ARTICLE

Financing Connectivity in Eurasia: The Role of Multilateral Development Banks

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Abstract

The article explores the role of leading multilateral development banks (MDBs) in financing connectivity in Eurasia. MDBs are instrumental in providing liquidity to large-scale infrastructure projects, attracting private sector investments as well as helping to foster cooperation between governments and private sector actors. In terms of enhancing connectivity in Eurasia, MDBs have once again come to the forefront due to the growing need to bypass Russia in trade between Europe and China. Western-led MDBs such as the World Bank, the European Investment Bank (EIB), and the European Bank for Reconstruction and Development (EBRD) have recently reoriented their lending plans to prioritize the Middle Corridor. The importance of these MDBs has been consolidated with the European Union's Global Gateway project. In addition to facilitating faster and more reliable trade between China and the European markets, MDBs prioritize investments in the natural resources of the Caspian, as well as renewable energy and the green transition in Central Asia, the Caucasus, and Türkiye. The article also investigates the connectivity projects financed by the Asian Infrastructure Investment Bank (AIIB), a Chinese-led development finance institution. To explore the connectivity lending of MDBs in Eurasia, the article focuses on two sectors: energy and transportation/logistics. Finally, the article presents a discussion on the criticisms directed towards MDBs and the potential challenges they may face in financing connectivity projects in Eurasia.

Keywords

Connectivity, Eurasia, multilateral development banks, infrastructure, finance

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Introduction

Multilateral development banks (MDBs) are fundamental actors in the contemporary international development finance regime. The World Bank (WB), as the primary development actor, has shaped the norms and practices of lending in development projects in the post-World War II period. The contemporary development finance regime incorporates major multilateral institutions and states along with the rules, principles, norms, and practices of lending that characterize development projects across the global economy. The expansion of the scope of the development finance regime over the decades is a consequence of the emergence of new actors and institutions as well as new issues, sectors, and financial resources. This process has been shaped by the priorities of the members of MDBs, the demands of recipient countries with varying levels of development, and the shifting global economic trends.

Over the past few decades, the number of MDBs has increased significantly. Currently, in addition to the WB, many international organizations such as the European Union (EU) and the African Union (AU) have their own development finance institutions. In addition, MDBs such as the Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD) have project portfolios reflecting their priorities in the target countries and sectors. What is more, in the past decade, China and the BRICS have taken the lead in establishing two new MDBs: the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB), respectively.

This article is driven by the following research question: what role do MDBs play in fostering connectivity between China and Europe, and specifically through Central Asia, the Caucasus, and Türkiye? In response, we argue that MDBs are essential actors in financing connectivity in Eurasia and demonstrate the role that MDBs play in this process through leading examples.

Connectivity between China and Europe has gained increasing attention in recent years. This growing interest in connectivity politics across countries and different regions has created a need for a definition of this concept. The most comprehensive definition was initially proposed by the Asia-Europe Meeting (ASEM), a multilateral forum for cooperation and dialogue between 51 countries from Asia and Europe, as well as several regional organizations, including the EU and the Association of Southeast Asian Nations (ASEAN). In 2017, the forum reached a consensus on a definition, which was as follows:

> Connectivity is about bringing countries, people and societies closer together. It facilitates access and is a means to foster deeper economic and people-to-people ties. It encompasses the hard (infrastructure) and soft aspects, including the physical and institutional social-cultural linkages that are the fundamental supportive means to enhance the economic, political-security, and socio-cultural ties between Asia and Europe which also contribute to the narrowing of the varying levels of development and capacities.[1]

The financing of cross-border infrastructure projects, including highways, bridges, railways, ports, energy routes, and digital networks, enables MDBs to facilitate improved linkages across the globe. Furthermore, their initiatives within multiple countries and regions facilitate the construction of more sustainable and reliable connectivity, as they provide not only financial support but also technical assistance and policy reform.

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The Middle Corridor has emerged as an important alternative route connecting Asia to Europe. Since 2022, it has attracted increasing attention as the Russian invasion of Ukraine has resulted in a loss of appeal for the Northern Corridor that passes through Russia. According to a report published by the World Bank in 2023, "The Middle Corridor is a multimodal transport corridor connecting China to Europe."[2] It links China and Kazakhstan by rail, then crosses through the Caspian Sea, connects Azerbaijan to Georgia, and reaches out to Europe through Türkiye and the Black Sea. The Middle Corridor also has ties with China's and Europe's major initiatives since it is considered to be a part of both China's Belt and Road Initiative (BRI) and the EU's Trans-European Transport Network (TEN-T). These initiatives are critical in creating networks between Asia and Europe that facilitate international trade, foster economic integration, secure energy transportation, and create capital mobilization. MDBs play an important role in financing connectivity in Eurasia by providing credits for large-scale cross-country infrastructure projects and managing development cooperation across countries. In Eurasia, MDBs have particularly concentrated on loans for transportation, energy transition, and digital connectivity across the Middle Corridor.

