



CAREC CLIMATE AND SUSTAINABILITY PROJECT PREPARATORY FUND

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CAREC CLIMATE AND SUSTAINABILITY PROJECT PREPARATORY FUND Draft Concept Paper

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ABBREVIATIONS

ADB	– Asian Development Bank
CAREC	– Central Asia Regional Economic Cooperation Program
COP26	– 26th Conference of the Parties (the United Nations Framework Convention on Climate Change)
CSPPF	– Climate and Sustainability Project Preparatory Fund
CWRD	– Central and West Asia Regional Department
DMC	– developing member country
PPP	– public–private partnership
PRC	– People's Republic of China
RCI	– regional cooperation and integration
SDG	– Sustainable Development Goals
TA	– technical assistance

NOTE

In this report, “\$” refers to US dollars.

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

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EXECUTIVE SUMMARY

This paper proposes the establishment of a multi-donor trust fund facility to support the effective preparation, development, and implementation of sustainable regional projects for the member countries of the Central Asia Regional Economic Cooperation (CAREC) Program. The multi-donor trust fund aims to enhance the capacity of CAREC countries to meet their commitment for the Paris Climate Agreement, and the Sustainable Development Goals (SDGs). The proposed facility will be administered by the Asian Development Bank (ADB) and funded by contributions from CAREC's development partners, bilateral and multilateral.

The need for regional climate and sustainability investments. Sound, high-return and investment-ready regional projects—executed through coordinated actions by more than one country, and/or providing benefits that transcend an individual member country's national borders—are crucial to addressing the growing effects of climate change, which are exacerbating existing vulnerabilities and creating new challenges across the CAREC region. These projects are needed for decarbonization and climate adaptation and mitigation, and they are essential to narrowing the large gaps in infrastructure, connectivity, social development, and public goods in the region—thus improving CAREC countries' performances on climate commitments and achievement of the SDGs.

Region's capacity in addressing climate change needs improvement. Weak project preparation capacity poses a perennial challenge across most of the developing member countries (DMCs) in the CAREC region, in identification, design, financing, and implementation of complex but impactful regional and cross-border development projects. One main challenge to achieving key national strategies for carbon reduction and climate resilience targets is public sector shortfalls in knowledge, institutions, and systems capacity to properly prepare, innovatively finance, and successfully implement regional projects focused on climate change.

Opportune time for new steps and solutions. The coronavirus disease (COVID-19) pandemic and its associated socioeconomic shocks, and recent geopolitical developments have reinforced the need for regional initiatives to build resilience against crises and address shared challenges—particularly the climate change impacts. Following the reopening from the pandemic, CAREC countries have discussed major rail and port connectivity and energy infrastructure projects that would bring regional benefits. They are also considering regional interventions relevant to their climate commitments and SDGs targets—especially those for clean air and water, climate-related disaster protection and management, and the reduction of negative spillovers.

The added benefits of regional projects. If properly prepared and financed, these regional projects will not only step up the pace of progress of CAREC countries' responses to climate and SDGs requirements, but also provide the countries—individually and collectively—with development benefits that most traditional stand-alone projects do not provide. They can give DMCs new access to international value chains and trigger economic growth through attracting new investments in the region. Participating DMC governments and institutions will gain valuable experience, exposure, and connections by interacting with a wider range of stakeholders. Regional projects are usually structured holistically; they can include secondary- and tertiary-level subprojects across multiple sectors to help participating DMCs raise their performance in meeting their climate commitment and SDGs targets.

The added complexity of regional projects. To be successful, regional projects—especially new generation projects with themes such as livable green cities, river basin development, economic corridors, rural development, and food security—require a higher level of cooperation,

preparation, and implementation on a sustainable basis. Regional projects also involve alignment and interoperability with participating DMCs' standards and practices. Gestation is longer compared with simple single country projects. Financing requires innovation including the use of complex tools and structures. The scale and distribution of benefits and costs and the potential implementation pitfalls may be less clear at the start of regional projects. Implementation may require additional interventions and scope adjustments. Thus, effective collaboration on regional projects is crucial, especially when countries are at different levels of development and have different project preparation and implementation capacities.

Insufficient external support. The existing external support globally and regionally to meet the CAREC region's project preparation capacity challenge is typically designed for single-country projects primarily, not for regional projects. Much of the existing external support covers preparation only, with a main focus on project approval. Some aid agencies still have tied assistance with financing or impose restrictions on financing to specific sectors or types of activities without targeting the various needs for regional projects. As such, such financing cannot effectively address all relevant issues including regional project identification, coordination, preparation, financing, and implementation in the CAREC region.

The proposed ADB-administered facility. The proposed facility—the CAREC Climate and Sustainability Project Preparatory Fund (CSPPF)—is designed to improve the preparation of eligible regional projects in the CAREC region and strengthen the overall project preparation capacity of CAREC DMCs. The quality of project preparation, including full start-up readiness, is a key determinant of success in ADB operations. They are also the *sine qua non* too often missing in preparing climate, SDGs, and infrastructure-oriented projects across the CAREC region. To help ensure the delivery of full and lasting outcomes and benefits of the regional projects, the CSPPF will employ a flexible array of financial modalities, including grants, reimbursable technical assistances (TAs), and direct charge mechanisms.

A unique project support approach. The CSPPF will distinguish itself from existing project preparation support facilities through its deep understanding of the diverse needs and conditions of the CAREC countries, and supporting a more comprehensive range of regional project activities. Assistance for identifying, designing, and preparing both traditional and new generation projects will be more extensive than what is usually provided by development finance institutions. The CSPPF will also advise on the innovative structuring of project financing for regional projects. The CSPPF will assist in connecting regional project proponents with potential financial sources. Support will not end with approval but will continue as needed in relevant areas throughout the whole project cycle. The facility will seek to ensure, through the project design and, possibly, further innovative financing, that the project outcomes be sustainable after project completion. CAREC country collaboration for interoperability will be promoted throughout every selected regional project, and overall CAREC regional cooperation and integration (RCI) strengthened as part of a project's implementation. Special emphasis will be placed on support for the CAREC's landlocked countries.

Alignment with CAREC Climate Change Vision to support the region's climate and sustainability goals. The CSPPF has a strong alignment with the *Regional Action on Climate Change: a Vision for CAREC* [Climate Change Vision], to be endorsed at the 22nd CAREC Ministerial Conference at the end of November 2023 in Tbilisi, Georgia. CSPPF-funded projects should support CAREC countries' national strategies on climate change, and well aligned with their commitments for the Paris Climate Agreement and the SDGs. These include climate impact, vulnerability, and risk assessments, as well as alignment with regional actions in CAREC clusters and sectors including (i) develop climate-smart agriculture system, (ii) support transition to low-

carbon energy system, (iii) reduce carbon footprint in transport, (iv) promote green trade, and (v) strengthen disaster risk management. The CSPPF will adhere to mutually agreed safeguards and ensure responsible social and environmental practices in funded projects, aligned with the national strategies of participating countries, and CAREC's sector strategies.

Management, secretariat, and funding of projects. While the CSPPF governance structure will be further discussed with the countries and prospective donors, it is proposed CSPPF will be managed by ADB and governed by a collaborative board of representatives from the contributing donor partners, and ADB as the CAREC Secretariat. The facility secretariat will evaluate project proposals to ensure they meet the eligibility requirements of the CSPPF, which are aligned with ADB's criteria for RCI operation and safeguards and standards. The CSPPF's operations will be scaled up in phases following strengthened engagement with CAREC DMCs and aim to leverage multi-billion regional project investments in the foreseeable future.

A strategic step. Establishing the CSPPF is a strategic step by ADB toward improving institutional capacities in CAREC countries for preparation, financing, and successful implementation of viable, bankable regional development projects. The CSPPF provides an important platform in delivering better solutions to the complex challenges the CAREC region confronts, and in facilitating the progress and achievements of CAREC countries to meet the climate commitments and SDGs through bridging broad infrastructure and connectivity gaps across the region.

