

**THE WORLD BANK**



**EUROPE AND CENTRAL ASIA REGION  
CENTRAL ASIA COUNTRY UNIT**

# **CENTRAL ASIA REGIONAL FRAMEWORK**

**February 20, 2004**

## ACRONYMS AND ABBREVIATIONS

ADB	–	Asian Development Bank
AIDS	–	Acquired Immunodeficiency Syndrome
CAKSI	–	Central Asia Knowledge Sharing Initiative
CDD	–	Community Driven Development
CIDA	–	Canadian International development Agency
CIS	–	Commonwealth of Independent States
DFID	–	UK Department for International Development
EBRD	–	European Bank for Reconstruction and Development
ECO	–	Economic Cooperation Organization
EU	–	European Union
FIAS	–	Foreign Investment Advisory Service
FSU	–	Former Soviet Union
GDP	–	Gross Domestic Product
GEF	–	Global Environment Facility
GUUAM	–	Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova
HIV	–	Human Immunodeficiency Virus
IDA	–	International Development Agency
IFAS	–	International Fund to save the Aral Sea
IFC	–	International Finance Corporation
IFIs	–	International Financial Institutions
IMF	–	International Monetary Fund
MIGA	–	Multilateral Investment Guarantee Agency
MDGs	–	Millennium Development Goals
NGO	–	Non-Governmental Organization
SME	–	Small and Medium Enterprise
TB	–	Tuberculosis
TRACECA	–	Trans-Caucasus and Central Asia transportation corridor
UN	–	United Nations
UNDP	–	United Nations Development Program
UNEP	–	United Nations Environment Program
UNODC	–	United Nations Office on Drugs and Crime
USAID	–	United States Agency for International Development
WBI	–	World Bank Institute
WHO	–	World Health Organization
WTO	–	World Trade Organization

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## CENTRAL ASIA REGIONAL FRAMEWORK

### Executive Summary

More than ten years after the breakup of the Soviet Union, five countries in Central Asia are still struggling to find suitable arrangements for regional cooperation. On a variety of fronts, these countries are intertwined – common problems and shared resources necessitate coordinating policies and programs especially in critical areas like water, energy, trade, and transport. Moreover, these countries could benefit substantially from learning from each other as they face up to the challenges of modernization. Without notable progress on regional cooperation, it is difficult to see high and sustained rates of economic growth and reduced poverty in Central Asia.

So far, efforts at cooperation have had limited success as mutual trust is low. Even in areas where getting along is essential, cooperative schemes have been unstable – e.g., public goods or resources that must be shared due to geography (e.g., the Amu Darya and Syr Darya rivers) or the physical infrastructure inherited from the Soviet Union such as regional power grids, pipelines, canals, highways, and railroads. Cultural and political dimensions of nation building, increasing isolationist policies of some countries, different rates of transition and diverse economic prospects due to different natural resources endowments have made regional cooperation difficult.

Henceforth, a formidable challenge lies ahead for the region's countries in solving the greater problems of mistrust and negative setbacks. They are not alone in this effort, however. Donors have long recognized the importance of supporting regional cooperation among the Central Asia countries, but the scale and complexity of the problems and the limited progress on the ground have been daunting. Nevertheless, donors are prepared to provide continued support to regional cooperation and they are looking for new ways to make their assistance more effective.

The present Central Asia Regional Framework has three main objectives. First, it will help produce a shared vision of the regional issues and ways to address them within the World Bank Group; second, it will enhance the effectiveness of national programs by maximizing synergies between regional objectives and national assistance strategies; third, it will set the basis for a productive dialogue with the countries and donors. It will also help advance the efforts started under the CIS-7 initiative by tailoring them to the specific problems of Central Asia.

Given the lessons from past experiences, the framework proposes a cautious approach, based on the premise that reaching real results on the ground will be a long-term effort in which the commitment of a broad range of stakeholders will be necessary for success. Therefore, the World Bank Group will begin by focusing on areas that are not politically sensitive – analytical work, information sharing, scientific exchanges, and nongovernmental (NGO) exchanges – as a basis upon which to build regional trust. It will not stay away from more politically sensitive areas, but it will proceed with caution, making advances when a critical mass of country support is in place. It will seek to build

its regional programs around local initiatives. While strategies will be developed at the regional level, preference will be given to implementation at the national level. Regional projects will only be pursued in case the country buy-in reaches a critical level and there are clear advantages of regional projects over national ones. The World Bank Group will not wait until all five countries are ready to cooperate and will provide support if two or three are willing to work together on a particular issue.

This framework is part of a wider ongoing effort by the donors aimed at improved regional cooperation in Central Asia. It will be periodically revised to reflect progress and lessons.

## CENTRAL ASIA REGIONAL FRAMEWORK

### I. Background

1. The Central Asia region consists of five former Soviet Union republics, namely Kazakhstan, Kyrgyz Republic, Uzbekistan, Turkmenistan, and Tajikistan. Stretching from the Caspian Sea in the west to China in the east, and from central Siberia in the north to Afghanistan and Iran in the south, the region covers an area nearly the size of Western Europe. But with 57 million inhabitants, this region has only about one seventh of its population. Central Asia is defined by its geographic features – impassable mountain ranges and vast expanses of grasslands and deserts – as well as its remoteness. All five countries are landlocked and distant from the major industrial and population centers of Europe, the Middle East, and the Far East. The countries share historical, cultural, and ethnic ties along with a rich tradition of trade along the ancient Silk Road. Central Asia was once a flourishing and booming region. Today it occupies a marginal position amidst more powerful states, and each country is pursuing an independent approach to its development, often through policies that encourage self-sufficiency.

2. In the Soviet Union, the construction of water infrastructure and the canal system, water sharing arrangements, generation, pricing, and trade in energy, the structure of production and trade in industry and agriculture, and fiscal revenue transfers were determined by the region's function in a larger planned economy. The countries had some of the Soviet Union's key industrial plants and exported a wide variety of capital and processed goods. With the breakup of the Soviet Union, the links have been broken and the integrity of the infrastructure systems destroyed.

3. As a result, economic links in the Central Asia countries have dramatically disintegrated. Political, logistical, and bureaucratic obstacles at national levels have limited communication among decision makers, even on issues of demonstrably mutual interest. When attempts have been made by region leaders to resolve critical inter-state issues (e.g., water sharing), the signed agreements, for the most part, have been unstable. Continued poor coordination among countries will reduce the prospects for economic growth and poverty reduction in the region.

4. Outside the region, Central Asia is surrounded by important markets (Russia, China, Afghanistan, Iran, Pakistan, India, and Turkey). The future of Central Asia largely depends on strengthening cooperation with its neighbors. It should take full advantage of its strategic position at the cross roads between these markets.

### Economic and Social Background

5. **Natural resources and income levels.** The disparity between natural resource endowment and living standards in the Central Asian region is striking. The region is rich in natural resources, especially oil, gas, precious metals and hydroelectric power.

Turkmenistan has, according to some estimates, the world's fourth largest proven reserves of natural gas and is one of the world's largest natural gas exporters. Uzbekistan has sizeable reserves of oil, natural gas, and gold. Kazakhstan already exports 1 million barrels of oil per day and could double its production by 2010. The Kyrgyz Republic and Tajikistan are major producers of hydroelectric power. Nevertheless, in 2002 the combined Gross Domestic Product (GDP) of the five countries was only US\$39 billion. Per capita income is highest in the oil-rich, relatively reform-oriented Kazakhstan (US\$1650 in 2002). Per capita incomes in the richly-endowed but slow reforming countries like Uzbekistan and Turkmenistan (US\$314 and US\$685, correspondingly) remain clearly depressed compared to their potential. In the mountainous Kyrgyz Republic and Tajikistan per capita incomes are only starting to recover at a slow pace and from a very low level; in 2002 their GDP per capita was correspondingly US\$326 and US\$181<sup>1</sup> (see Annex 4).

6. **Macroeconomic situation.** All five countries have succeeded in curbing hyperinflation and achieving relative price stability. Kazakhstan and the Kyrgyz Republic liberalized prices soon after independence and brought inflation down by pursuing tight monetary policies. Tajikistan, Turkmenistan, and Uzbekistan stabilized later and have maintained price controls to different degrees.<sup>2</sup> All countries introduced national currencies between 1993 and 1995 and, with the exception of Uzbekistan and Turkmenistan, soon thereafter introduced current account convertibility. Uzbekistan did not formally announce current account convertibility until October 2003<sup>3</sup>. Turkmenistan remains the only transition economy without current account convertibility. Although all five countries have grown economically since the late 1990s, the region is highly vulnerable to exogenous shocks such as world commodity prices. The Kyrgyz Republic and Tajikistan have accumulated high external debts, some of which had to be rescheduled, and thus their borrowing capacity is severely limited.

7. **Structural Reforms.** The Central Asia countries have chosen very different paths and rates of transition to a market economy. Kazakhstan and the Kyrgyz Republic were amongst the most vigorous early reformers in the entire Commonwealth of Independent States (CIS). Tajikistan began its structural reform program in earnest only in 1998, after its civil war ended. Uzbekistan has adopted a gradual pace of reform, and in Turkmenistan very few structural reforms have been implemented. Thus, the economies of Turkmenistan and, to a significant extent, Uzbekistan still largely operate in the central planning mode.

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<sup>1</sup>Calculated based on GDP at market prices and market exchange rates for Kazakhstan, Kyrgyz Republic and Tajikistan and at indicative exchange rates for Uzbekistan and Turkmenistan. The indicative exchange rate for Uzbekistan is defined as a weighted average of the official (60%), commercial bank/consumer goods/cash (10%) and parallel market (30%) exchange rates. For Turkmenistan, the indicative rate is a weighted average of the official (70%) and parallel market (30%) exchange rates.

<sup>2</sup> Uzbekistan's consumer price inflation (according to official statistics) did not decline from above 20 percent to lower single digits until 2003 and its broader inflation measures – producer price index and GDP deflator – are still in the 20-30 percent range.

<sup>3</sup> The sustainability of policies that Uzbekistan used to achieve the exchange rate unification (e.g., trade and cash restrictions) is questionable.

8. **Poverty.** The Central Asian republics were the poorest part of the Soviet Union and poverty has increased sharply during the transition period as a result of the output contraction and increased inequality in the distribution of income (see Annex 4). Rural populations, especially in the more remote parts of the region, have traditionally been the poorest. Poverty, together with artificially drawn borders, which cut across traditional transport routes and created a number of enclaves<sup>4</sup>, has led to social and economic tensions among the countries and peoples. The situation is particularly difficult in the densely-populated Ferghana Valley, shared by Uzbekistan, Tajikistan and Kyrgyz Republic. If poverty and trade barriers are not addressed, the area may well become a breeding ground for future civil and social unrest.

## II. OVERVIEW OF THE REGIONAL ISSUES

9. In reviewing regional issues, it helps to group them into two categories. First are *critical issues* involving regional public goods that require cooperative solutions—removing trade and transit barriers, developing more effective ways of sharing water and generating energy, managing shared ecosystems, creating more efficient and coordinated transportation networks and preventing communicable diseases. Second are *cross-border thematic issues* such as human development issues, community linked development and microfinance and private sector development which represent similar concerns as well as opportunities for countries to develop common strategies.

