

## **Report of Senior Officials to CAREC's Fourth Ministerial Conference**

1. The Report of Senior Officials to CAREC's Fourth Ministerial Conference summarizes a year of intense activity covering four priority areas - transport, trade policy, trade facilitation and energy. Senior Officials have worked with increasing effectiveness with CAREC's development partners, reflecting organizational improvements by all participants:

- **The participating countries** - Republic of Azerbaijan, People's Republic of China, Republic of Kazakhstan, Kyrgyz Republic, Mongolia, Republic of Tajikistan, and Republic of Uzbekistan; the Islamic Republic of Afghanistan participated in the October 2005 SOM as a full participant, and the Russian Federation as an observer pending clarification of its involvement;
- **The supporting multilateral institutions (MIs)** - the Asian Development Bank, European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and the World Bank.

### **I. Requests and Commitments of the Third Ministerial Conference**

2. Senior Officials are pleased to report on progress in addressing the requests and commitments of Ministers made during the Third Ministerial Conference, held in Almaty, Kazakhstan in November 2004. Among the requests and commitments were the following:

- Ministers requested that transport initiatives under CAREC be intensified and broadened to include railways and civil aviation. Broadening and upscaling of transport sector initiatives is well underway. In addition to an extensive and wide ranging list of approved and pipeline projects ready for approval, these initiatives include working with the Shanghai Cooperation Organization (SCO) to draft a Regional Transport Agreement.
- Ministers also requested broadening of action in the energy sector, including upgrading and extension of energy infrastructure, investment mobilization, further dialogue on water/energy issues, and inclusion of energy efficiency under the CAREC Program. There has been progress in all these aspects.
- Ministers requested preparation of a comprehensive action plan. While still a work in progress, the draft interim comprehensive action plan provides a good basis for coordinating regional economic cooperation activities, including integration of transport, trade and energy initiatives, and for formulating a strategic framework.
- Ministers requested further work on the main impediments, challenges and opportunities for the region, and considerable progress has been made in this regard. CAREC's development partners are endeavoring to help participating countries disseminate the results of this work, so as to build understanding and support for regional economic cooperation initiatives.
- Ministers requested that CAREC pay greater attention to generating pro-poor benefits. This is an ongoing consideration, reflected in related project analyses. Formulation of the strategic framework for the comprehensive action plan will need to incorporate this objective.
- Ministers requested strengthening the institutional capacity for regional cooperation. Appointment of country-based domestic consultants in support of the CAREC Program is one example of ongoing support for capacity building for regional economic cooperation.

3. In summary, all requests and commitments of Ministers made during the Third Ministerial Conference have been addressed.

## **II. Senior Officials' Meetings**

4. Senior Officials' Meetings (SOMs) are a vital component of the Overall Institutional Framework for the CAREC Program. They are responsible for making operational the decisions of Ministers, and for overseeing the implementation of CAREC initiatives. They also consider possible new initiatives and directions for the CAREC Program

5. Senior Officials, together with senior representatives from each of the MIs, met in April 2005 in Manila, Philippines, to discuss a number of operational and strategic issues. Operational issues included the plans and initiatives of the transport, trade facilitation, trade policy and energy working groups. The SOM requested the establishment of an Energy Sector Coordinating Committee, which met in Bishkek in October 2005. The SOM also considered the positioning of CAREC relative to other regional cooperation programs and institutions, the process for preparing a comprehensive action plan for the CAREC Program, and the priorities for capacity building. Plans for the Preparatory Regional Business Roundtable and for support of the business sector were other agenda items. Strategic issues included the participation of Afghanistan and the Russian Federation in the CAREC Program, and whether or not the program should be broadened to include additional sectors and more emphasis on policy issues.

6. Senior Officials met again in October 2005, in Bishkek, Kyrgyz Republic, in preparation for the Fourth Ministerial Conference. The plans and initiatives of the sector coordinating committees were updated and finalized for Ministerial consideration. The plans for the Preparatory Regional Business Roundtable were also finalized. In addition, the SOM was briefed on the UNDP Central Asia Human Development Report 2005 and on the draft Interim Comprehensive Action Plan. Very importantly, the SOM considered a number of key messages it felt should be conveyed to Ministers.

7. Finally, Senior Officials met a day prior to the Fourth Ministerial Conference to consider the agenda, the draft Report of Senior Officials to the Ministerial Conference, and the draft Joint Ministerial Statement.

