

The DRAFT Central Asia South Caucasus and Moldova (CASCAM) Regional Assistance Plan is now available for wider consultation.

If you wish to comment on the draft RAP, please contact Roy Trivedy, CASCAM Section Head.

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CENTRAL ASIA SOUTH CAUCASUS & MOLDOVA (CASC M) DRAFT REGIONAL ASSISTANCE PLAN

Introduction

The countries of Central Asia, the South Caucasus and Moldova are amongst some of the poorest in the world. They present a challenging set of social, political, economic and developmental issues for their governments, populations and the international community. While the countries do not form a self-defined group, they are all struggling with the challenges of state building, and have a common goal of establishing functioning market economies as they continue their transition from the Soviet system.

The CASC M countries are geo-politically important. They border Russia, Europe, the Middle East, China and Afghanistan and, together with their substantial energy resources, they provide an arena for competing interests. Many countries have precarious political environments – as Georgia's 'rose revolution' illustrated – and there is considerable potential for outbreaks of violent conflict.

The Strategy Process

1. DFID has been working in the region for the past 10 years. Our previous Regional Strategy was prepared in 2000. Since then, a variety of changes in the international development system and in the policies of the UK Government have resulted in the need to update the strategy.
2. Our new strategy covers the period from 2004-2007. The process that we have undertaken to prepare this strategy is summarised at **Annex 1**. The process is being carried out in three phases:
 - An independent Review of our work over the past 3 years¹. This involved consultations with partners and key agencies in CASC M countries and in London;
 - Drafting of the Regional Assistance Plan (RAP) involving all staff in the CASC M team from September 2003; the on-going development of the Country Implementation Plans (CIPs) for 2004-2007 from November 2003 to February 2004.
 - Consultation within DFID and with key external stakeholders (including civil society organisations and UK Parliamentarians) February 2004

CASC M: Overall Context

3. Transition to a market-based economic system has been extremely difficult in all the CASC M countries. The withdrawal of Russian subsidies following

¹ Carried out between July-September 2003 by Oxford Policy Management – available on request

independence, together with changes to inter-republic trade arrangements, led to a dramatic reduction in production in the early nineties. This decline in cooperation between countries in the region was exacerbated by armed conflicts and border disputes affecting several countries in the region. In most CASC countries, production decreased by more than 50% between 1990 and 1994/5². This was accompanied by a decrease in wages and an increase in income inequality. Since 1994/5 the economic situation has improved slightly but only Uzbekistan has regained its 1990 level of GDP, whilst Georgia, Moldova, Kyrgyzstan and Tajikistan still languish below 50% of the levels attained in 1990.

4. The World Bank has reported considerable difficulty in establishing baselines and measuring progress towards the **Millennium Development Goals** (MDGs) in CASC. They are concerned that the data collected often does not reflect the true picture and is invariably insufficiently comprehensive to measure progress and predict trends. Based on the limited trend data and estimates of future growth prospects available, there is no prospect of halving **poverty levels** by 2015, with only a slim chance of achieving many of the other MDGs. Tajikistan in particular is predicted not to meet any of the MDG targets. All of the CASC countries will fail to meet at least 3 of the targets. **A summary of each country's progress against the Millennium Development Goals can be found at Annex 2.**

Poverty Profile

5. Kazakhstan and Turkmenistan aside, all CASC countries are classified as low income. The percentage of those who live on less than \$2.15³ per day varies from under 6% in Kazakhstan to 68% in Tajikistan. Tajikistan and the Kyrgyz Republic all have per capita incomes below the average for low-income countries.

Table 1: Population and Income Data for CASC

Country	Income per capita (US\$ 2002)	Population size 2002	% Below national poverty line*	% Below \$2.15 per day 1998/9
Armenia	790	3,072,000	47	44
Azerbaijan	710	8,184,340	50	24
Georgia	650	5,177,000	23	19

² It should be noted that the decline in economic growth during the early nineties may have been over-estimated and the subsequent increase in growth underestimated, as the figures are unlikely to capture the informal sector - estimated to be between one third and two thirds of GDP depending on the country.

³ The \$1 (\$1.08) a day poverty line is not appropriate for Europe and Central Asia, due to the higher needs for heating, clothing and food, in a cold climate. Because of this, the WB and others use a poverty line of \$2 (\$2.15) a day for the Europe and Central Asia region

Kazakhstan	1,510	14,794,830	35	6
Kyrgyz Republic	290	5,003,890	56	49
Moldova	460	4,255,010	62	55
Tajikistan	96	6,315,660	96	68
Turkmenistan	n.a	5,545,360	n.a	44
Uzbekistan	450	25,391,440	28	44

Source: WB "Making Transition Work for Everyone", World Development Indicators (WDI) and other World Bank estimates. Note: National poverty lines are based on Government estimates apart from Georgia, which is based on WB methodology.

6. Before 1991, those most at risk of being or becoming poor in the CASCM countries included; households with a large number of children, particularly pre-school children; pensioners who lived alone with no other source of income and single parent families.
7. At independence, all of the CASCM countries inherited high levels of human capital. Education and health care were universal and were provided free at the point of delivery (normally by state owned enterprises). Since then there has been a decrease in public expenditure on education and health. In several countries, Tajikistan and Georgia in particular, government spending on social services is now so low that it is having a negative impact on education and health provision. New sections of society are experiencing increased poverty including: the working poor; the long term unemployed; agricultural workers; young people in search of their first job; and, increasingly, economic refugees and persons displaced as a result of civil conflict. Throughout CASCM most poor people continue to live in rural areas although there is now an increasing proportion of urban dwellers who face significant levels of poverty.
8. Data on the **gender equality MDG** targets in CASCM presents a mixed picture. It is evident that gender inequality exists in secondary and tertiary education, but data on primary education enrolment is less conclusive. More positively, male and female youth literacy rates are equal and the proportion of women participating in the labour force lies between 45 and 50 per cent for each country.
9. A large-scale **HIV/AIDS** epidemic is considered imminent in Central Asia, following a similar pattern to that experienced in Russia and Ukraine where the epidemic has expanded rapidly within high risk populations, particularly intravenous drug users, and threatens to become a 'generalised epidemic' (affecting all groups in society). Central Asia represents the main drugs transit route from Afghanistan to Europe and Russia. Unless Central Asian countries significantly increase their commitment to addressing the problem through their national responses, the Central Asian countries in particular are highly unlikely to meet the relevant MDG target and progress towards other MDG targets will also be significantly affected.

