondly, recognize diversity between and within countries. We had representatives from Fiji and Timor Leste. They were very clear that they need help, but their situations are such that the solutions are going to be different to those we might suggest for larger countries, countries more central to Asia.

Thirdly, bridge the gap between financial viability and social affordability. This is one of those messages that make some of us very uncomfortable. Those of us who have experienced subsidies in the past know that subsidies can be a very inefficient and unproductive activity. Yet, the reality is that it will be difficult to attract private investment into some infrastructure sectors and have services delivered to the poor that are affordable without some element of public subsidy. That of course does not apply to every sector and to every country. So what we have to do first and foremost is to find where it is applicable, but secondly, what the most efficient way to do that is. One suspicion I have is that if we recognize those subsidies more explicitly up front, we may actually be able to contrail the fiscal cost over the medium term and ensure that those subsidies actually reach the poor. This is a very contentious area and one where, at this point, I can only report what we have heard in Manila, but one where I think that we will have to do a lot of work to find out what will work and what will not work. I think it is going to be one of the core issues that the study will have to confront.

Another somewhat controversial issue that Prof. Asanuma has stressed, but was also reflected in the presentations of many from developing countries, is how we plan infrastructure development now when we have decentralized government and much more active private participation **(Slide 17)**. Mechanisms we used to have are no longer

working; what will work in the future? Again, I do not think we have the answer to that, but it is also very clear that without some long-term mechanism for deciding expenditure priorities and for ensuring policy coordination, it is very difficult in fact to undertake long-term infrastructure projects and give them the priority they deserve.

Also, political consensus for reform is important. There is no point to have a technically good proposal on how you should organize the water sector, or how you should do privatization of the power sector, if it does not have political support and public support. We heard in Manila how in Latin America, public perceptions of privatization were significantly worse today than they had been five, ten years ago. And without public support even if it may make technical sense, it is not sustainable. How do we get that political consensus and what sort of mechanisms can we use for that purpose?

“Tackle corruption” was the phrase raised in every session in Manila. Without that, there will be no credibility in infrastructure programs, and this is going to be an area where everybody is going to be looking for new solutions. I fear, from my own experience in Indonesia, there are no short-term solutions. We have to think of longer-term institution building. It will take time. What is it that you have to do in the transition to make sure that the public and the private sector behave in a transparent and proper manner? And of course, it is important to take account of the new trends.

Mr. Kassum reflected the feedback on official lending (Slide 18).

Developing countries said, “Yes, we need official lending to catalyze private participation and fund projects which can attract private investors, but you will have to do things in a different way. You will have to take a long term view.” It was a position that was particularly strongly made by the representative from Vietnam, who said, “If we are a country growing at 7 to 8% per annum, the country is doubling over ten years, which has major implications for the infrastructure needs—both the choice but also the design of our infrastructure—and we want to see that reflected in projects.”

Development agencies must coordinate better at the country and project levels. I am therefore very pleased to see the three institutions working together, not just on this study, but also on some particular policy issues as in the power sector in Indonesia.

Development agencies also have to simplify and speed up business practices. There were several examples where people were keen to involve especially the World Bank, I must say, yet found it very time consuming. And by the time you finished the project or finished the negotiations, often a lot of time had been lost. In those cases which you have to get infrastructure up and running on an urgent basis, our institutions need to work in different ways.

Finally, I tell on the next steps (Slide 19).

I think this is sort of a watershed time for us. This is really the end of the beginning of the study. We have heard a lot and hope to hear more today, and on that basis, we want to finalize the issues paper for the study. That will also then inform the choice of background papers and the content of the terms of reference for those background papers. We do intend to set up a website. I am sure that the domain will be available to everybody. It will be on the country-analytic work website, which is a joint website of the donors, but I am sure that each institution will want to link to that website or provide their own information on their regional websites. All of the documentation from Manila, all of the documentation from this launch will be on that website, and it will mean that people can keep up to date and can be better informed for contributing to future events. We do hope to visit other countries than Indonesia, the Philippines and Vietnam where we have already seen in the region, reflecting the diversity of experience. These are what we are going to do over the next few months.

Over the longer term, we hope to have opportunities to review the background papers in the middle of 2004. We will do that in whatever way we can, through other workshops, possibly using the GDLN, which is a facility now available here in Tokyo, but also in other countries, to network with people. We will be completing and reviewing our draft report by the end of the year and will release the final report about a year from now and then disseminate it. But I want to stress that the final report is not really what we are focusing on. We are focusing on this process that we are going through, and, hopefully, during that process many good ideas will come up and there will be many good opportunities to exchange views. I do not think people will be waiting for the final report to take action.

So I hope that today and in our work over the next few weeks, we can start to complete that house that we have now got the foundation and the beams up for. I hope we can contribute something, because I think if we can get this right, as Mr. van der Linden said, we will make a major contribution; and if we get it wrong—and I took note that he stressed that risk—then we will have missed an opportunity. I think I can assure that we do not intend to miss that opportunity. We will work very hard, but we will need all your help to get there. Thank you very much.

Comments*

Mr. Shinji Asanuma

Professor and Director, Asian Public Policy Program,
Hitotsubashi University

Mr. Makoto Nagahata

Researcher, Japan NGO Center for International Cooperation

Mr. Hideaki Tanaka

Acting General Manager, International Affairs Department,
Tokyo Electric Power Company, Inc.

* In the seminar, these comments were provided in Japanese. For this report, they were translated into English by Development Policy Research Division, JBIC Institute.

Mr. Shinji Asanuma (Professor and Director, Asian Public Program, Hitotsubashi University)

Over the past couple of years, I have been extremely concerned with the decline in infrastructure investment and the deterioration of infrastructure in Asian countries. Therefore, when this survey was launched, I welcomed it as a very timely and important undertaking, and I felt that the significance of the study would be heightened if its findings were directly incorporated into future policies. As these thoughts were going through my mind, I was asked to comment on the study at the recent Manila Workshop. Today I will briefly introduce the main points of my comments in Manila.

1. The Issues

As I mentioned my serious concern, Mr. Danny Leipziger, Director of the World Bank, also described a very similar situation in Latin America. Although not to the same extent as in Latin America, I believe the East Asian region is also experiencing what Mr. Leipziger called an “infrastructure deficit.” That is, infrastructure investment level is low, and existing infrastructure is deteriorating. This is an extremely disconcerting situation from the perspective of regional economic development. Something certainly has to be done.

2. Technical Factors Contributing to the Decline of the Private Finance Initiative

As several speakers in the first session today pointed out, the decline in infrastructure investments and the deterioration of infrastructure is related to the downturn in the Private Finance Initiative (PFI), which peaked in the second half of the 1990s. Concerning the downturn in the PFI and the strategies to revitalize it, three major points can be identified as follows.

First, it has been argued that the decline in the PFI is related to poorly developed regulatory frameworks. In consideration of the natural monopoly nature of infrastructure and its public utilities characteristics, it has been argued that the government supervision and regulatory frameworks play a highly significant role in private investment and its operation, and that this framework is defective or has an inappropriate design. Hence, reactivation of the PFI will require improvements in these areas.

Second, the contract design was inappropriate. The PFI requires contracts between public and private sectors, and it is said that these contracts were defective in their design. In Latin America, roughly 80 percent of all PFI contracts to date have been

re-negotiated. While it is unclear whether the re-negotiations were due to factors on the public-sector side or the private-sector side, the argument has been made that the fact re-negotiation was needed indicates that the original format and design of these contracts should have been more carefully considered.

Third, with respect to risk management, a sharp drop in the PFI occurred immediately after the Asian financial crisis, probably indicating that past risks had not been properly assessed by either the public or private sector. Therefore, it is argued that risk management should be emphasized in the negotiation of new contracts.

3. More Fundamental Reasons for the Decline of the Private Finance Initiative

What I particularly appreciated in the Manila discussions was the suggestion made by Mr. Leipziger that aside from various technical reasons, several deeper reasons exist for the decline in infrastructure investment, and these are reflected in the negative response towards PFI projects by the general public in Latin American countries. This problem must be examined, he suggested, not only from a technical viewpoint, but also from a broader perspective. I believe this is a fully justified and important opinion.

With this in mind, I considered some non-technical reasons that may have affected the situation. These are listed below in the next slide¹.

In the case of post-crisis Asia, it was necessary to prioritize economic stability over economic development. Thus, urgent policy issues took precedence over matters of long-term importance. This may have led to a reduction in infrastructure investment.

