



Reference Document  
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# **Draft 10-year Commemorative Study Part 1 (Stock-Take) – Main Text**

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Central Asia Regional Economic Cooperation  
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October 2010

## Central Asia Regional Economic Cooperation Program: Ten Years of Cooperation

*“Good Neighbors, Good Partners, Good Prospects”*

## ABBREVIATIONS

ADB	-	Asian Development Bank
BCP	-	border crossing point
BCPSW	-	border crossing point improvement and single window
CAC DRMI	-	Central Asia and Caucasus Disaster Risk Management Initiative
CACILM	-	Central Asian Countries Initiative for Land Management
CAP	-	Comprehensive Action Plan
CAREC	-	Central Asia Regional Economic Cooperation
CCC	-	Customs Cooperation Committee
CFCFA	-	CAREC Federation of Carrier and Forwarder Associations
CMERF	-	CAREC Members Electricity Regulators' Forum
CPMM	-	Corridor Performance Measurement and Monitoring
EBRD	-	European Bank for Reconstruction and Development
ECO	-	Economic Cooperation Organization
ELDP	-	Executive Leadership Development Program
ESCC	-	Energy Sector Coordinating Committee
EurAsEC	-	Eurasian Economic Community
GDP	-	gross domestic product
ICT	-	information and communication technology
IMAR	-	Inner Mongolia Autonomous Region
IMF	-	International Monetary Fund
IsDB	-	Islamic Development Bank
ITF	-	integrated trade facilitation
JCC	-	joint customs control
MI	-	multilateral institution
MOU	-	memorandum of understanding
NFP	-	national focal point
NJC	-	national joint committee
NSW	-	national single window
OIF	-	Overall Institutional Framework
PPP	-	public-private partnership
PRC	-	People's Republic of China
PSMC	-	Public Sector Management Course
RETA	-	regional technical assistance
RJC	-	regional joint committee
SCO	-	Shanghai Cooperation Organization
SOM	-	Senior Officials' Meeting
SW	-	single window
TCD	-	time-cost-distance
TPCC	-	Trade Policy Coordinating Committee
TPSAP	-	Trade Policy Strategic Action Plan
TSCC	-	Transport Sector Coordinating Committee
TTFS	-	Transport and Trade Facilitation Strategy

- UNDP - United Nations Development Programme
- UNSPECA - United Nations' Special Programs for the Economies of Central Asia
- XUAR - Xinjiang Uygur Autonomous Region
- WTO - World Trade Organization

#### WEIGHTS AND MEASURES

km – kilometer

#### NOTE

In this report, "\$" refers to US dollars.

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## EXECUTIVE SUMMARY

CAREC will mark the first decade of implementation under its institutional framework in 2011. In preparation for the coming commemorative activities in 2011 and for CAREC's next decade, this report reviews CAREC's achievements and experiences during the last 10 years, and identifies key issues that need to be addressed in the Program. The report forms Part 1 of a two-part commemorative study for the 10<sup>th</sup> anniversary of CAREC's institutional arrangements. Part II, to commence in late 2010, will propose recommendations on future strategic directions and actions for the Program for 2011-2020.

Milestones of cooperation were identified for three distinct periods of CAREC's history. The initial period of emerging regional cooperation (1996–2001) was supported by a series of regional technical assistance (RETA) initiatives to explore the potential of cooperation among the CAREC countries. The second phase (2002–2005) was primarily about confidence building and communication among the participating countries, which led to the establishment of an informal and projects-oriented institutional framework. CAREC's current phase featuring strategic direction and focus started in 2006. During this period, CAREC countries adopted the Comprehensive Action Plan (CAP), with its emphasis on a results-based approach to projects in four priority areas: transport, trade facilitation, trade policy and energy. Following the CAP, CAREC formulated sector strategies and action plans to guide cooperation in the four priority sectors.

Since its inception, CAREC has channelled nearly \$13.2 billion worth of investments in the priority sectors. CAREC's accelerated momentum is demonstrated by the fact that 61 of the 97 CAREC-related projects were approved in 2006-2010, representing a total of \$10.5 billion in investments.

Several program-wide issues have emerged from the review. First, CAREC lacks a clear and agreed pipeline of projects that reflects regional and national priorities, and would assist with mobilizing more financing. Second, the level of country ownership of CAREC and mainstreaming regional cooperation into national development plans has varied across countries. Much of the programming has been led by the participating multilateral institutions (MIs), highlighting the need for the countries to step up and take greater ownership of CAREC. Third, while the principal of consensus has helped the countries acquire a shared vision for the region and focus their efforts on transport, trade, and energy, it has also inhibited certain projects and initiatives with regional implications from being incorporated into the regional programming. Fourth, bringing together six MIs has benefited the CAREC countries in terms of financial and technical support, but the MIs have had limited dialogue and coordination with each other outside of the sector committees. Fifth, the private sector has played only a small role in CAREC, particularly in financing projects. The establishment of the CAREC Federation of Carrier and Forwarder Associations in 2010 is an important step, but much remains to be done for a more substantive private sector involvement in CAREC.

After examining the broader CAREC achievements and issues, the report delves more deeply into sector-specific accomplishments and challenges. The linkage of transport and trade facilitation within the CAREC framework is helping to maximize the benefits of investments in roads, railways, customs modernization, and integrated trade facilitation. The CAREC countries with support of the MIs have embarked on 65 transport projects valued at over \$10 billion. The identification and upgrading of six CAREC transport corridors are providing greater access to major external markets for the import and export of goods to and from the region. The corridors are expected to have a regional multiplier effect that could triple trade flows by 2017 compared to 2007.

CAREC has made significant contributions to improving the hard infrastructure in the region. However, one of the key issues facing the Program is inadequate attention to and resources for enabling policies for trade, cross-border transit agreements, and customs modernization. It is only with these enablers that the region can gain maximum benefits from the transport infrastructure.

For trade policy, the main achievements have been several studies that identify regional barriers to trade and propose appropriate recommendations, and capacity building initiatives related to World Trade Organization (WTO) accession. Slow progress is being made, but some CAREC countries require substantial support for their liberalization programs and WTO accession processes.

In energy, CAREC's rich energy resources make the region one of the world's most important energy centers. The uneven distribution of these energy resources and seasonal variations present both opportunities and challenges for regional cooperation. CAREC provides regional and national solutions to turn these challenges into opportunities, thereby ensuring energy security and achieving economic growth. As of mid-2010, CAREC has embarked on 22 energy projects worth \$2.5 billion, or 19 percent of all CAREC investments (loans and grants). However, much more investment is needed to reduce the physical infrastructure constraints in the energy sector.

The diagnostic studies on the three pillars of the energy sector strategy and action plan of (i) energy demand and supply balance and infrastructure constraints, (ii) regional dispatch and regulatory development, and (iii) energy-water linkages have been conducted. These are helping provide the basis for shared understanding of opportunities for cooperation and action in the energy sector, including the formulation of a CAREC Power Sector Regional Master Plan and the technical and institutional baseline for an energy and water analytical and modeling framework, which is unique in its transboundary scale.

The stock take identified five strategic imperatives going forward in the next ten years of cooperation. These entail (i) developing stronger country ownership and mainstreaming CAREC into the national development agenda; (ii) establishing a balanced CAREC rolling project pipeline; (iii) mobilizing more resources for CAREC and encouraging private sector involvement; (iv) positioning CAREC vis-à-vis other regional groupings; and (v) giving more attention and resources to sector capacity building.



# CENTRAL ASIA REGIONAL ECONOMIC COOPERATION PROGRAM

## Ten Years of Cooperation—“Good Neighbors, Good Partners, Good Prospects”

### I. INTRODUCTION

1. Over the past decade, the Central Asia Regional Economic Cooperation (CAREC) program has established itself as a premier regional cooperation program bringing together eight countries. The participating countries are Afghanistan, Azerbaijan, People’s Republic of China (PRC) (represented geographically by Xinjiang Uygur Autonomous Region and Inner Mongolia Autonomous Region), Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan. Six multilateral institutions (MIs)—the Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), International Monetary Fund (IMF), Islamic Development Bank (IsDB), the United Nations Development Programme (UNDP), and the World Bank—support the CAREC program.

2. The CAREC countries need to turn their landlocked status into a land link for Eurasia, and to enable businesses to more readily access regional and global markets. By promoting and facilitating regional cooperation in the priority areas of transport, trade facilitation, trade policy, and energy, CAREC seeks to help Central Asian and neighboring countries realize their significant potential in an increasingly integrated Eurasia. The mission of the CAREC program is “development through cooperation leading to accelerated economic growth and poverty reduction.” Specifically, CAREC is assisting the countries to develop efficient multi-modal transport systems, reduce trade barriers, increase energy security and efficiency, and cooperate in addressing other regional public goods.

3. CAREC has a clear vision, and provides the building blocks for stronger, more diversified economies in the region. Overall, CAREC has established and operationalized national and regional institutions for cooperation, formulated and adopted results-oriented strategies and action plans for the Program and its priority sectors, and implemented CAREC-related projects with total investments worth \$13.2 billion.<sup>1</sup>

4. The year 2011 marks the first decade of CAREC implementation under its institutional framework (adopted in 2002) and, as CAREC partners look forward to a new decade of continued fruitful economic cooperation, it is opportune both to take stock of what CAREC has achieved and also to learn from the experience of the last 10 years.

5. This report is a stock-take of achievements made under the CAREC program during 2001-2010, which will form Part 1 of a two-part commemorative study for the 10<sup>th</sup> anniversary of CAREC’s institutional arrangements. It highlights CAREC’s overall achievements and progress in the priority sectors, and identifies strategic imperatives for future cooperation. This report has been prepared in close consultation with the CAREC countries and MIs. In addition to written feedback from the countries and MIs, the CAREC National Focal Points and sector focal points participated in subregional workshops held between August and September 2010 to discuss a preliminary draft and obtain comments and suggestions.<sup>2</sup> Part 1 will be used as a basis for the preparation of Part 2, which will

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<sup>1</sup> Early investment projects were designed prior to the formal genesis of the CAREC program and thus cannot be called “CAREC Projects”. Rather, the MI partners, together with the sector coordinating committees identified investment projects broadly aligned with the objectives of the CAREC Program and operating in CAREC territory as valuable initial pilots. The valuable information these early initiatives yielded, assisted the CAREC sector committees in assessing the onward needs and regional possibilities of later CAREC investment priorities. To-date, investments jointly financed by CAREC partners along the CAREC Corridors are referred to as ‘CAREC-related’ projects. Estimates and figures throughout this report refer consistently to ‘CAREC-related’ projects.

<sup>2</sup> The list of participants in the subregional workshops is presented in Appendix 1.

propose recommendations on future strategic directions and actions for the Program for 2011-2020. These recommendations will be anchored on the existing Comprehensive Action Plan (CAP) endorsed by the 5<sup>th</sup> CAREC Ministerial Conference in Urumqi in October 2006. Preparation of Part 2 will commence in late 2010.

