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Financing opportunities for the Indian-Middle East-Europe economic Corridor (IMEC)

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CONTENTS

Executive Summary	2
Introduction.....	2
Multilateral Development Banks	3
Economic corridors.....	6
Other financing options.....	8
Conclusions.....	10
References.....	10

Executive Summary

This paper examines how IMEC could be financed before the corridor is fully defined. It argues that multilateral development banks should play an early structuring role by supporting feasibility work, risk analysis, governance design, and cofinancing arrangements, while also helping formulate a more expanded approach to IMEC as an Economic Corridor. National development banks and private investors can become more relevant as the corridor matures, bankable project components emerge, and the initiative evolves from a connectivity project into a broader spatial-development framework.

Introduction

The Indian-Middle East-Europe Economic Corridor (IMEC) is a cross-border connectivity project idea agreed at the political level by 8 countries in 2023 and reassessed in various bilateral meetings. The project is still largely undefined and open. Probably because many details have still to be defined, its financing has not been discussed yet. Compared with national infrastructure, cross-border infrastructure projects are usually larger-scale requiring large upfront capital investments. This is even more challenging as these projects compete with the investment demand of national infrastructure projects which are normally prioritized higher by the national governments. The physical cross-border infrastructure is often capital-intensive and potential financial sources can be the governments, bilateral/multilateral development banks and institutions, and private investors if possible. In a cross-border project, the costs and

benefits may be unequally distributed (or at least perceived so) among the countries concerned, making the financial arrangements tricky to negotiate. The challenge is thus to find an agreement on how to share the costs and benefits between the participating countries and make the project financially viable for private investment.

Starting to explore financing opportunities may help in guiding the development of the project. This paper will mainly explore the possible role of Multilateral Development Banks (MDBs) in financing IMEC.

It will also discuss the possible role of private financing and of National Development Banks (NDBs). The role of the public sector and development finance institutions will be stronger during the early stages of the development of an Economic Corridor (EC). The private sector's role will increase as public investments and other initiatives crowd in private capital and entrepreneurship. Even as the EC begins, some types of infrastructure, such as information and communications technology or urban infrastructure, are better handled through Public–Private Partnerships (PPPs).

Multilateral Development Banks

For IMEC, the financing question is not only which institutions could lend, but also which actors can help transform a political corridor concept into a pipeline of bankable projects. MDB involvement would therefore be most valuable in the early stages if it helps clarify project scope, allocate risks, establish governance arrangements, and identify components that can attract concessional, sovereign, or private capital.

Countries that may participate in the IMEC cooperation agreement could access financing from MDBs to the extent that they are eligible borrowers. Relevant institutions include the World Bank Group; the Asian Development Bank, for India; the Islamic Development Bank, for potential members such as the United Arab Emirates, Qatar, Jordan, and Saudi Arabia; the New Development Bank, for India; the Asian Infrastructure Investment Bank, whose members include Greece, India, Italy, Israel, Jordan, Qatar, and the United Arab Emirates; the European Bank for Reconstruction and Development, for Greece and Jordan; and the European Investment Bank, for Italy, Greece, Israel, Jordan, and India. Some middle-income countries, including India, may also have access to concessional finance from selected MDBs. Each MDB has its own shareholders and governance structure, usually including a Board of Directors representing those shareholders.

The engagement of MDBs may therefore go beyond financing individual infrastructure components; it may also support the formulation of a more expanded approach to IMEC as an Economic Corridor. In particular, MDBs can help shift the project from a narrow connectivity initiative toward a broader spatial-development framework that integrates infrastructure, policy reform, institutional coordination, private-sector participation, social inclusion, and environmental sustainability.

Recently, following the G20 Capital Adequacy Framework (CAF) Review, initiated under the Italian G20 presidency and finalized under the Indonesian presidency, MDBs have largely increased their lending capacity given their level of capitalization. Although less often than requested by many shareholders, they finance together (cofinance) some sovereign projects. This cofinancing would be even more desirable in the case of a cross-country project, such as IMEC. However, each MDB has its own procedure of project preparation, assessment and loan approval.

