

**THE FAILURE OF REFORM
IN UZBEKISTAN: WAYS FORWARD
FOR THE INTERNATIONAL COMMUNITY**

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THE FAILURE OF REFORM IN UZBEKISTAN: WAYS FORWARD FOR THE INTERNATIONAL COMMUNITY

EXECUTIVE SUMMARY AND RECOMMENDATIONS

Uzbekistan occupies a key strategic position in Central Asia and has a strong security relationship with the U.S. but its political system is highly repressive and its economy is barely reformed since Soviet times. Economic decline and political sclerosis threaten internal stability and undermine regional security. The international community has long urged political and economic reform, but with little success. With no significant progress on either front in 2003, it is time for the U.S., the EU and international financial institutions to begin to shift policies: reducing lending and assistance to the central government, while increasing engagement with society and the private sector.

In March 2003, the European Bank for Reconstruction and Development (EBRD) set out benchmarks for political and economic reform that were to be met if lending was to continue. There has been little progress on any of these. U.S. attempts to promote reform within the context of a bilateral "partnership" that has a heavy security component, have also made no significant headway. There are no grounds for the State Department to certify, as required by the U.S. Congress, that Uzbekistan has made "continuing and substantive progress" on political liberalisation, human rights, and economic reforms.

Although independent groups increased their political activity in 2003, the government's attitude to political liberalisation has not changed. Opposition parties have been denied registration, their members face harassment and sometimes arrest, and there is increasing pressure on NGOs and civil society generally. It seems unlikely that independent candidates will be permitted to contest

parliamentary elections in December 2004. Freedom of expression remains extremely limited. Despite the removal of formal censorship, newspapers and broadcasting remain almost exclusively under state control, and journalists work under constant pressure from the authorities.

There is also no evidence of overall human rights improvement. Reports suggest that torture is still widespread in places of detention, despite the government's rhetorical commitment to act against it. None of the UN Special Rapporteur on Torture's 22 recommendations has been fully implemented. A government action plan against torture has had little impact on the reality of the criminal justice system. Human rights defenders and ordinary people who speak out against local or central authorities face harassment or arrest from law enforcement agencies.

Uzbekistan continues to suffer serious economic stagnation, unemployment is rising, and living standards are declining. While central Tashkent retains an air of relative prosperity, the reality for many in the capital, and even more so in the provinces, is growing poverty. The economy grew by only 0.3 per cent in 2003, according to the IMF, and GDP per capita has fallen every year since 1998, reaching just U.S.\$350 per capita in 2003. With foreign investment miniscule, the regime survives by exporting raw materials, notably gold and cotton. The only way to deal with the economic crisis is through far-reaching structural reforms, but the political elite is reluctant to embrace changes that would undermine its own privileged position.

A long-awaited announcement on convertibility of the currency came in October 2003, but the reality has been disappointing. Although in theory the currency is now convertible, in practice secret and unofficial regulations continue to limit access to foreign exchange. Severe foreign trade restrictions remain, have led to a huge rise in contraband and corruption at borders, and have badly undermined small business development. The business environment is hostile, and state organs continue to interfere with small and medium-sized enterprises.

Other key issues raised by the EBRD have not been addressed. Privatisation of state enterprises has hardly progressed, and banking reforms have stalled, ensuring that informal financial transactions continue to dominate the economy. Capital flight has increased, as Uzbek businessmen increasingly choose to invest abroad.

Economic failure has provoked social discontent. Despite the state repression, factory workers staged rare strikes in 2003 over unpaid wages, and pensioners went out on the streets demanding their payments. Young people, unable to find employment, increasingly seek to leave the country. The most active and well-educated citizens are moving to Russia or the West.

This deteriorating socio-economic environment is provoking a rising tide of popular frustration, which in some regions fosters support for radical Islamist groups. Expectations that increased Western engagement after 11 September 2001 would lead to regime liberalisation have been disappointed. Instead, there is growing disenchantment with the U.S. military presence and increasing identification of Western institutions and governments with the repressive regime.

If the EBRD, the U.S. and other donors like the EU fail to respond to Uzbekistan's refusal to move forward on political and economic reform, their own credibility and that of the wider international community will be seriously undermined in the region. There is only a limited amount outsiders can do to encourage reforms if the domestic political will to implement them is absent. When the government fails to live up to its commitments, however, the international community needs to speak out as well as work all the more with the many people within the country who want things to change for the better.

RECOMMENDATIONS

To the Uzbekistan Government:

Regarding human rights and democratisation

1. Permit the registration of independent political parties and participation by independent candidates in parliamentary elections in late 2004.
2. Strengthen media freedom and the free flow of information by:
 - (a) ending harassment and censorship of journalists and media outlets;
 - (b) permitting the reopening of newspapers closed since March 2002;
 - (c) relaxing the system of state control over the media through reform of the Agency on Press and Information, easing registration requirements for media outlets, and instructing officials to end informal and formal interference in media operations; and
 - (d) undertaking an impartial review of all cases of imprisoned journalists.
3. Allow international NGOs and journalists to operate freely in the country, including by:
 - (a) revising Cabinet of Ministers internal decree N°523 that increases control over the activities of international NGOs;
 - (b) reviewing the registration procedure for international and domestic NGOs to ensure simple and quick registration; and
 - (c) revising Cabinet of Ministers decree N°56 and other internal documents that assert excessive control over financial assistance to NGOs;
4. Take immediate measures to begin implementing the recommendations of the UN Special Rapporteur on Torture, through:
 - (a) a revised Action Plan on Torture that addresses the UN recommendations and is published in the mass media;
 - (b) a law that details police responsibility for violent actions against prisoners;
 - (c) a wider review of law enforcement agencies that addresses the systemic reasons for torture, decrease the numbers

of such agencies, and ensures political control over their actions; and

- (d) more rapid moves towards legal reforms, in particular greater independence of the judicial system.
5. End the harassment of human rights defenders; simplify the registration procedure for all groups engaged in human rights, and invite the UN Special Rapporteur on human rights defenders to visit.

Regarding economic reform

6. Begin liberalising cross-border trade as the most effective way of tackling growing poverty, massive corruption, and reviving legal small business, including by:
- (a) cutting high tariffs on cross-border trade, for both individual traders and companies;
 - (b) ending minimum capital requirements and other restrictions on creating wholesale trade companies;
 - (c) ending restrictions on trade at bazaars, such as government decree N°330, on non-food items; and
 - (d) simplifying the tax and regulatory environment for small and medium-sized enterprises (SMEs) engaged in trade.
7. Remove restrictions, formal or informal, on convertibility; relax restrictions on circulation of the national currency, including payment of wage and pension arrears, allow market mechanisms to determine the exchange rate, and permit gradual devaluation of the sum.
8. Implement banking sector reforms that increase independence of banks from the state, and ensure confidentiality of accounts, and remove restrictions on cash transactions.
9. End attacks by state organs and government officials on private property, notably by:
- (a) prosecuting officials involved;
 - (b) upgrading the Department for Support and Protection of SMEs under the Ministry of Justice;
 - (c) establishing an independent board of appeal for entrepreneurs, including lawyers, representatives of business, and international representatives; and

- (d) supporting moves to provide greater legal support and advice for entrepreneurs.

To the EBRD:

10. Suspend new lending to the public sector and state-owned companies, including banks, until there is evidence of serious commitment to a reform program aimed at increasing living standards and economic activity.
11. Monitor directly all sub-projects under SME credit lines.
12. Increase due diligence on private sector investments and ensure greater transparency, including by:
- (a) rejecting lending to private sector projects that benefit leading members of the government; and
 - (b) avoiding pre-privatisation investments in projects such as Asakabank.
13. Expand microcredit and small-scale lending and encourage more lending through credit unions and less formal community credit networks.
14. Develop internal resources in headquarters and country offices to monitor adherence to Article 1 commitments on human rights, economic reform and democratisation.
15. Seek new ways to engage with the government on policy issues, considering:
- (a) a Council on Foreign Investment to join private sector and IFI representatives with government officials in regular policy dialogue; and
 - (b) a joint business council with international and local private sector involvement to seek ways to improve the business environment.
16. Broaden the scope of Business Advisory Services and other support networks by placing much greater emphasis on legal services for business.

To the U.S. Government

17. Deny Uzbekistan certification on progress towards political liberalisation and human rights improvements under the Foreign Operations Act while:

- (a) ensuring that funds remain allocated for key sectors such as media, NGO development, legal reform, education, health, and support for private enterprise;
- (b) ending financial aid to the military and the law enforcement agencies, except in narrowly defined cases where clear national security interests are at stake; and
- (c) offering significantly increased aid in social and economic sectors if serious systemic change is being achieved according to an agreed timetable.

To the European Union (EU):

- 18. Review the Partnership and Cooperation Agreement (PCA) taking into account Uzbekistan's failure to observe commitments it has made on human rights, democratisation and economic reform.
- 19. End TACIS funding for projects with the parliament until independent candidates are permitted to contest elections.
- 20. Seek new ways for additional engagement, including more funding of projects that focus on grass-roots development, poverty alleviation, and education.

To the Shanghai Cooperation Organisation:

- 21. Use the May 2004 summit in Tashkent to work for more open trade policies and regional economic growth as an important aspect of regional security.

Osh/Brussels, 11 March 2004

THE FAILURE OF REFORM IN UZBEKISTAN: WAYS FORWARD FOR THE INTERNATIONAL COMMUNITY

I. INTRODUCTION

Since the 11 September 2001 terror attacks in the U.S. brought a new level of outside interest in Central Asia, Uzbekistan has been rhetorically committed to a program of political liberalisation and economic reform. The government claims considerable success on both fronts, claims that have been well presented and are backed by impressive official statistics. But the reality is more depressing. Far from moving the country towards a more open economy and society, decisions announced in the past few months suggest that in many ways the process is in reverse. There has been no real progress towards meeting the benchmarks set out by the European Bank for Reconstruction and Development (EBRD) in its March 2003 Country Strategy, and there has been very little progress on the commitments made on political and economic liberalisation in bilateral agreements with the U.S. and the EU.¹

While Russia, Kazakhstan and other CIS states embarked on painful but necessary reforms in the early 1990s, Uzbekistan moved slowly, retaining much of the old Soviet system behind a facade of modernisation and democratisation. President Karimov developed his own economic philosophy that stressed social stability over market reforms and effectively retained many elements of central planning and the state's key role.

By the mid-1990s the limitations of this approach were clear. Lack of reform led to sclerosis in the system, high levels of corruption went unchecked, and key income-producing sectors of the economy were taken over by vested interest groups with powerful positions in government. As a result, GDP growth slowed markedly, and in per capita terms has dropped by more than 40 per cent since 1998. According to the IMF, the economy grew only 0.3 per cent in 2003² while a well-informed international expert in Tashkent suggests it may even be shrinking.³ Uzbek workers are worse off than their neighbours: according to the EBRD their average real income is around U.S.\$40 per month, as opposed to \$55 in Kyrgyzstan and \$120 in Kazakhstan.⁴

This economic decline is almost exclusively the result of bad economic policy, overseen by an elite that is only rhetorically interested in reform and largely happy with a status quo that provides it with significant incomes and no necessity to share wealth with the broader population. The government has followed a disastrous policy of import substitution, seeking to increase domestic production on the back of foreign lending. Most of this investment has

¹ The main bilateral documents containing these commitments are the "Declaration on the Strategic Partnership and Cooperation Framework between the Republic of Uzbekistan and the United States of America", 12 March 2002, and the Partnership and Cooperation Agreement (PCA) between the European Union and Uzbekistan of June 1996.

² Accurate figures are difficult given the size of the shadow economy. Government figures are much higher, suggesting that GDP grew by 4.4 per cent in 2003, and industrial production was up 6.2 per cent. According to official statistics, real incomes grew by an unlikely 12.3 per cent, and inflation was just 3.8 per cent. The IMF claims that inflation is running at more than 20 per cent. Government figures are widely discredited, although often still used by international organisations. See, for example, UNDP, "Common Country Assessment: Uzbekistan, 2003". IMF figures available at www.imf.org.

³ ICG interview, Tashkent, February 2004.

⁴ EBRD Country Strategy: Uzbekistan, March 2003, p. 21. At www.ebrd.org.

failed, and most of the factories are faced with impending bankruptcy.

Despite rhetoric about diversification, resource extraction provides much of the government's income. To a considerable degree the economy continues to revolve around cotton and gold production and export that provide the bulk of hard currency receipts. Little of this money reaches ordinary people but it enables the system to struggle on, providing a certain level of welfare spending.

Retaining power in this exploitative system has required increased repression. Threats to the system from Islamist groups have been met with a harsh response. Thousands of Muslim activists -- mostly members of the radical but non-violent group, Hizb ut-Tahrir -- have been jailed since 1999. Secular political groups also face harassment and imprisonment, the media is almost entirely under state control, and private enterprise is constantly pressured by state authorities.

Economic decline is not only a huge loss of potential for most Uzbek citizens. It is becoming a major source of instability in the region. Uzbekistan's economic policy has led to closed borders with neighbours, strained relations over resource issues, and increasing isolation from globalising tendencies. Within the country, increased poverty, socio-economic decline, and high levels of corruption and injustice are fuelling support for more radical Islamist alternatives to the present secular regime.

