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Speech: Asia's Cities: Challenges and Emerging Opportunities
for Sustainable Urban Development

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I. Introduction

Mr. Idei, distinguished guests, ladies and gentlemen:

It is a great privilege for me to join you at the Asia Innovation Forum 2009 this afternoon. The Asian Development Bank is proud to be involved with this event, which provides an excellent platform for participants and stakeholders to share knowledge, ideas, and opportunities.

As we know, Asia is undergoing a massive shift toward urbanization. By 2030, Asia's cities will be home to 2.7 billion people - about 55% of the world's population. This means that Asian cities will add close to 1 billion people or 48 million per year over the next two decades.

This shift brings with it significant challenges, not the least of which

is the adoption and financing of sustainable urban infrastructure, and management of urban services for efficient and equitable provision. In my remarks today, I will focus largely on these challenges, and highlight some of the ways in which Asian cities are adopting and adapting innovative approaches for city development and infrastructure financing. Given the scope and pace of change, it is critical that developing Asia keep stoking the fires of innovation in order to fully capture the benefits of urbanization while mitigating, at the same time, its negative consequences.

II. Urbanization as an Asset

I would like to stress, first, that urbanization should be seen as an asset rather than a liability, for both the wealth of a nation and the welfare of its citizens. Cities produce almost 80% of the region's gross domestic product. Megacities in particular, with populations of over 10 million, are an integral part of Asia's economic development. Today, 12 of the world's 17 megacities are in Asia. These megacities have the economies and populations of nation states. Shanghai, for example, has a higher GDP than Bangladesh and a bigger population than Sweden.

III. The Challenges of Sustainable Urban Development

Their economic potential, cultural diversity and predominance in national economics is unprecedented. However, the capacity of cities as engines of economic growth is critically hampered by **poor infrastructure and services, weak financial bases, and inefficient governance and urban management mechanisms**. In addition, the informal sectors of these megacities comprise, on average, 25% of their overall economies. And the informal economy, while being dynamic, highly flexible, and competitive, also makes it hard to manage infrastructure and service provision.

Environmental conditions in the larger cities have deteriorated significantly. Climate change also poses additional huge challenges. Without the needed investments, their assets could become liabilities.

For most major cities in Asia, population and economic growth rates are too rapid for their own infrastructure to keep up with, and the benefits of new investments and infrastructure have not been distributed equally. Currently, more than half a billion Asians live in slums. Air pollution is affecting the health of millions. And over next 20 years, more than half of the rise in global greenhouse gas emissions will come from cities in Asia.

IV. Needs of Asian Cities and Examples of ADB Assistance

With this background, what is it that Asian cities need? With increased population, the challenges remain in meeting the increased demand for more and better basic infrastructure and social services, while ensuring their environmental sustainability. In addition, there are some important institutional issues to be addressed, including putting in place enabling policy environments and the need for capacity development.

To be more specific, Asian cities need transport systems, particularly for mass transit, which will move more people, and help reduce traffic congestion and air pollution. Mass Rapid Transport systems can provide convenient, comfortable, safe, affordable, and clean urban travel, thus reducing reliance on private modes of travel and improving the quality of urban living.

Increasing urban population also increases the need for more and better water and sanitation services. We also need more energy efficient buildings, and ways of reducing industry-specific pollution and energy usage.

More and more cities, too, are experiencing the effects of climate change. Some large cities are experiencing flash floods and/or more days with flooding after heavy rains. This is particularly true for Asian coastal cities. We need to support Asian cities in their efforts to manage flood resulting from heavy rains, storm surges and rising sea levels, which are consequences of climate change.

ADB has been and will continue to be a partner of Asian cities in their pursuit of inclusive and sustainable economic development. I would like to share with you some examples of how we are helping cities to meet these challenges. It is important that good examples be widely shared so that they can be replicated across the region and benefit more Asian people.

First, to assist with transport needs, we are upgrading and developing mass transit systems in a number of cities. For instance, in Ho Chi Minh and Hanoi in Vietnam, we are assisting in the development of new metro rail systems. And in Lanzhou in China, we are helping to build a Bus Rapid Transit project.

To address the environmental aspects of urbanization, we assisted the city of Phnom Penh in Cambodia to improve its war-torn water supply system. Today,

Phnom Penh Water Supply Authority is among the best, publicly-owned and managed water utilities in Asia providing 24-hour water supply to thousands of households.

Let me give one final example. Energy efficiency is the most cost-effective way to reduce the greenhouse gas through reduction of demand for electricity. In the Philippines, ADB is implementing a demonstration project that will replace 13 million incandescent light bulbs with energy efficient compact fluorescent lights - CFLs. This will decrease the electricity load demand equivalent to the level of a 450 megawatts power plant and about 300,000 tons of CO₂ annually. We are in the process of replicating this in Pakistan, Indonesia, Laos and Cambodia.

There are many other such initiatives, too numerous to mention here today. Asia, as we know, has a shared vision of making all its cities more livable. Scaling up and replicating such initiatives across the region is essential if Asia is to realize that very worthy vision.

V. Financing the Needed Investment

The scale of investment needed for adequate urban infrastructure and services is daunting. We have estimated that developing Asian countries would need around \$60 billion per year between 2006 and 2010 to provide adequate water supplies, sanitation, solid waste management, shelters, urban roads, and transportation systems, to make the cities function optimally. The investments needed are likely to be higher in the future as these cities strive to contain their carbon footprint and cope with climate change impacts. As urbanization is a potentially significant asset class, there is similarly significant potential to mobilize large scale financing. The challenge now is to turn this potential into reality.

