

CAREC and Its Development Partners

Introduction¹

Regional cooperation potentially brings many benefits of greater connectivity in transport, trade, investment and people exchanges among the participating countries. For land-locked countries, as in Central Asia (with Uzbekistan double land-locked), regional cooperation also fosters greater connectivity of individual countries in the region with the rest of the world through their neighbors.

However, effective regional cooperation is not easy. Common obstacles are well summarized by Schiff and Winters (2002, p. 1-2) (see box below).² The engagement and assistance of external development partners can help overcome some of these obstacles by promoting regional cooperation with financial, advisory and political support.

Common obstacles to regional cooperation

“First, countries are sometimes unwilling to cooperate because of national pride, political tensions, lack of trust, high coordination costs among a large number of countries, or the asymmetric distribution of costs and benefits. Second, there are strong incentives to behave strategically in one-off negotiations. Countries that are dissatisfied with the potential distribution of benefits may withhold their agreement on a particular issue. They can increase the credibility of their threatened veto by making investments that would be useful if the agreement were not implemented. This is inefficient if the investments are made, exploitative if the other partners concede their demands, or destructive of cooperation if they do not. Third, international and regional cooperation agreements are typically harder to achieve than national ones because, given the absence of courts or higher authorities to which to appeal, the enforcement of property rights is ambiguous and weak at the international level. As a result, international agreements must be self-enforcing, which, in turn, reduces the set of feasible cooperative solutions, possibly to nothing.” (Schiff and Winters 2002, p. 1-2)

The engagement of development partners has been a corner stone of the Central Asia Regional Economic Cooperation (CAREC) Forum, as six multilateral financial institutions have been part of CAREC since its early years. Building on this experience, CAREC's new long-term strategic framework endorsed in 2017, also known as “*CAREC 2030*” (CAREC 2017), promises to expand the range of development partners that can support regional cooperation among CAREC member countries, by inviting any multilateral and bilateral agency to join, if it has the capacity to engage in a constructive way.

This is a good time to review the potential role of development partners (DPs) in supporting CAREC members with their regional cooperation efforts. With the beginning of the implementation of *CAREC 2030*, the impending 20-year anniversary of CAREC in 2020, the opening up of Uzbekistan to regional cooperation, and the intensified engagement of China through the Belt-and-Road Initiative, the opportunities for more intensive engagement by DPs appear especially promising.

¹ This note was prepared by Johannes Linn (ADB consultant) assisted by the CAREC Secretariat.

² See also Linn and Pidufala (2008) for a more extensive summary of potential obstacles to regional cooperation.

This paper briefly reviews the history, achievements, challenges and opportunities of CAREC and of DPs' engagement in CAREC, summarizes the new initiatives for DPs' engagement envisaged under *CAREC 2030*, and identifies some potential issues and questions regarding future DPs' engagement, which might be explored further in the coming months, during an informal meeting with selected DP representatives in September 2019, and beyond, as part of the implementation of *CAREC 2030*.

A brief history of CAREC: Achievements, challenges and opportunities

The CAREC concept was first formed in 1997/8 and its secretariat was created at ADB in 2000. The first CAREC senior officials' meeting (SOM) was held in 2001. This was deemed as the formal establishment of the CAREC Program. From its initial five country members (Kazakhstan, Kyrgyz Republic, People's Republic of China, Tajikistan and Uzbekistan), CAREC has expanded to eleven members (with Afghanistan, Azerbaijan, Georgia, Mongolia, Pakistan and Turkmenistan added over time). As a unique feature among regional development organizations, CAREC from its beginning included six multilateral development finance organizations (ADB, EBRD, IMF, IsDB, UNDP and World Bank). As noted above, under *CAREC 2030* membership will be open to all multilateral and bilateral DPs. ADB has served as the CAREC Secretariat since 2000, with the Secretariat office based in Manila and designated staff outposted in ADB's Almaty office.

