

# Senior Officials Endorse Proposals to Strengthen CAREC Mechanism

**A** Preparatory Senior Officials' Meeting (SOM) on the Central Asia Regional Economic Cooperation (CAREC) Program was convened in Almaty, Kazakhstan on 13–14 September 2004. Following the recommendations made by the Second Ministerial Conference (MC) in Tashkent last year, the meeting discussed ways of further strengthening regional cooperation in preparation for the Third MC.

At the Second MC, the ministers expressed strong commitment to working together to pursue the shared vision of regional cooperation, and to realize this vision, reiterated the urgency and importance of regional economic cooperation. In this context, the ministers requested the multilateral institutions (MIs)<sup>1</sup> to (i) further cooperation in priority sectors, including financing of key regional projects and policy dialogue; and (ii) strengthen the overall institutional framework (OIF) of the CAREC Program.

The SOM assessed progress made in key sectors since the Second MC and discussed sector proposals and action plans jointly prepared by the MIs. Country delegations agreed that concrete steps be taken to move forward in the priority areas of transport, energy, and trade facilitation, and examined in detail key trade policy issues in CAREC member countries. They also emphasized the need for close coordination with ongoing regional initiatives, including the Central Asia Cooperation Organization.

Recognizing the importance of a beneficial environment for regional cooperation to ensure further and steady progress in economic cooperation, the SOM reached an



**TOP-LEVEL DISCUSSIONS** Kazakhstan Vice Ministers G. Uzbekov (center) and B. Issayev (right) with ADB Deputy Director General H. S. Rao (left) during the Preparatory Senior Officials' Meeting in Almaty

agreement on proposals to publish and distribute a quarterly regional newsletter to facilitate information exchange and to hold in 2005 a regional business roundtable in conjunction with the MC to promote private sector participation.

As a main outcome, the SOM finalized a progress report to ministers that includes these recommendations and proposals. The progress report will be submitted to the Third MC to be held in Astana, Kazakhstan on 31 October–1 November 2004. ■

<sup>1</sup> Multilateral institutions include the 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 (WB).

## In This Issue

- ADB Loan to Improve Mongolia's Transport Links to the PRC and Russia 2
- Initiatives on Customs Cooperation Under CAREC Progressing Well 2
- World Bank Report on Transport and Trade Facilitation 3
- Central Asia Human Development Report 3
- Central Asian Countries Join Fight Against HIV/AIDS 3
- CACO Initiative on Water-Energy, Transport, and Food Consortia 4
- Upcoming Regional Events 4
- Project Profiles and Updates 4

In this publication, \$ refers to US dollars.

# World Bank Report on Transport and Trade Facilitation

The World Bank's recently completed report entitled *Trade and Transport Facilitation in Central Asia: Reducing the Economic Distance to Markets* explores impediments and recommendations to international trade and transport in the Central Asian region. The following is a brief summary of its findings.

The location of the Central Asian republics (CARs) could be exploited by facilitating transit traffic linking Russia, the People's Republic of China, South Asia, and Europe. This potential, however, has not been realized primarily due to the significant "economic distance," defined as the sum of all time and cost expenditures for moving a consignment to a market.

The economic distance can be significantly reduced not only by improving physical infrastructure, but also by simplifying transit and clearance procedures, improving information to stakeholders, and eliminating unofficial payments or corruption. The essence of reducing economic distance lies on mutual cooperation. The CARs have much to gain by improving regional cooperation.

The recommendations for trade and transport facilitation include (i) modernizing customs administrations and other border

agencies; (ii) reforming railways and introducing pilot express freight trains on a bilateral basis; (iii) improving maintenance of a core network of roads in each country on a sustainable basis; and (iv) upgrading the capacity and quality of private sector transporters. Estimated results for the various recommended actions are the following.