A focus on MDBs in the context of Eurasian connectivity enables the filling of a significant gap in the development finance literature. The current literature is largely state-centric, focusing on countries' foreign policy objectives, geopolitical motivations, and their mutual competition in terms of developing connectivity projects. Yet, this perspective ignores the role that MDBs play in financing connectivity. Once created, MDBs, like other international organizations develop a life of their own and become autonomous actors, designing their own policy preferences and lending practices. It can therefore be argued that these institutions are independent actors within the development finance regime. Also, MDBs shape their member states' interests, preferences, and development models by providing financial and norm-based guidance.[3]

The article pays close attention to connectivity projects financed by leading MDBs such as the WB, the EBRD, the European Investment Bank (EIB), the ADB, and the China-led AIIB. The reasons we focus on these MDBs are twofold. First, these multilateral institutions are the key financiers of the connectivity projects that link the countries in Eurasia. As the empirical section examines in greater detail, MDBs have provided a large share of lending to the cross-country infrastructure projects in Eurasia. Second, these institutions represent both sides of multilateral development finance in Eurasia. While the WB, EBRD, EIB, and ADB represent the neoliberal model of development finance, the AIIB represents the emerging Chinese-led model. The article, therefore, also contributes to the academic attempts to demonstrate the divergence and competition among different development institutions as well as the growing cooperation between them. Moreover, the article scrutinizes the norms and practices of lending through an examination of the biggest connectivity projects in terms of project cost. While MDBs offer lending for multiple sectors, this article limits its focus to two crucial sectors for connectivity across the Middle Corridor, also known as the Trans-Caspian International Transport Route (TITR): energy and transportation/logistics.

The article proceeds as follows: the first section following the introduction discusses the importance of MDBs for financing large infrastructure projects. Next, the article presents an empirical analysis of the connectivity projects financed by five MDBs in Eurasia, namely the WB, EBRD, EIB, ADB, and AIIB. The third section discusses the challenges that lie ahead for these MDBs, and the final section concludes with a discussion of the article's implications for the literature.

The Importance of Multilateral Development Banks for Financing Infrastructure Projects

In the past decade, scholars from around the globe have explored China's BRI extensively. More recently, the academic literature on infrastructure investments has reinvigorated its focus on connectivity projects in Eurasia. However, much of the literature remains state-centric and aims to uncover the main economic and geopolitical motivations of different governments for developing connectivity projects.[4] This is understandable given the primacy of foreign policy and economic development needs in pursuing large infrastructure projects. The current article strives to complement the existing literature by fleshing out the importance of MDBs in the realization of governments' connectivity projects. In fact, without highlighting the role that MDBs play in infrastructure investments in Eurasia and other regions of the global political economy, the picture would be incomplete at best. Why are MDBs essential in fostering and implementing infrastructure projects? This section points out the reasons with a specific focus on connectivity in Eurasia.

First and foremost, MDBs increase the appeal of infrastructure investments for private investors. Often, the credits that MDBs extend to governments do not even cover the majority of the project costs. Yet, the functional role that MDBs play goes beyond the financial liquidity that they provide for governments: the participation of leading MDBs is especially desired by developing country governments because they signal the reliability and profitability of the project for private businesses or foreign investors, who may otherwise be reluctant to invest. Investment in large connectivity infrastructure projects such as railways, highways, ports, and energy infrastructure (including oil and natural gas pipelines and renewable energy infrastructure) is especially costly and can require co-financing by multiple actors. Therefore, MDBs help reduce the financial risks for large infrastructure projects.

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Second, MDBs shape the key norms and practices of lending in infrastructure projects. Especially the WB has been accepted to be the key norm-setter in development projects across the global economy since the early Cold War period. Over the decades, the WB has played the role of an agenda-setter in addressing many chronic issues in the developing world including socioeconomic inequality, gender inequality, workers' rights, and sustainable development. In the 21st century, the WB and other leading MDBs have developed environmental and social guidelines for governments, which are essential for project financing to commence.

