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STRENGTHENING INSTITUTIONAL COORDINATION AND REGIONAL COOPERATION

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To plan and implement joint strategies for regional connectivity, countries need robust institutional frameworks. To strengthen institutional coordination and regional cooperation, intergovernmental organizations and programmes can serve as neutral platforms not only for policy coordination to establish regional norms but also for implementing global statistical standards for joint planning and monitoring, and for exploring new modalities for financing.

There is no single formula for regional integration, with different forces driving the process in different regions. In the case of the European Union, for example, the rationale for integration was that economic interdependence would foster regional peace while at the same time increase the region's productivity and competitiveness. Based on this premise, member States of the European Union worked towards a single common market by harmonizing policies and market rules. These would be enforced by pan-European institutions, backed up by substantial financial resources.

Regional integration in Asia and the Pacific has followed a less uniform trajectory. Integration has progressed at different rates from one subregion to another, and in different ways, depending on the sector. Bilateral and plurilateral agreements have liberalized trade, reduced tariffs and opened markets in almost all countries. However, apart from investing in maritime ports, Governments have concentrated on national rather than regional infrastructure. Indeed, overall integration has been driven less by Governments than by the private sector, led by multinational corporations which, in collaboration with local enterprises, established global and regional production networks.[1]

Nowadays, however, national Governments are seeking a more active role, looking beyond national borders and developing transnational strategies for strengthening regional connectivity. They can, for example, shape regional spatial development through their infrastructure investments and policies. They can also link domestic businesses and supranational regulatory bodies by establishing common standards and rules for business. National Governments also control the framework for cross-border flows of capital and labour.

With this in mind, Governments must take the lead in establishing robust institutional frameworks and reaching out to other countries to develop and implement joint strategies. In this regard, many subregional organizations are developing their own programmes or "road maps" for strengthening connectivity. The present chapter contains a discussion of some of these strategies, and a description of how ESCAP can push forward a regional connectivity agenda which complements and supports those efforts.

STRENGTHENING INSTITUTIONAL RESPONSES TO REGIONAL CONNECTIVITY

The ESCAP region is home to many intergovernmental organizations, operating at different levels and around different interests or themes. In the past, many subregional initiatives were launched in response to issues of common concern, or with specific sectoral objectives, particularly on trade and economic cooperation. Over the past decade, however, there has been a convergence of these different initiatives towards a more comprehensive subregional integration agenda. This appears to be the result of a deepening level of political commitment of the respective member States. For example, the Treaty on the Establishment of the Eurasian Economic Community was signed in Astana in October 2000 and came into effect in June 2001, with Belarus, Kazakhstan, Kyrgyzstan, the Russian Federation and Tajikistan, as the founding members.[2] The Customs Union of Belarus, Kazakhstan and the Russian Federation came into effect in July 2010, while the Common Economic Space involving the three countries began operating on 1 January 2012. Spurred by the removal of trade barriers and the implementation of various other integration policies, trade between Belarus, Kazakhstan and the Russian Federation grew from $12.9 billion in 2009 to more than $24 billion in 2013.[3]

Subregional organizations are currently working to enhance their connectivity

Also in 2012, the Eurasian Economic Commission was established to support the functions and development of the Customs Union and the Common Economic Space. In May 2014, Belarus, Kazakhstan and the

Russian Federation signed the Eurasian Economic Integration Agreement, for the purpose of launching the "Eurasian Economic Union" in 2015. That union is expected to further integrate the three countries, for example by giving citizens of all members equal access to education and employment across borders.[4] The new common market is expected to have further growth-promoting and trade-creating effects, both within the union and with outside partners.

Meanwhile, organizations such as the Association of Southeast Asian Nations (ASEAN) and, more recently, Asia-Pacific Economic Cooperation (APEC), have focused on connectivity as part of their regional integration agendas. Both organizations are addressing physical connectivity – the availability and interconnection of hard infrastructure necessary for the movement of goods, people and information. They are also addressing institutional connectivity – the policies and regulations that enable the efficient movement of goods and services across borders. In addition, they are improving people-to-people connectivity – policies and regulations facilitating the movement of people and increased understanding between them (table 6.1).[5] Indeed, the Master Plan on ASEAN Connectivity is one of the first comprehensive intergovernmental strategy documents to address the issue of connectivity.

Moreover, other subregional organizations are also improving connectivity between their members, even if they do not have such explicit connectivity agendas. The South Asian Association for Regional Cooperation (SAARC), for example, has launched several relevant initiatives. These include: the Agreement on the Establishment of the South Asian Regional Standards Organisation, which came into effect in 2011; the SAARC Visa Exemption Scheme; and the SAARC Energy Ring.[6] The connectivity activities of SAARC are also promoted among non-State actors: the SAARC Chambers of Commerce and Industry, for example, provides practical inputs for facilitating regional trade, while the South Asia Migration Commission involves academics, policy institutes, government officials and a wide range of civil society and non-governmental organizations.[7]

Table 6.1. Key elements of the ASEAN and APEC connectivity frameworks

"Categories" of connectivity	ASEAN Master Plan on Connectivity	APEC Policy Document on Connectivity
Physical connectivity	Transport	Transport (ports, airports, roads, and railways)
	Information and communications technology (ICT)	
	Energy	
Institutional connectivity	Trade liberalisation and facilitation	Free Trade Areas/Regional Trade Areas Behind the border barriers Trade facilitation and non-tariff barriers Also includes customs modernization, the single window initiative, structural reforms, transport and logistics facilitation
	Investment and services liberalisation and facilitation	
	Mutual recognition agreements/arrangements	
	Regional transport agreements	
	Cross-border procedures	
	Capacity building programmes	
People-to-people connectivity	Education and culture	International business travel Cooperation between regional scholars Educational linkages Tourism promotion Increased mobility of professionals
	Tourism	

