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## **Partnerships with Donor Agencies, Private Sector Interests and Financial Institutions, and The Northeast Asia/Tumen Investment Corporation: The Case for a New Financing Agency**

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The Tumen Programme provides a forum for the five member countries, and especially the three riparian countries (China, DPRK, and the Russian Federation), to identify initiatives that will open up the area and give a dramatic push to the development prospects of the region. The key to success is partnership among all the interested parties. There is much to be gained by each member country, and the gains will be shared by the international community. Donor assistance will be more effective, and private sector investment more profitable. Improved economic conditions in the region will yield another dividend—greater political stability. By working together on economic cooperation initiatives, the member countries, donor agencies, private sector enterprises, and financial institutions will achieve much more than is possible through uncoordinated, ad hoc assistance.

To explore possibilities for partnerships, the Acting Director of the Tumen Secretariat visited Finland, Sweden, Denmark, Britain, Luxembourg, Belgium, Germany, and the Netherlands. He found strong interest by both the public and private sectors in developments in Northeast Asia and the Tumen region. Interest in each country in formulating partnerships among their respective donor agencies, private sectors, and financial institutions was particularly striking. There appears to be pent-up demand for opportunities to combine commercial interests with development assistance.

Each of these eight countries endorsed the concept of partnership with the Tumen Programme, allowing flexibility for activity either through the Programme or in parallel with the Programme. In some cases, the latter option is preferable. Parallel initiatives will most effectively facilitate joint project financing by a donor agency, a private sector enterprise of the sponsoring country, and its bilateral development financial institutions. This would also allow the Tumen Programme to expand its role as a catalyst for regional economic cooperation initiatives.

Below are three examples of partnership, and how this approach can lead to a dramatic acceleration in practical accomplishments. These examples illustrate the catalytic role the Tumen Programme hopes to fulfill in mobilizing resources for regional economic cooperation in Northeast Asia.

### **PARTNERSHIP IN ENVIRONMENTAL PROTECTION**

Two pulp and paper mills account for 90% of industrial pollution of the Tumen River from Chinese sources. These plants require modernisation to become competitive and to meet China's environmental standards. To secure the necessary financing for modernization of the two pulp and paper plants, the Tumen Secretariat has initiated the early stages of structured financing. This involves agreement with a donor agency, located in a country with a strong forestry industry, to finance the pre-feasibility assessment of modernization of the two plants. The agreement will draw upon the services of a major forestry firm in the same country, building on the desire of its government to combine commercial interests with development assistance. It is hoped that the firm undertaking the pre-feasibility assessment will participate in the consortium that invests in modernization of the two pulp and paper mills. The Tumen Secretariat will nurture the process through to the final stages of financing.

### **PARTNERSHIP IN THE TOURISM INDUSTRY**

The Tumen Programme has been highly successful in forming partnerships with the World Tourism Organization (WTO) and the Pacific Asia Travel Association (PATA). Both organizations see the Tumen region as an unexplored frontier. Regional economic cooperation is essential. Travelers will more likely be attracted to the Region if they can experience its variety of natural and cultural resources. To be able to do so, access must be improved, tourism products must be better developed, and information about the Region must be more widely disseminated. WTO, PATA, and the Tumen Secretariat are partners in these endeavors. WTO, with UNDP support, has prepared a highly attractive tourism brochure about the region, and a tourism resource inventory has also just been completed. WTO will begin a training programme for tourism industry representatives. PATA is expected to provide training in marketing techniques. We would like PATA to establish a Tumen Tourism Forum, modeled after the Mekong Tourism Forum.

### **PARTNERSHIP IN INFRASTRUCTURE DEVELOPMENT**

The Tumen Secretariat is engaged in structured financing of a major section of the Tumen road transport corridor, namely the section from Rajin to Wonjong on the DPRK–China border. The Tumen Secretariat is concentrating on a consortium of donor assistance. Since some key donors are still unable to extend soft loans or other forms of development aid to DPRK, their assistance might be directed to the Chinese sections of the Tumen road corridor, with the stipulation that China on-lend (on the same terms) an equivalent amount to DPRK.

The United Nations Development Programme has been assisting the Tumen Programme countries to forge closer economic ties in the Tumen Region since 1992. It has been a hard sell, for a variety of reasons, among them: (1) the political and economic context for regional cooperation has been very difficult, and (2) the UNDP does not have the resources of the ADB, World Bank, or other multilateral financial institutions to realize the projects that would better link the region and address issues that are of common interest.

Money helps enormously in bringing people to the table. A lot of money is needed to step beyond the table and get on with the business of realizing regional projects. This is especially the case with infrastructure. In the Tumen region there is a very substantial need for infrastructure investment, and the requirements are far beyond the savings and borrowing capacity of area governments. A large infusion of capital is urgently needed.

There would appear to be three options to address this requirement:

- strengthening the contribution by multilateral financial institutions
- establishment of a Northeast Asian Development Bank
- establishment of a Northeast Asia/Tumen Investment Corporation (NEATIC).

This third option proposed by the Tumen Secretariat is the formulation of a new financing agency dedicated to mobilizing direct private sector investment in infrastructure and other investments linking the region. NEATIC would focus on structuring infrastructure and other projects in the region to make them 'bankable'—capable of supporting direct private sector participation. All three options are worthy of support; they are not exclusive options. The NEATIC proposal complements increased activities by the multilateral development banks. NEATIC could be a forerunner of the proposed Northeast Asian Development Bank.

The objective of NEATIC is not only to draw upon private sector, but also to engage private sector expertise more effectively in the design and operations of public sector infrastructure and other investments. In the Tumen Region and surrounding areas of Northeast Asia there is hardly any direct investment in infrastructure. Further, there is a great number of state-owned enterprises (SOEs) waiting to be privatized or at least turned into joint ventures with private sector investors.

NEATIC is meant to help overcome the high transaction costs that currently discourage greater private sector participation. NEATIC is also meant to overcome the reservations of local governments in opening up SOEs or infrastructure projects to private investors. NEATIC is meant to act as a broker between the public and private sectors, and help formulate financing that is a win-win for all parties.

NEATIC tasks are to (1) identify potential investments suitable for private sector participation, (2) formulate project proposals that meet the technical requirements of potential investors and lending institutions, (3) market project proposals to potential investors, and (4) secure financing through direct private sector participation, backed by co-financing with multilateral financial institutions, international and national banks, investment trust funds, export credit agencies, and development agencies. NEATIC will also seek external funds through traditional debt instruments.

Favorable comments for the NEATIC proposal have been received from many sources, including ADB, the World Bank, and the EBRD. Negative comments have also been received. To the skeptics, let me indicate that we have already started. The objectives and functions envisaged for NEATIC can be pursued in advance of its formal establishment. We hope to demonstrate the merits of NEATIC by successfully putting together structured financing for a number of projects in the Tumen Region. At the same time, we are continuing the dialogue with interested parties and other steps to turn a concept into reality.