I. INTRODUCTION

1. Wide infrastructure and connectivity gaps impose huge costs on trade, economic growth, and development potential of many developing member countries (DMCs) of the Central Asia Regional Economic Cooperation (CAREC) Program. These heavily constrain their efforts to achieve the objectives for climate change resilience, carbon reduction, and progress toward the Sustainable Development Goals (SDGs) embedded in their national strategies.
2. Weak project preparation capacity poses a perennial challenge across most of the DMCs in the CAREC region, in identification, design, financing, and implementation of complex but impactful regional and cross-border development projects. As the region confronts increasing impacts of climate change, the CAREC countries need to collectively address the climate change related challenges through undertaking regional projects to accelerate their respective national adaptation and mitigation agendas.
3. The existing external facilities for project preparation support usually do not cover broad capacity and institutional development needs for regional projects. They often target a narrow sector or a specific development activity which does not involve multisector, multifaceted activities required for projects involving more than one country and one sector. Nor are they always closely attuned to the specific context of the CAREC region and the CAREC countries.
4. This paper proposes that ADB establishes a multi-donor trust fund facility to support CAREC DMCs in preparing pipelines and developing bankable regional projects that will speed up their pursuit of climate commitments and SDGs targets. The proposed facility, administered by ADB and funded by potential donors—e.g., interested bilateral and multilateral development partners—will be a catalyst for projects that will not only narrow the region's infrastructure and connectivity gaps, but also contribute to reaching global climate and sustainability goals.

II. RATIONALE

Capacity and Financing Gaps

5. Following the reopening after the COVID-19 pandemic and amidst recent geopolitical and climate-related shocks that have impacted the region, infrastructure projects with regional benefits become more desirable among CAREC countries. Even earlier estimates of the infrastructure finance requirements of all CAREC countries for 2016–2030 stood at \$14.14 trillion or about \$943 billion a year. Importantly, when the necessary climate adjustments were taken into account, the investment needs rose to \$16.4 trillion or \$1.1 trillion per annum for all CAREC countries.¹ In 2018-2019, \$12.4 billion climate finance (from development partners including ADB) was provided to CAREC countries in ADB's Central and West Asia region, with the majority directed to Pakistan, Uzbekistan, and Kazakhstan. Representing a mere 2% of the total for the Asia and the Pacific region, climate financing for the select CAREC countries is quite insufficient compared to the projected needs outlined in their Nationally Determined Contributions (NDCs). For instance, Pakistan alone has an unconditional need of \$101 billion, and a conditional need of \$166 billion for the same period (2018-2019). Domestic public expenditures on climate-related needs as a share of national budgets also remains limited in many CAREC countries. This results in heavy reliance on international financing and the necessity for increased private sector investment to

¹ Background data from ADB. 2017. *Meeting Asia's Infrastructure Needs*. Manila.

bridge such huge funding gap. The climate vulnerabilities in the region further highlight the financing needs, especially significant in adaptation and mitigation infrastructure.

6. About half of CAREC DMCs are lower middle-income countries,² that in particular face resource and capacity constraints in identification and preparation of green, climate resilient infrastructure projects of regional nature, capable of attracting sufficient external financing. Throughout the region, there is also an insufficient ability to arrange innovative long-term financial instruments and modalities from diversified sources to finance such projects.

7. The hydropower, rail, and port infrastructure projects, and other sector initiatives with regional impacts under consideration by CAREC countries, require a high level of cooperation and collaboration among participating countries. It is more challenging to coordinate among the involved countries for new generation projects aimed at social, regional public good, environment, climate, and sustainability objectives, particularly for climate-related regional projects given CAREC countries' mixed performances on climate commitments, climate resilience, and the SDGs.

8. Persistent suboptimal project preparation has been a root cause of underfinancing and underperformance, even in traditional stand-alone CAREC single country projects. This has been a particular issue for operations with climate and SDG orientations. The problem tree in Appendix 1 illustrates the broad range of current barriers to prepare effective regional projects that the proposed facility will help to overcome.

Causes, Effects, and Future Risks of Weak Project Preparation

9. Various assessments to analyze and improve project preparations and management were undertaken in CAREC countries. They identified weaknesses in many traditional first-generation transport and energy projects in the CAREC region, including inconsistent government policies, suboptimal funding, weak safeguards and insufficient stakeholder engagement, and overlooked climate resilience and sustainability measures. Due diligence for project proposals falls short in most countries and lacks application of rigorous international standards. Often projects with weak due diligence include those meant to address climate change impacts and the SDGs.

10. Quality of project preparation has been a critical factor in the success of ADB's sovereign and nonsovereign operations. Comprehensive project preparation that includes advance actions on detailed engineering designs and other elements to ensure readiness at start-up is a common requirement for successful and timely completion of a project.³

11. Infrastructure projects, particularly regional projects, have elevated requirements on preparation capacity and adequate and appropriate financing. Infrastructure financing should be sought, negotiated, and formalized using new and innovative long-term financing instruments and different modalities, including public–private partnerships. Project financing should come from a wide variety of sources, including sovereign and private financiers and long-term institutional investors. Introducing these new instruments can help CAREC countries diversify their economies

² For the current 2023 fiscal year, low-income economies are defined as those with a gross national income (GNI) per capita, calculated using the World Bank Atlas method, of \$1,085 or less in 2021; lower middle-income economies are those with a GNI per capita between \$1,086 and \$4,255; <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>.

³ ADB's Midterm Review of Strategy 2020 Action Plan highlighted this fact and called for improved project efficiency, particularly by strengthening project readiness to reduce delays in implementation.

and expand value addition. CAREC countries' public sectors may need support to design and arrange these kinds of sustainable solutions to meet their regional infrastructure project financing needs.

12. It was estimated that public sector funding during the more accommodating pre-pandemic fiscal period was projected to cover less than half of the existing infrastructure gap.⁴ It is evident that covering the infrastructure gap, and achieving CAREC countries' climate and SDG targets, will demand a dramatic increase in private sector investment—e.g., investment that will not be forthcoming without sounder and more bankable projects, properly prepared. The dearth of private sector interest could be partly explained by insufficient government experience with, and insufficient understanding of, private investor needs, as well as by weak public sector capacity to prepare investment-ready projects that align with climate and sustainability objectives.⁵

13. The weak project preparation capacity for traditional regional projects is exacerbated by the more intense demands of new generation projects with regional spillovers. These projects are more multifaceted, complicated, and broadly themed as compared to the traditional ones. Examples of such projects include complex development of livable green cities, river basins, economic corridors, regional trade of energy generated by renewable sources, rural development, or food security. Greening and sustainability practices should be mainstreamed in new projects that seek to achieve new generation impacts at the regional level. The CAREC DMCs' achievement of their national and regional economic and climate goals will depend on whether the necessary practices are entrenched in the projects from preparation stage onward.

Falling Short on Climate Commitments and Key Sustainable Development Goals

14. Climate change inflicted disasters such as floods, droughts, heat waves, and tropical cyclones happen more frequently, leading to losses of human life, large-scale displacement, and jeopardized livelihoods. Countries in the CAREC region are heavily affected by climate change.

15. In Pakistan, the unprecedented floods in 2022 affected more than 30 million people with nearly 2,000 lives lost. In Central Asia and Caucasus, people are highly vulnerable to flooding and droughts. This puts the sizable number of workers in agriculture, fisheries, and forestry—the productive sectors considered most affected by climate change and extreme weather events—at significant risk. The climate change-inflicted threat of agricultural water stress is increasingly affecting rain-fed agriculture in northern Kazakhstan, Uzbekistan, and western Turkmenistan. In Azerbaijan and Georgia, the extreme weather events alternating between heavy rainfalls and droughts are aggravating their vulnerability to natural hazard. Flooding of urban infrastructure, soil erosion, droughts, and extreme heat have an impact on all members of society through food security and direct health impacts.

16. In the People's Republic of China, natural disasters incurred about \$47.5 billion in direct economic losses in 2019 alone, with disasters ranging from floods, typhoons, drought, earthquakes and geological disasters to forest and grassland fires, hailstorms, low temperatures, and snow disasters. Climate changes impacts (e.g., transboundary water resources management, air pollution) are often transboundary, and no national actions alone can effectively address them.

⁴ [Insert a reference to the source].

⁵ S. Ra and Z. Li. 2018. Closing the Financing Gap in Asian Infrastructure. *South Asia Working Paper Series*. No. 57. Manila: Asian Development Bank. <https://www.adb.org/sites/default/files/publication/431261/swp-057-financing-gap-asian-infrastructure.pdf>.

A regional approach can provide more effective solutions through joining efforts from all stakeholders.

