



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

**Urumqi, PRC
20 October 2006**

1. The Report of Senior Officials to the Fifth Ministerial Conference of the CAREC Program summarizes progress since the Fourth Ministerial Conference in Bishkek in November 2005. It also summarizes the recommendations of Senior Officials concerning future activities and initiatives under the CAREC Program.

2. Senior Officials, notably the National Focal Points for the CAREC Program in each of the participating countries, are pleased to report considerable progress over the past year. We will present for Ministers' consideration an ambitious program going forward. Realization of the overarching goal of the CAREC Program – development through cooperation, leading to accelerated economic growth and poverty reduction – requires a long-term commitment by all stakeholders. CAREC countries are increasingly working together to promote and facilitate regional cooperation, both on a bilateral and multilateral basis, providing opportunities for further reducing trade and other impediments to development. CAREC's multilateral development partners have scheduled a well-coordinated \$2.3 billion three-year support program for transport connectivity, trade expansion and energy development. Longer-term and more advanced support will be forthcoming provided results towards regional cooperation and integration are strongly demonstrated. The Comprehensive Action Plan and other measures recommended for Ministerial endorsement will, we believe, ensure that real results continue to accumulate and grow in significance.

- **The participating countries** - Afghanistan, Azerbaijan, People's Republic of China (PRC), Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan; an invitation to the Russian Federation is under consideration by the Government;
- **The supporting multilateral institutions (MIs)** - 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.

I. REQUESTS AND COMMITMENTS OF THE FOURTH MINISTERIAL CONFERENCE

3. During the Fourth Ministerial Conference, Ministers called for completion of a Comprehensive Action Plan (CAP) for the CAREC Program, together with a Strategic Framework detailing expected outputs and outcomes from regional cooperation over the medium-term. Senior Officials are pleased to report that this has been accomplished, as is more fully described in Section IV.

4. Ministers also called for sweeping measures to overcome trade and other impediments to development, and for the creation of transport corridors and energy markets to integrate the region. Further, Ministers expressed interest in cooperative initiatives in a wide range of areas, including agriculture and food security, avian influenza and regional disease surveillance, disaster management and preparedness, the environment, human resource development, telecommunications, and tourism.

5. In response, Senior Officials have endeavored to broaden and deepen the CAREC Program. As is detailed in subsequent sections of this report to Ministers, good progress has been made concerning the core sectors of the CAREC Program: transport, trade and energy.

- The Transport Sector Coordinating Committee is now guided by a detailed work plan for the medium term, including a schedule for harmonizing transport regulations and provision for a sector strategy study over the next year that will be instrumental in identifying transport corridors for the region. The Committee has also supported the work of the Shanghai Cooperation Organization (SCO) in drafting a multilateral agreement concerning the cross-border movement of transport vehicles.
- The Customs Coordinating Committee and the Trade Policy Coordinating Committee have continued to help build the knowledge, understanding, mechanisms and policy frameworks needed for countries to support more open trade relations.
- The Energy Sector Coordinating Committee has continued to address the policy, regulatory and institutional provisions critical to energy efficiency and for attracting the investment needed to realize the region's energy potential. In addition, it has made an excellent start in preparing a sector strategy for regional cooperation.
- In addition, the CAREC Program has begun to move beyond the core sectors, by more actively involving the business community, taking up special activities such as an avian flu preparedness conference, and developing capacity building and research networking initiatives.. The Comprehensive Action Plan provides for a second-tier of activities that encompasses many of the areas cited by Ministers as suitable for inclusion in the CAREC Program.

6. During the Fourth Ministerial Conference, Ministers called for a better understanding of the potential gains from regional cooperation, requiring greater focus on outreach and dissemination activities. This is needed to ensure broad-based support for accelerating the momentum of regional cooperation.

7. Senior Officials are pleased to report that CAREC's outreach activities over the past year have been extensive. The UNDP has organized a series of regional and international conferences to discuss the findings and recommendations of the *Central Asia Human Development Report*. The ADB, EBRD, IMF and World Bank have released in-depth reports on transport, trade taxes, and price differentials focusing on understanding the regional impediments to development and the gains from joint efforts to overcome the impediments. Knowledge forums and in-country seminars have been conducted to discuss trade expansion, and energy workshops have been held to help form consortiums in support of energy investments.

8. The regular meetings of the sector committees and senior officials have contributed to building trust and confidence among key experts in each of the participating countries. The series of in-country workshops to discuss drafting of the Comprehensive Action Plan provided

the opportunity to draw together senior representatives from all the ministries and agencies with responsibilities bearing upon CAREC's mandate.

9. The Secretariat has ensured that the CAREC newsletter is published on a regular basis, the web site is continuously updated, and that studies relevant to regional cooperation are widely distributed.

