

European Community

Regional Strategy Paper for Assistance to Central Asia

for the period 2007-2013

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EXECUTIVE SUMMARY

This Regional Strategy Paper for assistance to Central Asia (CA RSP) covers EC financial assistance for the period 2007-2013 to the countries of the region, both at bilateral and regional level. It summarises the common challenges faced by the countries of the region, as well as the democratic, economic and social issues faced by each of them, and maps out the context in which assistance will be provided. The Strategy paper for assistance sets out EC response, objectives and priorities for European Community support for Central Asia, both at regional level, and for each country individually, together with an indication of the means to be used to provide assistance primarily under the Development Cooperation Instrument (DCI) where an indicative budget of €719 million has been earmarked to the region for the period.

In the wake of the 2004 and 2007 enlargements, the EU has come closer to Central Asia, geographically, politically and economically, and intends to strengthen and deepen its relationship with Central Asian countries. The European Council has decided in December 2006 to elaborate an EU (Political) Strategy for Central Asia, planned to be adopted under the German EU Presidency in June 2007, to which implementation the CA assistance strategy will support.

At bilateral level, the EU's relations with Central Asian states are based on the Partnership and Cooperation Agreements (PCAs). The PCAs are built upon three pillars: political dialogue, trade and economic relations and cooperation in a variety of sectors. They are based on common values of respect for human rights, democracy and the rule of law and include commitments to align their respective legal frameworks with that of the EU, and to undertake regulatory convergence in economic sectors. These PCAs provide a common regional framework for the EU's cooperation with all five Central Asian Republics. On the other hand, a large number of important issues facing Central Asia can only be addressed at regional level. This is why it is a core priority for action in the EU Strategy towards this region.

The aim of the European Commission's assistance Strategy Paper for Central Asia (2007-13) is to promote the stability and security of the countries of Central Asia, to assist in their pursuit of sustainable economic development and poverty reduction and to facilitate closer regional cooperation both within Central Asia and between Central Asia and the EU. In order to achieve these core objectives, the Regional Strategy paper for assistance to Central Asia will focus on three priorities areas :

1. Central Asia regional cooperation and good neighbourly relations: 30-35% of total budget. *Focal priorities:*
 - (i) Networks
 - (ii) Environment
 - (iii) Border and migration management, the fight against international crime, and customs
 - (iv) Education, scientific and people-to-people activities
2. Reduce poverty and increase living standards: 40- 45 % of total budget
3. Promote good governance and economic reform: 20- 25% of total budget

The first priority area focuses on promoting Central Asia regional cooperation and good neighbourly relations in line with EU priorities for region-level assistance with its Eastern neighbours under the new European Neighbourhood and Partnership Instrument (ENPI) ensuring continuity with the Regional Cooperation Programme 2002-2006. Specific assistance programme for each of the Central Asian countries will be drawn up from the second and third priority areas, account being taken both of their policy agendas and of the objectives defined in the Partnership and Cooperation Agreement.

This Central Asia strategy has been developed in consultation with the authorities of the partner countries of the region, and the Member States and other donors have been consulted during the drafting process. It reflects the experience of and lessons learned by the EC and other donors in the delivery of past assistance.

I. EC COOPERATION OBJECTIVES

1.1 Overall external policy goals of the EU

The EU promotes its values and interests by operating simultaneously as a continental power and as a global economic and political player, using a variety of instruments, ranging from the Common Foreign and Security Policy (CFSP), to assistance and trade and the external dimension of the EU's internal policies.

The EU strives in particular to promote prosperity, solidarity, human rights and democracy, decent work, security and sustainable development worldwide.

Of utmost importance for the EU is the definition of the right 'policy mix', meaning that, in the light of the strategic objectives of EU external relations policy, coherence needs to be ensured between all available instruments when dealing with Central Asia

Country-specific, regional and global strategic objectives together shape the EU/EC's approach to cooperation with Central Asia

A mutually beneficial partnership promoting stability and security in the region

The EU has individual Partnership and Cooperation Agreements (PCAs) with all five Central Asian states, although only those agreements with Kazakhstan, the Kyrgyz Republic and Uzbekistan are in force. The PCAs with Tajikistan and Turkmenistan have yet to complete their ratification processes. These agreements, while concluded on a bilateral basis, provide a common regional framework for the EU's cooperation with all five Central Asian Republics.

The EU and the five countries of Central Asia commit themselves in the Partnership and Cooperation Agreement (PCA) to establishing a partnership that provides for close political and mutually beneficial trade and investment relations as well as economic, social, financial, civil, scientific, technological and cultural cooperation. The partnership is designed to encourage these emerging transition countries to implement democratic and market economic ideas which form the bedrock of EU principles.

Enhancing relations with Central Asia and implementing the European Security Strategy

The EU has launched an EU-Central Asia regional political dialogue to promote better cooperation both amongst the countries of the region and also between these countries and the EU. This regional dialogue complements and reinforces the EU's bilateral relations with each individual state and seeks to achieve the following objectives:

- assist the countries in the region to address common problems and contribute to the establishment of a positive climate of mutual trust and confidence;
- respond to the wishes of Central Asian countries for closer relations with Europe and to engage on issues of common interest;
- support the Commission's regional assistance strategy for Central Asia.

Further, the EU Council has decided in December 2006 to elaborate an EU (Political) Strategy for Central Asia planned to be adopted under the German EU Presidency in June 2007.

Facing Security Challenges

In the European Security Strategy (ESS) of 12 December 2003 the EU clearly acknowledged that as a union of 25 states with over 450 million people producing a quarter of the world's Gross Domestic Product (GDP), it is inevitably a global player. On the same occasion, the EU also recognised that:

- i) Europe faces new threats which are more diverse, less visible and less predictable, including terrorism, the proliferation of weapons of mass destruction, regional conflicts, state failure, organised crime; and
- ii) in contrast to the massive visible threat in the Cold War, none of the new threats is purely military, nor can they be tackled by purely military means. Each requires a mixture of instruments. In particular, security and law enforcement measures have to be combined with democratisation, rule of law, respect for human rights and poverty reduction.

The strategic objectives set out in the European Security Strategy of December 2003 make explicit reference to the Central Asian region in regard to the fight against organised crime, including the trafficking of drugs and WMDs.

The EU considers security and good governance to be key objectives in Central Asia. One of the key implications of the European Security Strategy¹ is the need to “promote a ring of well governed countries to the East of the European Union”. In addition to this, the EU is committed by international conventions to supporting efforts in the fight against organised crime and terrorism, including the fight against the proliferation of weapons of mass destruction and their means of delivery. Cooperation on border and migration management is an essential complement to this, and to regional stability. Integrated border management principles have proven useful for transparent but secure borders.

The Central Asian states are situated between the world’s largest illegal opium producers and the lucrative markets of Western Europe. They border, or are located in close proximity to, the countries of the Golden Crescent (Afghanistan, Pakistan and Iran) and, via China, have access to the countries of the Golden Triangle (Burma, Laos and Thailand), which are the world’s largest producers of illegal opiates. As a result, since the disintegration of the Soviet Union, CA has emerged as a major international drug-trafficking centre, with links to trans-border criminality and terrorism. According to some estimates, some 100 tonnes of heroin are smuggled from Afghanistan through Tajikistan and other Central Asia states annually and reach the Russian and European markets.

Improving good governance, dealing with corruption and the abuse of power, establishing the rule of law and protecting human rights are all integral components of the ESS. One of the key policy implications of the European Security Strategy is the need for the EU to “promote a ring of well governed countries to the East of the European Union with whom we can enjoy close and cooperative relations”. In addition to this, the Strategy clearly acknowledges the importance of promoting an international order based on effective multilateralism.

The EU designated a Special Representative for Central Asia in 2005 to enhance cooperation with the region in the area of foreign and security policy, including ESDP

Diversification of energy supply

The growing dependency of EU member states upon external sources of energy and ensuring security of energy supply are issues of especial concern to the European Union. Central Asia, with its significant hydrocarbon resources and favourable geographical location for transport routes to European markets, will play an important role in ensuring the EU’s energy supplies. Together with Russia, Kazakhstan, Turkmenistan and Uzbekistan possess the world’s second largest reserves of oil and gas. Kazakhstan alone has double the oil reserves of the North Sea (with government figures estimating total reserves to be three times higher), whilst Turkmenistan’s and Uzbekistan’s gas reserves are believed to be the 5th and 8th highest in the world respectively. Moreover, both Kazakhstan and Uzbekistan have significant quantities of uranium, with the former constituting the world’s third largest producer of uranium, and a major supplier to the EU.

¹ 12 December 2003

The challenge for the EU and its partners in Central Asia is to develop a mutually beneficial dialogue between energy producers, transit countries and consumers at both bilateral and regional level. Relations with the main producer countries, Kazakhstan and Turkmenistan, need to be enhanced. Regional cooperation in this sphere will be pursued in the follow-up to the Energy Ministerial Conference between EU and the Black Sea and Caspian Sea Littoral States that was held in Baku in November 2004, in line with the ENPI Regional Strategy for Eastern Europe 2007-10

Promoting the Millennium Development Goals

The EU's development policy is driven by the primary objective of poverty reduction with the complementary aims of promoting good governance and greater respect for human rights in a bid to ensure the stability and security of the countries in the region. The Joint Development Policy Statement by the Council, the Commission and the European Parliament "The European Consensus on Development" (DPS) and the new Development Cooperation Instrument (DCI) , with its specific Central Asia component, constitute its most relevant framework² .At the same time, it emphasises the need for a differentiated approach depending on the context and the particular needs of individual states.

The five transition countries of Central Asia are currently classified as Lower Middle Class countries "or "Other low Income countries" in the OECD's Development Assistance Committee (DAC) list of aid recipients. With GNI per capita ranging from US\$ 2750 in Kazakhstan to just \$280 in Tajikistan (World Bank 2005), the disparity is wide even within the category of lower-middle and low income countries. All of the countries are included in the list of Official Development Assistance (ODA) recipients. Development policy objectives and in particular the Millennium Development Goals (MDGs) must therefore be taken into account in defining cooperation objectives, together with the outcomes and commitments of the 2005 Millennium Development Review Summit.

1.2 Rationale for a regional approach

Promoting good neighbourly relations and regional cooperation

In the case of Central Asia, an additional specific objective has been established to promote greater regional cooperation. Differences between the countries of Central Asia in their economic achievements and their political outlook can, and do, create significant challenges for the smooth circulation of goods, services and people, and produce tensions, which hinder joint approaches to solve shared problems. Improved regional economic cooperation between the Republics of Central Asia, and between them, their neighbours and the European Union provide the key to their security, stability and sustainable socio-economic development.

Several challenges faced in Central Asia, such as developing regional trading corridors, creating energy networks and systems, managing rivers and river basins, and fighting against terrorism and organised crime, are inherently cross-border in character and can only be tackled effectively through a cooperative effort at regional level. The long-term nature of these regional challenges calls for continuity and consistency with past EC regional strategy/assistance programmes. Furthermore, a number of regional and sub-regional organisations and forums have emerged since the 1990s in this region. Some of these are now mature enough to provide a good basis for strengthened inter-state cooperation.

Central Asia in the wider context - link with EU ENP and Common Spaces with Russia

In view of the latest rounds of enlargement in 2004 and 2007, the EU has launched a new policy to share the EU's stability, security and prosperity with neighbouring countries, the European Neighbourhood Policy – (ENP) and the Russian Federation (Four Common Spaces). The overall goal of these initiatives is to prevent the emergence of new dividing lines in Europe and to offer neighbouring countries the prospect of closer political, security, economic and cultural cooperation.

²Joint Statement by the Council, the European Parliament and the Commission on European Union Development Policy: "The European Consensus", December 2005.

Both the enlargement of the Union and the new EU Neighbourhood Policy have fundamental implications for the nature of relations between the EU and the states of Central Asia, and cannot help but reinforce bilateral links between the two. The latter have essentially become **the “Neighbours of EU Neighbourhood”** due to their geographic location and given their strong political, economic and cultural relations with the countries covered by the new EU policies towards Eastern Europe.

The EU Strategy for Central Asia – especially after EU enlargement – hence cannot be seen separately from the approach and objectives pursued by the EU through the Common Spaces Initiative and the European Neighbourhood Policy in Eastern Europe and the Southern Caucasus. To help achieve this wider objective, it is important to anchor the Central Asian countries in broader EU policies promoted through ENPI, to enhance regional cooperation and integration. Therefore, it is foreseen that CA countries will be able to participate in ENPI regional assistance programmes on the basis of art 27 of the ENPI Regulation. Indeed, these countries are already fully associated with a number of regional initiatives involving Eastern Europe ENP countries and Russia designed to enhance cooperation in key sectors such as transport, energy, higher education and the environment.

1.3 Strategic objectives of EU/EC cooperation with Central Asia

The core objectives of EU cooperation in Central Asia can therefore be summed up as follows:

- To ensure the stability and the security of the countries of the region
- To help eradicate poverty and increase living standards in the context of Millennium Development Goals
- To facilitate/promote closer regional cooperation both within Central Asia and between Central Asia and the EU, particularly in the energy, transport, higher education and environmental sectors.

It is the EU’s firm belief that the first priority of assistance must be to help each of the five Republics to eradicate poverty, and to improve the living standards, education and job opportunities of their respective populations. In this way, the EU will enable the states of Central Asia to complete their political and economic transition, and thus to consolidate broader values of democracy, the rule of law, good governance and respect for human rights and decent work on which sustainable development must be built.

2. OUTLINE OF THE POLICY AGENDA IN CENTRAL ASIA COUNTRIES

2.1 General aspects

The agenda of reforms needed to establish democratic institutions and a market economy in each country is evidently distinct, reflecting the differences in both national policies adopted since independence, and in the distribution of natural and human resources across the region. Kazakhstan has clearly taken the lead in terms of political, economic and social reforms and its economic weight places it in a role model for the other countries to follow. It is also a strong advocate of regional cooperation, having developed good relations in recent years with the Kyrgyz Republic and Tajikistan and, to a lesser extent, with Turkmenistan. Uzbekistan, centrally located and the most populated of the Central Asian republics, has been a historical center of the region during centuries but remains generally isolated and feared by its neighbours.

These differences in national agendas are reflected in the foreign policy of the five Central Asian states, which combines the assertion of national independence and identity with the pursuit of meaningful insertion into the world economy through participation in multilateral and regional organisations. The landlocked geographic position of these states also makes them heavily dependant on their larger, immediate neighbours - Russia, China, and Iran – whilst the situation in Afghanistan continues to have a direct impact on their security and stability.

The Central Asian governments have set out their reform priorities in national programmes, which revolve broadly around the pursuit of the following central objectives:

- a) the improved well-being of their people through diversification of the economy and the creation of new jobs, including through better higher and technical education,
- b) poverty alleviation / raising living standards and the protection of vulnerable social groups, particularly through PRSP approaches;
- c) the fight against terrorism, organised crime, drugs and human trafficking and corruption.

Reforms in these areas are vital in accelerating progress towards the full political and economic transition of these countries. The fact that the objectives outlined above mirror closely the three priority areas identified in this Strategy Paper for EU assistance in Central Asia indicates that this transition process is using the EU model, as well as OSCE and UN standards, as an essential point of reference.

The two sections that follow highlight some of the key factors shaping the domestic and foreign policy agendas of the states of Central Asia. A more detailed review of recent political and economic developments can be found in the five individual country profiles in Annex 5.

2.2 Internal Policy

Consolidating democracy, protection of human rights and fundamental freedoms

In reaction to the so-called “colour revolutions” in Ukraine, the Georgia and, latterly, Kyrgyz Republic governments have further tightened their control over opposition groups, civil society and the media. In Kazakhstan and the Kyrgyz Republic, several positive developments have taken place, such as the ratification by Kazakhstan in January 2006 of the UN Covenant on Civil and Political Rights and the UN Covenant on Economic, Social and Cultural Rights and the development of human rights’ Ombudsmen. On the other hand, in 2005 the UN General Assembly expressed its deep concern at a wide variety of human rights abuses in Uzbekistan and Turkmenistan. Overall, the countries range along the spectrum of authoritarian regimes to electoral democracies, but are still far from being liberal democracies based on the rule of law and respect for human rights.

Terrorism

The perceived threat to security from violent acts by “illegal” opposition groups, or terrorist organisations, have come to dominate the agenda of Central Asian states. This signals a partial reverse of previous advances made with regard to the protection of human rights, particularly in Uzbekistan and Tajikistan. Authorities are increasingly worried about radical religious doctrines and their potential to destabilise the region. Even though such threats should in no way be underestimated, the restrictive policies adopted by the Central Asian states towards civil society and traditional Islam risk being counterproductive, fuelling the phenomenon rather than countering it. The amalgam of Islamic fundamentalism and terrorism by some governments in particular invites further radicalisation.

Enhancing the judiciary and rule of law

Kazakhstan and the Kyrgyz Republic have both declared their intention to undertake further judicial and legal reform to strengthen the independence and administrative capacity of the judiciary, and to enhance the conditions for proper defence and impartiality of prosecution. Uzbekistan, for its part, has recognised the need to curb torture and to ensure more humane treatment of prisoners. The international community has, however, repeatedly expressed its concern about the conduct of trials arising from the events in Andijan.

Progress in abolishing the death penalty has also been varied. Turkmenistan (1999) and Tajikistan (2005) have introduced outright bans, whilst Kazakhstan and the Kyrgyz Republic have both declared a moratorium on the issue. Uzbekistan has announced its intention to abolish the practice in 2008, without introducing an interim moratorium.

Effective fight against corruption

The fight against corruption formally constitutes a leading concern for all five countries. Approaches to the problem differ widely, however, with Kazakhstan, for example, alone in subscribing to the UK Extractive Industry Transparency Initiative (EITI).

Public sector reform

The five governments have all declared their intention to promote public sector reform, including administrative reform as well as the regulatory reforms needed to improve public governance and reduce corruption. Except in Kazakhstan, however, implementation of administrative reforms has barely advanced. Many supporters of former regimes remain in the highest echelons of state institutions, whilst lower levels of government are still subservient to the central executive. National Security and Defence Councils are the focal point of power, enjoying a firm hold on decision-making in the foreign and security policy spheres. On the positive side, decentralisation is on the agenda of Kazakhstan, Tajikistan and the Kyrgyz Republic.

