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**UNECE CONFERENCE ON SPECIAL PROGRAMME
FOR THE ECONOMIES OF CENTRAL ASIA (UN/SPECA)**

Geneva, 23-24 June 2003

FINAL REPORT

Background

1. On 26 March 1998, the Presidents of four Central Asian States - Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan - and the Executive Secretaries of the two United Nations Regional Commissions - UNECE and UNESCAP - signed the Tashkent Declaration, which, among other, announced the establishment of the United Nations Special Programme for the Economies of Central Asia (SPECA). In September 1998, Turkmenistan officially indicated its support of the Tashkent Declaration and readiness to participate in the projects of SPECA. In November 2002, Azerbaijan joined the Presidential Programme.

2. SPECA was set up to assist the participating countries in strengthening and promoting their cooperation in order to both stimulate their economic development and facilitate their integration into Europe and Asia. It has provided decision-makers of these countries with a neutral forum for discussing economic and environmental issues having an impact on the regional development, a mechanism for developing joint strategic approaches to solving priority issues of cooperation and for agreeing and promoting specific investment and cooperation projects of the regional importance. The priority areas of cooperation, initially identified by the SPECA member countries, are as follows:

- Development of transport infrastructure and border crossing facilitation (lead country - Kazakhstan);
- Rational and efficient use of energy and water resources of Central Asia (lead country - Kyrgyzstan);

- International Economic Conference on Tajikistan and a joint strategy for regional development and attraction of foreign investment (lead country - Tajikistan);
- Regional cooperation on the development of multiple routes for pipeline transportation of hydrocarbons to global markets (lead country - Turkmenistan).

3. To assess the results of the implementation of the Programme over the five-year period and to identify future directions of activities, the UNECE has decided to hold a Conference on UN/SPECA in cooperation with SPECA member States, partner organizations and other stakeholders interested in the development and social progress of the Central Asian sub-region. In addition, the Conference aimed at:

- Improving coordination of its activities with those of the United Nations organizations and bodies that have been active in Central Asia;
- Holding a dialogue and exchange views with the SPECA National Coordinators;
- Providing SPECA member countries with an opportunity to present results of transition and highlight their needs for investment and technical assistance;
- Presenting new project-proposals of the sub-regional significance, which were recommended by the SPECA Regional Advisory Committee at its session in April 2003 in Dushanbe, Tajikistan, as well as other project initiatives; and
- Enhancing understanding of UNECE member countries of the situation in the SPECA member countries.

4. The Conference was attended by representatives of the public and private sectors of the following countries: Armenia, Azerbaijan, Republic of Belarus, Czech Republic, Finland, Germany, Israel, Kazakhstan, Kyrgyzstan, Republic of Moldova, Norway, Russian Federation, Switzerland, Tajikistan, Turkey, Ukraine, United Kingdom and United States of America. Representatives of the European Commission were also in attendance. Representatives of UNESCAP, UNDP, UNCTAD, UNITAR, World Bank, ITU, ILO, Economic Cooperation Organisation (ECO), EBRD, Asian Development Bank (ADB), as well as International Federation of Business and Professional Women (BPW), also participated in the Conference.

The list of the participants and other documents prepared for the conference, papers/presentations, can be found on the Web-site at the following address:

<http://www.unece.org/operact/meetings/round/introduction.html>

5. The Conference was organized in the following five panels:
- a. UN/SPECA: Achievements and Challenges;
 - b. Central Asia: Development Cooperation Perspectives;
 - c. Central Asia Countries: Meeting the Challenges of Transition;
 - d. United Nations System: International Development Assistance to and Technical Cooperation with Countries of Central Asia; and
 - e. International Donor Community: Bilateral and Multilateral Development Assistance to the Economies of Central Asia.

Below are short summaries of the presentations made at these panels.

Opening session

6. **H.E. Ambassador Yaakov Levy**, Permanent Representative of Israel to the United Nations Office at Geneva, opened the Conference. In his address to the Conference, Ambassador Levy underlined that the activities, being implemented within the framework of SPECA, had served as an excellent example of contribution the United Nations and other multilateral agencies could do to the social and economic development of the countries of Central Asia. At the same time, the history of the past five decades demonstrated the importance of regional and sub-regional cooperation in solving problems of social and

economic development. Israel has excellent ties with all the countries represented in SPECA. Israel's political and economic cooperation with this sub-region is constantly expanding, what is reflected in Israel's development cooperation programme called MASHAV. The latter has been increasingly focusing on this sub-region. One of the reasons behind successful cooperation of Israel with the countries of Central Asia has been the fact that many former citizens of the SPECA countries became the citizens of Israel. They brought to Israel their excellent cultural, linguistic and human knowledge of Central Asia, which had been utilized for bridging Israel and Central Asia. In conclusion, Ambassador Levy wished the participants the most successful conference.

7. In his welcoming address, **Mr. Sergei Ordzhonikidze**, UNOG Director-General, Under-Secretary-General of the United Nations, mainly focused on the need to address structural development problems facing the countries of Central Asia at both levels, sub-regional and regional. These structural problems, distortions and lack of physical infrastructure, water shortage, environmental degradation, unsustainable production patterns, weak institutions, limited markets and etc., are the factors threatening peace and security in Central Asia and, therefore, from the conflict prevention perspective, a persistent collective effort is required to neutralize them. Lack of cooperation would allow these factors to further exacerbate the existing structural problems and to constrain the development process. Insufficient growth coupled with high fertility would not generate enough jobs and income opportunities to meet the demand of growing population, forcing people to look for income opportunities outside the formal and licit economy. Sub-regional and regional cooperation could provide a larger economic space and, hence, more incentives to investors. The establishing of an effective mechanism for collective management of scarce water resources could mitigate the risk of conflict. The Secretary General of the United Nations gives a high priority to ensuring peace and stability in Central Asia, which strategic importance is going to increase over time due to both its geographic location between Asia and Europe and its role in the global energy supply.

8. In her speech, **Ms. Brigita Schmögnerová**, UNECE Executive Secretary, Under-Secretary-General of the United Nations, highlighted the results of implementation of SPECA, which, in her view, were rather mixed due to a number of reasons, including the reluctance of some SPECA countries to participate in the programme, lack of resources, instability and structural development problems, facing the countries. She expressed concern with the continuous erosion of the initial advantages and diversion in reforms, which, in combination with the lack of cooperation and the build-up of border-crossing barriers, undermined perspectives of economic growth and integration of the SPECA member countries in the European and global economy. Focusing on the positive results of SPECA, Ms. Schmögnerová underlined the SPECA member countries' willingness to be actively involved in the international activities associated with transcontinental transport corridors. SPECA countries joined international transport conventions and are looking forward to participate in their implementation with UNECE assistance. Impressive gains were achieved in implementing another component of SPECA – energy efficiency. While the initial expectations were much higher than the results achieved, the latter were serious enough to inspire the non-participating SPECA countries to re-consider their position and join the programme. Support of the donor community could act as another incentive. Ms. Schmögnerová invited the representatives of multilateral and bilateral donor organizations, participating in the Conference, to join the UNECE effort to promote cooperation among the Central Asian countries within the framework of SPECA.

9. **Mr. Asadullo Gulomov**, Deputy Prime Minister, Republic of Tajikistan, stressed the importance of SPECA as an instrument for broadening economic cooperation among the Central Asian countries and between Central Asia and other sub-regions in the context of Tajikistan's circumstances. In his view, cooperation is a condition without which Central Asia's potential would not be realized and handicapping constraints, such as: shortage of water, poor transport infrastructure and land-locked geographical situation, would not be overcome. At the same time, it is important to further enhance SPECA by widening its scope to include trade and investment facilitation and achieving tangible results. This could be realized with support of multilateral and bilateral donor organizations. In Mr. Gulomov's view, SPECA Project Working Groups and sub-regional sectoral strategies, agreed upon by SPECA member States, could serve as a framework for a deeper involvement of donors into the development processes in Central Asia.

10. **H.E. Ambassador Nourlan Danenov**, Permanent Representative of the Republic of Kazakhstan to the United Nations Office at Geneva, while welcoming the UNECE initiative of holding a conference on SPECA, expressed doubts that it could provide a full-scale assessment of the results of the SPECA implementation without a preliminary appraisal been conducted by the SPECA member States themselves, ESCAP and DESA, in close cooperation with the SPECA Regional Advisory Council (RAC). At the same time, in Ambassador Danenov's view, critical, but constructive discussion of the SPECA performance could assist the SPECA RAC (at its forthcoming fifth session in Dushanbe) to work out an effective system of measures to further SPECA activities. Focusing on the implementation of SPECA, Ambassador Danenov emphasized that the Central Asian countries consider that programme "useful and well-timed". The programme helped to mobilize significant reserves of sub-regional cooperation, accelerate and make more effective the adoption of UNECE and ESCAP norms and rules by the participating countries, and improve investment climate in the sub-region. The implementation of the programme revealed the over-ambitiousness of some initial goals, high sensitivity of some issues, insufficient support of the United Nations. Particularly, a set of project proposals of the sub-regional significance prepared within the framework of SPECA for funding from the UN Development Account did not receive support from the UN headquarters. In view of the Ambassador, it is now crucial for the success of SPECA to undertake correcting measures to make all the SPECA countries interested in cooperating. He further highlighted the progress achieved by the participating SPECA countries, which, *inter alia*, included: (i) setting-up SPECA organizational structure, (ii) holding SPECA International Economic Conference and Conference on Tajikistan, (iii) successful implementation of SPECA Energy Efficiency Project, and (iv) transport project. In conclusion, Ambassador Danenov expressed hope that technical cooperation support, particularly, advisory services, would be expanded and that the SPECA countries' request to establish a post of SPECA Special Coordinator would be supported by the two Regional Commissions.

