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ADF and Regional Cooperation

Asian Development Bank

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ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
aSEA	–	archipelagic Southeast Asia
ASEAN	–	Association of Southeast Asian Nations
BIMP-EAGA	–	Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area
BIMSTEC	–	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
CAREC	–	Central Asia Regional Economic Cooperation
EWEC	–	East–West Economic Corridor
GDP	–	gross domestic product
GMS	–	Greater Mekong Subregion
IMT-GT	–	Indonesia-Malaysia-Thailand Growth Triangle
Lao PDR	–	Lao People’s Democratic Republic
MDG	–	Millennium Development Goal
PRC	–	People’s Republic of China
RCI	–	regional cooperation and integration
RCIF	–	Regional Cooperation and Integration Fund
RCIFPF	–	Regional Cooperation and Integration Financing Partnership Facility
RETA	–	regional technical assistance
RPG	–	regional public good
SAARC	–	South Asian Association for Regional Cooperation
SARS	–	severe acute respiratory syndrome
SASEC	–	South Asia Subregional Economic Cooperation
UNCTAD	–	United Nations Conference on Trade and Development
WSSW	–	water supply, sanitation, and waste management

NOTE

- (i) In this report, “\$” refers to US dollars.
- (ii) For an explanation of rating descriptions used in ADB evaluation reports, see:
ADB. 2006. *Guidelines for Preparing Performance Evaluation Reports for
Public Sector Operations*. Manila.

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EXECUTIVE SUMMARY

This paper provides an overview of the broad spectrum of regional cooperation initiatives of the Asian Development Bank (ADB) and a brief assessment of the effectiveness of regional projects, including a discussion of the value of Asian Development Fund (ADF) financing in promoting and anchoring regional cooperation.

Much of ADB's support has focused on two areas of its regional cooperation and integration strategy—cross-border infrastructure and related software, and regional public goods (RPGs). ADB has lent \$2.2 billion for regional projects, including \$1.0 billion from the ADF, mainly regional transport and communications (85%) and energy (12%). ADB support for RPGs has been primarily through regional technical assistance and grants, and has facilitated provision of diverse RPGs, such as clean air, energy efficiency, communicable diseases, human trafficking, transnational corruption, natural disaster response, and environment and natural resource management.

All regional lending in the 1990s was to the Greater Mekong Subregion (GMS) program which, along with Central Asia Regional Economic Cooperation (CAREC) more recently, accounts for almost 90% of cumulative regional lending. ADB has played four key roles in the evolution of the GMS program. It has been (i) a key provider of finance that leveraged significant cofinancing, (ii) an honest broker that was needed and trusted by all countries on diverse issues, (iii) a technical adviser, and (iv) a provider of critical coordination services. The role of honest broker is significant, given that the subregion was the center of armed conflict not long before the program began. In its role as technical advisor, ADB has facilitated numerous intercountry agreements to give effect to the infrastructure investments. Two notable examples are the Cross-Border Transport Agreement and the Intergovernmental Agreement on Power Interconnection and Trade. As the provider of critical coordination services, the countries' progress in key sector and thematic areas has been significantly dependent on the high quality support provided by ADB to the several GMS working groups. Similar roles now being played by ADB in CAREC will be central to the expansion and sustainability of cooperation in that region.

The ADF has played a significant role in financing the early genre of cross-border infrastructure projects, accounting for about half of the total lending for such projects in the 1990s. This ratio has declined to 41% in the current decade as demand for regional projects has outpaced available funding. For transport projects in poorer countries, the ADF remains the most important source of external funding. For GMS and CAREC alone, the 2008–2010 pipeline of ADF regional projects is \$1.1 billion.

ADB-supported regional cooperation initiatives and projects have benefited countries by promoting regional connectivity and intraregional trade, which have contributed to high growth and reduced poverty. Greater participation of smaller, landlocked economies in regional growth has been facilitated. Regional infrastructure has helped reduce travel times, enhance tourism, enable capacity savings and efficiency gains in energy, and generate (foreign) revenues used for poverty reduction. RPGs have helped address regional concerns. Capacities and institutions have been strengthened for enhanced effectiveness of regional initiatives.

ADF resources have made an important contribution to regional cooperation, both directly and by mobilizing larger resources through cofinancing. Earmarking of ADF resources for financing regional projects has helped strengthened national incentives for regional cooperation. Such earmarked resources are needed to supplement normal ADF country assistance, which is scarce relative to rising demand. The financing demand for such regional projects has exceeded supply since its introduction. The likelihood of ADF-supported pipelines of regional projects stretching out because of lack of ADF resources is thus real, as is the risk of regional cooperation regressing in the Asia and Pacific region—unless the pool of such resources is sizably enlarged.

I. INTRODUCTION

1. The Asian Development Bank (ADB) has long supported regional cooperation. While such support is integral to ADB's charter, the need for regional cooperation as well as its scope and potential, has evolved in tandem with the growing integration of global markets and other economic interconnections among Asian nations over at least two decades. Regional cooperation, thus, increasingly embodies opportunities that can comprehensively expand the development frontiers of all countries, particularly the poorer ones. In other instances, regional cooperation has become a necessary instrument for tackling shared problems and concerns, in the social sectors, environment, and emerging threats from climate change. Given ADB's strengths in several development spheres, and its experience in facilitating regional cooperation initiatives since 1992, ADB is well positioned to strengthen nascent and established regional cooperation initiatives, while simultaneously catalyzing and promoting cooperative approaches to development and poverty reduction for the region.

2. This paper provides an overview of ADB's broad spectrum of regional cooperation initiatives, a short and necessarily selective assessment of the effectiveness of regional projects, the value of Asian Development Fund (ADF) financing in promoting and anchoring regional cooperation, and some concluding observations.

II. STRATEGY AND ENGAGEMENT

3. Till the end of 2006, ADB has provided a total of \$3.3 billion as cumulative assistance for regional cooperation initiatives under all modalities, including \$1.7 billion from the ADF (Table 1).¹ Although ADB has been progressively engaged in supporting regional cooperation initiatives since 1992, it refocused its engagement with the adoption of the regional cooperation and integration (RCI) strategy in July 2006.² The strategy identified four pillars of ADB support for regional cooperation: (i) regional and subregional economic cooperation programs on cross-border infrastructure and related soft elements, (ii) trade and investment cooperation and integration, (iii) monetary and financial cooperation and integration, and (iv) cooperation in regional public goods (RPGs).³ The four pillars are mutually reinforcing and are designed to contribute jointly to promoting poverty reduction. Pillar 1 has so far been the core component of most ADB-supported regional cooperation initiatives, followed by Pillar 4. This paper focuses on activities governed by these two pillars. Support for Pillars 2 and 3 has been limited so far, mostly in the form of regional technical assistance.

A. Pillar 1: Connecting Countries — Establishing Cross-Border Infrastructure

4. Weak or absent infrastructure makes trade physically difficult and expensive, if not impossible, regardless of the degree of openness of policy regimes that countries adopt.⁴

¹ Including the proposed pipeline of projects for approval in 2007-2008, total ADF assistance up to the end of ADF IX amounts to \$2.1 billion. A complete list of ADF-financed regional projects is given in Appendix 1.

² ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila. The RCI strategy updated ADB's regional cooperation policy of 1994. ADB. 1994. *Bank Support for Regional Cooperation*. Manila.

³ The RCI strategy builds upon ADB's long-term strategic framework that identified RCI as one its three crosscutting themes to support ADB's overall objective of poverty reduction as well as on the second medium-term strategy of ADB that identified RCI as a strategic priority in ADB operations. ADB. 2001. *Moving the Poverty Reduction Agenda Forward in Asia and the Pacific: The Long-Term Strategic Framework of the Asian Development Bank (2001–2015)*. Manila; and ADB. 2006. *Medium-Term Strategy II: 2006–2008*. Manila.

⁴ United Nations Conference on Trade and Development (UNCTAD). 2007. *Trade and Development Report*. New York and Geneva.

