ASIAN DEVELOPMENT BANK

TAR: OTH 38013

TECHNICAL ASSISTANCE

FOR

SUPPORT TO STRATEGIZE

REGIONAL COOPERATION IN SOUTHEAST ASIA

May 2004

ABBREVIATIONS

ADB	–	Asian Development Bank
AEC	–	ASEAN Economic Community
AFTA	–	ASEAN Free Trade Area
ASEAN	–	Association of Southeast Asian Nations
ASEAN+3	–	Association of Southeast Asian Nations countries and People's Republic of China, Japan, and Republic of Korea
BIMP-EAGA	–	Brunei Darussalam, Indonesia, Malaysia, and Philippines-East ASEAN Growth Area
RCSP	–	Regional Cooperation and Strategy Program
SERD	–	Southeast Asia Regional Department
TA	–	technical assistance

TA CLASSIFICATION

Poverty Classification	Other
Sector	Multi Sectoral
Subsector	Energy, Transport
Thematic	Regional cooperation

NOTE

In this report, "$" refers to US dollars.

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I. INTRODUCTION

1. The Asian Development Bank (ADB) is working together with the nations of Southeast Asia[1] to prepare a regional cooperation strategy and program (RCSP). The work entails three main challenges. First, the strategy must be built on a foundation of rigorous analysis of the potential gains from regional cooperation. Economic analysis is needed to identify the specific sectors and projects in which transnational approaches add the most value. Second, the role of ADB in supporting regional cooperation needs to be clearly defined, based on ADB's ability to add value to the structures and initiatives that are already in place. Third, the strategy must be built around concrete interventions aimed at two key goals: building regional competitiveness to establish a foundation for sustainable economic growth, and reducing poverty in the region, particularly in areas that are distant from national centers. On various occasions since 2003, the key underpinnings of the envisaged strategy have been discussed with the governments that will be involved in the RCSP. During these discussions it was agreed that extensive consultations be held during the preparation and implementation of the new strategy to receive needed inputs and to confirm counterpart commitment. To accelerate the preparation of the strategy, ADB proposes technical assistance (TA) to provide the most current analytical assessment of a number of possible themes of the strategy and to support the consultation process, including a high-level forum on regional cooperation in Southeast Asia.[2]

II. ISSUES

2. The nations of Southeast Asia are linked by a distinct geography and by a dramatic economic history, including the severe financial crisis in 1997. During the last decade, a broad awareness of common economic and social challenges has fuelled an increasing number of major cooperation initiatives at regional, subregional, and bilateral levels. Most recently, the summit of the Association of Southeast Asian Nations (ASEAN), held in October 2003 in Bali, Indonesia, called for the establishment of an ASEAN Economic Community (AEC) in 2020.[3]

3. ASEAN envisages the AEC as a single market and production base, to firmly establish Southeast Asia as a dynamic competitor in the world economy. A recent ASEAN competitiveness study[4] concluded that the greatest obstacle to competitiveness in the region is the fragmentation of the market, which sharply increases the cost of doing business in the region and deters foreign direct investment. To overcome this fragmentation and realize the ambitious AEC vision, the nations of the region will have to surmount a number of obstacles. Among the most difficult of these are the infrastructure challenges posed by its archipelagic geography. This unusual landscape requires integrated planning of transport and energy infrastructure, as many areas are far more easily linked to other nations than they are to their own national centers. Infrastructure issues are especially serious barriers to development in the poorer, border islands of Indonesia and the Philippines, and in Sarawak and Sabah in Malaysia.

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[1] Currently, the Southeast Asia Regional Department covers ADB operations in Indonesia, Malaysia, Philippines and Singapore, four of the five founding members of the Association of Southeast Asian Nations (ASEAN). Although not an ADB member, Brunei Darussalam is also included in this TA, as it is a member of the Brunei Darussalam, Indonesia, Malaysia, Philippines–East ASEAN Growth Area (BIMP-EAGA), a subregional cooperation initiative.

[2] The TA was listed in *Asian Development Bank Business Opportunities* (Internet edition) on 23 January 2004. The TA is not included in the list of planned subregional TAs in ADB. 2002. *Subregional Cooperation Strategy and Program Status Report: Southeast Asia.* Manila, circulated to the Board in September 2002. Management approved the concept clearance on 19 March 2004.

[3] ASEAN Secretariat, Declaration of ASEAN Concord II (Bali Concord II), October 2003.

