Regional cooperation and integration (RCI) has become a valuable means for attaining national development goals. This publication adjusts the implementation of ADB's RCI strategy to meet recommendations of the midterm review of Strategy 2020 and the institution's strategic directions. It provides guidance for RCI operations in assisting ADB's developing members harness increased benefits through improved cooperation and integration. The RCI Operational Plan focuses on strengthening connectivity between economies, enhancing competitiveness across connected markets, and improving regional public goods and collective action. This publication also aims to strengthen ADB's institutional capacity to lead in advancing RCI based on a larger, more innovative portfolio covering the four RCI Strategy pillars and high-quality operations.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to half of the world's extreme poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.
OPERATIONAL PLAN FOR REGIONAL COOPERATION AND INTEGRATION, 2016–2020

PROMOTING CONNECTIVITY, COMPETITIVENESS, REGIONAL PUBLIC GOODS, AND COLLECTIVE ACTION FOR ASIA AND THE PACIFIC

November 2016
# Contents

<table>
<thead>
<tr>
<th>Figures and Boxes</th>
<th>iv</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acknowledgments</td>
<td>v</td>
</tr>
<tr>
<td>Executive Summary</td>
<td>vi</td>
</tr>
<tr>
<td>Abbreviations</td>
<td>ix</td>
</tr>
</tbody>
</table>

I. Introduction 1

II. Rationale 2
   A. Regional Cooperation and Integration in Asia and the Pacific: Evolution, Progress, Challenges, and Opportunities 2
   B. ADB Practice and Experience in Implementing the Regional Cooperation and Integration Strategy 8

III. Regional Cooperation and Integration Operational Directions 12
   A. Impact and Outcome 12
   B. Key Operational Directions 12
   C. Updating Regional Cooperation and Integration Project Classification Criteria 20

IV. Implementation Plan 24
   A. Delivering ADB’s Four Regional Cooperation and Integration Roles 24
   B. Institutional Support 25
   C. Institutional Responsibilities 27

V. Monitoring and Reporting 31

Appendixes
1. Results Framework for Regional Cooperation and Integration Operational Plan, 2016–2020 32
2. Regional Cooperation and Integration Issues in the Midterm Review of Strategy 2020 37
3. Distinguishing Between National and Regional Activities 40
4. Future Regional Cooperation and Integration Projects 44
# Figures and Boxes

## Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Regional Cooperation and Integration Operational Plan in the Context of Future Development in Asia and the Pacific</td>
<td>13</td>
</tr>
<tr>
<td>2</td>
<td>Implementation of the Regional Cooperation and Integration Operational Plan</td>
<td>28</td>
</tr>
<tr>
<td>A4</td>
<td>Regional Cooperation and Integration Transport Projects in Work Program and Budget Framework, 2016–2018</td>
<td>45</td>
</tr>
</tbody>
</table>

## Boxes

<table>
<thead>
<tr>
<th>Box</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regional/Subregional Programs Supported by ADB</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Financial Cooperation Mechanisms and Initiatives Supported by ADB</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>The ASEAN Economic Community</td>
<td>6</td>
</tr>
<tr>
<td>4</td>
<td>ADF and OCR Set-Asides for Regional Cooperation and Integration Projects</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>Strengthening Connectivity Between Economies</td>
<td>14</td>
</tr>
<tr>
<td>6</td>
<td>Raising Competitiveness in Connected Markets</td>
<td>16</td>
</tr>
<tr>
<td>7</td>
<td>Investing in Regional Public Goods and Collective Action</td>
<td>17</td>
</tr>
<tr>
<td>8</td>
<td>Investing in Regional Cooperation Mechanisms</td>
<td>19</td>
</tr>
</tbody>
</table>
Acknowledgments

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Executive Summary

Progress. Regional cooperation and integration (RCI) has become a valuable means for attaining national development goals. Cross-border infrastructure has been the backbone of the process. Trade liberalization and foreign direct investment (FDI) have played an important role in building global and regional value chains in parts of the region. Liberalizing financial flows has helped drive these changes, while regional public goods (RPGs) have begun to tackle the impact of environmental and regional health issues, among others. To date, economic cooperation mechanisms have been project heavy and institution light.

Challenges and opportunities. The Thematic Evaluation Study by the Independent Evaluation Department of the Asian Development Bank (ADB) in October 2015 reported the positive impact RCI programs and projects have on economic development. It said that RCI projects were rated more successful overall than the average ADB success rate. However, both the Independent Evaluation Department study and the midterm review of Strategy 2020 stressed that future ADB operations needed to galvanize opportunities for greater RCI among developing member countries into new business. ADB would need to (i) increase RCI support under all four pillars of the ADB RCI Strategy, (ii) extend RCI intersubregionally, (iii) improve internal coordination, (iv) develop nonsovereign and public–private partnership (PPP) financing, and (v) enhance RCI project classification.

RCI Operational Plan innovations. This RCI Operational Plan (RCI-OP) is designed to guide RCI operations in five main ways. First, it will expand a more innovative RCI portfolio (sovereign funded) as part of the 30% RCI lending target of overall ADB operations under Strategy 2020 by (i) linking the four RCI pillars to mobilize sectors for different pillars; (ii) diversifying RCI lending using RCI set-asides as incentive, especially for nascent areas; (iii) supporting connectivity and competitiveness policy reforms; and (iv) promoting multicountry and multisector operations for RPGs. Second, it will grow the RCI portfolio by focusing support for nonsovereign RCI operations using direct private sector financing as well as PPP modalities. Third, it will establish an RCI project classification system based on robust cross-border analytics related to multicountry cooperation that promote collaborative and mutually beneficial RCI projects. Fourth, it will promote a “One ADB” approach to support signature RCI intersubregional projects and efficient use of resources and skills through (i) knowledge sharing across ADB departments; (ii) pilot country programs for intersubregional RCI; and (iii) intersubregional knowledge product development, underpinned by reporting and results monitoring. Finally, it will support RCI staff skills development and RCI performance recognition.

Growing the RCI portfolio. To expand the sovereign and nonsovereign RCI portfolio, the RCI-OP focuses on three operational directions: (i) stronger connectivity between economies by improving cross-border physical infrastructure, complementary software, and finance to increase

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1 The four RCI Strategy pillars are (i) infrastructure, (ii) trade and investment, (iii) money and finance, and (iv) regional public goods.
market access; (ii) improved growth and business competitiveness in regional markets through new opportunities in cross-border trade, investment, technology, finance, and labor mobility; and (iii) strengthened RPGs on health and environmental risks, and collective action for multicountry mechanisms—including financial risk and resilience to external shocks.

**Strengthening connectivity.** This links Pillars 1 and 3 of the RCI Strategy, deepening cross-border physical connectivity in transport, communications, and energy, making it more effective by addressing “soft-side” policy constraints, and facilitates innovative regional financing—whether nonsovereign, PPP-related, or energizing capital and savings through regional infrastructure funds and bonds.

**Raising competitiveness in connected markets.** Linking RCI Strategy Pillars 2 and 3, this supports cross-border economic corridors focusing on trade facilitation and logistics hubs for agriculture, manufacturing, and services (including tourism). It also promotes FDI and boosts value chain productivity, especially for small and medium enterprises, through greater competition, digital trade, and trade and supply chain finance. It helps drive regional capital market development—building a larger, more diversified investor base for the growing number of corporate issuers. This also promotes skills and knowledge transfer between economies.

**Investing in regional public goods and collective action.** This links all four RCI Strategy pillars, with investments that promote regional public health, mitigate climate change and disaster risk, and strengthen cooperation mechanisms requiring collective action (including support for regional institutions).

**Focusing on drivers of an RCI project pipeline.** The RCI pipeline for 2016–2018 is robust (Appendix 4). It projects a 70% increase over the 2013–2015 period, with significant growth in more diversified transport and urban sectors, among others. To further ignite ordinary capital resources (OCR) lending for RCI, large projects and nonsovereign and PPP financing are needed for the energy sector. Finance sector projects need to be rebalanced toward new areas of RCI growth. All projects need to be well defined in terms of RCI. Under each RCI-OP direction, RCI portfolio growth will accelerate through an evolving focus on (i) intersubregional signature projects, (ii) nonsovereign RCI projects, (iii) standout multicountry RCI projects, (iv) sequenced single-country RCI projects, and (v) relevant RCI knowledge products.

**Revising RCI project classification.** In order to develop a distinctive RCI portfolio, the RCI project classification system will be revised to support the three RCI-OP directions. Each RCI project (single or multicountry) must show direct and/or indirect cross-border economic, social, or environmental net benefits. Single-country projects must also support an existing regional RCI agreement or framework.

**Implementing a “One ADB” approach to RCI.** Implementing the RCI-OP will require more efficient RCI knowledge sharing internally, coursed through the RCI Thematic Group (TG) Secretariat. A corporate report on ADB’s RCI operations will be the basis for an annual High Level RCI Dialogue Forum. Programming will support pilot intersubregional multicountry operations. The criteria and processes for OCR and Asian Development Fund set-asides will be made more efficient, and technical assistance (TA) funds will increasingly support pre-project preparatory technical assistance and a single corporate priority TA for linking different collective action platforms and mechanisms.
Upgrading RCI thematic skills. Finally, the RCI TG Secretariat will assist the Budget, Personnel, and Management Systems Department with RCI thematic skills analysis along with staff recruitment and deployment. Optimal use of existing staff will be prioritized, especially in divisions/units directly involved in RCI operations.
Abbreviations

ADB – Asian Development Bank
ADBI – Asian Development Bank Institute
ADF – Asian Development Fund
AEC – ASEAN Economic Community
ASEAN – Association of Southeast Asian Nations
BPMSD – Budget, Personnel, and Management Systems Department
CAREC – Central Asia Regional Economic Cooperation Program
CDTA – capacity development technical assistance
COBP – country operations business plan
CPS – country partnership strategy
DMC – developing member country
FDI – foreign direct investment
FTA – free trade agreement
GMS – Greater Mekong Subregion
ICT – information and communication technology
IED – Independent Evaluation Department
MFF – multitranche financing facility
MIC – middle-income country
MTR – midterm review
OCO – Office of Cofinancing Operations
OCR – ordinary capital resources
OPPP – Office of Public–Private Partnership
PATA – policy advisory technical assistance
PBA – performance-based allocation
PBL – policy-based lending
PCR – project completion report
PPP – public–private partnership
PPTA – project preparatory technical assistance
PSOD – Private Sector Operations Department
RBL – results-based lending
RCS – regional cooperation strategy
RCI – regional cooperation and integration
RCI-OP – RCI Operational Plan
RCI TG – RCI Thematic Group
RDTA – research and development technical assistance
RPG – regional public good
RRP – report and recommendation of the President
SASEC – South Asia Subregional Economic Cooperation Program
SMEs – small and medium enterprises
SPD – Strategy and Policy Department
Abbreviations

TA – technical assistance
TES – thematic evaluation study
TG – thematic group
WPBF – Work Program and Budget Framework
I. Introduction

1. The strategic importance of regional cooperation and integration (RCI) is anchored in the Asian Development Bank (ADB) Charter. Yet RCI operations remained limited until a series of subregional programs supported by ADB were launched in the 1990s. The first regional cooperation policy was adopted in 1994; and in 2006, ADB adopted a four-pillar RCI Strategy.

2. In 2008, Strategy 2020 identified RCI as a strategic agenda and core area of operations. It set a 30% overall target for RCI-related ADB operations by 2020. The midterm review (MTR) of Strategy 2020 reconfirmed RCI in ADB’s strategic agenda, reiterated the 30% operational target, and said that the execution of the RCI Strategy should also be aimed at extending connectivity intersubregionally, improving productivity and competitiveness, and addressing climate change and disaster risk.

3. This RCI Operational Plan (RCI-OP) adjusts the implementation of the RCI Strategy to meet the MTR recommendations and ADB’s evolving strategic directions. It provides guidance for ADB’s RCI operations in assisting developing member countries (DMCs) harness increased benefits through improved cooperation and integration. Recognizing progress in DMC development capacity, ADB’s future RCI operations will aim to balance (i) operations that directly and immediately respond to DMCs’ development priorities, and (ii) other activities that address the region’s longer-term development interests and/or take a wider perspective (e.g., cross-sectoral or intersubregional) on the region’s development challenges (such as climate change). This will boost ADB’s capability to better assist DMCs to cooperate on economic, social, and environmental issues.

ADB’s future RCI operations will aim to balance operations that respond to DMCs’ development priorities and other activities that address the region’s longer-term development interests and take a wider perspective on the region’s development challenges.

1 Article 2 (ii) of the Charter mandates ADB “to utilize the resources at its disposal for financing development of the developing member countries in the region, giving priority to those regional, sub-regional as well as national projects and programs which will contribute most effectively to the harmonious economic growth of the region as a whole, and having special regard to the needs of the smaller or less developed member countries in the region.” ADB. 1966. Agreement Establishing the Asian Development Bank. Manila.


3 ADB’s RCI Strategy has four pillars: (i) cross-border infrastructure (both hard and soft), (ii) trade and investment, (iii) monetary and financial cooperation, and (iv) regional public goods. ADB. 2006. Regional Cooperation and Integration Strategy. Manila.

4 The RCI share of operations equals the volume of operations thematically classified as RCI in the last 3 years as a percentage of the total volume of operations approved during the same period. RCI may or may not be the primary theme. ADB. 2016. Planning Directions for the Work Program and Budget Framework (WPBF) 2017–2019.
II. Rationale

A. Regional Cooperation and Integration in Asia and the Pacific: Evolution, Progress, Challenges, and Opportunities

4. Evolution of RCI platforms in Asia and the Pacific. Given its Charter mandate, ADB has committed itself, in the role of “honest broker,” to promoting regional economic cooperation and integration among DMCs. Until the late 1980s, ADB’s regional activities were undertaken primarily through technical assistance operations. These included some very notable and significant regional studies, seminars, and policy dialogue that made important contributions to a much improved and shared understanding among DMCs of the region’s pressing development challenges at the time, and helped shape ADB’s operational policies. Initial RCI operations were focused on Southeast Asia, to sustain peaceful and mutually beneficial economic development among DMCs in the subregion, with the pioneering platform being the Greater Mekong Subregion (GMS) established in 1992, and involving two provinces of the People’s Republic of China (PRC) and five Mekong countries. Over time, the pragmatic, multitrack, multispeed and institution-light nature of the GMS, with ADB as its secretariat, proved highly successful in developing economic cooperation sector plans and projects between DMCs. ADB subsequently replicated this model in Central Asia through the Central Asia Regional Economic Cooperation (CAREC) Program involving 10 member-countries (with an 11th due to join), and in South Asia through the South Asia Subregional Economic Cooperation (SASEC) Program involving six South Asian countries. ADB’s engagement with other regional cooperation platforms, e.g., in the Pacific, has been more advisory but has followed the same practical approach to planning projects through these groupings. Box 1 briefly outlines the way in which these different groupings have tailored and adapted themselves to effectively address the priority RCI challenges specific to that part of the region.

5. Progress in RCI. Cross-border infrastructure has improved, intraregional trade reached 56% of the region’s total trade in 2014, capital flows are more efficient, with intraregional foreign direct investment (FDI) now 53% of total FDI inflows, and DMCs are showing increased interest in providing regional public goods (RPGs). But as governments deepen cooperation and economies integrate further, RCI challenges have grown in complexity.

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5 Following the global financial crisis of 2008-2009, the Asia and Pacific region accounted for more than 50% of the global increase in capital spending. Source: PWC. 2014. Developing Infrastructure in Asia Pacific: Outlook, Challenges and Solutions. In 2012-2015, 42,000 km of roads were built or upgraded and 50.6 million tons of cross-border cargo volume was facilitated annually, while access to electricity rose from 83.1% in 2010 to 86.2% in 2015. Source: ADB. 2016. 2015 Development Effectiveness Review. Manila.

6 ADB calculations using data from International Monetary Fund Direction of Trade Statistics. Asia Regional Integration Center. Integration Indicators. https://aric.adb.org/integrationindicators


8 The RCI Strategy defines a regional public good (RPG) as a public good shared by two or more countries in a region, which includes key areas such as clean energy and energy efficiency, environmental protection, natural disaster response, communicable diseases control, governance, and human and drug trafficking.
Box 1: Regional/Subregional Programs Supported by ADB

The Asian Development Bank (ADB) developed distinctive convening power to bring together senior developing member country (DMC) officials and provide them with sustained, impartial and professional knowledge, coordination and intermediation services to support their intercountry economic cooperation, including serving as a subregional secretariat. In doing so, ADB provided high-quality economic and sector-based thematic knowledge and impartial advice for addressing intercountry issues, and for forging specific regional cooperation projects. ADB also facilitated the participation of other development partners and additional resource mobilization from them to support regional cooperation activities.

