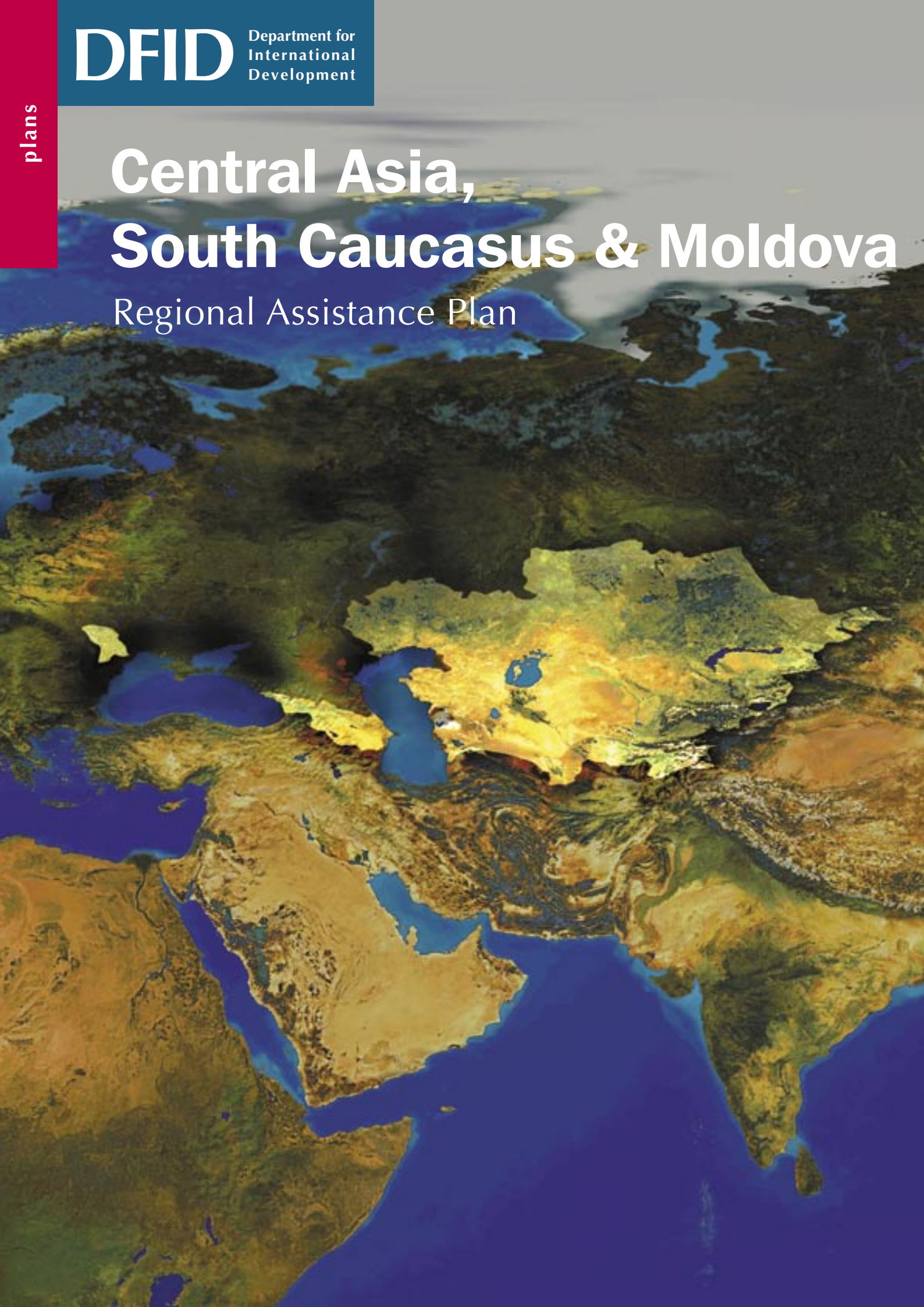


Central Asia, South Caucasus & Moldova

Regional Assistance Plan



Department for International Development

The Department for International Development (DFID) is the UK Government department responsible for promoting sustainable development and reducing poverty. The central focus of the Government's policy, based on the 1997 and 2000 White Papers on International Development, is a commitment to the internationally agreed Millennium Development Goals (MDGs), to be achieved by 2015. These seek to:

- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, malaria and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development

DFID's assistance is concentrated in the poorest countries of sub-Saharan Africa and Asia, but also contributes to poverty reduction and sustainable development in middle-income countries, including those in the Middle East, Latin America and Eastern Europe.

DFID works in partnership with governments committed to the Millennium Development Goals, with civil society, the private sector and the research community. It also works with multilateral institutions, including the World Bank, United Nations agencies, and the European Commission.

DFID has headquarters in London and East Kilbride, offices in many developing countries, and staff based in British Embassies and High Commissions around the world.

WHAT ARE REGIONAL ASSISTANCE PLANS?

Regional Assistance Plans set out the broad framework for how DFID aims to contribute to the achievement of the Millennium Development Goals in a specific region of the world. Regional Assistance Plans focus on areas where DFID has smaller country programmes and where those countries are close geographically and face similar development challenges. They explain how DFID will work more effectively with a range of partners (at the national, regional and multilateral levels), building on experience from our bilateral country programmes, to address economic, political and social challenges that inhibit poverty reduction. Regional Assistance Plans will be available electronically at www.dfid.gov.uk. Major reviews of Regional Assistance Plans, leading to new printed documents, are expected to be undertaken every three to four years, in line with Country Assistance Plans.



Central Asia, South Caucasus and Moldova (CASCМ): Regional Assistance Plan 2004–2007

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Summary

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

DFID has been working in CASCAM for the last 10 years. Most of these countries are low-income countries with poor policy environments including, in some cases, ongoing internal or cross border conflicts. The CASCAM countries are geopolitically important and many have substantial energy and mineral resources. Based on trend data, there is little prospect in CASCAM of halving poverty by 2015 and the likelihood of achieving other Millennium Development Goals (MDGs) is variable.