## **III. Work plans and Activities of Priority Sectors**

### **A. Transport Sector**

8. The April 2005 SOM endorsed the adoption of a regional transport sector road map (2005-2010), proposed by CAREC's Transport Sector Coordinating Committee, with the goal of developing an integrated and efficient multimodal transport system for the region. The five strategic priorities of the road map are:

- (i) Harmonizing and simplifying cross-border transport procedures and documentation to facilitate the movement of passengers and freight;
- (ii) Harmonizing transport regulations among the CAREC countries to promote efficient and better services, and to enable participation by transport operators;
- (iii) Developing and improving regional and international transport corridors to link production centers and to improve access internal and external markets;

- (iv) Restructuring and modernizing railways through private sector participation and improved corporate governance; and
- (v) Improving sector funding and management to ensure that the regional transport network is properly developed and maintained.

9. In relation to strategic priorities (i) and (ii), a study is being done to harmonize transport regulations (phase 1) and simplify cross-border road and rail transport procedures in CAREC countries. Information is being collected on the following aspects of regulation and enforcement: vehicle emission requirements; axle load control; tariffs, road user charges, and transit fees; traffic safety; and provision of transport services. For strategic priority (iii), an investment plan will be prepared in 2006 to include support for prefeasibility studies of key regional transport corridor development projects for both the road and rail subsectors.

10. Considerable progress has been made in improving the regional transport network. Major investments made by the MIs since January 2004 include: the Southern Transport Corridor Road Rehabilitation Project in the Kyrgyz Republic, financed by ADB (\$32 million) with co-financing from the OPEC Fund (\$4 million) and a separate grant from the PRC (\$7.3 million); the Hacıqabol–Kurdamir section of the highway from Baku, Azerbaijan, to the Georgian border, financed by EBRD (\$41 million); the Sumgayit–Zarat section of the highway from Baku to the Russian Federation border, financed by EBRD (\$85.3 million); the Central North–South road corridor in Mongolia, cofinanced by ADB (\$37.1 million), PRC (\$1.5 million grant), and Republic of Korea (\$23.9 million); the Yevlakh to Ganja road section in Azerbaijan financed by IsDB (\$10.4 million); and the Shagon-Zigar road section, linking Tajikistan and PRC, financed by IsDB (\$13.8 million). In addition, two transport projects are being processed by ADB, for approval in 2005: (i) East-West Highway Improvement Project in Azerbaijan (\$52 million) and (ii) Dushanbe-Kyrgyz Border Road Rehabilitation Project, Phase II in Tajikistan (\$30 million). Commitments of the MIs for regional transport projects in 2005 total \$657.8 million.

11. To date, the combined program of the MIs for regional transport projects in 2006 totals \$358 million. Eighteen investments are in the pipeline for 2006, including the Southern Road Corridor Improvement Project (AZE), the Alat-Astarta and Baki-Shamakhi road improvement projects (AZE), the Dostyk-Aktogai Rail Upgrading (KAZ), the Regional Road Maintenance and Safety Project (KGZ), the Almaty-Cholpon-Ata Road improvement project (KGZ), the Tajik North Railway Modernization and Improvement project (TAJ), and the Regional Railways Rehabilitation project (UZB).

12. A regional transport agreement is vital to reducing nonphysical barriers to trade. Drawing on the experience of the Greater Mekong Subregion (GMS) Program, the member countries of the Shanghai Cooperation Organization (PRC, Kazakhstan, Kyrgyz Republic, Russian Federation, Tajikistan, and Uzbekistan) are striving to draft a similar agreement. CAREC is contributing to this endeavor through ADB (TA No. 6223-REG, approved in December 2004 for \$500,000); the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) is co-financing the project.

## **B. Trade Policy**

13. The SOM in April 2004 called for the creation of a Trade Policy Coordinating Committee (TPCC), and the IMF has provided support for its establishment. The TPCC's second meeting in April 2005 discussed at length three papers prepared by the MIs, as requested during the Third MC: (i) ADB's analysis of barriers to trade in Central Asia and possible measures to facilitate trade; (ii) a World Bank study on Central Asia's actual or potential comparative advantage in

global trade; and (iii) an IMF review of regional trade agreements and the lessons that can be learned from agreements elsewhere.

