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REGIONAL COOPERATION AND INTEGRATION IN ASIA AND THE PACIFIC

IMPLEMENTATION OF THE OPERATIONAL PLAN
FOR REGIONAL COOPERATION
AND INTEGRATION, 2016–2020

Corporate Progress Report 2017

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Foreword

Regional Cooperation and Integration (RCI) has become a valuable means for attaining national development goals. The Operational Plan for Regional Cooperation and Integration, 2016–2020 (RCI-OP) was approved in September 2016. It guides the RCI operations of the Asian Development Bank (ADB) in assisting developing member countries harness increased benefits through improved cooperation and integration under three operational directions (connectivity, competitiveness, and regional public goods and collective action) and through enhanced quality of ADB’s RCI operations under three approaches (nascent RCI, nonsovereign RCI, and intersubregional RCI). The RCI-OP uses a results framework to initially monitor and evaluate RCI-OP implementation.

As ADB’s first corporate report on RCI operations, this report covers progress of ADB in implementing the RCI-OP. It complements ADB’s existing RCI reports—such as the *Asian Economic Integration Report*—by focusing on RCI progress aligned with the three RCI-OP operational directions (as measured by key indicators) and the three approaches to RCI operational quality. This corporate report pools together and offers a one-stop source of information on RCI operations for both internal and external stakeholders.

This corporate report takes stock of ADB’s RCI operations, focusing on 2016, by reviewing progress made and identifying areas for improvement. It offers an initial assessment of RCI operations in 2017 to illustrate emerging trends and developments under the three operational directions and three RCI-OP approaches. It recommends priority areas and approaches for future RCI operations and it seeks to generate management guidance on strategic planning for ADB’s RCI operations in 2018 and beyond—through a high-level conference on “Improving RCI Corporate Reporting and Accountability” during ADB’s November 2017 RCI Week.

The preparation of this report was facilitated by active cooperation and collaboration of colleagues from different departments of ADB, demonstrating a “One ADB” approach.



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Other RCI TG Committee members including Ying Qian, co-chair and director, East Asia Department; Safdar Parvez, director, Central and West Asia Department; Robert Jauncey, regional director, Pacific Department; Kurumi Fukaya, lead operations coordination specialist, Private Sector Operations Department; Ronald Antonio Butiong, director, South Asia Department; and Alfredo Perdiguero, director, Southeast Asia Department provided strategic guidance. Chris MacCormac, RCI TG consultant, contributed major inputs for the report, particularly for Chapter 2 “Progress of Regional Cooperation and Integration in Asia and the Pacific.” The report benefited from comments from ADB colleagues including Edna Diez, Marco Gatti, Leah Gutierrez, Kijin Kim, Laurence Ravat, Mara Claire Tayag, and Guoliang Wu.

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Abbreviations

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AEC	–	ASEAN Economic Community
ASEAN	–	Association of Southeast Asian Nations
CAREC	–	Central Asia Regional Economic Cooperation Program
CDTA	–	capacity development technical assistance
DMC	–	developing member country
ERCD	–	Economic Research and Regional Cooperation Department
FDI	–	foreign direct investment
GMS	–	Greater Mekong Subregion
ICT	–	information and communication technology
IED	–	Independent Evaluation Department
KPS	–	knowledge products and services
KSTA	–	knowledge and support technical assistance
OCR	–	ordinary capital resources
OECD	–	Organisation for Economic Co-operation and Development
OD	–	operational direction
PACER	–	Pacific Agreement on Closer Economic Relations
PATA	–	policy advisory technical assistance
PCR	–	project completion reports
PPTA	–	project preparatory technical assistance
PRC	–	People's Republic of China
RCEP	–	Regional Comprehensive Economic Partnership
RCI	–	regional cooperation and integration
RCIF	–	Regional Cooperation and Integration Fund
RCI-OP	–	Operational Plan for Regional Cooperation and Integration, 2016–2020
RCI TG	–	RCI Thematic Group
RDTA	–	research and development technical assistance
RPG	–	regional public good
SASEC	–	South Asia Subregional Economic Cooperation Program
SDG	–	Sustainable Development Goal
SPD	–	Strategy, Policy, and Review Department
TA	–	technical assistance
XARR	–	extended annual review report

Executive Summary

This report covers the progress of the Asian Development Bank (ADB) in implementing its Operational Plan for Regional Cooperation and Integration, 2016–2020 (RCI-OP) which identifies three operational directions (ODs)—strengthening connectivity, raising competitiveness, and investing in regional public goods (RPGs) and collective action—and advocates three approaches—nascent regional cooperation and integration (RCI), nonsovereign RCI, and intersubregional RCI—to guide ADB’s RCI operations.

- **As measured by six indicators, recent RCI progress in Asia and the Pacific has been mixed.** Intraregional trade share grew to 57.3% in 2016, while the share of intraregional FDI inflows reached 55%. On average, competitiveness has increased and RPG provision and collective action has improved. Other measures such as intraregional portfolio investment and logistics performance have declined.
- **ADB’s RCI operations performed satisfactorily, but challenges remain.** Independent evaluations show ADB’s sovereign and nonsovereign RCI projects since 2001 have been satisfactory. Overall, RCI projects performed better than non-RCI and ADB projects as a whole, but with declining margins from earlier RCI projects. As future RCI operations enter new sectors and nascent areas, RCI project performance may become more challenging.
- **RCI operations appear broadly on track to meet ADB’s 30% RCI lending target by 2020.** Most RCI investments have been sovereign and focused on transport, while nonsovereign RCI lending has been mostly developed on an ad hoc basis focused on cross-border energy transmission.
- **ADB’s RCI operations have seen an emerging trend toward the three ODs.** Although transport still accounts for the largest chunk of RCI operations, there is clear diversification into other sectors and/or areas such as education, trade facilitation, information and communication technology (ICT), agriculture and natural resources, finance, and regional health. Yet lending under OD3 (RPGs and collective action) has stagnated—notwithstanding the large technical assistance (TA) funding in OD3 sectors.
- **The quality of ADB’s RCI knowledge products and services (KPS) with external partners and TA-related knowledge activities needs to be strengthened and more operationally relevant.** As ADB’s developing member countries (DMCs) grow increasingly middle income, they need stronger knowledge contents complementary to the financing of development projects. ADB can increasingly focus support on joint knowledge production to increase the quality of RCI KPS. And ADB’s RCI TA resources will need to focus on

upstream knowledge work that generates investment projects, particularly in areas for nascent, nonsovereign, and intersubregional RCI.

- **RCI project quality should benefit from the new RCI project classification system.** The new *Handbook for the Classification and Economic Analysis of Regional Projects* will provide clearer and more consistent criteria for classifying regional or RCI projects.

With its distinctive role as RCI leader in the region based on decades of experience, ADB will continue to innovate in supporting RCI among its DMCs as Asia's transformation unfolds. New developments in DMCs offer ADB opportunities to expand and align RCI operations toward the three ODs (connectivity, competitiveness, and RPGs and collective action) and three approaches (nascent RCI, intersubregional RCI, and nonsovereign RCI).

- **RCI operations must continue to shift focus from traditional to more innovative sectors (and subsectors) and areas.** Transport operations will continue to diversify into subsectors such as rail, ports, multimodal transport, and transport policy. Support for power will need to shift into renewable and clean energy to mitigate environmental impact. RCI operations must diversify into nascent RCI sectors such as ICT, e-commerce, and ICT-based education, cross-border economic zones and economic corridors, trade facilitation and supply chain development to offer DMCs easier and better market access. RPGs and collective action among DMCs will also include support to achieve the Sustainable Development Goals and meet 21st Conference of the Parties to the United Nations Framework Convention on Climate Change targets.
- **There is clear demand for greater intersubregional cooperation from ADB's DMCs.** Given their strategic locations and connecting roles, the RCI-OP identified Bangladesh (in South Asia), Myanmar (in Southeast Asia), and Timor-Leste (in the Pacific) as pilot countries to explore intersubregional cooperation opportunities. It is important to plant seeds for economic cooperation in the medium to long term among countries such as Bangladesh and Myanmar.
- **ADB's private sector operations can play an increasing role in facilitating RCI.** Future operations can focus on a few sectors and/or areas with positive RCI implications, such as (i) agribusiness development, helping link small and medium enterprises and smallholder farmers to global and regional supply chains; and (ii) education and health, particularly regional and/or subregional education and health, including promoting off-campus learning through enhanced ICT facilities and systems, and e-health facilities.
- **Knowledge work—including TA support—needs to be of higher quality and more operationally relevant.** Knowledge support TAs should focus more on policy advice and research supporting DMCs' RCI strategy and policies in coordination with other countries. It should focus on RCI project identification with the potential to expand into nascent RCI sectors and areas including for nonsovereign and intersubregional RCI operations. And ADB's role as honest broker can be enhanced through extensive and relevant knowledge production with external partners—including DMC governments—gradually moving away from merely undertaking subregional administrative support.

- **ADB operations, particularly through regional departments, need to strengthen cooperation and collaboration in jointly conducting RCI projects.** Any cross-border RCI projects with clients under different regional departments should be undertaken jointly with all involved regional departments participating. Only through project level collaboration between and among regional departments can the “One ADB” approach be actualized to deliver tangible results to both ADB and its DMCs.

Introduction

1. This report covers the progress made by the Asian Development Bank (ADB) in implementing the Operational Plan for Regional Cooperation and Integration, 2016–2020 (RCI-OP), which was approved in September 2016 and took effect on 1 January 2017.¹ The RCI-OP adjusts the 2006 RCI Strategy² to meet ADB’s target for regional cooperation and integration (RCI) to be included in 30% of ADB’s total operations by 2020, as set out in Strategy 2020³ and reiterated in its Midterm Review.⁴ The RCI-OP guides ADB in assisting developing member countries (DMCs) harness increased benefits through improved RCI under three operational directions (ODs):

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

2. The RCI-OP advocates three approaches for enhancing RCI operational quality over the medium term, while scaling up lending activities:

- (i) Expanding ADB’s sovereign RCI portfolio through a more innovative approach that diversifies RCI sectors, especially in developing nascent sectors and subsectors;
- (ii) Increasing nonsovereign RCI operations using direct private sector financing as well as public-private partnerships; and
- (iii) Piloting country programs for intersubregional RCI, backed by intersubregional knowledge product development.

¹ ADB. 2016. *Operational Plan for Regional Cooperation and Integration, 2016–2020: Promoting connectivity, competitiveness, regional public goods, and collective action for Asia and the Pacific*. Manila.

² ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila. The RCI Strategy identifies four Pillars: infrastructure connectivity (Pillar 1), trade and investment (Pillar 2), monetary and financial cooperation (Pillar 3), and regional public goods (Pillar 4).

³ ADB. 2008. *Strategy 2020: The Long-term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.

⁴ ADB. 2014. *Midterm Review of Strategy 2020*. Manila.

3. The RCI-OP uses a four-level results framework to initially monitor and evaluate RCI-OP implementation:

- Level 1 tracks development progress in Asia and the Pacific;
- Level 2 focuses on ADB's contribution in achieving Level 1 goals;
- Level 3 tracks ADB's operational management of new and ongoing RCI operations; and
- Level 4 tracks organizational management, including the use of human and budgetary resources and efficient business processes in implementing the RCI-OP.

4. The RCI-OP highlights the “One ADB” institutional approach, by which different departments of ADB collaborate together, to ensure successful implementation. The RCI Thematic Group Secretariat is ADB's institutional focal point for coordinating and reporting the progress of RCI-OP implementation, including RCI development in the region and RCI engagement within ADB.

5. In Asia and the Pacific, the RCI landscape continues to evolve, with improved cross-border connectivity, enhanced intraregional trade and investment, and increased awareness and collaboration among DMCs to provide RPGs. The rise of middle-income countries and emergence of “global cities” in the region leads to the development of regional industrial services, knowledge centers, and cross-border logistics. New infrastructure initiatives will increase the supply and improve the quality of intra- and inter-subregional connectivity, in turn, opening up new opportunities for RCI-based trade and investment. And new market forces that drive regional flows of trade, foreign direct investment, technology and labor—along with new technology (especially information and communication technology), changes in national labor costs, and changing demographics—are affecting labor demand and the need for greater intraregional skilled labor mobility. Together, these dynamics create opportunities as well as challenges for RCI.

6. The RCI-OP provides new directions and approaches to RCI operations that harness the region's opportunities and address new challenges. Thus, proper reporting is required on (i) RCI progress in the region—measured by objective indicators—so DMCs can formulate relevant policies that best address changing needs; (ii) ADB's engagement in helping DMCs respond through financing, knowledge creation and leveraged development partnerships; (iii) ADB's work in helping DMCs improve connectivity, competitiveness, and investments in RPGs and other collective action—by extending RCI operations and high-quality knowledge work into emerging, nascent RCI sectors; and (iv) enhancements in ADB's organizational management of RCI support.

7. This report is designed to explain how ADB responds to these needs. It complements ADB's existing RCI reports—such as the *Asian Economic Integration Report*—by focusing on RCI progress aligned with the three ODs under the RCI-OP (as measured by key indicators) and the three approaches to RCI operational quality (nascent RCI, nonsovereign RCI, and intersubregional RCI). This corporate report pools together and offers one-stop information on RCI operations for both external and internal stakeholders.

8. Although the RCI-OP was adopted less than a year ago, the report takes stock of ADB's RCI operations, focusing on 2016, by reviewing progress made and identifying areas for improvement. It offers an initial assessment of RCI operations in 2017 to illustrate emerging trends and developments under the three ODs and three RCI-OP approaches. It recommends priority areas and approaches for future RCI operations. And it seeks to generate management guidance on strategic planning for ADB's RCI operations in 2018 and beyond—through a high-level conference on “Improving RCI Corporate Reporting and Accountability” during ADB's November 2017 RCI Week.