[4] ASEAN Competitiveness Study, Final Report, McKinsey and Company, August 2003.

4. Transport has long been a focus in regional cooperation in Southeast Asia, as reflected in the initiatives of the ASEAN transportation network. In the recent ASEAN Summit in October 2003, the need to further develop land, air, and sea linkages was again emphasized, in anticipation of greater cross-border movement of goods and services with the implementation of ASEAN Free Trade Area (AFTA) and other ASEAN+3 initiatives. An integrated approach to transport development in the region, based on analysis and projections of regional demand for transport services under different scenarios and on a study of the alternative options for meeting that demand, is required to ensure that investments are prioritized correctly.

5. Energy sector development to meet the rapidly growing demand in Southeast Asia also requires integrated planning, as efficient resource development necessitates a regional, not local, perspective. This is particularly significant in the context of the regional integration effort in the electricity and gas sectors, as highlighted in the ASEAN Power Grid (APG) and the Trans ASEAN Gas Pipeline (TAGP) programs and the Asia Pacific Economic Cooperation (APEC) Asian Gas Grid program. A recent study by the Institute of Energy Economics of Japan projects that energy consumption in Asia will increase annually by 3.8%, and the gas share of this growing amount will increase from the current 7% to 14% by 2010.[5] A new strategy for regional cooperation in Southeast Asia will have to place a high priority on helping individual nations develop their energy sectors in a more coordinated and synchronized way.

6. To help meet these and other challenges ADB is currently working with the concerned stakeholders to formulate its first RCSP for Southeast Asia. ADB's efforts will review and selectively build on, streamline, and integrate past and ongoing assistance activities in the region, including investments in infrastructure development and TA activities in support of the Brunei Darussalam, Indonesia, Malaysia, and Philippines-East ASEAN Growth Area (BIMP-EAGA). Such an effort will advance the core development themes of the AEC to make ASEAN a more dynamic and competitive segment of the global supply chain. While the East ASEAN Growth Area is expected to be one key area of new activities, this strategy is expected to review and reformulate ADB assistance in that region in the context of overall regional cooperation opportunities in Southeast Asia.

7. ADB has already consulted with key international organizations that are supporting Southeast Asian integration, most importantly with the ASEAN Secretariat[6] and with United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP)[7], to ensure that the Southeast Asia RCSP will complement and reinforce ongoing ASEAN initiatives. The developing member countries involved in the RCSP have also expressed support for its main objectives and, most importantly, for the choice of strengthened infrastructure linkages as the main focus of assistance.

8. The TA will accelerate the shift from dialogue to concrete action in support of these goals. The TA will finance preparation of action plans for development of the transport and energy sector in the region, rooted in updated projections of supply and demand in these critical sectors. At the decision-making level, a high-level forum envisaged in the TA will identify and prioritize strategic objectives in regional cooperation initiatives. At the working level, sector-

[5] Ito, K., et al. 2001. *A Long Term Outlook of Macro Economy and Energy Supply-Demand for Asian Countries*. Institute of Energy Economics of Japan.

[6] Ms. Shamshad Akhtar, Director General of Southeast Asia Regional Department met with ASEAN Secretariat in Jakarta on 9–11 February 2004. ADB staff held further discussions with the ASEAN Secretariat on 20–26 April 2004.

[7] Ms. Akhtar met with UNESCAP in Bangkok on 5 February 2004.

focused consultations will be conducted to help identify, prepare, and implement key regional projects in the priority sectors of transport and energy. The TA findings at both decision-making and working levels will provide the basis for the new ADB RCSP for Southeast Asia, which is expected to be completed in late 2004. Findings of a previous TA to BIMP-EAGA will not be duplicated, but will be utilized whenever appropriate. The new TA aims to facilitate the incorporation of those findings into a results-oriented strategy.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

9. The TA aims to support background analytical work and stakeholder consultations for preparation of the Southeast Asia Regional Department (SERD) RCSP.

10. The main TA outputs are (i) expert studies in transport and energy development, providing up-to-date analysis and projecting key trends in regional infrastructure demand and supply; and (ii) regional cooperation projects and programs identified through in-country consultations on priority sectors. The findings will be presented at a high-level forum to identify emerging challenges and opportunities for regional cooperation in the region.

11. The TA framework is in Appendix 1.

B. Methodology and Key Activities

12. The following methodologies and activities are envisaged for the TA with respect to the three interrelated components.