The EBRD was for many years an uncritical partner in the development of this system, investing €27 million in 1993-2003, with little obvious impact on the pace of reforms.⁵ The decision to hold its Annual General Meeting in Tashkent in May 2003 provoked considerable criticism and forced the Bank to develop a much more critical Country Strategy. The new strategy, adopted in March 2003, listed benchmarks the Bank expected Uzbekistan to meet within twelve months. Failure would lead to a review of in-country operations and, implicitly, to a possible cut in lending.

There were seven benchmarks in all, focusing on political liberalisation and human rights, and on

economic reforms. They included greater political openness, in the fairly minimal sense of allowing civil society groups to operate freely and lessened media censorship; and increased observance of human rights, primarily implementation of the recommendations of the UN Special Rapporteur on Torture, who visited in November 2002 and concluded that torture was systematic in the criminal justice system.⁶

On the economic side, the benchmarks focused on opening up Uzbekistan's increasingly closed economy.⁷ They emphasised foreign exchange liberalisation and the introduction of a single exchange rate, and progress on implementing agricultural reform. Other benchmarks called for opening up the economy, diminishing trade barriers, and improving the business environment, including better legal protection of private property, and accelerating privatisation. The woeful state of the banking sector, which is effectively an arm of the state, was to be addressed, with more progress towards market allocation of credits and less government interference. Finally, the Bank called for progress in energy sector restructuring and raising tariffs towards cost-recovery levels.

The Uzbek government, sensitive to outside pressure, has clearly been irritated by the benchmark process. Some diplomats suggest that it was an inappropriate and even counter-productive way of promoting reform.⁸ Nevertheless, many of these benchmarks have been reflected in government rhetoric, which long promised a convertible currency, and rhetorically supports development of the private sector, privatisation of state companies, and improved trade conditions.

Uzbekistan also faces increased pressure under the terms of its Strategic Partnership with the U.S. and the conditions placed on aid to Uzbekistan by Congress. Under the terms of the Foreign Operations Act, the State Department has to certify that Uzbekistan is making "substantial and continuing" progress on human rights, political liberalisation and economic reform to ensure that aid continues to flow

⁵ The €27 million is net cumulative business volume as of 31 December 2003. Information provided by EBRD. Details of projects financed by the EBRD are available at www.ebrd.com/country/country/uzbe/index.htm.

⁶ See Appendix B for the benchmarks. The full EBRD country strategy is available at www.ebrd.org.

⁷ According to the ratings prepared by the Heritage Foundation, Uzbekistan is rated 149th out of 155 countries with regard to economic freedom, in the company of Burma, Libya, Turkmenistan and North Korea. See 2004 Index of Economic Freedom, at www.heritage.org.

⁸ ICG interviews, Western diplomats, Tashkent, February 2004.

to the central government. This certification was provided in 2002 and 2003, despite objections that there was little basis for it.⁹

In December 2003 for the first time State Department officials noted that it was not able to certify such progress under a different aid program (Comprehensive Threat Reduction Act) related to assistance to tackle nuclear proliferation.¹⁰ A presidential security waiver enabled aid to continue, but no such security waiver provision exists in the Foreign Operations Act, under which the bulk of aid is passed.¹¹ A report is due in March 2004, when the U.S. will be hard-pressed to claim progress in any of the main elements of the Strategic Partnership.

The EBRD benchmarks, the U.S. certification procedure, and the EU's dialogue within the context of the Partnership and Cooperation Agreement (PCA) and its various assistance programs provide opportunity to shift international policy. The emphasis on quiet diplomacy and friendly engagement has not worked and has caused serious damage to the image of the West in the region. A more public and hard-edged approach is required but one that taking into account the long-term interests of Uzbek society, seeks not disengagement from Uzbekistan, but rather stronger and more critical engagement.

This report briefly updates the record of the government's promises to the international community. A more detailed examination of the reality of Uzbekistan's economic and political reform can be found in previous ICG reports.¹²

⁹ See ICG Asia Report N°46, *Uzbekistan's Reform Program: Illusion or Reality?*, 18 February 2003; and Human Rights Watch, "Uzbekistan: Progress on Paper Only: Analysis of the U.S. State Department's Certification of Uzbekistan", 3 June 2003, at www.hrw.org/background/eca/uzbek060303-bck.htm.

¹⁰ See Peter Slevin, "U.S. Gives Uzbekistan Failing Grade on Rights", *The Washington Post*, 11 January 2004, and "Memorandum for the Secretary of State: Waiver of Restrictions on Assistance to the Republic of Uzbekistan Under the Cooperative Threat Reduction Act of 1993 and Title V of the FREEDOM Support Act", at <http://www.state.gov/p/eur/rls/prsrl/2003/27665.htm>

¹¹ Strangely, a security waiver is permitted for Kazakhstan, where the U.S. has significant commercial oil interests.

¹² For general background on the political system, see ICG Asia Report N°21, *Uzbekistan at Ten: Repression and Instability*, 21 August 2001; for a more recent assessment of reform in Uzbekistan, see ICG Report, *Uzbekistan's Reform Program*, op. cit., and ICG Central Asia Briefing, *Central*

II. HUMAN RIGHTS AND DEMOCRATISATION

A. POLITICAL OPENNESS

Under present rules, parliamentary elections in December 2004 will not offer voters any real political choices. All candidates will be handpicked, and vetted for any sign of independent thinking and loyalty to the government. It seems unlikely that any opposition group will be able to propose candidates. Independents who attempt to register are likely to face overwhelming opposition from the authorities.

A number of unregistered opposition groups have sought to become political parties, including Birlik and Erk, which stem from secular democratic parties that emerged in the early 1990s. The leaders of both are in exile. While Birlik has held congresses in 2003, there has been continued pressure on Erk, including harassment and sometimes arrest of its members. Erk's exiled leader, Mohammed Solih, is accused by the government of involvement in bombings in Tashkent in February 1999, charges he denies. After several delays owing to government pressure, Erk did manage to hold a conference in October 2003, its first since the early 1990s.

Birlik was again refused registration on 24 December 2003 by the Ministry of Justice, although it claimed to have gathered the necessary 5,000 supporting signatures. According to one activist, the security forces persuaded some who had signed to withdraw their signatures by claiming that Birlik was an extremist organisation.¹³ Without registration, it will be unable to participate in the parliamentary elections.¹⁴

Birlik and Erk are relatively small, with narrow support bases, and neither poses a serious threat to the regime. But newer political forces are emerging. The Party of Agrarians and Entrepreneurs, led by

Asia, A Last Chance for Change, 29 April 2003. See also the regular reporting by Human Rights Watch, at www.hrw.org, and the reports of the Institute for War and Peace Reporting (IWPR), at www.iwpr.net.

¹³ ICG interview, Dilshad Tillahodjaev, Tashkent, February 2004. Those who signed in support of the party were allegedly invited to personal interviews with the security forces and to sign a document saying they had acted mistakenly and withdrew their signatures.

¹⁴ Deutsche Welle, "Uzbekskomu dvizheniyu birlik vnov otkazano v registratsii", 5 January 2004.

Marat Zakhidov, seemed initially to find a constituency among private farmers and small businessmen concerned about slow economic reform. Predictably registration was refused. A splinter group formed the Free Farmers party, which held a founding conference on 15 November 2003 but still awaits a decision on registration.

Partly in response to the more active opposition, a new pro-government entity, the Liberal Democratic Party, was established in November 2003. Led by Qobiljon Toshmatov, head of Pakhtabank, it claimed it would represent businessmen and entrepreneurs. Although initially it seems to have included some independent voices, it was quickly co-opted into another pro-government party, with no independent program. President Karimov endorsed it the day after its formation, and it received registration almost immediately.¹⁵

Unless there is change in this moribund political environment, the elections due in December 2004 for a new bicameral parliament will be a farce, "contested" by five political parties without independent programs. They will be neither free nor fair, will further consolidate a small ruling elite, and ensure that there are no legal channels for citizens opposed to present government policies to express themselves. Attempts by groups such as Birlik to promote independent candidates by forming "initiative groups", seem unlikely to succeed. Local administrations will attempt to block any such efforts through all means available.

Understandably, many are afraid to get involved in political organisations but there has been increasing political activism throughout 2003. Small pickets have been mounted by individuals or groups with specific complaints outside government buildings; there have been several protests over socio-economic issues, including lack of gas and electricity outages in Andijan, protests by pensioners in Urgench and elsewhere, and frequent protests by the relatives of imprisoned Hizb ut-Tahrir activists. Participants in protests were sometimes harassed and occasionally arrested but often merely observed by the police (and sometimes filmed), in a shift from earlier years, when protests were quickly suppressed. Sometimes other measures were used to discourage participation, such

as censure by local neighbourhood (*mahalla*) committees, or pressure at work or on relatives.¹⁶

The conferences held by Birlik and Erk and the growing number of small demonstrations fostered a sense in September-October 2003 that the authorities might be relaxing their attitude towards the political opposition somewhat. But in late 2003 there seemed to be a new hardening of policy: Birlik was again denied registration, and political groups reported increased surveillance and harassment. Partly this may have been a reaction to the overthrow of President Shevardnadze in Georgia in November 2003 in which political opposition groups, NGOs and civil society organisations took active parts.

Uzbekistan's need for democratisation is not merely because the government has signed international agreements. The regime needs to open up the political environment so as to introduce more experts and independent-minded politicians into the ruling elite. Even more importantly, it needs to provide legal channels for the expression of discontent so that non-constitutional opposition does not grow.

Officials are concerned that opening the political system would lead to unrest and the emergence of Islamist groups. In fact, the opposite seems to be happening. The lack of channels for discontent is feeding frustration among the population and is a primary reason for the rise of underground Islamist political groups. These remain relatively small and repressed but they constitute a potent alternative to the regime for at least a minority.

The leadership's response to a more active political opposition and increasing social discontent has been greater control. Recent government changes have tended to advance hardliners close to President Karimov, who are not noted for commitment to political or economic reform.

In particular, the appointment of Shavkat Mirziyoyev as prime minister in December 2003 has undermined hopes of a more progressive line. As governor of Samarkand, he earned a reputation for having little interest in economic reform and hostility to NGOs and independent media. Unlike his predecessor, who

¹⁵ IWPR, "Party time in Uzbekistan", 28 November 2003.

¹⁶ *Mahalla* committees are one of the regime's most effective instruments for suppressing dissent and encouraging conformity. See Human Rights Watch, "From House to House, Abuses by Mahalla Committees", at www.hrw.org.

had very limited powers, Mirziyoyev appears to have been given wide scope.

Other appointments suggest Karimov is attempting to form a new team, distinct from the ageing clan leaders who dominated politics in the 1990s. The dismissal of Ismail Jurabekov, a presidential adviser and long-time "grey cardinal" of the regime, in February 2004, may fit this pattern. However, it is not clear that this successor generation is more enthusiastic about reform. The focus of their policies remains preservation of their monopoly on power and, increasingly, the most lucrative branches of economic activity as well.

There are more principled, reform-minded officials in the government and presidential administration, but as elections approach, and fear of social unrest and political opposition increases, they seem to be increasingly sidelined. The lack of a clear mechanism for political succession remains a worrying element in the context of wider political and social tension.

B. FREEDOM OF THE MEDIA

When Bakhtior, a taxi driver, drove adventurous German tourists to the ecologically stricken Aral Sea, he was shocked to learn from his passengers that an island in the middle of the sea contained a dangerous anthrax virus, and a large proportion of the population suffered from rare strains of tuberculosis. "I drove all the way back to Samarkand the same day", he recalled, "but I couldn't believe that some people in Europe had more information about my country than I did. I had never heard of all these problems".¹⁷

It is not surprising that Bakhtior knows little about the ecological problems of Uzbekistan. The media ignores unpleasant facts and uncomfortable problems. Television provides a rosy picture of happy workers, growing investment, and a prosperous economy that is far removed from reality. Newspapers concentrate on presidential speeches or glowing reports of new factories. Hints of criticism creep into their pages only occasionally.

Until May 2002 this system was maintained through complete pre-publication censorship. Under international pressure, censorship was abolished but was replaced with a panoply of measures to keep

journalists under control. A new Agency on the Press and Information took on some of the censor's role, although it checked newspapers after publication, not before. Strict requirements to register a newspaper or other media outlet also applied. More informal local and national measures ensured that editors became responsible for an internal censorship regime that was almost as effective as the previous mechanism. The security forces remain as a last resort if these measures fail. According to a media expert, more than a dozen journalists are in prison on a variety of probably fabricated charges.¹⁸

Nevertheless, with the end of censorship, a steady trickle of more critical articles emerged in the local press. Non-government papers, such as the Uzbek-language *Mohiyat*, became bolder in writing about social problems and corruption. However, after it published poems deemed critical of President Karimov in August 2003, the editorial team was forced to quit. *Mustoqil gazeta* survived nineteen issues before it, too, was forced to close. Its criticisms of corruption in the education system and abuses of human rights in the justice system were too much for the authorities. Amirqul Karimov, editor of *Hurriyet*, was forced to resign after an article about homeless children in March 2003. *Pravda vostoka*, a Russian-language paper that printed some critical articles in 2003, was much more cautious in its reporting in early 2004. Its most outspoken journalists, such as Sergei Ezhkov, had left it.¹⁹

At least there was a sense of journalists pushing the boundaries of the possibility in some areas. A leading journalist pointed out that: "Three years ago you couldn't imagine an article critical of the ministry of internal affairs in the newspapers, or something about the procuracy".²⁰ But such articles remain rare, and any criticism tends to be aimed at middle-ranking local officials and usually has an official sanction.