2

Regional Cooperation and Integration Progress in Asia and the Pacific

9. Overall, Regional Cooperation and Integration (RCI) in Asia and the Pacific has progressed well, although performance varies depending on specific area. Notable opportunities to improve RCI already exist, but there are challenges that could hinder future progress if left unaddressed. This chapter provides a snapshot of RCI progress in the region during 2014–2016. Progress is measured against (i) level 1 indicators of the Results Framework for Regional Cooperation and Integration Operational Plan, 2016–2020;⁵ and (ii) the RCI-OP’s three ODs (see Chapter 1 for details). Specific opportunities and challenges facing RCI are also discussed in terms of how future RCI can support inclusive growth.⁶ Table 1 summarizes the region’s recent progress. Updates on intraregional indicators (trade, foreign direct investment [FDI], and equity and bond holdings) are based on the Asian Economic Integration Report 2017.⁷ Updated results on the three other performance indicators are taken from global reports on national trade, investment, and competitiveness. Analysis of RCI challenges and opportunities relates to the six Table 1 indicators and to other criteria and development issues outside the six indicators.

Table 1: Regional Cooperation and Integration Progress in Asia and the Pacific, 2014–2016

Indicator	2014	2015	2016
Intraregional trade—Asia (% of total)	55.3	56.9	57.3
Intraregional foreign direct investment—Asia (% of total)	51.4	47.6	55.3
Intraregional equity and bond holdings—Asia (% of total)	19.74	18.3	17.1
Logistics performance index—Asia (average index, 1 to 5) ^a	2.90		2.87
Global competitiveness performance index—Asia (average index, 1 to 7)	4.37	4.44	4.50
Global environmental performance index—Asia (average index, 0 to 100) ^a	48.55		65.00

^a Reports are biennial.

Annex 1 Results Framework for Regional Cooperation and Integration Operational Plan, 2016–2020 contains the definition of indicators and data sources.

⁵ The RCI-OP Results Framework is in Annex 1.

⁶ ADB’s *Asian Economic and Integration Report* (AEIR) and *Asia Bond Monitor* (ABM) details the region’s progress on economic and financial integration. See Asia Regional Integration Center (ARIC) website <https://aric.adb.org/beta> for the AEIR and AsiaBondsOnline website <https://asianbondsonline.adb.org> for the ABM.

⁷ ADB. *Asian Economic Integration Report 2017*. Manila.

2.1 Progress on Regional Cooperation and Integration

10. **Cross-border connectivity.** There was significant expansion in cross-border connectivity in recent years, largely due to sustained investment in physical infrastructure in the context of subregional programs supported by the Asian Development Bank (ADB) (including the Greater Mekong Subregion [GMS], Central Asia Regional Economic Cooperation [CAREC], and South Asia Subregional Economic Cooperation [SASEC]), and related to the Asian Highway Network, the Trans-Asian Railway, and associated enhancements and operational effectiveness. These added (among other new connectivity) an additional 143,000 kilometers of roads and highways in land-based transportation networks across the region.⁸

11. **Intraregional trade and investment and country competitiveness.** RCI performance improved across several dimensions:

- Asia's intraregional trade share increased to 57.3% in 2016 from 56.9% in 2015, up from an average 55.9% during 2010–2015. Strong intraregional trade offers a buffer against potential headwinds from global trade and policy uncertainties.
- Intraregional FDI inflows improved—both in level and share—from 47.6% in 2015 to 55.3% in 2016. Intra-Asian FDI is geared more toward global and regional value chains, mainly to greenfield manufacturing investments. This should help strengthen the region's trade globally as well as regionally.
- Asia's competitiveness increased, as measured by the World Economic Forum's global competitiveness index. In general, Asia performed better than the global average (4.27 in 2016). Singapore scored 5.72, and Japan and Hong Kong, China each scored 5.48, placing them among the world's top 10 competitive economies. Overall, Asia's emerging economies improved across the competitiveness indicators. Economies in East Asia and Southeast Asia improved on governance (including anti-corruption), transport infrastructure, and health and basic education, while maintaining sound macroeconomic fundamentals. Central Asian economies improved on technological readiness, education, and institutions, while South Asia made positive strides on health and education, and infrastructure.⁹
- The provision of regional public goods (RPGs) and collective action improved—as measured by Yale University's Environmental Performance Index. Asia's average score jumped to 65.00 in 2016 from 48.55 in 2014. As Asia's economies become increasingly middle income, governments invest in improved public services—for example, sanitation infrastructure, which resulted in less exposure to water-borne diseases. However, air pollution continues to be a problem, particularly in rapidly developing economies like the People's Republic of China (PRC) and India.¹⁰

⁸ ESCAP. 2017. *Asia-Pacific Countries with Special Needs Development Report 2017: Investing in Infrastructure for an Inclusive and Sustainable Future*. Bangkok.

⁹ K. Schwab et al. 2016. *The Global Competitiveness Report 2016–2017*. Geneva: World Economic Forum.

¹⁰ A. Hsu et al. 2016. *2016 Environmental Performance Index*. New Haven, CT: Yale University.

2.2 Opportunities for Improving Regional Cooperation and Integration Performance in Asia and the Pacific

12. The region's rapid and sustained economic progress offers new opportunities to improve future RCI performance.

- **The Association of Southeast Asian Nations (ASEAN) Economic Community (AEC).** Established at the end of 2015, the AEC is actively pushing for the AEC 2025 Blueprint to address more difficult areas of reform—including the reduction of nontariff barriers, simplifying rules of origin, and accelerating and deepening implementation of trade facilitation measures.
- **The Pacific Agreement on Closer Economic Relations (PACER) Plus.**¹¹ Its conclusion aims to strengthen trade, investment, and labor mobility across the Pacific.
- **The Regional Comprehensive Economic Partnership (RCEP).** Achieving significant progress in RCEP has been identified by ASEAN ministers as a priority for 2017,¹² which may lead to a successful conclusion of RCEP negotiations in the first half of 2018. Together, the AEC, PACER Plus, and RCEP would offer developing member countries (DMCs) and development-finance partners unprecedented new trade and investment opportunities, including greater investment in cross-border infrastructure initiatives and associated transport and trade facilitation, leading to more inclusive growth for all DMCs.
- **Improving intraregional FDI, regional labor markets, and access to ICT.** Policy reforms that improve Asia's cross-border investment climate would support greater private sector participation in cross-border infrastructure financing as well as greater cross-border labor flows—to meet skilled labor market demand and supply chain segments. The region's changing demographics, its more flexible labor markets, and the rapid development of information and communication technology (ICT) infrastructure and e-commerce will support small and medium enterprise capacity to enter cross-border markets for both goods and services, thus making RCI more inclusive.
- **Aligning RCI Visions for Asia.** Both supply and demand for intersubregional cooperation and integration are increasing. New or expanding regional initiatives include, for example, the PRC's Belt and Road Initiative (BRI), India's "Act East" strategy, Japan's High-Quality Infrastructure Initiative, expanding SASEC with Myanmar's joining in February 2017, and Timor-Leste moving toward ASEAN participation. These increase momentum for expanded economic cooperation between and among Asia's subregions in areas such as cross-border economic corridor development, finance, tourism, and trade.

¹¹ In June 2017, 11 Pacific countries (including Australia and New Zealand) concluded the landmark PACER Plus trade and development agreement, with three more countries in the process of gaining domestic approvals.

¹² Joint Media Statement of the Fifth Regional Comprehensive Economic Partnership (RCEP) Ministerial Meeting, 10 September 2017, Pasay City, Philippines. <http://asean.org/storage/2017/09/RCEP-5MM-Final-JMS1.pdf>.

- **The rise of middle-income countries and emergence of “global cities.”** Rising incomes are increasing demand for both the quantity and quality of industrial and consumer goods and services sourced regionally and globally. Combined with Asia’s rapid and large-scale urbanization, large industrial, service, and knowledge centers are being developed along with cross-border logistics networks. These trends will accentuate cross-border flows of skilled and professional labor; public and private sector knowledge networks, create incentives for new and more technologically advanced cross-border energy and ICT service markets, and increase demand for infrastructure and investment in RPGs and collective action—to ensure regional health, food safety, and food security, and mitigate environmental damage of shared natural resources.
- **DMC work toward achieving the Sustainable Development Goals (SDGs) and 21st Conference of the Parties to the United Nations Framework Convention on Climate Change agreement targets** (as embedded in CAREC Strategy 2030¹³). This will require support through regional action that address any induced externalities. This promotes RCI in the provision of regional and global public goods in areas such as climate change, environment protection, and energy and water security.

2.3 Regional Cooperation and Integration Challenges

13. Even as Asia continues to gain in RCI, it must overcome several challenges if it is to catch up with Organisation for Economic Co-operation and Development (OECD) countries:

- **Existing infrastructure cannot maintain current economic growth.** Current levels remain unable to support expanding trade and investment, the need for better RPGs and more inclusive growth. Developing Asia will need to invest \$26 trillion from 2016 to 2030 (of which at least \$250 billion is for regional infrastructure), or \$1.7 trillion annually, to maintain the region’s growth momentum, eradicate poverty, and respond to climate change.¹⁴ Aside from the “hard” physical infrastructure, infrastructure “software” like seamless cross-border transport and ICT help enable maximum, cost-efficient use of new cross-border connectivity.
- **Inward-orientation should be avoided to encourage global trade growth.** Prevailing nontariff measures in the region, while not all are protectionist, continue to hold back trade and investment growth—for example, nontariff measures in ASEAN increased more than threefold from 2000 to 2015).¹⁵ Although Asia attracted 28% of global FDI inflows in 2016, inflows to the region fell 6% to \$492 billion from \$525 billion in 2015. The average World Bank logistics performance index score for Asian economies dropped slightly to 2.87 in 2016

¹³ ADB. 2017. *CAREC Strategy 2030: Connecting the Region for Shared and Sustainable Development—Draft Strategy*. Manila.

¹⁴ ADB. 2017. *Meeting Asia’s Infrastructure Needs*. Manila.

¹⁵ J. Menon and A. Melendez. 2017. Tasks ahead for ASEAN as it turns 50. *The Business Times*. 24 August. <http://www.businesstimes.com.sg/opinion/tasks-ahead-for-asean-as-it-turns-50>.

from 2.90 in 2014. Limited economic integration among some DMCs constrains the transmission of positive spillovers from others.¹⁶

- **Barriers to entering supply chains should be removed.** Better infrastructure and freer trade will help develop and sustain subregional and intersubregional supply chains in Asia, making it easier for DMCs to join interregional and global supply chains—creating more efficient trade logistics that support seamless and restriction-free flows. New investment into the region must not be discouraged. Asia’s intraregional share of portfolio investment declined to 17.1% in 2016 from 18.3% in 2015. More outward portfolio debt investments went outside Asia and the Pacific. Outward portfolio equity investments in other Asian markets were also lackluster—indicating Asia lost some attraction as an intraregional investment destination.
- **Non-economic risks are growing.** Natural disasters and damage from climate change impose heavy socioeconomic costs on DMCs, individually and among neighbors. Floods and earthquakes disrupt supply chains, and cross-border air and water pollution damage health and agricultural productivity. Global climate change affects the spread of vector-borne diseases (such as malaria and dengue), increasing risks as labor mobility and tourism rise. And the uncertainty over implementation of the Paris Agreement on Climate Change will dampen global efforts, including resource transfers to developing countries, to support investments in climate change adaptation and mitigation and future collective action.
- **Better coordination on RCI in Asia is needed.** RCI is gaining active support through several new initiatives and new trade and investment arrangements (such as the AEC and RCEP, among others). While these multiple mechanisms provide DMCs with more financing options and platforms to pursue RCI, there is the potential risk of overlaps and inconsistencies, unless they are well-coordinated and synergized in planning and in implementing specific investment programs and projects.

¹⁶ J. F. Arvis et al. 2016. *Connecting to Compete 2016: Trade Logistics in the Global Economy—The Logistics Performance Index and Its Indicators*. Washington, DC: World Bank.

ADB's Contribution to Regional Cooperation and Integration Progress

14. This chapter reports on the contribution of Asian Development Bank (ADB) to progress on Regional Cooperation and Integration against Level 2 indicators in the Operational Plan for Regional Cooperation and Integration, 2016–2020 (RCI-OP) results framework. It describes (i) completed regional cooperation and integration (RCI) operations rated successful; (ii) cross-border electricity transmission; and (iii) cross-border cargo volume facilitated. Reports on completed RCI operations are based on project success rates validated by ADB's Independent Evaluation Department (IED) in 2013–2016 over project completion reports (PCRs) or extended annual review reports (XARRs) as prepared by operations departments. Reports on cross-border transmission of electricity and cargo volume facilitated are based on ADB's Development Effectiveness Review (DEfR) 2016.¹⁷

3.1 Performance of Completed Regional Cooperation and Integration Operations

15. A total of 33 completed RCI projects (sovereign and nonsovereign) were validated by IED in 2013–2016 covering projects approved in 2001–2010. Evaluation and validation were conducted according to five criteria: relevance, effectiveness, efficiency, sustainability, and impact. Against these criteria, the success rate of RCI operations during the 2013–2015 and 2014–2016 periods is 71% (Figure 1).¹⁸

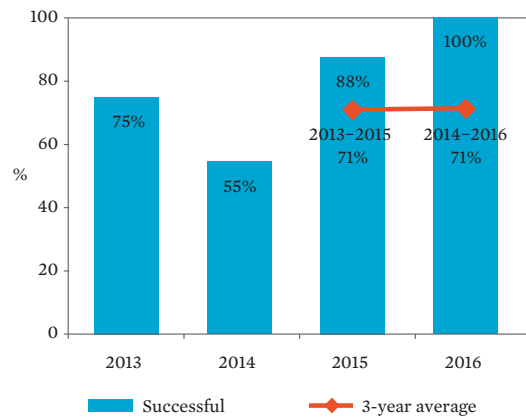
16. Figures 2 and 3 feature the sectoral and subregional profile of successful RCI projects:

- **By sector.** The successful RCI projects supported the transport sector (54%), followed by finance (25%), energy (8%), health (8%), and industry and trade (4%). All transport projects were sovereign; successful nonsovereign projects were in finance and energy.
- **By subregion.** Central and West Asia accounted for 38% of successful projects, followed by Regional and/or Selected DMCs (29%), Southeast Asia (21%), South Asia (8%), and East Asia (4%). No projects from the Pacific were validated during the period.