17. While CAREC region includes some of the most energy-intensive economies in the world, and renewable energy sources account for less than 5% of its total capacity, there are some positive signs. CAREC has endorsed the concept of a green energy alliance which aims to provide better project preparation advisory tools.⁶ The 2021 United Nations Climate Change Conference of the Parties (COP26), where the Glasgow Climate Pact was adopted, was the first gathering at which CAREC members including Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan attended as a united region. All CAREC countries have committed to reducing **greenhouse gas emissions** by 2030.⁷ They have also developed national plans and strategies to meet their NDCs.⁸

18. To support and guide CAREC countries' implementation of climate change agenda, a *Regional Action on Climate Change: a Vision for CAREC* [Climate Change Vision] was prepared, for endorsement at the 22nd CAREC Ministerial Conference at the end of November 2023 in Tbilisi, Georgia. The Vision document highlighted the urgent needs for regional actions for climate change mitigation and adaptation in the region, and identified actions and priority sectors and areas for support, including developing climate change related pipelines and projects, and improving project preparation capacities. However, meeting the commitments, fulfilling the various plans, and implementing the CAREC Climate Change Vision will be contingent on obtaining timely international finance through soundly prepared and bankable projects. CAREC's development partners can facilitate the process through providing knowledge and expertise support.

19. The CAREC Climate Change Vision foresees that CAREC countries treat climate cooperation as complementary to and reinforcing their national climate actions, by underlining the application of a regional approach in building, maintaining, and regulating the use of infrastructure in the pursuit of CAREC's climate goals.⁹

20. Most CAREC countries are scattered toward the middle through the bottom half of the overall SDGs index.¹⁰ Climate- and biodiversity-related SDGs (12–15) are among the major challenges. Many CAREC countries lack the infrastructure and mechanisms to manage key environmental issues. The need for CAREC countries to scale up infrastructure development has been made more urgent by the delays imposed by the pandemic, which also stalled¹¹ and

⁶ https://www.carecprogram.org/uploads/CAREC_MC_2022_3_CAREC-Green-Energy-Alliance-Concept.pdf.

⁷ CAREC country greenhouse gas reduction targets have different baselines and vary by country: Azerbaijan, 40.0%; China, 65%, Georgia, 50.0%-57%; Kazakhstan, 15.0%–25.0%; the Kyrgyz Republic, 43.62%; Mongolia, 22.7%; Pakistan, 50.0%; Tajikistan, 80% to 90%, Turkmenistan, 20%, and Uzbekistan, 35.0%

⁸ Azerbaijan 2030: National Priorities for Socio-Economic Development; PRC National Strategy for Climate Change Adaptation 2035; Georgia 2030 Climate Change Strategy and Action Plan; The Development Strategy of the Republic of Kazakhstan until 2050; National Development Strategy of the Kyrgyz Republic for 2018-2040; Mongolia National Adaptation Plan; Pakistan has documents on different sectors such as Ecosystem Restoration Initiative 2019-2030, Reduced emissions from Deforestation and forest degradation 2020-2049; National Strategy for Adaptation to Climate Change of the Republic of Tajikistan for the period up to 2030; Development of the National Mitigation Plan of Turkmenistan; and Strategy on Transition of the Republic of the Republic of Uzbekistan to a Green Economy for 2019-2030.

⁹ https://www.carecprogram.org/uploads/CAREC_MC_2022_4_Climate-Change-Scoping-Study.pdf

¹⁰ Sustainable Development Report. 2022. *Rankings*. <https://dashboards.sdgindex.org/rankings>.

¹¹ J. Sachs et al. 2022. *Sustainable Development Report 2022*. Cambridge: Cambridge University Press. <https://doi.org/10.1017/9781009210058>.

sometimes reversed¹² progress toward most of the SDGs both globally and regionally. The national budgets of some CAREC DMCs do not include measures to address SDGs-flagged spillovers.

21. Infrastructure investment can both bolster overall post-pandemic economic recovery and help put countries back on track on their SDGs commitments and programs to mitigate and adapt to the effects of climate change.¹³

22. In addition to lagging performance on global commitments, some CAREC countries risk missing the opportunities to do better. Many government entities and stakeholders in the region are not well aware of the situation, particularly the need to undertake new generation projects to achieve climate and SDGs targets in the social sector and provide public and common goods. These operations can help them meet their objectives in areas such as clean air and water, and climate-related disasters protection and management where they have fallen behind. The social and public goods interventions are often donor-driven and ad hoc. They lack consistent targets and full adherence to international standards.

23. The often-diverging national priorities in some CAREC countries can weaken joint efforts among all CAREC countries to achieve their commitments under the United Nations Framework Convention on Climate Change and the Paris Agreement and the SDGs. Closer policy alignment is needed not only at the national level, but also between DMC agencies and institutions that are frequently not on the same page or not particularly motivated. More interaction and collective work on regional projects including harmonization of standards and practices are needed to fully deliver intended regional benefits.

24. The sketchy international cooperation, less than satisfactory project preparation, and lack of appropriate long-term project financing in domestic or other finance markets have widened the already large infrastructure gaps in the CAREC region and deepened its need for regional cooperation. An added obstacle arises from the hesitation by some CAREC countries, especially low-income ones, to borrow for single country projects over regional projects.¹⁴ As public finances have tightened and economies are struggling in the post-pandemic period, attracting external financing and investments for regional projects has become harder for some countries to justify.

25. The complexities of regional climate- and sustainability-focused strategic projects demand a higher level of project development and preparation expertise than traditional interventions. In terms of financial mobilization and arrangements alone, they require extended commitment and

¹² Asian Development Bank, Economic and Social Commission for Asia and the Pacific, and United Nations Development Programme. 2022. *Building Forward Together: Towards an Inclusive and Resilient Asia and the Pacific*. <https://www.undp.org/sites/g/files/zskgke326/files/migration/pacific/UNDP-RBAP-Regional-SDG-Report-Building-Forward-Together-2022.pdf>.

¹³ A 2018 study by the University of Oxford and the UN Office of Project Services found that meeting or not meeting infrastructure requirements will affect performance on up to 81% of the 169 individual SDG targets. See S. Thacker et al. 2018. *Infrastructure: Underpinning Sustainable Development*. Copenhagen: United Nations Office for Project Services. https://unops.economist.com/wp-content/uploads/2019/01/Infrastructure_underpinning_sustainable_development_EN.pdf; S.Thacker et al. 2021. *Infrastructure for Climate Action*. Copenhagen: United Nations Office for Project Services. https://content.unops.org/publications/Infrastructure-for-climate-action_EN.pdf.

¹⁴ Multilateral Development Bank Working Group on Infrastructure. 2011. *Infrastructure Action Plan: Submission to the G20 By the MDB Working Group on Infrastructure*. Washington, D.C.: World Bank Group. <https://documents1.worldbank.org/curated/en/828751468331900533/pdf/655610BR0v10Se0Official0Use0Only090.pdf>

substantial investment before they reach financial closure.¹⁵ Without professional support and advice from the identification and concept stages through design, implementation, and completion, many of these projects and the multiple socioeconomic, climate, and environmental outcomes they can provide regionally, may remain merely aspirational or delivered at greater cost with less than satisfactory results.

26. Regional strategies are likely to bear results in the long term, but when expressed through sound, properly designed and executed, projects, they lead to greater collective and material benefits for two or more participating countries—benefits often unattainable by single country projects. Other benefits from such regional projects include greater opportunities for the involved countries to link into international value chains and spur investments in their economies, or inclusion of secondary- and tertiary-level projects (for example, in energy or transport sectors) that span many sectors and cover climate action and progress toward the SDGs.

27. CAREC countries do have access to several existing multilateral and bilateral project preparation facilities available to developing countries. These include ADB's Asia Pacific Project Preparation Facility (AP3F) and its Project Readiness Improvement Trust Fund, as well as the Multilateral Cooperation Center for Development Finance Facility and the Infrastructure Project Preparation Facility of the European Bank for Reconstruction and Development.¹⁶

28. Although these facilities can cover policy development, project preparation, financing of infrastructure capital expenditures, capacity building, and advocacy, they are unlikely to match the breadth, depth, project preparation needs and special circumstances in the CAREC region.¹⁷ For example, the existing project preparation and readiness facilities tend to cover only some aspects of project development. Support often aims mainly to ensure that a large investment loan is secured, and that internal government processes meet all the project approval requirements. None is dedicated to the wide range of extensive tasks of developing projects with cross-border and regional participation, cooperation, design, and implementation needs, particularly those aligned with climate action and SDGs. Most have a clearly articulated theme or position, which is often directed only to a specific type of project.