The global financial resources available to promote a better environment is a drop in the ocean, compared to the trillions of dollars in Asian banks, capital markets, pension funds and insurance companies which are seeking a home in secure long-term investments. Resources of the same magnitude are also available to institutions outside Asia that are willing to invest in Asia's success.

The challenge is to channel these financial resources to flow to investments in Asia. There are numerous barriers serving to deter investors - among them:

- unclear regulatory structures resulting in high transaction costs;
- limited mechanisms to encourage institutions holding long-term funds, such as pension funds and life insurance companies, to invest in infrastructure;
- a lack of mechanisms for public sector debt finance;
- issues of inter-jurisdictional coordination that make project formulation and structuring difficult; and
- general risk aversion among pension funds and life insurance companies in developed countries.

We need to find ways to overcome these barriers to open the floodgates for investments to flow to Asia.

Part of the problem is that high quality urban infrastructure and investments are seen to be more expensive than “business as usual” investments. This gap must be bridged if investment behavior is to change for cleaner development options. The Clean Development Mechanism (CDM) was established under the Kyoto Protocol as one approach to address this “gap” -paying for clean

investments in developing countries to achieve reductions in carbon emissions more efficiently.

VI. ADB's Role

ADB's new long term strategy called "Strategy 2020" places a high priority on these issues. Our vision of an Asia and Pacific region free of poverty will not be realized without significant attention to urban problems, which seriously affect the poor. Inclusive growth and environmentally sustainable growth are among our three strategic priorities, the other being regional cooperation and integration. And infrastructure and environment are two of our five operational areas.

We are continuously seeking new ways to address the challenges of urbanization. We are analyzing many of the issues I have discussed, and developing knowledge products that highlight possible solutions. For example, our Managing Asian Cities study is a landmark assessment of the problems in Asia's cities. The book includes case studies from Tianjin in China, Chennai in India, Karachi in Pakistan, Manila in the Philippines, and Udon Thani in Thailand, and provides a comprehensive overview of best practices.

We are also mobilizing concessional financing to support the formulation of urban projects which respond to climate change. Technical assistance is available through ADB facilities such as the Cities Development Initiative for Asia, the Clean Energy and Water Financing Partnership Facilities. And several of these facilities provide finance for investments to help bridge the “sustainability gap” .

I have mentioned the Clean Development Mechanism, which was intended to mobilize additional financing to promote cleaner investment projects. However, CDM credits often provide financing only after the project completion - called the “pay on delivery mechanism.” This comes too late for many clean energy projects which require financing to even get started. To mitigate this, ADB launched the Carbon Market Initiative, which leverages carbon credits from both Kyoto- and Post-2012 periods¹ to provide upfront financing. This way, we hope to see many more clean energy projects get off the ground in our region.

¹ Of the two funds under ADB's Carbon Market Initiative, the Asia Pacific Carbon Fund is for Kyoto period, and the Future Carbon Fund is for post-Kyoto period.

In addition, ADB is already providing financing assistance to several of our member countries to meet their infrastructure financing needs. This includes highly concessional financing from the Asian Development Fund as well as our ordinary capital resources. In the last 3 years, our developing member countries have also been using ADB's new financing modality, the multi-tranche financing facility (MFF). This facility provides financing certainty to a program of related large infrastructure projects. For example, the city of Sindh in Pakistan is using this modality to finance a \$300 million cities improvement investment program, which would improve the water supply and solid waste management services for about 4 million people. This includes reforms to introduce financially sustainable service provision and increase private sector participation.

As indicated in our Strategy 2020, ADB is a strong advocate of leveraging funds from the private sector through public private partnerships, or PPPs. PPP financing is both necessary and desirable. It is necessary, because governments alone do not have the sufficient funds to meet the infrastructure investment gap. And it is desirable, because such arrangements allow for risk-sharing, transfer of private sector expertise, and buy-in from all stakeholders who will be affected by a project. In recent years, ADB has provided technical assistance to the Government of India for a number of pilot PPP projects that can eventually serve

as models for future projects.

To support this, we have expanded our range of innovative financing instruments to include sub-sovereign finance and local currency finance. We plan to focus on using public sector resources to leverage private sector capital by scaling up the use of credit enhancement instruments, such as partial credit guarantees and political risk guarantees.

We will continue to support appropriate responses to urban problems and the role of cities as economic drivers, focusing on overcoming their constraints to improved management and service delivery, along with other development partners.

VII. Conclusion

Ladies and gentlemen:

The challenges for Asian Cities are profound, numerous and complex. To meet them, we have to be innovative and imaginative. The social and environmental costs

of failure to manage the Asian urbanization process would be global in scope and unthinkable in magnitude.

We must not allow insufficient expenditure for infrastructure to undermine economic growth and poverty reduction efforts in Asian cities. ADB is committed to help cities in the region develop sustainable infrastructure. We are forging partnerships with city governments across Asia and we welcome partnerships with the private sector and other stake holders for both finance and innovative ideas for delivering sustainable urban infrastructure.

I urge all of you to engage more strongly and flexibly with Asian cities, support their managers and help them innovate to meet the emerging urban challenges. I am confident that all of us are up to this challenge, and will take on urbanization with a spirit of hope and optimism. It is, after all, this spirit that inspired Asian cities such as Yokohama, Singapore and Seoul to become what they are today. This same sense of hope and optimism, combined with strong leadership and innovation, will ensure that many more developing Asian cities can move ahead as tomorrow's success stories in the making.

Thank you.