

# CAREC 2020 MIDTERM REVIEW



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# Abbreviations



ABCI	Almaty-Bishkek Corridor Initiative
ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
AIIB	Asian Infrastructure Investment Bank
BCP	border crossing point
CAREC	Central Asia Regional Cooperation Program
CASAREM	Central Asia – South Asia Regional Energy Market
CFCFA	CAREC Federation of Carrier and Forwarder Associations
CI	CAREC Institute
CPMM	Corridor Performance Measurement and Monitoring
CCC	Customs Coordinating Committee
DEfR	Development Effectiveness Review
DMC	developing member country
DP	development partner
EEU	Eurasian Economic Union
ExG	expert group
GDP	gross domestic product
GMS	Greater Mekong Subregion
ICT	information and communication technology
IFI	international financial institution
km	kilometer
MC	Ministerial Conference
MTR	Midterm Review
NDB	New Development Bank
NFP	National Focal Point
NSR	New Silk Road
OBOR	One Belt, One Road
OIF	Overall Institutional Framework
PPP	public-private partnership
PRC	People's Republic of China
QTTA	Quadrilateral Traffic in Transit Agreement
RAM	road asset management

RCEP	Regional Comprehensive Economic Partnership
RCI	regional cooperation and integration
RIBS	Regional Improvement of Border Services
RICE	Regional Improvement of Corridor Efficiency
RUST	Regional Upgrade of SPS Measures for Trade
SCO	Shanghai Cooperation Organization
SOM	Senior Officials' Meeting
SPS	sanitary and phytosanitary
SRF	Silk Road Fund
TA	technical assistance
TAP	Turkmenistan-Afghanistan-Pakistan power transmission interconnection project
TAPI	Turkmenistan-Afghanistan-Pakistan-India natural gas pipeline
TF	trade facilitation
TPCC	Trade Policy Coordinating Committee
TPCL	TAPI Pipeline Company Limited
TSCC	Transport Sector Coordinating Committee
TTFS	Transport and Trade Facilitation Strategy
TUTAP	Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan
WG	working group
WTO	World Trade Organization

# I. Introduction



## A. Background

1. The Asian Development (ADB) and the Central Asian countries jointly launched the Central Asia Regional Economic Cooperation (CAREC) Program in 2001.<sup>1</sup> Its first strategic framework, the CAREC Comprehensive Action Plan, provided guidance for the program's operations in 2006–2010. Following a stocktaking of achievements and lessons learned, in 2011 the CAREC Ministerial Conference (MC) approved its second strategic framework, CAREC 2020, to guide the program during the following decade, 2011–2020 (ADB, 2012).

2. After five years of implementation, in 2015, the Senior Officials' Meeting (SOM) endorsed the undertaking of a midterm review (MTR) of CAREC 2020. The purpose of MTR is to review the relevance and responsiveness of CAREC 2020, including implementation performance, results achieved and the effectiveness of the CAREC institutions; to draw lessons from the experience gained in the first five years of the strategy; and to propose refinements and strategies moving forward.

3. The MTR is based on (i) participatory consultations with government agencies, think tanks and a range of stakeholders from the CAREC countries, including key development partners; (ii) close consultation with concerned staff within ADB; and (iii) a review of relevant strategic and operational reports and work plans. The MTR team comprised staff of the CAREC Secretariat in ADB and a consultant<sup>2</sup>



**“The MTR will review the relevance and responsiveness of CAREC, and propose refinements and strategies moving forward.”**

## B. The Objectives and Institutional Structure of CAREC

4. CAREC 2020 has a clearly defined agenda that cascades from a vision (“Good neighbors, good partners, good prospects”) and a goal (“Development through cooperation, leading to accelerated economic growth and shared prosperity”) to two strategic objectives (trade expansion and improved competitiveness) and seven operational priorities (transport, trade facilitation, trade policy, energy, economic corridors, the CAREC Institute, and second-tier areas). The framework for the strategic agenda is in the Appendix.

5. For the MTR, CAREC's strategic objectives and seven operational priorities are particularly relevant and form the core of the review. CAREC 2020 defines its strategic objectives as follows:

**“Trade expansion.** CAREC 2020 will seek to increase trade through transport connectivity, facilitation of cross-border movement of goods and people, trade openness, and energy trade. Improvements in these core areas will accelerate market-driven economic cooperation. Energy cooperation will harness the region's comparative advantage; ensure reliable,

<sup>1</sup> Originally, CAREC had eight member countries, Afghanistan, Azerbaijan, the PRC, Kazakhstan, the Kyrgyz Republic, Mongolia, Tajikistan and Uzbekistan. Pakistan and Turkmenistan joined CAREC in 2010.

<sup>2</sup> Country consultations were held in 2016 in Tashkent (4 April), Astana (6 April), Bishkek (7 April), Beijing (18 May), Ulaanbaatar (20 May) and Kuala Lumpur (13 June, including participants from Azerbaijan, Pakistan, Tajikistan and Turkmenistan, and a videolink with Afghanistan). Consultations were also held with the Energy Sector Coordinating Committee (12 April), Transport Sector Coordinating Committee and Customs Coordinating Committee (20–21 April) and Trade Policy Coordinating Committee (18 July).

secure and stable energy supplies; and promote energy trade.

**“Improving competitiveness.** CAREC 2020 will seek to improve industrial competitiveness through transport connectivity, development of economic corridors, and energy sector cooperation. Developing economic corridors can help diversify the region’s industries and make them competitive through technology, logistics, and other business support services.”

6. To achieve the strategic objectives, CAREC 2020 sets out the following operational priorities: (i) the four core sectors of operations, transport, trade facilitation, trade policy and energy; (ii) economic corridor development; and (iii) the CAREC Institute. It also indicates that strategies and action plans in the four core sectors will serve as the basis for planning, preparing and implementing priority projects and initiatives. In addition, CAREC 2020 notes that second-tier areas “will be revisited in the light of emerging issues that impact core area activities and that are best addressed through regional collaboration.” It mentions communicable disease control, disaster risk management and climate-change proofing as examples (ADB, 2012).



**“CAREC has two strategic objectives, trade expansion and improving competitiveness. These are supported by operational priorities in four core areas, as well as economic corridor development and the CAREC Institute.”**

7. The overall institutional framework (OIF) set out in the strategy is intended to be informal

and flexible, and CAREC 2020 specifically notes that it is expected to undergo refinement during the strategy period. The CAREC MC sets the strategy and guides the CAREC program, and includes formal and informal meetings. The principal role of the SOM is as a recommending body to the MC. As such, the SOM is expected to exercise a proactive role in addressing policy and project-related issues. CAREC 2020 also highlights the important supporting role played by the national focal point (NFP) offices in each country.

8. At the sector level, four sector coordinating committees (transport, customs, trade policy and energy) are expected to ensure effective and timely implementation of priority projects. In addition, the OIF includes the CAREC Secretariat based in the ADB, and the other participating development partners (DPs). The OIF is in the Appendix.



**“The overall institutional framework set out in the strategy is intended to be informal and flexible.”**

### C. The Structure of the MTR Report

9. The report is presented in five sections. It starts with a review of global and regional developments that have impacted on CAREC. This is followed by a review of achievements and challenges in each of CAREC’s priority operational areas. The third section sets out key issues raised in the country and sector consultations. Fourth, the report reviews the relevance of CAREC’s strategic and institutional frameworks. The final section draws conclusions and recommends priority actions for CAREC during the remainder of the strategy 2020 period and beyond.

