



CENTRAL ASIA REGIONAL ECONOMIC COOPERATION BUSINESS DEVELOPMENT FORUM

CAREC BDF Report Annex Discussion Group Reports

***Sheraton Urumqi Hotel, Urumqi, Xianjiang UAR, PRC
16-17 October 2006***

PLENARY SESSION I NOTES
ENHANCING TRADE AND INVESTMENTS IN CENTRAL ASIA:
DEFINING THE ROLE OF THE BUSINESS SECTOR
Urumqi, Xinjiang UAR, People's Republic of China
16-17 October 2006

THE PANEL AND THE QUESTIONS

The Plenary Session 1 was chaired by Ms. Brigita Schmognerova, Vice President of the European Bank for Reconstruction and Development (EBRD), and comprised: Mr. Djoomart Otorbaev, Senior Adviser, European Bank for Reconstruction and Development; Mr. Nabijon Kasimov, Deputy Chairman, Chamber of Commerce and Industry, Uzbekistan; Mrs. Zhou Ming, Deputy Director General, Investment Promotion Agency, Ministry of Commerce, People's Republic of China and, Executive Vice President, China Council for International Investment Promotion; and Mr. Zorigt Namsraijav, Chief Executive Officer, Tuushin Co. Ltd., Mongolia. Dr. Peter Brimble, President, Asia Policy Research Co., Ltd. served as moderator.

The discussion addressed the following questions:

1. What factors account for the relatively low levels of regional trade and investment in Central Asia?
2. What are the short to medium-term prospects for improving the business environments across Central Asia?
3. What are the major impediments to better business environments and what conditions allow these to linger?
4. What are the priorities for developing the private sector across Central Asia?
5. What factors account for the limited involvement of the business sector in regional projects and cooperation programs?

THE CHALLENGES FOR CENTRAL ASIA

A number of general constraints to doing business were highlighted in the discussions:

- Inadequate infrastructure and connectivity – in road, rail, air, power, and, in particular, communications
- Inadequate political will to implement reforms country by country and also at the regional level
- Borders in Central Asia remain barriers – notwithstanding many efforts to address this; this issue must be addressed urgently
- Government decision making is often carried out in a closed and non-transparent manner
- Continuing corruption and related practices across Central Asia and its negative impacts on perception of the region and on doing business in the region

In addition, a number of specific challenges regarding business involvement were stressed:

- Difficulties in communication: between the government and private sector, and between countries in the region
- Lack of general awareness on doing business in and on the business opportunities in Central Asia – the need to put Central Asia on the map
- Weak ties among the business communities in the region, and the need to develop much higher levels of communication, information flows, and trust
- Difficulty for the business sector in obtaining information on CAREC activities

THE OPPORTUNITIES

While focusing on macro issues, the Panel touched on a number of regional business opportunities:

- Development of a wide range of sectors: including transport infrastructure (air, rail, road, etc.), logistics and related services, energy, information technology, and telecommunications
- Leverage of tourism as a force for regional cooperation, with efforts on regional tourism promotion and integration between China and Central Asia in the tourism arena – possibly through the UNDP-supported Silk Road project

THE RECOMMENDATIONS

- Maintain the pressure for policy and related reforms in all the key areas of general concern for business – recognizing that “money will follow reforms”
 - Policy reforms to support infrastructure provision
 - Clear and transparent rules for business activities
 - Specific attention to reducing red tape, governance and corruption
 - International financial assistance needs to be more effectively mobilized and used to support infrastructure projects
- The creation of public-private consultation mechanisms at the national level in all CAREC countries to focus the attention of all stakeholders on lobbying for and implementing critical reforms to enhance the business environments (building on the efforts of the EBRD already underway)
- The creation of a mechanism to ensure that business concerns and perspectives are reflected more effectively in the planning and implementation of regional cooperation policies and efforts:
 - Revisit the content of the Bishkek Action Plan on the concrete next steps recommended there; and identify concrete resources to explicitly support these activities
 - Creation of a business sector focal point for regional cooperation issues in each country

- Involvement of business more explicitly in the CAREC working groups and related activities
- Developing regional cooperation policies that are relevant to business
- Creating a CAREC business environment that breeds trust and better understanding among businesses in the region, and also promotes closer linkages with governments. Involvement of chambers of commerce and business associations could be an important element of this.
- Special measures, possibly through the development of information councils, to enhance information availability to business on regional cooperation activities and related activities, and also to strengthen information ties and linkages among businesses across CAREC. These activities should include efforts to raise awareness of the Central Asian business opportunity among investors outside of the region, which could be coordinated with the Silk Road Investment Forum initiative supported by the UNDP

Lastly, the Session highlighted the importance of ensuring that practical follow-up actions are undertaken based on the deliberations of the conference. In particular calling for all stakeholders to provide higher priority to involving the business community in regional cooperation and leveraging resources to achieve this.

