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CENTRAL ASIAN REPUBLICS

CENTRAL ASIAN REPUBLICS REGIONAL ECONOMIC COOPERATION PROJECT

**QUARTERLY PROGRESS REPORT
APRIL - JUNE 2012**



This report was prepared by Chemonics International for review by the United States Agency for International Development (USAID).

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**Contract No. AID-176-I-11-00003
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Cover photo: Training on organic farming of apricots with an international expert participation, organized for the Organic Export Partnership Group in Batken Kyrgyzstan, May, 2012.

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ACRONYMS

CAR	Central Asian Republics
CATF	Central Asian Trade Forum
CATRC	Central Asian Tax Research Center
CENTCOM	Central Command
DLA	Defense Logistics Agency
DOD	U.S. Department of Defense
EBRD	European Bank for Reconstruction and Development
EPI	Export Partnership Initiative
EPG	Export Partnership Group
FIEC	Fund for Integration of Ecological Culture
CED	Center for Economic Development
CCI	Chamber of Commerce and Industry
GSA	General Services Administration
GIZ	Germany Agency for International Cooperation
GOU	Government of Uzbekistan
IVLP	International Visitors Leadership Program
JTSCC	Joint Theater Support Contracting Command
KLDP	Kyrgyzstan Local Development Project
MOU	Memorandum of Understanding
NDN	Northern Distribution Network
PMEP	Performance Monitoring and Evaluation Plan
PV	Prime Vendor
REC	Regional Economic Cooperation Project
RTLCL	Regional Trade Facilitation and Customs project
STTA	Short-Term Technical Advisor
TAFA	Trade and Accession Facilitation for Afghanistan project
TMC	Technology Management Company
TWI	Theodore Wille Intertrade
VETCOM	US Army Veterinary Command

EXECUTIVE SUMMARY

USAID Regional Economic Cooperation Project (REC) started to operate on September 29th, 2011. This is the third quarterly report of the Project. During the first three months, the team focused on creating the project's foundation, and organizing its operations. During the second quarter, the Project started to implement multiple activities per component, and during the third quarter, the Project demonstrated achievements in each component. Among other achievements, REC continued to strengthen its presence in Uzbekistan. It held two successful events in Tashkent: a meeting with the members of the newly created Supplying to the US DOD in Afghanistan Export Partnership Group (EPG) on June 26, and partnered with the Business Women's Association of Uzbekistan to co-host a roundtable that brought government officials, companies, and trade experts together for a frank exchange on improving export prospects for Uzbek firms. The Project also accomplished the following:

- Besides supporting existing EPGs (Organic and Textiles), REC is facilitating the creation of new EPGs: supplying to the US DOD in Afghanistan: export to the Customs Union (an Uzbek led EPG), and export to Russia;
- The Project trained EPG organic farmers to diversify their exports to developed countries;
- Successfully finalized three Export Partnerships Initiative (EPI) trainings in Almaty with the participation of nearly 60 selected export companies, representing Kazakhstan, Uzbekistan, Kyrgyzstan, and Tajikistan. The EPI trainings contributed to signing contracts between participants;
- Cooperated with the European Bank for Reconstruction and Development (EBRD) and German Agency for International Cooperation (GIZ) on a range of issues, including assistance in certification of companies that aim to supply to the Department of Defense (DOD), mutual support for organic producers, participation in EPI trainings, and exchange of information on export companies;
- Helped organize upcoming technical assistance for KazNexInvest with IBM consultants and REC short-term consultants;
- Identified companies to sell to the DOD and started preparing them to conclude orders to supply to DOD in the short-term;
- DOD representatives apply with increasing frequency to the Project for help on a range of issues, from technical advice to logistical support;
- Prepared a report on barriers to export to DOD, and concluded several chapters of the Export to DOD Manual; discussed the report and chapters of the Manual with KazNexInvest, the Export to DOD Partnership Group members, Prime Vendors, and DOD representatives; Prepared draft outlines and started discussing the content of the Kazak and Uzbek manuals on "How to Export to DOD, through the Northern Distribution Network (NDN).
- The Project demonstrated its in-house capacity to organize serious trainings and complex international events (for example, EPG meetings, discussions of export barriers in Uzbekistan, national and international mass media coverage, etc.)