10. All of the CASC countries also face serious challenges if they are to achieve the objectives of ensuring environmental sustainability, notably integrating the principles of sustainable development into country policies and programmes and improving access to safe drinking water and sanitation. Data on environmental issues in CASC is generally regarded as unreliable, which makes it difficult to assess the scale of the task. The lack of regional cooperation in addressing these issues in Central Asia or the South Caucasus makes the task more difficult.

The Challenge

11. If current trends continue, few of the CASC countries will achieve the majority of the MDG targets by 2015. In terms of future economic potential, there are considerable variations amongst the CASC countries. Azerbaijan, Kazakhstan, Uzbekistan and Turkmenistan all have significant oil or gas reserves - the critical challenge in these countries is how those high value resources can be managed to reduce poverty and promote sustainable and equitable growth. The other countries however all lack significant levels of high value natural resources. But Moldova's location on the edge of Europe provides political and economic opportunities lacked by countries such as Kyrgyzstan. It is also one of the countries included in the EU's New Neighbours Initiative.⁴

12. The foreseeable risks to successful reforms and poverty reduction in CASC include:

- Re-emergence or escalation of national and regional conflicts (e.g. Armenia-Azerbaijan, Georgia and Moldova)
- Likelihood of a major natural disaster affecting CASC and little disaster preparedness or response capacity
- Political instability, insufficient government capacity or lack of political commitment
- Unwillingness of key development institutions to collaborate and provide assistance in support of PRSPs
- HIV/AIDS
- BTC 'resource curse'/Azerbaijan squanders its oil wealth

13. The ways in which we intend to mitigate these risks are:

- Making conflict prevention and peace-building one of the three core themes of our programme

⁴ : In terms of membership of the World Trade Organisation: Armenia (acceded 05/02/03); Georgia (14/06/00); Kyrgyz Rep. (20/12/98); Moldova () 26/07/01). Several countries currently have observer status (applications submitted and working group established) including: Azerbaijan (applied 30/06/97); Kazakhstan (29/01/96); Tajikistan (29/05/01); and Uzbekistan (08/12/94).

- Analysing current gaps in international support with respect to natural disaster prevention and preparedness (underway) and encouraging others to increase their efforts where necessary
- Systematically engaging in collaborative work with others to better understand the drivers and constraints to reform processes. This work should include greater political analysis.
- Strengthening our relationships with other development actors, by prioritising improved donor coordination and supporting PRSPs
- Main-streaming HIV/AIDS within DFID's national programmes and developing a regional programme of support in Central Asia
- Improving the quality of our relationships with other parts of DFID and other Government Departments.

14. Our analysis shows that even in countries where there are significant economic opportunities, we are unlikely to see most MDG targets being achieved unless three critical barriers to equitable and sustainable growth are addressed in the near term. These critical barriers are:

(i) Governance

15. Throughout CASC countries the **governance** environment is the major obstacle to poverty reduction. The Soviet legacy has left CASC countries with weak institutions and even weaker policy-making capacities. Corruption is endemic. Transparency International's Corruption Perception Index for 2003 reports that the CASC countries are among the most corrupt in the world – all of the CASC countries at or below 3 on a scale of 1 to 10, (where 10 = least corrupt). Ranking countries from least corrupt (1) to most corrupt (133) the positions and scores for CASC countries are outlined in Table 2 below. This has impacts at all levels, including on the access of poor people to basic services.

Table 2: Transparency International's Corruption Perception Index 2003

Country	Corruption Perception Ranking	Corruption Perception Score
Armenia	78	3
Kazakhstan	93	2.4
Moldova	93	2.4
Uzbekistan	93	2.4
Kyrgyzstan	118	2.1
Azerbaijan	124	1.8
Georgia	124	1.8
Tajikistan	124	1.8
Turkmenistan	Data unavailable	1.8

16. In most CASC countries there is a lack of institutional stability which results in key political actors reacting to every change in the balance of power. The judiciary suffers from poor capacity and institutionalised corruption, denying access to justice for those without the ability to pay. There is little respect for the rule of law and populations have largely lost faith in both the ability and willingness of governments to govern in the interests of their citizens. Mechanisms to enable citizens, and in particular the poor, to hold the state to account are under-developed. Civil society organisations – where they are permitted - are not strong in supporting these processes.
17. Discontent with poor governance was a major contributory factor in the popular uprising in November 2003 in Georgia, which led to the Shevardnadze administration being peacefully overthrown in the 'rose revolution'. There have been ripple effects of these events throughout CASC, but it is too early to predict the long-term impacts. There does, however, appear to be a 'window of opportunity' in some countries to work on governance issues.

(ii) Economic Growth

18. The **private sector**, critical for long-term sustained growth, is still nascent in all the CASC countries. Essential supply-chain linkages and trading opportunities are limited by weak regional cooperation. For example, Uzbekistan has closed its borders to trade which has had negative impacts on its neighbours. Further, in Central Asia, water is critical for agricultural production and energy generation and the effective management of shared water resources would provide opportunities for sustainable growth. However, weak cooperation caused by distrust between neighbouring governments results in these systems working extremely poorly. There is little effective bilateral or regional cooperation in Central Asia and in the South Caucasus.
19. The business environment and investment climate in CASC countries is generally poor. All the countries have introduced reforms aimed at establishing market economies from the fractured Soviet systems. However, even where legislation is much improved, implementation is patchy. Endemic institutional weakness and governance problems mean that the private sector operates in an environment where property rights are ill-defined and unprotected, bureaucracy is ever-present and corruption rampant. These factors severely impede economic activity.
20. To date, economic growth has not generated a sufficient increase in employment within the CASC countries. There are relatively few large (privatised) firms and multinationals, and some micro and small enterprises. At present these firms are unable to absorb the high unemployment levels generated from the closure of the former state-owned enterprises and the arrival of new workers entering the job market. There is a pressing need for improved economic policy, and for the work of

the International Financial Institutions that support economic development to be better integrated with national poverty reduction strategy processes.

21. At the end of 2000, the **external debt** of the five most indebted countries in the region (Armenia, Georgia, Azerbaijan, Moldova and Tajikistan) averaged about \$252 per capita and 74% of GDP. In 2002 the International Financial Institutions launched a new initiative to draw attention to the plight of the seven low-income CIS countries (the CIS-7 initiative focuses on the five countries mentioned above plus Uzbekistan and the Kyrgyz Republic). It was noted that these countries faced particularly difficult transition processes and that their pressing debts threatened macro-economic stability and poverty reduction efforts. A high proportion of the debts owed by these countries were either to Paris Club creditors or to Russia (although Tajikistan also continues to owe significant amounts to Uzbekistan and Kazakhstan). Debt service is expected to remain high relative to both export earnings and to government revenues (only Armenia currently has an effective debt management strategy). As a result, the CIS-7 countries are likely to remain highly dependent on large-scale transfers and concessional loans from the donor community. Debt relief could help to ease this dependence in some cases; the Kyrgyz Republic and Moldova are closest to receiving HIPC assistance.