¹⁷ ADB. 2017. *2016 Development Effectiveness Review*. Manila.

¹⁸ In the RCI-OP Results Framework, completed RCI operations rated successful only referred to IED-evaluated sovereign RCI projects. This report includes IED-evaluated nonsovereign RCI projects as well.

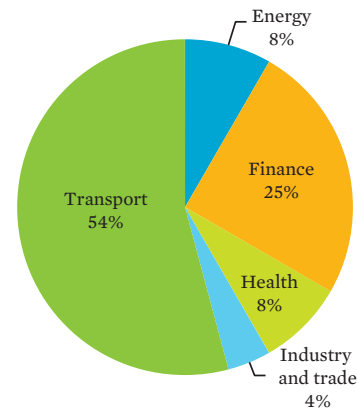
Figure 1: Successful RCI Projects 3-Year Average, Approvals 2001–2010



RCI = regional cooperation and integration.

Source: ADB Independent Evaluation Department.

Figure 2: Successful RCI Projects by Sector, Approvals 2001–2010



RCI = regional cooperation and integration.

Source: ADB Independent Evaluation Department.

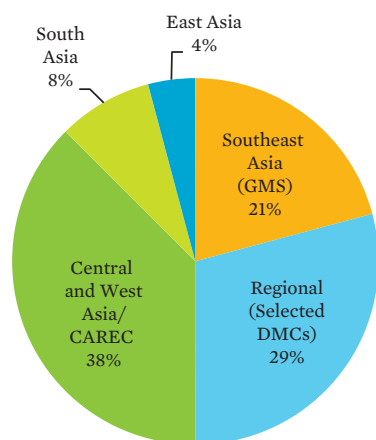
17. In 2014–2016, the 71% success rate of RCI operations surpassed the 60% baseline set in the results framework of the RCI-OP. Successful projects had several common features (Boxes 1, 2, and 3): (i) good project design built on a deep understanding of country needs and priorities; (ii) strong country commitment and well-coordinated project activities among stakeholders—particularly for cross-border activities (such as the Afghanistan and Tajikistan Regional Power Transmission Interconnection Project); and (iii) a well-designed capacity-building component for executing agencies (for example, the Mongolia Customs Modernization Project and the Greater Mekong Subregion Regional Communicable Diseases Control Project). Unsuccessful and less-than-successful RCI projects (sovereign and nonsovereign) generally matched the profile of successful projects in terms of sectoral and subregional focus, particularly in sector focus (Figure 4)—the transport sector and Central and West Asia had the most unsuccessful and less-than-successful sovereign projects. The problems identified were mainly in project design and implementation (such as delays in implementation, cancellations of components, weak project design, and a mismatch of fund size and gestation period). Box 4 features an example of a less-than-successful project.

18. **RCI, non-RCI, and ADB projects overall.** For RCI projects, 73% were rated successful, compared with a 71% success rate for both non-RCI and all ADB projects¹⁹ (Figure 5). However, if viewed by sovereign RCI projects only (Figure 6), the RCI project success rate (74%) falls below non-RCI (77%) and all ADB (77%) projects levels. This is broadly in line with IED's 2015 evaluation findings on ADB's performance of RCI operations,²⁰ where RCI projects approved in 1978–2008 performed better (81%) than

¹⁹ Nonsovereign projects with 2016 extended annual review reports (XARRs) were unavailable (still being validated by IED) and are thus not included.

²⁰ ADB. 2015. *Thematic Evaluation Study on Asian Development Bank Support for Regional Cooperation and Integration*. Manila.

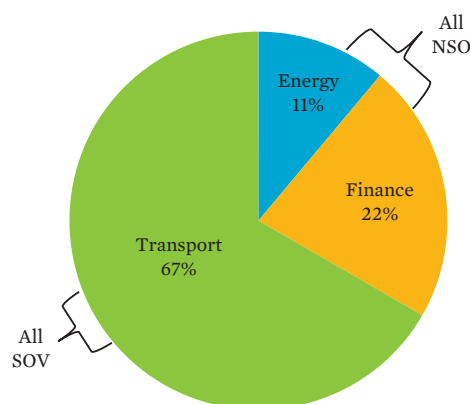
Figure 3: Successful RCI Projects by Subregion, Approvals 2001–2010



CAREC = Central Asia Regional Economic Cooperation, DMC = developing member country, GMS = Greater Mekong Subregion, RCI = regional cooperation and integration.

Source: ADB Independent Evaluation Department.

Figure 4: Unsuccessful and Less-Than-Successful RCI Projects by Sector, Approvals 2001–2010



NSO = nonsovereign, RCI = regional cooperation and integration, SOV = sovereign.

Source: ADB Independent Evaluation Department.

Box 1: Mongolia—Customs Modernization Project

The project was approved on 20 December 2006, and closed on 13 December 2011. The project completion report was validated in February 2015. Project costs totaled \$7.02 million. The intended impact was to increase trade volume and smooth trade flow. The project would improve the efficiency, transparency, and sustainability of customs services and administration. Outputs included (i) migration of customs services and administration from the Mongolian Customs General Administration to a customs automation information system (CAIS); (ii) improving infrastructure at selected major customs houses and customs border posts; and (iii) institutional strengthening of the Mongolian Customs General Administration.

The project supported Mongolia's customs modernization by establishing the CAIS to meet increasing demand and requirements of customs administration.

The CAIS improved transparency of customs services and minimized human intervention in data processing. Improved customs infrastructure—such as providing surveillance tools and establishing regional laboratories—strengthened MCGA capacity. Thus, at project completion, the project created a significant economic internal rate-of-return, derived from reducing customs clearance and transaction costs and from an expansion in foreign trade.

Source: ADB Independent Evaluation Department.

non-RCI (59%) and all ADB projects (62%), but with declining margins. This may reflect (i) overall improved quality of ADB lending operations, particularly in the recent decade (2001–2010); (ii) the complexity of RCI projects, which require innovative conceptualization and better coordination among different stakeholders, particularly client governments; (iii) difficulty in coordinating and collaborating between ADB

Box 2: Afghanistan and Tajikistan—Regional Power Transmission Interconnection Project

Four loans under the project (two for Tajikistan and two for Afghanistan) were approved in December 2006 and November 2010, and were closed between 16 May 2011 and 30 June 2013. The project completion report was validated in November 2014. Project costs totaled \$102.90 million (\$45 million for Tajikistan and \$57.90 million for Afghanistan).

The intended impact was to enhance regional cooperation in power transmission interconnectivity. The expected outcome was (i) increased power consumption per capita in Afghanistan; (ii) 100% replacement of the Kabul diesel gas turbine power station during 6 summer months by June 2009; (iii) improved power supply to Kunduz, Kabul, and related areas in Afghanistan; (iv) increased retail electricity sales in the Kunduz and Kabul areas; and (v) increased power collection rates in Afghanistan and Kabul specifically. The outputs involved (i) constructing a transmission line from the Sangtuda substation to the Pianj River; (ii) erecting a transmission line across the Pianj River; (iii) a new 220/110/20 kilovolts Kunduz substation; (iv) constructing the Kunduz Pul-e-Khumri transmission line; (v) rehabilitating the Golovnaya hydropower plant unit 3; (vi) supplying and installing the transformer T3 in Golovnaya; (vii) supplying metering equipment for transmission substations; (viii) rehabilitating the Baipaza excitation system; and (ix) rehabilitating canals in Perpadnaya and Golovnaya hydropower plant. Outputs also included improved institutional capacity of related agencies in Afghanistan and Tajikistan.

The project supported power transmission interconnection between Afghanistan and Tajikistan by allowing Afghanistan to meet its power supply deficiencies by importing the Tajikistan power surplus it could not export. Overall, the targeted outcomes and outputs were largely achieved. In 2012, Tajikistan exported 470.5 gigawatt-hours of electricity to Afghanistan valued at \$16.8 million, increasing to 791.1 gigawatt-hours valued (\$28.8 million) in 2013. These were above the \$15 million expected per year, though below the forecast export capacity.

Source: ADB Independent Evaluation Department.

Box 3: Greater Mekong Subregion Regional Communicable Diseases Control Project

The project (covering Cambodia, the Lao People's Democratic Republic [Lao PDR], and Viet Nam) was approved 21 November 2005 and closed on 17 October 2012. The Project Performance Evaluation Report was completed in September 2015. Total project cost at appraisal was estimated at \$38.75 million (\$11.25 million for Cambodia, \$7.50 million for the Lao PDR, and \$20 million for Viet Nam). The Asian Development Bank provided three separate grants totaling \$30 million, financing 77.4% of the total cost. The intended impacts were to (i) improve local, national, and regional containment of epidemic diseases; and (ii) reduce the burden of common endemic diseases by about 15% in 26 provinces targeted by the project. The expected outcomes were (i) timely and adequate control of epidemics likely to have major impact on public health and the regional economy; (ii) improved coverage of prevention and care of communicable diseases in vulnerable populations, in particular for poor women and children living in border areas; and (iii) improved know-how, policies, standards, and coordination among countries to improve communicable disease control (CDC) through effective intergovernmental cooperation by building capacity in ministries of health, regional policy dialogue, and operations research. The outputs were (i) comprehensive national surveillance and response systems, (ii) expanded and integrated CDC for vulnerable groups, and (iii) productive regional coordination for CDC.

The project was designed to help reduce collective vulnerability to communicable diseases threatening national borders. With the anticipated growth in trade and tourism from increased connectivity between countries, the continued importance of building country capacity and regional cooperation in CDC was reinforced. The project was effective. All three countries strengthened their CDC system capacity to rapidly assess emerging epidemics and take timely action to control their spread. The project had a significant impact on people's health, and contributed to the countries' progress toward selected health Millennium Development Goals.

Source: ADB Independent Evaluation Department.

Box 4: Kyrgyz Republic—Central Asia Regional Economic Cooperation Transport Corridor 1 (Bishkek–Torugart Road) Project

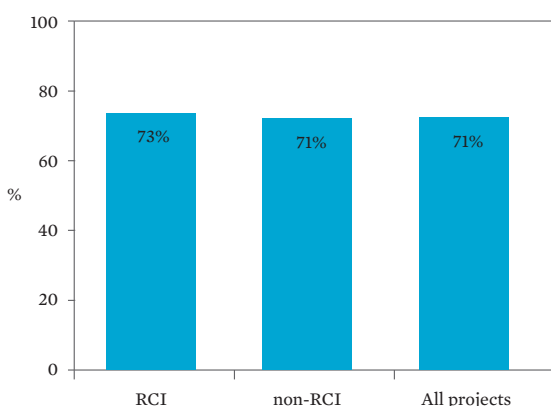
The project was approved on 14 November 2008 and closed on 11 March 2013. The project completion report was validated in November 2014. Project costs totaled \$21.33 million. The project was expected to contribute to reducing transport costs and fostering regional trade and tourism between the Kyrgyz Republic and the People's Republic of China (PRC). The expected outcomes were improved access to markets, social services, and tourist destinations. There were four outputs: (i) an improved 39-kilometer section of the Bishkek–Torugart road; (ii) modernized customs infrastructure at the Kyrgyz Republic–PRC border crossing at Torugart; (iii) a transport sector master plan for the Kyrgyz Republic (covering road, railway, and aviation—including logistics); and (iv) a fully operationalized Bishkek–Torugart Road Corridor Management Department.

The project was validated by the Independent Evaluation Department (IED) as “less than successful,” downgraded from all “successful” ratings done by IED. These downgrades were due to several implementation issues: (i) changes in project design and components (the customs facility modernization component was dropped) undermined project relevance at formulation, which may have substantially constrained achieving expected outputs and outcomes; (ii) implementation delays and issues on assumptions used in estimating economic viability (the recruitment of a consultant consortium was delayed for almost 3 years); (iii) the government had limited capacity to secure other resources to secure funds for road maintenance; and (iv) the executing agency's limited capacity and familiarity with Asian Development Bank (ADB) policies and procedures, especially social safeguards.

Important lessons drawn from this project included the timely recruitment of consultants to avoid delay, better project design (such as a separate customs component from road rehabilitation), and strengthening training on ADB safeguard policy and procedures for executing agencies and consultants. It is encouraging to note the Bishkek–Torugart Road project 2 was validated by IED as “successful,” with better project design and more efficient implementation.

Source: ADB Independent Evaluation Department.

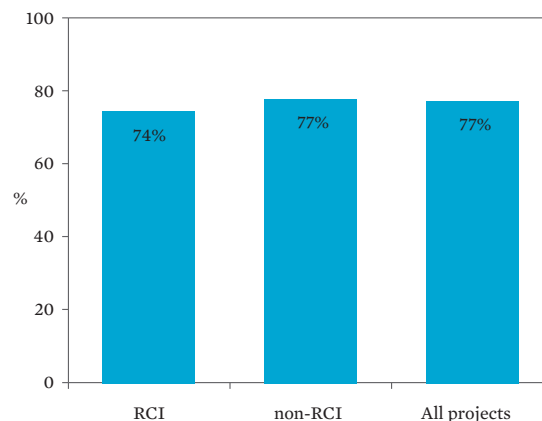
Figure 5: RCI (sovereign and nonsovereign) versus Non-RCI and All ADB Projects, Approvals 2001–2010



RCI = regional cooperation and integration.

Source: ADB Independent Evaluation Department.

Figure 6: RCI (sovereign only) versus Non-RCI and All ADB Projects, Approvals 2001–2010



RCI = regional cooperation and integration.

Source: ADB Independent Evaluation Department.

operations departments on synergized country level policies and project activities; and (iv) higher failure rates for nonsovereign in relation to sovereign projects.

