

**USAID/Central Asian Republics Regional
ANNUAL REPORT FY 2003**

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A. Program Level Narrative

Program Performance Summary:

BACKGROUND: What are now the sovereign territories of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan were created by Soviet dictator Josef Stalin in the 1920s to divide and conquer the Central Asian peoples. The artificial boundaries separated communities, created ethnic enclaves, and disrupted patterns of trade and movement. With the collapse of the Soviet Union in 1991, these unnatural dividing lines became international borders. In the Ferghana Valley, the agricultural heart of Central Asia, for example, international demarcations in some cases divide a village in half or create enclaves of one country within another. To compound the tension, Uzbekistan, which is bordered by the other four Central Asian republics and Afghanistan, has militarized its borders in an attempt to combat the threats of terrorism, drug smuggling and unsanctioned trade. Several shootings of civilians by border guards take place every year. The tensions at border crossings are further exacerbated by corruption among customs officials and excessive procedures for cross-border transit.

Especially relevant for the region is the question of how states can balance their commitment to move along the path of increasing democratic freedoms, while at the same time responding to the security threat posed by Islamic extremism. None of the regimes in the region have had a regime change since independence; the presidents have used referenda and elections to extend their terms to 11 years. All of the regimes are authoritarian, although the political systems in Kyrgyzstan and Tajikistan are more open than the rest. Despite a common history and traditional economic ties, the Central Asian republics since independence have taken differing approaches to economic development. Turkmenistan remains the least reformist and most closed, while Kazakhstan has embarked upon serious market reforms. The countries' natural resource wealth also varies greatly. Kyrgyzstan and Tajikistan have abundant water resources (but little else), while Kazakhstan and Turkmenistan have abundant oil resources. Both Turkmenistan and Uzbekistan also have large supplies of natural gas. Shortly after independence, Tajikistan was devastated by a five year civil war, which caused a tremendous setback to the country's development. Regional cooperation in trade and sharing of natural resources (i.e. water and energy) has not been as effective as it could be.

Increasing injecting drug use, criminalization of the economy, rising rates of HIV/AIDS and other infectious diseases also plague Central Asia, which is situated along the drug route to Russia and Europe. Central Asia is facing a concentrated HIV/AIDS epidemic with overall prevalence of less than 1% among the general population, but over 5% for high risk-groups. The Centers for Disease Control and Prevention (CDC) serosurveillance data in Central Asia indicate that the total number of people living with HIV/AIDS is estimated to be about 90,000. Based upon projections for the year 2005, this number will rise to 1.65 million without concerted efforts to target interventions.

U.S. INTERESTS AND GOALS: The overarching U.S. goal for Central Asia is a stable, market-based democratic development to assure access to the region's substantial natural resources and to prevent the expansion of radicalism and the trafficking in weapons and narcotics. Central Asia is strategically important to the United States due to significant oil and natural gas reserves found in Kazakhstan, Uzbekistan and Turkmenistan. In the year and a half following the September 11 attacks, the five Central Asian republics have proven to be strong partners in the war on terrorism. Kyrgyzstan's support in the form of the vital coalition airbase in Manas and associated over flight rights were essential to allied successes in the Afghanistan, and Kyrgyzstan continues to be a strong strategic partner. Tajikistan is a frontline state in the fight against terrorism and narcotics trafficking. With a large and growing population, a potential for strong economic growth, and an important strategic location, Uzbekistan's economic and democratic development remains central to the future prosperity and stability of the entire region.

Regional funding is critical to USAID's ability to address key aspects of the development challenges that are trans-boundary and regional in nature. For example, trans-boundary energy is trying to modernize electric power development, water sharing and management schemes. Conflict prevention is occurring in communities, which straddle artificial, yet international borders. Regional funds also permit sharing of experiences, best practices and lessons learned from country specific programs to the region as a whole

for more effective capacity and institutional development. This is vital in such areas as the containment of the spread of tuberculosis, HIV/AIDS and more recently the problem of expanding malaria. Health reform, WTO accession and cross-border trade promotion activities have benefited from regional resources. Regional funds address regional problems, which is inappropriate to do from only one country specific program.