Improving the trade and investment climate

Trade policy issues, and in particular WTO accession, form a central plank of the economic strategy of Central Asian governments, but progress towards this objective remains unequal. The Kyrgyz Republic has already joined, but has so far failed to reap significant benefits due to the weak implementation of its own commitments. Kazakhstan has announced its intention to join the WTO in 2006, but the accession of either Tajikistan or Uzbekistan remains a more distant prospect.

At the last session of the World Customs Organisation in June 2005, Kazakhstan, the Kyrgyz Republic and Tajikistan all expressed their intention to begin implementing the organisation's Framework of Standards provisions for securing and facilitating global trade. These are aimed at establishing customs control standards in order to insulate the trade supply chain from organised crime, and to improve the administrative capacity of the customs administration.

More generally, a key component of the governments' programme is to further diversify and modernise the economy and promote growth. Greater attention has been given to adjusting education systems to the labour markets needs of emerging transition economies, especially higher and technical education. Governments are seeking to address a broad range of issues affecting the investment climate with a view to attracting investors. Programmes aimed at promoting entrepreneurial activity, and in particular the development of SMEs, have been announced (issues registration, financing and tax collection/inspection.). In Tajikistan in particular, however, the conditions for private investment and FDI remain entirely inadequate.

Employment and social policy

In their national policy strategies, CA administrations recognise employment creation as one of the dominant policy challenges to Central Asia and commit themselves to promoting productive employment, decent work and income generation opportunities and to improving social protection. Unemployment, as recorded by labour forces surveys, is in the order of 10% for most countries, aggravated by the retreat of the unemployed into agricultural activities or into undeclared and informal work. Long-term unemployment benefit systems and few (re) training opportunities, give cause for concern. Discrimination in access to employment also remains a problem in the region. Recruiting highly qualified staff is a problem due to low wage levels which, together with high poverty levels, further tend to lead to large labour migration outflows. Finally, while there is a full commitment to ILO fundamental principles and rights at work in the region, problems do remain as to their effective implementation, and the ILO is requested to actively promote and assist with it.

Poverty reduction and the provision of social services

Through PRSPs or similar documents, CA administrations have committed themselves to implementing strong anti-poverty measures, improving social services and access to education and healthcare as well as to addressing rural development. Recently, governments have increased the share of social sector spending in the national budgets. Some countries have also incorporated sustained economic growth as a means of attaining the MDGs by 2015, focusing in particular on the importance of private investment and Public Private Partnerships in this process.

2.3 External Policy

All Central Asian governments recognise the importance of strong bilateral relations with Russia, given the latter's strong political, economic and social interests in the region. At the same time, however, they are also seeking to develop a broader circle of support, including the US, China, Japan, Iran, and the EU, as a means of preserving their independence and national sovereignty.

Security alliances & Collective security: CSTO, SCO, NATO

Enhancing anti-terrorist capabilities plays an important part in Central Asian security concerns. The perception of terrorist threats, both domestic and external, has led the CA states to consolidate their security alliance within the Shanghai Cooperation Organisation, as well as with Russia within the Collective Security Treaty Organization (the CSTO), establishing an anti-terrorist centre in Almaty. The CSTO thereby provides a counterbalance to the Shanghai Cooperation Organization, a Chinese led initiative with a Secretariat in Beijing and now establishing a regional anti-terrorist structure in Tashkent. (RATS).

On the Caspian Sea, an international naval operations group called CASFOR was launched in 2005 to deal with the dangers posed by terrorism, WMD proliferation, and arms and drug trafficking in the area. CASFOR is conceived as a conventional naval force within a Russian command structure.

All five Central Asian states also participate in NATO's Partnership for Peace, whilst many of them have also made a significant contribution to the fight against international terrorism in the aftermath of September 11: Turkmenistan channelled much of the humanitarian aid to northern Afghanistan, whilst Tajikistan, the Kyrgyz Republic and Uzbekistan all allowed international coalition troops access to air bases on their soil.

The US was asked by the end of 2005, and vacated its base in Uzbekistan in a few months but it still has an air base in the Kyrgyz Republic. The American government has also allocated about \$100 million to Azerbaijan and Kazakhstan through Operation Caspian Guard to help them enhance their capabilities for monitoring and surveillance in the Caspian Sea, to defend their energy platforms and to conduct counter-proliferation activities. Kazakhstan provided a small contingent of peacekeepers for operations in Iraq.

Regional economic integration and cooperation with Russia, China and Japan

Eurasian Economic Community (EURASEC/Evrases): Three Central Asian countries - Kazakhstan, the Kyrgyz Republic and Tajikistan – along with Russia and Belarus, are members, whilst Uzbekistan's decision to join in January 2006 can improve the potential for cooperation with its CA neighbours. EURASEC aims at developing a free trade zone between its members, but has thus far had difficulty in making such a zone operational. A number of economic and trade policies are, however, increasingly coordinated in this framework.

Russia's recent large-scale investments in the energy infrastructure and other economic assets have indeed been responsible for most of the capital inflows into Uzbekistan, Tajikistan and the Kyrgyz Republic, including as part of debt swaps. For instance, Russia has pledged investments totalling \$1.8 billion to the construction of hydroelectric stations and aluminium plants in Tajikistan. Gasprom has concluded

arrangements on a comparable scale with Uzbekistan for the joint exploration, exploitation and transportation of oil and gas.

At the same time, however, Central Asian countries wish to diversify external relations and join the global market. WTO accession remains a primary objective in this regard, whilst Central Asian countries are already part of a number of multilateral forums (OSCE, UN ECE, ILO, WCO) or regional organisations (ECO, SCO or CAREC).

One such body, the **Shanghai Cooperation Organisation (SCO)**, led by China, aims to bring stability to Central Asia, by building and consolidating good relations amongst member states, and developing cooperation in the political, economic, and scientific spheres. In early 2006, the SCO formed an “energy working group” to consider the joint development of energy resources and regional oil and gas pipelines, which would link Russia and China to oil and gas fields in Kazakhstan, as well as to hydroelectricity projects and other ventures within Central Asia.

Over the last couple of years, China has been developing its security and energy strategic interests in the region with determination, both bilaterally and at regional level through the SCO. Considerable investments have been mobilised to gain access to Caspian hydrocarbon resources and transport them to Xinjan (Chinese Turkistan). China has also sought to engage the Central Asia countries on security issues, terrorism threats and Islamic extremism, which concerns its autochthonous populations of Western China. Its repressive approach to internal democracy has also some pernicious appeal to some Central Asia leaders.

The “**Central Asia Plus Japan**” dialogue was launched in August 2004, as testimony to the growing desire of Japan to become engaged in the region. This interest is primarily motivated by energy and geo-strategic considerations. Highly dependent on imported oil, Japan views Central Asia as a means of diversifying its energy supplies. Japan is also interested in counterbalancing both the rising power of China in the region and the combined Sino-Russian influence embodied in the Shanghai Cooperation Organisation.

Regional Central Asia cooperation

Kazakhstan and Uzbekistan have clearly sought to secure a leading role both in the immediate sub-region and in the surrounding area, facilitating operations in Afghanistan, and proposing initiatives for improving intra-regional cooperation: Kazakhstan, for example, called for a Central Asia Common Market/Free Trade Zone in the framework of a central Asian Economic Cooperation Organisation (CACO). The CACO was however merged with EURASEC in mid-2005.

Central Asian countries have established a number of specific forums to discuss matters of mutual interest - energy, water, environment, customs, security, health (HIV/AIDS). These groupings are for the most declined in different combination around the core cluster of Kazakhstan, the Kyrgyz Republic and Tajikistan. The smaller upland states are the most partial to integration as they are most likely to benefit from it.

Central Asian countries’ relations with Afghanistan are dictated by the important national minorities in Afghan border regions, particularly Tajikistan, with whom they seek to maintain privileged links and influence, including for security and stability motives - although booming drug trafficking and organised crime put these relations in an ambiguous light. Afghanistan is also considered for its export potential related to the international reconstruction effort. Tajikistan is also developing strong relations with Iran, based on historical and cultural affinities.

Special Relationship with the European Union

The leaders of each of the five Central Asian countries have constantly reaffirmed their view that the EU constitutes a fundamental reference point in so far as it provides a model for democratic, political and economic transition which they must aspire to follow. Each state is linked contractually to the EU through an individual Partnership and Cooperation Agreement (PCA) framework (PCAs still have to be ratified for Tajikistan and Turkmenistan), which provides clear prospects for *rapprochement* with the EU and commits the governments concerned to aligning their national legislation with the “*acquis communautaire*” and to putting in place the necessary statutory reforms.

All five states have also expressed their interest in deepening bilateral relations with the EU. Those with a PCA in force wish to enter a new contractual framework which will extend the scope of cooperation and convergence beyond that presently envisaged once the current PCAs come to an end in 2009. Kazakhstan in particular has made clear its desire to join the countries of Eastern Europe and the Southern Caucasus in participating in the European Neighbourhood policy. Both the Kyrgyz Republic and, to a much lesser extent, Uzbekistan have expressed similar wishes.

3. ANALYSIS OF THE REGIONAL POLITICAL, ECONOMIC, SOCIAL AND ENVIRONMENTAL SITUATION

In spite of its geographical situation as a bridge between Asia, especially China, and Europe, Central Asia has in reality been integrated into the broader sphere of European influence in politics, culture, trade and economics for several centuries, since the indigenous Turkic population fell successively under Ottoman and then Russian control. There are deep-rooted bonds between Europe and Central Asia which prevail to this day in the way their societies operate. Since achieving independence in 1991, the speed and manner in which the countries of Central Asia have embarked upon the path of profound political, economic, cultural and social transition has varied significantly in view of the peculiar circumstances of each one. These newly sovereign states had to establish, from a weak basis, a completely new political and administrative apparatus at a time when dramatic economic collapse (and, in the case of Tajikistan, civil war) was causing considerable human misery and economic deprivation. Today, the five countries continue to differ markedly in terms of population size, territorial area, endowment of natural resources, the level of human development, political orientation, and in terms of their relative willingness to cooperate and integrate with the rest of the world.

They are, however, all bound together by their common experience as former states of the Soviet Union. The period of Soviet rule not only brought about deep economic integration at the sub-regional level, it also created region-wide integrated systems for transport, energy and the management of natural resources. It also established close links between Central Asian states, Russia and the rest of the Soviet republics, which remain strong today. The present level of regional cooperation has proved insufficient to maintain the normal functioning of these shared infrastructure networks. An enhanced level of intraregional coordination and effort is needed if the five Central Asian states are to meet their common challenge of putting their demographic transition, and socio-economic development, on a more sustainable, long-term footing.

3.1 Common and shared challenges

This section will only focus on the key factors and issues affecting the region as a whole, as in-depth country analyses are available in the individual profiles appended to this text.

Trade and access to world markets

Trade, both within Central Asia and between Central Asian states and the rest of the world, continues to be hampered by numerous barriers: complex trade policies that are badly coordinated and lack transparency; high costs from poor transport and transit conditions; delays at border crossings; and onerous administrative and clearance requirements. In Kazakhstan, for instance, it takes an estimated 93 days to move standard cargo from the factory gate to the nearest export port to fulfil all the customs, administrative and export requirements to load the cargo onto its destination, whilst in Uzbekistan 139 days are needed on average to import a standardised shipment of goods. Moreover, the overlapping trade agreements and rules in the region are confusing, they create opportunities for corruption, and hinder rather than facilitate trade. As a result of all these factors, intra-regional trade has contracted to less than 10% of the total trade of Central Asia, with Russia remaining the region's foremost commercial partner. The EU is the leading trading partner for Kazakhstan, accounting for one-third of its external trade, and the third largest for Turkmenistan. For the other three Central Asian Republics, between 10% and 30% of their external trade is currently conducted with the EU.

Delays for imports and exports of goods have a great impact on trade. An IFC and World Bank study (2006) finds that each day of delays reduces a country's export volumes by about 1%. Particularly long hold-ups also make it impossible to export perishable agricultural products such as meat, fruit and vegetables. This factor is of particular importance in Central Asia where such commodities make up a significant proportion of exports in those countries lacking significant energy resources. Such reliance on primary resources also leaves these economies vulnerable to external shocks and violent fluctuations in market prices, thereby highlighting the need for greater diversification of exports.

Lowering commercial barriers will help CA countries to expand these currently low levels of trade flows, and opportunities for business. In particular, accession to the WTO for the four non-member states would represent a decisive step towards harmonising and streamlining trade conditions, whilst benefits from the reduction in tariffs and cross-border costs would boost economic growth and employment. In practice, this means simplifying and harmonising visa regimes, and customs and border crossing rules and procedures, and improving professionalism at customs and border services.

Business and Investment climate

The investment climate remains unpredictable in most countries, characterised by confusing laws and regulations, which are unevenly and arbitrarily enforced. Registration and licensing are lengthy processes, whilst obtaining credit for SMEs remains problematic in all countries. Land property rights have not yet been fully established in most of the countries, and privatisation and restructuring of the larger economic concerns are still pending. The adjustment of energy prices to market conditions and the restructuring of the utilities sector will be one the major challenges of economic transition in the region.

Foreign direct investment (FDI) in CA outside of the extractive sector is also very low in comparison with other ex-Soviet Republics, totalling just \$ 3 to \$ 9 per capita in Tajikistan, the Kyrgyz Republic and Uzbekistan. Gross capital formation is low, hovering around 15%, except in Kazakhstan and Turkmenistan where it exceeds 25%. Given the level of state indebtedness, much of the required increase in investments in Tajikistan and the Kyrgyz Republic will have to come from external sources and the private sector. It is therefore recognised that Public-Private Partnership (PPP) arrangements will be crucial for most infrastructure investments.

Transport

Latent mistrust between Central Asian neighbouring states means that individual governments are investing in costly new transport links rather than using their limited financial resources to upgrade existing links that provide vital connections to foreign markets (notably the ENP countries, Russia and the EU). To overcome these difficulties, a broader view is needed, aiming at the progressive integration of the transport markets of Central Asian and ENPI eastern countries, the gradual approximation with the EU's legal framework and standards and effective implementation of international agreements in the transport sector; the improvement of rail and road safety; the improvement of air communications, aviation safety

and air traffic management, and of maritime and aviation security to international standards; the improvement of inland waterway transport; and the introduction of EU inter-modal concepts.

Management of shared natural resources

Water, energy and environmental resources are closely linked to both geography and the vast infrastructure systems put in place by the Soviet Union. The republics are tightly interconnected through the management of these resources and the interdependence reflecting differences in natural resources endowment. For instance, the Kyrgyz Republic and Tajikistan have considerable potential to produce hydroelectric power potential for exports, while countries downstream depend on the same water for irrigation.

In the environmental sphere, perhaps the greatest challenge to be faced is the management of regional water resources between competing demands for human consumption, irrigation, industrial use and the generation of electricity. The Aral Sea drying up is one of most compelling environmental problem affecting all countries of the region. Some Central Asian countries are also showing an interest in the area of climate change, motivated not least by the possibility of selling surplus emission credits under the Kyoto protocol. Implementation and enforcement of the relevant rules remain weak, however, due to the limited administrative capacity of the states involved, whilst public information and participation remains underdeveloped. An additional problem is that of deforestation, as increased demand for timber products from the region means that forests in Central Asia now account for only 25% of the area they covered in the 1960s. Coping with the consequences of dismantlement of the ex-Soviet chemical / industrial / mining / nuclear / military apparatus is also a considerable challenge.

Moreover, natural disasters present a constant threat to the population of the region, with landslides a frequent occurrence in the Kyrgyz Republic and Tajikistan, and active seismic zones located in the Ashgabad area of Turkmenistan, the Tian Shan Mountains in the Kyrgyz Republic, southern Kazakhstan and Uzbekistan. All countries have institutions for emergency response, and progress has been made in addressing dam safety, which has hitherto heightened the risk of flooding in the region. Since 2003, the EC has also funded Disaster Preparedness Action Plans for Central Asia through DG ECHO. More coordinated approaches at both national and regional level are required to promote better cross-border contingency planning, with the Hyogo Framework of Action on Disaster Reduction providing a good template

In the energy sphere, hydrocarbon resources in Central Asia are of global significance, and have a key role to play in helping to meet the ever-growing energy needs of the EU. In recognition of this, an EU-Caspian region and neighbouring countries' Ministerial Conference on energy cooperation was held in Baku, in November 2004. The meeting brought together representatives from the European Commission and the twelve countries of the Caspian and Black Sea regions, including Central Asian states who have agreed to open new cooperation aimed at the progressive integration of their energy markets (the so-called "Baku initiative"), with the creation of dedicated expert working groups. At present, a Ministerial Conference wrapping up the results and adopting recommendations of these working groups is scheduled to be held in Almaty in November 2006.

Social development and Poverty Reduction

According to the latest UN Human Development Report for the region published in December 2005, Central Asian countries rank between 80th (Kazakhstan) and 122nd (Tajikistan) on the Human Development Index scale, with values ranging from 0.761 to 0.652. They are therefore falling significantly behind other NIS in Central/Eastern European and Russia. (footnote to annex here)

The incidence of poverty remains high throughout the region, even in Kazakhstan and Turkmenistan, where 21% of the population live on less than \$ 2.15 per day. The rate is even higher in Uzbekistan (47%), whilst in Tajikistan (65%) and the Kyrgyz Republic (70%), extreme poverty continues to afflict well over half of the population, particularly in rural provinces. These figures do, however, represent a slight improvement on the previous period. There is an increasing concentration of poverty in rural areas.

Coping strategies include labour migration and remittances, as well as fairly generalised subsistence farming. Low productivity employment in rural areas is a cause of poverty. Special attention to spatial poverty, job creation and productivity growth, as well as public service delivery to ensure a better impact of economic growth on poverty.

At the same time, Central Asian countries have highly unequal income distribution by international standards. A large income gap is developing between urban and rural areas, with average rural salaries less than half of those in towns and cities. As a result of the dire living conditions, and exploitative practices for cotton and grain cultivation that they are forced to endure, rural labourers are migrating in greater numbers to Russia and Kazakhstan to seek cash income. Over 400 000 people in both Tajikistan and the Kyrgyz Republic (i.e. between 30 and 40% of the male population of working age) are involved in this massive seasonal labour migration, with the remittances from these labourers estimated between \$ 350 and \$ 400 million for each country annually, equivalent to the state budgets. Underemployment, lack of decent job opportunities, insufficient social protection and poverty are also fuelling the pursuit of illegal sources of income, with smuggling and drug trafficking thriving in border provinces. According to the World Bank, as much as one-third of Tajikistan's GDP is linked to drug trafficking, whilst Uzbekistan is experiencing similar difficulties.