## II. Global and Regional Developments

### A. The Changing Economic Environment

10. The CAREC program is operating in a global and regional setting that is under constant change, and with a direct bearing on the program's strategic planning. The economic environment for the CAREC countries has changed dramatically since the planning of CAREC 2020 in 2009–2010 and its inception in 2011. Following the 2008–2009 financial crisis, the global recovery has been more sluggish than was initially expected, financial markets have been slow to recover, and low commodity prices have affected both oil-exporting and oil-importing CAREC economies. The Russian Federation is a major trading partner of most of the CAREC countries and the destination of many migrant workers from the labor-exporting CAREC countries. Its steep economic downturn since 2014 has had a negative impact on the entire region. GDP growth rates in the CAREC countries for 2005–2015 and projections for 2006–2020 are in Table 1.

11. The three years leading up to the global financial crisis, which also preceded the preparation of CAREC 2020, were marked by high economic growth averaging 12.5%<sup>3</sup>. In the following three years 2008–2010, growth dropped to 5.4%. When CAREC 2020 was being formulated and the twin goals of expanded trade and improved competitiveness were established, it was generally assumed that the global economy would start to recover and that CAREC countries would use the post-crisis period to implement structural reforms that would limit their vulnerability to shocks in commodity prices and financial markets.

12. Contrary to expectations during the formulation of CAREC 2020, in the first half of the strategy period, 2011–2015, growth remained subdued, averaging 4.8%. Initially, oil prices recovered after the global crisis, but demand for other commodities, especially metals and coal, did not. Importantly, the financial sector in most CAREC countries was unable to shake

**Table 1. GDP growth in the CAREC countries<sup>a</sup> (percent)**

	2005–2007	2008–2010	2011–2015	2016	2016–2020
<b>Afghanistan</b>	10.2	11.0	5.1	2.0	3.3
<b>Azerbaijan</b>	28.6	8.3	2.4	(1.0)	1.4
<b>Kazakhstan</b>	9.8	3.9	4.8	0.7	1.8
<b>Kyrgyz Republic</b>	3.8	3.6	4.9	1.0	3.8
<b>Mongolia</b>	8.7	4.7	10.3	0.4	5.4
<b>Pakistan</b>		1.6 <sup>b</sup>	3.9	4.5	5.0
<b>Tajikistan</b>	7.2	6.1	7.0	3.8	4.3
<b>Turkmenistan</b>		9.2 <sup>b</sup>	10.6	4.3	5.1
<b>Uzbekistan</b>	7.9	8.7	8.1	6.9	6.4
<b>Weighted average</b>	<b>12.5</b>	<b>5.4</b>	<b>4.8</b>	<b>3.3</b>	<b>4.1</b>

<sup>a</sup> Excluding the PRC.

<sup>b</sup> Data for 2010 only, when Pakistan and Turkmenistan joined CAREC.

Sources: Asian Development Outlook 2016, IMF World Economic Outlook, April 2016; and World Development Indicators Online (downloaded on 1 June 2016).

<sup>3</sup> The figure does not include the PRC.

off the deep effects of the crisis. In 2014, the price of oil collapsed, putting Central Asian currencies under renewed pressure. In 2015, oil prices declined further. Low oil prices and the imposition of economic sanctions pushed the Russian economy into a steep downturn. This in turn led to a sharp decline in trade between Russia and the CAREC countries, large-scale return of migrant workers, and a sharp decline in remittances, further exacerbating the CAREC countries' economic crisis.

13. The sluggish recovery and high external volatility have highlighted the underlying causes of the CAREC countries' vulnerability — their lack of economic diversification, low productivity and competitiveness, and modest progress in regional cooperation and integration. The countries face low growth rates, fiscal stress, and diminishing demand for their exports, whether commodities or labor. Their depreciating currencies make imports more expensive, and local substitutes are often not available to replace costly imports.

**“The global economic environment has changed dramatically since the planning of CAREC 2020. Volatile commodity markets have highlighted the downside of growth strategies reliant on commodity exports.”**

14. As a result of countercyclical fiscal measures, declining oil revenues and weak economic activity, fiscal balances have deteriorated across the region. This has put significant pressure on weak budgets. Oil exporters need medium-term fiscal consolidation to ensure that they can replenish buffers and save adequately for future generations. Oil importers also need to prioritize fiscal consolidation, to preserve capital and sustain social expenditure and inclusive growth.

15. Volatile commodity markets have highlighted the downside of growth strategies reliant on commodity exports and with limited diversification. Weak exchange rates have increased the vulnerability of the highly dollarized financial sector of the CAREC economies, with the exception of the People's Republic of China (PRC). Directed lending, loans to unhedged borrowers, and short open foreign exchange positions have amplified the impact of the external shocks on the financial sector. This was evident in 2014–2015, when falling oil prices and the rapid depreciation of the Russian ruble significantly reduced the competitiveness of the Central Asian currencies.

**“The underlying causes of the CAREC countries' vulnerability include a lack of economic diversification, low productivity and competitiveness, and modest progress in regional cooperation.”**

16. In addition, massive return migration has led to rising unemployment, in particular in the labor-exporting CAREC countries. The situation has put pressure on the region's weak labor markets and highlighted the CAREC countries' low productivity, lack of competitiveness and shortcomings in their education and skill development systems and social safety nets.

17. The economic outlook for the remainder of the CAREC 2020 period remains bleak. The growth forecast for 2016–2020, at 4.1%, remains low. Oil prices are expected to remain low for some time, at around \$50 per barrel, which will hurt commodity exporters. They will also hamper growth in oil importers through spillovers from Russia, a major oil exporter. On the upside, effective infrastructure expenditures to counter external shocks may translate into increased economic activity. In

general, in the second half of the CAREC 2020 period the CAREC countries will need to focus on a very different set of economic priorities from those envisaged when the strategy was prepared.

### B. The Changing International Institutional Setting

18. The initial years of the CAREC 2020 period have also been marked by major changes in the international institutional setting. These include the emergence of numerous global and regional mega-frameworks for cooperation, the establishment of new international financial institutions (IFIs), and rapid advancements in regional trade agreements.

19. The United States' New Silk Road (NSR) initiative dates back to 2011. It was established as a means for Afghanistan to integrate more closely with Central and South Asia by reviving traditional trading routes and rehabilitating key infrastructure links. The NSR focuses on four key areas: regional energy markets, trade and transport, customs and border operations, and business and people-to-people contacts.

20. In October 2013, the PRC announced the launch of its One Belt, One Road (OBOR) initiative, an ambitious scheme to build or rehabilitate infrastructure in over 60 countries, based on a comprehensive framework comprising a land belt from the PRC through Central and South Asia to Europe and a maritime road via Southeast and South Asia, the Middle East and North Africa to European markets. OBOR is being supported by projects from a wide range of central and local government agencies in the PRC, and by the international lending of its large policy banks. The following month, Korea announced its Eurasia Initiative, a broad infrastructure-based program with close links to OBOR.

21. In May 2014, Belarus, Kazakhstan and the Russian Federation signed a treaty establishing the Eurasian Economic Union (EEU). Armenia and the Kyrgyz Republic joined the EEU in 2015, and it is currently expanding its role as a regional trading bloc and customs union.

**“The international institutional setting has witnessed major changes, including the establishment of new mega-frameworks for cooperation, financial institutions and regional trade agreements.”**

22. At the same time, new financial institutions and initiatives have emerged. The BRICS countries, Brazil, Russia, India, the PRC and South Africa, established the New Development Bank (NDB) in 2014 with an authorized capital base of \$50 billion. The NDB is intended to complement the financing provided by the existing multilateral institutions. In 2015, the PRC led the establishment of the Asian Infrastructure Investment Bank (AIIB) with an authorized capital base of \$100 billion. The AIIB is intended to help meet the enormous need for infrastructure financing in Asia, and attracted 57 founding members, from Africa, Asia, Europe and Latin America. The NDB and the AIIB both started lending operations in mid-2016.

