

Strategy Paper 2002-2006
&
Indicative Programme 2002-2004
for
Central Asia

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IDENTIFICATION

Title of the Programme:	Central Asia Strategy Paper 2002-2006 & Indicative Programme 2002-2004
Countries concerned:	Uzbekistan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan
Cost:	€ 150 million
Budget Line:	B7-520
Budget Years:	2002-2004
Legal Basis:	Council Regulation (EC, EURATOM) No 99/2000 of 29 December 1999 concerning the provision of assistance to the partner States in Eastern Europe and Central Asia
Programming:	DG RELEX Unit E3

EXECUTIVE SUMMARY

The Strategy Paper for Central Asia, which includes the Tacis Indicative Programme for Central Asia for the years 2002-2004, reviews EU/EC cooperation with the five countries of Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) to date and presents a new strategy for providing technical assistance to the region.

The Strategy Paper sets out the EU's cooperation objectives, assesses the Central Asian policy agenda, considers lessons learnt from past EC assistance, the work of other donors and proposes a response strategy and priorities for cooperation. The Indicative Programme sets out the response in more detail, highlighting programme specific objectives, expected results and conditionalities for Tacis in the priority areas of cooperation for 2002-2004. To implement this new strategy, an annual allocation of € 50 million has been foreseen for the years 2002-2006.

The EU's cooperation objectives with the Central Asian countries are based on the Partnership and Cooperation Agreements (PCAs) in force with Kazakhstan, Kyrgyzstan and Uzbekistan and signed with Turkmenistan, and the Trade and Cooperation Agreement (TCA) with Tajikistan.

While the specific issues facing each country vary, the countries of Central Asia face common development problems. Slow democratic transition, poor records of implementing human rights obligations, concern over Islamic radicalisation, and the proliferation of weapon of mass destruction, demographic pressures straining the capacity of social services, lagging implementation of market-oriented economic reforms, poor business and investment climates, widening income disparities and poverty are problems experienced throughout Central Asia. Shared challenges - including combating transnational crime, improving border management, achieving economic diversification, increasing intra-regional trade, accessing world markets, and making more sustainable use of natural resources – present opportunities for developing mutually beneficial relations.

EC assistance totalling € 944,4 million has been provided to the countries of Central Asia over the past 10 years. Bilateral Tacis technical assistance, accounting for € 366,3 million, has been complemented by other EC instruments including humanitarian aid, macro-financial loans and grants, budget support through the FSP, rehabilitation assistance, the EIDHR and increased market access through the EU's GSP.

Experience suggests that EC technical assistance has a value-added role to play in Central Asia, complementing other donors' activities. At the same time, the lessons learnt from past assistance demonstrate that Tacis co-operation with Central Asia needs to be more focused in order to improve coherence and that a longer-term perspective is required to ensure continuity and to increase the impact and visibility of EC assistance. The strategy therefore envisages that priorities set out in the Indicative Programme for 2002-2004 will be continued in future years.

Assistance also needs to be better targeted towards sectors and issues where the partner country has expressed a clear interest in reform: the programme will therefore be designed with the aim of increasing Tacis' responsiveness to governments' commitment to the reform process and to enhancing regional cooperation.

In this context, the core objective of the new EC assistance strategy will be **to promote the stability and security of the countries of Central Asia and to assist in their pursuit of sustainable economic development and poverty reduction**. To achieve this objective, Tacis will work along three 'Tracks' whose common objectives will be to:

- promote security and conflict prevention.
- eliminate sources of political and social tension.
- improve the climate for trade and investment

The three Tracks for Tacis assistance will consist of:

- a **regional cooperation programme** designed to promote good neighbourly relations and concerted work between the Central Asian countries using a pragmatic, 'variable geometry' format in areas where the EU has a strategic interest. These include transport and energy networks, sustainable use of natural resources and implementation of international environmental conventions, justice and home affairs
- a **regional support programme, implemented at national level** designed to address the main common challenges to sustainable economic development. While these challenges have been identified regionally, the programme will be implemented via tailored national activities aimed at assisting the Central Asian societies in their efforts to integrate into the world economy and with Europe. It will focus on facilitating investment and trade through PCA/TCA implementation and improved customs and border management, supporting the EC Food Security Programme and PRSP implementation as well as reform of the education sector, particularly higher (general, professional and technical) education.
- a **poverty reduction scheme** piloted in 2-3 target regions, focusing on poverty alleviation, community and rural development and centred on the most vulnerable groups.

1. EU/EC COOPERATION OBJECTIVES

The over-arching objectives of the EU's cooperation with the Central Asian countries are to foster respect for democratic principles and human rights and to promote transition towards a market economy. They are based on the Partnership and Cooperation Agreements (PCA) in force with Kazakhstan, Kyrgyzstan and Uzbekistan (the PCA has been signed with Turkmenistan but has not yet entered into force) and the Trade and Cooperation Agreement with Turkmenistan and Tajikistan. The PCAs/TCAs provide for mutual liberalisation of trade, dialogue and cooperation on a wide range of issues.

The tragic events of 11 September 2001 and subsequent events in Afghanistan have had a significant impact on Central Asia and led to a widespread re-evaluation of political and foreign policy priorities, both within the EU and elsewhere. Most Central Asian states have for their part expressed a desire to forge closer relations with the EU.

Important developments in the region were already taking place prior to 11 September. In particular, Central Asian countries had begun taking steps towards dealing jointly with certain common economic and security challenges. The establishment of the Eurasian Economic Community, the Central Asian Cooperation Organisation, initiatives in the field of environment and energy, cooperation within the framework of the Shanghai Cooperation Organisation and the CIS Security Pact to combat terrorism all evidence this shift.

It is clear that overcoming the challenges faced by the region is vital both for the countries themselves and for wider international peace and security. While most Central Asian countries have made considerable progress over the past ten years, the reform agenda remains substantial. The post-11 September context seems to have had an

impact on authorities' commitment to push through economic reforms. Kazakhstan has stepped up judicial reform, started discussions on establishing a system of local governance and accelerated its application for WTO accession. Tajikistan and Kyrgyzstan have taken forward their Poverty Reduction Strategies (PRSPs). Kyrgyzstan is also involved in an ambitious overhaul of its investment climate. Uzbekistan has committed itself to full convertibility of the Som by end 2002. Even Turkmenistan has softened its staunch neutrality policy to allow humanitarian assistance to Afghanistan to transit through its territory.

Countries of the region have enhanced their participation in security – related regional and sub-regional fora including, for Kazakhstan, Uzbekistan and Kyrgyzstan, through their accession to the ISTC or STCU, helping reduce the risk of the proliferation of knowledge on weapons of mass destruction, which is of concern to the region as a whole, and more widely.

But recent developments have not all been positive. The war in Afghanistan appears, in some cases, to have created new incentives for action aimed at consolidating the power bases of the existing leadership, cracking down on potential political opposition and restricting freedom of expression. These trends towards greater autocracy come at the expense of further reforms aimed at developing fully functioning democracies and societies where human rights and fundamental freedoms are upheld. They also contribute to increase social tensions.

Following on from the Council conclusions of 17 October and 19 November 2001 and the EU Troika visit at Ministerial level to the region, the General Affairs Council of 10 December 2001 decided to strengthen bilateral relations between the EU and the countries of Central Asia by:

- pursuing enhanced political dialogue with all countries in Central Asia, including through Partnership and Cooperation Agreements (PCAs) or Trade and Cooperation Agreements (TCAs), and through Member States' local presence.
- inviting the Commission to resume Tacis assistance to Tajikistan and to open discussions on upgrading contractual relations with Tajikistan.
- targeting assistance to a reduced number of priority areas including poverty reduction, social and economic development, good governance, environment and water management.
- combating drug trafficking, making full use of the Action Plan on Drugs between the EU and Central Asian Republics.
- considering action on border control and border management, including arms smuggling and non-proliferation.

The GAC also underlined the importance of developing cooperation between the five states of Central Asia on key issues of common concern and enhancing its coordination with relevant international organisations (UN, OSCE), international financial institutions (IMF, World Bank, EBRD, and ADB) and other partners. In this context, the European Commission decided to double the annual Tacis allocation for Central Asia from around € 25 million to € 50 million. It also decided to resume Tacis assistance to Tajikistan. The implementation of the deconcentration programme in 2002/03 will strengthen the Commission's presence in Central Asia.

2. CENTRAL ASIAN POLICY AGENDA

(see Annex I and II for maps of Central Asia and the Ferghana region)

More than a decade into independence, the countries of Central Asia have made some progress towards democratisation and the establishment of market-based economies. All five States are showing greater confidence and the majority are trying to strengthen their links with the world economy and international political community.

Common achievements include progress towards internationally agreed borders, the creation of functioning government structures and the establishment of public administrations, law enforcement, economic and financial management bodies. However, the need for further economic reform and poverty reducing growth, improved governance, efforts to tackle corruption, implementation of the rule of law, and an over-dependence on revenues from the export of a small number of unprocessed primary commodities, remain common challenges.

2.1 National Agendas

Following the first decade of transition, the policy agenda of the region is moving forward characterised by a consolidation of state structures and efforts to harness the benefits of further integration into the global economy.

State building remains an important priority for all the Central Asian states. In the past, many of Central Asia's problems, especially conflicts, have stemmed from perceived threats to fragile national stability. Priority has been accorded to establishing state identity and territorial integrity, particularly internationally and regionally recognised borders. The authorities of all Central Asian countries have worked to consolidate their power - often at the expense of the development of civil society, a free media, the implementation of international human rights obligations and enhanced cooperation with neighbouring states. Attitudes towards Islam vary and religious freedom is of concern.

With the fall of the Taliban regime in Afghanistan and the presence of coalition military forces, external *security* concerns have considerably abated but internal security remains high on the policy agenda of each country and influences attitudes to regional cooperation.

Economic reform is far from consolidated and all five countries remain, to a varying extent, vulnerable to external shocks. There have been some successes – for example inflation has been reduced, GDP is rising, production and trade are gradually recovering from the 1998 rouble crisis, the privatisation of major industries and services is providing a foundation for new investment and economic activity. But securing the long-term growth required to reduce poverty will depend to a large extent on Central Asia's ability to create employment and to develop new industries to replace those sustained by the centrally planned Soviet economy, to improve agricultural output, and to find new markets for their products and raw materials, as well as new sources of industrial inputs and supplies. Joining the WTO and improving access to global export markets are priorities shared by all the Central Asia countries except Turkmenistan. Governments are also keen to attract financial support, recognising the essential importance of investment and structural reforms, notably in the energy sector. Uzbekistan has recognised the crucial importance of full convertibility of its national currency, which should be implemented in the framework of an agreement signed with the IFIs. This reform will have important benefits for the development of the country and its international trade with neighbouring partners as well as with Europe.

Unequal income distribution and poverty is a real problem throughout Central Asia, affecting especially Tajikistan, Kyrgyzstan, and Uzbekistan where 68%, 49 % and 31% of population respectively live below the poverty line. 75% to 85% of the poor live in rural areas. Food insecurity, particularly in Tajikistan and Kyrgyzstan, is a key characteristic of poverty in Central Asia. In addition, although the margin dividing poor from non-poor is narrow, income inequality between the rich and less well off has increased sharply over the last decade. Physical indicators of poverty have steadily worsened, and social safety net provisions have deteriorated, mainly because of limited and inefficient state resources dedicated to poverty reduction. Tajikistan and Kyrgyzstan have responded by adopting Comprehensive Development Frameworks and are in the process of elaborating Poverty Reduction Strategies to provide a framework within which to tackle poverty over the medium-term. To date, key priorities selected include institutional and legislative reform, good governance, private sector development, human resource development and sustainable resource management. The influence of the heavy burden of external debt on their economies has been highlighted by these countries' inclusion in the CIS-7 Initiative, as well as that of Uzbekistan. The initiative has agreed on the importance of strengthening regional cooperation and focusing efforts on improving business and investment climates, reducing spending distortions to ensure that social services and social protection provision are efficient, maintaining macro-economic stability, and pushing forward structural reform, especially in the energy sector.

2.2 Regional Agenda (see Annex VIII for more detail on the participation of Central Asian countries in organisations for regional cooperation)

Regional co-operation in the strict sense (i.e. involving all the five countries of Central Asia) has in the past proven difficult to realise at the political level. The larger states, Uzbekistan and Kazakhstan, have vied for the position of regional leader and for primacy in contacts with external actors, to the exclusion of pursuing political cooperation with their more immediate neighbours. Resource-rich Turkmenistan has interpreted its declared neutrality as reason to resist participating in any formalised Central Asia cooperation forum. In contrast, the poor and resource-deprived economies of Kyrgyzstan and Tajikistan have recognised that they are very much dependent on regional integration for their future growth prospects.

On the other hand the governments of the region have all recognised the importance of *regional interdependency* and established mechanisms for consultations and negotiations on specific issues of mutual interest, often at a technical level. For instance, there is awareness of the need to address environmental issues, transport and communications systems from a broader, 'regional' standpoint, of the need to rationalise energy trade, develop new markets for national enterprises and pursue security on a regional level.

While collaborative structures remain weak and there remains a preference to deal with issues bilaterally, one positive spill-over of the Afghan war has been to stimulate negotiations between neighbouring countries and to apparently create a greater scope for the expansion of cooperative activities. Realistically, new forms of regional cooperation are more likely to be pursued in 'variable geometry' formats, dependent on the issue at stake.

The five countries are active in pursuing their international relations and cooperate with OSCE and UN bodies. In addition they have developed relations in the region through a number of various regional and supra-regional organisations with different though often overlapping objectives and memberships, which are linking them altogether as well as with neighbouring countries (cf. Annex VIII). These are essentially fora for political dialogue, with few operational co-operation projects. All five Central Asian countries

have attempted to exploit the Afghan reconstruction agenda in order to promote their bilateral relationships with the major international players. External diplomatic activities have been re-focused on improving relations with large neighbouring countries, the US and the donor community, with the aim of benefiting from the additional political attention and aid flowing to the region. There have been efforts to play a role in solving the region's problems, for example through involvement with the Afghan Peace process or in resolving tension between Pakistan and India (the CICA summit meeting in Almaty in June 2002 allowed the Central Asian countries, particularly Kazakhstan, to play an active role in trying to launch a dialogue process between these two countries).