Cooperation under Pillar 1 is necessary for most countries to identify and overcome bottlenecks that extend beyond national boundaries, and for the formulation of projects requiring parallel undertakings in other countries (Appendix 2 contains a diagrammatic explanation). This is particularly so for transport connectivity, trade logistics and facilitation, energy, and water resources management. The basic aspects of trade logistics—such as facilitation of customs, harmonization of procedures and standards, and transport facilitation through the adoption of cross-border transit arrangements—are intrinsic to comprehensive efforts at securing connectivity across countries.

Table 1: Cumulative ADB Assistance for Regional Cooperation by Sector up to December 2006 (\$ million)

Sector	OCR Loans	ADF Loans	Grants	RETAs	Total
Agriculture and Natural Resources				103	103
Education				7	7
Energy	90	233		18	341
Finance				27	27
Health, Nutrition and Social Protection			64	16	79
Industry and Trade		78		19	97
Law, Economic Management and Public Policy				137	137
Multisector			570	30	600
Transport and Communications	1,141	716		17	1,874
Water Supply, Sanitation and Waste Management				4	4
Total	1,231	1,027	634	378	3,270

OCR = Ordinary Capital Resources, ADF =Asian Development Fund, RETA = Regional Technical Assistance,

Note: Columns may not add up to column totals because of rounding.

Source: ADB, Loan, TA, Grant and Equity Approvals database.

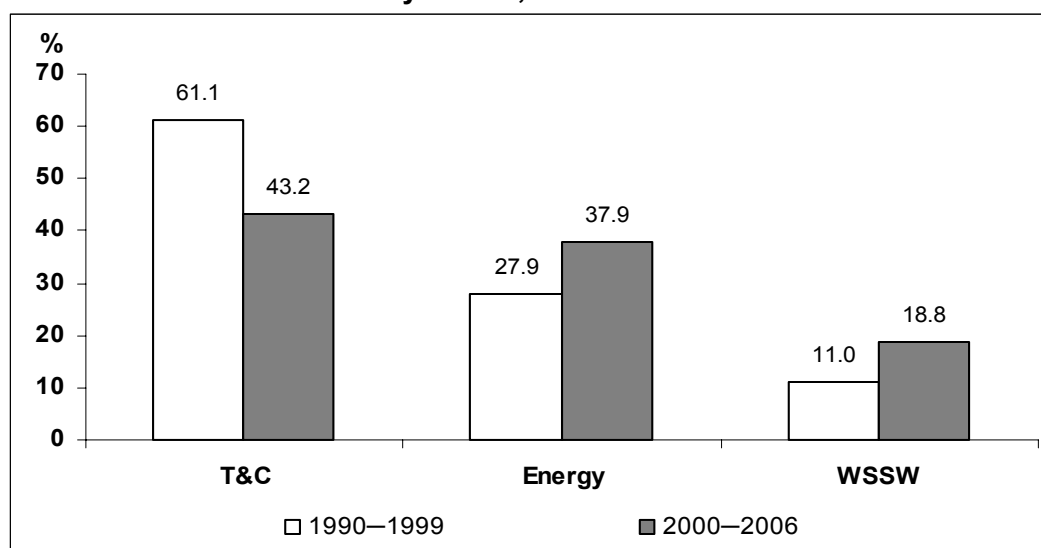
5. Landlocked countries particularly need to connect to neighbors to become “land-linked” Box 1 illustrates the benefits secured by the land-linked Lao People’s Democratic Republic (PDR). High transport costs and low connectivity levels are increasingly detrimental to a country’s development efforts, given the ongoing global integration of production and markets. Globally, gross domestic product (GDP) per capita is 43% lower in landlocked developing countries than in their neighboring transit countries.⁵ Most landlocked countries have limited exports, and the costs of imports increase because of the need to transport empty containers or trucks back to their origin. Delays and uncertainty of delivery times at border crossings are also major impediments in enhancing export competitiveness. The promotion of regional transport corridors, and regional or bilateral transit arrangements, has a huge beneficial impact on the development of landlocked economies such as Afghanistan, Bhutan, Central Asian republics and Lao PDR Nepal.

6. ADB’s initial support for cross-border infrastructure development was provided through regional technical assistance (RETA) grants, mainly to undertake analytical work and prepare projects. By 2006, about \$88 million worth of RETAs had been provided for infrastructure. Over time, the share of transport and communications has declined (reflecting, in part, a shift in

⁵ United Nations Conference on Trade and Development (UNCTAD). 2007. *Trade and Development Report*. New York and Geneva.

balance between hard infrastructure and soft infrastructure support), and that of energy and water supply, sanitation, and waste management (WSSW) has increased (Figure 1).

Figure 1: Share of Infrastructure in ADB Infrastructure Regional Technical Assistance by Sector, 1990–2006



T&C = transport and communications; WSSW = water supply, sanitation, and waste management.
Source: ADB internal database on Loan, TA, Grant, and Equity Approvals.

Box 1: Benefits of Regional Cooperation in Savannakhet Province, Lao People's Democratic Republic

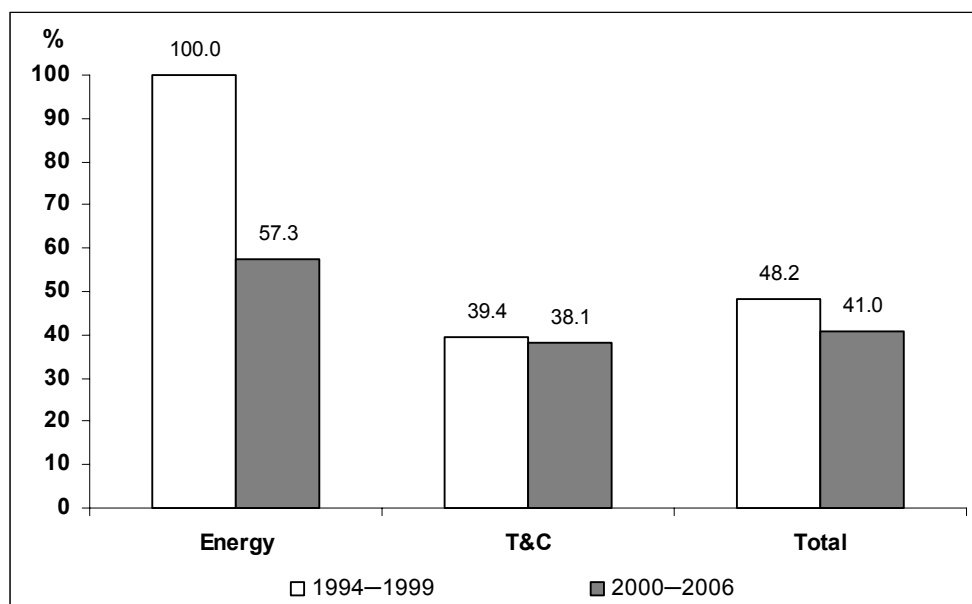
Completion of the East–West Economic Corridor (EWEC) through the Greater Mekong Subregion (financed by an Asian Development Fund loan) has seen travel time by bus from the Lao–Viet Nam border to Savannakhet City on the Thailand border drop from 12 hours to about 3 hours. New and permanent housing, markets, guesthouses, restaurants, trade and service enterprises have mushroomed along Route 9 (part of EWEC) in the province. Foreign direct investment and joint ventures have grown in Savannakhet from \$17.5 million in 1995–2000 to almost \$200 million in 2001–2005. This investment has benefited subsistence farmers who have moved from shifting cultivation to income-generating opportunities and employment in cash crops, silk and cotton weaving, and handicraft production. As a result, the incidence of income poverty in Savannakhet fell 35% from 37,282 families in 1998 to 24,400 families in 2004. Access to improved secondary schools for rural children and access to safe water has also improved in districts along Route 9.

Source: Rattanatay Luanglatbandith.2007.Development Impact of the East West Economic Corridor on Savannakhet Province of the Lao People's Democratic Republic. Manila: ADB (working paper).