Demography is marked by the high proportion of under 20 year-olds and a surge in population growth - except in Kazakhstan - despite high mortality and low life expectancy. This is building pressure on the use of already debilitated social services/infrastructure, and on limited natural resources. Irrigated land and water resources in particular have become potential sources of conflict.

There is a resurgence of communicable diseases such as tuberculosis, diphtheria and even cholera. Drug abuse is also spreading, including by intravenous injection, and affects an estimated 500 000 addicts. Sex trafficking, particularly towards Russia and the Gulf states, continues to involve a significant number of women who have no alternative source of income. The levels of HIV/AIDS are soaring,

Between 15% and 40% of the population in Central Asian countries have no access to safe water and over 40% to improved sanitation with a direct impact on the health of the population, in particular children, with much higher percentages for Tajikistan and rural areas. However, due to the lack of maintenance and constant degradation of the systems, these figures are due to increase unless significant sustainable investment is made in this sector.

While overall literacy and enrolment indicators are high, with an adult literacy rate over 95%, and a net primary education enrolment ratio over 80%, there are signs that these are declining in some countries and gender disparities remain. The education sector in CA countries suffers from increasingly unequal access, eroding quality and low efficiency in the use of resources. In particular, higher and technical education are ill suited to meeting labour market needs and preparing the next generation of professionals capable of pursuing the transition process.

Overall, while there has been an increase in social spending, there is still great inefficiency in coverage and actual delivery of services to the poor, and the richest part of the population has benefited most: for instance in Kyrgyzstan, only 19% social expenditures go the poor households— over 50% population. Lack of affordability and poor quality undermine access.

3.2 Political risks to security

Since gaining independence, the states of Central Asia have experienced periodic outbreaks of violence, including inter-clan, inter-ethnic and inter-religious conflicts. Tajikistan was engulfed in a civil war from 1992 to 1997, which left severe scars on the country's economic and social fabric. In 2005, the Kyrgyz Republic underwent a change of government in the aftermath of prolonged popular uprising against the flawed results of earlier elections. The new government has proved so far to be ineffective, beset by internal disputes; public confidence in the administration and law enforcement is slipping whilst the

influence of criminal circles is increasing. There is a risk that the central government will lose control of both institutions and territory. In Uzbekistan, the growing harassment of civil society and religious groups after the bloody intervention of security forces in Andijan (May 2005) has exacerbated existing discontent among many in the population. Unstable social and economic conditions, if not addressed, threaten to bring about widespread protests and to paralyse the incumbent regime. These last two examples demonstrate that mounting popular discontent, if handled in an authoritarian manner, might pave the way for a period of turbulence and destabilisation at a time of political secession, which is due to occur in the coming years in most of the Central Asian states.

The political and security situation is highly conditioned by the region's geographical location, and in particular its proximity to Afghanistan. Drug trafficking is endemic in all CA republics, located as they are between the world's largest supplier of heroin, namely Afghanistan, and the regions of highest consumption, Russia and Europe. Drug consumption within the region itself has also risen sharply, with addiction currently affecting up to 1% of the population. Endemic levels of poverty, the porosity of national boundaries, and the potential for high earnings all contribute to the problem. The drug trade undermines economic and political stability by fostering corruption, weakening government structures and the response by law enforcement. Criminals cover the whole spectrum of activities, including money laundering, human trafficking and the gradual takeover of state law enforcement and economic functions.

While Central Asian countries have identified international terrorism as the greatest threat to stability, the greater threat is in fact intra-regional as cooperation increases between extremist, terrorist and criminal groups and networks operating within Central Asia. Poverty, inequality and frustration in the face of faltering state responses to such deep-seated problems provide the breeding ground for trans-border crime and terrorism, which in turn destabilise internal political systems and trade still further. Central Asian governments therefore need to look for developmental, and not only control-oriented, solutions, for example by linking drug control to governance reform with the involvement of local communities and civil society. The strong mutual interest in greater security enhances the possibility of expanding cooperation at regional level.

4. AN OVERVIEW OF PAST AND ONGOING EC COOPERATION

4.1 EC assistance to CA 2002-2006

The EU is one of the largest donors to Central Asia. Assistance provided by the European Community alone has amounted to more than €1 billion since 1991. This includes assistance under the TACIS programme (including its regional, cross-border and nuclear safety components) as well as macro-financial assistance, support under thematic budget lines such as the European Initiative for Democracy and Human Rights (EIDHR) and humanitarian assistance and disaster preparedness actions provided by ECHO.³

The **CA Strategy Paper (CSP) 2002-2006** provided a new framework for assistance to the countries of the region through a regional approach designed to provide a better response to the challenges faced by the region, and to enhance effectiveness, coherence and the overall impact.

The CA strategy focused on the three priority areas of: i) support for institutional, legal and administrative reform, ii) natural resources/networks, and iii) support in addressing the social consequences of transition. During the five years covered by the CSP (2002-2006) 26% of available resources were allocated to regional cooperation, 54% to bilateral programmes and 25% to targeted poverty reduction schemes.

³ A detailed breakdown of EC assistance to Central Asia over the period 1991-2005 can be found in Annex 6.

So-called “Small Project Programmes”, including policy advice projects, civil society support programmes (IBPP), Bistro, Managers’ Training programme, Customs, Statistics Tempus and EIDHR, made up a large component of the bilateral programmes.

A major impact of the Strategy for Central Asia 2002-2006 has been to highlight the importance of good neighbourly relations and to enhance the participation of Central Asia states in the Tacis regional programmes through the additional resources made available. At the same time it promoted intensification of their own sub-regional cooperation and EU/CA dialogue. These programmes have focused on sectors related to the EU’s own experience, or where it has recognised expertise, and also sectors related to the EU’s own competences or linked with EC policies with external impact where the Commission and the EU have put their political weight behind them.

A second major impact of the CA strategy has been to increase the focus of the TACIS bilateral programmes on poverty reduction policies and programmes, and on key trade and investment reforms in convergence with the EU while promoting civil society and democratisation.

4.1.1 EC Regional cooperation

For over ten years, the countries of Central Asia have been fully involved in all the Tacis Regional and Inter-State programmes. They have participated as equal partners with other CIS countries, candidate countries and new EU Member States in strategic areas such as transport and energy networks and policies, sustainable management of natural resources focusing mainly on water, and higher education. Central Asian countries have subscribed, for instance, to the TRACECA multilateral agreement on transit and transport, the INOGATE Umbrella Agreement on gas and oil, the EC-supported Environment for Europe Process, and the EU Water Initiative for Eastern Europe and Central Asia, and have been eager to align the reform of their higher education systems with the Bologna Process, notably through the TEMPUS programme. The Central Asia regional programmes in these domains have been fully integrated in the corresponding TACIS Regional programmes with the CIS countries now covered by the ENPI, with which they shared priorities and objectives and received sizeable funding.

TACIS regional cooperation support for Central Asia has also addressed issues relating to increased inter-state cooperation in border management, improving migration and asylum management and the fight against drug trafficking and organised crime, using a pragmatic variable geometry format to match the varying levels of country engagement and interest.

Promoting Trade and Investment flows

EU Regional Assistance for Central Asia under this heading has focused on two sub-priorities: Oil and Gas Networks and Transport Cooperation.

Regional cooperation in oil and gas networks has been undertaken within the framework of the INOGATE Programme, which also led to the INOGATE Umbrella agreement where the participants committed themselves to seeking harmonised conditions for energy transport and transit. Between 2002 and 2006 the EC committed a total of €26m to this sub-priority under the Tacis Regional programme and an additional €19m from the Central Asia Indicative Programmes. The assistance focused mainly on the following areas: leveraging grant funds toward stimulating IFI investments in oil and gas projects; harmonising the gas and oil standards of participating countries with those of the EU, including gas transport through joint metering stations; and providing support for priority assistance aimed at reducing critical gas losses.

Under the Tacis Regional Indicative programme 2004-2006, an amount of €22 million was allocated to the Transport sector, with an additional €7 million from the Central Asia Indicative Programmes, thus bringing the total amount of funds committed and spent by the EC to transport projects since 1993 to €50 million. EC funding for Transport through the Tacis Regional Programmes has focused on harmonising conditions for transit and funding feasibility studies and other small, non-bankable components of road, maritime and rail infrastructure projects across the ENPI Eastern and Central Asian regions, leveraging over one billion euros of investment financing by the IFIs. In addition to this additional funding for IFI

and national co-financed infrastructure projects, there have also been projects developing coordinated transport policies, increasing institutional capacities and providing training.

Freedom, Security and Justice

An amount of €85 million has been allocated for activities in the area of JHA under the Regional Tacis Programme, in addition to the €27 million from the Central Asia Programme (2002-2006). These activities have focused on three main priority areas: the fight against organised crime, border management and migration and asylum management.

In the priority area of fighting **organised crime**, the main focus for the region has been on the fight against drugs and trafficking in human beings. In **border management**, activities have focused on supporting the partner countries' efforts in reforming their national border management systems into a modern organisation closer to EU best practice through training and capacity building projects and the supply of modern equipment. In the Central Asia programme, special emphasis was placed on control of the Tajik/Afghan border. Projects in the area of **migration and asylum management** have been implemented from the Western NIS to Central Asia. Activities have focused on improving the legislative framework, supporting adequate organisation and a system more in line with EU standards and improving the capacities of officials in charge of migration and asylum matters.

In a related field, the EC is a major contributor to **the Global Fund to fight AIDS, Tuberculosis and Malaria, i.e.** it is a major player in Central Asia in the area of the fight against HIV/AIDS. The Global Fund is about to release funding for phase 2 of its activities for a maximum total amount of US\$ 70m for the region, which will complement actions undertaken in the fight against drugs. **Global Fund** Phase 2 activities are supposed to run until **2008**.

Nuclear

In the area of **nuclear safety** the EC has provided support since the early nineties to Kazakhstan/Kyrgyzstan/Uzbekistan. An Agreement for cooperation in the peaceful uses of nuclear energy between EURATOM and the Government of the Republic of Uzbekistan was signed in 2003 and an Agreement for cooperation in the peaceful uses of nuclear energy between Euratom and the Government of the Republic of Kazakhstan is under preparation

The EC is also providing an annual contribution both to INTAS and to the **International Science and Technology Centre** ISTC, which is an intergovernmental organisation established by a number of donor countries dedicated to the non-proliferation of technologies and expertise related to weapons of mass destruction. These programmes are benefiting four CA countries and will be pursued under the ENPI. .

Sustainable Management of Natural Resources

Tacis has been working with CIS countries on the environment from 1992. At regional level, the main focus has been on water issues, including the regional seas, followed by support for environmental policy and plans, environmental education and awareness and environmental non-governmental organisations, through regional environmental centres. Overall, environmental cooperation accounted for a quarter of funds allocated to Tacis regional programmes.

The Tacis Regional Indicative Programme 2004-2006 allocated an indicative budget of €50m, with an additional €10m from the Central Asia Indicative programme over the three-year period, to address the three priority areas of: Water, Biodiversity and Sustainable Management of Natural Resources, and Climate Change. At the same time, it aimed to foster economic development, and contribute to stability and security in the region.

The Central Asian states participate in the Environment for Europe Process, the framework created in 1989 with the support of the Commission for pan-European environmental cooperation, which sets out to promote the integration of environmental considerations into the political and economic restructuring of Eastern Europe, South Caucasus and Central Asia.

In addition, the CA states are actively participating in the Environmental Action Programme Task Force, co-chaired by the Commission and established to promote policy reform and institution building in the region.

4.1.2 EC Bilateral programmes of assistance

Over the period 2002-2006, a total of €142 million has been committed to bilateral assistance for the five countries of Central Asia under the TACIS, EC FSP and exceptional macro-financial assistance programmes (see Annex 6 for details). In addition, since 1993 ECHO has provided over €200 million to the region in form of humanitarian and disaster preparedness assistance, out of which €170 million went to Tajikistan. One of the main impacts of the Strategy for Central Asia 2002-2006 has been a greater focus and concentration of assistance throughout the region and at country level.

Poverty reduction has become the first pillar of EC bilateral assistance programmes. Nearly 60% of EC assistance under the Strategy for Central Asia 2002-2006 was directly geared to poverty reduction, *inter alia*, through sector reform-oriented budget support and local development schemes, combining Tacis and the EC FSP programme. The impact of EC FSP in the Kyrgyz Republic and Tajikistan has been significant at central government level on public finance management and the line Ministries concerned. The EC FSP, coupling technical assistance with targeted budget support, has been actively involved in the rationalisation and consolidation of the functions of the Ministry of Finance, enabling Medium-Term Expenditure Frameworks to be drawn up which are now coordinated with the PRSPs. EC FSP has helped to secure budget and improve service delivery of important MoAgr. programmes aimed at protecting farmers' assets through livestock vaccination, crop protection and irrigation in the Kyrgyz Republic, and enabling the distribution of land certificates in Tajikistan. Food and agriculture production has increased in both countries.

The impact of EC FSP on social protection reform and improved effectiveness has also been notable: the programmes have contributed to the phasing out of in-kind food benefits, which are particularly prone to abuse. It is now aiming at improving the criteria and mechanisms used to target and reach the most vulnerable segments of the population. It is also contributing to the monetisation of other benefits in energy and transport, which are essential for the rationalisation and efficiency of government policies in these sectors. The budget lines secured by EC FSP supported social protection for more than half a million people in each country. A notable decrease in poverty and extreme poverty levels, as well as better nutrition, has been recorded over the last three years among the targeted groups and institutions, to which the above measures have contributed. Overall, the impact has no doubt contributed to the decline in poverty levels in the two countries. A comprehensive sector wide approach is still however missing due to weakness in policy formulation capacity.

The second major component of bilateral assistance (approximately 20% of funds) has targeted administrative, legal and regulatory reforms linked with PCA commitments, mainly in trade and investment policies, as well as civil service reform and governance. Decentralised cooperation with civil society and higher learning institutions through the Small Project programme have used the bulk of the remaining funds, i.e. Bistro, Institution Building Partnership Programme, Manager Training programme and TEMPUS. Finally, the TACIS Policy Advice Small Project Programme has provided a quick and flexible response to governments' emerging priorities and urgent needs in key areas of economic and social reforms. In many instances, these advisory functions have been called upon to help in major legislative pieces, framing the governments' transition agenda along EU lines and standards in key areas. These actions have often paved the way for longer-term structured assistance to support implementation of these government-led specific reforms. Such assistance was found most successfully in key areas of EC competence, such as trade and economic policy, central tax and budget reforms.

Country assistance programmes have helped substantially to support EU policy dialogue in the context of the PCAs/TCAs, where mutual interest issues and priorities for cooperation are discussed. Establishment of the basic fundamentals of the legal framework has made progress, notably in Kazakhstan and the Kyrgyz Republic, where key issues now revolve around good governance and consolidation of the administrative capacity to implement these measures, including the functioning of an impartial judiciary and rule of law.

A number of important weaknesses in governance and public finance management remain to be solved, including at decentralised level. Audit and control functions are still immature, and public decision-making, budget allocations and spending are far from transparent. Overall, public finance management is still in the initial phase of reform, and further institution building and enhancement of capacity is required to improve decision-making and expenditure functions, and to restrain corruption. Broader sector-wide reform strategies and policies in the domains covered by EC FSP are in the early stages of development, particularly for the agriculture and rural sector.

NGO Partners working on both ECHO and TACIS projects noted that the ECHO instrument is considerably more flexible and adaptable to changing situations. Its limitations are its short time frames and modes through which it can work. However, in the case of Tajikistan, it is the improvement of the socio-economic situation which makes the Tacis instruments better suited to rehabilitation and development than ECHO's, which were better suited to the relief assistance of the past. As ECHO humanitarian assistance to Tajikistan will end in 2007, in line with the EU Linking Relief, Reconstruction and Development policy (LRRD), the bilateral assistance programme will continue assistance to vulnerable populations at local level, in particular through the targeted rural development schemes where well established European NGOs could act as effective implementing agencies. In this context, it will be crucial to identify humanitarian needs and gaps in service in terms of vulnerability while programming poverty alleviation strategies at all levels.

4.2 Key lessons learnt for the new programming cycle: Relevance, ownership and impact

General

Recently, evaluations of the EC Food Security and TACIS programmes and of the various TACIS regional and national programmes and major projects, such as TRACECA, INOGATE, TEMPUS, IBPP and PCA implementation support projects, have been made. Systematic monitoring of Tacis projects and programmes through large-scale samples also provides an indication as to the impact and sustainability of EC assistance in the region. These independent assessments provide important policy and operational recommendations, which are duly reflected in the new 2007-2013 Strategy for Central Asia.

TACIS assistance has generally proved to be highly relevant and responsive to the needs of the states involved. In the years immediately following its inception, the TACIS programme was mainly governed by a "top-down" approach. This was partly a consequence of the need for institution building in the newly independent states, and partly due to an insufficient sense of ownership on the part of the national authorities. However, through time, the response of the authorities, backed by EC-funded technical advice to consolidate the coordination of external assistance, has much improved, and dialogue capability has enhanced with positive results on the impact of EC assistance. At the other end of the governance spectrum, support for civil society and local initiatives (Institution Building Partnership Programme (IBPP), Bistro, NGO projects and EIDHR) is also described as a success, not least because actions proved to be more flexible than larger projects and more responsive to local needs. The TEMPUS Programme has also had a remarkable and sustained impact on higher education systems, including on employment, and has provided high EU visibility to the people.

Responsiveness of aid delivery appears to be a major issue, although quality technical assistance brings satisfactory results in the end. The negative impact of new EU regulations on the implementation of EC assistance suffers from a long succession of procedures, from initial discussions on assistance priorities with national authorities through to the formal decision-making on funds availability and the actual launching of assistance. The time lag has led to a dispersion of efforts and a lack of ownership. However, despite often identified deficiencies in original project design, the majority of TACIS projects are increasingly considered to be productive, with adjustments made as necessary during the inception and implementation stages, and quality inputs generally allowing projects to function efficiently and to achieve their intended results and objectives. For this reason, TACIS evaluators recommend that future Indicative Programmes should contain a broad identification of the cooperation priority areas, with financial allocations, addressing these focal areas as a whole and avoiding detailed project or action lists.