11. In his welcoming address, **Mr. Mahmud Mamed-Kuliyev**, Deputy Minister for Foreign Affairs of the Republic of Azerbaijan, stressed the importance of SPECA as a framework for expanding regional cooperation and ensuring a more effective and efficient utilization of the potential of the sub-region. As a new member of SPECA, Azerbaijan attaches significant importance to SPECA. Since joining the SPECA, Azerbaijan hosted a number of important international meetings devoted to the development of transport and transport infrastructure. Azerbaijan hopes to contribute to the implementation of the initial SPECA goals, especially, to the development of reliable alternative pipeline routes, which is strategically important for securing energy supply to the global markets. For achieving this goal, "a well-designed framework of regional cooperation in the field of energy supply", including the Caspian Sea area, is needed. To enhance the overall cooperation within the SPECA, the programmes requires "a strong, institutionally supported mechanism", backed up by international financial institutions, increased technical assistance in capacity building and management training. Such assistance could be provided by experts from the EU and/or accessing countries of Central and Eastern Europe.

12. **H.E. Ambassador Seyed Mojtaba Arastou**, Secretary General of the Economic Cooperation Organization (ECO), addressing the Conference participants, expressed hope that the forthcoming signing of ECO/UNECE Memorandum of Understanding would induce incentive for a more active interaction between the ECO and UNECE and, therefore, broaden cooperation between all the countries of the Central Asian region, including Iran, Afghanistan and Pakistan. In view of Ambassador Arastou, it is reasonable to expect that both SPECA and ECO member States would benefit from the cooperation between the two organizations, taking into consideration the similarity of priorities and the complementarity of activities, allowing for synergy between them. UNECE could also benefit from the experience of ECO in the area of trade and transport facilitation and energy. The ECO member countries, which also include 5 SPECA member States and Azerbaijan, have achieved positive results in promoting trade and investment. Much more needs to be done, however, in these and other areas, particularly, in developing, diversifying transportation networks, including the network of railways, but also in harmonizing norms, standards and regulations to ease the movement of goods and services across borders, while reducing the transaction costs.

13. **Mr. Ravi Sawhney**, Director, Environment and Sustainable Development Division, UNESCAP, delivered a Statement on behalf of Mr. Kim Hak-Su, UNESCAP Executive Secretary, which highlighted the predominantly transboundary nature and scope of SPECA activities, the accomplishments and shortfalls of

the programme. Recognizing the substantial progress achieved in a number of areas, energy and water resources management, border-crossing facilitation, and the organization of the International Economic Conference on Tajikistan in the Regional Context of Central Asia, Mr. Kim Hak-Su emphasised the importance of the active participation of all five Central Asian countries in SPECA as a testimony of their firm commitment to cooperation which was imperative for wider cooperation and support of the international community. He therefore regretted the reticence of two member States about their participation in SPECA and called for renewed efforts and dialogue with them to engage themselves fully in the process of cooperation under SPECA as it was only then that the Programme could achieve its full potential. The recent accession of Azerbaijan to SPECA was indeed a manifestation of the growing recognition of the potential of the Programme. UNESCAP would continue to make its best endeavours to support the further implementation and strengthening of SPECA and in this process it looked forward to closer cooperation with individual member countries and strengthening partnership with UNECE and other organizations working in Central Asia.

14. **Mr. Daniel Guyader**, Principal Administrator, External Relations Directorate, EC, speaking on behalf of the European Commission, thanked UNECE and SPECA countries for organising the present Conference. He then provided an overview of the EU strategy towards Central Asia and TACIS activities, which had undergone a profound change over the past 18 months since the terrorist attack against the United States. A new EU strategy towards Central Asia is characterized by a strong emphasis on regional cooperation, which is viewed as a necessity for successful solution of development problems facing the Central Asian countries. Such an approach is an innovation for the EU policy towards the CIS. The new regional component complements the EU Partnership Cooperation Agreements (PCA) with Uzbekistan, Kyrgyzstan, Kazakhstan and Tajikistan (in the process of negotiation). The PCA with Turkmenistan, however, was never launched due to political reasons. The EU also resumed its development assistance to the Central Asian countries through TACIS, which annual budget was increased up to 50 million EURO. The EU development assistance is mainly targeted to regional cooperation in curtailing drug-trafficking and strengthening border management and control, but also includes cooperation in the area of energy, environment and transport. Development assistance provided within the bilateral cooperation agreements would be focused on a number of priority areas, including consolidation of democracy, facilitation of transition to market economy, strengthening civil society, implementation of the rule of law, respect for human rights and fundamental freedoms, reduction of poverty, social and economic development, promoting Good Governance, environment and water management. TACIS activities were also extended to Tajikistan. The EU intends to enlarge its presence and involvement in Central Asia. The EU has established its delegation in Almaty, Kazakhstan, and plans to open branches in each of the Central Asian countries. With regards to SPECA or UN/SPECA, Mr. Guyader informed the participants of the EU support of the programme and, once again, expressed regrets that two of the founding SPECA member countries had not been participating in the programme.

Panel 1: UN/SPECA: Achievements and Challenges (Chairmen: Mr. George Kowalski, Director, Industrial Restructuring, Energy and Enterprise Development Division, and Mr. Kaj Barlund, Director, Environment and Human Settlements Division, UNECE)

Rational and efficient use of energy and water resources of Central Asia

15. **Mr. Ularbek Mateyev**, Director of the State Energy Agency of the Kyrgyz Republic, and the Chairman of the Project Working Group outlined the main goals of, and activities undertaken under this project. The initial goals of the project, which included: the preparation of a regional strategy on rational and efficient use of energy and water resources, creation of demonstration zones, improving national capacities in collecting, processing and evaluating data on energy and water issues, strengthening institutions of the Central Asian countries by means of upgrading the knowledge and skills of their experts and support of the activities of the SPECA PWG on Rational and Efficient Use of Energy and Water Resources, were almost fully implemented. A Diagnostic Study of each of the two components, energy and water, was prepared, which allowed a full-scale assessment of the situation and emerging trends in each of the two sub-sectors, which served as a basis for preparing a forecast, regional strategy and action plan. The study of the energy sector of the Central Asian countries confirmed the earlier findings that the sub-region has a large potential

in coal, oil, natural gas and hydro-energy resources. At the same time, it revealed that no essential changes in the long-established pattern of utilization of energy resources did occur. Due to various reasons, the Central Asian countries continue using their resources inefficiently. It would require almost \$120 billion of investment to remove the underlying causes of the inefficient use of energy.

16. **Mr. Bo Libert**, UNECE Regional Adviser on Environment, highlighted the findings of the Diagnostic Study on the state and use of water resources in the Central Asian sub-region and suggested urgent measures that need to be undertaken to ensure equal possibility for sustainable socio-economic development and sustainable management of water resources. The development of the water sector of Central Asia is heavily dependent on the following factors: the political will of the countries [the readiness to undertake joint effort, coordinate and cooperate in exploiting the sub-region's energy and water resources and their ability to overcome destabilizing factors (environmental, socio-economic, inefficient management)]. The support of the international donor community is crucial to a successful resolution of the problems facing the Central Asian countries in the area of energy and water resources.

17. **Mr. Ularbek Mateyev** informed that on the basis of the Diagnostic Studies a draft concept of the Regional Strategy on Rational and Efficient Use of Energy and Water Resources was prepared. It contains the principles of inter-state relations, inter-state distribution of water, national water policy, national energy policy, the organization of the inter-state cooperation, monitoring of the water and energy sectors, inter-state dispute resolution, and mechanism of implementation of the Strategy. At present, the concept of strategy is in the process of discussion. Preliminary results of the discussion revealed a need for strengthening cooperation with other international programmes having or planning to develop a regional strategy in the area of energy and water. In implementing the PWG goal to upgrade the knowledge and skills of local experts, a series of training courses in energy management, financial management, energy audit and etc., as well as on energy project elaboration and preparation of business plan, were organized. In addition, seminars on legal regulation in achieving rational and efficient use of energy and water resources were held in Bishkek in 2002.

18. **Mr. Evgeniy Nadezhdin**, UNECE Regional Adviser on Energy, focused his presentation on the energy efficiency zones created in Almaty (Kazakhstan) and Bishkek (Kyrgyzstan) within the SPECA framework. The energy efficiency zones were intended for demonstrating technical possibilities of saving all types of energy resources, testing organizational and financial energy-saving schemes, installation of equipment registering the use of heat, hot and cold water, technical realization of demonstration projects of high energy efficiency on the territory of the demonstration zone. During the first year of operation of the energy efficiency zones, a significant saving of water, heat and electricity were accomplished as a result of application of the above approaches (see also the PowerPoint presentation on the SPECA website).