23. In late 2014, the PRC announced the establishment of the Silk Road Fund (SRF), with an initial pledge of \$40 billion. The SRF is intended together with the PRC's policy banks, to finance infrastructure under OBOR. In May 2015, the Japanese government announced the launch of a Quality Infrastructure Initiative, under which it committed to provide \$110 billion over the next five years to finance infrastructure in Asia.

24. At the same time, regional trade agreements have made significant progress. The Trans-Pacific Partnership trade pact led by the US was signed by twelve Pacific Rim countries in February 2016 and will lower trade barriers among participating countries. Negotiations are also ongoing for the Regional Comprehensive Economic Partnership free trade agreement, which includes Australia, India, Japan, Korea, New Zealand, the PRC and the countries of the Association of Southeast Asian Nations (ASEAN). The growing role of these new trade agreements has shifted much of the focus in Asian and Pacific trade negotiations from the World Trade Organization (WTO) to the regional level.

### III. Achievements and Challenges in Priority Operational Areas

25. As of September 2016, cumulative investments under CAREC totaled \$28.9 billion. Of this figure, \$22.6 billion (78%) was in transport, \$5.7 billion (20%) in energy, and \$0.6 billion (2%) in trade facilitation. ADB's share was \$10.1 billion (35%). In addition, CAREC has financed a total of \$466 million in technical assistance (TA), of which ADB's share was \$152 million (33%). Achievements and challenges are discussed below by operational sector.

**“Investments under CAREC totaled \$28.9 billion, for transport (78%), energy (20%) and trade facilitation (2%).”**

#### A. Transport Sector

##### 1. Key achievements in 2011–2016

26. Since the commencement of the CAREC program, transport and trade facilitation have formed its backbone. Their interlinked nature was recognized by combining the strategic planning for the two sectors. The CAREC Transport and Trade Facilitation Strategy (TTFS) was initially formulated for the period 2008–2017. It was subsequently refined and expanded to cover the period 2014–2020, referred to as TTFS 2020 (ADB, 2014).

27. The operational priorities of TTFS 2020 include: (i) multimodal corridor network development, consisting of support for corridor extensions; railway network and multimodal logistics hub development; and border crossing point improvements; (ii) trade and border crossing service improvements, consisting of customs reform and modernization; coordinated border management; national single window development; and sanitary and phytosanitary (SPS) reform and modernization; and (iii) operational and institutional strengthening,

consisting of improvements in planning, financing and management of road and railway assets, road safety management, and increasing private sector participation. At present, the investment program under TTFS 2020 includes 108 investment projects with an estimated cost of \$43.7 billion, and 49 technical assistance (TA) projects with an estimated cost of \$76.2 million.

**“Transport and trade facilitation have formed the backbone of the CAREC program.”**

28. Implementation of the above three operational priorities are the joint responsibility of the Transport Sector Coordinating Committee (TSCC) for priorities (i) and (iii), and the Customs Coordinating Committee (CCC) for priority (ii).

29. Key achievements are set out in the latest sector progress report and work plan (CAREC, 2016e). The CAREC countries are making significant progress toward the completion of the multimodal corridors. In TTFS 2020, the original six corridors were extended, the routes comprising the corridors were more precisely defined, and the results framework was modified. The CAREC road corridor network is now expected to reach 29,350 km by 2020 rather than 24,000 km by 2017, the initial target of the TTFS.

30. The TTFS results framework identifies three physical infrastructure targets to be achieved by 2020, the completion of (i) 7,800 km of road construction or rehabilitation; (ii) 1,800 km of newly constructed railway track; and (iii) 2,000 km of renovated, electrified, or signalized railway track. In addition, the framework targets five multimodal logistics centers being operational and at least five border crossing points (BCPs) being improved by 2020.

**“Implementation of the transport and trade facilitation action plan is on or ahead of schedule.”**

31. The TTFS 2020 and action plan are being implemented satisfactorily, with outputs on or ahead of target. The 809 km of expressways or national highways built, upgraded or improved in 2015 bring the cumulative road infrastructure to 93% of the total 7,800 km corridor length targeted for construction or improvement by 2020. No new railways were completed during 2015, but achievements in the railway projects have already surpassed the 2020 targets, well ahead of schedule. Thirteen projects in other transport subsectors (two ports, two logistics centers, three BCPs, and six civil aviation projects) are being implemented. One BCP was improved in Tajikistan, two more (in Tajikistan and the Kyrgyz Republic) are being improved, and a further three (in Pakistan) are expected to be improved by 2020.

32. In 2015, CAREC decided to further prioritize four key areas of immediate importance: (i) road safety, (ii) road asset management (RAM), (iii) railways and (iv) transport facilitation (CAREC, 2015a). In these new areas, the following actions have been taken:

- A Railway Working Group was created, and has met twice to draft the CAREC Railway Strategy.
- A high-level Commitment to Road Safety was prepared and endorsed by the MC in 2015. The member countries are now working to develop a CAREC Road Safety Strategy.
- For RAM, member countries are using CAREC as a platform to share practical knowledge. Two knowledge products, reference notes on performance-based road maintenance contracts and a compendium of best practices in road asset management, are being prepared.
- For transport facilitation, member countries have used CAREC to rein-

vigorate discussions and actions on freedom of movement. In one practical example, Pakistan, the Kyrgyz Republic, Kazakhstan and the PRC are working under CAREC to revive the dormant Quadrilateral Traffic in Transit Agreement (QTTA).

**2. Major issues and problems encountered**

33. **Infrastructure coordination.** The transport sector accounts for more than 80% of CAREC investments. However, country plans for infrastructure development are not consistently aligned with those of CAREC. Country-level efforts have at times been diluted by competing regional frameworks. With new IFIs operational and bilateral initiatives expanding, this challenge is expected to increase.

34. **Trade logistics and transport facilitation** initiatives require buy-in from the governments to be effectively identified and implemented. Trade logistics and transport facilitation projects normally require relatively small investments, but a lot of management and coordination between ministries. This makes projects riskier to implement, while their outcomes are less sustainable than transport infrastructure projects. Support from DPs varies. Internally within ADB, delineation of responsibilities for trade logistics and transport facilitation among the operational divisions involved requires stronger coordination.

**“Road safety and road asset management remain major challenges.”**

35. **Road safety and road asset management** remain challenges. Their effective implementation relies on policy-level actions in each country. Interest from countries is high, but given the limited TA and staff resources, there is a need to focus on what can be done realistically under TTFS 2020.



36. **Resources and funding.** Sufficient TA and staff resources are required for the transport sector to continue to play a lead role in CAREC. A core TA budget is essential to support policy dialogue with countries and DPs and develop a strong pipeline of regional projects. On the investment side, there are unfunded projects in the original TTFS 2020 investment pipeline. There is a need to close CAREC’s financing gap by tapping co-financing and building the capacity for public-private partnerships (PPPs).

37. It is important to cascade ADB’s development effectiveness review (DEfR) and CAREC TTFS targets into divisional work plans and the performance review of staff. Currently, the latter is driven primarily by the project cycle (project approvals, contract awards, disbursements, project completion). Projects with soft components, including elements of PPP, are often considered an implementation risk.

### 3. Priorities for the remainder of the CAREC 2020 period

38. First, the transport sector needs to maintain focus on completing the work under TTFS 2020. Implementation of the TTFS should continue to be aligned with national development strategies. There may be a need to rebalance priorities across different parts of the program, and the institutional aspects of CAREC relative to other cooperation programs.