This Regional Assistance Plan (RAP) covers the period 2004–2007. It sets a sharp focus for DFID's work in these countries and aims to enhance the Department's ability – and that of the international community – to work towards achievement of the MDGs.

Given DFID's modest resources in CASCAM, support will be targeted on specific priorities. We will:

- Operate **bilateral programmes** in the poorest countries: Armenia, Georgia, Kyrgyz Republic, Tajikistan and Moldova
- Actively explore the scope for '**joint programmes**' in Moldova and Tajikistan
- Maintain **constructive engagement** with Uzbekistan (on economic and political reform), Kazakhstan (on the Extractive Industries Transparency Initiative [EITI] and HIV/AIDS, once our existing programme concludes in 2005) and Azerbaijan (on EITI)
- Retain a watching brief on **Turkmenistan**

The UK's bilateral assistance will be focused on the following **themes**:

- 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.

DFID's work at country and thematic level will be complemented by the provision of targeted support on two **regional** issues:

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

A core element of DFID's work will be to step up donor harmonisation and coordination in support of national Poverty Reduction Strategies. This will be achieved through more active engagement with the World Bank, European Commission, European Bank for Reconstruction and Development, Asian Development Bank and key bilateral donors. The CASCAM Regional Assistance Plan will be a 'live document', closely monitored and revised on an annual basis.

Part 1: Context

A. Introduction

1. The countries of Central Asia, the South Caucasus and Moldova are amongst some of the poorest in the world. They present difficult social, political, economic and developmental challenges for their governments, populations and the international community. While the countries do not form a self-defined group, they are all struggling with the challenge of state building and have common goals of establishing functioning market economies as they continue the transition from the Soviet system.
2. The CASC countries are geopolitically 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.
4. 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 has been carried out in three phases:
 - An independent review of our work over the past three years¹. This involved consultations with partners and key agencies in CASC countries and in London;
 - Drafting of the Regional Assistance Plan (RAP) involving all staff in the CASC team from September 2003; the ongoing development of the Country Implementation Plans (CIPs) for 2004–2007 from November 2003 to March 2004;
 - Consultation within DFID and with key external stakeholders (including civil society organisations and UK Parliamentarians) March 2004

The strategy process

3. 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, including within the international development system and in the policies of the UK Government, have resulted in the need to update the strategy.

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

B. CASCAM: overall context

5. Transition to market-based economic systems has been extremely difficult in all CASCAM countries. The withdrawal of Soviet subsidies following independence, together with changes to inter-republic trade arrangements, led to a dramatic reduction in economic activity 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 most CASCAM 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 Gross Domestic Product (GDP), whilst Georgia, Moldova, Kyrgyz Republic and Tajikistan still languish below 50% of their 1990 levels.
6. The World Bank has reported considerable difficulty in establishing baselines and measuring progress towards the **Millennium Development Goals** (MDGs) in CASCAM. 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 imperfect trend data and estimates of future growth prospects, **there is limited prospect of halving poverty levels by 2015**, with only a slim chance of achieving the other MDGs. Tajikistan in particular is predicted not to meet any of the MDG targets. The majority of CASCAM countries will fail to meet at least three of the targets. (**Annex 2 summarises progress against MDGs**).

² 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.

C. Poverty profile

7. 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 have per capita incomes below the average for low-income countries.
8. At independence, all of the CASC countries inherited high levels of human capital. Education and health care were universal and provided free at the point of delivery (normally by state owned enterprises). Before 1991, those most at risk of poverty 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. Since then there has been a decrease in public expenditure in education and health. In several countries, especially Tajikistan and Georgia, government spending on social services is now so low that it is having a negative impact on education and health provision. More recently new groups of poor have also emerged 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 CASC most poor people continue to live in rural areas although a high proportion of urban dwellers also face significant levels of poverty.
9. Data on the **gender equality MDG** target in CASC 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% for each country. However, labour markets are gender segregated with women over-represented in low paid sectors, such as education and health. According to the World Bank, Tajikistan is the only country in the region where women's welfare has declined compared to men's according to all indicators.
10. 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 one of the drugs transit routes from Afghanistan to Russia and Europe. 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.

11. 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 and the South Caucasus makes the task more difficult and contributes to instability.

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	3,068,000	47	44
Azerbaijan	710	8,172,000	50	24
Georgia	650	5,177,000	23	19
Kazakhstan	1,520	14,875,000	35	6
Kyrgyz Republic	290	5,004,000	56	49
Moldova	460	4,255,000	62	55
Tajikistan	180	6,265,000	96	68
Turkmenistan	n.a.	4,793,000	n.a.	44
Uzbekistan	310	25,271,000	28	44

Source: World Bank *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 World Bank methodology.

* Denotes latest available data.
n.a. not available

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

D. The challenge

12. In terms of economic potential there is considerable variation 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 and their development strategies will therefore need to be much more broad-based. Moldova's location on the edge of Europe provides political and economic opportunities lacked by countries in Central Asia. It is one of the countries included in the European Union's New Neighbours Initiative and has the possibility of being integrated within the European Neighbourhood in the next decade.⁴

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

- Re-emergence or escalation of national and regional conflicts (for example, Armenia-Azerbaijan, Georgia and Moldova)
- Likelihood of major natural disasters 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 Poverty Reduction Strategy Papers (PRSPs)
- The spread of HIV/AIDS
- Weakness of civil society organisations throughout CASC
- The 'resource curse' of weak management of natural resources.

14. We aim to mitigate these risks by:

- Making conflict prevention and peace-building one of the three core themes of our programme
- Putting greater emphasis on encouraging the

United Nations (UN) and the European Commission (EC) to work with governments to build capacity to prevent and reduce the impact of natural disasters and to develop preparedness plans

- Strengthening our relationships with other development actors, by prioritising improved donor coordination and support for PRSPs
- Promoting strategies to encourage greater participation of civil society in national PRS processes
- 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 UK government departments, with the aim of better understanding the drivers and constraints to reform processes.

15. Our analysis shows that even in countries where there are significant economic opportunities, most MDG targets will not be achieved unless three critical barriers to equitable and sustainable growth are addressed in the near term. These critical barriers are:

1. Governance

16. Throughout CASC 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 countries are at or below three on a scale of one 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. Corruption impacts at all levels, including access of poor people to basic services.