19. **Ms. Svetlana Prokopchina**, Director General, CINTech, Russian Federation, informed on the contribution made by CINTech to the project under consideration. In particular, she demonstrated software "Ecoanalyst-CENTRASIA" for preparing cadastres, monitoring, objects and their components status estimation, dynamics definition, etc. as well as Web-portal "CINTech-CENTRASIA", which had been employed for preparing the Diagnostic Studies mentioned above. She also provided information on training courses conducted by the Centre and the creation of 10 diagnostic centres in Central Asian countries, which together would constitute a regional information network. This system would be employed for supporting effective and efficient management of water and energy resources, as envisaged by the Regional Strategy on Rational and Efficient Use of Energy and Water Resources.

International Economic Conference on Tajikistan in the Regional Context of Central Asia

20. **Mr. Isroil Mahmudov**, Deputy Minister of Economy and Trade of the Republic of Tajikistan, presented the results of the International Economic Conference on Tajikistan held in April 2003 in Dushanbe. The PWG responsible for the preparation of the conference conveyed 6 meetings, at which interested parties had considered policies and policy measures to stimulate economic recovery and reconstruction of Tajikistan, including transition reforms and promotion of cooperation between the Central Asian and South Caucasian countries and elaborated investment projects of the sub-regional significance.

The Conference helped to raise the awareness of the international community and investors of business opportunities available in Tajikistan and in the Central Asian sub-region at large. Both UN Regional Commissions, UNECE and UNESCAP, made a significant contribution to the success of the conference, including the preparation of the mid-term strategy of structural transformation, economic recovery and reforms for Tajikistan and a strategy of sub-regional economic cooperation in Central Asia. Focusing on Tajikistan, Mr. Mahmudov highlighted recent changes in its legal framework aiming to improve the country's investment climate and to create free trade zones. He informed the participants that a number of strategic investment programme and projects had been elaborated for some priority areas, including hydro-energy, mining and manufacturing, production of construction materials and food industry. He acknowledged the present weakness of the State and its inability to implement reconstruction and ensure recovery alone. In view of this weakness, he saw the role of international support as of paramount importance and that of SPECA as an instrument of mobilization of foreign investment to the country. On behalf of the SPECA member countries, Mr. Mahmudov called for a more active involvement of the donor community in SPECA and proposed to include into the SPECA framework a new programme on "Joint Cooperation Strategy Towards Reconstruction and Modernization of Industrial and Manufacturing Enterprises of the Sub-regional Significance" with the lead country – Tajikistan.

Development of transport infrastructure and border crossing facilitation

21. In his presentation, H.E. Ambassador Danenov highlighted the results of the work of the PWG on Transport, the area, which the SPECA participating States viewed as a priority direction. This view stems from the specifics of the Central Asian transport network originating from the past, but also from the need to integrate the sub-region into the Euro-Asian system of roads. The latter is an extremely urgent task from the development perspective and the geographic location of the sub-region, most countries of which do not have access to sea and belong to the group of the land-locked countries. To integrate into the Euro-Asian transport network, the Central Asian countries need to implement at least two tasks: (i) to harmonize their transport regulation with the international one, and (ii) to build transport linkages, which could allow to capture the benefit of participation in the transcontinental transport corridors. An intermediate task is the removal of administrative barriers to border-crossings within the sub-region. Since the first meeting of the SPECA PWG on Transport, the following steps have been undertaken. The participating SPECA countries joined a number of important International Transport Conventions, Kazakhstan and Kyrgyzstan established inter-agency committees on simplification of border-crossing procedures on bilateral basis, agreed on a draft MOU for road transport facilitation, and other. The SPECA PWG on Transport established close contacts with other international programmes on transport, including ESCAP Silk Road Initiative, EU TRACECA and those led by the IBRD, UNDP, ECO and EBRD. SPECA helped the participating countries to negotiate a common position on some important transport related issues, including transit conditions.

22. Mr. Michalis P. Adamantiadis, UNECE Regional Adviser, added to the presentation made by the Ambassador of the Republic of Kazakhstan information on the implementation results of some of the initial goals of the PWG on Transport, such as: initiatives for opening new rail connections, identification of physical and non-physical barriers in the land transport corridors between Central Asia and Europe, identification of priority investment projects of regional significance and etc. With regards to new rail connections, the passenger train on route Almaty-Tashkent-Turkmenabad-Tehran became operational. A demonstration run of container train on route Almaty-Istanbul was also undertaken. The list of priority SPECA infrastructure investment projects was elaborated, as well as a list of custom posts and Government decrees in the field of international transport facilitation. Regarding the future, the SPECA PWG on Transport plans to adopt and implement its Action Plan for Transit Transport Cooperation, which was approved by the Group at its 8th session, Baku, Azerbaijan, 27-29 March 2003. The Plan is envisaging, *inter alias*, improvement of transport legislation, harmonization of national transport regulations with international Conventions and Agreements, improvement, rehabilitation and better maintenance of rail and road networks, enhancement of transit infrastructure and promotion of combined transport, intelligent transport systems and related infrastructure. Mr. Adamantiadis also gave information on the UNECE contribution to the SPECA PWG on Transport, and on two new SPECA related projects: (i) The UNECE project for the Facilitation of participation of Central Asian and Caucasus countries in the meetings of the UNECE Inland Transport Committee and selected Subsidiary Bodies, and (ii) the UNECE/UNESCAP Euro-Asian transport links

component of the UNDA project on Capacity Building for the development of Interregional Transport Linkages. However, the absence of the two SPECA countries from the PWG on Transport undermines the effectiveness of its work. Without active participation of all the SPECA countries the collective effort to improve the position of the Central Asian countries in the Euro-Asian transport networks as an important transit area would be of limited scope and the efforts for addressing the issues of international transport in the region would be weakened.

Regional cooperation on the development of multiple routes for pipeline transportation of hydrocarbons to global markets

23. Mr. Zaur Yagubov, Ministry of Fuel and Energy of the Republic of Azerbaijan, introduced Azerbaijan's view on the above issue. Given the fact, that the Azerbaijan's energy sector, including its exports of hydrocarbons, has been rapidly expanding, the existing network of the pipelines and their geographical allocation and orientation in the CIS area are insufficient to meet Azerbaijan's demand. Therefore, Azerbaijan is interested in cooperating with the SPECA countries and other possible supplier- and transit countries in finding a solution to this bottleneck. As a new member of SPECA, Azerbaijan would like to lead the activities in this area aiming to develop other routes for pipeline transportation. Mr. Yagubov highlighted recent developments with regards to new pipeline routes and results of cooperative efforts with Kazakhstan, Georgia and Turkey, particularly regarding the construction of two new pipelines: Baku-Tbilisi-Ceyhan main export oil pipeline, to avoid the congested waters of the Bosphorus, and Baku-Tbilisi-Erzrum gas pipelines. These new pipeline routes represent a new concept of energy corridor development that would connect the Caspian Sea Coast to the Turkish Mediterranean, to provide oil and gas for the European market. The Baku-Tbilisi Ceyhan (BTC) pipeline (1760 km long) will be a dedicated pipeline system transporting up to one million barrels per day – 50 million tonnes per annum – of crude oil from an expanded Sangachal terminal near Baku (Azerbaijan), through Georgia via a new marine terminal at Ceyhan (Turkey) on the Mediterranean coast. Mr. Yagubov also informed the participants about another new project - the South Caucasus gas pipeline for transporting natural gas from a large deposit of gas, Shah Denis (Azerbaijan) towards Turkey's seashore.

Panel 2: Central Asia: Development Cooperation Perspectives (Chairman: Mr. Khaled Philby, UNDP Resident Representative)

24. In her presentation, Ms. Carol Cosgrove-Sacks, Director, UNECE Trade Development and Timber Division, assessed the main common impediments of the Central Asian countries to their participation in global markets, reviewed the present situation in the sub-region regarding cross-border transit, and proposed strategic approaches to facilitating trade. In her view, the participation of Central Asian states in international trade is heavily conditioned by fragile transit routes, the lack of security, unsettled and disputed borders, recently introduced cross-border barriers, the overall landlocked geographical location and remoteness from major markets. Infrastructure deficiencies and tariff policies further complicate the situation and increase transaction costs. Focusing on the current situation in Central Asia, Ms. Cosgrove-Sacks underlined the lack of institutional capacity as a major factor, undermining sub-regional cooperation and, consequently, the integration of these countries into the European and global economy. While noting some significant success regarding the approximation of their institutions to those needed for participation in international economic relations, Ms. Cosgrove-Sacks commented that the Central Asian countries are far from being fully prepared to benefit from opportunities available to them. She cited several problems still facing the countries. Thus, many bilateral and multilateral agreements signed by these countries contain different and contradictory sets of rules, procedures, mandates and institutional arrangements. The legal environment is largely unstable and complicated. For example, in Kazakhstan, there are over 1,000 custom-related laws, instructions and amended and overruled orders. The "legal walls" between the Central Asian countries and between them and the rest of the international community continue to rise. The lack of transparency, information and recourse results in lack of confidence and corruption and undermines reliability and predictability. The Central Asian countries are in need of trade facilitation strategies at both national and sub-regional levels, for overcoming the geographical and other disadvantages from which they suffer. They also need assistance from the international donor community to build capacity for

implementing these strategies, as well as for improving security for border crossing. The UNECE could provide assistance in implementing trade facilitation strategies and custom reforms and could support measures related to trade and border crossing facilitation, in cooperation with ESCAP.

