



# **Interim Comprehensive Action Plan**

## EXECUTIVE SUMMARY

### A. The ICAP: A Work in Progress

1. So as to accelerate regional cooperation, the 3<sup>rd</sup> Ministerial Conference (November 2004) instructed Senior Officials to develop a comprehensive action plan for the CAREC Program. The Interim Comprehensive Action Plan (ICAP) is a work in progress in meeting the request of Ministers.

2. The core of the finalized CAP will be a strategic framework, reflecting the goals and objectives of the participating countries regarding regional cooperation. From this will follow the priorities for regional cooperation and the proper sequencing of initiatives. However, this requires considerable consensus building, both within and among the participating countries, a process that is presently underway.

3. Nonetheless, the participating countries share a strongly held view that regional cooperation should be highly pragmatic and results-oriented. From this perspective, the medium-term objectives of regional cooperation are to improve access to markets through transport and trade initiatives, and to ensure rapid and sustainable economic growth through effective natural resource management and factors important to human development and security. Through coordinated action, Central Asia can build on its strengths and again become a hub for trade linking China, Russia, Europe, India and the Middle East.

### B. Ensuring a Performance-Based Program

4. The participating countries, together with the six supporting multilateral institutions,<sup>1</sup> agree that sustaining interest in regional cooperation depends on achieving real benefits for all participants. Performance indicators are needed to help ensure the focus for regional cooperation is outputs rather than inputs. Accordingly, the 3<sup>rd</sup> Ministerial Conference instructed Senior Officials to develop appropriate performance indicators for the CAREC Program.

5. To this end, the ICAP outlines two sets of performance indicators: general indicators for the CAREC Program as a whole; and sector performance indicators (including at the project level). Broad performance indicators for the CAREC Program are the contribution to growth of GDP and the reduction in the incidence and severity of poverty.

6. Conservatively, a 0.5 to 1.0 percentage point increase in economic growth in the region as a result of accelerated regional cooperation initiatives would boost per capita incomes significantly and in ten years would add some \$16 billion annually to the collective output of Central Asia. In turn, this would assist in reducing the incidence of poverty, perhaps by half a percentage point annually. Pro-poor regional cooperation initiatives, such as better water resource management, could reduce the incidence of poverty by another half a percentage point annually. Cumulatively, the economic growth and poverty reduction benefits would be very beneficial to all participating countries.

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<sup>1</sup> The participating countries are Azerbaijan, People's Republic of China, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan (in addition, Islamic Republic of Afghanistan and the Russian Federation were invited to join CAREC in September 2005 as full participants). The supporting multilateral financial institutions are the Asian Development Bank, European Bank for Reconstruction and Development, Islamic Development Bank, International Monetary Fund, World Bank and the United Nations Development Programme.

### **C. Drawing on Lessons Learned**

7. An effective CAREC Program should build on its strengths and minimize weaknesses. The strengths of the CAREC Program include its simple and informal but effective institutional structure, the emphasis on ownership by the participating countries, the focus on core sectors (transport, trade and energy) critical to development and competitiveness, and the honest broker, third party facilitator role played by ADB and other supporting multilateral institutions. Among the weaknesses of the CAREC Program have been the slowness of some projects and the limited 'pipeline' of initiatives, the lack to date of bold 'flagship' initiatives, such as a transport corridor, the project focus rather than an output focus, and capacity constraints at the country level. The ICAP builds on the strengths of the CAREC Program and outlines actions to overcome the weaknesses.

### **D. Regional Cooperation in Meeting Economic Challenges**

8. In considering the way ahead, Ministers instructed Senior Officials to identify the main impediments to growth and development in Central Asia, and the main challenges facing the region. From an economic perspective, these include the landlocked status of the Central Asian Republics, their small domestic markets and difficult access to external markets, poor natural resource management, incomplete transition to market-based economic systems, income inequality and political instability. The strategic challenges facing the region include better recognition of the benefits of regional cooperation, strengthening the private sector, identification of transport corridors for the region that could eventually become economic corridors, solving the water/energy nexus and ensuring development is pro-poor.