29. Existing bilateral and multilateral project preparation funding vehicles—including the Innovative Finance Facility for Climate in Asia and the Pacific recently launched by ADB—were created in response to a funding gap and lessons learned from insufficient project preparations. ADB has learned from its own experience and project evaluations that suboptimal preparation of investment operations often results in delays, excessive costs, and reduced outcomes, efficiency, benefits, and development impact. While the current international funds potentially available to CAREC countries may not fully address or may not be sufficiently tailored to their unique regional climate and sustainability project preparation needs, the existence of these facilities underlines the fact that the preparation challenge is one that developing countries and their partners cannot afford to ignore.

¹⁵ Full benefits from regional projects sometimes require several interventions and project iterations before completion. The scale and distribution of both benefits and costs are usually less clear at the start than in other operations, and implementation pitfalls are abound.

¹⁶ CAREC countries have not made extensive use of these facilities.

¹⁷ These funds deploy a variety of instruments that include (i) grants in investment projects and technical assistance for project preparation and capacity building; (ii) loans and equity for investments; and (iii) guarantees for credit enhancement. Many are structured as trust funds and are managed by an international financial institution. The major issue they face is financial sustainability. Hence, rather than providing grants only, they are making increasing use of innovative financial mechanisms to collect interest.

30. The new facility proposed in this paper is designed to fill the current gaps across the CAREC region in preparing demanding, complex regional infrastructure and new generation projects and strengthen overall preparation, design, implementation skills and responsible governance. It will complement the existing external funding facilities. It will address the specific preparation needs and risks of the CAREC countries and the challenges they face in coordinating policies and priorities and achieving interoperability in cross-border development efforts. These regional projects can drive progress on CAREC's climate and SDGs agendas which stand-alone single country projects cannot deliver, they are also more prone and vulnerable to failings inflicted by poor preparation.

31. The proposed facility will be guided by the CAREC Climate Change vision and focus on climate resilience and sustainability. Adequate funding from participants or supporters will be raised as promptly as possible, to maintain financial sustainability throughout the facility's life. It will also attract the right human talent to manage the fund, including staff able to help evaluate proposals from CAREC DMCs and agencies and build strong linkages with project proponents. It will support strong processes, efficient governance, and the appropriate institutional structure which will be as essential for the success of the proposed trust fund.

III. THE PROPOSED FACILITY

32. ADB will establish the CAREC Climate and Sustainability Project Preparatory Fund (CSPPF) as a multi-donor trust fund facility to help address and narrow the financing gaps in achieving climate change goals of CAREC member countries through support in the preparation of bankable climate- and SDG-related regional projects for CAREC countries. This will support CAREC's members' climate change goals while ensuring regional connectivity for shared and sustainable development. ADB will administer the CSPPF, which will be funded by contributions from bilateral, multilateral, and other sources.

33. As the Asia and the Pacific's Climate Bank, ADB will take the lead in conceptualizing and configuring the CSPPF in coordination with other partners. It also reflects ADB's position and experience as the CAREC Secretariat and a major financier and coordinator of development activities in the region. ADB provided more than \$16.53 billion in loans and grants during 2001–June 2023 in the CAREC transport, energy, trade, and other sectors, out of the \$47.27 billion of investments mobilized in the region during the period.

34. ADB has strong subregional cooperation experience that will support the facility. This includes managing subregional programs including CAREC, the Greater Mekong Subregion, and the South Asia Subregional Economic Cooperation; and other multi-partner initiatives such as the ASEAN Catalytic Green Finance Facility and ADB Ventures. A leading role in creating and managing the CSPPF would add an important new string to ADB's bow in its overall strategic effort to increase and improve RCI across Asia and the Pacific.

35. Three basic approaches to the facility's structure, financing, staffing, and administration were considered (Table 1). Option 1 was to set up a new independent entity. While this would allow the most flexibility in facility design, it would be most time-consuming and cost intensive. New systems and processes would need to be developed from scratch, and specialized talent identified and recruited. Option 2—e.g., establishing the facility directly under the ADB—would give ADB the greatest control and latitude in the facility's interventions, but it would diminish countries and donors' ownership and involvement, and it would put the entire task of governance and operation on the ADB. The third and proposed option—e.g., a multi-donor trust fund—was

found to be the most effective, fit-for-purpose, and likely to meet the CAREC countries' regional project development needs.

36. The benefits of consolidating multiple donors and development partner inputs and interests, and other advantages will outweigh the disadvantages of the time needed to create the CSPPF as a multidonor trust fund facility. It will also enable the facility to leverage existing ADB mechanisms and staff in pipeline and project development, while strengthening the preparation of CAREC regional projects across multiple sub-themes. The multidonor approach to the facility will help establish financial sustainability from the start. A multidonor facility makes use of ADB's strength in convening stakeholders across the CAREC countries and can also benefit from the similar networks of development partners seeking to build stronger project preparation capacities in the region.

Table 1: Options Considered for Regional Project Preparation Facility Structure

Element	Independent Entity (Option 1)	ADB-Only Entity (Option 2)	ADB-Managed Multidonor Trust Fund (Option 3)
Framework	Newly established self-managed independent facility.	Facility funded and managed entirely by ADB.	Facility based at and administered by ADB, Funded by partner donors.
Governance and strategic decisions	Responsibilities to be decided. Possibly the responsibility of a board or governing council. A charter might set out the roles and responsibilities of participating members.	ADB's responsibility.	Assigned to a high-level governance and strategic oversight advisory group.
Secretariat	Establishment to be decided. Skill sets would be required across technical, financial, legal, liaison, and administrative functions.	To be established within ADB.	To be established within ADB and act as a facility manager.
Human resources	Recruited from market. Rules of employment would need to be developed.	ADB's existing staff and systems to be leveraged.	ADB's existing staff and systems to be leveraged. Secondments from partners.
Processes	Could be adopted from those of partner entities but would need to be drawn up from scratch.	Existing ADB processes.	ADB's processes can be adopted.
Financial Structuring	Requires establishing a new financial governance framework, with the autonomy to develop tailored investment strategies and risk management, but also necessitates independent fundraising and system development.	Relies on ADB's internal financial policies and priorities, streamlining processes and potentially limiting scale due to reliance on internal resources, but may restrict financial innovation and external financial leverage.	Benefits from ADB's established financial systems and economies of scale, leveraging ADB's credit rating for financial stability and donor confidence, while ensuring oversight and accountability.
Fund establishment costs	Higher than the two other options considered.	Born entirely by ADB.	Shared by ADB and donor partners.
Pipeline Development	Through coordination with ADB Sector Group, CAREC DMCs and DFIs.	Through ADB's existing systems.	Through closer coordination across ADB and with partners through the advisory group.
Stakeholder engagement and	Requires development of new mechanisms for	Limited to ADB's existing frameworks and networks,	Utilizes ADB's established mechanisms for

intergovernmental relations	engagement and relations. Flexibility to tailor approaches to diverse stakeholder expectations.	which may not cover all stakeholder and intergovernmental dynamics.	engagement, benefiting from existing relationships and networks.
Observations	Implementation of this option would be time- and cost-intensive. Facility processes could be set or modified per requirements more flexibly than those of the other two structures considered. Attracting talent could be a constraint.	Easier to implement but requires ADB commit resources. ADB-only option means less coordination with and participation by partners.	ADB has the resources and expertise needed to ensure successful financial management and reporting under this option. The option is easier to implement than an independent entity since no mechanism is needed to create the institutional structure.

ADB = Asian Development Bank, CAREC = Central Asia Regional Economic Cooperation, DFI = development financial institution.

Source: ADB.

37. ADB will be the trustee of the multidonor CSPPF with no financial contribution. ADB will contribute to the establishment of the CSPPF by providing TA resources to design the facility and undertake preparation activities. The establishment of the CSPPF includes identifying and coordinating with donors and development partners interested in providing financial support to strengthening the preparation of regional projects by the CAREC countries. This role makes good use of ADB's very wide experience in managing trust funds for diverse purposes and with a variety of donors and development partners. Other aspects of ADB's role will be delineated once the details of the facility's structure have been developed and finalized.

Value Addition and Differentiation

38. Sound CSPPF-supported preparation and funding arrangements for regional projects will unblock, catalyze, and accelerate the flow of global capital to help fill the wide infrastructure, socioeconomic, public good, and greening and climate change financing gaps affecting the CAREC region. The knowledge that regional projects have been soundly prepared with the facility's backing will help marshal investments not only from the standard partner multilateral and bilateral institutions, but also from multiple private, institutional, commercial, and philanthropic sources.