7. ADB support for regional infrastructure projects through loan finance grew by 2006 to a cumulative \$2.2 billion, including about \$950 million from ADF. About 85% of loans have been for transport and communications, and the rest for energy. Transport and communications continue to dominate the regional infrastructure project pipeline for 2007–2009 at 76% of the total, followed by energy at 21%.

8. The ADF has played a key role in financing the early genre of cross-border infrastructure projects. It financed about 50% of total lending for such projects in the 1990s. This share has declined to 41% in the current decade (Figure 2). Far from being a reflection of reduced demand, the lower share reflects the shortage of ADF resources for regional projects despite demand having increased. At the same time, the growing share of ordinary capital resources in regional infrastructure lending reflects greater country recognition of the need for regional infrastructure initiatives. This is manifest most visibly in energy projects, which were entirely financed by the ADF during the previous decade, but where the share of ordinary capital resources increased to nearly 43% during 2000–2006. For transport projects in poorer (ADF-only) countries, however, this is not an option and the ADF remains the most important source of external funding.

Figure 2: Share of ADF in ADB Regional Infrastructure Public Loans by Sector and Total, 1994–2006



ADF = Asian Development Fund; T&C = transport and communications.

Source: ADB internal database on Loan, TA, Grant, and Equity Approvals.

B. Pillar 4: Capturing Externalities — Regional Public Goods

9. RPGs, emphasized in Pillar 4, are defined as those shared by two or more countries in a region.⁶ However, classifying public goods as national, regional, or global is not always easy. Some public goods (such as climate change) are inherently global in nature while others (such as forest fires and haze) are largely regional in impact. Global public goods issues are usually better led by global institutions, including international agreements and protocols, while regional institutions usually lead regional initiatives for RPGs.

⁶ Public goods in turn can be classified into various categories, depending on the extent to which their consumption by a person is affected by consumption by others; consumption of "pure" public goods like clean air is unaffected by other people's consumption. Public goods may also be joint products from a single activity. See, for example, Estevadeordal, Antoni, Brian Frantz, and Robert N. Tam, eds. 2004. *Regional Public Goods: From Theory to Practice*, Washington, D.C.: Inter-American Development Bank.

10. ADB recognizes a variety of RPGs.⁷ Increased economic connectivity has and will enable the cross-border spread of communicable diseases such as HIV/AIDS, severe acute respiratory syndrome (SARS), and avian influenza, as well as human trafficking.⁸ Similarly, the integration of economies is accompanied by governance-related challenges such as transnational corruption and money laundering. High growth has also meant deteriorating air quality and environmental pollution, which recognize no borders. ADB initiatives in this area seek to address the coordination of cross-border dimensions of these problems, including systematically studying implementation barriers to clean energy and energy efficiency across countries. ADB is also active in creating RPGs to address natural disasters with cross-border impact collectively, as seen in the 2004 tsunami. Finally, natural resources management is a key RPG, since natural resources are under stress from both high growth and large pockets of poverty (Box 2). All of these areas will require considerable collaborative work by governments in the future, and demands for support from ADB and other partners are likely to increase.

Box 2: Managing the Environment and Natural Resources in archipelagic Southeast Asia

The Association of Southeast Asian Nations (ASEAN) comprises 10 countries, but more than 25,000 islands. The archipelagic Southeast Asia (aSEA) subregion has the most diverse aquatic and terrestrial natural systems on earth. On Borneo alone, three new species are found each month. It holds the world record for tree species richness, with 1,186 in a half square kilometer plot of Sarawak forest. Many of Borneo's rivers flow into the Coral Triangle, the world's most diverse coastal/marine area, encompassing the Sulu and Sulawesi seas and the Bird's Head Seascape. This area contains 63% of the world's reef building corals; the highest reef fish diversity with over 1,200 species; and an intensely complex system of habitats from estuaries and lagoons, sea grasses, sand cays, fringing and barrier reefs, atolls, submerged volcanoes, seamount, deep interisland passages, and oceanic channels. Environment and natural resource degradation is a serious threat to this subregion, driven by unbalanced development and poverty, resulting in overexploitation of resources. The islands of the Sulu and Sulawesi seas are intensely poor and isolated, with 1,055 spoken languages and 50 indigenous groups in the subregion.

Given this diversity and geography, regional approaches are critical to successfully sustaining the environment and natural resources of aSEA, and regional governments adopted the Heart of Borneo initiative in December 2006 to address some of these issues. Proposed Asian Development Bank (ADB) regional technical assistance will support this new initiative by developing and helping implement an aSEA strategic framework and action plan for a regional environment program. More broadly, ADB is developing an aSEA regional cooperation strategy that will also address growth, environment, and natural resource management in aSEA.

11. ADB support for RPGs has been mainly through RETAs and grants, with limited lending.⁹ Grant-financed projects have been used overwhelmingly (87%) for responding to natural disasters, particularly rehabilitation and reconstruction activities following the 2004 Asian tsunami, with the rest directed towards communicable diseases and clean energy and energy efficiency (Figure 3). The draw on ADB grant resources is likely to continue and probably increase. So also will demand for the ADF, given that programs related to communicable disease control, and protection and conservation of biodiversity, are currently ADF-funded and will need to remain so.¹⁰

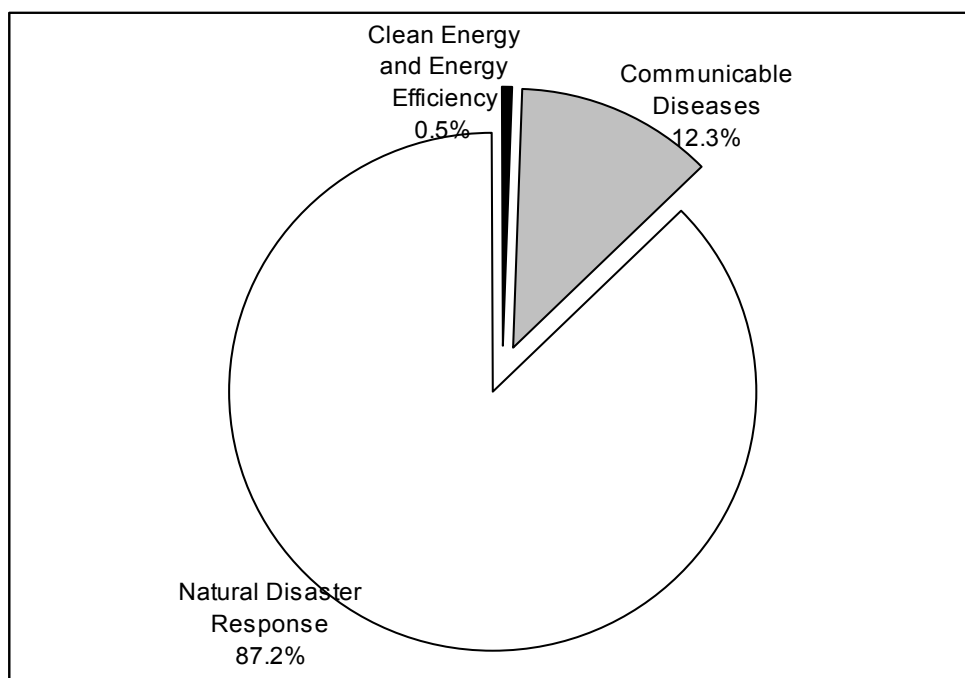
⁷ ADB. 2007. *Supporting Provision of Regional Public Goods in the Asia and Pacific Region*. Manila.

⁸ The Asia and Pacific region has often been at the center of incidence of communicable diseases, and accounts for a dominant share of global human-trafficking related prosecutions. For instance, the region cumulatively accounted for nearly 90% of reported cases and deaths from avian influenza in 2006.