SUPPLEMENTAL FUNDS: With regional supplemental funding, USAID initiated an innovative program Community Action Investment Project (CAIP) that is designed to reduce extremism and ethnic- or resource-based conflicts. Funding was specifically used in southern Kazakhstan for community action programs in communities where risks of communal or religious conflicts are greatest will increase citizen participation in community decision-making and local government and mitigate conflict by promoting economic recovery and inter-ethnic cooperation. Regional supplemental funds were essential for the expansion of our micro-finance activities in Ferghana Valley of Tajikistan and Uzbekistan.

OTHER DONORS: Donor relations are detailed in individual country summaries. We work closely with bi-lateral and multi-lateral organizations to address country specific and regional issues. USAID works closely and very constructively with the World Bank, the European Bank for Reconstruction and Development and the Asian Development Bank on regional issues such as water, energy, trade and control of HIV.

CHALLENGES: The overall challenge in the region is to expand economic opportunities, strengthen civic and social organizations and improve public services to provide better livelihoods for citizens, thus contributing to stability in the region. Improving economic opportunities also involves improvements in the management of the region's wealth of natural resources to prevent their depletion. The lack of political, economic and social change, affecting employment opportunities and quality of life, may serve to intensify the radicalism and ethnic tensions that loom in many parts of Central Asia. The regional nature of many of Central Asia's development challenges requires coordinated and integrated assistance from USAID. In particular, decisions made regarding the use and management of water resources in one country has important implications for its neighbors. All five countries in the region are located in the Aral Sea Basin and depend on its water resources for irrigation, industrial and domestic use. Mismanagement during Soviet times led to a shrinking of the Aral Sea, and failure among these countries to coordinate water use in post-Soviet times could threaten to shrink the Aral Sea further and negatively impact on agricultural production. To prevent further ecological and economic disaster, it is important that all five Central Asian republics reach agreement on the allocation and use of this important resource. The resurgence of infectious disease is also a regional problem, as a disease outbreak in one country could lead to the resurgence of this disease in a neighboring country. The incidence of tuberculosis and HIV/AIDS have increased dramatically in all countries in Central Asia, and a failure to prevent the spread of malaria from Afghanistan to Tajikistan has now resulted in a malaria problem that has already grown into a regional threat. Coordinated regional efforts are needed to effectively deal with these health threats. Trade barriers in one of Central Asian republic are a threat to the economic well-being and stability of the entire the region. All five countries in the region need better access to business and economic information to facilitate the creation of improved economic opportunities and employment.

KEY ACHIEVEMENTS: USAID utilized regional funding to foster economic growth, expand trade and investment, promote democratic reform, improve health care, and mediate environmental degradation help to improve the lives of citizens in the five Central Asian republics. Citizens benefit from increased economic opportunities, including access to credit and jobs. They are also more informed of their democratic and legal rights as a result of USAID's civil society, media, and rule of law programs. Health care reform strengthens primary health care, the care that is closest to people, and families are better informed about healthy lifestyle choices through mass media campaigns and community-based health education. USAID's efforts to improve the management of Central Asia's natural resources also benefit ordinary citizens by encouraging the economically rational use of energy and reducing energy and water losses. Regional funds permitted the sharing of best practices and addressing trans-boundary issues which couldn't have been as easily accomplished under an exclusively country specific approach to USAID resource programming and use.

1. IMPROVED MANAGEMENT OF NATURAL RESOURCES: Pilot demonstration models, along with training and public outreach, are now underway in the region. When completed, they will provide managers and policymakers with more transparent, efficient and sustainable means to utilize the region's natural resources. Work with the National Hydromet Services has already led to the creation of a region-wide system of water data collection and exchanges, which will lead to a fairer and more transparent system of planning and allocation. Each of the countries contributes data into this unified system, and this helps to improve region-wide the level of trust and coordination on water planning. This helps to avert conflict over water access.

2. STRENGTHENED DEMOCRATIC CULTURE AND INSTITUTIONS: With regional funds USAID augmented activities supported through individual country programs. Two major regional funded activities, MASHAV Women's Organizational and Leadership Training and the Open Asia weekly television program have just started, and it is too early to gauge their success. The MASHAV Women's Organizational and Leadership Training Program enhances the knowledge, competence and skills of Central Asian women. The second regional activity supported with regional funds is the production of Open Asia, a 30 minute weekly television program that is distributed and broadcasted by 40 privately-owned television stations in Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan and reaches millions of people in those countries.

