

CENTRAL ASIA INDICATIVE PROGRAMME
(2007 – 2010)

| | |
|-----------------------------|--|
| Country/Region: | Central Asia |
| Budget Years: | 2007-2010 |
| Budget Line: | |
| Legal Base: | [Insert DCECI regulation reference] |
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1. EC response: Strategy Paper for Central Asia 2007-2013

The EC Strategy Paper for Central Asia (CA RSP) 2007-2013 was formally adopted by the Commission on **(insert date)**. CA & EU Member States, along with other donors, were consulted during the drafting process.

The CA RSP provides the rationale behind the EC's response and the priority areas which have been selected both at regional level, and for bilateral assistance at country level, encompassing all EC instruments and programmes.

The Central Asia Indicative Programme (CA IP) 2007-2010 defines in more detail the focus of assistance for the countries of the region during this four-year period. It comprises the focal priorities for regional cooperation, outlined under priority area 1: *Promotion of Central Asian regional cooperation and good neighbourly relations*, and the focal priorities for bilateral assistance programmes outlined under priority area 2: *Poverty reduction and increasing living standards*, and priority area 3: *Support for good governance and economic reform*. Coherence of EU policies and complementarity both between EU-based programmes and instruments and those of other donors will be pursued in all areas of cooperation. This issue is particularly relevant for linking the Central Asia Indicative Programmes with the European Neighbourhood and Partnership Instrument (ENPI), especially the ENPI Regional - East Indicative Programmes.

Strategic context

The European Union's relations with Central Asian countries have a similar contractual basis to those with countries under the ENPI. The Partnership and Cooperation Agreements that have been agreed with each of the region's five states are built around the same two major commitments, namely to align their respective legal frameworks with that of the EU, and to undertake regulatory convergence. In this context, the five countries of Central Asia have benefited from the Technical Assistance Programme to the Commonwealth of Independent States (TACIS) for the last fifteen years, in the same way as Russia and the other ex-Soviet republics, which are now covered by the ENPI. The TACIS Programme, as the most important donor technical assistance grant programme to the countries of Central Asia, has contributed in a major way to the establishment of a new legal order and socio-economic framework in these newly independent States, based broadly along the lines of the EU "acquis communautaire", norms and standards. The leaders of Central Asia have constantly used the European Union as the reference point for the political, economic and social transition of their countries. This specificity of Central Asia compared to the other geographical areas and countries covered by the DCECI Regulation is reflected by a specific Central Asian article concerning the priority domains of cooperation.

In this context, the focus for the period 2007-13 must ensure continuity with the approach taken by the EU under the new regional Strategy for the Central Asia adopted in October 2002 for the period 2002-2006.

It should be remembered that the latter Strategy for Central Asia was drawn up in the aftermath of the events of 11 September 2001, when the European Union decided to enhance substantially its relations and cooperation with the countries of Central Asia. In particular, with the EU enlargement and the new external policies concerning Russia and the neighbouring states, the countries of Central Asia have become essential neighbours in the "Neighbourhood Policy" and "Common Spaces" areas where the shift towards harmonisation with the European Union is being accelerated still further. This policy change is going to have immediate implications both for the relations of Central Asia with the European Union and for their own political, economic and social policies and reform agendas.

For over ten years, the countries of Central Asia have been fully involved in the Tacis Regional and Inter-State programmes as equal partners with the other CIS countries, candidate countries and new EU Member States in strategic areas such as energy, transport, environment and education. They have subscribed, for instance, to the TRACECA multilateral agreement on transit and transport, the INOGATE Umbrella Agreement on gas and oil, the EC-supported Environment for Europe Process, the EU Water Initiative for Eastern Europe and Central Asia, and they have been eager to align the reform of their higher education systems with the Bologna Process, in particular through the TEMPUS programme. All these existing EC

supported programmes are being given a new impulse through political dialogue mechanisms and high prioritisation under the ENP and Common Spaces policies, such as the “Baku Initiatives” in energy and transport or the EU Water Initiative in which Central Asian countries are fully participating.

2 Indicative budget and focal priorities

During the 2007-2010 period covered by this Indicative Programme, a total EC grant of ~ € 325 million is planned for Central Asia under DCECI,¹ an average annual budget of € 81,5million per year. Indicative average allocation to *Promotion of Central Asian regional cooperation and good neighbourly relations*, is set at

€ 24 m per year, and € 57,5 million per year is assigned for the assistance programmes at country level.

The following indicative (preliminary) budget from priority areas 2 and 3 have been tentatively allocated by country: Kazakhstan: 20% (~ € 12 m/yr); Kyrgyzstan: 25% (~ € 15 m/yr); Tajikistan: 30% (~ € 18 m/yr); Turkmenistan: 10% (~ € 6 m); Uzbekistan: 15% (~ € 8 m/yr) .

2.1 -Indicative budget

Regional cooperation

| Focal and Non-focal Sectors (Regional) | Indicative preliminary budget |
|--|---|
| <ul style="list-style-type: none"> • Education • Energy • Transport • Environment • Border management | <ul style="list-style-type: none"> • 22-26 million € (8%) • 20-22 million € (7%) • 12-14million € (5%) • 12-14 million € (5%) • 12-14 million € (5%) |
| Total Regional Central Asia | 95-105million € (30-35%) |

The priorities for Central Asia regional cooperation are mostly aligned with the priorities and objectives for the Regional Strategy-East 2007-2013 of the European Neighbourhood and Partnership Instrument (ENPI) and associated Indicative Programme 2007-2010, and will thus enable Central Asian states to participate in the regional cooperation mechanisms put in place to implement the ENPI regional programmes. In this way, Central Asian countries will continue to be anchored to the framework of the European Neighbourhood Policy and the Common Spaces with Russia. Regional cooperation programmes for Central Asia under this IP will essentially be focusing on activities that are complementing and in synergy with corresponding sectoral ENPI initiatives and programmes. Consolidation and valorization, building on what has been achieved in the past in these sectors through TACIS regional assistance programmes and now enhanced through ENPI regional programmes will be given special attention.

- Regional cooperation should facilitate the participation of the Central Asian countries in the regional cooperation mechanisms which have been put in place to implement the ENPI regional programme.

- One of the conditions for successful regional cooperation will be the government’ commitments as a stakeholder to engage and develop its policy and capacity at national level to facilitate the implementation of these programmes.

- Given previous experience under Tacis regional and inter state cooperation with the five Central Asia countries, it is clear that programmes and projects specific for the region will be developed on a variable geometry format (e.g; not all countries will take up all options available under regional cooperation), but every attempt will be made to encourage proactive participation by countries concerned when conditions are met.

- Cooperation with IFIs will be an important component in supporting the implementation of regional cooperation, including for the facilitation of investments at policy and project level.

¹ This figure is based on the position of the Commission (14/02/06) following the Council’s final agreement on future Financial Perspectives.

Bilateral cooperation

| | |
|---|---|
| National <ul style="list-style-type: none">• Kazakhstan approx. 20%• Kyrgyzstan approx. 25%• Tajikistan approx.30%• Turkmenistan approx.10%• Uzbekistan approx.15% | <ul style="list-style-type: none">• 48-50 million €• 58-60 million €• 70-75 million €• 23-25 million €• 30-35 million € |
| Total Bilateral Central Asia | 220230 million € (65-70%) |

Bilateral assistance programmes will be drawn up for each of the five Central Asian countries in priority areas No 2: “**poverty reduction and increase in living standards**”, and No 3: “**good governance and market economic reform**”. The possible scope in the focal areas for action described below under these priority areas will be further refined at country level during the identification, formulation and appraisal of the Action Programmes, in line with the analysis developed for each country, viz. Country –Profile in Annexe 3 To maximise results and impact, not more than two focal sectors and one non-focal sector per country will be selected. Selection will aim to support sectors with a reform agenda, starting from the analysis, criteria and indicative EC response strategy in Annex 2.

Progress, experience and priorities at both regional and country level will be assessed through dialogue with the authorities concerned, EU Member States and other donors involved in an effort to optimise synergy, complementarity and aid effectiveness.

2.2 Focal priorities

During the CA IP 2007-2010, the priority areas will be as follows

Regional cooperation

Priority Area 1: Promotion of Central Asian regional cooperation and good neighbourly relations

Focal priorities:

1. Networks: Transport, Energy and SME regional cooperation, with focal sector on energy.
2. Environment, with focal sector on water.
3. Border and migration management, fight against transnational organised crime, and customs.
4. Promotion of educational exchanges, scientific and people-to-people activities as the major focal sector.

Bilateral cooperation

Priority Area 2: Poverty reduction and increasing living standards

Focal priorities:

1. Regional and local community development
2. Support for sector reform in rural development and social sectors

Priority Area 3: Support for good governance and economic reform

Focal priorities:

1. Democratic development and good governance:
 - Promotion of civil society, social dialogue and democratic processes.
 - Promotion of Judicial reform and rule of law.
 - Improvement of Public administration and Public Finance management.
2. Implement Trade and Market regulatory reforms, and administrative capacity building.

Priorities for Central Asia Indicative Programme 2007-2010

3. Priority area 1: Promotion of Central Asia regional cooperation and good neighbourly relations

3.1 Principal objectives

The principal objectives of EC regional assistance to the countries of Central Asia are:

To facilitate and advance cooperation in areas of mutual interest and benefit between the Central Asian countries themselves and with the EC and partner countries. This complements the objective of developing increasingly closer relationships with CA partner countries and encouraging their gradual democratic and economic transition within the respective national programmes.

To provide assistance in order to achieve common objectives in synergy with those pursued under the European Neighbourhood Programme and Common Spaces (with Russia) policy where there is clear benefit to be had from regional-level assistance. These benefits can be of a long-term nature, and include fostering greater cooperation within the region, which results from complementarities and pull effects as well as from economies of scale and the avoidance of duplication of effort.

Focal areas and priorities for promoting regional cooperation in Central Asia reflect closely those adopted under the ENPI Regional Programme, comprising:

- i) Networks and market integration
- ii) Environment
- iii) Border and Migration Management, Fight against transnational organised crime, and Customs
- iv) Educational exchange, Science and Technology, People-to-people and civil society activities

The five Central Asian countries which were covered under the previous Tacis 2000-2006 RSP and Indicative programmes will, from 2007, be covered by this Regional Strategy paper for Central Asia, and by EU assistance to Central Asia under the Development Cooperation and Economic Cooperation Instrument (DCECI). To ensure continuity with the Regional Cooperation Programme 2000-2006 and associated assistance under the Tacis Regional Programmes, the five Central Asian Republics of Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan may also benefit from funding through the ENPI Eastern Regional Programme on the basis of Art. 27 of the ENPI Regulation.² In particular, to ensure best impact and synergy, the priorities for the specific CA regional

² "To ensure the coherence and effectiveness of Community assistance, the Commission may decide when adopting action programmes of the type referred to in Article 12 or the special measures referred to in Article 13, that countries, territories and regions eligible for Community assistance under the Pre-Accession Instrument or the financing instrument for development and economic cooperation and the overseas countries and territories associated with the Community are eligible for measures under this Regulation where the project or programme implemented is of a global, regional or cross-border nature." The principles for funding the Central Asian Republics' participation in ENPI

actions in energy, transport, environment will be defined in the frame of the relevant ENPI regional programmes and reflect their

3.2 Focal Priorities

3.2.1 Focal priority 1: Energy, Transport Networks and Markets integration

Strategic context

Increased economic and trade relations between the EU and Central Asian countries are anticipated as a result of the EU enlargement process and increased integration under the ENP/"Four Common Spaces" policies. For this reason, it is of crucial importance to, and in the mutual interest of, the EU and its Central Asian partners to further develop networks and business links. The EU's interest in increasing the share of Central Asian sources in its energy mix is also a strategic consideration to be taken into account.

In the Energy sector, at the Ministerial Conference "Energy Cooperation between the EU, the Caspian Littoral States and their Neighbouring countries" - Baku, Nov. 2004, the EU and twelve partner States, including Central Asia states, agreed on their mutual interest in supporting the gradual development of regional energy markets and their regulation in the Caspian littoral states and neighbouring countries to facilitate the gradual integration in the future with the EU market and enhance capacity to attract funding for new energy infrastructure; to move regional energy cooperation beyond its traditional focus on the hydrocarbon sector to include discussions on electricity, energy efficiency and renewable energy sectors. The Conference participants established four expert working groups to address the following issues:

- approximation of the legal and technical standards with a view to creating a functioning integrated energy market in accordance with the EU and international legal and regulatory framework;
- enhancement of the safety and security of energy supplies;
- improvement of energy supply and demand management through the integration of efficient and sustainable energy systems; and
- promotion of financing of commercially and environmentally viable energy projects of common interest.

The Conference Participants agreed to use the INOGATE Programme structures as the mechanism for facilitating the objectives of this enhanced cooperation. A Central Asia field office of the INOGATE Secretariat will be established in Astana for this purpose in 2006. A second Ministerial Conference designed to reinforce this cooperation and supporting mechanisms is planned in November 2006 in Kazakhstan.

Enhanced regional cooperation in the energy sector has been recognised as a prerequisite for achieving sustainable economic and social development, and contributing to peace, stability and prosperity in the region.

Developments in the Transport sector will be in accordance with the objectives of the Commission's communication on the extension of TEN-T axes,³ the conclusions of the Baku Ministerial Regional Transport Conference of November 2004, in which the Central Asian countries participated, and with the agreement reached between the EU and the Russian Federation on the Four Common Spaces aiming at the

Programmes through the ENPI Eastern regional programme will be that, in each case (Ref: ENPI Eastern Regional Indicative programme 2007-2010):

- 1) There should be clear added value in cross-regional cooperation in terms of building on existing linkages, activities or structures, or on increasing cooperation between the regions.
- 2) Where the 'centre of gravity' of the activity is in the ENPI Eastern region, with the majority of activities taking place within the ENPI Eastern region, it may be funded through the ENPI Instrument.
- 3) Where activities primarily take place in, or primarily benefit the Central Asian republics, they should be funded from the DCECI Instrument.
- 4) There must be a clear and coherent link with the DCECI Central Asia Regional Strategy and Indicative Programme.

³ *[INSERT REFERENCE]*

gradual integration of transport markets and the establishment of efficient pan-European Corridors. Whereas the TRACECA programme set up a basis for cooperation between countries along the transport corridor from the EU through South Caucasus to Central Asia, the Commission organised a Ministerial Conference on Transport, including the Central Asian states -14th November 2004, Baku- in order to enhance EU transport cooperation with the wider Black Sea-Caspian region with a view to gradual integration of transport markets. The decision was taken to create the following four joint Expert Working Groups, which all met during the course of 2005, in order to define priorities for joint cooperation in:

- Infrastructure: Based on the recommendations of the “High Level Group on the extension of the large trans-European transport axes to neighbouring countries and regions”, it also concerns the promotion of related key investments (financing) and administrative measures, along with application of the EU’s satellite-based navigation system Galileo.
- Road and rail transport (incl. road safety, rail interoperability, transport of dangerous goods).
- Aviation (incl. bilateral relations, air safety, air traffic management, traffic rights); intercountry aviation services in Central Asia are very poor. Opening up air travel is crucial, in a region where road connections are impassable for much of the year due to mountain or steppe desert climatic conditions, underinvestment, etc., and rail travel unusable or non-existent. International air travel should be encouraged by improving airports to international standards, but also removing monopoly barriers to develop air traffic services.
- Security in all modes of transport.

A second Transport Ministerial Conference wrapping up the results and adopting recommendations from the four Working groups will be held in May 2006 in Sofia.

Enhanced trade and investment is at the heart of the PCAs. Better access to European markets, and increased foreign investment opportunities can offer the possibility of sustainable economic development in Central Asian partner countries. As such, the facilitation of SME networks between the EU, ENPI and Central Asia will make for a mutually beneficial exchange of information, and will thereby facilitate the development of an improved business climate and enhanced foreign direct investment and export opportunities throughout the broader region.

For this area as a whole, it should be noted that the CA country programmes might also provide support with regard to legislative alignment and sector reform. To ensure efficient implementation in the sectors concerned above, it will therefore be necessary to develop synergy between the regional and national level priorities and relevant actions financed within country bilateral programmes.

a. Long-term impact

To enhance long-term cooperation both between Central Asian countries and the EU and ENPI countries, and within Central Asia by addressing key transport and energy issues through the regional convergence of policies, the gradual integration of markets as required under EU and international legal and regulatory frameworks, and through the promotion of closer ties between EU and Central Asian SMEs.

b. Specific objectives

Energy

The energy will be a major focal sector under the CA IP regional programme 2007-2010.

- Improve energy supply and demand management through regional integration of efficient and sustainable energy systems, including energy efficiency, technology transfer and diversification of sources within the region and with the EU.
- Ensure progressive approximation of norms and standards, including statistical standards and convergence of policies with a view to creating a functioning integrated energy market in line with legal and regulatory frameworks.
- Promote the financing of commercially and environmentally viable investments of common interest to be identified on the basis of pre-defined criteria.
- Enhance the safety and security of energy supply through:
 - the extension and modernisation of existing infrastructure,
 - the development of a new energy infrastructure, with a particular focus on improving network interconnections,
 - the implementation of modern operation monitoring systems.

Transport

- Encourage CA countries to link up their transport infrastructure with EU-bound transport Networks and pan-European Corridors in line with the recommendations of the High Level Group on the extension of trans-European transport axes to neighbouring countries and regions.
- Provide regional level assistance for the progressive integration of Central Asian and ENPI Eastern countries' transport markets, the gradual regional convergence of policies and approximation of EU norms and standards, and the effective implementation of international agreements in the transport sector, including on environment, transport security, environmental standards, and the improvement of legal certainty and safety standards in the road, rail and maritime transport sectors. Improve interoperability in the rail sector.
- Improve performance and services in the areas of aviation safety and the alignment of air traffic management, and maritime and aviation security to international standards, including through adoption of open skies-oriented policies.