(iii) Conflict

22. All CASCM countries have been – and continue to be – affected by some level of **political instability** and/or **armed conflict**. This is compounded in Central Asia by the continuing instability in nearby Afghanistan. Tensions still remain in Tajikistan, Turkmenistan and Uzbekistan. The 'no peace/no war' situation in many CASCM countries promotes the growth of parallel economies, contributing to increased corruption and poverty, and in some cases is linked to terrorism. As is frequently the case in such circumstances, respect for **human rights** has deteriorated and is a serious concern.
23. The resolution of these conflicts is a necessary component of sustainable poverty reduction in CASCM. Conflict diverts expenditure and impedes domestic and foreign investment; in Georgia and Moldova, unresolved conflicts with secessionist territories have also reduced budget revenues. It is estimated that smuggling through South Ossetia into Georgia deprives the Georgian budget of up to 50% of its trade revenues.

Box 1: Summary of Armed conflicts in the CIS-7

- *Armenia and Azerbaijan:* As a result of the war over the territory of Nagorno-Karabakh (1988-94). About one million people have been uprooted from their homes. There are continuing tensions between the two countries.
- *Central Asia - The Ferghana Valley:* There has been on-going tension in the Ferghana Valley, which straddles the borders of Kyrgyzstan, Tajikistan and Uzbekistan. Events escalated in 1989 when violent outbreaks led to hundreds of deaths and extensive damage to property. The level of tension has reduced in recent years but the potential for a significant flare-up of conflict continues.
- *Georgia, 1990-94.* Fighting in South Ossetia in late 1990 resulted in the displacement of 50,000-90,000 people. This was followed by conflict in Abkhazia when thousands were uprooted. The situation began to stabilise in 1994, although serious tensions remain.
- *Moldova 1992.* Following a short and intense conflict, the country split with the area of Transnistria declaring independence. Transnistria contains much of the industrial base of the country. The division of the country has continued. To date a political settlement remains elusive.
- *Tajikistan 1992-97.* The civil war in 1992-3 was followed by continuous unrest until the signing of the peace accord in 1997. It is estimated that during this period 50,000 lost their lives and up to 700,000 people were displaced. Intermittent unrest continues and refugees continue to return from other countries of the CIS.

Progress on Poverty Reduction Strategies

24. Some countries have sought to counter the barriers to progress outlined above through the development of Poverty Reduction Strategies. To date, Armenia, Georgia, Kyrgyzstan and Tajikistan have produced Poverty Reduction Strategies and Moldova's is nearing completion. A recent report from the Overseas Development Institute's PRSP Monitoring and Synthesis Project⁵ noted that in most cases, equitable growth, employment and social welfare are higher political priorities for Governments in CASC than 'poverty reduction'. DFID has been instrumental in supporting the development of the Poverty Reduction Strategy Papers (PRSPs). The PRSPs have encouraged more strategic, multidimensional thinking about these issues and promoted some prioritisation and costing of policies. They have also created important opportunities for a degree of civil society participation and improved coordination (both within government and with donors).

Table 3: Summary of CASC Countries that have PRSPs in place.

Country	Stage of PRSP	Lead Authority	PRGF?	MTEF?
Armenia	Interim PRSP	Min. of Finance	Yes ⁶	Yes
Azerbaijan	I-PRSP	Min. for Economic Dev.	Yes ⁷	Planned
Georgia	Draft Full PRSP ⁸	State Chancellery	Yes	No
Kazakhstan	No PRSP			

⁵ PRSP Synthesis Note 6, February 2003 – www.prspsynthesis.org

⁶ Armenia's Poverty Reduction Growth Facility (PRGF) was agreed with the IMF in May 2001 but has since been suspended from time to time.

⁷ Azerbaijan's PRGF was agreed in July 2001 but is currently suspended.

⁸ Georgia's PRSP is called the Poverty Reduction and Economic Growth Program of Georgia.

Kyrgyz Rep.	Full PRSP	Min. of Finance / Presidency	Yes	Underway
Moldova	I-PRSP ⁹	Coordination Council	Yes	Planned
Tajikistan	Full PRSP	Presidential Working Group	Yes	MTBF ¹⁰
Uzbekistan	No PRSP			

25. The Overseas Development Institute's PRSP Monitoring and Synthesis Project report also highlighted the following common challenges relating to PRSPs in CASC:

- Limited government ownership: political commitment is often financially motivated; involvement is often limited to key ministries and officials
- Very limited national ownership beyond government
- Limited linkages to other planning exercises and budgetary processes resulting in insufficient resources allocated for implementation
- Weak implementation capacity
- Limited and sporadic involvement of Parliamentarians
- Vulnerability to disruption after electoral changes
- Participation hindered by low levels of trust between governments and citizens, and low civil society capacity to engage
- Limited participation of the poor in the consultation process

International Donor Assistance

26. The 'CIS-7 countries' are all heavily dependent on support from the IMF, the World Bank and the European Union. These institutions together with the USA and Japan account for 60-70% of ODA transfers to these countries. **Annex 2** sets out the level of ODA by donor and by country. The Asian Development Bank provides significant support to the Kyrgyz Republic and Tajikistan. Other key bilateral donors include Germany, Switzerland and Canada. Overall aid dependence relative to GNI for the CIS-7 varies widely with the region - from low in the case of Uzbekistan to high in the cases of Tajikistan and the Kyrgyz Republic. When compared to the average aid per capita received by all low-income countries, the CIS-7 countries, with the exception of Uzbekistan, appear to be over-aided with Armenia and Georgia receiving the highest levels of aid per capita (\$56 and \$55 respectively in 2001). These figures however in part reflect the small population sizes in these countries rather than particularly high levels of overall assistance.

27. In terms of the overall impact of international development assistance, over the past 10 years, in CASC countries DFID's overall conclusions are as follows:

⁹ Moldova's PRSP is called the Economic Growth and Poverty Reduction Strategy Paper

¹⁰ MTEF = Medium Term Expenditure Framework; MTBF = Medium Term Budget Framework

- As in other FSU countries, the World Bank was over-optimistic in its economic projections and in assuming that legislative/regulatory reforms would translate into implementation, growth and poverty reduction.
- Risk assessments by donors are only now beginning to take sufficient account of corruption, substantial trade in drugs, ethnic tensions and violence, and disputes with neighbouring countries over water, electricity and border trade.
- A lack of donor coordination (and in some cases competition in terms of the reform models being advocated) has at times undermined the effectiveness of aid.
- But, where governments have been able to articulate and define their own priorities for poverty reduction, aid has made a significant contribution.
- The lack of coordination between development partners has led to clustering of donor assistance in particular sectors and geographical areas, leading to duplication and neglect of other issues of strategic importance (including for example work on conflict resolution).