13. **Expert Studies and Action Plans on Regional Cooperation Approaches in Transport and Energy Development.** The TA will finance the preparation of expert assessments and action plans on supply-and-demand trends in transport and energy infrastructure in the region, and on the potential for and constraints to regional cooperation in these areas. The assessment will be the basis for the policy dialogue between ADB and the stakeholders, and provide inputs to the high-level forum.

14. **Regional Cooperation Projects and Programs**. The TA will support in-country consultation activities, including sector workshops in transport and energy, to develop priority projects in strategic sectors in the next 3-5 years.

15. **High-Level Forum for Regional Cooperation**. The TA will organize and finance a high-level forum at ADB headquarters in Manila, to produce substantive and relevant recommendations for policy makers who will be ADB's key partners in implementing the RCSP. The forum will invite senior-level (ministerial-rank) policy makers, development practitioners, and academic researchers as resource persons. Topics at the forum will include (i) in-depth discussion of the energy and transport action plans, and the first steps in launching them; (ii) broad review of development challenges and opportunities in Southeast Asia through regional cooperation in the context of realization of the AEC in 2020.

16. The TA will cover Brunei Darussalam, Indonesia, Malaysia, Philippines, and Singapore. Although Brunei Darussalam is not currently an ADB member, it is included in the TA, as its

participation is essential for the TA objective of promoting regional cooperation in Southeast Asia.[8] A no-objection letter from each of the participating DMCs will be obtained before the TA is carried out in each of the DMCs.

C. Cost and Financing

17. The TA is estimated to cost $370,000 equivalent, of which $350,000 is in foreign exchange and $20,000 equivalent is in local currency. ADB will finance the entire foreign exchange cost on a grant basis by ADB's TA funding program. The TA will cover the costs of engaging consulting services (remuneration, per diem, and travel) and preparing reports. The TA will also finance regional consultation including a high-level forum and in-country consultation activities, expert studies of priority sectors, and dissemination of major TA output. As it is currently not an ADB member, Brunei Darussalam will finance all direct local costs that could be incurred by that country in implementing the TA. Brunei Darussalam will provide an estimated $20,000 equivalent in the form of office space, staff support, conference participation, and other in-kind contributions.[9] The detailed cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

18. ADB (SERD) will be the Executing Agency for the TA. With the assistance of a team of consultants, ADB staff will work with government agencies and business communities in implementing the TA. Implementation will take 6 months beginning in April 2004 and ending in September 2004. The TA requires two international consultants (6 person-months) and one domestic consultant (5 person-months). The terms of references for consultants are in Appendix 3. ADB will recruit the consultant team individually in accordance with its *Guidelines on the Use of Consultants* and other arrangements acceptable to ADB for engaging domestic consultants. Policy dialogue and consultation will be carried out with public institutions, the private sector, and other aid agencies. Government agencies concerned will provide logistic convenience and support including liaison with the consultant team and assistance in accessing required information and data. All procurement of equipment and materials, and service payments under the TA will follow ADB's *Guidelines for Procurement*.

19. The consultants will undertake their assignments intermittently during the TA period. The draft sector study report should be completed by June 2004, and the final TA report by the end of August 2004. In view of the time constraint, advance action in recruiting consultants is required to ensure timely completion of the TA.

IV. THE PRESIDENT'S DECISION

20. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of $350,000 on a grant basis for Support to Strategize Regional Cooperation in Southeast Asia, and hereby reports this action to the Board.

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[8] Although Brunei Darussalam is not an ADB member, it is a member of BIMP-EAGA subregional cooperation program, which remains a key part of overall strategic concerns in supporting regional cooperation in Southeast Asia.

[9] No financial and other support, which originated from the TASF, will be provided to conference participants from Brunei Darussalam and procurement of goods and services will only be limited to ADB's member countries.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions and Risks
Goal			
Enhanced regional competitiveness in sustainable development, rooted in development of an integrated Southeast Asian market	Identification of obstacles to regional economic integration among Southeast Asian countries	Feedback from stakeholders in public and private sectors	Regional political and economic stability and commitment to regional integration
Reduction of poverty in isolated islands of Southeast Asia through stronger linkages to national and regional economic centers	Development of improved links from those islands to other areas	Review of infrastructure development in the region, and its the impact on flow of goods and people	Political commitments of participating governments
Purpose			
Develop and build consensus around Southeast Asia Regional Department regional cooperation strategy and program (RCSP) that aims at the goals above, and that identifies Asian Development Bank (ADB) activities, which build on ADB's strengths and add genuine value to already existent regional cooperation initiatives	Key activities of the SERD RCSP are identified in the transport and energy sectors based on proper analysis of economic conditions and assessment of ADB's most productive role in supporting regional cooperation.	Consultation with potential users in government, civil society, and business community	Availability of comprehensive information for assessing needs through regional cooperation projects
Outputs			
Strong analytical framework for regional cooperation initiatives in transport and energy development	Expert studies in respective sectors completed by early June 2004	Staff supervision and participation	Timely completion of expert studies
Consensus on critical set of regional cooperation projects and/or programs in priority sectors	In-country consultation workshops held by end-August 2004, high-level forum of policy makers held by end-August 2004	Mission reports by consultants and ADB staff; final technical assistance (TA) report; final TA report	Disagreements among countries in prioritizing regional cooperation thrusts and projects