In my opinion, there is a deeper-seated factor. This is the emergence of the New Public Management concept. This is a relatively new concept, which concerns government management and government structure for the realization of an intended style of management. It consorts with Margaret Thatcher's pursuit of small government, which is the maximum transfer of functions to the private sector and the minimization of functions by the government. Countries that have adopted New Public Management include the UK, Australia and New Zealand.

What follows is weakened planning capabilities of economic development in developing countries. In the past, in addition to documented five-year economic development plans, developing countries usually had a ministry of planning or some form of planning agency positioned at the core of the government and responsible for overseeing the development of the entire country. I think that the policy formulation and planning capabilities that existed within these organizations have been weakened

¹ Sixth slide of the Power Point.

in the new trend. It seems to me that these events are linked to infrastructure deficits.

Under the new approach to planning, the functions of long-term planning including policy-making have been delegated to individual responsible agencies, government ministries and public corporations, while fiscal authorities have been made responsible for overall coordination. Hence, the powers, approaches and functions that previously resided in the planning ministries and planning agencies have gradually been transferred to each ministry, government agency and public corporation and to ministries of finance. Consequently, the power of the planning ministries and agencies, which were previously at the center of economic development planning, has been significantly weakened.

As Mr. Mark Baird pointed out earlier today, there is an ongoing global trend towards decentralization. Consequently, capacities including policy formulation, planning and investment planning capabilities are being transferred to local governments. Though the PFI is normally given a certain framework, investment planning is being delegated to the private sector to a significant degree. From my own experiences as a third-party observer of PFI projects in various countries during the 1990s, I can see that these matters are related to today's infrastructure deficits.

As a specific example, Thailand has an outstanding electric power public corporation known as EGAT² with superb planning capabilities. When undertaking independent power producer (IPP) projects, EGAT fully reflected its long-term plans in the tendering of such projects. The documents prepared for the tendering were extremely well developed. The whole approach was for the public sector to present its plans developed with its own initiatives to the private sector, and for the private sector to determine and plan its investments based on them. Another important point concerning EGAT was the "cabinet guidelines" contained in these documents. These guidelines stated that the private-sector plan would be supported not only by the electric power public corporation but by the entire government as well. I believe that Thailand was able to make excellent progress in an electric power PFI and to achieve a degree of success because of this kind of support.

As a comparison, I would like to introduce the case of the Philippines. Towards the end of the Marcos regime and throughout the Aquino years, the Philippines experienced electric power shortages. Frequent blackouts not only affected the lives of the people but also caused serious damage to industries. The Ramos Administration decided to address the crisis, at which time numerous PFI projects were initiated. However, by then, both the planning authority, National Economic and Development Authority (NEDA) and

² Electricity Generating Authority of Thailand.

National Power Corporation (NAPCOR) had suffered serious deterioration in their operational capabilities that resulted in poor performance. Because the government did not have its plans developed with its own initiatives, it was forced to buy extremely costly electricity. While this failure did involve certain technical factors, I believe that more importantly the failure was rooted in the absence of a firm plan within the central agencies of the government to support the power procurement plans.

IPP power procurement proposals have been submitted in China and Indonesia where no overall plans exist. If all the proposals are accepted, I think power capacity will be double that of estimated future demand. The price will also be quite high. Thus, confused situations have prevailed in these two countries.

I have only cited some examples, but I believe these cases demonstrate the importance of a country's policy formulation and planning capabilities.

4. Conclusion

As we consider the future of infrastructure in East Asia, and particularly when we consider the role of the PFI, there are three specific points I hope this study will explore.

The first point concerns how supervisory systems and regulatory regimes can be established and how they can be strengthened.

The second point relates to redesigning the contractual framework with the private sector. In this context, as I mentioned earlier, it will be extremely important to redesign arrangements related to risk management.

Far more important is the third point, which is to seek methods for reviving and strengthening planning systems and capabilities in the East Asian countries. What I have in mind is not the ability to write comprehensive five-years plans. Rather, what I hope to see is the revival of capabilities for planning national development strategies and policies in a different form from that of fiscal authorities. Given the present environment of decentralization and privatization, the necessary capabilities would include the ability to formulate detailed programs and to coordinate effectively the activities of PFI-related central government agencies and local governments. What must be done to revive successfully the planning capabilities, and how can these capabilities be harnessed to improve infrastructure circumstances? These are the issues that I would like to have examined.

Mr. Makoto Nagahata (Researcher, Japan NGO Center for International Cooperation)

I am in charge of research activities at the Japan NGO Center for International Cooperation (JANIC). JANIC is the largest and one of the earliest established NGO network organizations in Japan, with about 70 member organizations. JANIC is actively engaged with other NGO networks in not only Japan but also other Asian countries. One such network is the Asia-Japan Partnership Network for Poverty Reduction (AJPN). As part of JANIC's activities, during the current fiscal year, we were consigned by JBIC to conduct a survey regarding micro-financing in Indonesia. I acted as leader of the study team formed for that survey.

As for my personal background, I was previously engaged in NGO work in Bangladesh for more than ten years, where I was mostly involved in grassroots-level activities in project areas. My comments today will reflect the perspective I gained from that work.

Today, I intend to make three major points.

1. Infrastructure and Poverty Reduction

Firstly, I would like to make comments on the relationship between poverty reduction and infrastructure, and the question of how infrastructure can contribute to poverty reduction. I believe it is obvious, and everyone here will agree, that infrastructure development does not, in itself, automatically result in poverty reduction.

As mentioned in the first session, when observing poverty, it is not enough to look simply at increases in income level. Various other aspects of poverty have to be examined as well. The one that I wish particularly to emphasize is the political aspect. The reason for this is that while economic growth is certainly important, the fruits of that growth do not readily reach the lower strata. The key contributing factor to this is the inequality of power. As such, extremely important questions to consider in respect to poverty reduction are: how to empower the weakest members of society; how to reflect and incorporate their voices in policy; and how to encourage them to voice their opinion.

Given this context, I would like to consider how infrastructure can contribute to poverty reduction. Does road construction facilitate the participation of the lowest strata of society in the political process? Certainly it is a positive factor, but this is not enough by itself. In the micro-financing survey that I mentioned earlier, the conclusion we arrived at was that "micro-financing by itself cannot result in poverty reduction." The same applies to infrastructure. To achieve poverty reduction in the true sense of the

word, it is necessary to consider systematic and effective combinations of infrastructure and other sectors. So, if the study before us is to investigate poverty reduction, it is imperative that careful thought be given to how infrastructure can be combined with support for other sectors to achieve maximum effectiveness in poverty reduction.

2. Transparency and Participation

The second issue that I would like to address concerns accountability and governance in infrastructure projects. This was already touched on in the first half of this session. Speaking from the perspective of the general public, accountability and governance require disclosure and participation. In this regard, JBIC prepared Guidelines for Confirmation of Environmental and Social Considerations with the participation of Japanese NGOs. As well, a system for addressing accountability and governance is now being developed. The World Bank and ADB have established this type of process for much longer, and I certainly do not intend to imply that the need for disclosure and participation has been neglected. However, some doubt remains as to how much information is made available for stake-holding residents and communities at the early stages of project formation. The timing is too late if local residents are informed after all decisions are made. What really matters is the amount of effort given to ensure the bottom-up process of project selection and design. This study should give careful thought to how disclosure and participation can influence the effectiveness of a project, including any negative impacts that can be expected. Thought should also be given to the role of civil society and local NGOs in disclosure and participation.

3. Importance of Regional Development Policies in Infrastructure Development

The third issue is that infrastructure is not the “be all and end all.” Infrastructure development is strictly a means to development. First and foremost, consideration must be given to formulating appropriate policies for development. As mentioned by others, decentralization is a very significant factor in this context.

I would like to share some examples from my trip to Indonesia to conduct the JBIC study that I previously mentioned. I learned that in a certain province of Kalimantan, decentralization has allowed the chaotic exploitation of the forest. Because of weak governance on the part of local authorities, people with power have been cutting down trees as they want. This is an example of a situation in which local government capabilities did not keep up with decentralization, or where viable local autonomy did not exist in the first place. When infrastructure projects are to be implemented in such situation, it is extremely difficult to follow a bottom-up process of formulating regional

development policies and designing infrastructure projects that are consistent with such policies.

Let me share another case from Kalimantan. More than ten years ago, a paved road was constructed heading in the direction of the Malaysian border. This road stimulated regional trade and distribution, and some farmers made money by growing cash crops. But these benefits were limited to a narrow segment of the farming population who had the foresight and education to take advantage of the emerging opportunities. The road encouraged trade with Malaysia and resulted in various cultural changes, as businesses catering to truck drivers carrying goods on this road appeared. For instance, karaoke and billiards became popular. This shows how infrastructure development will inevitably bring about changes in the natural environment and the lives of the people.