High ratings for *Effectiveness, Impact and Sustainability* in TACIS generally indicate good formulation of achievable project purpose, which in combination with reasonable *Efficiency of Implementation* and proper support for properly identified Project Partners ensures good prospects for contribution to wider objectives. At the same time, this increases project ownership, and thus also results in a better *Sustainability* score.

Deconcentration appears already to have tangible results, with impressive gains in *Efficiency* during 2004/05. The presence of Project Managers in the field, often in combination with, if not real then perceived, more intensive participation in everyday project life, activities and events, has a strong motivating effect on all other stakeholders.

Regional programmes

Overall, assessments seem to indicate that, in spite of inter-state political tensions, there is substantial potential for regional cooperation across the EECCA region in appropriate variable and flexible formats, depending on a realistic perception of common challenges that can only be tackled through a regional and/or sub-regional approach. In Central Asia, experience has shown that a pragmatic approach of variable geometry format for joint programmes among neighbouring states, including through their involvement in wider inter-state initiatives, produces significant results. For instance, the launching of the Central Asia Border Management programme was initially based on the close cooperation that already existed between Kazakhstan, the Kyrgyz Republic and Tajikistan. However, the programme's step-by-step approach, both for extensive consultation among key stakeholders and for concrete operational activities (from legal approximation to joint training), has gradually engaged Turkmenistan and Uzbekistan in a number of programme activities. The systematic process foreseen during different phases of BOMCA, which builds on the active participation of all stakeholders, will make tangible contributions to achieving the overall objectives. This approach has also developed a mechanism for coordinating BOMCA/CADAP with the activities of other international players in the field.

Similarly, TACIS has also been instrumental in supporting the Central Asia Sustainable Development Initiative on environmental issues, which is now being promoted by the five CA countries as a common basis for harmonised environmental policies across the region. As regards cross-border river basin management, the projects supported by TACIS on a bi- or trilateral basis have helped to develop a more comprehensive concept of integrated water resource management (IWMS), which is gradually being taken into account by the countries of the region.

TACIS Regional and Central Asia programmes have been effective in many cases in creating a system of regional networks or mechanisms enabling joint identification of priorities and mutual interest projects, for example, in Transport, Energy and the Environment across the EECCA region. TACIS Regional Cooperation has acted as a catalyst for the establishment of new regional mechanisms, such as the TRACECA Intergovernmental Conference or the Caspian Sea Environmental Convention, EAP Task Force, etc., which have reached a substantial level of maturity and have every prospect of becoming self-sustained processes in the future. By making it possible to share best practices and lessons learned among partners, by promoting harmonisation of measures and offering related capacity building,

EU regional programmes have enhanced the pace and sustainability of reform processes across the whole region in the sectors concerned.

Sustained support at political level is a key factor for regional programmes: Looking back to past implementation of the regional Indicative programmes in the period 2000-2006, the most successful projects have often been those which, from the onset, have benefited from sustained political support provided through the organisation of regular high-level meetings to coordinate and exchange views on the proposed programmes, which increase the ownership and sustainability of assistance programmes. In contrast, isolated projects that have been identified through an ad hoc or bottom-up approach, i.e. as a result of demand from individual partner countries, and the lack of a well defined political multi-state framework, even when successfully implemented, have tended to remain isolated and in general have not managed to foster genuine regional spin-off.

Good record on leveraging investments: EU political impulse through focused regional cooperation initiatives has shown that it can also provide the credibility needed for enhancing IFI interest in operations with a transition impact and possibly generating financing in participating countries: in the transport and environment sectors, a leveraging factor ranging from 5 to 10 has been achieved for EC funds through TRACECA or the GEP Facility. IFIs have expressed their appreciation at having regional programmes assisting in the harmonised transfer of know-how among beneficiaries, and in preparing high quality requests for bankable projects.

Recent evaluations⁴ have also concluded that **a perceived lack of ownership of Regional programmes** expressed by TACIS National Coordinators in some sectors has hindered their effectiveness in terms of impact at regional level. For example, the Environment sector has been identified as suffering from a lack of support from partner central governments and little political leverage on the part of the EU.

The methods of implementation of regional programmes are crucial: the high number of stakeholders involved and the geographical coverage of regional projects requires strong and efficient coordination mechanisms to ensure an adequate level of information and direct involvement of the various stakeholders for efficient sequencing of the various stages of the project cycle⁵ and good project specification. Drawing on experience to enhance effectiveness and impact, the Commission has now set up stronger political regional cooperation mechanisms, especially in the context of the ENPI, combining high (ministerial) level and expert working level in the priority sectors. This provides the framework for introducing the mutually agreed priorities in the governments' policy agenda and the basis for developing effective assistance programmes with the stakeholders directly concerned.

In consequence, the implementation of regional cooperation for Central Asia in 2007-2013 will rely as much as possible on the enhanced regional cooperation initiatives and mechanisms under the ENPI Regional Strategy (East) 2007-2013. Building on the willingness of the Central Asian states to cooperate with the EU and with the countries now covered by ENPI on key issues of mutual interest, this approach should increase the relevance, ownership, effectiveness and impact of regional assistance programmes.

At Central Asia level, regional joint meetings of the TACIS National Coordinators and corresponding governmental bodies have proved beneficial to furthering closer cooperation with the governments of partner states on implementation of the EU assistance programmes; this practice will be pursued and will include the Coordinators of EC programmes concerning ENPI Regional programmes.

The choice between regional and national level assistance must also take into account the additional contribution of regional cooperation to the sharing of best experiences, to the overall convergence of policies and to the transition impact through demonstration effects. This consideration is directly relevant

⁴ For example, DRN *et al.*, *Evaluation of Council Regulation 99/2000 (Tacis) and its Implementation*, (INSERT DATE), vol.1, p.80

⁵ *Ibid*, p.82

for the capacity of leveraging IFI investment funds, which are often required to implement the respective governments' policies and programmes in full. While IFIs in general prefer to operate on a bilateral rather than a multilateral basis at project implementation level, they are fully supportive of EU regional programmes that set a common policy framework for all stakeholders and promote coherence of reforms for the sectors concerned across the region.

Bilateral programmes

Fundamentally, evaluation and assessment studies have supported the relevance, impact and positive achievement of the EC programmes undertaken in the past, stressing however the need for a stronger national policy framework and adequate institutional capacity to support project/policy development and implementation.

Results-oriented monitoring (ROM) of all TACIS projects for the years 2003, 2004 and 2005 confirmed the increasingly good results of the programme as a whole, including in Central Asia. At country level, using the project monitoring criteria, projects performed well in 2004/2005: with 'very good' and 'good' being given in 80% of the monitoring reports for Uzbekistan, 95% for the Kyrgyz Republic and 76% for Turkmenistan (TACIS assistance for Tajikistan was interrupted in 1998 and only resumed effectively at the end of 2003). The situation in Kazakhstan has been in contrast with the others. The transfer of most Governmental, national and institutional bodies and State companies to the new capital of Astana, situated one thousand kilometres north of Almaty, must have made the implementation of projects more difficult. For all projects, this move has created a geographical split between the contractor and the project partner and

(a number of) the direct beneficiaries. Many project partners in Astana have been unable to provide office space for projects, as the existing infrastructure in Astana was not yet sufficient. The move to Astana of most governmental/national, institutional bodies and State companies has also affected the functioning of the Government and institutions in Kazakhstan, against the backdrop of an already rapidly changing setting caused by the rapid transition and adaptation to international standards. Astana has now been established as a fully fledged capital.

Value added of EC assistance

The Commission has clearly been most successful when addressing issues related to an enabling regulatory environment for trade, business and investment. The two specific areas of institutional capacity and governance, the largest portfolio (34% of projects), and Trade and Development (19% of projects) were the leading/best performing sectors with a score of 2.71 (NB: The scores for all criteria are higher than 2.50 - the hypothetical middle line chosen by the EC as being "on track" and following the programmed course). The assessment also clearly confirms the strategic importance of maintaining PCA implementation as a core objective in all countries, with specific and flexible actions adjusted to the needs of individual states and the peculiarity of their reform processes. Issues related to regulatory reforms and trade and investment are at the forefront of the PCA agenda and will remain key areas for Commission support in the future.

Overall, **independent evaluations confirms that the contribution of TACIS to regulatory convergence and legislative approximation has been substantial:** many PLACs succeeded in producing in a timely way the planned output and were judged most of the time as having been of good quality. If well managed, PLACs can function very effectively: they can decide themselves, flexibly and quite rapidly to recruit the specialised experts needed for specific tasks on request. If of a sufficient size, PLACs can specialise and train in-house experts who can make specific contributions and who can coordinate and supervise external short-term inputs. Results include strengthening the legal process, approximation of legislation, institution building, raising awareness of PCA norms and values, including to civil society, integration into world economy and reforming the economy; the impact on the thinking and mentality of decision makers, administrations and even the public is hard to measure but it can be very important and far-reaching over time. Specific mid-term assessment of the implementation of the PCAs with Kazakhstan and the Kyrgyz Republic in July 2005 has provided a positive measure of the progress made under the

various areas of cooperation, identifying in particular the crucial role played by TACIS assistance in legal and administrative approximation with the EU. The continued input of EU advisory assistance has kept the Central Asian states in the general transition reform process that started in the early 1990s with the Central European States that have since joined the European Union.

It is true, however, that Central Asia was the least advanced part of the ex-Soviet Union and the reforms undertaken in each country have happened at different speeds depending on the nature and general difficulty in establishing effective implementation mechanisms and administrative capacity. Hence, with further support needed on policy and legislative reform, major attention needs to be given to capacity building and institutional strengthening. To promote the countries' sustainable economic growth, key policy areas for reforms remain their integration into international trade, the promotion of incentives and guarantees required to attract foreign investment and technology, the promotion of higher education, decent work opportunities and higher labour productivity, and the improvement and extension of social protection systems to facilitate restructuring and encourage labour reallocation, together with the implementation of effective poverty reduction policies.

Food security and sustainable rural development projects have received lower assessment, in part because the environment in which these programmes operate means that they are invariably more complex to manage and need more time to produce positive results: governance issues, assessment of local needs and resources, seasonally dependent, poor infrastructure and local capacity, timely provision of equipment, etc. Whereas adaptability has been one of the positive conclusions regarding TACIS projects, initial project design deficiencies take longer to redress in rural settings. In this regard, the application of LLRD and positive lessons drawn from experience with NGOs of ECHO, which is now stopping its relief programmes in Tajikistan, and EC FSP will need careful attention under the new DCI instrument. Importance of gender issues has been emphasised in this context.

While disaster preparedness actions through ECHO are proving successful, it is recommended that other EC instruments continue working on Disaster Reduction measures as a cross-cutting issue, in particular in their poverty alleviation and environment programmes.

The rural community-driven schemes for poverty alleviation launched under the 2002-2006 CA Indicative programmes will require continued EC assistance: the selected areas were chosen in part because of the high degree of poverty and lack of administrative capacity and infrastructure to attend to the basic needs of the population; on the other hand, the target provinces are also those most affected by political instability and the destabilising influence of the drug trade and illegal migration, as confirmed by recent popular unrest in these areas. The poverty reduction objective is fully in line with the comprehensive prevention approach called for by the "European Consensus on development" (December 2005) in situations of state fragility and significant risk of conflict. Hence, the strategic option to concentrate over time on these particular provinces in order to have an impact and increase visibility remains entirely valid. The structures for delivering assistance directly to the target regions are now in place and should be able to effectively mobilise a substantial flow of well targeted EC assistance. The pilot schemes enjoy the full support locally of the authorities and population concerned. The improved knowledge of prevailing conditions in the field suggests that, with the consolidation of the schemes envisaged, significant achievements will be made. These will be monitored through appropriate indicators, including MDGs.

Programming, sustainability and types of assistance

One of the priorities when implementing the CA Strategy 2007-2013 will be to ensure continuity and focus of assistance and thus continued progress in and commitment to reform over time. The TACIS programme is reputed to have a large number of "stand-alone" technical assistance projects, in particular in the area of institutional and administrative reform. These actions often achieve good results at project

level⁶ but have limited impact at sector and national policy level due to a lack of continuity and coherent long-term sector planning. Inevitably, this has had negative effects on sustainability.

With the introduction of new external assistance instruments, flexibility at instrument level will increase substantially. Technical assistance will no longer be the only tool of the Commission's programmes to Central Asia. New types of assistance will be possible, including infrastructure and equipment funding, twinning and budgetary support where appropriate situations exist and the required conditions are met, in particular in the context of sector-wide approaches (SWAPs). Twinning will already be phased in under the current TACIS programme. Furthermore, specific capacity building measures have been included since 2004 in TACIS Central Asia Action Programmes to support the national authorities in the preparation of coherent sector strategies.

In terms of implementation, the deconcentration and strengthening of Commission field staff is also helping to improve the impact and sustainability of projects, and to make the implementation of EC assistance more effective.

4.3 Coordination and complementarity with other donors

The EC has sought to coordinate the preparation of the 2007-2013 CA Strategy at an early stage with all the relevant donors, including Member States. Constructive and open discussions were held with all key players. Current and future priorities of other donors have been factored into this strategy in order to ensure cohesion and complementarity. At the strategy development and programming stage, no major risks of duplication of effort have been identified.

Formal government-led donor coordination has been relatively weak in the past: at country level, coordination and harmonisation of external assistance is through in-country consultative groups (ICGs) in the Kyrgyz Republic and Tajikistan. Formal and informal donor meetings for coordination and information sharing are also frequent in all countries. Theme meetings, where each donor coordinates a subject and sector reform approach reflecting its comparative advantage, provide other in-country forums for coordination where the Commission Delegation is actively involved. In the two countries in which the Commission does not currently have a Delegation (Turkmenistan and Uzbekistan), special consideration has been given to the assistance programmes of other donors in the country profiles (Annex 5).

The importance of partner countries exercising effective leadership over their development policies was expressed in the Paris Declaration on Aid Effectiveness in March 2005, to which both the Kyrgyz Republic and Tajikistan signed up. In Tajikistan and the Kyrgyz Republic, where EC assistance has directly supported the Poverty Reduction Strategy and Action Plans of the governments, specific coordination mechanisms have been established with a division of labour among major donors. It is in this context that it is proposed that focal areas should be those in which the EC has taken responsibility during 2002-2006 through the EC FSP, e.g. public finance management, agriculture sector, social protection.

Cooperation with IFIs and other international organisations such as OSCE or UNDP, will be an important component in the promotion of regional cooperation programmes, including for the facilitation of investments at policy and project level. The Commission is monitoring the work of the ADB-led CAREC together with the other IFIs and intends to participate in the different technical expert groups to consolidate plans and programmes for greater sub-regional integration and optimise leverage on investments from its cooperation in the priority domains referred to above. Account will also be taken of the priorities, main trends and plan of actions of the other regional integration associations and other organisations mentioned above.

The Commission cooperates closely with the EBRD to identify areas for common action, in particular in infrastructure development (energy, transport, water, clean technology). The mandate of the EIB for the

⁶ This is confirmed by a detailed analysis of project monitoring reports for Central Asia, over the period 2004-2005, which show an overall rating of 2.64.

2007-2013 period was extended to all ENPI East countries with substantial funds and should be further extended to Central Asia. The Commission intends to support the development of EIB operations in the region. A tri-partite Memorandum of Understanding (EIB / EBRD / Commission) was signed in 2006 and provides the institutional frame for developing this joint cooperation in Central Asia in line with EU strategic priorities.

A detailed description of priorities of other donors, including Member States, and complementarity with EC assistance is presented in the Central Asia Indicative programme 2007-2010.

4.4 Coherence of EC cooperation policy with other core policies of the EU (“policy mix”)

Relations with the countries of the region are affected by a number of other Community policies, which makes the choice of the right ‘policy mix’ so important. This concerns in particular the areas of Common Foreign and Security Policy (CFSP), border management and migration, trade, energy, transport and trans-boundary environmental threats, as well as all other areas included in the 2006 Council conclusions on policy coherence for development.

In the area of **Common Foreign and Security Policy (CFSP)**, CA is becoming an increasingly important partner for the EU, in particular on issues of drug trafficking and anti-terrorism, in connection with Afghanistan. Airbases in three countries support Coalition operations: Uzbekistan, the Kyrgyz Republic and Tajikistan.

Border and migration policies: Over recent years, EC assistance has provided substantial support, in particular under the regional programmes, to border services and management as well as to migration and asylum policies. All these issues form an integral part of this strategy.

Drugs policy: The EC’s CADAP programme aims to foster a drug control and demand reduction strategy in line with the CA EU Action Plan on Drugs, which provides the political basis for further cooperation on law enforcement to control the drug supply and deploy measures to reduce drugs demand in Central Asia. The EU’s efforts to fight against the consumption, production and trafficking of illicit drugs are translated into the 2005-2012 EU Drugs strategy⁷ (and the new EU Action Plan on Drugs 2005-2008), which provides a framework for a balanced, integrated approach to the problem of illicit drugs. Both at regional and at national level, the fight against drugs and the EU’s co-responsibility in this area has been and will remain reflected in its strategies and cooperation activities.

In the field of **development policy**, CA countries are committed to combating poverty in line with the Millennium Development Goals and are supported in their efforts by EC assistance.

Concerning **trade policy**, the EU supports the ambition of Central Asian states to join the WTO as soon as possible. Bilateral WTO negotiations are ongoing with Uzbekistan, Kazakhstan and Tajikistan. In this connection, trade-related Technical Assistance has recently been an important component of EC assistance and it will continue to be so under this strategy.

In the area of **transport** and energy: INOGATE, TRACECA and Baku process signatories, in close conjunction with the EIB, the EBRD and the WB. At the same time it will be important to ensure that environmental and social safeguards are respected.

Global environmental threats like climate change affect CA as well as the EU. Both parties are committed to implementing the provisions under the Kyoto Protocol and the UN Framework Convention on Climate Change. The EC currently provides support in this area through a regional TACIS project and envisages follow-up measures under future assistance programmes.

⁷ EU Drugs Strategy (2005-2012), Doc No 15074/0422, November 2004.

On nuclear issues, the EU support to safety and decommissioning of nuclear plants and the remediation to nuclear test sites and other potentially contaminated areas appears necessary (in relation with EU instrument for Nuclear Safety cooperation and EU strategic Programme for nuclear safety).

5. THE EC RESPONSE STRATEGY

5.1. The Response Strategy: Principal objectives

The Commission's response strategy to CA is rooted in the strategic objectives of EU/EC cooperation with the countries outlined in chapter 1, and in the policy agenda of the CA governments outlined in chapter 2 and analysed more in detail at country level in Annex 3.

