

# ADB AND CENTRAL ASIA



By Ronald Masayda and Arturo Nuera

April 2006  
NGO Forum on ADB Guidebook Series

# **ADB AND CENTRAL ASIA**

**NGO FORUM ON ADB  
April 2006**

---

ADB IN CENTRAL ASIA

Copyright by  
NGO Forum on ADB

The text of of this book was set in 10-pt. Trebuchet MS  
with display type set in Arial and Times New Roman.

Printed in the Philippines  
April 2006  
First Edition

Cover Photo: Women blocking the road to the Kumtor Mining Project Site in Kyrgyzstan (July 2005)  
Photo by: Kalia Moldogazieva

This publication was supported by the Open Society Institute

---

## TABLE OF CONTENTS

List of Abbreviations		
List of Tables		
List of Figures		
Foreword		
PART 1: Introduction to Central Asia		1
Brief History of the Region	3	
Political and Economic Development	4	
PART 2: ADB's Involvement in Central Asia		5
ADB Entering Central Asia	6	
ADB's Trailblazing in Central Asia Via Economic Cooperation	7	
CAREC Overview	8	
4 <sup>th</sup> Ministerial Meeting (2005)	8	
PART 3: The Central Asian Countries		12
I. Kazakhstan		12
Overview	12	
Economy	13	
1. Concerns and Challenges	14	
2. Debts	15	
ADB's Involvement in Kazakhstan	15	
Shareholding and Voting Power	15	
ADB Agenda	16	
CSP 2002-2004	16	
Thematic Priorities	16	
CSP Update 2003-2004	18	
New Country Strategy and Program		
2004-2006	18	
CSP Update 2005-2007	19	
CSP Update 2006-2008	19	
II. Uzbekistan		20
Economy	21	
1. Concerns and Challenges	21	
2. Debts	21	
ADB's Involvement in Uzbekistan	22	
Shareholding and Voting Power	22	
Technical Assistance	22	
Project Loans	22	
ADB Agenda	22	
CSP 2002-2004	22	
CSP Update 2003-2004	24	
CSP Update 2003-2005	24	
CSP Update 2004-2006	24	
CSP Update 2005-2006	24	

III. Kyrgyz Republic		25
Overview		25
Economy		26
1. Concerns and Challenges	26	
2. Debts	26	
ADB's Involvement in Kyrgyzstan		26
Shareholding and Voting Power	26	
Technical Assistance	26	
Project Loans	27	
ADB Agenda		27
CSP 2002-2004	27	
CSP Update 2003-2006	28	
New Country Strategy and Program 2004-2006	28	
CSP Update 2005-2006	29	
CSP Update 2006-2008	29	
IV. Tajikistan		30
Overview		30
Economy		30
1. Concerns and Challenges	31	
2. Debts	31	
ADB's Involvement in Tajikistan		31
Shareholding and Voting Power	31	
Technical Assistance	31	
Project Loans	32	
ADB's Agenda		32
CSP 2002-2004	32	
CSP Update 2003-2005	33	
New Country Strategy and Program 2004-2006	33	
CSP Update 2005-2006	34	
CSP Update 2006-2008	34	
V. Azerbaijan		35
Overview		35
Economy		36
1. Concerns and Challenges	37	
2. Debts	37	
ADB's Involvement in Azerbaijan		37
Shareholding and Voting Power	37	
Technical Assistance	37	
Project Loans	37	
ADB's Agenda		37
CSP Update 2001-2004	38	
CSP Update 2003-2005	39	
New Country Strategy and Program 2004-2006	39	
CSP Update 2005-2006	40	
CSP Update 2006	40	

---

VI. Mongolia		41
Overview		41
Economy		42
1. Concerns and Challenges	42	
2. Debts	43	
ADB's Involvement		43
Shareholding and Voting Power	43	
Technical Assistance	43	
Project Loans	43	
ADB's Agenda		44
CSP Update 2002-2004	44	
CSP Update 2003-2005	45	
CSP Update 2004-2006	45	
CSP Update 2005-2006	45	
New Country Strategy Program 2006-2008	45	
VII. Turkmenistan		47
Overview		47
Economy		48
1. Concerns and Challenges	48	
2. Debts	48	
ADB's Involvement		49
Shareholding and Voting Power	49	
Technical Assistance	49	
VII. Xinjiang Uygur Autonomous Region		50
Overview		50
Economy		51
Concerns and Challenges	51	
PART 4: Amidst Transition and Instability: ADB Strikes		52
Strike while the iron is hot		52
Poverty Reduction: Growth and Gaps		53
Regional Cooperation and Regimentation		53
Issues and Concerns		54
References		55

---

## List of Tables

Table 1: Profile of Central Asian Countries	2
Table 2: ADB Members, Capital Stock and Voting Powers	5
Table 3: Summary of Technical Assistance and Project Loans Extended by ADB to Central Asia	7
Table 4: Kazakhstan's Shareholding and Voting Power	16
Table 5: Summary of Technical Assistance and Project Loans Extended by ADB to Kazakhstan	17
Table 6: Uzbekistan's Shareholding and Voting Power	22
Table 7: Summary of Technical Assistance and Project Loans Extended by ADB to Uzbekistan	23
Table 8: Kyrgyz Republic's Shareholding and Voting Power	27
Table 9: Summary of Technical Assistance and Project Loans Extended by ADB to Kyrgyz Republic	28
Table 10: Tajikistan's Shareholding and Voting Power	32
Table 11: Summary of Technical Assistance and Project Loans Extended by ADB to Tajikistan	33
Table 12: Azerbaijan's Shareholding and Voting Power	37
Table 13: Summary of Technical Assistance and Project Loans Extended by ADB to Azerbaijan	38
Table 14: Mongolia's Shareholding and Voting Power	42
Table 15: Summary of Technical Assistance and Project Loans Extended by ADB to Mongolia	43
Table 16: Turkmenistan's Shareholding and Voting Power	48
Table 17: Summary of Technical Assistance and Project Loans Extended by ADB to Turkmenistan	49

