Economic Corridor Development for Connectivity—ADB Experience

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Outline

I. Overview of Regional Infrastructure Needs

II. ADB Support for Regional Connectivity
   I. Economic Corridor Development under Subregional Programs
   II. Crowding in private financing for regional connectivity

III. Way Forward
Overview: Regional Infrastructure Needs

• Huge infrastructure needs in Asia and Pacific
• Estimated $26 trillion or $1.7 trillion per year (2016-2030)
• At least $314 billion needed for regional infrastructure
  • $14.7 trillion (51%) for power,
  • $8.4 trillion (31%) for transport,
  • $2.3 trillion (13%) for telecom
  • $800 (5%) million for WSS
ADB Support for Regional Connectivity

- ADB supports the development of an integrated, poverty-free, prosperous, and peaceful Asia and the Pacific
  - RCI is a key goal under ADB’s charter and strategies
- ADB’s RCI Strategy (2006) directs ADB to play an active role as financier, capacity builder, knowledge provider and honest broker in Asia and the Pacific
  - Regional and Sub-regional economic cooperation (cross border infrastructure and software) is a key pillar of this strategy
- RCI Operational Plan (2016-2020) identifies connectivity and competitiveness among the three operational directions
  - Promoting cross-border economic corridors as access to larger cross-border markets
ADB Prioritizes Economic Corridor Development

• Help to generate shared economic benefits across all DMCs—facilitating and enhancing connectivity
  – Designed to generate wider economic benefits for income, jobs, greater inclusion, equality, and resilience (beyond physical connectivity that simply reduces vehicle operating costs and travel time)
  – Successful economic corridors attract and anchor private “champion” investors in industrial parks/zones within the corridor
ADB Support for RCI and Infrastructure Connectivity

Main Drivers in Strategy 2020:
- Private Sector Development
- Knowledge
- Partnerships
- Good Governance

Core Areas in Strategy 2020:
- Infrastructure
- Environment
- Regional Cooperation and Integration
- Education
- Financial Sector Development

Four Pillars in Regional Cooperation and Integration Strategy:
- Cross-border Infrastructure (Hardware and Software)
- Trade and Investment Cooperation and Integration
- Monetary and Financial Cooperation and Integration
- Cooperation in Regional Public Goods

By 2020, at least 30% of operations are in regional cooperation and integration
RCI Operational Plan (2016-2020)

Operational Direction 1
- Connectivity
  - Multimodal transport
  - ICT
  - Renewable energy
  - Policy and regulatory reforms
  - Regional financing for cross-border infrastructure

Operational Direction 2
- Competitiveness
  - Cross-border economic corridors
  - FDI corridors
  - Regional value chains (SMEs)
  - Regional capital market development
  - Cross-border transfer of skills and knowledge

Operational Direction 3
- Regional Public Goods and Collective Action
  - Cross-border energy and natural resource management
  - Regional cooperation mechanisms
  - Climate change, natural hazards
  - Regional health

Linking RCI Strategy Pillars 1, 2, 3 and 4

Linking RCI Strategy Pillars 1 and 3
Linking RCI Strategy Pillars 2 and 3
Linking RCI Strategy Pillars 1 and 3
### ADB’s Support for Infrastructure Connectivity under Regional/Subregional Programs (as of December 2017)

#### Greater Mekong Subregion (GMS)
- Since 1992, $20.4 billion invested, mostly in transport and energy infrastructure
- Expanded to 9 corridors from 3 main economic corridors
- GMS Regional Investment Framework: transport, agriculture, tourism, energy, urban development, and other multisector/border zone development account for over 98% of total cost of projects

#### Central Asia Regional Economic Cooperation (CAREC)
- About $11.3 billion invested in transport, energy and trade facilitation
- Six transport corridors and piloting Almaty-Bishkek Economic Corridor development
- CAREC 2030: five operational clusters to better align with national and international development agendas and to better connect people, policies and projects

#### South Asia Subregional Economic Cooperation (SASEC)
- Since 2001, more than $6 billion invested in 49 projects in energy, transport, trade facilitation and ICT
- Resulted in: over 3,600 kms of new/upgraded highways, over 1,100 kms of upgraded rail lines, over 3,500 sqm of new border facilities, over 3,200 km of power lines and over 48,000 new households electrified
- Continued focus on regional connectivity, cross-border trade, and energy cooperation
- SASEC 2025 roadmap focuses on transport, trade facilitation, energy, and economic corridor development