These objectives are reflected in the Partnership and Cooperation Agreements (PCAs).

The key feature of EU-CA assistance cooperation at this stage is to support increasingly close relationships between the EU and CA countries, going beyond past levels of cooperation to greater economic integration and a deepening of political cooperation at sub-regional and bilateral level.

Priorities for action 2007-2013

The principal objectives of EC assistance over the period covered by this strategy are therefore to:

- promote Central Asian regional cooperation and good neighbourly relations;
- reduce poverty and increase living standards, in the context of the Millennium Development Goals;
- promote democratisation, human rights, good governance and economic reform.

Such assistance will be most effective when it covers a limited number of issues selected on the basis of the following criteria:

- i) particular strategic importance in the context of EU-CA relations
- ii) lessons learnt from previous assistance
- iii) complementarity with the strategies and actions of other donors, including IFIs
- iv) coherence with other core policies of the EU ("policy mix").

The last three points are discussed in more detail in chapter 4 of this strategy paper.

Key issues to be addressed

Based on the above objectives and criteria, the following issues have been identified as needing to be addressed over the period covered by this strategy.

1. Promote Central Asia regional cooperation and good neighbourly relations

EC assistance in this area will help to achieve the objectives outlined in this Strategy by addressing a limited number of priorities relevant to all CA countries but having a genuine regional dimension both in terms of joint implementation and in terms of regional impact. They are in line with the objectives and priorities of the ENPI Regional Strategy 2007-2013. The objective is to help CA countries to benefit from these enhanced cooperation initiatives, including through their direct participation in ENPI regional initiatives and programmes with the aim of deepening EU/Central Asia relations. This is in line with EC policies for over ten years, where all Central Asian countries have participated in EC regional and inter-state programmes as equal partners with other CIS countries, candidate countries and new EU member states in areas which can be considered as strategic for the sustainable development of Central Asia and

for the rest of the continent. The regional programmes will also be developed under a variable geometry format to maximise opportunities to enhance good neighbourly relations , as well as to act as a catalyst for attracting private investors and international financial institutions to fund projects, in particular with transition and policy reform impact. Programmes will be closely linked with IFIs in a way to leverage the investments needed to achieve the expected results, in particular through the EIB, the EBRD, including through interest rate subsidies under proper conditionality.

a. Networks and market integration

The process builds upon past activities under the INOGATE and TRACECA programmes, as well as for the transport sector on the TRACECA Strategy for the period up to 2015 and the recommendations of the High Level Group on the extension of the trans-European networks. EC assistance in this area will focus on support for the energy and transport sectors along the lines agreed by the 2004 and 2006 EU – Black Sea – Caspian Basin Energy and Transport Ministerial Conferences, and their respective Expert Working Groups (so-called Baku Initiative). In the Energy sector, the necessary technical assistance will be provided for the implementation of the recommendations agreed in the framework of the “Baku Initiative”, including for CA countries. The objective is to enhance the security of the energy supplies to the EU through the development of additional supply routes to the EU from the Caspian Region. Moreover the assistance will support the progressive integration of the region’s energy markets and enhancing of the IFI financing for regional energy projects of common interest. In addition, support will be offered in the area of improving energy efficiency and promoting new or renewable energies. In Transport, this can be supplemented by support linking EU bound transport networks to the major axes of the Trans-European Networks (TENs) and region-wide activities complementing national programme activities in the area of regulatory reform; or the gradual approximation with EU standards and legislation, including statistical standards and methods, and effective implementation of international agreements in the transport sectors, including air safety, air traffic management and security, maritime safety and security, road safety and rail interoperability where there are clear advantages in regional-level assistance. Also, foreign investments in both sectors, including through PPPs, may be enhanced through support for regional convergence of policies and approximation of norms and standards in line with the EU.

b. Environment

Experience has demonstrated that the environment is an area where regional work provides clear added value and where cooperative relationships can be built despite political tensions. Furthermore, it can provide opportunities for private sector and civil society involvement.

On the 5th and 6th April 2006 in a Ministerial Conference in Almaty, the representatives of the Central Asian States and the EU have agreed that enhanced environmental cooperation would constitute an important component of the EU-Central Asia Regional political dialogue and agreed on key priorities. It has also been agreed to set up an EU-Central Asia Joint Expert Working Group in order to develop and strengthen cooperation on environmental issues, focusing on water, including transboundary waters and climate change.

EC Regional Assistance in the Environment sector will also comprise sustainable management and governance in the water and forestry sectors, including biodiversity conservation, nature protection, and land degradation, with support for the regional aspects of existing mechanisms in these areas, such as the EU Water Initiative (EUWI) in the water sector, and the Forest Law Enforcement and Governance process (FLEG) in the forest sector. Assistance will also be given to data collection, monitoring and assessment, and to civil society cooperation in the environment field. As a cross-cutting issue, disaster reduction measures in the context of the Hyogo Framework of Action 2005-2015 will be encouraged.

Cooperation with IFIs in the area of water and climate change /industrial pollution, in line with the EU Sixth environmental action plan.⁸

Nuclear safety issues will be dealt with through the new dedicated EU cooperation instrument.

⁸ REFERENCE

c. Border and Migration Management, the Fight against Organised Crime and Customs

There is a strong rationale for region-wide activities, as shown by the endorsement of the BOMCA-CADAP Programme by the five Central Asia states. This relates to :a) the trans-boundary nature of these areas and their associated challenges; b) the economies of scale afforded by certain activities, such as training on a regional or sub-regional basis; c) the countries' high political interest and increased opportunity for cooperation and contacts which such activities provide for partner countries, and the coordination of activities on both side of borders; and d) the need for reliable and comparable statistics based on European standards at regional level.

Assistance in this sector will provide support for regional border and migration management initiatives. Special emphasis will continue to be put on the Tajik and Kyrgyz border management services. In the fight against organised crime and financial crime, there will be support for cooperation between the partner countries themselves, and between partner countries and the EU, and the potential to support existing and future regional initiatives. In customs, there will be assistance for the promotion of internationally agreed norms and standards (alignment of customs legislation and procedures on international and EU standards in view of trade facilitation) to ensure security of the international trade supply chain (including the World Customs Organisation's Framework of Standards) and promote cooperation between customs administrations, particularly at the border. The assistance should also be provided on enhancing the administrative capacity, fighting corruption and strengthening the customs controls at the border (including transit of goods). The EU Customs blueprints should be taken into account, to facilitate the approximation of standards and increase operational capacity. A particular focus should also be put on the control of IPR (Intellectual Property Rights).

In the field of enhanced cooperation on foreign and security policy, particular attention will be given to issues related to combating terrorism and WMD proliferation, all forms of organised crime, including money laundering, trafficking of human beings, drugs, trafficking of small arms and light weapons (SALW), trafficking in WMD agents, materials and know-how, and conflict prevention, with the focus in particular on the Ferghana valley.

In this context, it is essential to support and enhance efforts by both civil society and CA governments in the fight against trafficking and illicit spread of SALW, contamination by explosive remnants of war and anti-personnel landmines, the proliferation of WMD and efforts conducted in order to fulfil international obligations in the fight against terrorism (implementation of the relevant UN Security Council resolutions and international conventions).

d. People-to-people activities

People-to-people exchange actions and exchanges with regard to science and technology, as well support for the reform and upgrade of higher education, technical training and research systems; capacity building and training are key areas where EC support will be required, particularly for higher and technical education. This includes greater participation in scholarships or exchange programmes such as TEMPUS, and networking between learning and research institutions. It is also important to foster cooperation between social partners and civil society within the region and between partner countries and the EU as well as between governments. Cooperation between social partners and civil society in the EU and the partner countries, and between partner countries, is particularly important where cooperation between governments may be difficult. EC Assistance in this area will also therefore provide support for cross-region and cross-sub-region cooperation between social partners and civil society organisations.

2. Reduce poverty and increase living standards in the context of the Millennium Development Goals

The incidence of poverty remains very high throughout the region. The Kyrgyz Republic and Tajikistan are still among the poorest countries. In spite of the satisfactory economic growth during last years, the people living under poverty line are respectively 45 and 64% of the population. The corresponding figures for extreme poverty are 13 and 20%. The incidence of poverty is higher in rural area and there are considerable differences between provinces.

Beyond human suffering, inequal income distribution and poverty nourishes as well instability, insecurity and extremism for the society as a whole. There is also a high risk of cross border destabilisation through spill-over effects. Reducing poverty and increasing living standards will be a key to address human security and bring long term stability to the region.

a. Community Development and targeted rural development schemes

The Strategy proposes that the EC focus continue to be on tackling poverty in the field and assisting rural populations by local development schemes, especially in the Ferghana valley (the Kyrgyz Republic, Tajikistan and Uzbekistan) and Southern Tajikistan, building on the Central Asia Indicative Programmes 2002/2006.

The objective is to assist local communities in their efforts to increase living standards and tackle poverty, particularly amongst the most vulnerable sections of the rural populations, through measures designed to improve local governance, food security, social protection, productivity and income, small enterprises and employment opportunities and access to basic social services and credit. The aim will be to support the institutional capacity to collect and make progress with MDG indicators in the target areas. Efforts will, wherever possible and appropriate, also promote cross-border cooperation at local level. Reducing regional imbalances and improving local development capacities are further important issues.

b. National sector reform policies, in agriculture and social protection

Promotion and mainstreaming of sustainable development into all relevant sector policies is a key element of PRSPs. Strengthening the administrative and statistical capabilities to develop and implement sector strategies and policies consistent with national key objectives for poverty reduction and food security is a general priority for all the countries of the region, and will be applied in accordance with mutually agreed priorities, in coordination with other donors.

In particular:

- Support for national sector reform policies and programmes for agriculture development and land reform, in line with the PRSPs adopted by the governments; reducing regional imbalances and improving local development capacities are further important issues.
- Support for implementation of social protection reforms and mechanisms, particularly aimed at the most vulnerable populations.

3. Promote good governance and economic reform

Strengthening of political reforms is an important element for ensuring stability of CA countries. Public administration reform and improved public finance management are crucial elements in enhancing the institutional capacities and improving the transparency and public accountability of state and administrative structure at all levels. This is also a major element in ensuring good governance and the effectiveness of the fight against crime and corruption.

For each country, only one or two of the focal areas below will be chosen as priorities for assistance. Bilateral cooperation priorities will be developed in the framework of a specific EU medium-term cooperation approach for each partner country.

Key issues to be addressed

a. Democratic development and good governance

- Promotion of civil society and democratic processes
EC assistance in this area will focus on strengthening democracy, the rule of law, human rights and fundamental freedoms. This also covers support for democratic institutions and fostering the development of civil society and media.
- Judicial reform, greater independence and efficiency of the judiciary in line with international practice and improvement of rule of law and of citizens' equal access to justice, information and respect of their fundamental rights
- Good Governance and Public Service reform:
 - civil service and administrative reform: to increase governance and effectiveness of public administration, reduce corruption and enhance the rule of law; to help implement institutional strengthening and human resources management measures,
 - to improve transparency and rationalisation of public budget management, as well as effectiveness of policy planning. by way of 1) general macroeconomic framework; 2) expenditure framework; 3) issues related to financial management and state procurement, including accounting standards, financial control and audit. These are essential prerequisites for any sector-wide approach to reform with budget support.

b. Trade, market and regulatory reform

- EC assistance will be offered to support the process of market and regulatory reforms and policy dialogue in line with PCA commitments, through exchange of know-how, best practices, capacity building and other measures in areas of common interest. In particular, it will further improve trade and investment, bearing in mind the challenges that Central Asian countries will face in completing the envisaged WTO accession process, removing barriers to intra-CA trade and promoting business sector growth and investment and paying due attention to the employment and social dimension of trade liberalisation and globalisation.

With DCI, support for institutional, legal, administrative and sector reforms through a combination of a range of different instruments will be possible, including technical assistance (E.G. statistics), capacity building, institutional strengthening, and investments or budgetary support wherever the necessary conditions are met. The involvement of civil society in the reform processes and participation in public decision-making is important for the progress of the transition in these countries and will be pursued as a cross cutting issue in EC-funded assistance programmes and projects.

All assistance activities will take due account of aspects relating to the protection of human rights and fundamental freedoms. Gender issues **and environmental concerns** as important cross-cutting issues for the region will be integrated, , as far as possible into the design of programmes relating to all the key issues outlined above, notably in poverty reduction and educational /capacity building programmes.

5.2 Complementarity with other EC programmes

Instruments and means

As from 2007, EC assistance will be provided through a new set of instruments. While the DCI, including its thematic components, will be the new principal tool for assistance provision to Central Asia countries, they will be also able to participate in ENPI Regional Programmes, although activities/projects to the direct benefit of CA will be funded under the CA DCI. In addition, certain measures, in particular in the area of security, conflict prevention and crisis management and resolution, may also be supported under the Stability Instrument. Nuclear safety will also be covered under a dedicated Nuclear Safety Instrument.

DCI allocation for countries of Central Asia

Assistance provided under the national component budgets will pay due attention to the cross-cutting issues of support for democratic development, human rights and good governance, enhancing living standards and poverty reduction, plus support for regulatory reform and administrative capacity building.

DCI Thematic programmes⁹

A total of five thematic programmes will be available under the new instruments. Of these, the thematic programmes on Food Security (ex-EC FSP), which contributed half to one third of EC assistance to the Kyrgyz Republic and Tajikistan in recent years, “Migration and Asylum” (ex-Aeneas), “Local Actors in development” will be particularly relevant for Central Asia. These issues are explicitly addressed under the CA Strategy 2007-2013.

In addition, the thematic programme on “Investing in People” may be important for Central Asia in the context of the fight against HIV/AIDS. It may also be important via the sub-theme on ‘knowledge and skills for all’. Indeed, the theme, which underlines the importance of vocational and technical education systems and its relation to improving employment opportunities, could be used to assist the countries in making the crucial link between skills development and poverty reduction initiatives. It may be worth launching additional thematic activities as specific additional needs arise during the period covered by this strategy.

Instrument for Democratisation and Human Rights (IDHR)

This new instrument, which follows on the European Initiative for Democracy and Human Rights (EIDHR) will be of much relevance for the all countries of the region.

Nuclear Safety Instrument

Beyond 2006, EC assistance in the area of Nuclear Safety will be provided under a new instrument. It is expected that support will continue to be provided for better safety of nuclear plants, the Nuclear Regulator and projects, dealing with remediation measures for nuclear contaminated sites, under the new dedicated for Nuclear Safety Cooperation, particularly in Kazakhstan and the Kyrgyz Republic.

Stability Instrument

The main goal of the Stability Instrument is to provide an effective, timely, flexible and integrated response to situations of crisis, emerging crisis conflict prevention or continued political instability.

⁹ Financial resources allocated to each thematic programme will be programmed on the basis of a single strategy document CSPs/RSPs, but in establishing the policy mix they should identify opportunities for adding value to the NIPs/RIPs by using thematic programmes.

Concerning security aspect, the Stability Instrument is to provide safeguards or anti-terrorist measures as well to improve the security of critical infrastructures, notably nuclear sites, particularly in Kazakhstan and the Kyrgyz Republic

Important also for Central Asia would be measures to address the effects on the civilian population of anti-personnel mines, unexploded ordnance or other explosive devices.

Humanitarian instrument

Given the high risks of natural catastrophes in Central Asia, the DIPECHO instrument will remain available to strengthen cooperation and enhance disaster preparedness and emergency planning at local level and in complement with other Disaster Reduction actions.

In line with its mandate, ECHO will also remain ready to respond to any humanitarian crisis which might develop in the Central Asian region.

LIST OF ACRONYMS

AP	Action Plan	INOGATE	Interstate Oil and Gas Transport to Europe
APL	Anti-personnel Landmine	IP	Indicative Programme
BSEC	Black Sea Economic Cooperation	IPA	Instrument for Pre-Accession
Central Asia	Central Asia	JHA	Justice and Home Affairs
CBC	Cross-Border Cooperation	LRRD	Linking Relief to Rehabilitation and Development
CBC	Cross-Border Cooperation	MEDA	Financial instrument of the European Union for the implementation of the Euro-Mediterranean Partnership
CDM	Clean Development Mechanism	NGO	Non-Governmental Organisation
CFSP	Common Foreign and Security Policy	NIP	national Indicative Programme
CIS	Commonwealth of Independent States	NIS	Newly Independent States
CSP	Country Strategy Paper	NPPs	Neighbourhood and Partnership Programmes (Successor to Neighbourhood Programmes)
DCI	Development Cooperation Instrument	NSI	Nuclear Safety Instrument
EBRD	European Bank for Reconstruction and Development	PCA	Partnership and Cooperation Agreement
EC	European Community	REC	Regional Environment Centre
ECHO	EC Directorate General for Humanitarian aid	RSP	Regional Strategy Paper
EECCA	Eastern Europe, Caucasus, and Central Asia	SI	Stability Instrument
EIB	European investment Bank	SMEs	Small and Medium Enterprises
ENP	European Neighbourhood Policy	TACIS	Technical Assistance to the Commonwealth of Independent States (The forerunner of ENPI)
ENPI	European Neighbourhood and Partnership Instrument	TEN-T	Trans-European Transport Networks
EU	European Union	TRA	Trade-Related Assistance
EUWI	European Union Water Initiative	TRACECA	Transport Corridor Europe Caucasus Asia
DIPECHO	Disaster preparedness (ECHO)	UNDP	United Nations Development Programme
FLEG	Ministerial conference on Forest Law Enforcement and Governance for Europe and North Asia	UNECE	United Nations Economic Commission for Europe
GDP	Gross Domestic Product	WB	World Bank
GUAM	Georgia, Ukraine, Azerbaijan and Moldova	WCO	World Customs Organisation
ICAO	International Civil Aviation Organization	WMDs	Weapons of Mass Destruction
IFIs	International Financial Institution	WTO	World Trade Organisation
ILO	International Labour Organisation		
IMO	International Maritime Organisation		

Annex II: Central Asia at a Glance - Selected Economic and Social Indicators (2004)

