

United Nations Development Programme
Country: Global
Project Document

Project Title: AID FOR TRADE FOR CENTRAL ASIA, SOUTH CAUCASUS AND WESTERN CIS:
Promoting Trade Development and Poverty Reduction in Partnership with Finland's Wider Europe Initiative

RPD Outcome(s): OUTCOME 3: By 2013, the capacity of public, private and civil society actors is increased to address human development challenges through evidence-based, inclusive and sustainable policies and through private sector-based pro-poor development

Expected Output(s): Inclusive economic growth achieved in the region through trade and increased competitiveness.

Executing Entity: United Nations Development Programme (UNDP)

Brief Description

The overall goal of the project is to support inclusive growth in the region through the promotion of trade and the enhancement of each country's competitiveness to support these countries' efforts to reduce poverty and improve peoples' lives. This overall objective will be achieved through the implementation of four project components focusing on slightly different but complementary issues, all related to the support of the development of trade related capacities on local (Component I) and national (Component II) levels. Projects components will be implemented in parallel in neighbouring countries (Armenia and Georgia in South Caucasus and Tajikistan, Kyrgyzstan, Kazakhstan and Uzbekistan in Central Asia). Similar activities implemented in the same period will allow exchange of knowledge and experience. Implementation of Component I will also benefit from the experience gained during implementation of Phase I of the project. The purpose of Component III (*Understanding informalities and overcoming informal trade barriers faced by small enterprises and micro businesses, especially women entrepreneurs*) is to increase knowledge and understanding of national and sub-regional AFT issues important for small entrepreneurs and micro businesses operating in local areas, including shadow economic activities, informal cross border trade, impact of trade on gender inequality and environment. It is expected that analytical studies developed within this component will provide background for regional debate, which will contribute to the capacity development of policy makers and project staff, in all the countries of project. Component IV will provide opportunities to small entrepreneurs to develop and learn best practices in production skills and support farmers in Uzbekistan to achieve fair trade certification.

Programme Period:	2011 -2013	Total resources required	4 600 000 Euro
Key Result Area (Strategic Plan)	PR & MDG achiev.	Total allocated resources:	4 600 000 Euro
Atlas Award ID:	_____	• Regular	_____
Start date:	Feb. 2011	• Other:	_____
End Date	Jan. 2014	Gov Finland	4 600 000 Euro
PAC Meeting Date	07/12/2010	Unfunded budget:	_____
Management Arrangements	DEX	In-kind Contributions	_____

Agreed by (Government)

Agreed by (UNDP):

 2010 Dec 1/2010



MINISTRY FOR FOREIGN
AFFAIRS OF FINLAND



AID FOR TRADE FOR CENTRAL ASIA, SOUTH CAUCASUS AND WESTERN CIS:*

*Promoting Trade Development and Poverty Reduction
in Partnership with Finland's Wider Europe Initiative*

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* Phase II of the regional project *Wider Europe: Aid for Trade for Central Asia, South Caucasus and Western CIS*.

1. SUMMARY

This project proposal is an outcome of discussions between the United Nations Development Programme (UNDP) Regional Bureau for Europe and the CIS (UNDP RBEC) and Finland's Ministry for Foreign Affairs to forge a partnership aiming at strengthening the capacity of former Soviet republics to participate in and benefit from international trade. The proposed initiative builds on UNDP's long-term experience in development assistance to the countries of Central Asia, South Caucasus and Western CIS focusing on poverty reduction, human development, trade and private sector development, good governance, and social and environmental policies. It, furthermore, is intrinsically linked to the experiences gained during the implementation of Phase I of the *Wider Europe: Aid for Trade (AFT) for Central Asia, South Caucasus and Western CIS* project¹ and to the recommendations that emerged from the *AFT Needs Assessments* developed in 2010 for countries of Central Asia, South Caucasus and Western CIS.

The *Wider Europe: Aid for Trade for Central Asia, South Caucasus and Western CIS* project currently supports countries in the region to benefit from increasing resources available from AFT and to harvest the benefits of trade for human development. The project works both regionally and individually with eleven countries – Belarus, Moldova and Ukraine in the Western CIS region, Armenia, Azerbaijan and Georgia in South Caucasus, as well as Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan in Central Asia. The project operates at both the macro and the micro level. On the macro level, it supports the above-mentioned countries with national AFT Needs Assessments. Considering that the RBEC countries have so far been marginalized in the Aid for Trade process, this is a substantial step in the right direction. The Needs Assessments have been especially designed to address issues specific to transition economies.² This is of considerable importance as most of the work on AFT focuses on least developed countries and Africa. Transition economies face a particular set of problems, specific to their situation and historical development. This implies that also specific solutions need to be developed, which the national AFT Needs Assessments intend to provide. On the micro level, the project currently supports three countries: Kazakhstan, Kyrgyzstan and Tajikistan. This component of the project is working with small and medium-sized enterprises (SMEs), farmers and farmers' associations along selected trade corridors in Central Asia. The primary aim is to identify ways of improving market access for local producers and businesses.

The '*Wider Europe: AFT for Central Asia, South Caucasus and Western CIS*' project is unique in the region as it combines a strategic and comprehensive approach to trade issues, while at the same time implementing concrete measures in selected countries. The need to support countries in assessing their trade needs is obvious, and had not been met before. The national AFT Needs Assessments, in combination with the regional AFT activities in Central Asia constitute an operationally useful tool not only for the concerned countries, but also the donor and the international community and holds the promise of allowing the region to position itself well on the AFT Agenda.

The Aid for Trade (AFT) agenda is a key global initiative aimed at strengthening the capacity of developing countries to participate in and benefit from international trade. A large part of AFT is focused on strengthening domestic production, including the creation of an enabling business environment for enterprises and building economic infrastructure. Areas covered by AFT can be classified into five

¹ For details see *Wider Europe: Aid for Trade (AFT) for Central Asia, South Caucasus and Western CIS* project document (signed in July 2009).

² A specific guide adapted to the region has been developed: UNDP (2008) *Trade and Human Development. How to Conduct Needs Assessments in Transition Economies* (available at <http://europeandcis.undp.org/poverty/trade/show/8BD35D19-F203-1EE9-B08767E3833D66C6>).

categories: 1) trade policy and regulations, 2) trade development, 3) economic infrastructure, 4) productive capacity, and 5) adjustment costs.

The Government of Finland has been a longstanding supporter of the Aid for Trade initiative and the *EU Strategy on Aid for Trade*³, launched in October 2007, was initiated by the Government of Finland. *Finland's Aid for Trade Action Plan (2008–2011)*⁴ outlines the Finnish contribution toward the implementation of the common EU AfT strategy. More recently, the Government of Finland has elaborated an extensive framework programme called the Wider Europe Initiative. The *'Wider Europe Initiative. Framework Programme for Finland's Development Policy Implementation Plan for 2009 – 2013'* includes five themes: (1) security; (2) trade and development; (3) information society development; (4) energy and the environment, and (4) social sustainability.⁵

The Wider Europe Initiative aims to promote stability and well-being in the countries of the former Soviet Union. The framework programme emphasizes crisis prevention, support for peace processes and cooperation in environmental issues. The initiative comprises three sub-regions: Western CIS⁶ (Belarus, Moldova and Ukraine), South Caucasus (Armenia, Azerbaijan and Georgia) and Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan).