---

## List of Figures

Figure 1: Physical Map of Central Asia	3
Figure 2: Map of Kazakhstan	12
Figure 3: Map of Uzbekistan	20
Figure 4: Map of Kyrgyz Republic	25
Figure 5: Map of Tajikistan	30
Figure 6: Map of Azerbaijan	35
Figure 7: Map of Mongolia	41
Figure 8: Map of Turkmenistan	47
Figure 9: Map of Xinjiang Uygur	50

---

## LIST OF ABBREVIATIONS

ADB	-	Asian Development Bank
AIDS	-	Acquired Immunodeficiency Syndrome
CARs	-	Central Asian Republics
CAREC	-	Central Asia Regional Economic Cooperation
CDF	-	Comprehensive Development Framework
CMERF	-	CAREC Members Electricity Regulators Forum
CSOs	-	Civil Society Organizations
CSP	-	Country Strategy Program
CSPU	-	Country Strategy Program Update
DMC	-	Developing Member Country
EA	-	Executing Agency
ERBD	-	European Bank for Reconstruction and Development
ESW	-	Economic Sector Work
GDP	-	Gross Development Product
GMS	-	Greater Mekong Subregion
GS	-	The Ecological Society Green Salvation
HIV	-	Human Immunodeficiency Virus
ICAP	-	Interim Comprehensive Action Plan
ICT	-	Information Communication Technology
IFIs	-	International Financing Institutions
IDPs	-	Internally Displaced Persons
IMF	-	International Monetary Fund
IOS	-	Interim Operational Strategy
IPF	-	Indicative Planning Figure
IsDB	-	Islamic Development Bank
JFPR	-	Japan Fund for Poverty Reduction
LTDFs	-	Long Term Development Factors
MDG	-	Millennium Development Goal
MI	-	Multilateral Institution
MPRP	-	Mongolian People's Revolutionary Party
MSE	-	Medium-Sized Enterprise
NGO	-	Nongovernmental Organizations
NPPR	-	National Program for Poverty Reduction
NPRS	-	National Poverty Reduction Strategy
ODA	-	Overseas Development Assistance
PAPR	-	Partnership Agreement on Poverty Reduction
PBA	-	Performance-Based Allocation
PIP	-	Public Investment Program
PPA	-	Poverty Partnership Agreement
PRC	-	People's Republic of China
PRSP	-	Poverty Reduction Strategy Paper
SCO	-	Shanghai Cooperation Organization
SDP	-	Social Development
SME	-	Small and Medium-Sized Enterprise
SOEs	-	State-Owned Enterprises
SPPRED-	-	State Programme on Poverty Reduction and Economic Development
TA	-	Technical Assistance
TIR	-	Transport Internaux Routiers Agreement
TNC	-	Transnational Company
UNDP	-	United Nations Development Programme
UNECE	-	United Nations Economic Commission for Europe
US	-	United States
USSR	-	Union of Soviet Socialist Republics
WB	-	World Bank
WTO	-	World Trade Organization

---

# FOREWORD

Central Asia is a politically and culturally diverse region. Majority of its countries are still in transition after the demise of centrally planned and command economic model. On the economic front, most of them are in the process of opening up to the outside world, specifically to foreign investments. Politically, the end of totalitarian regimes has provided a fresh impetus for them to move towards democracy.

However, it is disturbing to note that some of Central Asia's political regimes have been involved in corrupt practices, human rights abuses and in the persecution of civil society organizations (CSOs). In certain cases, CSOs were threatened closure unless they support the existing governments. Likewise, these regimes have perpetrated the curtailment of people's rights. One glaring example was Kyrgyzstan's recently drafted law on access to information that was heavily criticized by CSOs for lack of transparency, and which runs counter to information disclosure. The democratic space for these organizations has either been very narrow or completely absent in most CARs. Given the perilous situation, most CSOs have been rendered anonymous, unknown, or worse insignificant.

Behind the transition phase of CARs are international financial institutions (IFIs) that have leveraged their grants and loans to aggressively push these governments to adopt an open and market economy. The Asian Development Bank (ADB), a multilateral bank operating in the Asia and Pacific region, has actively pursued the opening of Central Asian economies through grants (to make country policies suitable to a market-based economy and private sector participation), as well as project loans (that emphasize large-scale infrastructure projects like roads, bridges and dams to attract foreign and local capitals).

Similarly, the ADB has heavily promoted the Central Asia Regional Economic Cooperation (CAREC) Program that is similar to the Greater Mekong Subregion (GMS). This subregional grouping would integrate Central Asian economies through transport corridors, opening up investment and trade for private sector participation and, eventually, exploiting the richness of their natural resources.

Since they are new economies, the ADB has become increasingly involved in the project implementation and the related policy adjustments. Though infrastructure *per se* is necessary for development, most ADB projects have been perceived and, for the most parts, proven to have had adverse social and environmental impacts. Further, the Bank has a bad record of not consulting meaningfully affected local communities, vulnerable groups and other civil societies about its so-called development projects. Access to information with regard to Bank activities, as well as government decisions on IFI financing has been unsatisfactory, if not highly unacceptable. There is no transparency in the decision making process relative to the utilization of resources in most CARs.