Lessons Learnt:

28. DFID has developed a significant track record in CASC countries over the past decade. We have focused our bilateral support on discrete, short-term interventions – often designed and implemented within the framework of World Bank programmes. Our programme has focused on the low income, highly indebted countries of Georgia, Armenia, Moldova and Kyrgyz Republic. We have also developed programmes on a smaller scale in Kazakhstan, Tajikistan and Uzbekistan – and through our small grants scheme provided support in Turkmenistan and Azerbaijan. In all of the CASC countries we have been involved in supporting the development of the PRSPs. Our work has entailed support across a range of sectors including: governance (improved public expenditure management); health; rural livelihoods; water and sanitation; social protection; infrastructure, civil society support; conflict assessment and resolution; and capacity building on the collection and analysis of poverty statistics. The bulk of our support is provided through Government Ministries. We have targeted some support to non-governmental organisations and also to private sector organisations.
29. We have achieved some significant successes through our time-bound project interventions – for example through our work on livelihoods we have influenced a range of other donor and government programmes in CASC. However our overall portfolio has lacked focus and cohesion. The programme has suffered from being ‘too thinly’ spread and fragmented - affecting the quality of the relationships we have been able to form with key decision makers; our understanding of change processes in CASC; and ultimately the impact of our work. We have also found it difficult to engage with and influence key multilaterals such as the EU.
30. We have begun to address these weaknesses by starting to focus our efforts geographically and thematically. Over the past year, we have significantly increased the level of resources invested in social and political

analysis in an effort to improve our understanding of the range of factors that impact upon poverty (this has included joint work with the MOD and FCO on the 'Strategic Conflict Assessments' and researching the 'drivers of change').

31. The independent Strategic Review we commissioned in 2003 concluded that our contribution is highly regarded. Despite the small size of DFID's country programmes, we are seen as one of the most effective development agencies operating in the region. However, the review identified the following areas for improvement:

- It was noted that successful projects do not always add up to coherent country programmes.
- DFID needs to communicate more effectively with development partners about its priorities and intentions
- There is scope for improving the way that DFID works with UK Embassies.
- DFID's country offices are not utilised to their full potential.

32. The major recommendations from the Review were as follows:

- To ensure that the reasons for DFID engagement in the region are articulated to other actors in a clearer manner.
- To ensure that our support at country level is more focussed.
- To maintain our engagement in all CASC countries but to provide more substantial development assistance in a fewer number of countries.
- To continue to engage and work with national governments, International Financial Institutions and other development partners working in the region.
- To maintain a strategic bias towards short-term activities that contribute towards longer-term developmental goals.
- To retain our flexibility by utilising opportunities for engagement and support as they emerge without being constrained by pre-defined thematic or sectoral commitments.
- To continue to support national PRS processes.
- To maintain our stance of not providing budget support in the short or medium-term.
- To increase the involvement and contribution of DFID's country office staff in decision making processes.

33. The CASC team's view of the strategic review was that the broad conclusions are well argued and largely justified. The Strategic Review highlighted that DFID is particularly well placed to effectively support work on the three main barriers to poverty reduction in CASC (governance; economic growth; and conflict). DFID's reputation and ability to galvanise other donors is also regarded as a major strength for our future work in CASC.

PART 2: UK ASSISTANCE PLANS FOR 2004-2007

Goal and Purpose

34. Our strategy for the period 2004-2007 is based on our assessment of the nature, extent and causes of poverty in CASCAM and the policies of national governments to address poverty. We have also considered the support provided by other donors and wider UK government objectives, as well as reflecting upon DFID's areas of specific expertise, our comparative advantage and the financial and human resources that we are able to deploy.

35. Therefore, the purpose of DFID's CASCAM programme will be:

“To enhance the engagement of the international community in supporting countries' poverty reduction efforts”

This will contribute to our goal of poverty reduction which is central to, and supportive of, wider UK government objectives of promoting stability, strengthening democracy, promoting growth and the rule of law in CASCAM.

Our Approach

36. Our approach will take into account six important elements:

(i) Focusing our efforts

In financial terms, DFID is a small bilateral donor in the CASCAM region. Our limited resources make it critical for us to focus our efforts – both in terms of the countries we will work in and the themes and sectors that we will support. We are aware of the high transaction costs incurred in supporting a large number of small-scale activities and will, therefore, reduce the number of interventions that we provide assistance to over the duration of the strategy period.

At a **country** level, our work will be concentrated in: **Armenia, Georgia, Kyrgyz Republic, Moldova and Tajikistan.**

The three **themes** that we shall support are:

- Improving governance and the institutional environment for poverty reduction
- Promoting pro-poor sustainable growth
- Strengthening the UK's contribution to conflict resolution and peace building

We will also complement our work at a country and thematic level by providing targeted support on two **regional issues**:

- Countering the spread of HIV/AIDS
- Improving regional cooperation.

Annex 3 provides a summary of our strategic framework.

The following sections provide more detail on our approach in these areas.

(ii) Supporting for Poverty Reduction Strategies

Support for country-driven poverty reduction strategies will be a priority for DFID. We will support, for example, analysis to improve understanding of the causes of poverty and for evidence-based policies to reduce it. We will continue to provide support for systems to monitor and evaluate the impact of poverty reduction policies, as measured by progress towards PRS targets and the MDGs.

Throughout CASCM there is only limited experience of using participatory methods for developing, implementing and monitoring PRSP priorities. We will therefore explore how we can best support this work in collaboration with others. We will also continue to provide support, again in collaboration with others, for national capacity building for the collection, analysis and monitoring of poverty statistics.

(iii) Working with others to promote improved donor coordination

In order to improve the efficiency and effectiveness of donor support in the region, we will apply the DAC Donor Harmonisation principles throughout our work. We will maximise our leverage by working effectively with other key partners, including multilaterals (World Bank, ADB, EBRD, UN agencies), other bi-lateral donors (including US, Japan, Switzerland and the Utstein Group), the private sector (through EBRD and IFC) and civil society organisations.