Taking into account the similar sectoral and geographical priorities of Finland's development cooperation and of the UNDP Regional Bureau for Europe and the CIS (UNDP RBEC), the present project (planned for 2011-2013) intends to build on Phase I and deepen the existing partnership in trade related development assistance to the countries of the Western CIS, South Caucasus and Central Asia.

The overall goal of the project is to support inclusive growth⁷ in the region through the promotion of trade and the enhancement of each country's competitiveness to support these countries' efforts to reduce poverty and improve peoples' lives. The gains from trade are numerous, and extend beyond purely economic benefits. Trade and investment can contribute to human development by helping to raise productivity, employment and economic growth. In this context, the human development concept central to RBEC's work aims to highlight inclusiveness as a key implication of sound trade policies. Therefore, a particular purpose of this project is to improve the implementation of pro-poor trade-related policy reforms and trade capacity development measures on the national and local levels, the transfer of best practices and knowledge exchange with special reference to the challenges of small enterprises and micro businesses, and the execution of technical assistance interventions in selected regions located outside the main cities (thus, beneficiaries and stakeholders include a wide range of private and public entities in the countries of Central Asia, South Caucasus and Western CIS, especially men and women living in underdeveloped areas outside the main cities in the countries covered by the project). More specifically, the project aims to:

³ See <http://register.consilium.europa.eu/pdf/en/07/st14/st14470.en07.pdf>

⁴ See <http://formin.finland.fi/public/download.aspx?ID=32859&GUID={6B942BAC-20CD-433A-BCC8-0C290889061C}>

⁵ More detailed information can be found in 'Wider Europe Initiative. Framework Programme for Finland's Development Policy Implementation Plan for 2009 – 2013' (available at <http://www.formin.fi/public/download.aspx?ID=44782&GUID={5F9179AD-3D39-4CB7-82F4-C79179EC9020}>)

⁶ CIS – Commonwealth of Independent States (<http://www.cisstat.com/eng>).

⁷ "Inclusive growth is both an outcome and a process. On the one hand, it ensures that everyone can participate in the growth process, both in terms of decision-making for organizing the growth progression as well as in participating in the growth itself. On the other hand, it makes sure that everyone shares equitably the benefits of growth. Inclusive growth implies participation and benefit-sharing. Participation without benefit sharing will make growth unjust and sharing benefits without participation will make it a welfare outcome." UNDP IPC-IG 2010.

1. Support the development of trade related capacities and help small and micro entrepreneurs in remote urban and rural areas, as well as farmers and farmers' associations to gain from the opportunities that expanded trade possibilities may bring to the regions and local communities.
2. Facilitate international trade on the national and local level by supporting the development of strategic documents to develop trade, optimizing the institutional framework, and providing technical assistance to exporters.
3. Articulate national and sub-regional AfT issues with special reference to the challenges faced by small entrepreneurs and micro businesses operating in local areas, shadow economic activities, informal cross border trade, impact of trade liberalization on gender inequality, and environment; and facilitate knowledge sharing, discussion of national and regional policies and diffusion of good practices in several thematic areas with special reference to the impact of trade (including informal trade) on local development and internal trade barriers.
4. Facilitate transfer of best practices in developing trade and production capacities of small enterprises and micro-businesses with special reference to tools for an improved market access and increase of knowledge and new technologies through international trade.

The project focuses on three sub-regions: Western CIS (Belarus, Moldova, and Ukraine), South Caucasus (Armenia, Azerbaijan, and Georgia), and Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) and consists of the following four components:

- I. Support to economic development along trade corridors linking countries of Central Asia, South Caucasus and Western CIS with key markets for their products.*
- II. Trade development: Technical assistance for better use of trade opportunities.*
- III. Understanding informalities and overcoming informal trade barriers faced by small enterprises and micro businesses, especially women entrepreneurs.*
- IV. Creating opportunities for small enterprises and micro-businesses to benefit from trade.*

The project will be implemented by UNDP Europe and the CIS Bratislava Regional Centre (UNDP/BRC) in close cooperation with UNDP country offices in eleven countries of Central Asia, South Caucasus, and Western CIS.

The project will benefit from existing UNDP infrastructure and the network of UNDP trade and private sector practitioners in the countries of project implementation. Furthermore, the activities of the project will be coordinated with UNDP projects that are currently being implemented in the region. The utilization of the infrastructure of existing projects, building on accumulated knowledge of development issues in the area of project implementation will ensure cost-efficient and timely delivery of complex activities. The project will be managed according to UNDP corporate project management rules. This will ensure transparency of financial management and high quality project implementation.

The use of UNDP/BRC as the main project management hub will provide several advantages. First, there is one individual entity coordinating the different partners in the countries covered by the project - ensuring that the donor receives consolidated information and comprehensive reports on all project activities. Furthermore, the expertise residing in UNDP/BRC supports high quality project implementation. As UNDP/BRC has a broad regional perspective, it also allows for the creation of synergies and knowledge

exchanges among the various country activities. UNDP/BRC with its close ties with other organisations and international partners can also provide specialist input upon request of the countries and ensures that recent developments at the global and regional level are communicated and integrated into project activities, as the recent example of the *AfT Roadmap for SPECA* shows. Finally, UNDP/BRC provides visibility services and knowledge management systems.

The activities of the project will be implemented over a 3 year (36 months) period. The total budget of the project amounts to 4.6 million Euro. Preliminary discussions with UNDP country offices and other UN agencies (UNDP/UNEP⁸ Poverty and Environment Initiative); UNDP country programmes in Armenia, Ukraine, Tajikistan and Kyrgyzstan (and possibly in other countries) indicated some possibilities of cost-sharing and parallel financing. Details of this partnership will be determined in the first quarter of project implementation. Furthermore, in kind contributions will be provided by UNDP/BRC (i.e. advisory services, quality assurance), UNDP country offices in beneficiary countries, development partners, and the Governments of beneficiary countries.