Source: ASEAN (2010). *Master Plan on ASEAN Connectivity: One Vision, One Identity, One Community*; APEC (2013). *Improving Connectivity in the Asia Pacific Region: Perspectives of the APEC Policy Support Unit.*

Many other institutional groupings contribute to the integration and connectivity of their member Governments. These include the Economic Cooperation Organization (ECO), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), Greater Tumen Initiative, the Pacific Islands Forum, Secretariat of the Pacific Community (SPC) and the Shanghai Cooperation Organization. ECO, for example, has the ECO Transit Transport Framework Agreement and the ECO Transit Trade Agreement, while SPC has the Framework for Action on Transport Services.

In recent years, connectivity programmes have been supported by the multilateral development banks. The Asian Development Bank (ADB), for example, has supported the programmes of Central Asia Regional Economic Cooperation, the Greater Mekong Subregion and South Asia Subregional Economic Cooperation. These programmes have taken corridor approaches to trade and transport connectivity – combining investment in "hard" infrastructure with agreements on "soft" measures, such as trade and transport facilitation.[8] The World Bank, European Bank for Reconstruction and Development, Eurasian Development Bank, Islamic Development Bank and other international financial institutions also fund projects related to connectivity, though usually for national infrastructure and industrial development.

As organizations move towards more integrated approaches to connectivity, one of the key institutional challenges is to ensure that different sectoral ministries work together, within Governments as well as across borders. To achieve this, clearly defined strategies or "road maps", with agreed milestones, are essential. For example, the ASEAN Economic Community Scorecard is a useful monitoring tool to track progress towards the ASEAN Economic Community in 2015 (figure 6.1). Based on country reports, this "tracking" tool is also supported by bilateral donors, highlighting the fact that institutional coordination may require external support, especially for low income countries. The reliability of such tools also depends on the availability of comparable data – as considered later in this chapter.

Coordination at the regional level

Experience gained from implementation of preferential trade agreements and transport facilitation frameworks suggests that, as subregional initiatives multiply, they require greater policy harmonization. To avoid overlapping or conflicting rules which create new obstacles to connectivity, member

Figure 6.1. Example from the ASEAN Economic Scorecard, Competitive Economic Region (Pillar II)

Key areas	Phase I (2008-2009)		Phase II (2010-2011)		Total measures	
	Fully implemented	Not fully implemented	Fully implemented	Not fully implemented	Fully implemented	Not fully implemented
Competition policy	2	0	2	0	4	0
Consumer protection	2	0	5	4	7	4
Intellectual property rights	-	-	4	1	4	1
Transport	15	10	6	8	21	18
Energy	0	0	2	1	2	1
Mineral	1	0	7	0	8	0
ICT	2	0	4	0	6	0
Taxation	-	-	0	1	0	1
E-commerce	-	-	1	0	1	0
Total number of measures	22	10	31	15	53	25
Implementation rate	68.7%		67.4%		67.9%	

Source: ASEAN (2012). "ASEAN Economic Scorecard 2012".

Note: Implementation rate is calculated as the ratio of measures that are fully implemented to total number of measures targeted. A hyphen (-) indicates no measures targeted for this phase.

States and organizations will need to coordinate their activities. For this purpose, they can turn to regional institutions such as ESCAP which can support and coordinate subregional integration, thus facilitating communications between subregional actors and analysing the impact of those initiatives from a regional perspective. Regional institutions can also link subregional and national connectivity policies with global initiatives and standards. Some examples are described below.

Formal frameworks relating to regional connectivity

In some cases, regional coordination can best be achieved through a formal framework. In the ESCAP region, the prominent examples relating to regional connectivity are the intergovernmental agreements on the Asian Highway and Trans-Asian Railway networks, and on dry ports. Developed under the auspices of ESCAP, these intergovernmental agreements have delineated routes and established basic infrastructure standards. Moreover, some sub-regional organizations, such as ASEAN, BIMSTEC and ECO, have used the Asian Highway as the basis for formulating their own road networks. Another formal framework currently under negotiation among ESCAP members in support of greater regional connectivity is a regional arrangement on the facilitation of cross-border paperless trade (see box 5.3 in the previous chapter).

Infrastructure projects benefit from intergovernmental agreements because they can have significant repercussions on neighbouring countries, which should be analysed and discussed before construction is begun. They also have long gestation periods so need continuing commitment. The annual working groups under the above-mentioned agreements provide regular forums in which relevant national authorities, along with subregional and other international organizations, can exchange information and negotiate amendments.

Other major formal frameworks with implications for regional connectivity are agreed at the global level. International agreements and conventions cover a wide range of subjects, such as the movement of goods, people and vehicles, and flows of capital. For trade liberalization, the principal forum is the World Trade Organization. Other relevant agreements are overseen by specialized agencies of the United Nations, such as the International Labour Organization, the International Maritime Organization and the International Civil Aviation Organization, and the various secretariats for multilateral environmental agreements, which also oversee specific agreements. These international agreements and conventions can also be promoted by regional and subregional organizations as part of their norm-setting functions.

Global agreements and conventions can favorably be supplemented on the regional level

International agreements may also be formulated or implemented by private sector associations and non-governmental organizations. For example, the International Road Transport Union is involved in the administration of the TIR (*Transports Internationaux Routiers*) Carnet, as mandated by the Customs Convention on the International Transport of Goods under Cover of TIR Carnets (1975).