The Greater Mekong Subregion (GMS) Program, established in 1992, includes Cambodia, the People’s Republic of China (PRC) (Yunnan Province and Guangxi Zhuang Autonomous Region), the Lao People’s Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet Nam. ADB serves as its secretariat. GMS implements high priority subregional projects in transport, energy, agriculture, environment, and trade facilitation, with over $17 billion invested by ADB, GMS countries, and cofinancers. The GMS Regional Investment Framework (2013–2022) has identified about 200 potential regional cooperation development projects across 10 sectors (including cross-border infrastructure, trade, agriculture, health, and environment) with an investment cost of about $50 billion.

The Central Asia Regional Economic Cooperation (CAREC) Program, established in 2001, includes 10 countries (Afghanistan, Azerbaijan, the PRC, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan). ADB acts as its secretariat. Other core development partners, namely, the European Bank for Reconstruction and Development (EBRD), International Monetary Fund (IMF), Islamic Development Bank (IsDB), United Nations Development Programme (UNDP), and the World Bank, also play a supporting role in certain sectoral areas. As of 2015, CAREC had a cumulative investment of $27.7 billion in the priority areas of transport, energy, trade facilitation, and trade policy, with ADB financing $10 billion of this total. The CAREC 2020 Strategic Framework sets out priority projects in cross-border infrastructure, trade, and some second-tier areas.

The South Asia Subregional Economic Cooperation (SASEC) Program, established in 2001, includes six countries (Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka). ADB acts as its secretariat. The SASEC program supports priorities of the South Asian Association for Regional Cooperation (SAARC) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). To date, 40 RCI projects worth $7.7 billion were funded by ADB, SASEC countries and cofinanciers in the energy, transport, trade facilitation, and information and communication technology (ICT) sectors. SASEC’s operational plan (2016–2025) focuses on transport, trade facilitation, energy, and economic corridors.

The Pacific Islands Forum, established in 1971, is the main convening body for Pacific leaders to identify and advocate for regional solutions to common issues. Its members are Australia, the Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. ADB is a key partner agency in development investment projects and technical assistance. ADB’s total investments in the Pacific have quadrupled in the last decade to reach about $2 billion to date. At the 46th Pacific Islands Forum in September 2015, leaders committed to accelerate regional cooperation and integration, particularly on climate change, ICT, fisheries, and health, which will be ADB’s priority areas for engagement.

Source: ADB regional departments/subregional program secretariats.
6. In the aftermath of the 1997/98 Asian financial crisis, ADB invested in strengthening monetary and financial cooperation in East and Southeast Asia, which was the epicenter of that crisis. These efforts were reflected in providing support to the ASEAN+3 financial cooperation process, including the Asian Bond Market Initiative (ABMI) and the Chiang Mai Initiative and its multilateralization (CMIM). In particular, ADB provided technical assistance and secretariat support for ABMI, under which ASEAN+3 established the Credit Guarantee and Investment Facility (CGIF), ASEAN+3 Bond Market Forum (ABMF), and Cross-border Settlement Infrastructure Forum, among others. ADB also supported the capacity building of the ASEAN+3 Macroeconomic Research Office (AMRO) for better regional surveillance (Box 2).

7. **Challenges to cross-border infrastructure.** In regional corridors, multimodal transport links across borders are needed; energy supply is unreliable and costly; and information and communication technology (ICT) penetration is relatively low. Several constraints hold back further development. On the supply side, financing remains the biggest challenge: ADB and the ADB Institute (ADBI) estimate $320 billion is needed in 2010–2020 to meet regional infrastructure demand. Of this, about half is for regional transport and logistics, with the rest largely to transport power from surplus to deficit countries. More investment in ICT connectivity is needed. On the demand side, huge startup costs, long payback periods, along with uneven distribution of benefits, are constraints. There is also insufficient capacity to originate, implement, or manage projects, among other impediments. In addition, physical infrastructure must be accompanied by more efficient soft infrastructure—e.g., easing cross-border transport procedures, power trading, and ICT regulations.

8. **Benefiting from better connected markets.** Intraregional trade and investment have grown. But taking advantage of better connected markets has become a key challenge. First, regional trade growth has decelerated, and progress on nontariff measures has been mixed. For example, lack of progress on agricultural trade facilitation stymies a potential source of greater regional trade. Second, income inequality has been rising across the region and could fuel calls for protectionism. The opportunities and potential benefits of liberalized trade must better target small and medium enterprises (SMEs), e.g., through regional and global value chains. This requires improved logistics and access to trade finance. Finally, despite significant progress on

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9. These efforts are complemented by ADB’s support to ASEAN financial integration.


13. For example, inequality, as measured by the Gini coefficient, increased in the PRC from 32.4 in 1990 to 43.4 in 2008, in India from 32.5 in 1993 to 37 in 2010, and among ASEAN countries such as Indonesia and the Lao PDR. Source: ADB and ADBI. 2014. *ASEAN, PRC, and India: The Great Transformation*. Tokyo, Japan.

14. Numerous studies suggest that, despite the increasing number of FTAs in the region, utilization rates of FTAs are relatively low among SMEs. FTAs present huge opportunities for SMEs, including an enlarged market base and opportunities to integrate into regional and global value chains. Source: (i) M. Kawai and G. Wignaraja, eds. 2011. *Asia’s Free Trade Agreements: How is Business Responding?* Cheltenham, UK: ADB/ADBI/Edward Elgar. And (ii) T. Tambunan and A. Chandra. 2014. *Utilisation Rate of Free Trade Agreements (FTAs) by Local Micro-, Small- and Medium-Sized Enterprises: A Story of ASEAN*. *Journal of International Business and Economics*. 2 (2). pp. 133–163.

Box 2: Financial Cooperation Mechanisms and Initiatives Supported by ADB

The ASEAN+3 Bond Market Initiative (ABMI) is one of the two pillars of financial cooperation of ASEAN+3. Since 2008, ASEAN+3 has focused on four key areas in developing local currency bond markets under ABMI, namely: (i) promoting issuance of local currency bonds; (ii) facilitating the demand of local currency bonds; (iii) improving the regulatory framework; and (iv) improving related infrastructure for bond markets. The Asian Development Bank (ADB) has been supporting the ABMI by providing technical assistance as well as secretariat support.

The Credit Guarantee and Investment Facility (CGIF) was established in November 2010 to support issuance of local currency denominated corporate bonds in ASEAN+3 by providing credit guarantees. CGIF is a trust fund of ADB. It is capitalized at $700 million by the respective Governments of ASEAN+3 with a capital contribution of $130 million from ADB. Bonds supported by CGIF so far included a green infrastructure bond.

The ASEAN+3 Bond Market Forum (ABMF) and Cross-border Settlement Infrastructure Forum (CSIF) were established respectively in 2010 and 2013 under the ABMI, to (i) promote regulatory harmonization on local currency bond issuance, and (ii) link systems of central banks and national central securities depositories for establishing a cross-border bond settlement infrastructure.

The ASEAN+3 Macroeconomic Research Office (AMRO) was established as the surveillance unit of the Chiang Mai Initiative Multilateralization (CMIM) Agreement, which came into effect in March 2010. In February 2016, AMRO was converted to an international organization with full legal personality. The purpose of AMRO is to contribute to securing the economic and financial stability of the ASEAN+3 region by conducting regional economic surveillance and supporting the implementation of CMIM, which provides liquidity support to preempt financial crises. ADB provides technical assistance to support AMRO’s capacity building on regional surveillance work.

Source: ABMI Secretariat.

developing local currency bond markets in East and Southeast Asia, financial markets remain bank-dominated.16 Regional capital market development can provide a source of regional infrastructure financing and an alternative source of SME finance.

9. Better use of larger cross-border markets is particularly important for DMCs entering middle-income status—where there is a need to increase innovation to drive growth. The World Economic Forum (WEF) Global Competitiveness Index has revised some of its “drivers of long-run prosperity.” These include infrastructure and connectivity, market size, product and service market efficiency, labor market efficiency, financial market efficiency, and technology adoption, among others. The results of the Global Competitiveness Index 2015–2016 rankings show most DMCs are weak in either competitiveness or innovation.17 These challenges are central to RCI cooperative efforts—such as the ASEAN Economic Community (AEC) (Box 3).

16 Emerging East Asia’s outstanding local currency bonds totaled $9.1 trillion at the end of December 2015. Year-on-year, emerging East Asia’s local currency bond market grew 17.8% in the fourth quarter of 2015. The fastest growing bond markets were the PRC, Hong Kong, China, and Malaysia. Source: ADB. 2016. Asia Bond Monitor—March 2016. Manila.
10. **The urgency for expanding regional public goods.** While cooperation on RPGs has deepened among DMCs, they remain insufficient to address the region’s growing vulnerability to climate change and natural hazards; environmental risks; and health security:

- The Yale University 2014 Environmental Performance Index (EPI) ranks DMCs poorly on several environmental indicators related to climate and energy, water resources, agriculture, water and sanitation, and health, among others. Many of these are cross border and intersectoral, such as transboundary water resource issues affecting energy and agriculture.
- Increased labor mobility, tourism, and trade can lead to epidemics otherwise geographically contained. Climate change—temperature and flooding—can spread vector-borne diseases such as malaria and dengue. Predictive modeling shows Asia as

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18 Country rankings are at http://epi.yale.edu/epi. The EPI is now in its 15th year. It is used to guide countries toward achieving the United Nations’ Sustainable Development Goals and meeting recent international climate change agreement targets (such as the nationally determined contributions of COP 21 signatories).

a hotspot for new infectious diseases, particularly from animals. Pollution and natural disasters remain significant risks.

11. **Challenges to collective action on RCI.** Many RCI mechanisms in Asia and the Pacific vary widely in objective, scope, structure, and stakeholders. Instead of ceding national sovereignty to regional supranational institutions, cooperation has proceeded on a “multitrack,” “multispeed,” and 2+x approach. This has allowed DMCs to pursue RCI more responsively to specific needs and contexts. Yet challenges to this architecture have increased.

- Financial integration has grown significantly since the 1997–1998 Asian financial crisis and 2008–2009 global financial crisis. Today, risk mitigation continues to be a priority. Recent global financial instability underscores the need for DMCs (particularly those outside East and Southeast Asia) to tackle vulnerabilities to financial contagion and build resilience to volatilities. Closer monetary and financial cooperation needs to increasingly mobilize and effectively use savings across national borders in larger connected markets and bring a stronger “Asian voice” to international policymaking and global financial regulation. A collective Asian response to global challenges must be pursued.

- New multilateral cooperation mechanisms (e.g., new development finance institutions and trade agreements) move RCI beyond the conventional subregional approach toward more intersubregional cooperation. Middle-income country (MIC) initiatives like India’s Act East Policy and the PRC’s “One Belt, One Road” are being promoted, while new subregional initiatives (the Lower Mekong Initiative and Lancang–Mekong Cooperation) are also emerging. As they create greater momentum for RCI, they must avoid the risk of overlaps and inconsistencies in operational objectives and approach.

- RCI must aim to mitigate potential adverse effects of larger and more diverse cross-border flows—e.g., smuggling, human trafficking, and unfavorable labor conditions for foreign workers.

12. **Opportunities for RCI.** First, the nature of agreements and initiatives supporting RCI are changing. The AEC, the Regional Comprehensive Economic Partnership (RCEP)—a proposed free trade agreement (FTA) between ASEAN and the six countries with existing ASEAN FTAs—and the 12-member Trans-Pacific Partnership (TPP) offer many opportunities for new and innovative collaboration among DMCs and development partners. The RCEP and TPP, if ratified and effectively used, could form the basis for future World Trade Organization (WTO) negotiations on global trade rules, consolidate existing agreements, and address emerging challenges. And greater cooperation—bilateral and with development partners—opens new doors for potential financing for cross-border infrastructure initiatives.

13. Second, there are several new market drivers behind regional flows of trade, FDI, technology and labor. Technological advances (especially ICT) leverage productivity and drive the rapid increase in digital trade. Changes in national labor costs are driving industries to other

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parts of the region. This intraregional FDI has started to smooth intraregional trade deficits and better use excess savings. Third, changing demographics alter labor demand and supply (between aging populations and a young workforce), driving intraregional skilled labor mobility.

14. RCI programs that help remove barriers to trade, investment, capital flows, and labor mobility must also aim to promote (i) cross-border inclusive SME growth; and (ii) cross-border policies, regulations, environmental agreements, skills and health standards—backed by multilateral regional cooperation mechanisms and forums.

15. Finally, “global cities” in Asia are being promoted as attractive centers for regional and international commerce. There is the need to enable connectivity among them. These cities also need to (i) produce more food using fewer natural resources, including those shared with neighboring countries; (ii) protect citizens from communicable diseases and pandemics; and (iii) improve environmental quality. Appropriate RPG projects and mechanisms must be developed.

B. ADB Practice and Experience in Implementing the Regional Cooperation and Integration Strategy

16. Implementation of strategic priorities. The RCI Strategy identified four RCI pillars: (i) cross-border infrastructure (both hardware and software); (ii) trade and investment; (iii) monetary and financial cooperation; and (iv) RPGs. Pillar 1 was to be supported both through lending and nonlending operations, with the other three mainly through nonlending activities. The four pillars were viewed as being mutually supportive. While Pillar 1 is at its core, the RCI Strategy recognized that emphasis on the four pillars would vary depending on individual country needs, priorities, and readiness.

17. Pillar 1 made up the majority of loan approvals between 2007 and 2015. RPGs have been the bulk of nonlending. While there was less operational progress under Pillars 2, 3, and 4, strategic priorities are gradually broadening—Pillar 1 loans are being complemented by loan demand from the other three pillars. Multipillar technical assistance (TA) projects have also increased recently.

18. RCI operational quality. RCI programs and projects have had a positive impact on DMC economic development. Operations have been tailored for specific subregions or DMCs, executed mainly through subregional programs—GMS, CAREC, and SASEC. ADB’s RCI programs and projects have had a positive impact on DMC economic development. Operations have been tailored for specific subregions or DMCs, executed mainly through subregional programs—GMS, CAREC, and SASEC.

For the purposes of this RCI-OP, SMEs include agriculture smallholders and small agribusinesses.


ADB project classification guidelines for RCI under the Operations Manual allows a broad range of activities to be classified as RCI; and
(ii) the greater complexity of multicountry RCI projects limits their use. The Thematic Evaluation Study (TES) on RCI by the Independent Evaluation Department in October 2015 concluded that greater clarity was needed on what constitutes a regional project—and it suggested options.

19. **Implementation of ADB’s four RCI roles.** In addition to the four pillars, the RCI Strategy defined specific roles for ADB, as: (i) financier, providing, or mobilizing financial resources; (ii) knowledge provider, creating, consolidating, and disseminating RCI knowledge; (iii) capacity builder, helping DMCs better manage RCI; and (iv) honest broker, serving as catalyst and RCI coordinator in the region.

20. **ADB as financier.** ADB’s RCI lending reached $3.8 billion in 2015.\(^{25}\) It accounted for 22%\(^{26}\) of total ADB financed projects in 2013–2015. Most RCI investments have been sovereign loans on a project basis. Public–private partnerships for cross-border connectivity have been minimal, although some ad hoc nonsovereign RCI loans were made. The TES noted the need to develop new RCI project models or approaches to widen DMC coverage, and trigger new RCI operations under the four pillars.

21. RCI lending began to diversify, due in part to ADB special financial instruments in the form of set-asides (which also help promote multicountry RCI projects). Disaggregating the Asian Development Fund (ADF) set-aside for RCI operations by sector reveals a shift in resource distribution less skewed toward Pillar 1 (compared with total ADF support for RCI projects).\(^{27}\) In addition, only half of the projects supported by the ADF RCI set-aside were single-country projects, suggesting that the set-aside encouraged multicountry RCI projects, particularly for less-developed member countries. The annual ordinary capital resources (OCR) set-aside was introduced in March 2015 with different criteria (Box 4).

22. **RCI TA projects have had strong cofinancing support, reaching $98 million in 2015.**\(^{28}\) They are supported by ADB-administered trust funds and ADB’s TA funds. Project preparatory technical assistance (PPTA) accounted for just 11% of TA during 2010–2015. A clearly classified, more diverse RCI portfolio with enhanced multicountry operations requires reform of set-aside criteria, regional programming, and greater use of TA in preparing a strong project pipeline.

23. **ADB as knowledge provider and capacity builder.** The bulk of TA funds for RCI have been allocated to capacity building/capacity development technical assistance (CDTA) (46%), followed by policy advisory technical assistance (PATA) (31%), and research and development technical assistance (RDTA) (11%). CDTA and PATA projects cover learning and networking for mid- and senior-level civil servants as well as crafting policy advice for high-level forums. PATA projects also help DMCs prepare national and sectoral development plans and programs that support RCI. RDTA projects have produced a series of signature RCI studies. Moving forward, ADB may consider conducting more operationally relevant knowledge work for RCI in partnership with centers of excellence to foster RCI-supportive policies, build cooperation agreements, and

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\(^{25}\) Strategy and Policy Department (SPD) data as of 5 January 2016.

