



## **Report of Senior Officials to the 8<sup>th</sup> Ministerial Conference on Central Asia Regional Economic Cooperation**

**Ulaanbaatar, Mongolia  
16 October 2009**

### **I. OVERVIEW**

1. Senior Officials are pleased to report that CAREC Program work in 2009 focused on implementation of the strategies and action plans for the priority areas of transport, energy, and trade endorsed at the 7<sup>th</sup> Ministerial Conference. The global economic downturn has again highlighted the value of regional cooperation. CAREC's practical, project-based approach to development through cooperation is supporting economic growth and creating economic opportunities for the people of the region.

2. CAREC provides finance, ideas, and networks for cooperation. In 2009, participating countries' active investment plans in the priority areas were supported by commitments of \$3.9 billion in grants and lending from CAREC partner multilateral institutions.<sup>1</sup> This is a significant increase from about \$2 billion in 2008. The Program's research and training activities examined a range of opportunities and challenges to expanding cooperation. These activities helped governments share their ideas and experience on regional issues in an expanding network of officials, academics, and private sector actors.

### **II. SECTOR HIGHLIGHTS**

#### **A. Transport and Trade Facilitation**

3. The Transport and Trade Facilitation Strategy and Action Plan center on improvement of six CAREC transport corridors and efforts to make trade and travel along the corridors faster, cheaper, and safer. Implementation is on track. Fifty-two projects included in the Action Plan are ongoing; one has been completed. This includes each of the major investment projects for 2008-2012 identified in the Action Plan: corridor 1b (Kazakhstan section), 1c (Kyrgyz Republic section), 2 (Azerbaijan rail section), and 4 (Mongolia section). Figure 1 summarizes progress on physical improvement of the six CAREC corridors.<sup>2</sup>

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<sup>1</sup> See Appendix 1 for list of investments.

<sup>2</sup> *Implementation of the Transport and Trade Facilitation Strategy: Transport Sector Progress Report (January 2008-October 2009)*. Background materials for the 8<sup>th</sup> Ministerial Conference on CAREC. The report provides details of road and rail development on each corridor.

**Figure 1: CAREC Corridor Road and Rail Improvement, 2008-2009**

Mode	Kilometers in good condition, January 2008	Kilometers in good condition, October 2009 (% increase)	Total in good condition (%)	Action Plan Goal, 2012
Road	15,300	16,400 (5%)	69%	75%
Rail	14,800	16,600 (9%)	83%	75%

4. National joint transport and trade facilitation committees are active in each CAREC country. They will:

- Enhance country ownership by implementing activities at the national level to promote transport and trade.
- Promote coordination among government agencies and the private sector.
- Implement CAREC projects such as the Corridors Performance Measurement and Monitoring (CPMM) program and development of single window systems.

Establishment of a Regional Joint Transport and Trade Facilitation Committee is underway.

5. These committees will build on continuing Customs cooperation among Program participants. Several countries are developing single window systems to smooth border-related procedures and trade. Joint customs control initiatives are ongoing between Kazakhstan and People's Republic of China (PRC), and between PRC and Mongolia. The Kyrgyz Republic, PRC, and Tajikistan are negotiating a cross-border transport agreement for corridor 5, under the Transport Sector Coordinating Committee.<sup>3</sup>

6. The CPMM program has been established with the participation of 12 road carrier and freight forwarder associations across the region. It is collecting data on the time and cost of traveling along each CAREC corridor. The data will provide the basis for actions to remove bottlenecks. Initial data indicate that improvements in border infrastructure, customs modernization, and implementation of single window schemes would improve traffic flows.<sup>4</sup>

7. CPMM partner associations developed a proposal to form the CAREC Federation of Carrier and Forwarder Associations (CFCFA). The Federation would increase regional interaction and support private sector participation in trade facilitation programs. Senior Officials support establishment of the Federation.

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<sup>3</sup> *Regional Trade Facilitation and Customs Cooperation Program: Progress Report (November 2008-October 2009).* Background materials for the 8<sup>th</sup> Ministerial Conference on CAREC. The report provides details on progress in customs cooperation and integrated trade facilitation.

