



**Report of Senior Officials to the Sixth Ministerial Conference:
Central Asia Regional Economic Cooperation (CAREC) Program**

**Dushanbe, Tajikistan
3 November 2007**

1. As the National Focal Points respectively for the CAREC Program in each of the participating countries, we are pleased to report to Ministers on progress since the Fifth Ministerial Conference in Urumqi, PRC in October 2006 in promoting and facilitating economic cooperation in Central Asia. Building on the Comprehensive Action Plan adopted by Ministers last year, we are particularly pleased to report substantial progress in developing sector strategies for CAREC's transport, trade and energy cooperation initiatives, and in defining a well-focused and practical basis for launching the CAREC Institute. In addition, we have agreed on an ambitious yet realizable work plan for next year. This Report of Senior Officials represents the unanimous view of all eight National Focal Points for the CAREC Program and invites your endorsement of our recommendations regarding sector strategies, the CAREC Institute, our suggested priority activities for next year and other key interests. The Report also reflects input by our six supporting multilateral institutions: Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), International Monetary Fund (IMF), Islamic Development Bank (IsDB), United Nations Development Programme (UNDP), and World Bank.

2. Before addressing the particulars of the above cited interests, we wish to report on the growing confidence and friendship among us as participants in the CAREC Program. Senior Officials now meet three times annually and this steady sharing of views among eight neighboring countries, culminating in the annual decision-making forum by Ministers, has helped generate a strong team spirit in support of regional cooperation. This spirit is also very evident among participants in each of CAREC's sector coordinating committees. We have been saddened by the tragic deaths of two long-standing participants in the CAREC Program, Mr. Ju Kuilin and Ms. Lijun Wei. In his role as lead coordinator for the CAREC Program during 2006, Mr. Ju and his colleagues at the Ministry of Finance, PRC, including Ms. Wei, were the inspiration behind CAREC's long-term vision of "Good Neighbors, Good Partners, and Good Prospects". We feel a special commitment to helping to fulfill this vision, in honor of their dedication to CAREC.

3. We see the CAREC Program as an essential instrument in support of regional development and cooperation, contributing thereby to a more stable and prosperous Central Asia. In turn, this will help speed the integration of Eurasia and multiply the opportunities for trade and investment. The legacy of Central Asia as a vital land bridge linking Europe, the Russian Federation, the People's Republic of China, East and South Asia, and the Middle East is being revived. Our governments have made a good start but, as was acknowledged during the Fifth Ministerial Conference, much more needs to be done in coordinating our transport, trade and energy infrastructure investments, and in strengthening our institutional capacity and regulatory frameworks for mutually beneficial regional integration initiatives. Our Report to Ministers is guided by these needs.

I. REQUESTS AND COMMITMENTS OF THE FIFTH MINISTERIAL CONFERENCE

4. The Urumqi Declaration issued by Ministers at the conclusion of the Fifth Ministerial Conference provided a strong endorsement of the Comprehensive Action Plan (CAP) for the CAREC Program. The Declaration called upon multilateral and bilateral development partners and the private sector to be consistent with the Plan in a manner that avoids duplication and maximizes efficient use of resources. Regional cooperation initiatives should be fully integrated with the development plans and public investment programs of CAREC countries.

5. Four pillars of activity should provide the strategic framework for implementation of the Plan:

- The **regional infrastructure networks pillar** should mainstream support by countries and MIs for transport corridors, energy markets, and trade-related infrastructure projects;
- The **knowledge and capacity building pillar** should give priority to capacity building for regional cooperation, including training of key officials, research and analysis of key regional interests, and increased dialogue to promote understanding and consensus; a CAREC Institute should be initiated;
- The **trade, investment and business development pillar** should provide an integrated framework for improving the climate for investment in Central Asia, and for linking business enterprises to regional and global markets; the CAREC Program should be more inclusive of and responsive to business interests;
- The **regional public goods pillar** should expand the CAREC Program on a project-specific basis to address transboundary issues such as protection of the environment, management of natural resources, preparation against natural disasters and control of the spread of communicable diseases.

6. Ministers endorsed a two-tiered approach to CAREC initiatives, whereby the first-tier should focus on the core areas of activity: transport, trade and energy. Second-tier activities should include special initiatives in new areas. Ministers also called for deepening of the CAREC Program through expanded policy initiatives and additional approaches to regional cooperation, such as economic corridors, capacity building and knowledge transfers. CAREC's institutional capacity must be strengthened to enable strategic direction of the Program. Infrastructure investments under the Program should be rebalanced in favor of region-wide interests and all initiatives should complement those of the Eurasian Economic Community (EurAsEC), the Shanghai Cooperation Organization (SCO), Economic Cooperation Organization (ECO), Eurasian Development Bank (EADB), Transport Corridor Europe-Caucasus-Asia (TRACECA) and other organizations dedicated to regional cooperation.