Certainly infrastructure development is extremely important. But we must consider how such projects will affect the lives of the ordinary people. To maximize the positive effects, local governments must look into how they should pursue regional economic development and which infrastructure projects should be prioritized. Given the ongoing trend towards decentralization, the question of how to incorporate infrastructure policies into local governance will be a key issue.

I would like to comment on the study's methodology. I would like to request to hear from local people as much as possible. Whenever there are opportunities for interviews, particularly, for conducting case studies, I urge that the views of the local people be heard. This is also important from the perspective of determining the impact of infrastructure projects on end users. Local NGOs should be effectively involved for this purpose.

Finally, I would like to mention a matter that concerns me. I am worried that this study will reach a conclusion that a certain demarcation should be made between JBIC, the ADB and the World Bank. For example, implementation of infrastructure projects may be assigned to JBIC because this is the area of its strength, and other areas of social considerations may be assigned to the World Bank and ADB. I do not think this type of arrangement will be good at all. That is, I do not want to see Japanese ODA focusing exclusively on infrastructure development. Certainly I do not intend to negate the importance and necessity of infrastructure, but as I mentioned earlier, it is important for Japanese assistance to be multi-sectoral and comprehensive in character. Japan should not shy away from these aspects of aid, nor should it delegate these functions to international organizations. Japan must be involved.

Mr. Hideaki Tanaka (Acting General Manager, International Affairs Department, Tokyo Electric Power Company)

I am Tanaka from the International Affairs Department of Tokyo Electric Power Company. For the past 20 years or so, I have been involved primarily in power facility planning as an engineer. Today, I will be commenting from a technical perspective.

Concerning the scope of my remarks today, allow me to mention that infrastructure development generally has two aspects: one is bottom-up infrastructure development aimed at eliminating poverty in a given geographic area, while the other concerns the building of core infrastructure to support national economic development. Today, I will be speaking about the latter aspect of infrastructure development in terms of four specific points, with special reference to electric power infrastructure.

1. Comprehensive Development of Infrastructure

The first point concerns the need for comprehensive infrastructure development.

In facility planning in the power sector, it is essential to ensure that facilities are efficient and just enough, which will enable stable power supplies at a low cost. To achieve this purpose, policy makers must draw up a master plan with a long-term vision. Furthermore, the master plan must be revised according to circumstances.

A multi-sector approach to infrastructure development is crucial to achieve cost reductions. This means that electric power infrastructure must be developed in coordination with other sectors' infrastructure, including roads, gas, water and sewerage systems, and communications. In urban areas of Japan, large common duct tunnels are constructed to house all utility lines with respect to water, gas, electricity and communications. This common duct tunnel approach has proven to be effective in improving overall efficiency.

An important preliminary step in formulating infrastructure development plans, including electric power systems, is to forecast future demand. The key point here is to improve forecasting precision as much as possible. Particularly in developing countries experiencing rapid growth, urban areas are generally growing at a much faster pace than peripheral areas. This means that macro trend projections are not enough; instead, detailed demand forecasts considering demands in smaller areas based on city plans, would be necessary.

Finally, to minimize the cost of developing electric power systems, planning must involve effective coordination between power generating sources and power transmission networks. I will comment on this in greater detail under my second point.

2. Integrating Power Generation and Transmission

The second point relates to whether it is more desirable to integrate or to unbundle the generation and transmission of power.

When receiving assistance from the IMF or the World Bank, the general approach today is to unbundle and privatize state-owned electric power businesses. In the process, due attention should be paid to prevailing conditions in respective countries. Especially in East Asian countries, which have very rapidly growing power demands, it is important to integrate the planning and operations of power generation and power networks to ensure efficient and reliable supplies of power.

In China, power shortages are expected to persist for some years to come due to its accelerated pace of economic development. In response, China has developed a strategy called "West-East Power Transmission," under which a large amount of power generated in the western inland areas will be transmitted to the eastern coastal cities that comprise the bulk of the power demand. How to build the necessary power transmission network is a very critical issue at this time. In Malaysia, IPP projects were implemented in a short period of time, but the development of transmission facilities did not keep up with this pace. Consequently, even minor accidents and network problems in Malaysia caused blackouts affecting very large areas. In addition, in Indonesia, a delay in the development of 500,000-volt transmission systems caused delays in the development of related power generation sources.

These cases show a tendency towards delayed development of power transmission networks, which threatens stable power supplies. While this phenomenon is not directly related to the structural features of electric power businesses, we must make efforts to avoid this type of mismatching as much as possible. This is particularly critical in East Asia, where both power generation and transmission facilities have been always operating at nearly capacity levels. For this purpose, I believe it is desirable to keep a system of vertical integration of power generation and transmission.

3. Environmentally-Sound Power Development

The third point concerns the need to establish environmentally-sound power development programs.

Sustainable and stable economic growth requires countries to achieve higher levels of energy self-sufficiency and to create the best power mix for large geographical areas, whose example would be the ASEAN power grid.

As a critical element in energy infrastructure, electric power development must

entail environmentally-sound policies. From this perspective, it is necessary to promote actively the installation of high-efficiency gas turbines using LNG and other clean fuels, as well as coal-fired generators of clean coal technologies. Regarding hydroelectric power, there are countries with considerable undeveloped hydro resources. Considering the advantages of hydro as a domestic power source with no CO₂ emissions, I believe it is necessary to develop these resources in areas that have remained untouched while giving due attention to environmental impacts.

4. Education

The fourth point is “education.”

In development of electric power facilities and other infrastructure, it is very important to formulate a master plan based on a long-term vision and to review this plan periodically. I believe that our counterparts including policy makers in recipient countries and concerned businesses need to have the ability to create the master plan. As such, education and training for this purpose must be provided continuously. Moreover, to prevent facilities from breaking down and being out of operation only a few years after construction, I believe it is necessary to promote the transfer of technologies pertaining to the operation and maintenance of facilities.

It is of vital importance that aid-receiving countries commit themselves to power sector development and adopt a stance of aiming to become self-reliant in the future. Yesterday, the front page of Asahi Shimbun carried an article about the Malaysia-Japan International University of Technology, which will open in June. As I understand, one of the principal objectives of this university is to facilitate the transfer of Japanese technologies to students. With respect to infrastructure development, it is necessary to develop in some manner this type of educational project.

Lastly, as a member of the private sector, I would like to convey a request to the World Bank, JBIC and ADB. Developing countries receive various forms of assistance from various organizations, and because each of these organizations has its own priorities for aid projects, sometimes there is an overlap of content among the projects, while at other times truly needed projects fail to materialize. For this reason, I expect the final report to call for the establishment of a forum to coordinate aid policies and priorities concerning each recipient country, the need to develop assistance steadily based on the results of the coordination, and the framework for such a mechanism.

In any case, it is truly epoch-making that the World Bank, JBIC and the ADB have jointly begun the study on the promotion of infrastructure development in East Asia,

and I look forward with great expectations to the outcome.

Q & A*

* In the seminar, Questions 1~5 and Responses 4 and 5 were provided in Japanese. For this report, they were translated into English by Development Policy Research Division, JBIC Institute.

Question 1 (Participant from NGO)

I have a very strong interest in this study. I, myself, was involved in the development work in Laos referred to by Mr. Kassum, Vice President of the World Bank, for a period of four and a half years. I was particularly interested because the area which will be flooded by the Nam Theum 2 dam was included in the project site, and because it was mentioned that this dam is considered to be a touchstone. However, aside from this specific story, I would like to ask about the study as a whole.

First, I cannot imagine what kind of recommendations and proposals will come out of this study. While some explanation was given concerning the themes of the study, I was expecting to hear some more details concerning the methodology to be employed. However, no reference was made to that. For instance, I have no information about what kind of case studies are scheduled to be undertaken. From my perspective, case studies are extremely important. Every project has both its beneficiaries and those who inevitably will experience difficulties. Now that this type of effort is being made, it would be disappointing to focus only on the macro perspective. There were two axes -- right and risk -- in the process of the World Commission on Dams (WCD), which the World Bank was joining. I urge you to adopt specific methods that emphasize such matters. Otherwise, infrastructure development will lead not to poverty reduction, but instead to impoverishing a certain strata of people.

Next, in relation to what I have mentioned, I would like to ask how specific recommendations and proposals are going to be presented. For example, will they be presented according to each stage of the project process? This question is related to some essential issues, and I believe that concrete discussions should be undertaken at the earliest possible stage.