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions and Risks
Inputs/Activities A. Specialist services for 6.0 person months, estimated at about $152,000, are to be provided:	Field visits within the first month after the TA starts; and completion of sector assessment by end-June 2004	Terms of reference	Availability of qualified consultants and their services
(i) An international transport sector specialist to prepare a transport sector asessment for regional cooperation (ii) An international energy sector specialist to prepare an energy sector assessment for regional cooperation (iii) A domestic development economist to organize and coordinate the high-level forum for regional cooperation and in-country consultation activities, and perform other follow-up activities B**.** A high-level forum for regional cooperation	Participation of high-level government officials and other distinguished stakeholders	Forum documents and reports	Commitments of stakeholders concerned
C**.** In-country consultation workshops for regional cooperation projects in priority sectors D. Dissemination of TA output	Participation of sector experts and working group members in respective priority sectors Dissemination activities before November 2004	Consultation reports ADB staff participation	Commitments of stakeholders concerned Completion of the TA output

COST ESTIMATES AND FINANCING PLAN

($'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing[a]			
1. Consultants			
a. International Consultants			
i. Remuneration and Per Diem	109.4	0.0	109.4
ii. International Travel	27.6	0.0	27.6
b. Domestic Consultants			
i. Remuneration and Per Diem	15.0	0.0	15.0
2. High-Level Forum and/or Conferences[b]	98.0	0.0	98.0
3. In-Country Consultation Workshops[c]	50.0	0.0	50.0
4. Miscellaneous technical assistance administration costs (e.g., communications, editing, office supplies, printing, publications, etc)	20.0	0.0	20.0
5. Contingencies	30.0	0.0	30.0
Subtotal (A)	**350.0**	**0.0**	**350.0**
B. Brunei Darussalam Government Financing			
1. Office Space, Staff Support, Other In-Kind Contributions	0.0	20.0	20.0
Subtotal (B)	**0.0**	**20.0**	**20.0**
Total	**350.0**	**20.0**	**370.0**

[a] Financed by the Asian Development Bank's technical assistance funding program.

[b] Including per diem, hotel accommodation, remuneration and/or Honorarium for resource persons, and international travel.

[c] Including airfare, hotel, and subsistence allowances of participants from countries in consultation.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Transport Sector Specialist (international, 3 person-months)

1. The transport sector specialist will prepare a time-bound action plan identifying further steps to be taken by governments of ASEAN countries, relevant regional bodies (such as the Association of Southeast Asian Nations [ASEAN Secretariat]), and the Asian Development Bank (ADB) in support of regional cooperation in the transport sector. The action plan will be based on a rigorous assessment and projection of regional transport sector conditions, and will include the following tasks:

(i) Collect updated information and data on intraregional trade and transport sector, including (a) trade flows, (b) transport demand characteristics, (c) transport supply characteristics, (d) institutional and regulatory aspects.

(ii) Assess the transport supply characteristics in the region and adequacy of transport infrastructure, transport services, and logistics systems for efficient regional trade.

(iii) Forecast intraregional trade flows and the resulting transport demand under three growth scenarios. Based on the assessment made in task (ii), identify potential transport-related problems that could hamper regional growth, including the transport network and coverage, infrastructure capacity constraints, transport service and operation problems, and regulatory and institutional constraints.

(iv) Identify 3-4 most probable regional cooperation initiatives in the transport sector to mitigate the problems identified in task (iii) as case studies. Demonstrate economic benefits of regional cooperation in the transport sector by providing a sound economic analysis to ensure that the initiatives will achieve maximum benefits for society.