SMEs Regional Cooperation

- Establish closer links between businesses, in particular SMEs in the EU, ENPI and Central Asian countries, and promote mutual trade and investment.
- Enhance relations with EU counterparts to increase mutual trade, transfer of technology (BAT), and investment, as well as exchange of best practices and expertise.

c. Expected results

Energy

- Improve energy management and infrastructure.
- Increase operational safety and reliability of energy transport infrastructure, and reduce the environmental impact of energy/transport systems.

- Increase IFI financing.
- Encourage progress in reforms of the energy sector.
- Increase trade, investment, technology transfer and diversification of sources in the region and with the EU.

Transport

- Increase transport flows (volume and value), institutionalise cooperation in transport security, notably in aviation, maritime and land transport, and the security of supply chain, and implement all international agency (ICAO, IMO, UNECE, WCO, ILO, etc.) and EU safety and security recommendations in all modes of transport.
- Identify a feasible work programme of enhanced cooperation on rehabilitating the existing transport infrastructure, and creating new priority transport infrastructure, notably based on the recommendations of the High Level Group (in particular the connections between Trans-European Networks, TRACECA, Pan-European corridors and other corridors) to make for the financing of commercially and environmentally viable investments of common interest.
- Take concrete measures to increase the understanding of the impact of EU enlargement on the flow of goods between the EU, Black Sea/Caspian littoral States and neighbouring countries.
- Make measurable progress through enhanced cooperation and harmonisation in the areas of road, rail and maritime transport on issues such as road safety, professional competence of operators, rail interoperability, inter-modality and the safe transport of dangerous goods, including hydrocarbons, with the aim of gradual harmonisation of networks and standards.
- Strengthen bilateral relations and regional cooperation in the area of civil aviation on common policy objectives, improve air navigation services, safety performance, efficient air traffic management, flight safety operational requirements and airport safety regulations, in line with EU standards.

SME Regional Cooperation

- Develop closer linkages between SME businesses in the EU, ENPI and Central Asian countries, sustainable partnerships and relations between them, and support the exchange of experience and best practices.
- Promote greater mutual understanding and increased capacity of the EU and Central Asia SMEs.
- Enhance foreign direct investment prospects and export capabilities, particularly for SMEs.

d. Indicators of achievement

Long-term impact level

- Enhanced regional cooperation in the Energy sector – trade, investment, technology transfer and diversification.
- Improved safety and security and the gradual integration of energy markets.
- Expanded and sustainable cooperation and cooperation mechanisms between partner countries in the Transport field, leading to increased transport flows, and to enhanced safety and security in all modes of transport.
- Increased economic opportunities for CA partner countries/EU cooperation.

Specific objectives level

- Implementation of best practice and international standards in air and maritime safety.
- Quantifiable progress in improving the safety, efficiency, sustainability and environmental impact of energy infrastructure, e.g. improvement of GNP/unit energy ratio (energy intensity) to OECD/IEA comparable levels.
- Reforms of energy markets, including approximation of legal and technical standards with the EU and international legal and regulatory framework.
- Increased leveraged IFI funding in the energy and transport sectors.
- Increased IFI, commercial and government investments for key transport infrastructure corridor projects which have been agreed, concentration on most important links which are of interest to regional cooperation.
- To increase use of advanced technologies, such as the use of relevant satellite communication tools (GMSR) for rail management and other transport systems.
- Implementation of the recommendations of the High Level Group on the extension of trans-European transport axes to neighbouring countries and regions including facilitating seamless rail traffic, administrative and technical interoperability.
- Increased approximation with EU legal framework and standards, and effective implementation of international agreements in the transport sector, including on transport security, resulting in increased integration of ENPI Eastern and Central Asian countries' transport markets.
- Existence of working structures for building and maintaining of business links and relationships; number of new contacts for SMEs.

3.2.2 Focal priority 2: Environment

Strategic context and justification

Environmental protection, including biodiversity conservation, nature protection and land degradation, and the sustainable management of natural resources are key issues for the region. Support for regional cooperation will focus on support for key processes in the water and forestry sectors, on addressing industrial pollution and climate change, on information and civil society, and also on cooperation in the environment field.

Action in the environmental field in Central Asia brings significant economic and social benefits in terms of poverty reduction and the attainment of the Millennium Development Goals (MDGs). Effective environmental policies also help economic efficiency and raise productivity, in particular by improving the water supply for agriculture and energy sectors, but also by applying cleaner and more modern technology and management techniques, and by meeting internationally recognised standards, including statistical standards. In addition, such policies will ultimately reduce vulnerability and risks related to natural disasters. This facilitates greater export access to foreign and European markets, enhances the climate for foreign investment, and attracts new processes that yield economic benefits by reducing the wasteful use of energy, water and raw materials. It also reduces future clean-up costs, and cuts the risk of accidents and environment-related diseases, which still cause much human distress, disruption of the reform process and loss of productivity in Central Asia.

In the Water sector, EU assistance will provide support for the regional aspects of the EU Water Initiative (EUWI), including integrated water resources management and trans-boundary river basin management. Assistance may also focus on the prioritisation of actions in the sector, the support of IFI investments in water infrastructure,⁴ and cooperation concerning the Caspian Sea ; support to facilitate compliance with Multilateral Environmental Agreements is linked to these international cooperation areas.

⁴ As reiterated by the Ministerial Conference on Financing the Water Supply and Sanitation, in Yerevan, 18 November 2005

Climate change is one of the four priority areas of the EU's Sixth Environmental Action Programme, and has a growing importance in the context of an enlarged EU. Regional assistance will therefore focus on joint implementation of the Kyoto Protocol and its related mechanisms, emissions trading, and technical assistance for regional studies and workshops in support of these priorities. This work will follow up on the climate change component in the Tacis Regional Indicative Programme 2004-2006.

Land management, including biodiversity, preventing land degradation and desertification is a central problem in the region. Improved land management could be assisted by cooperating within the ENP programme to improve forestry management (the so-called Forest Law Enforcement and Governance for Europe and North Asia – FLEG – initiative, adopted at the St Petersburg Ministerial Conference in November 2005.). EU regional assistance in this area will focus on those parts of the programme relevant to Central Asia, where illegal or excessive logging for heating and cooking is rife, leading to serious land degradation. De-afforestation occurred over much of the region in the 20th century and combating the problem is a priority for sustainable land use today, including in the mountainous areas.

Awareness raising and regional and sub-regional cooperation between civil society groups is particularly important in the environmental sector. Where high-level cooperation may sometimes be less easy, there are good prospects for lower-level cooperation in environment, and bottom-up changes in attitudes and practices can lead to real change. Regional Assistance in this area will include continued support to raise environmental awareness in the region and promote civil society cooperation with due regard for existing mechanisms such as the Central Asia Regional Environment Centre.

a. Long-term impact

Improved and sustainable use and management of natural resources, particularly water, management of forestry resources including mountainous and other natural areas, to reduce the effects of climate change, and increase environmental cooperation and awareness and to reduce the impact of natural disasters.

b. Specific objectives

- To support the regional aspects of the EU Water Initiative, including:
 - Integrated water management and transboundary river management, and cooperation on Caspian Sea.
 - Technical support for WSS policy reforms and leverage of IFI investment in water infrastructure.
 - Strategic work to prioritise and prepare actions.

Water will be the major focal sector for environment in the CA IP Regional Programme 2007-2010.

- To support the improved and sustainable management of forests and forestry resources, and greater regional cooperation through assistance for regional aspects of the indicative actions of the FLEG Ministerial process, including:
 - Adjusting forestry law and regulations to combat illegal logging and corruption and create enabling conditions for sustainable forest management and forest use that permit flexible, cost-effective solutions.
 - Identification of the most vulnerable trans-boundary areas in relation to illegal timber trade and cooperation on ways to reduce their vulnerability to cross-border trade in illegally harvested products, through customs law enforcement, timber tracking systems along the chain of custody, and improved public databases on cross-border trade.
 - Sustainable management of forestry resources, including mountainous and other natural areas.
- To give regional support to the implementation of the Kyoto Protocol, including:

- Assistance in monitoring and reporting on the Kyoto mechanisms (Joint Implementation and CDM).⁵
- Regional assistance on policy adaptation and emissions trading.
- To enhance cooperation on monitoring (Kyoto Protocol principles).
- To raise environmental awareness in the region through regional and sub-regional civil-society and private sector cooperation.

c. Expected results

- Implementation of the EU Water Initiative and related goals of the Central Asia Initiative for Sustainable Development, including the MDGs relating to water, forestry and health (child mortality).
- Improved practice and sustainability in the Forestry sector, and increased regional cooperation through the FLEG process.
- Biodiversity conservation, nature protection, and measures against land degradation.
- Improved implementation, monitoring and reporting on the Kyoto Protocol.
- Increased environmental awareness and civil society cooperation, including implementation of the Aarhus Convention.
- Improved cooperation on environmental data collection, monitoring and assessment.
- Reduced vulnerability to natural disasters.

d. Indicators of achievement

Long-term impact level

- Increased regional cooperation and commitment in the sustainable use and management of natural resources, especially water and nature protection, reduction in the effects of climate change and of natural disasters, and increased environmental cooperation and awareness.

Specific objectives level

- Increased IFI investment in the water sector, overhaul of the water supply and drainage networks (% access of population to safe water and improved sanitation - cf. relevant MDG indicators)
- Establishment of trans-boundary river management mechanisms and increased cooperation on regional seas, as well as a reduction of water losses.
- Implementation of Forestry Law reforms and reversal of deforestation.
- Reduced illegal logging and trade in illegal timber.
- Preserved biodiversity.
- Reduced land degradation.
- Implementation of Kyoto monitoring mechanisms.
- Reduced emissions of greenhouse gasses.
- Increased environmental awareness and access to information on environment.
- Reduced vulnerability to natural disasters.

⁵ **REFERENCE**

3.2.3. Focal priority 3: Border and Migration Management, the Fight against Organised Crime, and Customs

Strategic context and justification

The creation of the borders in Central Asia has sometimes disrupted traditional trade routes and family ties. For these reasons, and because of poor practices and high levels of corruption, border services are often a source of resentment to local populations.

Many borders between partner countries in Central Asia are still poorly controlled and managed, in part due to the changing role of border guards as the countries make the transition towards market economies and democracy, and partly due to border guards being underpaid and badly resourced. This, combined with the geographical location of the region between the EU and Asia, the proximity of Afghanistan and China, weak institutional capacity in migration management, and the poor human rights record of some countries, means that assistance in the field of legal and illegal migration is also of vital importance.

Due to the slow demarcation of borders, lack of resources and large legal and illegal migration flows, border services and other authorities concerned face continued challenges in managing their borders and the circulation of people and goods. Three types of challenges can be identified: 1) weak border control capacity, exacerbated further by the withdrawal of Russian border troops from the Tajik/Afghan border; 2) an old conception of border management based on military closure of the border; 3) a lack of coordination between the relevant services and a piecemeal approach to assistance by international donors.

The fight against organised crime, financial crime and terrorism is also linked to border security issues. The region represents a key trafficking route for arms, illegal drugs and human beings. Assistance in the fields of migration and asylum, and the fight against organised crime, including trafficking and related police/judicial reform, is foreseen at regional level under ENPI, as it allows increased regional cooperation for an issue with major trans-border dimensions, the potential for sustainable cooperation mechanisms, and economies of scale for certain activities, such as legal harmonisation and training. This also applies for Central Asia.

The following challenges exist when dealing with migration: 1) Central Asian countries (especially Uzbekistan, Kyrgyzstan and Tajikistan) are becoming a source of (mainly illegal) migratory flows towards Russia. Due to the lack of information and to other reasons there is also high potential for vulnerable categories of people to become victims of traffickers of human beings, notably women, while the interest and capacity of the law enforcement agencies to fight against this phenomenon remain very limited; 2) Central Asian countries are the destination of asylum seekers from within the region (for instance, Andijan and Chechens from Russia) or from outside the region (Afghans, Uigurs); 3) While mobility of the population within the region is high, all the Central Asian States are inclined to put in place restrictive measures which prevent immigrants (including legal ones) from integrating.

As part of a comprehensive European “consecutive filters” approach, the EC has launched also assistance programmes in Central Asia, notably on border management (BOMCA), drugs (CADAP) and customs. BOMCA provides the framework for an integrated border management programme which aims to make the control functions at the border more effective while at the same time facilitating the legal flow of persons, trade and transit. The strategic components of BOMCA are three-fold: 1) policy advice and legal and institutional reform; 2) national capacity building (including training curricula and infrastructure); and 3) demonstration projects in pilot border regions for future Government or donor replication. The overall objective of CADAP is to foster a development-oriented drug control strategy in Central Asia that ensures a sustained reduction of drug consumption and trafficking in line with the European Commission’s drug strategies, the EU-Central Asia Action Plan on Drugs and the international cooperation objectives of the EU Drugs Strategy 2005-2012. While the reform of Customs services is primarily an issue requiring action at national level, regional level intervention, such as regional training in systems and best practices, can usefully complement this, with the added benefit of enhancing regional cooperation in the area.

a. Long-term impact

To gradual adoption of a modern integrated border and migration management systems and cooperation, thereby facilitating trade and people flows through borders while combating trans-national organised crime and terrorism, through the optimisation of existing instruments and better cooperation and coordination among CA states, –notably on trafficking of WMD-related material, SALW, drugs, human beings, and money laundering.

b. Specific objectives

- Creation and improvement of integrated border management systems through comprehensive technical assistance, as well as selected pilot border zones.
- Enhanced regional cooperation and exchange of information and experience across borders, both within the region and with EU MS.
- Complementing national capacity building through regional capacity building and transfer of know-how.
- Combating international terrorism and organised crime, including trafficking in arms, drugs, and human beings, and implementing effective Financial Intelligence systems.
- Ensuring that law enforcement agencies function so as to uphold the rule of law and respect for human rights and decent work standards.
- Creating more effective migration management and internationally comparable statistics on migration.
- Improved cooperation between customs administrations, particularly at the borders, and increased use of common practices.
- Alignment of legislation on customs to internationally recognised standards with a view to facilitating trade.
- Promotion of international standards to ensure security of the international supply chain (WCO Framework of Standards).
- Better control of IPR (Intellectual Property Rights).

c. Expected results

- More effective and safer frontier crossings, leading to improved stability and security in the region.
- Establishment and improvement of regional, sub-regional and bilateral cooperation mechanisms for cooperation between law enforcement bodies, border guards and customs and in the field of asylum and migration management, including enhanced cross-border cooperation among border authorities (exchange of information, advancement towards joint border crossing points, joint patrolling or controlled deliveries for drugs).
- Increased effectiveness and technical capacity of law enforcement bodies, border guards and customs services.
- Harmonisation of procedures at regional level and gradual adoption of EU good practice, including integrated border management and drugs-related legislation.
- Enhanced cross-border cooperation among anti-drug authorities (including controlled deliveries).
- Enhanced exchange of confidential information and intelligence on drug trafficking at regional level and enhanced cooperation with Europol and Interpol.
- More effective migration management.
- Better understanding and shared information, and increased cooperation regarding migratory flows.
- Increased capacity to prevent and repress trafficking of human beings.
- Facilitated circulation and integration for legal migrants; more effective assistance to asylum seekers.
- Creation of a modern customs administration oriented towards facilitating the exchange of goods, whilst implementing controls at the required level of quality.
- Organisation of efficient customs services applying procedures based on harmonisation with international standards.

d. Indicators of achievement

Long-term impact level

Enhanced border and migration management cooperation and systems, increased trade flows and more effective combating of trans-national organised crime and terrorism through increased cooperation in the region.

Specific objectives level

- Reduction of delays and costs at border crossings; improved trade.
- Regional training programmes/sessions.
- Increased cooperation activities and the establishment of cooperation mechanisms.
- Increased financial crime detection rate.
- Increased detection rate of traffickers and number of traffickers and smugglers of human beings prosecuted.
- Improved technical equipment and expertise.
- Establishment of migration monitoring systems.
- Increased detection/reduced number of illegal immigrants and victims of trafficking in human beings.
- Effective refugee status determination procedures in line with international standards and increased asylum applications processed as a proportion of applications.

3.2.4 Focal priority 4: Educational Exchange, Science and People-to-people Activities

This priority will be the major focal sector under the CA IP Regional Programme 2007-2010.

a. Long-term impact

Contribute to democratic development, social stability and economic transition, as well as enhancing regional cooperation through the facilitation of educational exchange, science and technology cooperation and people-to-people contacts.

b. Specific objectives

- Reform and upgrade higher and technical education and training systems, including through exchange programmes.
- Strengthen links between EU and CA scientific and research communities.
- Exchange information about the Information Society policies and the ICT part of the 7th Framework Programme for R&D and about the Central Asia national programmes.
- Enhance cooperation between people, social partners and civil-society organisations from different countries in the region, and between them and the EU, allowing the establishment of sustainable contacts and collaborative initiatives, actions, and mechanisms, such as Regional Environmental Centres.

c. Expected results

- Enhanced quality and capacity of education, training and research systems and their convergence with EU standards and practices, including through reinforced participation in relevant exchange programmes.
- Improved civil society and people-to-people contacts across borders.
- Events bringing together organisations and people from different partner countries.
- Possible trans-boundary civil society initiatives.

d. Indicators of achievement

Long-term impact level

- Social and enrolment indicators, and standards of higher and technical education systems.
- Increased and sustainable trans-boundary people-to-people contacts.

Specific objectives level

- Improved higher and technical education and training systems to be judged in terms of level of convergence with EU standards /practices.
- Increased participation of Central Asian nationals in relevant exchange programmes.
- Better scientific and technological cooperation linked with Central Asia interests.
- Support for the interconnection of the Central Asia National Education and Research networks (NREN) with their European counterparts.
- Establishment of people-to-people contacts through EC-funded trans-border initiatives and mechanisms for civil society cooperation.