⁹ The relatively small role of lending reflects the close link of RPGs with the social sectors, for which governments have limited inclination to borrow, as well as the intrinsic "free-rider" problem of externalities. In addition, the benefits of RPGs are often long-term, dispersed, and intangible. These issues underline the need for seizing the initiative as well as mobilizing appropriate resources for providing RPGs.

¹⁰ However grant financing of regional projects will be in accordance with the new ADF grant framework recently approved by ADB's Board of Directors.

Figure 3: Distribution of Grant-Financed Regional Public Goods, 1991–2006



Note: From 1991–2006, ADB has administered and funded 202 grants totaling \$2.4 billion, 38% of which went to regional public goods amounting to \$917.6 million spread over 33 projects.

Source: Asian Development Bank. 2007. *Supporting Provision of Regional Public Goods in the Asia and Pacific Region*. Manila.

C. Regional Cooperation and Integration Financing Partnership Facility

12. The momentum in subregional groupings in Central, East, South, and Southeast Asia as well as in the Pacific is growing. This will continue to enhance demand for additional resources for RCI.¹¹ In an attempt to respond to this demand, ADB established the Regional Cooperation and Integration Financing Partnership Facility (RCIFPF) in February 2007.¹² The RCIFPF is an “umbrella” operational arrangement to facilitate provision of additional financial and knowledge resources in support of RCI activities. ADB has transferred a total of \$40 million from its ordinary capital resources net income to the Regional Cooperation and Integration Fund (RCIF) as an initial endowment. A first batch of RETA projects worth \$11.4 million has already been approved from the Fund.

¹¹ Subregional cooperation initiatives supported by ADB include Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), Central Asia Regional Economic Cooperation (CAREC), Greater Mekong Subregion (GMS), Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT), South Asia Subregional Economic Cooperation (SASEC), and South Asian Association for Regional Cooperation (SAARC).

¹² ADB. 2007. *Regional Cooperation and Integration Financing Partnership Facility: Establishment of the Regional Cooperation and Integration Fund, and Regional Cooperation and Integration Trust Funds*. Manila. Resources under the RCIFPF may be provided by partners through mechanisms such as pooled grants to RCIF, trust funds for RCI, or project specific grants under framework agreements.

III. ACTIONS, ROLES, AND OUTCOMES

13. This section focuses on the main actions taken to implement regional cooperation initiatives, the significant roles played by ADB that enhance its contribution to the overall regional cooperation effort, and the effectiveness of ADB support for regional cooperation projects. The review is selective, drawing primarily on the Greater Mekong Subregion (GMS) Economic Cooperation Program and, to a lesser extent, the Central Asia Regional Economic Cooperation (CAREC) Program launched more recently. Cumulatively, the two initiatives account for nearly 90% of regional lending by ADB, and are the principal ADF users.¹³

A. Greater Mekong Subregion Program

14. Launched in 1992 by Cambodia, People's Republic of China (PRC), Lao PDR, Myanmar,¹⁴ Thailand, and Viet Nam—with significant ADB support—the GMS program seeks to enhance connectivity, competitiveness, and community (the 3 Cs) through the development of economic corridors, power interconnections, telecommunication networks, trade facilitation, promotion of private investment and tourism; and through jointly addressing shared social and environmental concerns affecting the GMS community.

15. Since the program's inception, its members have collectively grown at one of the fastest rates in the world, averaging GDP growth over 6% per annum between 1993 and 2006. Poverty has declined sharply in all GMS countries¹⁵ and connectivity has grown rapidly during the period. Figure 4 shows regional infrastructure in transport and communications and energy when the program commenced in 1992, in 2006, and that planned to 2012. By any reckoning, a major transformation is under way.

16. As the cross-border infrastructure was gradually put in place, and as the impediments to travel and transportation receded under several country-led initiatives, merchandise exports grew by over 400% during 1992–2006. The economic openness ratio of the countries more than doubled. Intra-regional trade in 2006 exceeded 1992 figures 18 times. Increased connectivity has also expanded tourism, with 22 million arrivals in 2006—more than double the 10 million arrivals in 1995.

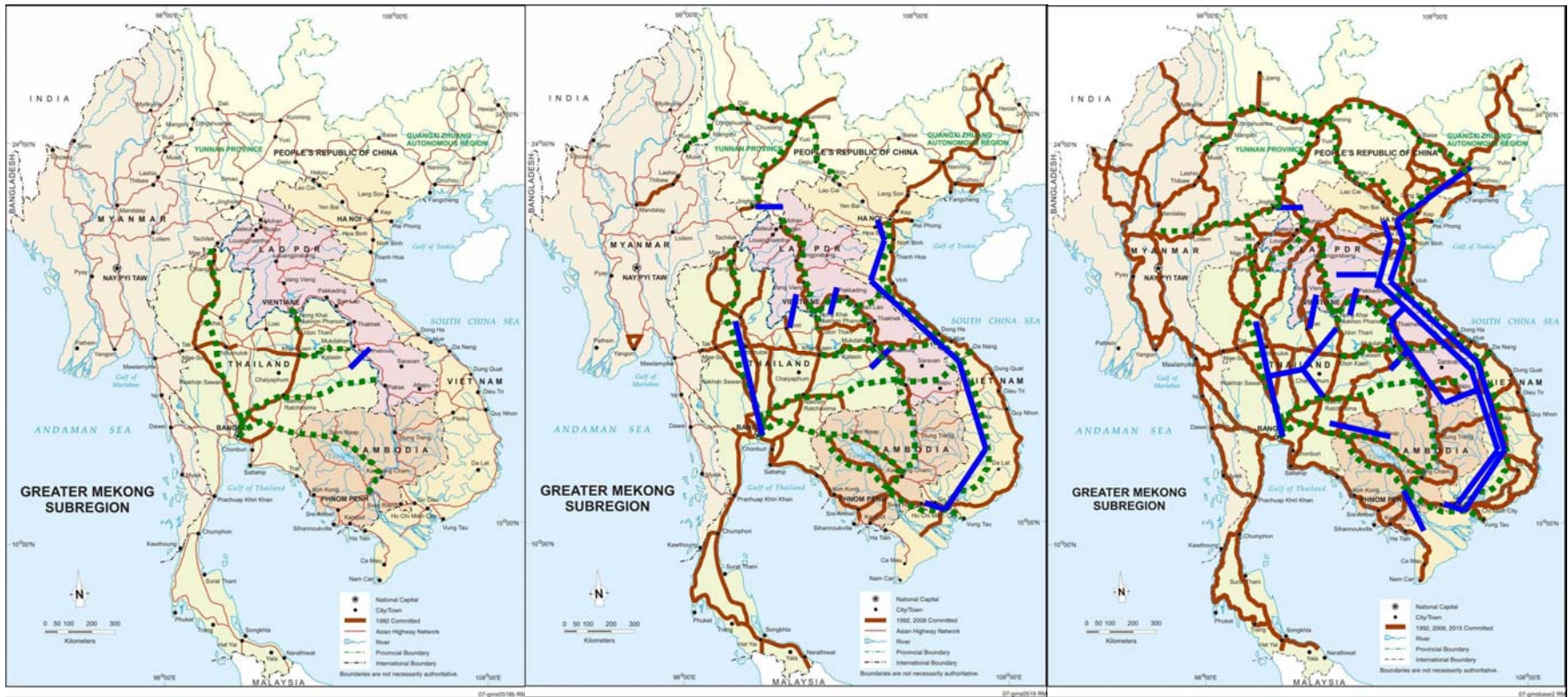
17. ADB has played four key roles in the evolution of the GMS program. It has been (i) a key provider of finance that leveraged significant cofinancing, (ii) an honest broker that was needed and trusted by all countries on diverse issues, (iii) a technical adviser, and (iv) a provider of critical coordination services. The absence of any of these roles would have weakened the program and produced suboptimal results.

¹³ During the 1990s, all regional infrastructure lending was provided to the GMS. Subsequently, demand for regional infrastructure projects has increased in other subregional initiatives, resulting in the GMS share of total regional cooperation lending declining to 48.5% during 2000–2006, while that for CAREC increased to 31.8% of the total, and the SASEC/SAARC share rose to 19.5%.