The third point reflects the perspective of local residents, which I was made acutely aware of through my NGO activities. Those who suffer adverse effects of infrastructure projects find it very difficult to speak out when people come from the World Bank, JBIC, and ADB. Probably you will be working on the study with the government people of the host countries. Realistically, it is very difficult for the local people to face government officers and say, "We were really hurt by so-and-so infrastructure project." As you embark on this epoch-making study, I sincerely hope that full consideration will be given to how this hurdle can be surmounted.

Fourth, I think the initial stages are very important in the formulation of infrastructure development projects, and JICA has not been included in the framework of this study. JBIC has instituted a procedure called pre-application consultation. It is still true that applications are received after significant progress in project preparation

is made. Therefore, my concern is that what can be done or what cannot be done become almost clear in this process. Regarding the role of JICA in Japanese ODA, I think some discussion should already be started at this early stage.

Finally, regarding the scope of the study, frequent reference is made to the governance capabilities of developing countries. On the other hand, I think that there may be certain problems in the structures and procedures of the World Bank, ADB and JBIC. What I mean to say is that perhaps there are things we know should be done to allow infrastructure to make a real contribution to poverty reduction, but these can not be realized due to their structures and procedures. I feel that the study should look into those aspects concretely.

Question 2 (Participant from Private Company)

Thank you very much for today's seminar. I would like to make two requests.

The first request is based on the project-related experiences of our company. We have had good experience in Independent Power Producer (IPP) projects since the early 1990s. Currently, we are operating primarily in Southeast Asia with a net capacity of 2,000 megawatts and gross capacity of roughly 5,000 megawatts. There are some unsuccessful projects among them. From this perspective, as mentioned in the concept paper, I would like to request past cases of failure to be examined carefully when talking about risk sharing between the public and private sectors.

We are engaged in IPP projects in various countries. Our counterparts are usually host governments themselves or electric power authorities. We are put in extremely vulnerable positions in terms of power balance with them. Mention was made of re-negotiations, and after the Asian currency crisis, long-term power purchase Agreements (PPA) actually came under review in various countries. IPP developers like us were placed in an extremely vulnerable position in such bilateral negotiations. Standing on the investor side of these negotiations, we would appreciate it if multilateral talks could be arranged by JBIC, ADB and the World Bank.

The second request concerns a very personal experience. I visited Phnom Penh, Cambodian capital in 2000 and revisited there three years later. In my second visit, I was very surprised by the progress that had been made in the airport and other forms of infrastructure development. I suppose the general income level also improved at a similar pace. In towns, however, children who were obviously not in school were running around barefoot. At night, little girls were around selling flowers. What I mean to say is that the lives of people at the bottom strata, might be misleading, have not changed appreciably. While raising the level of macro-economic indicators as per

capita GDP or GNP is important, it would be no good if real poverty remains hidden behind the values of these macro-economic indicators. What is the essence of poverty reduction? I believe the bottom-up approach is extremely important in poverty reduction. I sincerely hope that this study will take this matter into account.

Response 1 (Mr. Mark Baird)

I must say that in the past I have often been criticized for coming to consultations when I already have my findings, and NGOs ask me, “Why do you come and consult now?” Now I get criticized for coming before I have my findings, so I have to get the right balance.

But the fundamental point I think that you are making is an important one. As Mr. Nagahata stated in his speech, it is important to access the views of the end users of infrastructure, especially poor users. And in a way, it is not going to come through discussions with government officials, or even through workshops, or even through discussions with NGOs. It requires a sort of degree of direct contact.

Now, I am sympathetic to that for one reason, because I have seen in Indonesia what can be achieved when you get that sort of participation—I think it was referred to by Mr. Kassum—through community-based programs. I have seen programs where the villagers are able not only to make the decisions on projects themselves, but also on the implementation. Often the maintenance is better with those projects than projects with government involvement.

What I think is missing is that that same level of input is not occurring for government programs. If we could make a contribution, it would be to determine how to bring that degree of public voice into government programs, especially as government becomes decentralized and comes down. So where do we meet in the middle?

I would pose a challenge to you as members of the NGO community, to help us find ways of making that connection. I do not think that we can do it alone. We need your help. If you have those sorts of networks in those countries, please let us have access to them. Find mechanisms that will allow us to do that. I am happy to visit any country in the region where you feel there are people who would be willing and able to talk and we would be able to benefit from it. So I think on behalf of the whole core team, I can give you a commitment. And if we can find opportunities for that, then please, through Mr. Fujita or others, talk to us. I will make myself available to go and do it. I know we would benefit from it. I think that is, in a way, the concrete suggestion that I can make.

Secondly, on the issue of the scope and the governance—I am not sure what in particular you had in mind, but—I would just come back to the final objective that I put on the slide, which is that this is not only about how to make infrastructure work best in developing countries, but also what has to change within the three institutions to make that possible. I think there is a commitment from the three institutions that that is what we are trying to do and, as I said, we do not know yet what those findings will be, but I am confident that we have a commitment to take those issues seriously from the institutions and I think they will speak for themselves. We will make sure we raise them in the study and, again, I give you that commitment.

Finally, on question No. 2, of course we would be happy to look at any particular case, including his company's investments in Indonesia, because I think these cases do provide good examples of all the issues that we have raised. We will, of course, use case studies to the extent possible. Part of the feedback we got in Manila was to not look at this in some sort of research way but to look at it in terms of particular cases that have worked or failed. We would again welcome your suggestions on which ones we should examine. That is being built into the terms of references that are being prepared for each part of the study.

Of course, if there are mechanisms that could help—you mentioned a forum between the private sector and public sector—if that is something that the three institutions could help facilitate, it would be an obviously useful recommendation that could come out. I think it was great to hear from the private sector also on the importance of hearing from the bottom up.

Cambodia, of course, is a very poor country. It does show in the statistics; it is not just on the ground. The statistics show it as one of the poorest countries in the world. But you are correct. That does not capture the whole multi-dimensional aspect of poverty that Mr. Nagahata and others have referred to. Personally, I do believe that growth is an important way of reducing poverty, and I think that is true for Cambodia as for any country. I do not think that is an argument against growth; it is an argument for that second leg we saw on the slide, which is how to ensure that the poor get access to the growth and to the services. That is a key part of the paradigm that we are working with and I hope that it is something that will be demonstrated in the case studies of how projects can help and how we can design projects in a way that can help better in the future. Thank you.

Response 2 (Mr. Geert van der Linden)

I will respond to the points with respect to contractual arrangements. Some years

ago, Ms. Rita Nangia, who was a member of the task team, did an analysis of these contractual arrangements from the point of view of where risk is allocated. An interesting finding was that the way that risks are allocated varies enormously. In some cases, risks are almost entirely assumed by the government; in others, a very significant part of the risks are assumed by the private sector. I think it would be very interesting to update this analysis and see how more recent contracts have been handled in this aspect.

Another reaction on this point is a rather striking point made by Mr. Danny Leipziger in a paper prepared for the Manila Workshop. He reported that 80% of the IPPs in Latin America were renegotiated within four years. I do not quite know what the implications of this are, but it means that therefore long-term contractual arrangements cannot be made, or perhaps they should be designed in a way that provides for continuous adjustment. It would be a very important issue to look at in the study.

On question No. 2, I agree with the questioner. At the macro level, all signs are positive. Asia, not just East Asia, is the only region that is on its way to achieve the Millennium Development Goal of reducing income poverty by half by the year 2015, on current trends. But there are three qualifications to that. First is that Asia does not do so well on the non-income dimensions, such as health, education and water supply. Second is that there is an enormous variation across the region, with overall statistics very much being driven by China, and that there are still very poor countries that will not achieve the standards. Third is that even despite the success, 60% of the world's poor will still live in Asia, and therefore, despite all the progress made, despite halving the poverty, it will remain a major, major challenge in the region to reduce poverty.

Response 3 (Mr. Jemal-ud-din Kassum)

I will give very brief comments. First, I fully endorse the answers that Mr. Mark Baird gave as the study core team leader. The second thing that I would like to react to is the question of governance of the institutions, our institutions themselves. Here is the first assurance I can give: I fully expect that part of the recommendations coming out of this study will be to make suggestions about how we should change the way we do our business. I would be surprised if there were not some recommendations in that area. The assurance that I can give is that where it is within my discretion as a regional vice-president, I will look at those recommendations very carefully. I dare say I will accept at least some of them. Where it affects institutional policy, I can give you the assurance that I will take that back to my bosses in the institution and say, "Look,

this is what we found in East Asia. There may be some general applicability of some of these findings.” So we come to this with a very open mind and want to learn from it as much as anyone.

