Statement by

Mr. Takehiko Nakao
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On behalf of the Asian Development Bank (ADB), I would like to thank the Development Committee for the invitation to attend its 90th meeting as an observer. My statement will highlight the need for inclusive growth in the region; the importance of infrastructure in promoting inclusive growth; and ADB’s role in helping to develop and finance infrastructure in the region.

ASIA AND THE PACIFIC NEEDS TO ALLEVIATE EXTREME POVERTY, REDUCE INEQUALITY AND MAKE GROWTH MORE INCLUSIVE

Asia and the Pacific’s rapid and sustained economic growth, which averaged 7% per annum during 1990–2010, has dramatically reduced the level of poverty. Under the poverty line of $1.25 a day, the region’s poverty rate declined from 54.7% in 1990 to 20.7% in 2010. This equates to more than 745 million people lifted out of extreme poverty—from 1.48 billion in 1990 to 733 million in 2010.

However, poverty remains high due to food insecurity and vulnerability. Food insecurity, reflected by rapidly rising food prices, threatens the survival of the poor. Vulnerability to risks—such as natural disasters, climate change, illness, and economic crises—can easily push the low-income population back to extreme poverty. Using an Asia-specific poverty line and incorporating the effects of food insecurity and vulnerability, Asia’s 2010 poverty rate rises from 20.7% to 49.5%. The corresponding number of extreme poor in 2010 becomes 1.75 billion, not 733 million.1

Another significant challenge in the region is inequality. The key drivers of Asia’s rapid growth—technological progress, globalization and market-oriented reforms—are the same factors that have caused increasing inequality in many Asian countries. From the 1990s to the late 2000s, economic inequality worsened in 12 of 30 Asian countries. The 12 countries, which include the People’s Republic of China (PRC), India, and Indonesia, constitute 82% of Asia’s population. For example, the Gini coefficient increased from 32 to 43 in the PRC, from 33 to 37 in India, and from 29 to 39 in Indonesia.

Why do we have to pay attention to rising inequality? First, higher inequality affects the pace of growth, and reduces the impact of growth on poverty reduction. ADB estimates show that if levels of inequality had remained stable in Asian economies, the growth experienced between 1990 and 2010 would have lifted another 240 million people out of poverty—equivalent to 6.5% of Asia’s population in 2010. Second, inequality could potentially undermine social cohesion, and endanger social and political stability. Third, higher levels of inequality could create institutions that favour the elite, perpetuating the cycle of inequality.

High extreme poverty and rising inequality underpin the importance of inclusive growth. For ADB, inclusive economic growth is anchored on three pillars. First, it requires high, sustained, and broad-based economic growth to create sufficient levels of productive jobs and expand economic opportunity for all. Second, it requires social inclusion to ensure that every person has equal access to opportunity. Third, inclusive growth requires effective social safety nets to manage risks and vulnerabilities, particularly of the disadvantaged and chronically poor population.

**INFRASTRUCTURE DRIVES INCLUSIVE ECONOMIC GROWTH**

Inequality in Asia and the Pacific is not only observed in terms of income, but also in terms of opportunity. To illustrate this point, I will cite the region’s unequal access to infrastructure services. ADB estimates that Bhutan has the highest level of access to safe water (89.94%), Viet Nam has the highest level of electrification (97.19%), and Sri Lanka has the highest percentage of population living in homes with sanitation (94.19%). On the other hand, for the same basic infrastructure services, Bangladesh exhibits the lowest levels of overall availability and distribution across the population. Less than one-third of the population has household access to electricity, about one-fifth has sanitation facilities, and only a little more than one-twentieth has safe water. For all these facilities, only the richest 20% of the population has access rates of 50% or higher.2

Consequently, to stimulate and sustain economic growth, infrastructure must remain a priority for the region’s development agenda. A few years ago, ADB estimated that the region would need to invest as much as $8 trillion between 2010 and 2020, or an average of $750 billion annually, in developing national infrastructure. In addition, the total investment needed for regional infrastructure projects would be $290 billion, or an average of $30 billion per year.3

We believe that governments should continue to take the lead in developing and funding infrastructure in the region. However, we also recognize that countries face large shortfalls in required investments—traditional sources of infrastructure finance are strained, and public budgets are overstretched. Therefore, public sector investments in infrastructure should be complemented by actions that generate and make use of additional funding sources to address the financing gap. To this end, Governments should promote an enabling environment in which private sector operators and public-private partnerships (PPPs) operate smoothly and effectively.

