



Council of the European Union
General Secretariat

Brussels, 30 November 2020

WK 13825/2020 INIT

LIMITE

COEST

WORKING PAPER

This is a paper intended for a specific community of recipients. Handling and further distribution are under the sole responsibility of community members.

WORKING DOCUMENT

From:	EEAS
To:	Working Party on Eastern Europe and Central Asia
Subject:	CENTRAL ASIA: Virtual Economic Forum “EU-Central Asia Dialogue on Partnership for Prosperity” (VTC, 7 December 2020) - draft programme and discussion paper

Delegations will find attached WK 13825/20.

Draft Programme of the Virtual Economic Forum

"EU-Central Asia Dialogue on Partnership for Prosperity"

Brussels time	7 December
09:00 – 09:05	Welcoming remarks by the EU Special Representative for Central Asia, H.E. Ambassador Peter Burian
09:05 – 10:15	<p style="text-align: center;"><u>High Level Session</u></p> <p><i>Priorities for strengthening EU-Central Asia Partnership for Prosperity in the context of the post COVID-19 recovery – the way forward, modalities of future high level interregional economic dialogue.</i> <i>Post Covid-19 recovery as an opportunity for moving to more sustainable economic models.</i></p> <p>This session will provide an opportunity to set steps and priorities in preparation for the first EU-Central Asia Economic Forum.</p> <p>Moderator: Martin Seychell, Deputy Director General, DG DEVCO</p> <p>Keynote speakers:</p> <ol style="list-style-type: none"> 1) Valdis Dombrovskis, Executive Vice President of the European Commission 2) Maroš Šefčovič, Vice President of the European Commission 3) H.E. Roman Sklyar, Deputy Prime Minister of the Republic of Kazakhstan 4) H.E. Ravshanbek Sabirov, Vice Prime Minister of the Kyrgyz Republic for the environment, agriculture, industry 5) H.E. Davlatali Said, First Deputy Prime Minister of the Republic of Tajikistan 6) H.E. Gadyrgeldi Mushshikov, Deputy Prime Minister of Turkmenistan for economy, work with banking and international financial institutions 7) H.E. Sardor Umurzakov, Deputy Prime Minister of the Republic of Uzbekistan for Investments and Foreign Economic Affairs <p>Perspectives by Team Europe representatives:</p> <ol style="list-style-type: none"> 1) Representative of the EU Council Presidency (Germany) (TBC) 2) Teresa Czerwińska, Vice-President of the European Investment Bank 3) Christoph Leidl, President of Eurochambres (TBC) <p><i>Summary by Martin Seychell, Deputy Director General, DG DEVCO</i></p>

10:15 – 11:15	<p style="text-align: center;"><u>Senior officials/Expert session I</u></p> <p>Moving to the green recovery agenda in regional economic development cooperation</p> <p>This session will provide an opportunity to discuss how key EU initiatives, in particular, the European Green Deal, Team Europe initiatives, can benefit the EU-Central Asia partnership including moving towards circular economy/sustainable consumption and production, sustainable food systems as well as digitalisation issues.</p> <p>Moderator: Nicholas Taylor, DG DEVCO (TBC)</p> <p>Speakers:</p> <ol style="list-style-type: none"> 1) Cristina Lobillo Borrero, Director, DG ENERGY 2) Representative of DG ENV / DG CLIMA (TBC) 3) Mirjana Spoljaric Egger, Assistant Secretary-General of the United Nations 4) Kairat Kelimbetov Head, Agency for Strategic Planning and Reforms, Governor of Astana International Financial Centre (TBC)/ Daulet Abilkairov, Deputy Chairman of the Management Board of the International Green Technologies and Investment Centre (Kazakhstan) (TBC) 5) Ashurboy Solehzoda, First Deputy Minister, Ministry of Economic Development and Trade of the Republic of Tajikistan (TBC) 6) EU private sector representative on technological solutions (TBC) <p>Q&A/Discussion</p>
11:15- 12:00	<p style="text-align: center;"><u>Senior officials/Expert session II</u></p> <p>Digital Transformation as a driving force for economic development</p> <p>This session will discuss digitalisation as a tool for building back better including focus on education digitalisation, women entrepreneurship, role of SMEs, and potential risks of digitalisation.</p> <p>Moderator: (TBC)</p> <p>Speakers:</p> <ol style="list-style-type: none"> 1) Paolo Ciccarelli, Head of Unit DEVCO C5 (Digitalisation) (TBC) 2) EU Private sector representative – Andreas Tegge, SAP (TBC) 3) Lembit Loo, member of the Digital4Development Hub, expertise on e-governance (TBC) 4) Juan Navas-Sabater, World Bank (TBC)