Regionally there are several common issues, which apply to the development of democracy in Central Asia. Democratic political culture in Central Asia can only be realized with the evolution of participatory mechanisms for governance and an active civil society. Participatory governance remains a new concept in the region, and what dialogue exists between citizens and their governments is minimal. There has been a general lack of major reforms that protect freedom of speech and association or transparent and democratic processes. Overtly political civic organizations and political parties that would encourage citizen engagement in the political process continue to face strong resistance and even periodic repression from most Central Asian governments.

3. CONFLICT PREVENTION: By the end of FY 2002, the CAIP implementers were already working in over a hundred communities in the Ferghana Valley, Rasht Valley, and other potential hotspots throughout Central Asia, including transboundary communities. These communities are considered to be especially vulnerable to conflict by virtue of their geographic location, access to natural resources, ethnic make-up, and in some cases a history of tensions. Through this initiative, groups representative of various cross-sections of the community are formed to identify and prioritize sources of tension and work together to rectify those sources. In some cases, these sources are as simple as a broken gas or water distribution system, or a school or clinic rehabilitation in an otherwise neglected neighborhoods, which in many cases straddle national borders because of artificial delineations.

4. IMPROVED ENVIRONMENT FOR SMALL AND MEDIUM ENTERPRISES: In FY 2002 USAID's accounting reform program began to introduce international certification for two new internationally recognized classifications for accountants: Certified Accounting Practitioners (CAP) and Certified International Professional Accountants (CIPA). USAID established the Certified International Professional Examination Network (CIPA-EN) to deliver accounting examinations that conform to international standards. For exam administration, CIPA-EN collaborated with American Councils for International Education (ACIE/ACTR/ACCELS), which administers standard US exams such as the GMAT and TOEFL across the Former Soviet Union. The International Accounting Standards Committee Foundation (IASCF) endorsed the CIPA program and is represented on the CIPA-EN Board of Directors, while the American Institute of Certified Public Accountants (AICPA) has reviewed CIPA-EN's administration and grading procedures and found them satisfactory.

To further bolster this program, USAID provided financial support and technical support to establish the International Council of Certified Accountants and Auditors (ICCAA), which include 12 members from Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, Ukraine and Russia. ICCAA has endorsed the CAP/CIPA program as the technical requirement for individual members of ICCAA's member associations. The Institute of Management Accountants (IMA) in the US has applied for membership in ICCAA. ICCAA requires its member associations to comply with standards and guidelines issued by the

International Federation of Accountants (IFAC). In the education arena, Junior Achievement made progress in exposing young people to free market principles.

5. INCREASED ACCESS TO QUALITY HEALTH CARE: Regional funding generally used to supplement and/or start new activities, which affect more than one country. Regional efforts primarily were focused on infectious diseases (which know no borders), particularly HIV/AIDS, and activities that benefit women and children. Important regional meetings to share information and lessons are served by regional funding. Condom social marketing programs to improve access and information about HIV infections have been established in Kazakhstan, Kyrgyzstan. Women and children throughout Central Asia benefit from improved access and quality of health care provided through a newly awarded maternal and child health and reproductive health project, which has recently begun. This new project is focused primarily in Uzbekistan and Tajikistan, but regional funds will allow experts from other Central Asian Republics to participate in workshops, state of the art conferences and dissemination of newly developed materials.

CONFLICT VULNERABILITY: Much of USAID's regional funding for assistance programs works toward reducing the likelihood of conflict emerging in Central Asia-whether as a result of Islamic extremists such as the Islamic Movement of Uzbekistan (IMU) and others, or disputes over resources that could take place at the international or inter-ethnic level. Conflict vulnerability assessments to better inform USAID resource uses on key issues were conducted in Uzbekistan in fall 2001 and in Kyrgyzstan in spring 2002. These assessments examined the potential causes and sparks that could lead to conflict, and how USAID programs are working to mitigate those sources. A principal recommendation of the assessments was increased focus on urban areas and youth. Our conflict prevention activity is examining how this might be incorporated into expanded programs. Vulnerability assessments will be conducted for the other countries, as appropriate, in the coming years. The threat of conflict resulting from extremism has been greatly reduced with the war on terrorism.