We will actively contribute towards improving the harmonisation of donor assistance in support of development priorities defined by country governments. We will measure our success in accordance with the relevant OECD-DAC indicators. Wherever possible we will join up with other donors in designing, providing and reviewing support and will attempt to reduce the number of bilateral missions. In our work with the International Financial Institutions, the European Community and the United Nations system, we will strengthen our policy dialogue and will contribute to increasing the effectiveness of multilateral aid.

In terms of improving the political environment, the key organisations providing levers and incentives for political change are the OSCE and the Council of Europe. We will give increased attention to working with these organisations through other UK Government Departments.

(iv) Supporting long, medium and short-term interventions

Our three areas of thematic focus – governance, pro-poor growth and conflict reduction - require medium to long-term harmonised support from development partners. Our contribution will consist mainly of targeted technical assistance to complement financial resources provided by other agencies.

Although some elements of our support will need to be provided over the longer term, the majority of our work will support short and medium term interventions. We recognise the need to avoid getting locked into long-term commitments that tie up a significant proportion of our limited resources. Situations change and new opportunities emerge so it will be important to retain the ability to respond to these in line with our longer-term strategic focus. DFID is well regarded for our ability to be flexible and we intend to build on this. We will set-up a 'Strategic Impact Fund' in our focal countries to enhance the capacity to support such short-term strategic interventions.

(v) Improving our organisational structure

The shift in our strategic focus will be supported by improvements in policy engagement, communication and influencing skills within the whole CASC team. We also plan to ensure that our in country teams provide a greater input into the shaping of country programmes as well as the strategic decision making process. This will be complemented by an increased input into the design, monitoring and evaluation of programmes by nationals of the country concerned.

In the past, we have relied heavily on UK based private sub-contractors to implement our programmes. We envisage the need to continue sub-contracting some pieces of work, but will explore other possibilities for effectively delivering programmes by broadening our partnership base and increasing our use of national/regional consultants.

(vi) Lesson Learning

We will make **monitoring and evaluation** for the purposes of accountability and lesson learning a more systematic part of our work and will encourage others to do the same. We are confident that our innovative approaches will generate important lessons for both DFID and HMG that can contribute more effectively to the development of the UK Government's international policy.

Thematic Focus

37. We intend to achieve our goal and purpose primarily by collaborating with other development partners in support of the three 'core challenges' that we have identified as critical for the successful poverty reduction in all

CASCM countries. In promoting work on these core themes, we will aim to develop shared agendas by working with others to improve practical outcomes, especially for poor people. The three core areas that we will support are:

- **Improving governance and the institutional environment for poverty reduction.** In all CASCM countries, the establishment of effective governance systems that are responsive and accountable to citizens is incomplete. We believe there is a need to promote more effective dialogue between CASCM Governments and development partners on this issue though we acknowledge that this work is unlikely to yield immediate results in terms of poverty reduction. Effective implementation of governance and institutional reforms requires a sustained long-term effort but without progress on this, poverty reduction will not occur.

We will encourage national and international stakeholders to work together to improve governance and tackle corruption. Such work might include: promoting effective and transparent public financial management systems, especially focusing on ways of effectively linking PRSPs with Medium Term Expenditure Frameworks and budgetary processes; improving the accountability and responsiveness of governments to their citizens; encouraging and promoting greater transparency of revenues generated from extractive industries; and improving capacity to provide services to poor people.

We are already engaged in this type of work in five CASCM countries. Over the strategy period we envisage a deeper, more sustained effort to strengthen our position by engaging with governments, civil society organisations, independent media and others on a selected number of priorities. Several CASCM countries are members of multilateral anti-corruption initiatives. For example: Georgia and Moldova are members of the Council of Europe's 'convention monitoring process'; Armenia, Azerbaijan, Georgia and Tajikistan are all part of the OECD's sub regional anti-corruption action plan for the FSU states; and Kyrgyzstan is a member of the OECD-Asia Development Bank initiative on anti-corruption. We will therefore frame our support for anti-corruption efforts within these initiatives and encourage other donors to also more actively support this work.

- **Promoting 'pro-poor' sustainable growth.** In collaboration with others, particularly the EBRD, we will support governments to develop and implement policies that promote sustainable, broad-based economic growth that benefits the poor and contributes to sustainable livelihoods. This requires a better understanding of the constraints on pro-poor growth and how to overcome them. We will collaborate with other development actors in supporting such analyses and will work to ensure that country governments increasingly take the lead in commissioning evidence-based policy analysis from local researchers wherever possible.

There are other agencies better placed to provide large-scale support on core issues such as improving the investment climate, encouraging regional trade and cooperation and promoting small and medium-sized private enterprise. We will seek opportunities to work with these key players, and will contribute by drawing on our areas of comparative advantage. For example, we will work with the IFIs to encourage their active involvement in PRS processes and to ensure that they take full account of the social dimensions of their investments and of the impacts on poor people.

- **Strengthening the UK's contribution to conflict resolution and peace building** (in collaboration with FCO and MOD). Within this stream of work we aim to ensure that the range of developmental, diplomatic and security related tools available to the UK are used more effectively to make a stronger contribution to conflict prevention and peace building in CASC. Our current portfolio includes work in Armenia, Azerbaijan, the Kyrgyz Republic, Moldova and Georgia, supported through the inter-departmental Russia-FSU Conflict Prevention Pool. Our assessment is that there is considerable scope to improve collaboration with other UK Government Departments (in country, Whitehall and at the UN in New York) as well as with other international partners like the EC and OSCE to make a stronger UK contribution to prevent/resolve conflicts and promote long-term stability.

38. The three thematic areas outlined above will form the core elements of our bilateral support at country level. We will however complement our strategies for engagement at the national level by providing targeted support for two specific '**regional issues**' that will be implemented through our 'routine' work and during the UK's EU and G8 Presidencies in 2005. These are:

- **Countering the spread of HIV/AIDS.** This is a major concern for us across the whole of the CASC region. If not addressed it will significantly undermine the possibilities for human development and sustainable growth. We will mainstream HIV/AIDS Prevention in all our interventions, and in Central Asia provide specific targeted support, together with other agencies, to assist in effective implementation of national programmes.
- **Improving regional cooperation.** Our current assessment is that there is limited scope at present to achieve effective regional cooperation in either Central Asia or the Caucasus. We have however identified some areas of work that we intend to explore further (in close coordination with other colleagues in DFID and other UK Government Departments). These are: (i) working with the IFIs and British Petroleum to design and implement the Regional Development Initiative for the Caucasus and monitoring the impact of the **BTC pipeline**; (ii) working with Governments in CASC, the private sector, civil society organisations and others to contribute to the **Extractive Industries Transparency Initiative** which potentially could contribute

to all three of the focal themes; (iii) working with EU partners to ensure that EC policies on the **New Neighbours Initiative and TACIS** contribute more effectively to political and economic reforms and help reduce poverty in Moldova and elsewhere.