39. Second, CAREC needs to strengthen its dialogue with existing and new DPs in the region before divergent visions of regional cooperation emerge. DPs should play complementary roles and, to the extent possible, realign priorities for the TTFS investment pipeline. As an established regional program, CAREC should play a strong coordination role.

40. Third, railway development is of growing importance. CAREC should complete the preparation and start the implementation of the proposed railway strategy. This can serve as a vehicle for the policy dialogue on railways and linking investment priorities at the country and regional levels. The strategy is expected to provide a balanced approach encompassing both

infrastructure investments and institutional and operational development. A draft strategy report was circulated to the SOM in July 2016 (CAREC, 2016e).

41. Fourth, CAREC should complete the preparation and start the implementation of the proposed road safety strategy and action plan, encouraging countries to adopt measures focusing on five pillars, (i) road safety management, (ii) safer roads, (iii) safer vehicles, (iv) safer road users, and (v) post-crash care. This will provide a coordinated platform for introducing safety on CAREC road corridors.

 **“Railway development is of growing importance. CAREC should prepare and implement a railway strategy.”**

42. Fifth, CAREC should support the upcoming accession of several CAREC countries to the TIR convention, by strengthening partnerships between national governments, the International Road Transport Union, national transport associations and DPs. CAREC will provide assistance in reviving the QTTA to facilitate trade and transport among Kazakhstan, the Kyrgyz Republic, the PRC, Pakistan, and possibly Tajikistan. Further cross-border transport facilitation agreements among CAREC countries will be supported through TAs.

43. Sixth, CAREC priorities should be cascaded into operations. Project design and implementation is not fully aligned with RCI priorities. Many projects with RCI classification tend to be more successful in achieving Infrastructure-related objectives, while RCI and other soft objectives are often considered secondary. RCI objectives are addressed by CAREC at the strategic level, but could be more closely integrated into operations.

## B. Trade Facilitation

### 1. Key achievements in 2011–2016

44. The CAREC Trade Facilitation (TF) program has played a valuable role in supporting

increased trade and enhanced competitiveness. Key achievements are set out in the latest progress report and summarized below (CAREC, 2016b).

45. **Sustainable regional cooperation mechanisms.** The CCC and the CAREC Federation of Carrier and Forwarder Associations (CFCFA) were established in 2002 and 2008 respectively. Both have been instrumental in addressing issues under their responsibility at the country and regional levels.

46. **International good practice.** The TF program has introduced international standards at meetings, seminars and workshops which CAREC countries have subsequently adopted into legislation and regulations. The CCC and CFCFA, as well as the SPS working group, have benefited from close ties with international organizations and standard-setting bodies. The agenda and approaches adopted by both are consistent with the global agenda. CAREC TF mechanisms are also viewed as good practice by international organizations.

47. **Results management.** Corridor Performance Measurement and Monitoring (CPMM) was introduced in 2009. It has provided comprehensive real-time data analysis based on time, cost and distance data samples collected by CFCFA members to measure the performance of trade corridors and efficiency of trade flows. Aggregate CPMM indicators provide critical inputs to the development effectiveness review (DEFr) of CAREC 2020. CPMM has gained wide recognition among DPs and researchers. Complementary to CPMM, the time release studies allow trade control agencies to analyze business processes and address inefficiencies. The TF program is building the capacity of member countries to conduct national-level analyses.

48. **Integrated TF agenda.** TF requires agencies to work together to rationalize procedures, operations and trade while safeguarding legitimate regulation. The CAREC TF program adopted an integrated agenda in 2008 to work alongside customs for maximum impact. Coordinated border management, single window, private sector participation

(through CFCFA), CPMM and SPS are part of the agenda.



**“Corridor Performance Measurement and Monitoring provides real-time data analysis, and has gained wide recognition.”**

49. **Multi-country programs and projects.** Based on the bottlenecks identified through CPMM, CAREC has launched pilot projects on customs control, pre-arrival data exchange and regional transit. The Regional Improvement of Border Services (RIBS) projects were formulated to help CAREC member countries to modernize adjacent BCPs and develop national single windows. The Regional Upgrade of SPS Measures for Trade (RUST) project was approved in December 2015 to help member countries reform SPS measures in line with international standards, develop a country and regional laboratory network, and promote data exchange. Other regional initiatives are currently being discussed, including the Regional Improvement of Corridor Efficiency (RICE) project.

50. **Capacity building.** The TF program offers capacity building tailor-made for specific audiences. Some training programs are conducted under ADB-financed TA, while others are organized in collaboration with other partners such as the World Customs Organization’s capacity building centers in Shanghai, Tokyo, Astana, and Baku. The TF program also regularly conducts training with the ADB Institute and the CAREC Institute.

## 2. Major issues and problems encountered

51. **Limited progress in achieving outcomes.** The limited progress in several areas of trade facilitation is reflected in the



very limited achievement of trade facilitation outcomes. Under CPMM, four key indicators were established to measure progress, (i) time taken to clear a border crossing, (ii) costs incurred at a border crossing, (iii) speed of travel over a 500 km section of the corridor, and (iv) costs incurred in travelling a corridor section. Based on the latest annual report and most recent sector progress report, the time to clear a border crossing has increased, costs incurred at a border crossing and speed of travel have declined only marginally, and costs incurred in traveling a corridor section have increased compared with the baseline year 2010 (CAREC, 2015, and CAREC 2016b).

52. **Inadequate investment planning for trade facilitation.** TF initiatives are often described as low-hanging fruit, which require modest investments and yield high returns. Due to the small size of investments, and because of inter-agency and inter-country coordination challenges, these projects are often given lower priority than large infrastructure projects. Complications in coordination impede investment planning, particularly in logistics facilities and services for the whole CAREC corridor system.

53. **Shortcomings in institutional coordination.** Trade facilitation involves the close coordination of multiple countries and agencies across various sectors. The work on SPS, for example, is currently supported by ad hoc working groups, while work on national single windows can require the involvement of up to a dozen different agencies. Customs cooperation alone has proved insufficient to address key challenges.



**“Integrated trade facilitation removes bottlenecks and helps improve the flow of goods, information, finance and people.”**

### 3. Priorities for the remainder of the CAREC 2020 period

54. **Strengthen core competences.** The TF program will continue to work in areas where results have been achieved, namely strengthening regional groupings, supporting CAREC countries’ efforts to adopt international good practices, improving results management, developing innovative programs and projects, and building country capacities.



**“There has been limited achievement of trade facilitation outcomes.”**

55. **Promote integrated trade facilitation.** Integrated TF removes bottlenecks and helps improve the flow of goods, information, finance and people across the CAREC region, while safeguarding legitimate regulation. The TF program will build on its existing agenda, including coordinated border management, single window development, CPMM, private sector engagement, and SPS reform and modernization, and will develop approaches to address immigration and cross-border financial services.

56. **Strengthen coordination among trade facilitation initiatives.** CAREC will work together with other initiatives to ensure that objectives are aligned and activities coordinated.

57. **Reinforce country ownership for TF programs.** The TF team is working with the CAREC Institute to build capability for policy analysis and program and project formulation. To improve TF performance, in particular as measured by the CPMM indicators, member countries will need to analyze key constraints and develop suitable policies and projects.

58. **Look beyond CAREC.** CAREC can generate more economic value by positioning itself as a bridge linking East, South-West and North Asia and Europe. The CAREC TF program

should strengthen inter-subregional linkages beyond the CAREC subregion itself.