As the literature has demonstrated, China has started to learn from and socialize into the norms and lending practices of the WB and other leading MDBs such as the EBRD and the ADB.[5] Additionally, several studies in the literature have posited that China presents an alternative model of development finance via its development institutions to the developing world, characterized by distinctive lending practices and an infrastructure-intensive sectoral focus.[6] Scholars have argued that the Chinese way of financing would be complementary to the existing institutions in the context of the fulfilment of developing countries' infrastructure needs in energy, transportation, telecommunication, and digitalization.[7] On the contrary, there are studies that take the opposite view on the involvement of Chinese-led MDBs in the global development finance regime. For example, some have argued that China could cause a debt trap to many developing nations due to its banks' unspecified and less structured loans.[8] Yet others have posited that the Chinese approach to financing, which is predicated on state-backed export credits and bilateral state-to-state relations, has the potential to erode the fundamental norms, rules, and performance standards of the focal institutions, and could have a detrimental impact on multilateralism in global development.[9]

Meanwhile, the increasing investment requirements of developing countries and the costly nature of connectivity projects have compelled countries to collaborate in multiple areas. This has led to a shift in focus within the literature, away from an emphasis on the divergences between Chinese-led and Western-led MDBs towards areas of convergence and potential for cooperation. Indeed, several recent studies demonstrate a notable increase in the co-financing of larger projects over time, which this article will turn to in the empirical section.[10] In response, MDBs have reformulated their financing policies based on an analysis of one another's practices. This development has involved a learning process for all parties, with each MDB undergoing a transition in its policy agenda with the goal of developing more effective financial solutions for developing countries. In light of the dynamic nature of the literature on MDBs and the evolving credit and policy patterns observed in the 21st century, we contend that MDBs play a significant role in countries' development and demonstrate their importance as essential actors in the contemporary global political economy.

Third, Russia's invasion of Ukraine which started in 2022 has revitalized the role of MDBs in financing connectivity projects across the Middle Corridor. The most important reason for this renewed focus on the Middle Corridor is that the Northern Corridor (or Northern Route), which passes through Russia, has been cut off from supply chains and transport corridors amidst sanctions imposed by the U.S., the UK, and the EU on Russia.[11] Officially, Beijing does not participate in the sanctions imposed on Russia, and even criticizes the use of sanctions as a tool of foreign policy, questioning their effectiveness and highlighting the potential effects on civilians in the target country.[12] Moreover, Russian-Chinese economic ties have been further consolidated after the former's invasion of Ukraine. Still, driven by profit-seeking, Beijing has been rather careful not to violate the sanctions, and has strived to enhance the transportation of its goods to European markets via Central Asia, the Caspian Sea, the Caucasus, and Türkiye to European markets. Russia's invasion of Ukraine has also resulted in a significant change in the EU's energy policy. Since 2022, Brussels and European capitals have aimed to decrease their reliance on imported Russian natural gas. This has meant that Europe has had to find alternative and yet reliable sources of natural gas, which has highlighted the importance of the delivery of Caspian natural gas to the EU market. As mentioned above, MDB lending is essential for the governments of the resource-rich countries in the region to expand the extraction and delivery of natural resources to the EU market.

Finally, MDBs have also been instrumental in supporting the transition of regional economies towards greater and more efficient use of renewable energy. For example, the EBRD has supported Kazakhstan's transition to a green economy since 2008 with the Sustainable Energy Action Plan.[13] Similarly, the EBRD works in close cooperation with the Uzbek government in accelerating the country's long-term policy of enhancing renewable energy capacity.[14] Also, in 2021, the Turkish government signed a memorandum of understanding with multiple MDBs, international institutions, and countries, including the WB, the United Nations (UN), the International Finance Corporation (IFC), the EBRD, France, and Germany for supporting the country's climate action with technical assistance and additional development financing up to US$3.2 billion.[15]

A Glance at Connectivity Projects Financed by MDBs in Eurasia

The empirical section takes a closer look at several connectivity projects which have received financing by MDBs. As the article has so far argued, MDBs have made a significant contribution to countries along the Middle Corridor, providing support for the financing of connectivity and sustainable development projects. These banks have specifically emphasized transportation, energy, green transition, and digitalization of services across the Middle Corridor. These projects are worth examining since several of them aim to provide faster, cost-effective, and reliable connectivity between Asia and Europe. In their reports on Middle Corridor infrastructure projects, both the WB and the EBRD highlight that financing the cross-country projects under the Middle Corridor will serve to reduce transportation time and offer reliable trade and investment in the region.[16] In this section, we analyze the roles and financial practices of these banks in the region and demonstrate their substantial contributions to connectivity in Eurasia.

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The World Bank (WB)

The WB's contribution to financing connectivity across regional countries is not just about providing loans to development projects. As mentioned above, the WB also sets the norms and rules for the rest of the development finance actors. The WB's governance features have continued to shape the general operations within Eurasian countries' connectivity finance, and are central to the design and operations of most other MDBs.[17] In a recent report, the WB foresees an overall increase in trade between China and the EU by about 30% by 2030. While westbound flows remain unbalanced in this estimation, the highest increase is expected for Azerbaijan, Georgia, and Kazakhstan with a 37% increase in overall trade flow.[18] Thus, the WB has paid specific attention to these countries to stimulate trade and economic growth, and most of the WB's credit flows in the context of connectivity across the Middle Corridor are concentrated here.