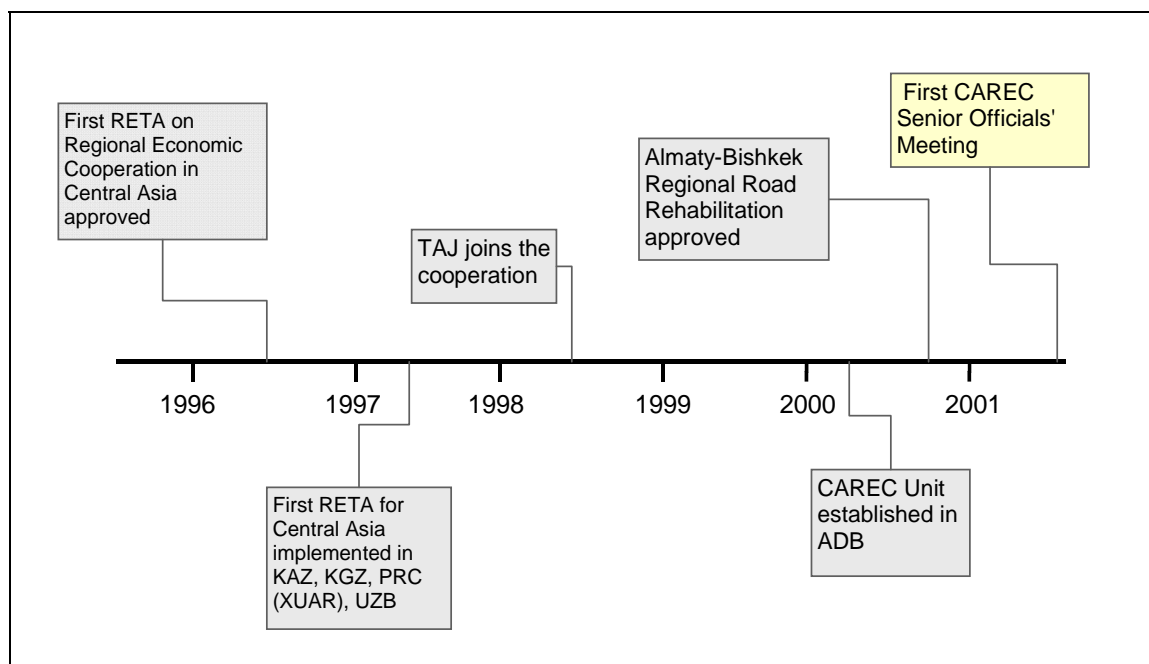
## II. MILESTONES OF COOPERATION

6. This section tracks the evolution of CAREC, which can be divided into three main periods of distinct yet related achievements. The earliest period of emerging regional cooperation (1996–2001) was followed by a distinct phase of building confidence and trust (2002–2005), which was then succeeded by a period of more robust strategic direction and focus starting in 2006 to the present. Detailed achievements in the priority sectors are provided in Section III.

### A. Emerging Regional Cooperation, 1996-2001

7. With many complementary yet disjointed economic endowments, it was vital in the mid-1990s to assist the countries in this region to maximize the potential benefits of cooperation in order to achieve greater levels of economic development. ADB facilitated the initial regional cooperation processes with a series of regional technical assistance (RETA) initiatives beginning in 1997. The major events leading to the formalization of regional cooperation in the form of the CAREC Program are illustrated in Figure 1.

**Figure 1: CAREC Timeline—Emerging Regional Cooperation, 1996-2001**



ADB = Asian Development Bank; CAREC = Central Asia Regional economic Cooperation Program; KAZ = Kazakhstan; KGZ = Kyrgyz Republic; PRC = Peoples' Republic of China; RETA = regional technical assistance; TAJ = Tajikistan; UZB = Uzbekistan; XUAR = Xinjiang Uygur Autonomous Region.

#### ▪ Importance and Potential of Regional Cooperation

8. The first ADB-supported RETA in 1996-97 for Kazakhstan, Kyrgyz Republic, Uzbekistan, and Xinjiang Uygur Autonomous Region (XUAR) helped the governments identify and prioritize development projects that would increase trade and other types of

economic cooperation.<sup>3</sup> The regional workshops for government ministries and agencies enabled the countries to exchange information, interests, and concerns related to cooperation. They also reinforced awareness of the potential mutual benefits to be gained through regional cooperation.

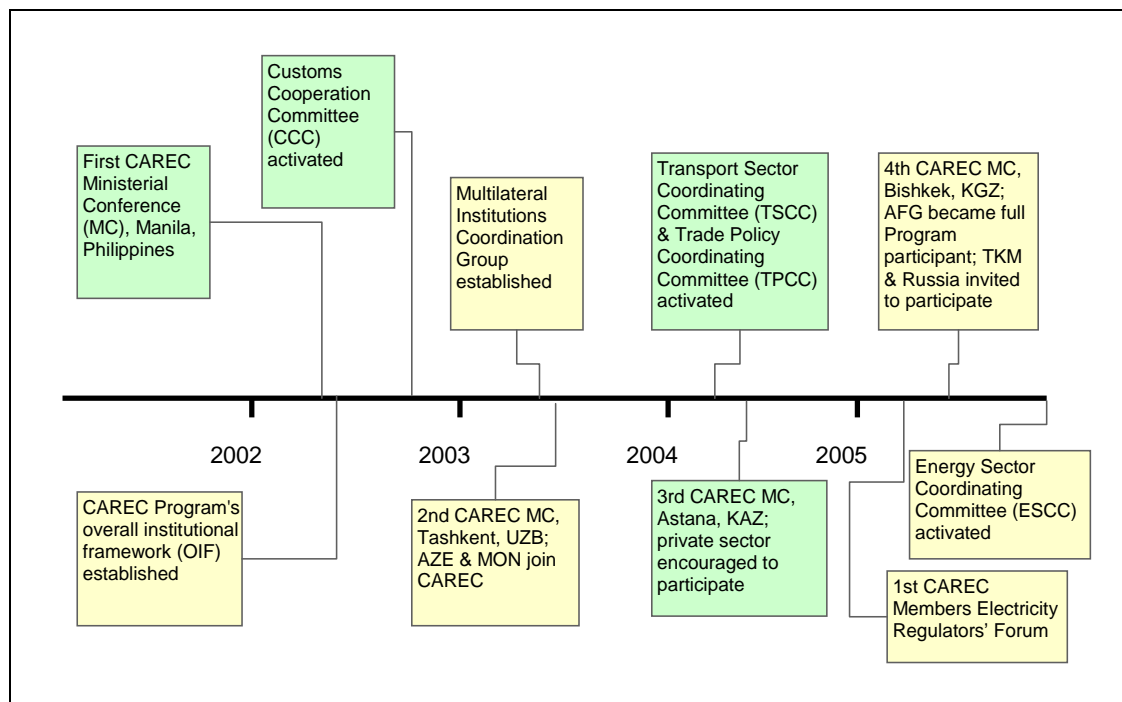
▪ **Identification of Sector Approach**

9. During this period, the countries participating in the RETA attempted to identify priority areas where cooperative action would bring mutual benefits. Diagnostic studies had found that prioritizing the development of transport and energy infrastructure would promote economic growth in the region, together with the need to improve policies and procedures, and explore alternative trade promotion, immigration, and customs clearances.

**B. Confidence and Consensus Building, 2002-2005**

10. The second phase during 2002–2005 was primarily about confidence building and communication among the participating countries, which led to the establishment of an informal and projects-oriented institutional framework. Focusing on concrete and pragmatic economic cooperation has allowed CAREC to remain flexible, responsive, and relevant as a regional cooperation mechanism. Major events during this period are summarized in Figure 2:

**Figure 2: CAREC Timeline—Confidence and Consensus Building, 2002-2005**



AFG = Afghanistan; AZE = Azerbaijan; CAREC = Central Asia Regional Economic Cooperation; CCC = Customs Cooperation Committee; ESCC = Energy Sector Coordinating Committee; KAZ = Kazakhstan; KGZ = Kyrgyz Republic; MC = ministerial conference; MON = Mongolia; OIF = overall institutional framework; TKM = Turkmenistan; TPCC = Trade Policy Coordinating Committee; TSCC = Transport Sector Coordinating Committee; UZB = Uzbekistan

<sup>3</sup> Tajikistan became involved in a subsequent RETA approved in 1998.

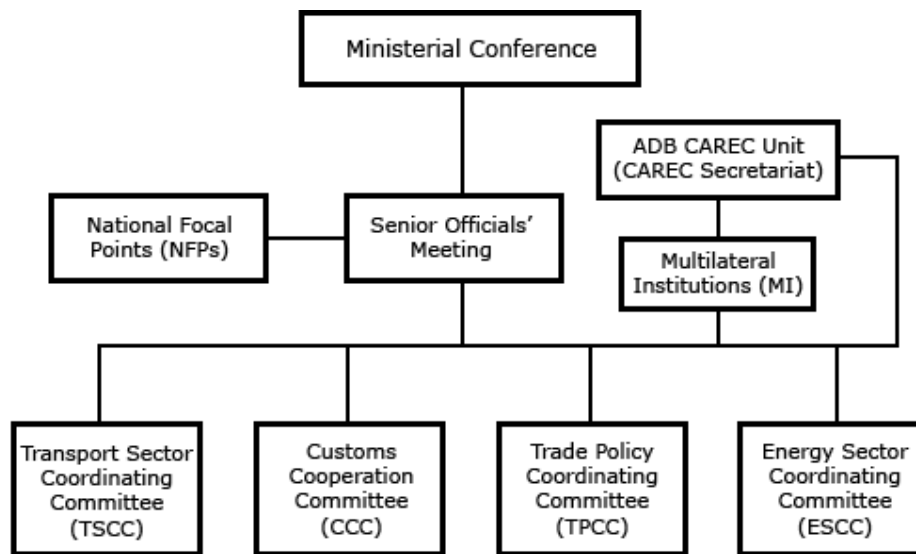
- **Consensus on Guiding Principles of CAREC**

11. One major achievement in this phase was an agreement by all participating countries on the guiding principles of cooperation. At their inaugural meeting in March 2002, CAREC Ministers agreed on the shared vision that regional economic cooperation is a means to (i) contributing positively toward poverty reduction, (ii) ensure stability, and (iii) bring prosperity to the region. Ministers advocated a practical, results-oriented approach, focusing on projects that bring tangible benefits to the region. Accordingly, transport, energy, and trade facilitation were confirmed as the priority areas of economic cooperation. Trade policy became the fourth priority sector in 2004. CAREC has since worked on the basis of consensus. Although this approach has resulted in setting the parameters for joint action, it has also prevented the conduct of certain important regional activities.

- **Flexible and Informal Institutional Arrangements**

12. The CAREC Overall Institutional Framework (OIF) (Figure 3), established in 2002, has guided the program effectively through a flexible and informal structure. The OIF has also fostered networks among senior officials and ministers. Annual Ministerial Conferences have provided strategic direction, while Senior Officials' Meetings (SOMs) have helped ensure effective program implementation. Nine Ministerial Conferences and 14 SOMs have been held since 2002 and 2001, respectively, and these have underpinned the process of trust and confidence building. The OIF has enabled a regional and strategic approach to priority sector investments through the sector coordinating committees. However, despite the recognition by the CAREC countries of the importance of regional cooperation, their ownership of the OIF, in particular, and the CAREC Program, in general, varies among them and has yet to be fully materialized.

**Figure 3: Original Institutional Structure of CAREC\***



\* Approved structure in 2002

- **Working Partnerships Between CAREC Countries and Multilateral Institutions**

13. In 2003, the six MI partners of CAREC committed to working together and use the OIF as a platform for donor coordination for the program. The MIs working with CAREC have

developed effective working partnerships with each other and with the countries to provide strategic, technical, financial, and advisory support to CAREC activities.