<sup>4</sup> *CAREC Transport and Trade Facilitation: Corridors Performance Measurement and Monitoring Quarterly Report, April-June 2009.* Background materials for the 8<sup>th</sup> Ministerial Conference on CAREC. The report provides details on initial findings.

## B. Energy

8. A range of transmission, generation, energy efficiency, and clean energy projects are underway across the CAREC region.<sup>5</sup> Completion of the Uzbekistan to Afghanistan transmission line is noteworthy. Up to 150 megawatts of power are now being transmitted to Afghanistan, ensuring continuous energy supply to Kabul for the first time in decades. All these projects will support efforts to improve energy security and enable greater energy trade, both within the region and with external markets.

9. In 2009 the Energy Sector Coordinating Committee developed an **Energy Action Plan Framework**<sup>6</sup> for the CAREC Program. It sets out a program of work to support achievement of the Energy Sector Strategy goals, namely (i) reliable, affordable, and sustainable energy security, and (ii) promotion of economic growth through energy trade.

10. The Action Plan is guided by the following principles:

- Regional: Build on concept of phased investments to increase energy security, energy efficiency, and trade
- Selectivity: Focus on investments with high cooperation content
- Holistic: Sector development with linkages to other subsectors
- Reliance: Focus on regional and national institutions to develop and implement the Action Plan, with the multilateral institutions serving as facilitators and financiers

11. The Action Plan focuses on Central Asia, one of the five energy corridors identified in the Energy Sector Strategy. It will cover the period 2010-2013 and seek immediate gains while building the foundation for cooperative and efficient development of the sector, identifying investments beyond 2013. The Action Plan will later consider further CAREC corridors.

12. The Action Plan will deliver investments, knowledge and capacity building, and policy advice in three areas:

- Energy Demand/Supply Balance and Infrastructure Constraints to promote energy security and regional trade by optimizing integrated transmission and generation (infrastructure) expansion.
- Regional Dispatch and Regulatory Development to maximize the benefits of the unified Central Asian Power System.
- Energy-Water Linkages to strengthen cooperation by integrating energy and water analysis.

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<sup>5</sup> *Energy Sector Progress Report*. Background materials for the 8<sup>th</sup> Ministerial Conference on CAREC. The report provides updates on new and ongoing investments and technical assistance in the energy sector.

<sup>6</sup> *Energy Action Plan Framework*. Background materials for the 8<sup>th</sup> Ministerial Conference on CAREC.

### C. Trade policy

13. The Trade Policy Strategic Action Plan (TPSAP) endorsed at the 7th Ministerial Conference, envisages concrete policy actions to achieve its key objectives on the active pursuit of WTO accession; trade liberalization and removing barriers to trade expansion; and capacity-building activities to facilitate World Trade Organization (WTO) accession and improve the general institutional environment to support intraregional and international trade. The TPSAP framework for implementation is anchored by the medium-term objective of WTO membership for all CAREC countries by the end of 2013.

14. In 2009, the Trade Policy Coordinating Committee (TPCC) made significant progress in three main areas:

- Monitoring progress in implementing the TPSAP: The committee formulated and discussed a focused questionnaire aimed at collecting information relevant for monitoring the TPSAP policy actions. This questionnaire will be completed annually by country delegates. The results will be used to gauge progress towards TPSAP objectives, and presented at the first TPCC meeting of each year.
- Training on WTO accession: The TPCC is moving forward on this objective in two ways: seminars by CAREC countries that are WTO members, sharing their experience on WTO accession; and a seminar series by the World Bank, modeled on the Handbook on WTO Accession. A seminar at the 11th TPCC meeting provided an overview of the commitments involved in accessing the WTO based on several country cases, and presented a case study of Russia. The seminar illustrated the potential costs and gains of acceding to the WTO and identified the sources of these potential losses and gains.
- Research on trade integration and liberalization in the CAREC region: On this front the TPCC completed and presented two studies. These papers, which involved selected countries, discussed the role played by bazaars in trade in CAREC countries, and elaborated institutional factors in border regions that facilitate and impede trade among neighboring countries. The TPCC also began work on a comprehensive study on the institutional impediments to trade expansion as agreed in the TPSAP for 2009. The detailed outline, approach and methodology of the study were discussed and endorsed at the 11th TPCC meeting. The study will identify the key institutional factors that affect trade and a framework for actions to improve the institutional environment.