At first glance, to reach these goals, the WB presented the top ten priority development actions for the Middle Corridor, particularly focusing on Azerbaijan, Georgia, and Kazakhstan and partly Türkiye in the short term. These ten actions focus on issue areas such as creating new railway and highway routes and increasing connections among countries, improving targeted ports, developing trade facilitation, border management, and services delivery.[19] Beyond these short-term actions, the WB also highlights the financing of green energy transition and digital connectivity. For example, as a part of the Western Europe-Western China Corridor Roads projects, the WB committed US$1,068 million to the Kazakh government in 2012—the Kazakh part of the road ranges from Karagandy to Almaty, with a total length of 1,600 km. The development objectives of this extensive and multi-country project are to increase transport efficiency and modernize highway management along the selected road sections between the corridors. For the same project, the WB provided additional credit in four phases to Georgia for a total amount of US$184 million – the Georgia part of the road ranges from Tbilisi to Rikoti. Similarly, in 2013, the WB committed US$220 million to the Azerbaijani government to improve and create railway roads as part of the East-West Transport Corridor project. The main objective of this project is to increase sustainability, operating and cost efficiency, and expand rail roads across Middle Corridor countries.

European Investment Bank (EIB)

Since the adoption of the EU-Central Asia Strategy in 2019, the EIB has become the main tool of the EU in providing loans to Middle Corridor connectivity. As part of the EU's Global Gateway and the Green Deal projects, the EIB supports sustainable transportation between Europe and Central Asia. For this purpose, the EIB has signed memorandums of understanding for project co-financing with Kazakhstan, the Kyrgyz Republic, and Uzbekistan, and with the Development Bank of Kazakhstan for a total of €1.47 billion this year.[20] The documents were signed during the Investors Forum for EU-Central Asia Transport Connectivity held in Brussels in January 2024.[21] At the forum, the EU and other international financial institutions committed to investing €10 billion for sustainable transport connectivity in Eurasia.

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Even though this is a current development in the context of providing loans to connectivity and covers a limited number of states along the Middle Corridor, the EIB has been offering lending for multiple projects to countries in the region regarding energy, green transition, and connectivity. One example is the Crescent Clean Energy Fund for multiple countries, including Türkiye, Armenia, Bulgaria, and Turkmenistan for which the EIB provides €25 million. It is important to note that the credit package of the EIB targeting renewable energy sectors in the aforementioned countries is co-financed with the EBRD. The fund targets the renewable energy sectors in these countries and plans to complete around 10-15 investments for green energy transition with a total of €200 million. Also, the EIB provides €140 million to the Tajik-Kyrgyz Power Interconnection project co-financed with the WB. The project aims to build a power-transmission infrastructure for sustainable trade in renewable electricity (hydro) between Central Asian countries.

The EIB has also committed loans for transportation projects to the countries located on the Middle Corridor route. For example, in 2016, the EIB provided a loan of approximately €500 million to the Georgian government for transport connectivity under the name "Georgia Transport Connectivity." The framework of this loan is to support the construction and upgrading of selected roads to ensure Georgia's global connectivity through the East-West Highway Corridor. As part of this credit package, in 2018, the EIB provided €332 million to Georgia's Ubisa-Shorapani section of this highway infrastructure project. Moreover, the Eurasia Tunnel in İstanbul, which connects two continents, Europe and Asia, was supported by the EIB with a loan of €250 million. In the Turkish government's outlook towards regional connectivity, the Eurasia Tunnel is an essential building block of the Middle Corridor alongside other projects such as the Marmaray undersea railway, the Yavuz Sultan Selim Bridge, the Çanakkale Strait Bridge, the Edirne-Kars High Speed Rail project and the Filyos, Çandarlı, and Mersin ports.[22]

European Bank for Reconstruction and Development (EBRD)

The EBRD is another European MDB with a policy framework and lending portfolio directly targeting connectivity in Eurasia. Like the EIB, the EBRD has produced large loans and investment packages to countries located on the Middle Corridor route by targeting transportation and logistics, energy infrastructure, green transition, and digitalization. In 2023, along with the EU project fund, the EBRD published a report titled "Sustainable Transport Connections between Europe and Central Asia" and announced its objectives for the connectivity of Asia and Europe. The EBRD's report highlights two essential points regarding connectivity:[23] First, it identified the EU's extended Trans-European Transport Network (TEN-T), which covers 27 EU Member States, and its extensions to the Western Balkans, Eastern Partnership countries (including the Caucasus), and Türkiye as the most sustainable transport network connecting five Central

Asian countries (Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan). Second, the report proposes key actions for the development of connectivity, including hard and soft networking investment, such as “railway and road network rehabilitation and modernization, rolling stock expansion, port capacity enhancements, improvements to border crossing points, and multimodal logistics centers and auxiliary network connections,”[24] and “a scaling up of low-carbon fuels and energy-efficiency measures.”[25] Also, the EBRD highlights its cooperation with the EIB in the context of the EU Strategy on Central Asia of 2019 and Global Gateway of 2021.