At present, the Central Asian Cooperation Organisation (CACO) is the only *political* forum for regional cooperation on an exclusively Central Asian level (though without the participation of Turkmenistan). On 28 December 2001 in Tashkent, the Presidents of Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan announced their intention to cooperate in political, commercial, economic, scientific and cultural issues, with an emphasis on 'mutually beneficial economic cooperation'. They agreed to take action to promote commercial and economic cooperation and improve the use of transboundary water resources and common infrastructure, especially transport and energy infrastructure in facilitate access to external markets. Delimitation of state borders on the basis of international norms was also put on the agenda. Other, technical level, Central Asia regional initiatives also exist including the Inter-State Water Commission, the Intergovernmental Commission on Central Asian Sustainable Development, the Central Asian Energy Advisory Group and the Interconnected Electricity Grid.

3. ANALYSIS OF THE REGION

(for a more detailed country analysis, see Annexes IV and V)

Covering some 4 million square kilometres, Central Asia is of great strategic importance, forming a crossroads between China, Russia, Ukraine, Iran and Afghanistan. It is already an important producer of energy (coal, oil and gas as well as of hydro-electricity) and its mineral resources are considerable. Fossil reserves are huge, both offshore in the Caspian Sea as well as on the territory of Kazakhstan, Turkmenistan and, to a lesser extent, Uzbekistan. Most of the area is covered by desert (including very high mountains) but the majority of the population works in the agricultural sector. Central Asia's 56 million inhabitants are concentrated in the valleys of the Amu Darya and Syr Darya River. The Ferghana Valley, representing one percent of the land area of the entire region, harbours more than one fifth of the total population of Central Asia.

As well as forming part of the same geographical region, the five countries of Central Asia were, until recently, part of a single economic space. While each country has chosen its own path to internal stability and economic development since independence, common development challenges include issues of nation building, economic and social transition policies and the need to develop democratic institutions. At the regional level, existing cooperation has been insufficient to maintain the normal functioning of the regional infrastructure networks established in Soviet times: trade disruption, as well as a fall-off in investment, has impaired the economic growth of these landlocked countries.

3.1. Common problems

Democratic transition in the region remains slow, and in some countries appears to be regressing. The democratic tradition is new to Central Asia, with the Soviet system, Soviet education and poor economic development forming the backdrop to reform.

In some countries, the former General Secretary of the local Communist Party is still in power following elections that were judged not to have met OSCE criteria. Even in Kyrgyzstan (where President Akaev was not part of the Soviet power structure), the political regime seems to be becoming more, rather than less, autocratic. In some countries of the region the leadership tends towards a personality cult. The worst example of this trend is Turkmenistan where the President has been nominated to serve for life. Democratic political opposition is often not tolerated. Emerging civil society is confronted with continuous obstacles. Weak administration, poor governance and corruption remain real challenges. *Human rights* are a matter of increasing concern. Law enforcement institutions have a poor record of implementing their duties. Torture occurs in prisons and detention centres and the authorities support a culture of impunity. The death penalty has not been abolished in Uzbekistan, Kazakhstan or Tajikistan. Freedom of expression, of religion and of the media are not fully respected. Opposition parties are prevented from registering and going about their business. Equality of opportunity is recognised by the constitutions of all Central Asian countries but the status of women in society remains difficult, both economically and at the level of the individual. With most countries suffering from the legacy of a strong authoritarian regime and a highly centralised command economy, together with increasing evidence of clan rivalry, renewed efforts will have to be made to ensure continuing progress towards public participation in policy decisions, respect for human rights and functioning legal systems.

Terrorism, fundamentalism and security issues: Islamic radicalisation has both domestic and regional dimensions. International networks explicitly aim to establish the Muslim community at the expense of pluralistic political structures. For example the Islamic Movement of Uzbekistan (IMU), whose declared goal is to topple the Uzbek government, began extending its militant operations from Afghanistan and Tajikistan into Kyrgyzstan and Uzbekistan in 1999 and 2000. Growing economic deprivation and the absence of legal channels for expression and pursuit of legitimate political interests are contributing factors to the politicisation of peaceful Muslims. Of the non-militant underground movements, the strongest is the Islamic international organisation Hizb ut-Tahrir al-Islamii (Islamic party of Liberation), which advocates non-violent means to achieve its political goal to create an Islamic Caliphate based on Sharia law. The highly densely populated Fergana Valley, where barriers to cross-border movements are adding to resentment, is especially affected by these developments. In Central Asia and the wider region, terrorist forces and their support groups operate in close liaison with transnational crime networks, smuggling drugs (the IMU is also believed to control the drug trafficking routes through Tajikistan and Kyrgyzstan), arms and human beings. Afghanistan remains the largest exporter of heroin to Western markets, particularly to the EU where it is said to supply 80% of the market. Drug export routes extend throughout Central Asia, fostering addiction and spreading HIV/AIDs, increasing corruption and undermining the real economy. A vicious cycle is developing whereby Central Asian countries are taking action to limit cross-border movement of people and goods in the name of security which, in turn, hinders the legitimate movement of people and goods and the medium-term prospects for economic growth in the region. Mutual accusations of dissatisfactory border controls aggravate this cycle, with Uzbekistan's decision to mine its borders a particularly worrying development.

The proliferation of weapons of mass destruction and knowledge is of direct concern. The former Soviet Union conducted large development programs in the region, notably in Kazakhstan at the testing site of Semipalatinsk. Also relevant to global security is the biological weapons complex developed during the Soviet period with Stepnogorsk and the Renaissance Island in the Aral Sea as the main biological weapon sites. Central Asian countries' mineral reserves mean they are potential producers of nuclear

materials. Scientists and engineers still employed in the military research complex in Central Asian countries are therefore a potential target for proliferation of knowledge and represent a high risk as regards proliferation of weapons of mass destruction.

Demographic pressures: Population pressures are straining social services provided through the state budget, particularly health and education. Education levels are declining. The migration of educated human capital to Russia in particular has depleted the professional and administrative elite in most Central Asian countries. At the same time, the numbers of young people entering the labour market without relevant, market-oriented skills are high, contributing to increased levels of unemployment. Reversing this trend requires reform of social protection and education systems, as well as efforts to improve access to quality higher and technical education.

Socio-economic development and poverty: Despite their public statements, Central Asian authorities have so far proved reluctant in practice to resolutely embark on implementing economic reforms. This is affecting the performance of the regional economy and its integration into the world economy. Heavy debt burdens, lack of foreign investment, underdeveloped financial and private sectors and weak fiscal and budgetary policies are common characteristics. So are widening income disparities, inefficient mobilisation and use of public revenues, poorly selected public investment portfolios and deteriorating public services and infrastructure, leading to a decline in living standards, particularly in rural areas. Lagging reform of the agricultural sector and low productivity have led to widespread poverty in the countryside. The agricultural sector is failing to provide rural populations with sufficient income and food security due to the constraints posed by inadequate property rights, lack of inputs, including access to technology and processing facilities, difficult marketing conditions, and low investment in infrastructure. Widespread poverty aggravates the risk of ethnic and social conflict, including across borders or over issues such as water and land rights. Success in the fight against poverty is of utmost importance if ethnic and religious extremism is not to feed on social and economic inequality. The macro-economic context, particularly the severe limits on state budgets and administrative capacity, suggests that the potential for poverty reduction through economic growth in Central Asia lies in utilising existing human and physical capital more efficiently and setting appropriate conditions for development of private initiatives at the local level.

3.2 Shared challenges

Shared challenges create opportunities for Central Asian countries to develop mutually beneficial relations contributing to economic and political stability in the region. At the same time, many of the problems faced by Central Asian countries need to be addressed within a collaborative framework if they are not to lead to growing differences between and within countries.

Border disputes are creating stumbling blocks to wider regional cooperation in economic, security and cultural relations. The borders that were merely administrative in Soviet times have become barriers to the movement of goods, services and persons, often interrupting age-old trade flows. Moreover, despite general agreement to use Soviet boundaries, negotiations over where to demarcate the borders have often been contentious. Ethnic groups and clans, who were administratively divided under Soviet rule for political purposes, now face restrictions on crossing state borders. Much of the population of Central Asia has seen disruption in traditional patterns of commerce and social exchanges, contributing to poverty, social discontent and the appeal of extremist movements. This problem is particularly acute around the Ferghana Valley, where Uzbekistan has acted to obstruct trade with South Kyrgyzstan and North Tajikistan, both dependent on Uzbek road and rail for access to external markets. Seasonal migrant

labourers from Tajikistan, essential to their home country's economy, meet with ever greater obstacles on their way to and from Russia.

The *sharing of natural resources*, particularly water and energy, is developing into an ever more sensitive issue, with huge, and often conflicting, national interests at stake in relation to energy production, agriculture and ecology. Efforts to reach/implement agreements between upstream and downstream states have not yet been fully realised. Future developments, such as the expected increased in demand from North Afghanistan's agricultural sector for water from the Amu Darya river, as well as the upcoming completion of Turkmenistan's artificial Golden Century Lake, can be expected to further increase tensions, and will likely aggravate the situation of the Aral Sea Basin. While Central Asia is abundantly endowed with energy resources, an uneven geographic distribution of those resources between and within countries leaves each country with energy needs that can be more efficiently supplied by their neighbours. The drive of some Central Asian countries towards greater economic autonomy and energy self-sufficiency has resulted in inefficient production and consumption patterns, ignoring comparative advantage. Lack of access to reliable and clean sources of water for consumption, irrigation and energy production, the pollution of sea and inland water, energy inter-dependence for gas, oil and electricity and access to export opportunities/routes are all vital issues for the future development of the region.

Access to world markets is especially important for Central Asian countries whose population sizes and per capita income are too low for domestic demand alone to support efficient, diversified economies. Economic cooperation is essential to increasing the opportunities for local producers to achieve economies of scale and increase the efficient and cost-effective use of resources towards greater potential for economic growth. Complementary resource allocations suggest that a system of comparative advantage could be exploited between the Central Asian states, providing the basis for trade with the rest of the world. Trade facilitation, the establishment of efficient, safe and competitive transport routes and transit conditions within the region are also prerequisites for sustained economic development and access to foreign markets. However, the growth in intra-regional trade to date has been uneven at best and, while the potential for expansion remains considerable, all the countries of the region retain trade restricting policies and practices. WTO accession has only been achieved so far by one country in the region – Kyrgyzstan. Trade barriers include punitive transit tariffs, import quotas, export licensing requirements, and transport restrictions. Cumbersome, arbitrary and often corrupt bureaucracies throughout the region administer regulations that slow border procedures (e.g. multiple cargo inspections within a single country). Such practices as requiring importers to register contracts and currency and the lack of modern financial services to facilitate trade are additional obstacles. All these factors have contributed to a tapering off of exports and intra-regional trade which accounts for a declining share in overall exports (from 24 % in 1995 to 17% in 2000). South Kyrgyzstan and North Tajikistan are particularly severely affected. While Russia and other CIS countries remain the major trading partners of the Central Asian countries (40%-50% of total exports) and remain a major outlet for processed products, the EU's share in trade with Central Asia has increased over the last decade (although imports from the EU have fallen in the last couple of years). Trade with Iran, Pakistan and Afghanistan was marginal until 2001 (less than 1% of total exports) although a great deal of interest is being taken in Afghan reconstruction, given its potential as an outlet for local produce and materials.

Investment: Central Asia has a considerable unmet need for investment in vital economic infrastructure, to promote the restructuring of key industries, to support the SME sector and to increase diversification in exports. The fragility of public finances

and over-stretched sovereign borrowing, combined with the lack of private savings and weak financial institutions, makes foreign investment a key determinant of future economic growth in Central Asia. Foreign investment, outside the natural resources sector, is still very limited in all Central Asian countries (due mainly to the weaknesses of the business climate). New legal frameworks and investment promotion activities have failed to attract foreign investors as these policies are consistently undermined by continued state intervention, inadequate administrative capacity, red tape and endemic corruption. The absence of the rule of law and the difficulties foreign firms experience with accessing the judicial system do not provide any further incentives for their involvement.

4. OVERVIEW OF ON-GOING EC COOPERATION, AND OTHER DONORS' ACTIVITIES

4.1 EC assistance to Central Asia, lessons learnt

(for an overview of EC assistance to Central Asia see Annex IV)

EU assistance totalling **€ 944 million** has been provided to the countries of Central Asia over the past 10 years, representing an average of €100 million per year. Of this, Tacis has provided **€ 366 million** in technical assistance. Other EC instruments, such as macro-financial assistance and one-off targeted assistance to alleviate the impact of the 1998 Russian economic crisis, humanitarian aid through ECHO, food security and rehabilitation assistance has also been provided. In this context, the importance of using all instruments in an integrated, coordinated way to maximise impact is evident.

Despite the modest level of resources available, both financial and human, Tacis has supported a wide range of activities through the Central Asia National Programmes (*see Table 1 below*). However, the breadth of objectives and programmes undertaken across the five countries of the region has proved to be an obstacle for timely delivery, effectiveness and follow-up of projects. In addition, the diffusion of resources across programmes has been an obstacle to creating a critical mass of successful projects that can induce policy change and have a lasting impact at the national and regional level.