	<p>5) Altynbek Ismailov, Head of ITC Committee, Kyrgyzstan (TBC)/ Nuria Kutnaeva, Director, Central system “Tunduk” for intergovernmental interactions and data exchange Kyrgyzstan (TBC)</p> <p>6) Jakhongir Shukurov, Head of Department on Digital Strategy Development, MITC, Uzbekistan (TBC)</p> <p>Q&A/Discussion</p>
12:00-13:00	<p style="text-align: center;"><u>Senior officials/Expert session III</u></p> <p>Priorities for sustainable and efficient business environment in Central Asia</p> <p>This session will allow to look into possibilities how to promote sustainable and efficient, rules-based business environment as well as share experience in implementing regional programs, share views, how those and other programs can be utilized towards a results-oriented Economic Forum, and also address the existing needs and challenges in pursuing improvement of green/sustainable business environment and investment climate.</p> <p>Moderator: (TBC)</p> <p>Speakers:</p> <ol style="list-style-type: none"> 1) William Tompson, OECD 2) Representative of DG Trade (TBC) 3) Representative of EBRD (TBC) 4) Shukhrat Vafaev, Deputy Minister of Investments and Foreign Trade of the Republic of Uzbekistan (TBC) 5) Kairat Torebayev, Deputy Minister of Trade and Integration of the Republic of Kazakhstan (TBC) 6) Muhammetgeldy Serdarov, Minister of Finance and Economy and National Coordinator for Technical Assistance of the EU to Turkmenistan (TBC) <p>Q&A/Discussion</p>
13:00-13:15	<p style="text-align: center;"><u>Concluding session: way forward to the first EU-CA Economic Forum</u></p> <p>The closing session will summarise the discussions of the videoconference with a view to formulate priorities, practical steps to be taken in preparation for the EU-Central Economic Forum in line with the priorities set during the discussions.</p> <p>Closing remarks</p> <p>Summary by TBC</p> <p>H.E. Ambassador Peter Burian, EU Special Representative for Central Asia</p>

EU-Central Asia Economic Forum: Establishing a New Platform for EU-Central Asia Economic Dialogue

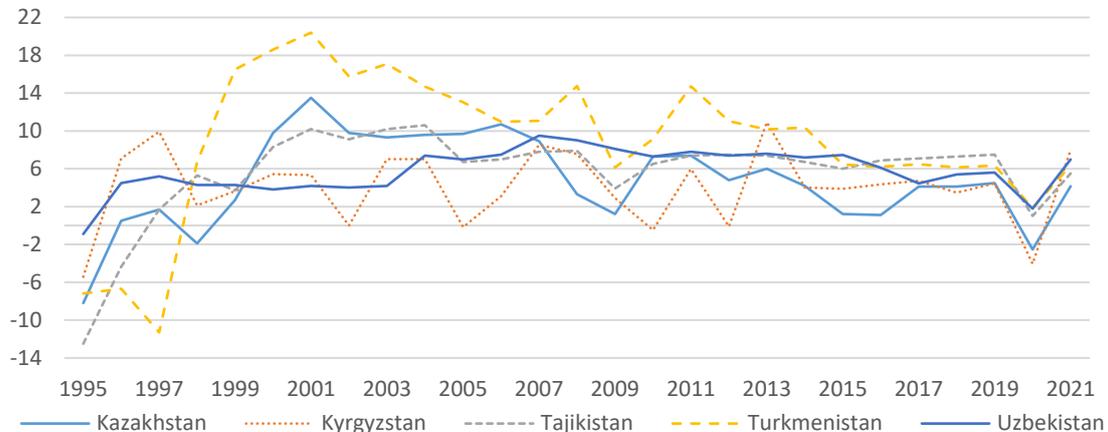
Background

Relations between the European Union and Central Asia have developed significantly in recent years, as illustrated by the new Enhanced Partnership and Cooperation Agreements signed with Kazakhstan and currently under negotiation with Kyrgyzstan and Uzbekistan. **Prosperity, resilience and regional co-operation are the major priorities of the new EU Strategy on Central Asia** that was adopted in May 2019.