For certain issues, however, it is easier to build consensus at the regional level. Global agreements and conventions can therefore be supplemented by regional-level agreements. One example is the Asia-Pacific Trade Agreement, which was previously known as the Bangkok Agreement. Serviced by the ESCAP secretariat, this is the oldest preferential trade agreement in the Asia-Pacific region; its scope has been expanded from lowering tariffs to addressing barriers to services, trade and investment among its members.

Further work is needed to promote relevant international agreements and conventions at the regional level, as well as to identify ways to effectively support national Governments in acceding to and implementing these agreements.

Voluntary commitments to regional strategies

Most commitments launched under the auspices

of ESCAP are voluntary. The scope of these frameworks and the benefits that can be accrued from them are best achieved through consensus. This "locks in" the commitment of all participating States and discourages the emergence of discontented minorities. As one study noted, however, such an approach also involves "a steep trade-off between commitment and decisiveness."[9] This is because such commitments take longer to negotiate than the decisions taken, for example, by institutions or agencies that have more specific or narrower mandates. To accommodate divergent views among member States, these processes may also result in very general or broad types of commitment.

Cross sectoral strategies for increasing connectivity have great potential ahead

In this regard, the most effective approach is to concentrate on specific objectives or sectors, for which it is possible to lay down some basic principles for achieving progress in particular areas. For example, the Regional Strategic Framework for the Facilitation of International Road Transport contains targets for harmonizing road transport facilitation practices and rules.[10] Nevertheless, these strategies can also be linked to a broader connectivity agenda.

Strengthening cross-sectoral and multifaceted approaches to connectivity

The increasingly complex nature of regional connectivity will require strategies that are cross-sectoral. National Governments and international organizations will therefore need to reach out to other stakeholders, including the private sector, academia and civil society organizations, the networks of which form an integral part of the region's connectivity.

One of the most important infrastructure developments will be expanding overland broadband cable. This can be done by laying fibre-optic cables along existing regional transport networks so as to generate an "Asia-Pacific information superhighway". Further, as energy management systems become increasingly reliant on computers and information and communications technology (ICT), this may, in turn, form the basis of an "Asian energy highway".

Given the complexity of each sector, the benefits and risks of cross-sectoral approaches require further research. Intergovernmental bodies, such as the annual sessions of the Commission and its legislative committees, offer a forum for different line ministries, as well as for experts from other intergovernmental organizations, civil society, the private sector and other stakeholders. In this way, they can work step-by-step towards developing regional cross-sectoral strategies.

In this regard, many of the strategies described in this study are expected to be refined and developed under the framework of the Bangkok Declaration on Regional Economic Cooperation and Integration in Asia and the Pacific. Through this declaration, ESCAP member and associate member States resolved to cooperate in a number of important areas: the formation of an integrated market; the development of seamless regional connectivity in transport, energy and information and communications technology; financing regional development; and taking initiatives to address shared vulnerabilities and risks.

Meanwhile, Governments can also promote cross-sectoral cooperation through national coordination mechanisms. For example, the main challenge in implementing trade and transport facilitation measures is not cost or complexity, but coordination between the various agencies and stakeholders involved. In this regard, national trade and transport coordination committees offer an effective model for agencies and other stakeholders to discuss optimum solutions to facilitate trade and transport (box 6.1).

Planning and implementing regional connectivity strategies also requires two additional ingredients: one is the availability of comparable, accurate and timely information and data; the other is finance. In the remainder of this chapter, these two issues will be examined in more detail.

Box 6.1. Strengthening national trade and transport coordination committees

Cooperation between the various agencies involved in trade and transport can be fostered through a number of mechanisms. The most stable is a permanent coordination institution with a clear long-term mandate and organizational structure. In accordance with its terms of reference, this can coordinate broad and specific facilitation initiatives and measures. Alternatively, for specific initiatives, temporary and case-based coordination mechanisms may be more appropriate. Such mechanisms may eventually be developed into a permanent body to deal with other similar issues on a recurring basis.

Some permanent institutions have been established under subregional trade and/or transport agreements. Examples are the National Transit Transport Coordinating Committees (NTTCC) that have been set up in Cambodia, Malaysia, Thailand and Viet Nam under the ASEAN Framework Agreement on the Facilitation of Goods in Transit. National trade and/or transport facilitation committees have also been established in other Asia-Pacific countries, but some have found it difficult to sustain activities due to funding constraints and lack of operational capacities.

As cross-border trade is likely to expand, the need for greater coordination and collaboration among various agencies will only get stronger. Governments and international organizations should therefore increase their support for these mechanisms. In particular, the establishment of national trade and transport facilitation monitoring mechanisms to support decision-making by national coordination committees may be promoted, as has been done by the Asian Development Bank and ESCAP in Bangladesh, Bhutan and Nepal.

Source: ESCAP (2011). *Guidelines on Establishing and Strengthening National Coordination Mechanisms for Trade and Transport Facilitation in the ESCAP Region*. Available from www.unescap.org/sites/default/files/0%20-%20Full%20Report_12.pdf. ESCAP (2014). *Towards a National Integrated and Sustainable Trade and Transport Facilitation Monitoring Mechanism: BPA+* (ST/ESCAP/2683). Available from www.unescap.org/sites/default/files/0%20-%20Full%20text_0.pdf.