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).

**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
Kyrgyz Republic	118	2.1
Azerbaijan	124	1.8
Georgia	124	1.8
Tajikistan	124	1.8
Turkmenistan	Data unavailable	1.8

17. In most CASC countries the lack of institutional stability has resulted 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.
18. Discontent with poor governance was a major contributory factor in the popular uprising in November 2003 in Georgia that 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 long-term impacts. There does, however, appear to be a 'window of opportunity' in some countries to promote improved governance.

2. Economic growth

19. 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, negatively impacting on its own development as well as that of its neighbours. Further, in Central Asia, the effective management of shared water resources would provide opportunities for more effective trade, energy and agricultural production. There is little effective bilateral or **regional cooperation** in Central Asia or in the South Caucasus.

20. The business environment and investment climate 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. In all CASC countries 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. At present the few large privatised companies operating in CASC countries 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 the 'CIS-7 Initiative' to draw attention to the plight of the seven low-income Commonwealth of Independent States (CIS) countries⁵, their difficult transition processes and their pressing debts threatening macro-economic stability and poverty reduction efforts. A high proportion of the debts owed by these countries are 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

⁵ Armenia, Georgia, Azerbaijan, Moldova, Tajikistan, Uzbekistan and Kyrgyz Republic

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 Heavily Indebted Poor Countries (HIPC) assistance.

3. Conflict

22. Many CASC countries have been – and continue to be – affected by **political instability** and/or **armed conflict**. This is compounded in Central Asia by the continuing instability in Afghanistan, Iraq and the Middle East. Tensions still remain in Tajikistan, Turkmenistan and Uzbekistan. Instability in some CASC countries promotes the growth of parallel economies, contributing to increased corruption and poverty, and in some cases terrorism. In many cases, respect for **human rights** has deteriorated and is a serious concern.
23. The resolution of these conflicts is an essential component of sustainable poverty reduction in CASC. Conflict diverts expenditure and impedes domestic and foreign investment. In Georgia and Moldova, unresolved conflicts with secessionist territories have significantly reduced budget revenues – the recent reintegration of Adjara into Georgia is a welcome and positive step. It is estimated that smuggling through South Ossetia into Georgia continues to deprive the Georgian budget of up to 50% of trade revenues.

BOX 1: SUMMARY OF ARMED CONFLICTS IN THE CIS-7

- *Armenia and Azerbaijan:* As a result of the conflict over the territory of Nagorno-Karabakh (1988–94) approximately 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 ongoing tension in the Ferghana Valley, which straddles the borders of Kyrgyz Republic, 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.

E. 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, Kyrgyz Republic, Tajikistan and Moldova have produced Poverty Reduction Strategies. Uzbekistan has recently completed its medium-term Living Standards Strategy (akin to the Interim Poverty Reduction Strategy Paper [I-PRSP]) and is set to formally embark on the Poverty Reduction Strategy process in 2004. A recent report from the Overseas Development Institute's PRSP Monitoring and Synthesis Project⁶ noted that in most cases, equitable growth, employment and social welfare are higher political priorities for governments in CASC than 'poverty reduction'. PRSPs have encouraged more strategic, multidimensional thinking about these issues and promoted some prioritisation and costing of policies. They have also created opportunities for a degree of civil society participation and improved coordination (within governments and with donors).

25. The Overseas Development Institute's PRSP Monitoring and Synthesis Project report 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.

TABLE 3: SUMMARY OF CASC COUNTRIES THAT HAVE PRSPs IN PLACE.

Country	Stage of PRSP	Lead Authority	PRGF?	MTEF?
Armenia	Full PRSP	Min. of Finance	Yes ⁷	Yes
Azerbaijan	Full PRSP	Min. for Economic Dev.	Yes ⁸	Yes
Georgia	Full PRSP ⁹	State Chancellery	Yes	No
Kazakhstan	Poverty Reduction Programme 2003–2005	Ministry of Economy and Budget Planning	No	No
Kyrgyz Rep.	Full PRSP	Min. of Finance / Presidency	Yes	Underway
Moldova	Full PRSP	Ministry of Economy	No	Underway
Tajikistan	Full PRSP	Presidential Working Group	Yes	MTBF ¹⁰
Uzbekistan	Comprehensive Strategy for the Improvement of Living Standards of the People of Uzbekistan	Cabinet of Ministers and Ministry of Economy	No	No

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

7 Armenia's Poverty Reduction Growth Facility (PRGF) was agreed with the IMF in May 2001.

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

9 Georgia's PRSP is called the Economic Development and Poverty Reduction Programme approved in June 2003.

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

F. Donor assistance

26. The CIS-7 countries are all heavily dependent on support from the International Monetary Fund (IMF), the World Bank, the Asian Development Bank and the European Union. These institutions together with the USA and Japan account for 60%–90% of official development assistance (oda) transfers to these countries. Other key bilateral donors include Germany, Switzerland and Canada. **Annex 2** sets out the level of oda by donor and by country. Overall aid dependence relative to Gross National Income (GNI) for the CIS-7 varies widely within the region – from low in the case of Uzbekistan to high in the cases of Tajikistan and the Kyrgyz Republic. When compared with 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 in CASC countries over the past decade, DFID's conclusions are:
- As in other former Soviet Union (FSU) countries, international donors were over-optimistic in their 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, energy and border trade issues.
 - A lack of coordination between donors and governments (and in some cases competition in terms of the reform models being advocated) has at times undermined the effectiveness of aid.
 - 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).
 - Ownership and sustainability of reforms is an issue, particularly in countries where development processes are heavily donor driven.
 - But, where governments have been able to articulate and define their priorities for poverty reduction, aid has made a significant contribution.