With the aim to **enhance the EU-Central Asia economic dialogue**, during the 15th EU-Central Asia Ministerial meeting in Bishkek in July 2019, EU and Central Asian partners agreed to organize an **EU-Central Asia Economic Forum, establishing a new platform for inter-regional economic dialogue**. Within the framework of the new EU Strategy, the Forum should respond to the region's priority needs in respect of sustainable economic development with mutually beneficial outcomes. The Forum aims to achieve ambitious yet concrete deliverables and should be seen not as a stand-alone event, but rather as the beginning of a results-oriented process leading to a better understanding of what it needs to create a sustainable business-enabling environment and to boost regional economic cooperation. As agreed with Central Asian partners, the first Forum should give special attention to promoting an innovative and sustainable approach to economic and business development, with a focus on **greening the economy** in all its aspects, in line with the new European Green Deal initiative, which includes actions aimed at decarbonising the energy sector, supporting greening the industry, increasing energy efficiency, promoting energy standards and technologies, green mobility, sustainable value chains in the agri-food sector and contributing to the shift towards a more circular economy. It was also agreed that a special focus in the Forum will be given to taking advantage of the opportunities offered by the **digital transition**. This is following the ambitious new Digital Agenda of the EU, which sets digital and data technologies as one of the cornerstones of the EU's international partnerships, as well as is in line with national development priorities of Central Asian countries, putting digitalisation high on national development agenda.

Preparations for the first EU-Central Asia Economic Forum must now take place in the context of the COVID-19 crisis, which has highlighted many of the structural vulnerabilities with which Central Asian states have struggled in recent years. **COVID-19 is the third major macroeconomic shock to hit the Central Asian region in a decade after the 2008-2009 financial crisis and the 2015-16 fall in commodity prices**. This most recent crisis reinforced the risks inherent in an overreliance on natural resources and remittances, and had a severe impact on small and medium enterprises (SMEs). Lockdown measures, including the closure of shops, and trade disruption have affected business liquidity and operations.

GDP growth in Central Asia, 1995-2021



Source: IMF, World Economic Outlook, April 2020.

Note: Data for 2020 and 2021 are forecasts.

The COVID-19 pandemic also has significantly affected organization of the first Forum itself. Due to the pandemic, the first EU-Central Asia Economic Forum in person has been postponed until 2021, organizing an on-line meeting still in 2020 (tentatively in December) in order to launch this important process without any delays, shaping it according to the real situation and needs of the region with a strong focus on the post-COVID-19 recovery.

Closely engaging with the private sector

Central Asian governments have long recognised the role of the private sector and SMEs as an engine of economic growth, and most acted quickly to help firms through the crisis. Policy-makers developed measures to support business activity and liquidity, with governments having received financial support from the European Union (EU), including a financial package of EUR 124m. However, the economic impact of the crisis is likely to endure beyond the early stage of the pandemic, with the path to recovery complicated by strained public finances and a risk of **stalled longer-term reforms to support entrepreneurship and private sector development**. To enable a sustainable recovery, **the region's economic governance needs to be reformed and growth models reoriented to be more inclusive and resilient**. Diversifying economies to reduce their reliance on commodities and remittances, as well as addressing high level of economic informality, will be key. In this context, Central Asian governments should renew their commitment to strengthening the private sector.

Close interaction with all key actors and players in the region, in particular the private sector, going beyond the government-to-government dialogue, should be essential part of this newly established platform for the EU-Central Asia economic dialogue. To this end, on July 15, EU Special Representative for Central Asia jointly with the EEAS, DG DEVCO, DG Trade as well as with support by OECD organized an **EU-Central Asia videoconference on the role of the private sector development in Central Asia** in the post-Covid-19 recovery context. The main aim of this videoconference was to provide inputs for the first EU-Central Asia Economic Forum, receiving important feedback from the private sector representatives, continuing close engagement with different actors in the region launched during the drafting of the new Strategy on Central Asia. Almost 100 participants, including EU Member States' representatives, participated in the videoconference.