COMPONENT 1: EXPORT PARTNERSHIP INITIATIVE (EPI)

During the reporting period April-June 2012, REC conducted the following EPI program events: 1) Support of existing Export Partnership Groups, 2) Organization of two EPI Trainings: one with the CATRC of KIMEP and the other organized by the Project team itself; 3) Establishment of a new EPG, and 4) Organization of EPI internship. In organizing these activities the Project was mainly operating in Kazakhstan, Kyrgyzstan and Uzbekistan, but there were also 5 companies from Tajikistan that participated in the EPI Training.

Support of existing Export Partnership Groups

During the EPG meeting in February 2012, REC designed the Organic products EPG Action Plan based on their members' needs and in accordance with REC Project objectives. The Project staff compiled a list of 25 joint activities in order of implementation priority, and received approval from USAID. The list includes activities on development of CAR organic products standard, market survey of the organic market of Central Asia and its export potential, short-term technical advisor on organic farming of apricots, and participation in industry exhibitions, among others.

REC trained Kyrgyz and Tajik bio inspectors on organic apricot processing and certification. Component 1 Leader and Component 2 Leader monitored the results of the STTA visits in Batken, Kyrgyzstan. Please refer to the details of the STTA involvement under Component 2 of this report.

The Project signed an MOU with GIZ to support Bio-Service, a Kyrgyz local agricultural NGO in aiding dry apricot producers obtain organic certification, as part of the effort to promote organic apricots export from Central Asia. The Project decided that the Organic EPG action plan would be promoted largely by the Organic Center of Kazakhstan in various formats, such as grants, subcontracts, etc.

The Project also contacted Textile EPG members to assess their current needs, in order to update the action plan and to start working with the EPG more intensively during the upcoming months.

EPI Trainings

The Project organized the 2nd and 3rd EPI Trainings for participants from Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan.

- REC held the 2nd EPI Training in “Ala Tau” sanatorium on April 27-29 with 56 selected participants. The CATRC of KIMEP assisted in organizing the event.
- The Project conducted the 3rd Training on Management Logistics on May 29-31 in “Ala Tau” sanatorium, with 56 selected participants. The Project team itself organized the training.

The REC team organized three sessions of EPI trainings, selected and trained 67 Central Asian exporters for new EPGs. Reputable domestic and international practitioners and industry experts

delivered the training sessions. They outlined areas of export, entrepreneurship, export potential analysis and marketing strategy in exporting; negotiation skills, finance in export, export promotion agencies' support, intellectual property, exhibitions and trade fair participation, Kaizen quality management system; logistics, transportation, warehouse management, etc.

As a result, 95% of respondents confirmed that the course met or exceeded their expectations. 14% of companies reported increase in exports. Participants gave the training a high rating due to its interactive and practical nature. The training provided companies with updated reference materials and tools on export procedures, best regional and international practices and other resources. 49% of the participating companies are interested in having REC interns within the internship program, mainly in the areas of website development, marketing plan, market research and foreign customer engagement. 89% of the participants are ready and willing to become members of export partnership groups and receive capacity building assistance within the REC program. Based on these training sessions the REC team decided to establish 3 new EPGs: "Supplying to the DOD in Afghanistan", "Export from Uzbekistan to Customs Union States", and "Export to the Russian Federation".