Response 4 (Mr. Toru Tokuhisa)

Thank you very much for your comments. I shall respond on behalf of JBIC. First, I will address the issue of participation by various organizations in the project formulation stage. Of course, we are aware of the need to consider various types of input from the early stages of a project. Concerning the scope of this study, we are preparing various opportunities for information gathering and exchange of views. It was commented that JICA has not been involved. It is true that JICA is not involved in the implementation of the study; however, we have exchanged views with JICA, and JICA was a participant in last week’s Manila Workshop. In addition to JICA, we have started to exchange views and information with various people who have experience and knowledge in this field.

Next, one of the commentators expressed the fear that “Japanese ODA may become focused exclusively on infrastructure development.” Since this is a workshop on an infrastructure-related study, the presentations today emphasized our past experiences and future directions on this matter. However, this is not all that we are doing. We are fully aware that the ultimate objective of our financing, particularly in the case of ODA, is to contribute to economic development and poverty reduction in developing countries. Please be assured that it is inconceivable for JBIC to become focused exclusively on infrastructure development.

Question 3 (Participant from University)

As I was involved in a study on how to include infrastructure development in the Poverty Reduction Strategy Paper (PRSP. Referred to as Comprehensive Poverty Reduction and Growth Strategy (CPRGS) in Vietnam) for Vietnam, I found the sessions very interesting. The three commentators provided us with excellent remarks. Rather than asking a question, I wish to share my impressions on these comments.

The three commentators had one thing in common to say, which was: What can be done about planning functions? I consider this to be an extremely important issue. In low-income countries, this issue is linked to the fundamental question of what to make of the PRSP process. Today, we are observing a worldwide trend towards a sector-wide approach. Does this approach provide an appropriate tool for pro-poor growth? What modifications and improvements need to be made in this approach? The

issue that has been raised provides some extremely important clues to these questions. The importance of these clues goes well beyond the East Asian region. Therefore, my request is that this study addresses planning functions and planning systems.

Question 4 (Participant from NGO)

I am very happy to hear that local NGOs are expected to participate in the study. I am organizing an NGO network for poverty reduction in eleven Asian countries (Asia-Japan Partnership Network for Poverty Reduction). We would very much like to cooperate in this study.

Question 5 (Participant from Private Company)

I think the planned study is excellent. I understand that you started the study with East Asia. Would it be correct to say that the study will be later extended to include South Asia and other regions? I ask this because I feel the issues covered by this study constitute a far more serious concern in the developing countries of South Asia and other regions than in East Asia, and should be considered to be more important there.

Response 5 (Mr. Toru Tokuhisa)

Thank you very much. This study has been started with East Asia because this is the common region of the three institutions: the World Bank, ADB and JBIC. Speaking from the perspective of JBIC, we believe these issues are not unique to East Asia, and that they concern South Asia as well as other regions of the world. South Asia comes under the jurisdiction of the ADB, and as for the World Bank, I am sure that officers responsible for other regions are well aware of the needs of their regions. In this sense, it is fully possible that this study will be extended to other regions in the future. Hence, although the study has been started with East Asia, we are hoping that people concerning other regions will take a look at our work and feel that this framework may have its applications in their own regions. Therefore, it is important for us to conduct a good outstanding study that others will be attracted to follow.

Summary*

Mr. Shozo Kitta
Executive Director, JBIC Institute, JBIC

Closing Remarks

Mr. Yukio Yoshimura*
Vice President and Special Representative, Japan, The World Bank

Mr. Jungsoo Lee
Regional Representative, Japanese Representative Office, ADB

* In the seminar, these speeches were provided in Japanese. For this report, they were translated into English by Development Policy Research Division, JBIC Institute.

Summary

Mr. Shozo Kitta (Executive Director, JBIC Institute, JBIC)

I would like to express my appreciation for the attendance of many participants from various organizations, such as private companies, NGOs and government agencies in spite of your tight schedules. Thanks to all of you. I believe we have been able to engage in very meaningful and successful discussions.

Looking back at the discussions, I feel that many important points were identified concerning the study. For example: the environmental and social concerns in infrastructure development; the issues of disclosure and transparency in infrastructure projects; and the importance of dialog with local residents and private businesses as users of the infrastructure. As was emphasized today, towards the creation of schemes for effectively combining limited public funds with private funds for infrastructure development, it is necessary to improve donors' procedures, and also it is important for developing countries to undertake capacity-building in decision making and planning. I would like these points to be appropriately reflected in the conduct of this study.

I am informed that intensive discussions took place at last week's Manila Workshop with government officials of developing countries and representatives of private companies on such matters as the need for public support in promoting the participation of private companies in infrastructure development, and the division of responsibilities and roles between the public and private sectors. The discussions also provided an opportunity to re-affirm the importance of infrastructure development in the creation of employment opportunities, and the linkages that connect infrastructure development to poverty reduction and economic growth.

Similarly, our discussions today served to reconfirm the importance of carefully considering a broad range of factors in determining the future course of infrastructure development so as to contribute to the achievement of the Millennium Development Goals (MDGs), a compact among nations to reduce poverty, and the realization of sustainable economic growth. Moreover, we were reminded that it will not suffice to talk merely about future infrastructure development. Rather, we are once again made aware of the importance of undertaking this study with our minds set on the question of how to utilize infrastructure development to generate results that truly benefit local residents and to achieve poverty reduction.

It was commented that perhaps the study is too much focused on the East Asian

region. In this connection, I would like to share a personal story.

When I was still a university student in the late 1960s, Gunnar Myrdal wrote *Asian Drama*, concerning the North-South problem, in which he pointed out Asia's vicious cycle of poverty. Thirty years later in 1993, a book entitled *East Asian Miracle* was published based on the perspective of prosperity, in contrast to poverty, as a result of an exhaustive World Bank study. Just a decade after the publication of *Asian Drama*, I was assigned to Thailand where I visited more than 60 of the 71 total provinces that existed then. I personally observed the rise in incomes in both areas with basic infrastructure and areas without infrastructure thanks to the creation of employment opportunities through the development of local industries and introduction of foreign investment.

For a period thereafter, during the 1980s, I was assigned to Bangladesh and Nepal where again I had many opportunities to visit and observe outlying areas. Yet later, I was assigned to India and had the chance to travel extensively in the central regions of the country. Through these experiences, I learned about the general differences that exist between Southeast Asia and South Asia, and the basic differences in the initial conditions of these two regions. Finally, I was assigned to Africa for a relatively short period of 18 months, which just ended last October. Here again, I was able to visit more than ten Sub-Saharan countries.

I noted the various comments made today with these experiences in the back of my mind. The discussions reinforced the following awareness. As you know, we are now poised to conduct a year-long study of infrastructure in East Asia. What I feel is that the implications drawn from this study will provide us with numerous valuable lessons that can be applied to other regions. The final report of the study is to be completed next January and in the course of our work, we look forward to openly sharing information and exchanging views with various people at each juncture in the study. Moreover, we intend to host workshops to present reports on the progress of the study. With the continued input of your experiences and knowledge, we shall strive to achieve a study of the highest possible quality. Your continued support and cooperation in these undertakings will be most sincerely appreciated. Thank you again for your participation today.

Closing Remarks

Mr. Yukio Yoshimura (Vice President and Special Representative, Japan, The World Bank)

I have been serving as the representative of the World Bank in Japan since the summer of 2002. Over the past year and a half, I have endeavored to engage in dialog with a broad range of people, including not only various members of government organizations but also people working in NGOs, representatives of private companies, and academics from universities and research institutes. I have taken these opportunities to explain the position of the World Bank concerning many of the issues that were mentioned today, such as the relation between growth and poverty, the environmental and social impact of economic development, and cooperation and division of roles between the public and private sectors. At the same time, I have made my best effort to help the World Bank understand the views and positions of the people of Japan.

The study is being conducted jointly by the three institutions: the World Bank, JBIC and ADB. This endeavor will take our efforts to new levels and will provide us with excellent opportunities to engage in concrete discussions. The views that were expressed today lead me to believe that dialog between Japan and the World Bank is in fact being deepened and is moving towards levels not previously attained. The World Bank is collaborating with JBIC and ADB in the conduct of this study, and we are committed to doing our best to contribute to its success. If you have any views or opinions that you wish to share with the World Bank, please feel free to contact us. Your support will be most highly appreciated. Thank you very much.