4. Priority area 2: Poverty reduction and Increasing Living Standards

4.1 Strategic context and justification

Despite the abundance of natural resources, income levels in Central Asia (CA) for around 50% of the population remain at or below the poverty level, with the greatest concentration of poor in rural areas. Despite some recent progress, the existence of widespread poverty and structural food insecurity affecting large sections of the population poses a threat to Central Asia stability and security. According to World Bank (WB) statistics, approximately 50% of the region's population (excluding Kazakhstan) are living below the poverty line of 2.15 USD per day. Poverty reduction, improved food security and living standards remain a primary objective of Central Asian governments. Poverty Reduction Strategy Papers (PRSP) and updated PRSP Action Plans are been prepared by Kyrgyzstan and Tajikistan in 2006, as part of the second phase of implementation of poverty reduction policies. Uzbekistan is preparing a similar document following the draft National Living Standard Strategy in 2004, whilst Turkmenistan has put the improvement of living standards at the core of its National Development Plan to the year 2020. It is therefore appropriate and in full compliance with EU Development Policy that EC assistance to Central Asia has a major focus on actions leading to a reduction in poverty levels and social inequality, and an improvement in food security and living standards of the population, particularly in the provinces and rural areas. While reforms pursued at central level by the government needs to be supported , the proven weakness of public finance management, policy formulation and implementation in poorer Central Asia countries requires also continuous direct support in the field through rural development schemes to ensure an effective and visible impact of EC assistance on the local populations.

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Following approach adopted by other major donors in the region, the Central Asia Indicative Programme will deal with poverty reduction and enhancing living standards concurrently at two levels: firstly at central government level, through support for sector reform programmes in agriculture and land reform and for social protection, which are also linked to food security , if the required conditions are met, and secondly at local level, to help extend and modernise regional/local infrastructure, promote productive employment, decent work opportunities and local economic activities and improve social protection and the quality of social services. Capacity of local public authorities to develop, implement and monitor programmes aimed at improving living standards and ensuring access to social services by the poor in accordance with the Millennium Development Goals will also be supported. To ensure maximum impact and sustainability, EC assistance will continue to be targeted at a few specific geographical areas identified in the previous CA Strategy as presenting the highest risks to regional security and stability, and in the greatest need of better cross-border cooperation, e.g. the Ferghana valley and Southern Tajikistan.

4.2 Focal priorities

4.2.1 Focal priority 1: Regional and local community ——— development

This area will be a focal priority for Kyrgyzstan, Tajikistan and Uzbekistan

Long-term impact

The expected long-term impact is to contribute to a reduction of poverty levels and social inequality and to an improvement in the stability and security of Central Asia, especially in the Ferghana valley (Kyrgyzstan, Tajikistan and Uzbekistan) and Southern Tajikistan.

b. Specific objectives

The specific objective to be pursued is the improvement of living standards and employment and income generation opportunities at community level through the upgrading of existing infrastructure at local and regional level, the development of agriculture and social services, improvement in social safety nets and enhancement of local economic development in targeted geographical areas. Informed choice of appropriate measures will be made on the basis of earlier experience and complementarity with ongoing programmes and other donor activities in the field.

c. Expected results

- Extended/modernised regional and local infrastructure (e.g. road rehabilitation, water supply and sanitation, waste-related infrastructure, energy including energy efficiency initiatives).
- Improved provision of, and access to, quality services, including for agriculture, marketing of products, training, education and health care and social protection.
- Strengthened cooperation, improved cohesion and partnership mechanisms and models among producers, communities, local authorities, universities, private and non-profit sectors aimed at increasing efficiency and generating new income and employment opportunities that can be disseminated and replicated in other districts and regions.
- Strengthened capacities of local public authorities and self-government bodies and participation of civil society for effective governance.

d. Indicators of achievement

Long-term impact level

- Improved national statistics showing decreasing poverty levels; PRSP implementation reports.

Specific objectives level

- Improved local socio-economic indicators and data collected through living standard surveys of local communities (re: MDGs goals in target areas).

4.2.2 Focal priority 2: Sector-specific reform aspects and administrative capacity for agriculture and land reform (Tajikistan and Turkmenistan) and social sectors (Kyrgyzstan, Tajikistan), in line with PRSPs or other similar national strategies

a. Long-term impact

The long-term impact is to contribute to the development, implementation and monitoring of effective pro-poor policies and social safety nets, reducing hunger and poverty.

b. Specific objectives

The specific objective is to achieve administrative reforms, to develop policies and improve the capacity and efficiency of authorities to carry out sectoral reforms and programmes aimed at poverty reduction, enhancing living standards and food security, including of those administrations in the geographical areas targeted for rural development schemes mentioned above.

c. Expected results

- Sector-specific regulatory reform measures carried out in line with the government's sector reform programme, priorities and detailed sector strategies.
- Enhanced administrative capacities in relevant sector ministries or state structures to ensure national ownership and effective enforcement.

d. Indicators of achievement

Long-term impact level

- Level of reforms and capacity in key sectors for rural development and social protection; improved effectiveness and efficiency of social safety nets in supporting income generation and labour reallocation.

Specific objectives level

- Number of measures for sector specific regulatory reforms for rural development and social protection; achievement of related programmes; level of administrative capacity to handle sector-specific reforms.
- Measurable quality and efficiency improvement in services delivered to target groups; performance indicators for the sector concerned; progress on MDGs; improvement of food security, malnutrition, human and socio-economic distress indicators.

5. Priority area 3: Support for good governance and economic reform

5.1 Strategic context

Strengthening of political reforms is an important element for ensuring stability of CA countries. The five states are members of the OSCE and have subscribed to its commitments on democratic and human rights, as shared by the EU Member States and all the other European states. Public administration reform and improved public finance management (e.g. linked to social security systems) are crucial elements in enhancing the institutional capacities and improving the transparency and public accountability of state and administrative structures at all levels. This is also a major element in ensuring good governance and the effectiveness of the fight against crime and corruption. Four out of five Central Asia countries scored below 2.5 in 2005 on the Corruption Perception Index of Transparency International, indicating very severe levels of corruption. These countries face the grave risk that money entering national budgets will be forfeited to greed, waste or mismanagement.

Linked to this, further assistance for judicial reform will be required to pursue the government's reform programme objectives of ensuring the independence of the judiciary and strengthening its administrative capacity, and ensuring the impartiality and the effectiveness of prosecution as part of the campaign to ensure that the rule of law is applied.

Such top-down measures will be accompanied by a bottom-up approach promoting citizens' rights, effective implementation of core labour standards and public participation in the political, economic and social spheres, leading in turn to a strengthening of citizen participation in public life, in particular in the control of institutional bodies and law-implementing agencies and services, including at local level. The process of decentralising political power and budget to local level is just beginning and building on current support for these reforms might be an important component of the approach provided conditions are

appropriate, including in the target areas referred to above in 4.2.1. -Improved access to justice and legal aid at local level is also an important factor in this context.

Finally, the process of gradual convergence of Central Asia countries with international norms and practices (such as ILO, WTO, WCO or EU norms) will require a sustained effort with regard to approximation of their legislation, norms and standards and consistent enforcement. This will assist in successful Central Asia integration into the global community through support to national initiatives, including in the framework of current integration associations. So far Central Asia countries have been slow in adopting market reforms, privatising industry and establishing transparent systems of ownership. Kazakhstan is the furthest advanced, but still needs support in its aims to diversify its energy-dependent economy in a sustainable and equitable way. Efforts to build effective public administration capacity still require much support. Progress in this area will also have a positive impact on the investment climate by leading to increased transparency and predictability, and simplification of the regulatory framework.

The EC is well-equipped to support these processes as it can build on extensive experience gained during the EU enlargement process in the Balkans and through the development of the initiatives of European Neighbourhood Policy and Common Spaces with Russia. It is essential that similar standards, methodologies and tools are used in Central Asia as in other post-Soviet republics. In designing assistance mechanisms in this domain, emphasis should be given to technical advice on how legal approximation and the alignment of norms and standards with those of the EU can best be achieved and to the equally important task of improving the administrative capacity of the states concerned, ensuring national ownership and the effective enforcement of approximated rules and regulations.

At national level, specific PCA implementation plans could define a selected number of priority areas for regulatory reform in relation to trade facilitation and market reform, including customs legislation and procedures, conformity assessment, sanitary and phyto-sanitary issues (SPS), consumer protection, establishment and company law, financial services and markets, taxation, competition policy, intellectual and industrial property rights, public procurement and statistics. The specific areas for EC support will be defined in consultation with each government in line with its reform agenda priorities, in order to keep the focus on a couple of key areas throughout the Indicative Programme for tangible results and impact.

5.2. Focal priorities

5.2.1 Democratic development and good governance

- **Promotion of civil society and democratic processes, including social dialogue. This cross cutting priority will be especially pursued through the dedicated thematic programme of DCECI.**

a. Long-term impact

The expected long-term impact is to contribute to the strengthening of shared values on democracy, rule of law, human rights and fundamental freedoms, including freedom of expression.

b. Specific objectives

The specific objectives are:

- to ensure progress in the respect of human rights and fundamental freedoms, including in the economic and social spheres, in line with international and European standards;
- to promote the functioning of national human rights institutions in line with the Paris Principles;
- to enhance the involvement of citizens in decision-making processes and controls, including through social partners and civil society organisations;

- to promote and enhance cooperation between governmental and non-governmental stakeholders, e.g. education, media, professional associations, business chambers, trade unions, environment, etc., through civil society cooperation and mechanisms;
- to strengthen the structures of democratic institutions and local self-government bodies, in line with the standards of European-wide Institutions (OSCE, Council of Europe, Venice Commission);
- to foster active social dialogue between private, public and civil society stakeholders.

c. Expected results

- enhanced training and increased levels of awareness on human-rights issues among law-enforcement organs;
- alignment of laws and practices with international human rights standards;
- elections held in accordance with OSCE/international standards;
- effective functioning of national human rights institutes;
- increased citizen awareness of decision-making structures and procedures and strengthened capacities of civil society organisations;
- effective implementation of ILO core labour conventions/standards
- implementation of national administrative reform concepts to strengthen local self-government bodies in line with European standards;
- institutionalised dialogue among the relevant stakeholders to enable sustainable environmental, economic and social development.

d. Indicators of achievement

Long-term impact level

- Assessments/Progress concerning human rights situation and level of citizens', social partners and civil society involvement in public policy areas, such as elections, education, environment, and, more generally, economic and social policy making and monitoring.

Specific objectives level

- Increased levels of respect for human rights and fundamental freedoms to be demonstrated by a reduction in donor reporting and media coverage on cases of human-rights violations.
- Strengthened public participation processes evidenced, for example, through case studies in relation to major infrastructure projects.
- Strengthened structures of local self-governance evidenced through better management of local authorities, better representation and oversight by citizens of their local authorities, measured from donor reports, surveys among civil society structures and citizen panels.

- **Rule of Law and Judicial Reform**

This area will be a focal priority for Kazakhstan.

a. Long-term impact

The expected long-term impact is to contribute to the strengthening of democracy, rule of law, human rights and fundamental freedoms.

b. Specific objectives

The specific objective is to ensure progress in the independence and capacity of the judiciary, to strengthen the administrative capacity of law-enforcement organs, and to ensure impartiality and effectiveness of prosecution.

c. Expected results

- Improved efficiency, knowledge and integrity of all parties involved in the judiciary.
- Strengthened independence of the judiciary.
- Implementation of reforms related to civil, criminal and administrative codes and codes of procedure, based on European standards.
- Improved working methods of law enforcement organs and prosecution.
- Implementation of reforms related to the court system.
- Simplified legal procedures and enhanced accessibility for citizens and economic operators.

d. Indicators of achievement

Long-term impact level

- Assessments/Progress Reports of EU and other donors in relation to the situation of democracy, rule of law, human rights and fundamental freedoms.

Specific objectives level

- Improved levels of independence as demonstrated by surveys of lawyers and litigators; enhanced administrative capacities of the judiciary evidenced by transparent court hearings, cases being heard within a reasonable time and Ombudsman's reports.

- **Public administration and Public Finance management**

This area will be a focal priority for Kazakhstan, as well as-, given the weakness of PFM in Tajikistan and Kyrgyzstan to complement eventual EC sectoral budget support to specific reform;

a. Long-term impact

The expected long-term impact is to contribute to the development of a modernised state oriented towards providing quality services and meeting the needs of all citizens.

b. Specific objectives

The specific objectives are to improve the quality and efficiency of public administration service delivery by fighting against corruption and improving the management of public finances.

c. Expected results

- Administrative and civil service reform concepts developed, including anti-corruption measures.
- Implementation of reform concepts underway in selected ministries and state agencies.
- Concepts for more transparent and predictable public finance management developed.
- Concepts for improved public finance management tested in selected policy areas (e.g. social security systems).

d. Indicators of achievement

Long-term impact level

- Transparent public finance management and credible budget process.

Specific objectives level

- Better quality of public services as evidenced by service delivery surveys.
- More efficient use of public resources evidenced by annual budgets.
- Reduction in corruption.

5.2.2 Promoting mutual trade and improving the investment climate

This will be a focal area for Kazakhstan as well as a non focal area for Kyrgyzstan, Turkmenistan and Tajikistan.

a. Long-term impact

The expected long-term impact is to contribute to the process of trade and market regulatory reforms, the gradual alignment of CA with the EU, WTO and ILO requirements and better access to EU and international markets, while paying due attention to the social dimension.

b. Specific objectives

The specific objective is to support PCA implementation and policy dialogue, notably with a view to underpinning economic reforms, facilitating trade, in line with WTO requirements, and improving the investment climate through sustainable regulatory reforms in the framework of regional harmonising of regulations, .

c. Expected results

- Market and regulatory reform measures in terms of legal approximation and alignment with international norms and standards, notably for SPS, standards, IPR, GRA (public procurement) or statistical standards, carried out on the basis of national economic development plans, sector reform programmes and an agreed strategy of priorities; implementation of reforms in the areas of trade and investment promotion, including through the removal of many of the existing barriers, in particular non-tariff ones; and implementation of the WCO Framework for the standard provisions to secure the trade supply chain.
- Enhanced administrative capacity to ensure national ownership and effective enforcement of approximated rules and regulations.

d. Indicators of achievement

Long-term impact level

- Improved policy dialogue on reforms, successful accession to the WTO, investment and trade growth, and integration in global markets
- Positive evolution of economic development indicators and of the degree of compliance with WTO or EU requirements, as measured and assessed by the EU in the relevant PCA Implementation Progress Reports or EBRD Transition indicators and World Bank Doing Business benchmarks – see Annex 2.
- Positive employment and social impacts on trade growth and integration into world markets.

Specific objectives level

- Increased levels and more diversified trade (in terms of products) measured by trade statistics from government and other sources.
- Improvement in the investment climate as evidenced by an increase in FDI, surveys among investors and assessments/reports of the EU and other institutions (World Bank & EBRD monitoring of specific measures/indicators) - see Annex.

6. Implementation

As regards the promotion of regional cooperation for Central Asia - priority area 1, the enhanced initiatives and mechanisms used for implementing the ENPI Regional (East) Strategy /Indicative Programmes, both at political and at technical level, will also be preferably used for corresponding –Central Asia regional programmes where relevant. The operational frameworks and structures already established for implementing EC assistance, such as the Baku processes, Traceca, Inogate, EU Water Initiative, TEMPUS and others, will be used whenever appropriate. Cooperation with IFIs will be an important component in supporting of the implementation of the regional cooperation programmes, including for the facilitation of investments at policy and project level. A tri-partite Memorandum of Understanding (EIB/EBRD/Commission) is to be signed in 2006 and will provide the institutional frame for enhanced joint cooperation in Central Asia and ENPI countries in line with EU strategic priorities

Concerning bilateral assistance to Central Asia countries, assistance programmes for each country should be focused and contain a limited number of components drawn from priority areas 2 and 3. While detailed implementation mechanisms will be worked out on a (programme) project by project basis, consistent support over time in a few specific areas could be used to promote an effective, comprehensive and sustained sector-wide approach to reforms. Budget assistance in Central Asia would only be applicable in practice to Kyrgyzstan and Tajikistan, the two poorest states in the region, and care should be taken to ensure that the necessary prerequisites are established and conditions are met.

A cooperation tool like twinning is also considered to be particularly useful in the areas of sectoral (regulatory) reform and administrative capacity building and should be fully exploited to support the implementation of new policies. Flexibility should prevail in all areas, given the risks in the region, so as to enable EC assistance to adjust to circumstances and to the evolving policy priorities and political commitments of governments.

All assistance activities will take due account of aspects related to the protection of human rights and fundamental freedoms. Gender **and environmental concerns**, as cross-cutting issues, will be integrated as far as possible into the design of programmes related to all key issues outlined above. Another important cross-cutting issue is the involvement of social partners and civil society in the reform processes and participation in public decision-making; this will be pursued through the EC-funded assistance programmes.

Support to government for programming and coordination of assistance might be considered in light of the state of development of each country.

7. Assumptions and General Conditionality

Presidential, parliamentary and local elections will take place in CA countries over the coming years. Although they cannot be excluded, it is assumed that there will be no major changes that adversely affect stability or governments' overall commitment to reform and policy priorities, and/or the outlook of Country National Coordinators for EC assistance. This concerns in particular implementation of PRSPs or similar policies, to be carried out by governments with the assistance of other donors according to agreed action plans, and continued fulfilment of general macro-economic and other conditionality with the IFIs.

The risks of a sector-wide approach to assistance using budget support should not be underestimated given the level of corruption and weakness of public finance and technical administrations in the two countries

concerned. Hence, direct budgetary assistance in support of macroeconomic or sectoral reforms will only be granted where:

- (a) public expenditure management is sufficiently transparent, accountable and effective;
- (b) well defined macroeconomic and sectoral policies established by the country itself and agreed to by its main donors and the International Financing Institutions are in place;
- (c) public procurement is open and transparent; and
- (d) precise objectives for direct budgetary assistance, including related benchmarks for their impact, are defined.

