

Report of the Senior Officials' Meeting to the Ministerial Conference

1. This report finalized at the senior officials' meeting (SOM) on 11 November is largely based on the Draft Outline Report of the SOM to the Ministerial Conference (MC), discussed and endorsed at the Regional Preparatory Meeting (RPM) held 27-28 September in Tashkent. The report will be presented to the Ministerial Meeting on 12 November.

2. This report has two sections on progress report and course of actions forward, respectively.

I. Progress Report

3. At the 1st MC held in March 2002, the ministers agreed on a shared vision of the particular importance of economic cooperation as a strategic means to achieving poverty reduction, stability and prosperity in the region. They also confirmed transport, trade facilitation and energy as the priority areas for economic cooperation, and strongly advocated a practical and results-oriented approach. The essence of the approach is to focus on achieving long term strategic objectives through concrete projects that bring tangible and mutually beneficial benefits. In this context, the ministers requested ADB to play a key role in (Ministerial Statement)

- (i) mobilizing resources for financing investment and other projects in the priority areas; and
- (ii) donor coordination.

4. Your Excellencies, the SOM would like to report on progress made in each of the two areas since March 2002.

(i) Mobilizing Resources in Transport, Trade Facilitation, and Energy

5. During 2002 and 2003 ADB has focused on implementing the regional assistance program endorsed by the 1st MC in the priority areas of transport, trade facilitation, and energy. In 2002, ADB approved a total of \$115 million loans for two investment projects, one for energy (TAJ-UZB) and the other for trade facilitation (KGZ-TAJ). The energy project is expected to further receive cofinancing of \$49 million from EBRD and \$2.4 million from OPEC Fund. In 2003, ADB is considering a total of \$65 million in loans, including \$50 million cofinancing for an EBRD financed (\$100 million) KAZ road project and \$15 million for a TAJ-KGZ road project. A further \$10 million in technical assistance has been provided during 2002-2003 for feasibility study, sector work, and other support, including for a Regional Transport Sector Study.

6. As requested by the governments of the concerned countries, ADB has provided timely and valuable support to promoting cooperation between Central Asia and Afghanistan and South Asia, in particular, in (i) developing economically viable transport corridors from Central Asia through Afghanistan to seaports in the south; and (ii) assist as lead development partner in developing a gas pipeline from Turkmenistan through Afghanistan to South Asia..

7. Your Excellencies, the SOM is pleased to bring to your attention that during the same period from March 2002 to the present, significant assistance has also been provided in support of cooperation in the areas of transport, trade facilitation and energy by the other MIs.

8. Since March 2002, EBRD approved €105 million in loans and equity for two investment projects in the transport sector co-financed with ADB. Under its Trade Financing Program, EBRD has also financed 118 transactions in Central Asia worth €156 million involving 17 local banks. Together with its investments the EBRD has also mobilised significant technical assistance funds, both for project preparation and implementation in the transport and energy sectors, and for institution building more generally.

9. During this period, the IsDB has provided three lending projects totaling \$27 million, including two investment projects in the transport sector and a credit line for trade facilitation. The IsDB also provided \$0.65 million in technical assistance.

10. Since March 2002, the Silk Road Area Development Project (SRADP), UNDP's only regional program including Central Asian countries and PRC, has taken steps to encourage working level regional dialogue on priority issues affecting transit, customs, trade and investment. UNDP has also started implementation of the EU Border management program for Central Asia in June 2003.

11. The World Bank Group has had a range of programs in support of regional cooperation in Central Asia. Under the Aral Sea Basin Program the World Bank financed the Syr Darya Control and Northern Aral Sea Project (64.5 million), approved in June 2001, aiming to improve regulation of winter flows resulting from energy generation in the Naryn Cascade and increase flow capacity of the Syr Darya River. In addition, the World Bank has prepared a Water and Energy Nexus Paper that explores alternative water-energy trade arrangements. The World Bank prepared an Assessment of Water Resources and their Usage in Northern Afghanistan, which shares one of the two main rivers of Central Asia – the Amu Darya. In trade facilitation, it carried out Transport and Trade Audits for each Central Asia country and is finalizing an overall regional Transport and Trade Facilitation Study based on these audits.