10. Ministers also called upon officials to pursue new partnerships, including assisting Afghanistan as a new member to fully participate in the CAREC Program, encouraging the Russian Federation to join the Program, and enhancing the responsiveness of the Program to the needs of the private sector. We are pleased to report that the CAREC Program now has a much broader perspective to address north-south as well as east-west opportunities, with the continuing work on the Central and South Asia Transport and Trade Forum (CSATTF). This development opens up new transport and trade opportunities for all CAREC countries. The invitation to the Russian Federation to participate in the Program remains open and the CAREC Secretariat continues to encourage the Government to finalize its plans in this regard. We anticipate that a positive decision is imminent. With regards to the private sector, the Business Development Forum held here in Urumqi and the UNDP/United Nations Conference on Trade and Development sponsored investment forum in Xi'an, PRC in June testify to the efforts CAREC's multilateral partners are making to assist us in responding to the needs of the private sector. A central theme of the Comprehensive Action Plan is helping business enterprises compete more effectively in regional markets and to engage in global value chains and international production networks.

11. During the Fourth Ministerial Conference, Ministers noted that partnership rather than competition should characterize CAREC's relationship with other regional cooperation initiatives such as SCO and the Eurasian Economic Community (EurAsEC). The Comprehensive Action Plan addresses this issue, with the recommendation that these organizations be encouraged to advise on the Plan and that CAREC should work with them on a project-specific basis – as illustrated by CAREC's support to the SCO in cross-border road transport.

12. The requests of Ministers concerning each of the core sectors of the CAREC Program are addressed in Section III of our report. Briefly, all aspects of CAREC's activities over the past year have been pragmatic and results based. Ministers noted last year that performance indicators should be developed for each of the core sectors. Relevant data are being collected but consensus must first be reached on the performance indicators that should serve in monitoring CAREC's activities.

13. To summarize, Senior Officials believe that the CAREC Program has responded effectively to the interests and requests expressed by Ministers during the Fourth Ministerial Conference. These interests and requests were wide-ranging and challenging, with some – such as economic corridors and assistance to link domestic enterprises to international production systems – requiring medium to long-term commitment to fulfill. Senior Officials will continue to monitor and report upon all aspects of the CAREC Program.

II. SENIOR OFFICIALS' MEETINGS

14. Senior Officials' Meetings (SOMs) are an important component of the Overall Institutional Framework for the CAREC Program. They are responsible for following up on the decisions of Ministers and for overseeing the implementation of CAREC initiatives. They also consider possible new initiatives and directions for the CAREC Program. SOMs will become

increasingly pivotal in helping to operationalize the Comprehensive Action Plan, particularly in supporting the Ministers in exercising strategic management and direction for the Program.

15. A SOM was convened in Urumqi on 10-11 April 2006. The SOM reviewed the progress made since the Fourth Ministerial Conference as well as sector updates and work plans for the four CAREC priority areas. The SOM discussed ways to accelerate the momentum of regional cooperation including plans for possible program expansion, completion of a Comprehensive Action Plan, and country ownership. In particular, guidance was sought on inclusion of agriculture, environment, human development and tourism as new program areas. In addition, the SOM discussed proposals to hold a CAREC Business Development Forum, conduct studies on transport and economic corridors, and convene an avian influenza regional roundtable, as well as arrangements for the next SOM and the Fifth Ministerial Conference.

16. A second SOM was convened in Urumqi on 28-29 August 2006. Senior Officials focused on the draft Comprehensive Action Plan and the strategic direction of the CAREC Program. Regarding broadening of the Program, special projects were discussed in the areas of regional disease surveillance, avian/human influenza, environmental initiatives and disaster management and preparedness, as well as research networks and capacity building. Regarding the core sectors, updates were presented on progress since the Fourth Ministerial Conference. The SOM endorsed proposals of the Transport Sector Coordinating Committee for (i) an Action Plan on Harmonization of Regional Transport Regulations and Cross-Border Agreements, and (ii) a proposal for ADB technical assistance for a CAREC transport sector strategy study. In addition, the SOM was updated on preparations for the CAREC Business Development Forum. Senior officials were also apprised of the CSATTF, the CAREC outreach program, and arrangements for the Fifth Ministerial Conference.

17. Finally, Senior Officials met two days prior to the Fifth Ministerial Conference to consider the Conference agenda, the draft Report of Senior Officials to the Fifth Ministerial Conference, and the draft Urumqi Declaration.

III. ACHIEVEMENTS AND WORK PLANS OF PRIORITY SECTORS

A. Transport Sector

18. The Transport Sector Coordinating Committee (TSCC) held two meetings in Urumqi, PRC in 2006: the Fifth Meeting of the Committee on 15-16 March and the Sixth Meeting on 24-25 August. The meetings were attended by delegations from all eight CAREC countries and representatives of multilateral institutions, including the ADB, UNDP, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), and World Bank. The meetings were chaired by the Ministry of Communications, PRC and co-chaired by ADB.