14. During the confidence-building phase, the CAREC countries implemented several investment projects and other initiatives jointly financed by the MIs. These early CAREC-related projects ranged from studies in the four areas of cooperation to sector strategy formulation, to training and knowledge sharing in customs modernization and trade policy, and to identification and construction of priority transport links. Project financing began to take hold in this phase.

15. During the period up to 2005, there was no formal overall strategic framework that guided the planning of CAREC-related projects. Sector priorities were determined by the relevant sector coordinating committee under guidance of the SOM and Ministerial Conference process, and aligned with MI partner financing commitments.

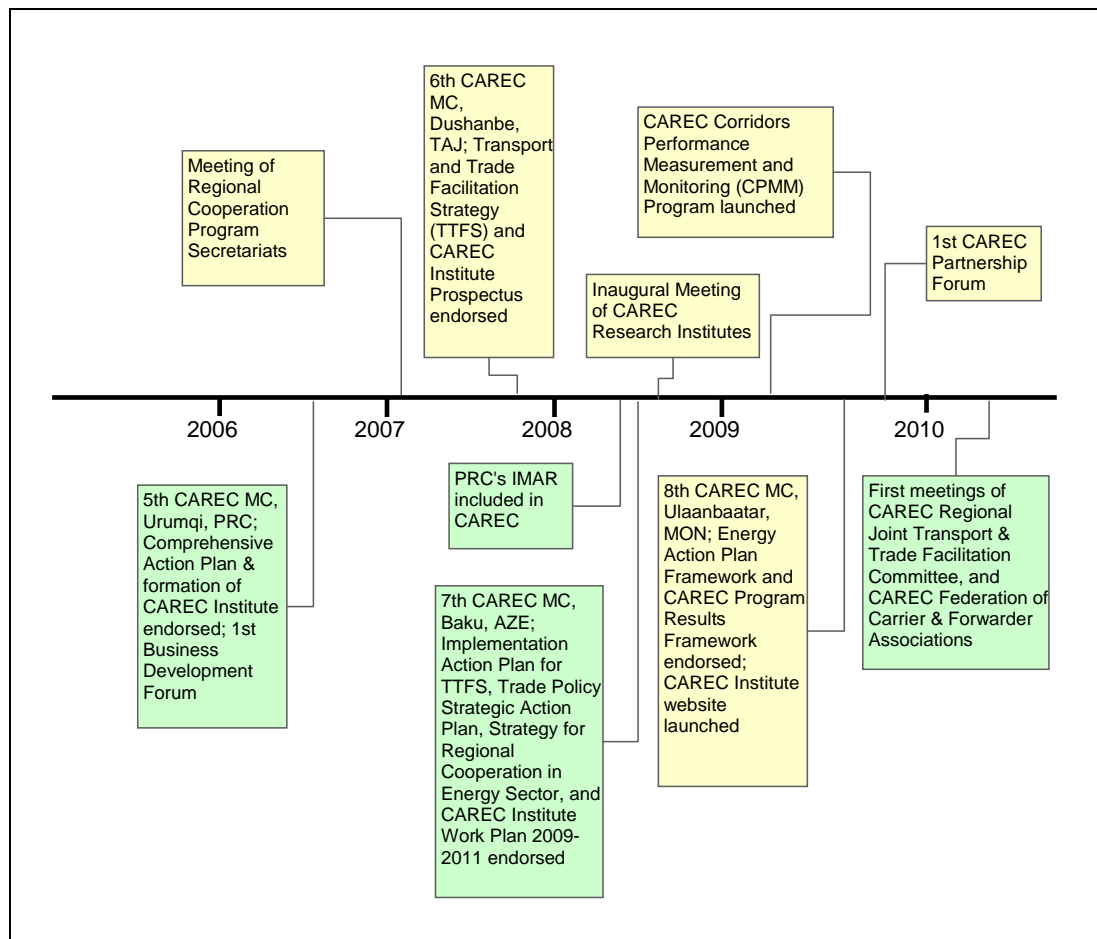
16. In incremental steps over 2002-2005, some modest achievements began to clearly highlight the potential benefits of regional economic cooperation to both the national policy makers of the CAREC countries and the partner MIs. In particular, project financing began in earnest during this phase. Several key projects with regional implications were launched, such as the Regional Trade Facilitation and Customs Cooperation Program for Kyrgyz Republic and Tajikistan; road rehabilitation between Dushanbe and the Kyrgyz border; the Aktau-Atyrau Road in Kazakhstan; the Hajigabul-Kurdamir road in Azerbaijan; and the first phase of the North-South Transmission Line project in Kazakhstan. Achievements during this phase paved the way for a more holistic, action-oriented approach in CAREC's development.

### **C. Strategic Planning and Implementation, 2006-present**

17. From 2006 to the present, CAREC's evolution centers on the Comprehensive Action Plan (CAP), with its emphasis on a results-based approach to projects in four priority areas: transport, trade facilitation, trade policy and energy. From a base of six CAREC-related projects with a combined value of \$247 million in 2001, the CAREC portfolio in 2006 grew to 43 projects with a combined value of \$3.2 billion. The program clearly required more systematic strategic planning and implementation. The outputs of project-based cooperation began to yield measurable results and, starting in 2007, CAREC experienced unprecedented growth in operations.

18. Major events during this period are summarized in Figure 4.

**Figure 4: CAREC Timeline—Strategic Planning and Implementation, 2006-present**



AZE = Azerbaijan; CAREC = Central Asia Regional Economic Cooperation Program; IMAR = Inner Mongolia Autonomous Region; MC = Ministerial Conference; MON = Mongolia; PRC = Peoples' Republic of China; TAJ = Tajikistan.

- ***Comprehensive Strategic Framework and Action Plan***

19. The 2006 CAP was a critical juncture for the program. The CAP clearly defines the scope of work; sharpens the focus in the priority sectors; and enables a substantial increase in the number and amount of investments. Moreover, the CAP articulates CAREC's long-term vision, goals, and objectives, and spells out CAREC's strategic priorities across the four areas of cooperation. Among the goals stated in the CAP are (i) improved trade and development opportunities; (ii) improved development, management, and sharing of the region's natural resources; and (iii) strengthened commitment by participating countries to regional cooperation and integration. The sector-specific objectives noted in the CAP entail: (i) greatly reduced trade barriers and impediments; (ii) efficient multi-modal transport systems networking the region; and (iii) integrated electricity markets, securing reliable low-cost services throughout the region. The CAP also enables CAREC to address other needs on a project-by-project basis in "second-tier" areas (e.g., communicable disease control, avian flu, environment, and business development) and calls for the establishment of the CAREC Institute, which became operational in 2009.

20. The CAP is a living document in terms of being flexible and open-ended in its timeframe, and can be updated to reflect new developments, issues, and interests. It emphasizes the importance of mainstreaming regional cooperation in the development plans of participating countries, as well as in the assistance programs of the MIs.

▪ **Sector Strategies and Action Plans**

21. The CAP called for the formulation of sector strategies and action plans to guide cooperation in transport, trade facilitation, energy, and trade policy. CAREC ministers endorsed a joint strategy in 2007 for the transport and trade facilitation sectors—*CAREC Transport and Trade Facilitation Strategy (TTFS)*. The six transport corridors identified under the TTFS and the subsequent action plan became CAREC's flagship initiative. Furthermore, the 2008 *Strategy for Regional Cooperation in the Energy Sector of CAREC Countries (Energy Strategy)* broke new ground as the first strategic framework for energy to be endorsed by all CAREC countries. Also in 2008, CAREC ministers endorsed the *Trade Policy Strategic Action Plan (TPSAP)*, which is helping the countries achieve a more open economy by liberalizing trade regimes and supporting accession to the World Trade Organization (WTO). The main goals of the CAREC sector strategies are laid out in Box 1.

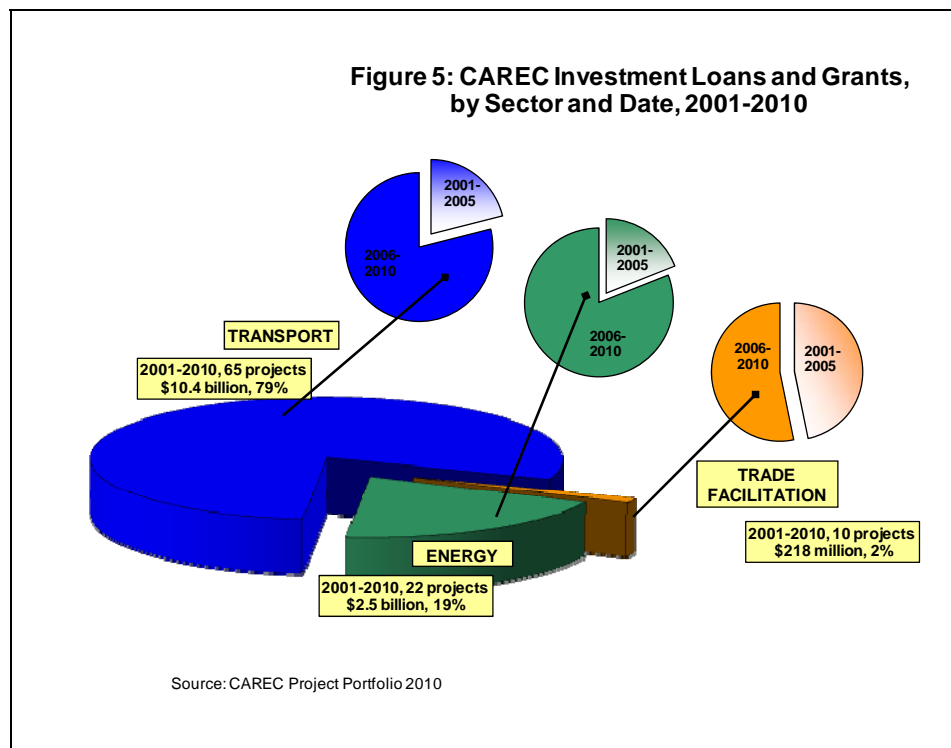
<b>Box 1: Goals of Sector Strategies and Action Plans under CAREC</b>			
	<b>Transport and Trade Facilitation Sectors</b>	<b>Energy Sector</b>	<b>Trade Policy Sector</b>
<b>Goals</b>	<ul style="list-style-type: none"> <li>Establish competitive corridors across the CAREC Region;<sup>a</sup></li> <li>Facilitate efficient movement of people and goods through CAREC corridors and across borders;</li> <li>Develop sustainable, safe, user friendly transport and trade network.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure energy security through (i) the balanced development of the region's energy infrastructure and institutions, and (ii) stronger integration of the region's energy markets;<sup>b</sup></li> <li>Promote economic growth through energy trade.</li> </ul>	<ul style="list-style-type: none"> <li>Achieve a more open economy through (i) supporting efforts to achieve WTO membership, and (ii) simplifying and liberalizing the trade regime;</li> <li>Build capacity and transfer knowledge related to trade and trade policy.</li> </ul>
<p><sup>a</sup> Six CAREC corridors have been identified: (i) CAREC 1: Europe–East Asia; (ii) CAREC 2: Mediterranean–East Asia; (iii) CAREC 3: Russian Federation–Middle East and South Asia; (iv) CAREC 4: Russian Federation–East Asia; (v) CAREC 5: East Asia–Middle East and South Asia; and (vi) CAREC 6: Europe–Middle East and South Asia.</p> <p><sup>b</sup> The energy sector regional cooperation strategy will be implemented with a focus on the following five energy corridors: (i) Central Asia–PRC; (ii) Central Asia–South Asia; (iii) Central Asia; (iv) Central Asia–Russia; and (v) Central Asia–EU.</p> <p>Source: ADB. 2008. <i>CAREC Transport and Trade Facilitation: Partnership for Prosperity</i>. Manila; ADB. 2009. <i>Strategy for Regional Cooperation in the Energy Sector of CAREC Countries</i>. Manila; and IMF. 2008. <i>Trade Policy Strategic Action Plan for the Central Asia regional Economic Cooperation Program</i>. Washington.</p>			

22. Implementation action plans were soon developed and adopted, specifying priority projects and initiatives for the short- to medium-term. Section III of this report summarizes the achievements in sectors of cooperation. In 2009-2010, an overall CAREC results framework was developed as a performance monitoring mechanism to assess achievements. Quantitative and qualitative performance indicators were developed with inputs from the sector committees. They aim to track the success of CAREC operations and activities, indicate areas for improvement, and highlight trends in results. These, notwithstanding, there remains a lack of convergence between CAREC priorities and the national development plans of member countries.