7. Senior Officials have endeavored to follow-up on all of these directives, although Ministers will appreciate that implementation will take – at least in some cases – many years to fully accomplish. As to be expected, given their priority focus, progress has been particularly strong respecting the core sectors of the CAREC Program. To summarize:

- Strategic direction of the Program has been considerably advanced through the development of sector strategies.
 - ✓ The Transport Sector Coordinating Committee has successfully concluded an in-depth analysis of the sector and has prepared a Transport Sector Strategy for CAREC for the next decade;

- ✓ The Trade Facilitation/Customs Cooperation Committee has also successfully concluded an in-depth analysis of factors critical to expanding trade in the region, and has prepared a Trade Facilitation Strategy for the next decade;
 - ✓ To ensure that the transport and trade facilitation strategies are interlocking and reinforcing, they have been combined into a single Transport and Trade Facilitation Strategy;
 - ✓ The Trade Policy and Energy Sector Coordinating Committees have made good progress in determining their medium to long-term directions and will submit completed strategies to the 7th Ministerial Conference;
 - ✓ To guide the training, research and dialogue activities of the CAREC Institute, a detailed prospectus for the Institute has been prepared; and
 - ✓ Senior Officials' Meetings have become more strategic in focus, preparing the way for the Ministerial Conference to provide strategic direction.
- Pragmatic, results-based activities have expanded in depth and coverage.
 - ✓ Over the past year, transport, energy and trade-related infrastructure investments under the CAREC Program amounted to almost \$1.2 billion;
 - ✓ Technical assistance amounting to about \$30 million has included support for an avian flu preparedness program, support for a small grant research program and, the promotion of research networks, a conference for representatives of chambers of commerce from CAREC participating countries organized by the All-China Federation of Industry and Commerce, and other second-tier activities; and
 - ✓ As reflected in the sector strategies, policy and regulatory dimensions of regional cooperation are being given increased attention, complementing and reinforcing CAREC's infrastructure investments.
- Capacity building for regional cooperation and integration has advanced.
 - ✓ Training of CAREC officials is now well launched and research and dialogue activities are expanding;
 - ✓ To continue to expand understanding about the benefits of greater regional cooperation and integration, the CAREC Program has continued to generate a series of in-depth reports on transport and trade impediments and the opportunities for energy development;
 - ✓ Knowledge forums and in-country seminars have been conducted to consider sector strategies and other subjects relevant to "development through cooperation";
 - ✓ CAREC participants are provided a flow of material highly relevant to regional cooperation; the CAREC website is being strengthened, a new publication series on priority issues "CAREC Notes", has been launched, and CAREC reports and studies have been given wide distribution; and
 - ✓ Transport and trade studies and surveys have been conducted pursuant to establishing baseline data needed for operationalizing performance indicators.
- CAREC partnership is widening.
 - ✓ The CAREC Secretariat has been active in networking with the Shanghai Cooperation Organization, the Eurasia Economic Community, the Eurasian Development Bank, SPECA and other regional organizations;
 - ✓ The proposed Development Partners' Forum, whereby all major multilateral and bilateral development partners, together with senior representatives of the business community and civil society, will be invited to compare and coordinate

regional cooperation and integration initiatives, is generally approved by the SOM and the SOM requested further consideration of issues related to its timing and scope of participation;

- ✓ The Russian Federation and Turkmenistan have been formally invited to join the Program; and
- ✓ The Central and South Asia Transport and Trade Forum has been fully integrated into the CAREC Program.

8. CAREC has been a very active Program over the past year. Senior Officials have endeavored to “push at the frontiers of regional cooperation”. Most importantly, we have pushed very hard to reach consensus among our eight countries, and with our six development partners, on strategic strategies for transport, trade and energy. Our pragmatic, results-based approach to these challenges is generating the basis for a much more integrated region, and for the region to be a trade bridge for Eurasia. While we have a great deal more to accomplish with regards to regional cooperation, we are encouraged by the proactive manner in which the CAREC Program has been able to respond to the interests and requests expressed by Ministers during the Fifth Ministerial Conference.

9. Senior Officials wish to acknowledge that there are areas where more progress is needed. Both our governments and our development partners have yet to fully mainstream regional cooperation into the development process. Our sector strategies will help in closing the gap but a good deal of dialogue internally and regionally will be needed to more effectively coordinate national plans and regional requirements. We consider the proposal for a senior-level Development Partners Forum will help mainstream regional cooperation into our development activities. The business perspective of development also needs more attention. While a central theme of the Comprehensive Action Plan is helping business enterprises to compete more effectively in regional markets and to engage in global value chains and international production networks, we need to do much more to address the logistics involved.

II. SENIOR OFFICIALS’ MEETINGS

10. As noted in our report to Ministers last year, Senior Officials’ Meetings (SOMs) are key to operationalizing the CAP, particularly in supporting the Ministers in exercising strategic management and direction for the Program. Chairmanship for the SOMs during 2007 was led by Mr. Negmatjon Buriev, Senior Advisor to the President on Economic Policy, Tajikistan.

11. A SOM was convened in Manila on 26-27 March 2007. The SOM benefited from the excellent preparation of the country delegations, who were briefed well in advance on key questions and issues of concern. Following an overview of Central Asia regional integration and progress regarding preparation of sector strategies, the SOM discussed ways to strengthen strategic management of the Program, possible second-tier activities, options for establishing the CAREC Institute, extending the Program to include new countries and development partners, and ways to more effectively coordinate CAREC with other regional initiatives. Senior Officials were informed that the transport and trade facilitation strategies would be completed in time for consideration during the Sixth Ministerial Conference. Senior Officials concluded that: strategic management could be effected through the SOMs; that the core focus should remain on transport, trade and energy, with second-tier activities only very selectively engaged; that the CAREC Institute should be essentially ‘virtual’, and that training of officials should be of priority concern with research and dialogue as supporting elements to the CAREC process; that extension of the Program to include new countries and development partners should be step-by-step, with greater progress under the existing arrangements as a foundation; and that

CAREC should be proactive with other regional organizations, especially with the SCO, EurAsEC, ECO and EADB.