### C. Trade Policy

#### 1. Key achievements in 2011–2016

59. CAREC countries aim to interact efficiently with intraregional and interregional markets to expand and diversify trade. The Trade Policy Coordinating Committee (TPCC) has focused on four key issues to help CAREC countries create an open, transparent and predictable trade environment: (i) achieving more trade openness prior to WTO accession; (ii) achieving WTO accession and post-accession adaptation; (iii) making non-tariff measures consistent with the WTO Technical Barriers to Trade Agreement and SPS Agreement; and (iv) expanding trade in services. As indicated in CAREC 2020, knowledge sharing and capacity building related to WTO - and expanding and diversifying trade more broadly - remains a key priority for CAREC trade policy work. Constant monitoring of progress achieved by CAREC countries in opening their trade regimes is also under TPCC's portfolio.

 **“CAREC has supported WTO accession as well as post-accession adaptation, knowledge sharing and capacity building.”**

60. **Expanding the trade policy agenda.** The refined Trade Policy Strategic Action Plan 2013–2017 was endorsed at the CAREC MC in November 2013, and serves as the basis for the most recent performance report (CAREC, 2016c). The expanded agenda includes supporting WTO accession and post-accession; trade in industrial goods and services; and tariff issues and non-tariff barriers, including the removal of quantitative restrictions that are not WTO compliant.

61. **Engaged WTO as an observer.** To benefit from WTO's expertise, in October 2013 the TPCC invited WTO to participate in CAREC meetings. Since then, WTO has participated in meetings as an observer, and has provided its support in the trade policy sector.

62. **Assisted CAREC non-WTO members in acceding to WTO.** Recently, two more CAREC countries became WTO members, Tajikistan in March 2013 and Kazakhstan in November 2015. In addition, in December 2015, WTO Ministers formally approved Afghanistan's WTO membership terms, and Afghanistan is shortly expected to finalize its WTO membership.

 **“Country ownership of the Trade Policy Coordinating Committee needs to be enhanced.”**

63. **Post-accession adaptation, knowledge sharing and capacity building.** CAREC member countries have shared experiences and lessons on pre- and post-WTO accession, and the findings of related research on service trade, non-tariff barriers and SPS issues. ADB's TA on “Strengthening Tajikistan's Trade and Investment Regime” was welcomed by member countries for its practical recommendations on post-accession adaptation.

#### 2. Major issues and problems encountered

64. **Lukewarm ownership by countries and DPs.** As CAREC countries continue to develop awareness of the importance of regional cooperation in achieving national goals, country ownership of the TPCC needs to be enhanced to reflect more explicitly the complementary role of regional initiatives in national development plans. Likewise, DPs should be encouraged to develop comprehensive roadmaps to back up TPCC as facilitators, capacity builders, and knowledge providers. Both country authorities and DPs should be more proactive in support of the trade policy action plan.



65. **Effectiveness and relevance of trade policy agenda under CAREC.** There is a lack of consistent cooperation on trade policy under CAREC, especially in the more challenging areas of trade in services, non-tariff measures, and post-WTO-accession adaptation. Studies presented by DPs lack actionable policy recommendations. Consequently, CAREC countries showed little interest and no reform momentum was created. The relevance of the WTO-accession centered TPCC agenda is likely to be diluted by (i) the fact that almost all CAREC countries are already or are close to becoming WTO members, and (ii) the new regional mega-frameworks, which may play a growing role in determining trading rules.

66. **Lack of flagship projects to provide knowledge support.** Unlike other sectors in CAREC, trade policy has no high-impact loans or TAs to support its agenda. This is an area that needs to be strengthened considerably in the future.

### 3. Priorities for the remainder of the CAREC 2020 period

**“CAREC needs to undertake a comprehensive review of its forward agenda for trade policy.”**

67. The TPCC had indicated the following priority tasks for 2016–2017:

- **Increase country ownership.** This could be linked to a more demand-driven rather than donor-driven approach. One approach may be to seek an expanded agenda that balances country demands with donor objectives for introducing best practices in trade policy. Some countries continue to need on-

the-ground expert support for implementing trade policy.

- **Increase resource mobilization and DP engagement.** Several DPs are actively engaged in the trade policy sector, but lack resources. In connection with reviewing its priorities. The TPCC should consider resource mobilization and the identification of potential flagship projects.
- **Improve coordination with trade facilitation sector work.** As trade policy and TF activities converge, future action plans should be closely coordinated to reduce overlap and ensure clarity in proposed policy actions. Coordination and consolidation of trade policy and trade facilitation agendas would help CAREC effectiveness going forward.

68. Now that WTO accession has been achieved in seven CAREC countries, the forward agenda of the TPCC is relatively thin. Key tasks include further post-WTO accession adaptation and deepening the capacity building and knowledge agenda (CAREC, 2016c). The TPCC should consider undertaking a comprehensive review of its forward agenda, including how to work more closely with established and new DPs, trade groups and regional groupings such as ASEAN.

### D. Energy Sector

#### 1. Key achievements in 2011–2016

69. The CAREC master plan for the energy sector and the Afghanistan master plan have formed the foundation for the work of the Energy Sector Coordinating Committee (ESCC).

**“The master plan for the energy sector and Afghanistan energy master plan are the foundation of the CAREC’s work in the energy sector.”**

70. The ADB provided TA to prepare the regional power sector master plan for four countries (Kazakhstan, the Kyrgyz Republic, Tajikistan and Uzbekistan) and analyze the technical requirements for connecting Afghanistan with the Central Asian power system. The study noted that, while regional growth forecasts were modest, existing assets were approaching the end of their economic life. Over 60% of power generation assets are over 30 years old, and generation and transmission will require investments of \$33 billion by 2022. The study also noted that benefits from regional energy trade can reach \$1.5 billion annually by 2020, if countries adopt a regional investment strategy and agree on benefit-sharing.

71. In the power sector, the Central Asia–South Asia Regional Electricity Market (CASAREM) project with its two complementary initiatives, the Central Asia–South Asia Electricity Transmission and Trade Project (CASA-1000) supported by the World Bank and the Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan Interconnection Project (TUTAP) supported by the ADB, are the two most successful projects.

 **“Achieving benefits from regional trade in energy will require a high degree of mutual confidence, supported by long-term arrangements to address benefit-sharing.”**

72. The Tajikistan-Afghanistan and Uzbekistan-Afghanistan 220kV interconnections are operational and are currently supplying the Afghanistan network with 650 GWh from Tajikistan and 1500 GWh from Uzbekistan. Implementation of the Turkmenistan-Afghanistan 500 kV interconnection, which will initially operate at 220 kV, has begun. A number of interconnections between Afghanistan with Turkmenistan are also being implemented.

73. In addition, the Turkmenistan-Afghanistan-Pakistan power transmission interconnection project (TAP) is under preliminary survey. If found technically feasible and agreed on by the three countries, ADB could finance the project design and facilitate an agreement among the three countries. The transmission line component in each country would be financed by ADB, using the respective country allocations.

74. The Turkmenistan-Afghanistan-Pakistan-India (TAPI) natural gas pipeline project is the highlight of the energy sector program. Acting as TAPI secretariat since 2003 and as transaction advisor since 2013, ADB has been instrumental in the progress of the TAPI to date. The ADB helped establish the TAPI Pipeline Company Limited (TPCL) and managed due diligence, including preparing the technical and financial feasibility studies. The total project cost will be determined upon completion of the detailed design and is expected to exceed \$10 billion.

75. TAPI exemplifies the role played by ADB in promoting RCI. TAPI will help bring gas from Turkmenistan to meet Pakistan’s growing energy demand. It will unlock economic opportunities, create employment, transform infrastructure, diversify the energy market for Turkmenistan, and enhance energy security for the region. TPCL will build, own, and operate the TAPI pipeline, once completed. It is expected to transport up to 33 billion cubic meters of natural gas annually from Turkmenistan to the three other countries over the next 30 years. The pipeline stretches about 1,600 kilometers from the Afghanistan/Turkmenistan border to the Pakistan/Indian border.