The project development has basically three phases:

1. **Identification.** The goal is to determine project ideas that align with the country's development priorities and the MDB's strategy. The typical activities of this phase are country programming and policy dialogue, sector and needs assessment, preliminary screening for eligibility and alignment with the MDB's objectives. Typically, the output of this phase is the project concept note.
2. **Preparation.** During this phase the project proposal is developed in detail, often led by the borrowing country with MDB support. The typical activities include feasibility studies (technical, financial, environmental, social), stakeholder consultations, drafting project design documents, and early risk assessment. The output is the Project preparation report or the feasibility study.
3. **Appraisal** (due diligence). In the final phase, the MDB assesses the project's viability, sustainability, and alignment with its policies. Activities include in-depth review of technical, financial, environmental, social, legal, and institutional aspects; risk analysis and mitigation planning; and economic and financial cost-benefit analysis. The output is an appraisal report and proposed financing terms. MDBs usually require the national government to finance part of the project with its own resources.

Financing a cross-border project, whose realization will also require a long time, can be challenging due to various factors, including:

1. **Budget Constraints:** limited national budgets can restrict the scope of the project and delay implementation.
2. **Political Factors:** changes in government policies or political instability can impact funding availability and project timelines.
3. **Economic Conditions:** economic downturns can affect government funding, as well as private investment, making it more challenging to secure the necessary resources.

Particularly relevant, and burdensome, is compliance with the safeguard policies of some MDBs. For example, ADB recently approved a new Environmental and Social Framework (ESF), which will become effective in January 2026. The ESF comprises three main elements:

- (i) Ten Environmental and Social Standards,
- (ii) Requirements for Financing Modalities and Products, and
- (iii) Prohibited Investment Activities List.

The ten Environmental and Social Standards are as follows:

- (i) Assessment and Management of Environmental and Social Risks and Impacts;
- (ii) Labor and Working Conditions;
- (iii) Resource Conservation and Pollution Prevention;
- (iv) Health, Safety, and Security;
- (v) Land Acquisition and Land Use Restriction;
- (vi) Biodiversity Conservation and Sustainable Natural Resources Management;
- (vii) Indigenous Peoples;
- (viii) Cultural Heritage;
- (ix) Climate Change; and
- (x) Stakeholder Engagement and Information Disclosure.

Despite these challenges, careful planning and collaboration with MDBs and other stakeholders can help overcome obstacles and ensure successful financing.

Once the project becomes a proposal, the MDB (usually top management and the Board of Directors) is requested to approve it. Usually, large projects, such as supposedly IMEC, are approved after discussion at the Board of Directors, representing all the shareholders. If there are dissents at the Board, these usually emerge earlier and are discussed between management, the beneficiary country and the dissenting one. Rarely, Member Countries vote against a sovereign project at the Board. After the MDB approval, legal and financial agreements are signed.

In case of cofinancing, the project is submitted to the appraisal and approval process of each MDB. This may be subject to different criteria and timing. In early 2025, the Asian Development Bank (ADB) and the World Bank (WB) signed a new groundbreaking Full Mutual Reliance Framework (FMRF) to deepen their collaboration on cofinanced public sector projects. This first of a kind arrangement between MDBs aims to streamline project processing and implementation and deliver faster and more efficient results to borrowing clients. Under FMRF, borrowers in WB-ADB co-financings can rely on one set of rules – using the policies and procedures of either WB or ADB– on all aspects of project design, preparation, appraisal, but also supervision, completion and evaluation. FMRF is expected to generate efficiencies, time and cost-savings, better outcomes and a closer alignment of policies.¹

In conclusion, MDBs could play a catalytic role in the development of IMEC by combining financing capacity with technical, institutional, and policy support. Their involvement would be particularly valuable in the early stages, when the corridor still needs to be translated from a political commitment into a coherent project pipeline, credible governance arrangements, and a financing structure capable of mobilizing additional public and private resources.