#### Pacific Islands Forum (PIF)
- Portfolio quadrupled in past decade to $2 bn
- At the 48th Pacific Islands Forum, Leaders committed to strengthen collective action under *The Blue Pacific* identity
  - Regional priorities: climate change and resilience and fisheries
- From 2017, ADB will increase minimum annual allocations for our smallest members to $6m
ADB Support for Economic Corridor Development under Subregional Programs

Greater Mekong Subregion

CAREC
Central Asia Regional Economic Cooperation Program

SASEC
South Asia Subregional Economic Cooperation
Greater Mekong Subregion (GMS) Economic Corridors
GMS Corridor Towns Development Projects

The multi-phase investment project in Cambodia, Lao PDR, Myanmar, and Viet Nam, aims to strengthen competitiveness of the GMS East and West Economic Corridor (EWEC), through investing in urban infrastructure and local economic development in corridor towns of the four countries which will contribute to broader regional economy through increased traffic, trade and tourism along the EWEC.

- Phase 1 (2012-2019): US$234 m
- Phase 2 (2016-2021): US$212 m
- Phase 3 (2018 approval): US$87 m
- Phase 4 (2018 approval): US$133 m
- Phase 5 (proposed): $(tbc)
Central Asia Regional Economic Cooperation (CAREC) Corridors

This map was produced by the cartography unit of the Asian Development Bank. The boundaries, colors, denominations, and any other information shown on this map do not imply any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries, colors, denominations, or information.
CAREC: Almaty-Bishkek Economic Corridor (ABEC) Development

- Spans from the lake of Balkhash to the lake of Issyk-Kul and between the Kazakh border with PRC and Taraz and includes two main economic centers, Almaty and Bishkek
- The historic silk road, CAREC corridors and the belt and road initiative corridors are crossing the ABEC area
- ADB is supporting ABEC with a new technical assistance to help the two governments implement the commitments of the subcommittee meeting protocols
South Asia Subregional Economic Cooperation (SASEC) Corridors
SASEC: East Coast Economic Corridor Development in India

Kanyakumari

India’s first coastal corridor, stretching 2,500 km

Kolkata

Phase 1: VCIC
- Conceptual Development Plan
- Regional Prospective Plan
- Master Plan almost completed

Phase 2: CKIC
- Comprehensive Development Plan
- Master Plan being prepared

Phase 3: Odisha Economic Corridor
- Comprehensive Development Plan

ADB expects to invest up to $5 billion in ECEC over a 5-year period
Financing Regional Infrastructure in Asia Pacific (2016-2030)

$26 trillion or $1.7 trillion per year
Total national infrastructure demand for 2016-2030

at least $314 billion
Regional infrastructure demand up to 2030

Sources: Meeting Asia’s Infrastructure Needs (ADB, 2017); Strategy documents of CAREC (transport and trade facilitation 2014-2020; rail 2016-2030; energy 2013-2022); GMS (Regional Investment Framework 2013-2022); SASEC (Operational Plan 2016-2025); and the Pacific (staff estimates 2016-2030).
## Connectivity Financing Demands under Regional/Subregional Programs

### (in $ billion)

<table>
<thead>
<tr>
<th></th>
<th>CAREC</th>
<th>GMS</th>
<th>SASEC</th>
<th>Pacific</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transport</strong></td>
<td>65.3</td>
<td>56.1</td>
<td>84.3</td>
<td>2.1</td>
<td>207.8</td>
</tr>
<tr>
<td><strong>Trade facilitation</strong></td>
<td>1.3</td>
<td>0.1</td>
<td>0.5</td>
<td>-</td>
<td>1.9</td>
</tr>
<tr>
<td><strong>Energy</strong></td>
<td>45.8</td>
<td>1.3</td>
<td>47.5</td>
<td>-</td>
<td>94.6</td>
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<tr>
<td><strong>ICT</strong></td>
<td>-</td>
<td>0.005</td>
<td>-</td>
<td>0.4</td>
<td>0.405</td>
</tr>
<tr>
<td><strong>Other sectors</strong></td>
<td>-</td>
<td>8.1a</td>
<td>-</td>
<td>1.5b</td>
<td>9.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>112.4</td>
<td>65.6</td>
<td>132.3</td>
<td>4.0</td>
<td>314.3</td>
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</tbody>
</table>

### Notes:
- Some figures may not add up to total due to rounding.
- a GMS other infrastructure sectors include agriculture, urban, tourism, environment, and multisector/cross-border economic zones.
- b Pacific other infrastructure sectors include investments for climate change adaptation of regional infrastructure.