9. In rising collectively to these challenges, CAREC countries must anticipate how their region will evolve over the medium to long term. The current economic boom in Central Asia (the average annual growth rate over the past three years has been about 9 percent) is likely to continue, propelled by high energy prices but also reflecting a rebound from the severely depressed conditions following collapse of the Soviet system and civil strife in some areas. Even a moderation in the rate of growth would still result in a very substantial reduction in the incidence of poverty—to less than 30 percent by 2015 compared to about 40 percent currently. Income disparities, though, could widen sharply, with agricultural employment yielding only low incomes relative to new employment opportunities in the industry and service sectors. Further, regional disparities could widen sharply, with the petroleum-rich countries, especially Kazakhstan, surging ahead.

### **E. CAREC Sector Action Plans**

10. The ICAP sets out the plans and action matrices for each of the core sectors included in the CAREC Program: transport, trade and energy. It also presents "bold strokes" for galvanizing and better focusing progress in each of these sectors, notably the challenge of identifying key transport corridors and the attendant trade policy and other measures that would lead to the creation of economic corridors. Initiatives outside the CAREC Program, both with respect to these core sectors and with respect to other sectors, are reviewed and actions proposed for a more inclusive approach.

#### **1. Transport Sector**

11. In response to the instruction of Ministers (November 2004) to intensify regional cooperation initiatives in the transport sector, and to broaden the work program to include all

modes of transport, a comprehensive Regional Transport Sector Roadmap (2005-2010) has been prepared. The goal is to develop an integrated and efficient multi-model transport system for the region. This is fundamental to achieving quicker and less costly access to internal and external markets, and to strengthening the competitiveness of the region. The Roadmap identifies five strategic priorities: harmonizing and simplifying cross-border transport procedures; harmonizing transport regulations; development and improvement of transport corridors; restructuring and modernization of railways; and improvement of sector funding and management. Performance indicators to 2010 set targets for traffic flows and other outcomes and outputs.

12. Major transport investments since the 3<sup>rd</sup> Ministerial Conference have included the Southern Transport Corridor Road in the Kyrgyz Republic, important road sections in Azerbaijan linking Baku to the Georgian and Russian borders, and the Central North-South road corridor in Mongolia. Also, work has commenced on harmonization of transport regulations and simplification of cross-border transport procedures, and assistance has been extended to the Shanghai Cooperation Organization in support of an Intergovernmental Agreement on Facilitation of International Road Transport.

13. For the period 2005 to 2007, the six multilateral partners to the CAREC Program plan to provide 21 loans and 17 grants in support of the transport sector, totaling \$609.1 million and \$8.1 million, respectively. An investment plan will be prepared in 2006 to identify key regional transport corridor development projects for both the road and rail subsectors. The main transport investments over the next two years include completion of road projects in Azerbaijan, Kazakhstan, Kyrgyz Republic and Tajikistan, and major new road projects in Kyrgyz Republic, Mongolia, and Azerbaijan. In addition, railway projects will be undertaken in Azerbaijan, Kazakhstan and Uzbekistan. The grant projects will largely address the necessary planning for development of the transport sector, and progress in streamlining the “soft infrastructure”.

14. Complementary to these projects, other donor agencies are active in strengthening the transport sector. The Japan Bank for International Cooperation, through the Central Asia plus Japan initiative, has road projects in Kyrgyz Republic and West Kazakhstan, airport projects in Uzbekistan, Kyrgyz Republic and Kazakhstan, and a railway project in Uzbekistan. USAID is funding a bridge over the Panji River linking Afghanistan and Tajikistan, Japan is funding connecting roads, and the EU is funding the ports of entry and customs infrastructure. The United Nations Special Program for Economies of Central Asia (UNSPECA) has held a series of working group sessions on transport-related issues.

15. Although CAREC and non-CAREC regional transport activities are extensive, more can and should be done. In some cases, CAREC countries are planning regional projects independently of outside assistance, such the plans for a new rail link from China through Kazakhstan to Europe, and a highway from Xinjiang Uygur Autonomous Region to Central Asia through the Kyrgyz Republic.