New EPG Formed

The REC Project conducted a focus-group with the "Supplying to the DOD in Afghanistan" EPG members on June 12-13, 2012 in Tashkent. Component 1 and 3 Leaders of the REC team moderated the meeting, and hosted USAID and DLA representatives in Uzbekistan. The Project identified 13 exporting companies (from Uzbekistan, Kazakhstan, Kyrgyzstan) based on their willingness and readiness to supply to DOD in Afghanistan. At the event, the Component 3 Leader and Marko Graham, a DLA representative, presented opportunities of supplying to US DOD. The group also discussed further activities, signed a memorandum of understanding and prepared an action plan. New EPG members signed an MOU to declare establishment of the partnership, its goals and objectives, mission and principles, as well as to create its coordination unit.

EPI Internship

To initiate and facilitate the REC internship program, the Project decided to propose interns, identified by KIMEP Center, for the upcoming program of the IBM Corps volunteers in Astana. KazNexInvest, the trade promotion agency, approached ex-RTL Project companies and publicized another announcement on social networking sites. To REC and KIMEP internship team agreed to have weekly meetings to monitor progress of program implementation. The first group of 18 interns began interning with 18 companies on June 24, 2012.

Upcoming Activities:

- July 2012: CAR Organic sector survey by Organic Center in Kazakhstan to support the Organic EPG
- July-August 2012: Establishment of new EPGs: "Export from Uzbekistan to Customs Union States", and "Export to the Russian Federation"
- September 2012: Completion of EPI Internship

- September 25-26, 2012: Organization and delivery of the 2nd CATF, which will be at the Rixos Hotel in Almaty.

COMPONENT 2: EVALUATE THE EXPORT POTENTIAL OF KAZAK AND UZBEK FIRMS AND INDUSTRIES THROUGH MARKET RESEARCH

During the reporting period of April through June 2012, Component 2 activities focused on planning to provide technical assistance to trade promotion agencies, and conducting capacity building assignments for EPGs as well as for the DOD pilot suppliers' technical assistance.

Trade Promotion Agencies' Capacity Building Activities

The US State Department approved the REC proposal for sub-regional International Visitors Leadership Program (IVLP) on "Central Asian Trade Promotion Agencies Development" for both Kazak and Uzbek Trade Promotion Agencies in October 2012. The component 2 Leader designed and developed a detailed proposal for the IVLP, outlining content, components, counterparts and priorities. Key focus areas of the IVLP include:

- Governance and development strategies: particularly with regard to strengthening the existing trade centers network, broadening portfolio of services and programs, promoting export of services (tourist, transportation, construction, education, financial, IT, professional business services), and evaluating the Agency's activities and programs.
- Export Promotion: efficient marketing strategies, identifying target markets, products, sectors, companies; eligibility and assessment criteria.
- Supply chain integrator: promotion and support of the exporting innovative products, intellectual property management, practice of supply chain integrators, identifying and approaching supply chains; match-making and criteria of selection of companies, methodologies of diagnostics and assessment; techniques of IP management and protection; stock market of IP.

The REC team has identified an international trade and marketing advisor on Kazakh priority industries (machine-building, metallurgy, construction, chemistry, pharmaceuticals, food and textile industries) to work with KazNex to develop sectors export strategies and evaluate export companies' potential. At the moment, Chemonics HO is finalizing contractual arrangements with the advisor, who is scheduled to begin working in August 2012. The REC team is recruiting another Short-Term Technical Advisor who will identify international best practices on export of services. This STTA will provide customized recommendations to the Kazak government, including: review existing market of services in Kazakhstan; review Kazakhstan legislation on for regulation of services trade government support of export of services as applicable for entering foreign markets; identify constraints to export Kazak services; summarize rules for the General Agreement on Trade in Services and compare compliance of Kazak legislation; review international best practices on governments' stimulating export of services, based on models of Malaysia, Australia, UK, Turkey, Denmark, etc.

During July 13 – August 11, 2012, REC in partnership with the IBM Corporate Service Corps will work with KazNexInvest to develop recommendations on design and functionality of the national web-site for exporters. REC is connecting selected students and graduates of prominent Kazak universities with the IBM professionals within its Internship Program with the KIMEP Center. The intention is to share experiences as well as establish follow-up mechanism for Kazak client companies. Three IBM professionals and REC interns will work with KazNexInvest during the above-mentioned period. REC will monitor and support program activities.