Comments & questions:

Mr. Ravi Sawhney informed the participants that ESCAP had launched a trade and transport facilitation programme and invited SPECA member countries to use advisory services provided by the Commission. UNECE and UNESCAP can work together for their common member States.

25. Ms. Rika Ishii, Principal Economist, Office of the Chief Economist, EBRD, presented the EBRD approach to Central Asia, which, in essence, aims at assisting the countries of the sub-region in augmenting their economic potential. Therefore, the Bank's assistance is focused on overcoming the limitation of small markets of the Central Asian countries by promoting sub-regional cooperation and border-crossing and trade facilitating, especially with China and Russia. Secondly, the Bank is trying to prevent a further erosion of the integrated regional energy and water management system inherited from the Soviet past and has suggests alternative pricing arrangements, which could work under new conditions. Implementing its strategic goals towards Central Asia, the EBRD launched a number of programs/projects, including the extension of its Trade Facilitation Programme with EURO 400 million facility to the countries of Central Asia. The Bank, for example, provides guarantees, covering risks associated with trade finance transactions, for 16 banks in SPECA countries, and supports cross border investments, particularly by Kazakh banks in the Kyrgyz Republic. Significant attention is also given to developing regional infrastructure. However, in view of the Bank, much more should and could be done. The question is: which incentives are appropriate and/or should be applied to stimulate sub-regional cooperation, considering that there are differences in the incentives of large and small countries? A further dialogue between the SPECA member States and international financial institutions, on the one hand, and between all the interested parties, on the other, is needed to answer this question. Ms. Ishii suggested several issues for discussion: (i) how to reconcile the differences in incentives; (ii) what would be the effects of various CIS countries' initiatives, including the creation of a custom union between Russia, Ukraine and Kazakhstan, which leave behind smaller countries, or the Eurasian Economic Community, embracing five of the twelve CIS countries? (iii) How could these different initiatives be reconciled with the requirements of the WTO accession? (iv) What else could be done with regards to the non-participating Central Asian countries?

Comments & questions:

Representative of Finland drew the attention of the participants to the importance of conditionality practiced by international banks in providing technical assistance to Central Asia. This conditionality includes, among other, political ones, including a requirement of democracy. Uzbekistan was warned that lack of democracy would affect its credibility. Democratic institutions, which could be used effectively in promoting cooperation among the Central Asian countries. Some participants asked for clarification on the terms of the EBRD investment. Responding to this question, Ms. Ishii informed the participants, that EBRD, as a bank has to follow certain banking principles. In the case of EBRD, they are: (i) sound banking; (ii) decent returns on its investment, (iii) provision of lending to companies, not the Governments. She further added that EBRD focus in the sub-region had been on the facilitation of the private sector development.

26. The Central Asian Partnership Initiative "Environment, Water and Security in Central Asia" was presented by **Mr. Bo Libert** on behalf of **Mr. Bulat Yessekin**, Executive Director, Regional Environmental Center for Central Asia, Kazakhstan. The Central Asian Partnership Initiative represents an attempt to integrate all the environment programmes, policies and action plans of different stakeholders and countries, dealing with the problem of environmental degradation, particularly, the Aral Sea Basin, in accordance with the principle of partnership. In the development of this initiative, a problems tree, a concept, was created. It implies that public passivity, lack of cooperation mechanisms, education and capacity are at the root of Inefficient Governance, hence, decline of trust, land productivity, loss of natural resources, ecosystem degradation, are the structural causes of conflict and terrorism, poverty and ecological crises. Together they constitute the basis of security threats. The initiative aims at removing the fundamental causes of political

instability and environmental crisis in Central Asia by forging a partnership and establishing links with the business sector, governmental and non-governmental actors. The international community is expected to act as a guarantor, securing the implementation. The goals of the initiative are: to strengthen cooperation for agreeing on common goals; free information exchange; capacity building; involvement of business, NGOs and other stakeholders. The expected outcome is stabilization of social and economic conditions, which would be achieved as a result of realization of 3 main targets: conservation of ecosystem; rational use of water; intersectoral cooperation and capacity building. The initiative envisages a drafting of an international legal document that would set specific objectives and mechanisms of cooperation, monitoring and distribution of responsibility. The objectives of major international conferences and the WSSD Plan of Implementation are to be incorporated in this legal document. As a major incentive for countries' participation, the initiative proposes a sub-regional deal, a debt-for-environment swap. It also proposes the establishing of a sub-regional Public Fund for Sustainable Development as a financial mechanism.

Comments & questions:

The participants raised a number of questions with regards to the relationship of the Central Asian Partnership Initiative with the UN Convention to Combat Desertification, the reason of developing so many initiatives for Central Asia and their link to the UN, possible further cooperation between UNECE and ESCAP. Concerns were expressed on the lack of cooperation between different donors and difficulties to get information on who is doing what and the impact of activities. Calls were made for the SPECA member countries to be more forthcoming in designing and implementing solutions to their problems.

27. In his presentation, Mr. Trond Dahlsveen, President, Energy Saving International AS, Norway, highlighted the technical assistance activities, which had been implemented by the ENSI in Azerbaijan, Kyrgyzstan and Kazakhstan within the framework of the "Energy Efficiency and Cleaner Production Long-term Norwegian Capacity Building Programme for three SPECA countries". The programme has been funded by the Norwegian Ministry of Foreign Affairs and has an operational time frame of 5 years. It is mainly concerned with the issues of energy consumption and aims at improving energy efficiency of industry and buildings, reducing pollution load, improving environment and supporting the development of a sustainable and market-based economy. The motto of the programme is: 'Only real projects, developed, financed and implemented could make a difference'. To implement this motto, the programme uses a combined training of local specialists, during which they are lectured and develop their own projects. It provides support for development of many diverse activities, which are important for ensuring continuous project implementation (networking, information, demo projects, training/education, new technologies, financing) and, hence, the promotion of sustainable production patterns. The programme is implemented in partnership with local agents, which contribute financially in the projects and, then step-by-step take them over. In view of the Norwegian experts, this is important for ensuring long-term results. In 2002, the Norwegian programme joined the UNECE "Demo-zone for energy and water efficiency" project in Bishkek, Kyrgyzstan. In the same year, in cooperation with the UNECE, it founded "Centre for Energy Efficiency and Cleaner Production" in Almaty, Kazakhstan. Apart from the UN agencies, the Norwegian programme is coordinating its activities with other donors active in the sub-region.

Comments & questions:

The participants expressed appreciation of the approach and activities of the Norwegian Government in the SPECA countries, as well as the efforts of the programme managers to coordinate their activities with other programmes in operation in the sub-region. In this regard, the representative of UNIDO was interested in finding if the Norwegian programme managers were aware about the UNIDO Cleaner Production Centres and if any effort was made to joint the efforts. He was informed that the Norwegian programmes in some countries, for example, in Moldova and Russia, were interacting or even merging with UNIDO Centres.

28. Mr. Eric Gerelle, IBEX Investment Group, Switzerland, presented his, which aims at promoting sustainable development production activities in developing countries by bringing together local SMEs, technology providers, private investors and funding agencies, Government sponsors and patrons for elaborating, investing in and implementing projects within the framework of sustainable development project

convention. The company's goals are: the development of new markets, new technologies and new materials and the promotion of knowledge exchange. In Central Asia, the company intends to identify host countries, select projects, local partners and to mobilize donors. It has already begun talks with some of the Central Asian countries and plans to hold its first information day in November 2003.

29. **Ms. Marie-Carin von Gumpfenberg**, Senior Research Fellow, Policy Studies Central Asia, Germany, presented an appraisal of the efforts of the international donor community to promote the development of civil society organizations in Central Asia. In her view, the results of these efforts were rather limited due to a variety of reasons: underestimation of the historic legacy and local conditions, heavy pre-dominance of the donors' views and approaches, resistance of government structures, vague legislation on voluntary organizations, lack of capacity, and etc. Despite significant resources been invested by international agencies and foreign NGOs in developing local civil organizations in Central Asian countries, most of the newly emerged organizations remained weak and inefficient: (i) they do not have their own strategic plans and missions, (ii) only very few have been paying attention to the need to build up a capacity to ensure good quality performance, internal accountability, in-built checks and balances in decision-making process, output monitoring systems, (iii) they lack lobbying capacities, and (iv) rarely collaborate and exchange information; (v) seldom maintain strategic alliances with other players to achieve organizational goals; (vi) many are captured by people interested in profiteering; (vii) most of these NGOs concentrate in cities. Since recently, some international voluntary and donor organizations have attempted to revive rural traditional forms of civil society of the Central Asian countries, such as: *Mahallas*, a form of local communal self-organization based on good neighborliness or profession; *Chaihana* (tea-houses, a place of gathering of Mahalla members for discussing local news, problems and etc.); and *Aksakal* committees (a form of the Elders' Councils). While this approach has a comparative advantage over the urban NGOs, particularly, because they are rooted in the local culture, unite local people and focus on local needs and problems, they also have some serious shortcomings: they are male dominated and may be easily captured by powerful local clans. Answering to her own question on 'What forms to encourage?', Ms. Marie-Carin von Gumpfenberg proposed to work with both types of organizations, but insisted on firm control over the treatment of women, management of resources and etc.