### Critical Issues

10. **Trade and transport.** Impediments to trade and transit hamper both intra-regional and international trade and are increasingly becoming a serious constraint on economic activity in the region. Although over the past decade most Central Asia countries have substantially liberalized their trade regimes and lowered overall tariff levels, in practice large differences in trade policies remain. The Kyrgyz Republic is a member of the WTO; Tajikistan has a very liberal trade regime and Kazakhstan has a reasonably liberal one. Turkmenistan's foreign trade regime is not particularly restrictive on paper but export-import operations are seriously hampered by foreign exchange restrictions and state dominance of the economy. On the other hand, Uzbekistan, a key country to the development of trade given its central location in the region, has a restrictive foreign trade regime with high tariff import protection and numerous non-tariff barriers such as border closures. The negative impact of various trade barriers erected by the larger Central Asian countries is exacerbated by corruption and puts a burden on

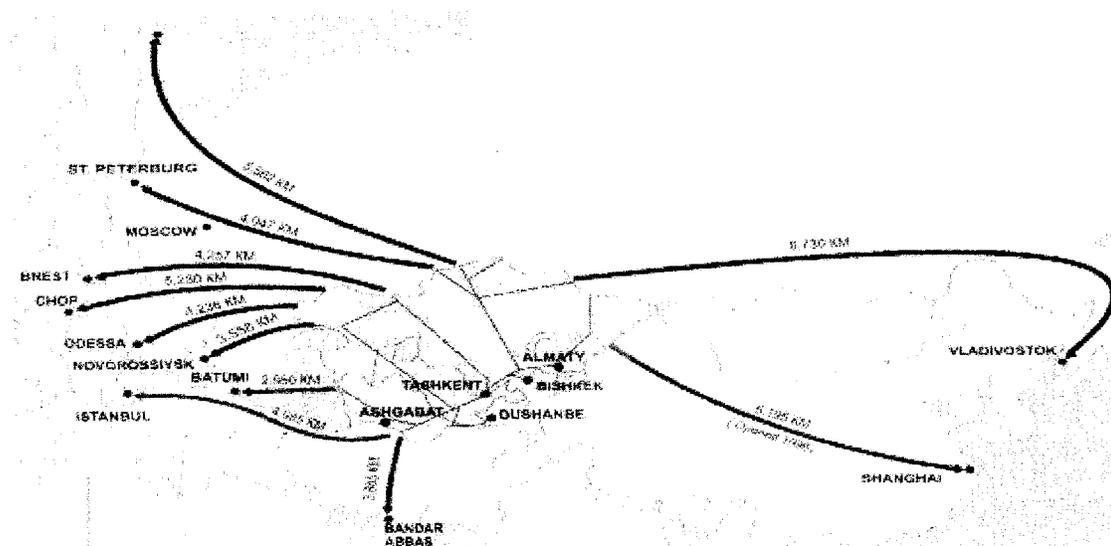
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<sup>4</sup> The Soviet Union drew the borders in Central Asia in 1924 so that residents of one province had to cross the territory of a neighboring republic in order to reach another province of the same country because of natural barriers such as impassible mountains. Almost every country in the region has so-called enclaves that belong to its neighbors. For example, there are four Uzbek enclaves and one Tajik enclave in Kyrgyz Republic, one Kyrgyz enclave in Uzbekistan, etc. In the Soviet era, when republican borders had purely administrative significance, there was no transit problem. With the creation of national states and introduction of visa and customs regimes after the collapse of the Soviet Union, serious transit problems for goods and people arose, sometimes leading to open conflicts.

smaller countries that are seeking to join the global economy and the small traders (often poor) that rely on cross-border trade for their livelihood.

11. Moreover, transportation costs (within and outside the region) continue to be prohibitive due to man-made barriers, unpredictable quality of services and lack of adequate infrastructure. Today, transportation routes in the region mirror Soviet-era trade patterns – the network is relatively well developed on the route to Moscow, but severely underdeveloped along alternative trade routes to the east, west and south, where the potential new markets are (see Figure 1). To integrate itself into the world economy, Central Asia should put in place policies, institutions and infrastructure that facilitate the flow of goods.

**Figure 1. Transit links of Central Asia republics with world markets**



Source: UN ESCAP

12. **Water.** The populations of Central Asia are heavily dependent on water for agricultural production<sup>5</sup> and energy generation<sup>6</sup>, making water management and usage critical issues for the region. But Central Asia’s massive irrigation systems are in disrepair, and wasteful use of water and energy is endemic. Over the past 50 years, water flows into the Aral Sea have been drastically reduced as a result of irrigation development and poor water management, with serious environmental and social consequences.<sup>7</sup> Since only 30% of the water diverted for irrigation from the Syr Darya and Amu Darya rivers is actually used while 70% is lost, the irrigation efficiency needs to be improved significantly.

<sup>5</sup> Irrigation accounts 92% of consumptive water use out of an average annual river flow of 120 billion m<sup>3</sup>.

<sup>6</sup> The share of electricity generated by hydropower is 97% in Tajikistan 92% in the Kyrgyz Republic 13% in Kazakhstan, 12% in Uzbekistan and 0.1% in Turkmenistan.

<sup>7</sup> The Aral Sea’s surface area, once 65,000 sq km, is now less than half of that, and its increasing salinity has caused the devastation of a once thriving fishing industry. The local climate has been modified and there has been loss of wetland ecosystems and biodiversity.

13. On Syr Darya, poor drainage and water management practices lead to unnecessary losses of about 6.8 billion m<sup>3</sup> annually. Moreover, about 3 billion m<sup>3</sup> of water is “wasted” annually into the Arnasai depression as a result of inefficient energy/water arrangements on the Naryn cascade in the Kyrgyz Republic. Non-optimal operation of the cascade is due to the present need of the Kyrgyz Republic to use water to generate power to satisfy its electricity needs in winter, while downstream countries (Kazakhstan and Uzbekistan) need water to satisfy their irrigation needs in spring and summer. The integrated nature of the irrigation and energy systems on the Syr Darya river makes regional cooperation vital. The present water-sharing agreements are fragile and inefficient due in part to a lack of trust between the parties involved, but also because they are complex, difficult to implement, and rely on barter transactions (i.e., providing coal and gas in winter in exchange for water in summer). This situation has heightened political tension surrounding water allocations and is leading countries to plan large, possibly wasteful investments in water storage, transmission, and energy generation based on sub-optimal designs at the country level.

14. **Energy.** This is another area of disintegration, as the regional transmission network developed during Soviet times has separated into parts, and new institutional mechanisms for operating an integrated regional network are not yet developed. Moreover, individual countries are considering embarking on power generation projects without considering the size of regional electricity markets, potentially leading to an excess supply of hydro and thermal power. Besides that, it is important to note that the efficiency of the national energy systems is very low, generating significant technical and economic losses.

15. **Shared ecosystems.** Though less contentious, an additional challenge for regional cooperation is the management of mountain, steppe, and wetland ecosystems shared among several of the countries. The region includes globally significant trans-boundary ecosystems. First, Central Asia has the largest continuous area of steppe in the world, and the highest diversity of plant and animal species with more than 250 distinct steppe communities.<sup>8</sup> The Tugai riparian forests, in the floodplains and river valleys of the desert regions, are a second key and endangered ecosystem. Migratory birds and endangered species such as the Bukhara deer are dependent on these ecosystems. Third, mountain and forest ecosystems include the Western Tien Shen, the Pamirs and the Altay Sayan. These include both animals and the wild relatives of commercially important plants such as tulips, apples, walnuts and medicinal plants. Fourth, the region has shared inland water-bodies, including the Aral Sea and the Caspian. Conservation of the delta ecosystems of the Aral Sea are a priority. The Caspian includes important fishery resources and unique wildlife such as the Caspian seal, which are vulnerable to industrial and oil-related pollution and poor river basin management. These trans-boundary ecosystems would benefit from a shared approach to their management.

16. **Natural and man-made hazards.** The region is subject to extreme weather events (floods and droughts) which have trans-boundary impacts. A shared approach to

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<sup>8</sup> Rare and endangered wildlife include the saiga antelope, gazelle, kulan, rare species of wildcat and birds such as the Houbara bustard.

disaster management, including weather forecasting, hydrometeorological monitoring, public awareness, disaster mitigation and reconstruction, would reduce the human and economic costs of these events. Hazardous mine tailings from abandoned mines in the upper watersheds pose a special trans-boundary hazard. Collapse of these tailings dams due to landslides would cause release of toxic wastes, including uranium and heavy metals, into regional water-bodies with serious potential health risks. For example, the uranium mine tailings in the Mailu Suu area in the Kyrgyz Republic represent a significant environmental and health risk to the populations of the Ferghana Valley. These hazardous areas require urgent attention.

17. **Communicable diseases.** Communicable diseases and illicit drugs are taking their toll on the people of these countries. Tuberculosis is already an epidemic in Central Asia, as multi-drug resistant tuberculosis strains in the prison system are expanding rapidly to the larger population. Malaria cases have emerged in Tajikistan and potentially could spread throughout the region. Outbreaks of HIV/AIDS, related to drug abuse, have been reported in Kazakhstan, the Kyrgyz Republic, Uzbekistan, and Tajikistan. Newly reported infections jumped from 88 in 1995 to 6,706 in 2003, primarily in Kazakhstan, Kyrgyz Republic and Uzbekistan. Increases in drug trade and drug use could well trigger a full epidemic in the region. Recent modeling carried out by the Bank indicate that, even in an optimistic scenario, mortality rates would increase nearly tenfold from 2005 to 2020, accounting for about a hundred deaths per month, and the cumulative number of HIV infected individuals would rise to tens of hundreds by 2020 in three studied countries (Kazakhstan, Kyrgyz Republic and Uzbekistan). In the pessimistic scenario, without any intervention, the spread of HIV/AIDS would suppress the economy's long term growth rate, slowing it down on average by about 11 percent annually in Kazakhstan and in the Kyrgyz Republic, and by more than 23 percent in Uzbekistan through the year 2020. Clearly, the time to address this problem is now if the region is to prevent a catastrophic impact on health services expenditures and the well being of the population.

18. **Drug trade.** Another regional issue which may have an important impact on regional stability and growth is drug trade. Central Asia is a significant drug trade route from Afghanistan to Russia and Europe, given its long and poorly controlled borders. The drug trade is serious in itself, and for its contribution to crime, official corruption and terrorism. But beyond this, it has the potential to seriously undermine the social and health fabric of Central Asia. The combination of readily available drugs with limited employment opportunities has led to increased drug use, particularly amongst the youth. This in turn has been a significant element in the increase in HIV/AIDS and TB.

19. **Labor migration.** Over the past decade, Central Asia countries have seen a rapid rise in cross-border seasonal migration both within the Region and to other destinations, mainly Russia. High levels of unemployment, lack of business opportunities at home and the prospects for higher earnings in the neighboring countries, have forced a significant part of the working-age population to look for job opportunities abroad. This problem is particularly acute in the poorest countries of Central Asia, such as Tajikistan and the Kyrgyz Republic. The vast majority of labor migrants work irregularly in Russia and other CIS countries, including Kazakhstan, where they are vulnerable to exploitation and

suffer considerable hardship. At the same time, their remittances are crucial to the survival of their families back home. The migration trends affect all aspects of societies, national economies and government policies and deserve greater attention from both countries and international community.