REC is also collaborating with the World Bank Economic Development Department to coordinate support to KazNexInvest, avoiding duplication and creating synergies.

Since February 2012 the REC Team has been preparing for the Central Asian Conference of Trade Promotion Agencies, focusing in particular on national Chambers of Trade and Commerce. The activity was going to take place in Tashkent, Uzbekistan, on April 19-20, 2012. REC identified participants, speakers, and finalized the program content and presentations. The Project team was forced to reschedule the event twice while it was waiting for approval from the Uzbek Cabinet of Ministers. Unfortunately, the Cabinet of Ministers decided not to approve the Conference citing that it had “no relevance for the country”. REC is planning to mitigate such risks through implementing lower-scale focused field activities in the area of trade and export promotion, versus aggressive launch of REC activities at the national government level. REC is now working in Uzbekistan through partnering with domestic NGOs, and planning activities with the Association of Business Women of Uzbekistan, Association of Business Logistics and Association of Light Industry, as well as relevant ministries.

REC Export Partnership Groups Technical Assistance

Organic Farming of Apricots in Kyrgyzstan and Tajikistan. Short-Term Technical Advisor trained REC Organic EPG members (Kyrgyzstan, Tajikistan) in methods of processing apricots that are in compliance with the standards of organic farming.

From April 24 –July 3, 2012 the STTA introduced a system of farming, fertilizing, irrigation and pest management at the local apricot producing farms; delivered training sessions for bio inspectors of Kyrgyzstan and Tajikistan and developed a manual on harvesting, drying and storage of organic apricots according to the requirements of the European market. Beneficiaries included EPG Members “Bio Service” Foundation and SugdAgroService. This assignment ended on July 2, 2012 and deliverables included multiple training materials for best agricultural practices for organic apricots, and a handbook for best agricultural and manufacturing practices of organic apricots. All materials are currently being translated into Russian and will be disseminated among Organic EPG Members, and uploaded to the REC website. To complete the assignment and leverage donor resources, the REC Project signed an MOU with GIZ to fund further certification.

CAR Organic Market Survey. REC Project issued a request for proposal (RFP) to conduct a CAR organic market survey included under the Organic EPG Action Plan. The team received bid proposals from CAR market research providers for requested survey on organic farming market. Due to the high cost of the survey as well as common interest in developing the CAR organic

market, REC negotiated co-funding with the Helvetas Swiss Intercooperation in Kyrgyzstan. Memorandum of Cooperation will serve as a framework for joint activities. After reviewing the received bids, REC chose EPG Member Organic Center in Kazakhstan to conduct the survey. REC is currently reviewing the technical details of the assignment and the budget.

Technical Assistance for Companies to Supply to DOD

DOD Pilot Capacity Building. REC will support Tsesna-Astyk (Astana) company to obtain the ISO 22000 certification for its macaroni production unit (Tsesna-Mac) in order to make the company a viable supplier to DOD Afghanistan, and sell to Supreme Foods.

The certification consists of two stages implemented in 3 months. First, Tsesna will receive technical assistance to develop, train and implement the ISO 22000 quality management system at Tsesna-Mac, and second, get audited and certified ISO 22000. Through a competitive RFP, REC identified two providers: Kazakhstan Quality Organization for the first stage and Russian Register Company for the second stage. REC and Tsesna-Mac will co-fund the first stage, and as an effort to leverage donor resources, REC and Tsesna-Mac jointly applied for certification funding to GIZ, which specifically funds ISO certification for CAR businesses. GIZ is currently reviewing the application.