Radio and television are much less likely to have critical reporting, although occasionally independent TV stations air mildly critical programs, and the Grand radio station in Tashkent managed to broadcast some provocative pieces on human rights.

¹⁸ ICG interview, Tashkent, February 2004.

¹⁹ "Otstranen ot raboty odin iz samykh izvestnykh zhurnalistov Uzbekistana Sergey Ezhkov" [One of the most well known journalists in Uzbekistan, Sergei Ezhkov is dismissed], Fergana.ru, 13 January 2004

²⁰ ICG interview, Tashkent, February 2004.

¹⁷ ICG interview, Samarkand, February 2004.

There appears to be slightly more willingness among independent stations to show programs produced by the international NGO Internews, and some stations broadcast foreign programming from Voice of America and other providers,²¹ but national television remains highly censored. Many people have access to Russian channels, which are a more reliable source of news but have little coverage of Uzbekistan.

Many journalists have turned to the internet to continue reporting, and a number of new sites are on the web, though access to many is restricted by the security forces. Articles about Uzbekistan on the popular site www.centrasia.ru are not accessible, and most opposition sites are usually inaccessible. Much of this censorship is ineffective as savvy internet-users can get around the restrictions by using proxy servers. Though the internet is increasingly important and access is spreading rapidly, it is presently accessible only to about 2 per cent of the population.²²

The Institute for War and Peace Reporting (IWPR), a respected internet source of Russian and English-language news on Uzbekistan, had its registration revoked in November 2003. Some correspondents of other local and international news agencies also report problems with accreditation or access to press conferences.

A little freedom had been enjoyed by NGOs who publish small-circulation bulletins and pamphlets. However, a government decree in 2003 also made registration, and thus censorship, of such publications compulsory.²³ In practice, though, most NGOs continued to publish these pamphlets without interference.

Overall, press freedom did not improve during 2003, and particularly towards the end of the year and in early 2004, pressure seemed to increase on information flows.²⁴ Increased pressure on

international NGOs that support an independent media such as the Open Society Institute, which has helped two popular websites, is also likely to have a negative effect.

All these restrictions ensure that the population is poorly informed of both domestic and international events. There still is almost no coverage of events in other Central Asian countries or independent reporting on the Middle East or other regions. Islamist groups use this vacuum to publish their own leaflets, particularly Hizb ut-Tahrir, which offers populist coverage of some internal and foreign news. Many Islamist websites also provide wide coverage of Uzbek affairs.²⁵

The lack of a free media makes it very difficult to tackle corruption and other barriers to economic growth. Freeing the media would help limit the excessive power of law enforcement agencies and the impunity for torture and brutality they mostly enjoy. Instead, Tashkent is full of rumours, conspiracy theories and dubious internet reports that further undermine government legitimacy.²⁶

C. INDEPENDENT CIVIL SOCIETY GROUPS

Uzbekistan needs strong NGOs and civil society activism if it is to move towards economic and political openness. The paralysis of the state and the sclerosis in the political elite highlight the need for increased activity in this sector. There has been some success in broadening the number of NGOs involved in a wide range of activities but in late 2003 there seemed to be a backlash, overtly focused on international NGOs, but also impacting on the functioning of domestic civil society organisations.

Despite government pressure, 2003 saw an increase in activity by civil society groups, including several

²¹ ICG interview, Karim Bakhriev, Deputy Director Internews, Tashkent, February 2004.

²² Only 8 per cent of government offices have an internet connection. See UNDP Digital Development Program, "Uzbekistan e-readiness report, 2003". Figures suggest access nearly doubles annually.

²³ IWPR, "Bad News for Uzbek Publishers", 19 December 2003.

²⁴ In an amendment to the law reported in February 2004, the definition of treason was widened to include providing state secrets to an "international organisation or its representatives". Since much information is considered a state secret, this clause

seems designed to limit the flow of information to media and other organisations. See Abduvakhid Sadykov, "Obrechennye nezavisimostyu: o nekotorykh aspektakh vnutrennoi politiki Uzbekistana", Fergana.ru, 23 February 2004.

²⁵ See www.muslimuzbekistan.com.

²⁶ For example, there was a bizarre report of Minister of Foreign Affairs Sadyk Safayev's "marriage" to the daughter of President Karimov in 2003. It was untrue but was transmitted by respected broadcasters. In the same vein, the regular internet reporting of an analyst writing under the pseudonym Khaknazarov mixes fact and fantasy in equal measure. See www.centrasia.ru. Such reporting is inevitable in Uzbekistan's kind of media environment.

conferences of opposition groups and meetings of human rights defenders. Some took place without overt interference, but in many cases the authorities harassed attendees and sometimes refused permission for the events. For example, the government prevented the Mothers Against the Death Penalty (MADP) group from holding a one-day conference on that subject that was supported by the OSCE and the UK embassy.²⁷

As of February 2004, the government had registered only two human rights groups, the Independent Human Rights Organisation of Uzbekistan (IHROU), and Ezgulik, which finally achieved registration in March 2003 after two refusals in the previous year. Both registrations came only after strong international pressure had been exerted.²⁸

During the EBRD monitoring period there have been no further registrations of human rights groups. The Human Rights Society of Uzbekistan (HRSU), led by Tolib Yakubov, remains unregistered, despite several applications, as do a number of other small groups. The Mazlum human rights group was denied twice in 2003. Mothers Against the Death Penalty and Torture was also refused, as was *Demokratia va huquq* [Democracy and Law].²⁹

Additional legislation introduced in January 2003 restricted freedom of assembly severely. A decree restricted gatherings of more than 100 people to organisations obtaining special permission.³⁰ In

reality, law enforcement agencies do not feel a need for additional legislation to break up demonstrations or protests: the existing rules allow action on vaguely defined security or public order grounds.

Although there has been more activity by independent civil society groups, there has been no real change in the attitude of the authorities to them. They face the same restrictions, including pressure on members at work and in their community, and sometimes arrest. The environment may become even more difficult if pressure continues to be applied to international NGOs, who often serve as a partial defence for such groups.

According to NGO leaders, in December 2003 the National Security Service (NSS) established a separate department to monitor and control NGOs, particularly their contacts with international organisations. Similarly, the tax inspectorate is reported to have set up a new department in January 2004 to monitor grants and other NGO funding.³¹ Some NGOs have already faced difficulties as banks now need permission from the Central Bank to release grant money.³²

Uzbekistan has always been reluctant to allow international NGOs to act freely, particularly in political or human rights areas. Since 2001, nevertheless, there has been an increase in the presence of such groups, with U.S.-based organisations such as Freedom House, the National Democratic Institute and the International Republican Institute, setting up offices in Tashkent. Other organisations have found it difficult to gain official registration, and have been warned to avoid confrontational stances on particular issues, or to avoid working with unregistered groups.

Pressure on such NGOs began to increase in 2003, however, and the government has demonstrated particular sensitivity to their links with local NGOs in the wake of events in Georgia late that year. Azizulla Gaziev, a research analyst with the International Crisis Group, was forced to leave the country in August 2003, after interrogation and harassment by officers of the National Security Service. The Institute for War and Peace Reporting (IWPR) lost its official registration with the Ministry of Foreign Affairs in November. The government increased pressure on the Tashkent office of Human

²⁷ The death penalty in Uzbekistan is surrounded by abuses, including dubious procedure, failure to inform relatives in a timely fashion that a sentence has been carried out, and official secrecy surrounding the whole issue. See Amnesty International, "Justice only in heaven" -- End the death penalty in Uzbekistan", www.amnesty.org.

²⁸ In theory, any public organisation must register with the Ministry of Justice to operate. Unregistered organisations, including human rights groups, do operate, but their members are theoretically open to criminal charges. The government uses the registration requirement to control organisations. The threat to refuse renewal of registration is frequently used to limit activities. A similar process is applied against international NGOs. The constant games with the authorities over whether particular organisations should or should not be registered often misses the point that the whole procedure is the problem as much as individual registrations.

²⁹ Andrei Kudrashov, "Prava cheloveka: Tashkentskie pravozashchitniki probuyut suditsya s Ministerstvom yustitsii" [Human rights: Tashkent human rights activists attempt to take Ministry of Justice to court], Fergana.ru 19 January 2004.

³⁰ Decree of the Cabinet of Ministers, N°15, 13 January 2003.

³¹ ICG interviews, NGO leaders, Tashkent.

³² ICG interviews, NGO leaders, Bukhara, Tashkent.

Rights Watch (HRW), publishing attacks in the official press on its reporting.³³ In November 2003 a training session held by Freedom House in the Pop district of Namangan region was disrupted by the local authorities.³⁴

In December 2003 the Ministry of Foreign Affairs announced that international NGOs would be required to re-register with the Ministry of Justice by 1 March 2004. Although the government claimed this was merely a technicality, many feared it would result in more controversial NGOs losing their registration.³⁵ New regulations for the registration and operation of international NGOs offer scope for increased control by the Ministry of Justice and other state organs.³⁶

This move caused concern in the international community. The U.S. continued to insist that U.S.-funded NGOs should be registered through the Ministry of Foreign Affairs, as stipulated under a bilateral agreement. Cultural and humanitarian organisations feared the tax and status implications. Government officials suggested international NGOs were overreacting and re-registration would proceed smoothly. This seems likely in most cases.

Nevertheless, the new regulations set further limits to the work more political NGOs can do: off-the-record warnings can ensure that NGOs avoid controversial subjects or working with groups the

government dislikes. Even if all manage to re-register, some will feel obliged to be more cautious in programs and public statements.

It is too early to tell how far the new restrictions reflect a sustained shift in government policy, and how much a short-term response to events in Georgia. One well-informed NGO activist claims the new policies are "an attack on the whole third sector".³⁷ It seems unlikely that events will progress so far, but pressure on NGOs is likely to continue in a strained political environment because the authorities fear the emergence of opposition movements. Local NGOs will probably come under increased pressure to limit contacts with "undesirable" international partners.

D. HUMAN RIGHTS AND THE UN SPECIAL RAPPORTEUR ON TORTURE

1. Arrests and Harassment

Amid the stream of investment presentations at the EBRD Annual Meeting in Tashkent in May 2003, one confrontation was almost unprecedented. For perhaps the first time, Uzbekistan government ministers faced direct public criticism from a wide range of local NGO representatives, including human rights activists. The government made a specific commitment that those who spoke out would not suffer as a result. In fact, many in attendance suffered harassment or beatings in the months following.³⁸

Human rights abuses in Uzbekistan fall roughly into two categories. Those perpetrated against members of human rights groups or opposition political parties, or well-known journalists, often based in Tashkent, usually get wide publicity and often are taken up by embassies with the government. To avoid such publicity, the government treats better known human rights activists with some caution, although there is no guarantee.

The larger category consists of abuses against the wider population, particularly in the regions, and include cases of farmers who object to local corruption or the theft of their land; businessmen

³³ See "Uzbek leader lashes out at rights bodies over criticism of neighbourhood system", Eurasianet.org, Uzbekistan Daily Digest, 8 December 2003.

³⁴ Freedom House Press release, "Uzbekistan must stop intimidating human rights workers", 22 November 2003, <http://www.freedomhouse.org/media/pressrel/112403.htm>.

³⁵ "Uzbekistan uzhestochaet kontrol za mezhdunarodnymy organizatsiyamy" [Uzbekistan increases control over international organisations], Fergana.ru, 22 January 2004. ICG interviews, Tashkent, February 2004.

³⁶ Accredited personnel of such organisations are required to "not interfere in the internal affairs of the Republic of Uzbekistan", and "respect the culture, customs, traditions and way of life of peoples, living in the Republic of Uzbekistan", both apparently innocent formulations, but open to wide interpretation. Any activities of international NGOs will only be permitted after permission has been obtained from the Ministry of Justice; officials will have the right to attend any activities of the organisation. Organisations are banned from political activity (not defined in the decree), and from financing any activities or meetings of political parties or movements, or initiating the creation of such organisations. The ministry also has the right to check the use of funding by organisations, providing further scope for interference. Decree of the Cabinet of Ministers, N°543, 11 December 2003.

³⁷ ICG interview, Tashkent, February 2004.

³⁸ For more details see Human Rights Watch, "Aftermath to Annual Meeting Marked by Setbacks to Human Rights", www.hrw.org, 17 July 2003.

whose goods or businesses have been confiscated; and ordinary people who have tried to assert their rights against the authorities. Mostly these are not reported, relatives try not to cause a scandal, and there is little access to international organisations. A young man who claims to have been beaten by the police for refusing to provide false testimony in a political case says: "If I tell anyone what happened to me, they'll find out, and things will only be worse for me".³⁹ In many provinces, the police are a law unto themselves, with little political control and no fear of repercussions for brutality.