STATISTICAL STANDARDS FOR STRENGTHENED ACCOUNTABILITY AND BETTER POLICYMAKING

Official statistics help Governments track progress and ensure that their decisions are based on evidence. As noted in the report of the High-level Panel of Eminent Persons on the Post-2015 Development Agenda, statistics are more than a tool for monitoring development results; they are also a means to strengthen accountability and are a central component of achieving the development agenda beyond 2015.[11] ESCAP member and associate member States reaffirmed this view in their input to the United Nations Statistical Commission session in March 2014.[12]

As noted by the High-level Panel, better data and statistics provide the basis for evidence-based policymaking. They facilitate bilateral, multilateral and international policy dialogue in arriving at a shared understanding of trends, issues and bottlenecks – enabling them to reach consensus on cross-border issues, such as trade, international migration, education standards, transport and tourism.

Fundamental for this shared understanding is the availability of data that are comparable across countries, over time and across different data sources. For this purpose, statistics need to be produced, disseminated and used according to mutually agreed statistical standards concerning definitions, classifications and methodologies.[13] Such standards can be either global, such as the System of National Accounts, or agreed at regional or subregional levels. They should also be in line with the Fundamental Principles of Official Statistics, which offer guidance on objectivity, independence and availability, and which also call for the use of international concepts, classifications and methods.[14]

Organizations and countries that adopt common statistical standards are in a better position to

analyse the issues. They can also jointly "track" the impact of their connectivity policies at national and subnational levels. Much can be learned from the experience of subregional organizations such as ASEAN, which has established clear frameworks for producing statistics relevant to broader organizational objectives, such as regional integration (box 6.2).

Adherence to common standards and principles for the production of statistics also strengthens the quality, credibility and cross-country comparability of data and fosters mutual trust. One example is the International Comparison Program (ICP),[15] which estimates purchasing power parities, making it possible to compare the output of economies in real terms. Another has been the efforts to improve statistics for monitoring the achievement of the Millennium Development Goals. This has enabled better cross-country comparisons for holding Governments accountable for achieving maximum results from available resources (box 6.3).

Reliable and comparable statistics can also be used by private businesses and individuals. Private sector companies rely on official statistics, as well as their own information sources, to assess market opportunities and make decisions regarding trade, investment, production and distribution. Individuals too can, for example, use labour market statistics to compare employment opportunities and living costs between countries, and thus weigh the potential benefits of migration.

Box 6.2. Statistical connectivity in ASEAN

The work of the Association of Southeast Asian Nations (ASEAN) in promoting statistics can be traced to October 1997 with the first ASEAN Heads of Statistical Offices Meeting (AHSOM) in an official discussion forum. The annual meetings of AHSOM provided direction and guidance to the ASEAN Secretariat's work in statistical standardization among its members. By 2001, AHSOM had adopted the ASEAN Framework of Cooperation in Statistics.

Initiatives that followed over the next decade from the AHSOM meetings included implementation of international standards and concepts in the fields of trade statistics, industrial statistics and foreign direct investment statistics. In 2010, the revised Framework for Cooperation in Statistics and the ASEAN Community Statistical System were created. This body, known as ACSS, replaced AHSOM and added a statistical decision-making body to the ASEAN structure with clear responsibility for improving statistical connectivity among member States.

ASEAN has received considerable support from its dialogue partners on the adoption of international standards and statistical harmonization. From 2009 to 2013, ASEAN cooperated with the European Union in the development of ACSS, as well as in the harmonization of foreign direct investment and trade statistics. Through its cooperation with the European Union and with the United Nations, ASEAN has substantially improved the harmonization of merchandise trade statistics and has improved the dissemination of comparable data. ASEAN also maintains its own country-to-country mutual assistance framework, known as ASEAN-help-ASEAN, which has facilitated partnerships between its members to address issues of capacity development and harmonization.

In placing statistics and data standards at the centre of its integration agenda, ASEAN has illustrated the direct role that it can have in advancing shared prosperity. Notably, "ASEANstats", the ASEAN Secretariat's regional statistical entity, is institutionally located within the office responsible for monitoring ASEAN integration.

Source: Based on information from ASEANstats. See also 2001 ASEAN Framework of Cooperation in Statistics (2001-2010), available from www.asean.org/archive/stat/AFCS.pdf; ASEAN Framework of Cooperation in Statistics (2010-2015), available from www.asean.org/images/2013/resources/statistics/statistical_publication/ASEAN%20Framework_2010-2015.pdf; and Joint Media Statements of the ASEAN Heads of Statistical Offices Meetings, available from www.asean.org/resources/category/asean-statistics-2.

Box 6.3. Measuring progress towards the Millennium Development Goals

The international statistical community rose to the challenges presented by the Millennium Development Goals by working to increase the availability of necessary data on the relevant indicators. Analysing progress towards the targets under the Millennium Development Goals requires at least two data points for each indicator. *Asia-Pacific Regional MDG Report 2012/13*, which uses 20 indicators to assess data availability, shows that there are only two indicators where every country in the Asia-Pacific region meets the minimum data requirement - the incidence and prevalence of tuberculosis (TB). There are 10 other indicators for which at least 80 per cent of the countries in the region meet the minimum data requirement. For poverty data, less than half meet the minimum requirement.