2. PRESENT SITUATION

2.1. Regional overview

The world economy is currently recovering from the largest economic downturn since the Great Depression. The recovery is still fragile and unemployment rates in many developing countries and transition economies remain elevated. The financial and economic crisis has further reduced the room for manoeuvre of many countries, with low domestic consumption and international investments poses a considerable threat for future growth in transition countries. Most of the countries of Western CIS, Central Asia and South Caucasus have been particularly hard hit by the consequences of the financial and economic crisis. As can be seen from Figure 2.1, middle-income CIS countries have experienced, on average, the largest and most significant decrease in GDP growth rates, and are expected to be the ones facing the largest projected poverty increase.⁹

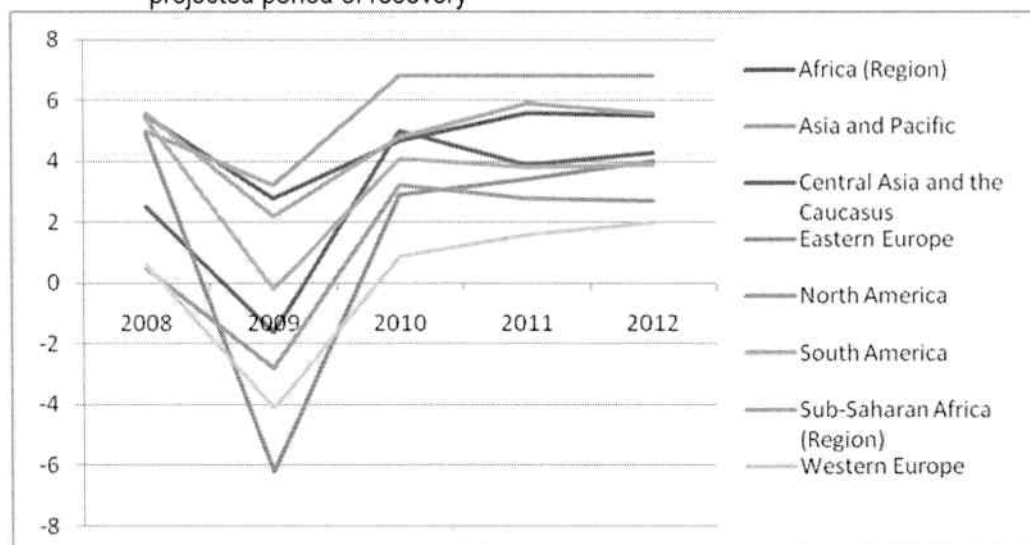
Although the economy of the region has started to recover, governments in the Central Asia, Western CIS and South Caucasus are starting to run out of fiscal space, especially with donor support expected to decrease in 2010 compared to 2009 and a substantial increase in public debt as percentage of GDP.¹⁰ As can be seen from Table 2.1, with the exception of Azerbaijan, Kazakhstan, and Uzbekistan, all other countries are estimated to have significant fiscal deficits as percentage of GDP in 2010. The IMF projects continued deficits for Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, and Ukraine until 2015. The resulting increase in public debt of course will translate negatively on expenditure patterns of governments and restrict monetary and fiscal tools the government has at its disposal.

⁸ UNEP – United Nations Environment Programme.

⁹ The World Bank (2010), *The Crisis Hits Home: Stress-testing Household in Europe and Central Asia*, (http://siteresources.worldbank.org/ECAEXT/Resources/258598-1256842123621/6525333-1259681048367/WorldBank_Crisis_Report.pdf)

¹⁰ IMF (2010) *Regional Economic Outlook: Middle East and Central Asia – May 2010* (<http://www.imf.org/external/pubs/ft/reo/2010/mcd/eng/mreo0510.htm>)

Figure 2.1 Real GDP Growth (annual percentage growth) during the economic and financial crisis and projected period of recovery



Source: IMF (2010), WEO Database April

Table 2.1 Central Government Fiscal Balance (% of GDP)

	2000-05	2006	2007	2008	2009	2010 (p)	2011 (p)
Armenia	-2.6	-2	-2.3	-1.7	-7.6	-5.6	-5
Azerbaijan	0.2	-0.2	2.6	20.8	6.8	18.3	18.3
Georgia	-1.1	-3	-4.7	-6.3	-9.2	-7.4	-5.5
Kazakhstan	2.4	7.2	4.7	1.1	-1.5	-3.5	-2.8
Kyrgyzstan	-5.6	-2.1	-0.3	0	-3.1	-8.1	-7.7
Tajikistan	-3	1.7	-6.2	-5.9	-5.3	-5.9	-4.2
Turkmenistan	1	5.3	3.9	11.3	10.1	3.8	4.9
Uzbekistan	-0.6	5.2	5.1	10.7	3.1	1.7	3.6

Source: IMF (2010), Regional Economic Outlook: Middle East and Central Asia – May

Current account balances of the countries in the region (Table 2.2) have also suffered, with most countries estimated to have negative current account balances (% GDP) until after 2015, with the exceptions of Azerbaijan, Turkmenistan and Uzbekistan.

While the global economy seems to be recovering, it is important to analyze regional differences and highlight that although economies are recovering the human development impact will persist. A recent UNDP study¹¹ assessing income and selected human development indicators concluded that the impact of the economic crisis will be 'substantial, lasting and particularly adverse for disadvantaged regions and social groups'. The study estimates that the percentage of people living below the 5US\$ day line in the region (Europe and the CIS), could rise to some 40% between 2010 and 2014 – resulting in an additional 50 million people falling into poverty in the region. This has to be analyzed in the context that traditional household coping mechanisms such as additional employment and remittances will be more difficult to

¹¹ Balázs Horváth et al. (2009), How the Crisis will Impact Human Development, in Development and Transition 14/2009.

access and in the context of vulnerability in different countries such as share of consumption to total income, which is especially high in many low-income countries in the region.

Table 2.2 Current Account Balance (% GDP, projections for 2010-2015)

	2008	2009	2010	2011	2012	2013	2014	2015
Armenia	-11.514	-13.831	-12.961	-12.608	-11.522	-10.219	-8.879	-7.856
Azerbaijan	35.477	23.597	25.335	24.239	23.472	23.879	25.912	23.675
Belarus	-8.638	-12.918	-10.43	-9.238	-7.995	-7.012	-5.822	-4.76
Kazakhstan	4.632	-3.116	0.715	-0.162	-0.793	-1.248	-0.528	-0.877
Kyrgyzstan	-8.052	3.476	-15.372	-12.541	-11.127	-7.902	-7.524	-3.936
Moldova	-16.308	-7.929	-9.698	-9.696	-9.333	-8.284	-7.931	-7.49
Tajikistan	-7.664	-7.27	-7.996	-8.321	-9.001	-9.215	-9.307	-9.095
Turkmenistan	18.739	-9.666	-8.656	1.305	10.112	14.862	17.351	18.31
Ukraine	-7.077	-1.665	-2.289	-2.343	-1.93	-2.74	-3.04	-3.303
Uzbekistan	12.451	5.058	5.055	4.977	5.058	4.995	4.946	4.917

Source: International Monetary Fund, World Economic Outlook Database, April 2010

Although the region has demonstrated, as shown in Table 2.3, progressive improvements in poverty reduction over the past decade inequalities in the region remain high (Table 2.4). One should note, that advances in poverty reduction are now endangered from the long-term consequences of the financial and economic crisis.

