



Senior Officials' Meeting
28 June 2022

CAREC 2030

Progress Report



Central Asia Regional Economic
Cooperation (CAREC) Program



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Implementation Progress Report

July 2021 – June 2022

1. The Central Asia Regional Economic Cooperation (CAREC) Program, now 22 years in operation, has recorded impressive achievements in economic cooperation in the region. Since 2001, US\$41.1 billion worth of CAREC-related investment has been made covering 218 projects, as of December 2021, including US\$15.6 billion worth investment financed by the Asian Development Bank (ADB), more than US\$16.3 billion with support from other development partners, and more than US\$9 billion from CAREC governments. In addition, as of December 2021, CAREC-related technical assistance (TA) projects amounting to US\$579.13 million have been approved.
2. During the reporting period from July 2021 – June 2022 since the last SOM was held, the CAREC program planned and organized more than 45 activities, including meetings, consultations, and dialogues to sustain efforts towards achieving its vision of "Good Neighbors, Good Partners, and Good Prospects" and the goals of the CAREC 2030. CAREC also made efforts to create opportunities for people and business to business contact as a regional platform by supporting cross-border cooperation. With travel restrictions largely still in place, majority of events in the CAREC program were still conducted in virtual mode, but to further enhance active participation of member countries and development partners, events are slowly being shifted to hybrid mode.
3. The 20th CAREC Ministerial Conference (MC) was held virtually on 17 December 2021, where a message from His Excellency President Ilham Aliyev, on behalf of Azerbaijan as host country, was shared. The Ministerial Conference endorsed two new strategies, CAREC Digital Strategy 2030 and the CAREC Health Cooperation Strategy 2030. In May 2022, the CAREC Secretariat also held its first face-to-face regional consultation, after two years of virtual meetings. The consultation meeting took stock of the developments in the CAREC Program, including ways to improve support for the CAREC countries and other stakeholders in promoting regional cooperation. The event kicked off with a panel discussion on the future of RCI in the CAREC region.
4. CAREC countries are slowly recovering from the economic impacts of the COVID-19 pandemic. Decent growth in the second half of 2021 allowed most CAREC economies to exceed their 2019 real GDP levels by late 2021. Growth in services and manufacturing was solid. Industrial output, retail sales, and foreign trade were all up in the second half of 2021, though with some volatility and differences among economies. External debt ratios, though high for some economies, have not increased dramatically during the pandemic, despite elevated government spending and recovering consumption. Foreign exchange reserves have remained at acceptable levels. The CAREC region by and large outgrew the COVID-19 recession in the second half of 2021¹.
5. This nascent economic recovery is now being threatened by recent geopolitical conflicts in the region. It has exacerbated disruptions to supply chains and global trade and compromised price stability, global economic recovery, and poverty reduction. Increased

¹ CAREC Institute Quarterly Economic Monitor No. 6.

uncertainty also negatively impacts already hesitant investment and may trigger capital outflows and amplify potential balance of payment issues, with possible worsening of fiscal positions due to the need for subsidizing food and energy prices. At the same time, inequality will grow, with low-income households hit the most, and economies that are net importers of energy and food suffering more than net exporters¹. Prolonged or intensified armed conflict could cause significantly larger economic damage and greater potential for fragmentation of international trade and investment. The effects of the invasion have also caused a further reduction in policy space, which is now more limited than at the onset of the pandemic². CAREC's role as an honest broker takes on an even greater significance and will have to navigate a more complex and rapidly evolving landscape to help member countries find common ground.