In fact, the EBRD’s emphasis on connectivity between Central Asia and Europe goes back to the 1990s. In 1999, the EBRD extended a €44 million credit to Uzbekistan for the Railway Construction and Management project with the Asian Development Bank and Overseas Economic Cooperation Fund of Japan as two co-financiers. [26] This project formed part of the bank’s strategy on regional connectivity and aligned with the TRACECA (Transport Corridor Europe-Caucasus-Asia) initiative. Since then, other projects have been developed in the region such as the Trans-Caucasian rail line in Georgia and Azerbaijan, which is the main transit route between Baku and the Georgian ports, and the Ispartakule-Çerkezköy railway line, which connects Türkiye’s railway network with the TEN-T through Bulgaria.

The institution also supports the rail rehabilitation (track maintenance) project in Kazakhstan and the road rehabilitation project in Turkmenistan. For instance, along with the WB, the EBRD committed US$180 million to Kazakhstan for the rehabilitation and upgrading of the 102 km road section that is part of the Western Europe-Western China International Transport Corridor.

Moreover, the EBRD has engaged in port infrastructure projects, which are among the key hubs of connectivity between Asia and Europe. For instance, in 2018, the EBRD provided US$25 million for the Railport project in the Kocaeli province of Türkiye, one of the country’s major industrial hubs. The project entails the development of an intermodal freight transport hub within Türkiye, with the objective of expanding this transportation system to the international scale, encompassing European, Balkan, and Asian countries.[27] In September 2023, the EBRD committed up to US$50 million for the Mersin International Port’s expansion project in Türkiye. The project is part of Türkiye’s Middle Corridor perspective and aims to upgrade and expand the port’s container-handling capacity. The loan was provided to Mersin Uluslararasi Liman Isletmeciligi A.S., a private company that has assumed responsibility for this project and operates the Mersin port.[28]

Moreover, the EBRD has engaged in multiple energy and green transition projects in the region. For example, the EBRD contributed to countries' green energy infrastructure through the construction and operation of solar power plants and hydropower. In August 2024, the EBRD offered a financial package of US$65 million for the first renewable hydrogen project in Central Asia. The EBRD's objective is to facilitate the decarbonization of fertilizer production and power generation in Uzbekistan by providing financial assistance to the state-owned enterprise Uzkimyosanoat.[29]

Asian Infrastructure Investment Bank (AIIB)

The AIIB was created in May 2016 under China's leadership to promote cooperation among the BRI member countries and finance promising projects. According to the AIIB's first annual report published in 2016, the institution's thematic priorities and development strategy exemplify how the bank contributes to East-West connectivity by highlighting cross-border connectivity along with sustainable infrastructure and private capital mobilization. In the context of cross-border connectivity, the same report states that the AIIB's main objective is "prioritizing cross-border infrastructure, ranging from roads and rail to ports, energy pipelines, and telecoms."[30]

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Since the bank announced its priorities in 2016, it has committed to multiple projects and loans to fulfill the infrastructure needs of Asian countries. Just like the WB, EIB, and EBRD, the AIIB also provides lending for the region's green energy transition. Georgia, Tajikistan, Uzbekistan, and Türkiye have taken multiple credit commitments from the AIIB to construct and operate solar power plants and hydropower development. As of March 2024, Türkiye is the second-largest recipient of loans from the AIIB.[31] As of August 2024, the AIIB has approved up to US$1.6 billion in financing ten energy projects in Türkiye, including the Tuz Gölü Gaz Storage Expansion Project, the TSKB Sustainable Energy and Infrastructure On-Lending Facility, the Efeler 97.6 MW Geothermal Power Plant Expansion project, and the Akbank Sustainable Energy Facility.[32] While four of these projects are sovereign/public projects, the remaining six are owned by the private sector. Also, the AIIB has committed US$260 million in credit for hydropower rehabilitation and development projects in Uzbekistan.