12. A second SOM was convened in Manila on 8-9 September 2007. The SOM focused on (i) draft sector strategies for transport and trade facilitation; (ii) sector updates for energy and trade policy; (iii) a draft prospectus for the CAREC Institute; and (iv) preparations for the 6th Ministerial Conference (MC). The SOM also heard special presentations on development of "Pakistan's National Trade Corridor Program" and on "Regional Cooperation Experiences Elsewhere—Lessons for CAREC". The SOM made extensive comments on the draft sector strategies for transport and trade facilitation, notably the need to integrate the strategies and for a time-bound action plan for implementation. While the SOM endorsed in principle both strategies, it was agreed that they would be reviewed again prior to consideration during the Sixth Ministerial Conference. The SOM encouraged the Energy Sector Coordinating Committee to complete drafting of a sector strategy that reflects the common interests of all participating countries on the basis of consensus. The sensitivities of upstream versus downstream interests concerning hydropower developments were extensively discussed, with the conclusion that the energy strategy will need to emphasize complementarities. The World Bank, together with the other IFIs, will ensure that hydropower and other energy projects comply with Safeguard Policies. The SOM also encouraged the Trade Policy Coordinating Committee to complete drafting of a sector strategy as soon as possible, with the strategic elements reflecting the recommendations of studies on transit and border trade, trade taxes and quantitative restrictions. The long-term objective should be trade openness. The SOM agreed on a Prospectus for the CAREC Institute, which for the first three years will be essentially a 'virtual' institute and work extensively with existing institutions in the region to facilitate training, research and dialogue. The SOM reviewed the five second tier areas (human development, environment, agriculture, tourism, and disaster management and preparedness) and cautioned that priority attention should continue to be given to transport, trade and energy. The proposed CAREC Development Partners' Forum was generally endorsed by the SOM subject to further consideration of issues related to its timing and scope. Further, a proposed procedure for application for participation in the CAREC Program was discussed, with the conclusion that a step-by-step approach should be followed; the participation of Turkmenistan and the Russian Federation are of primary interest. The SOM concluded with agreement on the timing, venue and agenda for the 6th Ministerial Conference.

13. Finally, Senior Officials met just prior to the Sixth Ministerial Conference to consider the Conference agenda, the draft Report of Senior Officials to the Sixth Ministerial Conference, and the draft Joint Ministerial Report.

III. ACHIEVEMENTS AND WORK PLANS OF PRIORITY SECTORS/INITIATIVES

A. Transport Sector

14. In its status report to the March 2007 SOM, the Transport Sector Coordinating Committee (TSCC), chaired by Tajikistan and supported by ADB, outlined major infrastructure investments, nonlending activities, and other regional cooperation initiatives. An outline of the CAREC Transport Sector Strategy Study was also presented, highlighting regional transport corridors and close coordination with trade facilitation. SOM delegations expressed support for development of the transport strategy, including consideration of a proposed PRC-Kyrgyz Republic-Uzbekistan railway project.

15. The Seventh Meeting of the Transport Sector Coordinating Committee (TSCC), together with the Second Consultation Workshop for the CAREC Transport Sector Strategy (TSS), was convened on 4–5 July 2007 in Manila, Philippines. In addition to representatives from all eight CAREC countries, the meeting included representatives from ADB, UNESCAP, UNCTAD, TRACECA, Islamic Development Bank, and the World Bank. The Meeting was chaired by the Ministry of Transport and Communications, Tajikistan. It reviewed the draft TSS and, in principle, delegates supported the major findings and proposed six transport corridors - identified based on assessments of actual and projected trade and traffic, and the regional transport networks promoted by international organizations. Delegates also agreed to integrate the Action Plan on Harmonization of Regional Transport Regulations and Cross-Border Agreements into the TSS.

16. CAREC transport infrastructure investments since the November 2006 Ministerial Conference include the following:

- **Afghanistan.** About 90% of the regional road transport corridors comprising the ring road and eight regional roads within the country, totaling about 3,237 kilometers (km), continued being improved with external assistance. On 28 September 2007, ADB approved a \$176 million grant for the Road Network Development Project 1. The Project aims to construct a 143 km road between Bala Murghab and Leman – a critical missing link of the ring road.
- **Azerbaijan.** On 28 September 2007, ADB approved a multitranche financing facility (MFF) in the total amount of \$500 million for the Road Network Development Program, with the first tranche to help develop the new Masalli–Astara motorway on the southern corridor, connecting the country to Iran. The World Bank is preparing a \$200 million loan in rail trade and facilitation for approval in 2007. The World Bank is also preparing two \$200 million loans for further improving the sections of the east–west and north–south corridors, for approval in 2008 and 2009, respectively.
- **Kazakhstan:** the World Bank is preparing a loan for the rehabilitation and reconstruction of a substantial portion of the Karabutak–Shymkent road, while the EBRD is reviewing a proposed project for constructing the Almaty–Issykul road. IsDB has been requested to consider financing of the Shymkent–Taraz–Kordai road, and participation in the financing of Khorgos–Jetygen and Uzen–Kazanjik–Iran railway.
- **Kyrgyz Republic:** ADB is preparing a \$25.6 million loan to rehabilitate 150 km of the road from Sary-Tash to the Tajik border, for approval in late 2007; ADB also plans to provide a loan in 2008 for rehabilitating part of the road from Bishkek to the border of Torugart (linking the PRC). IsDB approved a loan agreement for reconstruction of the Osh – Sary-Tash – Irkeshtam road for \$17.3 million in May 2007. IsDB also approved \$3.6 million complementary financing for reconstruction of Taraz – Talas – Suusamyrdarya road, Phase I.
- **Mongolia:** ADB is preparing a loan for building a road in the western region to link the PRC and the Russian Federation, comprising (i) Phase I (\$40 million): the border of PRC to Hovd for approval in 2008 and (ii) Phase II (\$40 million): Hovd to the border of the Russian Federation for approval in 2010.
- **PRC:** ADB is preparing a \$150 million loan in 2008 for upgrading the Korla–Kuqa road in the Xinjiang Uygur Autonomous Region.
- **Tajikistan:** ADB is preparing a \$46 million loan project for approval in late 2007 to rehabilitate 120 km of the road from Nimich to the Kyrgyz Republic border. IsDB will appraise the third phase of the Shigon–Zigar road project within 2007.