### **Cross-Border Thematic Issues**

20. In addition to solving critical cooperation issues in the region, the Central Asian countries could cooperate on several thematic issues. These areas represent common concerns across the region that deserve greater attention than any one country is likely to be able to give them. These are areas where, despite different national approaches, policies, or traditions, the synergies of mutual experience and information sharing or learning are obvious and mutually advantageous (for example, health and education reform, microfinance support, strengthening the role of communities in development). Within countries, there are examples of programs that can serve as models to emulate or models to avoid. Kyrgyz health reforms, for example, provide a good model for improving transparency and efficiency in health service delivery. The Tajikistan Pamir Private Power Project, a joint project with the International Finance Corporation (IFC), Aga Khan Fund, and the Swiss, sets an example for development of public-private partnerships to finance critical infrastructure projects. All of the Central Asia countries could advance their economic development by learning from each other's experiences in a variety of areas.

21. **Knowledge sharing.** Limited knowledge of market economy and low levels of institutional capacity have become a major development constraint in Central Asia. Today, there is insufficient communication among countries, especially at the level of decision makers, even on issues of demonstrably mutual interest. There is insufficient knowledge as well about developmental issues outside the region and about the potential gains from regional cooperation, which partially explains the reluctance of leaders to pursue it with more vigor. Fostering knowledge sharing both within and outside the region would provide a much-needed foundation for solving common problems.

22. The above review demonstrates the rationale for emphasizing regional cooperation in Central Asia. Although the countries could continue down independent and isolationistic paths of development, the resulting levels of welfare would be lower and less sustainable. It would be a big mistake not to take advantage of more coordinated approaches and stable agreements on critical issues to spur economic growth, reduce poverty and maintain political stability in the region.

## **III. LESSONS**

### **Impediments to Regional Cooperation**

23. As described in the previous section, regional cooperation in Central Asia appears essential. However, the actions of the governments concerned would seem to suggest that they do not share this view. Even in areas where regional cooperation is essential –

e.g., public goods or resources that must be shared due to geography (e.g., Amu Darya and Syr Darya rivers) or physical infrastructure inherited from the Soviet Union such as regional grids and pipelines, or transport hubs such as canals, highways, railroads and, to a lesser extent, airports – cooperative schemes have been unstable.

24. Several factors have hindered regional cooperation, at least in the short- and medium-term, including:

- Cultural and political dimensions of nation building, exacerbated by personal rivalries between some of the political leaders;
- Increasingly isolationist policies of some countries;
- More and more divergent rates of transition from government-controlled central planning to liberalized mixed market-based economies;
- Diverse economic prospects, driven by significantly different natural resource endowments and, thus, different opportunities and needs for external capital; and
- Conflicting interests and pressures generated by the competition of key external partner countries.

### **Previous and Existing Efforts at Regional Cooperation**

25. The Central Asian countries are members of several regional organizations with overlapping goals and membership. The Central Asia Economic Community, which was transformed into the Central Asian Cooperation Organization in 2002, is supported by four Central Asia Presidents (excluding Turkmenistan). The Economic Cooperation Organization, founded by Iran, Pakistan and Turkey, to which all five Central Asia countries are members, offered a regional trading arrangement that could promote a southward reorientation of their trade from the patterns imposed within the Soviet economy. The Shanghai Cooperation Organization, with Russia, China and the four Central Asia countries (excluding Turkmenistan) has focused on security rather than economic matters. Central Asia countries are part to several other regional organizations, including the recent Ministerial Conference initiative (see par. 78-79). Annex 1 presents more details on regional initiatives.

26. More than 200 multilateral and bilateral agreements and contracts have been signed on issues such as economic cooperation, trade, migration, military-technical cooperation, medical and sanitary-epidemiological cooperation, shared water use, and interstate railway transport tariffs. Legislative documents are regularly exchanged, and plans for common actions are prepared on an annual basis. However, to date, none of these efforts has paid off in terms of fostering greater cooperation. Yet, it is important to understand the lessons from these past regional cooperation initiatives before designing future regional interventions.

## **Lessons Learned**

27. The experience of the World Bank and other donors in Central Asia countries is that regional projects are generally complex and difficult to implement. The World Bank experience under the first phase of the Aral Sea Basin Program has been that programs conceptualized at the regional level can be implemented most successfully when specific activities under the program are defined and implemented nationally. The best approach in the future is likely to be to design programs at the regional level but to divide activities into programs at national level, ensuring consistency with regional goals and with regional coordination, but with implementation by the national Governments.

28. Other lessons include: (a) the need to articulate a “shared vision” among all stakeholders – when the five countries show genuine willingness to work together, cooperation works; (b) the need to be patient and prepared for the long haul through bad and good times, and to identify and work with partners with long-term commitment; (c) the need to understand that creating formal regional institutions is not as essential as bringing in different stakeholders and sharing information; (d) the need to build programs around the fact that countries tend to cooperate if it is obviously in their national interest to do so; and (e) the need to find effective catalysts (quick wins, results on the ground) to drive the cooperation process.

29. Hence, the potential role of the World Bank Group and other donors in obtaining concrete results in regional cooperation should not be overestimated. It requires both time and hard work to address the factors that hinder regional cooperation identified above. In the end, much depends on the willingness of the countries themselves to advance the regional cooperation agenda. The World Bank will have to match its actions with the pace set by the countries themselves.

## **IV. FRAMEWORK FOR THE WORLD BANK GROUP PROGRAM**

### **Objectives**

30. The main objectives of this framework are to:

- Help produce a shared vision of the regional challenges and ways to address them within the World Bank Group;
- Enhance the effectiveness of World Bank Group assistance at the national level by providing a regional perspective;
- Provide a formal structure for dialogue with governments, civil society, and the private sector; and,
- Serve as a platform for dialogue and joint efforts with other donors.

31. By working at the regional level, in the long run, the World Bank Group hopes to contribute to improving the prospects for high and sustained growth, reducing poverty, and to lessening regional tensions.

32. In implementing this framework, the World Bank Group will seek to maximize synergies between regional objectives and national assistance strategies. It will coordinate regional programs with country-level ones. Country assistance strategies will include a regional orientation. The country assistance strategies for the Kyrgyz Republic and for Tajikistan already include explicit links to regional initiatives.

### **Approach and Instruments**

33. **Approach.** As mentioned, the World Bank Group will approach regional work carefully, such that it will not raise undue expectations, and it will remain mindful that sustained efforts are needed to produce effective results over the long term. The Bank will begin by focusing on areas that are not politically sensitive – analytical work, information sharing, scientific exchanges, and NGO exchanges – as a basis upon which to build regional trust. The World Bank will prepare the ground for tackling more difficult issues, proceeding with caution and making advances when a critical mass of country support is in place. In this regard, it will seek to build constituencies for regional cooperation. Greater involvement of civil society and the private sector can help build country commitment. In addition, the World Bank Group will seek to build its regional programs around local initiatives. For example, it will use such initiatives as the Central Asia Business Forum as a basis for its programs. The World Bank Group will go beyond dialogue, analytical and advisory work to regional projects only when and where proven ownership and country buy-in exist. However, the Bank will not wait until all five countries are ready. If two or three are ready for cooperation on a particular issue, progress can be made.

34. **Instruments.** The following instruments will be used to implement this framework:

35. *Knowledge generation and sharing.* Effective intervention at the regional level requires understanding the issues and evaluating alternative solutions. The World Bank has been working towards this end through the CIS-7 initiative, which culminated in an international workshop, held in Switzerland in January 2003, that focused on the economic and development issues facing the poorest FSU countries. The work to be undertaken under the Central Asia Regional Framework, in cooperation with other donors, will advance the issues raised by the CIS-7 initiative by tailoring them to the specific problems of Central Asia. It will include a series of analytical and advisory activities on the most topical regional issues.

36. To share knowledge, the World Bank Group has launched a Central Asia Knowledge Sharing Initiative (CAKSI), which aims to disseminate information broadly using a variety of tools, including the internet and global distance learning centers in each of the Central Asia countries. These initiative will facilitate the dialogue between practitioners in the region. The World Bank will work closely with existing universities and with the Aga Khan Foundation, which has set up the University of Central Asia.

37. Moreover, the World Bank Institute has designated Central Asia (with Tajikistan as a pilot country) as a focus area for capacity-enhancement programs, and has placed an

international staff in the region to work with the Central Asia team. Regional activities involving government and civil society are being implemented and promote regional understanding and knowledge sharing. A World Bank Institute planning brief for the region is scheduled for completion in late fiscal year 2004. Further integration will be encouraged with training programs in other countries such as the World Bank Institute's programs in Moscow. Fostering knowledge sharing both within and outside the region will provide a much-needed foundation for solving common problems.

38. *Regional strategies—national projects.* There are two distinct cases here. *First* are the cases when the regional agenda would provide a strategic framework within which to undertake country-level programs. For example, in the water management area, country-specific interventions will be designed under a regional umbrella of improving the use of water resources in Central Asia. These programs, although implemented at national levels, will have significant regional benefits. A good model is the Ferghana Valley Water Management Initiative (see par. 50). Likewise, IFC's initiatives, such as the Central Asia Leasing Project, seek to create a regional framework for leasing activities by working with individual governments to enact similar best practice laws and regulations that may eventually lead to cross border leasing as regional cooperation increases. *Second* are the cases of shared problems for which it makes sense to develop common approaches that will inform the design of national projects. For example, some of the Central Asia countries are struggling to find a solution to rapidly falling educational standards. Countries and donors could join efforts to develop a common solution to this problem. Such an approach would allow the World Bank Group to benefit from economies of scale and attract more resources, attention, and brain power than at the single country level.

39. *Multi-country facilities and grants.* The World Bank will put in place multi-country credit and grant facilities based on demand. A good example is the IFC's Central Asia Regional Enterprise Fund, which is a credit line available to private enterprises from all five countries. Any proposal which meets the fund's criteria is approved. Similarly, multi-country grant facilities, such as a possible Regional Education for All Fund, would make grants available to Central Asia countries based on agreed criteria.

40. *Regional projects.* If conditions warrant, regional projects will be developed with the participation of two or more countries. A current International Development Agency (IDA) initiative seeks to support selected regional projects by providing additional funds on top of the countries' IDA envelope. Potential projects could include developing regional infrastructure (water management, energy generation, transport) to facilitate trade integration and growth, promoting regional financial architecture and knowledge sharing, and developing strategies to address negative cross-border factors such as disease, illegal trade, and other issues requiring a regional approach. However, given past experience with the regional projects, they are not likely to be widely used. As mentioned before, regional projects will only be pursued if there is a critical level of country buy-in and if there are clear benefits and advantages of regional projects over national ones.

## Regional Development Priorities

41. The Bank will provide support in both: (i) critical areas where regional cooperation is vital for economic and security reasons or where common or shared problems can be tackled collectively with greater effectiveness or efficiency; and (ii) cross-border thematic areas where countries could greatly benefit from shared learning.

### 1. *Critical Regional Cooperation Areas:*

42. **Trade and transport.** The long-term goal is to get the Central Asia Region integrated into the world economy through reduced transport costs and better facilitated trade. In the near term, efforts will target reforms in customs, prioritized investments in transport infrastructure, and trade policy at the country level.

43. In the area of trade policies and institutions, most of the work will be done at the country level through advisory services. However, the regional perspective will provide important guidance for this work. The World Bank will support efforts by Kazakhstan and other countries to accede to the WTO.

44. The priorities foreseen for transport are focusing on regional transport corridors through development of missing links and rehabilitation of existing infrastructure to link state capitals, the major trade centers, and the main ports or outlets for exports/imports, as well as harmonization of the regulatory and tariff framework across the region to promote efficiency of movement of passengers and freight.