Number of countries, out of 55, meeting minimum data requirements, by indicator

	"No. of countries (out of a total of 55) meeting minimum data requirements, by indicator"			
	2010 dataset		2013 dataset	
	Number	%	Number	%
$1.25 per day poverty	25	46	25	45
Underweight children	28	51	30	55
Primary enrolment	32	58	38	69
Reaching last grade	26	47	38	69
Primary completion	40	73	44	80
Gender primary	45	82	47	85
Gender secondary	41	75	45	82
Gender tertiary	29	53	42	76
Under-5 mortality	47	86	48	87
Infant mortality	47	86	48	87
Maternal mortality	0	0	41	75
Skilled birth attendance	43	78	46	84
Antenatal care (≥ 1 visit)	28	51	36	65
HIV prevalence	30	55	28	51
TB incidence	55	100	55	100
TB prevalence	55	100	55	100
Forest cover	51	93	53	96
Protected area	52	95	52	95
Safe drinking water	48	87	52	95
Basic sanitation	48	87	52	95

Source: Asia-Pacific Regional MDG report 2012/13.

The preferred source of data for analysis of progress towards achieving Millennium Development Goal targets is national statistics. In countries where the national statistical system does not generate the relevant data, the responsible agency fills the gaps with data collected by international agencies. A report presented to the United Nations Statistical Commission in 2013 showed that, of the 55 indicator series analysed, 29 were based on data from countries, 6 required minimum adjustment and 15 were estimated by international agencies. For one of the indicator series, most data points were derived through a model.[a] This led to questions regarding methodological validity and the reliability of these estimates and has highlighted the need to strengthen the capacity of national statistical systems.[b] Thus, the availability of comparable data is at the centre of ongoing discussions on the sustainable development goals, which are expected to form the foundation for the international development agenda beyond 2015.

Source: ADB, ESCAP and UNDP (2013). Asia-Pacific Aspirations: Perspectives for a Post-2015 Development Agenda, Asia-Pacific Regional MDGs Report 2012/13. Available from www.unescap.org/sites/default/files/MDG-Report2012-2013%28lowres%29_0.pdf.

[a] United Nations Economic and Social Council (2013). Indicators for monitoring the Millennium Development Goals. Report of the Secretary-Genearl to the 44th session of the Statistical Commission, 26 February – 1 March 2013. E/CN.3/2013/21.

[b] PARIS 21, Strengthening national statistical systems to monitor global goals. Discussion paper presented at the Committee for the Coordination of Statistical Activities (SA/2013/10). August 2013.

Strengthening statistical capacity in the Asian and Pacific region

Currently, statistics are often unavailable because many Governments lack the capacity to gather and use them.[16] The ESCAP Committee on Statistics is therefore trying to achieve two goals by 2020: to ensure that all countries in the region can provide a basic range of population, economic, social and environment statistics; and second, to create a more adaptive and cost-effective information management environment for national statistical offices.[17]

Established forums can help produce the statistics needed to face future challenges

The production of statistics requires the capacity to collect the required information, such as through surveys and population censuses, as well as to make the best possible use of available information, such as administrative records. The "new data revolution" offers great potential, but serious efforts are needed to bridge the gap between the traditional statistics community and new data producers – to allow "non-official" data to complement and add value to officially recognized statistics.[18] Towards this end, the United Nations has launched the "Global Pulse initiative", which explores how policymakers can use digital data sources and real-time analysis to better understand human well-being and emerging vulnerabilities and protect people from shocks.[19]

To move the regional connectivity agenda forward, national Governments can work closely together through established forums such as the United Nations Statistical Commission and the ESCAP Committee on Statistics. This approach can help define the type of statistics needed by policymakers and develop relevant standards, including innovative data sources. National statistical systems of ESCAP member States can also support line ministries in monitoring regional strategies by coordinating data collection and verification.

REGIONAL SOLUTIONS FOR FINANCING REGIONAL INFRASTRUCTURE NETWORKS

Infrastructure development is progressing unevenly across the region and tends to be directed towards satisfying domestic needs. This is understandable since infrastructure development invariably involves high capital costs, with benefits accruing over the longer run. National infrastructure projects are therefore likely to progress faster than cross-border ones since they have lower risk profiles and shorter gestation times. Furthermore, for regional projects the costs and benefits can be unevenly distributed among the participants – or at least perceived to be so. They also require higher levels of regional and sectoral coordination and a commitment from all parties.

To overcome the obstacles to regional project financing, multilateral funding bodies, such as ADB and the World Bank have promoted "corridor approaches". ADB, for example, has supported corridor development under the Greater Mekong Subregion programme, Central Asia Regional Economic Cooperation programme and South Asia Subregional Economic Cooperation programme. The ADB rationale is that economic corridors not only afford significant benefits to the major economic centres along the corridors, but also offer secondary infrastructural linkages to provide access to markets from rural areas.[20] Nevertheless, countries must still borrow on the basis of sovereign loans, so countries may still have concerns over the distribution of costs and benefits.

Regional projects as "regional public goods"

ESCAP has suggested that regional infrastructure networks should be recognized as "regional public goods", the collective benefit of which for the region are greater than the cost of the individual projects. On this basis, there is a strong case for regional approaches to financing critical infrastructure networks, in particular transport, energy and ICT.

A "regional public goods" approach is particularly relevant for directing investment to the "weakest links" – improving their efficiency and coherence. This can help the landlocked and least developed countries, for example, to increase the quality of their national transport networks so that they are better connected to regional networks. For example, the recent developments in Myanmar have raised the prospect of better overland links through Myanmar, connecting South-East and South Asia. Such connectivity would not only enhance the mobility of goods and people between these subregions, but also open up new opportunities for access by India's northeastern States.