Mr. Jungsoo Lee (Regional Representative, Japanese Representative Office, ADB)

Distinguished Guests, Ladies and Gentlemen:

In this closing session, I would like to join other speakers in thanking you all for attending this important seminar.

Last week at the Planning Workshop of the Study in Manila, ADB President reminded us that in the past 30 years, East Asia and the Pacific has made tremendous progress in many areas—people are healthier, better educated and live longer than previous generations. They have access to a vast range of opportunities not previously available. Poverty has been reduced significantly. The driver behind much of this

positive change is strong economic growth. And such growth would not have been possible without investments in infrastructure.

In moving forward, key challenge is to create the right policy environment for infrastructure development. Unless infrastructure development is increased considerably, economic growth and poverty reduction will suffer in many countries in East Asia.

The study spans many serious issues: clarifying the links between infrastructure, economic growth and poverty reduction, role of private and public sector, what elements would be necessary to ensure macroeconomic stability and still deal effectively issues of access of infrastructure for all, social and environmental issues and how do we address negative issues associated with infrastructure sector that Governor Shinozawa and Vice President van der Linden spoke about this afternoon. When economists talk about infrastructure issues, we often debate public good element. I hope the study would also provide attention to associated public "bads" in the area of corruption, environmental damage or displacement of communities. We need to remain committed to infrastructure development, but are there solutions where these public "bads" are addressed effectively, if not avoided totally?

I am very happy that the study would pool resources of three major institutions to design a strategy to move forward. I am also glad to hear from Mr. Mark Baird, the team leader that we are talking of a strategy for future development of infrastructure, but with many alternative solutions—solutions which capture the diversity of Asia – so vast as countries like PRC to smaller and remote pacific or Lao PDR.

Finally, I would suggest that we keep in mind the underlying theme of the study — Prosperous Asia is connected Asia — Prosperous Asia is Integrated Asia, and Prosperous Asia is where the early achievement of the Millennium Development Goals, i.e., MDGs plus, is not a dream but a reality.

Thank you for your attention.

Presentation Documents

Mr. Mark Baird

Study Core Team Leader

Mr. Shinji Asanuma

Professor and Director, Asian Public Policy Program, Hitotsubashi
University

Mr. Makoto Nagahata

Researcher, Japan NGO Center for International Cooperation

Mr. Hideaki Tanaka

Acting General Manager, International Affairs Department,
Tokyo Electric Power Company, Inc.

Infrastructure in East Asia: The Way Forward

Framework and Progress Report
for Tokyo Launch
January 23, 2004

Study Objectives

- Highlight importance of infrastructure to reduce poverty and achieve MDGs through:
 - Sustained, pro-poor economic growth
 - Improved access for the poor to basic services

In the development community, there have been pendulum swings between the importance of economic growth and access to basic services for achieving poverty reduction. It is now widely recognized that we need both legs for a successful poverty reduction strategy, and that infrastructure development is an essential ingredient for both growth and service delivery.

The Monterrey Consensus



Source: World Bank, "Supporting Sound Policies with Adequate and Appropriate Financing", paper prepared for the September 2003 meeting of the Development Committee in Dubai.

This framework is reflected in the Monterrey Consensus, agreed by all countries at the UN International Conference on Financing for Development on March 22, 2002. But it is not yet fully incorporated into country-level poverty strategies and aid programs. One of the main objectives of the study is to support this process.

Objectives (cont.)

- Provide practical guidance to senior policy makers in the region
- Support process of dialogue and communication with regional partners
- Inform future strategies and programs of the ADB, JBIC and the World Bank

Country Coverage and Groupings

	Population Size		
	Large	Medium	Small
Middle Income	China Philippines	Malaysia Thailand	Fiji Kiribati Marshall Islands Micronesia Palau Samoa Tonga Vanuatu
Low Income	Indonesia Vietnam	Cambodia Lao PDR Mongolia Myanmar PNG	Solomon Islands Timor Leste

Note: Low-income is US\$745 per capita and below; middle-income is US\$746 per capita to US\$9,205 per capita. Large population is over 70 million; medium population is 1 million to 70 million; and small population is under 1 million.

Study covers all developing countries in the East Asia and Pacific region. Country groupings show the diversity of countries by income levels and size (from China to Timor Leste). Growth prospects will also be a major determinant of future infrastructure needs and private sector interest in investing.

Sectoral Coverage

- **Focus on economic infrastructure:**
 - Power & piped gas
 - Transport
 - Information & communications technology
 - Water & sanitation
- **May include some upstream issues:**
 - But focus on broad themes and delivery of infrastructure services

For some aspects of the water supply and power sectors, it may be necessary to look at upstream issues of water resource management or fuel supply. However, the primary focus of the study will be on broad themes rather than sectors, and on the delivery of infrastructure services rather than upstream extraction or production.

Regional Context

- Infrastructure has always played a central role in East Asian development:
 - Industrialization and trade
 - Urban development
 - Logistics and IT services
- Major impact on:
 - Productivity
 - Demand
 - Regional integration

In the early stages of industrialization, investments in sites and services, energy supplies, transport and port facilities were vital to getting the East Asia “miracle” off the ground.

In more recent years, infrastructure development for industrialization and trade has been complemented by investment in housing, telecommunications and urban amenities that support the huge influx of people into the cities, the shift in economic activity from industry to services, the demand for a more livable environment, and the urgency of containing the resource footprint of urban areas.

With high-tech industries increasingly dependent on just-in-time delivery, production networking and speedy fulfillment of orders, efficient logistics and IT facilities are now the lifeblood of modern industry and producer services.

Such infrastructure investment has complemented spending on directly productive activities and supported the growth of total factor productivity. It has also been a major source of demand, especially in the post-crisis period.

Infrastructure has also reduced the costs of transport between and within countries (e.g., China and Indonesia), and thereby contributed to regional integration. There is now strong competition to establish logistics hubs within the region (e.g., Singapore, Kuala Lumpur, Hong Kong, Southern China).

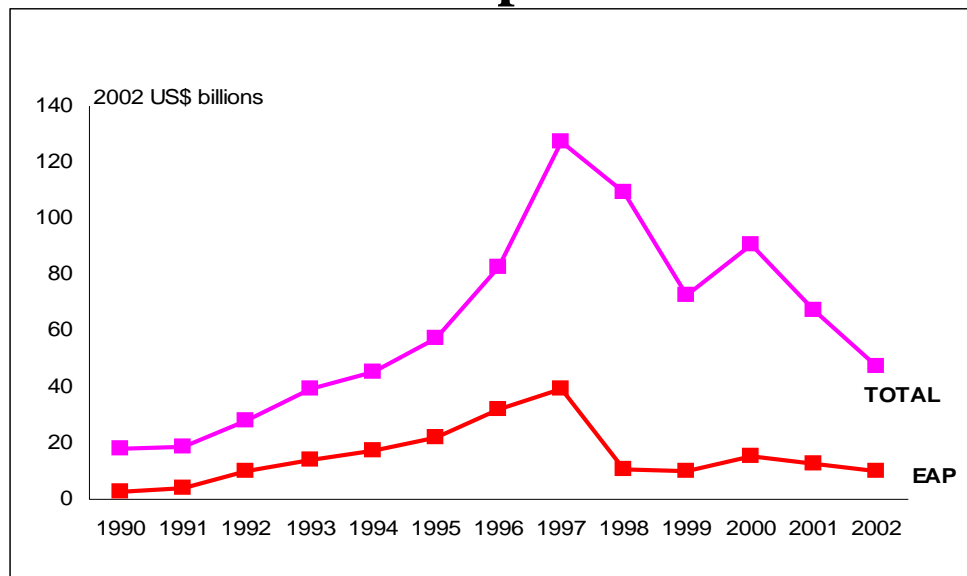
Context (cont.)

- Short-term impact of Asian crisis:
 - Resource requirements
 - Financing options
 - Governance concerns
- Growth is now recovering
- But prospects vary across the region and within countries

The Asian crisis temporarily lowered growth prospects and exposed weaknesses in fiscal policy, financial systems and governance. While infrastructure requirements were temporarily suppressed, the crisis raised larger questions about the capacity of both the public and private sectors to meet future infrastructure needs in a sustainable manner. Budget funds became scarce and many private sector infrastructure projects in the region went sour. At the same time, changes in the global economy reduced private sector interest in infrastructure projects (see Slide 9) and development assistance for infrastructure also declined (see Slide 10).