- Improving the efficiency of transit operations, mainly procedures at customs and other border agencies, could reduce transit time by about 25%–40%, equivalent to a decrease in total transport costs of 20%–60%.
- Reforming the railways industry can result in increased staff productivity of up to 20%. More importantly, eliminating cross-subsidization of passenger services by freight railways could potentially reduce freight tariffs by up to 25%.
- Identifying a core network of roads that can be adequately maintained on a sustainable basis could lower transport costs by around 30%.
- Modernizing transit vehicle fleets and improving transport logistics could increase the reliability of goods delivery and reduce the risks of losses suffered by transporters. ■

## Central Asian Countries Join Fight Against HIV/AIDS

The countries of Central Asia are highly vulnerable to a serious HIV/AIDS crisis over the next 20 years. Without concerted action, an HIV epidemic may rapidly develop over 4–5 years. Although the number of identified cases of HIV in Central Asia is still low, the growth rate of the epidemic—from about 500 cases in 2000 to over 8,000 in 2004—is cause for serious concern.

In June 2004, the World Bank, in cooperation with UNAIDS and the United Kingdom's Department for International Development (DFID), organized and conducted a Governments' Conference in Almaty. The outcomes of the conference were (i) agreement on a framework for regional cooperation for the prevention of HIV/AIDS in Central

Asia; (ii) signing of the memorandum of understanding on regional cooperation; and (iii) agreement on the scope of the proposed Central Asia AIDS Project.

According to the new memorandum of understanding, in addition to independent actions, concerted efforts and increased leadership at the regional level by the national governments, civil society, and the private sector are necessary to ensure adoption of public policies that create a supportive environment for preventing HIV/AIDS and for mitigating the economic impact of the epidemic.

A regional Central Asia HIV/AIDS project, which will be funded by the Government of Japan, is now being prepared. The project itself will be jointly funded by the

## Central Asia Human Development Report

The United Nations Development Programme (UNDP) is collaborating with the Asian Development Bank (ADB) to prepare a Regional Human Development Report (HDR) for Central Asia. The report seeks to promote a dialogue among regional stakeholders and help convince policymakers that regional cooperation and integration are essential for long-term economic growth and poverty reduction.

The report, due to be published in mid-2005 in both English and Russian, will cover the following topics: (i) costs and benefits of regional cooperation and integration; (ii) regional trade, transport, and transit; (iii) water, energy, and environment; (iv) foreign and local private investment; (v) education and innovation; (vi) migration; (vii) health; and (viii) institutional and political challenges and opportunities.

In late July 2004, a joint UNDP/ADB team led by Johannes Linn, undertook an inception visit to four Asian countries to consult with governments, funding agencies, think tanks, the private sector, and nongovernment organizations.

The mission found that regional cooperation efforts had assumed greater importance on the economic and political agenda of Central Asian countries; and that neighboring economies like the People's Republic of China (PRC) and Russia as well as funding agencies were contributing to national efforts. At the same time, the mission noted that improvements to regional cooperation efforts could result from greater trust and political will, more contact between the peoples of Central Asia, reduction in regulatory and physical impediments to regional economic activities, and the creation of new institutions. These and other findings will be incorporated into the HDR and regular consultations will be held in Central Asia as the report develops over time. ■

World Bank, DFID, and the governments of four Central Asian countries: Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan. ■

# ADB Loan to Improve Mongolia's Transport Links to the PRC and Russia

The Asian Development Bank (ADB) has recently approved the Regional Road Development Project amounting to \$37.1 million. The Project will help promote regional cooperation and sustainable economic growth in Mongolia by strengthening the transport links to its neighboring countries. This will also develop the remaining section of Mongolia's north-south road transport corridor, covering about 428 kilometers, between Choyr and the border with the People's Republic of China (PRC) in Zamyn-Uud. The corridor will link the Asian highway networks of the PRC and the Russian Federation, passing through major economic centers of Mongolia.

"As part of the Asian highway network, the project road will serve as an important route for domestic and international transit traffic," says Hong Wang, Principal Project Economist of ADB's Transport and Communications Division, East and Central Department.