In addition, ADB's accountability is in question in most parts of Asia. The Bank's own policy violations have pushed communities deeper into impoverishment and hardship.

---

Meanwhile, Central Asian civil societies face severe government persecution and rights violations. Compared to other regions in Asia, they have limited networking access and opportunities with other CSOs. In view of these concerns and issues, there is a strong need to expand the role of CSOs in the democratization and development processes of CARs.

Given the Bank's heavy operations in the Asia-Pacific region, it is important for the NGO Forum on ADB to be actively involved in the capacity building of subregional CSOs. In this manner, we can help them have a better understanding of the ADB and its interventions; become more active participants in advocacies against destructive development; educate them about their rights and responsibilities; inform them about the ways and means to achieve social justice; and empower them to bring their issues and causes right on the doorsteps of the Bank's management.

This guidebook provides information on ADB's involvement in the Central Asian region. The book, hopefully, will help the Central Asian civil society organizations to monitor Bank activities for better accountability and social justice.

I thank Ronald Masayda for writing most part of this guidebook in a very short time. I also thank Arturo Nuera for providing guidance with the primary author and for writing the overview of Central Asia, the ADB's involvement and for collaborating the analysis and conclusion parts. I also thank Lala P. Cantillo and Patricia Rodulfa for research support. I thank Open Society Institute for supporting this publication.

**Hemantha Withanage**  
Executive Director  
NGO Forum on ADB

April 2, 2006

---

## Part 1

# Introduction to Central Asia

**C**entral Asia refers to countries situated in the vast landlocked region located in the center of the Eurasian continent. Vaguely defined, it borders Iran and Afghanistan in the south, China and Mongolia in the east, the Russian Federation in the north and Azerbaijan in the west.

There is no single universally accepted definition for Central Asia as to its composition. It is sometimes known as **Middle Asia** or **Inner Asia** within the scope of the wider Eurasian continent. It is also sometimes known as Turkestan. The former Soviet Union defined this region as “Middle Asia” but with two distinct definitions. The narrow definition refers to the non-Slavic “Central Asian” lands that were incorporated within the borders of historical Russia (Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan). The wider definition<sup>1</sup> includes “Central Asian” lands that have never been part of historical Russia (the same four countries with Kazakhstan).

UNESCO<sup>2</sup> meanwhile defines the region based on climate and uses far larger borders that includes Mongolia, Western China (including Tibet), northeast Iran, Afghanistan and western Pakistan, central-east Russia south of the Taiga, the former Central Asian Soviet Republics<sup>3</sup>, and even the Punjab, which is northern India and Pakistan.

An alternative method is to define Central Asian region based on ethnicity, particularly, areas populated by Eastern Turkic, Eastern Iranian, or Mongolian peoples. These areas include Xinjiang, the Turkic/Muslim regions of southern Siberia, the five republics, Afghan Turkestan, and Tibetans. Insofar, the aforementioned peoples are considered the “indigenous” peoples of this vast region.

Despite this unclear definition, Central Asia has acted as a crossroads for the movement of people, goods, and ideas between Europe, the Middle East, South Asia and East Asia. This is mainly because Central Asia has historically been closely tied to its nomadic peoples and the Silk Road trade.

The Asian Development Bank’s subregional grouping defines Central Asia consisting mainly of five Central Asian republics (Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan). In its Central Asian Regional Economic Cooperation (CAREC), ADB expanded the composition that includes Xinjiang Uygur Autonomous Region of the People’s Republic of China (PRC), Mongolia and Azerbaijan (a member of the Caucasus).

Springing out from the 1991 demise of the Soviet Union, the emerging states of Central Asia and the Caucasus<sup>4</sup> formed a Eurasian sub-region that encompasses more than 67 million people of

---

<sup>1</sup> Soon after independence, the five former Soviet Central Asian Republics met in Tashkent and there declared that the definition of Central Asia should include Kazakhstan as well as the original four included by the Soviets. Since then, this has become the most common definition of Central Asia

<sup>2</sup> This definition of UNESCO was made just before the collapse of the USSR

<sup>3</sup> These are the five “Stans” of the former Soviet Union.

diverse ethnolinguistic roots, socio-cultural traditions, religious beliefs and geopolitical locations. Based from the most inclusive definition of Central Asia, other estimates show that the region is home to more than 80 million people, about 2% of Asia’s total population.

**Geographically**, Central Asia varies from one place to another—high plateaus and mountains (Tian Shan), vast deserts (Kara Kum, Kyzyl Kum and Taklamakan), and treeless, grassy steppes.

**Table 1: Profile of Central Asian Countries**

Countries	Area	Population
Azerbaijan, Republic of	86,600 sq km (Includes the exclave of Naxcivan Autonomous Republic and the Nagorno-Karabakh region)	7.91 million (2005 est.)
Kazakhstan, Republic of	2,717,300 sq km	15.18 million (2005 est.)
Kyrgyz Republic	198,500 sq km	5.14 million (2005 est.)
Mongolia	1,564,116 sq km	2.79 million (2005 est.)
Tajikistan, Republic of	143,100 sq km	7.16 million (2005 est.)
Turkmenistan	488,100 sq km	4.95 million (2005 est.)
Uzbekistan, Republic of	447,400 sq km	26.85 million (2005 est.)
Xinjiang Uygur Autonomous Region (PRC)	1,646,800 sq km	19.63 million (2004 est.)

Source: World Fact Book

Much of the lands are too dry or too rugged for farming, therefore majority of people’s livelihood is herding livestock.