▪ **Accelerated Momentum of Project Implementation**

23. Implementation of the sector strategies and action plans is underway. Over 2006-2010, 61 of the 97 projects identified during the first decade were approved, representing a total of \$10.5 billion (out of the total CAREC-related investments of \$13.2 billion) (Figure 5). Financing for these CAREC-related projects was mobilized from the countries' own funds

(28%) and the MIs (72%). The lists of investments and technical assistance projects approved as of 2009 are presented in Appendixes 3 and 4. Transport and trade facilitation investments account for the majority of these projects and focus on the identified CAREC Corridors.



- ***Stronger Partnerships Between CAREC Countries and Multilateral Institutions***

24. Of the \$13.2 billion of investments in CAREC-related projects approved and disbursed to date, \$9.5 billion have been extended by the MIs. Of the \$9.5 billion, more than \$4.5 billion has been approved for projects where two or more MIs have collaborated with a CAREC country, indicating that the CAREC mechanism continues to help MIs collaborate more effectively. The MIs also continue to actively assist the work of the sector coordinating committees through the provision of technical and advisory support. While CAREC has brought together six key multilateral institutions under a common framework, the amount of dialogue among them and actual coordinated country programming could be much better. The MIs' interaction with each other is mainly confined to committee work and preparations for SOMs and MCs.

- ***Knowledge Sharing, Capacity Building, and Outreach through the CAREC Institute***

25. The endorsement of the virtual CAREC Institute in 2006 and commencement of its activities in 2009 has enhanced regional cooperation through capacity building, research, and outreach initiatives. Major outputs to date include:

- (i) **Capacity building.** The CAREC Institute's capacity building efforts have focused on general leadership development instead of addressing the specific needs of the priority sectors. The CAREC Institute implemented two deliveries of the Executive Leadership Development Program (ELDP) for senior executives and two deliveries of the Public Sector Management Course (PSMC) for middle-level officials. The



ELDP trained nearly 60 senior government officials in 2009 and 2010, while the PSMC trained almost 90 officials in Kazakhstan and Kyrgyz Republic in 2009. One more ELDP is scheduled for 2011, and six deliveries of the PSMC will take place between late 2010 and mid-2011. The Institute has also organized several workshops and seminars for sector coordinating committees and on public-private partnerships.

- (ii) **Research.** The CAREC Institute Research Program has resulted in (i) foundation studies for the transport and energy sectors completed or underway; (ii) issue-specific papers in response to requests from either senior CAREC officials or sector coordinating committees; and (iii) growing networks of researchers and research institutes under the Flagship Research Program and the Small Research Grants Program.
- (iii) **Outreach.** The launch of the CAREC Institute website—[www.carecinstitute.org](http://www.carecinstitute.org)—in late 2009 showcases a virtual hub for information sharing on regional cooperation, as well as an important repository for CAREC documents and related research. The website is available in both English and Russian. Additionally, collaboration with other organizations and institutions, presentations at high-level multilateral events, and the periodic publication of newsletters and policy briefs have sought to broaden understanding of the CAREC Program objectives and activities.

#### ▪ ***Involvement of the Private Sector***

26. CAREC began to encourage private sector participation in 2005, when it convened the Central-South Asia Regional Business Roundtable. The roundtable examined business opportunities and constraints faced by businesses in the region, and recommendations were made for overcoming barriers to cross-border business in the region and facilitating business participation in CAREC initiatives. This event was followed by CAREC's first Business Development Forum in 2006, where business leaders and policy makers came together to identify ways to reduce impediments to regional cooperation and development. The second CAREC Business Development Forum was held in July 2010 in Urumqi, PRC. The Forum provided a platform for candid and fruitful discussion on improving private sector participation in the CAREC Program. It raised the awareness of the private sector on opportunities in the region and in CAREC.

27. CAREC has also conducted workshops on public-private partnerships (PPPs) in selected CAREC countries. The countries recognize PPPs as an important means of mobilizing private sector capital and expertise for infrastructure investments and service provision without burdening public resources. Three PPP workshops were conducted in 2009 in Kazakhstan, Kyrgyz Republic, and Mongolia, and two were held in 2010 in Dushanbe and Tashkent. These workshops have highlighted the features of PPP deals, the advantages of PPPs, and prospective PPPs in the countries. Another important step in private sector involvement in CAREC was the establishment of the CAREC Federation of Carrier and Forwarder Associations (CFCFA) in 2009. The CFCFA is discussed in more detail in Section III.

28. To date, private sector involvement in the CAREC Program has been limited. The private sector's contribution to CAREC in terms of project financing remains minimal. Private sector financing is becoming particularly important in light of the need for accelerated project implementation.

#### **D. Key Issues**

29. While CAREC has made substantial progress in regional cooperation, several issues and challenges have been experienced in implementing the Program.

- (i) **Prioritization and convergence of regional and national strategies:** With the mobilization of billions of dollars has come the challenge of prioritizing and sequencing investments. Even after the preparation of sector strategies and action plans, regional and national priorities have generally not been well articulated. The CAREC countries and MIs lack a clear and agreed pipeline of projects that reflects regional priorities and helps identify financing gaps. A related problem is the challenge of mainstreaming the CAREC strategies and priorities into the country-based development plans and public investment programs. The convergence of regional and national priorities has occurred only to a limited degree.
- (ii) **Country ownership:** Regional cooperation was less of a priority for many CAREC countries compared to state-building following their independence in the early 1990s. Hence, it is not surprising that regional cooperation may have been driven more by the participating MIs than the countries themselves. Country ownership of CAREC, commitment to regional cooperation, and mainstreaming of regional cooperation in government have varied across the participating countries. Much of the programming has been led by the MIs, and the majority of financing of CAREC projects and activities has come from the MIs.
- (iii) **Consensus:** Overall, CAREC has worked on the principal of consensus-based decision making. While this has served the program well at times, it has also inhibited certain projects and initiatives with regional implications from being incorporated into the regional programming. In particular, energy and water initiatives are proving the most challenging to reach consensus. The different positions of the countries over some issues have slowed progress in certain sectors.
- (iv) **Dialogue and approach of MIs:** CAREC is unique in Central Asia for its approach of including the major multilateral institutions in a common framework. Also, some bilateral donor agencies have worked with the MIs under the CAREC framework. This approach has facilitated coordination among the MIs to a certain degree, but generally the MIs have had limited dialogue with each other outside of the sector coordinating committees and lack a coordinated approach to consultations with and programming for the CAREC Program.
- (v) **Private sector involvement:** Mobilizing more than \$13 billion worth of investments to date is a major success for CAREC. However, the private sector contribution to this total was minimal. Moving forward, CAREC will have to engage the private sector more systematically in order to mobilize the required technical and financial resources for the sector strategies and action plans.

### III. ACHIEVEMENTS IN SECTORS OF COOPERATION

30. This section summarizes the achievements in the sectors of cooperation, highlighting project-related accomplishments, as well as key challenges.

31. Table 1 presents an overview of investments made through CAREC-related projects and technical assistance activities in the priority sectors during 2001-2010.

**Table 1: CAREC Program Operations, 2001-2010**

Indicator	2001	2006	2010
Number of investment projects approved (loans and grants; cumulative since 2001)	6	43	96
Annual average volume of new approved investment projects (loans and grants; 3-year rolling average, \$ million)	444.5	630.8	2,862.2
Volume of approved investment projects (loans and grants; cumulative since 2001, \$ million) <sup>a</sup>	247.1	3,227.9	13,191.0
Number of technical assistance projects approved (cumulative since 2001)	3	77	153
Annual average volume of new approved technical assistance projects (3-year rolling average, \$ '000)	6,814	13,413.3	13,747.3
Volume of technical assistance projects (cumulative since 2001, \$ '000)	2,476	60,682	136,334
Number of completed technical assistance projects (cumulative since 2001)	3	64	73

<sup>a</sup> Figures include only disbursed tranches of multi-financing facility investments.

Note: Where rolling averages are used, 2001 reflects data for 2001-2003, 2006 reflects data for 2004-2006, and 2010 reflects data for 2008-2010.

Source: Central Asia Regional Economic Cooperation Program Project Portfolio.

## **Priority Sectors**

### **A. Transport and Trade Facilitation Sector**

32. At the start of cooperation in 1996, Central Asia's transport infrastructure had visible weaknesses. As the Central Asian countries and XUAR, PRC began to explore closer economic ties and trade relations, it became clear that the region's transport and trade facilitation infrastructure and policies were poorly suited to the goals of expanded cooperation. Concerted efforts by the countries were imperative to develop and upgrade key transportation corridors to meet the changing economic environment.

33. To create efficient transport and transit systems in the region and promote integration into international trade, many hurdles had to be overcome:

- (i) Poor quality physical infrastructure and high cost of maintenance;
- (ii) New national borders created bureaucratic and procedural impediments (such as the lack of border facilities and modern processes) to the movement of goods and people; and
- (iii) Mountainous terrain, prone to landslides, and high altitudes—frequently exceeding 1,000m above sea level—required significant investment and resource-intensive technical expertise to rehabilitate and maintain the road and rail networks.

34. As CAREC evolved, the need for effective cooperation that goes beyond national-based investments became apparent. Experience of implementing transport projects in the early stages of CAREC clearly demonstrated the benefits of close interaction between hard and soft infrastructure initiatives. In light of this, the Transport Sector Coordinating Committee (TSCC) and the Customs Cooperation Committee (CCC) developed a joint

Transport and Trade Facilitation Strategy (TTFS), which was subsequently endorsed by the CAREC ministers in 2007. Under a consolidated strategic approach, the benefits accruing from investment and technical assistance projects are maximized, and the joint TTFS is expected to increase CAREC's competitiveness and intra-regional and international trade.