Major lessons learnt from past Tacis experience include:

- the need to better coordinate Tacis activities between countries and across the region and to concentrate assistance on a much more limited number of priorities and programmes. Focusing on common themes opens up opportunities to achieve economies of scale, more efficient and cost-effective use of resources. Sharing of experience and best practice between the countries of the region should be facilitated to achieve better results and increase EC visibility. It also enables the building up of networks of expertise in areas of common interest, this in turn facilitating the harmonisation of policies and approaches across the region.
- in relation to programme design, there has been an excessive time lag between the commitment of funds and the launch of project implementation. A narrower focus to priorities and programmes should help bring about more efficient programme design and implementation arrangements.
- slower than expected reform on the part of the beneficiaries has led to many Tacis projects being postponed or delayed. On the other hand, a number of projects that made a difficult start were successful in their later stages. In order to better respond to changes in the pace of reform, EU assistance must be developed with a far longer-

term perspective than has been the case with the biannual National Action Programmes and three year National Indicative Programme to date. It is envisaged that, in the main, the objectives of and programmes undertaken within the Indicative Programme 2002/2004 will serve as a basis for Tacis actions in the following programming period 2005/2006. In addition, use will also be made of the newly established national PCA Secretariats and Policy and Legal Advice Centres to ensure continuity in this use of Tacis technical assistance inputs. Core priorities may also be followed-up by a possible second phase, based on achievements and adjusted in accordance with progress in reforms.

- aspects related to the application of new legal instruments and their implementation at the operational level have proved crucial to programmes' successes. This implies the need for a stronger institutional strengthening and capacity building component, which also requires a longer time frame for assistance to be effective.
- focused and continuous support is also a means to improve the visibility of EC assistance; the level of EC visibility gained via the Tacis National Programmes has been modest.
- relevant lessons can also be drawn from the experience of the Tacis Regional Programme. Experience here, particularly the response from the countries of Central Asia, has generally been quite positive. A number of fora for regular cooperation among Central Asian or broader groupings of countries have been promoted by Tacis, at times with complementary support from other donors. Such fora are actively working in the fields of transport, energy, water, environment and the fight against drugs. These constitute a useful basis on which to build and deepen cooperation between the countries of the region and with the EU, and to identify projects and initiatives of mutual interest.
- the major constraints to promoting regional cooperation fora have been delays in launching projects, lack of resources and weak follow-up, in particular at the national level. These have had a particularly negative impact on the Statistics and Customs programmes whose activities, by their nature, need to be developed with a comprehensive, medium-term perspective.
- broader regional cooperation fora, involving a larger number of countries, have not been as good at taking into account the specific needs of Central Asia and have led to a lack of ownership.
- it is important to ensure that an adequate level of resources is directed towards maintaining cooperation over the medium-term, as well as a proper expert dialogue and follow-up activities within participating countries (e.g. by locating sources of technical advice in the region). While Central Asian countries will continue to participate in Tacis Regional programmes, it is important also to deepen and sharpen cooperation programmes operating at the sub-regional level.
- there is a need to strengthening dialogue more generally, both on regional cooperation and on Tacis priorities, including through the PCA/TCA consultation mechanisms.
- close co-ordination with IFIs and major donors, in both national and regional programmes, has been instrumental in ensuring effectiveness, particularly for programmes relating to networks and the environment. This is equally true of policy advice programmes and for investment activities resulting from feasibility studies. Continued close coordination should be pursued and strengthened.

Important lessons have also been learnt from other, non-Tacis, EC instruments:

- after a decade of addressing humanitarian needs in Tajikistan, ECHO and the Rehabilitation programme have firmly established the value of Community Driven Development for poverty reduction but have also highlighted the need to address the underlying, structural causes of poverty. At the same time, an allocation from the rehabilitation budget might be considered.
- problems in realising the benefits granted under the Generalised System of Preferences due to lack of understanding on the part of beneficiary countries highlights the importance of ensuring adequate capacity. For the GSP, the Commission envisages in-country training seminars for local officials to improve GSP utilisation rates. More generally, programmes need to pay full attention to local capacity building through technical assistance, national training programmes and administrative reform programmes.
- the weakness of local administration and technical capacity leading to low absorption capacity and the inability of local administrations to take full ownership of the Food Security Programme was highlighted in an independent evaluation in 2001 as a serious constraint in the formulation and implementation of effective strategies to address poverty and food security. The FSP has therefore shifted the focus of its assistance to Kyrgyzstan and Tajikistan towards food accessibility rather than food supply, fully integrated within the respective PRSP frameworks, with implications for technical assistance requirements to the line Ministries involved.

With this in mind, it should be noted that one benefit of EC assistance supplied over the past 10 years has been to help deepen mutual understanding and knowledge sharing between the EU and Central Asia. A network of local experts has been established with good knowledge of EU/EC mechanisms and procedures. In parallel, assistance activities have generated new expertise on the region, both within the Commission and the EU Member States.

Table 1: Priorities defined in the most recent Tacis National and Regional Indicative Programmes

Countries most recent IP /Priority area*	Kazakhstan 2000-02	Kyrgyzstan 2000-02	Tajikistan 1996-99	Turkmenistan 1996-99	Uzbekistan 1999-2001	Inter-state Programs
1	X	X	X	X	X	X
2	X	X				X
3					X	X
4		X	X	X		X
5	X					X
6			X	X	X	

* *Priority areas of cooperation (Annex II of the Tacis regulation):*

- 1) Support for Institutional, Legal and Administrative Reform,
- 2) Support to the Private Sector and Assistance for Economic Development,
- 3) Support in addressing the Social Consequences of Transition
- 4) Development of Infrastructure Networks
- 5) Promotion of Environmental Protection and Management of Natural Resources.
- 6) Development of the Rural Economy

4.2 Other donors' activities

(see matrix at Annex VI for a more detailed breakdown)

The World Bank/IFC, ADB, the UN agencies, Islamic Development Bank, the EBRD are the main multilateral providers of grants and/or concessional financing, humanitarian and technical assistance to the Central Asia region. The ADB, UNDP and EBRD currently operate programmes on a regional, as well as bilateral basis.

The largest bilateral donors to Central Asia are Germany, Japan, Switzerland and the US. The UK, France, Netherlands, Canada, Turkey and Norway are also present on a smaller scale or in the process of expanding their activities. Among non-governmental actors, the Aga Khan Foundation plays a leading role.

Several major international institutions and donors such as World Bank, ADB, UNDP, EBRD, OSCE, USAID, Japan and Germany have developed the regional dimension of their assistance strategies to the countries of Central Asia, an approach which has been strengthened in the aftermath of the Afghan war (*see Table 2 below*). In broad terms, this regional approach takes two forms:

- a common framework to improve coherence, value-added and impact of aid by focusing programmes on a few main themes or region-wide sector objectives. For some, this has been extended through the intensification of regional operations with representation and expertise relocated to the region and/or country offices for coordination and support (e.g. World Bank, USAID, UNDP).
- active promotion of cooperation between countries. ADB is stepping up its support to its Central Asia Regional Economic Cooperation programme, focusing on rehabilitation of key sections of the regional transport networks, rationalising regional energy networks, exploring initiatives in the energy/water nexus and trade facilitation, especially to lift non-tariff barriers. In the context of the CIS-7 Initiative, launched jointly by the World Bank and IMF and addressing poverty reduction, growth and external debt in the low-income CIS countries, the importance of enhancing regional cooperation to improve the future growth prospects of the region has been singled out.

None of these different approaches singles out one form of cooperation above all others. Rather the aim seems to be to encourage national governments to take action in pursuit of their individual economic interest, but that will at the same time benefit all.

In Central Asia, the IMF plays a central role in macro-economic surveillance, focusing on fiscal and budget stability and balance of payments support, providing expertise on tax administration and policy/institution building, and banking legislation/supervision, promoting transparency and good governance. In cooperation with other IFIs, the IMF plans a Conference in spring 2003 to take forward the CIS-7 Initiative. The World Bank commits €300-500 million annually to the countries of the region, with agriculture/irrigation, health, education and public sector management as focal sectors. The EBRD commits €500-600 million per year to the region (€300 million to Kazakhstan, €250 to Uzbekistan, 60% of which goes to the private sector). The expansion of EBRD commitments in Central Asia is constrained in all countries apart from Kazakhstan by the limits on sovereign guarantees. UNDP intend to focus their assistance to Central Asia on improving the policy tools required for economic reform (€10 million per year). The OSCE's main objectives revolve around the implementation of OSCE commitments, mainly in the fields of the rule of law, democratic institutions and civil society, judicial reform and conflict prevention, including in economic /environmental issues (€ 10 million per year); The ISTC and STCU Centres provide opportunities to redirect the activity of the former scientists who worked in the area of weapons of mass destruction, including through an EC contribution.

The war in Afghanistan has led to decisions by some bilateral donors to significantly increase support. For example, Germany has adopted a Central Asia Strategy (€ 50 million per year) which aims at contributing to crisis prevention by a) strengthening of democracy and rule of law, b) supporting economic reforms and poverty reduction, c) promoting cooperation among the countries of the region. At present, Germany is active in the field of agriculture and rural development, energy, education, financial sector, health, SME, transport, water/environment. The UK has decided to expand its bilateral assistance (which will reach around £9 million in 2004/5), currently focused on the Kyrgyz Republic, to contribute to country-driven development plans focused on poverty reduction in Tajikistan and Uzbekistan. Assistance will focus on three priorities: public administration, health and water sector. The United States has also decided to substantially increase the level of funding it dedicates to Central Asia to about USD 423 million for the whole region in 2002, of which USD 173 million is earmarked for Uzbekistan alone. Japanese loans will focus on rehabilitating economic and social infrastructure, tackling environmental problems, and developing the human resources required for sustainable growth.

At a national level, Kazakhstan has traditionally received the greatest volume of both multilateral and bilateral assistance, closely followed by Uzbekistan. However, recent trends have seen pledges increase to the Kyrgyz Republic and Tajikistan in response to the strengthened donor framework provided by the PRSP process and following, in Tajikistan, the humanitarian assistance that accompanied the implementation of the UN-led peace deal. The winding down of activities in Turkmenistan in response to the deteriorating policy environment is also notable.

Table 2: IFI and Donor Priorities (*X indicates a focal sector*)

Sector/ Organisation	Agriculture/ rural development	Energy	Educati on	Financial Sector	Health	IT /teleco mms	SME/priv ate sector Developm ent	Border management /customs	Transport	Water/envir onment	Justice Home affairs
ADB	X Kaz, Ky, Uz, Taj	X All, CAREC regional program me	X Ky, Uz	X Kaz, Ky, Uz	X Ky		X Kaz	X All, CAREC regional programme	X All, CAREC regional programme		
IMF				X				X (tax administrati on)			
World Bank/IFC	X Uzbekistan, Taj		X Taj	X Uzbekistan	X Ky, Uz	X Ky	X Kaz		X Ky	X Kaz, Uz, Aral Sea	
EBRD	X Ky, Taj	X Kaz, Uz	X Ky	X Kaz,Ky,Uz		X Kaz	X Kaz, Ky, Uz, Turk		X All, Silk Road Fund	X Kaz	
UN						X	X Regional Program me			X All, Regional Programme	X Regional
IDB					X				X		
Japan	X		X		X				X		

Sector/ Organisation	Agriculture/ rural development	Energy	Educati on	Financial Sector	Health	IT /teleco mms	SME/priv ate sector Developm ent	Border management /customs	Transport	Water/envir onment	Justice Home affairs
USAID	X Uz, Taj		X		X Ky, Turk, Uz		X Kaz, Ky, Taj	X Kaz, Ky,Uz		X Ky, Taj, Turk, Uz	X
OSCE											X
Germany	X	X	X	X	X		X		X	X	
UK					X					X	

Note: Countries mentioned where donor leads in sector

Coordination and Complementarity

The volume of EC assistance available for Central Asia over the period and the reinforcing nature of the proposed priority sectors under all three Tracks of the programme highlight the need to ensure good coordination and complementarity with the IFIs and other donors. The Commission Delegation, with its expanded presence in Central Asian countries will play a key role in this domain. Coordination and consultation with other actors will continue through the process of implementing the Indicative Programme. This will enable the development of synergies between programmes, particularly in regional cooperation schemes such those developed by ADB, or in support of the CIS-7 Initiative.

The PRSP process underway in Tajikistan and the Kyrgyz Republic establishes an agreed framework for coordinating donor assistance to those countries. The EU is presently participating in the development of the PRSPs and future assistance should be guided by their conclusions.

5. RESPONSE STRATEGY

5.1 Objectives

The EU is one among several players in Central Asia. The influence of other external actors such as Russia, China, the US, Japan and, to a lesser extent, Iran and Turkey should not be discounted. Nonetheless, the EU has a strong interest in using all the means at its disposal to promote the peaceful political and economic development of the region.

The core objective of the new EC assistance strategy is to **promote the stability and security of the countries of Central Asia, to assist in their pursuit of sustainable economic development and poverty reduction.**

From the above analysis, it is clear that the challenges facing Central Asia, at both the national and regional level, call for efforts to foster increased cooperation between the partner countries. Certain issues such as stimulating economic growth by removing obstacles to trade with world markets can only be tackled through collaborative efforts involving two or more participants. While it is recognised that greater economic integration among the countries of the region is an objective that will take time to realise, it is nevertheless imperative to encourage good neighbourly relations and

support realistic steps that can be realistically taken along this path. The European Union has a unique perspective on political and economic integration to offer the Central Asian countries; EC assistance can therefore provide a value-added contribution to the international effort.

Tacis will work towards this core objective through three 'Tracks' whose common objectives will be:

- To promote security and conflict prevention: the EU has a strong interest in preventing Central Asia from becoming a zone of conflict, a haven for terrorism or a major provider of terrorist financing. Central Asia is the main transit route to Western Europe for drugs produced in Afghanistan (the source of 80% of heroin on European markets), and a major source of trafficking in small arms and human beings. Nuclear safety, environmental security, and the sustainable management of shared natural resources are also of concern. To address these challenges, the EU will act to foster good neighbourly relations through a combination of national, regional and sub-regional co-operation efforts to overcome common issues and problems.

Through its projects, the EU will also provide assistance to the region in accordance with its decision to assist third countries to implement UN Security Council Resolution 1373 against terrorism.