16. Given the vital importance of enabling effective and efficient access to markets (internal and external), and given the critical role the transport sector plays in determining this access, a bolder and more pro-active approach to regional cooperation in this respect is necessary. Accordingly, the ICAP proposes the number of “bold strokes” re the transport sector, including the following:

- Development of a transport master plan for the region, highlighting key road and rail transport corridors.

- Increase resources for regional transport initiatives and give priority for infrastructure investment/upgrading/maintenance along the transport corridors.
- Develop a highly integrated multi-modal transport system, backed by efficient logistical services.
- Fast-track pilot projects to demonstrate the benefits of improved transport services.
- Integrate trade facilitation program with the regional transport program.
- Ensure transport initiatives are pro-poor.
- Adopt ambitious goals and performance indicators, notably sharp reductions in the transit time at border crossings and the costs of moving a consignment to market.

## **2. Trade Policy and Trade Facilitation**

17. Ministers have welcomed establishment of the Trade Policy Committee and the practical, results-oriented approach adopted by the Trade Facilitation Committee. Ministers agree that WTO accession should be a common goal, together with the reduction of tariff and non-tariff barriers to trade. Although considerable progress has been made in opening up to international trade, intra-regional barriers to trade are serious and greatly impede development of new employment and income opportunities. Also, a plethora of regional and bilateral trade agreements has led to confusing and sometimes conflicting trade policies.

18. The Trade Policy Committee has initiated several studies designed to develop greater understanding about the importance of facilitating trade and the measures needed to create more open trade regimes. Priority is being given to assisting countries to accede to WTO membership and to minimizing the potential trade distorting effects of bilateral and multilateral trade agreements in the region. Committee participants are also focusing on reducing the time delays and financial costs of entrance and transit, and on reducing the barriers to border trade. The Trade Policy Committee will meet in October to map out a plan of action for the next two years.

19. The Trade Facilitation Program builds on past initiatives, including information technology for automated customs services and data exchanges, risk management and post-clearance audit, joint customs control and single-window practices, and regional transit development. ADB loans and grant assistance include revision of customs codes (Kyrgyz Republic and Tajikistan), reengineering of customs business processes and customs modernization plans (Kyrgyz Republic, Tajikistan, Azerbaijan, and Mongolia), customs modernization and infrastructure development (Kyrgyz Republic, Tajikistan, and Kazakhstan), bilateral customs cooperation (Kazakhstan, Kyrgyz Republic, and Tajikistan), and capacity building and knowledge sharing (all CAREC countries). EBRD is providing advisory services on trade finance to the CARs, the IsDB has organized a forum on trade and counter-trade promotion, and the World Bank and IMF have prepared background papers relevant to trade facilitation. The UNDP has launched the second phase of its Silk Road Regional Programme, which addresses improvement of the policy and legal environment for trade and transit.

20. Non-CAREC trade initiatives are extensive. GTZ, USAID, JICA, and DFID are all active in supporting WTO accession of the CARs. The EU, SPECA and a number of bilateral donors (Switzerland, Germany, UK, and USA) are active in supporting various aspects of trade facilitation – including harmonization of border crossing procedures. Also of note is the Central-South Asia Transport and Trade Forum, sponsored by ADB and involving six of the nine countries that participate in the CAREC Program.

21. CAREC trade facilitation activities to 2007 include the following:

- Continued activities of UNDP, EBRD, and IsDB in support of trade facilitation.
- Loan and technical assistance projects by ADB include:
  - 2006 TA: Promoting the Development of Insurance Industry to Support Regional Trade Facilitation (\$0.7 M);
  - 2006 TA: Integrated Regional Trade Facilitation Strategy for Individual Countries (\$0.7M);
  - 2007 Loan: Regional Customs Modernization and Infra-structure Development, Phase II, TAJ (\$10 M)(standby);
  - 2007 TA: Regional Customs Modernization and Infrastructure Development II, TAJ (\$0.3M); and
  - 2007 TA: Logistic Development to Support Regional Trade Facilitation (\$0.8 M).