14. The April 2005 SOM endorsed TPCC's proposed work program and two recommendations of the TPCC. First, it agreed that entrance and transit delays and financial costs must be reduced. The TPCC was instructed to analyze these delays and costs, and to recommend ways of reducing them. Second, the TPCC was requested to review barriers to border trade and to recommend improvements in these policies and procedures at the next SOM. The TPCC was also encouraged to address the problems posed by differential excise duties on domestic and imported goods.

15. The October 2005 SOM focused primarily on the barriers to transit trade. The SOM noted the TPCC recommendations for measures aimed at reducing the existing barriers to transit trade in Central Asia:

- Ensure full compliance with the provisions of the TIR Convention by customs services and other agencies; PRC will take steps to accelerate TIR accession and promote the TIR Customs Transit System in the region;
- Reduction in the rate of charges for customs convoy under the national transit systems in appropriate countries with simultaneous reductions in the list of goods subject to such convoys; concrete proposals to these ends will be developed by the time of the next Trade Policy Coordinating Committee meeting;
- Abolition of all other charges and fees on entry and transit of foreign road carriers;
- Reduction of the cost of entry visas for drivers of foreign road carriers and issuance of visas to them at international pass points in a simple way;
- Harmonization of transport, customs, and border documentation in order to simplify procedures of control at and to minimize time to pass at the border; and
- Taking measures to prevent and eradicate cases of unofficial payments from road carriers in transit.

16. In addition, the TPCC recommended the reduction in the cost of non-reciprocal road transport permits to levels that will cover related costs without discouraging transit trade. The SOM proposed that this issue be considered by the Transport Committee. Preliminary discussions were also held on the issue of barriers to border trade. Further work is needed.

17. The SOM supported the TPCC proposed agenda going forward:

- Focusing on three aspects of barriers to trade: (i) work to define the concept of border trade, the legal framework for border trade, tax and infrastructure issues, and other related aspects border trade; (ii) work on quantitative restrictions to trade in CAREC countries; and (iii) work on trade taxes in CAREC countries.
- Country delegates to the TPCC should take responsibility for monitoring the implementation of the recommendations related to barriers to transit trade - assuming they are endorsed by the Ministerial Conference. If this is the case, each country delegation will report to the next TPCC meeting on their implementation and status, and the TPCC will in turn produce a consolidated report for consideration by the next SOM.
- It was agreed that there is a need to increase the awareness among key decision makers in CAREC participating countries of the analytical work that has been done concerning trade policy. The IMF and ADB were requested to assist in arranging seminars in each of the CAREC-participating countries, designed to summarize the work done for the TPCC to date and the implications of this work for each country.

### **C. Trade Facilitation**

18. Recent initiatives under CAREC's Trade Facilitation Program have built on earlier 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 has coordinated the Trade Facilitation Program, through the Customs Coordinating Committee (CCC), with the following initiatives during 2005:

- progress in harmonizing and modernizing customs procedures and establishing a sound legal framework in accordance with the revised Kyoto Convention;
- bilateral transit and cooperation agreements signed between Kyrgyz Republic and Tajikistan, Azerbaijan and PRC, and between Uzbekistan and PRC;
- pilot testing by Kazakhstan and Kyrgyz Republic for joint customs control at the Kordai-Akzhol border crossing;
- regional forums and country studies on priority elements of trade facilitation; and
- launching of CAREC's Trade Facilitation Program website.

19. The October 2005 SOM endorsed the CCC's work plan for 2006, including continued promotion of bilateral cooperation initiatives, training and regional knowledge forums, and broadening the program in partnership with the private sector and other stakeholders. Bilateral initiatives are expected to include harmonization of cargo manifests by Kazakhstan and PRC, joint border control between Mongolia and PRC and between Kazakhstan and Kyrgyz Republic, data exchanges for cargo clearance between Kyrgyz Republic and Uzbekistan, customs cooperation between Mongolia and Tajikistan, and a customs modernization and infrastructure project between Kyrgyz Republic and Tajikistan. Planned in-country activities include ICT master plans for Kyrgyz Republic and Tajikistan, customs modernization by Mongolia, and accession to the TIR Convention by PRC. The SOM noted the need for establishment of national interagency coordinating mechanisms, led by Customs Administrations.

20. The SOM noted other trade facilitation initiatives of the MIs. The EBRD, with funding assistance from the Swiss and German governments, is providing advisory services on trade finance to small banks in Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan and Uzbekistan. It has also been providing guarantees for trade finance instruments and short-term advances to banks to facilitate foreign trade. In April 2005, the IsDB organized a Forum on Trade and Counter-trade Promotion between Central Asia and Organization of the Islamic Conference (OIC) countries. The IMF prepared an "Issues Paper on Regional Integration" and the World Bank prepared a "Trade and Transport Study."