19. Progress of the TSCC since the Fourth Ministerial Conference includes the following steps:

- updating of the MI assistance program for transport projects; for the period 2006-2008, 26 loans are scheduled for transport infrastructure investments, for a total of \$1.4 billion; in addition, 32 technical assistance projects are scheduled, for a total of \$28.5 million;
- agreement on a TSCC Work Program for 2007; the Program includes preparation of the CAREC transport sector strategy, implementation of the Action Plan for Harmonization of Regional Transport Regulations and Cross-border Agreements, pre-feasibility studies

of road links in Kyrgyz Republic, Tajikistan and Uzbekistan, and preparation of the final report on maintenance and management of regional roads in CAREC countries;

- updating of the CAREC Transport Sector Roadmap; the Roadmap, which was approved by Ministers in 2005 and includes six strategic priorities, has been updated to include Afghanistan, as a new CAREC country, and the civil aviation subsector.

20. Preparation of the CAREC transport sector strategy study will provide a clear and comprehensive strategy for 2008-2018, which will guide CAREC transport cooperation activities in developing an efficient, integrated regional multi-modal transport network. It will also provide an analytical overview of the CAREC regional transport network and cross-border arrangements.

21. The Action Plan for Harmonization of Regional Transport Regulations and Cross-border Agreements is designed to achieve the following results: rationalized regional road transport agreements; streamlined tariff and fee framework for regional road and railway transport; harmonized weights, dimensions and emissions of vehicles; improved regional transport safety; and reduced delays at border crossings.

22. Progress has been made since the Fourth Ministerial Conference in improving the regional transport network. Major investments with MI assistance include:

- Afghanistan: ADB approved a \$139 million loan and grant for improving the North-South Corridor in September 2006;
- Azerbaijan: ADB approved a \$52 million loan for improving the Yevlakh-Ganja and Qazakh-Georgian border sections of the east-west road in December 2005 and the loan agreements were signed in June 2006; ADB is preparing a \$100 million loan to improve the Masally-Astara section (on the border to Iran) of the southern road; the World Bank approved a \$200 million loan for improving the Alyat-Masally section of the southern road in January 2006 and the loan agreement was signed in May 2006;
- Kyrgyz Republic: IsDB approved a \$9.2 million loan for improving the Taraz-Talas-Suusamyр road (phase 1); the China Development Bank and the Kyrgyz Government signed a credit agreement to co-finance the southern road corridor improvement project, together with ADB;
- Mongolia: ADB is preparing a loan for developing a road in the western region to link the PRC and the Russian Federation;
- PRC: ADB is preparing a \$150 million loan for upgrading the Korla-Kuqa road in Xinjiang;
- Tajikistan: ADB approved a \$29.5 million loan for rehabilitating the Dushanbe-Kyrgyz border road (phase 1) in November 2005.

23. Nonlending MI-supported activities include technical assistance to Azerbaijan, Mongolia and Uzbekistan to develop transport sector development strategies. Pre-feasibility studies of road links and a transport corridor performance measurement pilot project are also being supported. The proposed PRC-Kyrgyz Republic-Uzbekistan railway link project will be further studied.

24. Other regional cooperation initiatives include drafting of an Agreement on Facilitation of International Road Transport, under the auspices of the Shanghai Cooperation Organization with the support of UNESCAP and ADB. Important progress was made during a meeting of the six participating countries in Beijing on 9-12 August 2006. Also of note, Mongolia, the PRC and

the Russian Federation concluded negotiations over the draft Transit Traffic Framework Agreement in November 2005, which has been submitted to the three governments for consideration and signing.

B. Trade Policy

25. During its second year of operation, in 2006, the Trade Policy Coordinating Committee (TPCC) held two meetings. Broadly, the delegates emphasized the importance of producing concrete policy reforms in CAREC countries in parallel with continuing analytical work and discussions on trade policy issues. Before reviewing the results of these meetings in more detail, it should be recalled that the TPCC is intended to help all CAREC member countries adopt more open trade regimes, so as to facilitate both intra- and inter-regional trade. More specifically, the TPCC addresses trade liberalization in the context of the World Trade Organization (WTO) and the desire of non-members to become members of WTO. The Committee also addresses bilateral and multilateral trade agreements in the region, with a view to minimizing trade distorting effects. To commence its work, the Committee has undertaken assessments of current trade policies and trade policy initiatives. The IMF has agreed to take the lead in organizing the work of the TPCC.