19. **RCI project classification.** Assessed projects approved during 2001–2010 were classified as RCI or regional projects under the previous RCI project classification system with less consistent standards. This resulted in (i) a large number of single country projects being classified as RCI (19 sovereign single country projects out of 23); (ii) more multicountry projects qualified as RCI, particularly nonsovereign projects, with weak or no RCI dimension (for example, 9 nonsovereign multicountry projects classified as RCI lacked discernable regional benefits); and (iii) single country projects classified as RCI lacked clear cross-border benefits. This classification issue was also identified by IED in its 2015 report as affecting the quality of ADB's RCI operations. To effectively address this issue, the RCI-OP mandated the RCI project classification system be revised to provide clear and more consistent criteria for classifying RCI projects. Consequently, the RCI Thematic Group (TG) Secretariat developed a Handbook for the Classification and Economic Analysis of Regional Projects as one of the key measures to enhance the quality of ADB's RCI operations (paras. 57–58 has more details).

20. In sum, ADB's RCI operations measured by success rates of completed projects during 2013–2016 are satisfactory, with an increase in 2014–2016 (71%) as compared with 60% baseline set in the results framework of the RCI-OP. Successful sovereign projects focused on transport, while nonsovereign projects focused on finance and energy, mostly in ADB's traditional RCI sectors. Overall, RCI projects performed better than non-RCI and all ADB projects over the previous period, but with a declining margin, which may reflect the overall improvement of the quality of ADB lending, but also the complexity and difficulty of undertaking RCI projects. Some RCI project misclassifications were identified due to the drawbacks of the previous classification system. Going forward, as ADB's RCI operations move beyond traditional sectors, entering newer sectors and nascent areas—along with the new RCI project classification system gradually mainstreamed across ADB—it will become more challenging to define a project as RCI. However, future RCI projects may have a higher probability of being rated successful.

21. Given the long time lag between RCI project approval and major milestones for performance assessment and evaluation, ADB might consider developing and implementing more robust and timely assessment or evaluation protocols that deliver meaningful and usable findings for ongoing monitoring, as well as supporting more strategic, streamlined and timely ex-post evaluation of RCI operations.

3.2 Performance Measured by Cross-Border Transmission of Electricity and Cargo Volume Facilitated

22. Two corporate indicators that measure ADB's contribution on RCI progress are (i) cross-border transmission of electricity (gigawatt-hours per year) and (ii) cross-border cargo volume facilitated (annual tonnage), as reflected in ADB's annual Development

Effectiveness Review. Based on these, ADB's performance in 2016 was satisfactory—contributions came from one energy operation and two road projects (Table 2). A provincial road built in Cambodia and the Lao People's Democratic Republic helped expand cross-border cargo traffic in the GMS to almost 1.3 million tons annually. The completion of an electrical grid interconnection project between India and Bangladesh enables the sale of 3,500 gigawatt hours of surplus electricity annually from India to Bangladesh. Households and businesses in Bangladesh are benefiting from low-cost electricity, and ADB has approved a second project to double interconnection capacity and meet the country's growing power demand.²¹

Table 2: ADB's Contribution to RCI Measured by Cross-Border Transmission of Electricity and Cargo Volume Facilitated, 2016

Indicator	Number of PCRs/XARRs	2016 Results Achieved ^a	Achievement Rate (%) ^b (Satisfactory: 85% or above)
Cross-border transmission of electricity (GWh per year)	1	3,500	100+
Cross-border cargo volume facilitated (tons per year)	2	1,254,000	100+

GWh = gigawatt-hour, PCR = project and/or program completion report, XARR = extended annual review report.

^a Results are rounded to the nearest 1,000. Values below 10,000 are rounded to the nearest 100. Values below 1,000 are rounded to nearest 10. Values below 99 are not rounded.

^b "Achievement Rate" is the percentage of "Results Achieved" to the total planned output and outcomes as reported in reports and recommendations of the President for the same operations and estimated by project teams.

Source: ADB Strategy, Policy, and Review Department.

23. The two indicators in measuring ADB's contribution for cross-border RCI benefits were applied at a time when ADB's RCI operations focused heavily on transport and energy. Going forward, as ADB's RCI operations continue expanding beyond these two traditional sectors, merely measuring cross-border transmission of electricity and cargo volume facilitated will be insufficient for a comprehensive picture of ADB's support for cross-border RCI. In the future, other indicators may need to be developed to measure cross-border RCI benefits, such as cross-border trade and investment, tourism, finance, and labor migration. These will need to be developed in close coordination with the Strategy, Policy, and Review Department (SPD) and operational departments.

²¹ ADB. 2017. *2016 Development Effectiveness Review*. Manila.

4

Operational Management of ADB's Regional Cooperation and Integration Program

24. This chapter assesses progress in Regional Cooperation and Integration (RCI) operations of the Asian Development Bank (ADB) in 2014–2016, with an initial review on the emerging trend in RCI operations from approved projects in 2017. The assessment includes (i) operations (loans and grants) supporting RCI (in relation to the 30% target for overall ADB operations by 2020), (ii) performance of ADB's technical assistance (TA) for RCI, (iii) cofinancing for ADB's RCI operations (loans and grants) and TAs, and (iv) RCI knowledge products and services produced jointly with external partners.

4.1 Regional Cooperation and Integration Loans and Grants

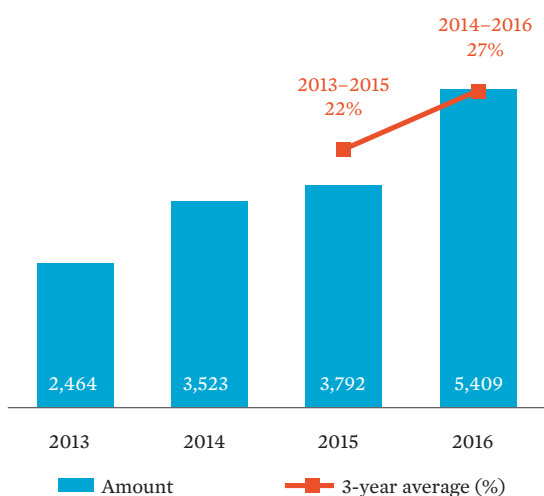
Financing for Regional Cooperation and Integration Operations (percentage of ADB lending volume, 3-year average)

25. ADB's RCI operations for loans and grants in 2013–2016 (Figure 7) gradually increased to \$5.4 billion. RCI operations were primarily sovereign investments, with a few nonsovereign loans developed on an ad hoc basis, focused on cross-border energy transmission. By volume, RCI projects accounted for 27% of total ADB financed projects in 2014–2016, a substantial jump from 22% in 2013–2015. By number of projects, RCI operations accounted for 26% of total ADB financed projects in 2014–2016, up from 23% in 2013–2015.

26. While this may suggest that RCI operations are broadly on track to meet the 30% target of all ADB operations by 2020, project misclassification continues to be an issue (para. 19). The new RCI project classification system, which took effect in 2017, is expected to make RCI operations more distinct through a scorecard system that clearly and consistently identifies a project's expected regional effects and spillover benefits (para. 57 has more details). This should lead to improved RCI operations going forward, but in the short-term may result in a decline in the number of projects qualified as RCI as ADB staff adjusts to the new system.

27. Support for RCI operations has covered multiple sectors in recent years (Figure 8). The share of traditional sectors like transport and energy, while still the bulk of RCI projects, are declining, with transport down to 50% in 2016 from 79% in 2013. Specifically, road transport declined to 62% in 2016 from 73% in 2013, while more support was provided for railroads, airports, and multimodal transport. More nascent sectors are also coming into RCI. In 2013, RCI support was provided to just four sectors: transport,

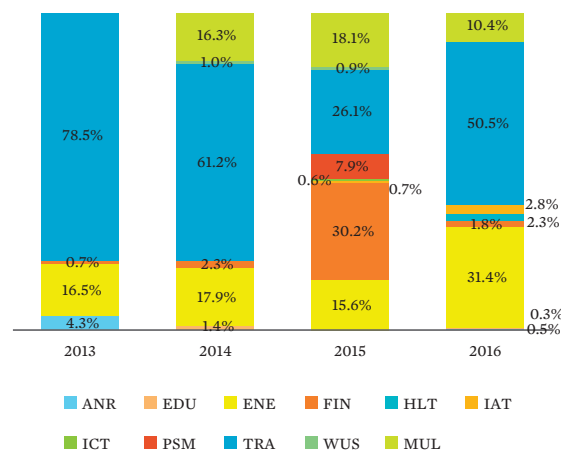
Figure 7: RCI Loans and Grants by Amount and 3-Year Average, Approvals 2013–2016
(\$ million)



RCI = regional cooperation and integration.

Source: ADB Strategy, Policy, and Review Department.

Figure 8: RCI Loans and Grants by Sector, Approvals 2013–2016



ANR = agriculture, natural resources and rural development, EDU = education, ENE = energy, FIN = finance, HLT = health, IAT = industry and trade, ICT = information and communication technology, MUL = multisector, PSM = public sector management, RCI = regional cooperation and integration, TRA = transport, WUS = water and other urban infrastructure and services.

Source: ADB Strategy, Policy, and Review Department.

energy, agriculture, and finance. The last 2 years (2015–2016) saw support expand into health, industry and trade, public sector management, urban, and multisector projects.

Cofinancing for Regional Cooperation and Integration Operations (2016)

28. In 2016, ADB catalyzed over \$1 billion in cofinancing for RCI loans and grants, a substantial increase from \$406 million in 2015 (Table 3 contains the list of cofinanciers). It covered 19% of RCI loans and grants in 2016 that received cofinancing from ADB development partners (including ADB-administered trust funds). RCI project cofinancing in 2016 had the following features:

- **By sector.** Transport received the largest share (72%), followed by energy (22%). Other sectors included agriculture (5%), multisector (0.5%), and education (0.1%). This corresponds with the main feature of ADB's overall RCI portfolio with transport as focus.
- **By subregion.** Central and West Asia received the lion's share of cofinancing at \$885 million, predominantly for transport and energy infrastructure. This mirrors the major infrastructure thrust for ADB lending, particularly in Central and West Asia. South Asia followed with \$144 million and the Pacific with \$8 million. Southeast Asia did not receive any cofinancing for its four projects in 2016—atypical for a subregion that consistently received cofinancing over the previous 5 years.

Table 3: Cofinanciers for ADB RCI Loans and Grants, 2016

- Afghanistan Infrastructure Trust Fund
- Asian Infrastructure Investment Bank
- Clean Energy Fund under the Clean Energy Financing Partnership Facility
- Department for International Development of the United Kingdom
- Eurasian Development Bank
- European Investment Bank
- European Union
- Export–Import Bank of Korea
- Islamic Development Bank
- Japan International Cooperation Agency
- OPEC Fund for International Development
- Saudi Fund for Development
- Strategic Climate Fund
- Urban Climate Change Resilience Trust Fund under the Urban Financing Partnership Facility

Source: ADB Strategy, Policy, and Review Department.

Regional Cooperation and Integration Operations by Operational Direction under the Operational Plan for RCI, 2016–2020 in 2016 and 2017

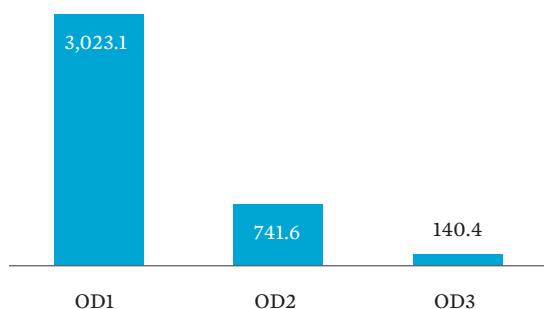
29. Although not yet applied to ADB operations, an attempt was made to categorize ADB's RCI operations (loans and grants and TAs) in 2016–2017 under the three operational directions (ODs) of the Operational Plan for RCI, 2016–2020 (RCI-OP). In 2016, over \$3 billion in RCI loans and grants supported OD1 (connectivity). These were projects on road connectivity, particularly construction or rehabilitation of critical sections under subregional transport corridors, rail connectivity, cross-border transport facilitation, and power transmission and trade. OD2 (competitiveness) was supported by projects totaling \$742 million, focusing on economic corridor development, logistics, economic zone development, trade facilitation and customs management, investment promotion, and value chain participation. Support for OD3 (regional public goods [RPGs] and collective action) was \$140 million for projects on ICT-based education and cross-border health security (Figure 9).

30. Preliminary data for 2017²² (Figure 10) indicates a continuing trend of RCI operations supporting OD1 (projects on road connectivity, rail development, and infrastructure financing, among others), followed by OD2 (customs management and trade facilitation, technical and vocational education training, and border area urban development). Only one project (education) falls under OD3. While a promising trend toward aligning with the three ODs, support for OD3 is clearly lagging.

31. In sum, while recognizing continued efforts are needed to improve RCI project classification, RCI operations from 2013 onward show an increasing trend in

²² ADB Operations Dashboard data (accessed 27 September 2017) showing 10 approved projects with total amount of \$1.6 billion tagged as RCI.

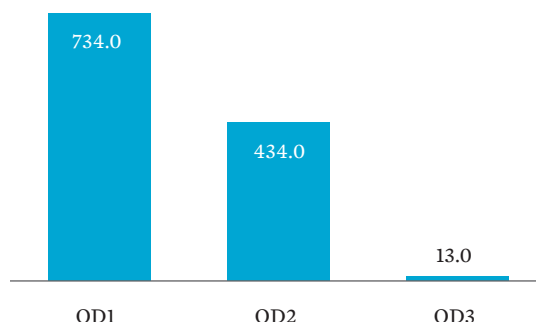
Figure 9: RCI Loans and Grants by Operational Direction, 2016 Approvals
(\$ million)



RCI = regional cooperation and integration.

Source: RCI Thematic Group Secretariat computation based on data from ADB Strategy, Policy, and Review Department.

Figure 10: RCI Loans and Grants by Operational Direction, 2017 Approvals
(\$ million)



RCI = regional cooperation and integration.