22. The ICAP sets out detailed performance indicators and expected outcomes for trade policy and trade facilitation. The goal should be unimpeded trade flows among CAREC countries, enabling production and distribution according to principles of comparative advantage and maximum economic efficiency. Performance indicators include WTO accession, degree of trade openness, the average time to clear customs, logistics services and other factors critical to trade policy and trade facilitation.

23. While trade initiatives under the CAREC Program have been highly appreciated, more should and can be done to achieve trade openness. As in the case of transport, CAREC countries are initiating action to mitigate trade impediments and to promote trade (e.g., China's provision of \$900 million in trade credits). To increase the contribution of the CAREC Program to trade openness, ICAP suggests the following "bold strokes":

- Development of a regional trade plan or strategy.
- Further analysis of the problems to be resolved and of the benefits to be gained.
- An integrated approach to transport, trade and transit.
- Greater resource mobilization and coordination, including private sector participation.
- Priority attention to trade logistics.

### **3. Energy Sector**

24. Ministers have confirmed their support for enhanced regional energy trade and building a regional power market. Senior Officials have been instructed to continue analysis and dialogue on water and energy exchange issues, and to ensure coordination between CACO, CAREC and other organizations concerning these issues. Ministers are seeking international support for power projects in the region, including with the private sector. They have welcomed the establishment of a forum of electricity regulators and have requested that energy saving and efficiency improvements be included in the program of regional cooperation.

25. In response, Senior Officials and the supporting multilateral institutions for the CAREC Program are pursuing the following:

- Maximum use of existing infrastructure, through the rehabilitation of power substations, pipelines etc.;
- Establishment of the policies and institutions necessary for effective regional energy trade;

- Improved access to export markets outside the region; and
- Capacity building.

26. CAREC energy investment projects include:

- North-South Transmission Line Project in Kazakhstan, to alleviate winter electricity shortages in southern Kazakhstan.
- Batken (Kyrgyz Republic)–Kanibodom (Tajikistan) Transmission Line. This 220 kV line is now operational, enabling electricity imports from the Kyrgyz Republic to northern Tajikistan.
- Regional Gas Transmission Improvement Project. ADB has initiated project preparations to rehabilitate the Uzbekistan-Dushanbe gas pipeline; when implemented (2008), it will improve the supply of natural gas in Tajikistan for use during winter;
- IsDB Regional Financing (\$182.2 million) of Energy Sector. Includes construction of transmission lines, power plants and substations;
- World Bank Support for Public and Private Financing Options for Regional Power Generation and Transmission Options. The World Bank is taking the lead in assisting the Tajikistan Government in developing the 670 MW Sangtuda I Hydropower Project.

27. CAREC technical assistance projects for the energy sector include:

- The CAREC Members Electricity Regulators Forum (CMERF), led by ADB; the Forum prepared a Diagnostic Review of Regulatory Approaches and Challenges, of electricity sectors of each CAREC country; CMERF will be formally established by end 2005;
- The Regional Electricity Export Potential Study, led by the World Bank; the study addresses the feasibility of meeting summer electricity demand in the CARs through loss-reduction measures, rehabilitation of existing generation capacity, and regional trade. It also examines the potential for electricity exports to PRC, Iran, Pakistan, and Russia.
- The Concept of an International Water and Energy Consortium (IWECC) was approved by CACO Heads of State in May 2004, supported by the World Bank. During 2005, the World Bank completed and disseminated its findings related to the establishment of the Water Energy Consortium under CACO. This work included: case studies on transboundary river management; practitioners' presentations; and a review of national water and energy legislation and relevant regional agreements; despite a significant amount of work done by the CACO working group members, there has been little real progress towards the establishment of the IWECC.

28. In light of the above activities and developments, a CAREC Energy Sector Coordinating Committee is being established, led by the World Bank. The first meeting of the ESCC will be in mid October 2005.