Among the publicised cases⁴⁰ was that of Ruslan Sharipov, a well-known journalist, who was arrested in May 2003 on charges of sodomy and sex with minors. Few believed it was other than a politically-motivated case. While he admits to being a homosexual -- illegal in Uzbekistan -- he claims the other charges have been fabricated. The case follows a pattern used by the authorities of finding charges against opponents unrelated to political conduct. Sharipov was sentenced to five and a half years in prison, reduced to four years on appeal. In letters smuggled out of prison, he claimed he had been ill-treated by police and feared for his life.

Sharipov was the most prominent opponent of the regime to suffer at the hands of the authorities but there were many other instances of harassment and detention. On 28 August 2003 men in masks abducted and beat his lawyer, Surat Ikramov. The authorities claimed it was merely a criminal act but again it seems likely to have been political revenge for his support for Sharipov, and human rights work.

Members of the Erk party were particularly vulnerable to police harassment. On 23 March 2003, police detained Hasan Kambarov. He was released briefly in May, but rearrested and held without charge and incommunicado for most of the year. Relatives claimed he was subjected to electric shock and suffocation. There were reports that he left the country in November 2003.⁴¹ On 13 October 2003, police detained two further members of the party, Oigul Mamatova and Abduhashim Gafurov. They were shortly released, but pressure continued on

others. There is a report that A. Mahmudov, a member of Tanlov, Erk's youth wing, was arrested on the Kazakh border in October 2003 and has not been seen since.⁴²

Activists in the provinces faced continued local harassment. In June 2003, Akhmadjon Madmarov, a human rights activist from Margilan, was warned he faced criminal charges if he attended further protests. He claimed that his imprisoned son was ill treated after he spoke out about torture at the EBRD Annual Meeting.⁴³ On 20 August women -- many prostitutes -- beat up Mutabar Tajibaeva and other organisers of a protest in Fergana City. Tajibaeva was hospitalised for a week. Since there are close connections between law enforcement agencies and prostitute rings, it seems highly probable local authorities instigated this.

More than 100 religious activists were reportedly arrested in 2003.⁴⁴ Many claimed their cases were fabricated. In one of the worst, Fatima Mukadirova was detained on suspicion of owning extremist literature, charges she denied. Mrs Mukadirova is the elderly mother of Muzafar Avazov, who died in prison in August 2002, apparently after being beaten and submerged in boiling water. She seems to have been arrested largely as revenge for her constant calls for an investigation into his death. In February 2004 she was sentenced to six years imprisonment. UK Ambassador Craig Murray called the verdict "appalling", and human rights groups demanded her immediate release.⁴⁵ On appeal, she was fined and released, just before a Tashkent visit by U.S. Defence Secretary Rumsfeld.⁴⁶

Actions against the secular opposition appear to be on the rise. On 16 February 2004, police arrested Moydijan Kurbanov, the head of Birlik in Jizzakh

³⁹ ICG interview, student, Tashkent, February 2004.

⁴⁰ For a fuller account of human rights abuses, see the regular reporting by Human Rights Watch and U.S. State Department, "Country Reports on Human Rights Practices, 2003: Uzbekistan".

⁴¹ See U.S. State Department, "Country Reports", op. cit.

⁴² There was no independent confirmation of this report. See Dilshod Usamov, "Ocherednoi arest Tanlovtsa" [Another arrest of a Tanlov member], www.centrasia.ru/newsA.php4?st=1075936080.

⁴³ ICG interview, Akhmadjon Madmarov, Tashkent, February 2004.

⁴⁴ U.S. State Department, "Country Reports", op. cit.

⁴⁵ Nick Paton Walsh, "Uzbek mother who publicised 'boiling' torture of son gets hard labour", *Guardian* (London), 13 February 2003; International League for Human Rights, "Public Letter to President Karimov", 18 February 2004.

⁴⁶ Sewell Chan, "Uzbekistan Frees Government Critic: Action Coincides With Rumsfeld's Arrival in Capital", *The Washington Post*, 25 February 2004, p. 20. The authorities denied any connection between the two events.

province and an active human rights defender. The police claimed to have found four bullets and a hunting rifle in his chicken coop, together with a small quantity of a narcotic substance. That the bullets and gun were of different calibres, and the chicken coop seemed to have been broken into, suggested a clumsy attempt to frame Kurbanov. The arrest followed long harassment. Kurbanov was released on remand after wide publicity but the case is not closed.⁴⁷

Some incidents suggested the police were gathering material on Western-educated young people, concerned that they would become more politically active. For the most part, human rights and opposition groups have older members; young people seldom get involved, lest they damage careers or cause problems for parents and family. This may change, as levels of youth discontent grow, although for most educated young people emigration seems to be the main challenge.

Apart from direct arrests and beatings, a favourite method of the authorities has been to threaten reprisals against family members. Other harassment includes occasional refusal of exit visas to activists who wish to attend seminars or conferences. In January 2004, Akhmadjon Madmarov and Tolib Yakubov, a Tashkent-based human rights leader, were refused permission to attend a human rights seminar in Bishkek.⁴⁸

The much wider spectrum of abuses against ordinary people in the regions is largely unreported. "It's turned into a kind of banditry", says a local man in a small town in Bukhara province, who has faced constant harassment from the local police. Most of this is designed to elicit bribes. Another man in the same region, who did not want to be named, was asked for U.S.\$500 to close his drug-related case; he claims that when he admitted he had no money, the police beat him for three days in a cellar until he named names in a fabricated drug ring.⁴⁹ None of

this is documented but the police act with less and less regard for the law.

Thousands of dollars are sometimes demanded to close more significant cases, initiated on the basis of fabricated evidence. Credible reports suggest that such cases also involve richer members of Hizb ut-Tahrir, the radical Islamist group. At the other end of the spectrum, small bribes are needed for everything. "It's 5,000 sums [U.S.\$5] to visit my wife", says a man whose wife is in detention, awaiting trial, "another 5,000 to pass her some food. If I pay \$50 I can go and chat to her all day".⁵⁰

Such people have little redress. The procurator's office, which is supposed to act in the cases, is normally enmeshed in the same system of abuse. Citizens who still believe in the essential legitimacy of the system carry around files of unanswered letters to the parliamentary ombudsman, the presidential administration and other bodies. "We were taught in school about constitutional law, so I thought I would get redress from the procurator or the ombudsman", said a disenchanting young man. "Now I understand there is nobody to turn to".⁵¹

This sense of frustration and powerlessness is widely felt in the face of police harassment. Drivers are used to the frequent bribes demanded by traffic cops, but even in this area excessive demands can provoke violence. A human rights group reports the case of Rustam Madaminov, who was stopped once more in the town of Khiva and asked for money. When he refused, he was threatened with arrest on a fabricated charge. At this, he got a canister of petrol from the car, poured it over himself, and burned himself to death.⁵²

It is hard to imagine the state of mind that produces such acts, but anecdotal evidence suggests that as the economy declines, the police are increasing their bribes demands, pushing many into penury. The despair among the population is palpable: one interviewee, who had exhausted all avenues in his search for justice, said exhaustedly, "I am a peaceful man, but sometimes you think that the only answer is to take a hand grenade..."⁵³

⁴⁷ Human Rights Watch, "Uzbekistan: Human Rights Defender Detained", 26 February 2004, at www.hrw.org.

⁴⁸ Information from Tolib Yakubov, Akhmadjon Madmarov. The exit visa regime does not seem to cause much international concern, unlike in neighbouring Turkmenistan where international pressure led to a lifting of the formal restriction in December 2003. In reality refusal of an exit visa is rare, but is a useful tool for the authorities against dissidents.

⁴⁹ ICG interview, southern Uzbekistan, February 2004.

⁵⁰ ICG interview, Tashkent, February 2004.

⁵¹ ICG interview, Tashkent, February 2004.

⁵² Report from the Ozod ovoz organisation, 19 February 2004.

⁵³ ICG interview, Tashkent, February 2004.

The frequent international concentration on individual cases, although important, hides the systemic problems of law enforcement in Uzbekistan. Law enforcement agencies increasingly are a state within a state, often with more power, formal and informal, than the political authorities. Until there is better political control of the police force, a real system of redress for citizens, and a more independent court system, the abuses will continue.

2. Torture

The continued ability of law enforcement agencies to harass and detain citizens is backed up by brutality and torture against detainees. The fear thus engendered is a key regime instrument for ensuring obedience and limiting public dissent.

A visit by the UN Special Rapporteur on Torture, Theo van Boven, in November 2002 produced a detailed report that concluded torture was "systematic" in the law enforcement agencies and prisons. Van Boven offered 22 recommendations to the government to diminish its prevalence.⁵⁴ The EBRD made progress on these recommendations one of its key benchmarks.

The government's response to the UN report was weak. By February 2004, at least from publicly available information, only one recommendation had been partially implemented: a change in the criminal code to strengthen the prohibition of torture.⁵⁵ Since the legislation had been routinely ignored, it seemed unlikely this change would make much difference. The government continued to deny the main conclusion of the report, that torture was systematic.⁵⁶

Officials claimed fifteen law enforcement agents had been prosecuted for torture⁵⁷ and produced a National Action Plan on Torture. At the time of writing a final version had still not been published but the early drafts revealed no real plan to implement the Rapporteur's main recommendations. The emphasis instead was on seminars and conferences. A Human Rights Watch representative commented:

the national action plan process has had no impact on the ground and torture remains systematic and widespread. More than a year after the Rapporteur's visit none of his recommendations have been implemented, and even a final version of the government action plan has not been published.⁵⁸

However, the National Action Plan did seem to distract international attention from the failure to respond adequately to the report.⁵⁹ A final Action Plan will only be useful if it includes adequate provisions for implementing the recommendations.

Some observers suggest that prison conditions improved in 2003. It is difficult to verify such claims, but a number of international organisations, including the OSCE, have begun working with prisons and prison officers in programs that seem to offer some possible potential. Two NGOs began monitoring prisons in 2003, gaining semi-independent access to

the Committee against Torture: "...torture is practised systematically when it is apparent that torture cases reported have not occurred fortuitously in a particular place or at a particular time, but are seen to be habitual, widespread and deliberate in at least a considerable part of the territory of the country in question. Torture may in fact be of a systematic character without resulting from the direct intention of a Government", UN Commission on Human Rights, "Report of the Special Rapporteur", *op. cit.*, p. 25, fn. 6.

⁵⁷ It is not clear who these officers were; and none of the details of their convictions have been published.

⁵⁸ ICG interview, Allison Gill, country director, Human Rights Watch, February 2004, Tashkent.

⁵⁹ Typical were comments by Assistant Secretary for Democracy, Human Rights, and Labor Lorne Craner, who said at a press conference that, "[the government] has ... tried to figure out solutions to each of the problems that were outlined in the report ... and then develop a timetable for implementation of those recommendations.... You can never guarantee an end to the practice of torture because it comes from the mind of an individual. But if this plan were fully implemented, you would put in place the kind of safeguards that would virtually eliminate torture here in Uzbekistan". Press Conference, Tashkent, 10 November 2003. Available at <http://www.state.gov/p/eur/rls/rm/2003/26275.htm>.

⁵⁴ UN Committee on Human Rights, "Report of the Special Rapporteur on the question of torture, Theo van Boven, submitted in accordance with Commission resolution 2002/38, doc. E/CN.4/2003/68/Add.2", 3 February 2003, www.unhcr.ch.

⁵⁵ According to experts, this still does not satisfy the UN recommendation, which calls for language "fully consistent with Article 1 of the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment and supported by an adequate penalty". ICG interview, Allison Gill, Human Rights Watch Country Director, Tashkent, February 2004.

⁵⁶ See interview with Minister of Foreign Affairs, Sadyk Safaev, reported in: "Uzbekistan admits torture but says not systematic", Reuters, 27 January 2004. Rapporteur van Boven cites the definition of systematic torture as used by

places of detention for the first time. However, the project is in its early stages.⁶⁰

The main international organisation involved in prison-visiting and monitoring, the International Committee of the Red Cross (ICRC), reportedly gained greater access during 2003.⁶¹ Visits were also arranged for journalists and diplomats. Despite this increased access, there was no available evidence that suggested a significant overall improvement in conditions of detention. Reports from the relatives of prisoners suggest that abuses continued, although anecdotal evidence indicated some prisons were much worse than others, and that certain prison governors have a particularly poor reputation.