PLENARY SESSION II NOTES
INFRASTRUCTURE, FINANCING AND PUBLIC-PRIVATE
PARTNERSHIPS: MOVING CENTRAL ASIA FORWARD

THE PANEL AND THE QUESTIONS

The Plenary Session 2 was chaired by Mr. Liquin Jin, Vice President for Operations 1 of the Asian Development Bank (ADB) and comprised: Mr. Raghuvver Sharma, Team Leader, Central Asia Energy Program, World Bank; Mr. Rafkat Hasanov, Investment Round Table PA; and Mr. Song Liang, Director General, Finance Office, Inner Mongolia Autonomous Regional Government of the People's Republic of China. Mr. Hans Schwab, Director of SICPA Management SA served as moderator.

The discussion addressed the following questions:

1. What is the current status of the region's overall infrastructure? What are its strengths and weaknesses?
2. How can financing be attracted to fund infrastructure development in Central Asia?
3. What are the prospects and options for public-private sector partnerships in financing infrastructure development in the region?
4. From a PPP perspective, what are likely the most appealing regional infrastructure initiatives?
5. Are capital markets viable throughout Central Asia?
6. What regional and country level facilities exist for SME financing?

THE CHALLENGES FOR CENTRAL ASIA

A number of general constraints to doing business were highlighted in the discussions:

- According to the Global Competitiveness of the World Economic Forum, overall infrastructure is perceived by the local business community as being poor and in most areas inefficient.
- Similarly, the state of capital markets is also perceived as inefficient particularly as far as soundness of banks, access to loans and market sophistication is concerned (with Kazakhstan and Azerbaijan showing some strategic advantage vis-à-vis the other countries in the region). Across the boards, lack of long-term financing, transparency and legislation to promote and sustain PPP's are factors hindering the growth within the region.
- To bridge this gap, there is an immediate and a major "push" to improve capital markets.
- There is the lack of sustainable mechanisms to sustain efforts at addressing infrastructure requirements

- The region is still affected by a high degree of corruption heavily affecting international trust and willingness from large investors to invest in the region.
- There is a need to reconcile commercial interests of the private sector with the social interests of the government
- Construction of vast network of railways require support from multilateral institutions

THE OPPORTUNITIES

The Panel touched on a number of regional business opportunities:

- Various financing typologies exist to support infrastructure development
- Vast investment opportunities exist in all industrial sectors
- Multi-tiered financial services can be developed in cooperation with financial institutions
- Investment opportunities in the energy and electricity sector abound
- There are experiences in PPP that can be used as models in developing financing arrangements to address the financing requirements of the region.

THE RECOMMENDATIONS

- There is a need to establish a platform for dialogue at the micro-level
- Legislation needs to be revisited and passed to address numerous investment/PPP challenges
- Regional institutional system for PPP needs to be developed
- Long-term financing needs to be made available in cooperation with multilateral institutions
- CAREC countries need to be oriented and familiarized with the importance of PPP
- There is a need to reconcile social objectives of the government with the commercial objectives of the private sector
- Infrastructure investments should be self-sustaining and be able to benefit individual countries and the region

ENERGY SECTOR DISCUSSION GROUP SUMMARY NOTES

THE PANEL AND THE DISCUSSION

The panelists for the energy sector discussion group comprised: Mr. Raghuveer Sharma, Team Leader, Central Asia Energy Program, The World Bank; Mr. Marat Kozakhmetov, Regional Business Director for Central Asia, AES Silk Road Inc.; Mr. Bazarbai Mambetov, President, Association of Oil Traders, Kyrgyz Republic; and Mr. Kodir Norov, Chair, Avesta Investment Group. Mr. Eric Peter, Principal Banker, Power, Energy and Utilities Team, European Bank for Reconstruction and Development served as moderator.

Challenges

- The region is endowed with significant energy resources but these are unevenly distributed. Diversity and complementarity of energy supply and demand in the region call for regional cooperation. However, governments are concerned with energy self-sufficiency and inclined to favor national rather than regional approaches.
- Remote and land-locked location characterized by limited existing export routes
- Insufficient investment were implemented over the past decades in the energy sector, resulting in higher technical and commercial losses and lower collections
- Need for regulatory strengthening and capacity building. Governments need to fully implement reform initiatives such as privatization, unbundling. There is also a need to implement progressive tariff adjustments that will allow cost recovery to make projects more viable, while remaining affordable for end-users. Targeted government assistance is required to support low-income part of the population.