\(^{26}\) Based on the volume of projects; projects may be classified under more than one theme.

\(^{27}\) Although Pillar 1 investments continued to account for the bulk of financing under the set-aside, it declined as the Pillar 4 share and multisector activities increased. The Pillar 4 increase highlighted the growing importance of energy security and climate change in RCI priorities. ADB. 2010. Development Effectiveness of Regional Cooperation and Integration Initiatives. Discussion paper presented at the ADF X Midterm Review Meeting, Manila, Philippines, 18–19 November.

\(^{28}\) SPD data as of 5 January 2016.
expand the sector and thematic scope of ADB’s RCI-related knowledge operations, contributing to RCI pipeline development.

24. ADB as honest broker. ADB acts as honest broker in planning and implementing RCI, mainly through subregional cooperation programs and support for interregional platforms. Providing effective coordination and objective intermediation is a hallmark of ADB’s RCI approach. Under the RCI-OP, the evolving regional, interregional, and development assistance context will shape the evolution of ADB’s honest broker role.

25. ADB’s extensive experience in RCI, in-depth knowledge of the region, DMC trust, and experienced RCI specialists provide comparative advantage among development partners.

26. DMCs are strengthening their RCI roles and evolving their own initiatives. Some take a more region-wide or intersubregional approach. ADB built its RCI reputation through subregional cooperation programs. There is the need to improve ADB’s internal coordination between departments and pay greater attention to the needs of fragile islands and countries at Box 4: ADF and OCR Set-Asides for Regional Cooperation and Integration Projects

The Asian Development Fund (ADF) set-aside for regional cooperation and integration (RCI) was introduced in the ADF VIII replenishment. It was implemented under ADF IX, with 5% of total ADF resources earmarked for RCI lending. A requirement was introduced for countries to provide 20% of the total project cost from national resources allocated under the performance-based allocation (PBA) to ensure strong country ownership. Under ADF X, the RCI set-aside was increased from 5% to 10% in response to growing demand for integrating slower-growing countries with faster-growing neighbors. The requirement for developing member countries (DMCs) using the RCI set-aside was also increased: for every $1 drawn, countries must add $0.50 from the PBA, subject to a 20% ceiling, beyond which contributions from the country PBA would be voluntary. ADF XI recognized RCI as playing a critical role in accelerating growth and reducing poverty and inequality. Increasing support was crucial given rising concerns over regional public goods, energy security, food security, and climate change, along with other social and environmental effects. Over 95% of ADF set-asides are used biennially. The strategic benefits of ADF RCI set-asides have been threefold: (i) improved sector and pillar diversification; (ii) an increase in multicountry RCI projects; and (iii) strong DMC participation in ADB-assisted RCI programs.

A pilot ordinary capital resources (OCR) set-aside for sovereign RCI projects was introduced in March 2015, with a $500 million annual allocation for the 3-year 2015–2017 pilot period. This has been extended to 2019. To highlight country ownership, a minimum of 50% financing for any proposed regional project should come from participating countries’ regular OCR allocation. ADF 12 (2017–2020) is expected to provide $1.5 billion for regional programs and projects, including $53 million for regional health security.

the crossroads of intersubregional RCI. How ADB strengthens its internal capacity to coordinate between national, subregional, and intersubregional (and even interregional) initiatives will grow in importance. This requires (i) more technical, objective assessments of costs and benefits; (ii) enhanced knowledge sharing; and (iii) incorporation of new RCI initiatives using its expertise in RCI project development, financing, and soft-side policy issues.

27. **Updating RCI Strategy implementation under the four pillars.** The MTR indicated that RCI operations should build and expand connectivity—adding intersubregional connectivity—promote productivity in connected markets, build shared resilience, and respond to vulnerabilities. The TES noted that there is evidence of large untapped potential for RCI in the Asia and Pacific region. It made several recommendations to increase and expand ADB’s future RCI operations: (i) broadening ADB’s RCI agenda by doing more work in RCI Pillars 2, 3, and 4; (ii) continuing the RCI agenda in Pillar 1; (iii) improving intrasubregional, intersubregional and operational/nonoperational RCI work coordination. This RCI-OP complements the RCI Strategy and updates its implementation.

28. This RCI-OP will govern RCI operations over the medium-term, respond to MTR and TES recommendations, and reflect the principle of “One ADB” in five main ways. First, it will grow a more innovative RCI portfolio (sovereign funded) as part of the 30% RCI lending target of overall ADB operations under Strategy 2020 by (i) linking the four RCI pillars to mobilize sectors for different pillars; (ii) diversifying RCI lending using RCI set-asides as an incentive, especially for nascent areas; (iii) supporting connectivity and competitiveness policy reforms; and (iv) promoting multicity and multisector operations for RPGs. Second, it will grow the RCI portfolio by focusing support for nonsovereign RCI operations using direct private sector financing as well as PPP modalities. Third, it will establish an RCI project classification system based on robust cross-border analytics related to multicity cooperation promoting collaborative and mutually beneficial RCI projects. Fourth, it will promote a “One ADB” approach to support signature RCI intersubregional projects and efficient use of resources and skills through (i) knowledge sharing across ADB departments; (ii) pilot country programs for intersubregional RCI; and (iii) intersubregional knowledge product development, underpinned by reporting and results monitoring. Finally, it will support RCI staff skills development and RCI performance recognition.

29. See Appendix 2 for a more detailed discussion of responses to MTR recommendations.

30. For example, a focus on collective mitigation of vulnerabilities, through a combination of Pillars 1 and 4, can expand the RPG portfolio through sustainable transport, clean energy and ICT. A focus on connectivity, through a combination of Pillars 1 and 3, can encourage the development of regional infrastructure bonds.

31. For example, time-bound policy-based lending for soft-side connectivity reforms.
III. Regional Cooperation and Integration Operational Directions

A. Impact and Outcome

29. The expected RCI-OP impact will be stronger connectivity between economies, enhanced competitiveness within and across connected markets, and improved RPGs and collective action—achieved through operations with cross-border impact. The outcome will include stronger institutional capacity to lead in advancing RCI, based on (i) a larger, more innovative RCI portfolio covering the four RCI Strategy pillars; and (ii) high-quality RCI implementation.

B. Key Operational Directions

30. The RCI-OP has three operational directions (Figure 1):

(i) stronger connectivity between economies through improved cross-border physical infrastructure, complementary software, and finance to increase market access;
(ii) improved growth and business competitiveness in regional markets through new opportunities in cross-border trade, investment, technology, finance, and labor mobility;
(iii) strengthened RPGs and collective action for cooperative multicountry mechanisms—including health, environmental and financial risk, and resilience to external shocks.

Under each operational direction, ADB will directly support single and multicountry lending and nonlending projects that generate spillover benefits to more than one DMC.

31. The three operational directions will, first, use existing RCI subregional programs as the principal mechanism for planning and implementing ADB-supported RCI work. The programs will employ more technical and knowledge-based secretariat functions—led by DMCs and assisted by ADB regional departments. Second, the operational directions will seek new RCI opportunities (including new multilateral and bilateral initiatives) for nascent sector, subsector, and cross-sectoral areas—through lending, nonlending knowledge products and services, regional institution-building, and the strengthening of other RCI mechanisms among DMCs. Third, they will require ADB knowledge departments to identify medium- to long-term opportunities for intersubregional cooperation.

32 Regional collective action is referenced in the RCI Strategy. Regional public goods (non-rivalrous and non-excludable), include cross-border health and safety regulations.
1. Operational Direction 1: Strengthening Connectivity Between Economies

32. **Improve cross-border physical connectivity.** In partnership with other infrastructure financiers, ADB will scale up and diversify investment in high quality, cross-border physical connectivity (e.g., transport, energy, telecommunications and ICT, and associated logistics) (Box 5). Aside from multimodal transport, ADB will support cross-border power exchanges that match rising supply and demand, reduce reliance on fossil fuels through natural gas or renewable cross-border energy trade, and aim for a Pan-Asian energy market by 2030. ADB will support projects that connect DMCs within a subregion or region. It will also expand nonsovereign operations for RCI connectivity by assisting state-owned enterprises (SOEs) meet corporatization and privatization reforms of utility and transport entities.

33. **Enable effective use of cross-border physical connectivity.** “Soft-side” constraints to physical infrastructure connectivity include policy, regulatory and institutional reforms. ADB will continue to support transport facilitation through road and rail transport interoperability, as

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35 Multimodal transport (roads, railways, waterways, seaports, airports) is a key element of ADB’s Sustainable Transport Sector Strategy and is applicable to RCI.

36 Over 2010–2035, primary energy demand in Asia and the Pacific is projected to increase 2.1% per year, with fossil fuels dominating the primary energy mix; electricity demand is projected to more than double. ADB. 2013. *Energy Outlook for Asia and the Pacific*. Manila.
well as cross-border energy and ICT interventions. Infrastructure planning and management will be improved as connectivity becomes increasingly multimodal and multisectoral—e.g., aligning power lines, roads and railways; multimodal border-crossing infrastructure and logistic hubs; and telecommunication links.

34. **Help promote regional financing for cross-border infrastructure.** ADB will support capital and savings intermediation (particularly from higher-income DMCs) for infrastructure—e.g., sovereign regional infrastructure funds that issue bonds to attract foreign exchange reserves, or other regional infrastructure bond finance promoting institutional efficiency.
2. Operational Direction 2: Raising Competitiveness in Connected Markets

35. **Promote cross-border economic corridors.** ADB investments that strengthen connectivity between economies (Operational Direction 1) provide opportunities to generate more competitive businesses, jobs, and investments in cross-border agriculture, manufacturing, and services. However, while strengthening connectivity is a necessary condition for competitiveness, it is not sufficient. ADB will continue to support investment planning in multiple sectors along economic corridors that take advantage of better access to larger cross-border markets (Box 6). This includes (i) trade facilitation; (ii) agricultural warehousing, and cold-chain logistics investments; (iii) investments in urban transport, energy, telecommunications, and ICT, along with water supply and sanitation in economic zones, urban industrial, and technology parks; and (iv) tourism infrastructure investments. For subregional economic corridors, the focus will be on (i) trade facilitation for coordinated border management—customs, immigration, quarantine (e.g., support for sanitary and phytosanitary measures agreed under the World Trade Organization), and security reforms; (ii) logistics investments in agriculture warehousing, and urban nodes; and (iii) infrastructure in key corridor centers that serve tourists. Together, these RCI investments will enable firm agglomeration, encourage business innovation, and improve participation in cross-border production and service networks, linking domestic, regional, and global value chains.

36. **Support FDI promotion and facilitation corridors.** ADB will support FDI to better match the region’s capital allocation with regional development. This also expands opportunities in DMCs for FDI inflows from outside the region, although much of this could be intersubregional FDI. Consequently, ADB will support intersubregional FDI facilitation corridors. Investment promotion involves (i) information dissemination to highlight FDI opportunities and to identify local partners, and (ii) public–private dialogue on policy reforms. Investment facilitation must satisfy source and recipient countries through (i) one-stop shops to reduce transaction costs; (ii) policy, legal and regulatory reforms that ensure fairness, transparency, openness, and use of international cross-border investment best practices; (iii) policies that promote responsible business conduct across supply chains; (iv) policies that help link multinationals with domestic SMEs; and (v) cost–benefit evaluation of investment incentives. The FDI promotion and facilitation program would include (i) upstream knowledge work identifying national regulations that impede or restrict FDI; (ii) policy reform; (iii) midstream economic zone facilitation, including improving the subnational or cross-border zone investment climate; (iv) downstream cross-border PPP transaction advisory services; and (v) direct and indirect downstream financing in selected FDI sectors.

37. **Promote value chain participation, especially for SMEs.** ADB will support policy-based programs and projects for inclusive business development and SME competitiveness in cross-border markets. These aim to (i) increase competition; (ii) promote foreign participation in business investment; and (iii) protect intellectual property. ADB will also help SMEs access value chains by increasing support for (i) trade and supply chain finance, and (ii) projects that help SMEs join regional and global value chains. These complement FTA provisions that ensure all businesses benefit from harmonized rules and regulations and include commitments to help SMEs participate in trade and value chains.

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35 This applies ADB’s Support for Inclusive Business (2016–2020) to RCI operations.
Box 6: Raising Competitiveness in Connected Markets

Almaty–Bishkek Corridor Initiative (ABCI). The ABCI is the first attempt at city-level cooperation under the Central Asia Regional Economic Cooperation (CAREC) Program to develop a multisector economic corridor focusing on infrastructure for spatial planning of manufacturing, services and information and communication technology. The project coordinates urban development planning to better integrate the two urban economies. A memorandum of understanding between the two cities was signed in November 2014. Identification of the investment and project pipeline is expected by the end of 2016.

Tianjin Cold Chain Logistics Facility Project. This 2012 nonsovereign project highlights the importance of logistics for food safety and reduced spoilage. Since the 1990s, Tianjin, located at the southern end of CAREC transport corridor 4B—linking Mongolia and the People’s Republic of China (PRC)—is the only seaport for most of Mongolia’s international trade. The project provides improved cold-storage facilities and should boost agricultural trade between the two countries.

Vizag–Chennai Industrial Corridor (VCIC). The VCIC is an integral part of India’s East Coast Economic Corridor (ECEC)—the first economic corridor to be developed under the South Asia Subregional Economic Cooperation (SASEC) Program. It will play a critical role in India’s “Act East Policy,” supporting the India–Association of Southeast Asian Nations (ASEAN) Free Trade Agreement. The proposed project will build on the existing concentration of economic activities and target investments and policies to drive growth of high potential industries. These include investments in infrastructure for economic nodes and logistics infrastructure to support high-volume trade. The ECEC will connect several east coast ports, which would serve as international gateways and critical supply chain links.

Promoting Skills Mobility in the ASEAN Economic Community. The 2015 technical assistance (TA) helps develop more effective national and regional qualification frameworks. It will improve data and analysis of skills mobility, and offer better systems and instruments to facilitate professionals’ labor mobility across ASEAN. A 2015 issues paper, “Achieving Skill Mobility in the ASEAN Economic Community: Challenges, Opportunity, and Policy Implications,” proposed six strategies for ASEAN policy makers, such as promoting early recognition of foreign qualifications for migrants, and improving access to information on recognition procedures and outcomes. The TA outputs can feed into skills development projects in Southeast Asia.

Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project. In 2014, ADB provided loans to Cambodia, the Lao People’s Democratic Republic (Lao PDR), and Viet Nam to upgrade tourism infrastructure. In Cambodia, a marine ferry terminal and other facilities will be built; rural roads and wastewater management will be upgraded where Khmer and colonial architecture are well-preserved. In the Lao PDR, road access to tourist areas will be improved, linking local markets in four provinces. In Viet Nam, tourism infrastructure in five provinces along Greater Mekong Subregion corridors will be improved. The project also deals with environmental services, helps develop tourism-related business, and supports services for businesses and access to microfinance.

Promoting Economic Cooperation Between the PRC and India. The 2015 TA will boost FDI between the PRC and selected Indian states by providing information to investors, organizing workshops and investment study tours, as well as publishing a website to answer potential investor queries on issues such as infrastructure, environment, labor, taxation, customs, financial regulations, and policies.

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* ADB. 2012. Loan to PRC for Tianjin Cold Chain Logistics Facility Development Project. Manila.
* ADB. 2016. Loan to India for Visakhapatnam–Chennai Industrial Corridor Development Program. Manila.
* ADB. 2015. Regional Technical Assistance for Capacity Building for Developing Qualification Frameworks under the Mutual Recognition Agreements to Support the ASEAN Economic Community by 2015 and Beyond. Manila.
38. **Support regional capital market development.** ADB will continue to support regional capital market development—in the process strengthening regional monetary and financial cooperation for a more coherent Asian position on global financial regulatory reform.

39. **Promote cross-border skills and knowledge transfer.** ADB will promote cross-border mobility of skilled-labor through policy programs that support (i) national and subregional skills development projects (e.g., cross-border peer-to-peer learning and twinning programs) based on labor supply and demand; (ii) national and subregional skills development programs that support compliance with mutual recognition agreements (MRAs), and help harmonize labor markets across partner DMCs; and (iii) cost-effective systems for remittances.

3. **Operational Direction 3: Investing in Regional Public Goods and Collective Action**

40. **Promote regional public goods.** ADB will expand and diversify support to (i) mitigate financial and disaster risks; (ii) improve cross-border health security; (iii) assist DMCs manage shared natural resources; and (iv) assist countries implement COP21 commitments and similar agreements with regional impact (Box 7). As RPGs increasingly involve broader collective action,

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**Box 7: Investing in Regional Public Goods and Collective Action**

Greater Mekong Subregion (GMS) Health Security Project. Loans proposed to Cambodia, the Lao People’s Democratic Republic, Myanmar, and Viet Nam ($114 million combined) will improve migrant health and mobile populations in areas where communicable disease is associated with poverty, poor sanitation, and weak health services. These will include strengthening communicable disease surveillance, improving diagnostics and treatment, and strengthening regional coordination, knowledge sharing, and capacity building for communicable disease control.