Relatives of prisoners frequently reported beatings and other abuses in prisons. Of particular concern were conditions in the remote Jaslyk prison, which the U.N. report had suggested closing. In October 2003, after religious prisoners went on hunger strike there, security services reportedly beat at least twenty.⁶² There were frequent reports of similar incidents during Ramadan in other prisons. In Qarshi more than 100 Hizb ut-Tahrir prisoners were reportedly placed in punishment cells, and many were allegedly beaten.⁶³

There was no evidence of improvement in the cells of the interior ministry and the NSS. Most torture and brutality occurs during the first 72 hours of detention when the police seek to gain confessions. Police will continue to use brutality to extract confessions until there is some systemic change in the way they work that combines straightforward punishment for torture with an end to the pressure to satisfy quotas using any methods available. None of the systemic problems are addressed in the National Action Plan.⁶⁴

Some have suggested that the police have new instructions on how to deal with prisoners and that the arrests of a few of their own has had some effect.⁶⁵ But an activist who claims to have seen these internal instructions says they do not address torture, but merely instruct officers to be more careful about the consequences of any interrogation -- in other words, "don't get caught".⁶⁶ There seems very little evidence of real change. A human rights defender who regularly reports on police brutality remarked: "The only difference is they put a bag over your head when they're beating you -- then you can't identify who did it, and they leave fewer marks."⁶⁷

Mostly prisoners and witnesses are too afraid to claim in public they have been tortured lest they receive further ill-treatment. Judges routinely ignore such assertions. In a trial in Tashkent in July 2003, three defendants and a witness testified they had been tortured. According to the transcript made by Human Rights Watch, one defendant stated:

...when I was coming back from work, police detained me and brought me to the [police station]. They started beating me. I couldn't handle the beating so I wrote the testimony. Everything I wrote was a lie....After all the beating and torture, I didn't know what I wrote."⁶⁸

As usual in such cases, the judge ignored this, and the men received long prison sentences. Botir Aripov, charged with religious extremism in December 2003, was reportedly beaten so badly that he lost consciousness and spent 23 days in hospital. That he had been admitted to hospital was not even raised at the trial.⁶⁹

In a case documented by the U.S. embassy in Tashkent, a mentally ill boy was arrested in May 2003, apparently in response to his parents' complaints about local police. He was allegedly beaten in the police station before his trial -- his parents saw him being forced into a car with blood

⁶⁰ ICG interview, OSCE Ambassador, A. Erozan, Tashkent, February 2004.

⁶¹ See interview with Minister of Foreign Affairs, Sadyk Safaev, reported in: "Uzbekistan admits torture but says not systematic", Reuters, 27 January 2004.

⁶² Human Rights Watch, "Fact Sheet: Human Rights Developments in Uzbekistan from July to October 2003", at www.hrw.org.

⁶³ U.S. State Department, "Country Reports", op. cit.

⁶⁴ At publication, the final draft of the Action Plan on Torture was still not available. For more details, on the systemic reasons for torture, see ICG Asia Report, N°42, *Central Asia: The Politics of Police Reform*, 10 December 2002.

⁶⁵ ICG interviews, Tashkent, February 2004.

⁶⁶ ICG interview, February 2004.

⁶⁷ ICG interview, February 2004.

⁶⁸ Unofficial trial transcript, cited in Human Rights Watch, "Fact Sheet: Human Rights Developments in Uzbekistan from July to October 2003, Monitoring of the EBRD Human Rights Benchmarks", 25 November 2003.

⁶⁹ Report from Press Centre of the Initiative Group of Independent Human Rights Activists of Uzbekistan, Surat Ikramov, 27 January 2004.

streaming from his head -- but their allegations were ignored by the judge, who said that the police did not beat people. The parents claimed that investigators told them their son had been arrested to silence their complaints. He was sentenced to five years in prison and was also reportedly beaten after the trial.⁷⁰

Publicised cases of this type provide merely a small glimpse of a much wider reality. With no restriction on police activities from other state organs, the state is becoming increasingly criminalised. In a typical district, prosecutor, judges, police and the *hokimiat* (local government) are often close-knit, akin to a mafia group which can act with immunity. There remain, of course, honest policemen and principled officials, but they are increasingly squeezed out of the system.⁷¹

There were reliable reports of deaths in custody. Orif Eshonov and Orif Gaforov died in separate incidents while in custody in May 2003. In August, Nodirjon Zamonov, who had been arrested in a village in Bukhara province for theft, was found dead in suspicious circumstances. Kamoluddin Jumaniyozov died in Karakalpakstan in early December, apparently from police brutality.⁷² Government responses to these incidents denied wrongdoing, and there were no prosecutions. Human rights activists suggest that many more have died of ill treatment or poor prison conditions.

That the government has begun discussing the torture issue, at least in closed meetings with international representatives, can be viewed as a step forward, but a small one. There is still no such discussion in the local media. Government-sponsored newspaper articles continue to deny that torture exists, or at most admit one or two exceptional cases.

One of the few positive moves during 2003 was an amnesty announced in December, under which some political prisoners were released. Among the total of 3,381 freed by mid-January, were 391 imprisoned on charges of religious extremism, in most cases

membership of banned Islamist organisations.⁷³ But the amnesty is marred by credible reports of widespread corruption, with prison governors having far too much authority over the process.⁷⁴ Several thousand remain in prison on religious extremism charges, mostly membership of Hizb ut-Tahrir.⁷⁵

Overall, progress in political liberalisation and human rights was extremely limited. Particularly towards the end of 2003 and in early 2004, increased arrests of religious activists, harassment and detention of the secular opposition, and more pressure on the media and NGOs suggested a worsening situation.

⁷⁰ U.S. State Department, "Country Reports", op. cit.

⁷¹ See ICG Report, *The Politics of Police Reform*, op. cit.

⁷² Human Rights Watch, "Uzbekistan: Torture Death in Police Custody", 21 December 2003, www.hrw.org. The government's responses when queried by embassies, were confused and contradictory, but always denied any serious wrongdoing.

⁷³ Official figures, reported in Interfax, 22 January 2004.

⁷⁴ ICG interviews, human rights activists, Tashkent, February 2004.

⁷⁵ Leaving aside whether a long prison term is a valid response to membership in a non-violent, if radical, organisation, there are considerable doubts about many of these convictions, which seem to be based on an occasional visit to a Hizb ut-Tahrir meeting or the reading of a leaflet rather than active membership. On the basis of evidence from human rights activists and other sources, it seems incontrovertible that some proportion of the convictions are entirely fabricated.

III. ECONOMIC REFORMS

For foreign delegations shuttling between their five-star Tashkent hotel and the Ministry of Foreign Affairs, Uzbekistan's economic outlook may not seem bad. Officials paint a rosy macroeconomic picture: more than 4 per cent growth, with low inflation and a positive trade balance. But it does not take much effort to pierce this facade. Meet any businessman in Tashkent, or wander round the bazaars, and the claims of growth and reform will begin to look hollow. There was no real reform in 2003, and there is no indication that the government is prepared to introduce systemic change in 2004.

A. CONVERTIBILITY

The key reform demanded by the IMF, the EBRD and other international financial institutions was the convertibility of the Uzbek sum. In 1996 Uzbekistan introduced a system of multiple exchange rates, designed to subsidise important industrial sectors and protect against a balance of payments crisis, but also giving significant financial gains to business people with close connections to government. Huge profits were possible for a small elite, who used their opportunities to the full. Ordinary businesspeople and many foreign investors found it almost impossible to exchange sums into hard currency. Investors left, and legal cross-border business declined. A black market emerged that offered simple cash exchange at non-official rates, several times higher than the official one.

Uzbekistan failed to unify these exchange rates in 2002 as part of an IMF program, which entailed other structural reforms. Instead of allowing the sum to float freely at a market rate (which would have increased the costs of loan repayments and undermined the profitability of some industries), the government pushed ahead with convertibility at an artificially high rate by effectively closing its borders to private trade, thereby reducing the demand for dollars. A series of decrees clamped down on trade by non-official private traders, introducing very high tariffs on goods and at times physically closing border crossings.⁷⁶ At the same time, the government made every effort to reduce the currency in circulation, delaying salary and welfare payments

and instructing banks to limit cash withdrawals. At the end of 2003, government arrears in salary and welfare payments were reportedly around U.S.\$180 million, up about 80 per cent since July.⁷⁷ Workers were waiting up to five months for salaries in some enterprises.

These administrative measures allowed the government to announce in October 2003 that it had achieved a convertible currency at a rate of 975 sums to the U.S. dollar (black market rates had reached 1,700 to one), and to adhere to the IMF's Article 8, governing convertibility. The sum was clearly overvalued, and there was still no foreign exchange market as such. Rates were set by the Central Bank, and supply was controlled largely by limiting the physical supply of money to banks, by not paying salaries or pensions on time and by other administrative measures.

In theory, anyone can now change any amount of money at an official booth. In practice, a black market still flourishes, although with roughly the same rates as the banks. There are two reasons. First, banks are reluctant to exchange large amounts of sums into dollars (usually above U.S.\$5,000), and restrictions on the amount of sums in circulation mean they frequently cannot buy dollars. The black market is a much more reliable, customer-friendly alternative. In addition, few Uzbeks trust banks to keep transactions confidential. A black market trader in Andijan explains:

People prefer to change money with us, because in the bank they take a copy of your passport when you change sums to dollars, and because of that people are afraid that there will be checks on them, where they got the money from, and so forth...⁷⁸

This distrust is well founded. There is no banking confidentiality, and the tax and other authorities are able to access accounts and enquire about transactions. Black marketeers claim their main clients are individual traders who are illegally engaged in cross-border trade, and also the police, judges, procuracy and other officials who receive large amounts of Uzbek sums in bribes. Indeed, much of the currency black market seems to be

⁷⁶ ICG Report, *Uzbekistan's Reform Program*, op. cit.

⁷⁷ Aleksei Volosevich, "Shto prines zavershivshiisya 2003 god zhitelyam Uzbekistana?", Fergana.ru, 12 January 2004.

⁷⁸ ICG interview, black market money trader, Andijan, February 2004.

controlled by the police, who offer protection in exchange for a cut of profits.⁷⁹

The situation for many business people is even more difficult. Foreign currency is in theory available for those importing goods backed by a letter of credit from a foreign partner. Some bankers claim this works fairly well, with orders for convertibility fulfilled in about a week. But many businessmen interviewed by ICG have faced significant problems, particularly with certain banks, and especially if they were in the provinces.

One Tashkent businessman complains:

We provided all documentation to the bank, but it took a month for them to convert our currency. They are supposed to do it in a maximum of three days. They only pushed it through when I threatened to make a scandal.⁸⁰

Businessmen in the provinces have even more problems, suggesting that it can take up to three months, if foreign exchange is received at all.⁸¹ Many businessmen point out that, as under the previous system, certain companies get privileged access. Bankers admit they have oral instructions about who is entitled to quick convertibility: those with connections and political access get served first.⁸² Some of this is the responsibility of banks who are not able to deal with these new operations competently, but whether the result of Central Bank instructions or system bottlenecks, many businessmen find it difficult to get hard currency.

Nevertheless, demand for foreign currency went up sharply as importers took advantage of the new more liberal regime. In response, reports in late January 2004 indicated that the Central Bank secretly ordered bankers temporarily not to process requests from importers seeking to buy dollars to import

"luxury goods".⁸³ The restrictions were reportedly lifted after about two weeks.

Similar restrictions and informal controls can be expected to continue if the government wants to retain the present exchange rate using administrative methods. The sum is probably overvalued by more than 50 per cent. The exchange rate is supported by continuing control of demand for dollars through severe foreign trade restrictions and limiting available national currency by not paying salaries and welfare payments on time.

Although Uzbekistan achieved formal compliance with the IMF's Article 8 in October 2003, in practice there has been only limited improvement in access to foreign exchange, due to the continuation of informal, secret Central Bank restrictions and the reduced demand for foreign exchange resulting from trade restrictions and limited access to Uzbek sums.

An upcoming IMF Review Mission should examine whether Uzbekistan is in default of its Article 8 obligations. More important than its technical adherence, the present policy of propping up an artificial exchange rate through administrative controls is hugely damaging to the economy overall. If the government continues to insist on maintaining an overvalued currency through exchange controls, pressure on salaries and welfare payments, and trade restrictions, there will be more impoverishment and social discontent.

In reality, the government could afford to relax the exchange rate, since it enjoys a positive trade balance of around U.S.\$600 million. A poor cotton harvest in 2003 (2.86 million metric tons, as opposed to the projected 3.6 million tons⁸⁴) is offset by higher world prices for cotton (almost doubled since 2002), and high gold prices ensure a relatively good hard currency revenue flow. It should be possible to allow gradual depreciation of the sum, increase access to foreign exchange, and begin trade liberalisation without provoking a mass outflow of currency, or indeed high inflation.

⁷⁹ ICG interviews, Andijan, January 2004; Tashkent, December 2003.

⁸⁰ ICG interview, Tashkent, February 2004.

⁸¹ ICG interviews, business people from Andijan, Fergana, southern Uzbekistan. In addition to the problems with banks, many business people complained about the system of obligatory registration of contracts with the Department for Control over Foreign Exchange at the State Customs Committee, suggesting that objections to contracts were often made on spurious grounds and that the system was often corrupt.

⁸² ICG interviews, Tashkent, February 2004.

⁸³ Shamil Baigin, "Uzbekistan reimposes currency control -- bankers", Reuters, 28 January 2004.

⁸⁴ As in previous years, there were reportedly high levels of theft of cotton in 2003, but the harvest was also reportedly decreased by a fungus in parts of the Fergana Valley. The failure of the authorities to react quickly to the disease threatens to decrease the harvest further in 2004. ICG interviews, cotton specialists, Tashkent, February 2004.

B. TRADE LIBERALISATION

Convertibility even in its present artificial form was only achieved by implementing severe restrictions on foreign trade, which have badly damaged the entire business community, particularly small and medium-sized businesses.