Opportunities

- Significant generation, transmission and distribution capacity and efficiency investment opportunities
- Advantages arising from enhanced regional cooperation, competition and energy trade in the power oil and gas markets
- Strong experience and track record of commercial/private sector players ready to implement projects and achieve higher operational performance
- Promotion of energy efficiency to manage demand
- Potential for cost –effective renewable energy projects

Recommendations

- Private sector involvement is essential to address significant challenges in the region's energy sector
- Landlocked nature demands regional cooperation, which is more easily achieved on the basis of concrete specific projects. Involvement of private sector helps diffuse politics and focus on the economics of the projects
- Strong partnership among the three key stakeholders, governments and commercial/private sector participation and IFI is essential to the success of regional energy projects.
- While desirable, waiting until full policy and legal framework harmonization among the countries might not be necessary. Instead, to accelerate momentum, specific legal and policy frameworks can be created for certain projects and this is necessarily achieved with commercial/private sector participation (eg. Pamir project).
- Fair and balanced agreements are necessary to help mitigate political risks. This should also be complemented by security measures such as insurance and political risk guarantees from IFIs.
- IFIs can play an important role as neutral third party "honest broker":
 - Project preparation and validation of due diligence through third party independent review (eg. environment standards and handling civil society concerns) to ensure fairness of agreement reached among parties (eg.: BTC project)
 - Efficient legal structuring: Address deficiencies in domestic legislations and regulation through direct legal contractual relationship (eg. Pamir project)

MINING SECTOR DISCUSSION GROUP SUMMARY NOTES

THE PANEL AND THE DISCUSSION

The panelists for the mining sector discussion group comprised: Marat Bitimbayev, Member of the Board, DATA Invest LLP, Kazakhstan; Archit-Erdene Darambazar, President, Mongolia International Capital Corp., Mongolia; and Mr. Andre Kuusvek, Country Director Kazakhstan, European Bank for Reconstruction and Development. Mr. Djoomart Otorbaev, Senior Adviser, European Bank for Reconstruction and Development served as moderator.

Challenges

- Central Asia is landlocked and has harsh terrain. The region is far from its export markets.
- The region has relatively small domestic markets.
- Infrastructure and technology in the industry are often outdated.
- Financing for the mining sector is also often a major constraint.
- The flow of information is weak; the region's reputation can be enhanced.
- Unhealthy legal changes and politics surrounding the industry may affect investor perception.
- State-owned enterprises have proven to be not competitive.

Opportunities

- CAREC countries abound in natural resources, and the mining industry has a potential to create significant externalities in the economy, including employment opportunities.
- Opportunities exist in the energy, infrastructure, and technologies that come with the mining industry.
- Because of the vastness of some CAREC countries, the reserves have not yet been fully explored.
- Opportunities exist in the formation of harmonized legislative frameworks for the mining industry.
- Opportunities for greater cooperation between and among local and foreign companies have to be strengthened.
- Strategic foreign direct investments can enhance transparency.

Recommendations

- Harmonize legislation or create more unified legislation in the region, especially in view of existing laws and regulations.
- The State should create a very simple legal environment to lessen opportunities for corrupt practices. Bureaucratic procedures must be

streamlined.

- Governments should implement and the private sector should subscribe to the principles and criteria set forth by the Extractive Industries Transparency Initiative (EITI).
- Public-private consultation is necessary before legislation can be passed.
- Stability and certainty in the legal environment must be guaranteed.
- There is a need to heavily invest in transport infrastructures.
- The health, safety, and environmental aspects must be taken into account.
- Local participation in the mining industry is very important.

AGRIBUSINESS SECTOR DISCUSSION GROUP SUMMARY NOTES

THE PANEL AND THE DISCUSSION

The panelists for the agribusiness discussion group comprised: Ms. Liliana Cazacu, CEO Mountain Pastures Holdings LLC, Kazakhstan; Mr. Suleman Fatimie, Vice President, Afghanistan Investment Support Agency; Mr. Ibrahim Mohib, President, Marco Polo Gulf Trading Company, Afghanistan; and Mr. Sabig Abdullayev, Chief Advisor, International Cooperation Division, State Agency for Standardization, Metrology and Patents, Azerbaijan. Mr. Robert Siy, Director, Country Coordination and Regional Cooperation Division, Central and West Asia Department, Asian Development Bank served as moderator.