Central Asia has major rivers, namely: Amu Darya, Syr Darya and Hari Rud. The region also has a major bodies of water such as the Aral sea and Lake Balkhash, both of which are part of the huge west-central Asian endorheic basin that also includes the Caspian Sea. In the past decades, these bodies of water have shrunk significantly due to the diversion of water from these rivers for irrigation and industrial usage. Water is an extremely valuable resource in arid Central Asia (Ferghana Valley, Takla Makan and Gobi deserts).

The region had both advantage and disadvantage from its central location. From its central location, it has an access to trade routes and at the same time lines of attack against all regional powers. On the other hand, its central location made the region continuously vulnerable to attack from all sides, resulting in political fragmentation or outright power vacuum.

Many languages are spoken in Central Asia, the Turkic language group, Iranian language and other languages. The languages of the majority of the former Soviet Central Asian Republics come from the **Turkic language group**—Turkmen, Kazakh, Kyrgyz, Tatar, Uzbek and Uighur. The Turkmen language (members of Oghuz Turkic group)<sup>5</sup> is mainly spoken in Turkmenistan. The Kazakh, Kyrgyz and Tatar (members of Kypchak Turkic group)<sup>6</sup> are spoken throughout Kazakhstan, Kyrgyzstan and Tajikistan. The Uzbek and Uighur languages are spoken in Uzbekistan, Tajikistan and Xinjiang (China). The Turkic languages belong to the much larger Altaic language family, which includes Mongolian language.

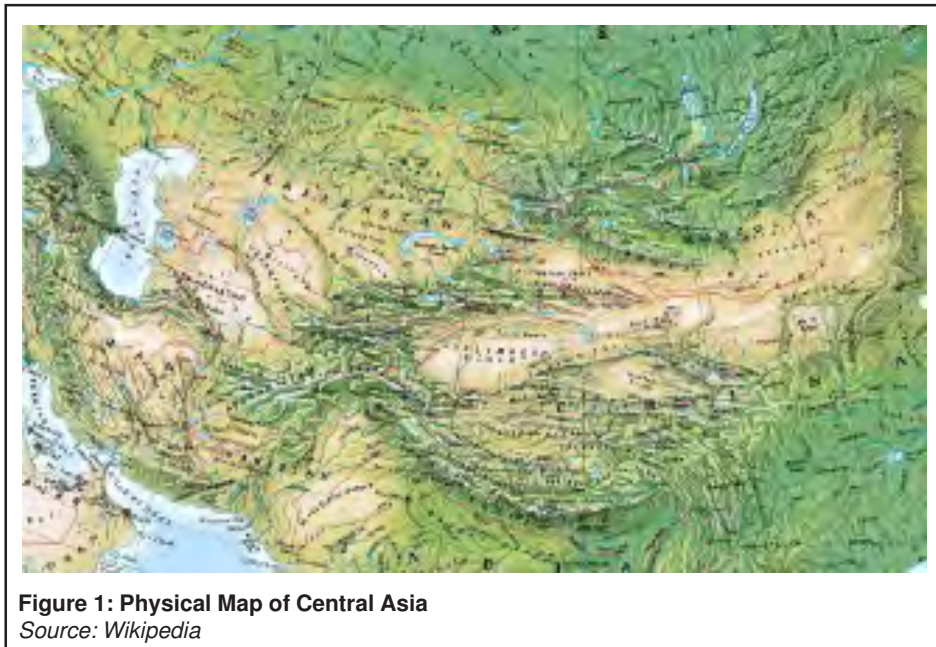
<sup>4</sup>These refer only to CAREC member-nations before 2005.

<sup>5</sup> Turkmen language is also spoken in Afghanistan, Iran and Turkey. Turkmenistan and Turkey are both members of Oghuz group of Turkic.

<sup>6</sup> Kazakh, Kyrgyz and Tatar languages are spoken also in Afghanistan, Xinjiang (China) and Qinghai (China).

**Iranian languages** (Sogdian, Bactrian and Scythian) once spoken throughout Central Asia are now extinct. On the other hand, the Persian language (Dari or Tajik) is still spoken in the region. The Pashto language is still spoken in Afghanistan and western Pakistan.

**Russian language** (spoken by the ethnic Russians of Central Asia) is a *linguae franca* throughout the former Soviet Central Asian Republics. **Chinese language**, another *linguae franca*, has an equal dominant presence in Inner Mongolia, Qinghai (China) and Xinjiang (China). **Mongolian language** is spoken throughout the region of Mongolia and into Qinghai (China) and Xinjiang



China). The **Tibetan language** is spoken by around six million people across the Tibetan Plateau and into Qinghai.

The dominant **religion** in most former Soviet Central Asian Republics, Xinjiang (China) and its peripheral western regions is Islam. Most of Central Asian Muslims are Sunni. However, in Azerbaijan the Shia comprises the majority. Buddhism is most common in Mongolia and the southern Russian regions of Siberia, where Shamanism is also popular. The Han Chinese brought Confucianism in the region. Nestorianism, a form of Christianity, was formerly has the highest followers in previous centuries. Now, the Russian Orthodox Church is now the largest with many members in Kazakhstan. The Bukharan Jews were once a sizable community in Uzbekistan, but nearly all have emigrated in recent years.

### Brief History of the Region

Throughout Central Asian history, the region has never been a seat of power for an empire or influential state. It was the nomadic characteristics of the people that made Central Asia made like this, and this is influenced by its own climate and geography—the aridness of the region made agriculture difficult and its distance from the sea cut it off from much trade—that made the people highly mobile.