Until 2002 much of the import-export trade in clothing, simple consumer goods and some foodstuffs was in the hands of small businesspeople and individual traders. These so-called shuttle traders travelled to neighbouring countries, or to Turkey, Russia and China, bought goods and resold them for a profit at Uzbekistan's many bazaars. Most paid some sort of tax, often a flat tax, and at least some customs duty. To a great degree the trade was unregulated and ensured a constant demand for dollars on the black market, but it provided livelihoods to tens of thousands of families.

From mid-2002, the government introduced high tariffs on individual traders and a host of certification requirements that effectively killed off shuttle trading⁸⁵ and destroyed many small businesses involved in wholesale or bazaar trading. The government also restricted wholesale trading to companies with a minimum capital of some U.S.\$25,000, a large amount for most small businesspeople. Some bazaars were closed, and many business people had their goods confiscated, usually on spurious grounds of not meeting new certification requirements.

In a further move against bazaar trading, a July 2003 decree ordered that markets sell only foodstuffs, as this "...would give markets a civilised external view".⁸⁶ Clothes and other goods would have to be sold in shops or closed stands, which would be built at markets. But at prices of around U.S.\$3,000 to \$5,000, few traders can afford to buy these shops.⁸⁷

The results of these restrictive trade policies have been universally negative:

- ❑ customs and border officials have become even more corrupt, as a huge wave of smuggling has filled the gap left by private traders;⁸⁸
- ❑ the small and medium business sector has been severely damaged, and the willingness of the population to engage in entrepreneurial activities has been undermined;
- ❑ the tax base has been badly damaged, with receipts from businesses falling sharply;⁸⁹ and
- ❑ the availability of low-price quality goods has fallen, and prices of most imported goods have gone up considerably, increasing pressure on living standards.⁹⁰

Officials claim that Uzbekistan does not seek isolation in foreign trade, but merely "civilised" trade and customs procedures.⁹¹ The emptiness of the claim can be seen by any visitor to a border crossing. When the station is not completely closed by some newly fabricated health scare, lines of old women wait to cross. Routinely humiliated by border guards and customs officials, they are lucky if they get out to neighbouring markets and back with a small bag of goods to sell having paid only a few bribes on the way.

⁸⁸ The criminalisation of foreign trade also has security implications. The ability of criminal and terrorist groups to cross borders is enhanced by the increasing number of illegal border crossing points and the high level of corruption among trade and border officials.

⁸⁹ According to a report, in one region in Tashkent the number of businesses paying tax has dropped by more than 75 per cent. Shamil Baigin, "Uzbekistan reimposes currency control -- bankers", Reuters, 28 January 2004. In Bukhara province in 1999, according to unofficial sources, 82 per cent of all local taxes were gathered from small and medium business. In 2003 this figure was 42 per cent. ICG interviews, Bukhara, February 2004.

⁹⁰ One explanation provided by the government for the new regulations on imported goods was need to exclude unsafe goods from market. In reality, according to well-informed sources, much of the certification of goods is falsified, and since most of the economy works in the black market, many illegal goods simply bypass all controls.

⁹¹ For example, Deputy Prime Minister Rustam Azimov, speaking at the ADB ministerial conference, in Tashkent, 11-12 November 2002. Uzbek television first channel, Tashkent, 1430 GMT, BBC Monitoring, 16 November 2003. Government officials also blame Kyrgyzstan's relatively open trade policy with China for the imposition of restrictions and point to the problem of cheap Chinese goods undermining local manufacturing. ICG interview, Ziyadullo Pulatkhodjaev, head of Department for International Economic Organisations, Ministry of Foreign Affairs, Tashkent, February 2004.

⁸⁵ Trading by individuals who travelled to neighbouring countries, or low-cost producers, such as Turkey, China or Dubai, and brought in large amounts of consumer goods.

⁸⁶ Cabinet of Ministers Decree N°330, 28 July 2003.

⁸⁷ Aleksei Volosevich, "Chastnyi biznes -- togovlya -- vne zakona" [Private business -- trade is illegal].

If the official border posts are too difficult, traders can try unofficial crossings but this can be dangerous. In the Kyrgyz city of Kara-su, dozens of traders reportedly drowned in the fast-flowing canal that forms the border with Uzbekistan in the summer of 2003. Uzbek border guards have shot at or attacked traders crossing the border illegally. But in most cases border guards know about these crossings and charge a "fee" for their use.⁹²

Trade is more civilised if the business person has money and good contacts in the law enforcement agencies. Traders suggest that about U.S.\$350 in bribes can ensure that a car from Kyrgyzstan full of illegal goods reaches Tashkent without problems.⁹³ High-ranking officials are allegedly involved in this trade, including many police officers.

The result is that the same cheap Chinese goods are still entering the country but the entire trade has been criminalised. At a number of bazaars in southern Uzbekistan, almost everything on sale seems to have been imported illegally, almost all from China via Kyrgyzstan. "Yes, I'm another contrabandist", smiles one seller, a huge range of cheap Chinese bags behind him. He used to do this legally, as a small business, but new tariffs and restrictions made it impossible. "Now I don't pay any taxes at all", he admitted. "I pay the police, and the border guards bribes, but I suppose nothing goes to the government".⁹⁴ Another trader at the same market regularly travels to Kyrgyzstan to buy a bag of cheap shoes. It takes him three days to go and return, at the end of which he pockets about 10,000 sums profit (U.S.\$10).⁹⁵

There is more control in Tashkent, and central bazaars tend to sell mainly food products, as the law says they should. But outside every bazaar a selection of illegal Chinese goods is laid out on makeshift stalls. Tatiyana, a pensioner, stands every day outside a bazaar in north Tashkent, a selection of cheap Chinese underwear spread on the pavement: "As soon as the police come, we have to pack up quickly

and move on", she says. "I only make 2-3,000 sums a day, but its all I can do".⁹⁶

These are the real consequences of the trading restrictions introduced by the government since mid-2002: increased poverty and mass criminalisation of small business, and consequently of many state structures regulating trade.

The primary reason for these restrictions was the desire to diminish the demand for dollars to achieve convertibility. But an important additional reason was the desire of major companies to retain the large profit margins they once enjoyed from manipulation of the multiple exchange rate regime. With that simple way of making huge profits closed by convertibility, they encouraged monopolisation of foreign wholesale trade, firstly by clamping down on private cross-border trade, and then by attempting to limit the wholesale market to larger companies. This has left control over most wholesale import-export operations as the preserve of just a few large companies, such as Uzbeksavdo, which trades in food products. All these firms are linked to leading regime members or their relatives.

Border and trade restrictions are turning Uzbekistan into an isolated and failing economy. Much private trade has essentially become criminalised, with bribes and corruption essential elements. Instead of occupying its rightful place at the centre of trade and business in Central Asia, Uzbekistan experiences most businessmen doing their best to escape the country all together.

C. BANKING REFORM

The failure of the government to push through banking reform is one of the main reasons for the difficult business environment. The authorities' campaign against cash transactions and insistence on commercial transactions taking place through banks have severely handicapped business. This is not purely administrative inconvenience. Many businessmen find they are unable to withdraw cash from their accounts as and when they choose, since banks frequently cannot match the demand owing to restrictions imposed by the Central Bank.

Banks have a range of functions that are not normally found in commercial financial institutions.

⁹² In early October 2003, two Uzbek citizens were killed by guards as they attempted to cross the border. Later the same month, a Kyrgyz citizen was hospitalised after being attacked by a border guard in a dispute over a bribe. Information bulletin, Dilshad Tillakhodjayev.

⁹³ ICG interview, Andijan, February 2004.

⁹⁴ ICG interview, southern Uzbekistan, February 2004.

⁹⁵ ICG interview, Bukhara, February 2004.

⁹⁶ ICG interview, Tashkent, February 2004.

They act as an arm of the state, passing information to officials; by law the tax authorities have the right to examine any bank transactions or accounts. Heads of regional branches of banks are frequently appointed only with the approval of the local *hokim* (governor), and it is primarily to him that the banker will have to answer to remain in his post. As a result, it is difficult for banking officials to make decisions solely on the basis of commercial realities.

This makes legal transactions increasingly difficult and has pushed even more business into the shadow economy. Businesses use a mafia-like service that gives them cash from their inaccessible bank accounts, largely by creating fictional contracts with fictional companies, and costs about 20 per cent. This is, of course, illegal and involves high costs for companies, but it is often the only way to get quick access to money held in a bank.

Banks represent a fatal mixture of incompetence, corruption and government control. Ravshan is financial manager for a medium-sized joint venture, but he has to do his ordinary work in his own time:

My whole day is spent dealing with problems, either with state organs, or with the banks. I'm lucky, because I'm an ex-banker. Often I have to go in the bank and tell them how to do something. Otherwise my papers just lie there for weeks.⁹⁷

Most companies need this type of problem-fixer: time and money spent on such obstacles are serious impediments to growth.

A range of international financial institutions, including the EBRD, the World Bank, the Asian Development Bank (ADB) and others, have offered credit lines to banks to finance small and medium-sized enterprises (SMEs). EBRD officials assert that its credit lines have introduced significant capacity-building in terms of training for bank staff and international standards of accounting, which seems true.⁹⁸ But there are more significant problems with the whole area of bank credit that need to be addressed in any new SME credit lines.

One businessman in southern Uzbekistan explained how difficult it was for him to get a decision on a

loan, financed by an EBRD credit line, to open a new and potentially profitable business. "It's taken eight months so far, and mounds of documents, and I still don't have a decision. I've been told informally I need to pay a sweetener".⁹⁹ His partner was more cynical: "The local banks have no interest in whether our project is good for the economy or even good for the bank. All they are interested in is getting a percentage of the money".¹⁰⁰ Most businessmen ICG interviewed suggested that paying bribes for credits was not uncommon.¹⁰¹ "The standard fee is 5 per cent", admitted one businessman, who took out a small loan from a local bank and paid a bribe to get it.¹⁰²

These abuses are the primary responsibility of the local banks, not the international providers of SME credit lines. However, international financial institutions have a duty to ensure that their money is used well. There needs to be much closer monitoring of loans financed by SME credit lines. In the case of the EBRD, officials point out that international credit specialists are employed by each bank to monitor the credit lines and report to the EBRD, but to avoid any unwarranted perception of bias, it would be more advantageous if they were employed directly by the EBRD. Providers of SME credit lines also need to make more resources available to enable direct physical monitoring of projects, rather than relying only on financial reporting.

In some cases, there are suspicions that bank credits are diverted to other uses. "It's very easy" explains a Tashkent factory director. "First you need a broken-down old factory. Then you need someone to falsify its accounts -- that's about U.S.\$500. Then you get collateral on some old equipment by inflating its value". The official who is responsible for this will oblige for a small sum. The result is an enterprise that exists solely on paper, but the money can be invested in a more profitable deal -- such as contraband imports, or a business abroad. The loan is repaid in time, and everybody is happy, but it has no real positive impact on the economy.¹⁰³

There is no sign of intent to reform this system. In early 2003 the government promised that Asakabank

⁹⁷ ICG interview, Tashkent, February 2004.

⁹⁸ ICG interview, Kenji Nakazawa, EBRD Country Representative, 19 February 2004, Tashkent.

⁹⁹ ICG interview, southern Uzbekistan, February 2004.

¹⁰⁰ ICG interview, southern Uzbekistan, February 2004.

¹⁰¹ ICG interviews, Tashkent, Samarkand, Bukhara provinces, February 2004.

¹⁰² ICG interview, cafe owner, Tashkent.

¹⁰³ ICG interview, factory owner, Tashkent.

would become a model privatisation project, but little progress has been made since mid-2003. This is not surprising. The government has little incentive to proceed with a true privatisation project: the emergence of a real commercial bank responsive to customers' needs rather than the instructions of state institutions would undermine government economic policy. Pseudo-privatisation -- the only policy the government seems likely to accept -- will not attract the strategic investment required for financial viability.

The lack of banking reform is a major obstacle to economic growth and increased employment and living standards. Reforming the system is within the capacity of the authorities but requires real willingness to allow banks to serve business needs and not act as an instrument of state control.

D. PRIVATISATION

Privatisation has been slow and reluctant, with the state retaining a stake in many companies that are officially regarded as private. Many of these are effectively controlled by government officials who gain personal profit from the system. Where businesses have been sold, the buyers have mainly been leading government officials or their relatives. The result is a feudal-type economy, mostly controlled by a small minority, with no real independent business class emerging.

Since government officials can personally benefit from controlling state-owned factories, they sometimes have little incentive to privatise businesses even through the kind of corrupted procedure common in the former Soviet Union. The regime has small interest in seeing an array of powerful oligarchs emerge from private business, preferring to ensure that they are retained within the present political system.

Nevertheless, in 2003 there was an increase in privatisation receipts: the government claimed more than U.S.\$60 million from the process. Some of this merely involved companies effectively swapping their state holdings, without structural or management change. But another process also seems to be beginning, in which leading regime members consolidate their control over state companies by buying control through offshore companies.

This process has begun with little open access for independent businesspeople or foreign investors.