### Time frame and sources:
Financing Regional Infrastructure

• Public investment
  – Potential to increase public spending but insufficient to address gap due to limited fiscal space
  – Important public role in financing infra, including infrastructure with limited revenue potential

• Estimated gap of about $250 billion a year from 2016-2020 needs to be financed by the private sector
Attracting private financing of regional infrastructure

- Good potential in telecommunications and power generation
- More limited opportunities in transport and water supply and sanitation where cost recovery is more limited.
- Private participation in regional infra constrained by:
  - huge sunk costs and long pay back periods; uneven distribution of benefits; various political, regulatory, and administrative regimes across countries; and insufficient capacity to originate, implement or manage infra projects among others.
- Important role of MDBs in addressing these constraints
  - Multistakeholder approach for infra development essential
  - Close coordination across all gov’t levels, capacity for high quality planning and project design (including design of a pipeline of bankable projects)
ADB Initiatives to Crowd in Private Financing for Regional Infrastructure

• Helping governments to prioritize projects for financing through subregional platforms;
• Providing blended finance for private sector operations to help ensure commercial viability, where appropriate
• Mobilizing private sector capital through fund management, credit enhancement products, and risk transfer agreements and others
  – Southern Gas Corridor Project-Shah Deniz Gas Field Expansion in Azerbaijan
ADB Initiatives to Crowd in Private Financing for Regional Infrastructure

- Mobilizing regional savings through the ASEAN Infrastructure Fund (AIF) to support ASEAN infrastructure development
  - As of October 2017, AIF financed 9 projects amounting to $520 million, with ADB cofinancing of $2,489 million and $1,245 million in external loans and grants mobilized
- Promoting infrastructure bond financing in ADB projects
  - Accelerated Infrastructure Program in India
- Providing transaction advisory services and grant financing through Asia Pacific Project Preparation Facility (AP3F) to help prepare bankable projects
The Way Forward in Financing Regional Connectivity

• Using a multi-sector approach to maximize the economic benefits of physical infrastructure
  – Active private sector participation to identify investment opportunities and contribute to project financing (viable PPPs)
  – Close coordination and collaboration among partners and complementary support, including cofinancing

• Requires greater focus on the “software” side of economic corridors (e.g., transport and trade facilitation)

• Underpinned by upstream knowledge work on
  – Promoting cross-border FDI, and cross border opportunities for SMEs for the private sector to effectively use and benefit from connectivity (e.g., business surveys of India and selected countries in GMS)
  – Intersubregional economic corridor development (e.g., RCI study between Timor-Leste and Indonesia)
### Key persons at ADB

<table>
<thead>
<tr>
<th>RCI Thematic Group (RCI TG)</th>
<th>Arjun Goswami, Chief of RCI TG</th>
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<tbody>
<tr>
<td><strong>Regional Departments</strong></td>
<td></td>
</tr>
<tr>
<td>• Central and West Asia</td>
<td>Safdar Parvez, Director</td>
</tr>
<tr>
<td>• East Asia</td>
<td>Ying Qian, Director</td>
</tr>
<tr>
<td>• Pacific</td>
<td>Robert Jauncey, Regional Director</td>
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<tr>
<td>• South Asia</td>
<td>Ronald Butiong, Director</td>
</tr>
<tr>
<td>• South East Asia</td>
<td>Alfredo Perdiguer, Director</td>
</tr>
<tr>
<td><strong>Private Sector Operations Department (PSOD)</strong></td>
<td>Kurumi Fukuya, Lead Operations Coordination Specialist</td>
</tr>
<tr>
<td><strong>Strategy, Policy, and Review Department (SPD)</strong></td>
<td>Lesley Lahm, Advisor, SPD and Head, Interagency Relations and Nonsovereign Operations</td>
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Thank you.