- **Uzbekistan:** ADB is preparing a \$74 million loan for approval in late 2007 to finance reconstruction of about 130 km of the road from Guzar to the border with Kazakhstan.

17. Non-lending activities in support of regional transport cooperation since the Fifth Ministerial Conference have included the following:

- ADB approved a \$600,000 technical assistance (TA) grant to Tajikistan to help develop a transport sector master plan.
- An ADB-funded pre-feasibility study for improving three regional roads: (i) the Bishkek–Torugart–Kashi road linking the Kyrgyz Republic to the PRC, (ii) the Dushanbe–Tursunzade road in Tajikistan, and (iii) the Angren–Gulistan road in Uzbekistan.
- The World Bank is financing a study on transport corridor performance measurement in Central Asia, including quantifying a set of indicators to assess performance of the region’s corridors against international benchmarks.
- ADB and UNESCAP support for the sixth negotiating meeting in July of Shanghai Cooperation Organization (SCO) member countries over the draft Agreement on Facilitation of International Road Transport; substantive progress has been made and work will begin on preparation of Annexes to the Agreement.

18. The TSCC will undertake the following activities in 2008:

- (i) implementation of the short-term actions recommended in the CAREC Transport Sector Strategy;
- (ii) preparation of the Transport Sector Report for the Senior Officials’ Meeting and Ministerial Conference; and
- (iii) update of external assistance program for regional transport projects.

B. Trade Policy

19. In 2007, the Trade Policy Coordinating Committee (TPCC), chaired by Tajikistan and with the support of the IMF, held its Sixth and Seventh Meetings in Manila, Philippines on 24 March and 6 September, respectively. During the Sixth Meeting, delegates (i) reviewed progress in reducing barriers to transit trade and in reforming trade taxes; (ii) discussed preparation of the Trade Policy Strategic Action Plan (TPSAP); and (iii) were briefed on ongoing work on studies on border trade and quantitative restrictions. In reporting to the March SOM, the TPCC recommended that in future the Trade Facilitation Coordinating Committee should monitor progress in reducing barriers to transit trade. The recommendation was adopted.

20. During the Seventh TPCC meeting, delegates discussed findings and recommendations of papers on barriers to border trade and quantitative restrictions (QRs) in CAREC countries; reflected further on the content and the preparation process of the TPSAP; and gave guidance on work program priorities. The TPCC recommended measures to facilitate border crossings of motor vehicles, people, and goods, especially concerning contiguous areas. It also recommended a full accounting of all existing QRs, their replacement by tariff measures, and the termination of related regulations. With regards to the TPSAP, the TPCC recommended that: (i) the long-term objectives should be trade openness and WTO accession for all CAREC countries; (ii) the strategic elements of the Plan should be drawn from the studies on border and transit trade, trade taxes, and QRs; (iii) capacity building should be a major element; and

(iv) performance/outcome indicators concerning short, medium and long-term objectives should be specific, monitorable, and limited in number. Subject to revisions to the papers on border trade and QR provisions, the SOM adopted TPCC's policy recommendations. Senior Officials agreed that studies undertaken by the TPCC should be in the interests of all participating countries.

21. As part of the outreach activities of the TPCC, the IMF staff, in collaboration with the ADB staff, conducted a training seminar for officials from CAREC countries in Almaty in June 2007 on "Trade Policy Challenges: Global and Regional Perspectives." The presentation and discussions included: multilateral trade liberalization and WTO membership; design and implications of preferential trade agreements; the role of trade policy in attracting foreign direct investment; and benefits of trade facilitation.

22. The TPCC's future work program, which was also endorsed by the SOM, will include:

- (i) preparing the TPSAP with a view to having the first draft ready for discussion at the Spring 2008 meeting of the TPCC;
- (ii) monitoring of the recommendations related to reform of the trade tax systems endorsed by the 5th Ministerial Conference and having the first report ready for the Fall 2008 meeting of the TPCC;
- (iii) contributing to capacity building and information sharing on WTO-related issues to facilitate member countries' accession to the WTO;
- (iv) undertaking a comprehensive assessment of preferential trade agreements in the CAREC region, including issues such as magnitude of preference margins, application of rules of origin, compliance with WTO rules and impact on WTO accession negotiations, administrative issues arising from overlapping arrangements, and monitoring mechanisms for their implementation;
- (v) monitoring implementation of the recommendations related to cross border trade (based on reports from the World Bank);
- (vi) monitoring implementation of the recommendations related to quantitative restrictions; and
- (vii) indirect monitoring of the implementation of the recommendations related to barriers to transit trade endorsed by the 4th Ministerial Conference, with close direct monitoring in the future conducted by the TFCC.