CAREC investments have reached \$34.5 billion since 2001. From 2001 to 2018, \$34.5 billion worth of CAREC-related investments have been made covering 196 projects. Of this, \$12.8 billion has been financed by ADB, \$13.8 billion by other development partners, and \$7.9 billion from CAREC governments. Of these investments, transport has the biggest share, with about 75%, or \$26.09 billion; energy accounts for 23%, or \$7.8 billion; and trade accounts for 2%, or \$0.58 billion. No formal independent evaluations have been carried out for CAREC so far, in contrast to the Greater Mekong Subregion Program, for which ADB also serves as the Secretariat. However, two substantive reviews on CAREC's operations are available: an informal review carried out by the Brookings Institution for ADB in 2008, and a mid-term review of the 2011-2020 Strategic Framework completed in 2016. The key findings of these reviews are briefly summarized in this section. In addition, ADB carried out an informal review of DP engagement in CAREC in 2017. This will be reviewed in the subsequent section.

The Brookings review (Linn and Pidufala 2008) compared regional cooperation experience world-wide with the experience in Central Asia and drew lessons specifically for CAREC. It noted CAREC's strengths as an organization with (a) a clear focus on a limited number of primary areas of engagement, but also some flexibility to take on additional tasks if strong country leadership emerged; (b) effective engagement by member countries; (c) strong involvement by the multilateral partners; and (d) effective sectoral strategies, action planning and results monitoring. They also highlighted a number of challenges, including:

- A lack of formal treaty and limited organizational capacity;
- No engagement of political leaders at summit level;
- CAREC not visible and well-known in the countries of the region;

- Leadership of CAREC is provided principally by the DPs, and especially by ADB, rather than by member countries;
- Weak links with other regional organizations, despite functional overlaps;
- Weak links with national and sub-national plans in member countries; and
- Some key potential member countries and DPs not sufficiently engaged.

In its conclusion the report noted that CAREC was responding to these challenges by (i) strengthening the capacity of the CAREC Secretariat and setting up the CAREC Institute; (ii) increasing the engagement of senior country officials; (iii) exchanging more information with other regional organizations and aiming for division of labor; (iv) engaging with Turkmenistan; and (v) and setting up a Development Partners' Forum for more intensive coordination with DPs.

The CAREC Midterm Review (CAREC 2016) presented a detailed accounting of achievements and challenges in each of the sectoral areas of CAREC's engagement, followed by a summary of views expressed by country stakeholders and by an analysis of the strategic and institutional frameworks of CAREC:

- a) The Midterm Review (MTR) highlighted the substantial investments made in infrastructure, capacity building and policy reform during the first 15 years of CAREC's existence, but also noted financing, implementation and coordination challenges, as well as a need for increased DPs' engagement in most of the sectoral and thematic areas.
- b) Stakeholder feedback flagged the need to (i) complete the current *CAREC 2020* strategic agenda, (ii) broaden CAREC's agenda by linking transport investments with economic development initiatives and by addressing opportunities for regional cooperation in education, health and ICT development; and (iii) strengthen CAREC's institutional framework by focusing more on capacity building, strengthening the CAREC Institute and developing a more inclusive approach to working with development partners.
- c) The MTR noted the need for a new strategy with more clearly articulated objectives and a "strong and coherent results framework that includes monitorable indicators for all sectors and areas of activity" (p. 18); and it suggested that Expert Groups be set up to explore broader areas of CAREC engagement, that the CAREC Institute's development be accelerated, and that cooperation with a broader range of DPs be explored.

Based on these findings the MTR recommended (i) completion of the *CAREC 2020* agenda, (ii) recalibrating CAREC's objectives for strategic coherence, (iii) broadening the CAREC agenda to include entrepreneurship, private sector development, ICT, agriculture, food security, education, health and tourism; (iv) revisiting the CAREC Working Group structure with the expectation of establishing complementary Expert Groups; and (v) developing a new and inclusive partnership strategy.

Future Role of Development Partners in CAREC: New Strategic Directions

As noted above, a unique feature of CAREC as a regional cooperation forum is the engagement of multiple DPs from the very start and in a fully integrated manner. Judging from Brookings review (Linn and Pidufala 2008) and the author's personal engagement in CAREC as a CAREC Special Adviser from 2005-2010, it appears that the DP approach as originally designed worked

well overall during the first 10 years of CAREC's existence. The core group of six DPs was closely involved and supportive of CAREC activities, with a broad division of labor among them³, and the inclusion of additional multilateral and bilateral DPs as observers at the annual Ministerial Conference. Importantly, high-level representatives from the six core DPs (at level of vice presidents or their deputies) participated in an annual (breakfast) meeting hosted by the President of ADB on the sidelines of the ADB Annual Meetings, with a clear focus on CAREC.