45. The World Bank has prepared individual *Transport and Trade Audits* for each country. An overall regional *Transport and Trade Facilitation Study* is now being prepared based on these audits. Next steps will include extensive dialogue with the countries, which has already started in the context of the Ministerial Conference (see par. 77-79). If conditions warrant, the World Bank would support national and regional trade facilitation projects in the future. For example, based on a recent request from the Kazakhstan government, a *Trade and Transport Facilitation Project* could be considered; it would emphasize customs reform, road management and financing improvements. Trade and transport facilitation programs at the individual country level (especially in Kazakhstan and Uzbekistan) are likely to have significant regional benefits, especially for the smaller neighbors like the Kyrgyz Republic and Tajikistan. It is important to note that the World Bank will put special emphasis on the need for an integrated approach to trade facilitation issues, as "customs only" projects would have limited impact on the overall facilitation issues. Emphasis will be placed on (i) all important aspects of cross border trade, including "access infrastructure" (e.g., roads, overall legislative framework, etc.), (ii) all relevant agencies, (iii) an institutionalized partnership with the private sector, and (iv) a strongly coordinated regional dimension. Such an approach was successfully implemented under the Trade and Transport Facilitation Project in Southern Europe supported by the World Bank.

46. Another area of work with potential benefit to the region could be the preparation of a *Trade and Transport Facilitation Audit for Russian Siberia* to identify the barriers to

Tajik, Kyrgyz, Uzbek and Kazakh exports to this part of Russia. Moreover, with the current opening in Afghanistan, the World Bank Group has been exploring the possibility of expanding the ties between Afghanistan and Central Asia. It will also seek to involve other important neighbors such as China, Iran, Pakistan, India as well as nontraditional stakeholders like South Korea and Turkey.

47. Cooperation with other donors and other regions within the World Bank is critical in this area. The World Bank holds regular consultations with ADB, European Union, USAID, and other donors. In addition, within the World Bank, the Europe and Central Asia Region has been discussing how to improve cooperation and possibly to develop joint products with the Middle East and North Africa, South Asia, and East Asia regions. The *Afghan Border States Development Framework* has provided a start for this work.

48. **Water and energy.** The World Bank Group will use its convening power to encourage the leadership of the five Central Asia countries to accelerate work towards the long-term goal of creating a stable and sustainable system of water management and water sharing. The analytical work carried out thus far shows that to reach this goal, it is necessary to improve water management practices in the region as well as improve the water sharing arrangement on the Syr Darya River. In the immediate future, much of the support will likely have to focus on bi- and tri-lateral cooperation among selected Central Asia countries and on country-specific reforms and investments for improved energy and water management and use.

49. This is not a new area for the World Bank. First, the Aral Sea Basin Program has provided important institutional lessons and can serve as a programmatic foundation for further initiatives in this area.<sup>9</sup> The Bank prepared a summary paper *Improved Water Management in the Aral Sea Basin: Summary of Strategic Directions*, which outlined the main strategic pillars for the next steps in the Basin. Second, the World Bank has prepared an *Assessment of Water Resources and Their Usage in Northern Afghanistan*, which shares one of the two main rivers of Central Asia – the Amu Darya. The results of this review show that the demand for water in northern Afghanistan is low and is not likely to grow rapidly in the next two decades; hence, it does not threaten water use in the downstream countries. Third, the World Bank, in close cooperation with donors, has previously provided advice on energy transit and trade options and has financed high-priority investments at the country level, like the *Pamir Power Project* in Tajikistan.

50. The World Bank will continue its support to improved water resource management practices, including to the second phase of the *Aral Sea Basin Program*. Because the water management issues are better dealt with at the individual country level, they will continue to be addressed through national programs. The World Bank has completed a note on *Irrigation and Poverty in Central Asia* and is developing a *Ferghana Valley Water Management Initiative* to identify irrigation improvements with important

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<sup>9</sup> The *Aral Sea Basin Program* includes national interventions in water management, a GEF-funded *Water and Environment Management Program* and support to the *Executive Committee for the International Fund to Save the Aral Sea*. The *Syr Darya Control and Northern Aral Sea* project aims to improve regulation of winter flows resulting from energy generation in the Naryn Cascade (Kyrgyz Republic) and increase flow capacity of the Syr Darya River.

conservation effects on regional water usage and the poverty situation in Ferghana Valley. Two such projects appear in the country assistance strategies for Tajikistan and the Kyrgyz Republic and are currently under preparation. The initiative could be expanded to include Uzbekistan in the future. The World Bank will support other country-level investments aimed at improving irrigation and drainage management in the Aral Sea countries.

**Box 1. The water and energy nexus on the Syr Darya River**

The distribution and use of water and energy resources serves as an example of how better cooperation provides potential gains to all the countries in the region. Both the Kyrgyz Republic and Tajikistan have abundant water resources in two river basins (the Syr Darya and the Amu Darya, respectively), while Kazakhstan, Turkmenistan, and Uzbekistan are well endowed with fossil fuels (coal, gas, and oil). Yet sharing these resources remains problematic; the arrangements created during the Soviet Union to integrate water, energy, and agriculture are now subject to sovereignty as each country exercises its independence. On the Syr Darya River, for example, the arrangement is as follows: the Kyrgyz Republic releases water from the Toktogul reservoir during the vegetation period to meet the irrigation demand of Uzbekistan and Kazakhstan. The latter import the resulting excess hydropower from the Kyrgyz Republic and provide compensatory supplies of fossil fuels in exchange in winter. To develop better options for sharing resources owned in common, the Bank conducted a study of the water and energy nexus in Central Asia countries.

The ideal situation would be for downstream countries to pay for the release of water in the summer to satisfy the irrigation needs and for upstream countries to purchase the energy resources needed for winter. As Table A shows, operating a dam in the irrigation mode (which requires water to be stored in winter and released in summer) is much more expensive than in the power mode (which requires the opposite, storing water in summer and releasing it in winter). In fact, the opportunity costs for the Kyrgyz Republic to operate the Toktogul Dam in the irrigation mode are more than three times the costs it would incur in the power mode. On the other hand, the irrigation benefits to downstream countries from the irrigation mode are roughly twice the incremental costs incurred by the Kyrgyz Republic. Therefore, if the downstream countries want the Toktogul Dam to be operated in the irrigation mode, they must compensate the Kyrgyz Republic for the higher costs of operating it in that mode – US\$35 million (see Table A below).

	Irrigation Mode	Power Mode	Incremental Values
Energy Costs to Kyrgyz Republic	49	14	35
Agriculture Benefits to Uzbekistan and Kazakhstan	86	19	67

However, developing a sustainable framework for cooperation and assuring the best use of available resources pose several challenges:

- Introducing monetary compensations for water and water services and enabling trade in individual commodities (electricity, gas and coal), while eliminating the current barter approach;
- Improving water- and energy-sector policies at the national level to achieve the best use of resources, protect the poor, and assure the financial viability of each enterprise;
- Implementing confidence building measures to ensure sustainable cooperation;
- Improving donor cooperation; and,
- Setting up appropriate regional institutions to bring about the changes proposed.

51. To improve basin management on the Syr Darya a critical issue of how best to coordinate the needs of the upstream and downstream countries needs to be solved. To help solve it, the World Bank has developed a *Water and Energy Nexus Paper* that explores alternative water-energy trade arrangements based on separating water releases from the energy trade and compensating upstream countries for water storage in winter and release in summer (see Box 1). A short version of this paper was discussed with the Central Asia governments at a Ministerial Conference in November 2003 where countries reached preliminary agreement on a plan of action for improving the water-energy trade arrangements on the Syr Darya. It is important to note that the Presidents of four Central Asia countries<sup>10</sup> requested the World Bank to play a leadership role in building consensus on water and energy approaches in Central Asia and help set a regional water and energy consortium.

52. In addition, the Kyrgyz Republic and Tajikistan requested World Bank assistance to complete two hydro-power projects started during Soviet times– the *KamberAta Dams* in the Kyrgyz Republic and the *Rogun and Sangtuda Dams* in Tajikistan. The initiation of these projects would require securing long-term export markets for power, reaching stable water-sharing arrangements, as well as better understanding of environmental and other safeguards issues. In this regard, the World Bank is conducting a *Regional Study of the Electricity Export Potential from Central Asia*, which will help to evaluate the two investment projects. The study will also serve as a basis for continued dialogue with the region’s leadership on the energy sector reforms, including regulatory reforms. The World Bank has been asked by the governments involved to play the role of adviser and “neutral broker” for all the parties. Beyond advice, the International Finance Corporation and the Multilateral International Guarantee Agency (MIGA) could play an important role in attracting investments to these projects.

53. **Shared ecosystems.** Improving cooperation regarding transboundary ecosystems is already an area of Bank focus. The GEF-financed *Central Asia Biodiversity Project*, focusing on the Western Tien Shan, and including the Kyrgyz Republic, Uzbekistan and Kazakhstan, is supporting improved protected area management, greater involvement of local communities in conservation management, joint information sharing and development of a common approach to conserving these ecosystems and providing a base for sustainable development. The World Bank Group will continue to collaborate with the donors and the GEF on providing assistance in this area.

54. **Natural and man-made hazards.** The World Bank has already addressed dam safety in several countries; more support is needed in this area, however. The Bank is preparing a *Natural Disaster Mitigation Project* to address the most urgent safety issues regarding the Mailu Suu uranium mine tailings in the Kyrgyz Republic, which it is hoped will lead to additional support for addressing these and other mine tailings sites, landslides and other natural hazards in the Kyrgyz Republic. Similar support is needed for Tajikistan. The Swiss government is providing support to improved hydro-meteorological management in the region; this is an area where regional cooperation will

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<sup>10</sup>These are the Presidents of Kazakhstan, Uzbekistan, Tajikistan and the Kyrgyz Republic.

be of benefit to all countries, and where greater support by the international community is warranted.

55. **Communicable diseases.** The World Bank has commenced three reviews in this area. First, *Country Profiles on HIV/AIDS and Tuberculosis in Central Asia* were recently published and are being disseminated. Second, the *Central Asia HIV/AIDS Study* has been completed recently; the World Bank has coordinated this work with other partners (especially UN AIDS and the World Health Organization (WHO)). Third, the World Bank is preparing a *Tuberculosis Study* in fiscal year 2004. Based on these studies, it will develop a dissemination and communication strategy and will encourage participation of key decision makers and the NGO community. The World Bank is including communicable disease components in existing and future health project on a country-by-country basis. In addition, it is pursuing a regional project with the participation of Tajikistan, Kyrgyz Republic, Uzbekistan and possibly Kazakhstan. The team will explore partnerships with the UN AIDS, UK Department for International Development (DFID), UN Office on Drugs and Crime (UNODC) and others. Moreover, AIDS and tuberculosis issues will be considered in the context of the emerging regional transport and trade work as greater transportation activity often leads to increased exposure to communicable diseases.

56. **Drug trafficking and use.** The World Bank Group has identified a number of areas in which it can prove useful in combating drugs in Central Asia. First, in the area of trade as already noted, the World Bank may consider providing enhanced customs and trade facilitation support. A key element in any such support would be to increase transparency and information exchanges between border posts, which may act as a deterrent on the illegal drug trade. Second, in the area of health, as already noted, the World Bank is exploring ways of building a regional approach to face the challenge of communicable diseases. Beyond these two areas, the World Bank has a program of helping Central Asian states to understand, identify, and control money laundering and terrorism financing. This takes the form of helping the Governments establish effective anti-money laundering laws, providing a 7-part basic training series via the Global Distance Learning Network, publishing a resource book on anti-money laundering issues and conducting various workshops on this issue. The Bank and The UN Office of Drug Control have recently established a pilot partnership, focusing on Kyrgyz Republic but having wider Central Asia implications, on strengthening their cooperation around these critical issues.