More importantly, the region should ensure that infrastructure reaches the poorest and most vulnerable. For example, the ADB-supported railway link between Hairatan and Mazar-e-Sharif in Afghanistan facilitated the movement of people and goods, including humanitarian assistance. This in turn supported socioeconomic development in the country’s northern provinces and reduced disparity within the country. It is encouraging to note that the PRC, India, and many Southeast Asian countries now reflect inclusive growth, and the related role of infrastructure, in their medium-term development plans. India’s Twelfth Five Year Plan (2012–2017) highlights that quality infrastructure is important not only to sustain faster growth but also to ensure that growth is inclusive.

Countries’ partnerships with the development community are also essential. For example, ADB and World Bank are now jointly supporting large-scale investments in information and communication technology infrastructure in small island nations in the Pacific. This project will help these countries

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overcome the digital divide and contribute to strengthening development linkages with economic growth centers in Asia and elsewhere.

**ADB SUPPORTS INFRASTRUCTURE DEVELOPMENT IN THE REGION**

ADB plays an important role in addressing constraints to infrastructure investment, catalyzing and mobilizing infrastructure financing, providing knowledge, and unlocking new investment opportunities. ADB’s long-term strategic framework, Strategy 2020, prioritizes infrastructure development to support inclusive economic growth. In 2008–2012, ADB’s infrastructure operations accounted for 72% of its total operations. Recognizing the importance of partnerships with various stakeholders in this area, ADB is committed to systematically expand its assistance for private sector development and operations to 50% of annual operations by 2020.

Based on the recent midterm review of Strategy 2020, ADB will strengthen the outcomes of infrastructure projects by improving sector engagement, technical designs, and implementation. We will ensure that our infrastructure operations are sustainable to provide longer-term benefits to more people. ADB will develop infrastructure projects on a larger scale than its own resources could finance, and leverage private sector investments more effectively. ADB will also pursue policy, regulatory, and governance reforms to strengthen public infrastructure management systems and promote the role of the private sector in infrastructure development.

To contribute further to inclusive economic growth, we will partner with our developing member countries (DMCs) to complement infrastructure projects with investments in education, finance, health, and agriculture. This will help create jobs, promote economic opportunities, reduce vulnerabilities, and increase the poor’s access to social services and productive assets.

To support PPPs, ADB will help build the necessary regulatory and institutional frameworks, and support project development. ADB’s newly established Office of Public-Private Partnership will enhance PPP operations across ADB, and will provide transaction advisory services to DMCs. We will support innovative financing solutions for projects, including through credit enhancement products and local currency financing.

ADB will continue to support the ASEAN Infrastructure Fund (AIF) to mobilize savings for regional infrastructure projects. ADB established the AIF in partnership with the Association of Southeast Asian Nations (ASEAN). The AIF plans to lend around $300 million to ASEAN countries with cofinancing from ADB. ADB is also proposing to establish the Asia Pacific Project Preparation Facility—a dedicated revolving finance facility—to provide legal, technical and financial expertise to DMCs with projects at early stages of development.

**CONCLUDING REMARKS**

The Asia and Pacific region is transforming quickly. To meet the needs of this rapid transformation, developing sustainable infrastructure remains a key priority for the region. We will continue to innovate and adapt to the evolving needs of our DMCs. In particular, ADB will help build and sustain the necessary infrastructure to complement the region’s growth and change the lives of people—especially the poor—for the better.

Once again, thank you for this opportunity. We at ADB look forward to partnering with you further for the development of Asia and the Pacific.