Comments & questions:

This presentation caused a lively exchange of views on the Central Asia's civil society situation, development trends and possible approaches of donors to the promotion of the civil society's development. The representative of Azerbaijan pointed out at the need of involving the Governments in the work of donors. He noted that some NGOs had been more focused on the issues, which were more of interest to donors, rather than to the countries. He also emphasized that, in newly emerged countries, the development of strong civil society would take time. He called for donor organizations to involve the Governments of the countries, in process. The representative of Finland underscored his support of the EU and OSCE effort to promote democracy and civil society development in Central Asia and South Caucasus, and noted the existence of various Government restrictions on creation and functioning of voluntary organizations. In his view, vibrant civil society is a guarantor of democracy and, hence, sustainable development. He agreed with the representative of Azerbaijan that the development of strong civil society in the newly emerged countries would take time, but disagreed that there was a conflict between the local development priorities and the donors' priorities. The role of the Government in this process should be constructive and supportive of the development of civil society. Other participants asked for clarification, which of the NGO types should be chosen as a local partner at the communal level, and which criteria should be applied for selection. Ms. Marie-Carin von Gumpfenberg answered that 'bad boys' were present among the both types of the NGOs, so, donor organizations should pay attention to inserting an effective monitoring control. The representative of Tajikistan expressed a support for concerns raised by his counterpart from Azerbaijan, and asked for clarification of what unfavourable conditions for NGOs are in Tajikistan. Ms. Marie-Carin von Gumpfenberg answered that there were ambiguous rules of registration and operation for NGOs, which had handicapped their development. Some speakers expressed doubts about Mahallas as a suitable partner for donors, considering their conservative nature.

30. **Mr. Bo Libert** and **Mr. Evgeniy Nadezhdin** presented a UNECE project proposal “Capacity Building for Air Quality Management and the Application of Clean Coal Combustion Technologies in Central Asia”, which would be linked to the on-going project carried out by the UNECE two divisions in the SPECA countries. The focus of the environmental component of the project would be on strengthening the capacity of air quality management institutions to implement the UN Convention on Long-range Transboundary Air Pollution and its Protocols. The energy component of the project would concentrate on redeployment of appropriate clean coal combustion technologies for heat and power generation from solid fuels. It is expected that the project would result in: establishing a national concept and action plan for implementing the Convention and its Protocols; raising awareness in Central Asia of air quality management and providing a framework for other countries to accede to the Convention; establishing a plan for cooperation, upgrading and testing one air pollution monitoring station as a link between EMEP and the Asian air monitoring network; establishing a sub-regional CCT and project investment experts; reviewing and assessing energy policy and pricing reforms; enhancing capacity to identify and develop investment projects for introduction of low-cost, fast payback CCTs for heat and power sector, as well as to select a suitable project finance modality, finance mechanism and investment source. The project was presented to the UN Development Account for funding.

31. **Ms. Ewa Ruminska-Zimny**, UNECE Senior Economic Affairs Officer, highlighted the ECE activities in the sub-region aiming at promotion of women’s entrepreneurship. She presented a number of arguments in favour of support of women’s entrepreneurship, citing examples of the impact of women’s owned- and led-SMEs on unemployment, poverty and economic growth in USA, and other countries. The UNECE goals in this area are in line with the Beijing Declaration to enhance the role of women in economy, improve their social status by widening their economic opportunities, and, therefore, promote gender equality. Ms. Ruminska-Zimny informed the participants about the outcome of the two Regional Forums held by UNECE in 2001 and 2003 and noted active participation of women from Central Asian and South Caucasian sub-regions. She also mentioned some implementation activities, both on-going and planned. She also informed the participants that the UNECE had received two proposals from Turkey and Uzbekistan, offering to host next regional and sub-regional forums.

Comments & questions:

The Representative of Azerbaijan expressed appreciation of the UNECE effort to provide support of women’s entrepreneurship, particularly, in Azerbaijan. The Representatives of Switzerland and Finland also welcomed this new ECE initiative and offered cooperation.

Panel 3: Central Asia Countries: Meeting the Challenges of Transition (Chairperson: Ms. Brigita Schmögnerová, UNECE Executive Secretary)

32. In his presentation, **Mr. Isroil Mahmudov** underlined the commonality of problems facing the countries of Central Asia, which had stemmed from their common past. These are: a predominantly agrarian orientation of their economies, and underdeveloped processing and manufacturing. These characteristics put Tajikistan in a very disadvantaged competitive position at the very start of transition. Since then, Tajikistan solved many problems of transition, particularly halted the production decline. However, the country is still far below the 1991 level of GDP, and the overall macro-economic situation is not yet stabilized. The banking, monetary and fiscal policy, mechanisms and instruments, need further improvement; custom rules and regulation need harmonization with the world standards. The lack of foreign investment coupled with consequences of war have constrained recovery of growth. A stabilization of the political situation in the sub-region and Tajikistan provides new opportunities for growth and sub-regional cooperation. A common economic space of Central Asia, extended to Afghanistan, could improve these opportunities further, provided that all the Central Asian countries would participate. To ensure a progress of the socio-economic development, the Central Asian countries need to implement the following actions on the priority basis: promote economic cooperation among themselves, deepen production specialization, improve cooperation in the area of transport and communication, jointly exploit water and energy resources, promote the development of cooperation in the area of science and technology and social ties. Tajikistan believes that the

first step towards integration should be the creation of a Central Asian free trade zone. The next step should be the establishment of an inter-state and national infrastructure of support of SMEs. A comprehensive international assistance is needed for ensuring the development of government and market institutions and mechanisms of integration.

Comment & questions:

Ms. Brigita Schmögnerová underlined the importance of cooperation among the Central Asian countries and expressed support of the Central Asian countries' intention to create a free trade zone. She offered UNECE technical assistance, which could be provided upon the countries' request. The Representative of Finland expressed interest in receiving more information on the effort of the Tajik Government to combat drug trafficking, originating from Afghanistan, and the effects of this on the economy of Tajikistan. The representative of Tajikistan highlighted the efforts of his Government to curtail drug trafficking, but also underscored the financial costs incurred and the need for a more systematic approach to the problem of drugs from both the supply and demand side. The representative of the UN/ESCAP expressed satisfaction with the fact that the Central Asian countries had acknowledged the need for reform of the financial sector. He informed the participants about the outcome of a recently held conference on investment promotion in Dushanbe, which underlined the necessity for improvement of investment climate in Central Asia in order to attract foreign private investors.

33. In his presentation, **Mr. Mahmud Mamed-Kuliyev** provided an overview of the results of transition reforms in Azerbaijan. Azerbaijan had successfully passed through the stage of introduction of basic market institutions and mechanisms, but many complex problems still lie ahead. They include: development of a reliable legal and regulatory system with clear rules for such processes, as: privatisation, competition, corporate formation, evolution and operation, and etc.; administrative and structural reforms; and improvement of the judiciary system. Apart from these tasks, Azerbaijan is very pre-occupied with avoiding a trap of primary resources. Being rich in oil and natural gas, Azerbaijan has been increasingly dependent on oil revenues. Understanding the danger of such a dependency, the government of Azerbaijan is taking measures to stimulate diversification of the economy by promoting the development of alternative production patterns, particularly, by stimulating and supporting SMEs and re-allocation of investment resources, using fiscal incentives. The Government of Azerbaijan is aiming to improve the overall Governance by means of administrative and organizational reform in order to ensure transparency and accountability of the public institutions.

34. In his speech, H.E. Ambassador Nourlan Danenov focused on the specific problems and conditions under which the Central Asian countries had had to implement transition reforms. In addition to the fundamental task of building up nationhood and statehood, the countries of this sub-region had to cope with critical environment situation, migration, refugees, terrorism and drug trafficking. Kazakhstan has also to confront the problem of radioactive contamination of a significant part of its territory. Unsettled situation in Afghanistan continues to act as a destabilizing factor in the sub-region. Despite of all the initial constraints, Kazakhstan was able to accomplish significant institutional change and to set up a reliable market infrastructure and to promote the development of democratic regime. One of the most impressive achievements of Kazakhstan has been the maintaining of sustainable economic growth and stable socio-political situation. This was achieved by such measures as: decrease and stabilization of inflation, balancing the public budget, establishing a sound banking system and monetary policy and etc. Gradually the sustained growth had been translated into improvement of social situation: decline of unemployment and poverty, increase of the minimum wage, recovery of the value of social benefits, especially, for the vulnerable. Despite some reduction of poverty, its magnitude, however, remains significant, as well as of that of unemployment, so the alleviation of poverty and unemployment would stay on the Government priority list. At the current stage of transition, Kazakhstan is to deal with a number of other important development issues: diversification of the economy, import substitution, further development of social, financial, transport and communication infrastructure, modernization of agriculture. The strategy of industrial and innovative development of Kazakhstan till 2030 envisages an increase of GDP by 3.5 times by the year 2015. The institutional framework for its implementation is already in place, including the creation of Development Bank of Kazakhstan, Investment Fund, Export Guarantee Credit Corporation. Among other

