

Management Response to IED's Thematic Evaluation of ADB Support for the Central Asia Regional Economic Cooperation Program, 2011-2021

On 18 May 2023, the Director General, Independent Evaluation Department received the following response from the Managing Director General on behalf of Management:

I. General Comments

1. Management welcomes the thematic evaluation of ADB Support for the Central Asia Regional Economic Cooperation (CAREC) Program, 2011-2021 conducted by the Independent Evaluation Department (IED). Management thanks IED for the efforts undertaken in preparing the thematic evaluation report (the report), involving extensive consultations within ADB, with resident mission staff, and with relevant government agencies in the CAREC countries during challenging times.

2. Management commends IED for a balanced assessment of the performance of CAREC operations incorporating both ADB investment and technical assistance (TA) support. Management appreciates that the study has incorporated lessons from the evaluation of IED on ADB Support for the Greater Mekong Subregion (GMS) Program in 2021 as part of the overall assessment of ADB support for regional cooperation programs. The evaluation period coincides with a fundamental transition of the CAREC Program from CAREC 2020 strategy to CAREC 2030 strategy with a significant expansion and deepening of operations. Given this, Management finds this evaluation timely, and it provides useful perspectives for ADB to strengthen its support to the CAREC Program in meeting emerging challenges and tapping new opportunities.

3. Management would like to offer the following general observations on the report:

- a. **Role of the CAREC Secretariat.** The report finds that in general, the institutional setup, strategies, and instruments of the CAREC Program are appropriate for achieving its strategic objectives, and that ADB has generally fulfilled the Secretariat role well. Management notes the overall positive assessment that ADB has added value serving as an honest broker and in promoting economic cooperation. Management also recognizes that continuous regional cooperation efforts and resources are required to address legal, policy, institutional, and financial constraints to enable ADB fulfill its multifaceted role for the significantly expanded CAREC Program, including for supporting regional public goods in the region and generating sustainable pipeline of regional projects.
- b. **Inherent methodological challenges.** Management notes the inherent methodological difficulties in undertaking an evaluation of a subregional program and considers that there is room for refinement. Some of these challenges include, among others, (i) the use of global and regional indices such as the “Global Competitive Index” (GCI) to establish causation to assess the competitiveness that resulted from ADB support. The GCI—which excludes three CAREC countries—has reliability issues as it is neither comprehensive nor inclusive enough to capture a full picture of the region; (ii) evaluation of the performance of ADB without establishing a counterfactual or a “without ADB support” scenario, which may obscure adequate assessment of the role and impacts of ADB; and (iii) evaluation of ADB support to a subregional program of 11 member countries, each with unique and diverse challenges, requires a different approach from evaluation of the projects and country operations of ADB.

- c. **Forward looking approach.** While fostering the post-pandemic growth, the CAREC Program is currently facing challenges on several fronts: (i) the situation in Afghanistan and its adverse impacts on regional cooperation in CAREC, particularly on Central Asia-South Asia transport and energy connectivity; (ii) impacts from the ongoing Russian invasion of Ukraine, global trade tensions and risks of geo-economic fragmentation; and (iii) complexities in generating viable regional project pipelines. Against this backdrop, Management considers that a more forward-looking evaluation approach providing timely analysis and strategic insights over the medium to longer-term horizon would be beneficial for strengthening the support of ADB to the CAREC Program.

II. Management Response to the Recommendations

4. Recommendation 1: Strengthen support for investment climate and trade policy reforms to promote economic diversification across the CAREC subregion.

Management agrees. CAREC Program has been consistently promoting trade openness through improving trade policies and enhancing trade facilitation. Building on the efforts made, ADB is deepening its support in improving trade policy reforms, including through accession to international trade-related conventions, exploring the use of regional trade agreements, and accelerating customs modernization and trade and transit facilitation initiatives in CAREC countries. Interventions will be deepened in behind-the-border measures, particularly, addressing non-tariff barriers, promoting harmonization of standards and regulations in developing services trade and regional tourism, and applying common sanitary and phytosanitary standards to expand and promote safer agriculture and food trade. ADB programming is increasingly supporting such objectives through policy-based lending aiming at trade policy reforms for economic diversification such as in the Kyrgyz Republic and economic corridor and cross-border economic zone development projects. Other examples include public-private partnership and non-sovereign operations that aim for market-oriented reforms and participation of small and medium-size enterprises in the global and regional value chains. There is also an emerging focus on paperless or digital trade and green trade and cross-border investments, which are major considerations in CAREC pipeline development.