39. Recognizing the critical importance of NDCs in global climate efforts, the CSPPF will actively support member countries in the implementation of their NDCs. CAREC members' participation in regional projects will augment their existing policies, capacities, and cooperative efforts to achieve climate objectives and the SDGs targets.

40. A dedicated climate- and SDG-focused RCI facility will direct donor and DMC attention and resources to regional projects and other cross-border endeavors. The CSPPF will help CAREC DMCs build a pipeline of traditional and new-generation regional climate-related projects free from the design weaknesses that have often curtailed their operational success (as discussed in Section II). Better results and benefits can be achieved through innovation, appropriate use of emerging technologies, and realistic cost estimates that fully recognize the expenditure needs of long-term operation, maintenance, and sustainability of each investment project.

41. The CSPPF will improve the capacities of governments and stakeholders to develop sound and bankable regional climate-related projects. Through their full collaboration and participation in the facility-assisted preparation process, CAREC governments and agencies will

become familiar with applying green finance and sustainability principles and grow more confident, knowledgeable, and able to identify, design, prepare, and implement traditional and new generation development projects themselves. These will also support governments to develop sound projects and mobilize regional and other financing on their own.

IV. OBJECTIVES AND SCOPE

42. The proposed outputs, activities, outcome, and impacts of the CSPPF is in Appendix 1b. The facility will help CAREC countries work together in climate change mitigation and adaptation and meet their respective climate commitments. It will contribute to providing the much-needed financing for regional climate- and SDGs-oriented regional projects. The facility will specifically support the implementation of the *CAREC Climate Change Vision* of a region of sustainable development, shared prosperity, and climate resilience.

43. The CSPPF will help prepare sound regional projects with a special focus on incorporating climate resilience and sustainability measures. It will also enhance the capacity of CAREC DMCs in incorporating climate-related features in design of traditional sector projects enhanced, and innovative projects with high climate change impact in new sectors. The facility will facilitate cooperation between the CAREC member countries on regional projects, including those that address transboundary climate impacts or have climate benefits.

44. The facility will help prepare and structure sound bankable climate-related regional projects as well as support joint initiatives and programs aimed at reducing greenhouse gas emissions and developing carbon trading in the region. Projects aligned with CAREC member climate goals and SDGs commitments including those set by the United Nations Framework Convention on Climate Change and its Paris Agreement and the UN 2030 Agenda for Sustainable Development will be prioritized.

45. The facility will be flexible and adaptive in accommodating the wide diversity of country needs and priorities across the region. The choice and design of the regional projects and variety of sectors the facility supports will be carefully tailored to ensure that the unique challenges and opportunities of every member are considered. A full understanding of these individual needs and priorities, both current and evolving, will be sought through close engagement with each CAREC DMC. The facility's governance structure will guarantee all the CAREC members full input on funding decisions. The overarching aim of accelerating the region's progress on climate and SDG targets and commitments will, in addition, match the national strategies and agendas of CAREC members.

46. Subject to agreements between ADB and the participating DMCs, donor agencies and development partners, the facility will support project preparation activities including technical, financial, legal, commercial, safeguards-related, pre-feasibility, feasibility, and other project studies. Support will also be available for procurement, contracting, and quality assurance.

47. The facility will also play a direct facilitation role in fund mobilization and financial management activities for projects prepared under the facility. To ensure that such projects are positioned to secure the necessary funding, the facility will help identify and mobilize public and private capital or determine appropriate financing or co-financing arrangements. The facility will also explore the full range of financing options and assist DMCs in engaging with financial institutions. The projects will be prepared to meet all traditional banking requirements, but a flexible CSPPF toolkit will also be employed to align them with the specific criteria and needs of private financing sources.

48. Project success often greatly depends on project readiness, which is itself the product of proper project preparation. The facility will work to ensure that the regional projects it prepares are ready at start-up and thus avoid the start-up and implementation delays and cost and time overruns that often diminish the outputs, outcomes, and benefits of operations that are not. Climate resilience aspects will get special attention as well as sustainability of project outcomes and benefits, which can often be neglected at the preparation stage and undermined by a lack of post-completion operation and maintenance funding. The facility will ensure that project sustainability is properly addressed in a project's design and through innovative financing structures (including grant components) that align well with a regional undertaking's post-completion risk and cash flow profile.

49. The facility will help build adequate capacity among governments and agencies and/or private sector for non-sovereign projects for preparing regional projects where intended outcomes are still underachieved (e.g., urban and connectivity infrastructure). The staff capacity to prepare and implement traditional projects of regional importance and with climate change features will be strengthened at the CAREC member ministries and departments involved. The facility will promote consistent application of sound policies, improve the quality of development projects, enhance efficiency and risk mitigation in implementation, and compliance with environmental and social safeguards.

50. The facility will help CAREC governments and agencies embrace the need and concept of these projects and help carry them out while strengthening their capacity to take on the tasks more fully themselves. Compared with traditional stand-alone project preparation, the facility will help:

- (i) Prepare regional projects that involve higher levels of country and agency cooperation in areas such as livable green cities, river basin development, economic corridors, rural development, clean energy, eco-tourism, and food security. Facility support will include project-oriented research and development activities that align with these areas, the fostering of innovative solutions, and the exploration of financing options for projects that will contribute to sustainable growth and climate resilience.
- (ii) Increase awareness of CAREC DMCs of the challenges these complex regional projects present, as well as the opportunities they offer, particularly those available from green and climate finance sources. Maximum synergies between these new sectors and the traditional ones will be sought in regional project selection and fully developed in the preparation process with the goal of stepped-up CAREC country progress on climate commitments and the SDGs in mind.
- (iii) Prioritize collaboration on project financing arrangements with government entities, stakeholders, and institutional partners. The facility will work to ensure that the regional projects it helps prepare will make better use than similar operations have until now of structured financing; innovative finance; and risk-mitigation principals, modalities, and solutions from diversified sources.

51. The facility will work through the CAREC program's high-level Climate Change Steering Committee, the Senior Officials' Meetings, sector committees, and other platforms to ensure full and effective interaction by participating DMCs in any regional projects the facility identifies and helps prepares. One aim will be for the CAREC countries to adopt coherent priorities for regional projects. Close alignment and clearly delineated responsibilities and accountabilities between CAREC regional and country-level institutions on both regional and country-level projects will be

another. The facility will also pursue CAREC member agreement on a common set of project preparation and implementation practices and standards across the region. Support for member cooperation and coordination and strengthening cross-border alignment and interoperability in technical standards, data exchange, and other processes and procedures will continue up to a facility-supported project's completion.

52. The DMC proponents of a project seeking CSPPF preparation support will be required to commit to a climate change impact and vulnerability risk assessment and agree to incorporate any appropriate suggestions for the project's design that result. Mainstreaming this requirement for all facility project support requests will broaden access to environmentally friendly goods and services for individuals and enterprises and help equalize the burden of the transition to a low-carbon society and socially inclusive growth.

53. A project's DMC proponents will be given access to CSPPF grants for these climate impact assessments and to enhance the climate change aspects of their projects' design. The facility will also make a merit-based pool of international and national climate change experts available to support the CAREC DMCs and agencies in enhancing their capacities to respond to the multiple impacts. These approaches need to be mainstreamed by augmenting the capacity of all stakeholders, whether public or private sector, financial, or from the development industry. The solutions to the climate challenge lie in the effective, targeted use of technology, finance, knowledge, and capacity. They can involve multiple disciplines, development areas, and initiatives—building greater climate resilience in infrastructure, for example, or applying circular economy approaches in a wide range of economic sectors. They also require large amounts and multiple sources of capital and funding from DMC public resources, international financial institutions, and commercial investors through private sector bonds, banks, and public-private partnerships, and others.

54. The facility will deliver its financial support in several ways. Grants will dominate, but it will also be equipped to consider reimbursable arrangements, direct charge options, and other innovative modalities that align with the financial and revenue profiles of individual projects. This will enhance CSPPF's flexibility and enable the recirculation of facility funds for future or follow-on initiatives.

V. ELIGIBILITY CRITERIA FOR FACILITY SUPPORT

55. **Consideration for support.** The CSPPF will consider support for any regional project promoted by one or more of the CAREC DMCs, all of which are eligible to seek its assistance. The facility will fund the preparation of an eligible project, whether it is to be financed in full or in part by ADB, other development partners, or the DMCs alone.