important goals to be implemented are the realization of various agro-development programmes and cultivation of the oil and gas resources of the Caspian Sea basin. In the nearest future, Kazakhstan is going to be pre-occupied with the agrarian reform. It is anticipated that in 3 years, the efficiency of agriculture will be noticeably improved. Furthermore, the ensuring economic recovery of the depressed regions, the Government plans to develop a special programme, which implementation would be also included in the development priority set of the country. Commenting on SPECA implementation, Ambassador Danenov underlined the value of contribution made by two UN Regional Commissions and member States, but expressed some disappointment with the outcome. He proposed a reassessment of the SPECA organizational structure and mechanisms in order to identify major reasons for the lack of progress, especially in the light of recent personnel changes and re-organization in UNECE and ESCAP. Particularly, the role, functioning and servicing of the Regional Coordinating Committee of SPECA, at which the SPECA countries are represented at the level of Vice Prime-Ministers, should be reviewed, as well as the servicing arrangements by the two Regional Commissions agreed at the insertion of the programme. In his view, recently established Business Advisory Council also needs assistance of the UN Regional Commissions in formulating its programme of work. Finally, SPECA bodies would need assistance with elaboration and promotion of investment projects to be submitted to international financial institutions, such as IBRD, EBRD, ADB, EU and etc. Another group of questions to be addressed relates to the content of SPECA, particularly, the identification and prioritisation of cooperation areas and selection of major directions for focusing of its future activities. The Ambassador believes that the SPECA countries should continue focusing on energy, water, transport, border crossing and investment mobilization, but possibilities and benefits of cooperation in other areas should be also explored. The painful problem of mobilizing funds for financing SPECA remains unresolved with the exception of the Energy Efficiency Project, which had been receiving funds from the UN Development Account. The SPECA countries would like to know what are the funding possibilities available for the UN Regional Commissions and the UN system at large to finance this UN special programme, and what they could expect from the donor countries in this regard. In principle, it appears that everybody agree on the importance to continue to promote SPECA from either perspective, short-term or long-term. In conclusion, the Ambassador of the Republic of Kazakhstan expressed hope that the UNECE would continue its activities aiming to promote the development of a knowledge-based economy, the direction, which could become a new priority area of cooperation within the framework of SPECA.

Panel 4: United Nations System: International Development Assistance to and Technical Cooperation with Countries of Central Asia (Chairman: Mr. Ravi Sawhney, Director, Environment and Sustainable Development Division, UNESCAP)

35. The presentation of **Mr. Khaled Philby**, UNDP Resident Representative in Turkmenistan, was focused on a new UNDP sub-regional development strategy for Central Asia, which is currently in the process of preparation. The UNDP approach is built upon the conviction that national transition reforms and regional cooperation are interdependent. Whereas enhanced regional cooperation is a tool for overcoming the geographical isolation and ensuring economic diversification, national level reforms and policies affect the content, direction and effectiveness of regional cooperation. Therefore, UNDP Strategy for this sub-region pursues the following objectives: create a distinct regional strategy, ensure the interdependence between the national reforms and regional cooperation, improve donors' coordination, increase substantive capacity through fielding 4 RAs. The strategy has 3 pillars: Economic Reform and Poverty Reduction (create an enabling policy environment for investment and sustainable growth, interventions to reduce poverty, ease tensions and ensure participation); Governance Reform (public administration and civil service reform, build up local capacities to deliver services and assume fiscal responsibilities, strengthening parliaments, ombudsman institutions, develop civil society institutions); Environment Management (focus on water resources management, strengthen efficiency and responsiveness of the existing water management institutions, harmonize environmental legislation and regulations across the five countries). With regards to coordination of donors, the following goals are to be achieved: International community working closer together to improve coordination and effectiveness of programmes; ADB, UNDO, WB, EBRD working closely on regional programmes.

36. Mr. Krastu Mirski, Deputy Director, Telecommunication Development Bureau, ITU, highlighted the ITU global mandates, which are: to coordinate use of radio-communication resources, establish global telecom standards, and to promote the development of the ICT sector worldwide, implement agreed Strategy and Action Plan. The latter consists of six programmes: Regulatory reform; Technologies and networks; E-strategies and e-services; Economics and finance, Human capacity building and the Least developed countries. The ITU key activities in Central Asia in 2002 included: the establishment of the first Internet Training Centre (in Bishkek, Kyrgyzstan); creation of a centre of excellence; regional preparation for the World Summit on Information Society. In 2003, the organization envisages to open an ITU Area Office in Moscow, which will serve also the Central Asian countries; organize regional and sub-regional seminars and workshops; provide direct assistance, develop projects and bilateral cooperation with the Central Asian countries; implement specific resolutions and efforts to bridge the digital divide. Among the initiatives in the process of elaboration are: network cost models development in Kazakhstan; e-agriculture (Kyrgyzstan), formulation of a national e-strategy (e-business infrastructure and policy framework) in Azerbaijan, national tele-medicine and ICT (in Tajikistan and Uzbekistan).

37. Mr. Sham Bathija, Coordinator, ECO Region, Division for Services Infrastructure for Development and Trade Efficiency, UNCTAD, briefly described some of the UNCTAD mandates, for which implementation his division had been responsible, and the activities it had been carried out in the SPECA countries. Being the lead UN agency in the area of trade facilitation, UNCTAD has been focused on assisting SPECA countries in removing non-physical barriers to trade and transit, hence, reducing transaction costs. UNCTAD technical assistance, respectively, has been concentrated on building up capacities in three major areas: (i) regional cooperation and integration (with the goal to establish mechanisms for programme implementation and long-term cooperation); (ii) transport and transit facilities (aiming to reduce cross-border barriers, and to advance implementation of existing international transport agreement, including the review of transit trade arrangements, endorsement by Governments of transit corridors, and new tariff fee structures); (iii) trade and customs facilities (aiming to review existing trade and custom practices, improve collection and use of trade statistics and advance customs systems automation). UNCTAD has launched a number of regional initiatives in the listed areas, among which the most notable one was the elaboration of the Transit Transport Framework Agreement (TTFA). In addition, UNCTAD has undertaken a number of other activities to relieve the situation of the land-locked countries, which also include the SPECA countries. The forthcoming International Ministerial Conference of Land-locked and Transit Developing Countries to be held on 28-29 August 2003 in Almaty, Kazakhstan, is going to largely concentrate on the deficiencies of the transit transport infrastructure, which is another major obstacle, facing the SPECA countries and constraining their effort to integrate into the global and regional economy.

38. Ms. Barbara Baker, Managing Director, Magpie Links Ltd, UNECE Advisory Group on Intellectual Property Rights, and Mr. Geoffrey Hamilton, UNECE Regional Adviser and Secretary, UNECE IPR AG, presented a project proposal aiming to meet the need of the SPECA member States for building up an effective institutional framework for sustaining innovative activities and capitalizing intellectual assets. The project envisages a number of actions: consulting mission of the group of experts, assessment the situation with the intellectual property rights regime, provision of advisory services and training for all the agents (legislators, police, judges and etc) on the enforcement of IPR and etc.

39. Mr. Antal Szabo, UNECE Regional Adviser, highlighted the UNECE efforts to promote the creation and development of SMEs in the emerging market and transition economies and informed the participants about the activities envisaged by the UNECE for Central Asia, particularly, the organization of seminars and workshops on substantive, legal, organizational and quality management issues related to SMEs.

40. In his presentation, Mr. Heinrich Bruengger, Director, UNECE Statistical Division, emphasized the importance of building national capacities and capabilities in Statistics to ensure a proper functioning of economy, for managing resources, attracting foreign investors, monitoring the implementation and evaluating the results of Government and donors' programmes. He described the UNECE effort to assist SPECA countries in designing legislation on Statistics, harmonizing statistical norms and standards, improving statistical methods and techniques.

Panel 5: International Donor Community: Bilateral and Multilateral Development Assistance to the Economies of Central Asia (Chairman: Mr. Paolo Garonna, UNECE Deputy Executive Secretary)

Opening the session, the Chairman called the participating donor organizations to try to answer a number of important questions, such as:

- (i) Why is it so difficult to attract the attention of and resources from donors to Central Asia?
- (ii) Is there any obvious link between technical cooperation/assistance and economic performance of recipient countries?
- (iii) How do all the projects/programmes in the sub-region fit together? Is there any common strategy/vision with regards to Central Asia?