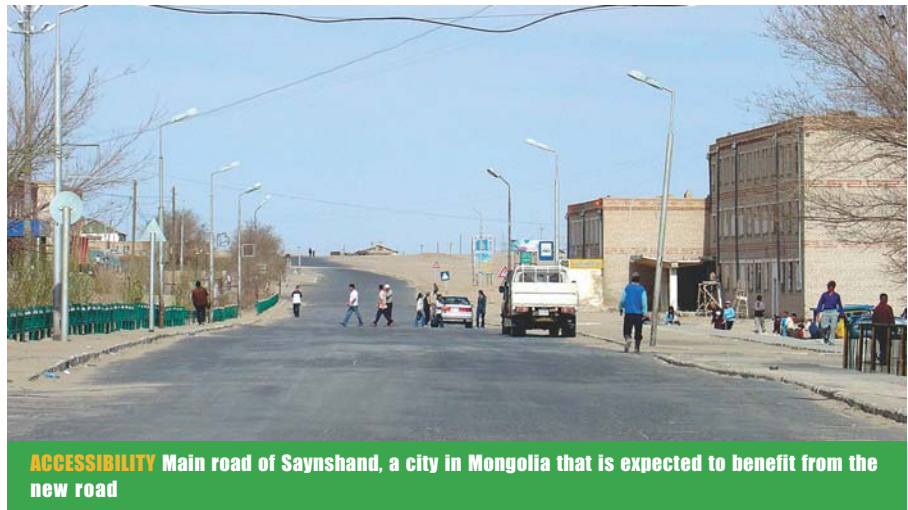
"By providing faster, safer, and more reliable road transport, this corridor will not only increase the efficiency of transit traffic

between the PRC and Russia via Mongolia, but also become a sustainable source of foreign exchange earnings for Mongolia."

ADB's loan will cover 47.5% of the total project cost, estimated at \$78.1 million equivalent. It comes from ADB's concessional Asian Development Fund and carries a 32-year term, including a grace period of 8 years. Interest is 1% per annum during the grace period, and 1.5% per annum subsequently.

The Government of the Republic of Korea will cofinance \$23.9 million, the PRC Government will provide a grant of \$1.5 million, and the Government of Mongolia will finance the remaining \$15.6 million. The Department of Roads will execute the Project.

ADB is dedicated to reducing poverty in the Asia and Pacific region through pro-poor sustainable economic growth, social development, and good governance. ■



**ACCESSIBILITY** Main road of Saynshand, a city in Mongolia that is expected to benefit from the new road

## Initiatives on Customs Cooperation Under CAREC Progressing Well

Regional Trade Facilitation and Customs Cooperation Program (RTFCCP), launched in 2002 as part of the broad Central Asia Regional Economic Cooperation (CAREC) Program, is gaining ground. The RTFCCP is a three-pronged strategy for trade facilitation, helping (i) modernize customs infrastructure, (ii) develop customs-supporting infrastructure, and (iii) address issues of regional concerns and complement country-specific support.

Guided by a Customs Cooperation Committee (CCC) consisting of the heads of CAREC customs administrations, the RTFCCP activities are a combination of region-

wide and bilateral initiatives, and country-specific activities with strong regional orientation.

*Training and knowledge sharing* are the main focus of region-wide activities. Knowledge on customs-related World Trade Organization agreements and the Revised Kyoto Convention has facilitated the customs legal reforms in the CCC member countries. Sharing country experiences has helped the design of customs modernization strategies and investment plans.

*Major bilateral initiatives* supported by the RTFCCP include (i) development of bilateral transit agreements among Kazakhstan,

Kyrgyz Republic, and Tajikistan; and (ii) support for a customs data-sharing agreement between the People's Republic of China and the Kyrgyz Republic.

*Support for concerted customs reforms and modernization* among the CCC member countries is an integral part of the RTFCCP. An example is the comprehensive support for customs reforms and modernization in the Kyrgyz Republic and Tajikistan, consisting of program loans for reforms of the customs legal frameworks, project support for automation and border-post infrastructure development, and technical assistance. ■

# CACO Initiative on Water-Energy, Transport, and Food Consortia

The four Central Asian countries, Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan, formed the Central Asia Cooperation Organization (CACO) on 28 February 2002. Regional cooperation in water and energy, transport, and food security are the primary areas of focus of CACO. Heads of state of member countries agreed on adopting the consortium approach to strengthen cooperation in these areas and decided to request international financial institutions (IFIs) to support the establishment of consortium for each of the areas of focus. These consortia are envisaged as legal entities created by intergovernmental agreements, indicating their legal status, start-up conditions, and establishment conditions, among others.

Mutual understanding and consensus on the establishment and operating prin-

ciples are key to the success of the CACO consortia. Therefore, this is an opportunity for IFIs to facilitate regional cooperation under CACO and provide financial and technical support.