It is important to note that the region's geographical and historical evolution have been marked by political, religious and social changes that were often tumultuous. Central Asia has been divided, redivided, conquered out of existence, and fragmented time and time again. Internally, the nomadic<sup>7</sup> horse people of the steppe dominated few major cities developed in the region. Relations between the steppe nomads and the settled people in and around Central Asia were long marked by conflict. The nomadic lifestyle was well suited to warfare and the steppe horse riders became some of the most militarily potent peoples in the world, only limited by their lack of internal unity. However, despite of the lack of internal unity and the absence of a seat of an empire, periodically great leaders of Central Asia or changing conditions would organize several tribes into to one force, and create an almost unstoppable power. Examples of these are the Hun invasion of Europe, the Wu Hu attacks on China and most notably are the Mongol who conquered much of Eurasia including South Asia.

Central Asia has served more as the battleground for outside powers, than as a power in its own right. Known as Turkistan in the early times, the area or parts of it were conquered by the Persians, Chinese, and Arabs during the first millennium. The Russian empire annexed it in the 19<sup>th</sup> century. In 1924, two years after the establishment of the Union of Soviet Socialist Republics (USSR), the Soviet authorities split West Turkistan into new states, often splitting ethnic groups. This division fomented internal ethnic conflicts in these Soviet republics. Mongolia remained independent but became a Soviet satellite state. The Soviet areas of Central Asia saw much industrialization and construction of infrastructure, but also the suppression of local cultures, hundreds of thousands of deaths from failed collectivization programs, and a lasting legacy of ethnic tensions and environmental problems.

Following the collapse of the Soviet Union five countries declared independence in 1991. Other parts of Central Asia remain part of China or Russia. However, former Communist Party officials in these independent states retained power as local strongmen.

### Political and economic development

Central Asian republics have common political characteristics. Most are in transition from a Soviets system, but with a reputation of being corrupt and non-democratic regimes. It is known also as one of the harshest landscapes on earth and has large oil and gas deposits but has a water problem. Central Asia's post-Communist odyssey towards political stability and socio-economic progress has been fraught with serious developmental challenges, internal conflicts, and regional concerns.

After declaring independence in 1991, these new nations grappled with the gargantuan task of preserving their fledgling sovereignties and fragile economies amid the onslaught of globalization. Two key issues that would greatly impact on their survival as republics stood out: facilitating a smooth transition from a command to a market-based economy, and sustaining economic gains vis-à-vis reducing widespread poverty. The transition phase of each country unmasked pathological economic structures such as weak macroeconomic policies, ineffectual finance and banking systems, and trade restrictions (i.e. export-import quotes), as well as unraveled political ills like authoritarianism, systemic corruption and weak public sector governance among others. These factors have decelerated the growth of most economies, which directly resulted to the increase of poverty incidence in the region. Compounding the debilitating realities are reported widespread human rights violations, major environmental issues and cross-border conflicts.

---

<sup>7</sup> The dominance of the nomads ended in the 16<sup>th</sup> century when firearms allowed settled peoples to gain control of the region.

---

## PART 2

# ADB's Involvement in Central Asia

The Asian Development Bank (ADB) is a regional multilateral development bank (MDB) established in 1966 with its headquarters in Manila, Philippines. As a regional bank, it operates in the Asia and Pacific region. As a multilateral bank, it is owned by 63 member-countries – 45 from Asia and Pacific and 18 from other parts of the globe (Table 2). As a development bank, it provides loans to its member-countries for purposes of developing their respective economies. It moves along its vision – an Asia and Pacific region free of poverty – and its Mission – to help its developing member countries (DMCs) reduce poverty and improve their living conditions and quality of life.

ADB's Long-Term Strategic Framework (LTSF) provides agenda for poverty reduction and growth-financing activities over the next 15 years. The LTSF will be implemented through a set of three medium-term strategies.

ADB Member Country	Year of Membership	Subscribed Capital (% of total)	Voting Power (% of total)
1. Japan	1966	15.780	12.942
2. United States	1966	15.780	12.942
3. China (PRC)	1986	6.516	5.530
4. India	1966	6.402	5.439
5. Australia	1966	5.850	4.998
6. Indonesia	1966	5.507	4.723
7. Canada	1966	5.290	4.549
8. South Korea	1966	5.094	4.393
9. Germany	1966	4.370	3.817
10. France	1970	2.350	2.200

Source: Asian Development Bank

ADB's main instruments in providing assistance to its DMCs are: (1) policy dialogues (conferences), (2) loans (project lending loans), (3) technical assistance (preparatory, regional and advisory assistance), (4) grants, (5) guarantees, and (6) equity investments.

ADB's interventions in its DMCs are written in a country-specific three-year Country Strategy Program (CSP). CSP is a medium-term action plan that is updated and adjusted annually. It serves as a guide to ADB and DMC in choosing which sector will be given priority for technical assistance and project loan implementation.

Project loans are money extended to countries for the implementation of identified physical and social infrastructure projects under different sectors (such as agriculture, energy, transport, etc). Technical assistance (TA), on the other hand, is a grant extended for feasibility studies (preparatory technical assistance) before a loan for a specific infrastructure project will be approved. The advisory technical assistance (ADTA) is often used for the conduct of a study on

policy and institutional changes, such as providing enabling environment for private sector participation. Conditionality is more often associated with ADTA. As a medium-term action plan, CSP also reflects the political and economic condition of a specific DMC that serves as basis for the Bank's intervention. CSP is coded under **Poverty Reduction Strategy (PRS)** of ADB.

By **thematic priorities**, CSP is logically segregated into themes. The common themes are as follows: (1) Economic Growth, (2) Human Development, (3) Gender and Development, (4) Good Governance, (5) Private Sector Development, (6) Environment Protection and (7) Regional Cooperation. All project loans and TAs fall under these themes.