	Kazakhstan	The Kyrgyz Republic	Tajikistan	Turkmenistan	Uzbekistan
GENERAL					
Area (millions km ²)	2.7	0.199	0.143	0.488	0.447
Population (millions)	15.0	5.1	6.4	4.9	26
Urban Population (% of total)	57.0	34.0	24.8	46	36.7
Life Expectancy at birth (years)	63.2	65.0	66	64	66.5
Population growth rate (annual %)	0.5	0.9	0.7	1.5	1.3
Fertility rate (births per women)	1.8	2.4	2.9	2.7	2.3
Human Development Index (HDI)/Ranking	0.761/80	0.702/109	0.652/122	0.738/97	0.696/111
GINI Index	0.32	0.28	0.33	-	0.35
Adult literacy (%)	99.5	98.7	99.5	97	99.3
ECONOMY					
GDP (billions US \$)	40.7	2.2	2.1	6.6	12.0
GNP per capita (US\$)	2260	400	280	1340	460.0
GDP per sector : Agriculture	8.4	38.7	24.2	21.0	31.1
(% of GDP) Industry	37.6	22.9	28.1	44.6	25.2
Services	53.9	38.4	47.7	34.4	43.7
Real GDP growth rate (%)	9.4	7.1	10.6	17.0	7.7
External debt stock (billions US\$)	32.6	2.0			5.1
Debt Service (% of exports of goods and services)	25.5	18.3	9.1		22.7
Inflation Rate % (2004)	6.9	4.1	7.1	10.0	1.7
TRADE – WORLD					
Exports of goods and services (billions US\$)	20.603	0.733	1.097	4.094	4.837
Imports of goods and services (billions US\$)	13.818	0.904	1.232	3.524	3.949

Current account balance (billions US \$)	0.533	-0.101	-0.057	-0.3	1.194
FDI (millions US \$)	2100	45.5	20	226	70
TRADE – EU					
Exports to EC (millions €)	6355	25	186	495	605
Imports from EC (millions €)	3229	96	64	412	464
Trade Balance with EC (millions €)	3186	-71	122	83	141
EU % of total trade	33	7.8	28.3	15.5	19.5
SOCIAL DEVELOPMENT INDICATORS					
% of population below \$2.15 per day (PPP) [MDG1]	21	70	74	44*	47
Primary enrolment rate [MDG2]	95	90	111		103
Women's % share of paid employment [MDG3] non agri	48	42	49	n.a.	42
Under 5 malnutrition [MDGS 1,4]	4			12	8
Infant mortality (per 1000 live births) [MDG4]	63	59	76	79	57
Under 5 mortality rate (per 1000 live births) [MDG4]	73	68	95	102.0	69
Maternal mortality ratio (per 100,000 births) [MDG5]	210	110	100	31	24
Adults/Children (0-49) living with HIV [MDG6]	16500	3900			11000
Access to safe water (%) [MDG7]	86	76	58	71	89
Access to improved sanitation – (%) [MDG7]	72	60	53	62	57

Sources: World Bank website, UN Human Development Report for Central Asia (Dec 2005), EU Trade Website

* Turkmenistan's figure taken from 1998

List of MDGs:

MDG 1: Reduce extreme poverty by half
Reduce hunger by half

MDG 2: Universal primary schooling

MDG 3: Promote gender equality and empower women

MDG 4: Reduce mortality of under-five-year-olds by 2/3.

MDG 5: Reduce maternal mortality by 75%

MDG 6: Halt and reverse spread of HIV/AIDS and other diseases

MDG 7: Halve proportion without improved drinking water
Halve proportion without sanitation

CENTRAL ASIA DRAFT ENVIRONMENT PROFILE

1. Description of the state of the environment in Central Asia

Central Asia is a unique natural environment with an enormous variety of ecosystems, including the very high mountain ranges of the Pamirs, Tien Shan and Altai Mountains, vast deserts and steppes, large rivers and abundance of lakes.

The sub-region is rich in natural and energy resources. Central Asia is known for a rich variety of flora and fauna, with many regions serving as natural habitats and migration sites, and where wild varieties of many cultigens have their historical origins.

One distinctive feature of Central Asia is the vulnerability of its ecosystems. Central Asia forms a uniform environmental area comprising the closed drainage system of the Caspian and Aral basins with no outlet to the ocean, which combined with the arid climate results in significant environmental limitations on economic activity and trade.

Water is a key factor for the well being of the Central Asia populations, with availability of clean water determining the quality of life and future development of the sub-region. The countries are bound together by the ecosystems of water basins. The continentality and aridity of the climate and the extreme uneven distribution of water resources in the region and from season to season place additional demands on the arrangements for water use in central Asia. The imbalance between the interest of the upstream countries 'electricity generating industry and irrigation downstream , and uneven pattern of water consumption are aggravating the tensions. While there are differences between countries, the key environment issues in the region relate to water management and quality, waste management, air quality, nature protection and climate change. Land degradation and desertification also constitute a particular challenge.

1.1 Water issues are the core of the environmental problems in Central Asia.

The resource-based approach that evolved during the arms race still dominates water management thinking in Central Asian countries. Despite the compelling example of the Aral disaster, water is primarily considered in terms of agriculture and power generation without any regard for its other functions. Consequently, drinking water quality, human health, soil fertility and crop yields are deteriorating, and poverty, unemployment and migration are on the increase.

The development of irrigation agriculture in the Aral Sea basin on unprecedented scale in mid XX^o century overstrained the ecosystem and led to its ultimate ruin. Intensive water uptake caused the level of the Aral Sea to drop 20 meters and its capacity to decrease by 80%. By mid 90s, the Aral Sea ceased to exist virtually, reduced to three separate lakes and a catalogue of woes became apparent, drastic deterioration in water quality and human health, large scale desertification, soil salinity and swamping, decreased biological diversity and increase in adverse climatic effects. According to the experts estimation the damage from the Aral Sea devastation caused by decreasing of the sea level and water pollution only in Kazakhstan is more than 45 billion US dollars. Kazakhstan has taken strong action to sustain the upper North lake, but the other parts of the former Sea continue to shrink.

Lake Balkash plays also a significant role in maintaining the natural and climatic balance in the region. Shallowing and salinization of Balkash may have repercussions comparable to the Aral Sea tragedy. The Irtysh River is another source of water of regional importance which decreased discharge could have disastrous consequences. Annual floods cause a serious damage due to uncoordinated actions: growing of mountain ecosystems degradation, decrease of the area and yield of productive lands, unproductive losses of water in agriculture and industry.

Central Asia prosperity depends to a great extent also on the natural equilibrium in the zones of river formation – the mountainous ecosystems of the Pamir, Tien Shan and Altai. Degradation processes such as deforestation and erosion, waste pollution and rangeland reduction are increasingly causing problems : combined with the effect of climate change, the Pamir and Altai glaciers have lost over 25% of their ice reserves from 1957 to 2000 and this process is continuing apace.

Population growth and economic development have significantly increased the demand for water. Annual surface and groundwater draw-offs as proportion of total water reserves in Central Asia countries varies from 20-205% in Kazakhstan, The Kyrgyz Republic and Tajikistan to 80-90% in Uzbekistan and Turkmenistan. Water shortage is having adverse effects on the social and economic situation. Water supply in lower reaches of the Amu Darya has accounted for less than 50% of agreed draw-off limit, which was already insufficient to satisfy demand; Afghanistan 's claim on the river flows for its own purpose risks to further aggravate the problem, together with accelerating processes of desertification and climate change.

Water resources are also poorly managed: water losses due to mismanagement and obsolete technologies account for as much as 37% water supplied. Per capita water consumption in Central Asia is on average twice that of OECD countries .However, supply of water for domestic and drinking needs remains inadequate: 60 to 90% in urban areas, 70-75% in rural areas. Supply of safe drinking water is poor: About 40% Tajik population uses water from open sources. The rising costs of water supplies, lack of transparency in pricing and non existent public monitoring are further causes of increasing social tensions. The sub regional death rates, particularly maternal and infant mortality is still very high, with gastro-enterological diseases one of the commonest causes of infant deaths. Life expectancy is less than 65 years in all the countries.

With regard to **water quality**, the use and protection of shared waters is a key issue. Existing problems are related to both quantity and quality of water. Water quality is affected by discharges of municipal and industrial waste-water, contaminated return flow from agriculture and oil pollution in coastal areas, imposing health and ecological threats including loss of biodiversity. In industry, increased leakage from water mains and distribution networks is attributable to the run down of the supply systems. Existing infrastructure for waste water collection and treatment in the region is poor and needs to be upgraded as well as new capacity constructed.

1.2 Other issues

Waste management is a serious issue, including its prevention, collection, treatment, recovery and final disposal. In many of the countries there is a problem with stocks of obsolete pesticides. As well as causing environmental degradation,

Air pollution is becoming a health and social problem, in particular in urban areas where transport is an important source of pollution but also linked with the drying of Aral Sea.

Ecosystem deterioration has led to a marked reduction in biodiversity. The number of extinct or endangered animal species and plant varieties is growing. In some cases these processes are irreversible. Overregulated river water flow and pollution have reduced fish reserves. The overall catch from the natural reservoirs of Central Asia has decreased by over 60% since 1990.

With regard to land use, more than a half of Central Asia is prone to desertification. The land area affected by degradation in Kazakhstan is 179.9 million hectares or 66% of the country, and as much as 80% is affected in Turkmenistan and Uzbekistan. If salination trends persist, most agricultural land in river basins will become unsuitable for irrigation farming within a few decades and salinization of rivers will preclude their use as sources of drinking water. Clearing of forestlands and outdated farming practices contribute to land degradation and desertification.

As regards nature protection, degradation of forests is continuing. Forested areas in Central Asia have shrunk to less than one quarter of their original extent since the middle of the last century. Saxaul and flood plain forests (tugais) have been particularly hard hit by human activities. In the flood plain of the Amu Darya alone, the area under forest has decreased from 150,000 hectares to 22,000-23,000 hectares in the past decade. This process is continuing. The degradation of tugai forests has been strongly affected by the disruption of the hydrological system of the rivers. Illegal logging cause economic costs as well as loss of biodiversity, for instance through logging of national parks, and can

contribute to deforestation. The establishment of effectively managed protected areas constitutes a challenge.

As regards global environment issues, fast economic growth in some of the countries of the region might lead to unintended consequences on green house gas (GHG) emission levels. The countries in the region are party to the UN Framework Convention on Climate Change and the Kyoto Protocol and need to implement their provisions (for instance with regard to monitoring and reporting), and have the possibilities to explore the flexible mechanisms of the Kyoto Protocol.

2 Environment Policy

Over the past decade, steps have been undertaken in the region to reform environmental institutions, policies and legislation. Various strategies and action plans have been adopted. However, the issue of strategic planning and prioritization in light of scarce resources and competing needs continues to constitute a challenge for the countries in the region. Many of the planning documents identify a wide range of competing priorities. Realistic implementation strategies, including with regard to financing, are often missing. In developing environmental programmes, sufficient attention is not always given to the involvement of stakeholders and building support for environmental reform. Although there is considerable variation throughout the region, integrating environmental considerations into other policy areas is often proving difficult.

3 Environment legislation and its implementation

The situation with regard to environmental legislation varies throughout the region, but in many cases legislation needs further development, in particular with regard to implementing legislation. In several cases emission standards need to be reviewed. The countries of the region face difficulties with regard to implementation and enforcement of environment legislation due to lack of administrative capacity and financial resources.

Throughout the region, the level of public participation and awareness of environment issues, does not always allow civil society actors to fully assume their role in the development and implementation of environmental policy and legislation. This is important, in particular as NGOs can have the possibility to work towards solutions for environmental problems which for political reasons governments are not addressing.

The Central Asia Regional Environmental Centre (CAREC) aims to help addressing environment issues through the promotion of cooperation between various stakeholders, including NGOs, governmental bodies, local communities and the business sector. The RECs also aim to promote civil society participation in the public decision making process.

4. Administrative capacity

In order to ensure implementation and enforcement of environmental legislation and multilateral environmental agreements, the strengthening of administrative capacities, strategic planning, data collection and monitoring constitutes an important challenge for the region. In this respect, procedural development, increased financial resources and staff training are important issues.

Addressing trans-boundary problems is a complex and often problematic issue, including ensuring the institutional (for instance basin management bodies) and legal frameworks to address them efficiently. Many of the countries need to strengthen procedures for implementation of commitments under multilateral environmental agreements and capacity for implementation of multi-country projects financed by international organisations and donors. Support and recommendations from secretariats of international Conventions can contribute to facilitating the process.

5. Regional and international processes

The countries of the region have ratified relevant international and regional conventions (with regard to the latter, in particular UN-ECE Conventions are of importance) such as the Espoo Convention on Environmental Impact Assessment (its Strategic Environmental Impact Assessment Protocol, the Stockholm Convention on Persistent Organic Pollutants, the Water.

Kazakhstan and Turkmenistan are members of the **Caspian Sea Environmental Convention**, which provides a platform for cooperation between IFIs, donors and beneficiaries for water protection and water-related issues of the Caspian Sea and adjacent rivers. The main aim is to encourage a strategic focus to the use of financing, and to ensure coordinated action between all financial instruments operating in the region.

The “**Environment for Europe**” process is a multilateral framework created in 1989 to steer the process of invigorating environmental awareness in the countries of Central and Eastern Europe, emerging from the old regimes and moving closer to the EU. The core activities of this process are undertaken by a Task Force co-chaired by the Commission and an NIS environment minister.

The Eastern European, Caucasus and Central Asia component of the EU Water Initiative, a regional component of the EU Water Initiative as agreed at the 2002 World Summit on Sustainable Development, involves all countries in the region. The initiative aims to promote improved water governance and coordination between stakeholders.

The countries of the region are participating in **the Forest Law Enforcement and Governance (FLEG) process** concerning the protection and sustainability of forests in Eastern Europe, South Caucasus and Central Asia.

6. Key environment areas where action is required

The region faces significant challenges with regard to environment protection. Key areas include water management and quality, waste management, nature protection and land use. As regards climate change, the countries need to implement the UN Framework Convention on Climate Change and the Kyoto Protocol.

The institutional and administrative capacity requires strengthening, including with regard to data collection and monitoring. Strengthening of public participation and awareness of environment issues is important for the development and implementation of environment policy. In this respect, the Central Asia Regional Environment Centre can assist in promoting environmental awareness and protection through providing a forum for cooperation between various stakeholders.

7. Cross Cutting Issue-Disaster Reduction

Natural disasters represent another key challenge to the region. Effects of disasters are in many cases accrued by poor environmental practices in land and water management, deforestation etc, and both the frequency and impact of natural disasters has increased in recent years. In this context, disaster reduction measures and the implementation of the Hyogo Framework of Action 2005-2015 should be fully integrated as a cross-cutting issue, in relevant programming.

Overview of EC assistance to Central Asia: 1991-2006

(i) Breakdown by Programme (€ millions by budgetary year)

	Ouz.	Kaz.	Kirghiz- stan	Turk.	Tadj.	Total AC
Dotations nationales Tacis						
1991	2,0	8,0	1,0	1,0		
1992	18,8	20,6	9,2	8,8		
1993		14,0	10,0			
1994	15,0	14,0		8,0	4,0	
1995	10,0	15,0	8,0	4,0	4,0	
1996	28,0					
1997		24,0	13,0	11,5		
1998	29,0					
1999		24,0	12,0	9,0		
2000	15,4					
2001		15,0	10,0			
2002	12,3	5,4	8,3	2,3	10,7	50
2003	9,7	6,6	7,5	1,5	9,7	50
2004**	11,0	7,0	6,2	2,2	9,6	50
2005	9,25	3,4	15,25	5,75	17,35	66
2006	8,5	11,5	7,5	3,5	14,5	61,5
Total Tacis	168,95	168,5	107,95	64,35	69,25	650
ECHO						
1991						
1992					0,3	
1993			3,6		7,4	
1994			6,3		9,8	
1995			8,0		16,1	
1996			3,9		14,1	
1997			2,8		14,9	
1998			1,8		16,7	
1999			2,1		18,8	
2000					15,0	
2001					12,0	
2002					10,0	
2003					10,0	
2004					8,0	
2005					6,0	
2006					6,0	
Total ECHO			28,4		165,1	193,5
Aide alimentaire						
FEOGA 1994-1995			14,0		11,0	
FEOGA 1995-1996			4,7	2,1	15,9	

Sécurité alimentaire 1996			10,0		17,2	
1997			8,5		5,5	
1998			8,5		4,1	
1999			8,5		3,4	
2000			10,0		9,0	
2001			10,0		3,7	
2002	1,2		10,0		4,0	
2003			10,0		8,0	
2004			9,0		8.0(+3)*	
2005			9,0		8.0(+3)*	
2006			9		9.0(+2)*	
* NGOs SAP						
Total aide alimentaire	1,2		121,2	2,1	109,8	234,3
Reconstruction						
1999					4,0	
2000					1,5	
Assistance technique exceptionnelle						
Total Reconst. +AT			2,0		5,5	7,5
Financement CE						
1991						
1992*					6,7	
1993*		9,6	21,3	44,3	47,8	
1994*		15,3	1,4	0,6		
1995*	58,7					
1996						
1997						
1998						
1999						
2000					60,0	
2001						
Aide financière exceptionnelle (aide non remboursable)						
2000						
2001					14	
2002					0	
2003					7	
2004					7	
2005					0	
2006					7	
Total financements CE	58,7	24,9	22,7	44,9	149,5	300,7
* ces prêts ont été entièrement remboursés						
TOTAL général	228,85	193,4	282,25	111,35	499,75	1387

Regional Programmes (figures shown are for all NIS countries and cover the regional cooperation, nuclear safety, cross-border, Bangkok Facility, IST/STCU, Rehabilitation, Incentive scheme and administration. The figures should be treated with caution as the Central Asian countries have received a small share of these programmes).

1991	106
1992	89
1993	172
1994	132
1995	125
1996	152
1997	135
1998	156
1999	133
2000	129
2001	148
<i>2002-2005</i>	215.1
Total Regional	1692.1

Country Analysis

Kazakhstan

1. Updated analysis of the country

1.1. Political

- The recent period paints a mixed picture of political reform in Kazakhstan. The main issues to be addressed relate to President Nazarbayev's will to implement true political reforms now that he has been re-elected in December 2005 for a further 7-year term. Such commitment has also to be seen in the context of Kazakhstan's candidacy to hold the OSCE Chairmanship in 2009. This will be a key test to assess political and social reforms of the new government appointed in early 2007.
- The necessity of political reform, the lack of which is hampering further economic reforms, is a key domestic factor that will shape the future development of the country.
- Between 2007 and 2013, the issue of who will succeed President Nazarbayev and of how to ensure a peaceful transfer of power will constitute the main political challenges. The absence of institutionalised checks and balances could prove a destabilising factor during the change of President.