(v) Review the existing transport infrastructure projects and policy initiatives, which are relevant to supporting regional cooperation in the transport sector. Assess how these plans can support the initiatives identified in task (iv).

(vi) Prepare a strategy to improve transport sector integration in the region, which will include an assessment of prospects and approaches for obtaining private sector participation in transport projects in the region.

(vii) Identify 5–6 highest priority opportunities for ADB to support regional cooperation in transport sector development. These may include possible investments for ADB to develop transport linkages within the region, as well as opportunities for ADB to promote intraregional investments in the transport sector.

(viii) Submit the draft action plan to ADB no later than 3 weeks before the high-level forum on regional cooperation, for comments and revisions, so that the action plan can be circulated to forum participants 2 weeks before the forum. Present key findings at the forum, and in in-country consultations as decided in consultation with ADB.

B. Energy Sector Specialist (**international**, 3 person-months)

2. The energy sector specialist will prepare a time-bound action plan identifying further steps to be taken by governments, relevant regional bodies (such as the ASEAN Secretariat), and ADB in support of regional cooperation in the energy sector. The action plan will be based on a rigorous assessment and projection of regional energy sector conditions, and will include the following tasks:

(i) State the estimated reserves (proven, probable, and possible) or potential of each primary energy source (oil, gas, coal, hydroelectricity, geothermal sources, nuclear power), for each country in the region.

(ii) Prepare material balances for each primary energy source for each ASEAN country, showing current levels of indigenous production, import, indigenous consumption (for each major consumer sector including power, fertilizer, transport, commercial, and residential), and export.

(iii) Project for a 15-year period the supply of each primary energy source for each ASEAN country, based on existing sources of production (developed oil and gas fields, and coal, hydroelectric, and geothermal reserves) and planned/anticipated capacity additions.

(iv) Project for a 15-year period consumer demand for each primary energy source, for each ASEAN country, based on moderate, medium, and high gross domestic product (GDP) growth rate scenarios, and taking into account specific major development plans and projects (e.g., additional power generation capacity).

(v) Project a 15-year period supply-demand gap for each primary energy source for each ASEAN country, for the three GDP growth rate scenarios.

(vi) Review short-, medium-, and long-term infrastructure development plans (covering a 15-year period) in the energy sector, in each ASEAN country, and list ongoing and/or approved and/or proposed energy production and/or generation and transmission and/or transportation projects.

(vii) Identify approved and proposed energy infrastructure development projects (ongoing, approved, and proposed) in each ASEAN country, the scope of which could be extended to include cross-border energy transfer.

(viii) Identify other (i.e., not ongoing, approved, or proposed) energy infrastructure development projects to promote cross-border energy transfer.

(ix) Outline completed and ongoing cross-border energy transactions within the region (including project scope, cost, and financing plan).

(x) Assess prospects and approaches for obtaining private sector participation in cross-border energy projects in the region.

(xi) Identify 5–6 highest priority opportunities for ADB to support regional cooperation in energy sector development. They may include possible investments for ADB

in developing energy linkages within the region, as well as opportunities for ADB to promote intraregional investments in the energy sector.

(xii) Submit the draft action plan to ADB, not later than 3 weeks before the high-level forum on regional cooperation, for comments and revisions, so that the action plan can be circulated to forum participants 2 weeks before the forum. Present key findings at the forum, and in in-country consultations as decided in consultation with ADB.

C. Development Economist (domestic, recruited in one of the Southeast Asian countries, 5 person-months)

3. The development economist will assume the following responsibilities:

(i) assist with organizing and coordinating of in-country consultation activities and the high-level forum for regional cooperation; and perform other follow-up activities;

(ii) help prepare project profiles for regional projects; and

(iii) help implement the proposed TA, including (a) monitoring budget disbursements and contract variations, and (b) procuring other inputs.

D. Resource Persons for High-Level Forum for Regional Cooperation

4. Three to four distinguished resource persons will be engaged for the high-level forum for regional cooperation. The resource persons, with backgrounds in policy and practice in regional cooperation, are expected to speak on and present key issues of regional cooperation in Southeast Asia. Among the topics would are:

(i) strategic challenges and responses for Southeast Asia to accelerate the process of regional cooperation and integration, so as to achieve an ASEAN Economic Community (AEC) in 2020;

(ii) the prospects for infrastructure development (multimodal transport and energy) and service facilitation in promoting development and regional cooperation in Southeast Asia; and

(iii) the role that multilateral development institutions can play in support of the regional strategic objectives of cooperation and integration.