Table 2.3 Population living below national poverty line, percentage

Eastern Europe, Caucasus and Central Asia												
	1995	1996	1997	2000	2001	2002	2003	2004	2005	2006	2007	2008
Armenia					50.9	49.7	42.9	34.6	29.8	26.5	25	23.5
Azerbaijan	68.1				49.6	46.7	44.7	40.2	29.3	20.8	15.8	13.2
Belarus	38.4	38.6	32.1	41.9	28.9	30.5	27.1	17.8	12.7	11.1	7.7	6.1
Georgia			46.2	51.8	51.1	52.1	54.5	27			31	
Kazakhstan		34.6	38.3	31.8	28.4	24.2	19.8	16.1	31.6	18.2	12.7	12.1
Kyrgyzstan		43.5	43	62.6	56.4	54.8	49.9	45.9	43.1	39.9	35	31.7
Moldova				67.8	54.6	40.4	29	26.5	29			
Russian Federation				29		19.6	20.3	17.6	17.7	15.2	13.3	13.5*
Tajikistan							64	57				
Ukraine					26.4	27.2	27.2	26.6	27.3	27.1	28.1	
Uzbekistan					27.5	26.5	27.2	26.1	25.8			

* Provisional data

Source: United Nations (2010), The MDGs in Europe and Central Asia, Achievements Challenges and the Way Forward

Table 2.4 Development of Gini coefficient in the region over time

	1990	1999	2000	2001	2002	2003	2004	2005	2006	2009
Armenia	26.9		48.6		35.9	54.3	45.5	43.4	40	27.9
Azerbaijan	34.5			50.1	50.8					33.9
Belarus	23.3	28.8	33.7	34.3	34.2	34	24.8	23.8	27.9	33.8
Georgia	29.1			48.7	46.6			40.8		28.2
Moldova	26.7	44.1	39.2	39.1	42.6	37.2	34.2	37.7	32.7	36.5
Kazakhstan	29.7			31.3		35.9	37	42	41.4	40.8
Kyrgyzstan	30.8	37	47	51.2	49	47.8	47.3	47.5	46	40.8
Tajikistan	33.4	33.3				32.5	33.6			35.6
Turkmenistan	30.8	26.5								36.7
Ukraine	24	42.7	46.2	45.2	41.8	40.8	41	28.2	41	32.9
Uzbekistan	31.5		26.8	48.1				39.7		33.6

Source: UNU Wider, World Income Inequality database V2.0c May 2008 (most recent) and UNDP (2009) Human Development Report

The World Bank estimates that the contraction of world trade has been bottoming out during May/July 2009 and has started to slowly recover since. An estimated 70% decrease in net private capital flows in 2009 (from the 2007 peak) to developing countries and decreases in remittances have severely restricted the resources of developing countries.¹² The CIS countries came under considerable stress in early 2008, when foreign investors withdrew funds from the region. Although in recent months, there has been somewhat of a reversal of this trend, it nevertheless poses a threat to recovery.¹³ Though it is expected that the economies of the CIS countries will grow again in 2010, growth will remain restricted due to weak foreign direct investment and low export demand. Concerns are raised that due to weak domestic and internal demand recovery will be largely jobless. Consequently, while oil-exporting countries will benefit from increasing oil and gas prices, low-income countries will find it difficult to mitigate the effects of the economic and financial crisis and improve human development.¹⁴

In the context of the economic and financial crisis and the above, the Aid for Trade (Aft) initiative becomes increasingly important. The Aft agenda is a key global initiative aimed at strengthening the capacity of developing countries to participate in and benefit from international trade. A large part of Aft is focused on strengthening domestic production, including the creation of an enabling business environment for enterprises or building economic infrastructure. Areas covered by Aft can be classified into five categories: (1) Trade Policy and regulations; (2) Trade Development; (3) Economic Infrastructure; (4) Productive Capacity; and (5) Adjustment Costs. It is essential that Aft contributes to poverty reduction and sustainable development, and thus towards meeting globally approved UN Millennium Development Goals (MDGs),¹⁵ which directly address the importance of trade for poverty alleviation and human development. Trade-related targets set in the global MDG agenda (under MDG 8) emphasize the following:

Target 8(A): Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. This includes a commitment to good governance, development and poverty reduction – both nationally and internationally;

Target 8(B): Address the special needs of the least developed countries. This includes: tariff and quota free access for the least developed countries' exports; enhanced programme of debt relief for heavily

¹² World Bank (2010), Global Monitoring Report 2010. The MDGs after the Crisis.

¹³ The World Bank (2010), The Crisis Hits Home: Stress-testing Household in Europe and Central Asia, (http://siteresources.worldbank.org/ECAEXT/Resources/258598-1256842123621/6525333-1259681048367/WorldBank_Crisis_Report.pdf)

¹⁴ UN (2010), World Economic Situation and Prospects. Update as of mid-2010, E.10.II.C.2., p. 6-7.

¹⁵ The MDG framework contains 8 goals, 18 targets, and 48 indicators. Most of the targets are to be achieved over the 25-year period from 1990 to 2015 (www.undp.org/mdg).

indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction;

Target 8(C): Address the special needs of landlocked developing countries and Small Island Developing States (through the Programme of Action for the Sustainable Development of Small Island Developing States).

The relationship between trade, economic growth and sustainable human development is highly complex and interconnected. It remains undeniable that it is difficult to enlarge human choices when income and consumption are decreasing. This has been clearly demonstrated during the transition recessions of the 90s in the countries of the CIS. However, trade and economic growth do not automatically result in poverty reduction or improvements in human development. Economic growth, fuelled by trade, can be a way to ensure human development if an inclusive and enabling human development framework is established. The link between poverty reduction and trade by no means is automatic. It is necessary to ensure that national, regional and international policies are implemented with a human development focus. Instead of perceiving poverty reduction and trade as two parallel issues, it is necessary to perceive trade from a human development lens in order to ensure that it benefits as much as possible the poor and vulnerable.

2.2 Needs assessments and problems to be addressed

AfT Needs Assessments undertaken in the framework of *Wider Europe: AfT for Central Asia, South Caucasus and Western CIS* (Phase I) in the countries in Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan), South Caucasus (Armenia, Azerbaijan and Georgia) and Western CIS (Belarus, Moldova and Ukraine) identified a set of policy recommendations and technical assistance needs aimed at improving the contribution of trade to human development and poverty reduction in the countries of the region.¹⁶ Conclusions from these studies are considered as a background for the present project intervention.

While exhibiting significant differences between each other, the countries of the region face a number of common trade and development challenges. Several of these have been highlighted or aggravated by the recent economic crisis. Whereas countries have taken short-term measures to deal with them, it is clear that the longer-term development of the region would benefit from concerted action to increase trade in a way, which contributes to human development.

In some countries, immediate opportunities for trade development may seem to be found in the extractive industries, through continued exports of oil, gas, raw materials and metals. However, not all the countries in the region are well endowed in this respect; moreover increasing or even just maintaining output in the medium and long term will mostly require heavy investment in extraction, processing and transport facilities. In some cases, the reserves are close to becoming depleted; environmental issues have to be dealt with, and the effects on other sectors and on the well-being of the general public are weak or sometimes even negative.