This discussion clearly reconfirmed the relevance of the already agreed topics of the forum – **greening the economy** and **increasing digitalization**, both being important topics also in the context of the post-COVID-19 recovery. At the same time, during the discussion **enhancing trade connectivity** and **improving the business environment** were particularly highlighted as other key priorities serving as important pillars for more sustainable economic development in the region, facilitating post-COVID-19 recovery.

All participants of the discussion agreed that the current **crisis only deepened many already existing challenges and difficulties for the private sector development, with particularly strong impact on small and medium business**. Disrupted trade and supply chains, restricted access to financial resources, large drop in demand in various sectors like tourism, hospitality, services, etc., which are the backbone of the SMEs in the region, decline in household purchasing power, and many other immediate implications of the current crisis hit the small and medium business of the region the hardest. Informal sector, which is still dominant in the region, puts additional vulnerability to the Central Asian economies. Lack of capacity and education (both in the public/government sector as well as in the private sector) also negatively affected the ability to adjust to the crisis. Digitalization, where the region is also clearly lagging behind, is another critical area only further amplified during the current crisis.

During the discussion, the following areas were particularly highlighted as priorities for the economic recovery and the private sector development in Central Asia: focus on **green and sustainable recovery**, greening of economy, eco-friendly, energy efficient and sustainable solutions; **education**, with particular focus on youth and lifelong learning, helping to adjust to new realities and needs; **digitalization**, promoting distance services as well as facilitating access to the global market; promoting diversification and sustainable local production, including supporting clean agriculture; focus on environment friendly **quality tourism** instead of mass tourism. At the same time, many speakers underlined the key importance of promoting **fair and rules-based business enabling environment**, improving the legal environment as well as enhancing long-term structural reforms. In this context, also the importance of a **close dialogue between the private sector and the government**, involving the private sector as a key partner, was stressed by many participants. Improving **regional trade and economic cooperation** was another priority highlighted by many speakers. Many agreed that strengthening regional economic cooperation and establishing regional market would significantly contribute in boosting economic development, providing additional opportunities to the small and medium business, especially in the regions.

OECD recommendations

Taking stock of the continued partnership and the renewed call for reform across Central Asia, the first meeting of the **EU-Central Asia Economic Forum, scheduled for autumn 2020**, should aim to start a longer-term process to agree on some basic policy principles for private sector development in the region, while enhancing regional co-ordination to support their implementation. Based on the regional challenges exacerbated by the pandemic, and in line with both partner countries' requests and recent experiences with bilateral EU Business Platforms, like the one with Kazakhstan, and the new priorities of the European Commission, renewed EU-CA economic dialogue could focus on **greening the economy, increasing digitalisation**, as well as **enhancing trade connectivity**, and **improving the business environment**.

- Greening the Economy

Central Asian economies started the market transition with a disadvantage – the Soviet legacy of environmental neglect and high levels of energy intensity across various economic sectors. **Countries of the region already see the consequences of climate change**, including through diminishing water availability, higher frequency of natural disasters and land degradation that threatens agriculture and food supply. The post-pandemic recovery is an opportunity for the public and private sector to green investments and finance, and for governments to better embed environmental standards into private sector development reforms.

- ▶ **Green investments and finance** can play a major role in Central Asia. On the private sector side, governments have a key role to play in **strengthening domestic policy frameworks to catalyse and mobilise private finance and investment** in support of green growth.
- ▶ On the development co-operation side, **climate-related finance from bilateral and multilateral partners in Central Asia could be scaled up**: grants, loans, technical assistance, project investments or co-financing are among the key instruments that development partners can be leveraged by Central Asian governments.
- ▶ Central Asian governments could support **the adoption of circular business models, which could significantly reduce environmental pressures**. The processes of sustainable production and circular economies require improving the effectiveness of inputs utilisation, such as water, land and energy, as well better managing the outputs, including waste and pollution. These considerations are particularly relevant for both the extractive and non-extractive sectors, including as food production, agriculture and construction. The EU-funded SWITCH-Asia programme, which focusses on improving the environmental performance of product value chains and promoting sustainable consumption in Central Asia, is an example of what can be done in this area.
- ▶ On the other hand, **there are various proactive policies that governments can use to promote compliance with environmental standards and green practices, such as regulatory tools, information-based instruments and economic incentives**. At the same time, it is also important for governments to assess whether existing laws and regulations dissuade or impede economic greening. Central Asian countries have so far given little consideration to the greening of small and medium businesses, and lack the legal, policy and institutional means to enhance their environmental performance. Meanwhile, interregional EU-Central Asia sector policy dialogue have taken place in the context of the Working Group on Environment and Climate Change supported by the EU funded programme on Water, Environment and Climate Change Cooperation (WECOOP). Through this the EU is seeking to align environmental regulation and promote relevant investments and green industrial standards through Best Available Techniques (BAT).

