



Cross-Border Infrastructure: A Toolkit


Barriers to Cross-Border Infrastructure Development

Session on Regulation & Accountability



Cross-Border Infrastructure: A Toolkit




- Cross-border infrastructure development has important implications for a country's sovereignty and development goals that must be balanced with those of other stakeholders.
- To ensure effective cross-border infrastructure planning, policy makers must address key political, economic and financial, technical, social and environmental, and, institutional and coordination issues.



The views expressed here are those of the presenter and do not necessarily reflect the views or policies of the Asian Development Bank (ADB), or its Board of Directors, or the governments they represent.




Cross-Border Infrastructure: A Toolkit

- Cross-border infrastructure projects entail between-country agreements that can raise political nervousness due to the real or perceived loss of sovereignty brought about by compromises with other stakeholders.
- Measures can be undertaken to minimize these apprehensions and ensure that arrangements are sanctioned by the respective countries. Examples of these are:
 - ➔ Regular “Head of Government” meetings where cross-border regulatory and legislative issues are determined for action by each respective government



Cross-Border Infrastructure: A Toolkit




- Measures can be undertaken to minimize these apprehensions... (*continued*)
 - ➔ Establishment of supranational bodies under the direct control of ministries accountable to each country’s relevant minister.
 - ➔ “Confidence building” mechanisms to manage the potential political problems; for example – Parliamentary Committee exchanges in sectoral areas of responsibility, cross-border officials’ committees which transparently report to their respective Parliaments through the ministers).



The views expressed here are those of the presenter and do not necessarily reflect the views or policies of the Asian Development Bank (ADB), or its Board of Directors, or the governments they represent.

Cross-Border Infrastructure: A Toolkit




- The major barriers to effective cross-border infrastructure planning which policy makers need to address can be clustered as:
 - ➔ Political factors
 - ➔ Economic and financial factors
 - ➔ Technical and spatial factors
 - ➔ Social and environmental factors
 - ➔ Institutional and coordination factors



Cross-Border Infrastructure: A Toolkit

Political Issues





- Cross-border infrastructure development raises geopolitical issues because it can be used to promote or hinder foreign policy goals of governments involved.
- The presence of multiple stakeholders make it necessary to have institutional mechanisms which can clarify the true objectives of the cooperation effort and foster trust among the parties involved.
- Strong country leadership and ownership are crucial for the successful implementation of cross-border infrastructure projects. Effective coordination between the national and local government levels must be maintained.



The views expressed here are those of the presenter and do not necessarily reflect the views or policies of the Asian Development Bank (ADB), or its Board of Directors, or the governments they represent.





Economic and Financial Issues

- Allocation of resources, which are substantial, for cross-border infrastructure are usually questioned due to the indirect and long drawn out nature of its benefits.
- The asymmetrical distribution of costs and benefits among the different groups of stakeholders need to be addressed with appropriate institutional arrangements that are sustainable.
 - ➔ The issue of incentives compatibility should be dealt with as early as the planning and design stage.
 - ➔ Interests of pure transit countries are different from those benefiting from such a link, thus it is crucial that incentives and financing arrangements are aligned to ensure that transit countries also benefit from the project.




Economic and Financial Issues (continued)

- ➔ The large transaction costs for this type of project makes it crucial that returns are commensurate.
- Often cross-border infrastructure projects require upfront external financial support. The European Union, for instance, has financial instruments available for the identification and design of these types of projects thus developing a large internal market and strengthening regional competitiveness.
- Factors such as high fixed costs, long life of assets and space specificity expose cross-border infrastructure to risks arising from high “sunk-costs.”





The views expressed here are those of the presenter and do not necessarily reflect the views or policies of the Asian Development Bank (ADB), or its Board of Directors, or the governments they represent.




Technical and Spatial Factors

- Geographical proximity is favorable for cross-border infrastructure as it provides ample opportunities for significant gains from economies of scale and scope. However, proximity does not automatically result in cooperative behavior.
- Infrastructure sectors need different levels of technical coordination and synchronization. For instance, transport requires much lower levels of technical coordination than power trading.




Technical and Spatial Factors *(continued)*

- Credible commitments are essential for such connectivity to yield real benefits from cross-border projects.
- In sectors where technological innovations expand scales and such benefits are widespread, it is easier to support cross-border infrastructure network externalities that bring tangible benefits. For example, it is easier to enhance connectivity in the mobile telecommunication sector because market expansion benefits all consumers.





The views expressed here are those of the presenter and do not necessarily reflect the views or policies of the Asian Development Bank (ADB), or its Board of Directors, or the governments they represent.




Social and Environmental Factors

- Cross-border infrastructure connects isolated communities and opens up economic and social opportunities.
- Such projects are however subject to negative externalities that need to be dealt with such as trans-border pollution or the spread of infectious diseases.
- It also fosters the spread of knowledge, transfer of technology and enrichment of cultural capital. This brings communities together and builds trust which is important for any kind of cooperation.
- Population density differences among countries influence cost and market viability of cross-border infrastructure that in turn determines the relative power structure among nations.




Institutional and Coordination Factors

- A project-based approach to cross-border infrastructure development among countries tend to have a high failure rate. Formal or informal institutional arrangements are essential given the complexity of such projects.
 - ➔ Institutional coordination and enabling regulatory framework help minimize project costs.
- The state plays an increasingly important role in cross-border infrastructure despite private sector involvement.
 - ➔ However, experience shows that where relationships are governed purely by commercial considerations, differences are more easily resolved.



The views expressed here are those of the presenter and do not necessarily reflect the views or policies of the Asian Development Bank (ADB), or its Board of Directors, or the governments they represent.



Institutional and Coordination Factors (*continued*)

- Institutional arrangements are also necessary because often cross-border infrastructure projects require upfront external financial support and have high transaction costs.
- Projects, like those involving power, require harmonization of legal and regulatory frameworks as well as standardization of rules and procedures.
- Differences in institutional and human capacities can become barriers to cross-border infrastructure.
- Regional financial markets help cross-border infrastructure.