In most of the national AfT Needs Assessments authors indicated that adding value by raising the degree of transformation of local raw materials and semi-finished goods would be a clear possibility. Good

¹⁶ National AfT Needs Assessments were developed by local experts (typically in national languages) and discussed within the countries. Studies from Central Asian countries were presented and discussed on regional meeting in Bishkek in March 2010. National studies in Central Asia have been completed (i.e., currently, they are being translated to English and published). For the countries of South Caucasus and Western CIS the first drafts are available.

examples of this are the renewed efforts to increase the production of processed fruits and vegetables in Kyrgyzstan, Tajikistan, Kazakhstan and Uzbekistan.

A higher degree of transformation and product sophistication would normally go hand in hand with greater product diversity, allowing a country's producers to meet a wider range of requirements of a larger number of clients. At the same time, in order to maintain economies of scale in development, production and distribution and to be able to continuously adapt their products to changing needs and develop new ones in response to market developments, individual enterprises may still need to specialize themselves in their specific field of competence and, above all, to reach new, larger markets. Such larger markets would to some extent be found among the increasingly discerning customers in the domestic market but above all, abroad. Here, it is well known that enterprises starting to export usually find it easiest to do so across the border of their own country, that is, entering neighboring markets to start with. There are several reasons for this: distances are, by definition, relatively short, sometimes shorter than to more far-off regions of the home country; there are often cultural affinities creating a similar pattern of demand; and sometimes a common language.

Likewise, for the sourcing of their inputs – whether raw materials, components, business services, or staff – enterprises would benefit from improved access to international suppliers, especially those in neighbouring countries, in order to secure the right supplies at the most advantageous conditions. Similarly, suppliers, enterprises and the general public would all benefit from improved opportunities to trade items like energy and water as well as financial, transport, IT and telecommunications services within the region. Finally, the international market typically gives an enterprise the opportunity to supply greater quantities than in the home market, and on a regular basis. In order to fully respond to this kind of demand, enterprises would often find it advantageous to establish production or marketing cooperation with other enterprises in the sector. A recent example of this is the consolidation of the Kyrgyz fruit and vegetables industry and the active role played by the sector association in supporting cooperation, promoting the products and creating a common brand for the sector. Evidently, the advantages of this approach are even greater when enterprises can readily cooperate with each other also across the borders.

The studies indicate that in the short and medium term, the trade development opportunities could materialize through targeted development of specific sectors with recognized export potential, combined with cross-sectoral measures for raising quality standards and improving productivity and input efficiency. In the medium and long term, continued diversification and improvement of business conditions at large would allow new sectors and enterprises to develop in response to future shifts in local and international demand.

In the light of the above, some sectors which have received attention in several or most of the countries as having a potential for short and medium term development, while at the same time contributing to human development, are fruit and vegetables, meat and dairy products, other agri-processing and food industry, textiles and clothing, leather and footwear, and services.

Keeping the needs of the longer term in mind, several countries have therefore indicated a need to create more permanent opportunities for successful trade development by promoting investment, setting up trade support institutions, simplifying rules and procedures for trade, investing in both institutional and physical infrastructure, providing information on international standards, attending to SME development needs, supporting business oriented vocational and management training, and trying to attract high technology industries.

The general opportunities for trade development and the strengths and weaknesses of each country determine national priorities for action. Because of the differences between the countries, no two ones among them will follow the same way forward. Nevertheless, some key areas for improvement are rather much the same for all the countries, whether taken individually or collectively. Considering economic development at large as a means for achieving human development, such broad areas would be e.g. improved business climate and governance, development of market-oriented skills, stable and efficient financial intermediation, continued investment in energy, transport and ICT infrastructure, efficiency of public revenue mobilization and spending. More particularly, focusing on the field of trade development, the national needs assessments have allowed to identify some common areas of interest, in that all the SPECA countries agree on the need to a) continue dealing with the economic crisis and its effects, b) reduce dependence on a few products and markets, c) raise value added, d) take a longer term perspective on trade development, e) ensure that measures taken are comprehensive and coherent, f) consult and cooperate for concerted action, and g) make trade contribute to human development.

As with the identification of the key trade development challenges, each country is setting its own priorities for meeting them and achieving the intermediate outcomes necessary for this purpose. Also here, the national needs assessments have allowed to identify the following priority fields for trade development, taking those that seem to appear in each and every country: physical infrastructure (transport, energy, telecoms), institutional infrastructure (trade procedures, quality, trade and investment support), business environment, enterprise development, diversification, sector development (including services); higher value added, better use of local resources; and supply and transformation of agricultural produce.

It should also be noted that even if the priority fields for trade development were to be reduced to a small number, they would nevertheless need to be translated into a variety of more specific outcomes in order to help identify, appraise and implement suitable, AfT related programmes and projects. As came out on the discussions at the AfT Expert Meeting in Bishkek in March 2010 (organized in the framework of Phase I of *Wider Europe: AfT for Central Asia, South Caucasus and Western CIS* project), such outcomes, to take just some examples, could take the form of

- a) macro-economic policies and conditions for doing business which are conducive to enterprise and trade development;
- b) trade specific policies and agreements giving adequate access to foreign markets, both in neighboring countries and elsewhere in the world;
- c) mechanisms in place for active, constructive public-private dialogue on trade related policies, strategies and practices;
- d) fair, equitable, transparent, effective, efficient and harmonized regulations, procedures, practices and facilities for quality assurance, certification and accreditation;
- e) fair, equitable, transparent, effective, efficient and harmonized regulations, procedures, practices and facilities for facilitating trade, in particular for reducing the time and cost of transport and border clearance;
- f) trade infrastructure allowing speedy and unencumbered exchange of goods and services between suppliers and their clients, wherever they are located;
- g) better value chain linkages, higher value added and greater employment in key sectors;
- h) improved access to and greater use of trade information;
- i) improved access to and greater use of trade support services, including, among many others, financial and logistic services, business advice, and training;
- j) suitably market oriented research and development, education and training systems;

- k) sustained ability of enterprises to develop, produce and deliver market oriented goods and services meeting customer requirements;
- l) improved knowledge and skills of export oriented enterprises in fields like product development, quality assurance, production management, business administration, marketing, packaging, and so on;
- m) better skill levels and employment opportunities of workers; and
- n) environmentally sound production, distribution and use of goods and services.

The present project intends to address some of the issues indicated above.

2.3 Stakeholders and beneficiaries

The overall development goal of AfT is to foster inclusive economic growth through the promotion of trade and the enhancement of country's competitiveness. Thus, beneficiaries and stakeholders of the project include a wide range of private and public entities in the countries of the region. The main beneficiaries of the projects are the people of Central Asian, South Caucasus and Western CIS countries.

Involvement of government and interest group representatives has increasingly proved to have a positive impact on implementation of development activities and policymaking. There is a widespread recognition that such participation brings political, legal and social benefits and reduces the risks of misunderstandings. Investing effort in participation, even if costly, has always proved to be effective and efficient.