¹⁴ ADB has not had any lending or technical assistance to Myanmar for two decades. As member of GMS, Myanmar participates in regional technical assistance; primarily through participation in meetings. ADB assistance to Myanmar under GMS RETAs is therefore rather nominal.

¹⁵ Between 1990 and 2003, poverty defined in terms of \$1 day fell from 46% to 33.6% in Cambodia, 33% to 13.4% in the PRC, 52.7% to 28.8% in Lao PDR, 10.1% to less than 1% in Thailand, and 58% to 20% in Viet Nam. ADB. 2007. *Greater Mekong Subregion Development Effectiveness Brief*. Manila.

Figure 4: Increasing Regional Connectivity in the Greater Mekong Subregion: 1992, 2006, and 2012



Regional Roads — Power interconnections — Telecoms —

Source: Asian Development Bank.

18. The role of honest broker appears intangible. However, it is probably of the greatest significance. Given that the subregion was the center of armed conflict not long before the program began, it was a challenge to convince the countries to conceive of cooperation. A second major challenge was persuading the private sector, civil society groups, and other partners in the international community to participate in the program. Several projects and activities bear witness to these efforts, including hydropower projects in Lao PDR that required multiple and diverse stakeholders to be brought together to set up facilities for export of energy to neighboring countries¹⁶. These efforts now secure the country over \$100 million annually in hard currency earnings—its single, and growing, largest source. The effectiveness of ADB's role as honest broker is directly dependent on its being interlinked and combined with the other roles.

19. In its role as technical advisor, ADB has facilitated numerous intercountry agreements that have given effect to the investments in infrastructure. Two notable examples are the Cross-Border Transport Agreement and the Intergovernmental Agreement on Power Interconnection and Trade. As the provider of critical coordination services, the countries' progress in key sector and thematic areas has been significantly dependent on the high quality support provided by ADB to the several GMS working groups. The Phnom Penh Plan for Development Management¹⁷ typifies the ADB support for knowledge and skills development for policy makers and planners in the GMS.

20. Of a total of 28 GMS projects, 20 have used ADF funding, totaling almost \$670 million. Government contribution amounted to \$316 million, while cofinancing from development partners amounted to \$860 million. Thus ADF has enabled significant cofinancing: ADF resources accounted for only 36% of project cost with rest cofinanced from development partners and government; similarly, cofinancing accounted for nearly 43% of technical assistance in GMS. Between 1998 and 2006, 7 of the 28 GMS projects were completed and evaluated. The project completion reports classified four "generally successful", two "highly successful", and one "partly successful". Since other GMS projects are ongoing or yet to be evaluated, it is still early to assess outcomes. However, some useful benefits data have been gathered for selected projects (Appendix 3).

B. Central Asia Regional Economic Cooperation Program

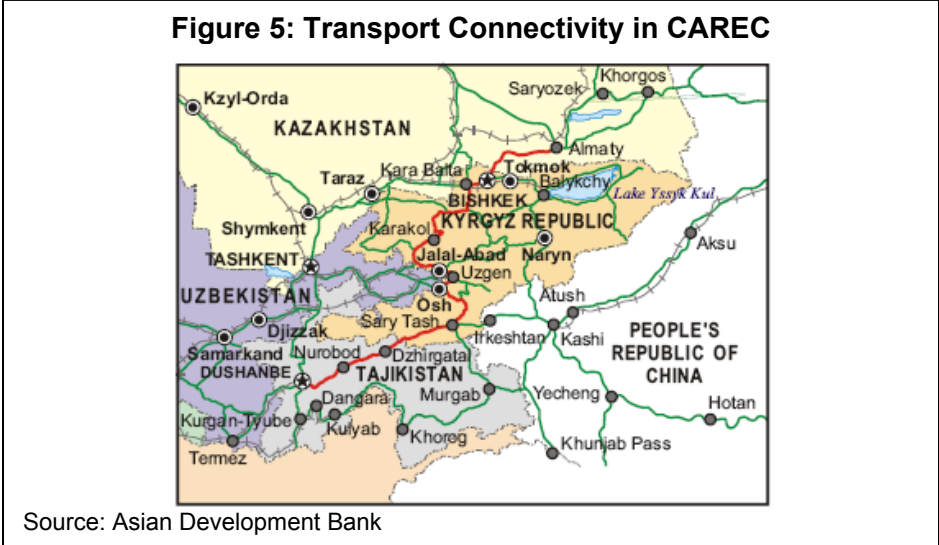
21. CAREC is an alliance of eight countries (Afghanistan, Azerbaijan, PRC, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan) and six multilateral institutions (ADB, European Bank for Reconstruction and Development, International Monetary Fund, Islamic

¹⁶ Such projects include the Theun-Hinboun, Nam Leuk and Nam Theun 2 hydroprojects and GMS transmission projects. See ADB. 1994. *Report and Recommendation of the President to the Board of Directors on Proposed Loan(s) to the Lao People's Democratic Republic for the Theun-Hinboun Hydropower*. Manila (Loan 1329, for \$ 60 Million, approved on 08 Nov 1994); ADB. 1996. *Report and Recommendation of the President to the Board of Directors on Proposed Loan(s) to the Lao People's Democratic Republic for the Nam Leuk Hydropower*. Manila (Loan 1456, for \$ 52 Million, approved on 10 Sep 1996); ADB. 2003. *Report and Recommendation of the President to the Board of Directors on Proposed Loan(s) to the Kingdom of Cambodia for the Greater Mekong Subregion Transmission*. Manila (Loan 2052, for \$ 44.3 Million, approved on 15 December 2003); and, ADB. 2005. *Report and Recommendation of the President to the Board of Directors on Proposed Loan(s) to the Lao People's Democratic Republic for the Greater Mekong Subregion: Nam Theun 2 Hydroelectric*. Manila (Loan 2162, for \$ 20 Million, approved on 4 April 2005)

¹⁷ The Phnom Penh Plan for Development Management, launched in 2002 and funded by ADB technical assistance and by GMS development partners, is a capacity-building initiative that comprises a number of components including formal learning programs, fellowships, learning resources centers, institutional networking and development, and research and publication.

Development Bank, United Nations Development Programme, and World Bank). The CAREC region is characterized by landlocked countries with small populations. Fostering growth will require efficient regional transport infrastructure, rehabilitation of energy networks, and seamless transit of goods across the region to external markets. Regional cooperation is still nascent, and ADB is focusing on the initial steps of promoting confidence building and strategic planning. In 2006, CAREC developed a Comprehensive Action Plan, under which an integrated Transport and Trade Facilitation Strategy is being finalized for adoption in November 2007. The strategy is the program’s first truly region-wide approach to improving transport and trade connectivity; and identifies six priority transport corridors linking the CAREC countries to each other and to markets in Europe, the Russian Federation, East Asia, South Asia, and the Gulf. Customs and other cross-border procedures will be also streamlined along these priority corridors to reduce the time and cost of accessing markets.

22. As with the GMS, transport connectivity is key in CAREC (Figure 5). The ADB-financed 245-kilometer (km) Almaty–Bishkek road has benefited the landlocked Kyrgyz Republic.¹⁸ The project rehabilitated 204 km of the road in Kazakhstan and 41 km in the Kyrgyz Republic; supported improvements of customs facilities at the Akzhol–Chu border; and purchased road maintenance equipment for Kazakhstan. Economic activity in communities along the project road has more than doubled in the last 2 years. Cross-border traffic has increased substantially. Checkpoints along the road have been reduced from five to two between the Kyrgyz border and Almaty, speeding up traffic flow. Travel times from Almaty to Bishkek have been cut in half—from 6 hours in 2000 to about 3 hours today. With greater accessibility, tourism in the Kyrgyz Republic’s Issy Kul Lake area has expanded to over 1 million tourists annually (most coming from Kazakhstan), up from 300,000 just 2 years ago. Enhanced connectivity has also increased the attractiveness of the Kyrgyz Republic as an investment destination. The project facilitated implementation of the cross-border agreement covering duties’ exemptions on transit trade, standardization of customs documentation and procedures, and harmonization of vehicle inspection and clearance procedures. Discussions are under way on the possible introduction of “single window” procedures to streamline border processes further. Both governments are planning to expand border facilities to accommodate the increased flow of goods and people along the corridor.