26. The Fourth Meeting of the TPCC was held in Urumqi, PRC on 8 April, 2006. Country delegates to the TPCC reviewed the progress in implementing the seven recommendations to reducing barriers to transit trade, endorsed in 2005 by the SOM and Ministerial Conference. The delegates noted the measures that are being put in place to reduce barriers to transit trade, although the extent of the measures varies significantly depending on the circumstances of each country. They also noted that it will take time and reciprocity between countries to fully implement all the necessary measures. Among the measures that are being considered, the TPCC welcomed in particular the intention to introduce “one stop service” for processing of customs and other procedures.

27. The TPCC continued its work based on background papers, including *Beyond Borders: Reconsidering regional trade in Central Asia*, prepared by the EBRD. The finding that price variations across different locations in Central Asia are relatively small suggests that border impediments to trade are not as large as conventionally thought. However, qualifications concerning the analysis suggest that smuggling and other non-market factors are serious impediments to the free flow of traded goods. Barriers to border trade were also discussed, led by the Kazakh and Uzbek delegations.

28. The TPCC reached agreement on three recommendations, which were later endorsed by the SOM. First, there should be greater predictability and more transparency in trade policies of CAREC countries. Second, given the overlapping nature of issues addressed by the TPCC and the Customs Cooperation Committee, there should be more interaction between these two committees. Third, given the role of the private sector in trade, there should be more involvement and participation of the private sector in CAREC activities.

29. The Fifth Meeting of the TPCC was held in Tashkent, Uzbekistan on September 25, 2006 and again reviewed progress in implementing measures to reduce the barriers to transit trade. The meeting included the following findings: (i) six CAREC countries are members and in full compliance with the Transports Internationaux Routiers (TIR) Convention, while Afghanistan and PRC have initiated steps to be members; (ii) two countries do not require customs convoys for transit goods and another has lowered fees charged for customs escorts; (iii) four countries exempt transit goods from other fees and charges if there are reciprocity arrangements with the

countries of goods' origin; (iv) most CAREC countries have made visas for drivers easier and less costly to acquire, while two countries have waived entry permits for transport vehicles on a reciprocal basis; (v) Kazakhstan and Kyrgyz Republic have implemented a pilot "one stop service" processing of customs and other procedures, and a similar arrangement is being considered by Kazakhstan and Uzbekistan; and (vi) to prevent unofficial payments from road carriers, five CAREC countries are automating their customs procedures and/or developing codes of conduct to encourage reporting of illegal payments. In light of reassuring progress, Senior Officials recommend that Ministers endorse two further recommendations of the TPCC for facilitating transit trade: (i) the implementation of "one stop service" processing of customs and other procedures in all CAREC countries; and (ii) use of the reciprocity principle in encouraging reductions in existing barriers to transit trade.

30. The fifth TPCC meeting included in-depth discussion of *Trade Taxes in CAREC Countries* (based on a paper prepared by the IMF). While the overall level of import tariffs was found to be relatively low, the trade tax regimes were found to be complex and subject to frequent changes. Accordingly, the Committee recommended the following trade tax reforms:

- (i) reducing tariffs and other trade taxes in countries where the cumulative average rate is high, with the aim of bringing the simple average tariff below 10 percent;
- (ii) reducing the maximum tariff rate to 20 percent;
- (iii) cutting the number of non-zero tariff bands to around three;
- (iv) shifting to an ad valorem methodology for setting tariffs;
- (v) removing exemptions and abstaining from granting them in the future;
- (vi) uniform application of value-added taxes and excise taxes to imported and domestic goods; and
- (vii) consolidating other import taxes, fees, and charges into a single rate.

31. The Fifth TPCC further discussed the concept of border trade and concluded that more work is needed. The committee requested the World Bank to finalize a paper on barriers to border trade by mid-2007.

32. Senior Officials encourage Ministers to endorse these steps. We also encourage the IMF and ADB to continue the outreach seminars for disseminating the work of the TPCC; outreach seminars were held in Astana, Kazakhstan and Bishkek, Kyrgyz Republic in February 2006; in Beijing, PRC in April 2006; in Dushanbe, Tajikistan and Tashkent, Uzbekistan in September 2006; and in Ulaanbaatar, Mongolia in October 2006. Further, we encourage the TPCC to continue monitoring implementation of measures for reducing barriers to transit trade and for reforming trade tax regimes. Analytical work will be undertaken on border trade and quantitative restrictions to trade, and capacity building will continue concerning accession to the WTO.

C. Trade Facilitation

33. The Customs Cooperation Committee (CCC) has focused on (i) promotion of bilateral initiatives, e.g., bilateral agreements and pilot-testing, and (ii) country-specific customs modernization efforts.

