

Central Asia: Role of Private Sector in Infrastructure

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Why Infrastructure?

- It is the backbone of economies and societies.
- It plays a central role in economic development to promote growth
- It provides basic services
- It brings benefits to the poor
- But infrastructure also has implications for the environment and local communities which need to be addressed

Why Private Sector?

- Initially, infrastructure is provided by Government
- This is partly due to:
 - It often being a natural monopoly
 - Need for long-term planning and coordination
 - Need for long-term commitments and funding
- But increasing demand and limited government capacity means a need for the private sector
- Evolving risk sharing and competition mechanisms open up potential for private sector participation

Infrastructure in ADB

- Infrastructure is a key area of ADB assistance accounting for one half of total assistance
- On average, over the last 15 years, ADB has provided \$3 billion per year for infrastructure

Future Investment Requirements

- ADB-WB-JBIC study estimates that over \$200 billion per year is needed for new infrastructure projects in East Asia
- India needs about \$15 billion per year

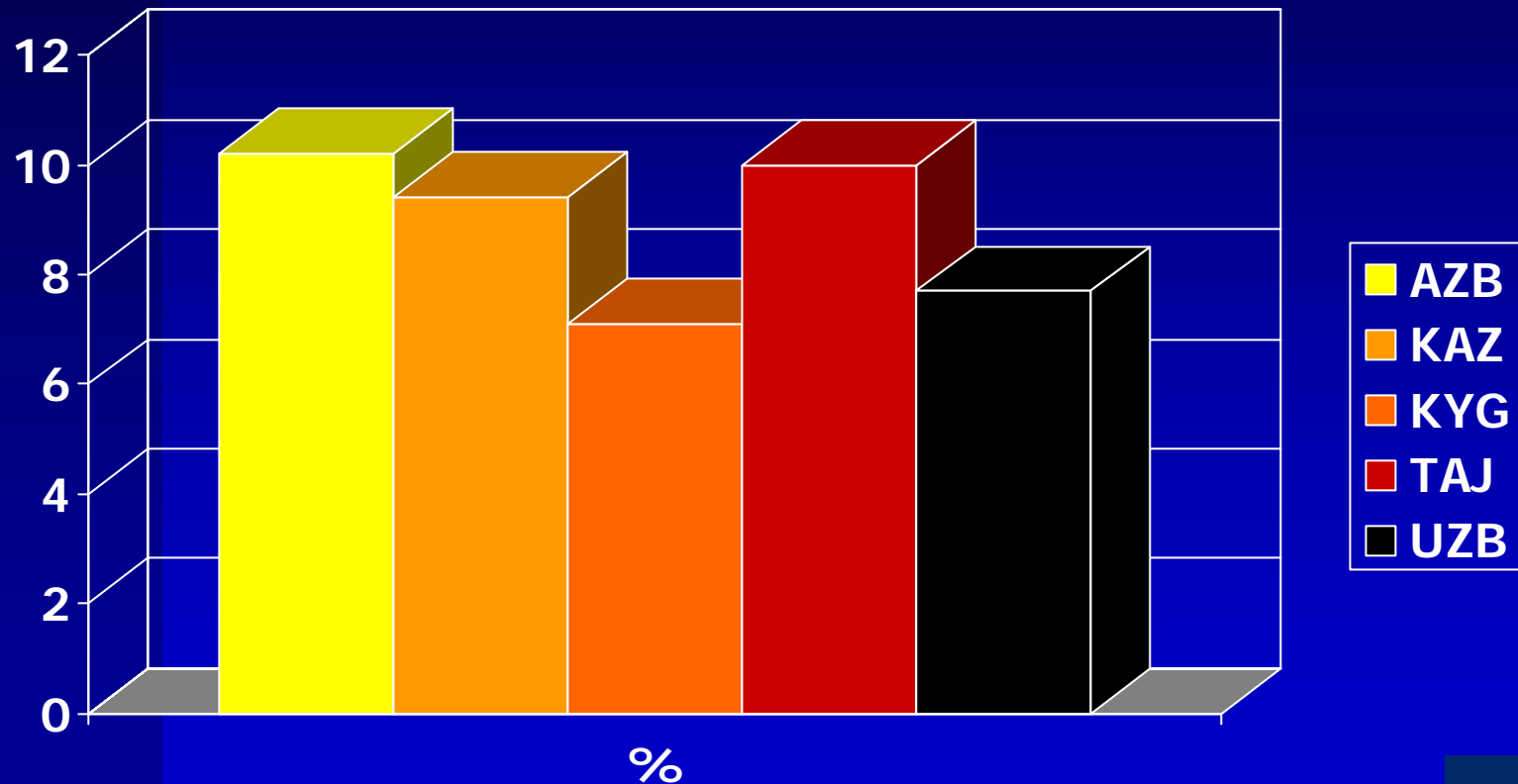
Central Asia

- Economic recovery
- Infrastructure and development
- State and private sector participation (PSP)
- Role of multilateral development banks (MDBs)
- Future economic prospects

Recovery in Central Asia

- Central Asia's significant natural resource base and strategic location underline its development potential.
- The region has turned the corner in recent years
 - Economic growth accelerated to 9.2%
 - Poverty incidence has fallen to 40.6% (though still high)
- Driven by high commodity prices, FDI, macro management and infrastructure

GDP Growth in 2004



Infrastructure and Development

- Efficient, cost-competitive infrastructure (energy, transport, water supply and ICT) is vital for the region's prosperity
- Central Asia faces a massive infrastructure funding challenge for national and regional projects.
- ADB estimates that around \$2-3billion per year in 2005-2010 is needed to fund new infrastructure in the region

Private Sector Participation (PSP)

- Most infrastructure in Central Asia is state funded and provided. This is insufficient in relation to needs.
- Limited PSP to date but has potential in railways, water supply, aviation
- Increased PSP can bring new finance, technology and modern management

Example of Regional infrastructure project with PSP in Mekong

- Nam Theun 2 Hydroelectric Project, Laos (total project cost \$1.25 billion)
- Objective: Cheap domestic electricity & electricity exports to Thailand
- Developed by a consortium - 25% Laos government and 85% private sector
- Financed by a loan and equity. ADB public sector loan of \$20 million

Constraints to PSP in National and Regional Infrastructure

- Under-developed capital markets
- Crowding out of infant private sector by state entities
- Gaps in the enabling environment
 - Limited privatization
 - Excessive bureaucratic procedures
 - Insufficient enforcement of property rights
- Corruption

MDBs in Infrastructure

National and Regional Roles

- Indirect Role
 - Creating enabling environment (corporate governance, legal system, economic reform etc) at country level
 - Promoting regional cooperation
- Direct Role
 - Supporting private sector participation as a catalyst with loans and equity

Central Asia: Future Prospects

- Central Asia's medium-term economic prospects are likely to be good providing infrastructure investments, more PSP, sound policies and regional cooperation are undertaken.
- ADB projections for 2015 suggest:
 - the region's GDP per capita could double to about \$2000;
 - poverty could half to about 23.3%