Challenges

- The geographic isolation of various agribusiness producers and farms remains a major constraint. The lack of competition on various transport modes (e.g., railways) as well as the poor road transport infrastructure in many farming areas results in high transport costs for moving agricultural products around the region. Warehouses are in short supply in most countries.
- Another key constraint is the often difficult transit and customs procedures for moving goods across borders. This increases the cost of the region's agricultural products.
- Product quality standards are also uneven across the region, and where these are in place, enforcement is an issue. As a result, agricultural producers are unable to meet the requirements of the leading markets.
- Credit for farmers and agribusiness enterprises is often limited or rationed. Reaching SMEs and small farmers is difficult for financing institutions accustomed to dealing with large state enterprises. In some countries, land tenure systems prevent sale or transfer of land, or disallow long term leases. This inhibits access to finance and discourages investments to improve land productivity.
- The restrictions on currency convertibility and foreign currency transfers are major impediments to trade in agricultural products.
- The lack of technical and management expertise in some countries discourages foreign investments. Restrictions on using foreign labor or cumbersome procedures for obtaining work permits for foreigners reduce a country's access to the best skills or expertise.
- Excessive regulation and lengthy procedures for obtaining licenses or moving goods through borders lead to corruption.
- Business communities in various countries do not have access to good market information or to networks of potential business partners in neighboring countries.

Opportunities

- Agriculture deserves priority attention. There is considerable potential for growth in the sector given the favorable agricultural conditions in the region. Also, a large segment of the populations of the countries work on farms or in agribusiness enterprises.
- Many countries in the region are already world leaders in some agricultural products. Uzbekistan, for example, is among the top producers of cotton. The region is also renowned for its production of nuts and processed fruits, as well as dairy products.

Recommendations

- Improvements in physical infrastructure—roads, railways, storage facilities, etc. (with the support of governments and donors) will enable agribusiness enterprises to reach potential markets at prices that are competitive in export markets. Encouraging competition among transport providers (including state-owned enterprises) can help to bring down freight costs.
- Governments and donors are encouraged to promote microfinance and credit to small and medium enterprises. Access to finance can help enterprises to upgrade their facilities and improve productivity and quality. Reform of land policies can help to improve access to credit by enabling the private sector to provide suitable collateral. Liberalization of foreign exchange markets and payments systems across the region would significantly improve the environment for agribusiness and encourage foreign direct investment in the sector.
- Private sector operations of donor agencies could consider smaller deals—which would permit such financing to reach a larger number of enterprises.
- CAREC countries could consider adoption of common agricultural product standards (to meet international quality requirements) and the possible creation of a specialized regional institution to implement/disseminate such standards across the region. The regional organization, with quality and product standard certification responsibilities, could be structured as a public-private partnership.
- CAREC countries should consider the possibility of free trade arrangements, particularly for agricultural products, as this would significantly reduce the costs of transporting such goods across several borders.
- Regular business forums covering CAREC countries would facilitate information sharing, opportunity seeking, and deal-making between the business communities of the various countries.
- In several CAREC countries, government agencies in the agricultural sector need to be reoriented. The government agencies should see their role as regulating and facilitating private sector activity in agriculture, rather than as central planning and direct production of agricultural goods.

FINANCIAL SECTOR DISCUSSION GROUP SUMMARY NOTES

THE PANEL AND THE DISCUSSION

The panelists for the financial sector discussion group comprised: Mr. Hugo Minderhoud, Country Representative, AKTE LLC, Uzbekistan; Mr. Fanglu Wang, Managing Director for Asset Management, CITIC Capital Holdings Ltd., Hong Kong SAR; and Mr. Hans Schwab, Director, SICPA Management SA, Switzerland. Ms. Veronica John, Principal Investment Officer, Asian Development Bank served as moderator.

Challenges

- Differences in the payments systems used across banks and countries in the CAREC region preclude efficient and effective financial flows. Inefficient financial flows have an adverse impact on trade facilitation, remittance transfers and may even encourage illicit trade, which has grown dramatically over the last several years.
- Incompatible payment systems and the inability to transact using the local currencies of the CAREC countries deprive its respective economies of financial resources and encourage the perpetuation of “grey” economies. Deeper financial intermediation into productive sectors of the CAREC countries is also restricted under current circumstances.
- Barriers to entry for most financial institutions within the CAREC countries has resulted in the lack of cross border investments into each other’s financial sectors.
- SMEs continue to face challenges in accessing funding from banks and non-bank financial institutions.