- To eliminate sources of political and social tension: promoting democracy, human rights and reducing poverty are the only means to ensure long-term stability in the region. The EU will support reforms aimed at establishing good governance, the rule of law, functioning civil societies, respect for fundamental freedoms and other OSCE values. At the same time, the EU will work to reduce poverty in the framework of national Poverty Reduction Programmes and social inequality, targeting the most vulnerable, improve access to education, health services and to establish adequate social safety nets.
- To improve the climate for trade, investment and energy supplies: the creation of open, rule-based market economies, attracting revenue from trade and FDI is a precondition for economic growth and improved standards of living in Central Asia. As a large provider of investments, services and equipment, the EU already has sizeable economic interests in Central Asia. The EU will therefore work to promote further legal, institutional, administrative and structural reforms, including in the area of competition policy, aimed at supporting sustainable economic transition, which is a prerequisite for poverty reduction. As a major consumer of energy, the EU will take an interest in the development of Caspian energy resources and safe transit routes in order to guarantee diversification of supply. Taking into account the dynamic momentum of this transitional economic period, it would be very useful for these countries to implement a competition policy as well as effective competition authorities in order to guarantee a smooth market transition.

5.2 Building on lessons learnt

In view of the lessons learnt over the past decade of Tacis' work in Central Asia, the limited resources available (€ 50 million euro per year), and mindful of the need to ensure proper ownership of the assistance programmes, the EU will narrow its focus for assistance to the five Republics, pursuing a reduced number of objectives and priorities throughout the region, in areas where it has a comparative advantage, with a longer time perspective in order to achieve the greatest impact.

Tacis assistance will focus on the following areas of cooperation (as defined in Annex II of the Tacis regulation):

- Support for institutional, legal and administrative reform;
- Support in addressing the social consequences of transition;
- Development of infrastructure networks.

The importance of encouraging progress in democratic transition, respect of fundamental human rights and the development of civil society for ensuring stability and security in the countries of the region is fully recognised. Tailored EC instruments, such as the EIDHR and NGO cooperation programmes will continue to work in this area, including through joint programmes with relevant international organisations, such as OSCE. The OSCE has made remarkable efforts to build up the foundation of the rule of law and democracy in all Central Asia States; the two Joint EC-OSCE Programmes for Advancing Human Rights and Democratisation have so far granted €850000 for ODHIR, or about half of its projects in Central Asia. The EU will consider looking at ways of further developing co-operation with the OSCE through coordinated, complementary and/or joint actions on a case by case basis. Care will also be taken to incorporate democracy and human rights concerns into the design of broader Tacis programmes and projects and, where appropriate, to take them up in relevant Tacis instruments such as IBPP or Bistro. Finally, development of civil society, gender issues and promotion of participation in public decision-making will be central to efforts aimed at poverty reduction (*see Track 3 below*).

Efforts to ensure complementarity between the range of EU instruments and full coordination with other donors will be essential at the programming, project design and implementation phases. The Delegation of the Commission in Almaty, with its expanded representation in the countries of the region, will play an important role to this end.

Use of other EC aid instruments such as macro-financial assistance, rehabilitation assistance, the Food Security Programme, EIDHR, ECHO, and the GSP will also serve these objectives. In addition, the EU will seek increased coordination and synergy between its various assistance programmes on the one hand and its political and economic dialogue through the existing bilateral agreements (PCAs, TCA) with the five Central Asian Republics on the other. The consultation mechanisms of the regional cooperation projects will also serve to enhance dialogue and contribute to enhanced national ownership by the partner states.

It is recognised that regional economic integration is a long-term goal. Regional cooperation will be defined as involving two or more participants and formats will depend on the issues at stake and the interests of the partner countries.

To be effective, assistance must be flexible enough to respond to specific country priorities and to new developments. Possible shifts of resources from one country to another or between Tacis instruments might be envisaged. To this end, projects or programmes should include clear and measurable performance targets and indicators, backed-up by monitoring and evaluation systems. While at this stage indicators are presented mostly in general terms, they will be specified in detail during the elaboration of the Action programmes. The continued and established mechanisms for monitoring implementation of projects will be applied, allowing for lessons to be taken on board on the next phase of the Tacis programming cycle.

Tacis poverty reduction activities will provide the continuity between relief, rehabilitation and development thereby managing the transition from emergency to programme assistance in the poorer countries of Central Asia.

5.3 A three-track approach

Tacis assistance will be delivered via the three following 'Tracks':

- **Track 1: A regional cooperation programme:** The first track consists of support for enhanced regional co-operation and is specifically designed to promote concerted work among two or more Central Asian partner countries in pursuit of the objectives set out above. Closely coordinated with the Tacis Regional Programme and the regional programmes established by other donors, activities could include work on transport and energy networks, management of natural resources and border management and customs issues. Given the national sensitivities, a pragmatic approach will be taken to regional project design.
- **Track 2: A regional support for programmes implemented at national level:** The second track is designed to address the main challenges to sustainable economic development and poverty reduction, common to several countries. Activities will be identified regionally but implemented nationally. Strengthened regional interaction and cooperation will be a subsidiary outcome. Activities will be tailored to the needs of the individual countries. With a view to achieving economies of scale in the provision of assistance, regional implementation mechanisms are to be sought wherever possible and feasible. Issues that could be tackled under this track relate to support for PCA and TCA implementation (improving the climate for trade and investment), policy and legal advice, including statistics, customs, and higher education (general, professional and technical). Policy assistance for those government administrations benefiting from the EC Food Security Programme under a PRSP will also be provided via Track 2.
- **Track 3: Pilot poverty reduction schemes in 2-3 selected target areas:** Under the third track, Tacis will address directly poverty alleviation, focusing on a long-term approach to the social and economic development of rural areas where the majority of the poor are found. It is intended to take a community based and demand driven approach, focusing on the most vulnerable groups and drawing on the experience gained from previous programmes and national PRSPs. Target areas will be determined taking into account a number of criteria, principally the concentration of poor and vulnerable groups, the broader importance of the pilot regions to national economic development, social stability and conflict prevention. Capacity building for community based partnership approaches should be strongly promoted and human resource development and skills upgrading schemes for job creation and income generation would be an integral part of such local development strategies. Through such pilot schemes, the EU will aim to achieve an effective, sustainable, replicable and visible impact.

A consistent and focussed long term commitment to actions in the field will also provide the ground for a continued and substantive dialogue with the authorities on key policy issues related to sustainable rural growth and poverty alleviation, improving policy formulation at the national level. Legal and regulatory issues central to enabling the partner country to provide food security and further economic opportunities for rural poor can be addressed under Track 2 through technical assistance and policy advice.

6. TACIS INDICATIVE PROGRAMME FOR CENTRAL ASIA 2002-2004

To ensure impact and effectiveness it is assumed that, in the absence of significant adverse developments, priorities highlighted under the Indicative Programme 2002-2004 will continue to be pursued into the next phase. The annual Action Programmes will focus the assistance on specific activities within the priority areas outlined in the Indicative Programme.

6.1 Track 1: Regional Cooperation Programme

a) *Background and justification*

Regional cooperation, good neighbourly relations and regional integration are important means to enhance peace, stability and security in Central Asia as well as pursuing the EU's own interests in dealing with transboundary problems and promoting the security of energy supplies.

The Central Asia regional cooperation programme therefore aims to promote activities that are best undertaken on a multi-country level. Inter-state and cross border co-operation, and collaborative action between the partner countries is required for developing energy, transport, and telecom networks, for the management of shared natural resources such as water, for addressing major environmental problems which have a global or transboundary nature, and for fighting against organised crime, trafficking in drugs, hazardous materials and human beings.

Programmes will be designed so as to ensure coordination and synergy with the horizontal Tacis Regional Programme as well as regional and other relevant programmes being pursued by other donors.

In view of the national sensitivities in this area, regional programmes, defined as involving two or more participants, will be designed in a flexible, pragmatic way and selected in response to expressions of interest by the participating partner countries. Existing cooperation frameworks where two, three or more countries are working together, including EU programmes implemented by Tacis and joint initiatives launched by the partner countries, will be prioritised. In addition, support to Central Asian regional economic cooperation initiatives in Central Asia such as CACO or the EEC may be envisaged.

b) *Specific objectives*

The development of viable, secure, safe and competitive transport and energy routes, linking the countries of Central Asia and with Europe, and other neighbouring countries. Strengthened border management capacity facilitating economic development, the movement of people and goods and the prevention of organised crime and trafficking in drugs and human beings. A more sustainable use of natural resources by the partner countries, including the integration of environmental concerns into the economic process and collaborative action to resolve environmental challenges, particularly transboundary waters and river basin management.

c) *Description of programmes*

Programmes could include the following:

- improving the performance of transport routes, the development of professional transport-related services rail, road and air through policy advice for the implementation and enforcement of international agreements, European technical standards (where appropriate) and improvements to inter-operability (rail transport). Advice could address the operational and procedural aspects of the routes, such as

tariff and non-tariff barriers, documentary requirements and relevant data exchange, improved communications and information sharing in transit conditions, freight and other requirements. Assisting with the analysis of trade flows to identify bottlenecks on intra-regional routes and funding related feasibility studies, in close coordination with the IFIs.

- providing technical assistance for reform of energy policies, improving the climate for investment in the energy sector and the performance of energy networks, including through the implementation of international agreements and European standards where applicable.
- via the Tacis Inogate Programme, assisting with the installation of a monitoring system for gas networks linked with other European Observatories with the aim of rapid intervention in case of incidents. Assisting with the development of a related guidance system that would channel gas appropriately, depending on load capacity and evaluation of the status of network routes. Continuing assistance to promote cooperation to improve infrastructure testing capabilities and network flow measurement would complement this.
- in the context of power sector reform, and in coordination with poverty reduction strategies, supporting cooperation to develop the interconnected electric power system. Improving the efficiency and security of the system for delivery of electricity.
- assisting with the implementation of international obligations on climate change, with particular attention devoted to the Kyoto Protocol mechanisms (Joint Implementation, Clean Development Mechanism) and implementation of policies and projects that will result in the reduction of GHG emissions. Emphasis could also be placed on promotion of cleaner production and energy savings, including capacity building and demonstration projects showing the environment and economic benefits of this approach. Established regional cooperation frameworks - CAREC and the CA Energy Advisory Group - could play a role in this domain.
- combating water and land desertification by providing further support to the WARMAP project, in particular for the continuation of the work on the collection of reliable data and on system analysis. Assistance for the IFAS in developing and maintaining a database for water resources management could be provided, in coordination with other donors. Developing joint river basin management projects based on Integrated Water Resources Management (IWRM) - a multi-sector approach (energy, agriculture/irrigation) to water resources management that involves all stakeholders in the decision making and management of the resources – and ensuring cooperation with the Global Water Partnership. The EU Water initiative launched at the World Summit on Sustainable Development in Johannesburg could provide a framework for the activities in this domain.
- assisting the development of modern monitoring and management tools for assessment of soil salinity, underground water and drainage conditions, which are crucial to determine the crops and agricultural land potential. A joint co-operation programme in this field using EU satellite imagery technology would be particularly useful for western regions of Central Asia.
- supporting the role played by CAREC in promoting common approaches to the environmental challenges faced by the region, enhancing public participation and the development of the environmental NGOs and networks. CAREC is in the process of establishing technical offices in four countries of Central Asia and will require further support to expand its programmes and activities with the concerned local institutions and organisations.

- assisting with strengthening border management capacities of the CA countries, i.e. border surveillance and border control, in particular Kyrgyzstan and Tajikistan including Ferghana valley. Far from disrupting existing socio-economic ties, sound border management facilitates crossing for legitimate travelers, contributing to the fight against organised crime. A reform strategy for border guards should be developed. The training services responsible for border management should be promoted as well as construction of adequate border crossings and border management facilities. The practical formalities on both sides of the border must be addressed, through for example developing the necessary infrastructure, modernising border procedures and training. A modern radio and telecommunication and data transmission network and the setting up of databases are needed. Priority should be attached to related training and equipment in order to achieve increased efficiency and effectiveness.
- combating drug trafficking and drug abuse and promoting the treatment, rehabilitation and reintegration of drug addicts by continuing support to the anti-drug programme in the framework of CADAP. The focus should be given to main trafficking routes such as railroads (border checkpoints), main roads, air- and sea-ports. Cross-border cooperation and information sharing between the relevant services should be fostered. Anti-money laundering measures could also be addressed (primarily in Kazakhstan and Uzbekistan since their financial sectors are the most advanced in Central Asia).

These activities must be designed alongside existing and potential actions under the horizontal Tacis Regional programme and might be implemented nationally or bilaterally as necessary.

d) Expected results

- improvement in relations between neighbouring countries and realisation of joint/collaborative initiatives.
- improved safety and security of transport routes/transit of goods in countries of Central Asia, increasing access and flows to European and world markets.
- improved integration and harmonisation of the region's transport regulatory environment with European and international norms.
- improved networking between national Civil Aviation Authorities.
- continuing energy policy reform by the partner countries, increasing transparency and leading to increased capacity to attract foreign investment.
- increased safety, transparency and reliability of the gas transmission systems from Central Asia to the EU.
- increased efficiency and reliability of the Central Asia electricity grid system.
- implementation of obligations resulting from the Climate Change Framework Convention and the Kyoto Protocol, in particular as regards Joint Implementation and the Clean Development Mechanism.
- spread of cleaner production and energy savings projects.
- reduced risks of conflict resulting from more equitable use of water resources for hydro-electricity, irrigation, industrial and household consumption and cooperation between upstream and downstream countries.
- more efficient use of natural resources resulting on the de-coupling of economic growth from environmental degradation and overall reduction of pollution levels.
- successful expansion of CAREC activities in the region.
- increased regional trade, in particular in the Ferghana valley.
- more reliable statistical data on border crossings and trade available.