Emerging regional networks need to be designed for future shared prosperity

Fortunately, many countries in the region are in a strong economic position to build the necessary infrastructure and institutions. Some countries, such as China, India, Malaysia and Thailand, are already investing in physical infrastructure in neighbouring and other regional countries.[21] However, they could enhance the benefits of those initiatives if they considered them within a wider regional framework. This would also assist them in adhering to international standards for project management, construction methods and environmental and social safeguards.

As they are still in the development stage, countries in the Asia-Pacific region have the chance to develop regional networks in an integrated and coordinated manner. This would reduce the costs and spread the benefits to a wider group of countries. To do so, however, countries have to agree on how to apportion costs and risks. A complicating factor is that regional projects are likely to have asymmetric impact on participating countries – whether in terms of the financial burden, or pollution or other adverse impacts in transit countries – while the main benefits accrue to neighbours. In order to better distribute benefits among participating countries, it may be necessary to adopt additional measures, such as grants or concessional financing, to the countries affected, or allow them to charge toll fees.

Drawing on previous research, as well as the earlier discussion on a regional financial architecture in part I of this year's *Economic and Social Survey*, the following section offers innovative approaches for financing regional infrastructure.

Regional infrastructure funds

An alternative to national or bilateral financing is to create regional infrastructure funds. By serving as a kind of "intermediary" between project sponsors and investors, such funds could complement existing forms of investment by mobilizing funds beyond governmental resources – from institutional investors, such as pension funds, sovereign wealth funds or foreign exchange reserves.

Two examples of regional infrastructure funds are the ASEAN Infrastructure Fund and the SAARC Development Fund. The ASEAN Infrastructure Fund has already started disbursing funds for projects (box 6.4). The World Bank also plans to establish a Global Infrastructure Facility, with contributions from the World Bank itself, members, sovereign wealth funds and pension funds, in order to try to channel more funding towards infrastructure development in developing countries. In addition, early in 2014, APEC announced progress in the development of its new APEC Multi Year Plan on Infrastructure Development and Investment, which specifically targets the region's infrastructure through greater private sector investment.[22]

Another new actor is also on the steps, as negotiations on the newly proposed "BRICS" development bank are expected to be completed in 2014. The so-called "BRICS" bank was first announced by the five founding members, Brazil, the Russian Federation, India, China and South Africa, in 2012. The bank is likely to focus on infrastructure, with a capital base starting at $50 billion and eventually increasing to $100 billion.[23]

Box 6.4. ASEAN Infrastructure Fund: a possible "best practice" for future regional infrastructure financing

The idea behind the ASEAN Infrastructure Fund (AIF), which was set up by the Association of Southeast Asian Nations (ASEAN) in 2010, is to promote "infrastructures of development" within ASEAN developing country members. To finance AIF, the Asian Development Bank and ASEAN member States provided core equity amounting to $150 million and $335.2 million respectively. In addition, bonds will be issued to attract resources from institutional investors, such as central banks, which represent potentially a huge source of funding given the amount of foreign exchange reserves in the region. So far the Fund lends only to public entities, but the intention is to support public-private partnerships in the near future. As of the end of May 2014, the Fund had financed a power transmission project and a sanitation project in Indonesia worth $65 million; other projects are at advanced stages of preparation.

The Fund has a clause saying that at least 30 per cent of the financing should go to regional projects, including cross-border projects and national projects with significant regional impact. This arrangement can make financing available to regional infrastructure projects which otherwise would struggle to find financing on their own.

In May 2014, Myanmar announced its intention to contribute equity to the Fund, bringing all 10 member States into the Fund. In this regard, the Fund may serve as a useful example to others looking for multilateral approaches to financing infrastructure. Although the value of contributions varies, the fact that all members of ASEAN are providing funds to AIF signals a strong public commitment by Governments. Meanwhile, the Asian Development Bank continues to play an important role not only in terms of financing but also as the administrator of the Fund, which enables it to bring know-how, a pipeline of potential projects and the technical support needed to see projects to completion.

Source: ADB (2010). *General Capital Increase V*; ADB (2012). *ADB Financial Profile 2012*; ADB (2012). *Proposed Equity Contribution and Administration of ASEAN Infrastructure Fund*; ADB (2014) "Myanmar Set to Join ASEAN Infrastructure Fund in 2014".

In parallel with its involvement in the proposed BRICS bank, China has announced its intention to start a new "Asian Infrastructure Investment Bank" in 2014. Reports suggest that the bank will have an initial capital base of $50 billion, provided by China as well as other participating members.[24] Such an "Asian Infrastructure Investment Bank" could cooperate with the World Bank, Asian Development Bank and other financial institutions to help bridge the infrastructure financing gaps in the region.

Regional Project Preparatory Facility

To be successful, regional infrastructure funds rely on a viable pipeline of projects with supportive feasibility studies. Unfortunately, many developing countries lack "bankable" projects because they do not have the legal, project financing and technical expertise. The preparation of regional transport projects is costly and time-consuming, particularly given the lack of data on cross-border traffic flows.

Some analysts have therefore called for the creation of a regional infrastructure project preparatory facility to help Governments prepare bankable regional projects. Such a facility could also be an integral part of an Asian multi-donor platform.

Asian Multi-donor Platform

Another possible instrument would be an Asian multi-donor platform. This could collect grants from different donors and allocate them to national or multilateral development banks. The objective would be to use concessional resources to leverage more public and private funding for regional projects. Grant money could be used to lower the hurdle for financial feasibility or to reduce the risk associated

with a specific project. Grant money could also be used to finance technical assistance aimed at unblocking, accelerating or improving the quality of regional projects.