56. **Facility definition of regional projects.** The CSPPF will consider a project regional if it meets one or more of three fundamental criteria: (i) more than one DMC has agreed to jointly

implement the project; (ii) the project has a cross-border component; and/or (iii) the project directly benefits¹⁸ users in more than one country.¹⁹

57. **Eligible proposal criteria.** Project proposals should satisfy the following requirements:

- (i) **Regional cooperation.** The project must earn a satisfactory score when measured against ADB's RCI Scorecard.²⁰
- (ii) **Safeguards.** The project must adopt agreed safeguards processes and procedures.
- (iii) **Climate mitigation and adaptation, sustainability, and prioritization.** The project must:
 - a) aid in meeting one or more of the climate commitments aligned with the targets set by the United Nations Framework Convention on Climate Change and its Paris Agreement and the principles outlined by the Intergovernmental Panel on Climate Change (IPCC) and initiatives that enhance resilience to climate change impacts. The project must demonstrate a clear alignment with and contribution to the country's NDCs, particularly focusing on adaptation and resilience for countries with unique vulnerabilities to the climate crisis. The proponents must commit to conducting a climate change impact and vulnerability risk assessment of the project and to adopting the suggestions that result as appropriate. In response to the unique vulnerabilities faced by member countries, the CSPPF will prioritize projects that address climate adaptation and resilience. Priority will be given based on the severity of climate risks, the extent of loss and damage from climate-related disasters, the size and poverty levels of the affected population, and the funding needed to mitigate climate impacts in the short, medium, and long term; or
 - b) align with global sustainability goals and the UN 2030 Agenda for Sustainable Development to be measured through an appropriate regional and global framework.
- (iv) **Strategic Conformity.** The investment project to ensue from the facility's preparation support must either be included in the CAREC sector strategy and pipeline or CAREC DMCs' own pipeline investment projects, or follow the procedures of any CAREC DMCs' development partners (including its project support systems).

58. **Detailed facility provisions to be determined by ADB and partners.** The CSPPF's specific constitutional and operational provisions will be developed and instituted upon agreement by ADB and the facility partners. An agreement will also be reached on which activities will best

¹⁸ This refers to direct benefits from the specific macro perspectives of individual countries, i.e., through greater contributions to their gross national product, increases in trade turnover and exports, greater employment generation, more poverty reduction, and increased direct and indirect fiscal revenue generation. This also refers to benefits at the project level, e.g., as indicated by its internal rate of return and net present value.

¹⁹ Regional projects are broadly defined as those that require collective efforts and actions of two or more countries to produce goods and services which are for the good of all participating countries. The definition follows from the <https://www.adb.org/sites/default/files/linked-documents/LD1-Glossary-of-Terms-and-Definitions.pdf>.

²⁰ ADB's RCI scorecard template could be used to assess the RCI eligibility of projects proposed for support. The scorecard requires that the projects score at least a "B" for all the three questions. Two or more "A" scores indicate strong RCI potential. The CSPPF could set more stringent score criteria than the ADB minimum. For example, projects might need to score at least one "A" and a minimum of "B" on all other questions to meet the lowest benchmark for potential support.

ensure the facility's relevance, make optimal use of its funds, and thus be eligible for CSPPF support. An indicative flow chart of the facility's project application process is in Appendix 2.

VI. FACILITY FEATURES

59. The proposed initial capital of the CSPPF facility is [\$5 to 10 million] to be raised from ADB's facility partners. The fund is expected to support multi-billion dollar investments in CAREC regional projects.²¹ CSPPF operations will be scaled up in phases based on uptake by the CAREC DMCs and the rate of progress in preparing the projects it supports.

60. The CSPPF will be ready to support regional projects in all CAREC clusters and priority sectors guided by the seven priority areas under the *CAREC Climate Change Vision*: (i) energy, (ii) water, (iii) agriculture, (iv) transport, transit, and trade, (v) climate-smart cities, (vi) climate-related disasters, and (vii) health, education and social protection. There will be flexibility and appropriate fund allocation in each sector to be supported depending on the DMCs priorities, based on the guidelines to be determined after the facility's establishment.

VII. CONTRIBUTIONS

61. **Eligible contributions.** The facility will accept contributions from development partners with no objection from any CAREC DMC. The contributions from sources other than bilateral or multilateral agencies will be accepted subject to the integrity due diligence (IDD) conducted in accordance with the process and procedures set out in the *ADB Operations Manual* on combating money laundering and the financing of terrorism.²² Contributions to the CSPPF from bilateral, multilateral, private sector, and other sources will all be on an untied grant basis.

62. **Contribution process.** Contributions to the CSPPF will be effected through instruments of contribution to be executed whereby the partners will agree to contribute amounts to the CSPPF substantially in accordance with the terms and conditions as set out. Contributions can also be effected through the signing of a separate contribution agreement or memorandum of understanding in accordance with the terms and conditions set out.

63. **Contribution currencies.** Contributions to the facility will be made in cash in a freely convertible currency. Contributions will be deposited into a United States dollar facility account to be specified by the CSPPF. The CSPPF will convert funds contributed to other currencies into US dollars upon receipt and deposit them in the designated facility account.

64. **Partner commitments.** Commitments by a partner to the CSPPF will not be subject to any conditions, except as provided. By depositing an instrument of contribution, the partner will be deemed to have accepted the objectives of the CSPPF and the terms and conditions set forth.

65. **Facility fund management.** Contributions will be held, administered, and invested in accordance with acceptable and reasonable conditions and practices of funding. Pending disbursements, the CSPPF may invest and reinvest contributions. Any income earned in respect of such investment and reinvestment, as well as interest accrued in respect of the designated

²¹ The preliminary estimate is about \$10 billion up to 2035.

²² ADB 2010. Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism. *Operations Manual*. OM C6/BP. Manila. See footnote 2 of OM C6/OP.

facility account (collectively, the available funds net of expenses) will be credited to the designated CSPPF account and used for the purposes of the CSPPF, including for payment of related administrative expenses. The CSPPF will make withdrawals from the facility account as necessary to meet the expenditures of its activities supported by the available funds. If other currencies are required for payment to meet eligible expenditures, the CSPPF can purchase the required currencies with the available funds. Any fees and charges relating to such purchase will be paid out of the CSPPF account.

VIII. IMPLEMENTATION

66. **Collaborative board governance.** The CSPPF will operate in a governance environment that features the close collaboration and mutual support of ADB and the participating partners. A high-level advisory board of the facility's partners and ADB will provide strategic support on the direction and operations of the CSPPF. An indicative governance structure is provided in Appendix 3.

67. **Facility management and staff.** ADB will act as CSPPF manager and process all project proposals. The CSPPF will draw upon a pool of dedicated staff with support from consultants to perform the functions assigned. The facility will have technical teams to review proposals and oversee the execution of the CSPPF-financed operations.

68. **Facility alignment with ADB policies, guidelines, and procedures.** The activities to be supported by the CSPPF will be identified, designed, processed, approved, and implemented in accordance with applicable ADB policies,²³ procedures, and guidelines, including those governing consulting services and procurement, disbursements, gender equality, social and environmental safeguards, anticorruption and governance, financial management, and reporting. The selection and engagement of consultants will follow ADB's Procurement Policy (2017, as amended from time to time). Disbursements for TA and direct charges will be in line with ADB's *Technical Assistance Disbursement Handbook* (2020, as amended from time to time).

IX. ADMINISTRATION ARRANGEMENTS

69. ADB will exercise the same care in the discharge of its functions in relation to the CSPPF as it exercises with respect to its own affairs and will have no further liability in respect of the contributions.

70. As a multidonor facility, the CSPPF will commingle all available funds in the trust facility account. The CSPPF will, in accordance with its standard procedures, maintain records and accounts that identify the contributions made and the commitments to be financed out of the available funds, including eligible activities and administrative expenses. The CSPPF will provide partners (contributors) with (i) an annual progress report that analyzes progress made toward expected results and provides the work program for the coming year; (ii) a semiannual list of projects selected for funding; and (iii) special purpose financial statements of the account, audited annually by external auditors, within 6 months after the fiscal year-end. The cost of these audits will be charged to the CSPPF.

²³ The policies, guidelines, and procedures can be modified and defined based on agreements between the Partners, ADB and DMCs.