By **sectoral priorities**, CSPs are classified into: (1) Agriculture and Natural Resources; (2) Transport and Communications; (3) Industry and Trade; (4) Energy; (5) Finance; (6) Multisector; (7) Health, Nutrition and Social Protection; (8) Education; (9) Water Supply, Sanitation and Waste Management; and (10) Law, Economic Management and Public Policy.

### ADB Entering Central Asia

ADB's involvement in Central Asia only came later after the collapse of Soviet empire. This led to the formation of independent states of former Soviet states and their eventual membership to ADB. The first country to join ADB is Mongolia (a former Soviet satellite) in 1991. In 1994, two former Soviet republics, Kazakhstan and Kyrgyz Republic, joined ADB. Uzbekistan joined in 1995; Tajikistan in 1998; Azerbaijan in 1999; and Turkmenistan in 2000.

Xinjiang province, which is part of China, was integrated to ADB's regional economic cooperation program, the Central Asia Regional Economic Cooperation (CAREC). Xinjiang province is known as the Western Region during ancient times and was an important part of the historic continental Silk Road.

The first assistance from the Bank extended to Central Asia was in the form of technical assistance. ADB approved Mongolia's first technical assistance (grant) in July 17, 1991, entitled "Adviser to Mongolia Stock Exchange," amounting to US\$100,000. This was lodged under the finance sector. On July 24, 1991, the second technical assistance for Central Asia, "Training for the Mongolian Stock Exchange," was also extended to Mongolia amounting to US\$95,000.

ADB's first project loan to Central Asia, dubbed as "Special Assistance" was also extended to Mongolia on October 29, 1991, which amounted to US\$30 million. The second project, entitled "Egiin Hydropower," was also extended to Mongolia on January 9, 1992, which amounted to US\$3.8 million under Energy sector.

**Project Loans.** Between 1991 and 2006, ADB has been lending more money to Agriculture and Natural Resources sector, totaling to US\$548.140 million; this is followed by Transport and Communication sector (US\$477.3 million); and third, is Education sector (US\$365.7 million). Sectors that get the least loans are Industry and Trade sector (US\$50 million), and Energy sector (US\$64 million). (Table 3)

**Technical Assistance.** From 1991 until 2006, ADB is extending more technical assistance to Agriculture and Natural Resources sector, totaling US\$38.8 million. This is followed by Law, Economic Management and Public Policy sector (US\$20.453 million) and Transport and Communications sector (US\$16.880 million). (Table 3)

**Table3: Summary of Technical Assistance and Project Loans Extended by ADB to Central Asia [1] (1991-2006)**

<i>Project Name</i>	<i>Technical Assistance (in US\$)</i>	<i>Rank</i>	<i>Project Loans (in US\$)</i>	<i>Rank</i>
1. Agriculture and Natural Resources	38,800,050.00	1	548,140,000.00	1
2. Energy	6,486,000.00	6	64,000,000.00	9
3. Multisector	6,114,000.00	7	201,000,000.00	4
4. Transport and Communication	16,880,000.00	3	477,300,000.00	2
5. Law, Economic Management and Public Policy	20,453,400.00	2	79,000,000.00	8
6. Health, Nutrition, and Social Protection	4,650,000.00	8	143,500,000.00	6
7. Finance	15,190,000.00	4	192,000,000.00	5
8. Industry and Trade	4,625,000.00	9	50,000,000.00	10
9. Education	10,125,000.00	5	365,700,000.00	3
10. Water Supply, Sanitation and Waste Management	3,360,000.00	10	137,200,000.00	7
<b>Total</b>	<b>126,683,450.00</b>		<b>2,275,840,000.00</b>	
<b>[1] Only Kazakhstan, Uzbekistan, Kyrgyz Republic, Tajikistan and Turkmenistan</b>				
<i>Source: ADB</i>				

### ADB's Trailblazing in Central Asia Via Economic Cooperation

Since the 1990s, ADB is actively promoting the formation of regional and subregional economic cooperation in Asia and Pacific. In ADB's Charter<sup>8</sup>, the Bank already recognized the value of regional and subregional cooperation. In 1994, ADB approved a policy—and issued its Operation Manual in 1995 and enhanced further in 2000—formalizing its role as a catalyst for regional cooperation. In its PRS and LTSF (2001-2015), the regional and subregional cooperation became its core component in poverty reduction agenda. In 2001, the new organizational structure of ADB reflected the geographical subregions<sup>9</sup> of Asia and Pacific.

The Bank prepares subregional cooperation strategies and programs, also known as the Regional Cooperation and Strategy Program (RCSP), to ensure coherence and strategic prioritization for the five subregions covered by ADB's regional departments, with annual updates (RCSPUs). On the basis of established priorities, ADB assists developing member countries in financing regional cooperation through technical assistance grants and projects loans.

The Bank is supporting and promoting the formation of six subregional economic cooperation.<sup>10</sup> One of which is the **Central Asian Regional Economic Cooperation (CAREC)** of landlocked countries of former Soviet republics in Central Asia (Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan), Mongolia and the Xinjiang Province of the People's Republic of China.

<sup>8</sup> In its 1966 Charter, ADB cited economic cooperation as a means for achieving a more efficient use of regional resources, making economies more complementary, and promoting the orderly expansion of foreign trade, in particular, **intra-regional trade**.

<sup>9</sup> ADB's new regional departments are East and Central Asia; Mekong; Pacific; South Asia; and Southeast Asia.

<sup>10</sup> The other 5 subregional groupings are: (1) **Greater Mekong Subregion (GMS)** of five Mekong countries (Burma, Cambodia, Thailand, Vietnam and Laos) and two provinces of People's Republic of China, (2) **South Asia Subregional Economic Cooperation (SASEC)** of four countries of India, Nepal, Bhutan and Bangladesh. (3) **Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT)**, (4) **Brunei-Indonesia-Malaysia-Philippines — East ASEAN Growth Area (BIMP-EAGA)** and (5) the Pacific Islands.

