Supporting Eurasian Regional Integration

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Since the end of World War II, multi-lateral financial institutions (MFIs) have supported the reconstruction and development of Europe and newly independent states to the east. A shared priority today is improved regional economic integration across Eurasia.

MFI's began with the creation in 1944 of The World Bank/IFC, followed by the ADB in the 60s, EBRD in 1991 and most recently the AIIB in 2015. Their activities are supplemented by export credit agencies of every nation.

Today, international collaboration and cooperation have become the norm for MFIs as huge latent demand for essential infrastructure in emergent economies dwarfs the capacity of any one institution. In their restless search for yield, global capital markets can fund the necessary projects upon vetting by MFIs and their capital market teams. Taken together, MFIs are a first-stop market for compelling, market ready projects and enterprises which regulated commercial institutions had once largely ignored. This high degree of collaboration is best illustrated by their prolonged support for energy and transportation projects linking the people and markets of Europe and Asia along the New Silk Road.

MULTI-LATERAL FINANCIAL INSTITUTIONS (MFIs)

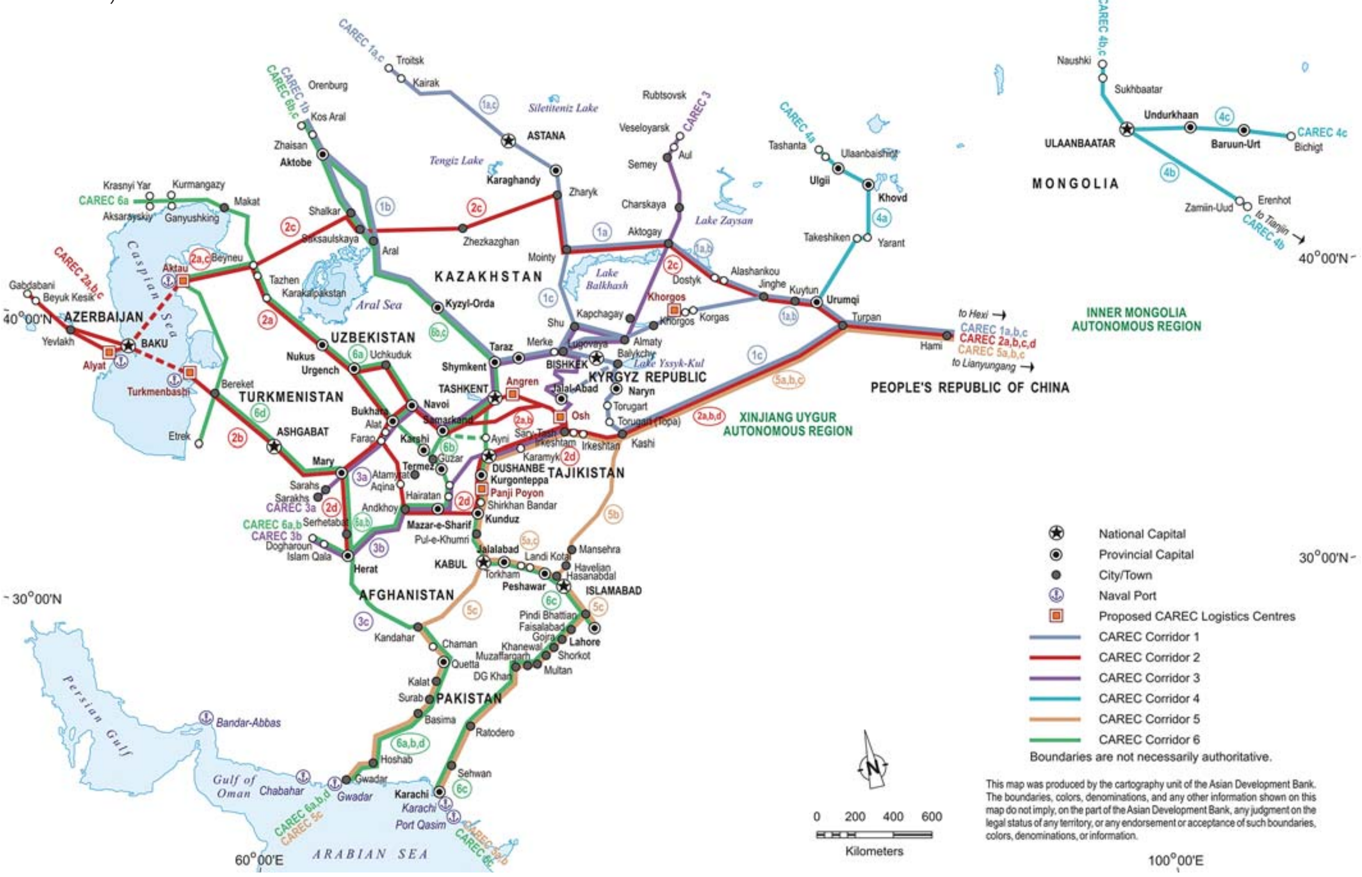
Conceived in 1944 at the Bretton Woods Monetary Conference, the World Bank's initial aim was to help rebuild European countries devastated by World War II. Its first loan was to France in 1947 for post-war reconstruction. The World Bank's mandate and that of the International Finance Corporation (IFC), its private enterprise investment arm, is now global. In recent years, the IFC has supported our clients' projects in Kazakhstan, Russia, Kyrgyzstan and Afghanistan.