GENDER: Studies show that Central Asian women bear the brunt of economic transition marked by increasing unemployment, alcoholism, sexually transmitted diseases and domestic violence, amidst declining social services. USAID has placed greater emphasis on addressing gender inequities over the past several years to achieve more effective and better-targeted activities that will enhance opportunities for all citizens to participate in the region's economic and social development. Under USAID microfinance programs in Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan, approximately 90% of all micro-loans go to women, who are unable to secure financing from the formal financial sector for both start-up and established enterprises. USAID's anti-trafficking program in Kazakhstan and Kyrgyzstan will be expanded to Uzbekistan, Tajikistan and Turkmenistan. Regional funds will be used assess the trafficking problems in Central Asia and design a new USAID funded initiative. Additionally, regional funds will support region-wide networking, coordination and information activities for the new program.

TRADE CAPACITY BUILDING: Trade among Central Asian countries is vital to their economic growth; yet, cross-border trade remains difficult at best. International trade has been severely constrained, and in some cases halted entirely. USAID has several programs to facilitate trade and build capacity among entrepreneurs. All of these efforts are funded through bilateral programs, even though they have a regional impact. One example of this is the Regional Trade Promotion (RTP) network, which provides Central Asia's SMEs with an Internet-based marketplace linking buyers and sellers to increase regional and international trade. In Uzbekistan, at least 29 trade deals can be attributed to the RTP. In Tajikistan, one Dushanbe firm took advantage of these services to complete a \$22,000 import deal on macaroni drying equipment. As a result, the firm anticipates increased production of up to 80%, and the need for four additional employees. Another example of trade capacity building are the Enterprise Development Centers, which serve as important hubs of business information, training and advisory services for entrepreneurs and have been critical in linking entrepreneurs to new markets and trade partners.

Environmental Compliance: During the past year, all of the activities across the Mission were brought into full compliance with the Agency's environmental regulations (22CFR 216). This includes all the Mission's activities in Kazakhstan. Initial Environmental Examinations (IEE) were completed and cleared by the Mission Director and the Bureau Environmental Officer for the Crosscutting SO, 4.2. These include the following programs, Community Action Investment Program, the Education Program,

Participant Training, and Peaceful Communities Initiative. The IEE for SO 2.1, Strengthened Democratic Culture Among Citizens and Targeted Institutions, was amended so that the Community Grants Program was brought into full compliance. Likewise, SO 1.6, Improved Management of Critical Natural Resources, Including Energy, now has an approved amended IEE so that all of the activities of the Transboundary Water and Energy and the projects funded by the Special Initiative funds are in compliance. Other IEEs approved earlier than the past year include: SO 3.2, Increased Access to Quality Primary Health Care for Selected Populations; and SO 1.3, Improved Environment for the Growth of Small-Medium Enterprises. These did not need amending. As a result of these actions, the Mission is now in full compliance.

Although the Mission is planning on several new procurements for the next year, there are not any new 216 actions anticipated. This is due to the fact that the IEEs were approved on the SO level and the new procurements are not significantly different from the already approved activities.

Country Closeout & Graduation:

D. Results Framework

176-0131 An Improved Environment for the Growth of Small and Medium Enterprises

1.3.1 Increased Opportunities to Acquire Business Information, Knowledge, and Skills

Discussion: For all strategic objectives under the regional program, indicators are measured at the country level and not at the regional level.

176-0161 Improved Management of Critical Natural Resources, Including Energy

IR 1.6.1 Increased management capacity in natural resource sector

IR 1.6.2 Improved policy and regulatory framework

IR 1.6.3 Sustainable models developed for integrated natural resources management

IR 1.6.4 Public commitment established for natural resources management policies

Discussion:

176-0211 Strengthened Democratic Culture among Citizens and Target Institutions

2.1.1 Stronger and More Sustainable Civic Organizations

2.1.2 Increased Availability of Information on Civic Rights and Domestic Public Issues

Discussion:

176-0320 Increased Utilization of Quality Primary Health Care for Select Populations

IR 3.2.1 Select populations are better informed about personal health care rights and responsibilities

IR 3.2.2 Improved quality of health care including infectious diseases and maternal and child health

Discussion:

176-0420 Cross-Cutting Programs

Discussion: The cross-cutting objective includes activities which affect programs across sectors and in support of other strategic objectives. Indicators are not developed for the crossing-cutting objective, although individual activities are monitored for progress.

Beginning in FY 2003 day to day management of the conflict prevention activity will be transferred to the Office of Democracy and Media. For the FY 2003 conflict prevention will be funded and reported on under the cross-cutting objective as we develop a special objective for conflict prevention beginning FY 2004. The participant training activities, Eurasia Foundation and program support will continued to be managed by the Program Support Office under the cross-cutting strategic objective.