Since its establishment, the AIIB has committed to offering loans for multiple transportation infrastructure projects along the Western China-Western Europe economic corridor, which is the primary economic route for the BRI. For example, in Uzbekistan, the AIIB committed US$165.5 million for the Bukhara Road Network Improvement Project (Phase 1), the major international cross-border road in the Uzbek city of Bukhara.[33] Moreover, the AIIB committed US$114 million for the Batumi Bypass Road project in Georgia, which enhances connectivity through the East-West Highway (EWH). As the AIIB's project summary document indicates, "The EWH, which carries over 60% of the total foreign road trade, connects Tbilisi with the border of Azerbaijan and runs Westward to connect to the Black Sea ports of Batumi and Poti, and finally to the border with Türkiye."[34] The AIIB reports that by 2030, 25-30% of its portfolio will be represented by cross-border connectivity projects.[35]

Asian Development Bank (ADB)

The ADB was founded in 1966 as one of the world's four regional development banks, along with the Inter-American Development Bank, the African Development Bank, and the Caribbean Development Bank. The ADB performs functions and operations similar to the WB "but at the region-specific level, providing financial loans and technical assistance to developing Asian countries."[36] In 2021, the ABD published a working paper on the framework of the Middle Corridor. By exploring the institutional development of transport infrastructure and the economic potential of the Middle Corridor, the report contended that despite China's supply-side development policies and financial practices, there were serious limitations in both the structural, economic, and political capacity of the Middle Corridor countries and Europe's demand-side positions.[37] To overcome such challenges, the report suggested "implementing transparent pricing, openness to foreign investment, transparent international agreements," and integration of the multilateral trade bloc.[38] In line with these recommendations, the ADB has provided loans for multiple projects and offered technical assistance to multiple countries in the Middle Corridor and other MDBs. For example, in 2021, the ADB provided a US$225 million loan to a multi-country development fund titled "A New Operational Economic Corridor Development Framework for Central Asia and Beyond." The fund aims to enhance economic cooperation and build new economic routes among Afghanistan, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. The fund also aims to help establish a CAREC (Central Asia Regional Economic Cooperation)

Infrastructure Projects Enabling Facility.[39] The ADB has also provided another technical assistance fund for the railway sector development in CAREC countries, which totaled US$500 million. In addition, in the context of energy connectivity and green transition projects, the ADB has provided multiple funds to Middle Corridor countries. For example, in 2022, the ADB committed US$80 million in financial loans to Kazakhstan for the Samruk Energy Restructuring and Transformation Project.

Co-Financing by MDBs in Eurasia: Towards Greater Cooperation?

As this article has so far explored, MDBs have pursued their own agendas regarding connectivity finance in Eurasia. At the same time, the region has increasingly witnessed cooperation between MDBs to jointly offer lending for large infrastructure projects. Since the Cold War period, co-financing has been one of the most important components of MDB operations to fulfill the growing need for loan financing in developing countries.[40] Co-financing is primarily pursued to enhance the recipient countries' limited financial capacity. The implementation of collective financial practices also facilitates the achievement of policy coherence, cooperation, and coordination among MDBs.

The Middle Corridor offers a valuable empirical case study to analyze the ways in which different development actors collaborate and operationalize policy coherence in infrastructure financing. From among the many projects co-financed by Western MDBs and the China-led AIIB, the Trans-Anatolian Natural Gas Pipeline (TANAP) is one of the solid examples of integrating multiple MDBs into a single connectivity project. The project covers constructing and operating a natural gas pipeline from Azerbaijan's Shah Deniz production field to the Turkish and European markets. According to the Project Summary Information document released by the AIIB, TANAP has three objectives: First, the project strengthens energy connectivity and integrates Azerbaijan with regional and European markets.[41] Second, it diversifies Azerbaijan's gas export markets, and third, it improves the energy supply security of Türkiye and Europe.[42] While the WB has committed US$800 million in financing for TANAP, the EBRD and the EIB

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have committed US$500 million and US$270 million, respectively. The AIIB provided a further US$600 million long-term loan.[43] At the same time, the ADB committed to offer US$500 million in technical funds to Azerbaijan's Shah Deniz Gas Field Expansion Project. TANAP demonstrates that Western and China-led development finance actors can come together to provide loans for energy infrastructure investments.

In another example of co-financing for regional connectivity, the EBRD and ADB have extended credits to the first and second sections of the Obigarm-Nurobod Road Project in Tajikistan. The AIIB has also taken part in the project by committing a US$75 million loan for the construction and operation of a 920-kilometer-long bridge (Section 3 of the project).[44] In Türkiye, the AIIB and the EBRD co-finance the Ispartakule-Çerkezköy Railway project with loans worth US€300 million and US€150 million, respectively. The project is developed as part of the Halkalı-Kapıkule high speed railway line. According to the EBRD, "The Halkali - Kapikule railway line will connect Türkiye's railway network with the Trans-European Transport Network (TEN-T) through Bulgaria and will, therefore, set a milestone for the railway connectivity between Türkiye and the EU countries."[45]

Challenges Ahead

So far, this article has presented the general framework and the role of MDBs in fostering connectivity in the Eurasian region. Yet, there are also certain drawbacks and challenges when MDBs finance large-scale infrastructure projects in the developing world and specifically across the Middle Corridor.