The Asian Development Bank was established in 1966 with a focus on largely agricultural undertakings throughout greater Asia. Of its 67 members, 48 are from the Asia and Pacific regions. Today, Manilla-based ADB projects Asia infrastructure financing will require annual funding of $800 billion through 2020. They report funding a record US$ 27.17 billion in 2015 of which US $16.29 billion was for loans and grants, $141 million for technical assistance, and $10.74 billion for co-financing.

The EBRD was founded two dramatic years after the fall of the Berlin Wall and the collapse of communism.Its mission was to help transition Central and Eastern Europe states from centrally planned economies to market economies while also promoting democratic principles and practices. In the ensuing 25 years, its mission has expanded in scope and geographic extent. Russia and eleven other members of the former Soviet Union joined the EBRD in 1992. The EBRD's first project in Tajikistan was signed in 1996. It issued its first Russian ruble bond in 2005, enabling it to on-lend in local currency.

The Asian Infrastructure Investment Bank (AIIB) was established last year. It will help bridge the region's infrastructure finance deficit by complementing other financial institutions like the ADB, IFC and EBRD and increasing buy-side competition to provide development financing on terms more attractive to project sponsors.

Southern, Middle and Northern Silk Road Land Corridors



These innovative, cooperative initiatives (and the legal and institutional framework they support and advance) help mitigate project risks and enable long-term foreign direct investments on commercial terms. The examples described below are projects in transportation and pipelines, but many other projects are funded including power generation and distribution, free trade zones and airports. MFI funding programs also support the financial sector, SMEs, education, health care and women's empowerment.

BUILDING THE NEW SILK ROAD, ONE ROAD, ONE BELT AT A TIME

Among their core strategic priorities today, the EBRD, World Bank, ADB and AIIB support better regional integration by strengthening trade and transportation along the New Silk Road. The Central Asia, Caspian, South Caucasus and Black Sea regions together form a strategically important transit corridor between China and Europe. Connecting cultures and economies, modern trans-Caspian trade and transit routes represent an extensive and increasingly integrated trans-national network of infrastructure, special economic zones, harmonized customs and cross-border procedures along this web of routes.

In cooperation with the ADB, the EBRD recently provided US$ 28.5 million loan to upgrade the regional road between Almaty, Kazakhstan and the Kyrgyz capital Bishkek. The ADB provided a US$ 65 million loan. The EU provided technical cooperation funds for project design and a road development plan.

"The Almaty to Bishkek road enables traffic to flow smoothly between the two cities. In the year 2000, the traffic intensity for the EBRD-financed section of the road was between 3,500 and 4,000 vehicles per day. Now, following the rehabilitation, daily traffic volumes have grown to 25,000 to 30,000 vehicles," says Mr Yerzhan Zhasybayev, Director of the Almaty department of the Road Committee.

The South-West highway corridor is yet another key transport project. The project will upgrade the 102 km-long road between Kazakhstan's Russian border and the Kazakh city of Aktobe. This was the city where we served KazakhstanEnergo as pre-feasibility advisor on a new CCGT power plant in 1993.

The South-West corridor itself is an essential segment of the greater Western Europe-Western China road corridor, serving the markets and nations along the New Silk Road. In recognition of the shared benefits of this corridor, the World Bank contributed about US$ 2 billion, the ADB almost US$ 200 million, the Islamic Development Bank over US$ 400 million and the EBRD about US$ 180 million.

These improved transport links will further integrate landlocked but energy-rich Kazakhstan and its Central Asian neighbors into the international trade network serving customers across Western Europe and Asia.

Eurasian Energy Corridors

The Central Asia Regional Economic Cooperation (CAREC) Program was established in 1997 by the Asian Development Bank (ADB). The CAREC program facilitates regional cooperation among Central Asian states in the priority areas of transport, trade facilitation, trade policy, and energy. This cooperative initiative involves ten ADB member states (Afghanistan, Azerbaijan, People's Republic of China, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, Turkmenistan, Tajikistan, and Uzbekistan) and six MFIs (ADB, EBRD, IMF, the Islamic Development Bank, UNDP and the World Bank).

The CAREC program has focused to date on financing infrastructure projects and improving the region's policy environment in the priority areas of transport (especially road transport), energy (and the water-energy nexus), trade policy, and trade facilitation (especially customs cooperation). Since 2001, the program has mobilised about $27.7 billion in transport, trade, and energy infrastructure investments.

PIPELNES

Pipelines for gas and oil – and fibre optic cable networks – are enduring examples of pragmatic, transnational development of infrastructure. They enable resource developers and communication service providers to serve the growing needs of Eurasian economies.