¹ See <https://www.worldbank.org/en/news/press-release/2025/02/20/adb-and-world-bank-group-partner-on-full-mutual-reliance-framework-to-increase-development-impact>.

Economic corridors

Economic Corridors (ECs), such as IMEC, have been part of MDB operations for at least the last quarter century, usually within regional cooperation and integration programs. These operations initially emphasized regional connectivity among developing member countries. Evidence on transport corridor interventions suggests that their average effects on economic welfare and equity tend to be positive, while their effects on environmental quality, and sometimes social inclusion, can be negative. In some cases, these effects are uneven across subnational locations or population groups, with some groups experiencing absolute losses (Roberts-Melecky-Bougna-Xu, 2018).

Soon, the hard-infrastructures were complemented with soft-infrastructures, i.e. policy and institutional components of regional cooperation (e.g., coordination in border procedures and standards for trade and transport facilitation) to move goods across borders, facilitate access to raw materials, and promote integration into regional and global value chains.

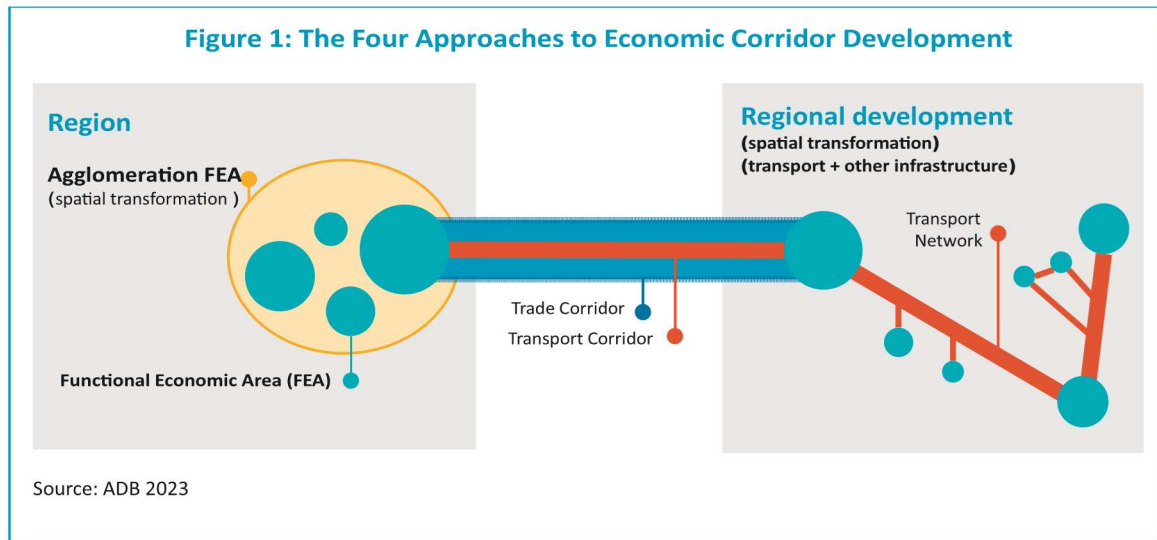
In the past decade, subregional cooperation programs have started moving toward a more expanded approach to economic corridors. In this broader approach economic corridors are conceived as spatial or area-based concept—a process of widening, deepening, and integrating economic activities in an identified area through integrating the provision of diverse hard- and soft-infrastructure, sound economic incentives to attract private firms and investments, development of markets, and strengthened institutions and regulations to support increased economic activities and density. This broadening of the approach also addresses the issue of the usual detrimental impact that transport corridors have on the environment and social inclusion and of the potential generation of losers. In other words, the concept of (economic) corridor has evolved from the definition of “a long narrow region between two or more large places” to the one of “a long passage with rooms on both sides”.²

Realizing the full benefits of improved connectivity to international gateways requires addressing other impediments, such as inefficient port operations and prohibitively high tariff and nontariff barriers to trade (Roberts-Melecky-Bougna-Xu, 2018). Infrastructure investments in economic corridors may therefore extend beyond transport to include human capital, policies and reforms for agriculture, manufacturing, and services, and institutional components that support governance and public goods. Such a multisector, multi-stakeholder economic corridor is more complex and challenging to design and finance.