G. 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.
29. We have been involved in supporting the development of the PRSPs in many of the CASC countries. 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 building capacity for the collection and analysis of poverty statistics. The bulk of our support is provided through government ministries. We have targeted some limited support to non-governmental organisations (NGOs) and also to private sector organisations.
30. We have achieved some significant successes through our time-bound project interventions – for example through our work on rural livelihoods we have influenced a range of other donor and government programmes in CASC. DFID's reputation and ability to galvanise other donors is regarded as a major strength for our work in CASC. However our overall portfolio has lacked a strong 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 the overall context and change processes in CASC; and ultimately the impact of our work. We also recognise the need for more active engagement with key multilateral and bilateral agencies.
31. We have begun to address these weaknesses by focusing 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 other UK government departments including the Ministry of Defence and the Foreign and Commonwealth Office on the 'Strategic Conflict Assessments' and researching the 'drivers of change').

Part 2: UK assistance plans for 2004–2007

H. Goal and purpose

32. Our strategy for the period 2004–2007 is based on our assessment of the nature, extent and causes of poverty in CASC 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 financial and human resources that we are able to deploy.
33. Therefore, the **purpose** of DFID's CASC 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 that is central to, and supportive of, wider UK government objectives of promoting stability, strengthening democracy, promoting sustainable development, growth and the rule of law in CASC.

I. Our approach

34. Our approach will take into account five important elements:

1. Focusing our efforts

In financial terms, DFID is a relatively small bilateral donor in CASC. 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 **country** level, our work will be concentrated on: **Armenia, Georgia, Kyrgyz Republic, Moldova and Tajikistan.**

The three **themes** that we will 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. More details of our approach are provided below.

2. Supporting 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 poverty. 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 CASC 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, in collaboration with others, for national capacity building for collection, analysis and monitoring of poverty statistics.

3. Working with others to promote improved donor coordination

In order to improve the efficiency and effectiveness of donor support in the region, we will actively promote and implement the DAC Donor Harmonisation Principles in all of our work. We will maximise our leverage by working effectively with other key partners, including the **World Bank**, the **Asian Development Bank**, the **European Bank for Reconstruction and Development (EBRD)** and the **European Commission**. We will also forge stronger alliances with other bilateral donors (including the **US, Japan, Switzerland and the Utstein Group**), the private sector (essentially through the EBRD) and civil society organisations.

We will actively contribute to 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 seek to reduce the number of bilateral missions. We will actively explore the scope for developing '**joint programmes**' in **Moldova**, whereby we channel our resources through other development partners. In the medium term, we will also explore the feasibility of such an approach in Tajikistan. In partnership with International Financial Institutions, the European Community and the United Nations system, we will strengthen policy dialogue and 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 **Organisation for Cooperation and Security in Europe (OSCE)** and the **Council of Europe**. We will give increased attention to working with these organisations through other UK government departments.

4. Supporting effective 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 others.

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 bilateral resources. DFID is well regarded for its ability to be flexible and we intend to retain this. We will set up 'Strategic Funds' (SFs) in our focal programmes to enhance our capacity to support strategic interventions. The SFs will be used to progress small but strategic initiatives identified by the DFID in-country offices to respond to proposals from governments, private sector and civil society, including academic bodies. The SFs will be based on key principles including:

- Potential to make significant strategic impact on a key area of policy related to DFID's priorities
- Innovative and 'cutting-edge' proposals that involve a degree of calculated risk but where there is potential for high impact
- Building significant in-country policy capacity in support of poverty reduction.

5. Improving DFID's 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. Our in-country teams will take on a bigger role in shaping country programmes, in decision-making processes and in engaging with key stakeholders. 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.

J. Thematic focus

35. The three core themes that we will support are:

- **Improving governance and the institutional environment for poverty reduction.** We believe there is a need to promote more effective dialogue between CASC Governments and development partners on this issue. We acknowledge that this work is unlikely to yield immediate results in terms of poverty reduction but without a sustained long-term effort, progress will not occur.

We will encourage national and international stakeholders to work together to improve governance and tackle corruption. This will include selective engagement in: promoting effective and transparent public financial management, 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 national and local capacity to provide services to poor people.

We are already engaged in this work in five CASC countries. Over the strategy period we envisage a deeper, more sustained effort to strengthen this involvement by **engaging with governments, civil society organisations, independent media and others on selected priorities.** Several CASC 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 Organisation for Economic Cooperation and Development's sub regional anti-corruption action plan for the FSU states; and Kyrgyz Republic has signed up to the UN Convention on Anti-Corruption. We will therefore frame our support for anti-corruption efforts within these initiatives and encourage others to also more actively support this work.

- **Promoting 'pro-poor' sustainable growth.** We will support governments to develop and implement policies that promote sustainable, broad-based growth that benefits the poor, reduces inequalities 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 (especially the World Bank and EBRD) 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 to improving the investment climate, encouraging regional trade and cooperation and promoting small and medium-scale 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 International Financial Institutions 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. We will also support the EBRD's work on 'Early Transition Countries'.

- **Strengthening the UK's contribution to conflict resolution and peace building** (in collaboration with the Foreign and Commonwealth Office and the Ministry of Defence). 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 scope to improve the impact of our collaboration with other UK government departments as well as with other international partners such as the EC, the UN

and OSCE to make a stronger UK contribution to prevent/resolve conflicts and promote long-term stability.

36. 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. 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 assessment is that there is some, albeit limited, scope at present to achieve effective regional cooperation in Central Asia and the Caucasus. We have identified some areas of work that we intend to explore further (in close coordination with colleagues in DFID and other UK Government Departments). These are:

- working with the International Financial Institutions and British Petroleum (BP) to design and implement the Regional Development Initiative for the Caucasus and monitoring the impact of the **Baku-Tbilisi-Ceyhan pipeline**;
- 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;
- working with EU partners to ensure that EC policies on the **New Neighbours Initiative and TACIS**¹¹ contribute more effectively to political and economic reforms.

¹¹ Programme of assistance to FSU countries and Mongolia.