## 2. *Cross Border Thematic Areas:*

57. There are numerous thematic areas where countries could benefit from common strategies and shared learning. However, this paper selects three key areas which, in the country team's view, need increased attention and could potentially have a great impact on the future of the Central Asia region.

58. **Human development.** The World Bank will support analytical work in health, education, and social protection to develop solutions, disseminate findings, and support

programs at the individual country level with the immediate goal to arrest the decline in education and health standards in the region.

59. *Millennium Development Goals (MDGs).* Working with the countries as well as the United Nations Development Program (UNDP) and other partners, the World Bank would support establishing appropriate regional baselines and targets for the Millennium Development Goals as well as developing their monitoring and evaluation capacity. In addition country level work could be undertaken (subject to resources) to improve the estimated costing of achieving the MDGs (this has already been done for the Kyrgyz Republic). The Country Assistance Strategies of Tajikistan and the Kyrgyz Republic already explicitly take into consideration the relationship between the CAS and MDG achievement. The CAS for Kazakhstan and Uzbekistan will similarly make this link including the development of monitorable indicators within the context of the program, The Bank could propose regional workshops jointly hosted by the UNDP and the Bank for selected MDGs.

60. *Education and health.* To support reforms in education, the World Bank would explore with other donors the possibility of creating an “Education-For-All Fund” for Central Asia. Such a regional fund would help to pool donor resources for supporting country-level initiatives to improve the delivery of education services. Support for the Central Asia University, established with the help of the Aga Khan Fund, or the regional civil service training academy, funded by the European Union and administered by the British Council, are other areas of possible World Bank involvement.

61. In addition, the World Bank, in close cooperation with other partners, could invest in regional training institutions. For example, it could support the creation of a regional School of Public Health. The basis for such a school exists in Kazakhstan, but other countries will have to be consulted on the feasibility of this initiative.

62. *Labor migration.* The World Bank has not done much work on the labor migration issue in Central Asia. In the future, it is planning to pay greater attention to it and develop an approach for addressing it in its work. In designing its approach, it will work closely with other institutions, such as the International Organization for Migration, which have been active in this area.

63. To facilitate and guide our human development work in Central Asia, one of the World Bank’s most senior human development staff has been placed in Bishkek as the Kyrgyz Republic Country Manager, with overall responsibility for the human development strategy in Central Asia.

64. **Strengthening the role of communities in development.** The World Bank Group is increasing its attention to community involvement in the development process in Central Asia, with an emphasis on improving service delivery at the local level. A working group on this issue meets regularly to share information and discuss strategies for the work with communities in Central Asia, mainstreaming it in World Bank projects, and sharing experiences with other parts of the World Bank. The World Bank has prepared a report on *Critical Issues for Scaling-up the Community Involvement in*

*Development in Central Asia.* An interesting pilot is currently being developed in Tajikistan, where donors agreed to join forces for scaling up community linked development. The idea is to develop a harmonized approach based on experiences in Tajikistan and elsewhere and then to implement it across different sectors. This work is closely integrated with the World Bank Institute's (WBI) capacity building programs on community empowerment.

65. In addition, the World Bank held a Central Asia-wide *Innovation Day* in May 2003 to support innovative ideas and share knowledge about grassroots community driven development. Through the Innovation Day, civil society organizations had the opportunity to meet, share experiences and information, and establish regional networks. The World Bank will monitor closely the selected proposals and, if successful, will seek to replicate them in future World Bank and donor work. The World Bank will consider repeating more *Innovation Days* in Central Asia in the future.

66. **Microfinance and business environment.** Currently, the microfinance industry in Central Asia is dominated by NGOs and commercial bank "downscaling" programs<sup>11</sup>; it is also heavily dependent on external support. This situation is most likely unsustainable over the long haul. The World Bank has prepared a region-wide *Study on Microfinance*, which developed recommendations on how to better sustain the microfinance industry over the long-term. In addition, the World Bank organized a conference in Almaty on *Expanding Microfinance in Central Asia* on April 2-4, 2003<sup>12</sup>. The conference resulted in an agreement among the key donors to form an advisory group, or secretariat, which would ensure that donor microfinance programs follow common approaches and goals.

67. IFC is working to develop a common legal framework in Central Asia for microfinance. Working together with IFC, the Kyrgyz Republic adopted a best practices microfinance legal and regulatory framework in 2002. Similar cooperation with Tajikistan has resulted in a similar legal framework that is to go before the country's legislative branch for approval in the near future, and work has commenced with the Government of Uzbekistan to also develop a best practices legal framework to support the expansion of microfinance. IFC's technical assistance work has been accompanied by financial assistance to individual microfinance providers as well as through a regional facility jointly with EBRD.

68. Monitoring the quality of business environments will also benefit the countries in the region. Regional report cards will be developed based on existing data and planned investment climate surveys. They will be widely disseminated to empower business constituencies and to encourage them to create bottom-up pressure for a better business

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<sup>11</sup> USAID and other bilateral organizations have provided most of the funding for the NGOs, with international NGOs providing the institutional capacity-building and technical expertise (e.g., the Aga Khan Foundation, which largely funds its own program, Mercy Corps, Finca International and IPC). ADB has supported the formation of credit unions in Central Asia, and EBRD together with IFC have supported micro lending through downscaling by commercial banks.

<sup>12</sup> The conference was co-sponsored by the Aga Khan Foundation, the Asian Development Bank, the European Bank for Reconstruction and Development, the Open Society Institute, and USAID.

environment. IFC, in cooperation with the Swiss government, has developed an annual SME business environment survey program which is now in its second year in Uzbekistan<sup>13</sup> and its first year in Tajikistan. The survey reports are widely disseminated to promote discussion and implementation of needed reforms.

69. Business environment related efforts at the regional level, supported by the Foreign Investment Advisory Service (FIAS), would also focus on promoting open exchange and mutual learning among high level public and private sector representatives to increase awareness and understanding of the need for new investor friendly policies and strategies in the region. Key issues of focus will be on how can the countries of Central Asia attract a higher proportional share of the global foreign direct investment.

### **Regional Donor Programs**

70. A large number of multilateral and bilateral donors have been supporting regional cooperation in Central Asia. The Asian Development Bank (ADB), United Nations Development Program (UNDP), and European Union have approved formal regional cooperation strategies. Other donors, such as European Bank for Reconstruction and Development (EBRD), Islamic Development Bank (IDB), United Nations, International Monetary Fund (IMF), United States, Switzerland, Germany, Japan, and United Kingdom have also supported regional programs in Central Asia. Aga Khan Foundation has been the most active international NGO in Central Asia.

71. The ADB has had a regional assistance program in place since 1996. It has focused on infrastructure (including transport and energy) and trade facilitation (including customs reform). ADB's approach has been to work on doable regional projects aimed at raising awareness of benefits from regional cooperation, reducing mistrust, and strengthening the political will among the Central Asia leaders. The new ADB strategy (under preparation) while retaining its present sector focus and a pragmatic project based approach, proposes to expand the geographical scope of regional programs to try and enhance the pay offs from regional projects. It also seeks to increase the awareness of potential benefits from regional cooperation by undertaking detailed sector studies and further strengthening the institutional mechanism that is already in place.

72. The European Union, notably through its Tacis Programme, has supported regional cooperation in transport, energy and environment. Its Trans-Caucasus and Central Asia transportation corridor (TRACECA) and South Ring programs have supported the development of viable, safe, competitive, and efficient transport corridors

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<sup>13</sup> As a result of the initial survey in Uzbekistan, the Government took a number of constructive steps towards improving the environment for entrepreneurs, but also implemented a number of changes with mixed impact on the SME sector during 2002. For example, procedures involved in accessing cash from bank accounts improved for entrepreneurs, leasing and credit union legislation was strengthened, and a number of tax privileges for entrepreneurs were introduced. On the other hand, 2002 witnessed significant instability in tax legislation, an increase in impediments to foreign trade operations through the raising of import duties, and an increase of severity in requirements for wholesale trade operations for both SMEs and individual entrepreneurs. These changes resulted in a significant share of market participants going out of business.

to facilitate trade and transit from East to West across Central Asia. Tacis has also provided assistance to improve the safety and security of energy networks and improve water resource management.

73. Several institutions from the UN family have worked at the regional level. UNDP has implemented the Silk Road Area Development program. Jointly with the United Nations Environment Program (UNEP), it has provided support to the Aral Sea Basin Program and helped the Central Asian countries to develop the Regional Environmental Action Plan. UN AIDS has worked on preventing the spread of HIV and AIDS in Central Asia. UNDP's new regional cooperation strategy, approved in 2003 has the objectives to promote growth, protect the environment and improve governance in Central Asia.

74. The EBRD has focused on the regional promotion of SMEs, microfinance and facilitation of trade. The IMF has conducted a series of studies and dialogue on trade policies and customs reform. The IDB has provided technical assistance and investments in trade facilitation, transport and energy infrastructure.

75. Among the bilateral donors, the United States, Japan, Germany and Switzerland have been the most active. Their regional programs focused mainly on capacity and institution building in water resource management, energy, trade facilitation and environment. (Annex 3 provides detailed information on regional donor programs in Central Asia.)

76. Given the large and growing number of regional donor programs, their coordination becomes a daunting task. The next section describes an emerging framework for improved donor coordination.

### **Donor Coordination**

77. Coordinating the World Bank's regional initiatives with other donors is a central part of this framework. There are numerous instances of donor cooperation in specific areas; however, an integrated framework, which provides the basis for harmonizing efforts by governments and donor institutions is lacking. The World Bank is currently engaged in a renewed coordination effort started at the January CIS-7 meeting and advanced at the Tashkent EBRD Annual Meeting in May 2003. The ADB, IMF, EBRD, UNDP and the World Bank Group have agreed to develop a unified vision on regional cooperation. These institutions also agreed to create a mechanism for instituting and implementing coordinated and, where possible, joint programs.<sup>14</sup>

78. The five multilateral institutions agreed to use an existing institutional mechanism – the Ministerial Conference (created by the ADB to coordinate its regional programs with the Central Asia governments and their neighbors) as a platform for the donor dialogue with the Central Asia governments. The five multilateral institutions created a working group to develop a vision of regional cooperation and future direction and to coordinate further analytical and project work. At this point, the working group agreed to

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<sup>14</sup> The Consultative Group meetings will continue to be used for coordinating donor assistance to individual countries, while the regional programs will be coordinated at the level of regional forums.

focus on such regional issues as energy, water, trade and transport. The multilateral institutions prepared an “inventory paper” and “sector position papers” for the Ministerial Conference which was held in November 2003 in Tashkent. The inventory paper includes a summary of donor regional activities in Central Asia and will be used to coordinate better donor assistance as well as to identify gaps for further analytical work and regional programs. The position papers identify the regional issues and reform options and serve as a basis for discussion on a joint regional agenda among the donors and countries.<sup>15</sup>

79. The membership of the Ministerial Conference currently includes Kazakhstan, Tajikistan, Uzbekistan, the Kyrgyz Republic, China, Mongolia, and Azerbaijan. Membership may need to be expanded to include other important neighbors. While the participation of Turkmenistan is key to regional cooperation, especially on water issues on the Amu Darya river, the country has not yet expressed interest in participating in the Ministerial Conference. Turkmenistan will continue to be invited to all regional cooperation activities. On the donor side, in addition to the five multilateral institutions mentioned above, other multilateral and bilateral donors were invited to the November Ministerial Conference as observers.