According to ADB (2023), EC development in practice follows four broad approaches: transport corridors, trade corridors, regional development corridors, and spatial transformation corridors. These approaches are based on reducing trade and transport costs or exploiting economies of agglomeration. They can be viewed as quasi-nested categories, with each approach broader and more ambitious than the preceding one. From a financing perspective, this typology matters because broader corridor models require not only infrastructure investment but also institutional coordination, policy reform, and mechanisms to capture local value added.

² <https://dictionary.cambridge.org/dictionary/english/corridor>.

Figure 1: The Four Approaches to Economic Corridor Development



In this perspective, economic corridors can support the development of corridor nodes such as cities and towns, local and regional value chains, greater local capture of value added, and trade promotion. EC planning can also help developing member countries address urbanization-related issues, including urban migration, and generate benefits such as economic diversification, regional development and decentralization, entrepreneurship, job creation, productivity growth, and institutional development.

In considering ECs, during the project identification phase policymakers will generally assume the underlying principles. They include (i) the uniqueness of every EC—avoiding “cut-and-paste” program design, (ii) the diverse structural and initial factors already in place, (iii) attributes suitable for EC in the target area, and (iv) the complexity of EC and the need for sophisticated technical analysis.

During the project preparation phase, economic corridors will be categorized into four distinct zones in line with the corridor’s level of scope and complexity: (i) domestic transport corridor, (ii) cross-border transport corridor, (iii) domestic spatial EC, and (iv) cross-border spatial EC. MDBs may support borrowing countries for all four categories. In terms of operations, what matters is identifying the suitable zone, specifying the starting point or zone, and mapping out the way forward right at the start of the EC.

There are five stages in preparing ECs:

- (i) conceptualizing the corridor and proof-of-concept—creating an overall EC vision.
- (ii) initial stakeholder consultations leading to an early-stage memorandum of understanding.
- (iii) conducting detailed strategic and feasibility study based on technical, economic, and additional analyses as needed.
- (iv) developing a masterplan—which includes a prioritized project pipeline, a formalized institutional structure for coordination and management, and resource mobilization.
- (v) specific project development, design, and implementation.

Central to ECs is frequent, inclusive consultations with stakeholders—all levels of governments involved, development partners, the private sector, and civil society. Agreements with and among governments and agencies are critical for success. Plans for ECs need to be demand-driven to ensure government ownership. Crosscutting issues discussed with stakeholders include the role of the public sector in EC development, political commitment and good governance over EC projects, and the need to ensure social inclusion and environmental sustainability.

Well-functioning institutions and good governance are critical for negotiating the inevitable tradeoffs that will sustain EC development over the long term. Mechanisms for transparency, wide participation, and accountability can offer predictability through the consistent application of rules, regulations, and laws of the countries involved.

Also, EC planners and designers must work with vulnerable social groups to prevent any elite capture of corridor benefits. Similarly, careful monitoring of the environmental impact of projects must be included during the design stage to keep ECD as “green” as feasible.

Economic, social, and environmental indicators are essential tools for monitoring how well development of the EC is progressing at all levels during project implementation. Thus, systems for data collection should be established early.

According to ADB, potential pitfalls that should be avoided include:

- (i) ineffective institutions due to weak corridor authority or poor design,
- (ii) vested interests and corruption,
- (iii) poor stakeholder coordination,
- (iv) lack of consensus among governments and agencies, and
- (v) issues over land acquisition and clearances.

Other financing options

However, other resources may come from National Development Banks (NDBs) and the private sector. NDBs include the French *Agence Française de Développement* (AFD), the Italian *Cassa Depositi e Prestiti*, and the German *Gesellschaft für Internationale Zusammenarbeit* (GIZ).