## III. OTHER KEY RESULTS

### A. CAREC Institute

15. The CAREC Institute works in three areas: professional development and training, research, and outreach. Key achievements in 2009<sup>7</sup> include:

- CAREC Institute Leadership Development Initiative launched to train more than 400 current and future CAREC leaders during 2009-2011.

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<sup>7</sup> Progress Report on the CAREC Institute Work Plan 2009-2011. Background materials for the 8<sup>th</sup> Ministerial Conference on CAREC. The report provides details on CAREC Institute activities and outputs.

- CAREC Institute Research Program establishing collaboration with leading international research institutes and CAREC-region institutes.
- CAREC Institute web site launched at [www.carecinstitute.org](http://www.carecinstitute.org), as a new hub for knowledge and information on regional economic cooperation in the region.

16. At the request of Senior Officials, the Institute also developed a Concept Note for a **CAREC Program Results Framework**.<sup>8</sup> As implementation of sector strategies gathers pace, the Program needs to monitor the progress and impact of its actions. The Results Framework is a performance monitoring mechanism to assess achievements. Tailored sets of quantitative and qualitative performance indicators will be developed with inputs from sector committees. They will track the successes of CAREC operations and activities, indicate areas for improvement, and highlight trends in results. Data to feed the identified indicators will be gathered from various sources, analyzed, and aggregated to provide an overview of how the CAREC partners benefit from working in cooperation.

17. Results Framework data will serve as the basis of a broader CAREC development effectiveness review. This review will articulate program achievements to CAREC leaders, partners, and stakeholders through a credible and transparent process. It will also inform future decision-making processes of the CAREC Program.

18. The Concept Note outlines the Framework's structure and methodology. Following endorsement of the Concept Note, the CAREC Institute will coordinate delivery of the first CAREC Program Results Framework and development effectiveness review to the 9<sup>th</sup> Ministerial Conference on CAREC.

## B. Private Sector Development

19. Private sector participation in regional cooperation efforts is critical to improving the business climate in CAREC countries. Efforts to support greater private sector involvement in CAREC activities include a series of one-day "Awareness Raising Workshops on Public-Private Partnerships (PPPs)" for about 200 government and private sector representatives in the region. Each workshop covered an introduction to PPP applications, the structuring of PPP projects, and implementation phases of PPP projects. A "Public-Private Partnership Workshop: Lessons from Asian Experience" is scheduled for November 2009. It will examine three detailed case studies on PPP projects in the transport, energy, and water sectors.

## C. Partner Coordination

20. The first "CAREC Partnership Forum: Maximizing Impact of Transport and Trade Facilitation Investments" gathered representatives from CAREC countries and multilateral partners, and other funding agencies active in the CAREC region. It considered opportunities for improving collaboration in the transport and trade facilitation sectors. Discussions centered on the *CAREC Institute Foundation Study: Transport and Trade Facilitation*.<sup>9</sup>

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<sup>8</sup> *Concept Note: CAREC Program Results Framework*. Background materials for 8<sup>th</sup> Ministerial Conference on CAREC.

<sup>9</sup> The Study established a database of planned project activities from 2000, identified gaps and areas of potential overlap in funding agency plans, and proposed a number of broad management and other issues that may help increase the efficiency of development activities in the region. It is available on [www.carecinstitute.org](http://www.carecinstitute.org).

21. Discussions highlighted opportunities to harmonize approaches to regional issues, to reduce gaps in development, and to strengthen coordination among funding agencies and countries. Improved coordination will support efficient development of priority transport corridors and ensure investments bring maximum benefits to the region.

#### **D. Second Tier Activities**

22. Second tier activities are building momentum and strengthening regional cooperation in new areas on a project basis.<sup>10</sup>