In 2016, the Midterm Review (CAREC 2016) flagged the need for more systematic and broadened DPs' engagement in CAREC. During the same year, ADB carried out an internal review of DPs' future role in CAREC in preparation of CAREC 2030 (ADB 2016). It identified three principal opportunities for increased DP engagement: (i) assuring that CAREC is seen as a platform that gives space to DPs on an equal basis to support regional cooperation in the 11 member countries; (ii) creating greater ownership among DPs in CAREC, more intensive support for and higher-level engagement by DPs in CAREC events (MCs, SOMs and SCCs), and more continuity of CAREC focal persons to assure the building of institutional memory and continuity of association; and (iii) moving beyond project-specific cooperation and cofinancing among DPs to joint activities for capacity building, policy and knowledge support.

To realize these opportunities, the ADB's review recommended a two-pronged approach:

- **Improve the opportunities for engagement by DPs** through (a) “[m]aking CAREC an open and inclusive platform to welcome any multilateral and bilateral development partner that has the will and the capacity to engage with the 11 member countries on regional issues, policies and projects”; (b) “[a]ssigning leadership roles to DPs in new and existing sectors; (c) linking CAREC initiatives more explicitly to the SDGs and COP21 climate goals; and (d) “[i]mproving information-sharing among DPs” [p. 2];
- **Institutionalize a stronger role of DPs** through (a) “[r]eaching out to top officials in DPs’ headquarters; (b) inviting DPs to second staff to the Secretariat on short-term/long-term assignments”; (c) “SOMs could be co-chaired by host government, ADB and a DP (on a rotational basis)” and convening annually “a CAREC Development Partners’ Forum”,... with the chair of the forum rotating between CAREC DPs”; (c) “creating a new commitment model for DPs by introducing the concept of a dedicated CAREC Representative Officer (CRO) ... and designated Points of Contact (POC), in alignment with the proposed clusters under CAREC 2030”; and (d) “[c]ollaboration of DPs’ internal knowledge institutes with the CAREC Institute” (p. 3).

These conclusions of the MTR and of ADB's review of opportunities for DP engagement were reflected to a significant extent in the CAREC 2030 strategy adopted by the CAREC countries in 2017. The key CAREC 2030 provisions in this regard include the following:

- Focus CAREC on implementation of SDGs and COP21; (CAREC 2017, p. 4)

³ The ADB was responsible for the Secretariat and for the transport, trade and trade facilitation sectors; the IMF for support on macroeconomic, trade and financial sector policy coordination; the World Bank for energy sector cooperation; the EBRD and IFC for private sector engagement; and UNDP for overall regional cooperation assessments (e.g., the Central Asia Human Development Report 2005), for coordination with other regional organizations (especially SPECA), and for specific subareas, such as disaster preparedness). IsDB apparently was not assigned a specific area of engagement.

- Broaden the scope of CAREC 2030 by identifying five broad operational clusters of engagement: (i) economic and financial stability; (ii) trade, tourism, and economic corridors; (iii) infrastructure and economic connectivity; (iv) agriculture and water; and (v) human development; while ICT serves as a cross cutting priority; (p. v)
- Consider a summit-level meeting of CAREC heads of states and/or governments to take place on a periodic basis, every 3 to 5 years; (p. 17)
- Build an open, inclusive CAREC platform to maximize DPs' resources and expertise, by welcoming existing and new DPs on an equal footing and encouraging them to lead dialogue and operations in CAREC 2030's priority areas; [p. 6] and streamline institutional procedures to facilitate DPs' membership and role in CAREC; (p. 18)
- Invite DPs to co-chair SOMs on rotation; (p. 18)
- Convene a DPs' Forum on an intermittent basis; (p. 19)
- Invite DPs to second staff to the CAREC Secretariat for short-term and long-term assignments; (p. 19) and
- Ensure greater transparency and enhanced information sharing among DPs. (p. 19)