K. Geographical focus

37. Our analysis shows that five of the CASC countries: Armenia; Georgia; Kyrgyz Republic; Moldova and Tajikistan have very limited resources for generating sustainable growth. These five can be broadly classified as low-income countries under stress with poor policy environments and/or with ongoing internal conflicts. Our strategy for 2004-07 aims to focus assistance to these weaker, poorer states: **Armenia; Georgia; Kyrgyz Republic; Tajikistan; and Moldova**. In Moldova, we will actively explore the possibilities for developing 'joint programmes' whereby DFID channels its resources through another development partner. We consider that there is scope for exploring this in Moldova given its proximity to the EU and its enhanced potential for economic growth. We will actively look for opportunities for Moldova, Georgia and Armenia in the EU's European Neighbourhood Policy.
38. We regard **Uzbekistan** as a strategically important country for regional cooperation in Central Asia. However, due to the poor reform environment at present, we will restrict our engagement in Uzbekistan to a few selected areas. In the immediate future this will include: continued work with the EBRD and other partners in support of the economic and political benchmarks set out in EBRD's country strategy for Uzbekistan; exploring possibilities of working with civil society actors in designing and developing activities on our thematic and regional priorities; engaging in policy dialogue with reform-oriented elements of the Government.
39. In **Kazakhstan** we will not have a bilateral programme in the future. We will phase out our involvement in the water and environmental sectors. We will also provide limited support to HIV/AIDS prevention and the work on the 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 to the design and implementation of BP's Regional Development Initiative. We are not aiming to develop a bilateral programme in Turkmenistan – instead we will work primarily through multilateral channels (the EC and the UN) to monitor developments.

L. Development of country implementation plans

40. The framework outlined above has been used as the basis for developing our work programme for the period 2004–2007. The CASC budget is heavily committed for the next two years and our scope to invest in 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.
41. The CASC team has assessed our current portfolio of activities in each country against this strategic framework and country implementation plans for managing the transition from our current portfolio of activities have been prepared.

M. Monitoring and evaluation

42. We will establish mechanisms for monitoring and evaluating the effectiveness of our programmes. We will set up an annual reporting system and identify indicators that measure and evaluate our inputs and achievements. By working with others, we will develop the PRSP monitoring systems, which should become common reporting frameworks in each country. We will also report on CASC's contribution to the achievement of specific Public Service Agreement and Service Delivery Agreement targets set out in the Europe, Middle East and Americas (EMAD) Director's Delivery Plan including:

- SDA Target I on support for country driven PRSPs
- SDA Target VII: improved effectiveness of multilateral agencies including the World Bank, United Nations Development Programme, 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.

N. Resourcing and organisational implications

43. 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 CASC team than has hitherto been the case. Improved collaboration with external partners including UK-based NGOs will also be important.
44. The agreed aid framework for CASC 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-configure the CASC team to ensure that we have a stronger presence at country level and a more effective management and advisory team in London. **Annex 4** provides a summary of our bilateral resources for 2004-2006.

ANNEXES

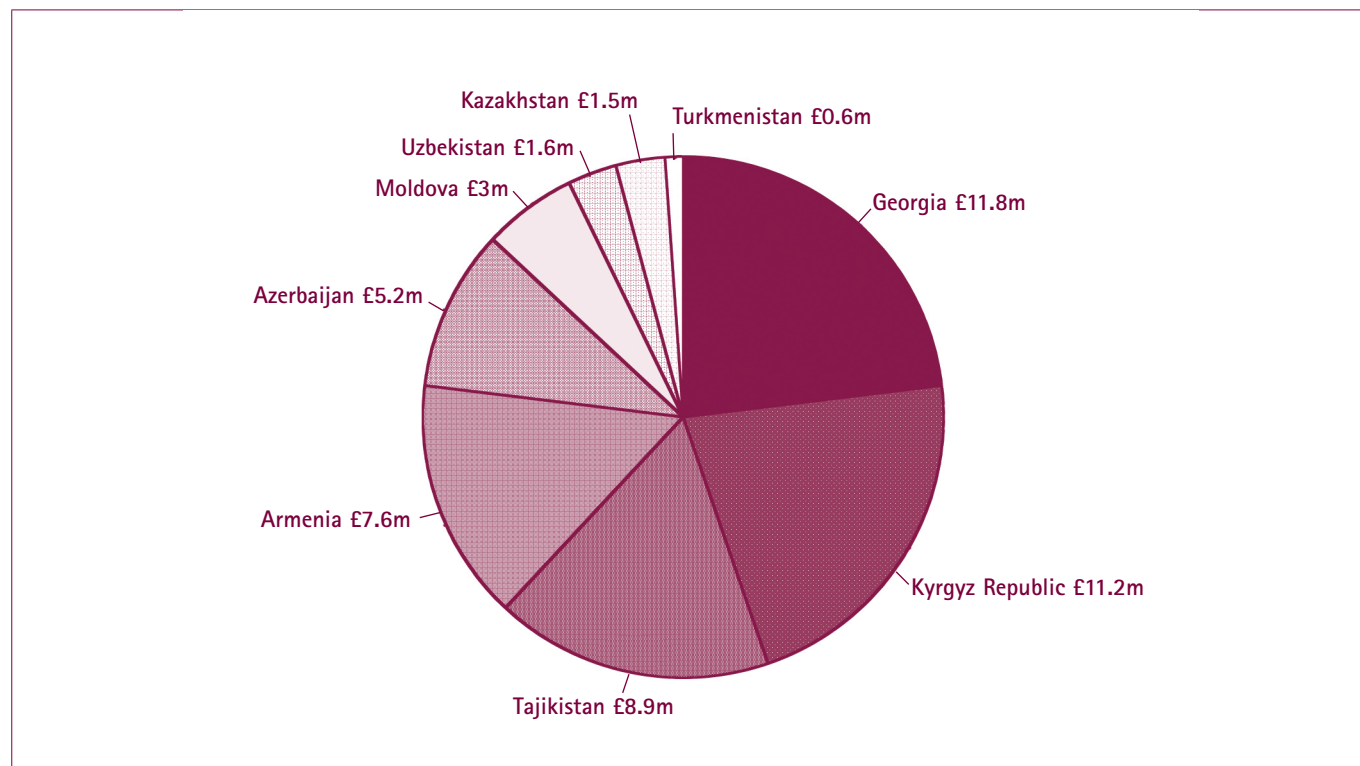
1. CASCM review process.
2. Key data for CASCM including progress towards the MDGs
3. Schematic summary
4. CASCM financial resources 2004–2006
5. Highlights from the country implementation plans