## 1. Transport Sector

35. Success in the transport sector is most evident in physical infrastructure improvements across the CAREC road and rail networks. Since 2001, transport projects have been implemented and enhanced physical connectivity within the region. The CAREC countries with support of the MIs have embarked on 65 transport projects valued at over \$10 billion. Some of the projects approved for implementation include:

- Rehabilitation of the road between Dushanbe and the Kyrgyz border, for completing the north-south corridor linking the PRC and Russia through Mongolia, and for the South Kyrgyz Transport Corridor Road supported by an \$83 million loan from ADB;
- Rehabilitation of the Aktau-Atyrau Road in Kazakhstan and the Hajigabul-Kurdamir road in Azerbaijan assisted by EBRD loans totalling 128 million euros;
- Rehabilitation of the Ujar–Yevlakh road in Azerbaijan assisted by \$18 million worth of loans from IsDB and the Saudi Fund;
- Improvement of North-South Corridor in Afghanistan assisted by a loan and grant from ADB amounting to \$139 million;
- Improvement of the Alyat-Masally section of Azerbaijan's southern road supported by a \$200 million World Bank loan;
- Improvement of phase 1 of the Taraz-Talas-Suusamyр road in the Kyrgyz Republic assisted by a \$9.4 million IsDB loan; and
- Rehabilitation of the Western Europe-Western PRC International Transit Corridor in Kazakhstan supported by ADB, EBRD, IsDB, JICA, Kazakhstan Government, and the World Bank for over \$6.6 billion.

36. **Transport Corridors.** CAREC's adoption of a transport corridor approach represents an important step in the region's future growth prospects. The TTFS embodies a regional corridor approach which identifies the optimal routes to access major external markets for the import and export of goods to and from the region, as well as providing for increased transit of goods between external markets. Moreover, the regional corridor approach enables CAREC countries to prioritize and coordinate transport and trade investments along the major transport and trade corridors which have the highest economic development potential and returns. The anticipated transit traffic increase will enable economies of scale for transport and trade activities, which should lead to reduced travel and trade costs for businesses in the region. The corridors are expected to have a regional multiplier effect that could triple trade flows by 2017 compared to 2007 and in turn help many of the region's countries reduce their reliance on the exploitation of natural resources.

37. Following the endorsement of the TTFS and its action plan in 2007 and 2008, respectively, the TSCC has monitored the progress of the six CAREC transport corridors. This was based on earlier CAREC-related transport projects implemented as well as national transport developments in the CAREC countries. A breakdown of the progress and investments in each corridor as of August 2010 is found in Table 2. A map of CAREC corridors appears in Appendix 5.

**Table 2: Road and Railway Progress of CAREC Corridors (as of August 2010)**

CAREC Corridor	Road Network				Rail Network	
	TOTAL	Completed / Upgraded (km)	Under Construction (km)	Road Corridor Complete by End 2010 (%)	TOTAL	Completed / Upgraded (km)
1: Europe-East Asia	4,213	1,021	2,359	24	3,472	1,868
2: Mediterranean-East Asia	1,691	801	499	47	892	113
3: Russian Federation-Middle East and South Asia	1,165	503	419	43	1,021	0
4: Russian Federation-East Asia	1,461	194	554	13	179	179
5: East Asia-Middle East and South Asia	1,080	787	101	73	46	0
6: Europe-Middle East and South Asia	3,741	1,188	2,171	32	1,309	517

Source: CAREC Transport Sector Coordinating Committee. "Joint Regional Transport and Trade Facilitation Progress Report and Work Plan (November 2009–March 2010)," April 2010.

38. Some important benefits have been realized from CAREC transport corridor projects as follows:

- Improvements to the Almaty-Bishkek Highway, which cut travel time in half.
- Ongoing upgrades of the Osh-Sarytash-Irkeshdam road, which opened a new trade corridor with the PRC.
- Reconstruction of Afghanistan's ring road network, which is creating easier access to southern markets.
- Extended access to the Caucasus region and Eastern Europe through the East-West Highway Improvement Project in Azerbaijan (Box 2).
- New railway connections between Uzbekistan and Afghanistan, which will eventually link to the Afghanistan-Iran border and to Tajikistan and Pakistan (Box 3).

#### **Box 2: East-West Highway Improvement Project, Azerbaijan**

Azerbaijan's East-West Highway infrastructure improvement project, jointly funded by ADB, EBRD, EU, IsDB, Kuwait Fund, and the Saudi Fund for Development, was completed in May 2010. The project contributed to the Azerbaijan section of CAREC Corridor 2, enhancing facilities at Azerbaijan's border with Georgia, and the capacity of Azeri officers serving at the border.

The project's four components clearly demonstrated the value in aligning the hard and soft sides of infrastructure development. Improvements in physical infrastructure (rehabilitation of 127 km of Azerbaijan's primary East-West Highway, and of about 65 km of 10 local roads in the project area) were complemented by essential trade facilitation measures, including (i) support for policy reform and improved road sector governance through institutional strengthening, and (ii) facilitation of the movement of goods and people across Azerbaijan's border with Georgia. The completion of the project is expected to increase traffic and improve the quality and efficiency of transport on the East-West Highway and selected local roads.

Source: ADB. 2005. *Report and Recommendation of the President. Republic of Azerbaijan: East-West Highway Improvement*

### Box 3: Hairatan to Mazar-e-Sharif Railway (Afghanistan)

The Hairatan to Mazar-e-Sharif Railway project is the first phase of a larger rail network planned for Afghanistan, including links to Herat, Tajikistan, and Pakistan. The project will also add capacity to two CAREC transport corridors—Corridor 3 and Corridor 6—and open up alternative routes of supply for national and international trade, as well as for humanitarian relief to Afghanistan.

The project will build a 75 kilometer single line railway between Hairatan—a northern town at the border with Uzbekistan that is the gateway for almost half of Afghanistan's imports and much of its humanitarian relief goods—and Mazar-e-Sharif, the second largest city in the country. The project will also upgrade Hairatan station yard, build a trans-shipment terminal and provide institutional support to develop a railway sector plan.

To overcome past problems linked to transport projects, such as cost overruns and delays, the Afghanistan Government has entered into direct contracts with Uzbekistan Railways Company, both for the engineering, procurement and construction of the new facilities, and for their operation and maintenance. The new railway will be a de-facto extension of the company's current line from Termez in Uzbekistan to Hairatan. Involvement of an Uzbek company in the project represents a vivid sample of cooperation between two CAREC member countries.

ADB's grant covers 97% of the total project cost of \$170 million, with the Government contributing \$5 million.

Source: CAREC Institute Website, 2009. Feature cover: New Railway to Strengthen Afghanistan Regional Links

39. **Airports, seaports, and logistics centers.** To develop a truly multi-modal transport network capable of promoting interregional trade expansion, CAREC has looked beyond road and railway links to air and sea connectivity. By the end of 2010, two airports will have been constructed or expanded in Mongolia and PRC. Upgrading of Kyrgyz Republic's air traffic control system is ongoing. Two seaport expansion projects are underway in Azerbaijan and Kazakhstan, and the upgrading of Azerbaijan's shipping fleet will begin in 2010. Further support to trade facilitation will come from the construction of several freight logistics centers adjacent to airports and border crossing points in PRC, and also the establishment of an international multi-modal logistics center in Navoi, Uzbekistan (Box 4). The development of Mongolia's three free-trade zones will start in 2010.

### Box 4: Establishment of an International Multimodal Logistics Center in Navoi

A new cargo terminal was commissioned in the Navoi international airport, Uzbekistan on August 12, 2010 in cooperation with Korean Air. The project will transform the airport into an international multi-modal logistics center and an important regional hub. The center is expected to attract foreign companies involved in trans-continental air freight between Europe and Asia. The logistics center will include a cargo terminal, a fuelling complex, an air navigation center, and other relevant units. Currently the airport has one runway for large cargo aircraft. Construction of the second strip is planned. The new cargo terminal is capable of processing up to 300 tons of cargo per day (100 thousand tons per year). The terminal is equipped with six working stations for loading and unloading, 20 ton and 5 ton weights, refrigeration and freezer facilities, a heating chamber, and zones for the storage of dangerous cargoes, perishable goods and animals. The administrative building is fitted with all necessary services (customs, sanitary control, declarants, cargo transportation agents etc.).

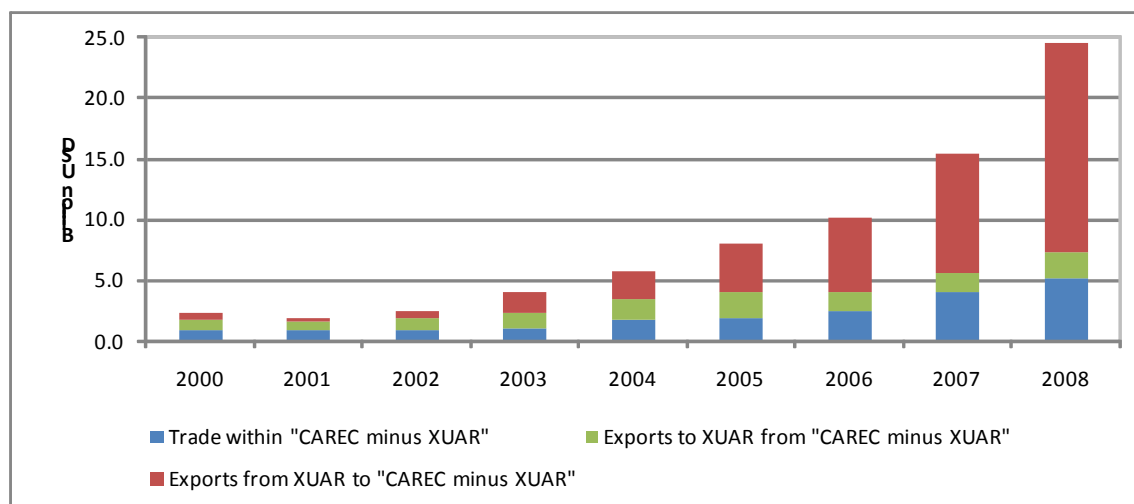
Source: Ministry of Foreign Economic Relations, Investment and Trade, Uzbekistan.

40. **Agreement on Cross-Border Transport of People, Vehicles, and Goods under CAREC.** The Cross Border Transport Agreement (CBTA) is a transport facilitation accord designed to ease the transnational movement of goods and people along the CAREC corridors, principally by allowing transport operations to cross international borders and international transit for three or more countries. The CBTA is currently being negotiated by the Kyrgyz Republic and Tajikistan for CAREC Corridor 5. It is open for accession by other CAREC countries. Although a number of bilateral land transport agreements are in place between pairs of CAREC members, the CBTA will be the first multi-country transit

agreement that will be enforced along identified transport corridors. Supplementary activities will be developed to hasten implementation of the Agreement on the border-crossing points once signed in 2011.

41. One of the most important outcomes of the improving transport infrastructure is the growth of intraregional trade in the CAREC region (Figure 6). Although other factors besides improved infrastructure also contributed to the growth in trade, intraregional trade grew nearly 13-fold between 2001 and 2008.<sup>4</sup> Among all eight countries, total trade turnover increased at an average annual rate of 43.9%. The average falls to 28.7% annually if XUAR is removed from the total, but it still represents nearly a six-fold increase from 2001 levels.

**Figure 6: Turnover of Intra-regional Trade, 2000-2008**



Source: Roman Mogilevsky, "Trends and Determinants of Intra-Regional Trade in CAREC," March 2010 (unpublished study for the CAREC Institute). Calculations were based on UN COMTRADE database and CAREC countries' national statistical sources.

**2. Trade Facilitation Sector**

42. The CAREC Trade Facilitation Program has two components: customs cooperation and integrated trade facilitation. The work program of the Customs Cooperation Committee (CCC) of CAREC, started in 2002, addresses issues in five priority areas: (i) simplification and harmonization of customs procedures and documentation, (ii) information and communication technology (ICT), customs modernization and data exchange, (iii) risk management and post-entry audit, (iv) joint customs control (JCC), and (v) regional transit development.