Disaster Resilience of Infrastructure Investments in the Pacific. This $1 million technical assistance (TA) approved in 2015 incorporates climate change and disaster risk management into infrastructure investments and government planning, and improves client access to climate change financing, including developing proposals to access the Green Climate Fund and related funds. For example, a 2015 Fiji infrastructure project won Green Climate Fund financing approval. The TA also extends ongoing work like the Pacific Regional Strategic Program for Climate Resilience (2012), which supports climate change initiatives through the Council of Regional Organisations in the Pacific.

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36 Ongoing efforts include local currency bond market development through the ASEAN+3 Asian Bond Markets Initiative and Credit Guarantee Investment Facility.

37 The 21st session of the Conference of the Parties (COP21) was held from 30 November to 12 December 2015 in Paris, France. The COP is the supreme decision-making body of the United Nation Framework Convention on Climate Change. All States that are Parties to the Convention are represented at the COP, at which they review the implementation of the Convention and any other legal instruments that the COP adopts and take decisions necessary to promote the effective implementation of the Convention, including institutional and administrative arrangements.
ADB support will also facilitate South–South cooperation through development processes and joint investments.  

41. **Support cross-border public health investments.** The RCI-OP follows the implementation of the expanded focus of health-related RPGs—set out in Appendix 4 of the 2015 Health Sector Operational Plan. It will draw suitably on dedicated health sector resources under ADF 12, among other resources, to help meet the ADB public health targets of 3% to 5% by 2020. ADB could support investment in (i) health infrastructure; (ii) health software—including (a) hospital accreditation, (b) MRAs for health professionals, (c) regulatory policies for medical goods, (d) quarantine arrangements, and (e) e-health initiatives for regional health solutions; (iii) institutional capacity for surveillance and pandemic preparedness; and (iv) road safety.

42. **Mitigate risks and impacts of climate change, natural hazards, and transboundary pollution, and protect biodiversity.** Given the increasing frequency of climate-related and other natural hazards—with damage ranging from direct human suffering to the disruption of regional and global supply chains—ADB will continue to mainstream disaster resilience in all RCI operations in infrastructure, urban economic zone/industrial parks, and agriculture logistics hubs to preserve functioning supply chains. The RCI-OP may also support (i) regional disaster risk management and finance (e.g., regional risk modeling, risk transfer solutions, and disaster risk insurance such as risk pooling); (ii) regional climate data consortia to support cooperation on climate change; (iii) cross-border energy and natural resource management, addressing transboundary water and air pollution, and protection of biodiversity, e.g., within established Biodiversity Conservation Corridors; and (iv) national urban emissions trading and technology transfer leading to regional initiatives. This support can provide a foundation for developing a pipeline of RCI knowledge-based and investment projects that catalyze “green finance” and/or meet specific eligibility criteria for “green bond financing” under the ADB Green Bond Framework.

43. **Strengthen collective action.** Collective action rests on close, sustained dialogue and cooperation among DMCs and development partners. ADB’s long experience and outreach can play a key role in building coherence on regional issues and programs and their country-level implementation. ADB can foster a broad range of RCI dialogue for all DMCs and development partners, helping harmonize aid efforts. Furthermore, challenges facing MICs increasingly involve integrating further into regional and global economies, and encompass commitments to advance regional and global public goods (e.g., financial regulations and standards, anti–money laundering efforts, combatting communicable disease, climate change mitigation and adaptation). ADB can support collective action that (i) negotiates agreements; (ii) avoids nonparticipation or “free riding” by individual DMCs—thus strengthening inclusion in collective action arrangements; and (iii) inculcates proactive MIC leadership and cooperation with less-developed DMCs on RCI.

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40 ADF 12 commitments are subject to approval by the ADB Board of Governors.

41 Broadly, “green finance” encompasses financing public and private green investments in environmental goods and services; prevention, minimization and compensation of environmental damage; financing public policies that encourage environmental and environmental-damage mitigation or adaptation projects and initiatives. The ADB Green Bond Framework helps DMCs mitigate greenhouse gas emissions and adapt to climate change impact. Eligibility requires climate change mitigation and adaptation projects—such as renewable energy, energy efficiency, sustainable transport, water, natural resource conservation, environmental policy and legislation.

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Box 8: Investing in Regional Cooperation Mechanisms

Support for the ASEAN+3 Macroeconomic Research Office (AMRO). Established in 2011, AMRO became an international organization in February 2016. A $1.2 million technical assistance (TA) approved in 2016 will boost AMRO’s capacity for economic surveillance and financial vulnerability assessments. It (i) supports the development of AMRO’s regional economic surveillance framework; (ii) develops regional surveillance and vulnerability assessment tools; and (iii) strengthens capacity of small open economies such as Bhutan, Cambodia, and the Kyrgyz Republic.

Greater Mekong Railway Association (GMRA). A TA approved in 2013 helped establish the GMRA, a Greater Mekong Subregion (GMS) railway coordination body, to (i) develop railway institutional capacity in GMS countries; (ii) support railway connectivity and interoperability; and (iii) facilitate private sector dialogue on railway development.

The Central Asia Regional Economic Cooperation Program (CAREC) Institute. ADB supports capacity building at the CAREC Institute, which provides analytical support for strategic, sector, and project-based work, and associated training in all CAREC bodies. Under its 5-year Strategic Knowledge Framework, the CAREC Institute will (i) conduct research on regional, multisector, and collective action sector issues; (ii) share knowledge through regional learning programs, seminars, and workshops; and (iii) organize and disseminate information through e-knowledge platforms and databases, among others.

Support for the University of South Pacific (USP). In 2012, ADB began a $19 million loan package with USP to (i) expand regional campuses and accommodation facilities in Kiribati and the Solomon Islands; (ii) enhance information and communication technology-based distance learning programs; (iii) improve student services; and (iv) strengthen governance and management capacity. USP is the world’s first regional university, with over 25,000 students from across the Pacific, with campuses in each of the 12 Pacific island members.


ADB. 2012. Regional Technical Assistance for Assisting the Central Asia Regional Economic Cooperation Institute Knowledge Program (Phase I). Manila.


44. ADB will support DMC-led regional coordination and cooperation mechanisms (Box 8). This includes investments in regional institutions through OCR or ADF funds from DMC set-asides or results-oriented TA. Eligibility criteria for regional institutions comprise (i) legal status, fiduciary frameworks, and work experience; (ii) transnational nature; and (iii) location within any DMC, whether eligible for grants or loans. ADB will also continue to support DMC coordination mechanisms for subregional and intersubregional RCI. This can involve (i) fulfilling requests for help in coordinating RCI secretariat functions; (ii) helping devolve specified knowledge and other non-investment functions to country-led regional institutions;

For example, (i) regional universities and institutes; or (ii) monetary and financial cooperation institutions, such as bond market credit guarantee funds, or surveillance bodies.
(iii) engaging private sector and other stakeholders to support and sustain specific functions (such as transport and trade facilitation monitoring and measurement) with ADB technical guidance; and (iv) fostering forums across subregions to encourage intersubregional projects. These TA investments—devolved where feasible and with development partner cooperation and upper-MIC cofinancing—will evolve and bolster ADB’s honest broker role with DMCs. This will advance the multicountry cooperation needed to underpin RCI operations.

45. Amplifying ADB safeguard policies and the United Nations Sustainable Development Goals. ADB’s safeguard policies apply to the RCI-OP, and support for collective action can potentially amplify such safeguards beyond specific ADB-financed activities. Furthermore, the operational directions will allow ADB to contribute beyond domestic interventions through RCI collective action toward achieving the Sustainable Development Goals (SDGs). Working through the conventional and nascent sectors and thematic operational areas described in this section, RCI-OP operational directions will contribute toward SDGs 1 (Poverty), 3 (Health), 7 (Energy), 8 (Economy), 9 (Infrastructure), 10 (Inequality), 13 (Climate), and 16 (Institutions). Implementing RCI-OP directions—such as inclusive business, trade and investment facilitation involving SMEs, plus efforts to mitigate cross-border human trafficking—will contribute to SDG 5 (Women), reflecting ADB’s mainstreaming of its gender policy and action plans in RCI operations.

C. Updating Regional Cooperation and Integration Project Classification Criteria

46. ADB’s RCI project classification criteria should help generate, and accredit, ADB operations that produce definitive net benefits to two or more DMCs. Under existing criteria, the majority of RCI operations are single-country projects with regional spillovers. Nonetheless, there were concerns about making RCI operations more distinct by clearly and consistently identifying expected regional effects and benefits of single-country projects, and their links to regional cooperation frameworks. In addition, there is a need to clarify what constitutes a regional project, and a need to consider more multicountry RCI operations for collective action and outcomes benefiting DMCs.

47. Revised RCI project classification criteria. Given (i) ADB’s long experience and accrued knowledge; (ii) RCI classification criteria at other major multilateral development banks; (iii) the importance of distinguishing ADB contributions to RCI across the region; and (iv) the need for operational flexibility, ADB has revised its RCI project classification criteria.

Regional projects:
To be classified as “regional” (i.e., to be deemed an RCI operation), a project must define direct and/or indirect cross-border economic, social, or environmental outcomes and associated benefits. This can be done through calculation of the returns both for the region and for individual countries. The regional economic net present value (ENPV) gives the total change in welfare for the group of participating countries, and this must be at least equal to the sum of the national ENPVs.

41 The 17 Sustainable Development Goals (SDGs) of the United Nations 2030 Agenda for Sustainable Development were adopted on 25 September 2015. The SDGs build on the success of the Millennium Development Goals and call for all countries to promote prosperity while protecting the environment. The full list of SDGs is at http://www.un.org/sustainabledevelopment/sustainable-development-goals/
Special focus is required to identify and give value to additional benefits arising from regional cooperation, which will vary across sectors but are likely to be based on a variant of one or more of the following effects:

- generation of additional investment through the attraction of external funding, such as FDI, to at least one of the participating countries that would not be forthcoming for nationally-based projects;
- generation of technology transfer alongside FDI;
- creation of broad cross-border effects, such as generation of additional trade through improved transport and communication;
- capture of economies of scale and efficiency gains from regional specialization based on selling in a larger market;
- creation of agglomeration and network effects of urban centers in a larger cross-border market for value added trade flows; and
- better mitigation of cross-border risks through improved environmental cooperation (such as control of floods and pollution), and greater control of transmittable disease.

Following the calculation of the regional ENPV, including the spillover impact of regional cooperation projects, the distributional analysis of benefits across the participating countries needs to be calculated.\(^{44}\)

**Regional projects may be further distinguished as single-country or multicountry:**

**Single-country regional projects:**

*In addition to defining direct and/or indirect cross-border outcomes and benefits, a single-country regional project must satisfy at least one of the following criteria:*

- be a national sector project helping implement a multicountry sector agreement;\(^ {45}\)
- be a national multisector project helping implement cross-border agreements;
- be a national economic corridor project helping implement a multicountry economic corridor agreement;
- support regional policy dialogue leading to regional agreements on (i) trade, investment, and monetary and financial cooperation; (ii) cooperation on RPGs; (iii) aligning domestic policy reforms with cross-border objectives; and (iv) RCI-related research and knowledge; and
- create opportunities for improving multicountry cooperation, including regional institutions that satisfy legal and fiduciary requirements as transnational bodies.

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\(^{44}\) The analysis should take into account that different types of regional projects result in different shares of national and regional benefits, and are affected by different constraints—such as coordination failure, asymmetric costs and benefits, and weak ownership. Cross-border infrastructure projects may have greater national benefits than regional benefits, but are hampered by coordination problems; on the other side of the spectrum, climate change projects tend to have greater regional benefits, but may suffer from asymmetrical costs.

\(^{45}\) For the purpose of RCI project classification under the RCI-OP, multicountry sector agreements need to be an officially recognized, publicly stated understanding between two or more DMC governments (e.g., power purchase agreements among two or more DMCs, sector strategies officially endorsed under ADB-assisted subregional programs). These agreements may be, but not required to be, in the context of an ADB-assisted RCI subregional program (e.g., AEC). Agreements that include countries that are not members of ADB must include participation of at least two DMCs (e.g., TPP).
Multicountry regional projects:
In addition to defining direct and/or indirect cross-border outcomes and benefits, multicountry regional projects must satisfy the following criteria:

- include formal joint commitments, actions, and/or resource allocations between at least two countries; with Reports and Recommendations of the President (RRPs) and loan agreements sequenced to ensure timely implementation and mutually beneficial results to participating DMCs (one or more RRPs may be needed depending on the nature of the project—a separate legal agreement shall be prepared for each participating DMC); and
- in cases where ADB is involved in processing a multicountry regional project, or providing support to a regional institution involving one or more nonmember countries, concerned departments and offices shall liaise with the Office of the General Counsel at an early stage to ensure they are done in accordance with ADB policies and procedures.

48. Application of revised RCI project classification criteria. To be classified as regional, project proposals should satisfy regional project criteria plus (i) at least one single-country regional criterion, or (ii) meet multicountry regional criteria. Regional project criteria “direct and/or indirect RCI outcomes or benefits” should be clearly identified and assessed in the PPTA concept paper, reflected in the final RRP, and validated by the RCI TG Secretariat. RCI divisions, in cooperation with sector divisions where appropriate, could undertake the analysis, identifying projected cross-border outcomes and net benefits. Relevant quantitative and/or qualitative analysis should be applied. The RCI TG Secretariat and the Economic Research and Regional Cooperation Department (ERCD) will offer training to operations departments on suitable methodologies (e.g., cross-border distributional analysis). Operational departments should also consider project timing, processing, financing, and implementation arrangements for classifying projects as single-country or multicountry. This way, the revised classification criteria will produce a distinctive RCI operations portfolio responsive to DMC demand for stronger regional coordination and cooperation, complementary to and anchored on national development priorities (Appendix 3).

49. Revised RCI project classification process. Previously, RCI project classification was exclusively delegated to operational departments. Going forward, the RCI TG Secretariat will (i) advise operations departments on RCI project classification validation at an early stage of the operations cycle (any RCI project PPTA concept paper); and (ii) provide guidance during the interdepartmental review process on the economic analysis of direct and/or indirect cross-border economic, social or environmental outcomes, and net benefits. RCI divisions, supported by the RCI TG Secretariat, will be responsible for ensuring quality control of the data/information on RCI project classification entered into e-Ops.

46 Each regional department will choose its own internal work arrangement to conduct the RCI economic analysis.
47 For example, a multicountry regional project does not require simultaneous activities by all participating DMCs, provided there is (i) an agreement of two or more countries reflected in a single RRP, even if individual loan agreements are done at different times; or (ii) potential use of horizontal multitranche financing facility (MFF). In contrast, national projects supporting a multicountry RCI agreement will be classified as single-country RCI.
48 ADB’s e-Operations (e-Ops) is an online system for processing and implementing ADB’s operations.
50. **Transition to the new RCI classification criteria and process.** Upon RCI-OP approval, the RCI TG Secretariat, in close cooperation with relevant departments and offices,\(^9\) will incorporate the new RCI classification criteria and process within ADB formal business processes. The existing RCI project classification system would continue through the end of 2016, while amended and approved operations manual provisions would be in place by 31 December 2016. The new RCI project classification takes effect on 1 January 2017.

\(^9\) Including but not necessarily limited to ERCD, OGC, OIST, OSFMD, SDCC, SPD, and all operations departments.
IV. Implementation Plan

51. RCI-OP implementation will require (i) better delivery of ADB’s four RCI roles; (ii) institutional support to reform business processes, upgrade internal coordination, allocate financial resources and skilled human resources; and (iii) clearly delineated responsibilities.

A. Delivering ADB’s Four Regional Cooperation and Integration Roles

52. ADB’s four RCI roles vary considerably among DMCs. As some DMCs have relatively advanced institutional and financial capabilities, ADB should (i) structure RCI projects to tap these resources; (ii) strengthen innovative RCI knowledge products; and (iii) deepen technical expertise, internal knowledge sharing, and skills to expand ADB’s role as honest broker.

53. Increase RCI lending. For 2016–2018, RCI lending is projected to reach $5.5 billion per annum (see Appendix 4). Overall ADB sovereign, nonsovereign, and PPP financing should reach $6.0 billion annually under the Strategy 2020 target of 30%. The revised classification system will require raising RCI lending by (i) generating new ADB business through a systematic increase in nonsovereign lending and PPP support across the three RCI operational directions; and (ii) diversifying RCI lending modalities into policy-based lending (PBL) and results-based lending (RBL), including sector development programs, multitranche financing facilities (MFFs) for regional institutions, and guarantees to mitigate contract risks in PPP operations.