34. Simplification and harmonization of customs procedures are being achieved through a host of efforts, including the revision of customs codes, introduction of risk management practices, joint customs control, and business process reengineering in relation to customs automation. Harmonization of cargo manifests and mutual recognition of customs inspections and seals/stamps have been proposed by PRC Customs; it will pilot-test these initiatives with

Kazakhstan. Support will be provided to CAREC countries for revision of their customs codes in line with the Revised Kyoto Convention and New Framework of Standards. Data exchanges between customs administrations and between importers and exporters are being discussed, including the proposal of Uzbekistan Customs to establish an electronic platform for data exchange among the participating countries, thereby facilitating fast clearance and effective risk management.

35. Master plans for customs automation are being developed for the Kyrgyz Republic and Tajikistan. A needs assessment for customs modernization in Mongolia has been completed and will be followed by an investment project to modernize Mongolia's customs administration. A similar exercise in Uzbekistan will be launched by ADB in 2007. In Kazakhstan, the development of an E-Customs Master plan is supported by the Government of Korea, which is likewise supporting the E-Customs Feasibility Study for Azerbaijan.

36. The Program continues efforts to implement and enhance risk management systems, through: (i) change in the corporate culture of customs administrations from "control-orientation" to "compliance facilitation" or "informed-compliance"; (ii) introduction of a structured approach to data review; and (iii) data exchanges among neighboring countries. A publication entitled *Risk Management: Catalyst of Customs Reforms and Modernization* highlighting experiences and initiatives of CAREC participating countries was widely circulated in 2006.

37. The Program supports efforts to provide one-stop and single electronic window services, including the joint customs control initiative by Kazakhstan and the Kyrgyz Republic. The "time release study" by Kazakhstan Customs on joint control at the Akzhol-Kordai border point shows significant reduction in clearance time. Encouraged by the positive outcome, Kyrgyz and Kazakhstan customs will soon initiate joint control at the Aktilek-Karasuu border point. Mongolia Customs is discussing with PRC Customs a pilot-test at a yet to be determined border point. Promotion of bilateral transit arrangements include transit agreements between the Kyrgyz Republic and Tajikistan, and the Kyrgyz Republic and Kazakhstan. PRC's accession to the TIR Convention has also been promoted, and a CAREC publication on the TIR Customs Transit System in the region underscores the effort to improve application of the Convention.

38. Regional and in-country capacity building activities since the Fourth Ministerial Conference have included the following: (i) a seminar in Daejeon and Seoul, Republic of Korea on trade facilitation and e-governance; (ii) a forum in Singapore focusing on issues related to customs automation and IT platform for trade and logistics; (iii) an in-country workshop in Ulaanbaatar, Mongolia on trade logistics and customs modernization; (iv) an in-country workshop in Urumqi, PRC on Xinjiang's trade logistics development; (v) a seminar in Tokyo, Japan on trade facilitation and customs modernization; and (vi) a seminar in Urumqi, PRC on the World Customs Organization's (WCO) framework of standards and customs data model. The PRC Customs General Administration sponsored training programs in the Shanghai Customs Academy for Kazakh and Mongolian customs officials. Several in-country capacity-building seminars are also planned in Mongolia, Kyrgyz Republic, and Tajikistan during the fourth quarter of 2006.

39. Two studies were conducted that support the broadening of the Trade Facilitation Program: (i) the Trade Logistics Strategy for PRC's Xinjiang Uygur Autonomous Region, and (ii) an Integrated Trade Facilitation Strategy based on interagency cooperation and partnership with the business community. Trade logistics development studies were launched in Mongolia and Inner Mongolia Autonomous Region, PRC. To widely disseminate knowledge products, the Program has produced several publications and contributed several articles to the CAREC

Newsletter. The Trade Facilitation Program website¹ is regularly updated as depository of all reports and publications produced under the Program; it also serves as a gateway for accessing the websites of CAREC countries' customs administrations.

40. The Fifth CCC Meeting was held on 11-13 October 2006 in Astana, Kazakhstan. The CCC concluded that its work plans will include ongoing capacity-building initiatives and customs modernization needs assessment studies for Afghanistan and Uzbekistan. Very importantly, the Committee will prepare an integrated regional trade facilitation strategy for each CAREC country.

D. Energy Sector

41. The Energy Sector Coordinating Committee (ESCC), which held its first formal meeting in October 2005, received endorsement during the Fourth Ministerial Conference to address a wide range of interests. In addition to power sector development, it was agreed that the ESCC will address oil and gas exports, energy efficiency and opportunities afforded by the Clean Development Mechanism of the Kyoto Protocol. It was further agreed that the ESCC will need to complement and support the activities of other regional energy coordinating bodies, and to develop a regional monitoring framework against which overall performance of the energy sector can be assessed. The World Bank is the lead multilateral institution in support of CAREC's energy initiatives.