C. Trade Facilitation

23. CAREC's Trade Facilitation Program continues to be guided by the Customs Cooperation Committee (CCC), which held its Sixth Meeting 6-7 September in Manila, chaired by Tajikistan and with ADB support. Activities and achievements of the Committee and Program over the past year include the following:

- **Customs Automation:** (i) drafting of customs automation masterplans for Kyrgyz Republic and Tajikistan; (ii) a needs assessment and approval of an ADB project for modernizing customs administration in Mongolia; and (iii) conduct of a regional seminar on customs automation in Beijing in May 2007; PRC will host two training programs on customs automation for CAREC customs officials in Shanghai in late 2007.
- **Risk Management and Post-Entry Audit:** in cooperation with the Royal Thai Customs, a regional seminar was held in February 2007 in Bangkok, covering key elements and requirements for effective risk management and post-entry audit; the

seminar included review of initiatives in PRC, Kazakhstan, Kyrgyz Republic and Tajikistan.

- **Joint Customs Control and One-Stop Services:** the Bangkok seminar included discussion of implementation challenges in joint customs control, drawing on GMS experience; bilateral discussions have been held between PRC and Kazakhstan and between PRC and Mongolia on the next steps in moving forward with their initiatives in joint customs control and harmonization of cargo manifest; bilateral discussions have also been held between Kyrgyz Republic and Uzbekistan, and Tajikistan and Kazakhstan; pilot testing is ongoing of joint customs control between Kyrgyzstan and Kazakhstan at the Aktilek-Karasu border crossing point.
- **Regional Transit Development:** with ADB support, the International Road Transport Union (IRU) conducted a detailed seminar in Mongolia for CCC participants on the *Transport Internationaux Routiers* (TIR) Transit System; accession of PRC to the TIR Convention is a priority of the Program.
- **Bilateral Initiatives for Harmonization of Customs Procedures and Documentation:** continued progress through revision of customs codes, introduction of risk management practices, joint customs control, and customs automation; the Program is also supporting harmonization of cargo manifest and mutual recognition of customs inspections and seals/stamps; PRC and Kazakhstan, as well as PRC and Mongolia, will pilot-test these initiatives.
- **Bilateral Initiatives for Data Exchanges:** the Kyrgyz Republic and Uzbekistan, and Tajikistan and Kazakhstan, have held bilateral discussions on pilot-testing data exchanges between customs administrations and between importers and exporters; also, there have been preliminary discussions on establishment of an electronic platform for data exchange.
- **Trade Logistics:** a conference in November 2006 in Beijing addressed the trade facilitation and logistics plan between PRC and Mongolia, which includes transport agreements, improved transport networks, dry ports and inland depots, refrigeration capacity, logistics and transport information systems and development of special economic zones.
- **Strategy Formulation:** in June 2007, ADB and the IMF sponsored a Workshop on Trade Facilitation Strategy in Almaty, Kazakhstan, where a range of issues relevant to the development of a CAREC Trade Facilitation Strategy (TFS) were discussed; the draft TFS was considered at the Sixth Meeting of the CCC; the CCC broadly endorsed the key elements of the TFS and recommended that a time-bound action plan be prepared for implementation of the TFS.
- **Transport Corridor Performance Measurements:** the World Bank assessed the extent of physical and non-physical barriers to trade and transit traffic encountered on the corridors from Bishkek via Almaty to Petropavlovsk; the study has been extended to other road corridors in Kazakhstan.

24. In summary, the Trade Facilitation Program and CCC continued to forge a spirit of cooperation among the region's customs officials, to introduce international best practices, to facilitate and encourage bilateral agreements in priority areas, and to contribute importantly to capacity building. Strategic direction for the next year and beyond is embodied in the TFS, which is also outlined in greater detail later in this Report.

D. Energy Sector

25. The Energy Sector Status Report prepared for the March SOM by the World Bank noted progress in promoting power trade between Central Asia and South Asia, in developing regional gas projects, in preparing Clean Development Mechanism (CDM) initiatives, and in reaching consensus under the CAREC Members' Electricity Regulators Forum. SOM delegates discussed various aspects of future energy cooperation, including sharing CDM experience, greater involvement of national experts and agencies in energy studies, inclusion of each country's special needs in design of CAREC's energy strategy, and capacity building. Progress in preparing the strategy was also reviewed.