## CAREC Overview

The multi-country, multi-institutional Central Asia Regional Economic Cooperation (CAREC) was created by ADB in 1997 to primarily accelerate prosperity and stability in a region that has enormous oil and gas reserves, as well as rich mineral deposits. The program's other lofty aim is to significantly reduce the poverty incidence among member nations namely, Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan, Uzbekistan and the Xinjiang Uygur Autonomous Region of the People's Republic of China (PRC). Afghanistan officially became the ninth participating country in November 2005. The Russian Federation was formally invited in 2005 to join the CAREC Program but is still considering its membership.

CAREC seeks to achieve its two-pronged goals through a sustained regional cooperation in transport, trade and energy that is projected to spur exponential growth in every Central Asian economy. Concretely, the Program through multilateral institutions (MIs)<sup>11</sup> funds projects and initiatives that improve the policy environment affecting the three priority sectors. Financial institutions apart from ADB that support CAREC include the European Bank for Reconstruction and Development (EBRD), International Monetary Fund (IMF), Islamic Development Bank (IsDB), United Nations Development Programme (UNDP) and World Bank (WB).

Following the September 11, 2001 terrorist attacks and the Afghan war, ADB increased its project loans and technical assistance in transport, trade and export sectors specifically to promote cross-border activities.

The Bank's operational strategy for CAREC is premised on (1) Lessening the region's economic isolation through improved transport systems within Central Asia and from the region to other parts of the world, particularly East Asia; (2) Maximizing benefits from resource complementarity by rationalizing and encouraging regional energy trade based on market principles and infrastructure rehabilitation; (3) Ensuring a policy environment favorable to trade and traffic within, to, and from the region.

To clearly establish ADB's role as an honest broker, at the same time guarantee ownership by the participating countries, CAREC comes in two phases. This approach would likewise ensure that there will be effective coordination and sustainable implementation of the Program's goals. Phase One (1997-1998) identified infrastructure needs and policy issues that hinder cross-border trade and traffic. Phase Two (1999 -Present) has been assessing priority projects in the areas of electric energy, trade, and road and railway transport and pursues policy reforms that would facilitate the movement of goods and people without any hindrance between territorial borders.

### 4<sup>th</sup> Ministerial Meeting (2005)<sup>12</sup>

#### 1. Multilateral Institutions

A windfall of prosperity awaits CAREC and its member in the next 10-15 years according to Bank projections. The GDP of participating countries would double in 2015 as oil and gas are expected to lead commodity and manufactured exports in propelling regional growth. Likewise, poverty incidence in the region would be cut from 40 percent to 20 percent in the next 10 years. These projections, however, are entirely dependent on the kind of economic reforms and regional cooperation that the participants would pursue. Provided, too, that global conditions remain favorable.

---

<sup>11</sup> Aside from Multilateral Institutions (MIs), the major bilateral partners of CAREC are the United States (US), United Kingdom, Switzerland, Germany and Japan.

<sup>12</sup> The conference was held on November 5-6, 2005 in Bishkek, Kyrgyz Republic.

Through ADB President Haruhiko Kuroda, the Bank sums up CAREC as a “win-win” process with shared and growing benefits for all member countries and not a ‘zero-sum’ interaction where the gains to one nation necessarily means losses to others. Thus, the Bank and its partner MIs have renewed their commitment to provide the necessary financial and technical support to ensure that Central Asia would become a vital trade hub that interconnects PRC, Russia, Europe, India and the Middle East. This is best exemplified by the current South Transport Corridor project that would link southern Russia and Western China, through Central Asia, to the Arabian Sea ports.

The Bank has continued to push for integrated road, rail and air transport system, the removal of trade barriers, further development and sharing of the region's energy sources, and an increased private sector presence and participation. Since 1991, the private sector has grown to represent over 50 percent of Central Asia's GDP according to ADB.

Multilateral Institutions' commitments and plans for 2005-2006 include US\$1.02 billion for transport projects, more than US\$200 million for energy and US\$10 million trade facilitation. In fact, ADB's lending assistance alone to the transport sector totaled US\$224 million from 2000-2005.

An example on how MIs work together in support of regional electricity development is the Sangtuda 1 Hydroelectric Power project and the associated transmission facilities from Tajikistan. For this ADB and the World Bank are jointly looking at sovereign lending options while EBRD and IFC are considering equity investment. Two other examples are (1) EBRD and ADB's co-financing of the Almaty-Bishkek Road which has reduced the time travel between the two cities; and (2) ADB and IsDB's rehabilitation of the Osh-Irkeshtan Road leading to China.

## **2. CAREC Participants**

Hewing closely to the Bank's vision of a robust development alliance among countries and institutions, CAREC Ministers have agreed to institute sweeping national and regional measures (i.e. creation of transport corridors and removal of trade and development impediments). Policy, regulatory and institutional reforms as well as other regional initiatives would be intensively carried out as they are crucial to the region's growth. These efforts would likewise fast track the integration of Central Asian economies to global markets.

Transport, trade and energy would remain central to regional cooperation, but would be inclusive of and responsive to sectors such as environment, agriculture and food, security, tourism, telecommunications, human resource development, and disaster management and preparedness for avian flu in the future. The private sector, as a source of financing, as well as expertise, has been singled out as a significant partner in infrastructure undertakings.

The CAREC Ministers would formulate a comprehensive strategic framework that embraces all stakeholders and pursues initiatives in a building-block, results-oriented manner.