41. Mr. Cevdet Denizer, Country Manager for Tajikistan, IBRD (World Bank), attempted to answer the Chairman's questions using the example of Tajikistan. First, according to Mr. Denizer, the Central Asian countries have not been avoided by donors, including the World Bank. The major problem is not the absence of money. The money is there. The question is how to prioritise, disburse and absorb this money. Each and every international financial institution requires a co-financing. However, the Governments of these countries are often unable even to cover the required 10 percent of total value of the project. On the disbursement side, the most serious obstacles are procurement and financial management, which are characterized by the lack of transparency and accountability. These countries need help in building capacities needed for donors' money management. Another major problem is that most donors' money is consumed by external debt obligations. So, for the countries like Tajikistan, grants may be more appropriate than lending. Finally, each donor has its own requirements. This also constitutes a challenge. Recently, attempt was made to harmonize donors' requirements, procedures and standards, but so far without a big success. Finally, on the Central Asian countries' side, serious determination and commitment to the agreed priorities, procedures and principles are needed, which is often not the case. As far as the link between the technical assistance provision and country's economic performance is concerned, it is not always obvious, as the effects are usually revealed in the mid- or even long-term perspective. Tajikistan is a low-income country, where poverty is widespread and deep. Infrastructure is deteriorating rapidly. The prospect for a lost generation is increasingly real as the education system continues to deteriorate. The country suffered widespread physical damage and heavy human losses from the civil war that broke out soon after independence. Combined with the break-up of the Soviet Union and the concomitant losses in subsidies and trade, the war left the country politically, socially and economically vulnerable. Only after signing and implementing the peace accord in mid-1997 was the Government able to turn its attention to the economic and social development agenda. Good progress has been achieved since 1998 - economic growth reached double digits in the last two years. But, as outlined in the Poverty Reduction Strategy Paper (PRSP), the country's development agenda remains daunting. A large external debt, which absorbed almost 50 percent of fiscal revenues in 2002, complicates economic management and affects Tajikistan's ability to reduce poverty. Weak institutions and poor governance are serious constraints on development. Deficiencies in the legal framework and judicial system and an unreformed public administration hamper development of an investment climate necessary for private sector development. The political and security situations add to uncertainty. This country assistance strategy sets out an agenda for International Development Association (IDA) assistance that tries to serve the country's critical needs, as outlined in its recent PRSP, while recognizing its financial and institutional constraints. The Government's poverty reduction strategy, which was outlined in its first full PRSP, was discussed by the IDA and IMF Boards in December 2002. The PRSP comprises four elements: sustainable growth, improved governance, better provision of basic social services, and targeted support for the poor. While the Boards considered the PRSP overall direction to be appropriate, the lack of prioritisation was identified as a major weakness. The CAS recognizes this concern by emphasizing selectivity. The CAS focuses on three key objectives that are consistent with the PRSP: (i) to improve community-based support of public infrastructure and services, especially health and education; (ii) to foster economic activity through a program of micro and small scale credit, transferring land user rights to farmers and lowering the cost of doing business; (iii) to strengthen the institutions needed for a market economy through a long-term program of institution-building scaled to Tajikistan's modest present

implementation capacity. As such, the CAS is taking a new approach that has evolved from the past experience: as it works to build a foundation for better institutions in the medium term, the CAS program will support the immediate needs of the population, especially the poor, through a strong commitment to community-driven development. The institution-building program will be strengthened by the World Bank Institute's selection of Tajikistan as a focus country for its capacity-building program in Central Asia. Donor coordination continues to be critical for Tajikistan. As IDA own resources are constrained, increased donor coordination, clearer division of labour and additional grant funds are emphasized by the CAS. In addition, the CAS underscores the importance for Tajikistan of strengthened regional cooperation. IDA is actively strengthening its regional work in Central Asia through a series of regional initiatives in such areas as trade and transport facilitation, water management issues, energy markets in Central Asia, knowledge sharing, communicable diseases (HIV/AIDS, TB), and micro-enterprise lending. Tajikistan will be a major focus of all of these initiatives.

Comments & questions:

The USA representative described a new strategy and activities of USAID in Central Asia. The key goal of USAID strategy for Central Asia is to expand opportunities for the citizens of the new nations to participate in improving their governance, their livelihoods, and their quality of life and avoiding conflict through four primary sector objectives for each country:

- the growth of *small-scale enterprise and trade*, with emphasis on finance, deregulation, business services and education, particularly in agriculture;
- building a more *open, democratic culture*, with emphasis on non-governmental organizations, independent information and electronic media and progressive parliamentarians;
- better management of *critical water and energy resources*, with emphasis on participatory approaches, regional management and regulation and efficiency, particularly in irrigation;
- improved *primary healthcare*, with emphasis on community education and family practices, infectious diseases and social marketing.

These region-wide sector objectives are tailored in different ways to the unique situation in each of the five countries. There are two additional country specific objectives to improve governance in Kazakhstan and Kyrgyzstan, where there is greater commitment to reform: improved *fiscal management* and *accountable local government*. The sectoral objectives are supplemented by a primary and several secondary-crosscutting objectives. In view of the potential for instability, conflict and state failure in the region, this strategy has an important primary objective crosscutting all sectors:

- *mitigating potential for conflict* through active dialogue and civil society, employment and income growth, and improved health and environmental conditions;
- *reducing corrupt practices*,
- *minimizing gender biases*, and
- *opportunity for alienated youth*

Implementing its strategic goals in the area of environment, water and energy, USAID aims to achieve balancing the water and energy needs of the upstream and downstream countries. Various trans-boundary water-energy projects were carried out with this goal in mind since 1992. On the energy side, the focus has been on energy efficiency and pollution control. Many power plants and industrial facilities were equipped with appropriate energy-saving and pollution-reducing technologies. To ensure the sustainability of projects, USAID also provided training for local experts, including in environmental financing. It also has assisted in building institutions, particularly, in setting up Central Asian International Center for Environmental Finance. The latter is responsible for mobilizing internal and external resources and partners and funds various projects, employing innovative financial schemes and methods suitable for the market conditions.

42. Mr. **Daniel Guyader** informed that the EU assistance in Central Asia had been provided through 5 instruments: the Tacis Programme, Economic & Financial Assistance, the Food Security Programme, the

Humanitarian aid (ECHO), and Rehabilitation. The objective of the EU macro-economic/financial assistance is to provide budgetary support for the macro-economic stabilization (loans) or interest rates bonus (grant). Humanitarian Aid aims to improve the living conditions by providing humanitarian assistance in the areas of nutrition, health and water/water sanitation. The Tacis Programme in Central Asia is focused on the following objectives: (i) to promote transition to a market economy; (ii) to reinforce democracy and the rule of law (based on PCAs & TCAs). Particular attention is given to reduction of environmental risks and pollution, promotion of sustainable use of natural resources, social aspects of transition, and to facilitation of inter-State, inter-regional & cross-border co-operation. New EU Strategy towards Central Asia, adopted on 30 October 2002 (with the budget of € 150 Million for 2002-2004), has the following objectives: promote security and conflict prevention, eliminate sources of political and social tension, improve the climate for trade, investment and energy supplies. EU in the provision of its assistance to the sub-region applies a 3-track approach: *track 1*: regional programme; *track 2*: regional support for programmes implemented at the national level; *track 3*: pilot poverty reduction schemes. As it was mentioned earlier, a regional component is a novelty for the EU assistance to CIS. The emphasis of the regional component is on fight against drugs (CADAP), aiming to intercept drug trafficking along major routes by strengthening land & sea border posts (incl. airports), and to use a balanced approach between drug supply and demand (harm) reduction in coherence with BUMAD (Western NIS) & SCAD (South Caucasus). Border Management (BOMCA) is another sub-component of the EU regional assistance to Central Asia, aiming to improve cross-border co-operation between Kyrgyzstan, Tajikistan and Uzbekistan, to apply a coordinated approach with customs and CADAP, implemented with the expertise of our member States. The third objective is to combat water & land desertification, and to promote common approaches to the environmental challenges faced by the sub-region.

Finally, the EU regional component envisages assistance in the area of transport, particularly, within the framework of the EU initiative – Traceca, aiming to improve access to European & world markets via alternative transport routes, promote cooperation between Traceca Member States, to attract loans from investors (IFIs & private), and to promote integration between Traceca corridor and TEN (Trans-European Networks Energy (Inogate) to ensure security of energy supply, regional integration of distribution system and to serve as a catalyst for attracting investors.

43. Mr. Lan Wu, Head, Central Asia Regional Economic Cooperation Unit, Asian Development Bank, presented the report on the ADB activities in Central Asia, prepared by Mr. Adrian Ruthenberg, Director, Operations Coordination Division, East and Central Asia Department, Asian Development Bank. According to the report, the key sectors for focusing the ADB assistance to Central Asia are: Transport (to lessen the economic isolation of the region), Energy (to support efficient and rational use of energy), and Trade (To promote trade, traffic, and transit within, and to/from, the sub-region). In the area of transport, the major objective is rehabilitating transport networks to lessen locational isolation. To achieve this objective, the following project was implemented: Almaty-Bishkek Regional Road Rehabilitation (2000). Other priority transport projects are the construction of Kyrgyz Transport Corridor and Dushanbe-Sary-Tashkent road. In the area of energy, objective is: supporting efficient and rational use of energy (water) through cooperation, implementation of Regional Power Transmission Modernization Project (2002), Regional Gas Transmission System Improvement (PPTA ongoing), and Energy and Water Nexus Study (2002). In the area of trade, the main objectives are: to promote trade within, to and from the region, free from barriers especially non-tariff barriers, to implement Customs Sector Study (2001), and Customs modernization in Tajikistan and Kyrgyzstan (2002). The ADB Regional Cooperation Strategy (2004-2006) gives key consideration to: identifying common goals of participating countries to base ADB strategic objective in support of regional cooperation; analyzing rationale for regional cooperation, past experiences (constraints), and future prospects, including ADB experience and lessons learned; analyzing key regional and emerging issues to be addressed jointly to clearly identify ADB strategic thrusts and operational focus; and building more strengthened strategic partnership with development partners.