6. In the face of these challenges, each CAREC cluster has made good progress. The **Economic and Financial Stability** cluster continues its mandate of promoting policy dialogue on important economic and financial stability issues in the region, as well as regional learning on macroeconomic policy coordination. In 2021, despite continued disruptions brought about by the COVID-19 pandemic, two high-level forums on important economic and financial stability issues in the CAREC region were organized by the ADB in coordination with the International Monetary Fund (IMF) and World Bank (WB), both in virtual format. The first high-level forum held on 1 July at the sidelines of the Astana Finance Days 2021 highlighted the role of fintech innovation to increase access to finance for small businesses and the poor who have been disproportionately impacted by the COVID-19 pandemic. The second high-level forum held on 22 November discussed social spending to tackle rising post-COVID-19 inequality and provided views on social spending measures in the context of the broader COVID-19 crisis response and macroeconomic policies. The CAREC Institute, together with the ADB Institute, published a book on COVID-19 and Economic Recovery Potential in the CAREC Region which explores ways to unlock sustainable and inclusive growth opportunities in CAREC countries.
7. The **Trade, Tourism, and Economic Corridor** cluster continued the momentum in keeping trade open and implementing regional cooperation initiatives amid continuing geopolitical and health-related challenges in the region. In the **trade** sector, there is notably good progress in implementing international agreements, aligning with international standards, and accelerating digital trade among the CAREC members. Azerbaijan and Uzbekistan advanced their efforts in World Trade Organization (WTO) working party discussions, while Turkmenistan was granted a acceding country status in February 2022. Implementation of commitments under the WTO Trade Facilitation Agreement is on track for CAREC members, with the PRC and Georgia achieving 100% implementation rate. Turkmenistan and the Kyrgyz Republic acceded to the World Customs Organization's Revised Kyoto Convention in March and November 2021, respectively.

² World Bank. 2022. Global Economic Prospects, July 2022.

8. Promoting e-commerce and accelerating digital trade are priorities in the trade sector. Tajikistan launched its national single window (NSW) information system in 2020, while Pakistan launched its NSW in 2021 and e-commerce portal in 2022. Uzbekistan and the PRC are now actively exchanging electronic phytosanitary certificates via the International Plant Protection Convention's ePhyto solution. Azerbaijan and the PRC are parties to the UN Framework Agreement on Facilitation of Cross-Border Paperless Trade in Asia and the Pacific when it took effect in 2021, while Turkmenistan becoming a member starting August 2022. Azerbaijan, Mongolia and the PRC are contracting parties to the UN Convention on the Use of Electronic Communications in International Contracts, while efforts are underway to support the PRC and Georgia in adopting the Model Law on Electronic Transferable Records. The ADB and CAREC Institute completed two research studies looking at the regulatory framework and infrastructure aspects of developing e-commerce ecosystems in 2021-2022. A webinar series on e-commerce was organized in May 2022.
9. As part of strengthening institutions for trade, 12 regional dialogues/webinars and 7 tailored national training sessions with over 2,500 participants were organized in 2021 under the trade sector. The *CAREC Trade Week: Enhancing Cooperation in Digital Trade* was a key event at the sidelines of the annual meetings of Regional Trade Group and Customs Cooperation Committee in September 2021. Regional workshops assessing the feasibility of a CAREC-wide FTA and sharing FTA lessons from CAREC members were held in September 2021 and April 2022. The CAREC Trade Information Portal and CAREC Corridor performance measurement and monitoring database were launched in Q4 2021, while the first issue of the CAREC Trade Insights and News, was released in Q1 2022. For 2022, the main trade deliverables include: (i) Trade Facilitation in CAREC: A 10-year Corridor Performance Measurement and Monitoring (CPMM) Perspective; (ii) CAREC Digital Trade Forum, a key event aimed to launch a public-private/trilateral knowledge partnership; and (iii) the 20th Year of Customs Cooperation Committee Meeting.
10. The **CAREC Tourism Strategy 2030** and its accompanying regional tourism investment framework 2021–2025 were endorsed in 2020 at the 19th CAREC Ministerial Conference. The CAREC Tourism Strategy 2030 sets out the long-term vision, guiding principles, strategic pillars, and targets to promote sustainable, safe, and inclusive tourism development in the region and enhance the region's attraction as a competitive tourism destination globally. It takes into consideration the impact of the COVID-19 pandemic in CAREC countries' tourism sectors and emphasizes that a regional approach is needed more than ever to create economies of scale, maximize the use of the limited resources, and promote tourism as a vital driver of the socio- economic recovery in the region. Following the endorsement of the strategy, several regional initiatives have been initiated, including the development of a CAREC tourism portal as a tool for consolidating information on tourism regions and attractions in CAREC countries and promoting the services of local tourism businesses. The portal is expected to be launched by the end of 2022. The CAREC program also supported the establishment of the Almaty–Issyk Kul tourism cluster. Efforts were made to improve existing health and safety protocols and measures, develop capacities of stakeholders, and harmonize a regional accommodation classification system.