Upcoming Activities:

- July 16 – August 11, 2012: IBM Corporate Service Corps TA with KazNexInvest in Astana. Official launch of the program is scheduled for July 16, 2012 at King Hotel in Astana
- July – September 2012: CAR Market Research grant to the Kazakhstan Organic Center (USAID approval pending)
- August 2012: International STTA assignment with KazNexInvest Export Promotion Department on industry-based export strategies development (Astana)
- October 22 – November 9, 2012: regional International Visitors Leadership Program (IVLP) on "Central Asian Trade Promotion Agencies Development"

COMPONENT 3: SUPPLYING TO THE US DEPARTMENT OF DEFENSE

During the reporting period, the Project cooperated closely with the DLA, CENTCOM JTSCC representatives and Prime Vendors, such as Seven Seas, Supreme Foods and TWI, and KazNexInvest.

Report on Barriers on Supplying to the DOD and How to Sell to the DOD Manual

To familiarize with the exporting to DOD requirements, Project team members studied relevant DOD doing business manuals, researched secondary data, and participated in DOD events in the region. REC surveyed DOD prime vendors and their existing local suppliers, and developed a Report on Barriers on Supplying to the DOD in Afghanistan, including recommendations on methods of trading with DOD.

REC discussed the Draft Report on Barriers with the Supplying to DOD EPG on June 12, 2012 in Tashkent, which included companies from Kazakhstan, Kyrgyzstan and Uzbekistan, as well as USAID, DLA and REC representatives in Uzbekistan. The REC team also incorporated feedback and recommendations provided by KazNex and the American Chamber of Commerce in Uzbekistan into the updated draft report.

The Project team will include recommendations and conclusions to the barriers report in the “How to Export to DOD” manual. REC has discussed the manuals’ outline with KazNex, prime vendors and experts. On July 25, 2012 local experts [REDACTED] started working on developing sections of the manual on government policies and regulations. [REDACTED] is developing sections of the manual related to the Uzbek export policies and regulations.

Selected Pilot Firms to Supply the DOD and Provide them Technical Assistance

Starting from April 2012, REC has been working with pilot firms to increase their capacity to supply to DOD. The Project evaluated firms with the highest potential to meet DOD standards in certifications, quantity, and quality requirements in Kazakhstan and Uzbekistan. We identified 3 pilot companies in Kazakhstan (Agrotex, Tsesna Astyk, and RG Brands Almaty) and 5 pilot companies in Uzbekistan (Fayz, Gerfed Impeks, TBS-GROUP, AGRO BIO KIMYO, Marwin Brands) as potential suppliers to the DOD. During this reporting period, we developed action plans for 2 pilot companies Tsesna Astyk (Kazakhstan) and Fyaz (Uzbekistan).

All pilot companies have been involved in REC activities, are members of EPG of Suppliers to DOD, and have participated in REC training and seminars. Supreme Foods advised Tsesna-Astyk (Astana) to introduce ISO 22000 certification for its macaroni production unit in order to supply to DOD Afghanistan. Once Tsesna receives the certification, it will be ready to sell macaroni to Supreme Foods. Uzbek Fayz and RG Brands are in negotiations with TWI and VETCOM respectively to verify if they are ready to become DOD suppliers, and if not, to determine the action plan to follow.

On June 12, 2012, the REC team in close cooperation with Component 1 Leader, created the supplying to the DOD EPG. This EPG includes potential suppliers and pilot companies. REC developed the EPG action plan as a mechanism to facilitate interaction among pilot firms, potential suppliers and the DOD to improve the understanding of the DOD contracting process and specific requirements (sanitary, other audits, etc).

Cooperation with DLA and CENTCOM JTSCC

On April 24, 2012, the REC team, representatives from DLA, GSA, JTSCC, PVs, and suppliers participated in the industry symposium organized by AmCham, DLA, and Ministry of Economy of Kyrgyzstan. REC also met with USAID KLDP representatives to coordinate activities on exporting to DOD.

On May 17, 2012 the Project team met with USAID TAFE representative [REDACTED] and discussed the possibility of jointly organizing the CA Trade Forum in September 2012, and supporting participation of Afghan firms at the event.