44. Mr. Laurent Guye, Executive Director, EBRD, informed the participants that the EBRD had been operating on the basis of the following key principles: **Sound Banking Principle** (projects financed by EBRD must be bankable); **Additionality** (operations must be complementary to the private sector); **Transition Impact** (projects must contribute and/or support transition). The main objectives of the Bank in

Central Asia are: (i) to expand Micro & SME lending, implement trade facilitation programmes, promote the development of equity & critical infrastructure with directed technical cooperation and grant funding, (ii) to promote integrity & corporate governance in developing financing opportunities; (iii) to pursue policy dialogue on investment climate through Foreign Investment Council, including the introduction of standards of disclosure and risk management and effective and efficient management of domestic banks. The Bank, however, faces constraints in Central Asia. Article 1 of the Agreement establishing the Bank requires from it to comply with its purpose - to foster transition and to promote private initiative "in countries committed to and applying the principles of multiparty democracy, pluralism and market economics", therefore, its main partners in the countries are to be private businesses. Another obstacle is high level of indebtedness of the Central Asian countries, which results in the IMF ban on non-concessional funding. Practically all the Central Asian countries are of high risk, what requires a high level of provisioning. Unfavourable investment climate introduces a further complication - difficulties to attract foreign strategic investors. Finally, as all Central Asian countries have small markets, most projects are predominantly small, the situation, which has been characterized by high incidence of transaction costs and low profitability for the Bank. In order to address these constraints, the Bank has established a number of instruments. Among recent initiatives are: CIS 7 (target countries, Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Tajikistan, Uzbekistan & Moldova, share common characteristics: low level of transition, poverty, high indebtedness, small domestic market/difficult weak banking systems, poor regulatory environments, limited access to export markets, weak investment climate and low FDI. The initiative is seeking to ease the debt burden of these countries and to release resources for investing in the economy); *Dedicated Funds* (Central Asia Risk Sharing Special Fund (CARSSF) to accelerate EBRD investment in Central Asia by risk sharing with donors, established in June 2002 for SMEs, Micro enterprises, TFP & DIF), *Co-financing* (blending) & *Technical Co-operation Funds*, *Regional Co-operation Initiatives* with other international financial institutions (IMF, WB, ADB, IDB), which focus on regional integration and promoting regional co-operation especially in transport, energy, water resources and trade. The Bank is considering some new ideas to improve its operational effectiveness in Central Asia, such as: expand and improve utilisation of existing funding arrangements with EBRD; develop co-financing grant arrangements; creation of a Multi-Donor Fund (TC & Co-financing), and establishing EBRD Consultative Group for Low Income Countries.

45. Mr. Tapio Saarela, Roving Ambassador, Ministry of Foreign Affairs, Finland, presented an overview of the Finnish development assistance, including to Central Asia. Finland is a small country and does not have big resource to give away. In order to use its scarce resources with maximum efficiency, it has to search for good projects. Finland contributes to the EU Tacis, UN system and finances a project in Tajikistan. It also contributes to the OSCE project, promoting Good Governance and the Rule of Law. It is aware of criticism by the SPECA countries that Finland funds mainly the projects related to the human dimension and is ready for dialogue with the receiving countries to better respond to their needs. At the same time, the link to Good Governance, the Rule of Law, respect for human rights and establishment of democratic institutions is very important to Finland to uphold. It sincerely believes in these values and views them as basic conditions for sustaining stability and economic development in the long run.

Closing session

46. Closing the conference, **Ms. Brigita Schmögnerová** thanked all the participant for coming to the UNECE Conference on SPECA and summarized the results of the two-day deliberation against the initial goals of the conference. The participants raised a lot of questions, made suggestions and put forward new ideas on how to expand the UN/SPECA. All these need further elaboration and discussion with the SPECA participating countries and UNECE partner organizations active in Central Asia. The participants also learned a lot about who is doing what in the sub-region. It became obvious that better coordination and cooperation was needed to use scarce resources more effectively and efficiently. Ms. Schmögnerová underlined the importance of a follow up to the conference. The UNECE secretariat would prepare a proposal on the follow-up to the conference, incorporating all the ideas and suggestions, and would try to identify ways and means of its implementation to the benefits of the participating countries.

Special event

47. During the Conference, Ms. Brigita Schmögnerová and Mr. Seyed Mojtaba Arastou signed the Memorandum of Understanding between ECO and UNECE. The MoU provides the basis for cooperation in the fields of transport; trade, industry and entrepreneurship; sustainable energy development, protection of environment, economic analysis and statistics which is to be carried out through consultations and cooperation on substantive issues, exchange of information and documentation, and participation in meetings. Commenting the event, both heads of the organizations underscored its importance in establishing another bridge between the two regions, Europe and Asia, and expressed hopes that cooperation between the two organizations would benefit their member countries.

Informal consultations

48. During the Conference, the Executive Secretary of the UNECE held an informal consultation with the representatives of the participating UN organizations, international financial organizations and EU on possible areas and modalities of cooperation. She also met with the representatives of the SPECA countries. During these meetings, some of the SPECA countries made additional proposals on improvement of the UN/SPECA performance. It was agreed to continue such consultations on the regular basis. Finally, the UNECE Executive Secretary met with the representative of the partner organization, UNESCAP. It was agreed to study the feasibility of holding an annual international conference on SPECA to be hosted interchangeably by the two Regional Commissions.

Some conclusions and recommendations:

49. The two-day UNECE Conference on SPECA confirmed the strategic importance of this sub-region for international stability and peace and for sustaining globalization. All the major international organizations and major donor-countries developed a strategy towards Central Asia and launched programmes to implement it. Therefore, it appeared that the international community was well aware of the situation in the Central Asian countries. At the same time, the Conference revealed that the knowledge about who is doing what in Central Asia among the international organizations and donor-countries was rather sparse and incomplete, indicating the lack of information exchange and coordination.

50. For many participating organizations, the existence of the United Nations Special Programme for the Economies of Central Asia was a novelty. Only few international organizations regularly participated in the meetings of the SPECA Project Working Groups and were aware of this UN programme.

51. The presentation of the results of implementation of SPECA, as well as the proposals on future activities and projects, was met with interest and approval. Some donor organizations expressed readiness to consider possibilities of their collaboration/involvement in SPECA activities.

52. During the discussion of the outcome of the SPECA projects, the representatives of the participating SPECA countries expressed their concern with the obvious shortfalls of the programme, particularly, with the lack of attention to the programme from other UN agencies and organizations, which had been mainly operating outside the UN/SPECA, and with the shortages of funding, specifically for the UN/SPECA, from the UN. It was noted that only one project, Energy Efficiency, had enjoyed financing from the UN Development Account. A small amount was recently allocated for Central Asia from the fund received by the UNECE Division on Transport for a region-wide larger project. SPECA countries would like to further develop the content of the programme. Since its establishment, the situation had changed to the better in the sub-region, and the SPECA participating countries believe that Uzbekistan and Turkmenistan would more actively participate in the UN/SPECA provided a demonstration of a stronger commitment and support of SPECA from the UN. The participating countries made a number of proposals with regards to the content of the programme. In particular, Tajikistan proposed to include industrial re-structuring and modernization into the programme with the lead country – the Republic of Tajikistan. Azerbaijan expressed strong commitment to actively pursue the implementation of the SPECA initial goal – the development of alternative pipeline

routes, if its leadership in this area would be approved by the SPECA superior governing body, RAD, at its next session. Kazakhstan expressed interest in adding to the SPECA content another new direction for cooperation – the development of a knowledge-based economy. All the participating countries expressed support of the UNECE initiative to extend its activities in the area of SMEs and, particularly, the promotion of women's and youth entrepreneurship, to SPECA.

53. In presenting the results of transition, the participating countries underlined the constraining effects of their land-locked situation, inherited structural problems, the lack of investment and national capacities in some key areas, and, therefore, their acute need of international assistance and foreign direct investment to overcome these impediments.

54. The presentation of the UN and donor organizations demonstrated an increasing attention to the Central Asian sub-region. At the same time, they revealed a high degree of commonality of strategic goals and, consequently, overlapping and duplication. Practically, all the UN and donor organizations, at the national level, focus on promotion of Good Governance, the Rule of Law, development of democratic institutions and civil society. Most of the international organizations pursue regional strategies, which aim at the promotion of efficient and rational use of water and energy resources, facilitation of trade and border-crossings, transport and transport infrastructure. It appears that there a priority shift has been taking place. The focus of some large international programmes, operating in the sub-region, has been moving towards combating drug-trafficking and strengthening the border control.

55. In the light of the above, many donor organizations expressed interest in strengthening the role of UN as a coordinator and in establishing closer cooperation ties. Many also supported the idea of having a single UN strategy for Central Asia, as the existence of different strategies for the sub-region, including among the UN organizations, confuse donor countries and undermine efforts to use scarce resources efficiently and effectively. The regular meetings of all the multilateral and bilateral organizations, operating in Central Asia, exchange of information and sharing of experience, could help to solve the coordination problem.

56. The proposal of the UNECE Executive Secretary to prepare a follow-up to the conference in cooperation with the SPECA countries and UNESCAP, which would be sent to the all participating organizations for comments and suggestions were welcomed by all participants.