54. Refocus and strengthen RCI knowledge work. To generate new RCI sovereign and nonsovereign lending, ADB will produce studies that explain how RCI-related challenges and opportunities can lead to high-quality project pipeline development. This means rebalancing TA toward PPTA, supporting RCI pilot projects that can be expanded if successful, and rationalizing non-PPTA RCI knowledge work through internal collaboration. ADB will also refocus support for RCI-related capacity building on essential institutional and professional requirements for implementing RCI operations.

55. Boost multicountry cooperation. ADB will help build new regional cooperation frameworks and agreements using technical advice to assist regional institutions (examples include railway associations, power coordination, the CAREC Institute, University of South Pacific, the ASEAN+3 Macroeconomic Research Office, and subregional cooperation mechanisms such as the ASEAN Infrastructure Fund). ADB will also foster multicountry cooperation across subregions through interdepartmental cooperation teams led by the RCI TG. Thus, ADB will develop strong technical secretariats, beyond its current administrative role.

50 The $6 billion target includes ADB financing only.
51 The use of PBLs and RBLs are subject to the respective corporate-wide ceilings for OCR and ADF allocations as specified in the Operations Manual.
B. Institutional Support

1. Internal Knowledge Sharing on Regional Cooperation and Integration

56. RCI knowledge sharing within and across operations departments. The RCI division/units will strengthen their direct contributions to sector divisions in support of RCI lending. This includes (i) knowledge work on policy reforms as a foundation for sector divisions to implement new programs and projects; (ii) secretariat work to improve delivery of technical services and agreements; and (iii) serving as focal point for RCI work plans across sectors and for RCI project classification. In cooperation with the RCI TG Secretariat, they will also (i) share knowledge work across RCI divisions/units that foster intersubregional RCI and make knowledge operations across departments more efficient, and (ii) use open access databases to disseminate RCI information across ADB (including the RCI TG Secretariat) for preparing the RCI annual corporate report.

57. RCI knowledge sharing across knowledge departments. The RCI TG Secretariat will work with relevant divisions within ERCD on Asia’s strategic RCI development challenges central to regional and global trends. It will work with other sector groups and thematic groups on (i) strategic RCI elements in their operational plans in line with RCI-OP operational directions and revised project classification, (ii) joint business development research for RCI project development, and (iii) human resource training identified from the research. The Private Sector Operations Department (PSOD) will be associated with joint business development for nonsovereign RCI operations. Regionally strategic and operationally relevant joint knowledge work will be discussed at a biennial RCI Roundtable Conference organized by the RCI TG Secretariat, with representatives from DMCs, regional organizations and subregional programs, external partners, and ADB stakeholders.

2. Business Processes

58. RCI in Country Partnership Strategies (CPSs). Any RCI component will follow RCI-OP directions. Anchoring RCI in a CPS will reflect economic analysis by RCI divisions/units, with RCI TG Secretariat support, on expected medium-term country benefits from new RCI operations. This will help integrate RCI into national development planning and program prioritization, and preparation of the country operations business plan (COBP). From CPSs (plus any existing regional cooperation strategy [RCS]) regional departments will maintain a prospective RCI project pipeline for resource allocation and workforce planning, resource mobilization, and for contributing to ADB-wide RCI reporting.

59. RCI-OP’s operational directions—especially competitiveness and RPGs and collective action—imply greater multisector planning. CPS teams will apply lessons learned from integrated projects and best practices in planning and coordinating multisector projects.

60. Operational departments may use a pilot country CPS to encourage intersubregional operations. A pilot CPS could include (i) Timor-Leste in the Pacific, (ii) Bangladesh in South Asia, and (iii) Myanmar in Southeast Asia. Alternatively, two or more regional departments

52 Each regional department will decide on its own internal work arrangement, taking account of current responsibilities, skill sets and the nature of the RCI program. This can also include planning multisector RCI operations and economic analysis on the net RCI benefits related to operational directions.
collaborating on intersubregional RCI may prepare a single RCS document. Either way, regional departments may request RCI TG Secretariat support for (i) intersubregional analysis on risks, constraints and opportunities; and (ii) resources and pre-PPTA business development research for planning subsequent CDTA, PPTA, and ultimately investment projects.

61. **Preparing regional cooperation strategies.** Regional departments may pursue an optional RCS and regional cooperation operations business plan with DMCs as deemed appropriate. Subregional program Board Information Papers are also optional.

62. Managing subregional programs by RCI divisions/units—through their technical secretariat functions—will require RCI set-asides (both OCR and ADF) to be included in departmental programming.

3. **Financial Resources**

63. **Updating RCI resource allocation (lending).** The established OCR and ADF process for RCI set-asides will be updated to (i) further strengthen effectiveness, especially for the new OCR set-aside; and (ii) further support RCI portfolio growth with stronger multicountry cooperation. By doing so, ADB will mitigate risks to RCI portfolio growth by (i) assessing single or two sector/subsector dependency at a time of rising DMC capacity (and enhanced RCI work by other partners); and (ii) retaining ADB leadership in traditional RCI sectors.

64. Starting 2017, all OCR and ADF set-asides will be allocated to individual operations departments and managed with technical advice and support from the RCI TG. This will help the departments use the RCI set-aside more effectively and ensure compliance with eligibility and prioritization criteria requiring “wide geographic distribution of funds” and “high project readiness.” Unused allocations may be returned to OCR and ADF resource pools. Projects funded by set-asides should meet respective eligibility criteria and at least one (preferably more than one) prioritization criteria.

65. The OCR set-aside criteria related to “second generation RCI” will be revised, in consultation with the operations departments, to “innovative RCI operations.” This will ensure best use of set-asides for (i) diversifying into nascent RCI (sub)sectors, (ii) multicountry RCI projects, and (iii) a multicountry cooperation element in any single-country RCI project.

66. **Reprioritizing RCI resource allocation (nonlending).** To implement the RCI-OP, the RCI TG Secretariat will, in cooperation and collaboration with operational departments, prepare and implement a corporate priority TA biennially (for an allocation of approximately $1 million per year). This TA will (i) strengthen the RCI pipeline through pre-PPTA research for nascent RCI operations (sector diversification), nonsovereign RCI projects, or the development of RCI-related policy reform agendas in DMCs addressed through PBL and RBL assistance; (ii) support multicountry cooperation through non-PPTA for cross-departmental RCI analysis; or (iii) support ADB-administered regional technical assistance (RETA) for subregional coordination of RCI project pipelines and institutional development involving several ADB departments. It will help rationalize RCI knowledge work, reduce the number of TA projects, enhance corporate recognition of RCI, promote intersubregional cooperation, and allow “One ADB” corporate reporting on RCI.
67. **Strengthening RCI resource mobilization (nonlending).** ADB’s TA financing can be leveraged by cooperating with development partners. The Office of Cofinancing Operations (OCO) and the RCI TG Secretariat will work toward mobilizing multidonor funding and new financing partnerships for RCI TA trust funds, including replenishment of the Regional Cooperation and Integration Fund—creating partnerships that reduce transaction costs of cofinancing. These funds will support project conceptualization, and PPTA for RCI over amounts prioritized by individual operations departments for RCI PPTA. RCI trust funds mobilized by the RCI TG Secretariat and OCO will be jointly administered with (i) technical review of proposals for fund deployment under the RCI Thematic Committee; and (ii) operational pipeline development, facility management, and associated financial reporting to donors under OCO in consultation with regional departments.

4. **Human Resources**

68. **Ensuring adequate staff resources, capabilities, and optimal deployment.** To effectively implement the RCI-OP, additional staff with different skills will be needed. This is needed to deliver (i) the proposed medium-term RCI pipeline, backed by increased OCR headroom from the OCR–ADF merger, and other resources provided by the ADF 12 replenishment; as well as (ii) classification requirements. Consequently, in 2016, the RCI TG will, in consultation with operations departments, submit (i) staff skills implications of sector/subsector diversification for RCI in Appendix 4; and (ii) economics skills requirements for RCI project classification, and for cross-sector and new policy analysis for RCI lending. This would be input for the Work Program and Budget Framework (WPBF). The BPMSD will use the findings in support of its thematic skills analysis in 2017 to validate such submissions. Optimal use of existing ADB staff is the first priority. ADB will consider appropriate ways to consolidate or redeploy staff and consultants to amplify ADB capabilities, fill gaps, and achieve more cost-effective alignment and allocation of expertise (e.g., 3-year fixed-term external recruitment of experts with specialized RCI skills).

69. **Recognizing RCI staff performance.** Under ADB’s established framework for annual performance evaluation, staff may be recognized for notable performance on RCI. Exceptional performance by individual staff and teams could be recognized at the annual High Level RCI Dialogue Forum (see para. 72). Sustaining strong staff performance on RCI may be reinforced through staff rotation across operational and specialized knowledge units as well as internal and external training and other professional development.

C. **Institutional Responsibilities**

70. **Key responsibilities for RCI-OP implementation.** Those responsible for implementing the RCI-OP are (i) regional departments, including their RCI divisions/units, sector divisions and resident missions; (ii) PSOD and the Office of Public–Private Partnership (OPPP); (iii) ERCD, ADBI, and sector groups and thematic groups under the Sustainable Development and Climate Change Department (SDCC); (iv) BPMSD, OCO, and SPD; and (v) the RCI TG Secretariat (Figure 2).

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53 The RCI Thematic Committee is composed of the technical advisor (RCI) and heads of divisions/units responsible for RCI in operations departments.
1. Regional Departments

- **ADB leadership through the four RCI roles:** Regional departments are the only internal stakeholders that cover all four RCI roles. Together they hold lead responsibility for RCI-OP implementation. Divisions/units accountable for RCI should assume greater responsibility for (i) upstream (non-project) knowledge work identifying medium-to-longer-term opportunities in line with RCI-OP operational directions; (ii) other knowledge work that supports strategic cooperation and dialogue among DMCs (and involving other development partners where appropriate); and (iii) technical support...
Implementation Plan

for capacity building in DMCs. All operations departments should explore strategic
opportunities to collaborate intersubregionally on lending and nonlending activities.

• **RCI program management**: Regional departments support the multicountry cooperation
needed to scale up RCI operations through (i) RCI divisions/units’ management of
subregional cooperation programs with DMCs, generating and/or implementing regional
policies, institutional development, and agreements; (ii) resident missions’ inclusion of
RCI in CPS/COBPs, and support for capacity development; (iii) RCI divisions/units’
economic analysis of RCI and regional programming of OCR and ADF set-asides;
and (iv) RCI divisions/units’ management of partnerships with external stakeholders
operating in DMCs.

• **RCI project pipeline knowledge work**: This will be done in subregions through (i) sector
divisions’ subregional working groups; and (ii) RCI divisions/units’ upstream knowledge
work on RCI economics, institutional development and agreements to support sector
divisions.

• **RCI quality control**: RCI divisions/units’ support to sector divisions and the regional
department front offices on (i) applying project classification criteria, and (ii) applying
set-aside criteria.

• **RCI lending**: This will operate through sector divisions for (i) RCI lending, and (ii) PPTA
and CDTA knowledge work.

2. **PSOD and the OPPP**

• **PSOD** will continue to support innovative nonsovereign lending and PPPs for cross-
border operations—especially related to PPP infrastructure projects and niche projects
for agricultural value chains, trade and supply chain finance, and disaster risk financing.

• **OPPP** will provide transaction advisory services on PPPs for single-country and
multicountry RCI operations.

3. **ERCD, ADBI, and the Sector Groups/Thematic Groups in SDCC**

• **ERCD divisions and ADBI** will (i) conduct, publish, and disseminate high-impact RCI-
related economic and policy research on key global and regional trends and challenges,
identifying their central implications for Asia and the Pacific; and (ii) develop tools for
economic analysis of regional projects.

• **Sector Groups and Thematic Groups in SDCC** will cooperate with sector divisions in
regional departments and with the RCI TG Secretariat on (i) joint upstream business
development research and pilot projects; (ii) development of common analytical
frameworks for cross-department analytics that may involve development partners;
and (iii) knowledge sharing on emerging trends in subregional, regional, and global
frameworks and agreements, especially for collective action.

4. **BPMSD, SPD, and OCO**

• During the first half of the RCI–OP, the **BPMSD** may consider RCI skills analysis as a
component of its annual work plan supported by the RCI TG Secretariat (working closely
with operations departments and specialized knowledge units) providing relevant data/
analysis and other information and technical support.
• **SPD** will be responsible for deployment of OCR and ADF set-asides to regional departments for RCI operations.

• **OCO** will be responsible for mobilizing fiduciary-related administration of TA trust funds for RCI and grant/loan cofinancing for RCI projects.

5. **RCI Thematic Group Secretariat**

• **ADB’s institutional focal point for RCI:** The RCI TG Secretariat is the institutional focal point for facilitating ADB-wide RCI implementation. It will (i) consolidate RCI knowledge on subregional, regional, intersubregional, and interregional initiatives—using an ICT platform for annual self-assessment and corporate reporting on RCI-OP progress and results; (ii) organize key RCI events for knowledge sharing; (iii) generate knowledge focused on intersubregional RCI; and (iv) advise on improving mobilization and use of ADB resources.

• **RCI corporate responsibilities:** The RCI TG Secretariat will (i) organize an annual High Level RCI Dialogue Forum, submit a corporate report, and Board information paper on RCI operations; (ii) provide advice on project classification, set-aside criteria, and other RCI issues; (iii) help guide economic analysis of cross-border benefits of RCI projects during the interdepartmental review process; and (iv) support RCI divisions/units on CP5s, including support for preparing pilot CP5s/RCSs forintersubregional multicountry operations.

• **Financial resources:** The RCI TG Secretariat will provide technical advice on the deployment of RCI Trust Funds for nascent areas and multicountry cooperation to support OCR and ADF set-aside programming and use.

• **Human resources:** The RCI TG Secretariat will (i) organize knowledge sharing and skills development for RCI divisions/units jointly with sector groups, thematic groups, ERCD, and ADBI; (ii) assist BPMSD on RCI skills analysis; and (iii) advise on RCI-related staff recruitment and deployment.

• **RCI knowledge generation and sharing:** For intersubregional cooperation, the RCI TG Secretariat will (i) conduct joint upstream business development research and pilot project development with sector groups and thematic groups in SDCC and operations departments; (ii) develop common analytical framework for cross-department analytics involving development partners; (iii) produce knowledge work on emerging policies and agreements, including joint work with other ERCD divisions and ADBI; and (iv) organize key RCI signature events through high profile seminars and the biennial RCI Roundtable Conference.
V. Monitoring and Reporting

71. The results framework in Appendix 1 provides an initial basis for monitoring and evaluating the RCI-OP. Progress against the results framework will be assessed in the annual corporate report on ADB’s RCI operations (see para. 72).

- Level 1 tracks development progress in Asia and the Pacific. Some indicators are drawn from ADB’s corporate results framework, while others, such as the global competitiveness index and the global environmental performance index, are monitored by international institutions and universities.
- Level 2 focuses on ADB’s contribution to the achievement of Level 1 goals.
- Level 3 tracks ADB’s operational management of new and ongoing RCI operations. Indicators assess project preparation and implementation efficiency.
- Level 4 tracks organizational management, including use of human and budgetary resources required and business process efficiency in implementing the RCI-OP.

72. An annual corporate report on ADB’s RCI operations will be prepared and presented by the RCI TG Secretariat to the annual ADB-wide High Level RCI Dialogue Forum. A Board information paper will subsequently be submitted to the Board. The corporate report will assess progress on RCI-OP implementation based on its results framework. The annual report and Board information paper will be shared with ADB’s main RCI partners to encourage further RCI activity and cooperation.
## APPENDIX 1

### Results Framework\(^1\) for Regional Cooperation and Integration Operational Plan, 2016–2020

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Baseline (Year/Period)</th>
<th>Target (2020 unless otherwise specified)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level 1: Regional Cooperation and Integration Progress in Asia and the Pacific</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Intraregional trade—Asia(^a)</td>
<td>55.6% (2014)</td>
<td></td>
</tr>
<tr>
<td>2 Intraregional FDI Inflow—Asia</td>
<td>52.6% (2014)</td>
<td></td>
</tr>
<tr>
<td>3 Intraregional equity and bond holdings—Asia</td>
<td>19.2% (2014)</td>
<td></td>
</tr>
<tr>
<td>4 Logistics performance index scores—Asia(^b) (average index, 1 to 5)</td>
<td>2.85 (2016)</td>
<td>Increase</td>
</tr>
<tr>
<td>5 Global competitiveness index—Asia(^c) (average index, 1 to 7)</td>
<td>4.44 (2015)</td>
<td>Increase</td>
</tr>
<tr>
<td>6 Global environmental performance index—Asia(^d) (average index, 0 to 100)</td>
<td>65.0 (2016)(^e)</td>
<td>Increase</td>
</tr>
<tr>
<td><strong>Level 2: ADB's Contribution to Regional Cooperation and Integration Progress</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Completed RCI operations rated successful (%)</td>
<td>60% (2013–2015)</td>
<td>Increase</td>
</tr>
<tr>
<td>8 Cross-border transmission of electricity (gigawatt-hours per year)</td>
<td>790(^f)</td>
<td>Satisfactory achievement rate in percent (85% or above) (annual)</td>
</tr>
<tr>
<td>9 Cross-border cargo volume facilitated (annual tonnage)</td>
<td>574,000(^g)</td>
<td>Satisfactory achievement rate in percent (85% or above) (annual)</td>
</tr>
<tr>
<td><strong>Level 3: Operational Management of ADB's RCI Program</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 Operations supporting RCI (%; number) (3-year average)</td>
<td>23% (2013–2015)</td>
<td>30%</td>
</tr>
<tr>
<td>11 Financing for RCI (% of ADB lending volume) (3-year average)</td>
<td>22% (2013–2015)</td>
<td>30%</td>
</tr>
</tbody>
</table>

\(^a\) Asia consists of all regional members of ADB.