- Increasing Digitalisation

As in other regions of the world, the global health crisis has given a new impetus to digitalisation in Central Asia. With social distancing and the closure of physical locations, governments have recognised the importance of having robust digital infrastructures and policies that can support remote working and digital service delivery. Prior to the crisis, many governments across Central Asia have carried out substantial work to digitise a range of public services, with this work accelerating in the current context, as seen with the popularity of Kyrgyzstan's e-government services platform, *Tunduk*.

- ▶ **Digitalisation can help SMEs seize new business opportunities**, develop and promote new products, and access information to improve their performance. An obvious example of this is the ability of firms to move operations online and use e-commerce platforms to increase their sales. Yet, despite the opportunities digitalisation can bring, digital uptake by SMEs remain limited. To fully reap the benefits of digitalisation, **governments should address demand-side barriers to digital uptake** through private and public advisory and training services to

develop digital capabilities and cope with cybersecurity risks. International organisations also have a key role to play here, as seen through a number of EU-supported programmes, including the one implemented by the EBRD.

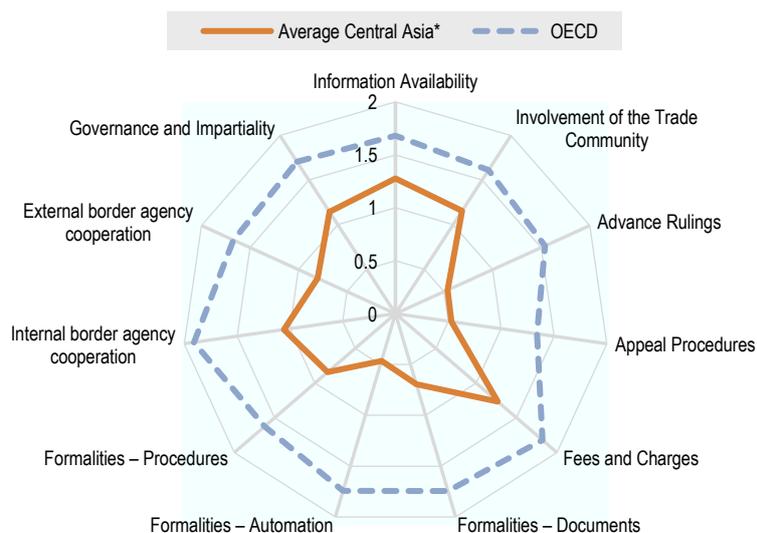
- ▶ **Digitalisation of public services can also increase their quality and access**, as well as reducing corruption risks. Digital platforms are being developed throughout the region, but digital services too often remain fragmented across government agencies, with a lack of coherent and joined-up digital policy. Online, mobile-enabled one-stop-shops for firms that are usable on low bandwidths should be an important element of such policies, along with regulatory simplifications. The OECD has been supporting these efforts in the region through the EU Central Asia Invest Programme.
- ▶ Last and not least, **progress in digitalisation requires better and more secure digital infrastructure to support increased online and mobile activities and data flows**. Issues such as Central Asia’s poor digital infrastructure is a key supply-side barrier that must be addressed.

- Enhancing Trade Connectivity

Trade connectivity is one of the great challenges facing the Central Asian countries. The region’s integration is limited by physical factors, such as low population density and long distances between Central Asia and key global markets. Equally significant are the “soft” connectivity issues, such as regulatory and policy barriers, which impede cross-border trade flows and lower competitiveness. The COVID-19 pandemic exacerbated trade issues, with border closures disrupting global value chains (GVCs) and additional customs procedures and hurdles increasing barriers to trade.

- ▶ Borders in Central Asia remain “thick” in economic terms. **There is much that governments in the region can do to improve their border procedures.** Doing so would significantly reduce trade costs, boost trade flows, and ultimately allow the region’s private sectors reap greater benefits from internationalisation, both within Central Asia and beyond. Progress is being made in automating and simplifying customs procedures, and harmonising standards with the support of the EU-funded work on Border Management in Central Asia (BOMCA), and the Ready4Trade Central Asia programme. The EU also funds the Promoting International Trade in Central Asia programme, which supports intra-regional and international trade in the region.