- organisation of a border management system which ensures efficient and functioning border control.
- promotion of national as well as cross-border cooperation among the relevant agencies involved (border guards/customs/police).
- new border crossings constructed or at least under construction.
- law enforcement and border management related equipment delivered and in use.
- introduction of anti-money laundering regimes in Kazakhstan and Uzbekistan.
- spread of cleaner production and energy saving projects and promotion of renewable energy resources.

e) *Indicators*

- increased transport and transit volumes via links with the Trans-European Networks.
- policies to reduce non-physical barriers to the movement of goods introduced.
- increased financial support from by IFIs and private investors in the transport sector.
- investment to upgrade the oil and gas transmission systems of the Central Asian countries to international standards.
- improved quality of collected data with regards to transboundary water issues and climate change for the Aral Sea Basin.
- implementation of IWRM approach to river basin projects.
- increased public participation and NGO involvement in environmental activities
- establishment of CAREC technical offices in all Central Asia countries.
- decreased intensity of natural resource use in the economy, especially for energy.
- improvement in main pollution/emissions indicators.
- reform strategy for the management of the Kyrgyz and Tajik border guards developed, first tranches of equipment procured, radio and telecommunication and data transmission network plan elaborated and implementation started as well as border management related seminars held; technical support to the Kazakh and Uzbek border guards delivered.
- main border crossings in the Kyrgyz and Tajik part of the Ferghana valley constructed, equipped and staff trained properly as well as in the Uzbek part border crossings upgraded, where necessary and appropriate.
- cross-border trade - in particular in the Ferghana valley - smooth border and customs control achieved, at least at the newly constructed border crossings.
- national multi-annual anti-drug strategies developed and under implementation.
- judicial and law enforcement staff responsible for combating drug trafficking receive training and equipment (follow-up to the currently ongoing Tacis program).
- prevention and rehabilitation measures lead to better treatment of drug addicts.

f) *Conditionalities, risks, assumptions*

A continued political commitment by partner countries to taking collaborative action in each policy area is assumed. The use of already functioning mechanisms for cooperation between institutions of neighbouring states and with the EU will minimise risks.

On border management, it is assumed that there will not be renewed IMU incursions into Central Asia, or that these do not lead to a significant harshening of the Central Asia countries' attitudes towards border security. A risk is that EU support to border crossing points in Tajikistan and Kyrgyzstan could be undermined if Uzbekistan took action to close corresponding border crossings.

6.2 Track 2: Regional Support for programmes implemented at national level

a) Background and justification

Sustained economic growth is essential for poverty reduction and political stability. Improving economic opportunities requires action on a broad range of fronts – from governance issues to fiscal, structural, social and institutional reform. The PCA/TCAs provide a clear framework for pursuing dialogue on these issues as well as set of contractual obligations in areas central to improving the climate for trade, investment and governance. Tacis programmes implemented at national and regional level will seek to assist in the implementation of the PCA by the partner countries, and be guided by the countries' Poverty Reduction Strategy Programmes (PRSPs) where adopted.

Policy advice and capacity building at the national level will provide the necessary means to ensure synergy between work being pursued under all three Tracks and between Tacis and work being carried out by other EC assistance instruments contributing to poverty reduction and public sector reform in the Central Asian countries, particularly the Food Security Programme in Kyrgyzstan and Tajikistan.

b) Specific objectives

To promote regulatory, legal, administrative and institutional reform, capacity building and increased understanding of PCA/TCA and WTO requirements in order to improve the climate for trade and investment and fulfil PCA/TCA commitments. Where relevant, to reduce poverty by providing policy advice, institutional support and capacity to those Ministries involved with EC Food Security Programmes, in support of the implementation of national PRSPs. To provide complementary assistance at the national level in support of work aimed at trade facilitation, border management and combating organised crime under the regional support programme (Track 1). To support reform of education systems, in particular higher education and technical institutions.

c) Description of programmes

Technical assistance will be provided for continuing the implementation of PCA obligations, including through assistance to the PCA Secretariats, Policy and Legal Advice Centres, as well as targeted policy advice projects. Tacis technical assistance will be provided in support of the EC Food Security Programmes in Tajikistan and Kyrgyzstan.

These actions will be designed in close coordination with other EC instruments and donors. Dialogue under the PCA/TCAs will be used to increase the political weight behind Tacis programmes under this Track.

Programmes could assist with:

- implementation of commitments under WTO and GPA, TBT, SPS and TRIPS agreements, market access issues, economic impact assessment of WTO accession, and related regulatory and/or institutional frameworks. Trading rights and pricing policy, standardisation, conformity assessment and technical, sanitary and phyto-sanitary standards and certification, IPR and other related activities. Creating a regulatory environment conducive to increasing intra-regional trade as well as trade with the EU will be prioritised.
- development and implementation of investment-related policies, such as company and tax laws, accounting/auditing procedures, competition policy, improvement of the environment for business registration, property protection and respect of contractual obligations, financial and trade-related services.
- development, jointly with local managers, of medium term business plans and annual action plans for customs services. These should detail the steps needed to

ensure the comprehensive reform and modernisation of each service to accepted international standards which could be supported by further technical assistance. The programmes will seek to ensure the sustainable development of customs services and the achievement of an appropriate balance between revenue collection needs, protecting society from illegal activity and trade facilitation.

- development of statistical services, including for classification, external trade, macro-economic indicators, business registration and statistics, user relations as well as social indications related to FSP priorities.
- rationalisation and restructuring of public administrations. Priority will be given to FSP beneficiaries in order to improve governance, public expenditure management and public services efficiency, including government transfers from the central to the regional/local level.
- reform of education systems, in particular higher and technical education, with the aim of ensuring their responsiveness to needs arising from economic reform. Priority will be given to curriculum development, modernisation of management and institutional structures, development of skills-related training, particularly advanced skills shortages, citizenship skills and strengthening democracy. TEMPUS should compliment policy advice to central government.
- improving institutional capacity and effectiveness in economic and legal policy development, decision-making and management in Ministries, departments and institutions directly concerned by PCA/TCA implementation.

d) Expected results

- progress in PCA implementation.
- more transparent trade regimes and business climate.
- strengthened organisational structure and improvement in operational effectiveness of Customs Services.
- improved quality of statistical data available.
- improved governance and transparency via upgraded functional organisation and resource allocation in Ministries benefiting from the FSP.
- better training and management methods in education system, particularly for higher and technical education.

e) Indicators

- progress in the implementation of key trade and investment reforms discussed within the PCA framework, including preparation of national programmes for legislative approximation.
- improved statistical information exchange in the framework of the PCAs.
- meeting of WTO accession targets, implementation of corresponding commitments and growth of intra-regional trade and trade with the EU.
- increased revenue collection by customs services, reduced waiting times at borders (land, sea, and airports).
- better law enforcement.
- rationalisation and increased efficiency of social protection delivery mechanisms to most vulnerable groups.
- increased number of partnerships with EU higher-learning institutions.

f) Conditionalities, risks and assumptions

Tacis assistance to support PCA/TCA implementation will be conditional upon the general respect by the countries of their contractual obligations. Support for accession to the WTO is conditional upon continued and demonstrable commitment to make progress.

Effectiveness will be conditional upon the success of partner countries' efforts to reform administrative structures and practices and sufficient political commitment and administrative capacity to assure implementation and enforcement.

The decentralised nature of the TEMPUS programme, working by definition with committed institutions, minimises the risks from adverse changes in policy direction at the national level.

6.3 Track 3: Pilot Poverty Reduction Scheme targeted at the most vulnerable groups

a) Background and justification

Poverty afflicts the majority of the rural population in Central Asia. It is characterised by food insecurity, limited access to clean drinking water, high levels of infant and maternal mortality, severely limited and declining public services delivery (education, health, sanitation), inadequate or non-existent social safety nets and restricted access to inputs (land, water, power, machinery, agro-food processing technologies and equipment, credit/financial services and small business, marketing and trade development support).

The decline in local infrastructure and the lack of government support for small scale farming, on which the rural population relies for its living, has reduced rural productivity to very low levels. Growth in agricultural output will be an important step towards reducing rural poverty and food insecurity. Increased agricultural productivity can also stimulate demand in other sectors, contributing to sustained rural economic development. The relatively high levels of education prevailing in rural Central Asia augurs well for programmes aiming to mobilise local actors and vulnerable groups in identifying their own priorities and needs. Tacis can support this through its funding and advice.

A long-term engagement in such pilot areas is necessary to create the conditions to alleviate rural poverty and promote sustainable local development, food security, new sources of income, and to draw lessons that can be applied in other areas of Central Asia. It is thus envisaged that these programmes, if effective, will receive further support in later years. A long-term EC approach will also allow for the development of relations with all relevant actors (national/local authorities and locally established NGOs) and for work to further increase the capacity of local groups and communities as they address their own problems and increase their participation in policy-making.

b) Specific objectives

To assist local communities in 2-3 target regions in their efforts to tackle poverty, particularly amongst the most vulnerable sections of the populations, through measures designed to improve local governance, food security, social protection and employment opportunities. Efforts will, wherever possible and appropriate, also promote cross border co-operation at the local level.

c) Description of programmes

Structural rural poverty will be addressed through small-scale, low cost community development schemes, targeting the most vulnerable households in selected regions.

Programmes will be demand-driven and address core issues for rural poverty reduction. They will be designed so as to ensure full synergy with activities and policies promoted under Tracks 1 and 2 (e.g. on border management, customs, and transport). Complementarity with work being done by other EC instruments (e.g. FSP, rehabilitation) and by other donors to the region will be fully exploited.

Activities could include:

- capacity building for local community-based associations with the aim of facilitating the identification of rehabilitation and development needs, and establishing priorities and mechanisms for the sustainable operation of projects by local beneficiaries. Revolving fund schemes could be considered in this context.
- community based projects to rehabilitate small-scale economic and social infrastructure and services, with the aim of improving access for vulnerable groups (e.g. water infrastructure projects).
- supporting poor rural households and small farmers through the provision of micro- and agricultural credit, better access to inputs, machinery and training to improve farming and management skills.
- improving the climate for local business creation and development, by improving legal support services, access to credit/leasing, markets, energy supplies, notably renewable energy sources, water and other services and ensuring that feedback on key regulatory issues facing business and trade influences policy advice at the national level.
- capacity building at local level to enhance the relevance and coherence of labour market policies - including training - for income generation, self-employment, micro and small enterprise development.

d) Expected results

- strengthened cooperation between community organisations and regional/national administrations.
- increase in the number of community based associations capable of defining their priorities and implementing projects with external donors.
- reduced risk of conflict surrounding use of natural resources and cooperative activity between local communities
- improvement in environment for subsistence farming.
- increase in number of micro and small enterprises and improved access to local economic infrastructure.

e) Indicators

- increase in income and decrease in vulnerability indicators of target populations.
- increased percentage of households in the pilot regions with access to safe water for human consumption.
- increase in number of community based associations and number of projects being undertaken by such associations.
- increase in number of training schemes in rural management techniques available in target areas.
- improvement in nutritional indicators and food security levels. Increase in agricultural produce output/yields of target populations.
- increase in credit available to target populations.

- evidence of creation of new private micro and small enterprises, in rural and non-rural sectors.

f) Conditionalities, risks and assumptions

A continued political commitment by local and central government to implementing a Poverty Reduction Strategy is both an assumption and the central condition for the implementation of Track 3.

It is assumed that the pilot regions will be selected based on the extent and concentration of poverty, the prospects for quantitative and qualitative improvement in the livelihoods of the most vulnerable groups, the potential for positive spillovers for national and regional stability and economic growth, as well as the presence of effective delivery mechanisms. In order to evaluate the scheme, poverty indicators will be included in the projects; this will form part of the needs assessment before the projects are launched.

Areas eligible for the suggested approach include, first and foremost, Tajikistan where 68 % of the population is estimated to be poor and 33% of the population live in extreme poverty. Tajikistan has not been able to establish a working national economy capable of ensuring the livelihood of the population and continues to be dependent on food aid to feed the population and international donors to finance its administration. Hard won political stability needs urgently to be consolidated through tangible and meaningful improvements in economic development. In view of ECHO's gradual winding down in Tajikistan, it is important that Tacis ensure continuing assistance to vulnerable populations. Two Oblasts suffering from chronic ethnic tensions and environmental problems and recently subject to two consecutive years of drought, could be of particular concern: Khatlon Oblast, bordering on Afghanistan, contains 45% of the poorest people in the country; Sughd Oblast in the North, which has been so far relatively neglected by the international community, contains 27% of the country's poorest people and the largest percentage of chronically malnourished under-five children (over 33%) in 2001. In addition, the adjacent Batken Oblast in Kyrgyzstan, which also comprises the enclaves of Varukh (Tajikistan), Sokh and Shah-I Mardan (both Uzbekistan) combines widespread rural poverty with serious ethnic and cross-border tensions over shared resources (mainly water). Obstacles with border-crossings into Uzbekistan have further aggravated the economic situation.

Alternative regions for Tacis action could include other areas in Kyrgyzstan including the Jallabad and Talas Oblasts, Sukhandarya and Karakalpakstan (Uzbekistan), or the Shymkent Oblast (Kazakhstan).

Table 3: Relationship between proposed activities and Tacis areas of cooperation

Track Area of cooperation	Track 1: Regional co-operation	Track 2: Regional support	Track 3: Poverty alleviation
Support for Institutional, Legal and Administrative Reform (AoC 1)	X	X	
Support in addressing the Social Consequences of Transition (AoC 3)			X
Development of Infrastructure Networks (AoC 4)	X		

6.4. INDICATIVE BUDGET

The total indicative budget for 2002-2004 for the five countries is €150 million.

Table 4: Indicative allocation per track (€ million)

€ millions		Kaz*	Kyr *	Taj	Tur	Uzb
Track 1	40					
Track 2	80	19	13	13	6	29
Track 3	30					

* In addition to this, Kazakhstan and Kyrgyzstan are due to receive an allocation of 15 meuro and 10 meuro respectively for the period 2001-2002 under the ongoing Tacis Action Programme.