¹⁸ ADB. 2000. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grants to the Republic of Kazakhstan and to the Kyrgyz Republic for the Almaty-Bishkek Road Rehabilitation Project*, approved October 2000.

23. The CAREC pipeline for 2008–2010 has an estimated \$600 million in ADF requirements for regional projects, including projects on regional gas transmission rehabilitation, regional road rehabilitation, establishment of regional electricity markets, customs modernization, and related transport-trade infrastructure development. The CAREC Transport and Trade Facilitation Strategy has identified transport investment opportunities worth about \$18 billion over the next 10 years. Funding will clearly be key to accelerating integration and growth in Central Asia. Equally, the roles that ADB plays in CAREC—the same ones it plays in the GMS—will be central to the expansion and sustainability of cooperation in the region.

C. Earmarked ADF Resources for Regional Cooperation: Use, Impact, and Greater Need

24. The earmarking of ADF resources for regional projects, introduced in ADF VIII, has helped finance 12 GMS projects for \$250.3 million. Additional government financing for these 12 projects amounted to \$108 million and cofinancing contributed \$190 million. These 12 projects deal with communicable disease control, tourism infrastructure development, power transmission, transport and economic corridors, and railways.

25. For CAREC, three projects have so far been financed from the ADF regional pool: (i) Dushanbe-Kyrgyz Border Road Rehabilitation Phase II for \$30 million (inclusive of \$0.50 million ADF grant for HIV/AIDS and Migration)¹⁹, (ii) Regional Power Transmission Interconnection Project (Tajikistan \$13.5 million)²⁰, and (iii) CAREC Regional Road Corridor Improvement Project (Tajikistan Component 1) for \$25 million.²¹

26. Since the ADF pool for regional projects is relatively young, the projects financed so far are yet to be completed. Hence it is too early to attempt to measure outputs, let alone outcomes, from these projects. Prior to 2002, however, a number of priority regional projects were financed out of national ADF allocations that have been completed. These have generated significant benefits to the participating countries, particularly those related to improved connectivity. For example, the Phnom Penh–Ho Chi Minh City Highway Improvement Project between Cambodia and Viet Nam (ADF loans of \$40 million to Cambodia and \$100 million to Viet Nam²²) completed in 2004 has resulted in substantial national and regional benefits to the two countries, including: (i) savings in time and costs of cross-border travel, and lower vehicle operating costs; (ii) increase in the total value of trade between Cambodia and southern Viet Nam along this highway by around 40% per annum between 2003 and 2006; (iii) increase in the number of persons crossing the border, including tourists, at an average annual rate of around 53%, and of vehicles crossing the border by an average annual rate of 38% between 2003 and

¹⁹ ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Asian Development Fund Grant to the Republic of Tajikistan for the Dushanbe-Kyrgyz Border Road Rehabilitation (Phase II)*. Manila (Loan 2196 for \$29.5 million and Grant 0023 for \$0.50 million, approved on 17 November 2005).

²⁰ ADB. 2006. *Report and Recommendation of the President to the Board of Directors on Proposed Loan(s) to the Republic of Tajikistan for the Regional Power Transmission Interconnection (Tajikistan)*. Manila (Loan 2303, for \$21.5 Million, approved on 19 Dec 2006); the regional pool accounted for \$13.5 million.

²¹ ADB. 2007. *Report and Recommendation of the President to the Board of Directors on the Proposed Loan, Asian Development Fund Grants and Technical Assistance Grant to the Kyrgyz Republic and Republic of Tajikistan for the CAREC Regional Road Corridor Improvement Project*. Manila (Loan 2359 for \$40.9 million, Grant 0084 for \$25.6 million and Grant 0085 for \$12.5 million, approved on 24 October 2007); the regional pool accounted for \$25 million.

²² ADB. 1998. *Report and Recommendation of the President to the Board of Directors on Proposed Loan(s) to the Kingdom of Cambodia for the GMS: Phnom Penh to Ho Chi Minh City Highway (Cambodia)*. Manila (Loan 1659, for \$40 Million, approved on 15 December 1998); ADB. 1998. *Report and Recommendation of the President to the Board of Directors on Proposed Loan(s) to the Socialist Republic of Viet Nam for the GMS: Phnom Penh to Ho Chi Minh City Highway (Vietnam)*. Manila (Loan 1660, for \$40 Million, approved on 15 December 1998).

2006; and (iv) development of the Trang Bang Industrial Park on the Viet Nam side, which is generating a large number of employment opportunities for the local population.

27. This experience has underlined the valuable outcome from such regional projects. However this experience has also highlighted the major difficulties of financing regional projects, with significant cross-border benefits, out of national allocations. There is, therefore, a strong case for a sizeable earmarked ADF pool to meet the growing demand for regional projects. As this paper makes clear, ADF-financed regional cooperation projects bring significant benefits:

- (i) Allow low-income, landlocked countries to build cross-border infrastructure to connect to neighbors and secure the economic benefits of expanded trade and commerce, and the broader gains from peace and stability.
- (ii) Enable investments in RPGs such as health and the environment which, if not undertaken, could potentially impact negatively on national development programs.
- (iii) Catalyze and promote partnerships at financial and technical levels—high levels of cofinancing, and best international practice in terms of governance, policy, and technical advice.
- (iv) Promote country ownership of regional initiatives through increased national budgetary contributions, and joint management of project facilities and regional institutional mechanisms.

28. The earmarked regional pool resources are required to supplement normal ADF country assistance programs, which are rarely adequate to meet national needs, especially in low-income countries such as Cambodia, Lao PDR, and Nepal. Under such conditions, regional projects benefiting people in neighboring countries understandably have lower national priority. Few countries are willing to undertake and finance such projects unilaterally unless additional funds are provided and ways determined to share the benefits and costs equitably (Appendix 2). Incentives are necessary. On the other hand, regionally coordinated transport networks provide an equitable sharing of benefits and costs as the experience in Asia and in Europe has amply demonstrated. In addition, the “peace dividend” that regional projects foster is a hard-to-measure but very real benefit as the GMS experience has shown.

29. An increasing number of regional projects being supported by ADB through the ADF regional pool are also targeted—Millennium Development Goal (MDG)-related interventions such as those aiming to control the spread of communicable diseases, projects that promote sustainable environmental management practices, and projects that generate and share knowledge resources.²³ The financing of such regional projects outside of the country’s ADF allocation will enhance the overall level of resources targeted to achieve a country’s MDGs by complementing national projects.

30. Additionality in the ADF regional pool is a real need. Since its introduction in 2002, the demand for it has always far exceeded supply. For example, the regional ADF requirements of all the ADB-supported subregional cooperation programs during 2005–2008 amounted to \$568 million, far exceeding the ADF regional pool of \$165 million. The demand for regional ADF can only grow as other ADB-supported subregional initiatives mature, particularly including those in Central, South, and Southeast Asia. For the GMS and CAREC alone, the pipeline of ADF regional projects for 2008–2010 is \$1.1 billion. The need for RPGs, already strong, will further intensify because of emerging concerns on energy security and climate change. Equally, the

²³ 11 out of 26 projects in GMS pipeline are MDG-related.

social and environmental costs of higher growth, often borne disproportionately by the poor and vulnerable, will continue to need regional approaches for greater effectiveness.