Central Asia performs poorly in the OECD Trade Facilitation Indicators



Source: OECD Trade Facilitation Indicators, further information available [here](#).

- ▶ **Central Asian governments should also enhance their regional co-operation and align their trade policy frameworks**, including tariff levels and coverage, as well as non-tariff measures (technical and regulatory barriers). The EU is supporting the countries of the region with improving their access to major markets. Kazakhstan has signed an “Enhanced Partnership and Co-operation Agreement”, Kyrgyzstan benefits from the EU’s General Scheme of Preferences (GSP+) status, while Tajikistan and Uzbekistan benefit from the GSP scheme with the possibility to upgrade their involvement. However, the use of these preferential schemes remains limited in the region, partly due to certification issues.

- Improving the Business Environment

- ▶ **Across Central Asia, the private sector and SMEs in particular regularly cite difficulties with access to finance as a major obstacle for doing business.** The COVID-19 outbreak has further strained business liquidity and increased short and long-term financial needs for SMEs. Bank credit is the private sector’s main source of external funding and the focus of most difficulties. Other sources of financing, including microcredit, financial markets, venture capital and asset-based financing instruments, remain underdeveloped. Both supply and demand issues hamper access to finance for SMEs. On the supply side, SMEs are faced with high interest rates, stringent and systematic collateral requirements, and cumbersome procedures to obtain a loan. On the demand side, the poor financial literacy of SMEs is a significant obstacle. The EBRD, through its EU-funded “SME Finance Facility”, is a key supplier of financial support to Central Asian SMEs.
- ▶ **A strong legal environment can support private sector activity by creating the regulatory stability necessary for firms’ decision-making and giving security and predictability to property rights.** However, across Central Asia the legal and regulatory framework for firms is often unstable. While there have been a number of reforms to the legal and administrative environment for business in the region, these have generally focussed on the “low hanging fruit” of reform, such as registration and licensing. Important challenges remain. For instance, unpredictable tax policies, predatory tax administrations and frequent business inspections combine to hamper business activities across the region. Another issue is that implementation failures and weak state capacities mean that promising reforms undertaken by the authorities fail to improve the experience of economic actors on the ground. Last and not least, lack of capacity in judiciary and corruption hamper economic justice. The EU-funded OECD work on “Improving the Legal Environment for Business” attempts to identify priority reforms for each country and build capacities to support their implementation. Besides, the EU-funded Central Asia Rule of Law Programme aims at stimulating business climate in the and removing obstacles for sustainable economic development though i.a. promoting transparency, action against economic crime, as well as efficient functioning of state institutions and public administration.

Way forward: Designing the Forum

- ▶ **Thematic areas:** The Forum should address the four priority areas described above with four dedicated panels. Participation in each panel should be drawn from high-level Central Asian policy makers, the private sector, the EU, and from partner organisations of the EU.
- ▶ **Objectives:** The Forum could look ahead to a feasible but ambitious deliverable, such as a set of agreed principles for each of the four thematic areas. The 2020 autumn on-line meeting would therefore be not a one-off but the start of a longer-term process, preparing the first EU-Central Asia Economic Forum in person to take place in 2021 as soon as the COVID-19 pandemic situation will allow
- ▶ **The start of a longer-term process:** A second Forum in person could be held in 2023, at which principles would be agreed. This timeframe would allow time for technical work to take place in the interim, guided by expert-level working groups in each area. This 2020 autumn on-line meeting would be the occasion for the EU and the Central Asian states to launch the process and to agree on the goal to be achieved. They could then organise the more technical working groups that could meet once or even twice a year in the region during the period between high-level forums. These could be co-chaired by the Central Asian states or there could be an EU co-chair and a Central Asian co-chair for each. This should create a process under which all Central Asian countries



should be able to commit on some commonly agreed policy principles in three years' time. The technical work should make it possible to deliver evidence-based principles that had sufficient clarity and meaning to anchor policy, and, critically, to provide a basis for policy assessment. Indeed, it is critical that any agreed principles are sufficiently concrete as to allow objective assessment of compliance and progress.