12. The SOM welcomed recent opening of "Hayratan" customs complex by the Uzbek side, and the renewal of traffic on the bridge between Uzbekistan and Afghanistan, with support from a number of other donors.

13. Your Excellencies, the SOM is pleased to report that the overall institutional framework (OIF) has provided valuable support to regional cooperation efforts, based on principles of effectiveness and flexibility while avoiding unnecessary formalities. Given the overall guidance of the MC, the sector coordinating committees are developing into effective mechanisms for coordination and implementation. In particular, the Customs Cooperation Committee (CCC) has met 7 times, culminating in the recent heads of customs meeting in Tashkent, to promote customs cooperation and facilitate trade. The various working groups have assisted effectively the preparation and implementation of regional projects such as the Kyrgyz transport corridor and the regional power transmission improvement project. The national focal point, a key component of the OIF, is gradually being strengthened. The senior officials' meeting has continued to play an overall coordinating role including in the preparation of the 2nd MC. Over the past 18 months, the OIF has also gained more recognition among development agencies, as exemplified by the participation of the MIs in the OIF process.

(ii) Strengthening donor coordination

14. Significant progress has been made to address the call of the 1st Ministerial Conference for closer donor coordination in support of economic cooperation in the region. The presence of high level delegations from all the MIs at the 2nd MC in Tashkent is proof of their joint

commitment to supporting efforts of the countries at closer regional cooperation and to coordinating closely amongst the MIs themselves in providing such support for maximum effectiveness. Notable progress includes:

- MIs' agreement at the EBRD Annual Meeting in May 2003 to coordinate closely under the auspices of the OIF;
- Joint preparation of the 2nd MC and joint drafting of sector notes for the priority areas as a basis for discussion at the Regional Preparatory Meeting and at the SOM;
- Setting up a WG to coordinate with the Secretariat to ensure effective implementation of future cooperation efforts ;
- Out-reach by the MIs to a wider circle of development agencies as a start for further enhancing the effectiveness of coordination among all donors;

II. Future course of actions

15. The fundamental vision, approach and focus agreed upon by the countries at the 1st MC provide continuing guidance to future cooperation. Accordingly, further strengthening of implementation efforts in the priority area of transport, trade facilitation, and energy would be a core future task. Indeed, this was a key focus of the Regional Preparatory Meeting (RPM) held end September in Tashkent.

16. The RPM made significant progress in each of the priority areas of transport, trade facilitation and energy, using the sector notes prepared by the MIs as the basis for discussion. In particular, there was a convergence of views of country delegations on the key sector issues, constraints and priorities, and ways forward. To assist countries in implementing further reforms and progress in the three priority areas of cooperation, ADB has programmed \$465 million in investment loans and \$15 million in technical assistance over 2004-2006. An estimated \$526 million in investment loans, plus \$400 million in trade financing facility, and \$ 6 million in technical assistance have been programmed by other IFIs including IsDB, EBRD, WB and UNDP in the three priority areas.

17. Your Excellencies, on behalf of the SOM, I would like to briefly report on the sector outcomes discussed at the RPM and the SOM.

a. Transport sector

18. At the RPM, country delegations reaffirmed transport as a priority area of cooperation and its key role in promoting sustained economic growth and alleviating poverty. The delegations expressed strong commitment to working jointly in the sector. The delegations appreciated the role and approach of the MIs to coordinate closely and effectively to support economic cooperation in the region.