Upcoming activities

- September 2012: Finalize the “How to export to DOD” manual
- July 2012: Further evaluate firms with the highest potential to meet DOD standards in certifications, quantity, and quality requirements, and prepare a shortlist of firms that are potential suppliers in Uzbekistan and Kazakhstan
- September 2012: Assist JTSCC, DLA and GSA in logistics issues, developing the list of participants and companies for Industry Day in Almaty and Tashkent, as agreed with JTSCC

SUMMARY OF ACTIVITIES IN UZBEKISTAN

Component 1

- REC held an EPG meeting on supplying to DOD on June 12-13 in Tashkent. During the meeting 11 companies signed a memorandum on establishing an EPG and further cooperation. The EPG developed a work plan for upcoming events and means of cooperating.
- On June 26, REC and the Business Women’s Association of Uzbekistan co-hosted a roundtable that brought government officials, companies, and trade experts together for a frank exchange on improving export prospects for Uzbek firms. The Ministry of Foreign Economic Relations and Trade’s small business export facilitation agency “Uztradbirkoexport”, the State Customs Committee, and “Uzstandard”, the agency responsible for monitoring adherence to national and international standards for goods and services represented the GOU Each GOU agency made a presentation and willingly answered a range of questions from companies and trade experts. At the conclusion of the event, “Uztadbirkorexport” offered its support in hosting future networking and information sharing events focused on specific export sectors. The Uzbek agency also proposed expanding the geographic reach of USAID’s trainings by helping to convene firms in the regions for similar roundtables.
- [REDACTED]
- [REDACTED]

Upcoming activities:

- Establishing an EPG for supplying to the Custom Union (Kazakhstan, Russia, Belarus)
- Organizing a training “How to export to the Custom Union” for Uzbek entrepreneurs
- Capacity development of Uzbek companies, participants of the EPG “Exporting to DOD”

Component 2

The Project selected and presented candidates for IVLP program to USAID. In addition, REC has negotiated collaboration agreements on cooperation with:

- Trade and Industrial Chamber of Uzbekistan
- Business Women Associations
- Defense Logistics Agency in Uzbekistan
- Asian Development Bank
- Business Forum of Uzbekistan, UNDP project under CCI
- Support to Foreign Trade and Investment Promotion in Uzbekistan under MFAR
- American embassy
- AmCham
- Association of business logistics

Upcoming activities:

- Develop and implement the technical assistance plan for the Chamber of Commerce in Uzbekistan
- Support the implementation of the action plan of the Export to the DOD from Uzbekistan