\(^b\) Index scores are unavailable for some regional ADB members (and are thus excluded in the computation).

\(^c\) Index scores are unavailable for some regional ADB members (and are thus excluded in the computation).

\(^d\) Index scores are unavailable for some regional ADB members (and are thus excluded in the computation).

\(^e\) EPI Ranking as of 2016: http://epi.yale.edu/reports/2016-report

\(^f\) Aggregate amount of outputs and outcomes reported in project completion reports and extended annual review reports circulated from 1 July 2013 to 30 June 2014 as achieved by ADB operations.

\(^g\) Aggregate amount of outputs and outcomes reported in project completion reports and extended annual review reports circulated from 1 January 2015 to 31 December 2015 as achieved by ADB operations.

\(^h\) “Achievement rate” is the percentage of total “results achieved” of total planned outputs and outcomes as reported in reports and recommendations of the President (RRPs) for the same operations. For example, 100+% achievement rate indicates that operations have exceeded the planned targets as reported in the RRP.

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\(^1\) This RCI-OP results framework may be revised to ensure alignment with a new corporate results framework being developed in the context of ADB’s strategic framework for 2030.


## Table continued

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Baseline (Year/Period)</th>
<th>Target (2020 unless otherwise specified)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td></td>
<td>Increase linkages of RCI Strategy pillars, RCI sectors and subsectors and multicountry operations through operational directions</td>
</tr>
<tr>
<td>13</td>
<td></td>
<td>Better balance across the TA categories and effectiveness of TA type¹</td>
</tr>
<tr>
<td>14</td>
<td></td>
<td>Increase</td>
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<td>15</td>
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<td>Increase</td>
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### Level 4: Organizational Management of ADB’s RCI Program

#### Human Resources: optimal use and deployment of staff resources and increased staff motivation
- Support for periodic institutional workload, staff skills, and staff complement analyses and well-planned recruitment and deployment of staff resources to support RCI
- Training/capacity building programs and knowledge sharing events on emerging and innovative RCI areas for RCI TG Secretariat, RCI divisions, and resident mission staff organized in collaboration with other thematic and sector groups
- Enhance assessment and recognition of staff performance for RCI accomplishments

#### Budgetary Resources: budget adequacy and efficiency
- $15 million a year earmarked for regional TA funds (TASF and RCI Thematic Trust Funds, including Regional Cooperation and Integration Fund, PRC Poverty Reduction and Regional Cooperation Fund, and Investment Climate Facilitation Fund) to support RCI-OP implementation will be proposed for approval in 2016–2020
- $1.5 billion¹ ADF set-aside allocation for subregional projects (10% of commitment authority) for 2017–2020, $53 million ADF for regional health security for 2017–2020, and $1.95 billion OCR set-aside for sovereign regional projects for 2016–2019
- Approximately $1 million corporate priority TA per year over the RCI-OP period to strengthen the RCI pipeline through pre-PPTA research, support collaboration across departments in areas of shared interest, and support multicountry cooperation through non-PPTA work
- Effective use of RCI set-asides for innovative project development and pilot projects, and rationalization of knowledge work
- $60,000 administrative budget per year for RCI TG

¹ In line with the memorandum on TA reform approved by the ADB President on 31 August 2016, rebalancing will be sought toward transaction TAs.

² ADF 12 commitments are subject to approval by the ADB Board of Governors.

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continued on next page
<table>
<thead>
<tr>
<th>Indicator</th>
<th>Baseline (Year/Period)</th>
<th>Target (2020 unless otherwise specified)</th>
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<tbody>
<tr>
<td>Business Process and Practices: greater efficiency and results</td>
<td>• Improved RCI programming through inclusion of RCI elements in Country Partnership</td>
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<td></td>
<td>Strategies; Regional Cooperation Strategies and Regional Cooperation Operations</td>
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<td>Business Plans prepared as deemed appropriate</td>
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<td>• More effective utilization of set-aside resources through departmental identification</td>
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<td>of projects to be financed from OCR and ADF set-asides</td>
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<td>• Enhanced results and overall quality of ADB's RCI portfolio through application of</td>
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<td>revised RCI project classification criteria</td>
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<td>• Increased external coordination through biennial RCI Roundtable Conference</td>
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<td>• Increased internal coordination and corporate reporting through annual High Level</td>
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<td>RCI Dialogue Forum, Board information paper, and integrated RCI management information</td>
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<td>system</td>
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<td>• Reduced transaction costs and maximized resource efficiency through use of</td>
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<td>innovative financing modalities</td>
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<td>• Improved strategic prioritization of nonlending resources through a corporate</td>
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<td>priority TA to support a growing and high</td>
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<td>quality RCI pipeline</td>
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<td>• Rationalized RCI knowledge work in the corporate priority TA through internal</td>
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<td>collaboration in areas of shared interest, stronger collective action efforts, and</td>
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<td>prioritization of non-PPTA RCI knowledge work in innovative areas—such as</td>
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<td>strategic policy reforms, nascent RCI operations, multicountry project development,</td>
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<td>and pilot project approaches which enable effective use of set-asides</td>
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<td></td>
<td>• Leveraged resources through strengthened collaboration with development partners</td>
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<td></td>
<td>and centers of excellence</td>
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</tbody>
</table>

Definitions of Indicators and Data Sources

**Intraregional Trade—Asia.** Calculated as \((T_{ij}/T_{iw}) \times 100\) where \(T_{ij}\) is the total trade of economy “\(i\)” with economy “\(j\)” and \(T_{iw}\) is the total trade of economy “\(i\)” with the world. A higher share indicates a higher degree of regional trade integration. Source: ADB, *Asian Economic Integration Report*.

**Intraregional FDI Inflow—Asia.** Calculated as \((F_{ij}/F_{iw}) \times 100\) where \(F_{ij}\) is the foreign direct investment (FDI) received by economy “\(i\)” from economy “\(j\)” and \(F_{iw}\) is the FDI received by economy “\(i\)” from the world. Figures are based on net FDI inflow data. A higher share indicates a higher degree of regional integration. Source: ADB, *Asian Economic Integration Report*.

**Intraregional equity and bond holdings—Asia.** Calculated as \((E_{ij}/E_{iw}) \times 100\) where \(E_{ij}\) is the holding of economy “\(i\)” of the equity and debt securities issued by economy “\(j\)” and \(E_{iw}\) is the holding of economy “\(i\)” of the equity and debt securities issued by all economies except those issued in the domestic market. Calculations are based on available data in the Coordinated Portfolio Investment Survey database of the International Monetary Fund. Rest of the World (ROW) includes equity and debt securities issued by international organizations defined in the Coordinated Portfolio Investment Survey database and “unallocated data.” Source: ADB, Asia Regional Integration Center.

**Logistics performance index scores—Asia** (average index, 1 to 5). LPI scores are based on the following dimensions: (i) efficiency of border control and customs process; (ii) transport and trade-related infrastructure; (iii) competitively priced shipments; (iv) ability to track and trace consignments; and (v) timeliness of shipments. Regional aggregates are computed using total trade as weights. Scores are from 1=low to 5=high. Source: World Bank Doing Business reports accessed through World Development Indicators, http://data.worldbank.org/
Global competitiveness index—Asia (average index, 1 to 7). Competitiveness is defined as the set of institutions, policies, and factors that determine the level of productivity of an economy, which in turn sets the level of prosperity that the country can earn. The Global Competitiveness Index combines 114 indicators that capture concepts that matter for productivity. These indicators are grouped into 12 pillars: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation. The Global Competitiveness Index includes statistical data from internationally recognized agencies, notably the International Monetary Fund; the United Nations Educational, Scientific and Cultural Organization; and the World Health Organization. It also includes data from the World Economic Forum’s annual Executive Opinion Survey to capture concepts requiring more qualitative assessments, or for which comprehensive, internationally comparable statistical data are unavailable. Source: World Economic Forum, *The Global Competitiveness Report*.

Global environmental performance index—Asia (average index, 0 to 100). EPI is constructed through the calculation and aggregation of 20 indicators reflecting national-level environmental data. These indicators are combined into nine issue categories, each of which fall under one of two overarching objectives. The two objectives that provide the overarching structure of the 2014 EPI are Environmental Health and Ecosystem Vitality. Environmental Health measures the protection of human health from environmental harm. Ecosystem Vitality measures ecosystem protection and resource management. These two objectives are further divided into nine issue categories that span high-priority environmental policy issues, including air quality, forests, fisheries, and climate and energy, among others. Underlying the nine issue categories are 20 indicators calculated from country-level data and statistics. Scores are from 0 to 100 computed by simple arithmetic calculation, with 0 being the farthest from the target (worst observed value) and 100 being closest to the target (best observed value). Source: Yale University, Environmental Performance Index, http://epi.yale.edu/downloads

Completed RCI operations rated successful (%). Project completion reports (PCRs) prepared for RCI and circulated in the last 3 years (July–June) with successful or better ratings as percentage of the total number of PCRs circulated during the same period. Where available, project performance evaluation report (PPER) ratings are taken as the final rating. If no PPER has been prepared, an available PCR validation report (PVR) rating is used. Only the PCRs reviewed by Independent Evaluation Department are counted. Sources: PCRs, PVR, and PPERs.

Cross-border transmission of electricity (gigawatt-hours [GWh] per year). Cross-border electricity in GWh transmitted annually based on PCRs circulated during the year. Achieved outputs of operations with the thematic classification of RCI are counted. Source: ADB, *Development Effectiveness Review*.

Cross-border cargo volume facilitated (annual tonnage). Volume of cargo that crossed borders facilitated by ADB operations that contribute to regional connectivity. Such operations may include regional road construction and rehabilitation, and border infrastructure and systems improvement. The figures on tons per year for vehicles that cross borders are based on figures reported in PCRs circulated during the year. Achieved outputs of operations with the thematic classification of RCI are counted. Source: ADB, *Development Effectiveness Review*.
Appendix 1

**Operations supporting RCI (%)**. Number of operations with the thematic RCI classification in the last 3 years as a percentage of total number of operations approved during the same period. RCI may or may not be the primary theme. Source: ADB, *Development Effectiveness Review*.

**Financing for RCI (%)**. Volume ($ amount) of ADB financing of operations with the thematic RCI classification in the last 3 years as a percentage of total volume ($ amount) of operations approved during the same period. RCI may or may not be the primary theme. Source: ADB, *Development Effectiveness Review*.

**Volume (amounts) of operations and technical assistance by operational direction** (total amount of RCI operations in terms of ADB financing volume and technical assistance). Source: RCI TG calculations using data from ADB Strategy and Policy Department ADF and OCR Approvals and TA Approvals Databases.

**Cofinancing for ADB RCI operations and technical assistance projects** (% of total). Official cofinancing of operations mainly comes from multilateral and bilateral development assistance agencies funded by sovereign states. For technical assistance, cofinancing also includes financing from the Japan Fund for Poverty Reduction (JFPR) and bilateral financing from governments. Source: ADB, Strategy and Policy Department ADF and OCR Approvals and TA Approvals Databases.

**RCI knowledge products and services produced jointly with external partners, including centers of excellence** (number). Source: ADB Knowledge Nexus, http://k-nexus.adb.org
### Appendix 2
Regional Cooperation and Integration Issues in the Midterm Review of Strategy 2020

<table>
<thead>
<tr>
<th>MTR RCI Issue</th>
<th>RCI-OP Response</th>
<th>RCI-OP Text</th>
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<tbody>
<tr>
<td>Achieving the 30% corporate target by 2020</td>
<td>Achieving 30% of lending volume for RCI by 2020 in the context of more robust RCI project classification and the increased overall ADB lending volume will require more diversified types of RCI lending: (1) nonsovereign RCI lending (2) policy-based and results-based lending and horizontal MFF (3) greater diversity in sectors/subsectors</td>
<td>Paras. 53–54, 63–65</td>
</tr>
<tr>
<td></td>
<td>Achieving 30% of lending volume for RCI by 2020 in the context of more robust RCI project classification and the increased overall lending volume and improved project quality will require ADB’s use of five incentive tools stipulated under the RCI-OP to promote a larger and more innovative RCI portfolio: (1) reformed OCR and ADF set-asides and special resource envelopes (such as for regional health) specified to incentivize innovative RCI projects, (2) corporate RCI reporting to review RCI lending progress across departments and identify problems, if any, and provide solutions at the annual High Level RCI Dialogue Forum, (3) adequate corporate priority TA being accorded for RCI to promote innovative areas, collaboration, and multicountry cooperation, (4) monitoring of RCI-OP results framework indicators, and (5) skills sharing and short-term expert recruitment pursuant to RCI thematic skills assessment</td>
<td>(1) Paras. 31, 63–65 on updating RCI resource allocation (lending), Para. 41 on investing in cross-border public health (2) Para. 72 on corporate RCI report at the annual High Level RCI Dialogue Forum (3) Para. 66 on reprioritizing RCI resource allocation (nonlending) (4) Para. 71 and Appendix 1 on the RCI-OP results framework (5) Para. 68 on ensuring adequate staff resources, capabilities, and optimal deployment</td>
</tr>
<tr>
<td>Achieving connectivity “soft-side” progress</td>
<td>ADB can help DMCs achieve better and faster progress on the “soft-side” of connectivity through a combination of the three operational directions of the RCI-OP: (1) Operational Direction 1 addresses issues related to transport facilitation or cross-border energy regulations through components of cross-border infrastructure connectivity projects.</td>
<td>(1) Para. 33 on enabling effective use of cross-border physical connectivity</td>
</tr>
<tr>
<td>MTR RCI Issue</td>
<td>RCI-OP Response</td>
<td>RCI-OP Text</td>
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<tr>
<td>Achieving connectivity “soft-side” progress</td>
<td>(2) Operational Direction 2 addresses trade facilitation issues based on (i) use of program and results based lending modality (or sector development programs) for time bound policy reforms emanating from TA projects; and (ii) anchoring trade facilitation progress with sector projects such as urban special economic zone investment projects, agriculture logistics projects and SME value chain projects. (3) Operational Direction 3 underpins institutional development TA for railway associations, power coordination centers and freight forwarder associations through non-PPTA RCI knowledge TA or lending to regional institutions.</td>
<td>(2) Para. 35 on promoting cross-border economic corridors; Para. 37 on promoting value chains, especially for SMEs; Para. 53 on diversifying RCI lending modalities (3) Para. 44 and Box 8 on strengthening regional cooperation mechanisms</td>
</tr>
<tr>
<td>Achieving intersubregional RCI operations</td>
<td>ADB can advance intersubregional RCI operations under the RCI-OP through the following five means: (1) pilot operations in three countries (Bangladesh, Myanmar, Timor-Leste) to promote linkages pivotal for intersubregional RCI; (2) RCI knowledge sharing across ADB operations and knowledge departments, fostered by (i) RCI TG/Joint RCI seminars, (ii) RCI TG corporate reporting on progress, challenges and responses of intersubregional RCI at the annual High Level RCI Dialogue Forum, and (iii) one RCI corporate priority TA to support implementation of the RCI-OP, including ADB-supported subregional programs; (3) knowledge development by the RCI TG secretariat and RCI divisions on intersubregional projects (e.g., for RPGs, facilitating cross-border FDI); (4) profiling intersubregional projects as signature RCI projects (e.g. TAPI); and (5) more effective use of intersubregional agreements (e.g. FTAs) through the new RCI project classification system, which requires cross-border analysis and regional agreements as a basis for RCI project classification.</td>
<td>(1) Para. 60 on RCI in Country Partnership Strategies (CPS) (2) Paras. 56–57 on internal knowledge sharing on RCI; Para. 72 on corporate RCI report at the annual High Level RCI Dialogue Forum; and Para. 66 on reprioritizing RCI resource allocation (nonlending) (3) Para. 55 on scaling up multicountry cooperation for RCI operations; Para. 56 on RCI knowledge sharing across operations departments; and Para. 70 (i) and (v) on key responsibilities for RCI-OP implementation (4) Para. 57 on RCI knowledge sharing across knowledge departments (5) Para. 47 on the revised/updated RCI project classification criteria</td>
</tr>
</tbody>
</table>
### Achieving more nonsovereign RCI operations

ADB can advance nonsovereign RCI operations under the RCI-OP through the following three means:

1. **Operational Direction 1** will (i) improve software and institutional policy reforms in physical connectivity, (ii) encourage participation by upper MICs in cross-border RCI projects, and (iii) prepare bankable RCI PPP projects using OPPP’s project development facility.