80. It was agreed among the five multilateral institutions that any regional initiatives and programs would be closely coordinated with other multilateral and bilateral donors and that they would be invited as partners to the initiatives of their interest.

81. A separate initiative is the harmonization effort among the multilateral institutions, currently underway. The Kyrgyz Republic was selected as a pilot at the Rome conference on harmonization in 2003.

### **Administrative Agenda**

82. **Decentralization.** Much has already been done to create the organizational basis for implementing the regional programs. To get closer to its clients and partners, the World Bank created the Central Asia Regional Office in Almaty and placed the director for Central Asia and key sector representatives in the field in 2002. The IFC and WBI also stationed full-time international staff in Almaty. The regional hub will play a central role in regional strategy formulation and coordination. It will also be the focal point for partnership building (an increasing number of other donors also operate out of Almaty).

83. Given the growing importance of the regional agenda in the World Bank Group’s program and the critical need for better oversight and coordination of ongoing activities, the UK Department for International Development (DFID) decided to second a full-time Regional Program Coordinator to the World Bank for two years starting from April 2004. This person would help design and manage the regional programs and strengthen coordination with other donors and regional neighbors such as Russia, China,

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<sup>15</sup> In preparation for the November Ministerial Conference, a Senior Officials Meeting took place in Tashkent during September 27-28, 2003. Three position papers on Energy and Water Resources in Central Asia, Transport, and Trade Facilitation were discussed and preliminary agreements were reached on the way forward.

Afghanistan, and Iran. The coordinator will work closely with the regional economist based in headquarters.

### **Expected Results**

84. Given the history of regional cooperation in Central Asia, achieving real results on the ground will take time. As discussed in this paper, the role of the World Bank Group and other donor institutions is mainly of a facilitator nature, trying to change the nature of regional discussions from process to substance. An important achievement will be the establishment of an active, constructive and substantive dialogue among the Central Asia countries on the critical regional cooperation issues. This will not be possible without a better knowledge base on the regional issues, which will be gained through the analytical work described in the present paper.

85. Another important success factor will be to achieve a high degree of donor cooperation which will involve going from coordination and information sharing to a more substantive level of cooperation, including harmonization of donor efforts, development of a shared vision on policy issues and implementation of joint programs. The emerging experience of working together with other donors in support of the regional cooperation process under the umbrella of the Ministerial Conference has been encouraging.

86. In addition, the present framework and the proposed regional activities will inform individual country assistance strategies by providing a regional perspective and important inputs into the country-level programs. The impact of the regional cooperation will be partially measured as part of individual country strategy results, including their progress towards meeting the MDGs. To facilitate this, the World Bank Group and will work with other partners to strengthen the consistency and reliability of MDG baselines and targets on a regional basis.

87. Finally, since the success of regional cooperation largely depends on the willingness of the countries themselves to make real progress, the World Bank Group will work closely with other donors on creating incentives for regional cooperation, such as financing investments and supplying experience and knowledge. In the long run, donors hope that their joint efforts will lead to progress in resolving the water and energy nexus issue involving the Syr Darya river, improving the water management practices on both the Syr Darya and Amu Darya rivers, containing the spread of communicable diseases, and improving the flow of goods within and outside the region. Annex 2 includes a detailed description of the medium-term goals and short term actions and outputs in each of the areas covered by the present framework.

## Annex 1. Regional Economic Cooperation in Central Asia

- **Eurasian Economic Community** (formerly CIS Customs Union): Members are Russia, Belarus, Kazakhstan, the Kyrgyz Republic and Tajikistan. In May 2002 Moldova and Ukraine were granted observer status. Although in principle there should be no trade barriers or tariffs between members, this is not always the case. Unlike other customs unions, all countries can set rates individually for non-members.
- **The Shanghai Cooperation Organization** (formerly the Shanghai Five): Members are China, Russia, Uzbekistan, Kazakhstan, Tajikistan, and the Kyrgyz Republic. Its primary mandate is security, but members discussed the possibility of expanding to incorporate an economic union. In May 2003, the member states decided to establish a regional anti-terrorism center in Tashkent.
- **Central Asia Forum** (formerly the Central Asia Economic Community): Members are Uzbekistan, Kazakhstan, the Kyrgyz Republic, and Tajikistan. The organization provides a permanent mechanism to discuss mutual economic and political matters and holds regular meetings on issues such as customs, migration, tax policy, water agreements etc. Under the auspices of the organization, more than 200 agreements have been signed. In June 2000, the presidents of the four member countries signed an agreement to create a common market in stages.
- **Economic Cooperation Organization (ECO)**: Members are Iran, Pakistan, Turkey, the five Central Asia countries, Azerbaijan, and Afghanistan. The ECO aims to promote regional cooperation in six areas: (1) trade and investment, (2) use of natural resources and environment, (3) industry and agriculture, (4) transport and communications, (5) tourism and culture, and (6) research and statistics. Various tariff reductions have been agreed upon, but the framework is looser than a customs union.
- **International Fund to Save the Aral Sea**: Members are Kazakhstan, Uzbekistan, Tajikistan, the Kyrgyz Republic and Turkmenistan. This was set up to coordinate cooperation on investments and policies relating to the Aral Sea Basin. There is a rotational leadership every two years. It has approved an Aral Sea Basin Program of eight sub-programs comprising about 20 projects including a Global Environmental Fund (GEF) project called the Water and Environment Management Project.
- **GUUAM**: Members are Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova. GUUAM promotes cooperation in regional security, economic, and political matters. Special importance is attached to establishing a Trans-Caucasus and Central Asia transportation corridor (TRACECA) and to settling the pipeline energy issues.

- **World Trade Organization (WTO):** Only one Central Asian country, the Kyrgyz Republic, has joined the WTO. Kazakhstan has recently stated its intention to join the WTO by the end of 2004. Membership is not advanced for the other Central Asian countries – Tajikistan’s and Uzbekistan’s WTO discussions are at very early stages, and Turkmenistan has not applied for WTO membership.

Annex 2. Regional Program Summary

Activity	Current Situation	Medium-Term Objectives	Short-Term Actions/Outputs	Instruments
<b>Trade and transport</b>	<p>-Low competitiveness of Central Asian goods on the world markets;</p> <p>-Barriers to intra-regional trade;</p> <p>-Economic, social and political isolation of the enclaves</p> <p>Due to:</p> <ul style="list-style-type: none"> <li>• Divergent and in some cases protectionist country trade policies</li> <li>• Corruption and rent-seeking practices</li> <li>• Lack of transit friendly agreements</li> <li>• Obsolete, deteriorating transport infrastructure and fleet that prevent the region taking advantage of its strategic position as cross road between continents;</li> <li>• Unsustainable transport sector management in some countries (lack of appropriate road user charges), and</li> <li>• Growing illegal trade.</li> </ul>	<p>Facilitate Transit Trade through third countries</p> <p>Reduce cost of transportation within the region and through third countries.</p> <p>Ensure access to enclaves (physical and non-physical).</p> <p>Develop modern trade-friendly mechanisms to control illegal trade.</p>	<p>Raise awareness of the consequences of restrictive trade policies on growth potential and the poor.</p> <p>Help set basis for a productive dialogue among CAR countries on trade and transit issues.</p> <p>Raise awareness and provide assistance in establishing the rule of law and minimizing opportunities for rent-seeking.</p> <p>Modernize customs procedures to facilitate trade while controlling illegal trade.</p> <p>Provide technical assistance to countries to improve the trade/transit/transport regimes.</p>	<p><i>Analytical work:</i></p> <ul style="list-style-type: none"> <li>• Trade and Transport Facilitation audits for individual countries (completed)</li> <li>• Trade and Transport Facilitation in Central Asia Report (FY04)</li> <li>• Trade Diagnostic studies for Kyrgyz Republic and Tajikistan</li> <li>• Trade and Transport Facilitation Audit for Siberia, Russia (subject to cooperation with Russia) (FY05-07)</li> </ul> <p><i>Dialogue:</i></p> <ul style="list-style-type: none"> <li>• Trade and transport facilitation (FY04 and beyond)</li> <li>• WTO accession policy dialogue with Kazakhstan (focus on trade in goods and telecom services)</li> </ul> <p><i>Potential projects/investments:</i></p> <ul style="list-style-type: none"> <li>• Trade and Transport Facilitation Project in Kazakhstan (FY05-07)</li> <li>• Other possible trade and transport facilitation projects (closely linked with the trade and transport facilitation work in Afghanistan, Russia, Iran and Pakistan) (FY06 and beyond)</li> </ul>
<b>A. CRITICAL REGIONAL COOPERATION ISSUES</b>				

Activity	Current Situation	Medium-Term Objectives	Short-Term Actions/Outputs	Instruments
<p><b>Water and energy</b></p>	<p>Short-term, opaque, unstable agreements among countries on water sharing and energy trade</p> <p>Low efficiency in the energy sector (technical &amp; commercial losses, quasi-fiscal deficit).</p> <p>Degradation of regional energy networks.</p> <p>Pursuit of costly national energy self-sufficiency policies that do not lead to regional least-cost investment solutions.</p> <p>Little, if any investments in energy savings and conservation while the region has one of the highest energy consumption per capita of GDP in the world.</p> <p>Significant water resources wasted (only 30% of water diverted for irrigation is actually used).</p>	<p>De-link water and energy exchanges in the region, and fully commercialize energy trade</p> <p>Improve efficiency of water usage in the region.</p> <p>Develop regional long-term strategy to satisfy energy needs.</p> <p>Encourage private sector and non-sovereign guaranteed financing of investment in the energy sector under new forms of public-private partnerships as a risk-mitigation mechanism.</p> <p>Develop pro-poor programs linked to improved water management.</p> <p>Develop institutions that facilitate integrated markets in electricity.</p>	<p>Set analytical basis for clearer schemes for trading water and energy and promote dialogue on the water and energy nexus</p> <p>Assist countries to reach more stable agreements in the use of water resources.</p> <p>Set analytical basis for understanding options to satisfy growing energy demand needs in most reliable and least costly way.</p> <p>Set analytical basis for assessing medium and long term export potential of electricity beyond the region.</p> <p>Assist countries to improve efficiency in the utilization of water for irrigation and other purposes.</p>	<p><i>Analytical work:</i></p> <ul style="list-style-type: none"> <li>Assessment of water resources and their usage in Northern Afghanistan (completed)</li> <li>Water and Energy Nexus Paper (FY04)</li> <li>Study of potential export markets for Central Asia power (FY04)</li> </ul> <p><i>Dialogue:</i></p> <ul style="list-style-type: none"> <li>Assistance with the revision of the 1998 Agreement on Water Sharing on the Syrdarya river (FY04 and beyond)</li> <li>Contribution to development and implementation of the second phase of the Aral Sea Program (ongoing)</li> <li>Assistance in the establishment of a regional consortium to promote development of water and energy resources (in response to a request from the Presidents of Kyrgyz Republic, Uzbekistan, Kazakhstan, &amp; Tajikistan)</li> </ul> <p><i>Potential projects/investments:</i></p> <ul style="list-style-type: none"> <li>Individual country projects under the Ferghana Valley Water Management Initiative (FY04-06)</li> <li>Individual country energy projects, including public-private partnerships in the energy sector such as the IDA-IFC investment in the Pamir Energy project (in place) (FY04-06)</li> <li>Play "honest broker" role in potential multi-country investments; possible IFC and MIGA involvement (e.g. KamberAta, Rogun, Sangtuda).</li> </ul>