Component 3

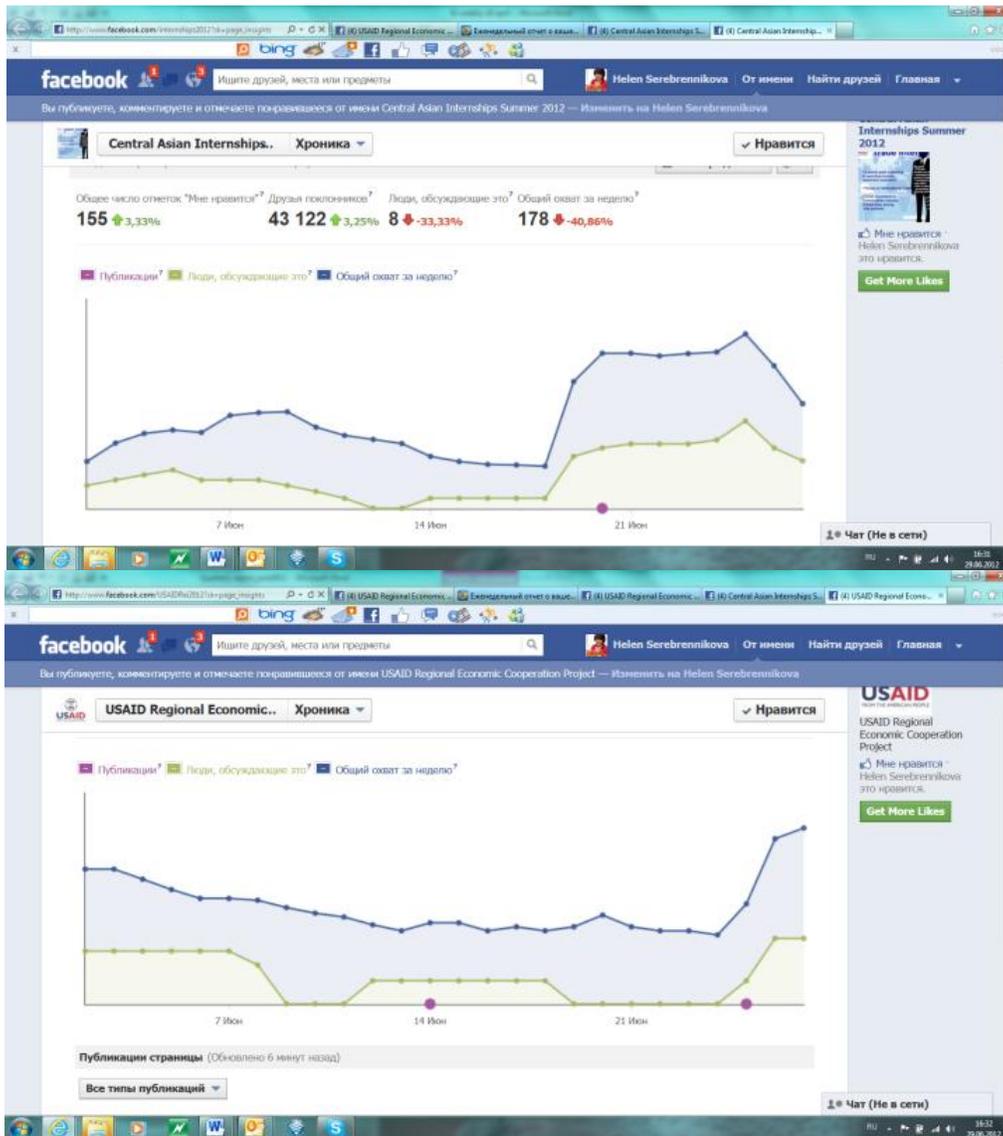
- The REC Project has prepared first drafts of 2 chapters of the “How to export to DOD” manual on the economic background and export procedures in Uzbekistan. These chapters provide a deep analysis of the economic situation and the regulatory policy in the Republic of Uzbekistan.
- The team finalized the survey on barriers for supplying to DOD.
- The Project completed the survey among 25-30 exporters, and selected perspective exporters for supplying to DOD. [REDACTED]

Upcoming events

- Facilitate completion of trade deals to supply to DOD among selected perspective exporters, and provide other consulting support to complete the deals.
- Collect and process information, statistics and legislation needed for writing Chapters 2 and 3 of the “How to export to DOD” manual.

COMMUNICATIONS

During the reporting period the Communications and Grants Manager made focused on publicizing the REC Project. She established good relations with the media: TV, print, and Internet. She created and continually updates accounts in social media, such as Facebook. Please see the statistics from our pages below.



The Project has developed the structure and design of the corporate web-site, and uploaded content in English and Russian. [REDACTED]