IV. CONCLUSIONS

31. Regional cooperation has become a potent multiplier of national efforts at development and poverty reduction. Results of ADB-supported initiatives and projects show that countries have gained from regional connectivity and intraregional trade. These have contributed to high growth and reduced poverty. RPGs have been provided to address regional concerns. Capacities and institutions have been strengthened for enhanced effectiveness of regional initiatives. Greater participation of smaller, landlocked economies in regional growth has been facilitated.

32. ADF resources have made an important contribution to the gains so far, both directly as well as by mobilizing larger resources through cofinancing; a without-ADF scenario is difficult to contemplate. Earmarked ADF resources for regional projects have also contributed by strengthening national incentives for regional cooperation; at the same time, large volumes of national financing for regional projects manifest strong country ownership. Clearly, however, the availability of ADF resources has not matched the rising demand for regional projects, resulting in a declining share of ADF financing for such projects. The likelihood of ADF-supported pipelines of regional projects stretching out because of lack of ADF resources is real. Unless the pool of such resources is sizeably enlarged, the risk of regional cooperation regressing in the Asia and Pacific region is unlikely to diminish.

ADF Supported Regional Projects, 1994-2008

Regional Department	PROJECT NAME	AMOUNT (US\$ Million)
1994 Total		60.00
SERD	Theun-Hinboun Hydropower	60.00
1995 Total		48.00
SERD	Champassak Road Improvement	48.00
1996 Total		67.00
SERD	Siem Reap Airport	15.00
SERD	Nam Leuk Hydropower	52.00
1998 Total		40.00
SERD	GMS: Phnom Penh to Ho Chi Minh City Highway (Cambodia)	40.00
1999 Total		100.00
SERD	GMS: Phnom Penh to Ho Chi Minh City Highway (Viet Nam)	100.00
2000 Total		37.00
SERD	GMS: East-West Corridor (Lao PDR)	32.00
CWRD	Almaty-Bishkek Regional Road Rehabilitation (Kyrgyz Component)	5.00
2001 Total		71.00
SERD	GMS: East-West Corridor (Viet Nam)	25.00
SARD	Road Network Development	46.00
2002 Total		160.00
SERD	GMS: Cambodia Road Improvement	50.00
SERD	GMS: Northern Economic Corridor	30.00
SERD	GMS: Mekong Tourism Development (Cambodia)	15.60
SERD	GMS: Mekong Tourism Development (Lao PDR)	10.90
SERD	GMS: Mekong Tourism Development (Viet Nam)	8.50
CWRD	Regional Trade Facilitation and Customs Cooperation Program (Kyrgyz)	15.00
CWRD	Regional Trade Facilitation and Customs Cooperation Program (Tajikistan)	10.00
CWRD	Regional Power Transmission Modernization (Tajik Component)	20.00
2003 Total		59.30
SERD	Greater Mekong Subregion Transmission	44.30
CWRD	Dushanbe-Kyrgyz Border Road Rehabilitation	15.00
2004 Total		100.43
EARD	Regional Road Development	37.13
SARD	Subregional Transport Facilitation	20.00
CWRD	East-West Highway Improvement	3.00
CWRD	Southern Transport Corridor Road Rehabilitation	32.80
CWRD	Regional Customs Modernization and Infrastructure Development (Kyrgyz)	7.50
2005 Total		656.20
CWRD	Dushanbe-Kyrgyz Border Road Rehabilitation Phase II	29.50
CWRD	HIV/AIDS and Migration (ADF Grant)	0.50
CWRD	Regional Customs Modernization and Infrastructure Development (Tajikistan)	10.70
PARD	Establishment of the Pacific Aviation Safety Office	1.50
PARD	HIV/AIDS Prevention and Capacity Development in the Pacific (ADF Grant)	8.00
SERD	Contribution to the Multidonor Trust Fund (ADF Grant)	10.00
SERD	Earthquake and Tsunami Emergency Support (ADF Grant)	290.00

Regional Department	PROJECT NAME	AMOUNT (US\$ Million)
SERD	GMS: Communicable Disease Control in Border Areas (ADF Grant)	30.00
SERD	GMS: Kunming-Haiphong Transport Corridor-Noi Bai-Lao Cai Highway Engineering Loan	6.00
SARD	Tsunami Affected Areas Rebuilding (ADF Grant)	150.00
SARD	Tsunami Emergency Assistance (Sector) (ADF Grant)	100.00
SARD	Tsunami Emergency Assistance (ADF Grant)	20.00
2006 Total		261.70
CWRD	Regional Power Transmission Interconnection (Tajikistan)	21.50
CWRD	Regional Power Transmission Interconnection (Afghanistan)	35.00
CWRD	North-South Corridor Project	78.20
SERD	Greater Mekong Subregion: Rehabilitation of the Railway in Cambodia	42.00
SERD	Greater Mekong Subregion Kunming-Hai Phong Transport Corridor: Yen Vien-Lao Cai Railway Upgrading	60.00
REG	Prevention and Control of Avian Influenza in Asia and the Pacific (ADF Grant)	25.00
2007 Total *		404.80
CWRD	Regional Road Corridor Improvement Project (Kyrgyz)	25.60
CWRD	Regional Road Corridor Improvement Project (Tajikistan)	53.40
SARD	SASEC Information Highway (formerly Establishment of SASEC ICT Exchange Facilities)	16.80
SERD	LAO: Northern GMS Transport Network Improvement	27.00
SERD	GMS: Southern Coastal Corridor Project (Viet Nam)	75.00
SERD	GMS: Southern Coastal Corridor Project (Cambodia)	7.00
SERD	VIE: Kunming-Haiphong Transport Corridor-Noi Bai-Lao Cai Highway (Regional)	200.00
2008 Total **		20.00
EARD	Altai Western Corridor	20.00
	ADF Loans	1,451.93
	ADF Grants	633.50
	Total ADF Supported Regional Project (Loans and Grants), 1994-2008	2,085.43

ADF=Asian Development Fund, CAREC = Central Asia Regional Economic Cooperation, CWRD = Central and West Asia Regional Department, EARD = East Asia Regional Department, GMS = Greater Mekong Subregion, ICT = information and communications technology, Lao People's Democratic Republic (PDR), PARD = Pacific Regional Department, SARD = South Asia Regional Department, SASEC South Asia Subregional Economic Cooperation, = SERD = Southeast Asia Regional Department,

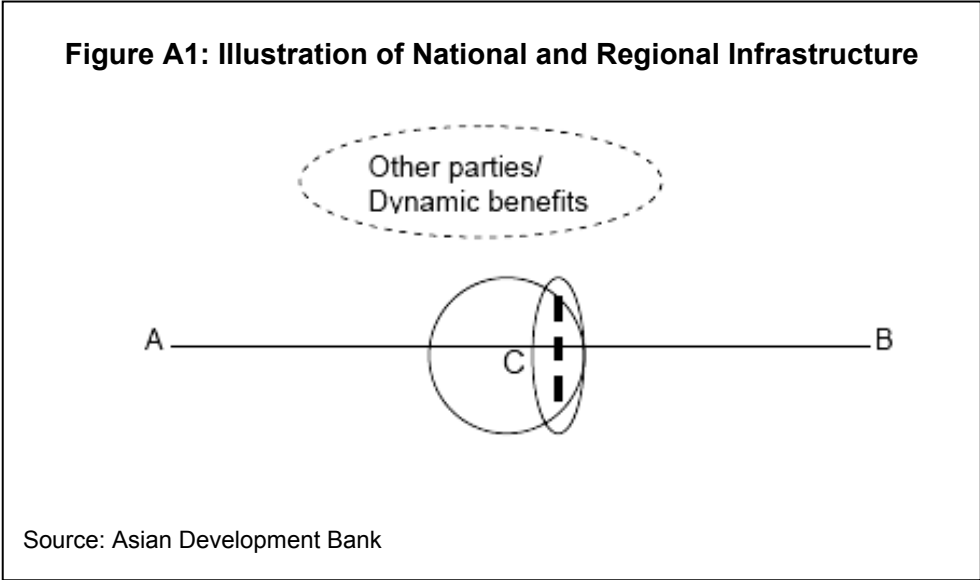
Notes:

* Projected Approvals for 2007

** Allocation approved from the ADF subregional pool

National and Regional Infrastructure

1. Capturing net externalities lies at the heart of regional cooperation. In Figure A1, let A and B represent unconnected provinces (or regions/countries), separated by a boundary at point C (dashed line).