Annex 1

A. CASCAM review process

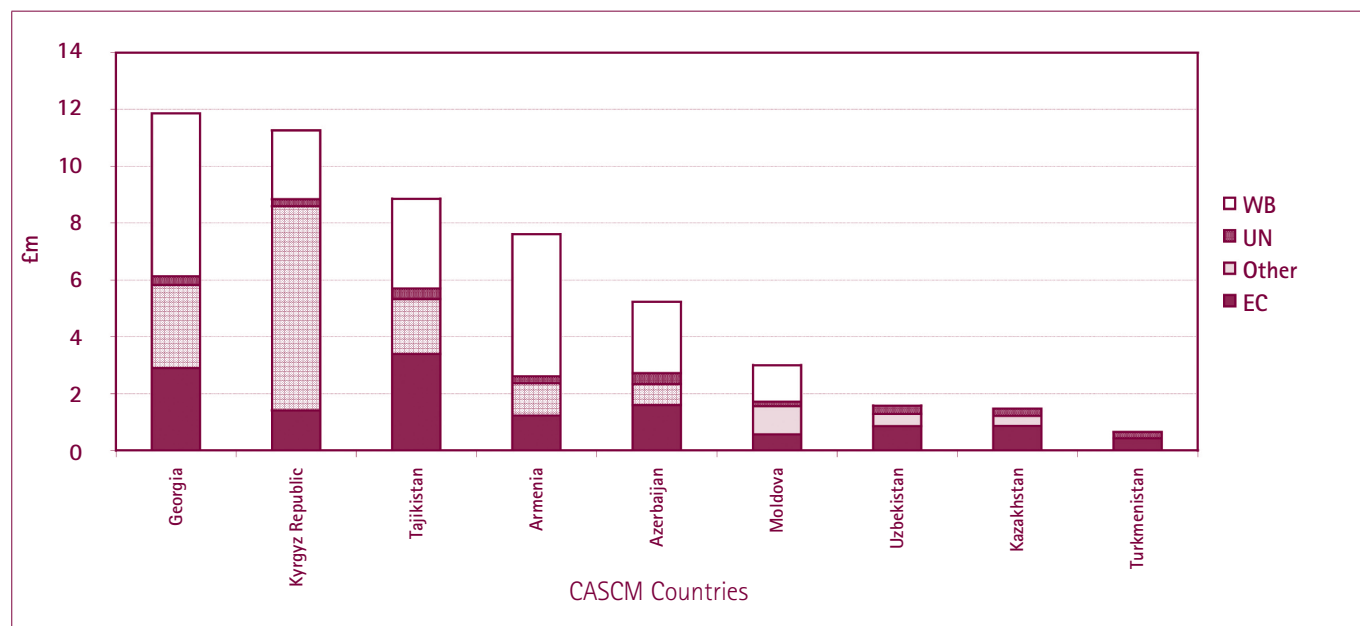
Key Dates	Key Tasks
Stage 1	
14 July 2003	Oxford Policy Management selected to undertake Strategic Review. CASCAM Core Team established to take forward the Review Process
16 July – 8 August	Staff consultations and desk work
15 August	Draft Inception Report and Strategic Options received by Core Team
20 August	Presentation of Draft Inception Report to CASCAM Team and FCO
Stage 2	
21 August – 17 September	OPM Field missions to CASCAM countries
19 September	Field visits feedback and information exchange meeting with Core Team
24 September	Draft Final Report submitted to CASCAM Team
26 September	Presentation of draft Final Report to CASCAM Team, FCO, MOD
26 September	Key issues meeting with Core Team
29 September	Strategic Review workshop
Production of Regional Assistance Plan	
19 October – 12 November	Visits to in-country offices to discuss staffing issues
27 November	First draft of the Strategy circulated to CASCAM Team
W/b15 December	Updated Draft submitted to ECAD Director
W/b 26 January 2004	Revised Draft ready for circulation to UK Parliamentarians and NGOs
6 February	Consultation with NGOs in London
9 February – 31 March	Draft RAP placed on DFID website for comments
End of March	Collation of comments
End of April	Final draft CASCAM RAP ready for submission to Senior management
May 2004	Approval by the Secretary of State

B. Imputed multilateral shares: 2001 UK multilateral oda to CASC countries



Source: Based on data from the OECD Development Assistance Committee (DAC)

Imputed multilateral shares: 2001 UK multilateral oda to CASC countries



Source: Based on data from the OECD Development Assistance Committee (DAC)

Annex 2

Key data for CASCAM including progress towards the MDGs

Table 1:

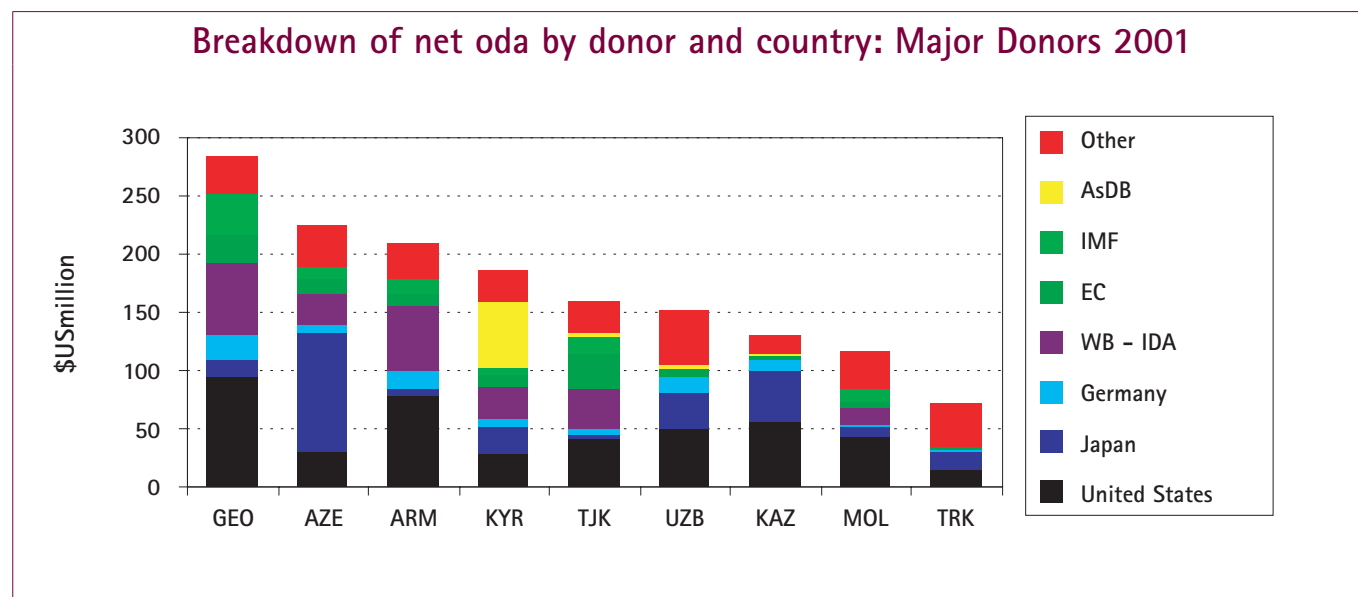


Table 2: Progress towards the MDGs

	MDG 1	MDG 2	MDG 3	MDG 4	MDG 5	MDG 6	MDG 7
	Poverty	School enrolment	Equality in school	Child mortality	Maternal Mortality	HIV/AIDS and TB incidence	Water access
Armenia							
Azerbaijan							
Georgia							
Kazakhstan							
Kyrgyz Republic							
Moldova							
Tajikistan							
Uzbekistan							
Turkmenistan							

Source: Achieving the Human Development Goals in ECA, World Bank (2003)

Note: This table allows comparisons to be made across different CASCAM countries. UN Human Development Reports for each country may show different trends.

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, Uzbekistan and Azerbaijan 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 Turkmenistan, 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.

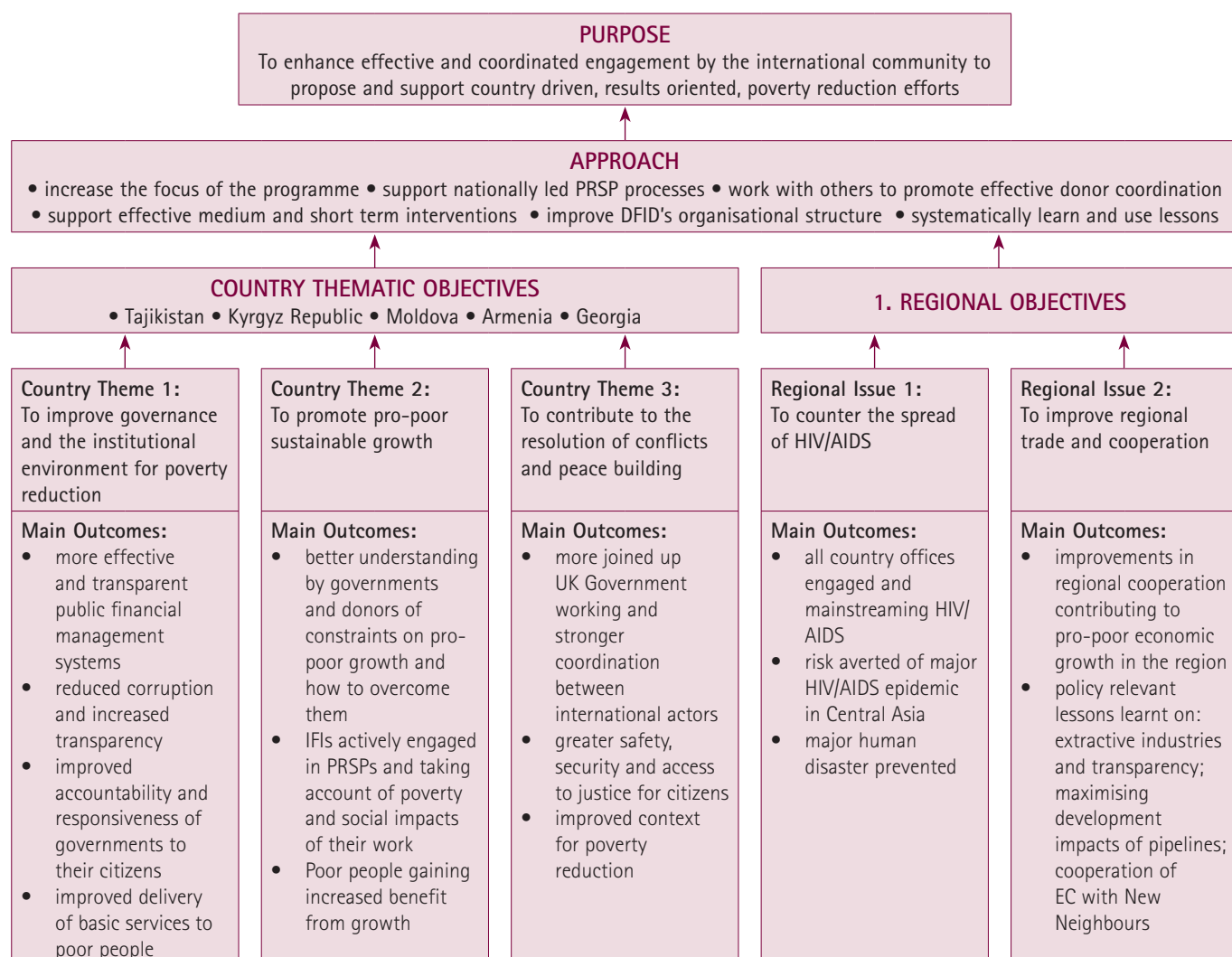
MDG7 – Ensure environmental sustainability

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



Annex 4

CASCM financial resources 2004–2006

CASCM aid framework (A/F) 2004/05 – 2005/06	2004/05	2005/06
Allocation	£16,800,000	£21,600,000
Armenia	£2,500,000	£2,500,000
Azerbaijan	£100,000	£100,000
Georgia	£2,000,000	£2,000,000
Kazakhstan	£100,000	£100,000
Kyrgyz Republic	£3,250,000	£3,250,000
Moldova	£2,300,000	£2,300,000
Tajikistan	£2,500,000	£2,500,000
Turkmenistan	£35,000	£35,000
Uzbekistan	£500,000	£500,000
Regional Funds	£3,500,000	£8,300,000
Total	£16,785,000	£21,585,000

Note: Regional Funds include funding for: work on HIV AIDS; support for the DFID World Bank Almaty Post; work on EITI; BP Regional Development Initiative. A significant proportion of these funds are likely to be allocated in 2005/06 to focal countries thereby boosting aid framework lines.