Disbursement of such support will be conditional upon the fulfilment of clear and measurable macroeconomic performance and structural adjustment criteria, based on the economic programmes of the beneficiary countries and achievement of the objectives for the support which have to be monitored according to the defined benchmarks. In the case of misuse of budgetary support by the beneficiary, the funds will be reimbursed.

Assistance during the period 2007-2010 will depend on the aspects needed for continued cooperation, in particular respect of democratic principles and human rights, and fulfilment of PCA obligations. Democratic evolution and the human rights situation in the countries of the region will be taken into consideration in the preparation of the annual Central Asia Action Programmes and as a parameter for the final budget allocation. Activities and achievements of projects under previous EC assistance Action Programmes will need to be assessed positively before starting the second phase of projects.

Annex 1

MAP of Central Asia



Annex 2
Country Analysis and priority sectors for EC assistance

Country Analysis and EC response

Kazakhstan

1. Updated analysis of the country

1.1. Political

- The recent period paints a mixed picture of political reform in Kazakhstan. The main issues to be addressed relate to President Nazarbayev's will to implement true political reforms now that he has been re-elected in December 2005 for a further 7-year term.
- The necessity of political reform, the lack of which is hampering further economic reforms, is a key domestic factor that will shape the future development of the country.
- Between 2007 and 2013, the issue of who will succeed President Nazarbayev and of how to ensure a peaceful transfer of power will constitute the main political challenges. The absence of institutionalised checks and balances could prove a destabilising factor during the change of President.

1.2. Economic, trade & investment

- Kazakhstan continues to enjoy sustained economic growth. In 2004, GDP grew by 9.4%, reaching KZT 5,542.5 billion (€ 33,45 billion). GDP growth in 2005 is expected to have reached 9.5% compared to 2004.
- Despite the slowdown in industrial production and the fall of agricultural output at the beginning of 2005, GDP growth in Kazakhstan was largely sustained by the increase of investments into fixed capital and the rise in Foreign Direct Investment.
- FDI grew by 13.6% year-on-year during the first half of 2005, totalling € 2.23 billion. This rise was primarily driven by the FDI increase in consultancy and geological exploration sectors. The EU is currently the leading foreign investor in Kazakhstan.
- From January to August 2005, Kazakhstan's total trade surplus increased by 73.6% year-on-year to reach € 5.57 billion. The EU is Kazakhstan's leading trading partner.
- In January-September 2005, the year-on-year inflation rate was 7.5% and was largely driven by the increase of food prices (8.1% year-on-year) and services prices (7.6%). The inflation rate for the whole year is expected to be 7%.
- The Government of Kazakhstan is making efforts to develop its petrochemical industry within the framework of its diversification strategy. Economic diversification is the government's main goal during the forthcoming period. This could further be stimulated with EU assistance.
- Ambitious economic reforms have been launched as part of the 2003-2015 Innovative Industrial Strategy to develop clusters, techno-parks and special economic zones.
- As far as trade policy is concerned, accession to the WTO and strengthening regional trade cooperation are State priorities. One of the government's key plans for trade policy is to implement policies of development of competitive production in the frame of the Strategy for industrial innovative development. Markets need to be further liberalised.

- The development of new energy export routes remains a priority.
- China and Russia have become key economic partners for Kazakhstan, in particular in the energy sector.
- The State has increased its control and interference, especially in energy, banking and aviation sectors. This should be reduced, with particular focus given to stimulating the liberalisation of financial and non-financial services, telecommunications and other sectors.
- The investment climate needs to be improved.

1.3 Social situation

- In 2004, the population was 15,185,844.
- The incidence of poverty (percentage of population with income below the subsistence minimum) decreased from 19.8% in 2003 to 16.1% of the total population in 2004.
- Although unemployment had fallen to 8.3% in November 2005, the reduction is slow and the rate remains high, particularly in terms of long-term unemployment.
- Income disparities have increased. There is a limited middle class.
- Despite the fact that 99.9% of 15-24-year olds were literate in 2004, there are still problems of low quality in teaching and inadequate provision of pre-school, secondary and higher education, particularly in rural areas
- The population still suffers from the lack of an adequate social infrastructure and restricted access to social services, especially in rural areas, where only 8.3 % of households had access to a reliable water supply in 2004, just 1.9 % had functional central heating and over 90% had no gas supply.
- The general mortality rate has not decreased since 2000, and remains at an average of 10.1 deaths per 1000 people.
- Mortality rates due to respiratory and sexually transmitted diseases are increasing rapidly, especially for HIV and tuberculosis.
- Social sector problems should be addressed urgently, with an especial focus on improving the country's infrastructure.

2. The government's agenda

- President Nazarbayev proposed the creation of a State Committee on Democratisation that would be chaired by himself and would be charged with the drafting and implementation of the 2006-2011 State Strategy for Democratisation. Key areas are reforms of the local government and judiciary while providing more powers to the Parliament. The participation of the opposition is not clear.
- The focus of monetary policy for 2005-2007 will continue to be maintaining price stability.
- Government policy for 2005-2006 will be guided by the need for economic diversification. In particular, the government has defined several measures including increased cooperation with the private sector, the development of sectoral clusters and the promotion of small and medium-sized businesses. Information technologies development needs to be stimulated.
- With regard to oil export routes, Kazakhstan's interests are focused on four main development projects: the expansion of the Caspian Pipeline Consortium; the transportation of Kazakhstan's oil through the Baku-Tbilisi-Ceyan pipeline, the construction of the Odessa-Brody pipeline to Plock (Poland) and the construction of the Atasu- Alashanku pipeline to China.

- The Draft Law on the 2006 Republican Budget is currently being discussed by the Senate. With a GDP estimated at KZT 8,065 billion (€ 49.3 billion) – a growth of 8.3% compared to 2005, the 2006 draft Budget anticipates revenues of 18.2% of estimated GDP, expenditures of 19.6% of estimated GDP and a state budget deficit of 1.4% of GDP. The Government has also forecast an inflation rate in the range of 5-7% for 2006.
- As far as regional trade policy is concerned, several agreements are pending ratification (to be negotiated in 2005?) within the Eurasian Economic Community (EurAsEc) and the Single Economic Space (SES).
- Concerning relations with the EU, the authorities have been repeatedly signalling that Kazakhstan should be included in the ENP. The Kazakh leader, President Nazarbayev, has even gone so far as to state that he would like ultimately to see his country join the EU itself. Further, Kazakhstan considers the possibility of acting as a base state actively supporting EU-CA relations and regional cooperation.

3. Review of past assistance to the country

Cooperation – lessons learnt

General

- The main lesson from EU cooperation with Kazakhstan is that the speed with which individual countries develop can vary markedly. It is therefore vitally important to maintain a close dialogue with the institutions, and responding to their needs.
- Unlike many NIS, the government of Kazakhstan has repeatedly called for technical assistance in specific areas, and is eager to co-finance and co-manage cooperation programmes and loan preparation. The future success of EU assistance depends on the way in which the specific needs of Kazakhstan are addressed.
- Within Central Asia, Kazakhstan perceives itself as a leader of the region, and is ready to provide expertise from its own experience to the other CA ‘stans’ in economic development and overall modernisation. Need to co opt Kazakhstan into other regional projects?
- This growth in self-confidence, leading the government to draw/invite comparisons with Malaysia, China and the New Member States, has also led to a changed approach to cooperation on the part of Kazakhstan or the EU, with a clear picture of Kazakhstan’s economic and social needs (based on the Kazakhstan 2030 Strategy, now under review) that will be reflected in future EU cooperation programmes
- The new Coordination Council on Cooperation, consisting of senior Ministries and donors, reflects trust in the value of our cooperation, and builds upon the EU’s rigorous standards and approaches.

Lessons from EC programmes

- Tacis projects promoting modernisation of the government and economy have been particularly appreciated and have led to a clearer understanding of the function of the cooperation programme and its value.
- The proliferation of small projects, whilst being of high impact and flexible, could lead to a lack of coordination in the EU’s contribution to the reform process unless they are followed up in selected areas by a more comprehensive assistance, sustained over time and solidly connected at appropriate government level to an enhanced policy dialogue in the frame of PCA Future programmes should have a stronger focus on a limited number of priorities, and on programmes of a larger scale. The preparation by the Kazakh authorities of an Action Plan for implementing the Partnership and Cooperation Agreement should provide a more coherent and efficient framework for priority setting and mobilisation of assistance.

- Dialogue with the government and ownership of EU programmes in a rapidly changing economic situation, should also be intensified to match the administration's needs for technical cooperation in economic diversification and general modernisation, but to assist in solving social problems, especially among disadvantaged and excluded groups and the rural poor.
- The social dimension should also be present in EU cooperation to stress the fact that the Government is not directly inclined to address these points in priority.

4. EC response and focal sectors for assistance

Through its 2007-10 Central Asia Indicative programme, the EU should in Kazakhstan:

- Support **PCA implementation and policy dialogue**, and promote the on-going reform process through exchange of know-how, best practices, capacity building and other measures in areas of common interest (such as **political reforms, judiciary and social reforms**),
- support to **professional state governance and economic reforms, in particular in trade and investment** aiming notably to increase competitiveness of Kazakhstan,
- **building the operational infrastructure and public participation mechanisms that will allow reforms to be fully implemented e.g. through linking with European State governance and training institutions, social partners and other non state actors** for institutional strengthening, capacity building and training,
- Support to enhancing the EU-Kazakhstan relations in the energy sector.

- **Promote Central Asian regional cooperation and good neighbourly relations** by:

focussing on economic sectors development and environmental cooperation, particularly enhancing the involvement of Kazakhstan in the follow-up activities to the Energy and Transport Ministerial Conferences held in Baku in November 2004 as well as the EU CA High level Conference on Environment held in Almaty in April 2006, conducted under the ENPI Regional Programmes,

strengthening Justice, Liberty & Security cooperation between Kazakhstan, its neighbours and EU operational structures,

enhancing higher education, technical and scientific cooperation, including with scholarship programmes, as well as people-to-people contacts.

Kyrgyz Republic

1. Updated country analysis

1.1. Political

- The political situation remains fragile. Recurring cases of violence and unrest reflect the existence of increasing links between business activities (often with criminal connections) and politics since the March 2005 events. Corruption and the infiltration of law enforcement and national security services by organised criminal groups have been denounced by the Prime Minister.
- The solidity of the Bakiev-Kulov partnership is regularly being called into question, and concerns over its long-term stability are raising fears of a future intensification of ongoing power struggles, increased instability and economic decline.
- The murder of three MPs since June 2005 and two other well-known political figures have aggravated existing concerns about the country's overall stability and security.
- Constitutional reform - one of the Government's alleged top priorities - has experienced an unexpected turn, with the President finally announcing, after several delays, that a referendum will be held on the issue at the end of 2006.
- The new government lacks a clear and coherent programme of political reform.
- Too many fragmented voices within the Government have resulted in a lack of political consensus. Two factions (composed of allies of Bakiev and Kulov) act in semi-autonomous fashion.
- Reshuffles and appointments in late 2005 suggested that President Bakiev is trying to secure his position of power by eliminating strong figures who could represent a threat to his authority in the future, including former allies that helped him come to power.
- Although the issue of the Uzbek refugees following events in Andijan was handled appropriately last July, the international community remains concerned about the risks of political conflicts and of a large refugee crisis. It also remains concerned with the position of the Government in both abiding by its international commitment and avoiding conflicts with its neighbour Uzbekistan.

1.2. Economic, trade & investment

- The Kyrgyz Republic's main macroeconomic indicators have gradually deteriorated during the recent period.
- The Kyrgyz Government has so far failed to define a clear and unified economic and social policy: coherent policy formulation is probably the most acute problem faced by GoK on the path to sustainable growth.
- The key policy energy sector requires an urgent overhaul. The Government's failure to produce a targeted package of reforms in a sector in which the Kyrgyz Republic could accrue significant benefits suggests that the political will required is lacking.
- President Bakiev's government is faced with three key challenges: overcoming its strong dependence on international donors for sources of finance and credit; limiting its dependence on Uzbekistan and Kazakhstan for energy supplies; and diversifying the economy in order to reduce its reliance on the gold sector.
- Guaranteeing political stability and the predictability of legislation is of paramount importance if the Kyrgyz Republic is to attract much-needed foreign investment.

- There is an urgent need to work towards improving the country's investment climate, particularly given recent complaints by investors about the unpredictability of legislation and the unstable investment climate.
- Public finances management suffers from severe weaknesses

1.3. Social situation

- The Kyrgyz Republic remains a low-income country, where nearly 40% of the population lives below the poverty line (2004).
- Since independence, social services (notably health and education) have significantly deteriorated as a result of reduced government spending.
- The registered unemployed amount to 95,400 people (Oct '05), although the real figure is thought to be much higher. The existence of a shadow economy that represents up to 50% of GDP makes official unemployment figures unreliable.
- Life expectancy has increased from 67 years in 1999 to 68 years in 2004. Infant mortality per 1000 births declined from 23 to 21 and basic school enrolment increased from 90 to 97% during the same period.
- HIV/AIDS and sexually transmissible diseases are spreading rapidly, particularly among the most vulnerable social groups.
- Every year, natural disasters cause substantial economic losses to the country, affecting the most vulnerable, in particular in the South. Kyrgyzstan faces also the risk of major earthquakes.

2. The government's agenda

- Kyrgyz authorities are still to define a clear and coherent political and economic programme, mainly as a result of delays in the formation of the new Government and a clear lack of consensus between the main leaders.
- In his first speech as PM, Felix Kulov in early Sep 2005 stated that his government's key priorities would include:
 - Reducing poverty and making more funding available to the most vulnerable sectors.
 - Fighting corruption.
 - Reducing the unemployment rate by simplifying the registration system for starting up businesses, providing professional training and introducing a micro-credit system.
 - Reducing the state administration by 1/3 in order to decrease expenditure (plans to abolish the seven regions are part of this move).
 - Increasing pensions and salaries.
 - Improving the investment climate. Kyrgyzstan ranks n°135 out of 157 countries on the Corruption Index of Transparency International, with a score of 2.3, indication that it faces a very severe level of corruption and a grave risk that money entering national budget will be forfeited to greed, waste or mismanagement according to TI.
 - Reducing the number of tax inspections and improving the country's fiscal regime in general.

3. Review of past assistance to the country:

- Cooperation – lessons learnt

During Soviet times, the Kyrgyz depended on subsidies from Moscow, and adjusted to political instructions from Moscow. After independence, the Kyrgyz Republic became the “model pupil”, and “the Switzerland of Central Asia”. In return, the country received funds and political praise. Since then, however, it has failed to live up to the promise shown in the early 1990s.

- Cooperation - lessons for the future

The major challenge is to encourage the Kyrgyz elite to take responsibility for the development of long-term strategies and coherent policies in the interest of the country. The government must demonstrate its willingness to exercise greater leadership in the development and implementation of reform programmes and the EC should actively pursue such a scenario through dialogue with its partners. At present, the international community has a political interest in supporting the Kyrgyz Republic and is willing to commit a substantial amount of funds. However, given the high incidence of corruption and the country’s attitude of aid dependency, there is a risk that the initiatives will not have the intended effect. The delivery of cooperation funding must be combined with the caveat that the Kyrgyz political elite take the initiative and shoulder responsibility for policies affecting their own development, in line with the partnership commitments made by the Kyrgyz government at the High Level Forum on Aid Effectiveness in Paris in March 2005. In the future, donors must stress that aid should be based on agreed coherent strategies to which the Kyrgyz government itself is committed. Increased dialogue, increased mandatory own contributions and close monitoring are necessary.

The establishment of a Donors Coordination Secretariat should facilitate the close coordination of donors on support to the National Poverty reduction Strategy and Medium Term Financial Framework currently being worked on. After the launching of the National Health Strategy and related SWAp reform, main donors including the Commission are urging to the government to support policy formulation and capacity building process for the social protection, energy and agriculture sectors building on the experience of SWAp formulation in the health sector.

4. EC response and focal sectors for assistance

In the Kyrgyz Republic, in consideration of all the above, bearing in mind the absence of a clear plan of economic reforms currently, EC assistance should primarily focus through the 2007-2010 Central Asia Indicative Programme on **priority area 2 : poverty reduction both through assistance schemes directly in the field to the rural populations and through support to sector wide approach to reforms in social protection**, building at this stage essentially on the previous EC assistance programmes:

- **emphasis to be placed upon geographically targeted rural development schemes for poverty reduction geared at the provinces in the South of the country**, where the combination of widespread poverty, drug trafficking, frequent natural disasters and tensions with neighbouring countries exacerbate the potential for serious upheaval. These programmes will be building up on the analogous assistance programmes developed under previous TACIS IP 2005/2006. Such assistance must also be linked with an enhancement of border management capacity through the relevant regional cooperation programme (priority 1)
- **Social Protection:** Reforms initiated with success through EC FSP and TACIS assistance in this sector, where the Commission has taken a lead role, must be continued and developed further, together with other donors, including through the setting of an appropriate strategic policy agenda for social reforms by the authorities. This will involve as well support to the process of decentralisation of related activities at the oblast/district level. This assistance should be combined with support to further consolidation of the reforms of the public finance management and budget systems in close coordination with other donors so as to improve effective use and impact of the national budget, to which EC programme for social protection will contribute.

- **support to political infrastructure:** (Priority 3) Further progress needs to be made towards building democratic institutions and establishing governance structures that deliver effective representation, accountability and transparency, public safety, security- the dedicated DECI thematic programme will be particularly used in this respect

Support urgently needed **market and regulatory reforms in the energy sector** provided there is political will and support the creation of an investment climate to allow foreign investors to return to the country.

Express readiness to re-focus eventually support if appropriate to other sectors conditional on serious policy reform commitments by the government in close coordination with the international community.