19. In particular, the delegations endorsed the approach and the general thrust of the sector note and the following strategic priorities for improving transport systems in the region:

- development of regional transport corridors;
- harmonisation of the regulatory framework;
- improving border controls;
- focussed restructuring and modernisation;
- marketing and tariff setting based on competition; and

- improving financing and management.
20. The delegations endorsed the need for and importance of developing the East-West and North-South transport corridors.
21. For implementation, delegations of the countries concerned gave endorsement to the proposed pipeline of projects and technical assistance in the matrix attached with the sector note.
22. Suggestions and proposals made at the sector discussion included:
- linking up with various Asian Highway routes, including the development of Mongolian transport corridor projects;
 - rehabilitating the railway corridor in Azerbaijan;
 - developing corridor links via Afghanistan to the seaports in the south;
 - development of KGZ transport corridor project and its link with Tajikistan;
 - identification and development of corridors based on international and national traffic volumes and their economic viability;
 - establish regional preferential transport corridors across the region;
 - harmonization of the regulatory framework, drawing experience from other regions;
 - development of transport database for information and forecasting support to international transportation; and
 - paying due attention to investment in road maintenance as it has high economic returns.
23. The SOM urged the MIs to coordinate closely under the Sector Coordinating Committee on Transport within the OIF for further prioritizing those suggestions made above, and report to the next SOM for further consideration.
24. **Your Excellencies, the SOM would like to seek your kind endorsement of the transport sector outcome and the recommendations made therein.**

b. Trade facilitation

25. Country delegations agreed at the RPM that customs cooperation continues to be a focus within trade facilitation, especially on eight key issues:
- Simplification and harmonization of customs procedures and documentation;
 - Development of border posts and facilities;
 - Establishment of conditions for trade development in accordance with WTO standards and of effective mechanisms for preventing smuggling;
 - Development of simplified transit systems;
 - Data and information sharing and ICT development for customs operations;
 - Development of risk management and post-entry audit;
 - Development of a regional intelligence system; and
 - Capacity building for customs administrations.
26. The RPM reviewed work progress in these areas and a proposed Action Plan. The delegations expressed satisfaction with the progress made to-date and broadly endorsed the specific proposals contained in the proposed Action Plan. Recommendations were made to give priority to some of the specific proposals such as

- Accession to the WTO and major international conventions by all the CCC member countries and provide training to assist member countries' accession;
- Development of customs legal frameworks to harmonize customs codes and procedures;
- Promotion of modern customs practices such as risk management;
- Development of a unified transit system;
- Promotion of transparency of customs procedures and data-sharing through IT technology; and
- Comparative Study of computerized transit systems of various countries.

27. To improve the draft Action Plan, the delegations recommended to include (i) identification of specific projects and parties responsible for the implementation, (ii) detailed implementation schedules for each proposal, and (iii) technical assistance from MIs for supporting the implementation.

28. The agreement among the delegations to establish a sector coordinating committee (SCC) on trade policy under the OIF was a significant step forward. This was based on the shared recognition of the need to further promote trade. In this respect, the delegations viewed the proposed SCC on trade policy as complementing the ongoing efforts at trade facilitation through customs cooperation. In particular, raising the awareness and understanding of the benefits of trade liberalization including application of WTO standards and of dismantling of unjustified non-tariff and non-physical barriers would be an urgent task of the proposed SCC on trade policy.

29. Several new proposals were also made including

- Consideration of establishing on a sustainable basis a National Working Group (where they do not exist yet) that include all the ministries involved in the TIR Transit System by the end of 2003;
- Consideration of drafting of an agreement on a regional transit system among the member countries by the CCC in the near future;
- Capacity building and institutional Strengthening of government institutions/agencies responsible for trade policy,; and
- Establishment of national trade promotion centers interlinked among the member countries.

30. The SOM urged the MIs to coordinate closely under the OIF for further examining and prioritizing those proposals made above, and report to the next SOM for further consideration.