> Most importantly, China-led development finance institutions have been criticized for serving China's foreign policy objectives, especially in developing regions such as Latin America and Sub-Saharan Africa.

First, MDBs can generate problems in countries' economic structures and development paths. For example, neoliberal finance institutions, including the WB, EIB, EBRD, and ADB, have been criticized for pushing countries to heavy adjustment measures through the adoption of open-market economies. The WB and EBRD has been reprehended for ignoring local needs and implementing a one-size-fits-all approach in the post-communist countries since the early 1990s.[46] Contrarily, Chinese development banks offer fewer conditionalities to the recipient countries in the developing world. Still, there are concerns about Chinese-led financing of infrastructure projects. Most importantly, China-led development finance institutions have been criticized for serving China's foreign policy objectives, especially in developing regions such as Latin America and Sub-Saharan Africa. Also, while the China-led development actors impose fewer conditionality measures on developing country governments, they might create a solvency problem. In addition to the latter, Chinese-led financing continues to struggle with major transparency issues regarding its loans and projects, creating credibility, and a legitimacy and trust problem for the MDBs it supports.

In financing connectivity projects in Eurasia, MDBs will also face multiple challenges along technical, financial, and political dimensions. Most important among them is the fact that the Middle Corridor will require intermodal transportation across Asia and Europe, and even across countries with different logistical infrastructure. From a financial standpoint, this hurdle might reduce the financial attractiveness of connectivity across the Middle Corridor because China's trade to Europe continues to be operated mostly by sea. To address this problem, governments in the region must increase direct institutional contact and take the necessary steps, especially, to transform their railway systems towards harmonization and integration. Similarly, ports across the Middle Corridor will need significant expansion and reconstruction to increase their transportation and storage capacity.[47] In specific, this is the case for Kazakhstan's port of Aktau and Azerbaijan's port of Baku, which are expected to play a fundamental role in the Middle Corridor. To achieve this, the political will of regional governments and close cooperation between MDBs and governments will be required at each step of the way.

The second challenge that faces MDBs in financing connectivity in Eurasia concerns the global economy's green turn and Europe's growing focus on the green transition. Yet, the EU's Global Gateway and European Green Deal projects are not always completely co-coherent as the latter makes it compulsory for the EIB to invest in green projects and not include fossil fuel-related projects in its portfolio. In 2019, the EIB announced that it would not finance fossil fuel projects any longer, making it the first MDB to do so.[48] This means that the EIB, as the EU's main development institution, will not offer lending to Azerbaijan to increase natural gas exploration capacity in the Caspian Sea. Recently, this issue has sparked a disagreement between Baku and Brussels. The natural gas resources of the Caspian Sea have gained significance once again after Russia's invasion of Ukraine. In 2022, the EU and the Azerbaijani government signed a "Memorandum of Understanding on a Strategic Partnership in the Field of Energy." With this new agreement, Brussels and Baku pledged to increase the Azerbaijani natural gas delivered to the EU market to 20 billion cubic meters per year by 2027.[49] Azerbaijani authorities have argued that they need investments by international investors and lending by MDBs to realize the requirements of the agreement and increase production. However, Brussels has been reluctant to allow the EIB to offer lending to the project because it would be against the rules of the Green Deal. As reported by the Financial Times, Azerbaijani authorities demonstrated their frustration with Brussels' seemingly incoherent position on this issue.[50] Accordingly, Baku has argued that the EU's demand for signing short-term contracts with Azerbaijan has not helped international investors to overcome uncertainty. Instead, Baku has been asking for signing longer-term contracts that would attract financing for drilling in the Caspian.[51] At the time of writing, it is unclear whether the EIB will offer new lending for natural gas exploration, drilling, and delivery for Azerbaijan. This seeming incoherence can be expected to influence Kazakhstan as well, the economy of which is significantly dependent on the extraction and exportation of fossil fuels.