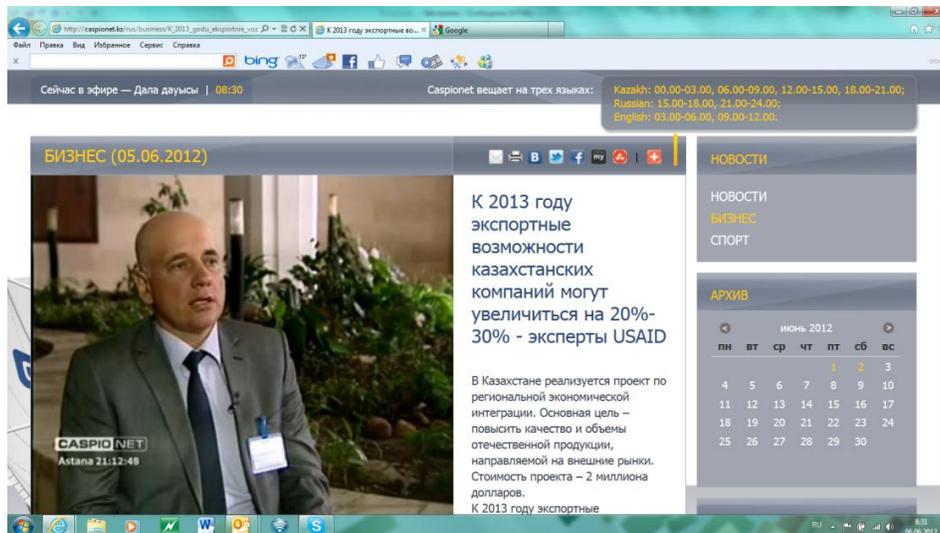


During the reporting period, the communications and Grants Manager drafted, uploaded to the website, and released six press-releases to the media.

19 media outlets, of which 2 TV channels (Caspionet and Yoshlar) and one radio station carried news about our events based on our press-releases. All publications and broadcasting have been made on a free-of-charge basis. This represents significant savings, given that 1 minute on air in prime time on Khabar TV costs 1 million KZT; Caspionet TV channel, a subsidiary of the Khabar Agency broadcast information about the EPG training sessions in Russian for more than 2 minutes, and for approximately 2 minutes in English in prime time.

REC performs media monitoring on a regular basis. Please see below screen shots from some media clippings:

Caspionet TV channel (Russian version) broadcast on June 5, 2012.



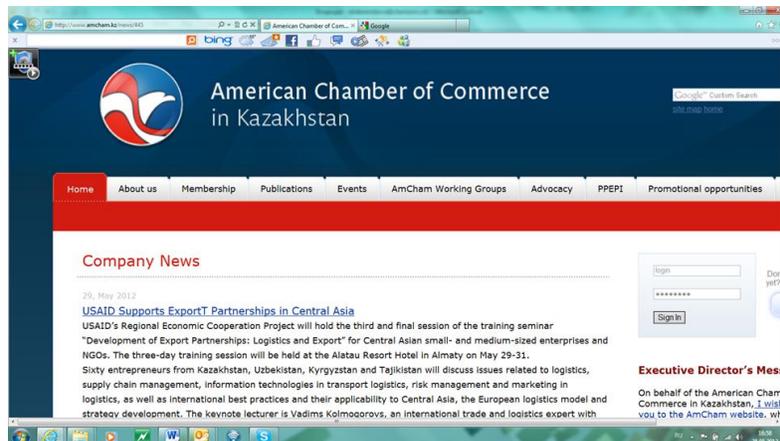
Caspionet TV Channel (English version) broadcast on June 11, 2012.



USAID/CAR website carries information about REC EPG training.



American Chamber of Commerce in Kazakhstan website carries information about REC EPG training.



Uzbek TV channel Yoshlar (Round Table in Tashkent) broadcast on June 26, 2012.



Other activities

- The Communications and Grants Manager regularly updates the Project's presentations, one-pagers, and website (English and Russian versions).
- In order to ensure wide media coverage of the upcoming CATF, REC invited 3 Kazak companies to bid on providing PR support, and is currently waiting for their quotes.
- REC has participated in the 8th International PR Forum and USAID's Communication session.

Upcoming Activities:

- Provide PR support to the launch of the IBM Corporate Service technical assistance program, as well as arrange publicity for the internship program.
- Launch of project website The Project plans to provide media coverage of the CATF.