2. **Operational Direction 2** promotes investments in real economy businesses to expand use of larger cross-border markets, such as (i) agriculture and manufacturing logistics hubs and cold chain facilities; (ii) FDI related operations; and (iii) trade finance, supply chain finance and other innovative financing for SMEs trying to enter global and regional value chains.

3. **Operational Direction 3** promotes risk transfer under regional disaster risk insurance or supports climate change technology transfer.

### Achieving more progress on regional public goods (RPGs)

ADB can progress RPG-related operations through the following three tools:

1. Support through the use of RCI set-asides and green bond financing frameworks to promote potential RPG projects such as (i) regional public health projects; (ii) transboundary climate change, pollution reduction projects; (iii) disaster resilience for regional connectivity and supply chain projects; (iv) regional disaster risk insurance projects; and (v) biodiversity conservation corridor projects.

2. Support for cross-sector projects that can promote RPGs (e.g., trade facilitation sanitary and phytosanitary and regional health; agriculture food safety and regional health; regional sustainable transport; regional clean energy projects; multicity urban infrastructure projects and climate change).

3. Support for multicountry regional agreements on RPGs in RCI programs (fostered by new RCI flagship knowledge products and RCI operational knowledge products).

### Para. 53 on diversifying types of RCI financing

(1) Para. 32 on nonsovereign RCI operations opportunities under Operational Direction 1

(2) Paras. 35–37 on nonsovereign RCI operations opportunities under Operational Direction 2

(3) Paras. 40–42 on nonsovereign RCI operations opportunities under Operational Direction 3

### Para. 41 on investing in cross-border public health and para. 42 on mitigating the risks and impacts of climate change, natural hazards, transboundary pollution, and the need to protect biodiversity

(1) Para. 32 on cross-border physical connectivity; para. 35 on promoting cross-border economic corridors; para. 56 on cross-sector capacity development

(2) Paras. 43–44 on strengthening regional cooperation mechanisms; para. 47 on project classification related to RPGs; para. 57 on high impact RCI flagship and operational knowledge products on RPGs
## Appendix 3

**Distinguishing Between National and Regional Activities¹**

<table>
<thead>
<tr>
<th>Operational Direction</th>
<th>National</th>
<th>Regional*</th>
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<tbody>
<tr>
<td><strong>Operational Direction 1: Strengthening Connectivity Between Economies</strong></td>
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<tr>
<td>1.1. Improving cross-border physical connectivity between the region’s economies</td>
<td>Investing in national infrastructure to enable goods, services and people to reach markets within the country</td>
<td>Investing in national infrastructure linked to a regional network to allow goods, services and people to reach more and larger markets in neighboring countries and beyond</td>
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<td>Example: Maubin–Phyapon Road Rehabilitation in Myanmar (loan, 2014) to improve access to and within the Ayeyarwaddy Delta (a rich agricultural area), and connecting with the major road leading to Yangon</td>
<td>Example: Eindu to Kawkareik Road Improvement in Myanmar (loan, 2015)</td>
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<td>(i) improving the road (where 25% of the country’s land-based trade passes through) will increase trade with Thailand and open up new economic opportunities for the area</td>
<td>(i) improving the road (where 25% of the country’s land-based trade passes through) will increase trade with Thailand and open up new economic opportunities for the area</td>
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<td>(ii) a key link in the GMS East-West Economic Corridor linking Myanmar to Thailand and further to the Lao PDR and Viet Nam</td>
<td>(ii) a key link in the GMS East-West Economic Corridor linking Myanmar to Thailand and further to the Lao PDR and Viet Nam</td>
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<tr>
<td>1.2. Enabling effective use of cross-border physical connectivity</td>
<td>Supporting policy, regulatory and institutional reforms to enable more effective use of national infrastructure</td>
<td>Supporting policy, regulatory and institutional reforms to remove bottlenecks and facilitate more seamless use of regional infrastructure networks, such as transport facilitation or transit agreements between two or more countries</td>
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<td>Example: Vientiane Sustainable Urban Transport Project in the Lao PDR (loan and grant, 2015) to develop a bus rapid transit system, central traffic control center, and national vehicle registration system to ease traffic in the capital</td>
<td>Example: Bangladesh–Bhutan–India–Nepal Motor Vehicles Agreement (supported by TA 8435: Trade Facilitation in South Asia [2013])</td>
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<td>(i) facilitating passenger and cargo vehicular cross-border traffic will reduce cost and time of transshipment of goods and people at border crossings in the four countries</td>
<td>(i) facilitating passenger and cargo vehicular cross-border traffic will reduce cost and time of transshipment of goods and people at border crossings in the four countries</td>
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<td>(ii) agreement signed by the four countries in June 2015</td>
<td>(ii) agreement signed by the four countries in June 2015</td>
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¹ Regional projects must be anchored in national development priority plans and can be an aggregation of national projects providing agreed regional benefits.
### Operational Direction 1: Promoting Cross-Border Economic Activity

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<th>Operational Direction</th>
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<tr>
<td>1.3. Helping promote regional financing for cross-border infrastructure</td>
<td>Supporting development of financial products and modalities available locally to finance national infrastructure, including facilitating private sector investment in PPP projects</td>
<td>Intermediating the region’s capital and savings to invest in infrastructure connectivity, providing a larger and more diversified base for infrastructure financing</td>
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<td>Example: Accelerating Infrastructure Investment Facility in India (2015) for long-term finance and improve project management for PPP subprojects</td>
<td>Example: ASEAN Infrastructure Fund (i) mobilizes regional savings, including foreign exchange reserves, for financing infrastructure projects within ASEAN (ii) established in 2011 by ASEAN member countries and ADB</td>
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### Operational Direction 2: Raising Competitiveness in Connected Markets

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<tr>
<td>2.1. Promoting cross-border economic corridors</td>
<td>Supporting investment planning in multiple sectors along a corridor between at least two centers of economic activity within a country to raise the overall competitiveness of the area</td>
<td>Supporting investment planning in multiple sectors along a corridor between at least two centers of economic activity located in neighboring countries, to take advantage of better access to larger cross-border markets, such as through trade facilitation measures or cross-border logistics infrastructure</td>
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<tr>
<td>Example: Supporting Rajasthan’s productive clusters in the Delhi–Mumbai Industrial Corridor (TA, 2015), which is aimed at developing new industrial cities as smart cities and expanding India’s manufacturing and services base</td>
<td>Example: Tianjin Cold Chain Logistics Facility Project in the PRC (nonsovereign loan, 2012) (i) improving cold-storage facilities (with streamlined customs clearance procedures) in Tianjin port for agricultural exports of Mongolia and the PRC will improve food safety and reduce spoilage, and increase trade of agricultural products from Mongolia to the PRC and other countries (ii) Tianjin port is located in CAREC corridor 4B connecting the PRC and Mongolia toward the Russian Federation</td>
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<td>2.2. Promoting FDI promotion and facilitation corridors</td>
<td>Unilateral reforms to improve the country’s investment climate to encourage FDI inflows, such as competition policy and business regulations</td>
<td>Facilitating cross-border FDI flows, such as easing of barriers on FDI, for both sending and recipient countries as agreed upon by participating countries</td>
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<td>Example: Strengthening Law, Regulation, and the Legal Profession for a Better Investment Climate in Myanmar (TA, 2015) to assist in drafting updated commercial laws to facilitate increased levels of investments and commercial activities in the country’s private sector</td>
<td>Example: Promoting Economic Cooperation between the PRC and India (TA, 2015) (i) will engender higher cross-border FDI flows between the PRC and selected Indian states by providing key information to investors (such as on financial regulations and policies) and organizing investment study tours (ii) cooperation between the PRC and India to provide investor services</td>
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<td>Operational Direction</td>
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| **2.3. Promoting value chains, especially for small and medium enterprises (SMEs)** | National programs to support SME development, such as improving access to financing  
Example: Strengthening Financial Inclusion in the Solomon Islands (TA, 2014) to provide adequate and innovative financial services, such as branchless banking modality, and financial knowledge to smallholder farmers and agricultural SMEs | Supporting SME participation in regional and global value chains by providing trade and supply chain finance or helping SMEs utilize FTA provisions to take advantage of trade opportunities  
Example: Spice Value Chain Development in India and Cambodia (nonsovereign loan, 2014)  
(i) will invest across the spice value chain and link smallholder farmers to regional and global markets through farming technology investments and credit facility for contract farmers in India and Cambodia  
(ii) Akay (the loan recipient) will act as offtaker for local produce by its contract farmers, which will export the processed products to international markets, taking advantage of ASEAN’s tax-free environment for export-oriented agribusiness products |
| **2.4. Promoting regional capital market development** | Supporting finance sector development in a country to improve resource mobilization, broaden supply of financial instruments and boost investment demand  
Example: Third Capital Market Development Program in Bangladesh (loan and TA, 2015) to strengthen capital market regulatory measures, increase supply of quality bonds and alternative financial instruments, and enhance demand by developing liquid bond markets and promoting mutual funds | Supporting coordinated finance sector development with neighboring countries to provide a larger and more diversified base for cross-border capital market financing  
Example: Asian Bond Markets Initiative (ABMI)  
(i) develops liquid bond markets in ASEAN+3 countries and enables better utilization of the region’s savings for investments  
(ii) established in 2003 by ASEAN+3 member countries (ASEAN, Japan, the Republic of Korea, and the PRC) |
| **2.5. Promoting cross-border transfer of skills and knowledge** | National programs to ensure productive employment, such as skills and education matching, technical and vocational education and training (TVET)  
Example: Strengthening Technical and Vocational Education and Training in Tajikistan (loan and grant, 2015) to increase the proportion of skilled workers employed through modernized TVET methodology, upgraded learning facilities and improved access to quality programs | Facilitating the employment of skilled labor in any country in the region through mutual recognition agreements, or raising the quality of education and skills training to be at par with regional or international standards  
Example: Developing Qualification Frameworks under the Mutual Recognition Agreements to Support the ASEAN Economic Community (TA, 2015)  
(i) improving skills mobility data and analysis and developing qualification frameworks to facilitate movement of skilled labor within ASEAN  
(ii) supports the ASEAN mutual recognition agreements for the movement of professionals |
### Table continued

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<tr>
<th>Operational Direction</th>
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<th>Regional*</th>
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<tr>
<td><strong>Operational Direction 3: Investing in Regional Collective action and Public Goods</strong></td>
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<tr>
<td><strong>3.1. Investing in cross-border public health</strong></td>
<td>National programs to provide quality health care for a country's general population</td>
<td>Facilitating cooperation between countries to employ coordinated initiatives to address regional health issues, such as pandemics and communicable diseases, or to implement region-wide health measures, such as regulatory policies for medical goods and services</td>
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<td></td>
<td>Example: Improving Access to Affordable Medicine in Public Hospitals in Mongolia (TA, 2015) to ensure availability, affordability, and accessibility to quality generic medicine by establishing a pooled procurement of medicine for public hospitals</td>
<td>Example: GMS Health Security Project (proposed)</td>
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<td></td>
<td></td>
<td>(i) will improve health of migrants and mobile population through strengthened surveillance of communicable diseases, improved diagnostics and treatment and strengthened cooperation for communicable disease control</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(ii) coordinated initiatives in Cambodia, the Lao PDR and Myanmar</td>
</tr>
<tr>
<td><strong>3.2. Mitigating the risks and impacts of climate change, natural hazards, transboundary pollution, and the need to protect biodiversity</strong></td>
<td>National programs to address impacts of climate change and natural hazards, or address environmental issues</td>
<td>Facilitating cooperation between countries to employ coordinated initiatives to address or mitigate impacts of climate change and natural hazards, or to protect biodiversity</td>
</tr>
<tr>
<td></td>
<td>Example: Seismic Safety Improvement Program in Armenia (loan and TA, 2015) to build earthquake-resilient schools and improve the country's ability to respond to natural disasters</td>
<td>Example: Implementation of the Strategic Program for Climate Resilience in the Pacific (TA, 2013)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(i) integrating climate change adaptation and related disaster risk reduction into national and local development policies and plans and building Pacific DMCs' capacity to respond to climate change risks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(ii) supports the Pacific Regional Strategic Program for Climate Resilience, approved in 2012, which aims to deliver climate change initiatives through the Council of Regional Organizations in the Pacific (CROP)</td>
</tr>
<tr>
<td><strong>3.3. Strengthening regional cooperation mechanisms</strong></td>
<td>Regional cooperation mechanisms that support collective action through close and sustained dialogue and cooperation among DMCs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Example: Establishment of the Greater Mekong Railway Association</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(i) the railway coordination body will develop railway institutional capacity in respective GMS countries and support railway connectivity and interoperability</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(ii) established in 2013 by the six GMS countries</td>
</tr>
</tbody>
</table>

* Applying the revised RCI project classification criteria, highlighting the (i) direct and/or indirect cross-border outcomes and benefits, and (ii) regional agreement, policy dialogue, mechanism or institution supported. See para. 47 for the detailed list of project classification criteria.

Source: ADB RCI Thematic Group.
Appendix 4
Future Regional Cooperation and Integration Projects


RCI lending for 2016–2018 (including sovereign projects in the WPBF and nonsovereign and signature projects outside WPBF) is projected to reach $16.6 billion. This would represent a 70% increase from the $9.8 billion total lending for RCI in 2013–2015. Transport still holds majority share of lending, but subsector diversification can be observed with an increasing number of projects in rail ($1.5 billion), airports ($683 million), seaports ($119 million), and multimodal logistics ($150 million). Significant growth is seen in the agriculture, energy, industry and trade, and urban sectors for RCI. Increase in energy lending will be driven by the significant potential for expansion in nonsovereign and PPP energy operations and signature projects (see points 3.1, 3.2 and 3.3). The finance sector, which exhibited a decline in overall financing, will need to be rebalanced toward new areas of RCI growth (e.g., regional disaster risk financing). The RCI-OP will therefore seek to support this potential demand for further expansion of the RCI lending

<table>
<thead>
<tr>
<th>RCI as % of total ADB lending (by volume)</th>
<th>2013–2015 22%</th>
<th>2016–2018 34%*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sovereign</td>
<td>Nonsovereign</td>
</tr>
<tr>
<td>Agriculture and Natural Resources</td>
<td>105.52</td>
<td>–</td>
</tr>
<tr>
<td>Education</td>
<td>51.00</td>
<td>–</td>
</tr>
<tr>
<td>Energy</td>
<td>1,136.10</td>
<td>489.0</td>
</tr>
<tr>
<td>Finance</td>
<td>817.61</td>
<td>426.0</td>
</tr>
<tr>
<td>Health</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Information and Communication Technology</td>
<td>25.00</td>
<td>–</td>
</tr>
<tr>
<td>Industry and Trade</td>
<td>21.60</td>
<td>–</td>
</tr>
<tr>
<td>Public Sector Management</td>
<td>300.00</td>
<td>–</td>
</tr>
<tr>
<td>Transport</td>
<td>5,044.02</td>
<td>40.0</td>
</tr>
<tr>
<td>Urban</td>
<td>67.00</td>
<td>–</td>
</tr>
<tr>
<td>Multisector</td>
<td>1,258.40</td>
<td>–</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>8,826.25</strong></td>
<td><strong>955.0</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,781.25</strong></td>
<td></td>
</tr>
</tbody>
</table>

* Projected RCI sovereign, nonsovereign and signature projects for 2016–2018 as a percentage of total indicative ADB resources in the WPBF 2016–2018 and planned signature RCI projects outside of WPBF.

* Includes sovereign projects tagged as RCI in the WPBF 2016–2018 and planned signature RCI projects.

Source: ADB RCI Thematic Group calculations.
pipeline through (i) an active focus on signature and nonsovereign projects; and (ii) use of inputs like special funds, new initiatives, and new knowledge products (see following sections).