21. UNDP has launched the second phase of its Silk Road Regional Programme, with five participating countries: PRC, Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan. While the Programme was started independently of the CAREC Program, the UNDP has been careful to coordinate initiatives concerning trade and transport. The trade component of the Programme includes improving the policy and legal environment for trade, and greater private sector participation.

### **D. Energy Sector**

22. Senior Officials note that CAREC energy projects include investment projects to rehabilitate and expand the energy infrastructure in the region, and technical assistance projects

to help ensure the appropriate policy, regulatory and institutional conditions. Regional energy projects in 2005 include the following:

- Completion of the first phase of the North-South Transmission Line project in Kazakhstan, funded by EBRD (\$89 million) and progress in discussions for funding the second phase. When completed (by 2009), the transmission line will help to alleviate shortages of electricity during winter in southern Kazakhstan and strengthen the exchange of power between the power systems of northern Kazakhstan, Russian Federation, and Central Asia.
- Completion of the Tajikistan-financed 220-kv Batken (Kyrgyz Republic)-Kanibodom (Tajikistan) transmission line. The transmission line was built to transmit electricity imports from the Kyrgyz Republic to northern Tajikistan. The \$9 million project was financed by Tajikistan.
- The Regional Power Transmission Modernization Project financed by ADB, with potential cofinancing from EBRD, was intended to restore the high-voltage transmission system in Tajikistan and Uzbekistan. The loan to Uzbekistan was terminated in September 2005 because the power trade relations agreement between Uzbekistan and Tajikistan was not signed.
- Preparations by ADB for rehabilitation of the Uzbekistan-Dushanbe gas pipeline. When completed (by 2008), the pipeline will improve the supply of natural gas in Tajikistan for use during winter, when domestic hydropower capacity is low.

23. Senior Officials also noted that the importance of three regional technical assistance activities under CAREC:

- Diagnostic review of regulatory approaches and challenges prepared by the CAREC Members Electricity Regulators Forum (CMERF). The review was discussed at a CMERF meeting in Beijing in July 2005. CMERF has prioritized five other areas of study over the next year.
- The Regional Electricity Export Potential Study, finalized by the World Bank in January 2005. The study reviews the options for meeting CAR electricity demands through energy efficiency measures, regional trade, and a least-cost generation development plan – enabling also increased exports, possibly to Afghanistan, PRC, Iran, Pakistan, and the Russian Federation. CAREC, led by the World Bank, is supporting the preparation of the Sangtuda I hydropower project in Tajikistan, which will be designed to export power to Afghanistan and Pakistan starting in 2009.
- CAREC is also supporting the concept of an international water and energy consortium (IWECC), which was approved by CACO heads of state in May 2004. The consortium will manage regional reservoir operations, mobilize investments in hydropower infrastructure, and coordinate power generation and the export of electricity. Finalization of a draft agreement for the proposed IWECC is expected by January 2006, under the merged CACO and EEC organizations.

24. As noted earlier, an Energy Sector Coordinating Committee (ESCC) has been established, which met in October 2005 just prior to the SOM. Progress made in regional cooperation in the energy sector since the April 2005 SOM has generally been satisfactory. The ESCC made recommendations on the scope of issues to be addressed by the ESCC in future. As a basic minimum, the ESCC provides a platform for reporting on progress in energy sector activities and ensuring that government and IFI investments are consistent with the overall objectives of regional energy cooperation under CAREC. In addition to power sector development, it was recommended that oil and gas exports, energy efficiency and opportunities

afforded by the Clean Development Mechanism of the Kyoto Protocol also be considered under the ESCC. Further work is needed on the terms of reference for this group to ensure that it avoids duplicating the work of a number other regional energy coordinating bodies, and to develop a regional monitoring framework against which overall performance of the energy sector can be assessed.

25. A Memorandum of Understanding for the establishment of the CAREC Members Electricity Regulators Forum (CMERF) was agreed by country delegates at the CMERF meeting in July 2005 in Beijing and was referred to their respective Governments for review and signing during the CAREC Fourth Ministerial Conference. The October 2005 SOM endorsed the MOU, and requested the Secretariat to undertake arrangements for its signing by their country delegations during the Fourth MC.