## 2. Major issues and problems encountered

76. During the Soviet period, the trans-boundary power and water systems were designed to be operated regionally. Water releases were coordinated with downstream irrigation needs. As a result, hydropower

exports by upstream countries in the summer were offset by thermal power imports in the winter. Since independence, the countries have aimed for energy self-sufficiency, driven by a concern for energy security. Based on current country strategies, regional electricity trade can only resume once the countries have reached a higher degree of energy security. This dilemma—regional value vs. national energy security—can make it difficult for countries to agree on regional energy projects.

77. Significant benefits can be achieved from regional trade, but the uneven distribution of energy makes it difficult to secure these benefits. Thermal energy-producing countries would need to defer a subset of required investments while hydro energy-producing countries would need to make additional investments. This will require a high degree of mutual confidence, supported by long-term power purchase agreements to address benefit sharing.

**“To address investment needs in the energy sector, countries need to rehabilitate existing assets and consider non-public financing modalities.”**

78. Due to age of existing assets and limited investments over the last two decades, significant investments are required. Countries need to prioritize rehabilitation of existing assets and consider non-public financing modalities for a portion of the investments.

### **3. Priorities for the remainder of the CAREC 2020 period**

79. In 2015, the ESCC initiated actions to align the strategies of the region’s energy sector with the global energy mega trends—a

huge reduction in renewable energy prices, development of new energy technologies, and international commitments to take action on climate change.

80. The ESCC noted the need for countries to diversify from fossil fuel dependency and identified options to integrate renewable energy, energy efficiency and other new technologies in country development plans. Countries are interested in new technologies for different reasons. Countries that are highly dependent on fossil fuel revenues are exploring diversification options because of the long-term impact of low hydrocarbon prices. Energy importing countries, on the other hand, are exploring new technologies to increase their energy security.

81. There are about 80 million people without electrical power in the South Asian region. CAREC will consider linking energy sector projects in Central and South Asia with the significant energy surpluses in East Asia.

82. In 2015, the ESCC highlighted the need to include climate change in its future strategy and work plan, and to identify activities that will prepare CAREC members better for tackling the impacts of climate change.

83. The Energy Vulnerability to Climate Change Study helps the Central Asian countries to understand climate change-induced energy sector vulnerabilities, and to build resilience through the development of adaptation policies. The energy sector’s vulnerability to climate change and adaptive capacity needs review. This will guide decision-makers in making investment decisions and managing energy sector assets.

### **E. Economic Corridors**

84. To improve competitiveness, CAREC 2020 included piloting the development of economic corridors. The Almaty-Bishkek Corridor Initiative (ABCI) is so far the only undertaking by CAREC to move beyond transport and transit corridors to an economic

corridor. The low population densities and long distances between most cities in the CAREC region pose significant challenges to the establishment of economic corridors compared with more densely populated and geographically more integrated areas such as the Greater Mekong Sub-region (GMS).

85. Progress on the ABCI is closely linked to developments under the EEU, which is planning a wide range of measures. These include abolishing customs controls, harmonizing taxes and technical regulations, freeing the movement of capital, and aligning banking regulations and capital markets, and will help to turn the ABCI into a genuine economic corridor. In June 2016, Kazakhstan and the Kyrgyz Republic established a high-level ABCI Steering Committee comprising vice ministers and deputy provincial (oblast) governors. The committee will meet later in 2016 to consider the progress to date and guide future actions. CAREC will continue to monitor the ABCI closely, to draw lessons from the experience that might help in replicating the initiative in other parts of the region.

#### F. The CAREC Institute

86. The establishment of the CAREC Institute (CI) was agreed at the MC held in Wuhan in 2012. Subsequently, it has taken several years for the member countries to work out the required legal agreement on the establishment of the CI. The agreement is still being finalized. In the meantime, the physical base for the CI was established in Urumqi in 2014, and the CI has started to conduct capacity-building and knowledge-sharing activities, and initiated research activities.



**“The Almaty-Bishkek Corridor is CAREC’s flagship initiative to move beyond transport and transit to an economic corridor”.**



## IV. Issues Raised in Country and Sector Consultations

87. Between December 2015 and July 2016, the MTR team held consultations with all CAREC member countries, including government, think tank and DP representatives, and with the four sector coordinating committees. The team also consulted directly with the DPs. Participants in the consultations raised a wide range of issues and made many useful suggestions regarding priorities for CAREC during the remainder of the CAREC 2020 period and possible future directions beyond that. These suggestions fall in three broad categories, (i) completing the current agenda, (ii) broadening CAREC's agenda in the future, and (iii) reviewing and strengthening CAREC's institutional framework and partnerships. The key points are summarized below.

88. **Achieve CAREC 2020 targets.** Progress in transport has been solid and CAREC is on track to meet 2020 targets. However, this has been hampered by slow progress in other areas, in particular trade facilitation and trade policy. These constraints need renewed attention during the remainder of the 2020 period.

89. **Transport remains important.** Developing transport infrastructure has worked well as a priority, and the need for infrastructure in the CAREC region remains great. Even with the economic slowdown, transport infrastructure is a prerequisite for economic diversification. The fact that numerous new players are involved in transport highlights the need for CAREC to remain a leader in this area.

90. **Broadening the transport agenda.** There was strong concern from both transport sector representatives and others that transport should remain at the core of the CAREC agenda. Going forward, railways should be increasingly central in CAREC's agenda. Road safety and road asset management are also growing priorities for the sector. Many pointed out the need to broaden CAREC's approach to

transport, linking it more closely with economic activity. Some pointed out that the potential for economic corridors is lower in sparsely populated Central Asia than GMS.

 **“The global slowdown has highlighted the importance of economic diversification and the need to broaden CAREC's agenda.”**

91. **Continued engagement in energy.** The energy agenda under CAREC is carried by large regional projects including TUTAP, CASA 1000 and TAPI and provides a platform for discussion. Given the large need for energy in several CAREC countries, and the fact that numerous countries are energy exporters, the sector will continue to be a priority. There is significant scope for CAREC to continue to serve as an honest broker in the sector, facilitate the development of new projects, and facilitate increased regional energy trade.

92. **Broadening and diversifying CAREC's agenda.** Throughout the consultations, country, think tank and DP representatives as well as members of the sector coordinating committees highlighted the importance of broadening and diversifying CAREC's agenda. Given the economic slowdown and pressing need for CAREC countries to diversify their economies, broadening CAREC's agenda takes on increased urgency. Participants suggested that CAREC should consider expanding its activities into the following areas: agriculture and food safety, livestock and animal husbandry, tourism, entrepreneurship development, and strengthening the role of the private sector. Education, health and information and communication technology (ICT) were also raised and are discussed in more detail below.

93. **Cooperation in education, skills and HRD.** Numerous participants noted the need for cooperation in education, skill development and labor market issues. This need is highlighted by the economic slowdown, rising levels of unemployment, and the large number of migrant workers returning to labor-exporting CAREC countries.

94. **Cooperation in health.** Health issues should continue to be addressed on transport projects. Numerous participants noted that there is much broader potential for cooperation in the health sector, which should be explored, including how health authorities can cooperate in the control of communicable diseases.

95. **Cooperation in ICT.** Participants pointed to the scope for greater cooperation in ICT, internet connectivity and related areas. This is a prerequisite for modernizing economic and financial cooperation, including e-commerce, e-trade and e-banking. E-procurement will help to promote transparency and good governance.

96. **Capacity building, knowledge and policy work.** There is a strong perceived need among the CAREC countries for more capacity building and training for public officials and for knowledge and policy work to support investment activities. Numerous participants noted the need to enhance cooperation among think tanks. The CAREC Institute was seen as moving slowly, and participants highlighted the strong role the Institute is expected to play.