- **Promote Central Asian regional cooperation and good neighbourly relations** by:

focussing on economic sectors development and environmental cooperation, particularly enhancing the involvement of Kyrgyzstan in the follow-up activities to the Energy and Transport Ministerial Conferences held in Baku in November 2004; as well as the EU CA High Level Conference on Environment held in Almaty in April 2006, conducted under the ENPI Regional Programmes

strengthening Justice, Liberty & Security cooperation between Kyrgyzstan, its neighbours and EU operational structures,

enhancing higher education, technical and scientific cooperation, including with scholarship programmes, as well as people-to-people contacts,

Tajikistan

More than a decade after gaining independence, Tajikistan still faces a plethora of complex problems and challenges. The poorest republic of the then Soviet Union remains today one of the 20 poorest countries in the world, with some 65% of its population still living below the poverty threshold.

1. Country update

Political situation: From a political and institutional perspective, the current situation in Tajikistan is one of ambivalence. After the bloody civil war that ravaged the country from 1992 to 1997, it was hoped that the country would profit from a period of relative stability by undertaking deeper and more radical reforms to achieve democratisation. By allowing the Islamic Revival Party to be represented in parliament, Tajikistan became (and remains) the only Central Asian state to have allowed an avowedly Islamic political party to participate legally in the political process. This now appears to have been an isolated step, and one which stands out against the countervailing trend away from political pluralism in recent years.

Such pluralism is being increasingly put at risk by the actions of President Rakhmonov and his government. The parliamentary elections held in February 2005, on which OSCE/ODIHR gave a very negative assessment, confirmed these difficulties. Presidential elections will be held in November 2006, but it can already be predicted with confidence that President Rakhmonov will be reconfirmed in his office with an overwhelming majority, given the lack of credible alternative candidates who have not already been arrested or silenced by the authorities. Perhaps more worryingly, Tajikistan, which had joined the post 9/11 Western front against terror, seems today to be looking more towards Russia, China and Iran as its best possible partners, countries which are ready to provide Tajikistan with political support and much needed financial investments. The solidarity shown by President Rakhmonov to his Uzbek colleague Karimov in the aftermath of the Andijan events is good evidence of the political direction Tajikistan intends to take, or indeed is already taking.

In this context, media freedom is severely curtailed, in spite of the limited progress that had been made since the end of the civil war. Some opposition newspapers have been forced to close down (mostly following very thorough “tax inspections”), whilst the few supposedly ‘independent’ outlets that remain in reality practice self-censorship. Radio and television are firmly under state control, whilst the diffusion of other media, such as the Internet, remains extremely limited.

Economic situation

Despite some improvements and a relatively stabilised macro-economic framework, the Tajik economy remains extremely weak. Unlike some of its Central Asian neighbours, the country lacks natural resources such as oil and gas. The only raw material relatively abundant is hydroelectric power, used for aluminium production - which, however, requires sizeable investments. The Tajik government is today trying to exploit hydroelectric power with some success, attracting promises of Russian and Iranian FDI - but also in this case huge investments are necessary to build power plants and make electricity available for internal consumption or export.

Agriculture is the most important employment sector in Tajikistan, even arable land makes up only 7% of its territory. Cotton remains almost a monoculture. Moreover, the cotton sector is characterized by its social consequences such as child labour and unpaid women. Alternative crops (mostly rice, fruit and vegetables) are for self or local consumption and represent only a small part of the total agricultural output. The further development of this production, which could benefit from favourable climatic conditions, is hindered by the lack of an agro-alimentary industry and the very poor transport network, which makes export impossible.

Poverty, particularly in rural areas, remains the single biggest problem facing Tajikistan, with an estimated 64% of the country’s population still living beneath the subsistence level.

Increased foreign investment would greatly improve the situation of the Tajik economy, but so far they have been mostly limited to “State” investments by Russia, China and, to a lesser extent, Iran. EU private investments in Tajikistan are almost negligible, mainly due to the uncertain legislative and fiscal

framework, the weakness of the public administration, the lack of basic infrastructure and the endemic level of corruption in the country. This latter is an enormous problem at all levels of the Tajik administration and society. Many Tajiks (their number is estimated to be approximately 600,000) have emigrated to Russia or Kazakhstan to find a job, and their remittances constitute a considerable proportion of the country's GDP.

Another potential factor of destabilisation for Tajikistan is drug trafficking. The production of opium and opiates has been booming in neighbouring Afghanistan over recent years and it is estimated that some 100 tonnes of heroin cross Tajikistan every year, principally heading towards Russia and Europe. The recent pullout of Russian troops from the Tajik-Afghan border has further exacerbated the problem, since Tajik border guards are not adequately equipped and trained and, being only paid 3 to 5 USD per month, are more exposed to the risk of corruption.

Every year, natural disasters cause major economic losses to the country, affecting the most vulnerable all across Tajikistan. Tajikistan, and in particular its capital Dushanbe, is highly vulnerable to the risk of major earthquake.

2. Government agenda

The Tajik government is in the process of drafting a National Development Strategy for 2006-15, and a medium-term Poverty Reduction Strategy in an effort to realise the type of economic reforms that will allow for sustainable high economic growth and growth-based poverty reduction, and thereby enable Tajikistan to attempt achievement of the Millennium Development Goals over the next ten years. It is also hoped that the upcoming PRSP will streamline reform efforts, and avoid the duplication and lack of consistency that characterised earlier strategic programmes.

In line with these stated goals of poverty reduction and attempt to achieve MDG indicators, the draft strategy documents identify a number of priorities for social and economic development in Tajikistan:

1. Public administration reform
2. Improvement of the investment climate and development of the private sector and entrepreneurship.
3. Regional Cooperation and integration into the world economy
4. Food security and development of the agricultural sector
5. Development of infrastructure, communications, energy and industry
6. Development of the health sector
7. Development of the education system including science
8. Improving access to water supplies and sanitation
9. Improving social protection
10. Ensuring gender equality
11. Environmental sustainability

Particular focus will be given to the first three of the priority areas outlined, as they are seen as key to creating favourable conditions for sustained economic growth which would in turn provide the material basis for poverty reduction and improvements in social welfare provision. The strategy recognises that Tajikistan is lagging behind the four other Central Asian states in a number of important areas, most notably in the size of the private sector as a percentage share of GDP (39.8%), and in the level of Foreign Direct Investment (currently just 2% of GDP) that it attracts. Tajikistan ranks 150 out of 157 countries on the Corruption Index of Transparency international, with a score below 2.5 indicating a most severe level of corruption. In order to address such problems, a number of specific proposals have been put forward, including: pressing ahead with plans to restructure the remaining natural monopolies under state control; increasing the effectiveness and transparency of the public administration infrastructure at both a central and local level; modernising public finances management in order to improve reliability of financial circuits and governance; establishing conditions, including financial services and banking, to attract greater foreign investment, and to encourage the further development of small and medium-sized businesses. Finally, the launching of a sector wide approach to reform in the agriculture sector and land reform can be considered as the key component for a sustained poverty reduction.

3. Review of past EC assistance:

Since the outbreak of civil war in Tajikistan in 1992, the Commission, through DG Humanitarian Aid, has provided some €140 million in relief assistance to the most affected and most vulnerable populations, delivering its aid in the field through qualified EU NGOs, particularly in rural provinces. In recent years, following the general improvement of the overall humanitarian situation, ECHO has steadily reduced its annual contribution and will phase out its activities completely in 2007. Alongside this assistance, since 2003 ECHO has provided some €9 million for disaster planning and preparedness activities throughout Central Asia through three separate DIPECHO Action Plans.

NGO Partners working on both ECHO and Tacis projects noted that the ECHO instrument is considerably more flexible and adaptable to changing situations. Its limitations include the short time frame and restricted modes through which it can function. The improvement of the socio-economic situation calls for rehabilitation and development actions in the field rather than ECHO's which were better suited to the relief assistance of the past. As ECHO's assistance will be phased out in 2007, programmes of direct assistance to vulnerable populations at the local level that have been launched under the TACIS Indicative programme 2005-05 should be continued, through the EU's Linking Relief, Reconstruction and Development Policy (LLRD) approach.

Lessons learned by other donors

In a country with still fragile governance and extremely weak administrative capability, it is necessary for the coming period to proceed on both front of policy reforms and direct intervention in the field to alleviate poverty of the rural populations where extremely low work productivity and income determines a vicious circle of misery, especially for women and children, that put at risk the sustainable development process of the whole society. The originality of the EC budget support operations with Tajikistan gives it a specific value-added for leveraging reforms. The newly created Donor Council will play an important coordination role and will work in the spirit of the Paris Declaration on Aid effectiveness through promoting government ownership, enhancing harmonization, securing future alignment, facilitating networking and broader collaboration with donors and aligning country strategies of willing donors through a single country operational strategy. The Commission's engagement in the agriculture and land reform is fully part of the consolidated approach by the international community to support the Tajik government 'poverty reduction strategy plans.

4. EC response and focal sectors for assistance

In consideration of all the above, EC assistance should primarily focus through the 2007-2010 Central Asia Indicative Programme on **priority area 2 : poverty reduction both through assistance schemes directly in the field to the rural populations and through support to sector wide approach to reforms in social protection**, building at this stage essentially on the previous EC assistance programmes.

Emphasis should be placed upon geographically targeted rural development schemes for poverty reduction. Assistance should build on the schemes undertaken under the TACIS IP 2005/06 and be targeted at those rural areas affected by the civil war and drug trafficking such as the Khatlon oblast bordering Afghanistan in the south of the country and the Sughd oblast in the north, where widespread poverty, unemployment and the lack of an adequate social security net are a fertile breeding ground for Islamic radical doctrines. European NGOs that are already well-established on the ground could serve as effective implementing agencies such assistance must also be linked with an enhancement of border management capacity through the relevant regional cooperation programmes.

—**Agricultural sector and land reform:** Reforms initiated in these two sectors with the assistance of ECFSP, where the Commission has taken a lead role must be continued and developed further, together other donors, including through with the setting of appropriate of policy strategic agendas by the authorities. Also, support to **social sectors** reforms initiated with success through EC FSP and TACIS assistance could be continued and developed further, together with other donors, including through the setting of an appropriate of strategic policy agenda for social reforms by the authorities. This will

involve as well support to the process of effective implementation of related activities at the oblast/district level.

-This assistance should be combined with support to further consolidation of the reforms of the public finance management and budget systems in close coordination with other donors so as to improve effective use and impact of the national budget, to which EC programme will contribute.

Good governance (Priority 3): Public Finance Management. In line with the IFI's increasing focus on PFM, to enhance effectiveness of support to the agriculture sector reform, the EC should make a valuable contribution together with other donors for progress in this area which is crucial for any budget support approach and where there are still severe weaknesses. (Concrete objectives for possible assistance include:

- Linking the PRSP to the Medium Term Budgetary Framework and ultimately to the annual budget process.
- Strengthening the budget preparation process, including by an improved macro-economic forecasting capacity
- Improvement of the internal control and internal audit capacity in the public sector.
- Idem for the external audit function: ensuring a fully independent Supreme Audit Institution (SAI) operating in line with international standards (an Operational Assessment report carried out by the EU in 2004 contains a number of recommendations concerning the State Financial Control Committee in Tajikistan).

Express readiness to re-focus eventually support if appropriate to other sectors conditional on serious prioritised policy reform commitments by the government, in close coordination with the international community.

- **Promote Central Asian regional cooperation and good neighbourly relations** by:

- > focussing on economic sectors development and environmental cooperation, particularly enhancing the involvement of Tajikistan in the follow-up activities to the Energy and Transport Ministerial Conferences held in Baku in November 2004 as well as the EU CA High level Conference on Environment (Almaty, April 2006), conducted under the ENPI Regional Programmes,
- > strengthening Justice, Liberty & Security cooperation between Tajikistan, its neighbours and EU operational structures,
- > enhancing education cooperation, including with scholarship programmes, as well as people-to-people contacts,

Turkmenistan

1. Situation of the country

- Political situation and foreseeable developments

The most significant development in the political situation begins in 2006 when election of local administration officials took place. Elections will continue working up through the hierarchy of local and regional administrations to 2008. The decision on presidential elections which was originally intended to conclude the electoral reform process in 2009 was postponed at the meeting of the Halk Maslahti in October 2005 when the proposals of President Niyazow were rejected unanimously by the delegates. President Niyazow has consistently rejected the importation of democratic practices used outside Turkmenistan in favour of locally developed models.

In 2005 key figures in the government not only lost their jobs but were sentenced to long periods in prison for embezzlement of state funds removing people who had been considered to be possible successors to President Niyazow when he decides to step down. The only issue that is clear is that President Niyazow will remain in power until he decides he wishes to step down.

Although Turkmenistan has acceded to the core UN human rights conventions, implementation has been poor. In 2005, the UN General Assembly expressed its grave concern at the repression of political opposition activities, arbitrary detention, poor prison conditions and credible reports of torture, denial of access to prisoners by the International Committee of the Red Cross, discrimination against minorities, and restrictions on the right of assembly. The General Assembly also expressed concern at the continuing failure of the Turkmen government to respond to the OSCE report concerning the investigation, trial and detention procedures following the reported assassination attempt against the President of Turkmenistan in November 2002. A number of UN Special rapporteurs have not been invited to visit Turkmenistan.

- Economic situation and trends, including investment, trade and overall status in “transition” reforms

Data non-availability continues to complicate an in depth analysis of the economy. What is clear is that outside the oil and gas industry, the construction sector is playing an important role in the economy, fuelled by ambitious government plans for the development of Ashgabad as well as key infrastructure projects including the construction of the desert highway and the new rail link to Dashoguz, investment in power generation and the creation of the Turkmen Lake designed to recycle waste water.

Agriculture remains focussed on cotton and wheat production with cotton increasingly processed in Turkmenistan into finished goods. Salination of arable irrigated land is a serious problem and it remains to be seen whether the plans for improved water management and land ownership will be able to deliver the results forecast by the government. Cotton and wheat remain under state direction and benefit from heavy subsidisation. Despite the investment in state of the art technology it would appear that there remain chronic structural problems in the sector which have contributed to reduced harvests in the in recent years. The dismantling of collectivised farms has opened up possibilities for a degree of diversification and more general rural development.

The EU in 2004 was the largest source of imports to Turkmenistan (€451m) while for exports of Turkmen goods the EU was the third largest trading partner (€367) after Ukraine and Iran. Overall EU exports to Turkmenistan have increased an average of 14 % 2000-2004 while exports to the EU have declined by an annual average of 10.5% for the same period.

Given that the economy is dominated by exports of gas, oil and processed petrochemical products Turkmenistan remains vulnerable to changes in world energy prices and more significantly to dependence

on transit routes to final markets via third countries. The lack of direct access to world markets could prove to be a major constraint on Turkmenistan's future growth.

Turkmenistan is gradually opening up the exploitation of offshore oil and gas reserves to foreign investors in contrast to onshore investigation where Turkmenistan maintains its monopoly relying on imports of equipment rather than capital.

- **Social situation, with update on demographic, employment, poverty and main Human Development Indicators**

Data from Turkmenistan are often unavailable or its reliability is questioned owing to the general

Aware that Turkmenistan was under increasing pressure on its human rights record from the international community President Niyazow initiated human rights discussions with the EU. This has been a very positive development which the EU intends to develop to ensure that concrete progress is actually achieved.

Turkmenistan, including its capital Ashgabat, is also vulnerable to natural disasters, including the risk of major earthquake.

2. Agenda of the government

- **Development plans and policies: main priorities and level of commitment (incl. medium term budget perspectives), covering:**

Turkmenistan's development strategy "Strategy of Economic and Political and Cultural Development of Turkmenistan up to 2020" sets the following key objectives:

- To achieve the level of developed countries and preserve its economic independence and security which will be provided at the expenses (*sic*) of high speed economic growth, introduction of new technologies and production as well as increase of labour productivity.
- To increase steadily a gross production of goods per capita.
- To attract a high investment and increase constructions of industrial objects (*sic*).

Turkmenistan in pursuing its development objectives to 2020 is using state investments to encourage economic growth partly through expansion of the oil and gas sector and associated downstream processing; continuing the shift from a producer of cotton as a raw commodity to increasing value added processing as well as expansion of other forms of industrial processing of other natural mineral resources. Attraction of foreign investment is one of the stated goals, although it remains to be seen how success this will be outside the oil sector and this will complement investments from within Turkmenistan. The increase in oil and gas prices in 2003-2005 has given the government some additional flexibility. However, the main determining factor on economic growth will continue to be access to world markets. The long awaited TransAfghan pipeline is still under investigation pending verification of gas reserves.

- **democratisation, human rights and rule of law**

Turkmenistan is following its own path of democratisation which is quite different to that experienced in the EU. The process of electing local and regional officials is commented upon above. Formation of political parties with views different to the government remains a distant prospect.

The government maintains tight control of the print media as well as state television and radio and yet paradoxically a significant proportion of households have direct access to satellite international television channels.

Corruption remains a significant problem at all levels of society.

- **economic and social reforms**

Economic reforms remain marginal to what is essentially a state controlled command economy. Individual enterprise is limited to trading and small scale mainly agriculture based businesses. The taxation system is being simplified to encourage development of enterprises but as the collection rate does not meet current targets it is not clear how the changes will make much difference in practice.

The government plans to increase public sector salaries substantially and at the same time reduce the numbers of state employees. Previous “efficiency” drives have seen major job cuts in the health and education sectors. In the short and possibly medium term the job cuts will lead to unemployment as the very small private sector is not sufficiently developed to absorb the available workforce.

Instead of increasing the opening up of society since independence, Turkmenistan continues to exert tight state control on all areas of activity. Decriminalisation of unregistered NGO activity is welcome but there is a great difference between this action and the development of a vibrant civil society.

The abolition of child labour has been an important legislative step taken in Turkmenistan although it will be difficult for the international community to form an objective view on its implementation.