The expansion of nonsovereign and PPP RCI operations, e.g., through investments in special economic zones/industrial parks, will be a new dimension for ADB’s RCI operations and will require careful due diligence. As the TAPI project has shown, time and upfront investment in design and feasibility analysis and financing requirements are needed as a sound basis for building agreements that hold the potential for “signature” RCI projects. As these two areas are important segments of the future of RCI in the region, ADB will need to invest in developing and, in some cases, acquiring the necessary RCI and transaction-related skills. It will also be a challenge to get DMCs to undertake collective action to generate RPGs. Broader and more diverse cooperation in areas such as health, climate change, and transboundary natural resource management will require high-quality upstream knowledge work to support DMC dialogue and agreements, and to use RCI set-asides as a financial incentive to encourage DMCs to expand RCI investment in these areas.
2. Projects approved/for approval for OCR and ADF RCI set-asides in 2015 and 2016

The OCR set-aside for RCI, approved in March 2015, was fully utilized in 2016, funding one project for each regional department. The ADF set-aside for RCI for 2015–2016 was also fully utilized.

2.1. OCR set-aside

<table>
<thead>
<tr>
<th>Project</th>
<th>DMC</th>
<th>Approval Year</th>
<th>Set-aside Allocation for Project Financing ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>OCR set-aside 2015</td>
<td></td>
<td></td>
<td>131.5</td>
</tr>
<tr>
<td>Regional Improvement of Border Services</td>
<td>Pakistan</td>
<td>2015</td>
<td>120.0</td>
</tr>
<tr>
<td>North Pacific Regional Connectivity</td>
<td>Palau</td>
<td>2015</td>
<td>11.5</td>
</tr>
<tr>
<td>OCR set-aside 2016</td>
<td></td>
<td></td>
<td>500.0</td>
</tr>
<tr>
<td>CAREC Corridor Development, Tranche 1 (MFF)</td>
<td>Pakistan</td>
<td>2016</td>
<td>150.0</td>
</tr>
<tr>
<td>Guangxi Regional Cooperation and Integration Promotion Investment Program, Tranche 1 (MFF)</td>
<td>PRC</td>
<td>2016</td>
<td>140.0</td>
</tr>
<tr>
<td>Improving Internet Connectivity</td>
<td>Cook Islands</td>
<td>2016</td>
<td>10.0</td>
</tr>
<tr>
<td>SASEC Chittagong–Cox’s Bazar Railway Project, Tranche 1 (MFF)</td>
<td>Bangladesh</td>
<td>2016</td>
<td>35.0</td>
</tr>
<tr>
<td>GMS Ben Luc–Long Thanh Expressway Project, Tranche 2</td>
<td>Viet Nam</td>
<td>2016</td>
<td>100.0</td>
</tr>
</tbody>
</table>

CAREC = Central Asia Regional Economic Cooperation (Program), DMC = developing member country, GMS = Greater Mekong Subregion, MFF = multitranche financing facility, OCR = ordinary capital resources, PRC = People’s Republic of China, SASEC = South Asia Subregional Economic Cooperation (Program).

2.2. ADF set-aside

<table>
<thead>
<tr>
<th>Project</th>
<th>DMC</th>
<th>Approval Year</th>
<th>Set-aside Allocation for Project Financing ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADF set-aside 2015</td>
<td></td>
<td></td>
<td>265.0</td>
</tr>
<tr>
<td>Energy Supply Improvement Investment Program</td>
<td>Afghanistan</td>
<td>2015</td>
<td>100.0</td>
</tr>
<tr>
<td>Regional Upgrade of Sanitary and Phytosanitary Measures for Trade</td>
<td>Mongolia</td>
<td>2015</td>
<td>10.0</td>
</tr>
<tr>
<td>SASEC Bangladesh–India Electrical Grid Interconnection Project II</td>
<td>Bangladesh</td>
<td>2015</td>
<td>35.0</td>
</tr>
<tr>
<td>GMS East West Economic Corridor Eindu to Kawkareik Road Improvement</td>
<td>Myanmar</td>
<td>2015</td>
<td>65.0</td>
</tr>
<tr>
<td>Second GMS Corridor Towns Development Project</td>
<td>Cambodia, Lao PDR, and Viet Nam</td>
<td>2015</td>
<td>55.0</td>
</tr>
</tbody>
</table>

continued on next page
3. Projects expected to contribute to RCI pipeline expansion

3.1. Private Sector RCI Projects

For 2016–2017, PSOD is considering 10 private sector loans, amounting to almost $1.5 billion. These projects will involve: (i) cross-border investment in energy and power generation including renewable energy, and expanded cross-border energy trade; (ii) investment in industrial zones linked to other seaport development, which will accelerate local industrialization producing exports for regional and interregional markets; and (iii) cross-border investment in climate resilient agriculture and food systems, and support for expanded participation by SMEs in cross-border value chains.

3.2. Asia Pacific Project Preparation Facility (AP3F)

The AP3F is a multi-donor umbrella facility that will assist DMC governments and their public sector agencies prepare and structure infrastructure projects with private sector participation (including PPP modalities) and bring them to the global market. The facility was launched in 2016 with funds of over $70 million, and counts regional infrastructure connectivity as one of its major focus areas. To date, the facility has identified six RCI projects for possible funding, including SASEC roads in Bangladesh, seaports in Sri Lanka and Timor-Leste, Nepal–India hydropower export, special economic zone development in Bangladesh, and FDI investment in Clark Freeport in the Philippines.¹

¹ Some projects considered under AP3F are included in the WPBF 2016–2018.
3.3. **Signature Projects**

a. **Turkmenistan–Afghanistan–Pakistan–India (TAPI) Natural Gas Pipeline Project**

The proposed 1,600-km natural gas pipeline from Turkmenistan to Afghanistan, Pakistan, and India will export around 33 billion cubic meters of natural gas per year. The project will provide long-term energy security for over 1.5 billion people in Afghanistan, Pakistan, and India, and provide substantial benefits for Turkmenistan from gas sale revenues, and for Afghanistan and Pakistan from transit fees.

The project is now in the detailed design phase following the signing of the investment agreement in April 2016. The investment agreement provides an initial budget of over $200 million for detailed engineering and route surveys, environmental and social safeguard studies, and procurement and financing activities, to enable a final investment decision, after which construction of the pipeline can begin. Construction of the pipeline is estimated to cost $10 billion and will take several years to complete. Once completed, TAPI will connect to the planned 200-km gas pipeline within Turkmenistan that will connect to the Galkynysh gas field.

b. **Shah Deniz Gas Field Expansion Project**

ADB’s sovereign and private sector are considering support for the Shah Deniz Gas Field Expansion project. The gas field expansion forms a critical component of the larger Southern Gas Corridor Project, which aims to deliver 6 billion cubic meters per year (bcm/y) of natural gas from Azerbaijan to Turkey in 2018, and 10 bcm/y to Europe in 2020.

Natural gas from the existing Shah Deniz gas field is currently exported via the South Caucasus Pipeline (SCP) which runs through Azerbaijan, Georgia and to the Turkish border, where it is linked with the Turkish gas distribution network. Plans to expand and connect SCP with two new pipelines, the Trans-Anatolian Pipeline (or TANAP, through Turkey) and the Trans-Adriatic Pipeline (or TAP, through Greece, Albania, and Italy), will allow for the first gas exports from Azerbaijan markets beyond Turkey.

The project will open up new markets for Azerbaijan, significantly increasing export revenues, and supporting the economy in the current economic climate. This support will allow Azerbaijan to continue to reform and diversify its economy.
4. Pipeline of notable multicountry RCI loans and TAs, by operational direction

Multicountry RCI loans remain a very small percentage of RCI operations. The list below, while not exhaustive, represents only 2% of the WPBF 2016–2018 pipeline. However, there are numerous regional TAs in the pipeline, including for CWRD, EARD, SERD, SDCC, and ERCD, which hopefully will contribute to a more multicountry approach to project development.

<table>
<thead>
<tr>
<th>Operational Direction</th>
<th>Dept.</th>
<th>Project Name</th>
<th>DMC</th>
<th>Approval Year</th>
<th>Amount ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>PARD</td>
<td>Kiribati–Nauru–FSM Broadband ICT Connectivity Project</td>
<td>Kiribati, Nauru, FSM</td>
<td>2017</td>
<td>15.00–20.00</td>
</tr>
<tr>
<td>2</td>
<td>SERD</td>
<td>Modernization of Sanitary and Phytosanitary Agencies for Trade Facilitation Project in the GMS</td>
<td>Cambodia, Lao PDR</td>
<td>2017</td>
<td>36.00 (approx.)</td>
</tr>
<tr>
<td>2</td>
<td>SERD</td>
<td>GMS Climate-Friendly Agribusiness Value Chains Sector Project</td>
<td>Cambodia, Lao PDR, Myanmar</td>
<td>2017</td>
<td>120.00</td>
</tr>
<tr>
<td>2</td>
<td>PARD</td>
<td>North Pacific: Improving the Quality of Basic Education</td>
<td>Regional</td>
<td>2017</td>
<td>15.00</td>
</tr>
<tr>
<td>3</td>
<td>PARD</td>
<td>Pacific Regional Disaster Risk Financing Facility</td>
<td>Regional</td>
<td>2017</td>
<td>20.00</td>
</tr>
<tr>
<td>3</td>
<td>PARD</td>
<td>Pacific Digital e-Government/ e-Health (Phase 1–Tonga)</td>
<td>Regional</td>
<td>2017</td>
<td>10.00</td>
</tr>
<tr>
<td>3</td>
<td>SERD</td>
<td>GMS Health Security Project</td>
<td>Cambodia, Lao PDR, Myanmar, Viet Nam</td>
<td>2016</td>
<td>125.00</td>
</tr>
<tr>
<td>TA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>SERD</td>
<td>Support for Master Plan on ASEAN Connectivity Implementation, Phase 2</td>
<td>Regional</td>
<td>2017</td>
<td>1.50</td>
</tr>
<tr>
<td>2</td>
<td>CWRD</td>
<td>Fostering Trade in Services, Economic Diversification and Economic Corridor Development in the CAREC Region</td>
<td>Regional</td>
<td>2017</td>
<td>2.00</td>
</tr>
<tr>
<td>2</td>
<td>ERCD</td>
<td>Designing Cross-border Foreign Direct Investment Facilitation Programs for Bangladesh and Fiji</td>
<td>Regional</td>
<td>2016</td>
<td>0.50</td>
</tr>
<tr>
<td>3</td>
<td>SDCC</td>
<td>Regional Health Public Goods</td>
<td>Regional</td>
<td>2018</td>
<td>2.00</td>
</tr>
<tr>
<td>3</td>
<td>EARD</td>
<td>CAREC: Joint Control of Transboundary Animal Diseases</td>
<td>CAREC</td>
<td>2017</td>
<td>1.00</td>
</tr>
<tr>
<td>1,3</td>
<td>SERD</td>
<td>Development of GMS Coordination Center for Regional Power Trade (Regional Power Coordination Center)</td>
<td>Regional</td>
<td>2016</td>
<td>3.00</td>
</tr>
<tr>
<td>2,3</td>
<td>SERD</td>
<td>Support to ASEAN Economic Community</td>
<td>Cambodia, Indonesia, Lao PDR, Philippines</td>
<td>2016</td>
<td>2.00</td>
</tr>
</tbody>
</table>

ASEAN = Association of Southeast Asian Nations, CAREC = Central Asia Regional Economic Cooperation (Program), CWRD = Central and West Asia Department, DMC = developing member country, ERCD = Economic Research and Regional Cooperation Department, FSM = Federated States of Micronesia, GMS = Greater Mekong Subregion, ICT = information and communication technology, Lao PDR = Lao People’s Democratic Republic, PARD = Pacific Department, SARD = South Asia Department, SDCC = Sustainable Development and Climate Change Department, SERD = Southeast Asia Department, TBC = to be confirmed.

 Projects proposed under ADF set-aside for regional health security-related regional public goods. The set-aside was introduced under ADF 12.

Project is also proposed for ADF set-aside for RCI in 2016.

Source: ADB RCI Thematic Group.
### 5. Pipeline of notable single-country RCI projects, by operational direction

Single-country RCI loans dominate the RCI operations pipeline. The list below, while not exhaustive, is representative of the kind of operations to be supported by the RCI-OP operational directions.

<table>
<thead>
<tr>
<th>Operational Direction</th>
<th>Dept.</th>
<th>Project Name</th>
<th>DMC</th>
<th>Approval Year</th>
<th>Amount ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loans</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>CWRD</td>
<td>Armenia–Georgia Border Regional Road (M6 Vanadzor–Bagratashen) Improvement Project</td>
<td>Armenia</td>
<td>2016</td>
<td>50.00</td>
</tr>
<tr>
<td>1</td>
<td>CWRD</td>
<td>CAREC Corridor 2 (Pap–Namangan–Andijan) Railway Electrification Project</td>
<td>Uzbekistan</td>
<td>2016</td>
<td>71.00</td>
</tr>
<tr>
<td>1</td>
<td>EARD</td>
<td>PRC–Lao PDR Railway Terminal and Logistics Facility</td>
<td>PRC</td>
<td>2019</td>
<td>150.00</td>
</tr>
<tr>
<td>1</td>
<td>EARD</td>
<td>GMS North–South Economic Corridor: Multimodal and Cross-Regional Enhancement</td>
<td>PRC</td>
<td>2019</td>
<td>150.00</td>
</tr>
<tr>
<td>1</td>
<td>PARD</td>
<td>Dili Tibar Bay International Ports Project</td>
<td>Timor-Leste</td>
<td>2017</td>
<td>50.00</td>
</tr>
<tr>
<td>1</td>
<td>SARD</td>
<td>SASEC Chittagong–Cox’s Bazar Railway Project, Phase 1, Tranche 1&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Bangladesh</td>
<td>2016</td>
<td>300.00</td>
</tr>
<tr>
<td>1, 3</td>
<td>SARD</td>
<td>SASEC Green Power Investment Program—Tranche 1 (Nyera Amari)</td>
<td>Bhutan</td>
<td>2018</td>
<td>120.00</td>
</tr>
<tr>
<td>3</td>
<td>EARD</td>
<td>Beijing–Tianjin–Hebei Air Quality Improvement—Hebei Policy Reforms Program</td>
<td>PRC</td>
<td>2015</td>
<td>300.00</td>
</tr>
<tr>
<td><strong>TA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>EARD</td>
<td>Policy Coordination and Planning on Cross-Border Economic Zones between the PRC and Viet Nam</td>
<td>PRC, Viet Nam</td>
<td>2016</td>
<td>0.80</td>
</tr>
</tbody>
</table>

ASEAN = Association of Southeast Asian Nations, CAREC = Central Asia Regional Economic Cooperation (Program), CWRD = Central and West Asia Department, DMC = developing member country, EARD = East Asia Department, EWEC = East West Economic Corridor, GMS = Greater Mekong Subregion, Lao PDR = Lao People’s Democratic Republic, PARD = Pacific Department, PRC = People’s Republic of China, SASEC = South Asia Subregional Economic Cooperation (Program), SARD = South Asia Department, SERD = Southeast Asia Department

<sup>a</sup> Project is proposed under OCR and ADF set-asides for RCI in 2016.

Source: ADB RCI Thematic Group.
6. Intersubregional Knowledge Products

<table>
<thead>
<tr>
<th>Operational Direction</th>
<th>Dept.</th>
<th>Project Name</th>
<th>DMC</th>
<th>Approval Year</th>
<th>Amount ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>RCI TG/PPP TG</td>
<td>Cross-Border FDI</td>
<td>Bangladesh/Fiji</td>
<td>2016</td>
<td>0.50</td>
</tr>
<tr>
<td>2</td>
<td>PARD</td>
<td>Timor–Indonesia Cross-Border Trade Facilitation</td>
<td>Timor-Leste, Indonesia</td>
<td>2017</td>
<td>TBD</td>
</tr>
<tr>
<td>3</td>
<td>RCI TG/Climate Change TG</td>
<td>Regional Public Goods</td>
<td>Regional</td>
<td>2017</td>
<td>TBD</td>
</tr>
</tbody>
</table>

DMC = developing member country, FDI = foreign direct investment, PARD = Pacific Department, PPP TG = Public–Private Partnership Thematic Group, RCI TG = Regional Cooperation and Integration Thematic Group.

Source: ADB RCI Thematic Group.
Operational Plan for Regional Cooperation and Integration, 2016–2020
Promoting Connectivity, Competitiveness, Regional Public Goods, and Collective Action for Asia and the Pacific

Regional cooperation and integration (RCI) has become a valuable means for attaining national development goals. This publication adjusts the implementation of ADB’s RCI strategy to meet recommendations of the midterm review of Strategy 2020 and the institution’s strategic directions. It provides guidance for RCI operations in assisting ADB’s developing members harness increased benefits through improved cooperation and integration. The RCI Operational Plan focuses on strengthening connectivity between economies, enhancing competitiveness across connected markets, and improving regional public goods and collective action. This publication also aims to strengthen ADB’s institutional capacity to lead in advancing RCI based on a larger, more innovative portfolio covering the four RCI Strategy pillars and high-quality operations.

About the Asian Development Bank

ADB’s vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region’s many successes, it remains home to half of the world’s extreme poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.