5. Recommendation 2: Increase support for modernization of BCPs and customs processes.

Management agrees. There is an increasing need for green, smart, and safe cross-border movement of people and goods to support resilient and sustainable post-COVID-19 recovery of CAREC member countries. In line with the CAREC Integrated Trade Agenda (CITA) 2030 and CAREC Transport Strategy 2030, support for modernization of border crossing points (BCPs) and customs processes is being prioritized. This include scaling up and expanding the Regional Improvement of Border Services projects such as the modernization of a BCP between Kazakhstan and Kyrgyz Republic under the Almaty-Bishkek Economic Corridor. ADB support in modernizing BCPs is increasingly promoting the incorporation of international standards and practices such as the effective risk management, physical inspection and facilities required at the borders, alignment with neighboring countries, and climate adaptation measures. ADB is also continuously promoting the simplification of customs procedures including the application of national single window which is already in place in selected CAREC countries. These investments are aligned with the commitments of the countries under the Trade Facilitation Agreement of the World Trade Organization, and the Revised Kyoto Convention of the World Customs Organization.

6. Recommendation 3: Give a higher priority to developing a multimodal corridor network in the CAREC subregion by increasing support for the railway network and aviation.

Management agrees. In line with CAREC Transport Strategy 2030, support for CAREC transport sector development is being shifted to multimodal transport connectivity including railway network, aviation, and transport logistics. Management recognizes that the road subsector still plays a key role in facilitating transport and trade in the CAREC region given the landlocked nature and status of the transport network development in the region. Railway projects are highly capital-intensive and take longer time to prepare as thorough feasibility studies are needed to ensure economic viability of the projects. Aviation is also receiving an increasing attention to promote regional tourism and trade of higher-value products. Two aviation studies are planned to be published in 2023 including (i) CAREC Low Cost Carrier Aviation; and (ii) CAREC Aviation Cargo. Upon further consultations with CAREC member countries, the second regional Aviation Working Group meeting plans to be held in 2024.

7. Recommendation 4: Use the CAREC platform to actively support climate change mitigation and adaptation in all sectors through regional cooperation.

Management agrees. Addressing climate change-related development needs requires a regional approach for policy and action coordination, for which CAREC provides an important venue and great potential. This has been prioritized and reflected in a scoping study prepared in 2022—“Supporting Regional Actions to Address Climate Change” which provides guidance and directions for the cooperation of CAREC in supporting climate change mitigation and adaptation in its future operations. Climate resilience is a requirement in CAREC investment projects. Increasing awareness of the benefits of improved air quality through applying common standard of air quality monitoring is also undertaken. Promoting clean and green energy development has become a priority under CAREC Energy 2030.

8. Recommendation 5: Strengthen the CAREC Program’s results monitoring system and tools.

Management partially agrees. Management agrees on the need to strengthen the results monitoring system of the CAREC Program. Under the program, each sector has its own results framework. For example, the CAREC Corridor Performance Measurement and Monitoring has been reporting the efficiency of BCPs in CAREC transport corridors through independent data collection. The transport sector measures road safety through analytical studies, such as the Road Safety Report Card in CAREC countries individually and collectively. In line with the CAREC 2030 Program Results Framework, the CAREC Development Effectiveness Review is conducted every three years to report on the progress made and areas for improvement against the Results Framework. These existing measurement instruments at both program level and sector level, are functioning well to ensure a practical and complementary results reporting system under CAREC, and constant efforts are being made to further strengthen results monitoring and reporting for improved effectiveness and efficiency.

However, Management holds reservation on the assertion that only those projects that promote substantive cross-country cooperation be classified as CAREC projects. This assertion mixes two related but separate concepts, the classification of CAREC projects and the measurement of regional benefits of such projects. The purpose of the CAREC Project Classification Methodology—developed in line with the ADB Guidance Note on

Regional Cooperation and Integration Scorecard—is to classify projects, not to measure or quantify the expected cross-border benefits of such projects. The significance of regional benefits of a CAREC project is determined through a detailed economic analysis guided by the “Handbook on the Classification and Economic Analysis of Regional Projects” jointly developed by ERCD and SDCC. This Handbook has been on pilot use since October 2018 and is being currently updated by ERCD. The CAREC projects are also assessed by default against the regional cooperation and integration (RCI) classification criteria of ADB, where regional economic benefits is one of the three criteria. Management is also cognizant that the additional criteria should be considered to determine on allocation of scarce RCI resources such as innovative features of and/or significant regional benefits to be generated by the RCI projects .