42. At its April 2006 meeting in Urumqi, PRC the ESCC finalized and adopted its terms of reference, including "To advise on (a) the formulation of a comprehensive strategic framework for energy sector development including investments and policy measures; (b) the prioritization and sequencing of investments and policy initiatives for the short to medium term; (c) articulating associated performance indicators with a focus on key expected outputs and outcomes; (d) mainstreaming the strategic framework into the country based development plans and public investment programs, and financing options." In October 2006, the World Bank circulated a paper that presents in a uniform manner the individual energy action plans of the CAREC countries; outlines a tentative framework for energy sector development through regional cooperation, mainstreamed into the countries' energy action plans; and indicates the lines along which they could be further refined and updated. To date, national energy sector action plans have been received from Afghanistan, Azerbaijan, Kyrgyz Republic, Tajikistan, and Mongolia. In light of these plans, and drawing on supplementary information, the tentative strategic framework outlines areas of energy interdependency in the region and the priority investments and policy initiatives needed to "ensure" that adequate volumes of commercial energy supplies are made accessible to everyone in a reliable, financially sustainable and environmentally sound manner". It also reflects other key messages relayed by CAREC countries during the series of in-country workshops during June and July 2006.

43. The ESCC has endorsed conducting a study to assess the available options for "Movement of Primary Energy Commodities from Central Asia". The PRC recommended that the study should be at a 'pre-feasibility' level, identifying the strategic options and policy choices and requirements. Project proposals resulting from this study would then be developed on a bilateral/trilateral basis with the relevant countries. Consultations are currently being held to determine the willingness of CAREC countries to participate in the study.

¹ <http://www.adb.org/Projects/TradeFacilitation>

44. The ESCC further agreed that, in view of the complexity of the Clean Development Mechanism (CDM) and the many sectors that provide opportunities for CDM projects, the MIs should, in the context of their operational visits, make additional presentations to all relevant officials in each of the CAREC members. In this regard, it was agreed that CAREC members could benefit from the experience of PRC, which has the most CDM projects among CAREC members. ADB and the World Bank have developed a number of CDM programs and projects, as summarized below:

- The ADB Carbon Market Initiative (CMI) is currently receiving expressions of interest from potential participants. ADB's Management has approved the CMI concept to be submitted for the Board consideration upon reaching approximately US\$80 million in commitments. An Asia Pacific Carbon Fund (APCF) is under preparation.
- The ADB Energy Efficiency Initiative includes the preparation of country-level investment and action plans on energy efficiency, development of the project pipeline for 2008-2010, design and establishment of the Asia-Pacific Fund for Energy Efficiency (APFEE), and identification of immediate energy efficiency investment opportunities.
- The World Bank has recently endorsed an assistance program for countries of Central Asia which have ratified the Kyoto Protocol and have a portfolio with the World Bank. At present, Uzbekistan and the Kyrgyz Republic are the most likely participants. The assistance program will focus on raising awareness about the CDM opportunities and developing a potential pipeline of CDM projects. Related support is already being extended to Uzbekistan and Azerbaijan.

45. During the Fourth Ministerial Conference, Ministers signed the Memorandum of Understanding for the formal establishment of the CAREC Members Electricity Regulators Forum (CMERF). The Second Annual Meeting of the CMERF was successfully held in Almaty, Kazakhstan on 11-13 September 2006. It was co-hosted by ADB and the Agency for Regulation of Natural Monopolies of Kazakhstan. The three-day event sponsored by ADB and the Public-Private Infrastructure Advisory Facility (PPIAF) brought together a total of 60 participants: (i) regulators from Afghanistan, Azerbaijan, PRC, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan and Uzbekistan; (ii) international power regulation experts, and (iii) representatives of multilateral institutions.

46. The Meeting covered the following main topics: (i) tariff design and social safety net; (ii) privatization of distribution company management; (iii) power utility costs; (iv) pricing of ancillary services; and (v) risk sharing in power purchase agreements. The ADB presented and discussed the interim findings of the ongoing studies on these topics. Prominent power regulation experts delivered presentations and led discussions on aligning government and investor expectations, regulatory issues faced by private companies and regulators, and shared the lessons learned from electricity restructuring in transition countries. The country delegations stressed the importance of the role that CMERF plays in supporting the region's power regulators and ongoing sector reforms. They indicated that training should be provided on specific regulatory topics.