11. **Economic Corridor Development (ECD)** has maintained strong momentum in the CAREC region. CAREC countries have made good progress in adopting cross-border economic corridor concept in their national development strategies. Two CAREC initiatives are achieving substantive results. The Almaty-Bishkek Economic Corridor (ABEC) saw transformative regional investment projects being developed and financed. These include Preparing the Modern Agriculture Wholesale Market Development Project, the Issyk-Kul Lake Environmental Management for Sustainable Tourism Project, the ABEC Regional Improvement of Border Services Project, and the Strengthening Diagnostic and Reference Laboratory Capacity Project. The implementation of the road map for the Shymkent-Tashkent-Khujand Economic Corridor (STKEC) development is also making substantial progress, with pre-feasibility studies on an International Center for Industrial Cooperation between Kazakhstan and Uzbekistan, and a Trade and Logistics Center in Sugd Oblast in Tajikistan under preparation. An ADB-supported study on an ECD framework and operational guidelines that reflect wider economic benefits and captures the diversity of regions in Asia is being finalized.
12. The **Infrastructure and Economic Connectivity cluster** made notable progress over the reporting period. The **transport sector** completed most planned events and knowledge products in a timely manner and continued to support capacity development of government ministries and relevant authorities. With COVID-19-related restrictions remaining largely in place across MCs, events such as the 19th Transport Sector Coordinating Committee Meeting, the 6th RWG Meeting, as well as the Regional Aviation Forum which require in-person discussions had been postponed for Q3 2022. Training workshops on road safety and road asset management systems that have been successfully completed on schedule were all arranged and conducted virtually. The transport sector produced key reports such as the Road Asset Management System and Performance-Based Road Maintenance Contracts in the CAREC Region, and the Situation of Railways in CAREC Countries and Opportunities for Investment, Commercialization and Reform. The CAREC Road Safety Report Card and the CAREC Road Safety Engineering Manual 5: Star Ratings for Road Safety Audit have been completed and expected to be published in July 2022. Other key KPs on aviation are underway which are the Aviation Freight Study, and the Low-Cost Carriers Study; while in cross-border transport and logistics, the CAREC Guide on Logistics Centers Development. The CAREC Regional Improvement of Border Services (RIBS) projects in Pakistan, Mongolia, and the Kyrgyz Republic are ongoing and continue to support cross-border trade expansion in the CAREC region.
13. The **CAREC Energy Program** completed phase 1 of implementing the CAREC Energy Strategy 2030. Between 2020 and 2022, the ESCC endorsed a plan to establish a CAREC Green Energy Alliance to be the region's 1st targeted financing vehicle for green energy projects and launched the 1st regionwide energy efficiency campaign. The Committee also launched a 24/7 tool for policy makers – the CAREC Energy Reform Atlas – which aims to support decision makers in resolving the typical dilemmas when implementing energy sector reform. The ESCC also laid the foundation for a new Regional Transmission

Cooperation Association (CATCA) as a body to establish regional grid enhancement plans and execute future cross-border projects. Another 2030 flagship deliverable - the CAREC Energy Outlook 2030 - was endorsed and will be officially published at the end of 2022 to attract much needed investment. All CAREC members and development partners also endorsed the first CAREC Women-in-Energy Program which includes an action plan targeted at improving employability, visibility and education of women in the energy sector. The program's visibility was significantly boosted through the new CAREC Energy web platform (www.carecenergy.org) which led to a number of new organizations and development partners expressing significant interest in joining the program.