The third difficulty in MDB financing of infrastructure projects in Eurasia concerns another potential incoherence in the attitude of the EU and Western-led development banks toward China and the BRI. As other articles on this issue also explore in detail, in essence, the Middle Corridor aims for faster and greater trade between China, the world's biggest producer of consumer goods, and Europe, the world's wealthiest market in terms of per capita income. At the same time, the EU has recently been experiencing a "geo-economic turn" in which its foreign economic strategy has been shaped by geopolitical developments.[52] In a time of weaponized interdependence,[53] both national governments in the EU and supranational authorities in Brussels have developed a skepticism regarding the growing role of China inside Europe.[54] The U.S.-China rivalry and ongoing trade wars have further consolidated the EU's and European governments' search for catching up in geo-economic competition.[55] While not directly raising concerns about the BRI, European decision-makers have been wary of Chinese investments in the EU. Moreover, through investment screening mechanisms, various European governments have strived to balance economic needs and national security in an age of heightened geo-economic competition.[56] Therefore, both the EU and European national governments do not seem to have developed a comprehensive strategy addressing the BRI. Meanwhile, Chinese state-owned corporations and development finance institutions increase their economic activities not only in Central Asia and the Caucasus, but also in the Western Balkans. This means that European and Chinese financial actors will have to accommodate the priorities, operational procedures, and lending norms of each other gradually in the near future. As the above section briefly explored, collaboration between Western MDBs and the China-led AIIB is already underway.

The fourth challenge follows the third one. In supporting the post-communist countries' transition to free market economies, Western MDBs have prioritized good governance, private sector funding, and democratization. This goal has remained mostly intact, while these financial institutions have also adjusted their lending practices after large scale crises such as the global financial crisis (2008-09), the eurozone crisis (2009), and the Covid-19 pandemic (2020). Especially the EIB and the EBRD have increased their lending in Central Asia and the Caucasus in the past decade. In terms of the transformations in the global economy, one very important development in the post-global financial crisis period has been the rise of state capitalism. State capitalism is a mode of capitalism in which the state becomes an important player in the global economy as the "promoter, supervisor, and owner of capital."[57] This version of capitalism is especially associated with China and other BRICS countries. As regional countries continue to have authoritarian governance structures with heavy involvement of the state in economic decision-making, state capitalism has been an appealing instrument of economic development for many post-Soviet countries as well. However, state capitalism is a significant challenge for the EU and Western MDBs in financing connectivity projects in Eurasia. This is mainly because Western actors will have to coordinate their projects with state-owned companies and governments in the region. As the literature has recently explored, the EBRD has moved closer to working with governments and accepting the state's role in economic development in Central Asia, the Caucasus, and the Middle East.[58]

This last challenge is also connected with concerns about the lack of transparency in China-led investment projects. China has long been associated with non-transparent bilateral deals—especially with governments in Africa and Latin America—that work at the expense of the public good and the environment.[59] There are similar concerns about China's growing economic might in Eurasia. For example, Chinese state-owned corporations will build the Georgian port of Anaklia, which is considered to be essential for the Middle Corridor. The key Chinese actor taking part in the project is the China Communications Construction Company, which the WB had banned from taking part in the projects it financed in 2010-2017 due to corruption allegations in the Philippines.[60] All this means is that cooperation with Chinese development actors will meet hurdles, especially on the side of European banks and decision-makers.

Conclusion

This article has offered a snapshot of the role that MDBs play in offering much-needed loans for infrastructure connectivity along the Middle Corridor. Through an examination of the projects financed by leading development banks, it has demonstrated the vital role played by these financial institutions in providing financing for regional connectivity across Eurasia especially in energy and transportation/logistics. MDBs are also instrumental in shaping the norms of development finance in the age of energy transition. The normative influence and agenda-setting power of MDBs, and especially Western ones such as the WB, the EIB, and the EBRD, will continue to matter for both governments and private sector actors in achieving sustainable development goals. MDBs will also continue to shape financial practices in Eurasia by providing structured and effective loans. On the other hand, the China-led AIIB will gradually increase its lending portfolio in Central Asia, the Caucasus, and Türkiye.

The intensification of cooperation and co-financing among MDBs can be expected to mitigate further such risks and motivate countries to fulfill their infrastructure investment needs in energy, transportation/logistics, and digitalization.

This study has also argued that MDBs' involvement in infrastructure projects conveys reliability to other investors and mitigates investment risks emanating from high costs. The intensification of cooperation and co-financing among MDBs can be expected to mitigate further such risks and motivate countries to fulfill their infrastructure investment needs in energy, transportation/logistics, and digitalization. This will also mean that MDBs will have to incorporate local needs and address the concerns of national governments in Eurasia, which can now enjoy greater policy space due to the rise of China. The research agenda on the role of MDBs in financing connectivity in Eurasia can be expanded by investigating the position, priorities, and bargaining power of different governments in their loan negotiations with MDBs. While achieving faster and more reliable trade through the Middle Corridor is commonly desired by all regional governments, each country has its specific developmental needs that shape its policies vis-à-vis MDBs.

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