29. In addition to activity under the CAREC Program, other donor agencies (EU, JICA/JBIC, Germany, Switzerland, USAID) have energy-related projects. The ESCC will need to coordinate with these other activities.

30. The Interim Comprehensive Action Plan notes that more can and should be done in promoting regional cooperation in the energy sector. Looking ahead to 2015, what are the goals and targets that should guide regional cooperation in the energy sector?

*Very generally, the goal should be realization of the energy potential of the region, and a commercially-based energy system that reliably supplies electricity at reasonable cost to all areas of the region, and in a manner that minimizes environmental and social costs.*

31. To increase the contribution of the CAREC Program to achieving this goal, the ICAP suggests the following “bold strokes”:

- Capitalize on the geographic advantage of being between the large energy consuming regions of Europe, PRC and South Asia;
- Use the third party, honest broker auspices of MIs to resolve transit problems;
- Prepare an overall strategy for the energy sector;
- Reform the business environment for energy investment, and attract new investors;
- Update inter-governmental agreements to facilitate intra-regional trade;
- Reintroduce the Regional Power Transmission and Modernization Project (Tajikistan and Uzbekistan) in a renewed effort to secure the Power Trade Relations Agreement;
- Ensure consistency of bilateral agreements with objectives/principles of the IWECC;
- Endorse the MOU for the CMERF at the November 2005 MC;
- Establish a state of the art energy dispatch center;
- Establish a regional energy research institute; give priority to understanding the political economy of the water/energy nexus;
- Expand and intensify energy conservation programs.

#### **4. Other Sector Initiatives**

32. The CAREC Program has so far been limited to three sectors: transport, trade and energy. However there is a wide range of other areas relevant to regional cooperation: governance, environment, water resource management, financial sector, health, education, tourism, disaster management and agriculture. Donor activities in these areas are extensive. The ICAP raises the question as to whether or not the CAREC Program should be broadened to include some of these areas.

33. The decision taken during April 2005 SOM was that “if new sectors are to be considered, it may be best to explore areas that complement the existing program; environment may be such a sector.” This decision reflects the concern that broadening the scope of the Program runs the risk of loss of focus and real results. Since that decision, however, the benefits of regional cooperation have been more extensively documented. Further, the UNDP Human Development Report for Central Asia (2005) makes the convincing point that regional cooperation in neutral areas (e.g., health, education) will contribute to building trust and confidence among the participating countries. In turn, this will facilitate progress in more difficult areas, including regional transport, trade and energy initiatives.

34. In light of these considerations, the ICAP for the CAREC Program will need to be accommodative:



- Bilateral and national initiatives of consequence for regional cooperation should be monitored and reported to Ministers on an annual basis.
- Openness to expanding the Program to include new sectors, especially if a donor agency is willing to take the lead (e.g., ESCAP re tourism).
- CAREC as a coordinating mechanism in support of key regional organizations (e.g., CACO and SCO).

## **F. Intersectoral Linkages and Cross-Cutting Issues**

35. The ICAP sets out steps to take account of intersectoral linkages and cross-cutting areas. Environment issues must be mainstreamed into the considerations and activities of the CAREC transport, trade and energy working groups. Following the earlier discussion, Ministers may wish to consider including the environment and other cross-cutting areas (e.g., financial sector and human resource development) in the CAREC Program. The SOM should be mandated to ensure a building-block approach to regional cooperation, maximizing the complementarities between sector initiatives.

## **G. Capacity Building and Strengthening of the Overall Financial Framework**

36. The ICAP presents a detailed set of activities for strengthening the National Focal Points, training of national officials in best practices for regional cooperation, and enhanced information exchange and greater understanding of the benefits of regional cooperation. Including funding from ADB and the PRC Regional Cooperation and Poverty Reduction Fund, there is approximately US \$1.2 million committed to capacity building. Approximately one-third of this will be allocated to engaging domestic consultants in support of the NFPs; while the consultants will be selected in accordance with ADB procedures, the candidates will be engaged with the approval of the governments. Other initiatives in direct support of the NFP include provision for equipment, in-country roundtable meetings, regional workshops and assistance in preparing the long-term vision statements.