14. The CAREC Secretariat initiated conceptualization of a **CAREC Regional Infrastructure Projects Enabling Facility (RIPEF)** to reduce regional infrastructure financing gaps and strengthen the development capacities of member countries. The RIPEF, dedicated to regional projects preparation, aims to provide financial and technical support to member countries on project preparation and readiness, initial design, and application of appropriate financial solutions for project preparation while promoting knowledge exchange and capacity development. As a first step, an ADB-supported transaction technical assistance (TRTA) facility, with initial funding of \$1.4 million, has been successfully established and became operational since November 2021. The TRTA facility is currently supporting ADB's multiple regional infrastructure projects preparation in the CAREC region. In addition, an ADB-supported technical assistance was also approved in September 2020 to provide support for undertaking studies to help prepare the RIPEF concept and meet requirements for establishment. Structured finance and cofinance experts at the international and national levels have been engaged to support the CAREC secretariat in delivering the required outputs. The development of the RIPEF concept is in progress, and a series of consultations with ADB's internal counterparts, development partners, potential donors, and CAREC stakeholders are being undertaken in 2022.

15. The **Agriculture and Water** cluster has made steady progress. In the **agriculture sector**, a recently concluded technical assistance was quite successful in aligning national food safety regulations in compliance with international food safety standards for Kazakhstan, Kyrgyz Republic, Uzbekistan, Turkmenistan, Tajikistan, and Azerbaijan. Technical training was also provided to establish national food safety networks in Kazakhstan, the Kyrgyz Republic, Turkmenistan, and Uzbekistan. In the conduct of the technical assistance, lessons learned and recommendations are as follows: (i) covering more relevant national agencies in policy formulation in establishing national food safety networks are needed, not just the ministries of health and agriculture; (ii) future assistance in food safety could also focus on a smaller number of CAREC member countries with commonly identified binding constraints, and country-specific dedicated sub-teams to improve responsiveness; (iii) for knowledge building, the CAREC Institute could include food safety management in its annual workshop and training program, as key stakeholders enthusiastically participated in the training sessions, and (iv) CAREC member countries can support staff training in food safety related agencies and allocate a specific budget for replicating these trainings. Future

actions could include providing knowledge support in this area and explore country-specific lending opportunities to improve food safety laboratories and related infrastructure, in accordance with preferences and priorities identified by CAREC member countries. Food security is a growing concern for the region, and, realizing this, the CAREC Secretariat has initiated work on “Cooperation Framework for Agricultural Development and Food Security in the CAREC Region”, which is to be a deliverable for the Ministerial Conference this November. It will be prepared in consultation with the CAREC member countries.

16. In the **water sector**, preparations for identifying a future portfolio of activities in the Central Asia region are in progress, with completion of the scoping study report and development of a framework for the Water Pillar. The framework comprises three blocks, (1) climate resilient and productive water systems, (2) sustainable water resources and water services, and (3) nexus solutions and cross sector learning. The five Central Asian countries voiced strong commitment for the Water Pillar to address the increasing pressures on water and challenges to water security from a more variable climate. In 2022, five national consultations have been held to solicit ideas for the Water Pillar and identify synergies with ongoing and pipeline programs in the region. A regional consultation is planned in September 2022 to consider a longlist of potential project activities from which two will be selected initially for more detailed project concept design and possible funding in 2023. They are expected to include components to support governance and management reforms required to manage water more efficiently, capacity and skills development, and infrastructure investments. Other project ideas from the longlist will be available to consider for implementation in subsequent years. The regional consultation will also consider institutional proposals for guiding the future work of the Water Pillar. Knowledge events on related topics are being planned for Q4, 2022 and the potential for expanding the geographic scope of the Water Pillar beyond Central Asia will be explored by early 2023. This work is also supported by a recently initiated study by the CAREC Institute ‘Water Infrastructure in Central Asia: Promoting Sustainable Financing and Private Capital Participation’. The 2nd Water Dialogue on Sustainable Water Governance in Central, held last April 27, also presented findings on the analytical report ‘Water Footprint Analysis of Central Asia’, which outlined policy recommendations for mitigating climate change challenges through sustainable water management practices.
17. With CAREC Strategy 2030, member countries agreed to include **health** as a priority under the **Human Development** cluster. Following the recommendations from the CAREC Health scoping study, a CAREC Health Strategy 2030 was developed and approved by the CAREC Ministerial Conference in November 2021, to further manifest the joint strategic direction for CAREC health cooperation. During the virtual regional inception workshop last 4 March 2021 the CAREC Working Group on Health (WGH) was established to provide guidance and direction for CAREC health cooperation, and for the formulation and implementation of the CAREC health strategy. Terms of Reference of the WGH have been prepared and presented. A series of virtual consultations with countries and development partners was organized between March and September 2021 to consult on priorities and recommendations for the CAREC Health strategy and ensure the strategy is driven by