Source: RCI Thematic Group Secretariat computation based on ADB Operations Dashboard data accessed 27 September 2017.

lending volume, on track to meet the 30% RCI lending target by 2020. By sector, there is diversification from traditional RCI sectors (particularly transport) into nascent sectors, particularly in approved projects in 2017 (Boxes 5, 6, and 7) such as renewable energy (Pacific Renewable Energy Investment Facility); regional cooperation in cross-border Technical and Vocational Education and Training (TVET) development (PRC: Guangxi Modern Technical and Vocational Education and Training Development Program); and trade facilitation and customs modernization (Nepal: SASEC Customs Reform and Modernization for Trade Facilitation Program). However, lending under OD3 has stagnated, reflecting difficulty in lending to projects that support RPGs and

Box 5: Pacific Renewable Energy Investment Facility

The project will cost \$750 million, with the Asian Development Bank contributing \$200 million. Its impact will be improved regional energy security in the Pacific; its outcome increased generation of lower-cost and cleaner energy; and outputs include (i) renewable energy generation facilities and supporting infrastructure constructed and/or rehabilitated through three projects—in the Cook Islands (renewable energy project with additional financing), Tonga (outer island renewable energy project with additional financing), and Vanuatu (energy access project), and (ii) energy sector reform and capacity building, including private sector promotion.

The facility will have a novel financing approach. It provides an aggregated approval limit for loans and grants to a range of qualifying small-value renewable energy projects in 11 smaller Pacific island countries (PIC-11) from 2017–2022. A range of renewable energy projects supported by the facility will benefit the PIC-11 through (i) improved balance of trade by reducing fossil fuel imports, (ii) improved energy security, (iii) downward pressure on tariffs, and (iv) reduced greenhouse emissions.

Source: ADB Strategy, Policy, and Review Department.

Box 6: People's Republic of China—Guangxi Modern Technical and Vocational Education and Training Development Program

The project will cost \$10.02 billion, of which the Asian Development Bank will provide \$250 million. The project will accelerate socioeconomic development in Guangxi Zhuang Autonomous Region (GZAR); its outcome a Technical and Vocational Education and Training (TVET) system that provides graduates better employment opportunities in established industries; and its outputs will (i) enhance TVET relevance to industry, (ii) improve TVET quality, (iii) increase TVET inclusiveness, and (iv) expand the role of TVET in regional economic development.

The program is critical for a comprehensive TVET system reform package focused on results and system improvements, in line with GZAR's 13th Five-Year Plan, 2016–2020. It will support regional cooperation and integration in TVET between Guangxi and members of the Association of Southeast Asian Nations (ASEAN). It will do this by promoting partnership agreements for long-term cooperation between GZAR and ASEAN TVET institutions and enterprises. It will also increase the number of participants in partnership and other cross-border training programs between GZAR and ASEAN TVET institutions and enterprises. It will also increase the number of ASEAN students receiving vocational education certificates from GZAR's TVET institutions.

Source: ADB Strategy, Policy, and Review Department.

Box 7: Nepal—South Asia Subregional Economic Cooperation Customs Reform and Modernization for Trade Facilitation Program

The Asian Development Bank will provide \$21 million for the program, which aims to expand Nepal's exports and increase export competitiveness; its outcome will be increased legitimate trade access to simplified, harmonized, and modernized trade processes. Its outputs will be (i) an improved national policy and legal framework for trade facilitation, (ii) better customs procedures, (iii) a strengthened Department of Customs organizational structure, and (iv) enhanced Department of Customs capacity.

The program supports the simplification, harmonization, and modernization of Nepal's trade processes to international standards and will contribute to national goals of promoting and diversifying exports, helping Nepal fulfill commitments to the Trade Facilitation Agreement of the World Trade Organization and related international customs standards.

Source: ADB Strategy, Policy, and Review Department.

collective action. For ADB cofinancing for RCI in 2016 (while inconsistent given the 1 year period), there is broad consistency with ADB's overall lending trend in sectoral and subregional allocations. RCI cofinancing remains strong in Central and West Asia, but weakening in Southeast Asia (no cofinancing in 2016). This may be due to the fact that only two new Southeast Asia projects (in addition to one multitranchise financing facility tranche and one additional financing) were processed during 2016—it appears that certain types of projects (infrastructure in particular) attract more cofinancing than others, possibly related to the lack of upstream knowledge work in other sectors that might generate more RCI lending.

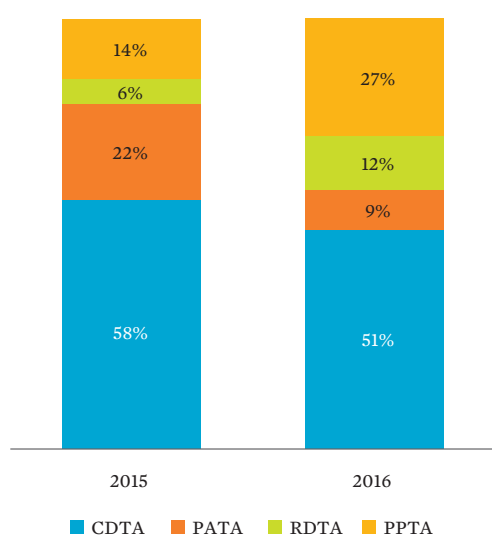
4.2 Regional Cooperation and Integration Technical Assistance

Share of Regional Cooperation and Integration Technical Assistance in 2016

32. ADB technical assistance (TA) projects supporting RCI reached \$100.4 million in 2016, a slight increase from \$98 million in 2015. Figures 11 and 12 profile RCI TA projects in 2016 compared with 2015 based on volume.

- **By type of technical assistance.** Since 2015, the bulk of TA funds were allocated to capacity development TAs (CDTAs) accounting for more than 50% of RCI TAs in 2015 and 2016. Policy advisory TAs (PATAs) dropped from 22% in 2015 to just 9% in 2016. Research and development TAs (RDTAs) increased to 12% in 2016

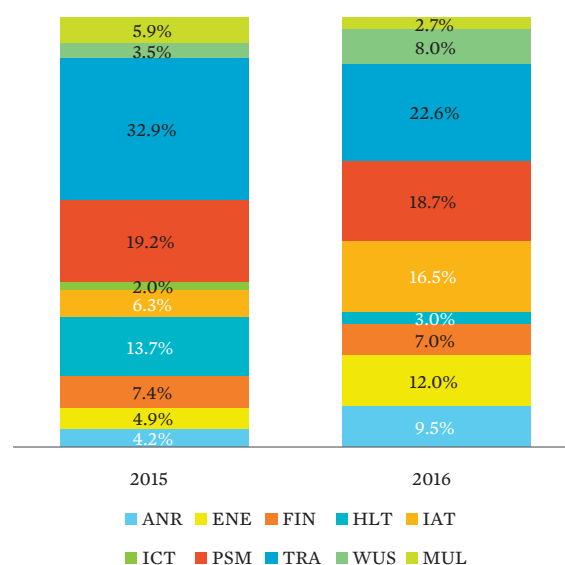
Figure 11: RCI Technical Assistance Projects by Type, Approvals 2015–2016



CDTA = capacity development technical assistance, PATA = policy advisory technical assistance, PPTA = project preparatory technical assistance, RCI = regional cooperation and integration, RDTA = research and development technical assistance.

Source: ADB Strategy, Policy, and Review Department.

Figure 12: RCI Technical Assistance Projects by Sector, Approvals 2015–2016



ANR = agriculture, natural resources and rural development, CDTA = capacity development technical assistance, ENE = energy, FIN = finance, HLT = health, IAT = industry and trade, ICT = information and communication technology, MUL = multisector, PATA = policy advisory technical assistance, PPTA = project preparatory technical assistance, PSM = public sector management, RCI = regional cooperation and integration, RDTA = research and development technical assistance, TRA = transport, WUS = water and other urban infrastructure and services.

Source: ADB Strategy, Policy, and Review Department.

from 6% in 2015.²³ The share of project preparatory TAs (PPTAs) increased from 14% in 2015 to 27% in 2016, which mirrored the growing trend of RCI investment projects in recent years, particularly in transport, energy, urban development, health, agriculture, and industry and trade.

- **By sector.** In 2016, transport accounted for the largest share of RCI TA funds, albeit dropping from 33% in 2015 to 23% in 2016. This was followed by public sector management (19%); industry and trade (17%); energy (12%); agriculture, natural resources and rural development (10%); water and other urban infrastructure and services (8%); finance (7%); health (3%); and multisector TAs (3%). The sectoral allocation of RCI TAs in 2015–2016 is complex. It shows the sectoral allocation of RCI TAs in 2016 spread somewhat evenly across various sectors, with no clear correlation between RCI TAs and RCI lending (apart from PPTAs).

Cofinancing for ADB Regional Cooperation and Integration Technical Assistance Projects (2016)

33. In 2016, ADB mobilized \$32 million in cofinancing for RCI TA projects, down from \$58 million in 2015 (Table 4 has the list of cofinanciers). This represents 32% of all RCI TAs that received cofinancing from ADB development partners, including trust funds administered by ADB. Cofinancing TA projects in 2016 have the following features:

- **By sector.** Energy TA projects received the largest share of cofinancing (25%), followed by public sector management (18%), transport (13%), agriculture and natural resources (13%), health (9%), water and other urban infrastructure and

Table 4: Cofinanciers for ADB Regional Cooperation and Integration Technical Assistance Projects, 2016

- Government of Australia
- Clean Energy Fund
- Climate Change Fund
- Danish Cooperation Fund for Renewable Energy and Energy Efficiency in Rural Areas
- Department for International Development of the United Kingdom
- e-Asia and Knowledge Partnership Fund
- Gender and Development Cooperation Fund
- Integrated Disaster Risk Management Fund
- Investment Climate Facilitation Fund
- Japan Fund for Poverty Reduction
- Japan Fund for the Joint Crediting Mechanism
- Nordic Development Fund
- People's Republic of China Regional Cooperation and Poverty Reduction Fund
- Project Readiness Improvement Trust Fund
- Regional Cooperation and Integration Fund
- Strategic Climate Fund
- Water Financing Partnership Facility

Source: ADB Strategy, Policy, and Review Department.

²³ CDTAs and PATAs mainly cover learning and networking for mid- and senior-level civil servants and crafting policy advice for high-level forums. PATAs also help DMCs prepare national and sectoral development plans and programs that support RCI.

services (7%), industry and trade (6%), finance (5%), and multisector TA projects (4%).

- **By subregion.** Southeast Asia accounted for 34% of cofinancing, followed by South Asia (19%), Pacific (11%), Central and West Asia (5%), and East Asia (3%). Selected developing member countries (DMCs) received 26% of cofinancing, while intersubregional RCI TA projects accounted for 2%.

Regional Cooperation and Integration Technical Assistance Projects by Operational Direction under the Operational Plan for RCI, 2016–2020 in 2016 and 2017

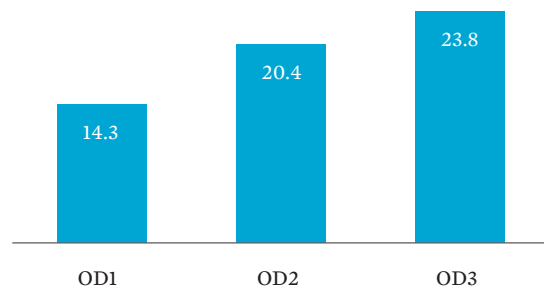
34. In 2016, over \$14 million in RCI TA projects was approved supporting OD1, including PPTAs for power transmission and trade, rail and road connectivity, and port development. TA projects supporting OD2 totaled \$20 million, focusing on economic corridor development, trade facilitation, logistics (including agri-logistics), coordinated border management, value chain participation, small and medium enterprise and trade finance, e-commerce, investment promotion, and tourism promotion. Some \$24 million in TA projects supported OD3, focusing on climate change response, disaster risk financing and management, environment protection, anti-money laundering, and strengthening collective action (Figure 13).

35. Preliminary data from approved RCI TA projects in 2017²⁴ show a continuing trend of strong support for ODs 2 and 3, while support for OD1 (for example, regional infrastructure, road connectivity, particularly rehabilitation of critical sections within subregional transport corridors, regional infrastructure and information and communication technology development) is lower. OD2 is supported by TA projects focused on regional bond market development, customs and trade facilitation, cross-border economic zone development, investment promotion, and energy trade. TA projects supporting OD3 focus on regional health, climate change mitigation and adaptation, and disaster risk management (Figure 14).

36. In sum, ADB's TA support for RCI in 2015 and 2016 is a mixed picture in sectoral allocation and TA type. Sector allocation was somewhat more balanced, although transport still receives the biggest amount. For TA types, there was an increase in PPTAs in 2016 due to an increase in the RCI lending portfolio, but more than 50% of RCI TAs were CDTAs allocated to DMC capacity building, and there was a clear decrease in PATAs. This raises questions as to how much CDTAs would help DMCs strengthen capacities in RCI participation, particularly in RCI-related policy making given reduced PATA allocations. In terms of TA cofinancing, Southeast Asia received the largest share (34%), while Central and West Asia received far less (5%), a reversal of the share of lending projects over the same period for the two subregions. For Southeast Asia, there appears a mismatch between RCI TAs and cofinancing received for RCI lending over the same period, which may reflect that Southeast Asian countries are moving into more knowledge-based cooperation with ADB and development partners, or ADB TA support in the subregion has yet to effectively and sufficiently generate more RCI lending.

²⁴ SPD data as of end of second quarter of 2017 showing 19 approved TA projects totaling \$30.6 million tagged as RCI.

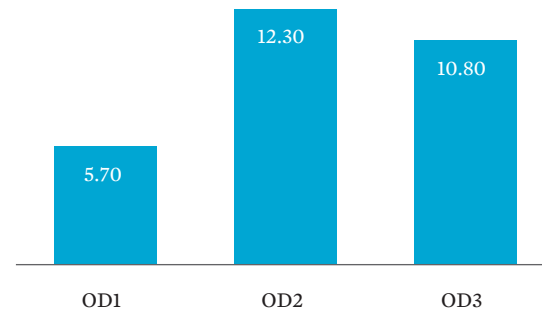
Figure 13: RCI Technical Assistance Projects by Operational Direction, 2016 Approvals (\$ million)



RCI = regional cooperation and integration.