71. ADB and the partners will hold annual consultations to review the actual progress achieved by the CSPPF and to provide strategic directions to the facility. As may be mutually agreed, an evaluation of the CSPPF will be conducted to assess its overall effectiveness, value addition, and sustainability to strengthen its impact and relevance.

72. In accordance with its standard procedures, the CSPPF will charge a service fee to cover its incremental administration, management, supervision, and operation costs. The service charge will be paid from available funds at the same time as disbursement.²⁴

73. ADB will promptly inform the contributors of any condition that interferes with, or threatens to interfere with, ADB's administration of the CSPPF.

74. Unless otherwise agreed by the contributors and ADB, the CSPPF will terminate when it declares that it has substantially disbursed the contributions and no replenishment is anticipated. At such time, except for actions necessary for winding up the activities of the CSPPF in an orderly and expeditious manner, ADB's and the partners' functions in relation to the contributions will be considered terminated.

75. Unless otherwise agreed by the contributors, upon the termination of the CSPPF and the subsequent liquidation of the respective accounts, any available funds will be returned to the individual contributors in amounts proportional to their respective total contributions. Following the facility's termination, ADB will provide the contributors and the ADB Board of Directors with a final report on the projects and activities the CSPPF supported.

76. ADB's Central West Asia Regional Department (CWRD) will be responsible for coordinating the activities undertaken by ADB's departments and offices in support of the CSPPF. The Director General, CWRD (or the Director General's designate) will be responsible for the overall interpretation and implementation of the operating principles of the facility set forth in this paper, and for ensuring that the CSPPF complies with all applicable ADB policies. CWRD will be responsible for monitoring the drawdown from the CSPPF and producing the periodic reports to be submitted to the contributors.

77. ADB's CWRD will facilitate contributions to the CSPPF and act as the official channel of communication for all financial matters related to these contributions.

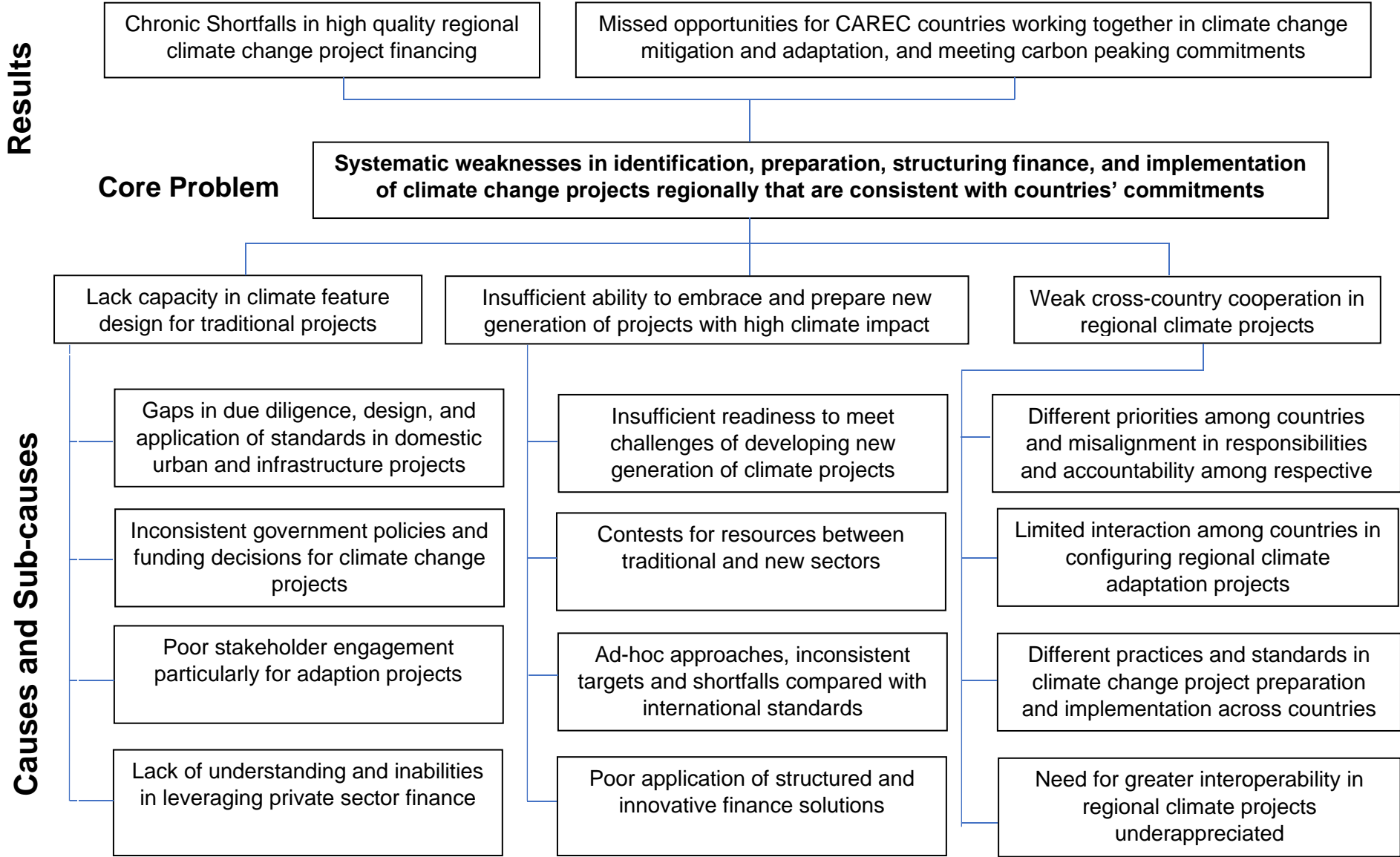
X. EVALUATION CRITERIA

78. The CSPPF's progress will be periodically reviewed to strengthen its support of the CAREC DMCs and to identify and take any corrective actions necessary. An evaluation of CSPPF performance will be conducted annually, with a major review scheduled for 5 years after the facility is established.

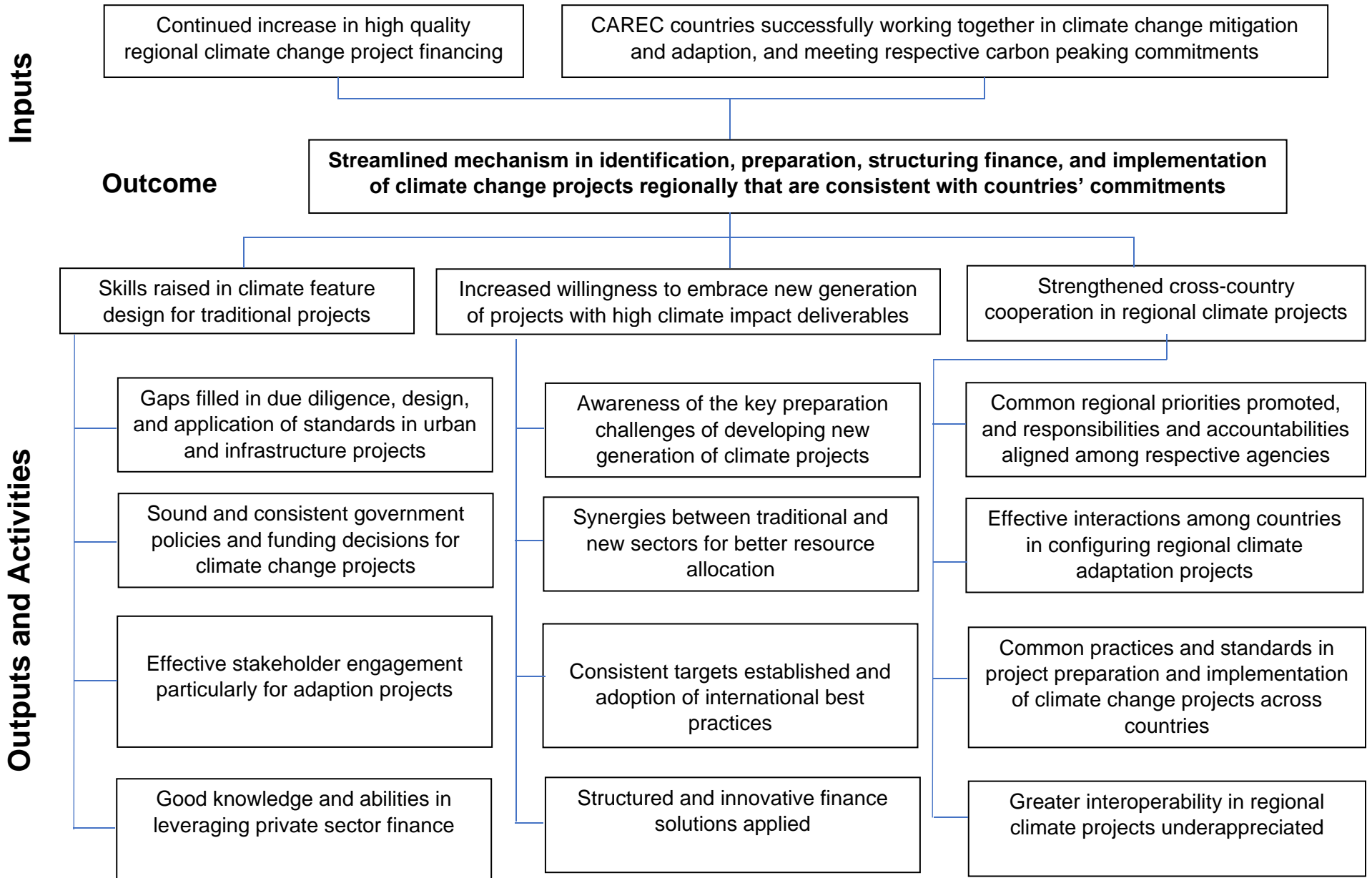
79. The performance will be measured against key indicators defined before operations begin. Such indicators could include (i) the number of projects prepared with facility support and approved for financing, (ii) the amounts disbursed in relation to the amounts approved, and (iii) the average time to process proposals. Other indicators could track the number of regional projects provided with TA support for such activities as procurement and transactions.