Now, six years on, the region is recovering from the crisis. Countries like China and Vietnam were little affected in the first place and continue to grow at 7-8% per annum. South Korea, Malaysia and Thailand are back onto higher growth paths. However, the Philippines and Indonesia are still struggling to manage fiscal imbalances, overcome weaknesses in public sector governance and improve the private investment climate, while many of the smaller, low-income countries in the region are yet to see the benefits of sustained growth. Within countries, there are also signs of inequality, as the poor struggle to gain access to the benefits of economic growth and the provision of basic services.

Investment in Projects with Private Participation

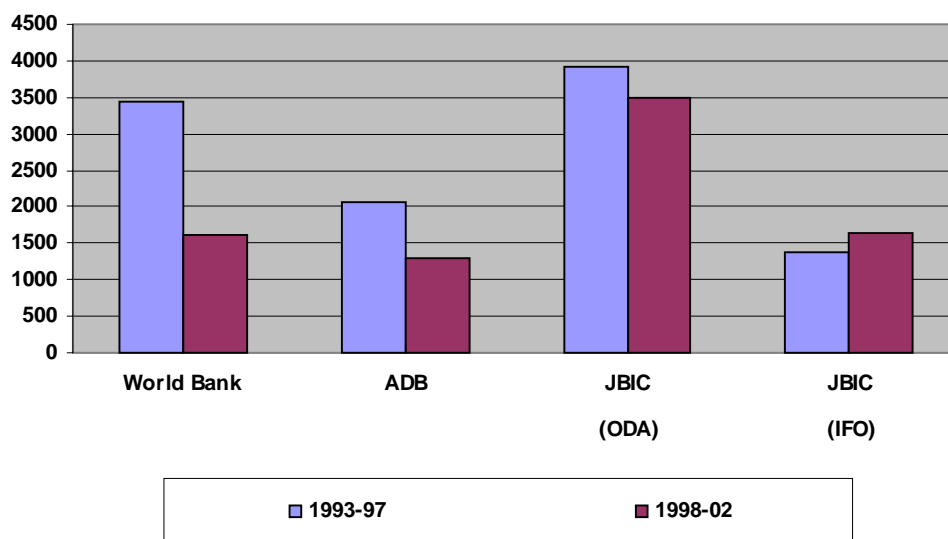


Note: Data are from the PPI Projects Database. They include all commitments (public and private) to invest in projects with private participation.

Investment in projects with private participation in East Asia and the Pacific was clearly affected by the Asian crisis in 1997. But, unlike the global trend, interest has been relatively stable since then, possibly reflecting the continuing interest in China and the strong growth prospects elsewhere in the region.

Official Lending for Infrastructure Projects in EAP Region

(US\$ million per annum)



Note: Data are for fiscal years ending in March (JBIC), June (World Bank) and December (ADB). Data are provisional and exclude program lending and some infrastructure components in rural and community-based projects.

Official lending plays a relatively small but potentially important catalytic role in infrastructure financing. Multilateral lending by the World Bank and ADB fell by almost 50% between 1993-97 and 1998-02. This trend reflected the graduation of middle-income countries from concessional financing, the limited borrowing capacity of the worst-affected crisis countries and a substantial reduction in lending for power generation. While JBIC has continued to fund infrastructure projects from its ODA and IFO windows, total official lending from these three main sources is still down significantly from the levels of the early 1990s.

Context (cont.)

- Infrastructure strategies have to factor in longer-term impact of:
 - Urbanization
 - Decentralization
 - Demographic changes
 - Regional integration and competitiveness

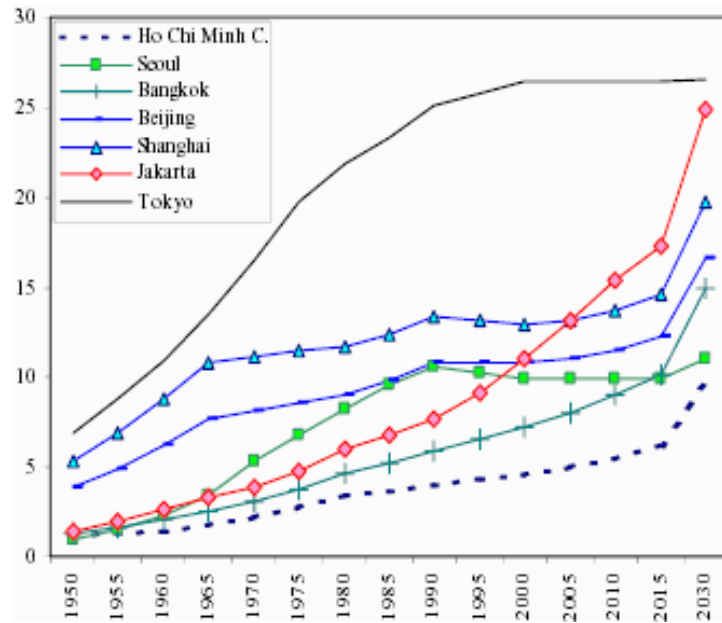
One of the most dramatic trends in East Asia is the rapid pace of urbanization. Over the next 20 years, the urban population in EAP is projected to increase by 60% or 500 million people. The share of the urban population will rise from less than 40% in 2000 to more than 50% by 2025. The population living in “mega-cities” (i.e., those with over 10 million people) will rise from about 80 to 120 million (see Slide 12). These trends will place enormous pressures on urban infrastructure, especially the provision of basic services for the poor.

Increased urbanization goes hand in hand with decentralization of fiscal and administrative responsibilities. China has always been highly decentralized, and the Philippines and Indonesia have recently embarked on major decentralization programs (see Slide 13). This provides an opportunity for local governments to take on increased responsibility for infrastructure development and service provision. The challenge will be to ensure that these governments have the necessary resources and capacity to take on these responsibilities effectively – with proper coordination from higher levels of government.

Demographic changes also mean that more people are moving into the workforce. This will lower dependency rates in the economy and raise savings rates even higher. The challenge will be to intermediate these savings into financing for longer-term infrastructure projects. This has major implications for the development of non-bank financial institutions and capital markets.

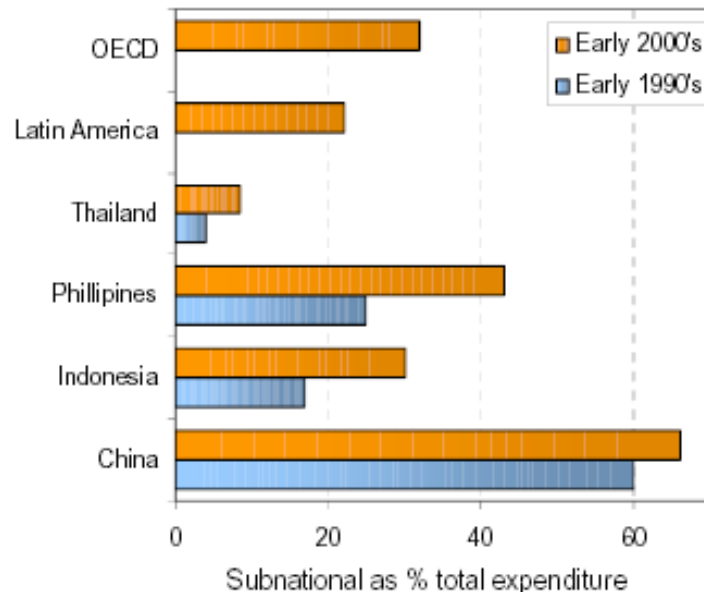
Emerging economies in East Asia have seen their share of world exports more than triple over the past 25 years. The fastest growing segment of this trade is within the region. This trend is likely continue, as countries respond to the challenges and opportunities of the growing China market. At the same time, rising inequalities within countries and between the richer and poorer countries in the region are causes for concern. Infrastructure development, especially in the poorer regions and countries, will be a key part of any regional and national response.

Population of Asian Megacities



Source: World Bank, World Development Report, 2003.

Decentralization of Public Spending



Source: World Bank, "East Asia Update: From Cyclical Recovery to Long Run Growth" (EAP Region, October 2003).

Bottom Line

- Infrastructure requirements, financing sources and service provision will be very different in the future
- Infrastructure requirements, issues and options will vary greatly across countries and sectors

Future resource requirements for infrastructure development and maintenance in the region are estimated to be at least US\$200 billion per annum. The study will attempt to update these estimates. But, in a fast growing region, with large pockets of poverty, it is bound to be a large number!

The challenge is to find ways to mobilize the necessary financing from public and private sources, and use them in ways that deliver effective and affordable services to the poor. FDI will be important in some sectors and countries. Official lending can play an important catalytic role. But countries will also have to look at ways to mobilize domestic resources through their budgets and financial systems.