26. The Sixth Meeting of the Energy Sector Coordinating Committee (ESCC) was held in September 2007, in Ulaanbaatar, Mongolia, with Mongolia and the World Bank as co-chairs. The Meeting was attended by delegations from six CAREC countries (Azerbaijan and Afghanistan were unable to participate). The main subject of the Meeting was to discuss CAREC's Strategy for Regional Cooperation in Energy, which defines the measures needed to enhance energy trade and energy security of CAREC countries in an environmentally and socially sustainable manner. The draft outlines of the Strategy include the following:

- **CAREC's Long Term Development Vision or Objective for the Sector:** the overarching objectives of energy sector development are to ensure, for each CAREC country, adequate supplies of energy for all needs (individual and industry) in a reliable, financially sustainable and environmental sound manner; further, to enhance economic growth through energy trade.
- **Core Elements of the Strategy:** these are policy, investment and capacity building measures; policy measures should include sector regulation, energy efficiency and environmental measures, private sector participation, and equity/fairness considerations; investment measures should include rehabilitation of energy infrastructure, expansion of the system, and alternative energy; capacity building should include knowledge sharing, commercialization and regional cooperation for integrating energy markets.
- **Implementation of the Strategy:** the emphasis should be on investments and projects, with complementary policy and capacity building measures; implementation should be in terms of three and possibly four markets: Central Asia-China; Central Asia-South Asia; Intra-Central Asia; and (the fourth) Central Asia-Caucuses-Turkey.
- **Costs and Financing:** to the extent possible, costs of the three core elements of the strategy should be quantified, so as to facilitate resource mobilization and private sector participation.
- **Performance Indicators:** focus should be on regional cooperation-related indicators (e.g., agreements reached).
- **Steps to Complete the Strategy Document:** participants agreed to complete their inputs and comments by the end of September 2007, with a revised document for presentation to the November SOM; country consultations on the Strategy will take place between November 2007 and March 2008; assuming consensus is achieved, the completed document will be presented to the Seventh Ministerial Conference.

27. The Status Report prepared for the Sixth Meeting of the ESCC summarizes key regional cooperation energy developments/initiatives in 2007:

- **Central Asia South Asia Regional Electricity Market (CASAREM):** four governments (Afghanistan, Kyrgyz Republic, Pakistan and Tajikistan) and five IFIs (ADB, EBRD, IFC, IsDB and WB) are coordinating projects for power generation and transmission lines, along with corresponding inter-governmental and commercial agreements:
 - **Creation of Institutional and Legal Framework.** Afghanistan and Tajikistan have initiated in-depth discussions on the institutional and legal framework for bilateral electricity trade; as part of the CASAREM initiative to supply Central Asia electricity to Pakistan via Afghanistan, Phase 1 of Design of Institutional, Financial, Risk Mitigation and Legal Framework was reviewed in Montreal, Canada in August 2007; revisions to the design will be discussed at the 3rd CASAREM conference in Kabul in 2007.
 - **Transmission Links for electricity exports.** A 220 kV transmission system is being developed to supply power from Tajikistan to Afghanistan; for this purpose, ADB and IsDB have approved the Regional Power Transmission Interconnection Project totaling US\$56.5 million; in June 2007, Afghanistan and Uzbekistan signed a Protocol whereby Uzbekistan declared that it had the potential to deliver up to 300 MW to Afghanistan after upgrading their transmission network; Uzbekenergo has agreed to undertake the necessary investments within Uzbekistan; in addition, Afghanistan is in discussions with Turkmenistan, which is considering building a 500 kV line to the Afghan border; USAID is financing a feasibility study; construction of the 500 kV South-North Line in Tajikistan has begun, with \$280 million in financing from China; this will significantly de-congest the transmission grid in Central Asia and enable Kyrgyz Republic to export its summer surplus to South Asia; a meeting in May in Jeddah further considered the proposed CASA transmission link to Pakistan and Afghanistan.
 - **Generation Projects.** These include the 670 MW run-of-river Sangtuda I Hydropower Project in Tajikistan and integrated development of Tajikistan's coal resources leading to a major increase in thermal generating capacity.
- **Regional Gas Projects:** After assessing the pre-feasibility of rehabilitation of the Tajik section of the Uzbekistan to Dushanbe pipeline and rehabilitation of the Kyrgyz section of the Tashkent-Bishkek-Almaty pipeline, ADB will support the latter project with participation from KyrgyzGas and KyrKazGas.
- **Energy Efficiency and CDM Initiatives:** ADB's Energy Efficiency Initiative and Clean Energy Financing Partnership Facility include preparation of country-level investment and action plans on energy efficiency; ADB's Carbon Market Initiative launched in November 2006 provides financial and technical support for projects with greenhouse gas mitigation benefits; in June 2007, ADB Headquarters hosted the Asia Clean Energy Forum: Regional Policy and Finance Solutions; following up on the CDM workshop held in early 2007 in Uzbekistan, the World Bank as trustee for a number of carbon funds intends to purchase Emission Reduction Credits resulting from efficiency improvements of the Tashkent Electrical Power Station and the extraction and utilization of petroleum hydrocarbons in Uzbekistan; the World Bank is also assisting Uzbekistan in designing the CDM Carbon Forum in October 2007.
- **CAREC Member Electricity Regulators Forum (CMERF):** following the request of participating countries for continued support, ADB approved in March 2007 a regional technical assistance financed by the PRC Government's Poverty Reduction

and Regional Cooperation Fund for \$500,000; two training workshops will be held in conjunction with the Third Annual Meeting of CMERF in Ulaanbaatar, Mongolia in September 2007.