Geographical Focus

39. Our analysis shows that four out of nine CASC countries (Kazakhstan, Turkmenistan, Uzbekistan and Azerbaijan) have significant natural resources and therefore have greater potential for economic growth. The other five countries Armenia, Georgia, Kyrgyz Republic, Moldova and Tajikistan have very limited resources for wealth generation. Severe external debt burdens are particularly acute in four of these countries (the exception is Armenia). These five can be broadly classified as low-income countries under stress with poor policy environments and/or with on-going internal conflicts, all are characterised by wide spread corruption and high levels of poverty. Our strategy for 2004-07 aims to focus assistance to these weaker, poorer states: **Armenia; Georgia; Kyrgyz Republic; Moldova; and Tajikistan.**
40. Due to its poor reform environment, we plan to develop an exit strategy for our current work in **Uzbekistan** and will restrict any future engagement to a few key areas. In the immediate future we will continue to work with the EBRD and other partners in monitoring the economic and political benchmarks set at the EBRD Annual Meeting in May 2003. We will also explore possibilities of working with civil society actors in designing and developing activities in our thematic and regional priority areas. We will also engage in dialogue with any reform-oriented elements of the Government.
41. In **Kazakhstan** we will phase out our involvement in the water and environmental sectors and we will not have a bilateral programme in the future. We will instead provide limited support to HIV/AIDS prevention and the work on the Extractive Industries Transparency Initiative (EITI). In **Azerbaijan**, where we do not have a bilateral programme, we will monitor the impact of the Baku-Tbilisi-Ceyhan pipeline and provide support through our assistance in the design and implementation of BP's Regional Development Initiative. We are not aiming to develop a bi-lateral programme in **Turkmenistan** - instead we will work primarily through multilateral channels (the EC and the UN) to ensure that we are able to monitor developments.

Development of Country Implementation Plans

42. Following approval by DFID Senior Management, the framework outlined above will be used as a basis for strategic programmatic decision making for the period 2004-2007. DFID's CASC programme is heavily committed for the next 2 years and our scope to invest in the development of new programmes is limited. We recognise that to develop and implement new work in the short-term will require us to make decisions

fairly quickly about phasing out of some of our current work. **Annex 4** provides a summary of our financial resources for 2004-2006.

43. The CASCM team has already begun to assess its current portfolio of activities in each country against this draft framework. This will assist decision-making process to determine which activities will need to be either phased out or more clearly aligned to support the strategy. We will continue to develop our thinking over the next 3 months and by February 2004 (following our next in-week) we will have developed a clear implementation plan for managing the transition of our current portfolio of activities.

44. In the first 2 years (2004-06) we will focus on 'phasing out' current activities that clearly fall outside the scope of our strategic framework. We will also strengthen our policy engagement by using lessons learnt from our existing portfolio and collaborative analytical work undertaken with other donors. Taking our strategic framework as the starting point, this engagement will enable us to identify our precise niche with respect to new priorities, to make informed choices about where and how our comparative advantage for providing assistance lies, and to establish clearer benchmarks for assessing future success. Over the next year we will establish mechanisms for monitoring and evaluating the effectiveness of our programmes.

Contribution to Corporate Targets

45. The programme outlined above reflects DFID corporate policy and will contribute to the achievement of specific PSA and SDA Targets contained in the Europe, Middle East and Asia (EMAD) Director's Delivery Plan, notably:

- SDA Target I on support for country driven PRSPs
- SDA Target VII: improved effectiveness of multilateral agencies including the World Bank, UNDP, EBRD, Asian Development Bank and the EU
- SDA Target IX on the international community's response to conflict resolution
- SDA Target X on enhanced capacity to exploit trade opportunities
- SDA Target XIc: increased coherence in reporting progress against the MDGs.

Resourcing and Organisational Implications

46. The implementation of this strategy will require a significant change in the approach and focus of our future work. It will also require more effective 'external' communications and networking by the CASCM team than has hitherto been the case. Improved collaboration with external partners including UK based NGOs will also be important.

47. The agreed aid framework for CASCM is £16.8 million in 2004/5 rising to £21.6 million in 2005/6. Our administration costs currently allow for 32 staff posts - we do not envisage major changes in overall numbers of staffing. We will however re-configuring the CASCM team to ensure that we have a stronger presence at country level and a more effective administrative and advisory team in London.
48. Increasing capacity to respond effectively to opportunities at national and regional levels will require a more clearly defined role for the country offices in identifying and monitoring opportunities and assessing progress against strategic objectives at the country level. We will therefore use the first quarter of 2004 to develop and clarify the role of our in-country teams. In the longer term will start to strengthen our policy engagement, communication and influencing skills within the CASCM team.
49. This strategy entails a calculated level of risk taking but if properly implemented should enable our work to make a more effective contribution to poverty reduction in CASCM over the next 4 years.

ANNEXES

1. Strategic Review and RAP process
2. Key data for CASCM including progress towards the MDGs
3. Schematic Summary of Framework
4. CASCM Financial Framework 2004-2006

Annex 1: CASCAM Review Process

Key Dates	Key Tasks
Stage 1	
14 th July	Meeting with OPM and Core Team to discuss taking forward the Review Process
16 th July – 8 th August	Staff consultations and desk work
15 th August	Draft Inception Report and Strategic Options to be received by Review Team
20 th August	Presentation of Draft Inception Report to CASCAM Team and FCO
Stage 2	
21 st August – 17 th September	Field missions to all CASCAM countries
19 th September	Field visits feedback and information exchange meeting with Core Team
24 th September	Draft Final Report submitted to CASCAM Team
26 th September	Presentation of draft Final Report to CASCAM Team, FCO, MOD.
26 th September	Key issues meeting with Core Team
29 th September	Strategic Review workshop
Ongoing and Future	
19 th October – 12 th November	Visits to in-country offices to discuss staffing issues
27 th November	First draft of the Strategy circulated to CASCAM Team
W/b 15 th December	Updated Draft submitted to ECAD Director
W/b 26 January	Revised Draft ready for circulation to UK Parliamentarians and NGOs
End of February	Collate all comments
End of March	Final draft CASCAM RAP ready for submission to Senior management

The Review process started in early 2003, the first process being the establishment of a Review Core Team which comprised of: Roy Trivedy, Stefan Mniszko, Gwyneth Chittleborough, Tamsin Ayliffe, Chloe Pearce, Lali Meshki, Atabek Sharipov and Felicity Malcolm. The Core Team was responsible for taking the Review process forward over the coming months with the involvement and support of the rest of the CASCAM team.