31. **Your Excellencies, the SOM would like to request your kind endorsement of the trade facilitation sector outcome and recommendation made therein.**

c. Energy

32. Country delegations agreed at the recent RPM on

- Implementation of stage-wise introduction of energy trade on commercial basis in Central Asia and expand it to outside the borders of the Central Asian countries.

33. Towards this goal, the delegations expressed the willingness of all countries to work collaboratively to:

- Enlarge trade in energy resources on commercial basis, including through possible future creation of a regional power market;
- Examine regional, in conjunction with national, least cost investment solutions to face future energy demand within the region; and
- Promote the development of new energy resources in the region, with a view to increase exports beyond the region.

34. In the context of these broad objectives, country delegations agreed that regional cooperation on energy should focus on creating the conditions for better regional energy trade; and delegations from Kazakhstan, Kyrgyz Republic, Tajikistan and Uzbekistan confirmed the need to recognize the linkages between energy and water in the region to address their energy trading issues.

35. For implementation, the delegations broadly endorsed the activities supported by the MIs contained in the matrix of the sector note, including the following specific initiatives:

- That energy trade should be facilitated by the development of the legal and regulatory base in line with Energy Charter Treaty and other international best practices to facilitate enforcement of contracts, and by the introduction of dispute resolution mechanisms.
- That activities and efforts should be continued to develop the concept for establishing an energy/water consortium to promote the development of hydropower facilities in Central Asia;
- That a specific Energy-Water Working Group be created within the energy sector under the overall framework of the Ministerial Conference on Central Asia Economic Cooperation to address among others the issue of energy trading and careful and rational water resource management.

36. The delegations also expressed their support for, and commitment to facilitating:

- The preparation of a comprehensive assessment of long term power export potential within Central Asia and to the neighboring countries;
- The preparation of long term energy projections for Central Asia, that would assess supply and demand over a 15-20 years horizon, and examine least-cost investment solutions at the national and regional levels to face the demand;
- The preparation of a regional gas transmission study.

37. Other suggestions made at the RPM included: (i) development of pilot projects in the areas of renewable energy, energy savings and energy efficiency; (ii) creating the conditions for increased private sector participation in the energy sector, and to examine public-private partnership approaches to promote mobilization of private and non-sovereign guaranteed financial resources to contribute to rehabilitation and development of energy infrastructure.

38. The SOM urged the MIs to coordinate closely under the Sector Coordinating Committee on Energy within the OIF for further examining and prioritizing those proposals made above, and report to the next SOM for further consideration.

39. Your Excellencies, the SOM would like to request your kind endorsement of the energy sector outcome and recommendations made therein.

40. Your Excellencies, to ensure further and steady progress in economic cooperation and the implementation of key investment and other projects, the OIF would need to be strengthened. In particular, the Senior Officials Meeting should be enhanced as a key mechanism for dialogue on priority issues and coordination in order to forge joint approaches to issues of common interests and recommending strategic directions for each priority sector. Secondly, the linkages among SCCs, WGs, the national focal point, and the SOM should be strengthened. For this purpose, resources and other support should be provided to building up the capacity of the national focal points so that they could play a key role in coordinating regional cooperation activities, and focused training programs on regional cooperation be provided to SCCs and WGs. In addition, the MI WG should be institutionalized as a mechanism to coordinate closely with the Secretariat. Finally, as already reported earlier, the establishment of a Sector Coordinating Committee on Trade Policy as well as the setting up of a Working Group on Energy and Water Resources under the existing SCC on Energy would contribute to bringing about future progress of cooperation in their respective areas.

41. The SOM would therefore like to seek your kind approval of these recommended measures to strengthen the OIF.

42. The SOM emphasized that cooperation extends beyond the countries currently members of the OIF. They recognized in particular the potential for mutually beneficial gains and the need for close cooperation with regional neighboring countries to allow regional cooperation to become a catalyst for international integration.

43. The SOM recommended that the Secretariat and the MIs further examine these cooperation prospects including the membership issue in close consultation with member countries.