1.2. Economic, trade & investment

- Kazakhstan continues to enjoy sustained economic growth. In 2004, GDP grew by 9.4%, reaching KZT 5,542.5 billion (€ 33,45 billion). GDP growth in 2005 is expected to have reached 9.5% compared to 2004.
- Despite the slowdown in industrial production and the fall of agricultural output at the beginning of 2005, GDP growth in Kazakhstan was largely sustained by the increase of investments into fixed capital and the rise in Foreign Direct Investment.
- FDI grew by 13.6% year-on-year during the first half of 2005, totalling €2.23 billion. This rise was primarily driven by the FDI increase in consultancy and geological exploration sectors. The EU is currently the leading foreign investor in Kazakhstan.
- From January to August 2005, Kazakhstan's total trade surplus increased by 73.6% year-on-year to reach €5.57 billion. The EU is Kazakhstan's leading trading partner.
- In January-September 2005, the year-on-year inflation rate was 7.5% and was largely driven by the increase of food prices (8.1% year-on-year) and services prices (7.6%). The inflation rate for the whole year is expected to be 7%.
- The Government of Kazakhstan is making efforts to develop its petrochemical industry within the framework of its diversification strategy. Economic diversification is the government's main goal during the forthcoming period. This could further be stimulated with EU assistance.
- Ambitious economic reforms have been launched as part of the 2003-2015 Innovative Industrial Strategy to develop clusters, techno-parks and special economic zones. New impetus to streamline corruption and increase transparency has been noted in 2006, with Kazakhstan subscribing in late 2006 to the full package of commitment under the Extractive Industries Transparency Initiative, promoted by the UK.

- As far as trade policy is concerned, accession to the WTO and strengthening regional trade cooperation are State priorities. One of the government's key plans for trade policy is to implement policies of development of competitive production in the frame of the Strategy for industrial innovative development. Markets need to be further liberalised.
- The development of new energy export routes remains a priority.
- China and Russia have become key economic partners for Kazakhstan, in particular in the energy sector.
- The State has increased its control and interference, especially in energy, banking and aviation sectors. This should be reduced, with particular focus given to stimulating the liberalisation of financial and non-financial services, telecommunications and other sectors.
- The investment climate needs to be improved.

1.3 Social situation

- In 2004, the population was 15,185,844.
- The incidence of poverty (percentage of population with income below the subsistence minimum) decreased from 19.8% in 2003 to 16.1% of the total population in 2004.
- Although unemployment had fallen to 8.3% in November 2005, the reduction is slow and the rate remains high, particularly in terms of long-term unemployment.
- Income disparities have increased. There is a limited middle class.
- Despite the fact that 99.9% of 15-24-year olds were literate in 2004, there are still problems of low quality in teaching and inadequate provision of pre-school, secondary and higher education, particularly in rural areas
- The population still suffers from the lack of an adequate social infrastructure and restricted access to social services, especially in rural areas, where only 8.3 % of households had access to a reliable water supply in 2004, just 1.9 % had functional central heating and over 90% had no gas supply.
- The general mortality rate has not decreased since 2000, and remains at an average of 10.1 deaths per 1000 people.
- Mortality rates due to respiratory and sexually transmitted diseases are increasing rapidly, especially for HIV and tuberculosis.
- Social sector problems should be addressed urgently, with an especial focus on improving the country's infrastructure.

2. The government's agenda

- President Nazarbayev proposed the creation of a State Committee on Democratisation that would be chaired by himself and would be charged with the drafting and implementation of the 2006-2011 State Strategy for Democratisation. Key areas are reforms of the local government and judiciary while providing more powers to the Parliament. The participation of the opposition is not clear.
- The focus of monetary policy for 2005-2007 will continue to be maintaining price stability.

- Government policy for 2005-2006 will be guided by the need for economic diversification with the stated goal to be amongst the 50 first competitive economies by 2030. In particular, the government has defined several measures including increased cooperation with the private sector, the development of sectoral clusters and the promotion of small and medium-sized businesses. Information technologies development needs to be stimulated
- With regard to oil export routes, Kazakhstan's interests are focused on four main development projects: the expansion of the Caspian Pipeline Consortium; the transportation of Kazakhstan's oil through the Baku-Tbilisi-Ceyan pipeline, the construction of the Odessa-Brody pipeline to Plock (Poland) and the construction of the Atasu- Alashanku pipeline to China.
- The Draft Law on the 2006 Republican Budget is currently being discussed by the Senate. With a GDP estimated at KZT 8,065 billion (€49.3 billion) – a growth of 8.3% compared to 2005, the 2006 draft Budget anticipates revenues of 18.2% of estimated GDP, expenditures of 19.6% of estimated GDP and a state budget deficit of 1.4% of GDP. The Government has also forecast an inflation rate in the range of 5-7% for 2006.
- As far as regional trade policy is concerned, several agreements are pending ratification (to be negotiated in 2005?) within the Eurasian Economic Community (EurAsEc) and the Single Economic Space (SES).
- The government has taken recent initiatives to overhaul the social sectors, including health , education and social protection .
- Concerning relations with the EU, the authorities have been repeatedly **requested** that Kazakhstan should be included in the ENP. The Kazakh leader, President Nazarbayev, has even gone so far as to state that he would like ultimately to see his country join the EU itself. Further, Kazakhstan considers the possibility of acting as a base state actively supporting EU-CA relations and regional cooperation.

Kyrgyz Republic

1. Updated country analysis

1.1. Political

- The political situation remains fragile. Recurring cases of violence and unrest reflect the existence of increasing links between business activities (often with criminal connections) and politics since the March 2005 events. Corruption and the infiltration of law enforcement and national security services by organised criminal groups have been denounced by the Prime Minister.
- The solidity of the Bakiev-Kulov partnership had been regularly being called into question, and concerns over its long-term stability are raising fears of a future intensification of ongoing power struggles, increased instability and economic decline. It finally dissolved in February, with appointment of Mr. Azim Isbekov as new PM, while Mr. Kulov announced he joined the opposition.
- The murder of three MPs since June 2005 and two other well-known political figures have aggravated existing concerns about the country's overall stability and security.
- Constitutional reform - one of the Government's alleged top priorities - has experienced an unexpected turn, with the President finally negotiating directly with the Parliament a new Constitution signed at the end of 2006. Translating the new Constitution into legal order remains a substantial task.
- The new authorities lack still a clear and coherent programme of political reform.
- Too many fragmented voices within the Government have resulted in a lack of political consensus. Two factions (composed of allies of Bakiev and Kulov) act in semi-autonomous fashion.
- Reshuffles and appointments in late 2005 suggested that President Bakiev is trying to secure his position of power by eliminating strong figures who could represent a threat to his authority in the future, including former allies that helped him come to power.
- Although the issue of the Uzbek refugees following events in Andijan was handled appropriately initially, the handing over of four refugees to the Uzbek authorities in August 2006 raised concerns of the international community. The risks of violent political conflicts and of a large refugee crisis remain. It also remains concerned with the position of the Government in both abiding by its international commitment and avoiding conflicts with its neighbour Uzbekistan.

1.2. Economic, trade & investment

- The Kyrgyz Republic's main macroeconomic indicators have gradually deteriorated during the recent period and external debt burden is among highest in CIS countries.
- The Kyrgyz Government has so far failed to define a clear and unified economic and social policy: coherent policy formulation is probably the most acute problem faced by GoK on the path to sustainable growth.
- The key policy energy sector requires an urgent overhaul. The Government's failure to produce a targeted package of reforms in a sector in which the Kyrgyz Republic could accrue significant benefits suggests that the political will required is lacking.
- President Bakiev's government is faced with three key challenges: overcoming its strong dependence on international donors for sources of finance and credit; limiting its dependence on Uzbekistan and Kazakhstan for energy supplies; and diversifying the economy in order to reduce its reliance on the gold sector.

- Guaranteeing political stability and the predictability of legislation is of paramount importance if the Kyrgyz Republic is to attract much-needed foreign investment.
- There is an urgent need to work towards improving the country's investment climate, particularly given recent complaints by investors about the unpredictability of legislation and the unstable investment climate.
- Public finances management suffers from severe institutional weaknesses and the authorities had not yet confirmed in January 2007 that they will subscribe to the package agreed with IMF & the World Bank for the country to enter in to the HIPC (Heavily Indebted Poor Countries) initiative for debt reduction.

1.3. Social situation

- The Kyrgyz Republic remains a low-income country, where nearly 40% of the population lives below the poverty line (2004).
- Since independence, social services (notably health and education) have significantly deteriorated as a result of reduced government spending.
- The registered unemployed amount to 95,400 people (Oct '05), although the real figure is thought to be much higher. The existence of a shadow economy that represents up to 50% of GDP makes official unemployment figures unreliable.
- Life expectancy has increased from 67 years in 1999 to 68 years in 2004. Infant mortality per 1000 births declined from 23 to 21 and basic school enrolment increased from 90 to 97% during the same period.
- HIV/AIDS and sexually transmissible diseases are spreading rapidly, particularly among the most vulnerable social groups.
- Every year, natural disasters cause substantial economic losses to the country, affecting the most vulnerable, in particular in the South. Kyrgyzstan faces also the risk of major earthquakes.

2. The government's agenda

- Kyrgyz authorities are still to define a clear and coherent political and economic programme, mainly as a result of delays in the formation of the new Government and a clear lack of consensus between the main leaders.
- In his first speech as PM, Felix Kulov in early Sep 2005 stated that his government's key priorities would include:
 - Reducing poverty and making more funding available to the most vulnerable sectors.
 - Fighting corruption.
 - Reducing the unemployment rate by simplifying the registration system for starting up businesses, providing professional training and introducing a micro-credit system.
 - Reducing the state administration by 1/3 in order to decrease expenditure (plans to abolish the seven regions are part of this move).
 - Increasing pensions and salaries.
 - Improving the investment climate. Kyrgyzstan ranks n°135 out of 157 countries on the Corruption Index of Transparency International, with a score of 2.3, indication that it faces a

very severe level of corruption and a grave risk that money entering national budget will be forfeited to greed, waste or mismanagement according to TI.

- Reducing the number of tax inspections and improving the country's fiscal regime in general. When Mr. Kulov resigned in December 2006, this ambitious programme was still much unrealised. The new government of PM Isabekov will be put to test to define his priorities and mobilise the country behind his administration for implementing long awaited key reforms.

Tajikistan

More than a decade after gaining independence, Tajikistan still faces a plethora of complex problems and challenges. The poorest republic of the Soviet Union remains today one of the 20 poorest countries in the world, with some 65% of its population still living below the poverty threshold.

1. Country update

Political situation: From a political and institutional perspective, the current situation in Tajikistan is one of ambivalence. After the bloody civil war that ravaged the country from 1992 to 1997, it was hoped that the country would profit from a period of relative stability by undertaking deeper and more radical reforms to achieve democratisation. By allowing the Islamic Revival Party to be represented in parliament, Tajikistan became (and remains) the only Central Asian state to have allowed an avowedly Islamic political party to participate legally in the political process. This now appears to have been an isolated step, and one which stands out against the countervailing trend away from political pluralism in recent years.

Such pluralism is being increasingly put at risk by the actions of President Rakhmonov and his government. The parliamentary elections held in February 2005, on which OSCE/ODIHR gave a very negative assessment, confirmed these difficulties. In Presidential elections held in November 2006, President Rakhmonov has been "safely" reconfirmed in office with an overwhelming majority, given the lack of credible alternative candidates. Perhaps more worryingly, Tajikistan, which had joined the post 9/11 Western front against terror, seems today to be looking more towards Russia, China and Iran as its best possible partners, countries which are ready to provide Tajikistan with political support and much needed financial investments. The solidarity shown by President Rakhmonov to his Uzbek colleague Karimov in the aftermath of the Andijan events is good evidence of the political direction Tajikistan intends to take, or indeed is already taking.

In this context, media freedom is severely curtailed, in spite of the limited progress that had been made since the end of the civil war. Some opposition newspapers have been forced to close down (mostly following very thorough "tax inspections"), whilst the few supposedly 'independent' outlets that remain in reality practice self-censorship. Radio and television are firmly under state control, whilst the diffusion of other media, such as the Internet, remains extremely limited.

Economic situation

Despite some improvements and a relatively stabilised macro-economic framework, the Tajik economy remains extremely weak. Unlike some of its Central Asian neighbours, the country lacks natural resources such as oil and gas. The only raw material relatively abundant is hydroelectric power, used for aluminium production - which, however, requires sizeable investments. The Tajik government is today trying to exploit hydroelectric power with some success, attracting promises of Russian and Iranian FDI - but also in this case huge investments are necessary to build power plants and make electricity available for internal consumption or export.

Agriculture is the most important employment sector in Tajikistan, even arable land makes up only 7% of its territory. Cotton remains almost a monoculture. Moreover, the cotton sector is characterized by its social consequences such as child labour and unpaid women. Alternative crops (mostly rice, fruit and vegetables) are for self or local consumption and represent only a small part of the total agricultural output. The further development of this production, which could benefit from favourable climatic conditions, is hindered by the lack of an agro-alimentary industry and the very poor transport network, which makes export impossible.

Poverty, particularly in rural areas, remains the single biggest problem facing Tajikistan, with an estimated 64% of the country's population still living beneath the subsistence level.

Increased foreign investment would greatly improve the situation of the Tajik economy, but so far they have been mostly limited to "State" investments by Russia, China and, to a lesser extent, Iran. EU private investments in Tajikistan are almost negligible, mainly due to the uncertain legislative and fiscal framework, the weakness of the public administration, the lack of basic infrastructure and the endemic level of corruption in the country. This latter is an enormous problem at all levels of the Tajik administration and society. Many Tajiks (their number is estimated to be approximately 600,000) have emigrated to Russia or Kazakhstan to find a job, and their remittances constitute a considerable proportion of the country's GDP.

Another potential factor of destabilisation for Tajikistan is drug trafficking. The production of opium and opiates has been booming in neighbouring Afghanistan over recent years and it is estimated that some 100 tonnes of heroin cross Tajikistan every year, principally heading towards Russia and Europe. The recent pullout of Russian troops from the Tajik-Afghan border has further exacerbated the problem, since Tajik border guards are not adequately equipped and trained and, being only paid 3 to 5 USD per month, are more exposed to the risk of corruption.

Every year, natural disasters cause major economic losses to the country, affecting the most vulnerable all across Tajikistan. Tajikistan, and in particular its capital Dushanbe, is highly vulnerable to the risk of major earthquake.

2. Government agenda

The Tajik government is in the process of drafting a National Development Strategy for 2006-15, and a medium-term Poverty Reduction Strategy in an effort to realise the type of economic reforms that will allow for sustainable high economic growth and growth-based poverty reduction, and thereby enable Tajikistan to attempt achievement of the Millennium Development Goals over the next ten years. It is also hoped that the upcoming PRSP will streamline reform efforts, and avoid the duplication and lack of consistency that characterised earlier strategic programmes.

In line with these stated goals of poverty reduction and attempt to achieve MDG indicators, the draft strategy documents identify a number of priorities for social and economic development in Tajikistan:

1. Public administration reform
2. Improvement of the investment climate and development of the private sector and entrepreneurship.
3. Regional Cooperation and integration into the world economy
4. Food security and development of the agricultural sector
5. Development of infrastructure, communications, energy and industry
6. Development of the health sector
7. Development of the education system including science
8. Improving access to water supplies and sanitation
9. Improving social protection
10. Ensuring gender equality
11. Environmental sustainability

Particular focus will be given to the first three of the priority areas outlined, as they are seen as key to creating favourable conditions for sustained economic growth which would in turn provide the material basis for poverty reduction and improvements in social welfare provision. The strategy recognises that Tajikistan is lagging behind the four other Central Asian states in a number of important areas, most notably in the size of the private sector as a percentage share of GDP (39.8%), and in the level of Foreign Direct Investment (currently just 2% of GDP) that it attracts. Tajikistan ranks 150 out of 157 countries on the Corruption Index of Transparency international, with a score below 2.5 indicating a most severe level

of corruption. In order to address such problems, a number of specific proposals have been put forward, including: pressing ahead with plans to restructure the remaining natural monopolies under state control; increasing the effectiveness and transparency of the public administration infrastructure at both a central and local level; modernising public finances management in order to improve reliability of financial circuits and governance; establishing conditions, including financial services and banking, to attract greater foreign investment, and to encourage the further development of small and medium-sized businesses. Finally, the launching of a sector wide approach to reform in the agriculture sector and land reform can be considered as the key component for a sustained poverty reduction.

Turkmenistan

1. Situation of the country

Latest: The death of President Nyazov in December 2006 and the election of Mr. Gurbanguly Berdymukhamedov in February 2007 might be opening a new chapter in the transition process of the country, as well as for its relations with the European Union. While the elections were clearly not according to international standards it is quite positive that the transition so far has taken place calmly and quietly without creating instability. The new president announced that attention would be given to restaure the education system to international norms, with programmes to develop the agricultural areas, healthcare system, the construction of housing, credits would be extended to citizens on easy terms and internet and mobile phone services would be expanded, In terms of foreign relations President Berdymukhamedov said that Turkmenistan would continue observing all its international obligations and further pursue a policy of pushing its energy resources to the world market. Turkmenistan's policy of neutrality will remain unchanged. Since, the government to be established under the new President could engage in some important reform policies for the development of the country, assessment below would have to be reconsidered in light of a possible new policy agenda.

- Political situation and foreseeable developments

The most significant development in the political situation begins in 2006 when election of local administration officials took place. Elections will continue working up through the hierarchy of local and regional administrations to 2008. The decision on presidential elections which was originally intended to conclude the electoral reform process in 2009 was postponed at the meeting of the Halk Maslahti in October 2005 when the proposals of President Niyazov were rejected unanimously by the delegates. President Niyazov has consistently rejected the importation of democratic practices used outside Turkmenistan in favour of locally developed models.

In 2005 key figures in the government not only lost their jobs but were sentenced to long periods in prison for embezzlement of state funds removing people who had been considered to be possible successors to President Niyazov.

Although Turkmenistan has acceded to the core UN human rights conventions, implementation has been poor. In 2005, the UN General Assembly expressed its grave concern at the repression of political opposition activities, arbitrary detention, poor prison conditions and credible reports of torture, denial of access to prisoners by the International Committee of the Red Cross, discrimination against minorities, and restrictions on the right of assembly. The General Assembly also expressed concern at the continuing failure of the Turkmen government to respond to the OSCE report concerning the investigation, trial and detention procedures following the reported assassination attempt against the President of Turkmenistan in November 2002. A number of UN Special rapporteurs have not been invited to visit Turkmenistan.