Activity	Current Situation	Medium-Term Objectives	Short-Term Actions/Outputs	Instruments
<p><b>Communicable diseases</b></p>	<p>HIV/AIDS and TB infections are on the raise and could reach, if uncontrolled, epidemic proportions in a decade.</p>	<p>Effective programs to control spread of HUV/AIDS and TB in place.</p>	<p>Provide analytical basis to raise awareness of epidemic threats and their regional character.</p> <p>Assist countries develop programs to arrest the negative trend and eliminate the threat of epidemics.</p>	<p><i>Analytical work:</i></p> <ul style="list-style-type: none"> <li>• HIV/AIDS Regional Study (completed)</li> <li>• TB Regional Study (FY04)</li> </ul> <p><i>Dialogue:</i></p> <ul style="list-style-type: none"> <li>• Regional and country dialogue (FY04)</li> </ul> <p><i>Potential projects/investments:</i></p> <ul style="list-style-type: none"> <li>• Implementation of HIV/AIDS/TB components in national health projects (FY04-05)</li> <li>• HIV/AIDS regional project (FY05)</li> </ul> <p><i>Technical Assistance and Dialogue:</i></p> <ul style="list-style-type: none"> <li>• Including this issue in our above noted work on trade and communicable diseases</li> <li>• Training and legislative support on anti-money laundering issues</li> <li>• Pilot partnership with UNODC on the Kyrgyz Republic</li> </ul>
<p>Drug Trafficking and Use</p>	<p>Drug Trafficking and Use are on the rise, with serious implications for the growth of crime and communicable diseases.</p>	<p>Facilitate the ability of countries to control of drug trafficking and use, and ameliorate the effects of this on the health of the populace.</p>	<p>Including the issue of drug trafficking into our dialogue with countries on trade and transport facilitation</p> <p>Establishing a regional framework to deal with the impact of drugs on communicable diseases</p> <p>Provide better training and legislation for anti-money laundering</p>	

<b>B. THEMATIC AREAS</b>			
<b>Knowledge sharing</b>	<p>Policy and scientific links severed.</p> <p>High demand for best practices in building market institutions.</p> <p>Need to share information on experience within and outside the region.</p> <p>Positive steps at establishing knowledge sharing networks (c.g. Aga Khan's Central Asia University).</p>	<p>Enhance knowledge generation and dissemination capacity of Central Asia countries.</p> <p>Better access to information from within and outside the region.</p> <p>Better appreciation of the benefits and costs of regional cooperation.</p>	<p>Provide better tailored training and capacity enhancement programs to civil servants and other players by WBI and other partners.</p> <p>Facilitate regular contacts and exchange of information and experience among government officials and other players.</p> <p>Improve dissemination of the Bank and other donor analytical work.</p> <p>Greater involvement by the World Bank's regional office in capacity building (procurement, financial management).</p>
			<ul style="list-style-type: none"> <li>• Central Asia Knowledge Sharing Initiative (CAKSI) and Central Asia Distance Learning Network (GDLN) (ongoing)</li> <li>• WBI capacity building programs (ongoing)</li> </ul>

<p><b>Business environment and microfinance</b></p>	<p>Poor business environment provides limited opportunities to the development of the SME sector.</p> <p>Limited credit resources for small entrepreneurs.</p> <p>Limited knowledge of modern business management techniques.</p>	<p>Achieve effective improvements in the quality of the business environment on the ground.</p> <p>Reduce the credit limitations for the creation and operation of enterprises.</p> <p>Set basis for future development of integrated financial markets in the region.</p>	<p>Assist countries in developing institutional mechanisms to improve business environment.</p> <p>Assist countries in monitoring the quality of the business environment.</p> <p>Assist countries to develop sustainable mechanisms for the financing of small and micro enterprises.</p>	<p><i>Analytical work:</i></p> <ul style="list-style-type: none"> <li>• Regional Note on Micro-Finance (completed)</li> <li>• Regional report cards on business environment based on individual country investment climate surveys (FY05 and beyond)</li> <li>• IFC microfinance legal and regulatory reform in Kyrgyz Republic (done), Tajikistan (FY04) and Uzbekistan (FY05)</li> <li>• IFC legal and regulatory reform to improve leasing framework in Kyrgyz Republic, Uzbekistan and Tajikistan (completed), Kazakhstan (FY04-05)</li> <li>• IFC annual SME survey in Uzbekistan and Tajikistan; conference to discuss results and reforms (FY03 and beyond)</li> <li>• IFC legal and regulatory reform to improve the framework for housing finance in Kazakhstan (FY04), Kyrgyz Republic (FY05), Uzbekistan and Tajikistan (FY06)</li> </ul> <p><i>Dialogue:</i></p> <ul style="list-style-type: none"> <li>• Conference on expanding access to micro-finance (April 2003);</li> <li>• Dialogue on business environment and micro-finance (FY04 and beyond)</li> </ul> <p><i>Potential projects/investments:</i></p> <ul style="list-style-type: none"> <li>• IFC approval of US\$45 million for Central Asia Regional Small Enterprise Fund (in place)</li> <li>• IFC US\$40-50 million Central Asia Leasing Facility (FY04)</li> </ul>
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<p><b>Human development</b></p>	<p>Most countries in the region will most likely not meet some of the MDGs. Measurement of some MDGs is a problem. Deterioration of health and education services in the region.</p>	<p>Meet region-tailored MDGs. Improve health and education services, especially in rural areas. Arrest decline of social indicators.</p>	<p>Assist countries develop MDGs tailored to the Central Asia realities. Establish good base-line measurement of MDGs. Assists countries to develop and implement strategies to reach revised MDGs. Estimate the costs associated with achieving the MDGs.</p>	<p><i>Analytical work:</i></p> <ul style="list-style-type: none"> <li>• Statistical Basis for MDGs (FY05)</li> <li>• Using the Kyrgyz model, estimate costs associated for achieving MDGs (FY05)</li> <li>• Regional Report Cards on health and education (FY06)</li> </ul> <p><i>Dialogue:</i></p> <ul style="list-style-type: none"> <li>• Jointly host with UNDP regional meetings on achieving selected MDGs (FY05)</li> <li>• Regional dialogue on health and education</li> </ul> <p><i>Potential projects/investments:</i></p> <ul style="list-style-type: none"> <li>• Discuss with donors the potential for a Central Asia Education for All Fund (FY05 and beyond)</li> </ul>
<p><b>Civil society</b></p>	<p>Very limited voice of civil society Institutional frameworks do not favor active role of civil society as a development partner</p>	<p>Develop the institutional frameworks to allow civil society to be an effective development partner</p>	<p>Assist governments and civil society organizations to exchange ideas and experience on civil society participation Assist countries to integrate CDD into project execution and monitoring of outcomes Increase access of civil society to the development debate by actively involving them in knowledge sharing activities</p>	<p><i>Analytical work:</i></p> <ul style="list-style-type: none"> <li>• Critical Issues for Scaling-up CDD in Central Asia (FY04)</li> </ul> <p><i>Dialogue:</i></p> <ul style="list-style-type: none"> <li>• NGO Exchanges (FY04 and beyond)</li> <li>• Central Asia Innovation Day and follow up activities (FY03 and possibly FY05)</li> <li>• Establish Central Asia regional position to support CDD activities</li> </ul>

## Annex 3. Regional Donor Programs in Central Asia

Donor Institutions	Water Resource Management	Energy	Transport	Trade
Asian Development Bank (ADB)	<p><b>Technical Assistance</b> to promote effective water management policies and develop plans on sustainable natural resource management</p> <p><b>Western Uzbekistan Rural Water Supply Project</b> aimed at improvement of water resource management by introducing water conservation measures and support to sanitation</p>	<p><b>Regional Power Transmission Modernization Project</b> aimed at improvement of power transmission and power trading in the region</p> <p><b>Regional Gas Transmission Improvement Project</b> aimed at elimination of constraints of gas transmission and encouragement of gas trade</p> <p><b>Technical Assistance and Studies</b> on power and gas transmission improvement; rehabilitation of Central Asia power system; assistance in preparation of hydropower development strategies; water and energy environment issues; water use management and energy trade.</p>	<p><b>Almaty-Bishkek Regional Road Rehabilitation</b> aimed at development of transport links and removing the physical and non-physical cross-border barriers</p> <p><b>Technical Assistance</b> includes regional cooperation in transport, projects reassessment of the transport sector strategies, and improvement of road sector efficiency</p> <p>A series of national transport projects with regional benefits:</p> <ul style="list-style-type: none"> <li>• <b>Borovoe-Kokshetau-Petropavlovsk Road Rehabilitation</b> aimed at facilitating domestic and international passenger and freight transportation</li> <li>• <b>Kazakhstan Road Rehabilitation - Almaty-Akmola</b> corridor road rehabilitation, maintenance and capacity improvement</li> <li>• <b>Kyrgyz First and Second Road Rehabilitation Projects - Bishkek-Osh</b> road rehabilitation, improved maintenance, safety, monitoring, and evaluation</li> <li>• <b>Kyrgyz Third Road Rehabilitation Project</b> – improvement of secondary roads</li> <li>• <b>Tajikistan Road Rehabilitation Project</b> – rehabilitation of the most deteriorated sections of Dushanbe-Kulyab road</li> <li>• <b>Uzbekistan Road Rehabilitation Project</b> - rehabilitation of the road section from Bukhara to the Turkmenistan border</li> <li>• <b>Uzbekistan Railway Rehabilitation Project</b> - rehabilitation of railway track between Chengeldy and Samarkand</li> <li>• <b>Aktau-Atyrau Road Rehabilitation</b> - road upgrading to link two major development centers and facilitate interregional trade</li> </ul>	<p><b>Regional Trade Facilitation and Customs Cooperation Program</b> – provide critical funding for freeform and modernization of the customs systems</p> <p><b>Customs Modernization Project</b> (Kyrgyz Republic and Tajikistan) – improve customs operational efficiency in order to facilitate trade and improve revenue collection</p> <p><b>Regional Tourism Development Project</b></p> <p><b>Technical Assistance</b> to support trade facilitation, customs cooperation and tourism development</p>