Source: RCI Thematic Group Secretariat computation based on data from ADB Strategy, Policy, and Review Department.

Figure 14: RCI Technical Assistance Projects by Operational Direction, 2017 Approvals (\$ million)



RCI = regional cooperation and integration.

Source: RCI Thematic Group Secretariat computation based on data from ADB Strategy, Policy, and Review Department as of Q2 2017.

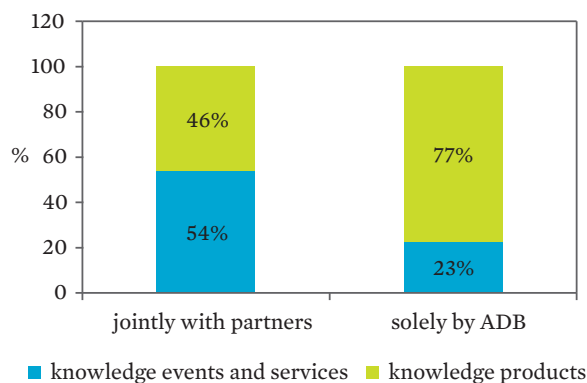
37. **RCI lending versus TA projects.** Comparing RCI lending and RCI TA projects in 2016 and 2017 shows opposing trends: lending operations have predominantly supported OD1, with few projects supporting OD2 and much less for OD3; while RCI TA projects have OD2 and OD3 accounting for the larger share of TA support. This mismatch between lending operations and TA support underscores ADB's continuing challenge to produce operationally relevant knowledge work. This is particularly evident in OD3, which is clearly struggling in lending operations (only 1 or 2 projects a year) despite receiving a significant share of TA funding. The sustainability of TA support and need to strengthen DMC TA ownership make translating knowledge-based support into investment operations an urgent task for ADB to address.

4.3 Regional Cooperation and Integration Knowledge Products and Services Produced with External Partners (2016)

38. In 2016, 151 RCI knowledge products and services (KPS) of the 528 RCI KPS total were jointly produced with external partners, an increase from 2015 (124 of the 683 RCI KPS total)— an increase in share to 29% in 2016 from 18% in 2015.²⁵ More than half (54%) were knowledge events and services, while 46% were knowledge products. Compared with RCI KPS produced by ADB alone, the majority (77%) were knowledge products. It shows ADB's RCI KPS with external partners were more focused on joint knowledge-sharing and dissemination over research generation and production. Preliminary data as

²⁵ Based on data from ADB's k-nexus database and regional departments.

Figure 15: RCI Knowledge Products and Services Produced, 2016



ADB = Asian Development Bank, RCI = regional cooperation and integration.

Source: ADB's k-nexus database and regional departments.

of July 2017²⁶ continues the trend with a higher share of joint KPS (42 of 232 total RCI KPS jointly produced with external partners, with 80% knowledge services).

39. The main features of 2016 ADB KPS produced jointly with external partners is summarized below.

- By type.** Knowledge events and services were largely event organization (79%) and capacity development services for DMCs (19%). These included the (i) 2016 Pacific Update Conference, co-organized with Australian National University and University of South Pacific; and (ii) Asia Clean Energy Forum 2016 jointly organized with the United States Agency for International Development and the Korea Energy Agency. Joint knowledge products included 15 technical studies, 1 technical note, 1 journal article, and 1 policy brief. Knowledge work with development partners began to explore nascent RCI sectors such as those on Labor Migration in Asia: Building Effective Institutions, produced jointly with the International Labour Organization and OECD, which analyzed the role of government and other stakeholders in facilitating labor migration. Another study, done jointly with the Asian Development Bank Institute (ADBI), surveyed trade finance market gaps, including the impact of financial technology on market gaps, and their impact on growth and jobs.
- By institution.** Most joint RCI KPS were produced/collaborated with government agencies (43%), followed by international organizations (38%) and think tanks (9%), universities (5%), private organizations (4%), and state-owned enterprises (1%). Some KPS have more than one partner institution.
- By subject.** The top five subjects covered were transport (15%); finance (15%); industry and trade (14%); energy (12%); and climate change, environment, and

²⁶ Based on Data from ADB's k-nexus database and regional departments as of 21 July 2017.

disaster risk management (12%). Notably, 30 RCI KPS were multisector, such as the Conference on Agriculture Development in Central Asia and Workshop on Cross Border Animal Disease Control co-organized with the Central Asia Regional Economic Cooperation (CAREC) Institute and the International Food Policy Research Institute (IFPRI).

40. ADB's Economic Research and Regional Cooperation Department (ERCD) contributed significantly to RCI KPS produced in 2016. The RCI Thematic Group Secretariat produced six knowledge products, including the RCI-OP itself, and conducted 13 knowledge services. The Regional Cooperation and Integration Division (ERICI) produced 15 knowledge products and provided 11 knowledge services. The Asian Economic Integration Report 2016 reported progress in regional economic integration and included a special theme chapter on foreign direct investment in Asia and the Pacific. The Financial Cooperation and Integration (FCI) team provided 37 knowledge services and five knowledge products in 2016 (such as the ASEAN+3 Bond Market Guide and quarterly ASEAN+3 Bond Market Forum). The Macroeconomic Research Division produced four quarterly editions of the Asia Bond Monitor.

41. In sum, KPS collaboration with external development partners strengthened in 2016 in the number of events and products produced jointly. The sectoral allocation of KPS is broadly in line with ADB's overall RCI operations, with transport being one of the core areas of cooperation, and a growing focus on RPG-related sectors and themes (such as climate change, the environment, and disaster risk management). This reflects the common interest among ADB and development partners to address emerging areas and issues that require joint work. It is encouraging to see knowledge partnerships beginning to explore nascent RCI sectors, and this trend should be sustained. A careful review may be needed on joint knowledge events with development partners and their implications for ADB's future knowledge partnerships, including whether the focus should be on upstream knowledge work for investment generation. It is anticipated that a future focus on more knowledge products that support research on DMC policy needs and common issues is most desirable for increasing ADB's KPS quality.

ADB's Organizational Management of Regional Cooperation and Integration

42. This chapter updates progress in the Asian Development Bank (ADB) organizational management of Regional Cooperation and Integration (RCI) in terms of (i) human resources support, (ii) budgetary support, and (iii) business processes and practices to ensure greater efficiency and better results. These measures respond to the issues raised in the Operational Plan for RCI, 2016–2020 (RCI-OP) (for example, RCI staff skills optimization, sufficient and rational budget support, and enhanced overall RCI portfolio quality through the revised RCI project classification criteria).

5.1 Human Resources Support

43. To facilitate RCI-OP implementation, ADB strengthened human resources RCI support with a focus on RCI staff skills inventory, the staff mobility framework, and RCI staff recognition.

44. **RCI staff skills inventory.** Beginning 2017, the RCI Thematic Group (TG), together with the Budget, Personnel, and Management Systems Department (BPMSD), is working to identify specific ADB-wide RCI skills to include in the Operational Skills Inventory covering Sector and Thematic areas of expertise. The aim is to facilitate (i) skills development of existing RCI staff, (ii) more efficient and effective RCI skills management and deployment across departments, and (iii) sourcing additional RCI expertise required.

45. Six core RCI skills were identified:

- Competitiveness in connected markets
- Connectivity between economies and cross-border infrastructure
- Geopolitical situation and/or context
- RCI partnership and leadership
- RPGs and collective action
- Regulatory and/or legal expertise for RCI

These core RCI skills are meant to leverage staff expertise in related sectors and/or areas to generate RCI knowledge and operations particularly for nascent RCI, nonsovereign RCI and intersubregional RCI. Two additional RCI skills were identified in support of ADB-wide operations: (i) RCI economic analytical skills and (ii) general RCI skill that matches related sectors and themes where applicable. Additionally, a generic skill—“RCI dimensions”—was added to the list of sector-specific skills. These skills will be a good reference for future RCI staff recruitment and for implementing the ADB-wide staff mobility framework.

46. **Staff Mobility Framework.** ADB will launch a mobility framework in 2017 to enrich staff breadth and depth of experience through a variety of assignments and roles during a career at ADB. The mobility framework will be implemented in a phased manner, with Phase 1 for International Staff (IS) levels 5 and 6 in selected departments according to specific eligibility criteria. Phase 1 preparation is expected to start the fourth quarter of 2017, with actual staff movements occurring throughout 2018. The mobility framework may be expanded to other departments and/or other IS levels, as applicable. The mobility framework will be beneficial to staff with RCI skills and allow them to gain broader experience. RCI staff mobility will fall under the overall ADB mobility framework taking into consideration identified RCI skills, including mobility between and among the knowledge departments (ERCD and the Sustainable Development and Climate Change Department), the regional departments (RCI divisions and sector divisions) and Resident Missions.

47. **Recognition of staff performance for RCI accomplishments.** Sustaining strong RCI staff performance is important to ensure quality RCI work and maintain ADB's regional leadership role. Recognizing RCI staff performance is one way to provide incentives for improving RCI performance. Each year, the RCI TG awards ADB staff who achieved distinctive performance on RCI operations and knowledge sharing. Starting 2016, awards for RCI best performers were elevated to management level. At a high-level RCI seminar in December 2016, ADB Management recognized five staff (one from each of the five regional departments) for their special contributions to nascent RCI projects and programs. This practice will continue in 2017 and two staff and/or teams from each of the five regional departments and the Private Sector Operations Department will be awarded for excellent performance on RCI knowledge sharing and generation and RCI operations.

5.2 Budgetary Resources

48. ADB has strengthened financial support for RCI operations in several ways: (i) RCI trust funds to provide resources for TA support; (ii) establishing the Asian Development Fund (ADF) and ordinary capital resources (OCR)²⁷ process for RCI set-asides to enhance RCI financing for loans and grants; and (iii) cofinancing from development partners, including bilateral partners (Chapter 4), among others.

Trust Funds for Regional Cooperation and Integration

49. Within ADB, there are three trust funds that provide dedicated TA support for RCI: the People's Republic of China Regional Cooperation and Poverty Reduction Fund (PRC Fund); the Regional Cooperation and Integration Fund (RCIF); and the Investment Climate Facilitation Fund (ICFF). Other trust funds supporting RCI with select and/or limited country and region coverage are not covered in this report. The following is a brief background of the three funds and the latest progress (Table 5):

- **PRC Fund** was established by the Government of the PRC (as a single-donor trust fund) in 2005 to support the process of poverty reduction, regional cooperation

²⁷ Currently referred to as concessional OCR and regular OCR, respectively.

Table 5: RCI-Related Funds for Supporting ADB's Technical Assistance Operations
(as of 30 September 2017)

	ICFF		PRC Fund		RCIF	
	Number	Amount (\$'000)	Number	Amount (\$'000)	Number	Amount (\$'000)
Total Projects/ Funds Approved	25	25,143	83	38,040	74	61,603
Total Funds Contributed		-32,242		90,000		69,600
Available Balance		-7,099		51,960		7,997

ADB = Asian Development Bank, ICFF = Investment Climate Facilitation Fund, PRC = People's Republic of China, RCI = regional cooperation and integration, RCIF = Regional Cooperation and Integration Fund. Note: Available balance does not include administrative costs, investment gains and savings from completed projects.

Source: ADB.

and knowledge sharing for ADB developing member countries (DMCs) in Asia and the Pacific. Cumulative contributions to the fund by the government amount to \$90 million.

- **RCIF** was established by ADB (as a multidonor trust fund) in 2007²⁸ to support implementation of the 2006 RCI Strategy, by facilitating the pooling and provision of additional financial and knowledge resources. Contributions to the fund total \$69.6 million, including cumulative contributions of \$66 million from ADB's net income transfer, and a cumulative contribution of \$3.6 million by the Government of Japan.
- **ICFF** was established by the Government of Japan (as a single donor trust fund) in 2008 (with contributions equivalent to \$32 million) to promote investments in ADB's DMCs and facilitate RCI through the construction of basic infrastructure, improvements in the investment climate, capacity building, and promotion of good governance, among others.

50. ADB's TA support to DMCs through the three dedicated trust funds has facilitated implementation of the RCI strategy, Strategy 2020, and the RCI-OP. The three funds complement each other in geographic and sectoral coverage. For example, the PRC Fund's priority support is for the GMS Program and CAREC Program, while ICFF primarily supports finance sector development and financial cooperation with a focus on ASEAN and ASEAN plus the PRC, Japan, and the Republic of Korea (ASEAN+3) financial cooperation. RCIF, while supporting all RCI activities and in all subregions, prioritizes support for cross-border infrastructure (Pillar 1) and RPGs (Pillar 4), and for subregions lagging in RCI (such as South Asia). This way, the three funds operate in synergy, optimizing fund allocation to support different DMC needs across different subregions.

²⁸ ADB. 2007. *Regional Cooperation and Integration Financing Partnership Facility: Establishment of the Regional Cooperation and Integration Fund and Regional Cooperation and Integration Trust Funds*. Manila.

51. In 2017, the PRC Fund received a \$50 million replenishment from the Government of the PRC, and RCIF a \$10 million replenishment from ADB's 2016 net income transfer. And the Government of the United Kingdom, through its Department for International Development, will establish an Asia Regional Trade and Connectivity Program trust fund in ADB to support RCI activities in selected DMCs in the Central West and South Asia region, including Myanmar. These new resources demonstrate the importance attached by both ADB and stakeholders in supporting RCI, and timely in support of RCI-OP implementation. Going forward, more harmonization and synergies will be needed among trust funds for RCI to provide focused technical assistance (TA) support, particularly for upstream knowledge work for nascent RCI, nonsovereign RCI and intersubregional RCI.

Regional Cooperation and Integration Set-Asides

52. ADB introduced a set-aside financing mechanism for RCI operations as an incentive for both ADB and DMCs to expand RCI operations to the 2020 30% lending target. A concessional resources set-aside was established in 2009,²⁹ followed by an OCR set-aside in 2015.