Table 5: Indicative allocation per track (2002-2004)

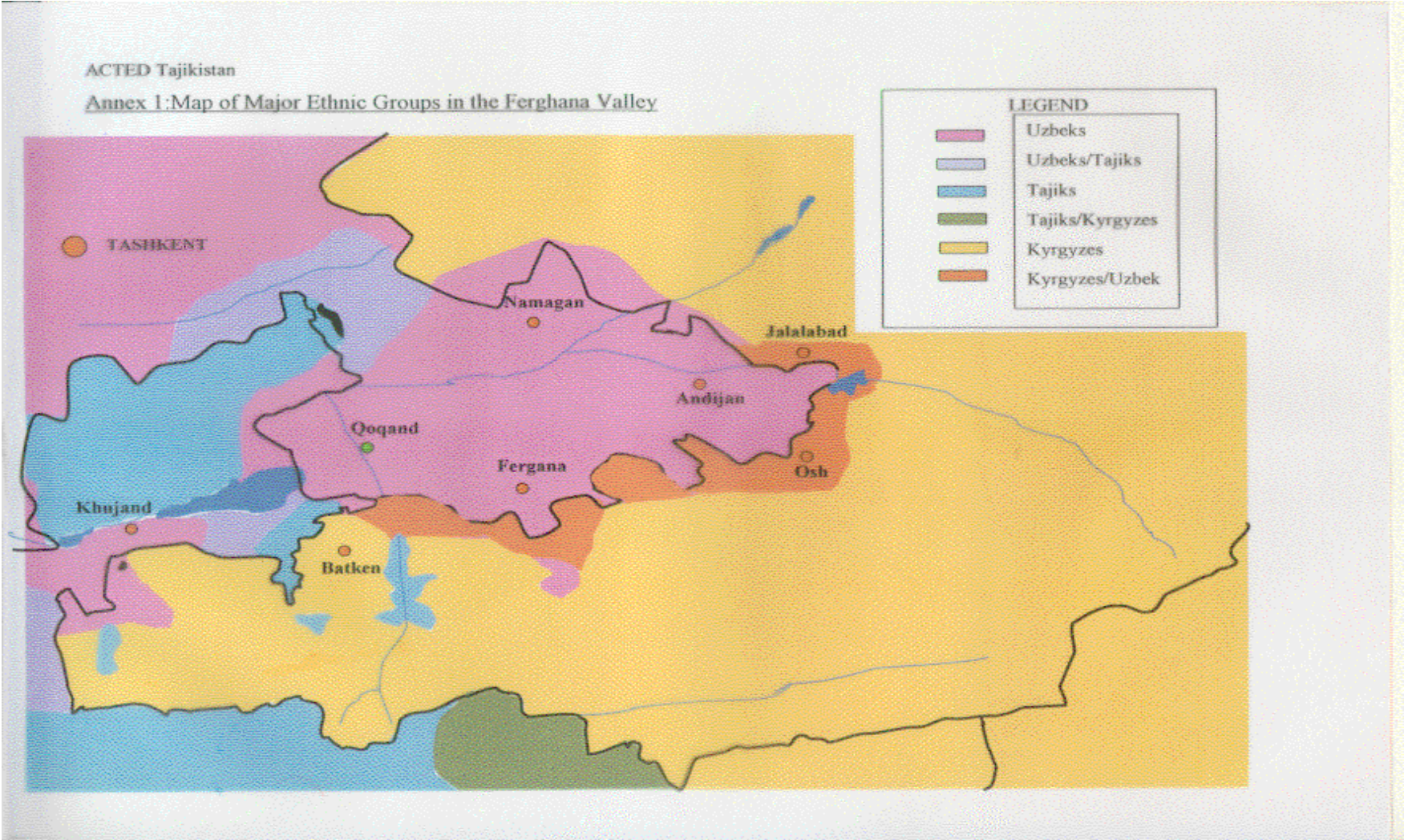
Priorities	€ millions
Track 1: Regional Cooperation	
Transport	7
Energy	9
JHA/fight against drugs	5
Border management	12
Environment	7
Total	40
Track 2 : Regional Support to Nationally Implemented Programmes	
PCA implementation, including WTO, FSP, Customs	39 13
Education reform/Tempus /MTP () Including € 17 mio for Tempus	21
EIDHR (*)	-
Bistro	7
Total	80
Track 3: Poverty Reduction	30
FSP (*)	-
GRAND TOTAL	150

*** funded from non-Tacis budget lines**

Annex I: Map of Central Asia



Annex II: Map of Ferghana Region



Annex III: Central Asia Selected Economic and Social Indicators (2000)

	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
GENERAL					
	2.7 million	0.199 million	0.143 million	0.488 million	0.447 million
Population	14.9 million	4.9 million	6.2 million	5.2 million	24.8 million
Urban Population (% of total)	56.4	33.3	27.5	44.8	36.9
Life Expectancy at birth (years)	65.5	67.3	68	66.3	69.7
Population growth rate (annual %)	-0.4	1.0	0.2	2.0	1.4
Fertility Rate (births per woman)	2.0	2.6	3.1	2.3	2.6
Human Development Index (HDI)	73	98	110	100	106
Poverty level(%)-World Bank standard	6	49	68	7	31
Adult literacy (%)	97	97	99	97	88.5
ECONOMY					
GDP (US \$)	18.2 billion	1.3 billion	0.987 billion	4.4 billion	7.7 billion
GNP per capita (US\$)			170	840	610
GDP per sector : Agriculture	9.2	39.4	19.4	27.3	34.9
(% of GDP) Industry	42.9	26.4	25.7	50.0	23.0
Services	47.9	34.2	54.9	22.6	42.1
Real GDP growth rate (%)	9.6	5.1	8.3	17.6	4.0
Estimated real level of 2001 GDP as % of 1989 GDP	78	69	52	84	103
Inflation : 1997	17.4	25.5	88.0	83.7	58.9
1998	7.3	12.0	43.2	16.8	17.8
1999	8.3	35.8	27.6	24.2	29.1
2000	13.2	18.7	32.9	8.3	24.2
External debt stock (US\$)	3.9 billion	1.739 million	1.229 million	2.23 million	4.36 million
Debt Service (% of exports of goods and services)	16.4	25.3	15.1	28.7	28.3

TRADE – WORLD					
Exports of goods and services (US\$)	9.615 billion	0.511 billion	0.788 billion	2.508 billion	2.935 billion
Imports of goods and services (US\$)	6.849 billion	0.502 billion	0.834 billion	1.742 billion	2.441 billion
Current account balance	0.743 billion	-0.103 billion	-0.063 billion	0.413 billion	0.185 billion
FDI (US \$)	2.751 billion	0.029 billion	0.030 billion	0.131 billion	0.073 billion
TRADE – EU					
Exports to EC (Euro)	1,242 million	58 million	33 million	160 million	532 million
Imports from EC	3,203 million	130 million	44 million	220 million	618 million
Trade Balance with EC	-1,960 million	-71 million	-11 million	-60 million	-86 million
Primary enrolment rate					
Secondary enrolment rate					
Infant mortality (per 1000 live births)	21.1	23.1	20.6	27.3	21.5
Under 5 mortality	27.7	34.6	30.4	42.7	26.8
Contraceptive prevalence rate (%)	66				
Access to essential drugs (%)	66				
Access to safe water (%)	91	77		58	85
Access to sanitation – urban (%)	100	100			100
Under 5 malnutrition	4.2				

Sources: World Bank website, Human Development Report (2001), EBRD Transition Report Update (2002).

Annex IV: Overview of EC assistance to Central Asia

(i) Breakdown by Programme (€ millions by budgetary year)

	Uzb	Kaz	Kyrghyz stan	Turk	Taj	Total CA
Tacis National Allocations						
1991	2,0	8,0	1,0	1,0		
1992	18,8	20,6	9,2	8,8		
1993		14,0	10,0			
1994	15,0	14,0		8,0	4,0	
1995	10,0	15,0	8,0	4,0	4,0	
1996	28,0					
1997		24,0	13,0	11,5		
1998	29,0					
1999		24,0	12,0	9,0		
2000	15,4					
2001		15,0	10,0			
Total Tacis	118,2	134,6	63,2	42,3	8,0	366,3
ECHO and Food Aid						
1991						
1992					0,3	
1993			3,6		7,4	
1994			6,3		9,8	
1995			8,0		16,1	
1996			3,9		14,1	
1997			2,8		14,9	
1998			1,8		16,7	
1999			2,1		18,8	
2000					15,0	
2001					12,0	
Total ECHO			28,4		125,1	153,5
Food Assistance						
FEOGA 1994-1995			14,0		11,0	
FEOGA 1995-1996			4,7	2,1	15,9	
Food Security 1996			10,0		17,2	
1997			8,5		5,5	
1998			8,5		4,1	
1999			8,5		3,4	
2000			10,0		4,0	
2001			10,0			
Total Food			74,2	2,1	61,1	137,4

Rehabilitation						
1999					4,0	
2000					1,5	
Exceptional TA						
1999			2,0			
Total Rehab+TA			2,0		5,5	7,5
ECFIN						
1991						
1992*					6,7	
1993*		9,6	21,3	44,3	47,8	
1994*		15,3	1,4	0,6		
1995*	58,7					
1996						
1997						
1998						
1999						
2000					60,0	
2001						
Exceptional financial assistance (grant)						
2000					7,0	
2001					7,0	
Total ECFIN	58,7	24,9	22,7	44,9	128,5	279,7
* these loans were fully reimbursed						
Grand TOTAL	176,9	159,5	190,5	89,3	328,2	944,4

Regional Programmes (figures shown are for <u>all</u> NIS countries and cover the regional cooperation, nuclear safety, cross-border, Bangkok Facility, IST/STCU, Rehabilitation, Incentive scheme and administration. The figures should be treated with caution as the Central Asian countries have received a small share of these programmes).	
1991	106
1992	89
1993	172
1994	132
1995	125
1996	152
1997	135
1998	156
1999	133
2000	129
2001	148
Total Regional	1477

(ii) *Trends and Country Analysis*

Since 1991 the countries of Central Asia have benefited from more than € 944.4 million in EU assistance. This has included:

- € 366.3 million in *bilateral technical assistance* provided through *Tacis*. Tacis has been active in Central Asia since 1991. Allocations have been made on a national basis, apart from assistance provided under the Tacis interstate programmes. Central Asian countries have benefited considerably, though to varying degrees, from these multi-national programmes which together account for 40-45% of the total Tacis budget.
- € 153.5 million in *humanitarian assistance* through ECHO (Tajikistan, Kyrgyzstan).
- More than € 137,4 million from the *Food Security Programme* (Tajikistan, Turkmenistan and Kyrgyzstan).
- € 265.7 million in *macrofinancial assistance* (of which € 14 million in interest rebate grants to Tajikistan).

It should be noted that certain sectors have been targeted almost constantly within most national Tacis programmes throughout the years, as well as under the Food Security programme. This is particularly true for areas of cooperation such as legal, institutional and administrative reform, overcoming the social consequences of transition, economic development through promotion of (small) business activities, rural development, and statistics. As such, Tacis 2002-2006 will be a logical sequel to earlier national programmes.

Individual partner countries

Uzbekistan has benefited since 1991 from assistance through the Tacis programme. A total of € 118 million has been disbursed between 1992 and 2000. In particular, in accordance with the 1998-1999 Action Programme (which provided € 29 million), Community assistance prioritised support for institutional and structural reforms (including financial reform and support for access to the WTO, development of companies, improvement of human resources and democracy), and development of infrastructures (energy, transport, telecommunication) and of agriculture and agro-industry. The new Tacis regulation, adopted in December 1999, also applies to Uzbekistan. A new Indicative Programme covering the period 2000-2003 was adopted in 2000, while the new Action Programme for 2000 and 2001 (€ 10 million) is currently under implementation. Under the new regulations three priority areas were identified: (1) support for institutional, legal and administrative reform, (2) support in addressing the social consequences of transition and (3) development of the rural economy. € 5 million of the current budget is allocated in addition to the National Programme for Uzbek participation in the Small Project Programme (including TEMPUS, Management Training Programme). It represents 50 % of the Uzbek overall current participation and is a major component of Tacis activities in Uzbekistan.

Kazakhstan has so far benefited from € 134 million in nationally allocated Tacis funds. The national indicative program 2001-2003 focused on institutional, legal and administrative reform, support to the private sector and assistance for economic development, and the promotion of environmental protection and management of natural resources. Within this framework, the 2001 biannual national action programme, with a budget of € 14 million (plus a separate €1 million Tempus allocation in the field of higher education), contained projects cutting across the above areas of cooperation while aiming at: support for the implementation of international commitments, in particular the PCA, support to the national Civil Service Training Centre; support to regional SME development (mainly through business training and advice); and environmentally friendly development in the Kyzyl-Orda Oblast, in order to arrest desertification in the North Aral Sea Region. Furthermore the AP 2001 contained a number of smaller projects in the field of policy advice, customs, institution building partnerships, statistics and management training.

Kyrgyzstan has been allocated € 74,2 million in grants since 1996 under the *Food Security Programme* and FEOGA € 3 million of which was allocated for technical assistance in managing the funds. A 2002-2003 biannual programme of € 20 million will be presented to EU Member States in October 2002 in line with the PRSP elaborated by the country. In Kyrgyzstan, the FSP supports reforms in the agricultural and social sectors through targeted assistance to the Ministry of Agriculture and Water Resources and Processing Industry, as well as to the Ministry of Labour and Social Protection, and the National Statistics Committee. Budgetary support and counterpart funds denominated in local currency are used to enhance food availability and income (food accessibility) for the majority of the population.