37. Another one-third of the funds will be allocated to training workshops and two study tours (the first in Southeast Asia and the second in Europe), to draw on lessons learned and best practices from the experience of other regional cooperation organizations. Research networks will also be developed, so as to generate carefully prepared policy/research papers relevant to regional cooperation in Central Asia.

38. With the inclusion of Afghanistan and the Russian Federation in the CAREC Program, the need for review of the Overall Institutional Framework is particularly important. This will be undertaken following the 4<sup>th</sup> Ministerial Conference.

## **H. Afghanistan and Russia: New Dimensions for Regional Cooperation**

39. The inclusion of Afghanistan and the Russia Federation in the CAREC Program opens new possibilities for regional cooperation. Effective participation of Afghanistan and Russia in the Program requires their inclusion in all Ministerial Conferences, SOMs and sector working groups, and adjustment of sector plans to incorporate their views and interests. Afghanistan and Russia need to state their views on the long-term goals for regional cooperation, and the related priority actions, and collaborate closely with the other CAREC countries in formulating a consensus vision and strategic framework for regional cooperation. The CAREC Unit must provide all background material about the CAREC Program.

## **I. Broadening the Involvement of the Private Sector and Civil Society**

40. Ministers have called for greater involvement of the business community in regional cooperation, and for measures aimed at growth of a vibrant private sector. In response, the ICAP includes actions to ensure that regional initiatives serve the private sector, assist the private sector to take advantage of new opportunities resulting from CAREC initiatives, and mobilize private sector investment in CAREC projects. An important first step in these regards is the Central-South Asia Regional Business Roundtable (RBR) November 2005. The RBR will help link the private sector to the CAREC Program, and to align CAREC more closely to the requirements of the business community. The ICAP proposes a number of follow-up actions to the RBR, such as institutional measures to facilitate a two-way flow of information, but the advice of the business representatives at the RBR will need to be taken into account before firming up the proposed actions.

41. Regarding engagement of civil society, initiatives outlined in the ICAP include:

- Representation in in-country roundtables concerning regional cooperation.
- Support for regional institutions (e.g., chambers of commerce).
- Measures facilitating cross-border relations and friendship (e.g., border-friendly guards).
- Deepening of the understanding of the political economy of regional cooperation.

## **J. Coordination with other Regional Cooperation Initiatives**

42. Ministers have stated that duplication and overlap in regional cooperation should be minimized. Further, they requested that recommendations be made to the 4<sup>th</sup> Ministerial Conference on ways to strengthen the performance of CAREC sector committees and to coordinate with other regional initiatives, notably the Central Asian Cooperation Organization (CACO) and the Shanghai Cooperation Organization (SCO). Accordingly, the ICAP includes the following actions:

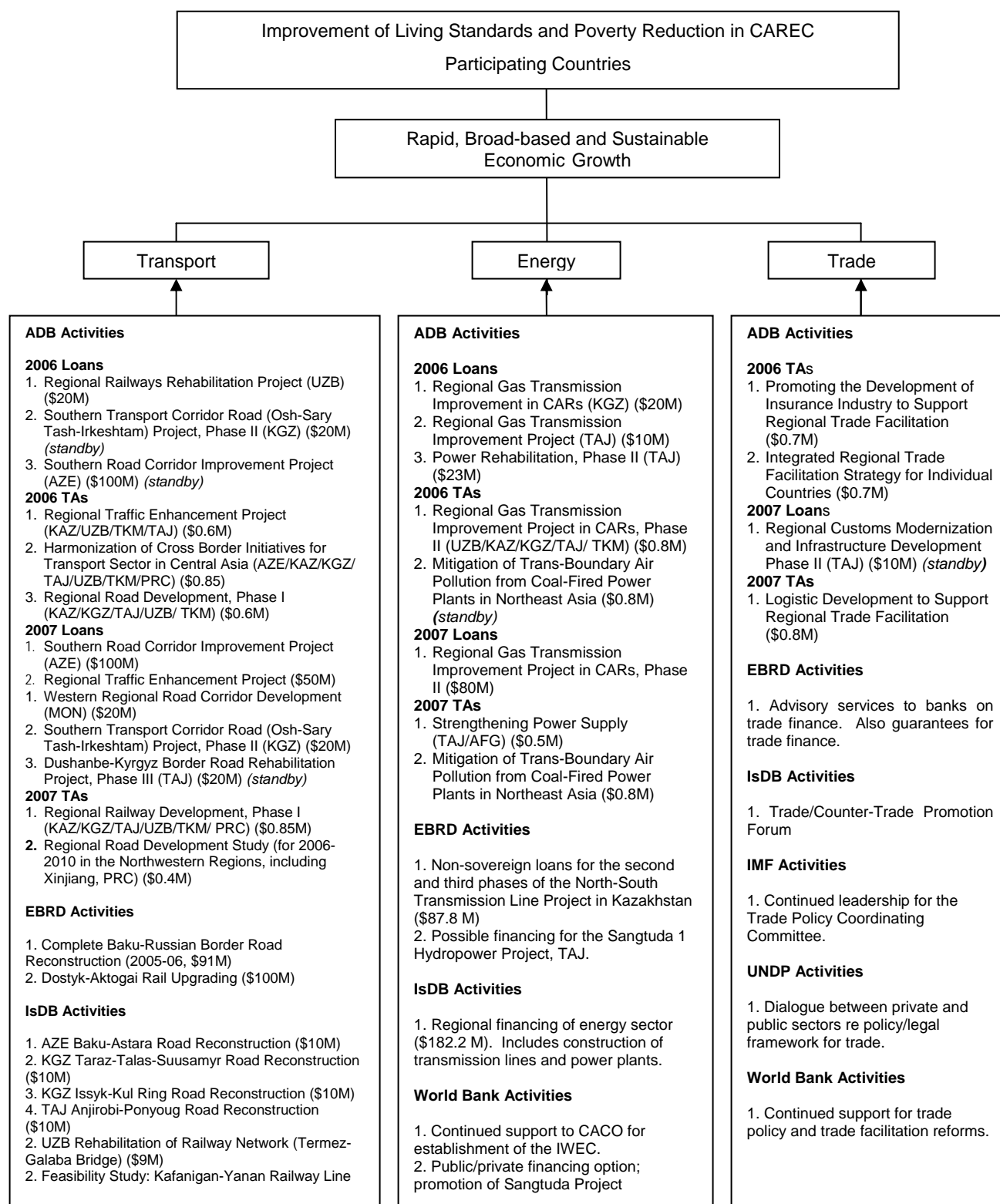
- CAREC as a coordination mechanism in support of CACO and SCO.
- Merging of selective organizations (e.g., CAREC and CSATTF).
- Merging of sector activities in selective cases (e.g., preparation of an agreement for the cross-border movement of goods and people).
- Sharing of information and analysis.
- Invitation to other regional cooperation organizations to participate in CAREC workshops, MCs.

## **K. Conclusion—Next Steps**

43. The CAREC Interim Comprehensive Action Plan is a work in progress. Next steps are:

- Expansion of the ICAP to include the interests and opportunities associated with participation by Afghanistan and the Russian Federation.
- Development of the vision statement and strategic framework, and formulation of a revised CAP for the 5<sup>th</sup> Ministerial Conference.
- Review by the supporting multilateral institutions, and gap analysis between what is desired re regional cooperation and what is in the 'pipeline'.
- Determination of how to fill the gaps.

## CAREC PROGRAM FOR 2006–2007: MAIN INVESTMENTS/GRANTS



AFG = Afghanistan, CARs = Central Asia Regions, KAZ = Kazakhstan, KGZ = Kyrgyz, MON = Mongolia, PRC = People's Republic of China, TAJ = Tajikistan, TKM = Turkmenistan, UZB = Uzbekistan