country's needs and priorities. In addition to the consultations, national assessments were undertaken and existing regional and cross-border initiatives and commitments to regional and global health policy frameworks studied. The [CAREC health subsite](#) has been updated and provides an overview of key milestones in the CAREC health work and outlines the strategy.

18. For higher **education** and skills development, a new technical assistance project 'Strengthening Regional Cooperation on Skills Development under the CAREC Program', was approved in October 2021. The project aims to spearhead activities that support the human development cluster objectives by helping CAREC member countries further their paths towards standardization and harmonization in two critical sectors of higher education, namely technical-vocational education and training or TVET. The project also endeavors to develop a regional database and labor market information system focusing on skills needs, regional job search and placement, and collaborations in cross-border higher education and TVET. The first inception meeting and international expert roundtable held in Tbilisi, Georgia, focused on key developments, challenges, and opportunities for collaboration on skills development in the CAREC region. Two knowledge products are being prepared and will be circulated to member countries for their review: (i) a policy report providing a systematic assessment of the existing skills in CAREC countries, particularly the extent to which they provide relevant and utilizable skills; and (ii) policy brief providing a systematic assessment of how and how well skills development systems function in CAREC countries focusing particularly on two areas, i.e., higher education and technical and vocational education and training.

19. The CAREC program has laid the groundwork to advance **cross-cutting** thematic areas. The **CAREC Gender Strategy 2030** has provided a regional approach to improving gender mainstreaming and women's economic empowerment since its endorsement at the 2020 Ministerial Conference. The ADB-supported TA, 'Promoting Gender Equality in the Central Asia Regional Economic Cooperation Region,' has initiated the implementation of the strategy and enhanced the regional operational mechanism. The establishment of the Regional Gender Expert Group (RGEG) is being finalized with nominated representatives from the CAREC member countries. The RGEG, as an advisory and consultative body for the gender cross-cutting theme in the CAREC Program, will provide strategic guidance and expert inputs for the strategy, the TA, and CAREC- related projects. Preparatory work is underway to develop the regional level of gender action plans and projects through secondary research and identifying potential partners. These initiatives aim to generate investment opportunities and regional cooperation projects while facilitating knowledge sharing and mutual learning across the region. The CAREC Secretariat plans to launch a gender database as a monitoring and evaluation tool. It will facilitate tracking and communication of the strategy's implementation across the region. Finally, the development of the CAREC People's Forum is also in progress. Pilot activities in support of the implementation of the forum are planned. As an effective mechanism to foster regional networks, it will enhance business-to-business and people-to-people contacts, support entrepreneurship, and harness business opportunities. All activities will be prioritized and

implemented in accordance with guidance received from the RREG representing CAREC member countries.