**Customs Cooperation**

43. **Simplification and harmonization of customs procedures.** Seminars and workshops have been organized to encourage CAREC member countries to amend laws

<sup>4</sup> Roman Mogilevsky, "Trends and Determinants of Intra-Regional Trade in CAREC," March 2010 (unpublished study for the CAREC Institute). Other factors identified by Mogilevsky include expansion of domestic demand arising from a dramatic improvement in international prices for key export commodities; the development of energy-related infrastructure, and positive political developments, which facilitated the integration of Afghanistan into the regional trading system. The discussion on trade in this section is based on Mogilevsky's manuscript.

and regulations to be compliant with international standards and best practices. A Regional Trade Facilitation and Customs Cooperation Program loan for Kyrgyz and Tajikistan are being implemented to assist these countries pursue customs reforms and improve customs infrastructure and facilities. Most CCC members have adopted new customs codes that are compliant with the revised Kyoto convention.

44. **ICT, customs modernization, and data exchange.** Training sessions and seminars have been conducted to introduce benefits of customs automation. Projects for customs modernization including development of automated information systems are in progress in the Kyrgyz Republic for the Unified Automated Information System, Tajikistan for the Single Automated Information System, and Mongolia for the Customs Automated Information System. Other CAREC countries have made significant progress as well. In Afghanistan, the ASYCUDA system is in full operation in Kabul and other major customs houses in other parts of the country; in Azerbaijan, a project that will integrate the Ministries of Agriculture, Health, Veterinary Services and Transport with e-customs has been proposed; Kazakhstan has established an Operational Administration Center and automated each step of processing at border crossing points (E-Customs/CAIS); and Uzbekistan has put in place a Unified Automated Information System for the State Customs Committee and an Automated System of Data Processing for Cargo Customs Declaration.

45. **Risk management and post-entry audit.** Most CAREC countries have issued orders and regulations to adopt risk management schemes, including Azerbaijan, Kazakhstan, and Uzbekistan. In Afghanistan, a risk management module has been integrated into the ASYCUDA system. In Mongolia and Kyrgyz Republic, new customs codes provide that customs control should be based on risk management principles.

46. **Joint customs control (JCC).** Advisory support has been provided by ADB to encourage the CAREC countries to adopt JCC. Several countries signed bilateral agreements to pilot JCCs in selected border crossing points (BCPs). Kazakhstan has on-going JCC pilots with the PRC,<sup>5</sup> and with the Kyrgyz Republic.<sup>6</sup> It has been reported that as of March 2010, 23,000 unified cargo manifests, involving cargo of 488,800 tons of goods have been used at Dulata and Jeminay BCPs (PRC) and that customs clearing time was reduced by 35%. PRC also has an on-going pilot JCC with Mongolia (Box 5).<sup>7</sup>

#### Box 5: Border Crossing Points: Peoples' Republic of China and Mongolia

Infrastructure issues are a major concern at border crossing points (BCPs) across the CAREC countries. Mongolia and PRC are devising solutions to expand the physical capacity of BCPs on the Mongolia-PRC border as part of the CAREC Program. Efforts are also underway to provide the essential infrastructure adjacent to BCPs to relieve congestion and support the trans-shipment and storage needs of shippers. Equally important are related measures to reduce the administrative burden on shippers imposed by government agencies to submit identical international trade data via multiple forms.

Building upon the achievements of an ADB-supported Customs Modernization Project, the Mongolian Authorities are working within the context of a broader CAREC initiative to develop a single electronic window system that will minimize the demand for information and provide access to a proposed regional single window platform. The PRC is also involved in this initiative.

Customs cooperation initiatives under the CAREC framework also augmented the Mongolian-PRC customs cooperation program. A pilot test of Mongolia-PRC joint customs control was officially launched on 15 December 2009 following the signing of an MOU to harmonize cargo manifests.

Source, ADB, 2010, Knowledge showcase. *Bilateral dimension of the CAREC Trade Facilitation Agenda: Spotlight on Mongolia and the People's Republic of China.*

<sup>5</sup> At Kalzhat (KAZ) - Dulata (PRC) BCPs, Maykapshagay (KAZ) - Jeminay (PRC) BCPs and Dostyk (KAZ) - Alataw shankou (PRC) BCPs.

<sup>6</sup> At Aisha Bibi (KAZ) - Chon Kapka (KGZ) BCPs and Korday (KAZ) - Akjol (KGZ) BCPs.

<sup>7</sup> At Zamyn Uud (MON) - Erenhot (PRC) BCPs.



47. **Regional transit development.** In February 2008 the customs committees of the Kyrgyz Republic and Kazakhstan signed a protocol on applying a common technology for moving supportive documents for goods in plastic safe packets between adjacent crossing points at the Kyrgyz-Kazakh border. This is the first agreement of its kind between CAREC countries. In 2009 ADB signed a memorandum of understanding (MOU) with Kyrgyz Customs to pilot the “safe packet” transit system in Akjol (Kyrgyz Republic)-Korday (Kazakhstan) BCPs. The Kyrgyz Republic has modified the safe packet envelope, extended the pilot to two other BCPs<sup>8</sup> and drafted legislation to use the safe packet system nationwide.

### ***Integrated Trade Facilitation***

48. The integrated trade facilitation (ITF) program started in 2007 and focuses on (i) corridor performance measurement and monitoring (CPMM), (ii) single window development; (iii) establishment of the Regional Joint Transport and Trade Facilitation Committee (RJC) and national joint transport and trade facilitation committees (NJC), (iv) trade logistics development; (v) private sector participation; and (vi) capacity building framework to enhance skills and capacity in promoting and implementing trade facilitation strategies.

49. **Corridor Performance Measurement and Monitoring Project (CPMM).** CPMM is being implemented with the collaboration of 14 partner carrier and freight forwarder associations in the eight CAREC countries. Each partner association submits observations in time-cost-distance (TCD) data sheets for analysis. Preliminary results identified border crossing points as major bottlenecks, particularly the long waiting time to cross the borders (Box 6). Significant portions of delays are due to poor physical infrastructure, poor use of ICT, and inadequate logistics facilities.

#### **Box 6: CAREC Corridor Performance Measurement and Monitoring Project**

The development of the Corridor Performance Measurement and Monitoring (CPMM) Project is one of CAREC's most concrete and practical products. Designed to facilitate transport and trade facilitation implementation, it indicates through quarterly reporting the critical problems and root causes to be addressed to ensure optimal benefits in the development of the CAREC corridors.

The CPMM has shown that, for a typical 500 km journey by a 20 ton truck, more than three quarters of the total stopping time, or 25 hours, occurs at border crossing points. Out of the 25 hours, more than 18 hours are spent waiting for the start of border crossing formalities.

Source: ADB. *Central Asia Regional Economic Cooperation Transport and Trade Facilitation: Border Crossing Point Improvement and Single Window Development (Concept Paper)*. 2010

50. **Single Window (SW) Development.** CAREC has been actively promoting the adoption of the SW scheme. Several technical workshops have been organized to introduce concepts and international best practices on SW development. Azerbaijan, Kyrgyzstan and Tajikistan have introduced legislation and various decrees to enable them to implement SW schemes, while other CAREC countries are in various stages of introducing similar legislative reforms to introduce and implement national SW programs. A regional investment project on CAREC Border Crossing Point Improvement and Single Window Development (BCPSW) is under preparation by ADB to improve the infrastructure and facilities at border crossing points and support development of national SW and a regional platform for the networking of the national SWs.

<sup>8</sup> Aktilek - Karasuu and Chaldovar – Novovkresenovka BCPs.

51. **National Joint Committees (NJC) for Trade Facilitation.** The TTFS and Action Plan recommended the establishment of NJCs in each country, comprising representatives from national border control agencies and an RJC, comprising representatives of NJCs, to provide regional leadership in coordinating the implementation of the TTFS Action Plan as well as to address issues of common interest pertaining to the removal of barriers to trade and transport in the CAREC region. All CAREC countries have established NJCs or similar coordination mechanisms. The NJCs play a critical role in implementing trade facilitation measures at the national level for CAREC countries. As each country gathers the numerous relevant agencies under the umbrella of its NJC, CAREC supports and strengthens this process, thus providing a mechanism for the NJCs to work more closely with each other and consider regional dimensions of their evolving function.

52. **The CAREC Federation of Carrier and Forwarder Associations (CFCFA).** CFCFA has brought the private sector's voice and perspective into the region's trade facilitation process (Box 7). The CFCFA's mandate is to facilitate transport, trade, and logistics development, and advance the interest of the road carriers, freight forwarders and logistics providers.

**Box 7: Private Sector Engagement in Trade Facilitation Initiatives under CAREC**

Successful implementation of the TTFS requires active regional cooperative efforts that would ensure optimal participation of all stakeholders, particularly public-private sector collaboration. In 2009, at the initiative of national carrier, freight forwarder and logistics associations and with CAREC support, the CAREC Federation of Carrier and Forwarder Associations (CFCFA) was established as a non-government and non-profit organization. CFCFA is one of the first regularly active private sector associations established under the CAREC Program.

The CFCFA serves as:

- an instrument of public-private partnership expansion for developing transport and logistics in the region;
- a cooperation mechanism for the CAREC region's national associations to solve topical issues; and
- a mechanism for implementing and initiating new projects in CAREC.

CFCFA is officially registered in Kyrgyz Republic. Comprising 17 forwarder and logistics associations from all CAREC countries, CFCFA is expected to play an active role in the implementation of TTFS by providing critical feedback to government and real market information that should be helpful in formulating policies and programs. The members of CFCFA are also encouraged to contribute to their respective National Joint Transport and Trade Facilitation Committee (NJC).

Source: ADB Publication 2009: CAREC Federation of Carrier and Forwarder Association

53. **Capacity building.** Many seminars, workshops and technical training on the customs priority areas and special topics on trade facilitation have been organized over the past nine years for the CAREC countries. In early 2009, an assessment of the training needs of customs, trade logistics and transport sectors was conducted. Twinning arrangements are planned with centers of excellence in developed economies to upgrade and enhance local institutions' capacities in delivering capacity building programs.

### Issues in Transport and Trade Facilitation

54. The transport and trade facilitation sector has made significant progress in terms of physical outputs and institutional processes over the past decade of the CAREC Program. Looking ahead, areas to consider in this sector include:

- (i) CAREC has made numerous contributions to improving the hard infrastructure in the region, such as roads and railways. To complement the accomplishments in hard infrastructure and make full use of them, CAREC will need to devote much more

- attention and resources to enabling policies for trade, cross-border transit agreements, and regional trade strategies.
- (ii) The rapidly deteriorating surface condition of CAREC road networks due to extreme climate conditions, as well as overuse by over-loaded vehicles. Maintaining improvements in physical infrastructure will be challenging yet essential to ensure sustainability. As called for in the TTF strategy, sustainable road maintenance is needed and for this to happen, innovative financing mechanisms based on fair and balanced user-pay principles will have to be explored.
  - (iii) NJCs are critical for the effective coordination and implementation of CAREC transport and trade facilitation initiatives at the national level. As such, consistent and supportive measures are needed to revitalize and strengthen the NJCs.
  - (iv) The need for CAREC TTF bodies to adopt concrete yet flexible work plans to accommodate issues arising from the emerging trade, transit, customs union and other agreements made by CAREC countries with non-CAREC countries. The countries should continue to share information on their respective initiatives outside of the CAREC framework that have implications for CAREC, and also identify solutions to avoid delays in fulfilling commitments under the TTFS.
  - (v) Accelerating implementation of the TTFS requires more resource mobilization from the governments, multilateral institutions, bilateral donors, and the private sector. More streamlined and efficient processes for mobilizing financing and initiating projects by the governments and development partners would also contribute to the successful implementation of TTFS.
  - (vi) Adequate human resources are required for ensuring effective implementation of the TTFS and sustainability. A systematic capacity building program needs to be developed.