The main stakeholders are (titles and names often vary between countries):

- 1) Government and governmental organizations
 - a. *Line ministries*: Ministry of Trade, Ministry of Industry, Ministry of Economy/Finance, Ministry of Agriculture and Ministry of Foreign Affairs;
 - b. *Special committees*: Trade facilitation committee, Aid for Trade committee;
- 2) Business and trade unions
 - a. *Business*: national business association, sectoral business associations, small and medium enterprises business associations, associations of artisans and traders, chambers of commerce, export associations, representative entrepreneurs, trade managers and professionals, farmers associations and farmers;
 - b. *Trade unions*: confederation of trade unions, main trade unions, women workers association, association/cooperatives of workers;
- 3) Civil society - Nongovernmental organizations (NGOs), including environmental NGOs, associations of NGOs, women and marginalised populations associations, independent think-tanks, national and local media.

Roles and responsibilities for engagement of different entities (relevant tools, approaches, and skills) are presented below:

- *Think tanks and research institutes*: Gathering evidence by conducting research, analyzing data or providing direct advice and recommendations to policy makers and other decision makers; established sources of evidence-based information; position papers on trade policy related topics.
- *Professional associations*: Expert knowledge on specific topics; advocacy on legal and regulatory framework issues (especially laws and policies affecting their activities); promoting dialogue between corporate sector and policy makers on issues of concern to association members.

- *Trade unions and workers cooperatives*: expert knowledge on specific topics; forming alliances, mobilizing members to speak out and challenging positions of more influential groups.
- *Media/journalist societies*: disseminating information about the project and policy options; challenging public policies in the public domain in order to provide a key monitoring function; local media's role in collecting firsthand data from communities, publicizing opinions and disseminating information in national and local debates.
- *Community-based organizations*: Bringing grass-roots evidence or experienced knowledge into the process; monitoring processes and outcomes; participatory methods of assembling citizens' voice and gathering information such as through: action research; community profiles; community household level questionnaires; and community resource mapping.
- *Cross-national policy dialogue groups*: Creating the space for dialogue between different policy makers, donors and other civil society stakeholders; policy briefs to promote policy-relevant knowledge among policy makers and others regarding reforms; bringing disparate groups together around common issues (e.g. women's movements).

3. DEFINITION OF THE INTERVENTION

The project focuses on three sub-regions: Western CIS (Belarus, Moldova and Ukraine), South Caucasus (Armenia, Azerbaijan and Georgia) and Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) and consists of the following four components:

Component I:

Support to economic development along trade corridors linking countries of Central Asia, South Caucasus and Western CIS with key markets for their products.¹⁷

Component II:

Trade development: Technical assistance for a better use of trade opportunities.

Component III:

Understanding informalities and overcoming informal trade barriers faced by small enterprises and micro businesses, especially women entrepreneurs.

Component IV:

Creating opportunities for small enterprises and micro-businesses to benefit from trade.

Purposes, results and key activities of particular project components are characterized below.

3.1 Overall objective

The overall objective (development goal) is to foster inclusive economic growth in the region through the promotion of trade and the enhancement of country's competitiveness. The gains from trade are numerous, and extend beyond the immediate commercial benefits. Trade and investment can contribute to human

¹⁷ This component builds on the experience gained during the implementation of Phase I (Component II) in Kazakhstan, Kyrgyzstan and Tajikistan.

development by helping to raise productivity, employment and economic growth. Trade can also increase the variety and quality of goods available to consumers, and help lower the likelihood of political conflicts between countries.

3.2 Project Purpose

The purpose of *Aid for Trade for Central Asia, South Caucasus and Western CIS project* is to improve implementation of pro-poor trade reforms and trade capacity development measures through technical assistance interventions. Particular objectives of project components are listed below:

Component I: *Support to economic development along trade corridors linking countries of Central Asia, South Caucasus and Western CIS with key markets for their products.*

Objective: Support the development of trade related capacities and help small and micro entrepreneurs in remote urban and rural areas, as well as farmers and farmers' associations to gain from the opportunities that expanded trade possibilities may bring to the regions and local communities.

Component II: *Trade development: Technical assistance for a better use of trade opportunities.*

Objective: Facilitate international trade on the national and local level by supporting the development of strategic documents to develop trade, optimizing the institutional framework, and providing technical assistance to exporters.

Component III: *Understanding informalities and overcoming informal trade barriers faced by small enterprises and micro businesses, especially women entrepreneurs.*

Objectives: Articulate national and sub-regional AfT issues with special reference to the challenges faced by small entrepreneurs and micro businesses operating in local areas, shadow economic activities, informal cross border trade, impact of trade on gender inequality and environment; and facilitate transfer of best practices in developing trade capacities of small enterprises and micro businesses, knowledge sharing, discussion of national and regional policies and diffusion of good practices in several thematic areas with special reference to the impact of trade (including informal trade) on local development, micro businesses; internal trade barriers and the impact of trade liberalization on gender inequality and environment.

Component IV: *Creating opportunities for small enterprises and micro-businesses to benefit from trade.*

Objective: Facilitate transfer of best practices in developing trade and production capacities of small enterprises and micro-businesses with special reference to tools for a better market access and spread of knowledge and new technologies through international trade.

Indicators for monitoring and project evaluation and target are presented in Annex 1. Detailed AWP's will be developed in January 2010 and submitted for approval to the Project Board in February 2011. Under Component I, Kazakhstan, Kyrgyzstan and Tajikistan have submitted detailed AWP's for 2011 (Annex 1). Key project interventions are described in the subsequent sections.

3.3 Key results

As mentioned above, the project will be composed of four components with different thematic and geographical focus. The background for each component of the project, related results and corresponding indicators for monitoring and evaluation are described below.

Component I: Support to economic development along trade corridors linking countries of Central Asia, South Caucasus and Western CIS with key markets for their products.

Several transport corridors link production centers and markets within *Central Asia, South Caucasus and Western CIS* and enhance their access to neighboring markets (including China, Russia and the EU). However, in order to fully exploit the opportunities resulting from the improved transport infrastructure, entrepreneurs (including urban and rural small entrepreneurs and micro businesses, farmers and farmers' associations) and local business communities need to develop capacities that will allow them to take advantage of these new opportunities. Today, small enterprises and micro businesses face several key obstacles to trade. These result from exclusion from international value chains, lack of critical and up-to-date market information (e.g., on market conditions, highly profitable products, international prices, etc.), knowledge (e.g., international quality, veterinary and phytosanitary standards and trade procedures), management skills (e.g., organization, strategic planning, leading and controlling business processes, and negotiating), access to international business partnerships, and access to services (e.g., financial services).

Information and institutional constraints identifying the best market opportunities, and lack of knowledge about potential/innovative and existing value chains are particularly severe for farmers or other small enterprises and micro businesses, especially in rural areas. Trade costs are onerous to geographically dispersed sectors of the economy, such as agriculture. Reducing these costs, improving sales channels, and creating skills needed to successfully benefit from trade (within and outside the region) will help farmers, small enterprises and micro businesses create new jobs, and thus will have a positive impact on economic activity and poverty alleviation.

The project component will build on experience gained during the implementation of Phase I in selected regions located along the CAREC trade corridors. In order to ensure an efficient use of resources, as well as sustainability, Phase II will build on the activities under Component II of Phase I and consequently continue in three Central Asian countries:

- (1) Kazakhstan: Semey region,
- (2) Kyrgyzstan: Batken region, and
- (3) Tajikistan: Sughd region (Khujand).