- Communicable Disease Control: A Regional Committee for Communicable Disease Control, comprising human and animal health sector officials from CAREC countries plus Turkmenistan and the Russian Federation, was established in 2007 to promote collaborative approaches to fight against disease. It has since organized 17 regional activities to strengthen human and animal disease control in the region. Focus areas include: capacity building, regular information exchange, and enhanced cross-border disease control through pilot projects.
- Central Asian Countries Initiative for Land Management (CACILM): CACILM is a partnership between Central Asian countries and the international donor community to combat land degradation, improve rural livelihoods, and adapt to climate change in Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. Its goal is to restore, maintain, and enhance the productive functions of land in Central Asia, leading to improved economic and social well-being for those who depend on these resources, while preserving the ecological functions of the land. Established in 2006, CACILM held its third steering committee meeting in 2009 to review preparations to begin full implementation of agreed work programs.
- Central Asia and Caucasus Disaster Risk Management Initiative (CAC DRMI): CAC DRMI works to coordinate disaster mitigation, preparedness, and response; finance disaster losses, reconstruction and recovery, and disaster risk transfer instruments such as catastrophe insurance and weather derivatives; and improve hydro-meteorological forecasting, data sharing, and early warning systems. The Initiative was launched in 2008 and completed two studies in 2009: *Mitigating the Adverse Financial Effects of Natural Hazards on the Economies of Central Asia and Development of Action Plans for Improving Weather and Climate Service Delivery in Kyrgyzstan, Tajikistan and Turkmenistan*.

#### **IV. WORK PLANS FOR 2010**

23. Priority areas for coordinating committees and other initiatives in 2010 include:

- Transport Sector Coordinating Committee
  - ✓ Review progress on implementing the Transport and Trade Facilitation Strategy and Action Plan
  - ✓ Mobilize cofinancing
  - ✓ Improve border infrastructure and simplify cross-border procedures

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<sup>10</sup> Further information on second tier activities and program outputs are available on [www.carecinstitute.org](http://www.carecinstitute.org).

- ✓ Strengthen the Transport Sector Coordinating Committee
  - ✓ Provide training on road safety and transport project implementation
- Customs Cooperation Committee
  - ✓ Work to align national legal instruments with international standards
  - ✓ Pilot testing of Joint Customs Control arrangements at CAREC corridor priority border-crossing points
  - ✓ Improve regional transit systems to facilitate trade
  - ✓ Coordinated information and communication technology (ICT) development
  - ✓ Finalize and implement a capacity building program
- Integrated Trade Facilitation Program
  - ✓ Strengthen national and regional joint transport and trade facilitation committees
  - ✓ Develop national single window roadmaps; build a regional platform linking national single windows
  - ✓ Continue implementing the Corridors Performance Measurement and Monitoring program
  - ✓ Finalize and implement a capacity building program
  - ✓ Support development of the CAREC Federation of Carrier and Forwarder Associations
- Energy Sector Coordinating Committee
  - ✓ Implement the CAREC Energy Action Plan Framework
- Trade Policy Coordinating Committee
  - ✓ Monitor implementation of the TPSAP
  - ✓ Support WTO accession efforts through:
    - Seminars on the global experience with WTO accession
    - Workshops by WTO member countries on their experiences with accession negotiations
  - ✓ Finalize *Study on Institutional Impediments to Trade in the CAREC Region*
- CAREC Institute
  - ✓ Professional Development and Training
    - Deliver second round of Executive Leadership Development Program
    - Deliver Public Sector Management Short Course in three countries
    - Support "Awareness Raising Workshop on PPPs" in three countries
    - Support capacity development of sector committees
  - ✓ Research
    - Undertake CAREC Institute Foundation Study on Energy
    - Continue Research Program 2009-2011
    - Develop CAREC Program Results Framework; complete first report

- Undertake a mid-term review of the performance of the CAREC Institute
- Support *Study on Institutional Impediments to Trade in the CAREC Region*
- ✓ Outreach
  - Further develop and maintain [www.carecinstitute.org](http://www.carecinstitute.org)
  - Support events in the region on regional cooperation and integration topics
  - Initiate CAREC Institute Distinguished Speakers Series
- Private Sector Development
  - ✓ Hold Business Development Forum in Urumqi, Xinjiang Uygur Autonomous Region, PRC
  - ✓ Hold Roundtable of CAREC Region Chambers of Commerce
  - ✓ Deliver "Awareness Raising Workshop on PPPs" in three countries
  - ✓ Support national PPP units, or equivalent, in formulation and implementation of selected PPP pilot projects

## V. RECOMMENDATIONS

24. Senior Officials are confident the initiatives and work plans outlined above will result in deeper regional economic cooperation in the transport, trade, and energy sectors. This cooperation will bring tangible benefits to the people of each CAREC country. We recommend that Ministers endorse the:

- *CAREC Energy Action Plan Framework.*
- *Concept Note on the CAREC Program Results Framework.*
- *Report of Senior Officials to the 8<sup>th</sup> Ministerial Conference on Central Asia Regional Economic Cooperation*, including work plans for sector coordinating committees, CAREC Institute, and private sector development.