47. At the fifth ESCC meeting participants recommended that CAREC countries should furnish the revised drafts of their Energy Sector Strategic Action Plans (ESSAP) by 15 December 2006. As agreed during the meeting, the revised ESSAPs should have the following suggested structure: (a) background and problems in the sector; (b) objectives of ESSAP; (c) the strategic elements comprising: (i) domestic investment measures; (ii) regional (cross border)

investment measures; (d) policy measures; (e) identification and prioritization of bold strokes; (f) identification and prioritization of regional cooperation imperatives; (g) financial costs of the ESSAP (investment, capacity building); (h) possible sources of financing of ESSAP; (i) timetable for the implementation of the ESSAP; and (j) performance/outcome indicators for ESSAP elements. Following this, through mutual consultations, ESSAPs for all CAREC countries will be finalized by the next SOM in April 2007.

E. Recommendation for Priority Areas

48. Senior Officials recommend that Ministers approve the status reports, work plans and recommendations of the transport, energy, trade facilitation and trade policy sector coordinating committees.

F. Other Regional Events Supported Through CAREC Secretariat

49. The CAREC Secretariat has contributed to raising the profile and contribution of the Program by supporting regional conferences in areas additional to the core sectors of transport, trade and energy. ADB, through the Secretariat, supported judges from Kazakhstan, Kyrgyz Republic, Tajikistan and Mongolia to attend the Central Asia Regional Judicial Conference on Anti-Money Laundering in Almaty on 18-20 May 2006. The Conference was the first major training of judges on anti-money laundering in the region and was considered highly useful. ADB, through the Secretariat, also supported the Central Asian Roundtable Meeting on Avian Influenza Control and Human Influenza Pandemic Preparedness and Response in Almaty on 12-13 June 2006. The Conference of some 80 delegates from 10 countries, including all eight CAREC countries, was a critical first step in regional preparedness against avian influenza. Follow-up by ADB and other multilateral and bilateral partners will be one of the special initiatives under the second-tier of CAREC Program activities. The specific objective would be to meet requirements outlined in the International Health Regulations (2005) on developing “standardized approaches for readiness and response to major epidemic-prone diseases.”

IV. COMPREHENSIVE ACTION PLAN

50. As noted earlier, the April and August SOMs reviewed: (i) the strategic framework of the draft Comprehensive Action Plan, including its goals, objectives, and expected outputs and outcomes; (ii) the four activity pillars of the CAP (regional infrastructure networks, knowledge/capacity building, trade/investment/ business development, and regional public goods); (iii) priority investments and initiatives; (iv) preliminary performance indicators; and (v) a two-tier approach to broadening and deepening the scope of the Program (in which first tier work remains focused on the CAREC priority areas while special projects can be undertaken as second tier work).

51. Senior Officials endorsed the Comprehensive Action Plan as an important strategic document to guide CAREC’s activities and initiatives. Country delegations have highlighted a number of salient points:

- regional cooperation should be mainstreamed into the development plans and programs of participating countries and partner MIs;
- the two-tier approach provides a pragmatic way to engage new areas of cooperation while ensuring continued focus on transport, trade and energy;
- project and policy initiatives go hand-in-hand;
- the results-based framework is a key component of the Action Plan;

- performance indicators must be simple and pragmatic;
- the Action Plan must be flexible, reflecting the need to regularly update project pipelines and to adjust priorities in line with regional developments;
- criteria are needed for prioritizing regional cooperation projects; and
- closer coordination is needed with multilateral, bilateral, and other development partners outside the CAREC framework to achieve a fuller understanding of the planned and ongoing regional cooperation initiatives in the region.

52. For the most part these comments and suggestions have been incorporated in the final draft presented here for consideration and endorsement by Ministers. Some comments and suggestions will need to be incorporated in the transport, trade and energy sector strategies, expected to be completed in 2007. Upon Ministerial endorsement of the two-tier approach to broadening the Program, Senior Officials will consider in more detail special initiatives regarding human development (e.g., training of officials and measures against communicable diseases such as avian flu and HIV/AIDS), the environment (through, for example, information exchange and capacity building), disaster management, tourism and agriculture.

53. Senior Officials have considered the establishment of a Strategic Management and Priorities Subcommittee to assist the SOM and Ministerial Conference in providing strategic direction for the Program. While further clarification of the reporting arrangements, terms of reference and manner of funding for its activities is required, we recommend establishment of the Subcommittee on an “as needed” basis. Appointment of a very senior representative would help start the process, as well as helping to coordinate more effectively with other regional cooperation initiatives.

54. As a fundamental component of the knowledge/capacity-building pillar of the Action Plan, we have considered establishment of a CAREC Institute with a mandate to develop and promote research networks and analysis relevant to regional initiatives, to promote dialogue and understanding of the benefits of regional cooperation, and to help develop the skills for government officials to engage effectively in regional cooperation. We recommend the formation of the CAREC Institute, with advisory support by eminent regional and international experts. We would like to emphasize our view that the Institute should make use of existing research capabilities and expertise within the region. Upon Ministerial approval of the concept, the CAREC Secretariat will prepare a step-by-step plan of action for establishing the Institute.