28. The ESCC's future work program will include:

- (i) monitor implementation of national energy action plans
- (ii) monitor implementation of regional energy cooperation strategy at a meeting the Energy Sector Coordinating Committee (timing and location to be additionally determined)
- (iii) review progress in implementing national development plans and regional energy cooperation strategy when completed
- (iv) review key IFI activities since the preceding SOM/ESCC in the areas of
 - (a) regional projects
 - (b) energy efficiency opportunities through Clean Development Mechanism
 - (c) enabling legal and regulatory environment for energy sector development

E. Second-tier CAREC Activities

29. Options for developing second tier of activities, as outlined in the Comprehensive Action Plan, have been considered. While Senior Officials have noted that the program must remain focused on transport, trade and energy, general suggestions for second tier activities include specific projects concerning human development, the environment, agriculture, tourism, disaster management, and research and outreach activities. It has been agreed that second-tier projects should only be initiated if there are clear terms of reference, a statement of expected objectives and outcomes, an action plan, performance indicators, and the necessary technical and financial resources to ensure practical results.

30. With regards to human development, a CAREC Capacity Development Program has been launched, designed to train senior and mid-level government officials in regional cooperation skills and associated technical tools and issues. The Program is based on a Training Needs Assessment conducted in 2007, which identified the priority themes of interest. Training events have included sessions in Manila, Almaty, Hue (Viet Nam), and Urumqi covering such topics as lessons learned from other regional cooperation initiatives (e.g, GMS Program), global value chains, trade policy challenges and economic development areas. Human development has also included health-related activities, notably regional cooperation to check the spread of communicable diseases. ADB has provided a grant of \$38 million in support of regional coordination against avian influenza; the program, in collaboration with 10 donor agencies, is supported by a long-term consultant based in the CAREC Secretariat in Almaty. Additional resources have been mobilized from the Global Multidonor Influenza Trust Fund. Regional cooperation against HIV/AIDS has included a series of meetings in CAREC countries and the 2nd Inter-Parliament Conference of Central Asian Countries on HIV/AIDS Problems, held in Astana, Kazakhstan in June 2007. Regional training centers for HIV/AIDS prevention and treatment are being established in Kazakhstan, Uzbekistan, Kyrgyz Republic and Tajikistan. Regional cooperation in disaster management preparedness is another dimension of human development which the CAREC Program, with ADB support, is taking steps to strengthen.

31. CAREC research and outreach activities have been extensive. The Program, through ADB, has provided a grant to the Central Asian Gateway Project and its implementing partner

the Uzbekistan Center for Economic Research. The grant will help strengthen, together with UNDP support, efforts to build a network of research institutes in Central Asia and neighboring countries. Preparations for the first informal forum of think tanks in the CAREC region are under way. The CAREC Program has also initiated a pilot research grants program, which is designed to promote research by experts from CAREC countries on issues of relevance to regional cooperation. Small grants of up to \$20,000 will be awarded through a competitive selection process; forty proposals were received and eight have been selected to receive grants. Awarded research topics include regional cooperation in renewable energy, the potential for agricultural trade in Central Asia, transit trade impediments, trade logistics, eco-tourism possibilities, gender implications of WTO accession, and transport corridors. Outreach activities have included senior level consultations in Central Asia by the CAREC Secretariat and CAREC Special Adviser, in preparation for the Sixth Ministerial Conference and presentations on the CAREC Program to ESCAP's Asia-Pacific Business Forum in Almaty and to a UNDP/GTZ Conference on Central Asia in Bishkek, and participation in UNDP's Meeting of the Secretariats of Regional Organizations Active in Central Asia in Istanbul.

32. Second-tier activities with respect to agriculture, tourism and the environment have been more limited. As an example of second-tier activities related to agriculture, ADB will provide technical assistance to assess agricultural trade and market development in Central and Eastern Asia. A fact-finding mission to all five Central Asian countries has been completed. Regional cooperation in tourism includes the UNDP-led Silk Road Initiative. The second Silk Road Mayors' Forum was held in Lanzhou, PRC in July 2007. The UNDP-sponsored Eurasia Economic Forum in Xian, PRC in November 2007 will include a section on tourism development issues. The Central Asian Countries Initiative for Land Management, which was initiated independently of the CAREC Program, is targeted to mobilize \$1.4 billion in support. With the support of the Program, the five Central Asia countries, in collaboration with international development partners, are working towards sustainable land management and to reverse land degradation. A regional workshop on CAREC environmental cooperation was held in Beijing in October 2007. A training course and study tour on avian influenza for CAREC participants was conducted in the PRC in September 2007, and a seminar on communicable disease control in Central Asia will be organized in the PRC by December 2007.

IV. CAREC'S TRANSPORT AND TRADE FACILITATION STRATEGY

33. Preparation of the CAREC Transport and Trade Facilitation Strategy was completed over the course of 2007, first through the development of separate but related strategies for the transport sector and trade facilitation followed by integration of the two strategies to ensure their full complementarity and effectiveness. The transport component of the Transport and Trade Facilitation Strategy is built on three pillars—infrastructure, management, and technology—that characterize the challenges and opportunities faced by the sector. The strategy will establish competitive transport corridors across the CAREC region, facilitate movement of people and goods across borders, and develop safe, dependable, effective, efficient, and fully integrated transport systems that are environmentally sustainable. It will also ensure proper maintenance and modernization of the region's road, rail, and air infrastructure, and realignment of transport regulations and procedures with international best practices. The strategy lists more than 100 investment projects and technical assistance activities totaling about \$20 billion required over the next decade.