2. Suppose the big circle represents the size and distribution of total benefits of a road connecting A and B, and the small oval the same for total costs. Suppose also that the large oval represents net benefits (externalities) to other provinces (or regions/countries) from connecting A to B, or the dynamic benefits to B and A from the connection that are certain but not presently quantifiable.

3. For A and B taken together, the total benefits clearly outweigh the costs, making the road a desirable project. However, for B alone, the costs of the “national project” connecting B to C exceed the benefits, so that A and B will stay unconnected.

4. Even if the benefits to B from connecting to C exceed the costs, the difference may be small enough to make the project rank low in B’s national priorities relative to other uses of resources.

5. Although the regional project A to B consists of two national projects (A to C and B to C), the national project in B does not exist without the regional project: regional thus trumps national.

6. For B to undertake its “national project” connecting to C, it may be necessary to transfer some benefits from A (and/or other parties) to B. Negotiating such transfers can benefit from the presence of an “honest broker” who can also facilitate other issues such as credible commitment on transfer amounts and mechanisms, as well as coordination and sequencing issues (who will build first, given either national project by itself may not be viable economically). The credible third party can also broker coordination of associated national policies that can directly impact net benefits of the regional project.

7. If B is an Asian Development Fund (ADF) country, a commitment from B to set aside resources for regional projects (like connecting B to C) may also facilitate creation of the project connecting A to B, which will benefit the region as a whole (as well as B through dynamic benefits). The earmarked regional pool commitment will positively affect B's incentives to undertake the regional/national project. If A and B are both ADF countries, the incentive to undertake connection from A to B will be further strengthened if both commit to setting aside resources for such projects. The Greater Mekong Subregion (GMS) East–West Economic Corridor through the Lao People's Democratic Republic and the Almaty–Bishkek Road in the Kyrgyz Republic are examples of national projects with regional externalities funded by ADF resources.

Summary Outcome Indicators of Select GMS Regional Projects

No.	Project Name/ Description and Cost	Achievements/ Outcomes
1	<p>Yunnan Expressway Expressway from Chuxiong to Dali (179 km)</p> <p>Completed in May 2000</p> <p>Total = \$461.4 million ADB = \$150 million Government = \$311.4 million</p>	<ul style="list-style-type: none"> Enhanced accessibility of remote areas in the project influence area, and improved access of local populations to markets and developed areas in the region Along with the project, a total of 693.5 km of feeder roads was upgraded by local governments to improve the network connection between the townships and the project expressway. As a result, small farmers can now dispatch their products to distant and even foreign markets. The average speed increased from 50 km/h to 60 km/h. The number of accidents on the project expressway declined from 254 in 1999 to 152 in 2000. Jobs were provided to about 930 unskilled workers per day, more than 70% of whom were employed from the project area. A total of ¥390 million was paid to the workers as wages. In line with the project, local governments accelerated the development of two economic development zones in Chuxiong and Dali in 1998 by encouraging private investment. The number of tourists in the project area rose 5 times. Between 1994 and 2000, GDP in the six municipalities and counties in the project area increased by 1.9 times on average, ranging from 1.5 to 2.5 times, while the national average was 1.4 times.
2	<p>Theun Hinbon Hydropower</p> <p>A hydropower project located in Lao PDR (210 MW, and a 100-km long, 230-kV transmission line to Thailand border)</p> <p>Completed in March 1998</p> <p>Total = \$270 million ADB = \$60 million Government = \$14.5 million Cofinancing = \$195.5 million</p>	<ul style="list-style-type: none"> Revenues from export of the hydropower project's output to Thailand; in 1999, the first year of full operations, Government earnings (including net profits, royalties, and taxes) from the project were \$20.4 million, contributing about 1.5% of GDP. Earnings projected to increase to about \$40.9 million by 2022. Surrounding rural areas electrified Equitable access to power by the poor. Project earnings used to subsidize electricity tariffs for the poor on a countrywide basis. Direct employment and skills upgrading of local labor during construction Modern school and medical service established, greatly improved living conditions in the area The project is also the first public-private venture in hydropower development in Lao PDR as well as the first major subregional energy project in the GMS. It can serve as a model for other projects.
3	<p>Champassak Road Improvement</p> <p>Chong Mek (Thai border) to Pakse (40 km); Pakse to Veun Kham (Cambodian border) (160 km)</p> <p>Completed in May 2001</p> <p>Total = \$60.1 million ADB = \$48 million Government = \$12.1 million</p>	<ul style="list-style-type: none"> Savings in vehicle operating costs and road maintenance costs as well as greater transport efficiency. Local interviews suggest project roads have greatly improved access, particularly for buyers and merchants who come to the villages to purchase agricultural products. Around 46% of households in the project area increased their agricultural output for sale at local markets, resulting in increased incomes. Travel times were reportedly reduced by more than half, and travel costs were subsequently reduced for those using private transport. In real terms, the costs of public transport decreased by over 20%. New industries have been established along the road, the most noticeable examples of which are the plywood factory at km 12, a concrete plant at km 14, workshop factories and import and export businesses along national route 13 in Pakse, and new government offices around the region and a government fuel company depot along national route 13 at km 15. Increased tourist arrivals in local areas

No.	Project Name/ Description and Cost	Achievements/ Outcomes
4	<p>Phnom Penh–Ho Chi Minh City Highway</p> <p>Upgrading of the Neak Loueng–Bavet (107 km) section in Cambodia</p> <p>Completed in 2004</p> <p>Upgrading of the Moc Bai–Ho Chi Minh City (80 km) section in Viet Nam</p> <p>Completed in December 2005</p>	<ul style="list-style-type: none"> • Trade through Moc Bai–Bavet border increased about 40% per annum during 2003–2006. People crossing the border increased by 53% and vehicles crossing increased by 38% during the same period. <p>Cambodia side:</p> <ul style="list-style-type: none"> • Completion of road stimulated building activities, increasing imports of wood for construction and new brickworks • Increased tourist arrivals <p>Viet Nam side:</p> <ul style="list-style-type: none"> • Savings in travel time, lower travel costs for passengers, and lower maintenance costs for vehicles • One of the industrial zones developed because of the road improvement project (Trang Bang Industrial Park) is generating a large number of employment opportunities for the local population.
5	<p>Southern Yunnan Road Development</p> <p>Part of the 704-km Kunming–Mohan Expressway, comprising the Yuanjiang–Mohei section (214 km), which was upgraded to a 147 km four-lane expressway</p> <p>Completed in December 2003</p>	<ul style="list-style-type: none"> • The project expressway reduced the point-to-point distance by 67 km (from 214 km to 147 km) and travel times by 60–70%. • The number of passenger buses traveling from Kunming to Simao increased from 2–5 to about 15 buses daily. • With most traffic diverted to the expressway, there is a 50% reduction in delivery times for agricultural inputs and products on less crowded parallel roads. • Indirect impact on poverty reduction in the project area caused by induced changes in cropping patterns, as farmers have shifted to higher-value crops and companies have shifted investments to the poor regions covered by the improved roads. • Although only one among many factors, the road improvement project contributed to increased cross-border trade between the PRC and the following countries in 2003–2004: Lao PDR (23%), Myanmar (25%), and Viet Nam (24%) 24%. • Accessibility of the rural population has also been improved through the upgrading of about 876 km of rural roads.

ADB = Asian Development Bank, GDP = gross domestic product, GMS = Greater Mekong Subregion, km = kilometer, km/h = kilometers per hour, kV = kilovolt, MW = megawatt, Lao PDR = People's Democratic Republic, PRC = People's Republic of China.

Sources: Project completion reports and other internal ADB reports.