The private sector participates through various models such as PPPs but also build-operate-transfer (BOT) schemes, and project financing. Private investors, including institutional investors and infrastructure funds, are attracted by the potential for stable, long-term returns. Yet, they require a clear regulatory framework and risk mitigation strategies to ensure the viability of their investments. Private sector resources may also be mobilized through the issuance of bonds, including green bonds and social bonds if part of the project has a high environmental or social impact and is compliant to international standards, such as the

European Green Bond Standards³ and the International Capital Market Association (ICMA) Social Bond Principles.⁴

When a project is implemented through a PPP model, the project company, rather than the government, is responsible for financing the project. Financing through a project Special Purpose Vehicle (SPV) is referred to as project finance. One advantage of project finance is that it can provide off-balance-sheet financing, which does not directly affect the credit position of the shareholders or the government contracting authority. It also shifts some project risk to lenders, who receive a higher margin than they would for normal corporate or sovereign lending. The SPV depends on revenue streams from contractual arrangements and/or end users, which begin only once construction has been completed and the project is operational. An SPV is therefore a risky enterprise. Before providing financing, private lenders will conduct extensive due diligence on the project's viability and on whether the allocation of risks adequately protects the project company. SPVs may also be suitable issuers of project bonds, including green and social bonds.

MDBs have a wide range of financing options or instruments available for ECs, which allow the engagement of other financiers. Harnessing PPPs tend to be easier for national rather than cross-border projects, which are bundled with political, social, and economic risks. In these instances, extending guarantees can play a significant facilitating role. It is also important not to be overly optimistic when making assumptions or projections about resource mobilization, particularly from the private sector or for PPPs. To attract private investment, governments and MDBs offer guarantees and insurance products to mitigate political and credit risks. The Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank group, provides political risk insurance for projects in developing countries.

Financing options also depend on the corridor elements being developed. In earlier stages, for example, technical assistance (which can be provided by some MDBs) would play an important role in supporting institutional coordination along with analytical and technical preparatory work. Policy and institutional reforms in an EC package can be supported by program lending or results-based lending provided by MDBs. MDBs sector-development finance would be essential in areas or sectors where physical infrastructure investments must be combined with policy reforms. Regular infrastructure investments are usually financed by the public sector, development banks, or PPPs.

However, investments in corridor development may require greater private sector financing. This is particularly true as corridors reach more advanced stages of development, given the use of more MDBs private sector instruments for ECs. Combining concessional funds from donors with commercial capital from the private sector can make projects more attractive to investors. Blended finance structures have been used in the development of the Eastern Dedicated Freight Corridor in India, reducing the cost of capital and enhancing financial sustainability.

³ See https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/european-green-bond-standard-supporting-transition_en.

⁴ See <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/social-bond-principles-sbp/>.

Conclusions

Countries that may participate in the IMEC cooperation agreement could access MDB financing to the extent that they are eligible borrowers, while European national development banks may also be involved. Engagement by these financial institutions would support policy and technical dialogue, data collection, feasibility studies, risk analysis, master planning, technical assistance, and reviews of financial, environmental, social, legal, and institutional issues. Several MDBs could cofinance individual sections of the project, but a more ambitious option would be to create an MDB syndicate able to finance the cross-border corridor as a whole. Private sector financing could become more important for urban corridor development and other bankable components, supported by PPPs, project finance, and bond issuance. To accelerate this process, the governments that signed the joint statement could establish an intergovernmental technical committee, open to later participants, to strengthen political commitment, define governance arrangements, and engage MDBs and other financial institutions in preliminary discussions.

The central implication is that financing should not be treated as a downstream implementation issue, but as an early design tool that can shape the scope, governance, and ambition of IMEC.

Engagement with MDBs, NDBs, and long-term private investors would also offer an opportunity to develop IMEC from a connectivity project into a broader spatial corridor, encompassing free trade, human capital investment, economic development, social inclusion, smart cities, innovation hubs, and, not least, peace.

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