53. **Concessional resources set-aside for RCI.** The concessional resources RCI set-aside (officially called the regional allocation of concessional resources) was introduced in 2009 to allocate resources to individual concessional resources countries under a performance-based allocation (PBA) system. The RCI set-aside was increased from 5% to 10% (its present level) from ADB's overall concessional resources allocation in response to growing demand for integrating slower-growing concessional resources countries with faster-growing neighbors. ADB requires a country allocation of \$0.50 for every US dollar drawn from the set-aside under the PBA, subject to a 20% ceiling, beyond which contributions from the country PBA would not be mandatory. In recent years, intensified RCI support was viewed as critical given rising concerns and/or demands for RPGs, energy and food security, and climate change adaption, as well as the need to address other social and environmental problems.

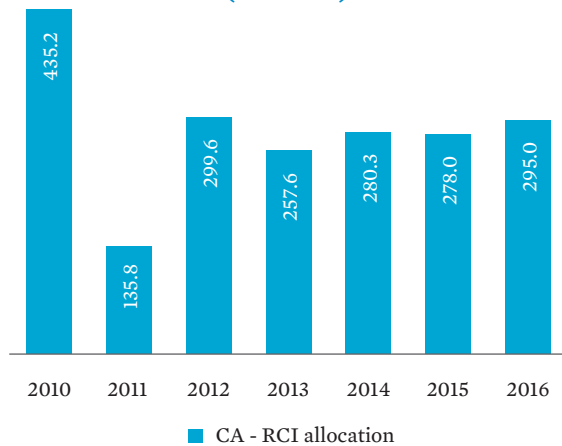
54. Figures 16 and 17 profile concessional resources set-aside fund utilization and sector allocation during 2010–2016. The allocation was managed biennially, maintained at steady and almost full utilization (with 2010 and 2011 exceptions as they comprised the first biennial cycle). Funded projects show a balanced sector approach, with funds more evenly allocated to most RCI sectors, apart from energy (38%) and transport (35.6%).

55. The concessional resources set-aside benefits ADB's RCI operations:

- (i) **Improved sector and pillar diversification of the RCI portfolio.** This can be seen from the sector breakdown of projects financed by concessional resources set-asides in 2010–2016 (Figure 17), which shows a somewhat balanced sector allocation for RCI projects—a diversification in RCI support beyond RCI Pillar 1. This coincides with findings of an earlier Strategy, Policy, and Review

²⁹ It was under ADF IX (covering the period 2005–2008) that a formal cap of 5% was set for subregional projects and criteria developed to identify those that are eligible for funding, although earlier ADF replenishments have provided allocations to support subregional projects.

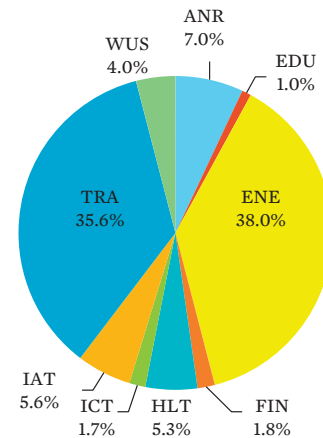
Figure 16: Allocation of Concessional Resources Set-Aside for RCI, 2010–2016
(\$ million)



RCI = regional cooperation and integration.

Source: ADB Strategy, Policy, and Review Department.

Figure 17: Allocation of Concessional Resources Set-Aside for RCI by Sector, 2010–2016 (\$ million)



ANR = agriculture, natural resources, and rural development, EDU = education, ENE = energy, FIN = finance, HLT = health, IAT = industry and trade, ICT = information and communication technology, RCI = regional cooperation and integration, TRA = transport, WUS = water and other urban infrastructure and services.

Source: ADB Strategy, Policy, and Review Department.

Department study³⁰ on the performance of the concessional resources regional sources pool, which demonstrated a shift in resources less skewed toward RCI Pillar 1, and an increase toward RCI Pillar 4 and multisector activities.³¹

- (ii) **Facilitated collective action among DMCs seen in the increase in multicountry RCI projects.** The concessional resources set-aside in 2010–2016 was allocated to more multicountry projects as against RCI projects supported by regular resources. This was consistent with an IED evaluation study on the ADF X and XI Operations,³² which found that among the 62 projects that received concessional resources set-asides for RCI in 2009–2014 (about \$1.6 billion), only about half of the projects were classified as single country projects (a lower percentage than for RCI projects without the set-aside). This suggests that the concessional resources set-aside for RCI may have contributed to collective actions among the DMCs, particularly lower capacity DMCs.
- (iii) **Sustained strong interest and DMC participation in ADB-assisted RCI programs.** This was demonstrated by the steady and almost full utilization of the concessional resources set-aside since its introduction in 2009 and application in 2010.

³⁰ Development Effectiveness of Regional Cooperation and Integration Initiatives, at ADF X Midterm Review Meeting, October 2010.

³¹ The RCI Strategy contains four pillars: cross-border infrastructure and related software (Pillar 1), trade and investment (Pillar 2), monetary and financial cooperation (Pillar 3), and RPGs (Pillar 4).

³² ADB. 2015. *Corporate Evaluation Study on Asian Development Fund X and XI Operations*. Manila. <http://www.adb.org/documents/corporate-evaluation-study-asian-development-fund-x-and-xi-operations>.

56. **OCR set-aside for RCI.** The OCR set-aside for RCI was introduced in March 2015 for sovereign RCI projects with an annual allocation of \$500 million for a 3-year pilot period (2015–2017). To highlight country ownership, a minimum 50% financing for the proposed regional project should come from participating DMC’s regular OCR or concessional resources allocation. Viewed from the 2 years (2015–2016) of project funding, both the utilization rate and funded sectors were unsatisfactory, with less than half the \$500 million utilized annually, and with an overwhelming focus on transport (85%). Thus, management decided that the OCR RCI set-aside will be maintained until 2019, after which RCI will be streamlined. One lesson learned is that increased financial resources, while necessary, may be insufficient for increasing RCI lending if a strong RCI pipeline based on solid upstream knowledge work is not in place. Another reason could be that the appetite for regional OCR declined substantially following the increase in OCR resources.

5.3 Business Process and Practices: Greater Efficiency and Results

Training on Applying the New Regional Cooperation and Integration Project Classification

57. Key to implementing the RCI-OP’s revised RCI project classification, a “Handbook for the Classification and Economic Analysis of Regional Projects” was prepared by the RCI TG secretariat in early 2017. It provides clearer and more consistent criteria for classifying regional or RCI projects, and will enhance the quality of ADB’s RCI operations. Training on applying the new RCI project classification criteria began in May 2017, to be followed by training on economic analysis of RCI projects in 2018. The new classification of regional projects introduced a simple and practical scorecard approach for projects, with a qualitative and/or quantitative assessment of projects at three scorecard levels (country, project, and additionality). Projects with a minimum score over 50% at each of the three levels and overall can qualify as regional. The initial training on RCI project classification was offered to RCI staff and country economists (including Resident Missions) across ADB. The second will be offered to sector economists and specialists in 2018.

58. **Initial assessment of the training.** Overall, 46 participants (including staff from headquarters and resident missions through videoconference) participated in 1-day training sessions conducted on 29–31 May 2017. Feedback from participants indicated the overall quality of training was high in training objective, methodology, and content. A first test of the training was undertaken through validation of ADB-wide RCI pipeline projects for 2018, led by the RCI TG secretariat and supported by regional departments. The validation exercise, for the first time, applied the scorecard system of the RCI project classification to RCI pipeline projects submitted by the regional departments. The validated 2018 RCI pipeline projects reflect better RCI dimensions and cross-border benefits, with better overall quality. Over time, RCI project quality will be further strengthened as the revised criteria of regional project classification mainstreamed in

ADB are applied. Operations departments are given strong ownership throughout the process, from project concept design, project preparation, and implementation.

Corporate Priority Technical Assistance Support for Knowledge Work in Nascent Regional Cooperation and Integration Areas

59. ADB's support for RCI through corporate priority TA projects is an effective way to rationalize RCI knowledge work by collaborating internally in areas of shared interest, stronger collective action, and the prioritization of non-PPTA RCI knowledge work in innovative areas—such as strategic policy reforms, nascent RCI operations, multicountry project development, and pilot projects that allow effective use of RCI resources (such as set-asides). From 2014, three corporate priority TA projects approved by management and administered by the RCI TG Secretariat contributed to knowledge generation in nascent RCI areas:

- A corporate priority TA project on RCI Roundtable Conference—Future Asian Regional Cooperation and Integration Agenda, approved and held in 2014, generated knowledge work on the role played by economic zones for regional production networks and supply chains; and the opportunities and challenges for enhanced connectivity among South Asia, Southeast Asia, and East Asia, among others.
- A corporate TA project on the Future of Regional Cooperation and Integration in Asia and the Pacific, approved in 2016, supported knowledge work on RCI, specifically a thematic paper on economic corridors and featured regional case studies, to be presented during the 2017 RCI conference on economic corridors.
- A corporate priority TA project on Implementing the Regional Cooperation and Integration Operational Plan, approved in 2017, supports the preparation of demand-driven analytical work in innovative areas of connectivity and competitiveness to promote new RCI operations and collective action mechanisms to help address medium-term issues affecting the future of RCI in Asia and the Pacific. An innovative study on facilitating RCI between Timor-Leste and Indonesia through enhanced cross-border cooperation is underway. Preliminary findings of the study will be presented at the 2017 RCI conference on economic corridors during ADB's 27–29 November RCI Week.

Conclusions and Way Forward

6.1 Conclusions

60. **In 2016, there was mixed Regional Cooperation and Integration (RCI) progress in Asia and the Pacific as measured by the six RCI indicators.** There was increased intraregional trade (57.3% in 2016 from 56.9% in 2015), improved intraregional foreign direct investment inflows (55% in 2016 from 48% in 2015), increased competitiveness on average as measured by the World Economic Forum's global competitiveness index, and improved regional public good (RPG) provision and collective action as measured by the Yale University's Environmental Performance Index. The region performed less well in intraregional portfolio investment (Asia's intraregional share declined from 18.27% in 2015 to 17.06% in 2016), less attractive as a portfolio investment destination by investors in Asia. There was also a regional drop in the World Bank's logistics performance index. In addition, a new composite index was introduced—described in the *Asian Economic Integration Report 2017*—to provide a more comprehensive measurement of RCI progress covering (i) trade and investment, (ii) money and finance, (iii) regional value chains, (iv) infrastructure and connectivity, (v) the movement of people, and (vi) institutional and social integration (based on indicators for trade agreements, diplomatic ties, and cultural relations).³³

61. **ADB's RCI operations performed satisfactorily, but challenges remain.** The Independent Evaluation Department (IED) validated PCRs and XARRs during 2013–2016 on sovereign and nonsovereign RCI projects of the Asian Development Bank (ADB) approved in 2001–2010. IED rated them satisfactory, with an increase in 2014–2016 (71%) as compared with 60% baseline set in the results framework of the RCI-OP. Successful sovereign projects focused on transport, while nonsovereign projects focused on finance and energy, ADB's traditional RCI sectors. Overall, RCI projects performed better than non-RCI and all ADB projects, but with a declining margin compared with 2015 IED evaluation of ADB's RCI projects approved in 1978–2008. This may reflect the overall improvement in the quality of ADB lending, but also the complexity and difficulty of undertaking RCI projects. Going forward, as ADB's RCI operations move beyond traditional sectors, entering newer sectors and nascent areas, it may become more challenging for RCI projects to be rated successful. The long time lag between project approval and performance assessment by IED will need to be reduced to enhance the relevance and effectiveness of evaluation results. Performance of RCI operations as measured by cross-border transmission of electricity and cargo volumes facilitated is insufficient to capture wider cross-border RCI benefits. In the future, evaluation of RCI operations will measure

³³ Asian Economic Integration Report 2017.

progress and achievements in relation to the three operational directions (ODs) of the Operational Plan for RCI, 2016–2020 (RCI-OP).

62. **ADB's RCI operations appear broadly on track to meet the 30% RCI lending target by 2020.** ADB's RCI operations (loans and grants) increased in 2013–2016 by volume, improving gradually to reach \$5.4 billion in 2016—the highest since ADB RCI operations began. From a 3-year average vantage point, RCI projects accounted for 27% of total ADB financed projects in 2014–2016, a significant jump from 22% in 2013–2015. This suggests RCI operations may be broadly on track to meet the 30% target by 2020 (sovereign RCI pipeline projects for 2018–2020 would equal 25% of total ADB lending based on commitments [Appendix 2]). It should be noted that most RCI investments have been sovereign, while nonsovereign RCI lending has been mostly developed on an ad hoc basis and focused on cross-border energy transmission.

63. **There is an emerging trend of ADB's RCI operations moving toward the RCI-OP's three ODs (connectivity, competitiveness, and RPGs and collective action).** This has been seen in RCI projects approved during 2013–2016 and the initial findings of RCI projects approved as of September 2017. Although transport (particularly roads) still accounts for the largest chunk of RCI operations (followed by energy), there is a clear trend of RCI sector diversification away from an overwhelming concentration on transport toward other sectors and/or areas, some nascent (such as education, trade facilitation, information and communication technology (ICT), agriculture and natural resources, finance, and regional health). The Concessional Resources set-aside for RCI has helped this trend. Within the transport sector, there is continuing diversification into subsectors such as rail, ports (seaports and airports), as well as multimodal transport. However, there is clear stagnation of lending under OD3 (RPGs and collective action), particularly in the initial review of RCI operations in 2017—notwithstanding the large TA funding in OD3 sectors. While detailed studies on the correlations between knowledge TAs and operations need to be conducted, there appears to be a mismatch and/or delink between ADB knowledge TAs and lending operations. Given ADB's emphasis on operationally relevant knowledge work, a clear strategy—particularly among Economic Research and Regional Cooperation Department, Sustainable Development and Climate Change Department, and regional cooperation divisions in regional departments—on how to effectively translate OD3 sector-focused knowledge work into actual RCI lending may be beneficial.