When there have been tenders, the results have been foregone. One businessman, looking to participate in privatisation, explains:

One way to do it is to pay money at every single level, from the lowest broker to the main man at the top. But even then there is no guarantee. More likely they will just say, "no". If its any good, they want to sell it only to their own people.¹⁰⁴

Major Uzbek business people, who already controlled the factories through their government positions, are now consolidating their holdings through investments via front companies in Lichtenstein, Switzerland and Russia. This is not a wholly negative trend if it signifies a return of capital to the country. But in most cases the amounts paid for potentially lucrative privatisations have been well below the market rate, and promised investments may well not materialise. As one analyst puts it:

This is not even the kind of corrupt privatisation you had in Russia. There [big oil companies] invested in production, and tried to build real compan[ies]. Here control of these enterprises is not aimed at producing anything, but using them as a front for lucrative trade operations. None of the investments they promise will ever materialise.¹⁰⁵

It is too early to say if this view is correct but it is widely shared in the business community: "They view this economy as a kind of mine. Here you dig out money, and then transfer it to the West as quickly as possible. There will be no progress until all this money starts to come back".¹⁰⁶

Major privatisations have slowed or stalled altogether. The long-planned privatisation of the national telecoms company, Uzbelekom, remains in limbo and is not expected any time soon. In the oil and gas sector, there has also been little progress. The government is not prepared to see major enterprises in lucrative sectors sold to foreign strategic investors, despite the obvious need for foreign capital. On the contrary, foreign investors are finding it increasingly

¹⁰⁴ ICG interview, medium-sized business owner, February 2004, Tashkent.

¹⁰⁵ ICG interview, independent analyst, Tashkent, February 2004.

¹⁰⁶ ICG interview, businessman, Tashkent, February 2004.

difficult. British American Tobacco, one of the largest, has experienced more difficulty as a result of cigarette smuggling and high taxes.¹⁰⁷

The government has often imposed conditions on privatisations that make real foreign investment unviable. The sale conditions might include not changing the profile of the factory, effectively condemning the buyer to continue the same unprofitable lines that brought the company to bankruptcy in the first place. Not surprisingly, interest in these factories will be minimal until there is significant change in the privatisation process and the rest of the economy.

Until Uzbeks are prepared to invest in their own economy, it is unlikely that many foreign investors will get involved. Instead, a small group of leading business people, linked to the political elite, will continue to monopolise the economy, producing further decline, and ensuring that 80 per cent of the population continue to face extreme poverty and exclusion, not only from political life, but also from economic activity.

E. BUSINESS ENVIRONMENT

The formula for economic growth in Uzbekistan is fairly simple and well known. It has been repeated in countless conferences, summits and forums and detailed in reports and surveys.¹⁰⁸ Above all, improving the business environment for small and medium sized businesses would sharply increase opportunities for entrepreneurs, and directly impact living standards.

Improving the business environment involves addressing a wide range of regulatory and legal issues. The difficulties of registration, licensing and coping with frequent state inspections are only the beginning for an Uzbek businessman. In these there has indeed been some improvement. Registration procedures have been eased, and taxes were slightly reduced in 2003. Nevertheless, the tax system remains crippling for many businesses, particularly

when coupled with the unofficial levies that often must be paid to state organs.

These small technical improvements are nothing compared with the problems business people face every day. "It just gets worse and worse", says one business leader. "As soon as a business gets going, up pops another regulation that closes that path as well".¹⁰⁹ Another comments: "The state claims that it will support SMEs, but in reality it just puts barriers in our way. State organs are simply the main enemy for any businessperson".¹¹⁰

Business people face frequent checks from the tax police, the sanitary inspection, the ordinary police, and other state organs. A small café owner said that he has to pay 300,000 sums (U.S.\$300) in monthly bribes: "That means I don't have any profits if I do everything according to the law, so I have to avoid taxes to make any money". In theory, there is a book in which inspections are to be written down, to avoid frequent visits. In reality, says this man, "if you get them to write it down, they'll close you down. If you insist or complain too much, you might end up in prison".¹¹¹

Lyudmila Sokolova, an entrepreneur who has been in prison in Tashkent since December 2003, understands this reality only too well. She faces charges that she claims were fabricated by officials who want to take over her business, an internet café, in the Sengili district. The story is complex but illustrates the defencelessness of many business people in the face of attacks by the state. In an earlier dispute with officials, she was accused of taking an 8 million sums [U.S.\$8,000] loan from some apparently poor neighbours. There was no evidence to back up this unlikely allegation, but in December 2003 a court bailiff seized 10 million sums worth of computers from the internet café to repay the loan.

The bailiff claimed five million sums were still owed, but when Sokolova complained, she was arrested. The bailiff then moved to seize the assets of the café although these were far in excess of the amount in dispute. When the case finally came to court, the same bailiff was sitting on the panel of judges, making a fair decision unlikely though the prosecutor had no evidence to present. Meanwhile the café, which provided work, taxes and a useful

¹⁰⁷ ICG interviews, Tashkent, February 2004. See also *Pravda vostoka*, 27 February 2004.

¹⁰⁸ A recent survey by the International Finance Corporation, "Business environment in Uzbekistan as seen by small and medium enterprises", December 2003, includes common-sense recommendations to boost the private sector.

¹⁰⁹ ICG interview, Tashkent, February 2004.

¹¹⁰ ICG interviews, Tashkent, December, February 2004.

¹¹¹ ICG interview, Tashkent, February 2004.

service, has been turned into an illegal billiard hall, allegedly protected by the local police.¹¹²

This is a story of a small business run by ordinary people but the same happens at every level of society. A range of business people ICG interviewed in Tashkent admitted there is no real guarantee of private property:

First they gave independent businessmen the chance to bring these factories up to scratch and create some solid capital, and when they had done their work, one of the representatives of the authorities decided to seize this lucrative piece of the pie.¹¹³

Many people simply adapt and pay, or give up if the situation gets too difficult. But there are countless cases of business people losing their livelihood, or ending up in prison on fabricated charges, as their businesses are stolen.¹¹⁴

Complaints to higher courts about this kind of behaviour by local officials lead nowhere. Letters to everyone from the parliamentary ombudsman to the presidential administration receive no answer. "I once believed we had a law-based state", a business person says. "Now I realise that our wonderful criminal code should bear a warning stamp: 'for foreign delegations only'".¹¹⁵

A sign of how difficult the business environment has become is that even the government has set up a department to deal with such problems. The Department for the Support and Protection of SMEs in the Ministry of Justice has had some success in restoring the rights of business people, but worryingly it seems to be losing effectiveness. A survey of SMEs indicated that 59 per cent of those who appealed to it in 2001 gained redress. This fell to

48 per cent in 2002; 21 per cent received no answer at all.¹¹⁶

Middle-ranking officials cannot do much against the powerful political figures involved in these abuses. The Department needs greater powers and should ensure that its dealings are more transparent. Its cases, successes and failure, could be published, for example. An alternative organ for redress for small business persons should also be considered, such as an independent board of appeal for entrepreneurs, including lawyers, representatives of business, and international representatives.

It is not only small business people who suffer from predatory political figures. Leading business persons complain of a new round of "collections" for "charitable funds" run by high-ranking politicians and their relatives. There is little external audit of these funds, and the suspicion is that much of the money does not reach the deserving poor. "Business is being milked to the last drop for these 'charities'", says one person familiar with the issue, "and they've had enough".¹¹⁷ Tens of thousands of dollars are paid by factories to such funds, despite the fact that many enterprises are in difficult straits. Many companies also have to contribute to local fund-raising efforts by governors, from national holiday extravaganzas to building sports stadiums. It is widely suspected that much of this money is diverted to private use.

In this kind of business environment, it is not surprising that many business people try to move their money and business abroad. Tackling this type of corrupt behaviour requires systemic change to reduce the many regulations. A low-regulation system lessons opportunities for corruption. Strong action is also needed against officials who are involved in such racketeering but the lack of response to the many complaints of entrepreneurs suggests that officials are reluctant to move against powerful elements that benefit from the system.

¹¹² ICG interview, Vadim Sokolov, Tashkent, 27 February 2004, and documentation regarding the case. Billiards is banned in Uzbekistan, but underground halls still exist, usually under local police protection.

¹¹³ ICG interviews, businessmen from Tashkent, Namangan, Andijan, Tashkent, December 2003.

¹¹⁴ See, for example, the case of Olimjon Yusupov, who claimed his bread-making factory was stolen by a leading member of the government in 2001. ICG Briefing, *A Last Chance for Change*, op. cit., p. 13.

¹¹⁵ ICG interview, Tashkent, 27 February 2004.

¹¹⁶ International Finance Corporation, "Business environment in Uzbekistan as seen by small and medium enterprises", December 2003, p. 32.

¹¹⁷ ICG interview, Tashkent, February 2004.

IV. INTERNATIONAL STRATEGIES

Understandably, the government finds continued international criticism of its policies frustrating and resents the benchmarking the EBRD has introduced. However, almost everything requested by the EBRD has at one time or another been promised by the government itself. The conditions of the U.S. aid program are contained in a bilateral document signed by the Government of Uzbekistan, and similar, if more general, commitments especially with regard to human rights are part of the Uzbek-EU PCA. In speeches, government officials continue to insist on their commitment to reforms:

The introduction of current account convertibility and progress made in achieving macroeconomic stability in Uzbekistan provide a good basis for further liberalisation of the economy and wide-ranging reforms initiated by the government. Such measures comprise trade liberalisation; deepening market-oriented reforms in the agriculture, banking, construction, and energy sectors; acceleration of the privatisation program; and civil service reform seeking to reduce government involvement in the economy and to improve the business climate.¹¹⁸

Thus complying with international proposals would largely conform with the government's own rhetoric. But more importantly, implementation would have a significant and rapid impact on the living standards of the vast majority of the population who do not benefit from the present political and economic system, lessen socio-economic tension, and improve internal stability and relations with neighbours.

A. EBRD

A literal interpretation of EBRD Article 1¹¹⁹ would lead to immediate closure of the Bank's Tashkent

office and suspension of all lending. It is clear that Uzbekistan is not among "countries committed to and applying the principles of multiparty democracy, pluralism and market economics". But the wider context argues against full disengagement: isolating Uzbek society would make long-term transition even more difficult.

Nevertheless, the EBRD needs to review its mission in Uzbekistan and apply much more strictly the principles on which it is based. If its political commitments are to have credibility, the Bank needs to send a strong signal to the government. This is best done by immediately suspending all new investments in the public sector and to companies with a significant state holding, including new SME credit lines to banks, unless there is serious movement on the EBRD benchmarks. The benchmarks should be reviewed regularly over the next twelve months.¹²⁰

A wider review of operations also needs to address other issues. The EBRD has found it difficult to identify good projects in which to invest that meet its three main criteria: a "transition impact", that is, moving reforms forward; ensuring that its investment does not crowd out private investment and lending; and applying sound banking principles.

The Bank may argue that some of its public-sector investments have a proven transition impact and also benefit the population, such as a municipal heating project in Andijan.¹²¹ The transition impact from such projects remains to be proven, and the government should be able to finance them from normal revenue flows, if and when the economy is opened up and serious reforms are initiated.

Commercially successful private projects in which the EBRD has been involved have tended to be the processing of raw materials, such as the Newmont-Zaravshon mine. Such projects may have a positive impact on the efficiency of the mining sector but they do little to promote reform in the wider economy; indeed, they mitigate against such reforms, since they provide direct income to the ruling elite and little

¹¹⁸ Deputy Prime Minister Rustam Azimov, press-conference, 8 October 2003.

¹¹⁹ Article 1 reads: "In contributing to economic progress and reconstruction, the purpose of the Bank shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the central and eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics", see www.ebrd.org.

¹²⁰ In practical terms, the Bank is close to the limit permitted by its operations for public sector commitments, so merely suspending loans to the public sector would have little real impact on operations.

¹²¹ This is not immediately apparent to the residents of Andijan, who seem to suffer the same problems of heating and energy as before the project began. ICG interviews, Andijan, February 2004.

incentive to develop the rest of the economy. This is not an argument against any investments in the extractive sector but it is worrying that they form such a large part of the EBRD's private sector portfolio.

The EBRD claims considerable success with its series of SME credit lines to local banks for lending to medium-sized businesses. Some improvements in banks have resulted, including staff training, international auditing and new procedures. But apart from the general problems with bank credits outlined above, too much attention seems to have been given to sound banking principles (getting a good repayment level) and not enough to impacting transition. People who have examined subprojects suggest they too often go to business people close to the regime, who could probably have gotten credit in other ways.¹²² An additional problem is the high profit level enjoyed by an unreformed banking system, further limiting pressure for reform.

It seems the best use of EBRD funding is at the lowest level, particularly in micro-finance and small business. Projects seem to have been successful in funding business at a grass-roots level.¹²³ Any possibility of expanding this area should be encouraged, and alternative ways of distributing credits, including through credit union or other non-banking financial intermediaries, should be examined.

There is scope for the Bank to take a more creative approach, investing directly in medium-sized businesses independent of the main political players. These exist and are seeking capital but such direct lending requires greater personnel resources and improved due diligence procedures, based less on financial records and more on face-to-face dealing.

There is no easy way for the EBRD to promote greater engagement with the government on policy change but it might examine some options. Suggestions include promoting a Council on Foreign Investment with representatives from government, business and the IFIs, as exists in Kazakhstan. Another possibility might be the promotion of a wider business council to provide a forum for discussion of the business environment, again involving local business people and government

officials. Such groups might be sponsored on a regional level also.