For the recipient countries, the platform could serve as a single entry point for submitting project proposals. This would facilitate access to finance while decreasing dependence on a single partner. For the contributing countries such a platform could result in faster project implementation, lower administrative costs and greater impact. By facilitating joint operations, the platform could also enhance collaboration among participating institutions, including at the project level, for example by harmonizing their procedures.[25]

Public-Private Partnerships

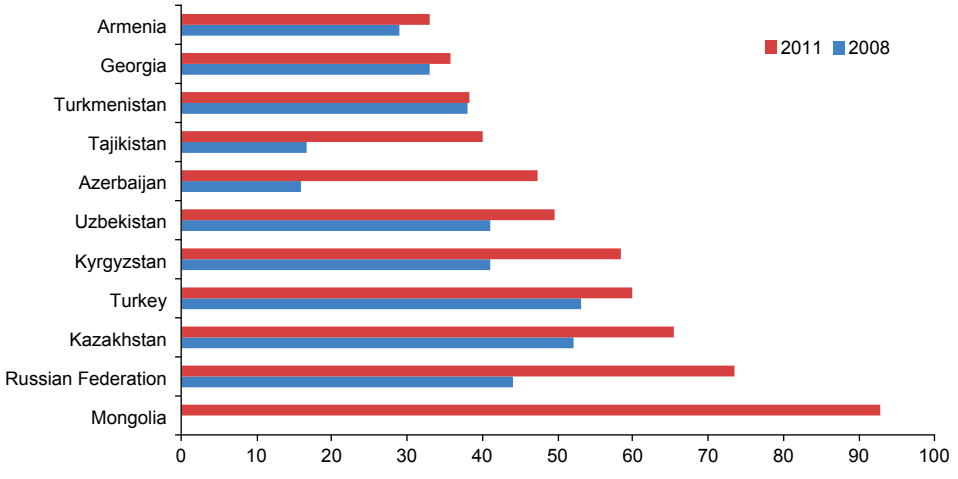
Given the considerable pressure on national budgets, developing countries in the ESCAP region have also been taking measures to promote public-private partnerships (PPPs).[26] This has been a particularly promising avenue in revenue-generating sectors, such as energy, ICT and transport, where user charges can be used to repay the investment. However, in the context of a regional project, the issue of how to charge user fees is complex and is one reason why such models have not been widely applied to cross-border projects.

Furthermore, attracting private sector interest requires Governments to take appropriate actions to create enabling environments for PPP development at the macro and sectoral levels, for example, by adopting regulations that will assure private investors that their legitimate rights will be adequately protected.[27]

Some countries may not yet be able to create an enabling environment, or may lack the capacity to design and manage PPPs. There are many different policy areas which need to be in place for Governments to enter into successful public-private partnerships, not least a sound legal framework. Figure 6.2 shows the change in "percentage of compliance" of legal frameworks for selected countries in the ESCAP region, conducted by the European Bank for Reconstruction and Development.[28] Though the pace is slow, the graph suggests that some countries made progress between 2008 and 2011.

These countries can learn from other countries in the region by participating in PPP knowledge networks, such as those promoted by ESCAP. As a regional platform, ESCAP is well suited for supporting these networking activities, and has already organized several meetings at both ministerial and expert levels to facilitate the exchange of experience.

Figure 6.2. Percentage of compliance of legal frameworks for selected ESCAP countries (2008, 2011)



Endnotes

[1] H. Kuroda, Infrastructure and regional cooperation. Paper presented at the Annual Bank Conference on Development Economics, Tokyo, 2006.

[2] Ukraine and Moldova have had observer status since May 2002 and Armenia, since January 2003. On 25 January 2006, a protocol was signed on Uzbekistan's accession to the organization, but in October 2008 it suspended its participation in the work of EURASEC bodies. See *EurAsEC Today 2013*, accessible from www.evrazes.com/i/data/item7618-1.pdf.

[3] Before the commencement of the Customs Union in 2009, it stood at $12.9 billion, according to the Ministry of Foreign Affairs, Republic of Kazakhstan (2014).

[4] *Washington Post* (2014). *Russia, Kazakhstan, Belarus form Eurasian Economic Union*. Published May 29, 2014. Available from http://www.washingtonpost/com/world/europe/russia-kazakhstan-belarus-form-eurasina-economic-union/2014/05/29/de4a2c15-cb01-4c25-9bd6-7d5ac93466fd_story.html.

[5] Asia-Pacific Economic Cooperation, *Improving Connectivity in the Asia Pacific Region: Perspectives of the APEC Policy Support Unit* (Singapore, APEC, 2013). Available from http://publications.apec.org/publication-detail.php?pub_id=1461.

[6] The Declaration of the 14th SAARC Summit, held in 2007, stated that "The Heads of State or Government recognised the importance of connectivity in fulfilling these objectives. It was vital to first have better connectivity within South Asia and then with the rest of the world. They agreed to improve intra-regional connectivity, particularly physical, economic and people-to-people connectivity. They agreed to the vision of a South Asian community, where there was smooth flow of goods, services, peoples, technologies, knowledge, capital, culture and ideas in the region". See www.saarc-sec.org/userfiles/Summit Declarations/14.

[7] Institute of Peace and Conflict Studies, Konrad Adenauer Foundation, and India International Centre, *SAARC towards Greater Connectivity*. Conference report, Colombo, 15-16 January 2008. Available from www.ipcs.org/pdf_file/issue/860963938ConferenceReport-SAARC.pdf.