²⁴In accordance with ADB. 2009. *Review of the Asian Development Bank's Service Charges for the Administration of Grant Cofinancing from External Sources*. Manila (as may be amended from time to time).

Appendix 1a: Climate Change Project Preparation in CAREC Problem Tree

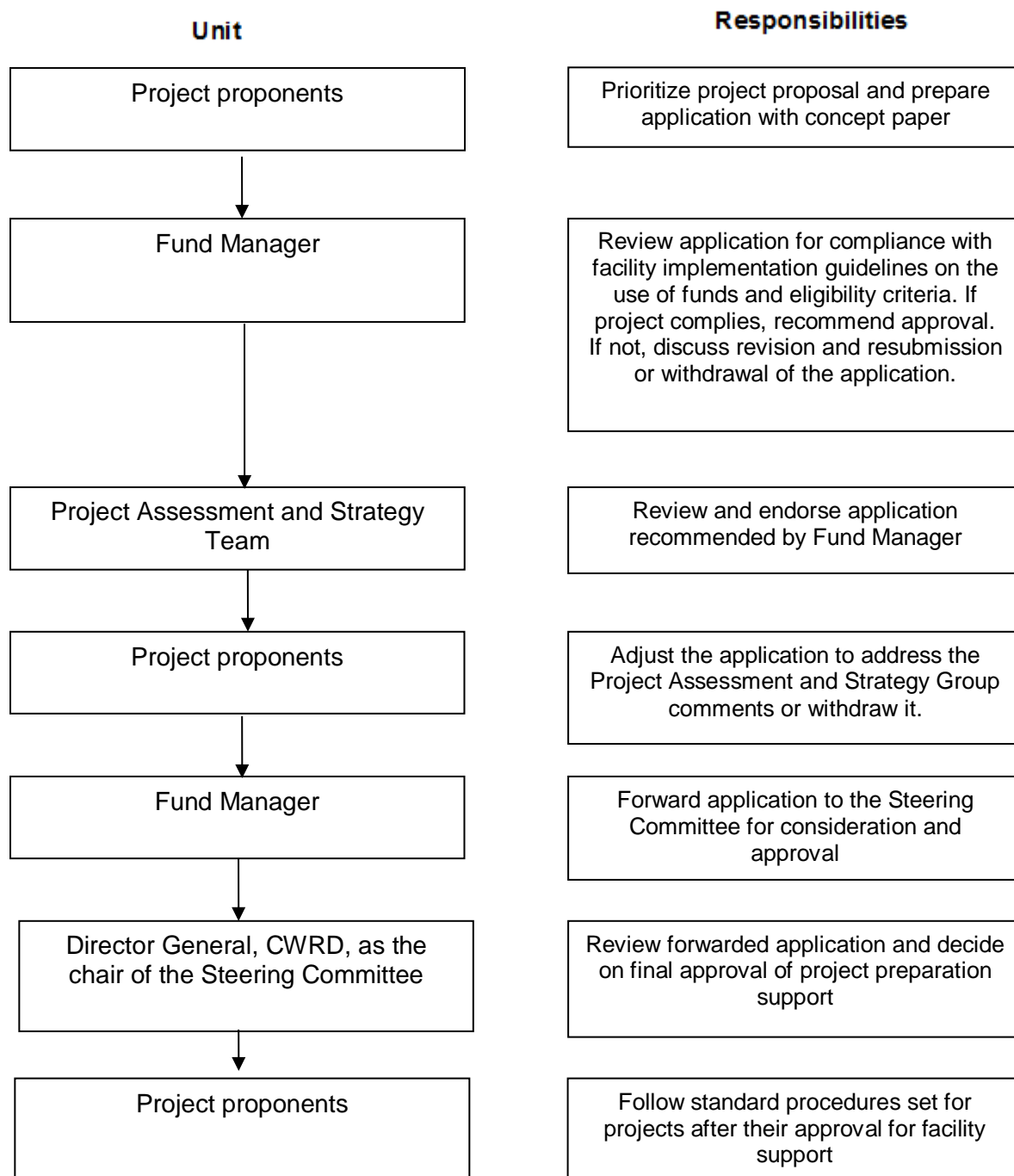


Appendix 1b: Climate Change Project Preparation in CAREC Objective Tree



APPENDIX 2

**PROPOSED REGIONAL PROJECT PREPARATION FUNDING FACILITY—
APPLICATION PROCESSING FLOW CHART**



APPENDIX 3

GOVERNANCE STRUCTURE OF THE CLIMATE AND SUSTAINABILITY PROJECT
PREPARATION FUND

Member	Responsibilities
Steering Committee	
<p>Chair: Director General, Central West Asia Regional Department (CWRD)</p> <p>1. Partner (donors) Representatives 2. CAREC DMC Representatives 3. Fund Manager 4. CAREC Secretariat</p> <p>Secretary: From the Fund Manager's Office</p>	<p>(i) Provide strategic direction to CSPPF, including alignment with climate and SDG goals</p> <p>(ii) Director General as a Chair approves upon no objection from any CAREC DMCs:</p> <p>a. CSPPF policy and procedures b. Annual Work Program and Annual Report c. Fund allocations for specific projects</p>
Project Assessment and Strategy Team	
<p>Chair: Regional Head, Operation and Coordination Division (CWOD), CWRD</p> <p>Secretariat: Fund Manager (FM) division name</p> <p>Members: Climate Specialist Transport Urban Financial Safeguards</p>	<p>(i) Review proposals for CSPPF</p> <p>(ii) Advise FM on sector or thematic strategic direction and policy for CSPPF, including how to better integrate climate and SDG considerations</p>
Fund Manager	
<p>Manager: Regional Head or a staff designated by Regional Head, Regional Cooperation and Integration Unit (CWRC), CWRD</p> <p>Assistant: Designated by Fund Manager</p>	<p>(i) Approves Direct Charges</p> <p>(ii) Serves as the Secretariat and oversee day-to-day operations of CSPPF</p> <p>(iii) Oversees review process for applications</p> <p>(iv) Reviews applications for compliance with Implementation Guidelines for use of funds and eligibility criteria</p> <p>(v) Prepares Annual Work Program, Annual Report, and progress reports</p> <p>(vi) Serves as focal point for CSPPF partners for technical matters, including climate and SDG-related queries</p>
Strategy, Policy, and Partnerships Department (SPD)	
<p>Contact: Designated by Director, Strategic Partnership Division (SPSP), SPD</p>	<p>(i) Facilitate financing partner contributions to CSPPF</p> <p>(ii) Lead negotiations with financing partners on trust fund contribution agreement</p>

Note: CTL, PPF, and OGC will facilitate processing and administration of individual projects and activities.