97. **Working with the new institutions.** Almost all consultation meetings discussed the question of how CAREC should work with

the new IFIs and regional programs. Generally, this was seen as an opportunity to expand cofinancing, and for CAREC to play a stronger coordinating role. Some participants also noted the risk posed by greater competition and weak coordination.



**“In the changed international institutional setting, CAREC should revisit its partnership and cooperation arrangements.”**

98. **Revisiting partnership and cooperation issues.** Many participants noted the changed international institutional environment and large number of new players. They pointed to the need for CAREC to revisit its partnership arrangements with multilateral DPs, and to broaden these from the current six officially recognized partners. In addition to new IFIs and regional programs, CAREC needs to find ways to reach out to the EEU, Russia and the SCO, possibly inviting them to the MC as observers.

99. **Need for renewal of the CAREC strategy.** There was broad agreement that CAREC’s strategy needs to be reviewed and renewed, to ensure that it is closely aligned with changing needs. There was also broad agreement that this is an urgent priority. Rather than waiting for the remainder of the CAREC 2020 period, there was strong support for accelerating the preparation of a new strategy.



## V. The Relevance of CAREC's Strategic and Institutional Frameworks



### A. CAREC's Strategic Framework

100. CAREC has a clearly defined strategic framework, which is summarized in paragraphs 4–6. It cascades from a vision and a goal to two strategic objectives, trade expansion and improved competitiveness, and includes operational priorities in priority sectors (transport, trade facilitation, trade policy and energy), as well as economic corridors, the CAREC Institute and second-tier areas.

101. The strategic framework has generally guided CAREC operations successfully. However the MTR noted two areas that would benefit from strengthening in the future. First, the objectives are stated in very broad terms, in many instances without clearly stated outcomes or outputs. CAREC 2020 does not provide clear indicators for measuring whether CAREC has been successful in contributing to trade expansion and improved competitiveness. In fact, while the CAREC countries' trade expanded prior to the global financial crisis, since 2009, with the exception of the PRC, it has stagnated (Yoon, 2016). Nor is it clear that CAREC countries' competitiveness has improved. However, these developments are the result mainly of the economic downturn described in paragraphs

 **“CAREC's next strategy should set out realistic objectives and be based on a strong and coherent results framework that includes monitorable indicators for all sectors of activity.”**

10–17 rather than being linked to CAREC. Both objectives are so broad that they are determined by a wide range of factors, with CAREC contributing at best marginally to their achievement.

102. Second, CAREC 2020 did not have a detailed results framework linking specific operational activities to the program's objectives through a coherent set of interlinked activities, outputs and outcomes. The only exception is the transport sector, which set out specific achievements and timelines in its work plan. The trade facilitation sector should be commended for establishing the CPMM, which provides a means of measuring and monitoring performance along CAREC corridors. Without clearly defined indicators for all CAREC's operational areas, it is difficult to monitor progress and assess bottlenecks and constraints.

103. When CAREC prepares its next strategy, it will be important to ensure that it includes objectives that are realistically achievable, and a strong and coherent results framework that includes monitorable indicators for all sectors and areas of activity.

### B. CAREC's Overall Institutional Framework

104. CAREC's OIF has generally worked well. MCs are held annually and SOMs twice a year, providing the member countries and participating DPs with regular forums to discuss and agree on issues of strategic concern. The NFPs provide a strong operational link between member governments and stakeholders and the CAREC Secretariat in ADB.

105. In the context of the MTR's country and sector consultations, participants were generally

satisfied with the functioning of the OIF. However, several participants noted that having more frequent sector coordinating committee and SOM meetings would help to enhance CAREC's effectiveness. The MTR noted three institutional issues that need consideration as the CAREC agenda is taken forward.

106. First is the **sector coordinating committee structure**. The four current sector coordinating committees serve the existing priority sectors well. However, as their work is focused on the established areas for cooperation, they not provide an adequate vehicle for conducting the policy dialogue and background work to explore new areas of cooperation and pave the way for broadening and diversifying the CAREC agenda. To this end, CAREC needs the flexibility to establish expert groups (ExGs) to explore the scope for expanding CAREC's work into new areas.

 **“CAREC should establish flexible expert groups to explore the need and scope for expanding into new operational areas.”**

107. Second, participants in the country and sector consultations reminded the MTR team of the high and growing need for **knowledge and policy work and capacity building** to support the CAREC agenda. The establishment of the CI as a broad-based think tank has encountered delays. Currently the CI is carrying out capacity building work, but it is still playing a limited role in knowledge and policy work. The development of the CI into a broad-based knowledge, policy and capacity-building institute needs to be accelerated.

108. Third, CAREC needs to revisit its **development partnerships**. CAREC currently has six multilateral DPs, the ADB, the European Bank for Reconstruction and Development, the Islamic Development Bank, the IMF, the UN Development Program and the World Bank. Given the establishment of new IFIs and the emergence of numerous regional cooperation programs with activities that either link with or potentially overlap with CAREC activities, CAREC should as a matter of priority rethink its notion of DPs. CAREC will need actively to explore the scope for cofinancing with a broader range of DPs, and will also need to consider how a broader range of DPs should be included in its OIF.



## VI. Conclusions and Recommendations



109. CAREC has made significant progress in addressing the agenda set out in CAREC 2020. In the transport sector, CAREC is ahead of schedule in the achievement of many outputs and on track to achieve or exceed planned outputs by 2020. In trade facilitation, CAREC has made progress on establishing the CPMM, which allows member countries to monitor progress on the transport corridors. In trade policy, CAREC has provided valuable support to member countries in their accession to the WTO, as well as post-accession support. In the energy sector, CAREC has made significant progress in several large projects. Progress has also been made in piloting the Almaty-Bishkek Corridor, and the CAREC Institute has started capacity-building operations.

110. At the same time, the MTR noted several shortcomings. Progress has been made in some areas of trade facilitation, but this has not yet effectively been translated into results on the transport corridors. The CPMM indicators show an improvement between 2014 and 2015, but compared with the 2010 baseline figures there has been little improvement in performance indicators. Due to the close link between transport infrastructure and border crossings, the limited achievements in trade facilitation have likely had a negative impact on the effectiveness of investments in transport infrastructure. The modest progress made in operationalizing the CAREC Institute has also limited CAREC's ability to respond fully to the need in member countries for knowledge and policy work and capacity building. There has also been limited progress in the second-tier areas mentioned in the strategy.

111. Looking ahead to the remainder of the CAREC 2020 period and beyond, the status of the priority operational areas varies considerably. The transport sector has a clear forward agenda, including shifting

priority to railways and focusing increasingly on road safety, road asset management and transport facilitation. These priorities will take the transport sector well beyond the current strategy period. Trade facilitation still has significant room towards ensuring that the CPMM indicators are lowered and transport and trade along the CAREC corridors is facilitated effectively. In the energy sector, there is also significant scope to develop further large-scale regional projects to address priority needs. However, now that most CAREC countries have either acceded to the WTO or are in the process of doing so, the forward agenda for the trade policy sector beyond 2017 is modest and would benefit from a comprehensive review. At a broader level, CAREC should review its trade agenda in light of changing country needs, relative performance in achieving outcomes, and overlapping issues (such as SPS) to comprehensively review its institutional approach to trade facilitation and policy



**“CAREC has made significant progress in addressing its strategic agenda, particularly in the transport sector. In other areas, including trade facilitation and capacity building the midterm review noted shortcomings.”**

112. **Two central issues emerge from the MTR, the need to review (i) CAREC's strategic coherence, and (ii) the program's relevance.** The unexpected and very significant changes in the international economic

environment have had a major impact on the CAREC countries and forced them to rethink their priorities. Member countries remain convinced of the importance of transport infrastructure, but they also face other urgent problems, including fiscal pressures, low economic activity, unemployment and the underlying lack of economic diversification. Transport infrastructure remains a priority for many reasons. However, on its own transport infrastructure is insufficient to address many of the CAREC countries' critical needs, in particular economic diversification and job creation. Economic developments underline the gap between the stated objectives of the CAREC program (expanded trade and increased competitiveness) and its primary output (roads). This reduced strategic coherence also contributes to the second critical issue of program relevance.