## **B. Trade Policy Sector**

55. The collapse of former Soviet markets and the introduction of market reforms severely disrupted trade within the region. Demand fell sharply for imported items due to high prices, while the decline in domestic output meant there were few exportable items from Central Asia. The Central Asian countries had very similar trade policy regimes at the time of their independence, but these had diverged significantly by the mid-1990s. By then, tariffs in the region had been reduced and were not a major barrier to trade, although frequent changes to tariff schedules were problematic. Instead, the main barriers were non-tariff, such as licensing, quantitative restrictions, registration of contracts, and weak payment systems that impeded inter-state trade. Other constraints included restrictions on cross-border movements of people and transport equipment, restrictions on access to foreign exchange, deficient transport networks, and geographic barriers that led to high transport costs and long, unpredictable transit times.

56. The trade policy sector differs from the other CAREC sectors in that its focus is exclusively on policies, not projects. The Trade Policy Coordinating Committee (TPCC) is mandated to address trade simplification and liberalization for CAREC in the context of World Trade Organization (WTO) membership. As such, achievements in this sector are seen most clearly in (i) identification by the TPCC of regional barriers to trade and development of appropriate recommendations, and (ii) capacity-building and information-sharing initiatives with a primary focus on WTO accession for all CAREC countries.

57. **Studies and awareness raising.** The TPCC's early assessments of the region's trade regimes produced more than a dozen studies on a wide range of issues such as trade barriers, comparative advantage in international trade, barriers to transit trade, trade taxes, border trade, and regional trade integration. Another study on the institutional environment for trade is ongoing. These background studies have been instrumental in identifying problem areas and generating recommendations to the senior officials and ministers that will

help remove barriers to trade in the CAREC region, avoid conflict with WTO accession, and create a more open trade environment. A series of IMF- and ADB-initiated outreach seminars in each CAREC country in 2006 were held to discuss the analytical work done for the TPCC and the implications of these findings for CAREC.

58. **Recommendations to reduce trade barriers.** The TPCC has proposed recommendations to improve the trade conditions in the region, based on the findings of its studies. The TPCC continues to monitor the implementation of recommendations to reduce barriers to trade endorsed by the ministers. For instance, the TPCC has reported on the reciprocity arrangements for issuing visas and reducing the cost of visas for drivers in Afghanistan, PRC, and Tajikistan. It also kept the CAREC senior officials and ministers abreast of the agreement signed between Kazakhstan and Uzbekistan that eliminated the system of entry permits for operators carrying shipments to third countries.

59. **Training and information sharing.** Priority is given to improving capacities related to WTO accession and monitoring of TPSAP performance indicators. While most WTO-related capacity building is carried out at the bilateral level, CAREC provides a unique regional platform for this type of activity and the opportunity to share the experiences of CAREC countries that are already WTO members. Mini-seminars on selected WTO topics have been delivered by the World Bank and country resource persons at TPCC meetings, including one on PRC's WTO accession experience and lessons learned for non-WTO members of CAREC. The TPCC is currently developing a two-year program that will bring together the relevant trade officials to exchange knowledge and experiences about the accession process, accession strategies, the impact of WTO, and special needs for technical training.

60. The regional knowledge forums and the joint monitoring of the implementation of the TPSAP have been useful in helping CAREC move toward many of its goals and targets in trade.

### **Issues under Trade Policy**

61. Some of the key issues and challenges facing the trade policy sector are the following:

- Policy reforms based on recommendations from the TPCC have progressed slowly. Regional gains will only be made if each country commits to a liberalization program consistent with international norms and with a clear timetable.
- Some of the CAREC countries will need substantial support if they are to become WTO members by 2013, as stated in the TPSAP.
- The commencement of the customs union between Kazakhstan and the Russian Federation is likely to have implications for the other CAREC countries. To date, the implications have not been studied, and this could constitute a new priority study for the TPCC.

### **C. Energy Sector**

62. The CAREC region is endowed with significant energy resources, including renewable sources, such as hydropower. The uneven distribution of these energy resources and seasonal variations present both opportunities and challenges for regional cooperation. Other potential factors for energy cooperation include the region's inadequate energy-related infrastructure, a shared electricity grid, a need for legal and regulatory reforms, and complex issues linking energy and water management. The region's economic growth depends to a large extent on resolving the challenges in the energy sector. Winter electricity deficits in the Kyrgyz Republic and Tajikistan continue to impede their economic development and impose

social costs, while downstream countries could be affected by power development upstream, with analogous economic and social implications.

63. Given the challenges faced by the energy sector and the need to seek innovative solutions through compromise and cooperation, CAREC has supported the development of regional and national best solutions to turn these challenges into opportunities, thereby ensuring energy security and achieving economic growth. As of mid-2010, CAREC has embarked on 22 energy projects worth \$2.5 billion. The energy sector accounts for 19 percent of all CAREC investments (loans and grants).

64. **Endorsement of Energy Sector Strategy and Action Plan Framework.** In 2005, CAREC established the Energy Sector Coordinating Committee (ESCC) as a high-level regional energy forum that brings together the CAREC countries and international financial institutions. Extensive cooperation on the part of the ESCC led to the CAREC Ministers endorsement in 2008 of the ground-breaking "Strategy for Regional Cooperation in the Energy Sector of CAREC Countries" (the Energy Strategy). The Energy Strategy represents the first time all CAREC countries have subscribed to a mutual framework for cooperation in energy, and it has established a robust foundation for future developments in this vital and complex sector. The strategy seeks to develop best solutions to meet future energy demand and promote development of new energy resources for the region and for exports by exploiting the potential for mutually beneficial gains among the participating countries.

65. To guide implementation of the Energy Strategy, CAREC formulated the Energy Action Plan Framework in 2009 (Energy Action Plan), with a focus on the three pillars of (i) energy demand and supply balance and infrastructure constraints, (ii) regional dispatch and regulatory development, and (iii) energy-water linkages. The Action Plan, which is a work in progress, will explore opportunities for regional integration through power development, with assessments for bulk management of oil, gas, and coal resources. It will cover investments, knowledge and capacity building, and policy development.

66. **Projects with regional impact.** Energy sector projects aim to improve energy security, efficiency, and trade on an intraregional and eventually inter-regional basis. Most CAREC-related energy projects are aimed at expanding bilateral electricity trade and improving the regional power network. Since January 2009, over 100 megawatts of imported power from Uzbekistan are being supplied to Kabul, providing many of the city's 4 million people with up to 24 hour electricity for the first time in decades. The Afghanistan-Tajikistan interconnection project, due for completion in early 2011, will allow a further 300 megawatts of Tajikistan's summer surplus power to be delivered to Afghanistan (Box 8). The feasibility study for the CASA 1000 project to export electricity from Kyrgyz Republic and Tajikistan to Pakistan and Afghanistan is being updated and will be available by October 2010.

**Box 8: Bringing Power to Afghanistan from Uzbekistan and Tajikistan**

For nearly three decades, the availability of secure energy supplies in Afghanistan was significantly disrupted by conflict, yet in January 2009, electricity began to flow into Kabul along a newly-constructed transmission line running from Uzbekistan. For the first time in more than a generation, the majority of the capital's 4 million people can now enjoy the benefits of long term availability of power. The ADB-supported Emergency Infrastructure Rehabilitation and Reconstruction Project—completed in 2009—constructed 241 km of double-circuit 220 kV transmission lines from Pul-e-Khumri, north of Kabul, to the border with Uzbekistan, and the Naibabad Switching Station, at a total investment for the power component of about \$40 million. The World Bank-supported \$105 million Emergency Power Rehabilitation Project funded an Optical Ground Wire network from Pul-e-Khumari to Kabul, new 110 kV lines, and rehabilitation of 110 kV switchyards and medium voltage network to deliver power to ultimate consumers. Other donors such as KfW, India have also supported this project.

The ADB-supported ongoing Regional Power Transmission Interconnection Project for Afghanistan and Tajikistan will likewise restore and increase power supply to the North-East Power System in Afghanistan. At the same time as reducing costs for consumers in Afghanistan, the Project will increase potential power export and income generation capacity for Tajikistan.

Sources: ADB. 2003. *Report and Recommendation of the President to the Board of Directors. Emergency Infrastructure Rehabilitation and Reconstruction Project*, Manila; ADB. 2006. *Report and Recommendation of the President to the Board of Directors. Regional Power Transmission Interconnection Project*, Manila; ADB. 2009. *Project Completion Report. Emergency Infrastructure Rehabilitation and Reconstruction Project*, Manila; ADB. 2009. *Energy is Life (Bringing Power to Afghanistan)*, Manila.

67. In addition to cross-border infrastructure, investments are being made in line with the Energy Action Plan, which promotes grid and generation capacity strengthening as well as modernization of the power system of each CAREC country. The Talimarjan power generation and transmission project in Uzbekistan is expected to enhance regional connectivity and deliver more electricity to neighboring countries. The loss reduction project in Tajikistan has helped in reducing demand to make more summer power available for regional exports. The transmission grid strengthening and modernization projects in the Kyrgyz Republic and Tajikistan, approved in 2010, are expected to aid stability and operational efficiency to the regional power system.

68. **Development of the legal and regulatory base.** Intra-regional energy trade has been facilitated by the development of the legal and regulatory base in the CAREC countries. Early initiatives in the energy sector focused on fostering regional transmission systems, exploring sustainable management of shared resources, and experience sharing among the countries' electricity regulators. Such information and knowledge sharing forums identified a clear need to develop the legal and regulatory base within each country's energy sector. Accordingly, in 2005, an MOU formally established the CAREC Members Electricity Regulators' Forum (CMERF) to facilitate cooperation in harmonizing regulations (Box 9). CMERF came to a temporary halt in 2008 due to a lack of funds, but the members of the ESCC emphasized its usefulness and now it is being resumed under the Energy Action Plan. CAREC countries have agreed to further strengthen capacity development activities in energy regulation and sector reforms.

### Box 9: CAREC Members Electricity Regulators Forum

Two regional technical assistance projects (total value \$1 million) successfully supported partner countries in the establishment of the CAREC Members Electricity Regulators' Forum (CMERF), which has helped develop the region's power regulators and sector reforms.

CMERF was launched as a practical and valuable platform for the exchange of information, experience-sharing and professional capacity building. Since the establishment of CMERF in 2005, all CAREC countries have implemented policies and actions to rationalize electricity tariffs to reach cost-recovery levels. CMERF will continue operations under the ESCC.

Sources: ADB. 2008. *Technical Assistance Completion Report. Establishment of the CAREC Members Electricity Regulators Forum*, Manila; ADB. 2010. *Technical Assistance Completion Report. Central Asia Regional Economic Cooperation Members Electricity Regulators' Forum*, Manila.

69. **Dialogue on energy-water linkages.** The energy sector has not shied away from the need to address the energy-water nexus. In addition to numerous analytical studies carried out by the CAREC MIs and other development partners, several attempts have been made over the past 10 years to (i) work out mutual solutions for power-water sharing, and (ii) replace the central-planning approach of the former Soviet Union with mechanisms that are appropriate to the new economies and that respect national sovereignty. Although many of these attempts did not yield desired results, detailed analytical works have greatly facilitated cooperative dialogue among the CAREC countries to support regional cooperation in energy-water management.