TORs were finalised for the Review and separate TORs for the consultants. Four consultancy firms were invited to bid for the work. Out of the four firms, two submitted bids, of which OPM were the preferred bidders based on selected criteria.

OPM were contracted mid-July and the Core Team held a first meeting with the Core Team on 29th July. Following-on from this meeting and discussion with the Core Team, OPM submitted a revised work plan. The Consultants

planned to take this piece of work forward in two stages, with a presentation of their final report at the end of September.

The Core Team gave the consultants a good start to their work by undertaking preparatory work which included providing a key list of contacts, arranging meetings and providing a key list of documents and a library resource to use as and when required.

Stage 1

The output of Stage 1 was for OPM to present and agree an inception report, setting out their key findings and issues for further examination in the next phase of work, including through a visit to the region.

After an initial meeting with the core team and Jessica Irvine, Head of ECAD, OPM held a series of consultations with past and present members of the CASCAM Team. Following these meetings, OPM submitted a draft Inception Report and Strategic Options Paper. The CASCAM team commented on these before OPM made a presentation on the paper, enabling OPM to incorporate comments received from the CASCAM Team.

Stage 2

The output for Stage 2 was for OPM to present and agree a Final Report, which would then be discussed and agreed by the CASCAM Team.

Field Missions took place between 21st August and 19th September (Armenia, Georgia, Kyrgyz Republic, Kazakhstan and Moldova) where consultations took place with Staff Appointed In Country (SAICs), FCO colleagues and key partners (ADB, WB, UNDP). Ambassadors from all CASCAM countries attended the workshops organised by the consultants in the region and were given the opportunity to provide comments and an FCO perspective on the issues at stake during all stages of the review process. After these missions, OPM came to DFID to feedback and exchange information. This led on to the drafting of the Final Report which was submitted to DFID on 24th September and presented at DFID on 26th September, laying out the consultant's recommendations. After a Review Team Meeting the Core Team met again with OPM, raising the concerns of the team that gaps were missing in the Report and there was no clear way forward. OPM agreed to submit a revised Report, which we received on 14th October.

Strategic Review Workshop

On 29th September the CASCAM Team held a Strategic Review Workshop. From the workshop the CASCAM Team were able to get a clear picture of what the team agreed/disagreed on, identifying priority areas and agreeing next steps.

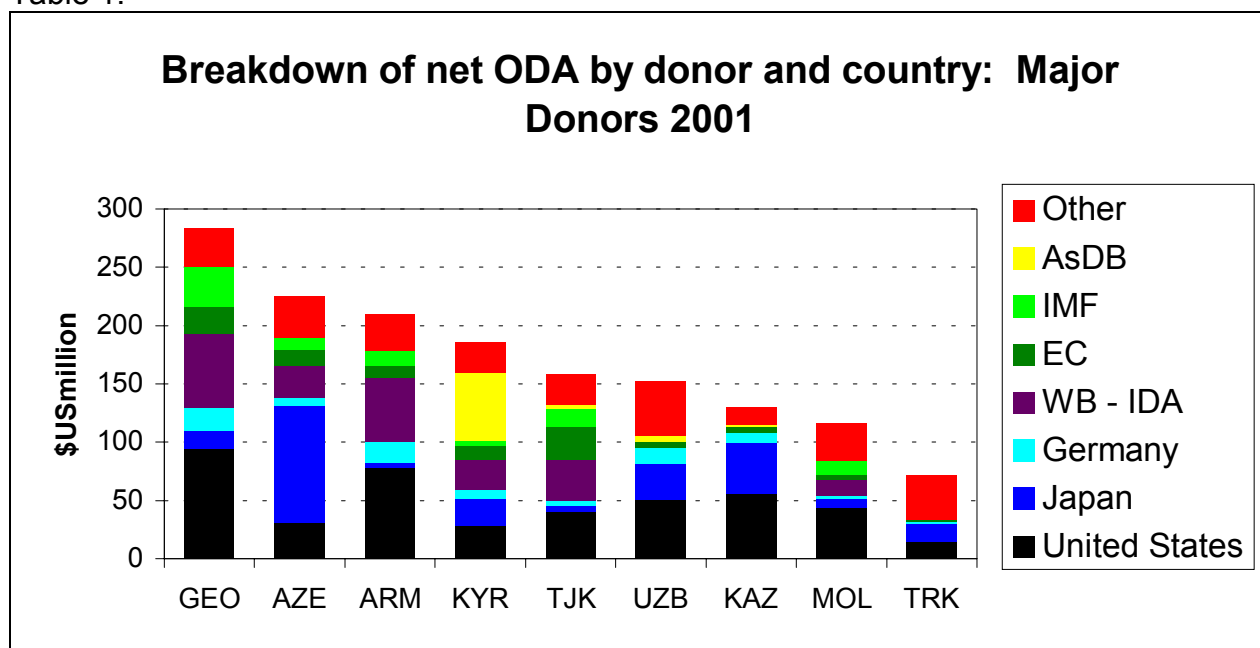
Future Process

Lali Meskhi, the Head of our Georgia office, visited our in-country offices (from 19 October to 12 November 2003) in Uzbekistan, Kazakhstan, Tajikistan and Kyrgyz Republic. Following discussions with SAICs, HMAs and other FCO colleagues, she produced a paper on CASCM in country staffing, making a number of recommendations. This paper will be discussed at the CASCM in-week (16-19 February).

The 1st draft of the strategy was circulated on 27th November for comments. A first full draft sent to ECAD Director in the w/b 15th December. Following further comments an updated draft has been prepared. This will be circulated to key partners for further comments in February 2004. We aim to have the final version agreed by end of March 2004.

Annex 2 Key data for CASCAM including progress towards the MDGs

Table 1:



(ii) PROGRESS TOWARDS THE MDGs

	MDG 1 Poverty	MDG 2 School enrolment	MDG 3 Equality in school	MDG 4 Child mortality	MDG 5 Maternal Mortality	MDG 6 HIV/AIDS and TB incidence	MDG 7 Water access
Armenia	Unlikely	Unlikely	Likely	Unlikely	Likely	Unlikely	No data
Azerbaijan	No data	Unlikely	Likely	Unlikely	Likely	Unlikely	No data
Georgia	No data	Unlikely	Likely	Unlikely	Likely	Unlikely	No data
Kazakhstan	No data	Unlikely	Likely	Unlikely	Unlikely	Unlikely	Likely
Kyrgyz Republic	No data	Unlikely	Likely	Unlikely	Unlikely	Unlikely	Unlikely
Moldova	Unlikely	Unlikely	Unlikely	Unlikely	Likely	Unlikely	Unlikely
Tajikistan	Unlikely	Unlikely	Unlikely	Unlikely	Unlikely	Unlikely	Unlikely
Uzbekistan	No data	Unlikely	Likely	Unlikely	Likely	Unlikely	Unlikely
Turkmenistan	No data	No data	No data	Unlikely	No data	Unlikely	No data

Source: Achieving the Human Development Goals in ECA, World Bank.