20. The **CAREC Digital Strategy 2030**, since its endorsement at the 2021 Ministerial Conference, provides the vision and roadmap to serve as the catalyst for promoting digital technology to address social and economic challenges through regional cooperation in the CAREC region. The CAREC Secretariat has created the CAREC Digital Strategy 2030 portal website and is working to establish the CAREC Digital Strategy Steering Committee. The ADB and EAKPF supported TA project 'Supporting Startup Ecosystem in the Central Asia Regional Economic Cooperation Region to Mitigate Impact of COVID-19 and Support Economic Revival' has undertaken innovation promoting initiatives. The 'Virtual CAREC' initiative has provided ICT equipment to CAREC National Focal Point offices and organized a series of capacity building and training workshops for CAREC staff to improve their digital skills. The CAREC Startup Ecosystem hub has also progressed to a launch stage. Based on the interviews and secondary research with ecosystem players, the Secretariat is launching the CAREC Startup Map and the CAREC Innovation Network to encourage cross-country cooperation and collaboration between entrepreneurs and active stakeholders in the region. Lastly, as part of hosting open innovation challenges, the Secretariat launched the CAREC University Startup Generator challenge which saw participation from more than 100 students who developed their startup ideas.

21. To build CAREC countries' physical and financial resilience against **disaster risks** derived from earthquake, floods and infectious disease outbreaks, the regional technical assistance (TA) on "Developing a Disaster Risk Transfer Facility in the CAREC region" is being implemented. The first phase of the TA has delivered several knowledge products which are being published both in English and Russian by the end of first half 2022. It includes i) the disaster risk profiles for each CAREC country; ii) a Protection Gap Report quantifying the difference between the estimated losses from earthquake and flood risk and the existing ex-ante financing tools in CAREC countries, iii) a report on *Building Resilience to Future Outbreaks: Infectious Disease Risk Financing Solutions* which includes recommendations for the development of infectious disease risk financing mechanisms for CAREC countries, and iv) a Compound Risk Analysis Report assessing of the potential impacts of the combined risk of natural hazards and infectious disease outbreaks in the CAREC region. Moreover, the alpha version of a disaster risk modelling tool, as the open-access interface that will allow public officials from CAREC countries to explore model results for earthquake, flood and infectious disease risks, and assess costs and benefits of disaster risk reduction measures and financing structures, including insurance, has been developed and presented during consultations meetings with the countries end of March / beginning of April 2022. Based on the analytical work conducted so far, the project team has launched the conceptualization of the pilot disaster risk transfer facility, which will be supported by additional capacity building meetings and consultation workshops as well as the following deliverables during the second half of 2022: i) beta version of disaster risk modelling tool; ii) feasibility assessment on the issuance of a disaster relief (cat) bond by ADB for CAREC countries, including financial, modeling, structural, legal and documentation requirements;

and iii) a final report detailing next steps to further develop regional infectious disease risk financing framework coordinated with the Health Sector Group. The TA will be extended at no additional cost until Q2 2023 to ensure quality deliverables.

22. **CAREC Institute (CI)**, the knowledge arm of the CAREC program, has quickly responded to the new knowledge needs of regional stakeholders by updating its strategy to support post-COVID recovery in the CAREC region. With a new Deputy Director One, CI is leading a new strategic initiative to mobilize new resources for institutional sustainability. The CAREC Think Tank Network of more than 60 leading think tanks has joined the *South-South Global Thinkers* coalition. To expand outreach to national stakeholders, CI established its Quarterly Economic Monitor and e-newsletter in English, Chinese and Russian. CI published its inaugural annual book *COVID-19 and Economic Recovery Potential in the CAREC Region*, which includes a series of analytical papers with policy recommendations. CI has engaged in three collaborative research projects: i) Civil Aviation Development in Kazakhstan and Mongolia, and ii) Civil Aviation Development in Uzbekistan, Kyrgyzstan, Turkmenistan, and Georgia in collaboration with CAAC, and iii) Digital and Sustainable Trade Facilitation in CAREC 2021 in collaboration with UN ESCAP. With upgraded E-Learning infrastructure, CI has completed 75% of planned capacity-building programs and convened 6 additional workshops jointly with developing partners. More than 50 digital learning modules with videos, presentations and other relevant materials have been uploaded to the e-learning platform. CI's communication channels and products are expanding to further transfer the knowledge for shared regional prosperity.