Kyrgyzstan has furthermore benefited from € 63 million in nationally allocated *Tacis* funds. Selected areas of cooperation in the 2001-2003 national indicative program were institutional, legal and administrative reform, support to the private sector and economic development, and infrastructure development. Within this framework, the biannual national action programme 2001, with a budget of € 9 million (plus a separate

€ 0,9 million Tempus allocation in the field of higher education), contained projects cutting across the above cooperation areas while aiming at: support for civil service reform at the central and local levels; strengthening the CDF secretariat under the Kyrgyz Presidential Administration; private sector and economic development in the Issyk-Kul oblast, with a particular focus on small businesses in the agro-processing and tourism sectors; strengthening of the non-banking financial sector; support to the development of transport services. Furthermore the AP 2001 contained a number of smaller projects in the field of policy advice, institution building partnerships, statistics and management training.

Since its independence in 1991, Tajikistan has been a beneficiary of four Community assistance instruments, namely humanitarian assistance through ECHO, technical assistance through Tacis, the Food Security Programme, and exceptional macrofinancial assistance.

The social and economic effects of the civil war (1992-1997) as well as two consecutive years of drought have kept Tajikistan dependent on *humanitarian assistance* since independence. The EU has so far provided € 125 million to Tajikistan in humanitarian aid. ECHO's 2002-2003 Global Plan for Tajikistan, with a budget of € 10 million, addresses three main sectors: food (46% of the budget), health (33%) and drinking water (19%). However, as it refocuses on its core mandate on pure emergency assistance, ECHO is looking to phase out its operations in Tajikistan over the next few years. The structural problems underlying the persisting humanitarian needs of the country are to be addressed instead by FSP and Tacis. Tajikistan also benefits from € 5.5 million of rehabilitation assistance, following the implementation of the peace agreement.

Tajikistan has so far benefited from a mere € 8 million in nationally allocated *Tacis* funds. This relatively small amount is mainly due to the limited number of years Tacis has been operational in Tajikistan. In the 1996-1999 indicative programme the fields structural and institutional reform, agriculture and agro-industry development, energy and telecommunications, and infrastructure development were selected as areas of cooperation. The 1996-1997 action programme envisaged projects aimed at the restructuring of the national education and training system, the establishment of an agency for the development and support of SMEs, and technical assistance to the fruit and vegetable sector with a view to improving production and processing capacities. In 1997 however Tacis was interrupted and then suspended indefinitely for security reasons.

The same security concerns caused suspension of the *Food Security Programme* in Tajikistan in 1997 soon after it had started. For that reason, of the 1996 budget funds, € 6,9 million (including € 0,7 million for Technical assistance) are expected to be operational by the beginning of 2003. In coming years, the FSP will continue to aim at tackling the food insecurity problem by providing essential food imports through a foreign exchange facility whilst also developing the country's agricultural potential through a budgetary support instrument. This should entail support to ensure and rationalise essential public agricultural services whilst promoting necessary supply-side reforms (grain market liberalisation, dissolution of state monopolies, and prices liberalisation) with a view to promote private sector development. One of the key objectives will be to launch the rationalisation of the structure of the Ministry of

Agriculture at the central and regional levels in order to lay the basis for enhanced and integrated sectoral policy development alongside a focus on public expenditure management. The land reform process will be supported by accelerating the restructuring and privatisation of state and collective farms and to facilitate access to land use titles (reduction of cost, simplification of procedures, etc.). Moreover, a stronger emphasis will be put on poverty alleviation and support to social safety nets in order to take into account the persistent problem of household poverty throughout the country and to support the national PRSP process. The FSP will seek to improve efficiency of the national social assistance programmes through administration effectiveness, timely financing and delivering of social welfare payments to the most vulnerable and developing more appropriate targeting mechanisms to reach the poorest families. This reflects the evolution and re-orientation of the Commission's FSP from availability to accessibility issues. The FSP will promote coordination and complementarity between EC funded NGO's and government public expenditure programmes.

In addition to the FSP, the EC has provided co-financing for NGO's operating in the country and has also made contributions to WFP activities (distribution of food aid). In 1992-1993 the Commission provided a € 54,5 million loan as *macrofinancial assistance* to Tajikistan. In 2000 this loan was rescheduled by means of a € 60 million loan plus 5 consecutive yearly interest rebate grants of € 7 million beginning in 2000.

Turkmenistan has so far benefited from € 42 million in nationally allocated *Tacis* funds. The most recent national indicative program covered the years 1996-1999, and addressed the following areas of cooperation: structural and institutional reform, agriculture and agro-industry development, and infrastructure development. Within this framework, the biannual national action programme 1999, with a budget of € 9 million, contained projects in the field of SME development, integrated support to agriculture and the food industry, support to the cotton sector, assistance to the oil and gas sector, and support for the development of the energy sector of Turkmenistan. Due to serious implementation difficulties a national indicative programme for 2000-2003 has never been established. Turkmenistan furthermore benefited from a EU *food aid* operation of 2.1 million in 1996.

Annex V: Political and Economic Developments: country overview

Uzbekistan

Democratic reform is not far advanced in Uzbekistan. Basic human rights are not protected and obstacles to opposition parties and NGOs, violent intervention by police forces against demonstrations and torture of prisoners are regularly reported. There is no press freedom and no free elections. The Uzbek authorities do not allow open political debate. Shortcomings in human rights encompass the status of women who suffer as victims of domestic violence and from restrictions on their economic activity if their husbands are in prison. However, Uzbekistan has recently tried to improve its democratic record, including the signature of an agreement with the ICRC on prison visits and by allowing the registration of new NGOs. It has also reduced the number of areas in which the death penalty may be applied. Uzbekistan suffered from terrorist attacks in 1999 and 2000. The EU condemned these attacks but at the same time expressed concern at the means used to combat terrorism.

Until recently Uzbekistan was regarded as one of the most prosperous countries of the region. Dominant during the Soviet era, cotton still plays a major part in the Uzbek economy, despite a policy of diversification of agricultural production via an import substitution policy (in particular for wheat, oil and gas). But the gradual approach towards economic reform chosen by President Karimov has had its drawbacks. Several bad harvests (in particular for cotton, of which Uzbekistan was the world's second exporter supplying 17% of the world total) combined with very low prices for raw materials led the government to take measures to protect the national currency, the Som. Due to bureaucratic difficulties and the absence of a modern banking system, foreign direct investment in Uzbekistan has fallen sharply. Under these conditions, the privatisation programme has experienced difficulties and Uzbekistan risks being forced to depart from its stated intention of opening its economy to world trade. The creation of a dual foreign exchange market, where official parity was almost four times lower than that of the black market, has made the implementation of the external convertibility of the Som very difficult; the same is true of for Uzbekistan's accession to the WTO. Lastly, the drought, which prevailed during springs and summers 2000 and 2001, resulted in a significant reduction of the harvests, prompting the Uzbek authorities to appeal for international aid.

However since December 2001, Uzbekistan appears to have turned a corner in its economic policy. Following decisions taken by the authorities to reduce the number of exchange rates, Uzbekistan has embarked on a renewed effort to negotiate with the IMF towards full convertibility and towards a greater involvement of the International Financial Institutions in the country. It is hoped that these negotiations will be successful and that Uzbekistan will be able to implement the necessary economic and financial reforms. IMF negotiations and WTO accession (the WTO working party met in July 2002) may lead to drastic changes, opening up the Uzbek economy to world markets and allowing for the real development of a market economy.

Kazakhstan

Reform is on-going on in Kazakhstan with enhanced powers granted to local government and efforts to reform the judiciary, although the absence of real freedom of the media, the death penalty and widespread corruption remain of concern. There is an emerging Opposition, which is not yet able to challenge the ruling political establishment. The authorities demonstrate certain Soviet characteristics, for example when they use the judicial system to fight against declared opponents.

In 1997 Kazakhstan embarked on a long-term development program called Kazakhstan-2030. Within this framework the country is now focusing on its policy agenda for the years 2002-2004, with the aim of ensuring annual GDP growth of 5-7%, raising per capita GDP to \$1600-1700, and reducing to under 20% the percentage of the population who live below the poverty line. Kazakhstan has been very successful in attracting FDI. FDI flows soared from 1,852 billion in 1999 and 2,751 billion in 2000 to 4,418 billion in 2001, about a third of which was of EU origin. Apart from upstream extracting industries, which are providing an ever increasing part of its GDP and account for most of GDP growth and FDI in the country, Kazakhstan is also trying to develop mid- and downstream processing and subsidiary industries. Its booming economy (13% GDP growth in 2001, the highest figure among all NIS countries) and the increased availability of domestically available funds have boosted self-confidence on the part of the Kazakhstan government, which increasingly tries to promote domestic investment. Despite obvious achievements, further reforms are needed. In the economy, a visible gap remains between high GDP growth and the poor living conditions of significant parts of the population. Deficits in the pension, health and education systems contrast with the fact that substantial parts of the national income have been transferred abroad in non-transparent procedures. The fight against corruption at all levels is a major precondition for political, economic and social stability. The rich resources of Kazakhstan could assure sustainable economic development with equal opportunities for all, but in a number of cases the policies of economic nationalism and their effect on the foreign investment climate is being questioned. Measures include import substitution and local content requirements. Moreover, the Kazakhstan government has been trying to renegotiate contracts with foreign firms, principally in the energy sector. Having already submitted its application for WTO membership, Kazakhstan is now actively pursuing bilateral and multilateral negotiations while at the same time working on the fulfilment of conditions, such as in the field of Intellectual Property Rights. The government has also started a national poverty reduction program focussing on depressed urban areas and rural poverty.

Kyrgyzstan

Kyrgyzstan was considered as the most democratic country in Central Asia at the early stage of its independence. President Akaev was the only Central Asian President not to have held power during Soviet times and was elected freely. However recent developments have modified this opinion. Not free and fair electoral process in 2000 and 2001 and the events in Aksy on 17-18 March 2002 potentially demonstrate a tendency on the part of the Kyrgyz authorities to use the judicial system against political opponents. Corruption is alarming, preventing the functioning of the democratic process and hindering the development of a free market economy.

Even though Kyrgyzstan has been a WTO member since October 1998, it is still working on the implementation of various membership obligations, not least in the field of intellectual, industrial and commercial property rights.

In cooperation with the World Bank, Kyrgyzstan has established a Comprehensive Development Framework which runs until 2010. It is now in the process of finalising its Poverty Reduction Strategy Paper, a medium-term program for implementation of the first CDF phase (2001-2003). In its CDF, Kyrgyzstan identifies four key priorities: human potential development, private sector development, institutional reforms and assistance in sustainable environmental management, while aiming at a number of specific goals, including: an increase in the living standards of the population; an annual increase of GDP of no less than 5%; strengthened governance both at state and local level; strengthened fundamentals of democratic society; maintaining Kyrgyzstan's natural resources and ecological safety; to achieve an equal social and economic development of its regions; and to increase the security of the country and its citizens. An 'open door' policy to quickly integrate into the world community is a central element of Kyrgyzstan's CDF.

A major problem of the country is its high external debt, which reached 130% of GDP in 2001. Some relief was provided by a major debt rescheduling at the Paris Club in 2001.

FDI flows in 2000 amounted to 75 million USD, 34 % of which came from EU countries. In 2001 Kyrgyzstan decided to drastically step up its efforts to improve its investment climate. It embarked on an ambitious and comprehensive work program to systematically address the issues within ambitious deadlines in mixed working groups of public officials and (foreign) business people. Issues such as (over-)regulation, elimination of red tape, taxation issues, licensing and permissions, corruption, the banking sector, are also being addressed.

Tajikistan

Tajikistan is the only Central Asian Republic to have a legal Islamic opposition party. The Islamic Revival Party of Tajikistan regularly state that they fully support the Government position on relations with neighbouring countries and express a very moderate position on Islam. However, the political situation is far from calm - several political assassinations, kidnappings and armed uprisings took place in 2001. There are also concerns about freedom of media and the exclusion of the former opposition from the democratic process.

The country has started to recover from the disastrous effects of the 1992-1997 civil war. After years of decline, economic growth was recorded for the first time in 1997 (1.7%). Inflation has been brought down through a tight monetary policy. In 2001, Tajikistan's GDP grew by 10%, albeit from a still very low level - a mere 987 million USD in 2000. Growth was only due to comparatively good results in the agricultural and industrial sectors. The dependence of Tajikistan's economy on aluminium and cotton is nevertheless a major reason of concern. In essence a rural economy, Tajikistan has been facing almost continuous food insecurity since independence. (According to the August 2002 FAO/WFP Crop and Food Supply Assessment report, Tajikistan is likely to experience an uncovered 112,000 tonne cereal deficit in 2002/2003, and carefully targeted food aid will once again be needed to meet the shortfall).

A further problem is the country's high external debt, which had risen to 400% of annual budget revenue in late 2001. With approximately 68% of its population living

below the poverty line, Tajikistan agreed on a Poverty Reduction and Growth Facility with the IMF in 1998 and is in the process of finalising a PRSP.

In general, the government has made some progress in implementing reforms under the PRGF. Heightened international interest in the region is likely to ensure that Tajikistan continues to receive the support of multilateral and bilateral donors. To date, the Tajik government has used this interest to broaden its international relations, through which it hopes to attract increased levels of foreign investment (FDI was 30 million USD in 2000). Nevertheless, uneven policy implementation, weak governance and the size of the external debt burden remain constraints on the country's economic stability and growth. Further progress in land reform, improved access to land use titles as well as crop diversification are of great importance in the near term.

Turkmenistan

The power structure in Turkmenistan remains largely unaltered since Soviet days. President Saparmurad Niyazov, who has taken the title Turkmenbashi ('leader of the Turkmens') has been asked to be "president for life". There is no formal opposition, even though since autumn 2001, some rival political leaders have appeared openly outside the country, as parties are outlawed in Turkmenistan. President Niyazov, who has decided to develop the capital city Ashgabat by building huge monuments paid for by the Presidential Fund, dominates political life. In October 2000, President Niyazov reiterated that his country was not yet mature enough to make the transition to a multiparty democracy. Despite President Niyazov statements denying the existence of political prisoners in Turkmenistan, various human rights organisations have documented the sentencing of numerous persons for criticising Niyazov's policies. Religious tolerance is also non-existent in Turkmenistan.