International concerns cover the complete spectrum of the human rights agenda, the lack of economic liberalisation, changes to the education system including reducing schooling to 9 years, restricted access to higher education.

3. Review of past assistance to the country

- **Main donors/IFIs focal areas (past) and future orientations**

Turkmenistan has limited borrowing from IFIs in order to be able to follow its own development path relying on revenues from gas and oil sales to finance government spending. As a consequence donor activity has been relatively modest. There are no active World Bank projects

EBRD Strategy 2004: Critical reform challenges

In the *political sphere*, the critical reform challenges include:

- Register independent opposition parties. Turkmenistan remains a de facto one-party state and is lacking political pluralism. There are no alternative parties in the country.
- Strengthen the legislature and the judiciary. The Constitution formally recognises separation of powers. However, in practice, power is concentrated in the presidency and is not properly balanced, either by the legislature or by the judiciary.
- Conduct free elections. The country’s only presidential election took place in 1992 and had one candidate – Saparmurat Niyazov. The absence of a minimum level of pluralism for competitive elections prevented the OSCE/ODIHR from monitoring the election.
- Lift censorship of the media. The Government fully controls media and access to Internet; it continues to exercise censorship of the newspapers and TV/radio broadcasting.
- Improve human rights record and register NGOs in the area of human rights. The Government creates obstacles to the functioning of independent NGOs. The Government’s overall human rights record remains very poor.

In the *economic sphere*, the critical reform challenges include:

- Achieve tangible progress in price and trade liberalisation and, importantly, unification of the dual exchange rate to promote more efficient resource allocation and to attract greater FDI inflows.
- Improve the transparency and accountability of public resource management, including the FERF.
- Accelerate agricultural reforms by transferring land to private farmers and substantially reducing Government procurement of main crops.
- Increase further the private sector's role in the economy by restarting enterprise privatisation and reducing state control over the financial sector.

The Bank would seek to expand its role in a process of accelerated political and economic transformation through financial support both in the private and public sectors. In such a Regular scenario, the Bank would look to exploit opportunities with strategic sponsors in the oil and gas and textiles sectors, the modernisation of transport, improvements in energy efficiency, further support for SMEs and financial sector development, and assistance with regional trade and economic cooperation.

Supporting the private sector

The core of the Bank's approach in Turkmenistan is and will remain support for the private sector, and dialogue with the Government and civil society on ways to improve the investment climate for private entrepreneurs. In this way the Bank complements the efforts of the IMF, the World Bank and the Asian Development Bank as well as other IFIs and bilateral donors. Close cooperation with the entire international community will remain a pillar of the Bank's approach.

Asian Development Bank

Lending will commence if preconditions are met for each project including government commitment to undertake reforms to realize the full benefits of the investment. No policy dialogue has taken place since 2002. Government officials attended ADB seminars and workshops including the Central Asian regional partnership building forum on confronting land degradation and the regional capacity-building seminar on customs cooperation. High-ranking government officials participated in meetings of the steering committee on the Turkmenistan-Afghanistan-Pakistan natural gas pipeline project for which ADB financed a feasibility study. Technical assistance financed a study tour from the National Institute of State Statistics and Information to Manila in December 2004.

Islamic Development Bank

IDB committed some USD 73 million for the construction of three medical centres, the purchase of an oil tanker, the rehabilitation of a portion of the Mary-Ashgabat highway and a rural water supply project. It is currently looking into the funding of more projects in the medical, water and infrastructure areas, as well as into the opening of a credit line for one of the banks.

UNDP

The United Nations Development Programme (UNDP) carries out a number of small scale TA projects in Turkmenistan aimed at strengthening the technical and institutional capacity of the Ministry of Economy and Finance, and of regional public authorities with respect to national economic planning, pension legislation and improvement of national insurance system. In addition UNDP works with the Central Bank on improving the country's debt management and financial analysis system.

UNDP also funds TA projects to facilitate information sharing in Turkmenistan for sustainable human development, improve the energy efficiency in heating and hot water supply systems, improve natural parks and combat HIV/AIDS.

OSCE

The Organisation for Security and Cooperation in Europe (OSCE) regularly conducts workshops, seminars and round tables on such issues as the prevention of drug and human trafficking, the strengthening of national border and customs services, environmental education, and SME development. The OSCE also supports local NGOs by providing grant funds for training and development.

- Past EC programmes

Tacis programmes have provided all of the EC assistance divided in recent years between traditional technical assistance programmes notably in rural development, energy, public service capacity building and the TEMPUS programme. The Tacis programme has also been able to combine very effectively with assistance from the EU Member States and the OSCE. Turkmenistan has also participated in TACIS wide and Central Asia regional programmes.

- lessons learned

Since 2002 cooperation with Turkmenistan has improved with greater preparedness by the government to participate in sensitive areas such as border management anti drug trafficking measures development of the Customs service. Recently it has become apparent that short term policy advice and expertise can provide the best response to specific needs rather than large scale reform projects which by their nature may be too challenging for the project to be successful.

Frequent changes in the government have often made it difficult to develop long term relationships with ministries and ministers. In the past there have been difficulties with beneficiaries when the results of the technical assistance have shown local practices did not produce the best results.

Development of long term relations within the Tempus programme has proved to be very useful in establishing trust with the authorities and ensuring that effective actions are developed in what is a very sensitive area of activity.

Development of programmes no matter the sector will have to be supported from the highest levels of government if the activities are to have any chance of being successful; that such development takes time and that it is important to adapt programmes to be aware and sensitive to the specific local conditions

4. EC response and focal sectors for assistance:

Through its 2007-10 Central Asia Indicative programme, priorities will be :

Bilateral programmes for good governance and economic reform, developed within the framework of a specific medium-term cooperation strategy for Turkmenistan, and
focus on **core economic reforms**,
market and regulatory reforms in the energy sector
capacity building including statistical capacity building,
the **promotion and strengthening of civil society and social partners**.
rural development schemes

Participation in regional programmes to promote regional cooperation and good neighbourly relations focusing on:

economic sector development particularly enhancing the countries' involvement in the follow-up activities to the **Energy** and **Transport** Ministerial Conferences held in Baku in Nov. 2004 , conducted under the ENPI Regional Programmes ,
environmental cooperation, following up on the Environment Ministerial Conference held in Almaty in April 2006;
strengthening **Justice, Liberty and Security** cooperation between each country, its neighbours and EU operational structures;
enhancing higher **education , technical and scientific cooperation**, including with scholarship programmes, as well as people-to-people contacts

Uzbekistan

1. Situation of the country

- Political situation and foreseeable developments

The political orientation of the government has shifted over 2005 from a western orientation to favour Russia and China. Part of this reflects Uzbekistan's extreme irritation of the attitude of the "west" over the Andijan events in May 2005 but also a desire to attract investment from Russia and China who seem to be able to offer the type of financial incentives appreciated by Uzbekistan. Withdrawal from GUUAM and stronger alignment with the Shanghai Cooperation organisation and application to join the Eurasian Economic Community and perhaps most significantly the signing of a Collective Security Agreement with Russia are the most obvious manifestations of this shift in policy.

- Democratic transition, political reforms

- Political and economic re-orientation from the West to Russia & China in past months (very rapid)
- Reinforcement of the Shanghai Cooperation Organisation
- Uzbekistan cancelled its membership to GUUAM (Georgia, Ukraine, Uzbekistan, Armenia, Moldova) union
- Ongoing accession process to EurAsEC
- Accession to the Organisation of Collective Security Agreement (Russia-led)
- Strategic partnership on allied relationship with Russia (including military facility sharing, etc.)
- Improved border cooperation with Turkmenistan since Nov/04
- De-mining agreement with Tajikistan and The Kyrgyz Republic signed and proceeded with implementation
- Tense relationship with Kyrgyz Republic after political reshuffling in The Kyrgyz Republic and incidents in Andijan. Recent improvement in relationship
- Uzbekistan resists international calls for an independent inquiry into the Andijan events. Several trials of persons accused of involvement in Andijan have been held in secret
- In 2005, the UN General Assembly adopted a resolution noting: arbitrary arrest and detention; harassment of the media; refusal of recognition for opposition political parties; restrictions on freedom of thought, conscience and religion; serious constraints on, and harassment of, NGOs; and restriction on access of ICRC to places of detention
- Uzbekistan undertakes to improve political and economic relations with Iran
- Unclear domestic political situation in terms of power structures
- Improved legislation development process in the new Parliament
- Little visible improvement in the process of development of rule of law
- Decree on abolishment of death penalty starting Jan 1st 2008 to be ratified by the Parliament. No moratorium until then

- Extended administrative reorganisation in key administrative constituencies, such as Cabinet of Ministers, Agency/Ministry of Foreign Economic Relations, Ministry of Economy, Ministry of Foreign Affairs
- Ongoing attestation of civil servants
- Slow decentralisation process, especially in fiduciary issues
- Although Constitution defines executive powers' subordination to legislature, all the decision-making and policy power is concentrated within the CabMin and the Office of President
- Although the formal policymaking structure is set forth in relevant laws and Cabmin resolutions, it is not widely understood outside government
- Although all policy initiatives are subject to inter-ministerial consultations, there is no formal mechanism to ensure that proposed policies are reviewed by all ministries directly involved
- Despite visibly clear and coherent policy implementation monitoring procedures, conflicting policies often result in confusion and implementation difficulties
- Because of vague definition of the rights and responsibilities of government agencies, legal accountability is still problematic
- Public involvement is sometimes sought in drafting legislation, however civil society involvement in public policy development remains limited
- The CabMin's Office of Information and Analysis takes a leading role in public administration reform
- Uzbekistan's public service is gradually being de-centralised, however, while formal structures of local governance have changed notably since independence, centralizing tendencies still remain
- Fight against corruption in economy and administration needs to be intensified
- Several important decrees were issued: on improvement of cash payments by banks, on gradual privatization of state-owned banks, and on the improvement of plastic cards systems
- Special decree was issued to provide duty-free imports of plastic cards and related equipment
- Credit unions given more freedom and independence from state controlling bodies. Their activities expanding
- Major efforts required to improve agricultural futures markets
- Civil service reform and management of public finance is further delayed despite a draft Law on Civil Service has been elaborated and efforts are put to further develop the Chamber of Accounts and national treasury
- Public expenditure management and planning still behind international standards of transparency
- Increased domestic financial and material support to law enforcement and security services. Reduced external aid to the same
- Introduction of bicameral Parliamentary system consisting of the Senate (upper chamber) and Oliy Majlis (lower chamber). However, the principle of checks and balances has not been met
- According to the MS, legal basis for free and fair election was not fully used
- Reinforcement of legal and regulatory frameworks on middle and grassroot levels insufficient
- International commitments (OSCE, UN) not fully observed, closing of UNHCR Office.
- Unofficial obstructions hindering independent activity of the NGOs despite existing NGO legislation

- Severe pressure on independent mass media and so called opposition including closure of several international news agencies – Internews, BBC
- Suspended mandate of IREX in Uzbekistan

Cross border cooperation with Turkmenistan is improving following the meeting of the two Presidents in November 2004.

- **Economic situation and trends, including investment, trade and overall status in “transition reforms**

Superficially the government is carrying out economic reforms. In practice the core issues of investment climate, trade etc remain locked in the past. Convertibility remains an issue despite the official position that the SUM is fully convertible.

Negative developments

- Little progress on making management of the economy more transparent with poor administrative capacity persisting which continue to hinder private sector development, jobs creation and poverty reduction
- Regulatory framework for the development of domestic insurance, leasing, credit markets is in progress with, in practice, obstacles still existing for operations of international institutions
- No major activities in reforming the banking sector with some institutions facing severe difficulties or closure (private Business Bank)
- Lack of efficiency of the local banks when handling international credit facilities
- Domestic trade is restricted and overpriced due to informal barriers related to corruption and institutional shortfalls (non-functioning Commodity Exchange)
- Payment balance under strong pressure due to high cost of energy and oil
- Access to training and re-training is limited due to relatively high tuition fees and lack of availability of courses, particularly in the remote areas
- Accession to the WTO and legal approximation remain prime targets of Uzbek foreign trade policy, according to established legal framework, however trade liberalisation including discriminative tax regime remain behind expectations despite gradual progress
- Little progress on making management of the economy more transparent with poor administrative capacity persisting which continue to hinder private sector development, jobs creation and poverty reduction.
- Reorganization of the state-owned enterprises is ongoing but limited to less profitable enterprises with overdue payables. Many contracts include investment obligations to be undertaken by successful investors in addition to the purchase costs
- Access to finance is improved due to availability of better equipped investment funds, however, lack of capacity and knowledge with the farmers and private entrepreneurs prevents full use of the available finance facilities
- Broken links between modern agricultural science and actual farmers, no market researches are conducted to aid and guide the rural producers who suffer additionally from volatile liquidity
- Domestic trade is restricted and overpriced due to informal barriers related to corruption and institutional shortfalls (non-functioning Commodity Exchange)
- Border restrictions still exist that seriously affect intraregional travel and trade

Positive developments

- Increased GDP by 7.7% in 2004 according IMF reports (and 2.7% in Jan)
- Variety of international contracts – investment into exploration industries from China, Malaysia, Russia, India (coming up) in Uzbekistan. Cotton exports to China (app. USD 120M), discussion of exploration contract (gold and Uranium) with Russia, renewal of export contracts (Gas) to The Kyrgyz Republic, Tajikistan ;Industrial cooperation enhanced with Russia in Aviation, Defence industry and telecom where the Chinese demonstrated active interest, too
- Most of cotton production was committed to be sold to Russia and China
- Regulatory framework for the development of domestic insurance, leasing, credit markets is in progress with, in practice, obstacles still existing for operations of international institutions
- The government is pursuing plans to partially privatise strategic sectors, such as energy sectors (UzbekEnergo, UzbekNefteGaz, etc)
- Uzbek government is actively working on planning improvement of networks in transport, telecommunications and energy transport as well as border crossings
- Two major decrees on improvement of regulatory situation for the SMEs (controlling inspections and taxation) with impact to be seen
- Two major decrees on improvement of regulatory situation for the SMEs (controlling inspections and taxation) with impact to be seen
- Government is interested in promoting private entrepreneurship and undertake major efforts to attract FDIs and domestic investments. Reorganisation of the AFER into MFER had been targeted at facilitating these efforts through taking lead in export promotion and attracting investments; private Investment Promotion program within the MFER promotes investments into regions and benefits offered to Joint Ventures, especially in rural areas
- Activation of the role of Chamber of Commerce and Trade in trade promotion locally and internationally. However many functions of the Chamber were assigned to the reorganised Ministry of Foreign Economic Relations and Trade
- Privatization in agricultural and other key areas is ongoing however privatisation is geared to infrastructure but not lands
- The government is pursuing plans to partially privatise strategic sectors, such as energy sectors (UzbekEnergo, UzbekNefteGaz, etc)

- **Social situation, with update on demographic, employment, poverty and main Human Development Indicators**

- Official statistics on unemployment does not reflect informal labour market figures
- Healthcare is undergoing the second stage of the 10-years' program approved in 1998 with particular attention to enhancement of efficiency of medical care. The government is allocating considerable funds to the reform
- Visible improvements made in regulatory framework allowing and promoting development of private medical services

- Continued close cooperation in medical sector with Russia
 - From October onwards, the minimum monthly wage and all pensions are increased by 20%, however, inflation is included in this increase
 - Accumulative pension fund system has been introduced into the regulatory framework early 2005
 - Social protection and insurance systems sustain minimum functions which are increasingly insufficient considering rising price indexes for daily subsistence
 - Assistance to alleviate the social impact of industrial restructuring (training, retraining, etc.) remains limited
 - Employment services are constantly underfunded and are of low efficiency
 - Inefficient mobilisation and use of public revenues, poorly selected public investment portfolios, deteriorating public services and infrastructure lead to a worsening of income distribution and low living standards, particularly in rural areas
 - The agricultural sector is failing to provide rural areas with sufficient income and food security due to the constraints posed by inadequate property rights, lack of inputs and mechanisation, including access to water technology and agro processing facilities, difficult trading and marketing conditions and low investment into infrastructure
 - Wide spread poverty and income disparities aggravate the risk of conflicts, including across borders
- **Others: security and organized crime, borders and migration, regional cooperation, environment**
- Problems still remain on Syrdarya water management between UZB, KYR and KZ
 - The government has initiated respective legislation for the fight with human trafficking, money laundering and financing terrorism
 - Uzbek government has increased its fight against drugs trafficking, and committed itself to the establishment of regional drug control centre
 - Human trafficking is being addressed at all levels of Uzbek Government
 - Enhancement of regional cooperation in the 5+1 format has been initiated by the EU in order to improve regional cooperation. Discussions held on regional development cooperation and land use planning
 - According to recent statements by the Russian President, Uzbek migrant labour force is to be given legal basis to work in Russia (work permits, including social security). This is likely to add to the migration trend of people searching for work in Kazakhstan and particularly in Russia
 - Cross-border environmental tensions exists between Uzbekistan and The Kyrgyz Republic (MayliSuu radioactive storage) and Tajikistan (Aluminium plant), etc
 - Uzbekistan is working on national policy for waste management in coming years covering management of wastes in Uzbekistan, research is underway to determine all types of wastes produced by the country
 - Law adopted on Protected Bioreserves
 - Government reports that a system for certification in nature protection has been introduced
 - Draft resolution on controlling imports of ozone-destructive substances is under discussion (with assistance from Germany and France)

- Uzbekistan is further pursuing the Strategy of Energy savings regarding efficient use of existing energy sources and development of alternative (non-fossil, renewable) energy sector
- Agreements are in force with neighbour countries in the region on utilisation of surplus energy from joint networks
- Implementation of national policy and exploration of oil and gas fields needs more focus on environmental aspects
- Uzbekistan is undertaking measures to implement the Kyoto Protocol

2. Agenda of the government

Development plans and policies: main priorities and level of commitment (incl. Medium term budget perspectives), covering:

(i) Democratisation process and rule of law

- Uzbekistan adopted respective law on bicameral parliament system as well as law on conducting elections to the parliament which law was criticised by the OSCE as non-transparent and unclear.
- The Ombuds(wo)man underlined in the August 2005 report the increased number of complaints received from public and remedy measures taken by ombudsmen in the field.
- National association of NGOs established at the initiative of the Peoples Democratic Party
- Fight against terrorism
- The 2006 State Budget as adopted by the Lower Chamber of Parliament in November reportedly emphasises social protection of people and gradual reduction of applicable tax rates and simplification of tax procedures;
- Transparency of the 2006 State Budgets needs to improve
- Education (primary, vocational) is one of priority areas on Govt's agenda
- Promote gender equality and empower women
- Ensure environmental sustainability
- Develop a global partnership for development

ii) Economic and social reforms

- Government is pursuing together with the WB a strategy for improving living standards to half poverty by 2015
- Increasing efficiency and optimization of public expenditures, businesses, fostering SMEs, support to entrepreneurs, development of domestic markets, etc.
- Privatization of two large state owned banks (Asaka Bank and the National Bank of Uzbekistan) before year 2010 with strong emphasis on attracting foreign investors.
- Improving living standards
- Improve the quality of education in primary and secondary schools
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, tuberculosis and other diseases

Post Andijan the government has intensified its efforts to control the media, limit freedom of expression and generally restrict basic human rights as understood in the EU. However, the tighter control is only part of a process which has been on a downward trend for some time and precedes the Andijan events.