## Appendix 1

**CAREC Multilateral Partners' Loan / Grant Assistance by Sector, 2009<sup>1</sup>**

(In US\$ Million)

as of 28 September 2009

List of Projects	2009
<b>TRANSPORT</b>	
<b>Asian Development Bank (ADB)</b>	
Xinjiang Urban Transport and Environmental Improvement Project (PRC)*	100.0
Dushanbe-Kyrgyz Border Road Rehabilitation Project, Phase II (Supplementary) (TAJ)	20.0
CAREC Transport Corridor I (Bishkek-Torugart Road) Project 2 – Loan/Grant (KGZ)	50.0
Hairatan to Mazar-e-Sharif Railway Development Program – Grant (AFG)	165.0
CAREC Transport Corridor 1 (Loan 2) (KAZ) (P)	187.0
Road Network Development Program (Loan 3) (AZE) (P)	175.0
Regional Road Development Project (Supplementary) (MON) (P)	24.0
<b>Total Transport, ADB</b>	<b>721.0</b>
<b>European Bank for Reconstruction and Development (EBRD)</b>	
Osh-Isfana Road Upgrade Project*	35.0
South-West Corridor Road (KAZ)*	180.0
<b>Total Transport, EBRD</b>	<b>215.0</b>
<b>Islamic Development Bank (IsDB)**</b>	
Reconstruction of 58 km of road stretch South Kazakhstan Region border to Taraz city of the Western Europe-Western China Road Corridor (KAZ)	186.0
Reconstruction of Kulya-Khalaikum Road (TAJ)	20.0
<b>Total Transport, IsDB</b>	<b>206.0</b>
<b>World Bank</b>	
South-West Roads: Western Europe-Western China International Transit Corridor (CAREC 1b and 6b) (KAZ)	2,125.0
National Road Rehabilitation (Osh - Batken - Isfana) (KGZ) (P)*	25.0
<b>Total Transport, World Bank</b>	<b>2,150.0</b>
<b>TOTAL for Transport Sector (ADB, EBRD, IsDB, World Bank)</b>	<b>3,292.0</b>
<b>TRADE FACILITATION</b>	
<b>European Bank for Reconstruction and Development (EBRD)</b>	
Trade financing (Regional)	124.6
<b>Total Trade Facilitation, EBRD</b>	<b>124.6</b>
<b>World Bank</b>	
Customs Modernization Program Additional Financing (AFG)	6.8
<b>Total Trade Facilitation, World Bank</b>	<b>6.8</b>
<b>TOTAL for Trade Facilitation Sector (EBRD, World Bank)</b>	<b>131.4</b>

<b>ENERGY</b>	
<b>Asian Development Bank (ADB)</b>	
Energy Development (Grant 2) (AFG) (P)	70.0
<b>Total Energy, ADB</b>	<b>70.0</b>
<b>Islamic Development Bank (IsDB)</b>	
Janub Thermal Power Station (AZE)	173.0
<b>Total Energy, IsDB</b>	<b>173.0</b>
<b>World Bank</b>	
Kyrgyz Republic Energy Emergency*	11.0
Kazakhstan Moinak Transmission Project (KAZ) (P)	48.0
Kazakhstan Alma Transmission Project (KAZ) (P)	200.0
<b>Total Energy, World Bank</b>	<b>259.0</b>
<b>TOTAL for Energy Sector (ADB, IsDB, World Bank)</b>	<b>502.0</b>
<b>GRAND TOTAL (2009)</b>	<b>3,925.4</b>

<sup>1</sup> Information on technical assistance funded by CAREC's multilateral partners is available at [www.carecinstitute.org](http://www.carecinstitute.org)

\* Originally planned for 2008. Total US\$351 million.

\*\* IsDB approved financing for procurement of two oil tankers in Turkmenistan amounting up to US\$31 million.

Note: P = Planned