Following the dissolution of the Soviet Union, newly independent, oil-rich and landlocked Caucasus and Caspian states were keen to access world markets. Georgia provides a transit route to global markets which states like Kazakhstan, Azerbaijan and Turkmenistan use to export their oil and gas via the 1,750km Baku-Tbilisi-Çeyhan (BTC) pipeline, thereby avoiding the tolls and exactions imposed by northern routes[1]. When the BTC was mooted in 1994, Russia naturally opposed multiple pipelines, reflecting a strong desire to retain control over strategic resources, pipeline and infrastructure networks providing market access. For Georgia, the project also promised to become the first major alternative to its traditional energy supplier, Russia. For Azerbaijan and Kazakhstan, the BTC pipeline was the first alternative route to the West.

[1] *Russia Review, 20 October 1999 http://www.griffincap.com/rfp/r201099.pdf*

[2] *http://www.ifc.org/wps/wcm/connect/d01d2180488556f0bb0cfb6a6515bb18/BTC_LOE_Final.pdf?MOD=AJPERES*

[3] *http://news.nationalgeographic.com/news/energy/2011/06/pictures/110608-baku-tbilisi-ceyhan-oil-pipeline/*

The BTC pipeline remains the leading case study for international cooperation in the face of daunting obstacles[2]. At the time of commencement of construction in 2003, BTC was the largest cross-border infrastructure construction project in the world. The lead project sponsors were BP and Statoil acting for affiliates of eleven national and international oil companies. Arduous negotiations over two years involved the sponsors, IFC, EBRD, seven export credit agencies, four commercial bank-mandated lead arrangers, four main law firms, two financial advisers, two technical advisers (upstream and midstream) and many others. Approximately 70% of the US $2.6 billion project costs were funded by a group of lenders including IFC, the EBRD, the export credit agencies of seven countries, and a syndicate of fifteen commercial banks. Financing was agreed in February 2004 after over two years of appraisal of the potential environmental and social impacts relating to the project.

BTC was commissioned in 2005 at a 'first oil' ceremony at Turkey's Çeyhan terminal on the Mediterranean along with the Turkish, Azeri and Georgian heads of state and representatives from the G-7 countries. At the fifth anniversary of the project *National Geographic* wrote: "BTC Pipeline Moves Oil, Culture"[3].

In parallel with BTC, its gas "sister", the Southern Caucasus Pipeline (SCP), was built alongside to transport gas from the Sangachal terminal near Baku via Georgia to Turkey. Today, SCP is being extended to allow for additional gas from the Shah Deniz field in the Caspian Sea off Baku to flow towards Turkey and Europe. The SCP pipeline traverses oil and gas blocks operated by a Georgian client of Griffin Capital.

Not to be outdone, Turkmenistan and Turkey signed a framework agreement last year to supply gas to the proposed Trans-Anatolian natural gas pipeline project (TANAP), which will ship gas from Azerbaijan's vast Shah Deniz II field in the Caspian Sea.

In addition, Turkmenistan currently exports around 30-35 billion cubic meters of gas to China annually, a figure set to double by 2020. The 1,735 km TAPI pipeline will transport gas along a southern route from Turkmenistan to Afghanistan, Pakistan and India.

Russia's annexation of Crimea has added urgency to the EU's search for gas from new sources. Russia currently provides about 29 percent and 37 percent of Europe's natural gas and oil, respectively. Filling alternate pipelines is the job of national oil and gas companies, IOCs, and oilfield services companies. Griffin Capital recently advised Eurasian oilfield services clients operating in the United Arab Emirates, Turkmenistan, Kazakhstan and the Caspian Shelf on related undertakings.

CONCLUSION

Just as America's transcontinental railways catalyzed a national economy 150 years ago by linking ports on its Atlantic and Pacific coasts, the Silk Road web of Eurasian land trade corridors now link the Mediterranean with the Western Pacific.

"The earth's economic center of gravity is shifting back to Asia at a pace never before witnessed." – McKinsey Global Institute 2012

Infrastructure projects along the New Silk Road spanning Asia and Europe provide the physical foundation of sustainable economic growth. Spanning thirteen time zones, the Eurasian continent is home to many of the world's fastest growing and increasingly prosperous nations. This is due to rapid industrialization and urbanization and dramatic increases in labor productivity and population growth, all of which weigh heavily on aging and inadequate infrastructure.

With the support of many MFIs, the New Silk Road has crystallized into an integrated, competitive route for international trade. Efficient Eurasian trade routes now extend from Kashgar and Kazakhstan to Madrid, Georgia and ultimately to Iran and Pakistan's port of Gwadar on the Persian Gulf. But the infrastructure financing needs of Eurasia during the next decade remain enormous. Many financial institutions are pulling together to help bridge the region's infrastructure finance deficit. Working in concert, these groups effectively increase buy-side competition for bankable projects through the exchange of information and technology, offering competitive funding terms to project sponsors to support the growth of free trade and commerce to deliver prosperity and a more secure future for all.

Griffin Capital Partners is a specialist project finance advisor with decades of experience advising enterprises across Eurasia in Russia, Kazakhstan, Ukraine, Georgia, Uzbekistan and Afghanistan as well as Europe, China, India and the Americas. Learn more at: www.griffincap.com or contact us at: partners@griffincap.ch