They have called on MIs to ensure that CAREC participants have the necessary institutional and technical capabilities to make the complex process of cooperation work effectively. Likewise, they asked the Bank to ensure that CAREC is able to deliver on the commitments of ADB and other MIs.

### 3. Progress Report

The CAREC Ministers highlighted the significant progress in the priority areas, specifically transport, trade facilitation and policy and energy.

**Transport:** CAREC's six development partners have funded over US\$ one (1) billion for investment projects and US\$6.8 million for non-lending. The Transport Sector Roadmap (2005-2010) is a multi-modal regional system envisaged to simplify cross-border procedures, harmonize regulations, improve transport corridors, modernize railways, and improve sector funding and management.

One important initiative is a technical report on the liberalization of Central Asia's aviation sector. Other major infrastructure investments over the past year include the (1) Southern Corridor Road in Kyrgyz Republic; (2) important road sections in Azerbaijan linking Baku to the Russian and Georgian borders; (3) Central North-South Road Corridor in Mongolia; and (4) rehabilitation of the ring road in Afghanistan.

**Trade Facilitation:** In 2005 bilateral transit and cooperation agreements were signed between Kyrgyz Republic and Tajikistan; Azerbaijan and PRC; and Uzbekistan and PRC. Kazakhstan and Kyrgyz Republic pilot tested joint customs control at the Kordai-Azkhoh border crossing.

CAREC endorsed a 2006 work plan that promotes bilateral initiatives such as (1) harmonization of cargo manifests by Kazakhstan and PRC; (2) joint border control between Mongolia and PRC, and between Kazakhstan and Kyrgyz Republic; (3) data exchanges for cargo clearance between Mongolia and Uzbekistan; (4) customs cooperation between Mongolia and Tajikistan; and (5) a customs modernization and infrastructure project between Kyrgyz Republic and Tajikistan. The work plan also calls for training and regional forums, and broadening partnership with the private sector and other stakeholders. In-country activities will include Information and Communication Technology for Kyrgyz Republic and Tajikistan, custom modernization by Mongolia, and accession to the Transport Internaux Routiers (TIR) agreement by PRC.

**Trade Policy:** ADB and IMF have proposed to arrange country-level seminars in CAREC-member countries, designed to summarize the work done for the trade policy committee and its implications.

The Ministers recommended steps to reduce transit barriers: (1) Ensure full compliance with the TIR provisions by custom services and other agencies, with the PRC taking steps to accelerate TIR accession; (2) Reduce charges for customs convoys and the list of goods subject to such convoys; (3) Lower all other charges and fees on entry and transit of foreign road carriers; (4) Decrease the cost of entry visas for drivers of foreign road carriers and simplify the issuance of visas to them at international pass points; (5) Harmonize transport, customs and border documentation to simplify procedures of control and minimize at the border; and (6) Prevent and eradicate unofficial payments from social carriers in transit. They recommended further analytical work on removing barriers to cross border trade, especially concerning the legal framework and tax and infrastructure issues, and new work on trade taxes and quantitative restrictions on trade.

**Energy:** Phase One of the Kazakhstan's North-South Transmission Line Project has been completed and funding for Phase Two is already being discussed. Likewise, completed is the Tajikistan-financed 220-kv Batken (in Kyrgyz Republic) - Kanibodom (Tajikistan) transmission line. Preparations are being done to rehabilitate the Uzbekistan-Dushanbe gas pipeline. A diagnostic review of regulatory approaches and challenges prepared by the CAREC Members Electricity Regulators Forum (CMERF) is underway.

CAREC's newly formed Energy Sector Coordinating Committee is classifying include oil and gas, energy efficiency and opportunities afforded by the Clean Development Mechanism of the Kyoto Protocol. Consultations and further studies are underway regarding potential hydropower power projects including Tajikistan's Sangtuda I Project as well as the possibility to export power to South Asia, Russia and other markets.

**Capacity Building:** CAREC has mobilized some US\$1.35 million for capacity building, including US\$400,000 from the PRC Regional Cooperation and Poverty Reduction Fund to help participating countries to better identify, evaluate and implement regional initiatives.

**Interim Comprehensive Action Plan (ICAP):** Still a work in progress, ICAP has underlined the need for new or reemphasized initiatives under each CAREC core sector, and to address serious impediments to trade, transport, energy interchange and other forms of cooperation.

#### **4. Deepening the CAREC Agenda**

CAREC Ministers called for a trade strategy and comprehensive trade, transport agreements to facilitate cross-border movement of goods, vehicles and people. Cooperation in the energy sector must not be frustrated by national strategies and the water-energy nexus. The importance of competitiveness-related issues include regional initiatives designed to link domestic enterprises, particularly small and medium-sized enterprises (SMEs) to international production systems (i.e. global value chains) and world markets.

The inclusion of trade policy (led by IMF) would help CAREC to develop an appropriate balance between project investments and policy advice/advocacy work. CAREC would continue with economic and sector work, information sharing, and constituency and capacity building.

Also noted during the conference is the pressing issue on transboundary water management. Water being the economic and physical lifeline of so many people across the region, every effort needs to be made to ensure that the resource is managed equitably and efficiently. Other important issues that were taken up include control of the HIV/AIDS epidemic and measures to stop drugs and human trafficking.

#### **5. CAREC Benefits**

Member nations believe that economic benefits to be gained far outweigh the costs of national self-sufficiency measures. Countries that remain on a more trajectory are in danger of being left behind in terms of economic growth and human development. Infrastructure initiatives also need to be backed up by strong political commitment for domestic reforms, particularly in fulfilling international and transboundary agreements.