Donor Institutions	Water Resource Management	Energy	Transport	Trade
<p><b>European Bank for Reconstruction and Development (EBRD)</b></p>	<p><b>Ferghana Refinery Project</b> - rehabilitation of refinery to convert to use of domestic oil resources</p> <p><b>Regional Transmission Modernization Project</b> - enhancement of regional energy systems to promote cross-border electricity trade and cooperation between Uzbekistan and Tajikistan</p> <p><b>KEGOC North South Power Transmission Project</b> - finance the construction of electricity transmission line, improve electricity transmission, competition, trade and tariff methodology</p>	<p>A series of national projects with regional benefits:</p> <ul style="list-style-type: none"> <li>• <b>Kazakhstan Road Sector Restructuring: Atyrau-Aktau</b> - improve road access between the two cities</li> <li>• <b>Kazakhstan Road Sector Development Project</b> - promote regional cooperation by rehabilitating the road transport link</li> <li>• <b>KTZ Track Maintenance and Commercialization Project</b> - improve track maintenance by introducing new and more efficient technology</li> <li>• <b>Uzbek Railways: Freight Traction Renewal and Management Project</b> - support the modernization and restructuring of the railways, finance urgent investment needs and facilitate trade flows and market expansion</li> <li>• <b>Locomotive Re-Powering Project</b> - support transition in the railway sector aiming at boosting trade flows in the Eurasian corridor</li> <li>• <b>Khoujand Airport</b> - emergency repair of the airport's unsafe runway</li> <li>• <b>Kazakhstan Atyrau Airport Project</b> - rehabilitation of the main runway and associated investments to improve operations at the airport</li> <li>• <b>TSA Air Navigation System Upgrading</b> - replace ageing equipment for air navigation services and implement reforms of the aviation sector</li> <li>• <b>Tashkent Airport Rehabilitation Project</b> - rehabilitation of taxiways, airside facilities and passenger terminal building</li> <li>• <b>Turkmenbashi Port Development</b> - rehabilitation of general cargo, dry bulk and ferry terminals thus improving access to the world trade markets</li> <li>• <b>Aktau Port Reconstruction Project</b> - modernize and expand the port's capacity and increase its productivity and trade flows.</li> </ul>	<p><b>Regional Trade Facilitation Program</b> – support foreign trade by issuance of guarantees to cover letters of credit and other trade finance instruments to provide liquidity to the trade system</p> <p>A wide range of <b>technical assistance</b> programs to help with customs reforms, development of new customs legislation, harmonization of the tariff structure and limitation of export and import licensing, creation of a network of regional and international banks for trade finance</p> <p><b>Study</b> on “Integration and regional cooperation” reviewed the scope for regional trade market integration in Central Asia</p>	

Donor Institutions	Water Resource Management	Energy	Transport	Trade
<p><b>United Nations family:</b> UNDP UNEP UNECE</p>	<p><b>Water Resource Management</b></p> <p><b>Aral Sea Basin Capacity Development Project</b> - supporting institutional arrangements for sustainable development to land and water use</p> <p><b>Support to Regional Environmental Action Plan in Central Asia</b> - strengthening of political &amp; institutional basis for regional cooperation</p> <p><b>Transboundary Water Cooperation in the NIS</b> - examination of the status of and approaches to bilateral &amp; multilateral cooperation on transboundary waters</p> <p><b>Support to Regional Environmental Action Plan in CA</b> - strengthening of political and institutional basis for regional cooperation</p> <p><b>Capacity Development in Environmental Information Management</b> - improve access to environmental information by catalyzing &amp; assisting capacity building in environmental information management</p> <p><b>Regional Partnership for Prevention of Transboundary Degradation of the Kura-Aras</b> - ensure control of quality &amp; quantity of water for the short and long term needs of the ecosystem &amp; of the communities</p> <p><b>Caspian Environment Programme</b> - halting the deterioration of the environment conditions of the Caspian Sea and promote sustainable development by focusing on strengthening the legal and economic frameworks, implementation of environmental protection measures, and capacity building activities</p>	<p><b>Special Program for Economies in Central Asia</b></p> <p>- strengthening sub regional cooperation in water sharing and energy trade</p>	<p><b>Special Program for Economies in Central Asia (SPECA)</b> - strengthen subregional trade cooperation and facilitate the economic integration of member countries with Europe and Asia</p> <p><b>Central Asian External Trade and Transit Transport Initiative: Rebuilding the Silk Road</b> - identify subregional transport institutions to ensure the sustainability of transit-transport activities</p> <p><b>International Multimodal Transport Operations in the ECO Region: Trade Facilitation Component</b> - assist ECO member countries to lay a sound basis for multimodal transport, including trade facilitations measures</p>	<p><b>Trade Promotion in Central Asia Programme – Phase I</b> – assist with development, diversification and increase of foreign trade and competitiveness of the participating countries</p> <p><b>Support of Kazakhstan accession to the WTO</b></p> <p><b>Strengthening Trade Points in Asia/Pacific for Regional Cooperation</b> – support the establishment and linking of trade points and development of trade efficiency network;</p> <p><b>UN Economic and Social Commission for Asia and the Pacific</b> – assist in transition of economic development by addressing issues of trade, investment, industry and technology</p>

Donor Institutions	Water Resource Management	Energy	Transport	Trade
<p><b>European Union (EU)</b></p>	<p><b>Regional Environmental Centres in the Newly Independent States</b> – establishing a network of regional environmental centers in the Newly Independent States</p> <p><b>Support for the Implementation of Environmental Policies and National Environmental Action plans in the NIS</b> - address priority environmental problems and support designing and establishing policy instruments</p> <p><b>Joint River Management Programme on Monitoring &amp; Assessment of Water Quality on Transboundary Rivers</b> - contribute to the development of the UNECE Guidelines for monitoring and assessment purposes</p> <p><b>Water Resources Management and Agricultural Production in Central Asia</b>- provide administrative &amp; technical framework for development programmes on utilization, allocation &amp; management of water resources</p> <p><b>EU Water Initiative: Eastern Europe, the Caucasus and Central Asia (EECCA) Component</b> - implementation of water aspects of the EECCA Environmental Strategy focusing on water supply &amp; sanitation and integrated water resources management</p> <p><b>Sustainable Management of Natural Resources</b> - development of a water investment support instrument, identification and preparation of large and small scale water investment projects</p>	<p><b>Institutional Issues and Strengthening of Regional Cooperation</b> - institutional support of regional cooperation in the sphere of interstate hydrocarbon transportation</p> <p><b>Priority Emergency Investments in Oil &amp; Gas Infrastructures</b> - improvement of international gas trade, transit and safety conditions by means of small and urgent investments</p>	<p><b>Container Services Between Baku and Turkmenbashi</b> - improve container handling facilities, vessels linking the two ports and assist in restructuring the management of ports and shipping lines</p> <p><b>Intermodal/Terminal Equipment</b> - facilitate the development of containerised transport by the provision of heavy equipment for container handling</p> <p><b>Rehabilitation of the Rail Ferry Terminal at Aktau</b> - increase revenues to the Kazakh railways and the port of Aktau</p> <p>Other <b>technical assistance</b> activities focus on assessment of business opportunities for road freight transport support services, on road construction supply industry and on feasibility studies on the impact of new or improved roads and rail links</p>	<p><b>Technical assistance</b> with harmonization of border crossing procedures, implementation of unified policy on transit fees and tariffs, strengthening legal basis for transit traffic and preparation for the initial stages of WTO accession</p>

Donor Institutions	Water Resource Management	Energy	Transport	Trade
<p><b>Islamic Development Bank (IDB)</b></p>		<p><b>Feasibility Study on Power Interconnection of the ECO member countries</b></p>	<p>A series of national projects with regional benefits, including:</p> <ul style="list-style-type: none"> <li>• <b>Alyat-Gazi Mammad Road</b></li> <li>• <b>Bishkek-Osh Road</b></li> <li>• <b>Almaty-Gulshad Road</b></li> <li>• <b>Murgab-Kulma Pass Highway</b></li> <li>• <b>Karaganda-Astana Road</b></li> <li>• <b>Taraz-Talas-Suusamyr Road Projects</b></li> <li>• <b>Shagon-Zigar Road</b></li> <li>• <b>Mary Tedjen Road</b></li> <li>• <b>Expansion and Upgrading of Osh Airport - improve quality of passengers and cargo services</b></li> <li>• <b>Reconstruction of Borovoc-Petropavlovsh Road</b></li> <li>• <b>Improvement of Aktobe and Shymkent Airport</b></li> </ul>	<p><b>Technical assistance on WTO accession</b></p>
<p><b>United States Agency for International Development (USAID)</b></p>	<p><b>Increased Environmental Management Capacity to Support Sustainable Economic Growth</b> - focus on water resources management of the Aral Sea Basin and global climate change</p> <p><b>Improved Management of Critical Natural Resources</b>, including Energy (Natural Resources Management Program) - installation of sustainable system models; improvement &amp; strengthening of regional &amp; international water &amp; energy agreements</p> <p><b>Natural Resources Management Program (Water and Energy)</b> - provide technological &amp; structural solutions to the various system changes including upgrades of energy &amp; water infrastructure</p>	<p>A more economically sound and environmentally sustainable energy system - strengthening national and regional power markets, facilitation of oil and gas exploration, production, transportation and trade</p> <p><b>Improved Management of Critical Natural Resources</b> - providing technological and structural solutions to the various system changes to meet the basic needs for water and energy.</p>		<p><b>Trade Facilitation</b> - assist Kazakhstan in setting international customs standards and procedures to join WTO and provide with post-WTO accession assistance</p> <p><b>Customs Valuation Methods</b> - support efforts towards compliance and implementation in connection with WTO membership</p>

Donor Institutions	Water Resource Management	Energy	Transport	Trade
<p>Switzerland</p>	<p><b>Integrated Water Management &amp; Irrigation in the Ferghana Valley</b> - support setup of a regional institution to address shared issues of water management</p> <p><b>Hydrometeorology Project</b> - introduce models for Syr Darya catchment areas to produce better long-term discharge estimates for the river</p> <p><b>Rehabilitation of the Nukus Discharge System</b> - modernization &amp; expansion of the discharge system</p> <p><b>Support to Country Parties of the Convention to Combat Desertification in Central Asia and South Caucasus</b> - support natural resource management, capacity building and policy and institutional reforms</p>			<p><b>Automated System for Customs Data Program</b> - modernization of administrative customs clearance procedures and assistance to anti-corruption efforts.</p>

Donor Institutions	Water Resource Management	Energy	Transport	Trade
<p><b>Japan</b></p>	<p><b>South Aral Sea Basin</b> - Environment, Economy and Public Health - production of Geo-information systems maps including information on macroeconomy, demography and other areas</p> <p><b>Rural Communities Water Supply in North Kazakhstan Oblast and Akmola Oblast</b> procurement of necessary equipment and materials for improvement of Water Supply in the project sites</p>		<p>A series of national transport projects with regional benefits:</p> <p><b>Railway Transport Capacity Development Project</b> Refurbishing transit facility etc. (Kazakhstan)</p> <p><b>Astana Airport Reconstruction Project</b> Repair of the Astana airport (construction of passenger and freight terminal building etc.)</p> <p><b>Western Kazakhstan Road Network Rehabilitation Project</b> The repair work of the superannuated road in western Kazakhstan</p> <p><b>Bishkek-Osh Road Rehabilitation Project</b> Repair of the trunk road between the metropolitan Bishkek and the second city Osh</p> <p><b>Bishkek-Manas International Airport Modernization Project</b> Repair and modernization of Bishkek-Manas International Airport</p> <p><b>Three Local Airports Modernization Project</b> Repair and modernization of 3 local airports (Samarkand, Buhara, Urgenc)</p> <p><b>Railway Transportation Modernization Project</b> Repair of an engine repair factory, modernization of a computer system, Turkmenistan</p>	<p>Training courses expert support on WTO accession</p> <p>Seminar on export control for NIS countries</p>
<p><b>Germany</b></p>	<p><b>Sub Regional Action Programme to Fight Desertification (in the framework of the Community Driven Development)</b> - sustainable management of shared rivers and other transboundary ecosystems</p>			<p><b>Advisory Project on Commercial Law for the Commonwealth of Independent States</b> – establish civil and commercial law on general and unified principles</p>