ADB plays the lead role in supporting the concept development of the transport consortium. The World Bank is leading the support for the water-energy consortium. The Islamic Development Bank has offered to provide technical assistance to support initial work on the food consortium.

Since the inception of the CAREC Program in 1997, Central Asia republics have worked closely together with multilateral institutions to promote regional cooperation. CAREC activities are closely aligned with main goals of CACO. The CAREC mechanism, particularly aid coordination, can support CACO activities. ■

## Project Profiles and Updates

### Azerbaijan: Yevlax-Ganja Road Rehabilitation Project

A small-scale technical assistance (TA) amounting to \$150,000 was approved in August for preparing a feasibility study on a Yevlax-Ganja road rehabilitation project for Azerbaijan.

The Yevlax-Ganja project is ADB's first intervention in the road sector of Azerbaijan. The purpose of the TA is to increase the efficiency and safety of transport on the east-west road corridor.

The feasibility study will cover (i) technical, economic, social, and environmental assessments; and (ii) an analysis of Azerbaijan's road sector to identify major issues to be addressed under the project. ■

### Kazakhstan: Borovoe-Petropavlovsk Road Rehabilitation Project

Approved in November 2002, this small-scale TA project amounting to \$150,000 will help the Government prepare a feasibility study for improving the road from Borovoe to Petropavlovsk.

An ensuing loan amounting to \$112 million is proposed, subject for approval of ADB's Board of Directors in 2005, with cofinancing from the Islamic Development Bank amounting to \$9.5 million. ■

### Kyrgyz Republic: Southern Transport Corridor Road Project

This loan project amounting to \$42.3 million is scheduled in 2004, subject to Board approval.

The project's objective is to promote economic growth by (i) increasing regional trade and cooperation; (ii) rehabilitating the road linking Andizhan, Uzbekistan; Osh, Kyrgyz Republic; and Kashgar, People's Republic of China; and (iii) improving road maintenance and financing and practices. ■

### Tajikistan and Uzbekistan: Regional Power Transmission Modernization Project

The European Bank for Reconstruction and Development and ADB are working to jointly finance the Project. ADB's loan and project agreements were signed in March 2004.

Negotiations for the Power Trade Relations Agreement have been completed, and is expected to be signed soon. ■

## Regional Events, 2<sup>nd</sup> Semester 2004

### EVENT

#### September

- |       |   |
|-------|---|
| 12    | First Meeting of the Trade Policy Sector Coordinating Committee—Almaty, Kazakhstan            |
| 13–14 | Preparatory Senior Officials' Meeting on Central Asia Economic Cooperation—Almaty, Kazakhstan |
| 14    | Eighth Economic Cooperation Organization Summit—Dushanbe, Tajikistan                          |

#### October

- |          |  |
|----------|--|
| 4        | Forum on Central Asia in the Global Economy (cosponsored by ADB and <i>Foreign Policy Magazine</i> )—Washington, DC, USA |
| 21–23    | Forum on Private-Public Partnership for Modernization of Customs and Tax Administration—Manila, Philippines              |
| 31–1 Nov | Third Ministerial Conference on Central Asia Economic Cooperation—Astana, Kazakhstan                                     |

## NEWS FROM

# CAREC

The inaugural quarterly newsletter of CAREC is a joint effort of multilateral institutions (MIs)—ADB, EBRD, IMF, ISDB, UNDP, and WB—aimed at enhancing communications among MIs and CAREC participating countries. News from CAREC disseminates information on CAREC activities and provides a forum on development issues in CARs. Articles in the newsletter, however, do not necessarily reflect the official views

of the MIs and participating Governments. We welcome readers' comments and suggestions.

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Azerbaijan • People's Republic of China • Kazakhstan • Kyrgyz Republic • Mongolia • Tajikistan • Uzbekistan

# Central Asia Regional Economic Cooperation Program

## OVERVIEW

The Central Asia Regional Economic Cooperation (CAREC) Program was initiated in 1997. The program seeks to promote economic growth and raise living standards in the region by encouraging economic cooperation by financing regional infrastructure projects, and improving the policy environment for promoting cross-border activities in the transport, trade, and energy sectors.

The CAREC Program covers countries in the Central Asia region, namely, Azerbaijan, People's Republic of China (focusing on Xinjiang Uygur Autonomous Region), Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan.