The ways in which infrastructure development will be financed and delivered will vary greatly across countries and sectors. The study will not take an ideological approach to the roles of the public and private sectors, but rather lay out options that can be tailored to different situations.

Major Themes

- Role of infrastructure in poverty reduction

- Lessons of experience:
 - Roles of the public and private sectors
 - Environmental and social impacts, and governance concerns

- Future challenges:
 - Longer-term structural changes
 - Economic and financial context

Progress to Date

September 2003	<ul style="list-style-type: none">• Joint press release
November 2003	<ul style="list-style-type: none">• Country visits to the Philippines and Vietnam
December 2003	<ul style="list-style-type: none">• Country visit to Indonesia
January 2004	<ul style="list-style-type: none">• Draft issues paper• Planning workshop in Manila• Tokyo launch seminar

Study process is designed to provide maximum opportunities for consultation and feedback from regional partners in the government, private sector, academia and civil society. This launch is one part of that process. We have also benefited from the just-completed planning workshop in Manila, and country visits to the Philippines, Vietnam and Indonesia. Basic documents, such as the draft issues paper, will be widely discussed before finalization.

Feedback from Manila

- Take a broad and long-term view of poverty
 - What can we learn from successes and failures?
- Recognize diversity between and within countries
- Bridge the gap between financial viability and social affordability
 - When are public subsidies justified?

Manila Feedback (cont.)

- How to build planning capacity and political consensus for reform?
- Tackle corruption – in public and private sectors
- Take account of new trends
 - regional integration, urbanization and decentralization

Manila Feedback (cont.)

- **Official lending is very much needed**
 - to catalyze private participation and fund projects which can't attract private investors
- **But development agencies must:**
 - Take long-term view
 - Coordinate better at country and project levels
 - Simplify and speed up business practices

Next Steps

- **Short-term:**
 - Finalize issues paper
 - Complete TORS for background papers
 - Set up website
 - Extend country visits

- **Medium-term:**
 - Mid-2004: Review background papers
 - December 2004: Review draft report
 - January 2005: Release final report
 - Follow-up with dissemination program

We very much look forward to your comments and suggestions today, and your active participation in the study process over the coming year. There will be many opportunities to exchange views on the study's findings before the final report is completed.

“Infrastructure in East Asia: The Way Forward” : Comment

Shinji Asanuma
Hitotsubashi University, Tokyo

January 23rd, 2004, JBIC Headquarters, Tokyo



Note: This was made to comment on Mr. Danny M. Leipziger's presentation on "The Status of Infrastructure Reform in Latin America" in the "Infrastructure in East Asia: The Way Forward" Manila Planning Workshop (January 15-16, 2004).

The Issues

- Emerging *infrastructure deficits* in Latin America: Decline in public and private spending on infrastructure
- Turning tide against private infrastructure development
 - Public opinion vs. academic evidence on gains of privatization (prices, unemployment, service coverage for the poor, etc.)
 - Distribution of benefits: Ministry of Finance vs. the poor

The Issues (Continued)

- Turning tide (Continued)
 - Ideological shifts: Failures of privatization experiments (Latin America, Russia, etc.) and of the Washington Consensus
 - Developmental state and welfare state: First generation priorities (East Asia) vs. second generation priorities (Latin America)

• Note: Also see Clive Harris, *Private Participation in Infrastructure in Developing Countries: Trends, Impacts and Policy Lessons*, 2003, World Bank, Washington, D.C.

What to do: “Rethinking Privatization”

- Distribution of privatization gains
 - Fair and transparent process, and resource allocation between Ministry of Finance and the poor
 - Safeguarding “social objectives”
 - Public education
- Regulatory framework
 - Contractual failures
 - Regulatory framework and institutions
 - Dispute resolution mechanism
 - De-politicizing the private participation
 - Greater fiscal responsibility
- Risk assessment and risk management: Public and private sector

The Issues Beyond PFI Reform

- East Asian experience
 - The “East Asian Miracle” and the PFI boom in the mid-1990’s
 - The Asian Crisis and afterwards: Twin phenomenon of privatization and emerging infrastructure deficit with adverse impact on investment climate
 - Problems of first generation reform
 - Uncertainty factors originating from the regime changes
 - Ideological, policy and institutional changes
 - Unsettled investment regimes
- Note: Dani Rodrik, *In Search of Prosperity: Analytic Narratives on Economic Growth*, 2003, Princeton University Press, Princeton

Weakened Planning Capacity and Institutional Framework for Development Planning

- Economic stabilization and sustained economic growth: The *urgent* replacing the *important*
- Ideological shifts in government structure: New Public Management
- Planning functions in New Public Management
 - Decentralized strategic planning
 - Medium-Term Expenditure Framework vs. Public Investment Program
 - Planning agency vs. Ministry of Finance
 - Decentralization and privatizations

Planning Capacity (Continued)

- *Weakened development planning capabilities are causing emerging infrastructure crisis*
- Long-term strategic planning needed for infrastructure development strategy, policy and plans
 - Example of electricity sector development
 - The need for coordination and checks and balances in long-term investment plans: The role of central planning agency
 - Missing element in the New Public Management thinking
 - Note: See Graham Scott, *Government Reform in New Zealand*, 1996, IMF, Washington D.C. for the New Public Management thinking, and World Bank, *Public Expenditure Handbook*, 1998, World Bank, Washington, D.C. regarding MTEF

Planning Capacity (Continued)

- Episodes of PFI experiences and planning capacity: Thailand, the Philippines, China and Indonesia
- Thailand: EGAT's framework for PFI's
 - *Requests for Proposals for Power Purchases from Independent Power Producers, for the years 1994-2002, 1994 Solicitation*
 - Complete planning document: Cabinet guidelines, EGAT's plans and list of projects, model Power Purchase Agreement, etc.
- The Philippine experience: PFI's at any cost
- China and Indonesia
 - PFI's without guidelines and rules of the game
 - Almost anarchic, bilateral negotiations process
 - No semblance of coordinated planning

Concluding Remarks

- Development of regulatory regimes
- Redesigning the contractual framework
- *Reviving and strengthening planning system and capabilities in long-term national development planning and coordination of development plans of major actors in infrastructure development*

Jan.23, 2004

“Infrastructure in East Asia: The Way Forward”: Comment

Makoto Nagahata

Japan NGO Center for International Cooperation

1. Infrastructure alone can not solve the complex problem of poverty.

Poverty should be defined by multi-dimensional aspects of human capabilities, such as economic, human, political, socio-cultural, and protective (*The DAC Guideline on Poverty Reduction 2001*). Comprehensive / integrated approaches of multi-sectoral assistance are to be considered. The study should analyze successful / failure cases of infrastructure development that were / were not combined with other sector assistance such as education, health, community empowerment, or microfinance.

2. Transparency and participation are keys for success.

In order to improve accountability and governance aspects of infrastructure projects, transparency (appropriate process of information disclosure) and participation (bottom-up planning with all the stake holders including ordinary people at the project site) are important key factors. The study should examine various existing practices of information disclosure and participatory planning, and recommend appropriate models of facilitating transparency and participation. The roles of NGOs or CSOs (Civil Society Organization) that can contribute to this issue should also be analyzed.

3. Infrastructure planning should be integrated with local development policy

Infrastructure is only a tool for economic (and social) development. It is not a goal of development. In the era of decentralization, every local government is required to formulate its own development policy and strategy. Infrastructure planning should be coordinated and integrated with such local development policy. “What kind of development we need to pursue” must be decided first, and then necessary infrastructure projects may be planned. It is recommended that the study will examine the ways to integrate infrastructure planning into development policy of local governments.

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Comments on “Infrastructure in East Asia : The Way Forward”

Introduction

- **Two Aspects: Infrastructure for Poverty Reduction or for Economic Development?**

1. Comprehensive Development of Infrastructure

- **Long-Term National Economic Development**
- **Well-Designed Master Plan**
- **Multi-Sector Development**
- **Precise Demand Forecast to Respond to Urbanisation**
- **Least Cost Planning by Integrated Planning**

2. Integration vs. Unbundling

- **Harmonised System and Power Development Plans Vertical Integration**
- **Reliability through Integrated Organisation**

3. Environmentally-sound Power Development

- **Efficient Utilisation of Indigenous Resources and “Best Generating Mix”**
- **Natural Gas and Clean Coal Technology**
- **Hydroelectric Power Development in Proper Consideration of Environment**

4. Education

- **Education for Counterpart Policy Makers for Planning**
- **Capacity Building for Sustainable Operations & Maintenance**

Towards Future Development

- **Coordination among Donors**
- **More Dialogues Expected**