- Economic situation and trends, including investment, trade and overall status in “transition” reforms

Data non-availability continues to complicate an in depth analysis of the economy. What is clear is that outside the oil and gas industry **and the textile sector**, the construction sector is playing an important role in the economy, fuelled by ambitious government plans for the development of Ashgabad as well as key infrastructure projects including the construction of the new highway and rail link to Ashgabad - Dashoguz, investment in power generation and the creation of the Turkmen Lake designed to recycle waste water.

Agriculture remains focussed on cotton and wheat production with cotton increasingly processed in Turkmenistan into finished goods. Salination of arable irrigated land is a serious problem and it remains to be seen whether the plans for improved water management and land ownership will be able to deliver the results forecast by the government. Cotton and wheat remain under state direction and benefit from heavy subsidisation. Despite the investment in state of the art technology it would appear that there remain chronic structural problems in the sector which have contributed to reduced harvests in the in recent years. The dismantling of collectivised farms has opened up possibilities for a degree of diversification and more general rural development.

The EU in 2004 was the largest source of imports to Turkmenistan (€451m) while for exports of Turkmen goods the EU was the third largest trading partner (€367) after Ukraine and Iran. Overall EU exports to Turkmenistan have increased an average of 14 % 2000-2004 while exports to the EU have declined by an annual average of 10.5% for the same period.

Given that the economy is dominated by exports of gas, oil and processed petrochemical products Turkmenistan remains vulnerable to changes in world energy prices and more significantly to dependence on transit routes to final markets via third countries. The lack of direct access to world markets could prove to be a major constraint on Turkmenistan's future growth.

Turkmenistan is gradually opening up the exploitation of offshore oil and gas reserves to foreign investors in contrast to onshore investigation where Turkmenistan maintains its monopoly relying on imports of equipment rather than capital.

- **Social situation, with update on demographic, employment, poverty and main Human Development Indicators**

Data from Turkmenistan are often unavailable or its reliability is questioned owing to the general

Aware that Turkmenistan was under increasing pressure on its human rights record from the international community President Niyazow initiated human rights discussions with the EU. This has been a very positive development which the EU intends to develop to ensure that concrete progress is actually achieved.

Turkmenistan, including its capital Ashgabad, is also vulnerable to natural disasters, including the risk of major earthquake.

2. Agenda of the government

- **Development plans and policies: main priorities and level of commitment (incl. medium term budget perspectives), covering:**

Turkmenistan's development strategy "Strategy of Economic and Political and Cultural Development of Turkmenistan up to 2020" sets the following key objectives:

- To achieve the level of developed countries and preserve its economic independence and security which will be provided at the expenses (*sic*) of high speed economic growth, introduction of new technologies and production as well as increase of labour productivity.
- To increase steadily a gross production of goods per capita.
- To attract a high investment and increase constructions of industrial objects (*sic*).

Turkmenistan in pursuing its development objectives to 2020 is using state investments to encourage economic growth partly through expansion of the oil and gas sector and associated downstream processing; continuing the shift from a producer of cotton as a raw commodity to increasing value added processing as well as expansion of other forms of industrial processing of other natural mineral resources. Attraction of foreign investment is one of the stated goals, although it remains to be seen how success this will be outside the oil sector and this will complement investments from within Turkmenistan. The increase in oil and gas prices in 2003-2005 has given the government some additional flexibility. However, the main determining factor on economic growth will continue to be access to world markets. The long awaited TransAfghan pipeline is still under investigation pending verification of gas reserves.

- **democratisation, human rights and rule of law**

Turkmenistan is following its own path of democratisation which is quite different to that experienced in the EU. The process of electing local and regional officials is commented upon above. Formation of political parties with views different to the government remains a distant prospect.

The government maintains tight control of the print media as well as state television and radio and yet paradoxically a significant proportion of households have direct access to satellite international television channels.

Corruption remains a significant problem at all levels of society.

- **economic and social reforms**

Economic reforms remain marginal to what is essentially a state controlled command economy. Individual enterprise is limited to trading and small scale mainly agriculture based businesses. The taxation system is being simplified to encourage development of enterprises but as the collection rate does not meet current targets it is not clear how the changes will make much difference in practice.

The government plans to increase public sector salaries substantially and at the same time reduce the numbers of state employees. Previous “efficiency” drives have seen major job cuts in the health and education sectors. In the short and possibly medium term the job cuts will lead to unemployment as the very small private sector is not sufficiently developed to absorb the available workforce.

Instead of increasing the opening up of society since independence, Turkmenistan continues exert tight state control on all areas of activity. Decriminalisation of unregistered NGO activity is welcome but there is a great difference between this action and the development of a vibrant civil society.

The abolition of child labour has been an important legislative step taken in Turkmenistan although it will be difficult for the international community to form an objective view on its implementation.

There were international concerns over the complete spectrum of the human rights agenda, the lack of economic liberalisation, changes to the education system including reducing schooling to 9 years, restricted access to higher education.

Uzbekistan

1. Situation of the country

- Political situation and foreseeable developments

The political orientation of the government has shifted over 2005 from a western orientation to favour Russia and China. Part of this reflects Uzbekistan's extreme irritation of the attitude of the "west" over the Andijan events in May 2005 but also a desire to attract investment from Russia and China who seem to be able to offer the type of financial incentives appreciated by Uzbekistan. Withdrawal from GUUAM and stronger alignment with the Shanghai Cooperation organisation and the joining of the Eurasian Economic Community and perhaps most significantly the signing of a Collective Security Agreement with Russia are the most obvious manifestations of this shift in policy.

- Democratic transition, political reforms

- Political and economic re-orientation from the West to Russia & China in past months (very rapid)
- Reinforcement of the Shanghai Cooperation Organisation
- Uzbekistan cancelled its membership to GUUAM (Georgia, Ukraine, Uzbekistan, Armenia, Moldova) union
- Accession to EurAsEC and its various protocols
- Accession to the Organisation of Collective Security Agreement (Russia-led)
- Strategic partnership on allied relationship with Russia (including military facility sharing, etc.)
- Improved border cooperation with Turkmenistan since Nov/04
- De-mining agreement with Tajikistan and The Kyrgyz Republic signed and proceeded with implementation
- Tense relationship with Kyrgyz Republic after political reshuffling in The Kyrgyz Republic and incidents in Andijan. Recent improvement in relationship
- Uzbekistan resists international calls for an independent inquiry into the Andijan events. Several trials of persons accused of involvement in Andijan have been held in secret
- In 2005, the UN General Assembly adopted a resolution noting: arbitrary arrest and detention; harassment of the media; refusal of recognition for opposition political parties; restrictions on freedom of thought, conscience and religion; serious constraints on, and harassment of, NGOs; and restriction on access of ICRC to places of detention
- Uzbekistan undertakes to improve political and economic relations with Iran
- Unclear domestic political situation in terms of power structures
- Improved legislation development process in the new Parliament
- Little visible improvement in the process of development of rule of law
- Decree on abolishment of death penalty starting Jan 1st 2008 to be ratified by the Parliament. No moratorium until then
- Extended administrative reorganisation in key administrative constituencies, such as Cabinet of Ministers, Agency/Ministry of Foreign Economic Relations, Ministry of Economy, Ministry of Foreign Affairs
- Ongoing attestation of civil servants

- Slow decentralisation process, especially in fiduciary issues
- Although Constitution defines executive powers' subordination to legislature, all the decision-making and policy power is concentrated within the CabMin and the Office of President
- Although the formal policymaking structure is set forth in relevant laws and Cabmin resolutions, it is not widely understood outside government
- Although all policy initiatives are subject to inter-ministerial consultations, there is no formal mechanism to ensure that proposed policies are reviewed by all ministries directly involved
- Despite visibly clear and coherent policy implementation monitoring procedures, conflicting policies often result in confusion and implementation difficulties
- Because of vague definition of the rights and responsibilities of government agencies, legal accountability is still problematic
- Public involvement is sometimes sought in drafting legislation, however civil society involvement in public policy development remains limited
- The CabMin's Office of Information and Analysis takes a leading role in public administration reform
- Uzbekistan's public service is gradually being de-centralised, however, while formal structures of local governance have changed notably since independence, centralizing tendencies still remain
- Fight against corruption in economy and administration needs to be intensified
- Several important decrees were issued: on improvement of cash payments by banks, on gradual privatization of state-owned banks, and on the improvement of plastic cards systems
- Special decree was issued to provide duty-free imports of plastic cards and related equipment
- Credit unions given more freedom and independence from state controlling bodies. Their activities expanding
- Major efforts required to improve agricultural futures markets
- Civil service reform and management of public finance is further delayed despite a draft Law on Civil Service has been elaborated and efforts are put to further develop the Chamber of Accounts and national treasury
- Public expenditure management and planning still behind international standards of transparency
- Increased domestic financial and material support to law enforcement and security services. Reduced external aid to the same
- Introduction of bicameral Parliamentary system consisting of the Senate (upper chamber) and Oliy Majlis (lower chamber). However, the principle of checks and balances has not been met
- According to the MS, legal basis for free and fair election was not fully used
- Reinforcement of legal and regulatory frameworks on middle and grassroot levels insufficient
- International commitments (OSCE, UN) not fully observed, closing of UNHCR Office.
- Unofficial obstructions hindering independent activity of the NGOs despite existing NGO legislation
- Severe pressure on independent mass media and so called opposition including closure of several international news agencies – Internews, BBC
- Suspended mandate of IREX in Uzbekistan

Cross border cooperation with Turkmenistan is improving following the meeting of the two Presidents in November 2004.

- **Economic situation and trends, including investment, trade and overall status in “transition reforms**

Superficially the government is carrying out economic reforms. In practice the core issues of investment climate, trade etc remain locked in the past. Convertibility remains an issue despite the official position that the SUM is fully convertible.

Negative developments

- Little progress on making management of the economy more transparent with poor administrative capacity persisting which continue to hinder private sector development, jobs creation and poverty reduction
- Regulatory framework for the development of domestic insurance, leasing, credit markets is in progress with, in practice, obstacles still existing for operations of international institutions
- No major activities in reforming the banking sector with some institutions facing severe difficulties or closure (private Business Bank)
- Lack of efficiency of the local banks when handling international credit facilities
- Domestic trade is restricted and overpriced due to informal barriers related to corruption and institutional shortfalls (non-functioning Commodity Exchange)
- Payment balance under strong pressure due to high cost of energy and oil
- Access to training and re-training is limited due to relatively high tuition fees and lack of availability of courses, particularly in the remote areas
- Accession to the WTO and legal approximation remain prime targets of Uzbek foreign trade policy, according to established legal framework, however trade liberalisation including discriminative tax regime remain behind expectations despite gradual progress
- Little progress on making management of the economy more transparent with poor administrative capacity persisting which continue to hinder private sector development, jobs creation and poverty reduction.
- Reorganization of the state-owned enterprises is ongoing but limited to less profitable enterprises with overdue payables. Many contracts include investment obligations to be undertaken by successful investors in addition to the purchase costs
- Access to finance is improved due to availability of better equipped investment funds, however, lack of capacity and knowledge with the farmers and private entrepreneurs prevents full use of the available finance facilities
- Broken links between modern agricultural science and actual farmers, no market researches are conducted to aid and guide the rural producers who suffer additionally from volatile liquidity
- Domestic trade is restricted and overpriced due to informal barriers related to corruption and institutional shortfalls (non-functioning Commodity Exchange)
- Border restrictions still exist that seriously affect intraregional travel and trade

Positive developments

- Increased GDP by 7.7% in 2004 according IMF reports (and 2.7% in Jan)
- Variety of international contracts – investment into exploration industries from China, Malaysia, Russia, India (coming up) in Uzbekistan. Cotton exports to China (app. USD 120M), discussion of exploration contract (gold and Uranium) with Russia, renewal of export contracts (Gas) to The Kyrgyz Republic, Tajikistan ;Industrial cooperation enhanced with Russia in Aviation, Defence industry and telecom where the Chinese demonstrated active interest, too
- Most of cotton production was committed to be sold to Russia and China

- Regulatory framework for the development of domestic insurance, leasing, credit markets is in progress with, in practice, obstacles still existing for operations of international institutions
- The government is pursuing plans to partially privatise strategic sectors, such as energy sectors (UzbekEnergo, UzbekNefteGaz, etc)
- Uzbek government is actively working on planning improvement of networks in transport, telecommunications and energy transport as well as border crossings
- Two major decrees on improvement of regulatory situation for the SMEs (controlling inspections and taxation) with impact to be seen
- Two major decrees on improvement of regulatory situation for the SMEs (controlling inspections and taxation) with impact to be seen
- Government is interested in promoting private entrepreneurship and undertake major efforts to attract FDIs and domestic investments. Reorganisation of the AFER into MFER had been targeted at facilitating these efforts through taking lead in export promotion and attracting investments; private Investment Promotion program within the MFER promotes investments into regions and benefits offered to Joint Ventures, especially in rural areas
- Activation of the role of Chamber of Commerce and Trade in trade promotion locally and internationally. However many functions of the Chamber were assigned to the reorganised Ministry of Foreign Economic Relations and Trade
- Privatization in agricultural and other key areas is ongoing however privatisation is geared to infrastructure but not lands
- The government is pursuing plans to partially privatise strategic sectors, such as energy sectors (UzbekEnergo, UzbekNefteGaz, etc)

- **Social situation, with update on demographic, employment, poverty and main Human Development Indicators**

- Official statistics on unemployment does not reflect informal labour market figures
- Healthcare is undergoing the second stage of the 10-years' program approved in 1998 with particular attention to enhancement of efficiency of medical care. The government is allocating considerable funds to the reform
- Visible improvements made in regulatory framework allowing and promoting development of private medical services
- Continued close cooperation in medical sector with Russia
- From October onwards, the minimum monthly wage and all pensions are increased by 20%, however, inflation is included in this increase
- Accumulative pension fund system has been introduced into the regulatory framework early 2005
- Social protection and insurance systems sustain minimum functions which are increasingly insufficient considering rising price indexes for daily subsistence
- Assistance to alleviate the social impact of industrial restructuring (training, retraining, etc.) remains limited
- Employment services are constantly underfunded and are of low efficiency
- Inefficient mobilisation and use of public revenues, poorly selected public investment portfolios, deteriorating public services and infrastructure lead to a worsening of income distribution and low living standards, particularly in rural areas

- The agricultural sector is failing to provide rural areas with sufficient income and food security due to the constraints posed by inadequate property rights, lack of inputs and mechanisation, including access to water technology and agro processing facilities, difficult trading and marketing conditions and low investment into infrastructure
- Wide spread poverty and income disparities aggravate the risk of conflicts, including across borders
- **Others: security and organized crime, borders and migration, regional cooperation, environment**
 - Problems still remain on Syrdarya water management between UZB, KYR and KZ
 - The government has initiated respective legislation for the fight with human trafficking, money laundering and financing terrorism
 - Uzbek government has increased its fight against drugs trafficking, and committed itself to the establishment of regional drug control centre
 - Human trafficking is being addressed at all levels of Uzbek Government
 - Enhancement of regional cooperation in the 5+1 format has been initiated by the EU in order to improve regional cooperation. Discussions held on regional development cooperation and land use planning
 - According to recent statements by the Russian President, Uzbek migrant labour force is to be given legal basis to work in Russia (work permits, including social security). This is likely to add to the migration trend of people searching for work in Kazakhstan and particularly in Russia
 - Cross-border environmental tensions exists between Uzbekistan and The Kyrgyz Republic (MayliSuu radioactive storage) and Tajikistan (Aluminium plant), etc
 - Uzbekistan is working on national policy for waste management in coming years covering management of wastes in Uzbekistan, research is underway to determine all types of wastes produced by the country
 - Law adopted on Protected Bioreserves
 - Government reports that a system for certification in nature protection has been introduced
 - Draft resolution on controlling imports of ozone-destructive substances is under discussion (with assistance from Germany and France)
 - Uzbekistan is further pursuing the Strategy of Energy savings regarding efficient use of existing energy sources and development of alternative (non-fossil, renewable) energy sector
 - Agreements are in force with neighbour countries in the region on utilisation of surplus energy from joint networks
 - Implementation of national policy and exploration of oil and gas fields needs more focus on environmental aspects
 - Uzbekistan is undertaking measures to implement the Kyoto Protocol

2. **Agenda of the government**

Development plans and policies: main priorities and level of commitment (incl. Medium term budget perspectives), covering:

(i) **Democratisation process and rule of law**

- Uzbekistan adopted respective law on bicameral parliament system as well as law on conducting elections to the parliament which law was criticised by the OSCE as non-transparent and unclear.

- The Ombuds(wo)man underlined in the August 2005 report the increased number of complaints received from public and remedy measures taken by ombudsmen in the field.
- National association of NGOs established at the initiative of the Peoples Democratic Party
- Fight against terrorism
- The 2006 State Budget as adopted by the Lower Chamber of Parliament in November reportedly emphasises social protection of people and gradual reduction of applicable tax rates and simplification of tax procedures;
- Transparency of the 2006 State Budgets needs to improve
- Education (primary, vocational) is one of priority areas on Govt's agenda
- Promote gender equality and empower women
- Ensure environmental sustainability
- Develop a global partnership for development

ii) Economic and social reforms

- Government is pursuing together with the WB a strategy for improving living standards to half poverty by 2015
- Increasing efficiency and optimization of public expenditures, businesses, fostering SMEs, support to entrepreneurs, development of domestic markets, etc.
- Privatization of two large state owned banks (Asaka Bank and the National Bank of Uzbekistan) before year 2010 with strong emphasis on attracting foreign investors.
- Improving living standards
- Improve the quality of education in primary and secondary schools
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, tuberculosis and other diseases

Post Andijan the government has intensified its efforts to control the media, limit freedom of expression and generally restrict basic human rights as understood in the EU. However, the tighter control is only part of a process which has been on a downward trend for some time and precedes the Andijan events.

The creation of the bicameral assembly with a parliament that meets throughout the" year should be a positive development if the parliament is able and willing to work as a genuine counter to presidential power. It remains to be seen whether this independence will develop.

Much legislation has been passed and some progress has been made on the legislative front with respect to the rule of law. However, implementation of the rule of law does not always seem to keep up with legislation.