**“Two significant issues emerge from the midterm review, the need to review CAREC’s strategic coherence, and the program’s relevance.”**

113. The relevance of the CAREC program is anchored in its leading role to date in mobilizing resources for physical infrastructure. The addition of new initiatives and players with significant potential for resource mobilization is likely to dilute the relevance of CAREC. The domestic transport networks of countries have been upgraded since independence, and the national benefits from road infrastructure are declining. Continuing in a business-as-usual mode, CAREC may find that these factors erode its relevance over the medium term.

114. The recommendations below seek to ensure that CAREC completes the agenda established under CAREC 2020. Going beyond the current strategic agenda, they also seek to address the two challenges of (i) enhancing CAREC’s strategic coherence, and (ii) ensuring that CAREC maintains a high level of relevance.

115. **Recommendation 1: Complete the CAREC 2020 agenda.** Good progress has been made in transport, and significant progress has also been made in trade facilitation, trade policy, energy and establishing the CAREC Institute. However, the MTR also noted shortcomings in several areas, including the need to accelerate progress in trade facilitation and the formal establishment of the CAREC Institute. Each sector coordinating committee and the CAREC Institute should be requested to confirm the priority actions needed to ensure that the CAREC 2020 agenda is completed.

116. **Recommendation 2: Revisit CAREC’s objectives to ensure that they are strategically coherent.** Progress has been made in producing specific outputs and achieving outcomes in CAREC’s priority operational areas. However, it is less clear how well CAREC is contributing to the achievement of its dual objectives of expanding trade and increasing competitiveness. The link between CAREC’s operational priorities and objectives is not always clearly spelled out. The continued relevance of these objectives also needs review. Given the changing economic circumstances, CAREC should consider enhancing its strategic coherence by (i) refining its objectives and impact areas, and (ii) ensuring that it has a realistic framework for their achievement.

117. **Recommendation 3: Broaden the CAREC agenda.** The priorities of the current agenda, physical infrastructure for transport and energy, continue to be important and should remain at CAREC’s core. However, they may not be sufficient to meet the region’s changing needs. If CAREC decides to realign itself strategically, its revised objectives will need to be matched with activities in new areas. Potential areas will need to be identified through process of close consultation with member governments and stakeholders and detailed preparatory analysis. They could include entrepreneurship, private sector development, ICT, agriculture, food security, education, health and tourism.

118. **Recommendation 4: Revisit the working group structure.** The current WG structure keeps CAREC focused. At the same time, it tends to make CAREC supply-driven and limits its flexibility to explore new areas. CAREC should consider establishing flexible and informal ExGs that are responsive and need-driven. ExGs would be relatively easy to establish, and to disband once their work is completed, and could make greater use of digital technologies. Flexible and “light” ExGs would make it easier for CAREC to discuss new priorities and help to revise the agenda. To ensure the cost-effective use of resources, CAREC should also consider whether in areas with high proportion of “soft” components (rather than physical infrastructure) such as those linked to external trade, it would be justified to shift from the current coordinating committee mode to a more flexible ExG format. CAREC will need to discuss the financing of ExGs with the member countries and DPs.

119. **Recommendation 5: Develop a new partnership strategy.** Compared with the start of the strategy period, there are numerous new regional and financial initiatives that impact the CAREC region. The scope for forging constructive partnerships has increased. So have the needs for coordination and the risks posed by lack of coordination. As a multilateral program under the auspices of ADB, CAREC can offer distinct advantages as a coordinator and honest broker. CAREC should without delay develop a new and inclusive partnership approach.



**“Taken together, the recommendations indicate the need for CAREC to prepare and adopt a new strategy.”**

120. The above recommendations are broad and should be addressed comprehensively rather than piecemeal. Taken together, they indicate the need for CAREC to prepare and adopt a new strategy (CAREC 2025). The significant changes in the international economic environment and institutional setting, and the major changes that have taken place in the policy priorities of the CAREC countries since CAREC 2020 was approved justify initiating the preparation of a new strategy as soon as possible.

121. Once the MC has endorsed the preparation of a revised strategy, the CAREC Secretariat will need to establish a detailed timeline for its preparation. The necessary preparatory work should not be underestimated. Of the current priority operational areas, the transport and energy sectors have already undertaken significant preparatory work. More importantly, the CAREC Secretariat will need to establish ExGs in key areas to consider potential new priority areas and undertake a number of preparatory studies. If this work is initiated in late 2016 or early 2017, a realistic target date for the approval of a new strategy might be late 2018.

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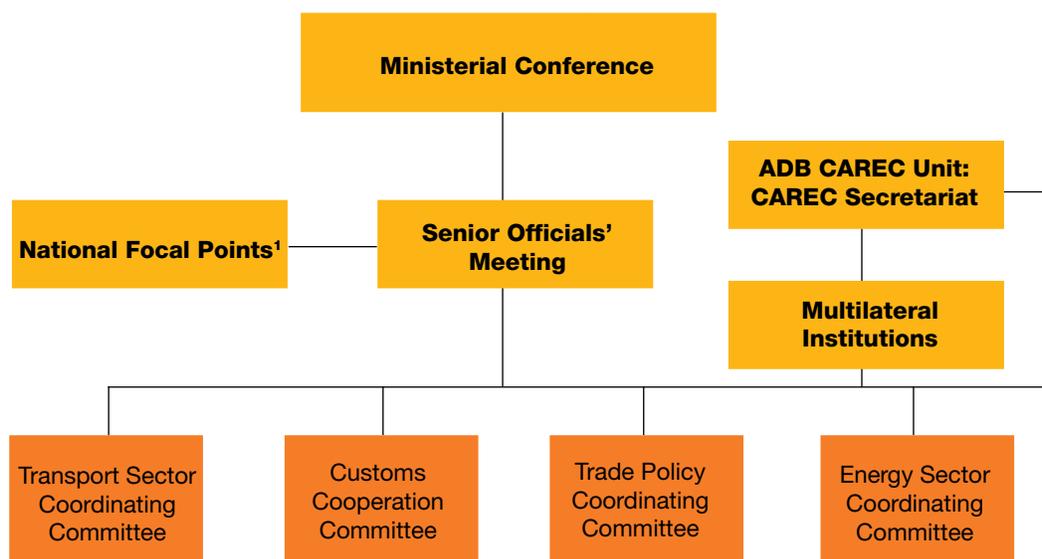


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**Figure 1. CAREC Strategic Agenda**



**Figure 2. CAREC Overall Institutional Framework**



<sup>1</sup> The CAREC Institute reports to its Governing Council, which has NFPs as members.

## **About the Central Asia Regional Economic Cooperation Program**

The CAREC Program is a practical, project-based, and results-oriented partnership that promotes and facilitates regional cooperation in transport, trade, energy, and other key sectors of mutual interest. CAREC has 10 member countries: Afghanistan, Azerbaijan, the People's Republic of China, Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. Six multilateral institutions support CAREC's work: the Asian Development Bank (ADB), the European Bank for Reconstruction and Development, the International Monetary Fund, the Islamic Development Bank, the United Nations Development Programme, and the World Bank. ADB serves as the CAREC Secretariat.

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