The concept of building trade components into UNDP Area Based Development Projects has proven to be very successful during Phase I in Semey, Batken and Sughd, as existing UNDP project structure and project management and policy knowledge was utilised to optimise outcomes of the activities. It is therefore proposed to replicate this approach in other countries of Central Asia, South Caucasus and Western CIS, namely:¹⁸

¹⁸ It is envisaged that country components will be implemented over a 2-3 year period.

- Uzbekistan (in the Fergana Valley) in cooperation with the UNDP/EU Enhancing Living Standards (ELS) project. The proximity of existing projects (Batken and Sughd are located in the Fergana Valley) will allow for some knowledge and experience exchange and contribute to cross-border cooperation in the region.
- Georgia in cooperation with existing UNDP regional development projects in Adjara Autonomous Republic (bordering Turkey) the project will support economic diversification and trade development in the region. It will contribute to empowering newly established public development agencies and support to effective market position of Adjara on the local and foreign markets for goods and services. The project (in cooperation with the Government of Adjara) will deploy professional business development services: extension services in agriculture and market information and consultation services for foreign and local companies (targeting specifically export oriented SMEs). The project will aim of supporting both: production/processing and marketing/exporting cycles to ensure effectiveness of trade supporting measures.
- Armenia (in the Tavush Region)¹⁹ in cooperation with the UNDP Community Development Project. As the main highways and a railway from Armenia to Georgia and Russia pass through the Tavush Region, it has a strategic significance for Armenia's freight traffic to Russia and other CIS countries as well as to Europe and Turkey through Georgia and the Black sea.

Results

The objective of *Component I* is to support the development of trade related capacities and help small and micro entrepreneurs in remote urban and rural areas, as well as farmers and farmers' associations to gain from the opportunities that globalization and expanded trade possibilities may bring to the regions and local communities.

Formally, the result of *Component I* can be described as follows:

Increased economic development along trade corridors linking the countries of Central Asia, South Caucasus and Western CIS with key markets for their products.

Result indicators for project-specific monitoring and evaluation of *Component I* include:

- a) Number of government officials, self-employed people, entrepreneurs and farmers trained and % of the evaluation reports have assessed the different activities as positive, results of impact assessment at place of work/business (where feasible); percentage of women participants;
- b) Number of clients served by Market Information/Trade Promotion Center and number of activities dedicated to women entrepreneurs;
- c) Number of businesses implementing new ideas to create value added in countries involved, expected turnover of these business ideas.

Corresponding targets are presented in Annex 1.

Component II: *Trade development: Technical assistance for a better use of trade opportunities.*

¹⁹ Tavush Region is located in the north-east of Armenia, bordering Georgia in the north, Azerbaijan in the east and Gegharkunik and Kotayk Regions of Armenia in the south, Lori Region of Armenia in the west.

Component II will focus on strengthening trade capacities in four countries: Ukraine, Belarus, Moldova and Turkmenistan.

In Ukraine, the project will closely cooperate with the *UNDP Blue Ribbon Analytical and Advisory Centre*²⁰ and will provide technical support to the government for the elaboration of the "*National Strategy for Export Development*", focusing on international trade agreements, foreign trade logistics, information on foreign markets, gathering and granting access to trade information, the role of foreign trade missions, export guarantees, export financing, state support for trade related events (missions, exhibitions, promotion materials) and special economic zones and their export orientation; and the law regarding financial support for exports. The project will also provide technical assistance for export through (a) training for local and regional administration, business associations and media on the role of the local administration in providing export oriented information and training (trainings can lead to the development of local action plans aimed at raising local export capacity); and (b) training for consultancy companies and law firms in widening their capacity in doing business with other countries.

In Moldova, the project will strengthen the capacity of targeted SME support institutions to provide business advisory services through the organization of sector-specific training activities and build the capacity of SMEs on the relevant *acquis communautaire* and business-oriented topics in selected priority sectors (where such capacity are currently lacking or which have not fully tapped into export market opportunities) in order to increase their knowledge on the opportunities prevailing within existing trade preferences with the EU, expand their level of competitiveness vis-à-vis the European market and support them in becoming reliable partners. This will be achieved through the provision of targeted trade development support, and developing effective networking mechanisms, as well as developing relevant capacity-building activities

In Belarus, the project will facilitate the promotion of Belarusian light industry products in the international commodity markets by utilizing information and communication technology and enhancing capacity of enterprise exporting and marketing departments. Access to internet services and electronic trade will help overcome multiple barriers to exports, including remoteness from markets, and shortage of marketing information. This will be achieved by designing and establishing an electronic trading facility (ETF). Current international practices will be reviewed, and client expectations for the content and design of the ETF will be examined. Other activities will include technical and software support for the electronic trading facility and monitoring of performance indicators. Furthermore, the project will connect small and medium-sized enterprises to the ETF. Indicative activities will include capacity and technical assessment, evaluation of SME readiness for electronic trade (particularly in the regions and small cities), support to web-site development, training and professional upgrading of staff. Finally, the project will develop capacities of export and marketing departments in selected enterprises.

In Turkmenistan, the project will cooperate with the *Institute for Strategic Planning and Economic Development*,²¹ and will provide support to the development of an analytical study on institutional trade capacity with the aim to identify gaps and strengthen capacities of existing trade-related institutions to analyse and formulate development-oriented trade policies to capture greater benefits from an open and integrated trade regime and participate in the regional and global trade agreements.

²⁰ See <http://www.undp.org.ua/en/projects-list-all/38-prosperity-poverty-reduction-and-mdgs-/631-blue-ribbon-commission-analytical-and-advisory-centre> for more information regarding *UNDP Blue Ribbon Analytical and Advisory Centre*.

²¹ See http://science.gov.tm/en/organisations/strat_plan/ for more information on *Institute for Strategic Planning and Economic Development*.

The objective of *Component II* is to facilitate international trade on national and local level by supporting the development of strategic documents to develop trade, optimizing the institutional framework, and providing technical assistance to exporters.

Formally, the result of *Component II* can be described as follows:

Increased use of trade opportunities through technical assistance

Result indicators for project-specific monitoring and evaluation of *Component II* include:

- a. Number and quality of analytical documents developed in Ukraine and Turkmenistan using a human development and equality approach, participation of government officials in analysis (qualitative);
- b. Number of representatives of local administration, business associations and media trained on the role of the local administration in providing export oriented information and percentage of female participants; results of impact assessment at place of work (where feasible);
- c. Number of consultancy companies and law firms trained in widening their capacity in doing business with other countries and number of trainings dedicated to gender and trade/ is gender sensitive; results of impact assessment at place of work (where feasible);
- d. Number of enterprises using the electronic trade facility.

Corresponding targets are presented in Annex 1.

Component III: Understanding informalities and overcoming informal trade barriers faced by small enterprises and micro businesses, especially women entrepreneurs.