34. The trade facilitation component is aligned with the transport objectives and priority corridors. The strategy will improve the efficiency of trade among and beyond the CAREC countries, encourage the free movement of goods and business people, and enhance the

transparency and awareness of relevant laws, regulations, and procedures. The customs-related work program in the short to medium term will focus on (i) harmonization of custom procedures and documentation; (ii) customs automation; (iii) data exchange; (iv) joint customs control; (v) risk management, post-entry audit, and customs intelligence; (vi) regional transit development; (vii) frameworks for customs cooperation; and (viii) training. The strategy will also promote an integrated, interagency approach to trade facilitation and development of regional logistics systems.

35. CAREC's proposed Transport and Trade Facilitation Strategy is attached (Annex 1).

V. THE CAREC INSTITUTE PROSPECTUS

36. A draft CAREC Institute Prospectus was considered during the September 2007 SOM and endorsed by the delegations.

37. The CAREC Institute's purpose is to build stronger capacities for regional cooperation in Central Asia. Capacity building will be undertaken through the Institute's three main activities: training for government officials and other stakeholders, research on regional cooperation issues and opportunities, and outreach initiatives. The Prospectus recommends a virtual set-up of the CAREC Institute for its initial three years under the management of the CAREC Unit/Secretariat. In this form, the Institute will contract out its training and research initiatives to local and international institutions, often with twinning arrangements for greater capacity building and knowledge transfer. The CAREC Institute will retain a small professional and support staff. Financing in the initial period is envisioned from ADB, other multilateral institutions, CAREC countries, and others. Budgetary requirements for the first three-year period are estimated at \$3.85 million. After three years, it is recommended that an assessment be made of the virtual CAREC Institute to examine how well it has performed, the demand for its activities, and the most appropriate future institutional arrangement.

38. The approach of implementing activities of the CAREC Institute in collaboration with institutions in the region is seen as an effective way forward. Senior Officials have noted that further consideration is needed regarding financing and the degree of support by CAREC governments and development partners.

39. The proposed prospectus for the CAREC Institute is attached (Annex 2).

VI. PARTICIPATION IN THE CAREC PROGRAM AND REGIONAL COOPERATION COORDINATION

40. Currently, CAREC includes eight countries and six supporting multilateral institutions (MIs). Two additional countries have been invited to participate (Russia Federation and Turkmenistan). During the September SOM, consideration was given to the procedure that should be followed in further expanding the Program. Senior Officials recommend the following application procedure by countries and development partners:

- Assurance that ownership of the Program and high-level consensus building will remain firmly with CAREC countries;
- Expressions of interest to be submitted to the CAREC Secretariat, which will inform CAREC countries and MI partners;

- Consideration of the expression of interest by the SOM followed if appropriate by an invitation to the applicant to deliver a presentation outlining its interest in participation in the Program; and
- Agreements by SOM to be approved by the MC.

41. CAREC countries and MIs caution that CAREC participation must be guided by the need to ensure effective exchanges at Ministerial Meetings, Senior Official Meetings and Sector Coordinating Committees and to ensure a clear focus on Central Asian cooperation and integration. They also recognize that other countries and other international development agencies are interested to participate in the CAREC Program. As a step in this direction, the September SOM reviewed a proposal to organize a CAREC Development Partners' Forum.

42. The Forum would bring together partners who play an important role in supporting regional cooperation among Central Asian countries and in providing market access for Central Asia. The Forum would facilitate:

- high-level strategic and operational exchange among partners who have a shared interest in Central Asia's development and integration into the world economy;
- review and discussion of the regional cooperation strategies, action plans and investments in Central Asia and neighboring countries;
- a better understanding of shared objectives and possible sources of differences among partners;
- possible collaboration and co-financing of selected investments; and
- more consistent, better coordinated, and greater support for regional cooperation and integration in Central Asia

43. The Forum would include Central Asia's neighbors and main donors. It would be held once a year, either in connection with a Ministerial Meeting or on a separate occasion. The timing and location for the Forum would be determined at the convenience of participants. It is recommended that the first CAREC Development Partners' Forum be scheduled in the last quarter of 2008.

44. The Urumqi Declaration stated that "we (the Ministers) will ensure CAREC initiatives complement those of the Eurasian Economic Community, the Shanghai Cooperation Organization and other organizations dedicated to regional cooperation". The CAREC Secretariat has been active in developing close working relations with these counterparts. Under the initiative of the UNDP, a meeting was convened in Istanbul on 4 October 2007 comprising representatives of the secretariats of CAREC, the EurAsEC, SCO and the Special Program for the Economies of Central Asia (SPECA) to explore opportunities for closer collaboration and information sharing. The Istanbul meeting of secretariats was very successful and the following steps were agreed on:

- share information regarding transport corridors and other projects, programs and strategies;
- encourage joint participation of experts in working group meetings and representatives of the secretariats to join CAREC's SOM; and
- encourage SCO and EurAsEC initiatives for training and research to be carried out by the CAREC Institute.

VII. CONCLUDING RECOMMENDATION

45. Senior Officials seek Ministerial approval of this Report, including in particular the work plans and recommendations for each of the core sectors (transport, trade facilitation, trade policy, and energy), the proposed approach to second-tier activities, and most importantly the proposed Transport and Trade Facilitation Strategy and Prospectus for the CAREC Institute. In addition, we seek the approval of Ministers for a step-by-step approach to expanding participation in the Program, with priority attention to inclusion of the Russian Federation and Turkmenistan. Finally, subject to agreement by senior officials on participation and timing, we will seek Ministerial approval for organizing a Development Partners' Forum with senior-level participation by CAREC countries, neighboring countries, and major development partners.

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