### Issues for the Energy Sector

70. CAREC's energy sector is at times slow to show progress, and yet vital to the long-term sustainable economic development of the CAREC region. The positive gains in terms of regional cooperation in this sector are still being consolidated. Recently completed diagnostic studies in the three pillars of the Energy Action Plan identify challenges and opportunities in the energy sector and are supporting a program of priority projects and initiatives with significant regional benefits. The diagnostic study on Energy Demand/Supply Balance and Infrastructure Constraints initiated the process of preparing a CAREC Power Sector Regional Master Plan for Central Asian countries. It will study the integrated development of the regional power system and identify long-term solutions to balancing demand and supply, taking into account current assets, demand projections, and trade opportunities. It will also analyze technical requirements for connecting Afghanistan with the Central Asian Power System (CAPS). Some of the preliminary findings of the diagnostic studies under the three pillars are the following:

- CAREC countries need more investment to reduce physical infrastructure constraints in the energy sector. In addition, it is essential that CAREC countries improve their operations in non-physical areas such as commercial loss control, and effective billing and collections. This will allow the establishment of long-term Power Purchase Agreements that will attract private sector investment to tap the abundant potential of renewable energy generation.
- Countries are now strengthening their own generation and transmission potential, aiming to improve national energy security and increase export opportunities to the countries outside of CAPS. Nevertheless, Central Asian countries are still not ready to provide reliable operation of their national power systems. To a certain extent, all countries of the region are constructing new power networks and improving generating facilities as they seek power safety and independence. The role of the electricity integration and CAPS is evolving and will be shaped by choices to capture these benefits through various short, medium and long term opportunities. Efforts to

coordinate with a USAID-funded program on regional energy market assistance will leverage the impact of the ESCC's work and improve donor coordination in this area.

- The work to formulate the technical and institutional baseline for an energy and water analytical and modeling framework has been started. Despite the numerous "initiatives" and "models" that have taken place in and for the region in the past, none adequately addressed the critical question of energy and water together at a broader transboundary scale. CAREC countries agreed to the goal of an independent, more transparent and technically acceptable integrated energy-water model as the core analytical framework on which to base a dialogue on acceptable options to resolve current and future problems. Consultations within and among countries over the next 6-8 months will define the work program for new or upgraded/refined models, data and data exchange, and user-friendly interface to ensure technical results can be readily understood and used by policy makers.

### **Second Tier Initiatives**

71. The CAP envisions the CAREC program broadening into a two-tiered approach. The priority sectors constitute the first tier, and the second tier consists of special initiatives in other areas, such as health, land management, disaster risk management, and climate. Special initiatives are project-specific as opposed to sector-wide programs.

72. **Health.** In the 2006 Almaty Declaration, human and animal health officials of the eight CAREC countries plus Turkmenistan and the Russian Federation recommended that the CAREC Secretariat help support regional cooperation in communicable disease control. The Regional Committee for Communicable Disease Control was established in 2007 to promote collaborative approaches to fight against disease. Numerous regional activities have been organized to strengthen human and animal disease control in the region. Since early 2008, four joint meetings between EurAsEC and CAREC were held to develop two regional strategies: one for control of HIV/AIDS and tuberculosis, and the second to tackle emerging health threats, particularly threats to human health that emerge from animals. Focus areas include: capacity building, regular information exchange, and enhanced cross-border disease control through pilot projects.

73. Since 2007, the government agencies have exchanged information on influenza surveillance; thus increasing the understanding of the current status of preparedness for a flu pandemic in Central Asia. Also, national strategic plans, international technical guidance (protocols, best practices), lists of experts, and an agenda of training events have been shared.

74. **Disaster Risk Management.** The Central Asia and Caucasus Disaster Risk Management Initiative (CAC DRMI) works to coordinate disaster mitigation, preparedness, and response; finance disaster losses, reconstruction and recovery, and disaster risk transfer instruments such as catastrophe insurance and weather derivatives; and improve hydro-meteorological forecasting, data sharing, and early warning systems. The Initiative was launched in 2008 and completed two studies in 2009: *Mitigating the Adverse Financial Effects of Natural Hazards on the Economies of Central Asia* and *Development of Action Plans for Improving Weather and Climate Service Delivery in Kyrgyzstan, Tajikistan and Turkmenistan*. In February 2010, the Regional Working Group prepared a draft MOU for regional cooperation and a Draft Program of Regional Activities.

75. **Land Management.** The Central Asian Countries Initiative for Land Management (CACILM) is a partnership between Central Asian countries and the international donor community to combat land degradation, improve rural livelihoods, and adapt to climate change in Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. Established in 2006, its goal is to restore, maintain, and enhance the productive functions of



land in Central Asia, leading to improved economic and social well-being for those who depend on these resources, while preserving the ecological functions of the land.

#### IV. STRATEGIC IMPERATIVES GOING FORWARD

76. CAREC has made considerable progress in the past decade—yet could have achieved more. Amid the constructive strides forward, lessons are learned and experience brought to bear on the continuously evolving process of effective regional cooperation. Strategic imperatives going forward include the following:

- ***Developing stronger country ownership and mainstreaming CAREC into the national development agenda***

77. CAREC has taken several years to generate momentum and achieve recognition from the countries that regional cooperation is a vital component of achieving national development goals. The MIs have played a prominent role in this process. However, effective implementation of the CAP and sector strategies requires stronger country ownership of the CAREC Program. The countries must ensure sufficiently high-level, consistent, and active participation of their officials within the sector committees in particular and all activities in general. Related to participation is greater country effort in monitoring the implementation of CAREC projects. Part of the challenge is ensuring that CAREC regional initiatives are reflected in the national development agenda of each country and aligned with its priorities and commitments. The countries and their MI partners need to ensure this convergence of regional initiatives with national programming.

- ***Establishing a balanced CAREC rolling project pipeline***

78. The CAP, which remains valid, and the sector strategies and action plans have provided CAREC with greater strategic clarity for channeling investments. The projects from the strategies and action plans, as well as those to be identified under ongoing diagnostic studies in the energy sector, need to be compiled, prioritized, and sequenced to form a rolling five-year pipeline of CAREC projects, which will have to be regularly monitored and updated by the CAREC sector committees. The rolling project pipeline should also serve as a major resource mobilization tool for the Program. However, CAREC's project pipeline must be carefully crafted. The CAREC countries and MIs need to strike a better balance in the pipeline between hard infrastructure and soft infrastructure. Over \$10 billion has been invested in transport infrastructure, accounting for 79% of the total investments under CAREC. Trade facilitation, in contrast, comprises merely 1% of the total investments. Significant increases in trade and transit in the region will be achieved only if efficient cross-border procedures and transit agreements are in place to enable businesses to utilize the improved transport infrastructure.

- ***Mobilizing more resources for CAREC and encouraging private sector involvement***

79. Funding needs for the CAREC Program remain significant following the formulation of the sector action plans. These requirements are expected to exceed what the CAREC governments and MIs are able to provide. Resources from other development partners, including bilateral aid agencies and the private sector (through public-private partnerships), will have to be mobilized to ensure timely implementation of projects in the rolling pipeline. For this to happen, CAREC must surmount two of its shortcomings: (i) the limited success in engaging the private sector; and (ii) national development plans that do not include CAREC projects. CAREC countries, the MIs, and the CAREC secretariat should deepen engagement with the private sector and other aid agencies to mobilize more resources, and ensure that

these other sources of financing are channeled to national projects with regional implications.

▪ ***Positioning CAREC vis-à-vis other regional groupings***

80. The CAREC countries participate in numerous regional cooperation arrangements and institutions—including the Economic Cooperation Organization (ECO), Eurasian Economic Community (EurAsEC), the Shanghai Cooperation Organization (SCO), and the United Nations' Special Programs for the Economies of Central Asia (UNSPECA)—which risk inefficient duplication of effort and waste of scarce resources, including policymakers' attention. Positioning CAREC vis-à-vis other regional arrangements should be a priority, yet has not materialized as such. Despite sporadic meetings between CAREC's multilateral institutions and other regional cooperation groupings, and the first secretariat convention of regional organizations in 2007, constructive coordination, implementation complementarities, and consistent experience sharing remain elusive.

▪ ***Giving more attention and resources to sector capacity building***

81. The need to further develop project-related capacity of CAREC countries in the sectors of cooperation remains strong. The CAREC Institute is one potential mechanism that should be further developed to address these needs. The CAREC Institute is completing only its second year of activities, but a recent assessment has pointed out the importance of reverting back to at least some of its original mandate—most notably more direct relevance to the priority sector requirements for capacity building and applied research. The ongoing CAREC Institute Performance Assessment Review will explore ways in which it could provide more relevant support to the overall CAREC Program.

## V. CONCLUSION

82. Achievements over the past ten years of CAREC are demonstrating the tangible benefits of regional cooperation, and helping the partner countries gradually reach their shared goals of good neighbors, good partners, and good prospects. The pragmatic and focused approach of placing tangible investment projects and technical assistance activities at the heart of CAREC is beginning to yield results in terms of greater connectivity and increased trade.

83. This stock-take has yielded significant insight to what CAREC has achieved and where it has had shortcomings. These findings, summarized below, are preliminary and will enable the CAREC countries and MIs to begin developing the second part of this endeavor, which is a set of strategic directions for 2011-2020.

- (i) CAREC has created and maintained a regular, frank, and resilient forum among the participating countries and MIs that puts investment in the priority sectors of transport and trade facilitation, energy, and trade into a regional perspective. In the process, CAREC has generated a groundswell of goodwill between and among the participating countries and MIs. It has become evident, however, that greater country ownership of CAREC is the key to taking the program to the next level of success.
- (ii) CAREC's informal yet effective institutional framework has established a network of officials at the technical and policy levels across the region committed to regional economic cooperation. Several officials have been involved in CAREC for many years and interact regularly with their counterparts in other CAREC countries. Nonetheless, capacity building remains underserved, and CAREC needs to have a more systematic approach to sector capacity building. Capacity building is needed for the CAREC sector committees but also for national bodies such as the NJCs, which perform a vital role in project planning and implementation.

- (iii) CAREC has a robust strategy – the CAP – which rightfully focuses the Program on its core strengths of transport, trade, and energy. The implementation of strategies and action plans for the four priority sectors requires better mobilization of financial resources, particularly from the private sector.
- (iv) CAREC has invested \$13 billion in regional projects in the priority sectors of transport, energy, and trade. CAREC’s main strength is its ability to deliver tangible investment projects on the ground. The development of the CAREC Corridors has demonstrated how investments could be channeled in a more regionally focused manner. Going forward, CAREC should give greater attention to the soft infrastructure in order to maximize the benefits of the hard infrastructure. A balanced project pipeline will be an important instrument to attain this.

84. CAREC will continue to build upon its successes, addressing gaps and shortcomings to maximize the benefits of regional economic cooperation. Program-wide and sector-specific issues that will have a bearing on CAREC’s future operations have been identified and will continue to be discussed in the context of refining the CAP.

85. The CAREC countries and their MI partners are committed to regional cooperation and providing tangible benefits to the population. Through CAREC, the long-term vision of “Good Neighbors, Good Partners, Good Prospects” will not only remain an aspiration, but will become a reality.

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