Annex 5

Highlights from the country implementation plans

1. Georgia

Current programme

- Portfolio covers a range of projects including health, statistics, sustainable livelihoods, governance, civil society and competitive grant schemes (focusing on support for small and micro enterprises and livelihoods support).

New directions

Focus on improving governance, promoting policy making for pro-poor growth, and contributing to peace building/ conflict resolution.

- Governance – support financial discipline, anti-corruption and institutional reform.
- Pro-Poor Economic Policy and Resource Management – to develop evidence based economic policy and resource management mechanism; ensure wider consultative process/participation in policy making and results monitoring within the Government.
- Conflict Resolution (Global Conflict Prevention Pool – GCPP) – to design peace building framework for Georgia based on Strategic Conflict Assessment (SCA) recommendations.
- Aid harmonisation – to assist Government preparations for Consultative Group meeting in June 2004, ensure consultative process takes place among donor prior to decision making to develop better-targeted and focused programmes among donors.
- Regional Harmonisation – explore opportunities for regional cooperation in South Caucasus.

2. Armenia

Current programme

- Portfolio covers projects including public sector reform, regional development, MTEF (Medium-Term Expenditure Framework) and support to ASIF.

New directions

Focus on: improving governance and conflict resolution through the GCPP.

- Increased emphasis on improving the role of regional government in supporting poverty reduction. Capacity building of regional government to enable the development of pro-poor economic growth in the regions.
- Strengthen linkages between poverty analysis and policy-making. Ensure that the PRSP continues to be the guiding policy tool for decision-making informed by evidence.
- Building local human capacity and linkages between different local stakeholders to achieve core programme objectives.
- Harmonization of donor practices. To work effectively with other key donors and governments to establish improved coordination mechanisms.

3. Moldova

Current programme

- Portfolio covers work in social sector, rural livelihoods, statistics, and conflict reduction (through the GCPP).

New directions

The new strategy will focus on improving Governance; promoting pro-poor growth; and conflict resolution. We will actively explore the scope for developing delegated partnerships. Meanwhile, we will:

- Seek to encourage moves to strengthen Moldova's inclusion within the EU's European Neighbourhood Policy; explore possibilities of delivering programmes in close partnership with/through other like-minded partners.
- Support the implementation of the EGPRSP. DFID will co-ordinate with other donors to ensure a harmonised approach to PRSP implementation.
- Focus on effective ways to link the EGPRSP with the MTEF and other budgetary processes.
- Expand the MTEF work, including greater support to line ministries to increase capacity to implement the MTEF.
- Work to strengthen the links between Government and donors to establish improved co-ordination mechanisms

4. Kyrgyz Republic

Current programme

- Portfolio covers work on rural water, hygiene and sanitation; health; rural livelihoods; public administration/ governance reform; development of civil society.

New directions

Focus on governance (at national and provincial levels) and Central Asia regional issues.

- Good governance and anti-corruption (National): -
 - Governance Structural Adjustment Credit (GSAC)/ Governance Technical Assistance Credit (GTAC) support.
 - Support to National Council for Good Governance/Anti-Corruption.
 - Support to national statistics (in support of CDF/PRSP)
 - Energy tariff reform
 - Health reforms
- HIV/AIDS programme: -
 - Support to the National Programme – focus on harm reduction.
- Regional trade and cooperation: -
 - Kyrgyz/Kazakh cooperation (Kazakh WTO accession)
- Reorienting existing projects around good governance/ anti-corruption (district and local level):
 - World Bank Village Investment Project
 - Livelihoods (SLLPC, TPAC); water, hygiene and sanitation
- Supporting more effective aid coordination and harmonization between government and donors in support of the CDF/PRSP.

5. Tajikistan

Current Programme

- Portfolio covers support to National Social Investment Fund (NSIF); micro and small enterprise development (through the EBRD); support to third party arbitration courts; poverty assessment update work; reform of a key state owned enterprise (TADAZ –Tajik Aluminium Plant); evaluation of structural adjustment credit.

New directions

Focus on pro-poor economic growth and improving governance.

- Support to strengthening sustainable economic growth and public policy in support of poverty reduction: -
- Support to improving economic growth through evidence-based policy (e.g. asset building, job creation, strengthening institutions)
- Support to strengthening public policy for poverty reduction (e.g. poverty assessments, statistics, NSIF)
- Donor coordination: We will work to strengthen the links between government and donors to establish improved co-ordination mechanisms
- HIV/AIDS programme
- Support to the National Programme – focus on harm reduction.

6. Kazakhstan

Current programme

- Portfolio covers water management, sustainable land use planning, civil society development.

New directions

In view of middle-income country status:

- Extractive Industries Transparency Initiative (EITI) – develop scope for DFID involvement following preliminary work already undertaken.
- HIV/AIDS – develop national level component of regional initiative.

7. Uzbekistan

Current programme

- Portfolio covers the Design of Health II and civil society development.

New directions

In view of poor policy environment:

- Continued policy dialogue in support of the EBRD benchmarks
- Exploring opportunities with other donors to support PRSP processes.
- Assist with improving poverty and livelihoods data collection/analysis.
- HIV/AIDS – support to national programmes with focus on harm reduction

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