Key	
Likely	Made progress in the 1990s fast enough to attain the target in the specified period.
Maybe	Made some progress but difficult to tell if the goals will be reached in the time specified.
Unlikely	Made much slower progress, if any, or conditions have worsened and as such are unlikely to meet the goals.
No data	Lack adequate data to measure progress.

General Observations:

- Apart from Turkmenistan and Uzbekistan, all countries are unlikely to meet at least three of the MDGs and therefore face particularly difficult challenges over the next 10 years or so.

- Tajikistan is failing on all but one Goal – access to an improved water source.
- All countries, except Uzbekistan and Tajikistan, are unlikely to meet the MDGs on HIV/AIDS and TB incidence. Child and maternal mortality MDGs are also unlikely to be achieved by most countries in the region.
- There is a lack of trend data available on the proportion of people who live on less than \$2 a day, and therefore, in most cases, it is not possible to state whether the situation is improving or regressing.

Specific Observations:

MDG1 – Poverty

Indicator: Proportion of population below \$2 a day.

Target: To halve between 1990 and 2015, the proportion of people whose income is less than \$2 a day.

NB: While the MDG target include \$1 a day, a higher poverty line such as \$2 a day (actually \$2.15) is considered more appropriate in the region given the extra expenditure on heat, winter clothing and food.

MDG2 – Universal primary education

Indicator: Net enrolment ratio in primary education.

Target: Ensure that by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

MDG3 – Gender equality in schools

Indicator: Ratio of girls to boys enrolled in primary school.

Target: Achieve equality in enrolment ratios by 2005.

MDG4 – Child mortality

Indicator: Under-five child mortality (per 1,000 live births)

Target: Reduce by two-thirds between 1990 and 2015.

MDG5 – Maternal mortality

Indicator: Maternal deaths per 100,000 live births.

Target: Reduce by three-quarters between 1990 and 2015.

MDG6 – HIV/AIDS and other diseases

Indicator: Newly diagnosed cases of HIV per year and incidence of TB per 100,000 people.

Targets: Have halted by 2015 and begun to reverse the spread of HIV/AIDS and incidence of malaria and other diseases.

MDG7 – Ensure environmental sustainability

Indicator: Proportion of people with access to an improved water source, urban and rural.

Target: Halve the proportion of people without sustainable access to drinking water by 2015.

Annex 3 Schematic Summary

PURPOSE

To enhance effective and coordinated engagement by the international community to propose and support country driven results oriented poverty reduction efforts

APPROACH

- increase the focus of the programme
- support nationally led PRSP processes
- work with others to promote donor coordination
- support long, medium and short term interventions
- improve our organisational structure
- systematically learn and use lessons

COUNTRY THEMATIC OBJECTIVES

- Tajikistan
- Kyrgyzstan
- Moldova
- Armenia
- Georgia

REGIONAL OBJECTIVES

Country Theme 1: To improve governance and the institutional environment for poverty reduction

Main Outcomes:

- more effective and transparent public financial management systems
- reduced corruption and increased transparency
- improved accountability and responsiveness of governments to all their citizens
- improved delivery of basic services to poor people

Country Theme 2: To promote pro-poor sustainable growth

Main Outcomes:

- better understanding by governments and donors of constraints on pro-poor growth and how to overcome them
- IFIs actively engaged in PRSPs and taking account of poverty and social impacts of their work
- Poor people gaining increased benefit from growth

Country Theme 3: To contribute to the resolution of conflicts and peace building

Main Outcomes:

- more joined up UK Government working and stronger coordination between international actors
- greater safety, security and access to justice for citizens
- improved context for poverty reduction

Regional Issue 1: To counter the spread of HIV/AIDS

Main Outcomes:

- all country offices engaged and mainstreaming HIV/AIDS
- risk averted of major HIV/AIDS epidemic in Central Asia
- major human disaster prevented

Regional Issue 2: To improve regional trade and cooperation

Main Outcomes:

- even small improvement in regional cooperation contributes to pro-poor economic growth in the region
- policy relevant lessons learnt on: extractive industries and transparency; maximising development impacts of pipelines; cooperation of EC with New Neighbours

Annex 4: CASC Financial Resources 2004-2006

CASC Aid Framework (A/F) 2004/05 - 2005/06

2004/05			
	Committed Pipeline	Proposed A/F	Available Funds
Armenia	£2,300,000 £0	£2,500,000	£200,000
Azerbaijan	£100,000 £0	£100,000	£0
Georgia	£1,100,000 £400,000	£2,000,000	£500,000
Kazakhstan	£100,000 £0	£100,000	£0
Kyrgyzstan	£2,000,000 £1,250,000	£3,250,000	£0
Moldova	£1,800,000 £30,000	£2,300,000	£470,000
Tajikistan	£1,500,000 £0	£2,500,000	£1,000,000
Turkmenistan	£35,000 £0	£35,000	£0
Uzbekistan	£275,000 £0	£500,000	£225,000
Total	£9,210,000 £1,680,000	£13,285,000	

Total Allocation	£16,800,000
Remaining Funds	£3,515,000

Regional support for HIV/AIDS; WB Almaty Post; BP Regional Development Initiative; EITI.

2005/06			
	Committed Pipeline	Proposed A/F	Available Funds
Armenia	£1,750,000 £0	£2,500,000	£750,000
Azerbaijan	£100,000 £0	£100,000	£0
Georgia	£1,000,000 £0	£2,000,000	£1,000,000
Kazakhstan	£50,000 £0	£100,000	£50,000
Kyrgyzstan	£1,300,000 £1,250,000	£3,250,000	£700,000
Moldova	£750,000 £0	£2,300,000	£1,550,000
Tajikistan	£600,000 £0	£2,500,000	£1,900,000
Turkmenistan	£0 £0	£35,000	£35,000
Uzbekistan	£200,000 £0	£500,000	£300,000
Total	£5,750,000 £1,250,000	£13,285,000	

Total Allocation	£21,600,000
Remaining Funds	£8,315,000

Regional support for HIV/AIDS; WB Almaty Post; BP Regional Development Initiative; EITI.