Turkmenistan's economy is based on the production of raw materials, principally oil, gas and cotton. It depends on oil and gas for 80% of its revenues. In spite of enormous oil, gas and other mineral resources, the country was not able to halt a dramatic recession in 1998. The economy which was in a state of near-collapse after almost two years without revenue from gas exports recovered in 1999 following the agreement with Russia on energy exports. According to Government figures (although economic data is totally unreliable), Turkmenistan's GDP increases by a substantial amount every year, while consumer goods production is also increasing. Chronic structural problems remain, although banks have been consolidated in an attempt to improve the fiscal sector. In October 2000 President Niyazov ruled out privatisation of the oil and gas sectors within the next 10-15 years. These would, he said, remain a key component of the country's economy and contribute funds to the social sector. Foreign direct investment remains low.

Turkmenistan is the only former Communist Bloc State, which has not yet embarked on an IMF-backed stabilisation programme. Such a programme would require monetary tightening to restrain inflation. However, implementation is likely to run into trouble because of the authorities fundamental hostility to the reforms required by the IMF, which would include slashing consumer subsidies and moving towards currency convertibility.

Of major concern is domestic economic developments in Russia which affect Turkmenistan's long-term objective to boost hard currency earnings by exporting gas to western Europe and south-east Asia. The lack of structural reform in Russia implies that Gazprom will retain its monopoly position and its ability to exact high pipeline transit fees for Turkmen gas exports to Ukraine and other former Soviet markets.

Annex VI: Other Donors' Financial and Technical Assistance to Central Asian countries

(i) Summary

Donor	WORLD BANK/IFC	ADB¹	EBRD²	IDB	UNDP	US³	JAPAN
Form of assistance	<i>Loan. Technical assistance</i>	<i>Loan, technical assistance</i>	<i>Loan, equity investment, technical cooperation</i>	<i>Financial, technical assistance</i>	<i>Financial, Technical assistance</i>	<i>Financial, technical assistance</i>	<i>Financial, technical assistance</i>
Amount		<i>Loan portfolio greater than 1.5 billion</i>	<i>1.88 billion committed</i>			<i>423m</i>	<i>422.8m pledged</i>
Regional Cooperation Programmes		<i>CAREC programme priorities are energy transportation, trade Regional initiatives in education, nutrition environmental protection and rural finance also pursued</i>	<i>Silk Road Fund, EFES-EBI agribusiness programme⁴</i>		<i>Environment, debt management, gender, democracy/participation, SME support, poverty eradication, SRADP</i>	<i>Water management/hydro-logical data distribution</i>	

¹ Country breakdown shows lending figures only (excludes co-financing and technical assistance funds)

² Figures in US\$ converted at rate of 10/7/02

³ Figures for Fiscal Year 2002

⁴ Country figures include shares of regional programmes

Donor	WORLD BANK/IFC	ADB ⁵	EBRD ⁶	IDB	UNDP	US ⁷	JAPAN
Kazakhstan	64.5 – Agribusiness and water management project	525 + – SMEs, child and women's development, rural development, administrative reform, energy sector, social infrastructure. Transport. Co-financing in road rehabilitation and farm restructuring	792 – port, waste management, infrastructure, financial sector, power, manufacturing, road and transport infrastructure, SMEs, telecoms			81.4m – Private Sector and Economic restructuring, SMEs, Internet Access and Training, Export Control and Related Border Security, Deposit of Nuclear Waste, Humanitarian Food Aid	18 m (Loan Aid) Sanitation, water supply

⁵ Country breakdown shows lending figures only (excludes co-financing and technical assistance funds)

⁶ Figures in US\$ converted at rate of 10/7/02

⁷ Figures for Fiscal Year 2002

Donor	WORLD BANK/IFC	ADB ⁸	EBRD ⁹	IDB	UNDP	US ¹⁰	JAPAN
Kyrgyz Republic	317 + – poverty reduction, rural development, social protection and health service delivery, private sector development, financial sector development, energy, urban transport, mining, hydroelectric	527.2 – road infrastructure, corporate governance and enterprise reform, judicial reform, public sector financial management and investment, development management and poverty reduction, agriculture and natural resources, multisector, energy. Co-financing in education, road infrastructure, social services, education	189 – SMEs, privatisation, financial sector, rural development		17 - Humanitarian aid, poverty alleviation, mass media, public sector reform, SME/rural development, disaster prevention and environmental policy development, social sector reform	49.9m – Community Action Investment Programme to support job creation, infrastructure, exchange programmes, water management, health reform, local government reform, SMEs, Export Control and Border Security (EXBS) assistance, inauguration of Science Centre for Civilian research, basic humanitarian aid	

⁸ Country breakdown shows lending figures only (excludes co-financing and technical assistance funds)

⁹ Figures in US\$ converted at rate of 10/7/02

¹⁰ Figures for Fiscal Year 2002

Donor	WORLD BANK/IFC	ADB ¹¹	EBRD ¹²	IDB	UNDP	US ¹³	JAPAN
Tajikistan	53.1 – Emergency drought assistance, structural adjustment credit project	102.6 – Energy and transport infrastructure, water, social sector development, development management and poverty monitoring. Co-financing in road and power rehabilitation	38 – SMEs/rural development, telecoms, transport infrastructure			98.1m – Development of NGO sector, support of independent media, SMEs, economic reform, academic/professional exchange programmes, water management, agribusiness, Community Action Investment Programme (conflict prevention), EXBS, Food for Progress Programme	2.9 (via ADB) for rural poverty reduction 169.6m – Non-project Grant Aid

¹¹ Country breakdown shows lending figures only (excludes co-financing and technical assistance funds)

¹² Figures in US\$ converted at rate of 10/7/02

¹³ Figures for Fiscal Year 2002

Donor	WORLD BANK/IFC	ADB ¹⁴	EBRD ¹⁵	IDB	UNDP	US ¹⁶	JAPAN
Turkmenistan	<i>Technical assistance activities only, planned project on the Foreign Exchange Reserve Fund</i>	<i>0 - Plans to lend for projects linked to Afghan reconstruction under interim strategy.</i>	<i>176 – hydrocarbons, port, SMEs, manufacturing</i>	<i>37 – healthcare, road infrastructure, rural water supply</i>		<i>16.9m – Civil society assistance : training for non-political community groups, IT support, exchange programmes, EXBS, basic humanitarian commodities, health service reform, vaccination programmes, water management</i>	<i>3.8m – cultural support</i>

¹⁴ Country breakdown shows lending figures only (excludes co-financing and technical assistance funds)

¹⁵ Figures in US\$ converted at rate of 10/7/02

¹⁶ Figures for Fiscal Year 2002

Donor	WORLD BANK/IFC	ADB ¹⁷	EBRD ¹⁸	IDB	UNDP	US ¹⁹	JAPAN
Uzbekistan	<i>Financial institution building, agribusiness, water management</i>	<i>459 – agricultural development, urban water supply, rural development, capacity building for reform and economic development. Co-financing in secondary education, railways infrastructure</i>	<i>686 – energy sector, manufacturing, finance, transport infrastructure, waste management</i>			<i>173m – Increased security, military training, academic and professional exchange programmes, development of NGO sector, legal reform, infrastructure support, basic humanitarian commodities, health-care reform (7 pilot schemes in the Ferghana valley), vaccination programmes, water management</i>	<i>2.5 (via ADB) poverty reduction in Karakalpakstan 226m Non-Project Grant Aid, cultural support, public health,</i>

Source : ADB Website, EBRD annual report 2001, EBRD Strategy for Turkmenistan 2002 ; EBRD Strategy for Kyrgyzstan 2002

¹⁷ Country breakdown shows lending figures only (excludes co-financing and technical assistance funds)

¹⁸ Figures in US\$ converted at rate of 10/7/02

¹⁹ Figures for Fiscal Year 2002

(ii) Breakdown by country and sector

(number of loans) Amounts in USD \$ million

	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
ASIAN DEVELOPMENT BANK					
Loans (2001)					
- Agriculture	(5) 185	(3) 88.5	(1) 3.6		(2) 86
- Transport/Communications	(2) 102	(4) 145	(1) 20		(3) 190
- Finance	(1) 100	(5) 115			(1) 50
- Social Infrastructure	(3) 65	(4) 17.8			(4) 133
- Multi-sector	(2) 60	(3) 55	(3) 45		
- Energy		(1) 30	(1) 34		
Total	(13) 512	(20) 527	(6) 102.6		(10) 459
Grants					
- Technical Assistance	(5) 2.3 ²⁰	(4) 2.2	(5) 2.12	0.15 ²¹	(5) 2.3
- Rural poverty			2.92 ²²		2.5 ³
Disbursement Ratio ²³	25.3%	30.3%	3.7%		13.1%
UNITED STATES (2002)					
-Democracy Programmes	13.0	11.4	5.2	3.8	14.4
-Market Reform	14.0	12.0	3.1	0.9	2.9
-Security Programmes	35.7	12.0	9.0	8.3	59.8
-Humanitarian Assistance	3.2	6.2	72.1	0.5	50.4
-Cross-sectoral initiatives	15.5	8.3	8.6	3.4	45.5
Total	81.4	49.9	98.1	16.9	173

²⁰ For urban small business development, early childhood and women's development

²¹ For seminars on ABD operational policies

²² Financed by Japan Fund for Poverty Reduction

²³ ADB-wide average: 20.5%

Annex VII Other Donors' Financial and Technical Assistance to CA countries - (ii) Breakdown by country and sector - continued

	(number of loans) Amounts in USD \$ million				
	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmen.	Uzbekistan
WORLD BANK/IBRD					
-Current/Ongoing Projects	64.5 <i>Syr Darya Control and Northern Aral Sea Phase 1</i>	15 <i>Rural water supply and sanitation</i> 15 <i>Health sector reform</i>	50 <i>Structural Adjustment Credit</i> 3.1 <i>Emergency Drought Assistance Supplementary project</i>		29 <i>Urban Transport (2000)</i> 25 <i>Financial Institution Building (1999)</i> 30 <i>Health 1 (1999)</i> 28 <i>Enterprise Institution Building (1998)</i> 75 <i>Rural Waste and Sanitation – Karakapalastan (1998)</i> 24 <i>Tashkent Solid Waste (1998)</i> 66 <i>Cotton Sub-Sector Improvement (1995)</i>
-Future Projects	200 <i>Social Protection Reform Adjustment Loan</i> 150 <i>Public Sector Resource Management Adjustment</i> 83 <i>North-eastern Kazakhstan Water Supply and Sanitation</i> 41.6 <i>Environmental Management</i> 25 <i>Agriculture Support Service</i>	35 <i>Governance Structural Adjustment Credit</i>	10 <i>Education Modernisation</i>		36.1 <i>Rural Enterprise Support (2002)</i> 40.6 <i>Bukhara/Samarkand Water Supply (2002)</i> 10.0 <i>Public Finance Management Reform (2003)</i> 55.0 <i>Karashi Pumping Stations Rehabilitation (2003)</i> 20.0 <i>Drainage (2004)</i> 25.0 <i>Health 2 (2004)</i>
IFC					
- Finance and Insurance					
- Food and Beverages					
- Industrial and Consumer Products					
-Non-metallic Mineral					

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Annex VII: EU and International Organisation's Representation in Central Asia

1. EU MEMBER STATE AND EUROPEAN COMMISSION REPRESENTATION IN CENTRAL ASIA

	DE	UK	F	IT	NL	EL	ES	COM
Kazakhstan	X	X	X	X	X	X	X	X
Kyrgyzstan	X	X						planned
Tadjikistan	X	X	X					planned
Turkmenistan	X	X	X					
Uzbekistan	X	X	X	X				planned

2. LOCAL REPRESENTATION OF INTERNATIONAL ORGANISATIONS

	UN	OSCE	WB	IMF	ADB	EBRD
Kazakhstan	X	X	X (& regional representative)	X	X	X
Kyrgyzstan	X	X	X	X	X	X
Tajikistan	X (special mandate)	X	X	X	X	X
Turkmenistan	X	X	X (no permanent representative)	X (no permanent representative)		X
Uzbekistan	X	X	X	X (no permanent representative)	X	X

Annex VIII: Participation of Central Asian countries in Organisations for Regional Co-operation

	SCO	EEC	CIS	CICA	ECO	CACO
UZBEKISTAN	X		~X*	X	X	X
KAZAKHSTAN	X	X	X	X	X	X
KYRGYZSTAN	X ²⁴	X	X ²⁵	X	X	X
TAJIKISTAN	X	X	X	X	X	X
TURKMENISTAN					X	

SCO = Shanghai Cooperation Organisation (with Russia and China).²⁶

EEC = Eurasian Economic Community, ex Customs Union (with Russia and Belarus);²⁷

CIS = CIS Security Pact (with Russia, Belarus and Armenia).

CICA = Conference on Interaction and Confidence-Building Measures in Asia (with Afghanistan, China, Egypt, Iran, Israel, India, Pakistan, Palestine National Administration, Russia and Turkey).

ECO = Economic Cooperation Organisation (with Iran, Pakistan, Turkey and Afghanistan).

CACO = Central Asian Cooperation Organisation, ex Central Asian Economic Community.

□ Uzbekistan does not participate in the CIS Security Pact

²⁴ SCO anti-terrorism centre in Bishkek.

²⁵ CIS anti-terrorism centre in Bishkek.

²⁶ Even though the SCO was begun as a forum for discussing border delineation issues, it has gained momentum and now focuses on security issues such as terrorism and separatism. Economic cooperation is also envisaged.

²⁷ Economic cooperation is the central objective of the Eurasian Economic Community. The EEC has a 100-staff Secretariat based in Almaty and Moscow.