Analytical studies²² indicate that with the dissolution of the Soviet Union and the easing of international travel restrictions, individual traders in the region started in large numbers to undertake shopping trips to neighbouring countries and to places as far away as China, Turkey and the Gulf States, bringing consumer goods home to sell in the region. This small-scale, cash-based informal trade became known as shuttle trade. It has persisted mainly because regulations and other trade costs discourage the establishment of larger, more formal trading companies that would improve trade efficiency. However, it has also provided important employment and commercial opportunities for lower-income segments of the population and helped develop new trade flows across borders. Depending on the frequently changing laws and regulations of each country, shuttle trade can be legal or illegal, making it often an uncertain and hazardous undertaking for the people involved. The 'suitcase trade' or 'shuttle trade' already existed during Soviet times, but has changed and further expanded during the post communist era. More than half of the jobs lost during the transition in the region were jobs held by women.²³ It is assumed that many of these women participate in 'shuttle trade' for subsistence purposes. Despite frequent interference in shuttle trade by official policy or corrupt officials, its size across the region is believed to be large. It is poorly documented and difficult to estimate, as traders try to avoid the authorities' attention and routinely under-invoice their imports. Nevertheless, shuttle trade is an essential part of trade in Central Asia, Caucasus and Western CIS and has important implications for the reduction of poverty.

²² UNDP, Central Asia Human Development Report, *"Bringing down barriers: Regional cooperation for human development and human security"*, UNDP, Bratislava 2005 (The report in English and Russian is available at <http://europeandcis.undp.org>).

²³ UNDAW (2001), Women's Informal Employment in Central and Eastern Europe, EGN/POV/2001/EP.1

Therefore, in order to increase the understanding of these issues and discuss potential strategies to avoid informalities and informal trade barriers, to increase understanding of the impact of trade liberalization on women, gender inequality and environment, it is proposed to analyze and discuss these issues during an international meeting or conference. The conference will cover policies to address trade informalities and entrepreneurial challenges for micro businesses and small firms, as well as the impact of trade on local development, gender issues and environment. In order to gain from the Finnish experience in the internationalization of small and micro-businesses and development of the export financing system,²⁴ the conference will be organized in Helsinki and linked to a study tour showing the best practices in Finland of these areas. The preparation for the conference will include the development of country studies (background papers) on trade informalities, informal barriers to trade, trade liberalization and gender inequality and impact of trade on environment (to be presented and discussed during the meeting) in selected countries of Central Asia, Caucasus and Western CIS, i.e., in Kyrgyzstan (impact of trade liberalization on gender inequality), Azerbaijan (impact of trade on environment), Georgia (informal barriers to trade) and Moldova (informal trade in Transnistria).²⁵ The studies are expected to utilise a gender-sensitive analysis. International participants will include policymakers as well as representatives from the private sector, nongovernmental organizations and academic institutions. Therefore, the conference discussions would also involve learning components, thus making a direct contribution to capacity-building.

The objectives of *Component III* are to articulate national and sub-regional AFT issues with special reference to the challenges faced by small entrepreneurs and micro businesses operating in local areas, shadow economic activities and informal cross border trade, gender inequality and environment; and facilitate transfer of best practices (including the Finnish experience) in developing trade capacities of small enterprises and micro businesses, knowledge sharing, discussion of national and regional policies and diffusion of good practices in several thematic areas with special reference to the impact of trade (including informal trade) on local development, micro businesses, and internal trade barriers.

Formally, the result (output) of *Component III* can be specified as follows:

Better understanding of informalities and enhanced capacities to overcome informal trade barriers faced by small enterprises and micro businesses

The output (result) of *Component III* will provide the substantial and analytical background (input) for the regional meeting of trade practitioners and policy makers.

Result indicators for *Component III* for project-specific monitoring and evaluation include:

- a) Number and quality of analytical studies completed, use of gender sensitivity ;
- b) Number of participants in the regional meeting, number of female participants;
- c) Participants assessment of the quality of the regional meeting; results of impact assessment at place of work (were feasible);

²⁴ Experience of Finnvera (www.finnvera.fi) and Finpro (www.finpro.fi) and results as well as lessons learned from the project: *InfoDev: Creating Sustainable Businesses in the Knowledge Economy* (<http://www.infodev.org/en/Topic.28.html>) would be of particular interest for participants from CIS countries.

²⁵ Illegal trade and illegal economy, in general, is especially developed in Transnistria. Illegal trade there affects life of people and the economy as a whole. The situation can be characterized by short quotation from analytical study by Olga Savceac entitled *Transnistria-Moldova Conflict*: "...conflict is prolonged by the economic interests of officials on both sides in the illegal and informal trade, bribes at customs posts, and fees charged for licenses and export certificates, made possible by the situation. It is said that the annual volume of smuggling represents the loss to Moldova of the equivalent of more than two annual government budgets." (<http://www1.american.edu/iced/moldova.htm>)

Corresponding targets are presented in Annex 1.

Component IV: Creating opportunities for small enterprises and micro-businesses to benefit from trade.

Component IV will focus on creating opportunities for micro-businesses to gain from international trade and improve knowledge regarding applications of new technologies in small enterprises, and tools for better market access. In particular, it is proposed:

1. To work together with the Fairtrade Labelling Organization International (FLO) in Uzbekistan to select and train farmers and/or farmer associations to grow organic and fairly traded (certified) agricultural products (providing an opportunity to farmers in Uzbekistan to access international fairtrade markets to help increase revenues and living standards). The project will link up with the pilot UNDP Fairtrade project implemented in cooperation with UNDP/EU Enhancing Living Standards (ELS) project.²⁶ Through FLO, local producers will receive guidance and training on certification requirements support, to gain access to new markets (preferably, to begin with, in Finland and/or other Nordic countries). FLO will also support the facilitation of a deeper relationship between buyers and local producers. The sister organization of FLO in Finland²⁷ will support the activity's visibility in Finland, as well as facilitate first contacts with Finnish fairtrade buyers.
2. To organize a study tour for participants from Central Asia, Caucasus and Western CIS to western China (the region neighboring Central Asian countries) to learn from Chinese solutions with special reference to tools for better market access for small and micro businesses.

The objective of *Component IV* is to facilitate transfer of best practices in developing trade and production capacities of small enterprises and micro-businesses with special reference to tools for better market access and spread of knowledge and new technologies through international trade.

Formally, the result of *Component IV* can be described as follows:

Enhanced opportunities for small enterprises and micro-businesses to benefit from trade.

Result indicators for *Component IV* for project-specific monitoring and evaluation include:

- a) Number of farmers to be targeted to be trained to grow organic and fairly traded (certified) agricultural products will be determined after initial consultation with FLO;
- b) Number of participants, % of female participants, participants assessment of the quality of study tour; results of impact assessment in business;

Corresponding targets are presented in Annex 1.

3.4 Activities

Activities planned for the project (by project component) are listed below.

²⁶ See <http://www.undp.uz/en/news/story.php?id=1159>

²⁷ See <http://www.reilukauppa.fi/>