Questions for discussion at DPs' informal meeting in September 2019

CAREC 2030 set a new direction for CAREC by broadening the scope of CAREC's engagement and by expanding the scope of DP participation. It also, as summarized above, introduced a number of specific measures to be pursued in the coming months and years to give CAREC renewed impetus. For the informal meeting of selected DPs in September, this raises a number of potential questions for discussion on how best to implement *CAREC 2030*, and in particular how best to mobilize broad-based and effective DP support:

1. How can engagement of, and cooperation among, DPs be further expanded and strengthened? Under *CAREC 2030* the larger number of potential areas of engagement and open-door policy for DP engagement should provide greater opportunities for a larger number of DPs to join CAREC's efforts and to engage more intensively than in the past. How should CAREC best implement the specific provision of *CAREC 2030* intended to offer greater opportunities and incentives for more intensive engagement by more DPs (including the bilateral agencies operating in Central Asia)? What additional measures might be envisaged? Would it be helpful to review the location of the Secretariat, currently operating in Manila?
2. What should be an optimal division of labor between ADB and the other DPs in development and implementation of action plans and approaches being developed under *CAREC 2030*? In which clusters/areas of the strategy are other DPs willing and able to lead? Are additional plans/approaches needed? In 2018 CAREC adopted a new CAREC Integrated Trade Agenda. In 2019 it is preparing new strategies for energy and transport sectors and beginning work on a tourism strategy. Building on this experience DPs may wish to explore opportunities for leading and significantly enhancing their contributions in the various clusters and areas of CAREC 2030. How can the CAREC Secretariat help in making the process of DPs' leadership and participation more open, transparent and inclusive and whether additional areas should be addressed.

3. How do DPs view their engagement in CAREC expert and working groups? During the first twenty years, much of the substantive work of CAREC was carried out under working groups in the four principal areas of engagement. Under *CAREC 2030* additional expert and working groups are being set up. What are the lessons from these initiatives so far? Are there areas for which additional groups would be appropriate? Is the role of DPs in leading and/or supporting these new WGs sufficiently clearly defined?
4. What can DPs do to increase their own institutional focus on regional cooperation in the CAREC region and their support for CAREC? Development finance agencies traditionally focus principally on developing, financing and implementing country-specific programs and projects that generally do not directly support regional economic connectivity or cooperation. The agencies' internal organizational structures and their management and staff incentives generally do not encourage a focus on regional development objectives and programs. And the agencies' organizational structure, financing instruments and budget resources are generally not geared to support multi-country operational programming – in terms of investment finance, but also financing of knowledge work, capacity building, and institutional support for CAREC. Are there any practical lessons from the agencies' experience with support for regional programs that can help improve the way DPs engage in CAREC on a sustained and effective manner?
5. What is DPs' experience with the CAREC Institute? CI was set up in Urumqi with the objective of providing analytical support to CAREC countries and institutions and to serve as a platform for DPs to cooperate in strategy and knowledge work supporting CAREC. CI's own Strategy 2018-2022 (CAREC Institute 2017) mentions "collaboration with partners" as a key principle and as necessary in view of CI's limited own capacity. It does not specifically highlight collaboration with DPs. Against this background, one might wish to explore how CI's approach and capacity can be further strengthened, and how DPs' engagement can be more coordinated with CI to achieve these goals.
6. How can DPs and the CAREC Secretariat work together in reaching out and helping build cooperation between CAREC and other regional mechanisms, such as BRI, SCO, ECO and others? CAREC can potentially serve as a platform for supporting and integrating multilateral and bilateral support for regional investments carried out under these and other regional organizations and initiatives, to help ensure that they result in a coherent regional approach. Among these initiatives, BRI is of special significance. In view of recent efforts to add a multilateral dimension to BRI, how can CAREC ensure that the benefits of cooperation with BRI initiatives be reaped as fully as possible?
7. How can DPs best support CAREC's institutional activities with sustainable technical and financial means? Experience of CAREC's first 20 years shows that an effective implementation of *CAREC 2030* will require technical and financial resources on a sustained basis. So far CAREC's institutional activities have been supported to a substantial extent by budgetary and staff resources from ADB. What financing and staff engagement modalities could be developed to ensure DPs' robust engagement in supporting CAREC technically and financially? Are DPs ready to contribute to the work of the Secretariat with human resources through secondments and other means, and to

offer financial and technical support for the organization of CAREC's overall and sectoral events?

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