**Central Asia Regional Economic Cooperation Member Countries**

The CAREC Unit was established within ADB in March 2000 to serve as the focal point for promoting regional cooperation among member countries and coordinating with other multilateral institutions (MIs).

The First Ministerial Conference in March 2002, organized under the CAREC Program, endorsed the establishment of an overall institutional framework (OIF) to facilitate planning, prioritization, and implementation of the regional program and projects. This marked a milestone in strengthening the partnership and trust that have developed among and between CAREC member countries.

Since 2002, ADB has served as a Secretariat for the OIF, organizing annual ministerial conferences, senior officials' meetings and sectoral coordinating committee meetings, to advance regional cooperation. In 2003, the MI coordination group—consisting of ADB, European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and World Bank—was established under the OIF mechanism to bring synergy in development assistance. ■



**HEADS OF DELEGATIONS** ADB President Chino (front row, fourth from left) joins participants at the Second Ministerial Conference on Central Asia Economic Cooperation in Tashkent in November 2003

# Progress on the CAREC Program

## INSTITUTIONAL MECHANISM

In March 2002, the Central Asia Regional Economic Cooperation (CAREC) member countries got together in Manila, Philippines during the First Ministerial Conference (MC) and agreed on a shared vision of the CAREC Program. This vision consists of (i) consensus, trust, and mutual benefits; (ii) a practical and results-oriented approach; (iii) priority in the areas of transport, trade facilitation, and energy; and (iv) an overall institutional framework (OIF) to facilitate overall planning and implementation of the regional program. This partnership has focused on concrete regional investment and technical assistance projects.

The Second MC was held in Tashkent, Uzbekistan in November 2003. This conference achieved significant progress, particularly in strengthening the institutional framework for cooperation and aid coordination. The ministers endorsed the establishment of a sector coordinating committee on trade policy and a working group on energy and water resources as well as the multilateral institutions (MI) Coordination Group under the OIF mechanism.

The first Senior Officials' Meeting (SOM) for 2004 was held in Almaty last April. The SOM agreed on work plans in priority sectors, to be prepared for the Third MC which will be held also in Kazakhstan on 31 October–1 November. Capacity building at the national level was emphasized to enable countries to plan and implement regional cooperation activities. Also, greater private sector involvement in CAREC programs and projects was underscored. MI coordination was further strengthened.

## ENERGY SECTOR

In the energy sector, the objective is to support efficient and rational use of energy and water through cooperation. Following this basic approach, the main focus has been on key investment projects such as improvement of power and gas transmissions. Since the Second MC, the loan and project agreement for the power transmission modernization project for Tajikistan and Uzbekistan funded by ADB and the European Bank for Reconstruction and Development (EBRD), has been signed, as well as Kazakhstan's North-

South transmission line project, partially funded by EBRD. The World Bank has assisted the Central Asia Cooperation Organization in developing a concept for creating a water-energy consortium based on a series of analytical works.

## TRADE FACILITATION SECTOR

In trade facilitation, customs modernization and cooperation has been the focus. ADB launched in 2002 a comprehensive customs modernization and cooperation initiative which is aimed at strengthening customs organizations and improve governance through cooperation. Progress so far this year includes the signing of a transit agreement between Kazakhstan and Kyrgyz Republic, a data-sharing agreement between the

People's Republic of China (PRC) and the Kyrgyz Republic, and preparation of a framework agreement on customs cooperation between PRC and Uzbekistan.

## TRANSPORT SECTOR

The objective in transport is to rehabilitate transport networks to lessen locational isolation and reduce transport costs. Tangible progress has been made. ADB's Almaty-Bishkek regional road project is an early example of concrete progress in the transport area. Since the Second MC, two loan projects have been approved by ADB: the Dushanbe-Kyrgyz Border Road Rehabilitation Project, and the Mongolia-PRC Regional Road Development Project. EBRD has approved two projects amounting to 128.1 million euro. ■



**MEETING THE PRESS** ADB Vice-President Joseph Eichenberger (center), Uzbekistan Deputy Prime Minister Rustam Azimov, (right), and ADB External Relations Specialist David Kruger (left) brief the media on the highlights of the Second MC



**SHARING A VISION** Delegations participate at the Second MC in Tashkent