#### **IV. Interim Comprehensive Action Plan**

26. The October 2005 SOM reviewed work to date in drafting the interim comprehensive action plan (ICAP). This is viewed as a work in progress to develop a shared vision, goals and strategic framework to guide CAREC programming.

27. The SOM called for further work in preparing the action plan, particularly in developing a strategic framework of expected outputs and outcomes from regional cooperation over the medium term. Senior Officials agreed that their respective governments must provide the necessary guidance in formulating the strategic framework, from which will follow prioritization and sequencing of regional initiatives needed to reach the envisaged outputs and outcomes. In-country consultations and coordination with the MIs should continue over the next several months for this purpose. Senior Officials noted the main thrusts of the ICAP, notably that the benefits of regional cooperation are substantial, that the impediments to trade, transport, transit, energy interchange and other forms of economic cooperation are serious, and that new or reemphasized initiatives are needed under each of the core sectors of the CAREC Program, as well as in additional sectors, to increase the momentum of regional cooperation. They expressed appreciation for the commitments and plans for 2005-2006, including \$1.02 billion for transport projects, more than \$200 million for energy projects, and more than \$10 million for trade facilitation and customs cooperation activities.

#### **V. Regional Business Roundtable and Business Sector Development Strategy**

28. During the October 2005 SOM, delegates were updated on ongoing preparations for the Preparatory Regional Business Roundtable (RBR), which is designed to enhance the role of the business community in CAREC. The RBR is comprised of CAREC participating countries plus India and Pakistan, with the business communities of Iran and the Russian Federation as observers. SOM delegates emphasized the importance of allowing the business communities to determine the content and direction of the initiative.

29. A preliminary CAREC business sector development strategy (BSDS) was also presented to the SOM. The overarching objective of the BSDS is "Building National and Regional Competitiveness in CAREC." It proposes three elements: (i) improving the policy, legal, and regulatory environment for private sector development in the CAREC economies; (ii) expanding business development services in place to support the CAREC business community; and (iii) strengthening business associations. SOM delegates suggested inclusion of business skills as another area of attention, and broadening the original focus on the private sector to the

business community more generally. SOM delegates emphasized the importance of creating a much stronger partnership between the public and business sectors in the region.

## VI. UNDP Central Asia Human Development Report

30. During the October 2005 SOM, a summary of the UNDP *Central Asia Human Development Report* was presented. The report provides a comprehensive overview of regional cooperation and integration in Central Asia. It noted that the biggest gains from regional economic cooperation come from improved trade, transport and transit and improved water/energy development and use, while the biggest potential threats of non-cooperation are in the areas of natural disasters, drug trafficking, communicable diseases (i.e., HIV/AIDS, TB, and avian flu), and regional conflict. Hence, these are the priority areas for action to remove barriers and create “borders with a human face” in Central Asia. The SOM commends the Report as an important contribution to regional cooperation.

## VII. Key Messages of Senior Officials

31. Very importantly, the October 2005 SOM considered a number of key messages it felt should be conveyed to Ministers:

- **The need to better understand the benefits of regional cooperation.** Facilitating trade, transport and transit, and regional cooperation in other areas could contribute to doubling the gross domestic product within a decade and halving poverty from current levels.
- **The need to accelerate momentum in promoting regional cooperation.** Barriers to trade remain serious, hampering the region’s development and poverty reduction efforts.
- **The need to deepen and broaden the CAREC Program.** Bold moves should strengthen the core sectors, such as master plans for transport and trade and power trade agreements for energy. New initiatives should be considered, particularly with regard to the environment, agriculture, tourism, human resource development, and disaster management.
- **The need for a strategic framework.** Participating countries need to clarify a comprehensive action plan for the CAREC Program, specifying expected outputs and outcomes from regional cooperation to facilitate prioritization and sequencing of regional initiatives.
- **The need for more private sector involvement.** Business views must be incorporated and the CAREC Program geared at facilitating growth of the private sector.
- **The need for a more holistic approach.** Trade, and transport and transit initiatives must be integrated, and broad regional development issues addressed (e.g., economic corridors).
- **The need for development partners to be more proactive in supporting regional cooperation.** They must more effectively combine their support for individual countries with support for regional cooperation initiatives.
- **The need to rationalize regional cooperation programs.** Partnership rather than competition should characterize CAREC’s relationship with other regional cooperation initiatives.