The creation of the bicameral assembly with a parliament that meets throughout the year should be a positive development if the parliament is able and willing to work as a genuine counter to presidential power. It remains to be seen whether this independence will develop.

Much legislation has been passed and some progress has been made on the legislative front with respect to the rule of law. However, implementation of the rule of law does not always seem to keep up with legislation.

3. Review of past assistance to the country

Main donors/IFIs focal areas (past) and future orientations

- ADB: strong emphasis on primary and general secondary education, healthcare, energy, water management, regional economic development, gender, transport
- WB/IFC: education, health, HIV/AIDS, poverty alleviation, support to civil society, fiscal and budget reforms, water management, energy, leasing
- EBRD: energy, SME development, banking sector, water supply and sanitation, focus on non-government and non-government related clients
- USAID: health, SME, education, civil society, agriculture, students exchange,
- GTZ/KFW: economic/environment development in the Aral Sea region, vocational education, penitentiary reform, banking system, ICT, SME, credits.
- DFID: bilateral assistance is closed from Jan '06. Commitments on the Regional projects shall be honoured.
- SECO: SME development, vocational education, water management, regional programmes,
- IDB, Kuwait, Iran, Arab funds: loans for infrastructure projects,
- JICA/JETRO: vocational education, training, management training, exchange programmes, health, HIV/AIDS, trade development, industrial development, SME,
- UN Agencies: economic development, poverty alleviation, education and training, drug control, border management, refugees, healthcare, children's health, HIV/AIDS, gender, co-financing activities.
- China: ICT in basic education, telecommunications
- Other Member States: minor activities in education and training,

Lessons learned

- Need for continuing non-mainstream programmes, such as IBPP
- Need for promoting non-Tacis-financed initiatives such as NGO, gender, EIDHR Need for more coordination of Commission services in Central Asia
- Need for more coordination with the Member States, donors and beneficiaries
- Need to conduct intensified training on EC's new instruments and strategic planning for the local stakeholders.

4. EC response and focal sectors for assistance

- Through the 2007-10 Central Asia Indicative programme, EC bilateral cooperation will **focus primarily on the promotion and strengthening of civil society / social partners and rule of law**. These activities will be in addition to the **continuation of rural development schemes for direct assistance to local populations in the context of poverty reduction and raising living standards, focusing on the Ferghana Valley**.

The EU should also in Uzbekistan

Promote Central Asian regional cooperation and good neighbourly relations by:

focussing **on regional economic sector development and environmental cooperation**, particularly enhancing the involvement of Uzbekistan in the follow-up activities to the Energy and Transport Ministerial Conferences held in Baku in November 2004, as well to the EU CA Environmental High Level Conference (Almaty, April 2006), conducted under the ENPI Regional Programmes

strengthening Justice, Liberty & Security cooperation between Uzbekistan, its neighbours and EU operational structures,

enhancing higher education, technical and scientific cooperation, including with scholarship programmes, as well as people-to-people contacts,

Annex 3

Central Asia: Assistance priorities of Member states and other donors

EU Member states

From the **EU-25**, Germany, the UK, the Netherlands and Sweden are the major donors to Central Asia countries, focusing on Kyrgyzstan and Tajikistan.

Germany is the largest EU donor, with annual assistance programme to Central Asia summing to € 50 million per year. It is based on a harmonised regional approach, defining objectives at the regional level, while the projects are developed in a national context. It focuses on the promotion of economic reform and a stronger market economy, and places especial emphasis on improvements in public administration and capacity building.

Around half of this assistance is provided in the form of loans, grants, and project support by the development arm (Entwicklungsbank) of the Kreditanstalt für Wiederaufbau (KfW). KfW is currently active in four of the five states of Central Asia (excluding Turkmenistan). In Kazakhstan, for example, the German federal government has provided some €79 million in assistance through the bank since 1993, focussing in particular on the extension of credit to small and medium-sized businesses, and on the fight against tuberculosis. In more recent times, however, assistance has been also extended to the environmental and energy sectors. As in Uzbekistan, the bank is financing a water supply project on the Aral Sea in Kasalinsk/Novokasalinsk and the four rural provinces of Basykara, Muratbaeva, Kysl-Tu and Khumsiek. It is also involved in a project to rehabilitate the Kapchagai hydro power plant, and the construction of a new plant and dam near Kerbulak, to alleviate the need for new thermal power facilities, which will begin in 2006.

In the Kyrgyz Republic, the German assistance has hitherto been targeted at market-oriented economic reform, supporting the implementation of the National Poverty Reduction Strategy and vocational training and financial programmes to assist small and medium enterprises and supporting the Health SWAp with UK and WB. Similar initiatives have been undertaken in Tajikistan, although the overriding focus of assistance in the country remains poverty reduction. KfW has, for instance, supported the foundation of the country's first microfinance bank, providing professional financial services to businesses and private households, and is planning to participate in a National Social Investment Fund (NSIFT) which will finance infrastructure building in smaller communities. 50% of the fund will be given over to school construction.

The **UK** (DFID) is providing assistance to Central Asia under its Strategy Papers for 2001-5. DFID has recently launched a new conceptual framework for 2006/07 under which assistance to Uzbekistan is phased out following the events in Andijan, whilst Kazakhstan is raised to the status of a Middle Income Country. In the future, assistance will henceforth be focussed on two countries: 1) the Kyrgyz Republic, where some £ 5.5 million, up from £ 3.25 mio in previous biennium, will be attributed annually to support public finance management (GSAC) delivery, AIDS prevention, and the National Health Strategy and SWAp launched with Kyrgyz government which will be the core priority for 2006-2010. Rural community development and rural water supply/sanitation projects are on-going 2) Tajikistan, the £ 3 million annual programme, v.s £ 2.5 mio previously, will focus on micro credit and SME development (through EBRD), and on supporting the National Social Investment Fund, third party arbitration courts, Livelihoods project in Zarafshan Valley, AIDS prevention. Farm debts, livelihoods and public financial management are also envisaged to be priority areas over the coming years.

Sweden (SIDA) has just adopted its new assistance strategy for Tajikistan covering the period 2004-2006 during which funding has been increased by approximately € 6 million. Swedish bilateral assistance will focus on strengthening democracy, protecting the environment and implementing social and economic reforms.

Other donors

The United States had a sizeable assistance programme to the regions amounting to some \$ 100 million annually but plans to reduce it in coming years. In 2006, the biggest amount of assistance will be provided to The Kyrgyz Republic (20 million euros) and Tajikistan, expected to receive 18.3 million euros in a bid to improve the countries' investment climate, incl. electricity sector, promote SMEs, support initiatives strengthening democracy and good governance, assist local development, and enhance healthcare and social welfare provision. Access to MCC funds is envisaged for Kyrgyzstan. Clearly recognising the key role of Uzbekistan for the security and stability of CA including for issues of energy supply, the US had lent active support to it to help it promote its reform agenda. But, in 2005 following criticism on Andijan events, the US was asked to leave its military base and most assistance was frozen. .

Japan: Japan is one of the main donors to Central Asian countries. In 2003, its assistance programme (loans and grant) amounted to 242 million dollars. The Japanese initiative called "Central Asia Plus Japan" dialogue is aimed at promoting intra-regional cooperation in Central Asia while maintaining bilateral assistance.-After the next meeting at ministerial level scheduled in May in Tokyo, a series of regional projects are expected to be implemented (see annex). These mainly focus on the already existing TACIS priorities in the region and coordination will be pursued

Canada and Switzerland provide assistance to the mountainous states of Tajikistan and The Kyrgyz Republic, including for conflict prevention, rural development schemes and civil society.

Iran played a key mediating role in the inter-Tajik reconciliation talks leading to the 1997 peace accords. More recently, Iran's geopolitical interests in Central Asia, aimed at containing US encirclement, have led it to strengthen links with Tajikistan, including investments to build the Anzob tunnel and the Sangtuda-2 hydropower station (\$ 180 mio).

International Financial Institutions

The IFIs and UNDP have formed the **Central Asia Regional Cooperation (CAREC)** led by the ADB which coordinates the assistance operations of its members region-wide; focus on four priorities: fostering intra-regional cooperation among the five countries in the areas of trade and transit, business development and investment, infrastructures esp. for energy/transport, environment (see Annex for summary of projects). ADB will increase its support for regional projects of the Central Asia Regional Economic Cooperation Program (CAREC). CAREC will maintain its focus on transport, energy and trade in the 2006-2008 program, which includes 16 major projects totalling \$943 million and 13 technical assistance projects totalling \$9 million.

EBRD: Main sectors of intervention: trade facilitation, transport and energy infrastructures, financial services, incl. micro-credit, private sector development and SMEs and municipal utilities: Kazakhstan accounts for over 52% of EBRD activities in Central Asia, with the Bank having signed 40 investments totalling just over \$1.2 billion as of 30th September 2005. Investments in financial institutions and the communications and transport infrastructure continue to be the dominant sectors. By supporting both Kazakhstan's Small Business Programme (KSBP) and the Trade Facilitation Programme (TFP), the Bank has sought to strengthen the country's SME sector and expand access to international markets for Kazakh businesses. Rather than investing heavily in the hydrocarbons sector, the EBRD has focused instead upon improving the infrastructure that will underpin sustained economic growth, granting a seven year, €87 million loan to Kazakh Telecom in December 2003, and financing jointly, with the Asian Development Bank, the upgrading of a 900km stretch of motorway linking the oil-rich west of the country with the Caspian Sea.

In other central Asian countries, the priority areas for EBRD investment have been broadly similar, albeit on a smaller scale, with the Bank investing in important national infrastructure projects such as the modernization of Tajikistan's State Air Company (TSA)'s ageing aircraft fleet, and the € 7.3 million loan provided in 2004 to help improve the water supply to the Uzbek capital, Tashkent. In April 2004, the Bank also launched the Early Transition Countries initiative, designed to increase investment in the seven poorest

transition countries, including Uzbekistan, Tajikistan and the Kyrgyz Republic. Support to financial/banking services has been extended to small and micro credit-. As such, the overriding focus of the EBRD's work in these three states has been upon poverty alleviation, and more specifically through investing in the core primary sectors of the economy, namely agriculture in the Kyrgyz Republic and the cotton industry in Uzbekistan. The EBRD has also been one of the few international donors, aside from the EU, to have made substantial investments in Turkmenistan (€131 million as of 30th September 2005).

Asian Development Bank: The overriding objective of ADB assistance in Central Asia remains that of poverty reduction. As a result, the Bank has focused the majority of its work on Uzbekistan and the Kyrgyz Republic, providing \$65 million in loans to the former in 2004 to support textbook provision and curriculum reform in education, and improvements in primary healthcare for women and children, and a \$32.8 million loan to the latter for reconstruction of the road network in the south of the country. In both Tajikistan and the Kyrgyz Republic, agriculture has been identified as a key sector for promoting growth amongst the poorest elements of society, with the ADB funding a regional programme of customs modernization and infrastructure development along with local rural irrigation projects to allow cotton farmers in the two countries to improve yields, transport their raw cotton out of local districts, and to use standard cotton financing contracts for transparency and financial discipline.

Likewise in Kazakhstan, poverty reduction in rural areas has equally dominated ADB policy, with the Bank offering sustained long-term support to the implementation of programmes dealing with rural development, drinking water supplies, and poverty reduction. The Bank has also provided analytical support, with one study assisting in the development of state education reform programme through until 2010. Unfortunately, no policy dialogue has taken place between the ADB and Turkmenistan since 2002, although the Bank has funded a feasibility study into a Turkmenistan-Afghanistan-Pakistan natural gas pipeline project.

World Bank: Recognising Kazakhstan's reduced need for external financing, the World Bank's Country Strategy Paper for the country, approved in September 2004, is focused on more targeted investment loans, and the transfer of knowledge and expertise through policy dialogue. The Bank is particularly keen to help the Kazakh government manage the huge and increasing revenues it receives from its oil and natural gas supplies through the National Development Fund, to prepare Kazakhstan for WTO accession through the three-year Joint Economic Research Programme (JERP) by encouraging greater economic diversification and lowering barriers to trade and investment, and to encourage more sustainable growth through a focus on the environment, and more specifically, the management of the country's water resources.

In both the Kyrgyz Republic and Tajikistan, World Bank assistance has concentrated above all on improving the basic community infrastructure in the two countries, by empowering rural communities to pursue development projects based on their own needs and initiatives. WB loans and technical assistance grants have helped to support land reform and the development of educational and health sector reforms, whilst rehabilitated irrigation systems and more accessible rural credit have increased agricultural production. Of equal importance is the analytical work that the World Bank provides to these countries, by providing the respective governments with assessments on poverty, public-expenditure, governance, financial accountability, and growth and trade. In conjunction with both the EBRD and ABD, the World Bank has also, through its International Development Association arm, acted as a sponsor of the CIS-7 initiative, an international effort to reduce poverty and enhance economic growth in the seven low-income countries of the Commonwealth of Independent States, which include Tajikistan, Uzbekistan and the Kyrgyz Republic.

United Nations Development Programme (UNDP):

In its most recent human development report on Central Asia, published in December 2005, the UNDP makes the case for a regional approach to assistance, in an effort to promote a far more coordinated approach amongst the five states in areas of shared vulnerability and mutual concern, particularly in trade and transit, water and energy management, drug trafficking and regional security. The report concludes that the benefits of such cooperation – or the costs of failing to achieve it – would be considerable, suggesting

that the benefits from reducing trade costs, increasing remittances from migrant workers, and more efficient use of natural resources could lead to a doubling of the size of the regional economy within 10 years.

Five challenges facing external donors, including the UN itself, in providing assistance to Central Asia are identified:

- Scale of engagement.

- Where to focus external engagement – regional initiatives or national programmes?

- How to improve the quality of governance

- More systematic coordination between regional donors

- Establishment of strong, effective regional organisations in Central Asia.

It can be seen that the EC, through both the Strategy Paper and Indicative Programme, is facing these challenges head on, by adopting an explicitly regional approach to its assistance strategy, and by identifying closer regional cooperation, and improvements in governance as key priority areas in the coming years. For its part, the UNDP offers a number of general recommendations to respond to the five challenges it identifies. One more specific initiative that it advocates is the appointment of a UN Special Envoy and Representative of the Secretary General to help achieve the objective of closer regional cooperation through high-level dialogue with all regional partners.

Other specialised international organisations providing assistance in Central Asia include: OSCE, UNODC, IOM, UNHCR, UNEP, with whom the EC is closely coordinating, particularly in the framework of the TACIS regional BOMCA-CADAP and other JLS assistance programmes.

EC Coordination with IFIs

The European Bank for Reconstruction and Development, in which the EU and its member states are major shareholders, is working closely with Tacis, often providing funding for major transport, energy and environmental projects for which Tacis has developed feasibility studies or other preparatory work, as well as for SME credit lines in complement of poverty reduction schemes of Tacis. In addition the EU's own bank, the European Investment Bank plans to be mandated for the period 2007-2013 to make loans of up to € 400 mio in Central Asia and € 5.0 billion in Eastern ENPI countries for selected projects closely linked to the EC regional focal priorities in environment, transport and energy infrastructure, for complementary assistance by the EC is envisaged.

The EU is working also with other international financial institutions, donors and other partners to operate environmental programmes and promote environmental investments. Tacis participated in the Joint Environmental Programme – along with international financial institutions including the World Bank and EBRD - to help the Central Asia countries mobilize investments in major environmental projects, thus overcoming their limited financial resources. The Tacis role is to fund the pre-feasibility studies that are required before large loan decisions on such projects can be made.

The EU cooperates with the World Bank and the Asian Development Bank in many CA projects, from transport and energy infrastructure, vocational and technical education or trade and customs. There is complementarity and reinforcement with the work of the EU in, for instance, World Bank projects on the rural environment and in rural water and sanitation in The Kyrgyz Republic, Tajikistan and Uzbekistan.