[8] See for example Asian Development Bank, *Sharing Growth and Prosperity: Strategy and Action Plan for the Greater Mekong Subregion Southern Economic Corridor* (Mandaluyong City, Philippines, ADB, 2010). Available from www.adb.org/ sites/default/files/pub/2010/gms-action-plan-east-west.pdf.

[9] Asian Development Bank, *Institutions for Regional Integration – Toward an Asian Economic Community* (Mandaluyong City, Philippines, ADB, 2010). Available from http://aric.adb.org/ pdf/Institutions_for_Regionalization_Web.pdf.

[10] United Nations, *Economic and Social Commission for Asia and the Pacific, Regional strategic framework for the facilitation of international road transport*. (Bangkok, 2012). Available from www.unescap.org/resources/regional-strategic-framework-facilitation-international-road-transport

[11] United Nations, *A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development, The Report of the High-level Panel of Eminent Persons on the Post-2015 Development Agenda*. New York. Available from www.un.org/en/development/desa/policy/untaskteam_undf/HLP%20P2015%20Report.pdf.

[12] United Nations Economic and Social Council, *Report of the Economic and Social Commission for Asia and the Pacific on Statistics and the Post-2015 Development Agenda, Perspectives from the Asia-Pacific Region*. Statistical Commission, forty-fifth session, 4-7 March 2014 (E/CN.3/2014/15)

[13] In this study, the statistics referred to are "official statistics", which are statistics produced and published by entities of a national statistical system.

[14] United Nations Economic and Social Council, *Report on the Statistical Commission Special Session*, New York, 11-15 April 1994 (E/CN.3/1994/18); and United Nations Economic and Social Council (2013). *Official Records of the Economic and Social Council, 2013, Supplement No. 4* (E/2013/24-E/CN.3/2013/33).

[15] The success of ICP is based on: (a) detailed, agreed standards; (b) commitment of countries to adhere to those standards; (c) a comprehensive capacity development programme to enable countries to produce statistics in adherence to those standards; and (d) open access to the resulting statistics. See World Bank, International Comparison Program (ICP). Available from www.worldbank.org/data/icp.

[16] That the capacity is insufficient has been recognized by the Economic and Social Council in its resolution 2006/6 on strengthening statistical capacity and more recently by the UN System Task Team on the Post-2015 Development Agenda report, entitled "Statistics

and indicators for the post-2015 development agenda". See United Nations Economic and Social Council (2006). Resolution 2006/6 on strengthening statistical capacity. Available from http://unstats.un.org/unsd/statcom/ecosoc/2006-6-ResStrengtheningStatCapacity.pdf.

[17] For example, see United Nations, Economic and Social Commission for Asia and the Pacific (ESCAP), Make every life count: Regional strategic plan for the improvement of civil registration and vital statistics in Asia and the Pacific (E/ESCAP/CST(3)/6/Add.1). Available from www.unescap.org/sites/default/files/CST3 Regional strategic plan English.pdf; or ESCAP, Proposed regional programme for the improvement of economic statistics in Asia and the Pacific (E/ESCAP/CST(2)/5).

[18] For example, the High-level Panel called for a "new data revolution" to enable the recent improvements in information technology to contribute to inclusive and sustainable development.

[19] For example, the United Nations Global Pulse initiative is looking at ways to use data gathered from Twitter and Facebook to understand unemployment patterns, and how mobile phone data can be used to understand migration. See www.unglobalpulse.org.

[20] Asian Development Bank, *Sharing Growth and Prosperity: Strategy and Action Plan for the Greater Mekong Subregion Southern Economic Corridor* (Mandaluyong City, Philippines, ADB, 2010). Available from www.adb.org/ sites/default/files/pub/2010/gms-action-plan-east-west.pdf.

[21] For some examples of bilateral transport projects, see United Nations, *Economic and Social Commission for Asia and the Pacific, Review of Developments in Transport in Asia and the Pacific*. ST/ESCAP/2627.

[22] Asia-Pacific Economic Cooperation, "APEC targets increased infrastructure investment". APEC Senior Officials' Meeting, Ningbo, China, 28 February 2014. Available from www.apec.org/Press/News-Releases/2014/0228_investment.aspx.

[23] Reuters, *BRICS aim to finish development bank preparations by July summit*. 11 April 2014. Available from http://in.reuters.com/article/2014/04/10/g20-economy-brics-idINDEEA390GA20140410.

[24] "Asian Infrastructure Investment Bank will guide capital", 3 July 2014, http://news.xinhuanet.com/english/china/2014-07/03/c_126707343.htm.

[25] This approach has been recently followed by the European Union in its development cooperation policy where different instruments have been created to use grants from the European Union to leverage loans from several European national and multilateral public financial institutions. For further information, see European Commission, "Promoting investment through the Neighbourhood Investment Facility (NIF)". Available from. http://ec.europa.eu/ europeaid/where/neighbourhood/regional-cooperation/irc/investment_en.htm.

[26] In the context of infrastructure projects, a public-private partnership describes a long-term contractual arrangement between the Government and one or more private companies, whereby the private companies provide building or rehabilitation works in exchange for operating rights. At the end of the period, the asset is usually transferred back to the Government.

[27] More detailed information on the enabling environment is available in the ESCAP publication, entitled *Review of Developments in Transport in Asia and the Pacific, 2013: Transport as a Key to Sustainable Development and Regional Integration* (ST/ESCAP/2667) (see pages 66-77).

[28] European Bank for Reconstruction and Development. Concession/PPP laws assessment 2011, final report. Available from www.ebrd.com/downloads/legal/concessions/pppreport.pdf.