55. In summary, Senior Officials are pleased to recommend to Ministers endorsement of the Comprehensive Action Plan. We are confident that the Action Plan and accompanying Strategic Framework provide the foundations for ensuring that sector strategies and other CAREC initiatives will be building blocks in an increasingly effective regional cooperation program.

V. BUSINESS SECTOR DEVELOPMENT

56. Senior Officials are pleased to report that the CAREC Business Development Forum (BDF) met in Urumqi from October 16-17, with more than 200 business leaders and policymakers participating. The BDF, supported strongly by the Ministry of Commerce of the People’s Republic of China, the Asian Development Bank, and the European Bank for Reconstruction and Development, in cooperation with the All-China Federation of Industry & Commerce, was a follow-up to the Regional Business Roundtable (RBR) held in Bishkek in November 2005. The BDF aimed to deepen awareness of the Central Asia region’s development potential and related investment impediments and opportunities, as well as

considering in more detail the business potential of five key sectors of importance to the business community - energy, mining, agribusiness, finance, and tourism. Overall, the CAREC BDF strongly confirmed the importance of the private sector in regional cooperation efforts and urged CAREC to initiate bold measures for business to serve as an engine of growth in the region. In making this call, the participants voiced a particular need for governments to minimize bureaucratic procedures, implement policies in a more transparent manner, and to counter corruption.

57. The major recommendations developed by the BDF included: (a) the need for CAREC countries to undertake urgent initiatives to finance the region's massive infrastructure requirements, estimated to be \$2-3 billion annually, in close cooperation with the business sector and multilateral institutions; (b) the region-wide harmonization, including through CAREC initiatives, of business-related general and sector policies so as to make the region more attractive to foreign ventures; (c) the need for the business community to assume a stronger role in achieving CAREC's goal of development through cooperation; (d) each CAREC government should designate a business focal person and supporting resources to ensure that efforts and mechanisms to involve the business community in CAREC are rapidly developed and implemented; and (e) the importance of pursuing economic growth with adequate concern for social and environmental issues. In addition to these general recommendations, a number of sector-specific recommendations were developed for the five key sectors.

58. In sum, BDF participants called for a greater role for business in the development of Central Asia and pledged to support regional cooperation efforts by working with governments and multilateral institutions on key programs and projects to spur growth.

59. The UNDP's Xi'an Investment Forum, held in June 2006, was also highly successful. Delegations stressed during the Forum that economic and social development of CAREC countries depends importantly on further integration of their economies and the reduction of trade and other barriers.

60. Senior Officials note that helping business enterprises participate more effectively and competitively in regional and international markets is a key theme of the Comprehensive Action Plan. The emphasis on research and dialogue, on regional infrastructure networks, and on integrated trade, transit and business development initiatives is designed to provide a holistic response to the needs of the business sector. The Action Plan also refers to the development of economic corridors and facilitating participation in global value chains, signaling a pro-active support role by the Program while promoting and facilitating a market-based approach to business development.

VI. KEY MESSAGES OF SENIOR OFFICIALS

61. Very importantly, the April and August SOMs discussed a number of key messages for the consideration of Ministers, including some considered during the Fourth Ministerial Conference:

- ***Development through Cooperation, leading to accelerated economic growth and poverty reduction***, as the overarching goal of the CAREC Program. Senior Officials recommend adoption of a mission statement for the CAREC Program, as provided in the Comprehensive Acton Plan, incorporating this goal.
- ***Good Neighbors, Good Partners, Good Prospects***, as CAREC's long-term vision for the region. As summed up in the three G's, it is not enough to be good neighbors in

order to secure good prospects. Good neighbors must also be good partners in responding to common challenges and shared development opportunities.

- **Partnership for Development**, as the theme for the Fifth Ministerial Conference. This theme is especially appropriate in light of the leadership being provided by the SCO and EurAsEC organizations, and also the need to be more responsive in supporting the business community.
- **Accelerate the momentum of regional cooperation**, through mainstreaming of regional cooperation in the development plans and programs of CAREC countries and MI partners, regional sector strategies for transport, trade and energy, and pushing the frontiers of regional cooperation through “bold strokes” (e.g., transport corridors) and broadening and deepening of the Program.
- **Strategic Management and Direction for the CAREC Program**, marking the Fifth Ministerial Conference and progression beyond the initial stages of planning, building of trust, confidence and consensus, and largely country-based project initiatives. As outlined in the Comprehensive Action Plan, the next phase of the Program will focus more on the strategic location of Central Asia, and its potential as a land link for Eurasia and South Asia, recreating the Silk Road legend.
- **Political leadership**, as a catalyst for stepping up the ladder of decision-making and for addressing regional initiatives and issues critical to economic integration and proper natural resource use and management.

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