64. **The quality of ADB's RCI knowledge work with external partners and TA-related knowledge activities needs to be strengthened and increasingly operationally relevant.** Available data in 2016 and 2017 shows ADB's knowledge collaboration with external partners largely focuses on knowledge sharing and dissemination rather than knowledge production; and ADB's TA support concentrates on DMC capacity building over other types of activities. Thus, a proper assessment on the impact of knowledge sharing and dissemination work and capacity building activities for DMCs and ADB may be needed. As ADB's DMCs are becoming increasingly middle-income countries, they will need stronger knowledge contents complementary to the financing of development projects. Thus, going forward, there is a need to focus support on joint knowledge production to increase the quality of KPS partnerships. And ADB's RCI TA resources will need to focus on upstream knowledge work that generates investment projects, particularly in nascent sectors and areas for nonsovereign and intersubregional RCI.

65. **RCI project quality requires continued attention given the the new RCI project classification system.** RCI project classification was identified by IED in 2015 as a key issue to improve RCI operations, confirmed by the findings from projects approved in 2001–2010. ADB-wide efforts are needed to enhance the classification of RCI projects. The *Handbook for the Classification and Economic Analysis of Regional Projects* prepared by the RCI TG Secretariat, will provide clearer and more consistent criteria for classifying regional or RCI projects. Training for ADB staff on applying the new RCI project classification criteria have begun. Validation by the RCI TG Secretariat on 2018 ADB RCI pipeline projects were also conducted to test the new classification system. With the new RCI project classification criteria gradually streamlined and applied to ADB RCI operations, the quality of ADB’s RCI operations are expected to further improve.

6.2 Way Forward

66. Asia and the Pacific is undergoing transformational change, with new demands from DMCs and new players hoping to reap benefits from RCI. For the most part, the so-called low-hanging fruit have been harvested (in the form of relatively simple infrastructure connectivity projects), and more difficult areas such as infrastructure software for cross-border trade and investment and RPGs and collective action need to be elevated, requiring deeper policy reforms within and stronger policy coordination among DMCs. This will have a greater impact on ADB’s RCI operations going forward. With its distinctive role as RCI leader based on decades of experience, ADB will continue to innovate in supporting RCI among DMCs as the transformation unfolds. Increasingly, up-to-date and cutting-edge knowledge work is needed to infuse energy and substance into RCI lending in newer and more complex areas. New developments in DMCs offer ADB opportunities to expand and align RCI operations toward the three ODs (connectivity, competitiveness, and RPGs and collective action) and the three approaches (nascent RCI, intersubregional RCI, and nonsovereign RCI). Therefore, several recommendations are offered for ADB RCI operations in the near term:

67. **RCI operations must continue to shift focus from traditional to more innovative sectors (and subsectors) and areas.**

- Transport connectivity will remain an important RCI operational focus for ADB, given the huge demand and financing needs in the region. But there is a need to continue to diversify transport into subsectors—such as rail, ports, multimodal transport, and transport policy support—to meet DMCs’ increasing demands.
- Support for power will need to shift into renewable and clean energy sectors to mitigate environmental impact.
- RCI operations must diversify into nascent RCI sectors such as ICT, e-commerce and ICT-based education, cross-border economic zones and economic corridors, trade facilitation and supply chain development to offer DMCs easier and better markets access.
- RPGs and collective action among DMCs include support to achieve the Sustainable Development Goals and meet 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) targets. These involve coordinated action on climate change, disaster risk management, and transboundary disease control to mitigate common risks and potential damage.

68. **Facilitate intersubregional cooperation.** There is clear demand on intersubregional cooperation from ADB's DMCs. Given their strategic locations and connecting roles, the RCI-OP identified Bangladesh (in South Asia), Myanmar (in Southeast Asia), and Timor-Leste (in the Pacific) as pilot countries to explore intersubregional cooperation opportunities. Pilots can be used to facilitate subregional cooperation with the three countries, based on targeted and sound analytical work. Given the region's evolving geopolitical context, immediate results may not appear in the short-term, but it is important to plant seeds and nurture the environment for economic cooperation in the medium to long term among the countries such as Bangladesh and Myanmar.

69. **Strengthen private sector participation in RCI activities.** ADB's private sector operations can play an increasing role in facilitating RCI in the region as more DMCs reach middle-income country levels, and more opportunities for private sector operations (including for RCI) open. Based on ADB's past private sector support of RCI, future operations can focus on a few sectors and/or areas with positive RCI implications, such as (i) agribusiness development, which would bring benefits to small and medium-sized enterprises and smallholder farmers by helping link them to global and regional supply chains; and (ii) education and health, particularly regional and/or subregional education and health, including promoting off-campus learning through enhanced ICT facilities and systems, and e-health facilities.

70. **Knowledge work—including TA support—needs to be of higher quality and more operationally relevant.**

- Knowledge and support technical assistance projects should focus more on policy advice and research that support DMCs' RCI strategy and policies in coordination with other countries, gradually moving away from general capacity building work.
- Knowledge support needs to focus on RCI project identification with the potential to expand into nascent RCI sectors and areas including those for nonsovereign RCI operations.
- Targeted research and analysis on cross-border investment opportunities that facilitate intersubregional cooperation—particularly involving Bangladesh, Myanmar, and Timor-Leste, given their strategic location and connecting roles.
- Enhancing ADB's role as honest broker through extensive and relevant knowledge production along with cooperation and coordination among external partners—including DMC governments, gradually moving away from merely undertaking subregional administrative support.

71. **ADB operations, particularly through regional departments, need to strengthen cooperation and collaboration in jointly conducting RCI projects.** It would be preferable that any cross-border RCI projects with clients under different regional departments be undertaken jointly with all involved regional departments participating. Only through project level collaboration between and among different regional departments can the "One ADB" approach be actualized to deliver tangible results to both ADB and its DMCs.

APPENDIX 1

Results Framework for Regional Cooperation and Integration Operational Plan, 2016–2020¹

Indicators		Baseline (Year/Period)	Target (2020 unless otherwise specified)
Level 1: Regional Cooperation and Integration Progress in Asia and the Pacific			
1	Intraregional trade—Asia ^a	55.3% (2014)	
2	Intraregional FDI Inflow—Asia	51.4% (2014)	
3	Intraregional equity and bond holdings—Asia	19.74% (2014)	
4	Logistics performance index scores—Asia ^b (average index, 1 to 5)	2.85 (2016)	Increase
5	Global competitiveness index—Asia ^c (average index, 1 to 7)	4.44 (2015)	Increase
6	Global environmental performance index—Asia ^d (average index, 0 to 100)	65.0 (2016) ^e	Increase
Level 2: ADB's Contribution to Regional Cooperation and Integration Progress			
7	Completed RCI operations rated successful (%)	60% (2013–2015)	Increase
8	Cross-border transmission of electricity (gigawatt-hours per year)	790 ^f	Satisfactory achievement rate in percent (85% or above) (annual)
9	Cross-border cargo volume facilitated (annual tonnage)	574,000 ^g 100+% achievement rate ^h	Satisfactory achievement rate in percent (85% or above) (annual)
Level 3: Operational Management of ADB's RCI Program			
10	Operations supporting RCI (%; number) (3-year average)	23% (2013–2015)	30%
11	Financing for RCI (% of ADB lending volume) (3-year average)	22% (2013–2015)	30%

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¹ This Results Framework for Operational Plan for Regional Cooperation and Integration, 2016–2020 may be revised to ensure alignment with a new corporate results framework being developed in the context of the Asian Development Bank strategic framework for 2030.

Table continued

	Indicators	Baseline (Year/Period)	Target (2020 unless otherwise specified)
12	Volume (amounts) of operations and technical assistance by operational direction (in \$ million, total amount of RCI operations in terms of ADB financing volume and technical assistance)	Operations: OD 1: \$1,400 OD 2: \$780 OD 3: \$170 (2015) Technical assistance: OD 1: \$22.8 OD 2: \$25.4 OD 3: \$26.0 (2015)	Increase linkages of RCI Strategy pillars, RCI sectors and subsectors and multicountry operations through operational directions
13	Relative volume/share of RCI technical assistance (%) Project preparatory Policy and advisory Research and development Capacity building	PPTA: 14% PATA: 22% RDTA: 6% CDTA: 58% (2015)	Better balance across the TA categories and effectiveness of TA type ⁱ
14	Cofinancing for ADB RCI operations and technical assistance projects (% of total)	Operations: 11% Technical assistance: 58% (2015)	Increase
15	RCI knowledge products and services produced jointly with external partners, including centers of excellence (number)	124 (2015)	Increase

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 nascent RCI areas for RCI Thematic Group 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 billion 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-PPTAs
- 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 Thematic Group

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Table continued

Indicators	Baseline (Year/Period)	Target (2020 unless otherwise specified)
Business Process and Practices: greater efficiency and results		
<ul style="list-style-type: none"> • Improved RCI programming through inclusion of RCI elements in Country Partnership Strategies; Regional Cooperation Strategies and Regional Cooperation Operations Business Plans prepared as deemed appropriate • More effective utilization of set-aside resources through departmental identification of projects to be financed from OCR and ADF set-asides • Enhanced results and overall quality of ADB's RCI portfolio through application of revised RCI project classification criteria • Increased external coordination through biennial RCI Roundtable Conference • Increased internal coordination and corporate reporting through annual High Level RCI Dialogue Forum, Board information paper, and integrated RCI management information system • Reduced transaction costs and maximized resource efficiency through use of innovative financing modalities • Improved strategic prioritization of nonlending resources through a corporate priority TA to support a growing and high quality RCI pipeline • Rationalized RCI knowledge work in the corporate priority TA through internal collaboration in areas of shared interest, stronger collective action efforts, and prioritization of non-PPTA RCI knowledge work in innovative areas—such as strategic policy reforms, nascent RCI operations, multicountry project development, and pilot project approaches which enable effective use of set-asides • Leveraged resources through strengthened collaboration with development partners and centers of excellence 		

ADB = Asian Development Bank, ADF = Asian Development Fund, CDTA = capacity development technical assistance, FDI = foreign direct investment, OCR = ordinary capital resources, OD = operational direction, OP = operational plan, PATA = policy advisory technical assistance, PPTA = project preparatory technical assistance, PRC = People's Republic of China, RCI = regional cooperation and integration, RDTA = research and development technical assistance, TA = technical assistance, TASF = technical assistance special funds.

^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.

¹ This Results Framework for Operational Plan for Regional Cooperation and Integration, 2016–2020 may be revised to ensure alignment with a new corporate results framework being developed in the context of the Asian Development Bank strategic framework for 2030.

^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.

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

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: Asian Development Bank (ADB), *Asian Economic Integration Report* database.

Intraregional foreign direct investment 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* database.

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 cross-border 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 (CPIS) database of the International Monetary Fund (IMF). Rest of the World (ROW) includes equity and debt securities issued by international organizations defined in the CPIS database and “unallocated data.” Source: ADB, *Asian Economic Integration Report* database.

Logistics performance index (LPI) 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 (GCI) 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 GCI 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 (EPI)—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 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. For nonsovereign projects, only validation of extended annual review reports (XVRs) are counted. Sources: PCRs, PVR, PPERs, and XVRs.

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. These 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*.

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 Thematic Group calculations using data from ADB Strategy, Policy, and Review Department Asian Development Fund (ADF) and ordinary capital resources (OCR) Approvals and technical assistance (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, Policy, and Review 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> and submissions from regional departments.

APPENDIX 2

Future Regional Cooperation and Integration Sovereign Operations, 2018–2020

Regional Cooperation and Integration (RCI) sovereign lending for 2018–2020 (on commitment basis) is projected to reach \$14.4 billion. Transport still holds the majority share (57%), but subsector diversification can be seen with the increasing number of projects in railways (\$2.2 billion), seaports (\$743 million), airports (\$85 million), and multimodal logistics (\$120 million). The energy sector is driven by renewable energy as well as electricity transmission interconnection. There is significant growth in agriculture, finance, industry and trade, and public sector management. But perhaps most noteworthy are the commitments for education and health, historically the least supported RCI sectors. Commitments total \$1 billion for tertiary education and technical and vocational education and training, while \$477 million will go to projects in health insurance and communicable disease control.

RCI as % of total ADB sovereign lending (by volume)	2018–2020 25% ^a
Sector	2018–2020 Commitment (sovereign) ^b (\$ million)
Agriculture, Natural Resources, and Rural Development	523.00
Education	1,038.00
Energy	999.00
Finance	850.00
Health	477.09
Information and Communication Technology	25.00
Industry and Trade	768.00
Public Sector Management	762.50
Transport	8,243.07
Water and Other Urban Infrastructure and Services	754.70
Total	14,440.36

ADB = Asian Development Bank; RCI = regional cooperation and integration; WPBF = Work Program and Budget Framework; SPD = Strategy, Policy, and Review Department.

^a Projected RCI sovereign projects for 2018–2020 as a percentage of total indicative ADB resources in the WPBF 2018–2020.

^b Includes sovereign projects tagged as RCI in the WPBF 2018–2020, on commitment basis.

Source: ADB RCI Thematic Group calculations based on data from SPD as of November 2017.

Regional Cooperation and Integration in Asia and the Pacific

Implementation of the Operational Plan for Regional Cooperation and Integration, 2016–2020

Corporate Progress Report 2017

Regional cooperation and integration (RCI) has become a valuable means for attaining national development goals. This publication covers the progress of the Asian Development Bank (ADB) in implementing its Operational Plan for Regional Cooperation and Integration, 2016–2020, focusing on 2016, by reviewing progress made and identifying areas for improvement. It complements ADB's existing RCI reports by focusing on RCI progress aligned with the three operational directions (connectivity, competitiveness, and regional public goods and collective action) and the three approaches (nascent RCI, nonsovereign RCI, and intersubregional RCI) to RCI operational quality. This corporate report pools together and offers a one-stop source of information on RCI operations for both internal and external stakeholders.

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 a large share of the world's 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.

