

IX

New Initiatives

Rapid economic growth in the last few decades has transformed the economic landscape of the Asia and Pacific region. The change has been associated with rising capacity and increasing access to the international capital markets and is reflected in changing demands from the clients in DMCs. In response, ADB has developed several new instruments and modalities of assistance to its clients. The changes aim to widen the range of ADB's products, reduce transaction costs, and support mobilization of investment in the region. The new products introduced since 2005 include the Multitranche Financing Facility (MFF), subsovereign and nonsovereign public sector financing, local currency financing for the public sector, a refinancing facility, and a guarantees and syndications program (Appendix 12).

A. Current Initiatives

To meet the region's emerging and priority needs ADB is implementing several new sectoral initiatives that directly relate to its infrastructure operations, including the Energy Efficiency Initiative (EEI), Carbon Market Initiative (CMI), and Water Financing Program 2006–2010 (WFP).

1. The Energy Efficiency Initiative

The EEI is developing country-level and regional strategies and action plans to build a healthy investment pipeline of renewable energy and energy efficiency projects. The EEI aims to increase ADB's lending program for renewable energy and energy efficiency to \$1 billion a year. Although immediate energy efficiency investment opportunities are being

pursued, the strategies and action plans of EEI are planned to be implemented during 2008–2010. The EEI is also developing the Clean Energy Financing Partnership Facility (CEFPF), which is likely to include the following three main facilities:

Credit enhancement facility for mitigating risk. The facility is intended to support implementation of numerous small and widely distributed energy efficiency projects by providing a partial credit guarantee to catalyze lending by local financial institutions and promoting local currency financing in DMCs. The facility will be used in conjunction with other types of ADB project support.

Technology deployment facility. The facility will target a small number of high-impact large interventions that will help establish innovative energy efficiency technologies with significant demonstration effects. The CEFPF will provide grants and concessional loans to lower capital cost and make such projects financially viable. The grants and concessional loans would finance the new and more energy efficient technologies and processes. The facility could finance energy efficiency projects, production of energy efficient equipment, and start-up energy service companies.

Technical assistance facility for building capacity. The CEFPF will also provide grant assistance for nonlending measures, such as development of knowledge bases and incentive mechanisms, advocacy, institutional capacity building, project preparation, and establishment of monitoring and evaluation mechanisms.

2. The Carbon Market Initiative

A fundamental barrier developing countries face in adopting cleaner technologies is a shortage of adequate

finance and capacity. While many countries and institutions have launched funds to purchase carbon credits on payment-on-delivery terms from projects, very few vehicles make funds available up-front to cofinance GHG reduction projects to move forward. The CMI will help remove these barriers. Through the CMI, ADB has launched three interrelated programs to fill market gaps to help project developers in DMCs use the carbon market. First, ADB has approved the establishment of a dedicated project cofinancing facility, called the Asia-Pacific Carbon Fund. The fund will cofinance Clean Development Mechanism (CDM) projects by making up-front payments. In return, the projects will supply certificates of emissions reductions that ADB will use for collecting its investment. Second, the CMI provides technical support to CDM developers and projects through the Technical Support Facility, which provides capacity building, due diligence, documentation, and CDM project implementation support. Third, the CMI also makes available provision of marketing support services to CDM project developers to promote the sale of carbon credits from their CDM projects, through the Credit Marketing Facility.

3. The Water Financing Program 2006–2010

The WFP aims to deliver a substantial investment, reform, and capacity development program in three key areas: rural water, urban water, and basin water. In particular, it aims to

- (1) deliver sustainable access to safe drinking water and sanitation for 200 million people to contribute significantly to meeting the water-related MDGs;
- (2) provide higher productivity and greater efficiency of irrigation and drainage services for 40 million people;
- (3) reduce the flood risk to 100 million people in rural and urban areas and reduce recurring damage to vital infrastructure;
- (4) introduce integrated water resources management to 25 river basins, including reduced wastewater pollution and improved river ecosystems; and
- (5) improve governance pertaining to water through national water sector reforms and capacity development.

The WFP will prioritize water investments during 2006–2010 and address related challenges. It will focus on, but not limit its activities to, the PRC, India, Indonesia, Pakistan, and Viet Nam, which together

account for about 80% of the current pipeline of water investments. ADB has announced it will increase its water investments to well over \$2 billion annually. To support the WFP, ADB is also developing the Water Financing Partnership Facility, which will succeed the donor-funded Cooperation Fund for the Water Sector established in December 2001. The facility will cofinance water projects and provide knowledge, capacity, innovation, civil society collaboration, and regional cooperation support to the WFP. The initial target for this multidonor fund facility is \$100 million.

B. Future Options

ADB is also considering other initiatives.

1. Urban Services Initiative

The proposed Urban Services Initiative (USI) intends to put in place better processes of support to DMCs, deploy lending products relevant to the new context, and more effectively target knowledge products in relation to ADB's urban operations. ADB has identified five key elements in a successful response to the urban challenges: (1) strategic and programmatic engagement in the sector, (2) new investment areas, (3) fostering of private sector partnerships, (4) pragmatic approaches to donor partnerships, and (5) deeper and more structured engagement with clients.

The long-term outcome of the proposed USI will be to increase ADB finance to and knowledge of the best practices in urban development. By 2015, such operations could lead to improved services for 200 million people, over half of whom are poor. The USI would complement ongoing initiatives such as the EEI and WFP, and aim to catalyze \$4 billion in investments by ADB in urban infrastructure in 10 countries by 2015, \$4 billion from the private sector, and \$2 billion from cofinanciers to support ADB investments. The proposed USI, through its TA support, will aim to deliver urban development road maps in 10 countries and city development road maps in 10 cities by 2015. The USI intends to launch two vehicles for mobilizing additional resources required in 2007—a fund for grant cofinancing of investment projects and a TA and networking entity for rapid response to clients' needs.

2. Sustainable Transport Initiative

The proposed Sustainable Transport Initiative (STI) is intended to establish an investment and development framework for efficient urban transport systems, so

as to contain air pollution in the region's burgeoning towns and cities, and promote economic growth.

The STI would concentrate on the efficient movement of people rather than vehicles. The top priority would be given to energy efficiency in transport and to efficient land use. Effective use of scarce road space in facilitating the movement of nonmotorized transport and public transport modes, which use space more efficiently than private cars, is important. Particular attention should be placed on projects that develop affordable, environment-friendly mass transit facilities and integrated public transport systems designed to move passengers and freight efficiently. This will require the development of efficient traffic management. The STI is intended to support policies that minimize travel demand and enhance the efficiency of the transport sector. Appropriate land use can directly reduce the demand to travel. Thus, the STI is intended to support an integrated approach to land use and

transport planning, to (1) minimize the energy consumed by transport, especially in urban areas; and (2) help develop energy-efficient mass public transport instead of adding infrastructure for private vehicles.

Project designs and sector reforms should incorporate air quality management. The STI is intended to support mainstreaming of alternative clean fuel technologies, which may require better links between energy and transport policies.

C. Changes

The initiatives target a substantial increase in lending including \$1 billion a year under the EEI and \$2 billion a year under the WFP. The new instruments and modalities under innovation and efficiency and sector-specific initiatives are bringing some major changes in ADB operations, which are reflected in ADB's 2007–2009 lending pipeline.