Opportunities

- There is a unique opportunity to introduce compatible clearance and payment systems and regulations that facilitate the flow of payments between CAREC countries at lower costs as the financial sectors in the region are in the nascent stages of development. This will result in immediate growth of tourism and trade, and a reduction of cash payments for goods and services. The formal financial sector will experience significant growth and expansion.
- Barriers to entry that exist for financial institutions in the CAREC countries may be removed as more countries accede to the WTO. As markets open up there will be greater opportunities for partnerships and joint ventures among the region’s financial institutions.
- As the financial sector grows as a result of improvements in cooperation between financial institutions in the CAREC countries, so will proliferation of basic investment principles and best practices compel such institutions to

upgrade their standards to a level that would respond to the requirements of the target markets.

Recommendations

- Improvement of capital flows and government initiatives in this direction should become a priority in order to ensure greater formalization of the CAREC economies in the areas of trade, remittances, and overall financial transparency.
- There is a need for the region's central banks to have discussions and take concrete steps in connection with establishing a unified clearing and payments system.
- The CAREC countries' governments must undertake the efforts necessary to open up their financial sectors to investors from neighboring countries. This is critical for effective regional cooperation.
- There is still scope for multilateral financial institutions to provide financial support in the form of equity investments and debt financing to financial institutions. These interventions should be actively supported by the MFIs member countries including the CAREC countries through their representation in the MFIs.

TOURISM AND RELATED SERVICES DISCUSSION GROUP SUMMARY NOTES

THE PANEL AND THE DISCUSSION

The panelists for the tourism and related services discussion group comprised: Ms. Matluba Uldjabaeva, Chairperson, National Association of SMEs, Tajikistan; Mr. Dejan Djordjevic, Chairman, Hyatt/EURO BAK, Kazakhstan; Ms. Wang Ping, Chairperson, Chamber of Tourism, People's Republic of China; and Mr. Magnus Bartlett, Publisher, Odyssey Books & Guides. Dr. David Oldfield, Executive Vice President, Asia Policy Research Co. Ltd. served as moderator.

Challenges

Tourism is a multi-billion dollar global industry, but despite rich cultural, natural, and historical endowments, Central Asia receives a relatively small number of tourists and generates low levels of tourism receipts. The weak performance of the region's tourism sectors and the limited foreign investment can be attributed to a variety of factors, but in particular the major impediments include:

- Globally, there is limited awareness about Central Asian countries individually and collectively. What little attention the countries or region generate in global news tends to be negative and adversely affects tourism.
- Tourism is not a high priority industry for some Central Asian governments compared to high profit industries such as energy and mining. Proper plans, strategies, and public investments are therefore not forthcoming.
- Visas are extremely expensive and time consuming to obtain. For Chinese tourists, Central Asian countries tend to restrict the number of visas they will approve.
- Physical infrastructure to support tourism is limited and generally of low quality.
- Service standards for tourism are low in Central Asia, adding another factor to why the region is less competitive in the global tourism market.

Opportunities

Despite the current impediments, investment and sector development opportunities in tourism and related services still abound in Central Asia. Participants of the discussion group focused on four sets of opportunities:

- Throughout the region numerous historical, cultural, and eco-tourism attractions are still undeveloped, along with the corresponding support facilities and services.

- Congress/conference tourism, including the development of conference facilities, has great potential in Central Asia. International conferences are continuously looking for new and exotic locations.
- The extensive need for improving service standards in the region suggests great potential for investments in training companies (e.g., hospitality schools, travel agent schools, airline staff training, and others).
- Creating a cohesive, marketable image of Central Asia would likely boost tourism in the region. UNDP's "Silk Road" program offers the best opportunity for working together towards a favorable image.

Recommendations

The realization of these potential investment and sector development opportunities are clearly predicated on overcoming or at least minimizing the key impediments to tourism. The participants of the discussion group identified several recommendations, but the main, practical recommendations advocated for the CAREC Ministers' attention are the following:

- A starting point should be establishing competent, professional travel bureaus in the Central Asian countries. These are essentially missing from the region and are critical to improving awareness about the countries. They involve the participation of the private enterprises, including hotel operators, airlines, tour operators and others. Additionally, the bureaus should be supported and partially funded by national and local governments.
- Each CAREC member country should become a member of the International Congress and Conferences Association to gain better access to the opportunities for hosting such events.
- Visas in the region should be eliminated or at least consolidated to a single, regional visa that would significantly reduce costs to travelers and promote multi-country tourism in Central Asia. Several CIS countries have already enabled visa-free travel for their respective nationals.
- Governments need to channel more financing and efforts (such as public-private partnership arrangements) that will directly support the development of infrastructure for tourism.