TABLE 1

| Summary Breakdown of IFIs' Cumulative Financial and Technical Assistance to Central Asian countries by country and sector (in USD \$ millions) as of 31 st December 2004 | | | | | | | | | | | | | | | |
|--|------------|-------|-------|-----------------|-------|-------|---------------------|------|-------|------------------|-------|-----|------------|-------|-------|
| Sectors: | Kazakhstan | | | Kyrgyz Republic | | | Tajikistan | | | Turkmenistan (*) | | | Uzbekistan | | |
| | WB | EBRD | ADB | WB | EBRD | ADB | WBW orld Bank | EBRD | ADB | WB | EBRD | ADB | WB | EBRD | ADB |
| Agriculture/ Nat Resources | 89 | 165.2 | 140 | 78.1 | 73.3 | 76.0 | 20.8 | 6.5 | 63.0 | | 52.8 | | 36.14 | 157.0 | 185.2 |
| Banking | | 398.3 | | 9 | 16.4 | | | 4.7 | | | 13.3 | | | 177.2 | |
| Education | | | 65 | 15 | | 32.7 | 20 | | 7.5 | | | | | | 230.5 |
| Finance | | 199.9 | 100 | 20 | 4.2 | 48.5 | | 4.3 | 8.0 | | 4.1 | | | 17.7 | 20 |
| Health / Nutrition | | | | 30 | | 10.5 | 10 | | 7.5 | | | | 40 | | 279.5 |
| Industry / Trade | | 47.6 | | | 9.6 | 22.5 | | | 20.7 | | 43.1 | | | 62.6 | 50 |
| Infrastructure | | | | 30.1 | | | 35 | 1.1 | | | | | | 38.8 | |
| Law, Pub. Policy + Ec Management | | | | 7.8 | | 79 | | | | | | | | | |
| Multisector | | | 60 | 5 | | 96 | | | 45 | | | | | | |
| Power/Energy | 349 | 83.4 | | 35 | 53.7 | 30 | 28 | | 54 | | | | | 24.5 | 70 |
| Poverty Reduction | | | | | | | 13.8 | | | | | | | | |
| Property / Tourism | | 8.1 | | 9.4 | 8.0 | | | | | | | | | | |
| Transport / Communications | 100 | 329.5 | 102 | | 8.3 | 177.8 | | 18.5 | 35 | | 26.4 | | 29 | 133.3 | 190 |
| Water Supply/ Sanitation | 104.9 | | 34.6 | 15 | | | 30.47 | | 3.6 | | | | 199 | | 74 |
| Total Assistance Per country per donor | 642.9 | 1232 | 501.6 | 254.4 | 173.5 | 573.0 | 158.07 | 35.1 | 244.3 | | 139.7 | | 304.14 | 771.1 | 859.7 |
| Total Assistance per country | 2376.5 | | | 1000.9 | | | 437.5 | | | 139.7 | | | 1934.9 | | |

WB: World Bank ADB: Asian Development Bank EBRD: European Bank for Reconstruction and Development **

* Turkmenistan became the 59th member of the Asian Development Bank when it joined on 31st August 2000. Thus far, however, no loans, technical assistance or grants have been approved, whilst no bilateral policy dialogue has taken place since 2002.

** Figures taken from EBRD website in millions of euros. Converted using exchange rate €1: \$1.1976. Amounts rounded to nearest \$100,000.

TABLE 2

Details: Other Donors' Financial and Technical Assistance to CA countries - (i) Breakdown by country and sector – continued

| | Kazakhstan | Kyrgyz Republic | Tajikistan | Uzbekistan |
|--|------------|-----------------|------------|------------|
|--|------------|-----------------|------------|------------|

**WORLD BANK /
IBRD/IDA
-Current/Ongoing
Projects**

24 *Agricultural Competitiveness* (Apr 05)

35 *Agricultural post-privatisation Assistance 2* (Dec 04)

140 *Electricity Transmission Rehabilitation* (Dec 99)

30 *Forest Protection & Reforestation* (Nov 05)

100 *North-South Electricity Transmission* (Oct 05)

40.39 *Nura River Clean-Up* (May 03)

100 *Road Transport Restructuring* (Feb 99)

64.5 *Syr Darya Control & Northern Aral Sea Phase I* (Jun 01)

109 *Uzen Oil Field Rehabilitation* (Jul 96)

8.1 *Agribusiness & Marketing* (Dec 04)

14.98 *Agriculture Support Services* (May 98)

5 *Consolidated Technical Assistance (TA)* (June 00)

6.9 *Disaster Hazard Mitigation* (Jun 04)

20 *Governance Structural Adjustment Credit (GSAC)* (May 03)

7.78 *Governance Technical Assistance* (May 03)

15 *Health & Social Protection* (Dec 05)

15 *Health Sector Reform 2* (May 01)

35 *Irrigation Rehabilitation* (May 98)

9.42 *Land & Real Estate Registration* (Jun 00)

20 *On-Farm Irrigation* (Jun 00)

9 *Payments & Banking System Modernisation* (Mar 04)

20 *Power & District Heating Rehabilitation* (May 96)

15 *Power & District Heating Supplemental* (Jun 98)

15 *Rural Education* (Dec 04)

15 *Rural Water Supply & Sanitation* (Dec 01)

15 *Small Towns Infrastructure and*

10 *Community & Basic Health* (Dec 05)

10.8 *Community Agriculture & Watershed Management* (Jun 04)

17 *Dushanbe Water Supply* (Jun 02)

20 *Education Modernisation* (May 03)

18 *Energy Loss Reduction* (Jun 05)

13 *Ferghana Valley Water Resources Management* (Jul 05)

0.47 *Lake Sarez Risk Mitigation* (Jun 00)

10 *Land Registration & Cadastre System for Sustainable Development (LRCSP)* (Apr 05)

15 *Municipal Infrastructure Development* (Jan 06)

10 *Pamir Private Power* (Jun 02)

13.8 *Poverty Alleviation 2* (May 02)

20 *Rural Infrastructure Rehabilitation* (Jun 00)

29 *Urban Transport* (May 00)

40 *Bukhara & Samarkand Water Supply* (Mar 02)

40 *Health 2* (Sep 04)

60 *Drainage, Irrigation & Wetlands Improvement – Phase 1* (Jun 03)

75 *Rural Water Supply and Sanitation* (Aug 97)

24 *Tashkent Solid Waste* (May 98)

36.14 *Rural Enterprise Support* (Dec 01)

TABLE 3

Details: Other Donors' Financial and Technical Assistance to CA countries - (ii) Regional Donor Programs in Central Asia (breakdown by sectors)

| Donor Institutions | Water Resource Management | Energy | Transport | Trade |
|--|---|--|---|---|
| <p>Asian Development Bank (ADB)</p> | <p>Technical Assistance to promote effective water management policies and develop plans on sustainable natural resource management</p> <p>Western Uzbekistan Rural Water Supply Project aimed at improvement of water resource management by introducing water conservation measures and support to sanitation</p> | <p>Regional Power Transmission Modernization Project aimed at improvement of power transmission and power trading in the region</p> <p>Regional Gas Transmission Improvement Project aimed at elimination of constraints of gas transmission and encouragement of gas trade</p> <p>Technical Assistance and Studies 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>Almaty-Bishkek Regional Road Rehabilitation aimed at development of transport links and removing the physical and non-physical cross-border barriers</p> <p>Technical Assistance 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"> • Borovoe-Kokshetau-Petropavlovsk Road Rehabilitation aimed at facilitating domestic and international passenger and freight transportation • Kazakhstan Road Rehabilitation - Almaty-Akmola corridor road rehabilitation, maintenance and capacity improvement • Kyrgyz First and Second Road Rehabilitation Projects - Bishkek-Osh road rehabilitation, improved maintenance, safety, monitoring, and evaluation • Kyrgyz Third Road Rehabilitation Project–improvement of secondary roads • Tajikistan Road Rehabilitation Project – rehabilitation of the most deteriorated sections of Dushanbe-Kulyab road • Uzbekistan Road Rehabilitation Project - rehabilitation of the road section from Bukhara to the Turkmenistan border • Uzbekistan Railway Rehabilitation Project - rehabilitation of railway track between Chengeldy and Samarkand • Aktou-Atyrau Road Rehabilitation - road upgrading to link two major development centers and facilitate interregional trade | <p>Regional Trade Facilitation and Customs Cooperation Program – provide critical funding for freeform and modernization of the customs systems</p> <p>Customs Modernization Project (Kyrgyz Republic and Tajikistan) – improve customs operational efficiency in order to facilitate trade and improve revenue collection</p> <p>Regional Tourism Development Project</p> <p>Technical Assistance to support trade facilitation, customs cooperation and tourism development</p> |

| Donor Institutions | Water Resource Management | Energy | Transport | Trade |
|---|---------------------------|---|--|---|
| <p>European Bank for Reconstruction and Development (EBRD)</p> | | <p>Ferghana Refinery Project - rehabilitation of refinery to convert to use of domestic oil resources</p> <p>Regional Transmission Modernization Project - enhancement of regional energy systems to promote cross-border electricity trade and cooperation between Uzbekistan and Tajikistan</p> <p>KEGOC North South Power Transmission Project - 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"> ● Kazakhstan Road Sector Restructuring: Atyrau-Aktau - improve road access between the two cities ● Kazakhstan Road Sector Development Project - promote regional cooperation by rehabilitating the road transport link ● KTZ Track Maintenance and Commercialization Project - improve track maintenance by introducing new and more efficient technology ● Uzbek Railways: Freight Traction Renewal and Management Project - support the modernization and restructuring of the railways, finance urgent investment needs and facilitate trade flows and market expansion ● Locomotive Re-Powering Project - support transition in the railway sector aiming at boosting trade flows in the Eurasian corridor ● Khoujand Airport - emergency repair of the airport's unsafe runway ● Kazakhstan Atyrau Airport Project - rehabilitation of the main runway and associated investments to improve operations at the airport ● TSA Air Navigation System Upgrading - replace ageing equipment for air navigation services and implement reforms of the aviation sector ● Tashkent Airport Rehabilitation Project - rehabilitation of taxiways, airside facilities and passenger terminal building ● Turkmenbashi Port Development - rehabilitation of general cargo, dry bulk and ferry terminals thus improving access to the world trade markets ● Aktau Port Reconstruction Project - modernize and expand the port's capacity and increase its | <p>Regional Trade Facilitation Program – 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 technical assistance 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>Study 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>United Nations family:</p> <p>UNDP UNEP UNECE</p> | <p>Aral Sea Basin Capacity Development Project - supporting institutional arrangements for sustainable development to land and water use</p> <p>Support to Regional Environmental Action Plan in Central Asia - strengthening of political & institutional basis for regional cooperation</p> <p>Transboundary Water Cooperation in the NIS - examination of the status of and approaches to bilateral & multilateral cooperation on transboundary waters</p> <p>Support to Regional Environmental Action Plan in CA - strengthening of political and institutional basis for regional cooperation</p> <p>Capacity Development in Environmental Information Management - improve access to environmental information by catalyzing & assisting capacity building in environmental information management</p> <p>Regional Partnership for Prevention of Transboundary Degradation of the Kura-Aras - ensure control of quality & quantity of water for the short and long term needs of the ecosystem & of the communities</p> <p>Caspian Environment Programme - 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>Special Program for Economies in Central Asia - strengthening sub regional cooperation in water sharing and energy trade</p> | <p>Special Program for Economies in Central Asia (SPECA) - strengthen subregional trade cooperation and facilitate the economic integration of member countries with Europe and Asia</p> <p>Central Asian External Trade and Transit Transport Initiative: Rebuilding the Silk Road - identify subregional transport institutions to ensure the sustainability of transit-transport activities</p> <p>International Multimodal Transport Operations in the ECO Region: Trade Facilitation Component - assist ECO member countries to lay a sound basis for multimodal transport, including trade facilitations measures</p> | <p>Trade Promotion in Central Asia Programme – Phase I – assist with development, diversification and increase of foreign trade and competitiveness of the participating countries</p> <p>Support of Kazakhstan accession to the WTO</p> <p>Strengthening Trade Points in Asia/Pacific for Regional Cooperation – support the establishment and linking of trade points and development of trade efficiency network;</p> <p>UN Economic and Social Commission for Asia and the Pacific – assist in transition of economic development by addressing issues of trade, investment, industry and technology</p> |

| Donor Institutions | Water Resource Management | Energy | Transport | Trade |
|--------------------------------|---------------------------|--|---|---------------------------------------|
| Islamic Development Bank (IDB) | | Feasibility Study on Power Interconnection of the ECO member countries | <p>A series of national projects with regional benefits, including:</p> <ul style="list-style-type: none"> • Alyat-Gazi Mammad Road • Bishkek-Osh Road • Almaty-Gulshad Road • Murgab-Kulma Pass Highway • Karaganda-Astana Road • Taraz-Talas-Suusamyr Road Projects • Shagon-Zigar Road • Mary Tedjen Road • Expansion and Upgrading of Osh Airport - improve quality of passengers and cargo services • Reconstruction of Borovoe-Petropavlovsh Road • Improvement of Aktobe and Shymkent Airport | Technical assistance on WTO accession |

| Donor Institutions | Water Resource Management | Energy | Transport | Trade |
|--|---|---|-----------|---|
| <p>United States Agency for International Development (USAID)</p> | <p>Increased Environmental Management Capacity to Support Sustainable Economic Growth - focus on water resources management of the Aral Sea Basin and global climate change</p> <p>Improved Management of Critical Natural Resources, including Energy (Natural Resources Management Program) - installation of sustainable system models; improvement & strengthening of regional & international water & energy agreements</p> <p>Natural Resources Management Program (Water and Energy) - provide technological & structural solutions to the various system changes including upgrades of energy & 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>Improved Management of Critical Natural Resources - providing technological and structural solutions to the various system changes to meet the basic needs for water and energy.</p> | | <p>Trade Facilitation – assist Kazakhstan in setting international customs standards and procedures to join WTO and provide with post-WTO accession assistance</p> <p>Customs Valuation Methods – support efforts towards compliance and implementation in connection with WTO membership</p> |

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

| Donor Institutions | Water Resource Management | Energy | Transport | Trade |
|-----------------------|--|--------|--|--|
| <p>Japan</p> | <p>South Aral Sea Basin - Environment, Economy and Public Health - production of Geo-information systems maps including information on macroeconomy, demography and other areas</p> <p>Rural Communities Water Supply in North Kazakhstan Oblast and Akmola Oblast 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>Railway Transport Capacity Development Project Refurbishing transit facility etc. (Kazakhstan)</p> <p>Astana Airport Reconstruction Project Repair of the Astana airport (construction of passenger and freight terminal building etc.)</p> <p>Western Kazakhstan Road Network Rehabilitation Project The repair work of the superannuated road in western Kazakhstan</p> <p>Bishkek-Osh Road Rehabilitation Project Repair of the trunk road between the metropolitan Bishkek and the second city Osh</p> <p>Bishkek-Manas International Airport Modernization Project Repair and modernization of Bishkek-Manas International Airport</p> <p>Three Local Airports Modernization Project Repair and modernization of 3 local airports (Samarkand, Buhara, Urgenc)</p> <p>Railway Transportation Modernization Project 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>Germany</p> | <p>Sub Regional Action Programme to Fight Desertification (in the framework of the Community Driven Development) - sustainable management of shared rivers and other transboundary ecosystems</p> | | | <p>Advisory Project on Commercial Law for the Commonwealth of Independent States – establish civil and commercial law on general and unified principles</p> |

Annex 4

Part I : EBRD Transition Indicator Scores for Central Asian Countries, 2005

| | Kazakhstan | Kyrgyz Republic | Tajikistan | Turkmenistan | Uzbekistan |
|---|------------|-----------------|------------|--------------|------------|
| Large-scale privatisation | 3 (3) | 4- (3) | 2+ (2+) | 1 (1) | 3- (3-) |
| Small-scla privatisation | 4 (4) | 4 (4) | 4 (4-) | 2 (2) | 3 (3) |
| Governance & Enterprise Restructuring | 2 (2) | 2 (2) | 2- (2-) | 1 (1) | 2- (2-) |
| Price Liberalisation | 4 (3) | 4+ (3) | 4- (3) | 3- (2) | 3- (2) |
| Trade & Foreign Exchange System | 3+ (3+) | 4+ (4) | 3+ (3+) | 1 (1) | 2 (2-) |
| Competition Policy | 2 (2) | 2 (2) | 2- (2-) | 1 (1) | 2- (2) |
| Banking Reform and Interest Rate Liberalisation | 3 (3-) | 2+ (2+) | 2 (2-) | 1 (1) | 2- (2-) |
| Securities, Markets and non-bank financial institutions | 2+ (2+) | 2 (2) | 1 (1) | 1 (1) | 2 (2) |
| Infrastructure Reform | 2+ (2) | 2- (1+) | 1+ (1+) | 1 (1) | 2- (2-) |

Source: EBRD Transition Report, November 2005, p.14

The transition indicators range from 1 to 4+, with 1 representing little or no change from a rigidly centrally planned economy and 4+ representing the standards of an industrialized market economy.

Indicators for 2002 are given in brackets for purposes of comparison.

Annex 4

Part II: World Bank/International Finance Corporation's 'Doing Business' Indicators for Central Asian states

| | Kazakhstan | Kyrgyz Republic (**) | Uzbekistan |
|--|------------|----------------------|------------|
|--|------------|----------------------|------------|

| | | | |
|---------------------------------------|------|------|------|
| Time to obtain licence (days) | 258 | 152 | ... |
| Time to export goods (days) | 93 | ... | ... |
| Time to import goods (days) | 87 | 127 | 139 |
| Time to pay taxes (hours) | 156 | 204 | 152 |
| % tax payable on gross profit | 41.6 | 59.4 | 75.6 |
| Time taken to enforce contract (days) | 380 | 492 | 368 |
| % cost of debt to enforce contract | 8.5 | 47.9 | 18.1 |
| Overall Rating * | 86 | 84 | 138 |

* The World Bank currently ranks state economies from 1 to 155, a grading which is calculated by averaging out each country's percentile ranking on each of the ten indices (Starting a Business; Dealing with Licenses; Hiring and Firing; Registering Property; Getting credit; Protecting Investors; Paying Taxes; Trading across Borders; Enforcing Contracts; Closing a Business) covered by the Doing Business Survey.

** At present, insufficient data has been collected from Tajikistan and Turkmenistan to form reliable Doing Business Indices for these countries.