The Bank also needs to use its Country Strategy and benchmarks in a more proactive way to promote reform. During the past year there have been no clear statements from the Bank on how Uzbekistan has progressed in meeting the benchmarks. The Bank has sent several high-level delegations to Uzbekistan but in general has few resources available for the monitoring of political affairs and Article 1 commitments. The establishment of a department in the Bank that would properly analyse political reform and policy issues would be one way to back up existing country offices. The addition of political counsellors to country offices might give banking staff a useful additional resource.

Anything less than a suspension of new financing, except for direct private sector investments and microfinance projects, will lose credibility for the Bank and the international community more widely. At the same time, the Bank should make clear that it is willing to review its strategy and increase investment, if and when serious economic reforms are implemented.

B. UNITED STATES

The U.S. in many ways faces a more difficult choice than the EBRD, since its assistance to the government, which amounted to more than \$300 million in 2002-2003, is tied up with a security relationship that some will argue is essential to national security interests.¹²⁴

The truth is that the close relationship with the Uzbek regime is doing long-term damage to the U.S. image in this important, predominantly Muslim region. Although difficult to assess, evidence suggests that Islamist radicalism is still on the rise in Uzbekistan, and shifting from dissatisfaction with President Karimov to wider dissatisfaction with the West's support for his regime.¹²⁵

¹²² ICG interviews, Western diplomats, Tashkent, February 2004.

¹²³ ICG interview, Kenji Nakazawa, EBRD Country Representative, 19 February 2004, Tashkent.

¹²⁴ U.S. aid to Uzbekistan was \$219.8 million in 2002 but fell to \$86.1 million in 2003. For a breakdown of that aid, see below.

¹²⁵ For a discussion of this issue, see ICG Asia Report N°72 *Is Radical Islam Inevitable in Central Asia? Priorities for Engagement*, 22 December 2003.

According to Shukhrat Ganiev, a respected independent researcher based in Bukhara, popular support for the U.S. base in nearby Qarshi has fallen sharply over the past two years. In February 2002 he interviewed 80 families in the neighbourhood of the base: 81 per cent of his interviewees were indifferent or favoured the base. Returning to the same respondents in 2003, he found a marked change, with 87 per cent opposed to the military presence. Some of this might have been prompted by the normal irritants of living near a military airfield, or unhappiness at not getting jobs or contracts. But much seems to have been the result of wider political discontent. Ganiev cites a schoolteacher, who told him:

I had heard a lot about American democracy. I thought that the appearance of American troops here would change the situation for the better. Now I see that the regime has only been strengthened, and arrests and abuses only increased.

Ganiev's sample may not be large enough to be scientifically conclusive but it does demonstrate shifts in opinion that ICG has observed elsewhere in the country. A Western-oriented Tashkent student says, "They provide the guns to the police, and the cars that they take us away in, and hundreds of millions of dollars to the government that means they don't do any reforms, and I don't understand it". His views may be inaccurate: much U.S. aid does not go to the central government, and most equipment consists of radios or other non-lethal kit. But perception is all, and the U.S. has not done enough to explain its policies and maintain some distance from the government.

According to U.S. diplomats, in private, U.S. officials have pushed hard for reform, particularly on the economy, and have come away frustrated. True or not, quiet diplomacy has had little impact and has not been matched by any significant public diplomacy. Unlike most European governments, the U.S. does issue often very critical annual reports on human rights in Uzbekistan but these tend to have little impact on policy since the Uzbek government compartmentalises the annual report process and largely ignores its findings. Much more powerful would have been a public statement by Defence Secretary Rumsfeld during a visit to Tashkent in February 2004 that the U.S. government was dissatisfied. Instead Rumsfeld said:

The USA recognizes Uzbekistan as a key initiator as regards maintaining peace and stability in Central Asia and all the region as a whole. It supports the country's clear-cut efforts in this direction. Relations between the two countries are aimed at achieving exactly these goals.¹²⁶

This policy cannot continue much longer without further damaging the U.S. in the region. The State Department needs to state unequivocally to Congress that it can no longer certify Uzbekistan's progress on political and economic reform and human rights. It should outline the reasons and detail the steps that would need to be taken by the government to ensure a renewal of aid by December 2004. The minimum would need to be:

- ❑ the participation of independent political parties and candidates in December's parliamentary elections;
- ❑ a revised Action Plan on Torture including a short-term timetable realistically addressing the key recommendations of the UN Special Rapporteur and that would be widely publicised in the mass media and monitored by independent groups;
- ❑ real steps towards ending media harassment and censorship;
- ❑ the registration of domestic and international NGOs involved in civil society and human rights work; and
- ❑ immediate changes to economic legislation that reinvigorate private trade.

In early 2002 and early 2003, as the certification procedure was pending, the Uzbek authorities have "assisted" the State Department by producing a timely registration of a human rights group. The State Department needs to avoid being overly influenced by such inconsequential change and to push for real reforms with long-term impact. The release of another political prisoner, for example, or even the registration of a human rights group, is not evidence of substantive change but only of a game at which the Uzbek government seems to have outwitted the U.S. all too often.

¹²⁶ Uzbek Television first channel, Tashkent, in Uzbek 1530 gmt., 24 Feb 04, via BBC Monitoring.

Aid to security and law enforcement agencies, which amounted to U.S.\$79 million in 2002 and over U.S.\$30 million in 2003, should be suspended, except where vital for international security. But this must be defined narrowly; the West gets little benefit from much of the aid that goes to the Uzbek army or police force. Much of the counter-narcotics spending is also presently of dubious value. The supply of equipment and training to border forces and law enforcement agencies is not obviously beneficial. What is needed is better intelligence, more political pressure, and more work inside Afghanistan itself.¹²⁷

On the other hand, aid that promotes civil society or legal reform needs to be retained or indeed increased. Similarly, education programs with direct impact on young people should be encouraged and increased where possible.¹²⁸ There is still huge scope for new programs in education and social and economic issues aimed at grass-roots and community development. Despite government restrictions on media freedoms, much more could be done in this area, and there is a large niche in areas such as public policy research and discussion that could be addressed through support for more academic exchanges, publishing efforts, and new more serious NGOs.

C. OTHER DONORS AND IFIS

ADB. It is important for the donor community to maintain a consistent policy. In the past two years,

¹²⁷ The U.S. government granted equipment worth U.S. \$1.18 million to Uzbek border guards in February 2004 under the Export Control and Related Border Security Assistance (EXBS) program. Since its inception in April 2000, the EXBS program has provided over \$5 million in equipment and training to the Uzbekistan government. Further equipment intended for the border guards and customs officials in 2004 and 2005 would amount to more than \$12 million. U.S. embassy press-release, 11 February 2004. Apart from the corruption inherent in these two organs, and the regular involvement of border guards in ugly incidents, it is not clear that such equipment really impacts cross-border security, since numerous illegal cross-border trade routes have been opened.

¹²⁸ The U.S.\$86.1 million that Washington provided in assistance to Uzbekistan in 2003 was divided as follows: democracy programs \$14.7 million; economic and social reform \$18.2 million; security and law enforcement \$30.2 million; humanitarian assistance, \$18.5 million; cross sectoral initiatives \$4.5 million. Fact Sheet, Bureau of European and Eurasian Affairs, U.S. State Department, 17 February, 2004, "U.S. Assistance to Uzbekistan -- Fiscal Year 2003", at <http://www.state.gov/p/eur/rls/fs/29494.htm>.

the Asian Development Bank (ADB) has often had too charitable view of Uzbekistan's commitment to reform, compared with the assessments of other lenders. Even the ADB is holding back budgetary support for a major education program loan pending foreign trade liberalisation,¹²⁹ although its positive assessment of three other criteria is dubious.¹³⁰ Its present lending programs, up to U.S.\$150 million annually, are considerably higher than the government's reform program warrants. Its approach breaks what would otherwise be a relatively united IFI front and warrants an urgent review.¹³¹

World Bank. The World Bank has been a more wary lender, continuing with a yearly program of less than U.S.\$50 million. Even this may be under threat if baseline criteria are not met in 2004.¹³² The Bank should take a hard look at whether new lending is possible under present conditions as it prepares its country assistance strategy for 2005-2007.

IMF. The IMF took a fairly strong stance on Uzbekistan's commitment to reform in 2002, but its ready acceptance of the government's convertibility plan may have been a mistake. In the upcoming IMF review of Uzbekistan's Article 8 compliance, the mission should consult widely among business people to assess the real access they enjoy to foreign exchange and consider whether the government's informal restrictions can be considered a default on its obligations.

Outside the IFIs, the major donors have been bilateral agencies and the EU: the latter's projects amount to around U.S.\$50 million per year for all Central Asia.

EU. The EU should and could take a more active role in the region and in Uzbekistan in particular. Its political involvement is limited largely to meetings within the remit of the Partnership and Cooperation Agreement (PCA) signed with Uzbekistan. The PCA includes specific commitments by the government to progress in human rights, economic reform and political liberalisation. Since there has been little such progress, it would be appropriate to mount a

¹²⁹ ICG interview, Manuel Perlas, Deputy Resident Representative, Asian Development Bank, Tashkent, 25 February 2004.

¹³⁰ The other criteria are improved government statistical information, agricultural reform and convertibility.

¹³¹ See ADB, "Country Strategy and Program Update: Uzbekistan", 14 October 2003, at www.adb.org.

¹³² See "World Bank Country Assessment Program, FY2002-04", at www.worldbank.org.

formal review of Uzbekistan's commitment within the PCA over the next year. The lack of real EU political representation in Tashkent has always been an obstacle to more engagement, and the possibility of establishing a delegation should be considered.

EU TACIS programs¹³³ have often been beset by problems, and their primary aim -- technical assistance -- is no longer appropriate for many areas in Uzbekistan. They are beginning to shift, however, to a more grassroots approach, with an apparently successful community development effort in Surkhandarya leading the way.¹³⁴ An expansion of the TEMPUS higher education exchange program also seems sensible.

An older approach is still apparent in many projects. Border programs that concentrate on technical assistance and equipment often do not address the real issues. A TACIS program of technical aid to the Uzbek parliament may have some utility for engaging parliamentarians and offering advice on comparative systems. It would be inappropriate to continue funding for Phase II, however, if no independent parties or candidates are permitted to take part in the December 2004 elections.

OSCE. The OSCE has an important role. Its programs on prison reform, although controversial, seem to be effective at engaging some elements in the prison service. With limited staff, its opportunities for wider activities are probably restricted but it should monitor the electoral process and publish recommendations for moving toward a more open system. It needs to avoid the perception that more engagement with the government limits its commitment to human rights. The EBRD requested an assessment by the OSCE Representative on Freedom of Media as part of its monitoring program for the benchmarks on media freedom. It is not clear why such a report has not been published (the EBRD has received private briefings) but it would be a useful addition in 2004 to monitoring from other organisations, such as Reporters without Frontiers and Human Rights Watch.

UN. The UN is the lead actor on implementation of the Special Rapporteur's recommendations on

torture. It is important that it support his strong approach and does not accept the weak government response. Many UN agencies are weak at dealing with issues in Uzbekistan that may involve difficult negotiations with the government. Issues of democratisation and governance need to be given more profile, and agencies such as UNICEF need to address controversial topics within their remit, such as the widespread use of child labour in cotton harvesting.

NATO. As the security relationship with Uzbekistan has developed, so has NATO's interest in building up ties through high level contacts and a closer Partnership-for-Peace (PfP) program. While understandable in relation to NATO's increased role in Afghanistan, the latter seems to ignore the basic premises of the PfP, whose founding document describes signatories as "committed to the preservation of democratic societies, their freedom from coercion and intimidation, and the maintenance of the principles of international law", and committed to upholding the Universal Declaration of Human Rights.¹³⁵ There is little mention of any of this in NATO's frequent warm messages to the Uzbek leadership.¹³⁶ NATO's apparent willingness to open a regional PfP training centre in Tashkent seems an inappropriate reward for Uzbekistan that undermines its credibility as a defence organisation of democratic countries.

Shanghai Cooperation Organisation. Other organisations could also play a stronger role in pushing for economic openness and less trade restrictions. The Shanghai Cooperation Organisation, which links Russia and China with the Central Asian states (except Turkmenistan), should begin to widen its security focus to examine economic ties in the region. Freer flow of trade through and within Central Asia, and particularly to Uzbekistan, is in the economic interests of both Russia and China and would also be an important factor in improved regional security and mutual trust.

General. There is an important distinction between the ways states and international organisations relate to Uzbekistan, and how NGOs and other actors can

¹³³ The EU established the TACIS (Technical Assistance to the Commonwealth of Independent States) program in the early 1990s to provide grant-financed technical assistance to the countries of the former Soviet Union.

¹³⁴ ICG interview, Peter Reddish, Coordinator, Europa House, Tashkent, 26 February 2004.

¹³⁵ Partnership for Peace Framework Document, at <http://www.nato.int/docu/comm/49-95/c940110b.htm>.

¹³⁶ For example, letter of Lord Robertson, NATO Secretary General, to President Karimov, 6 October 2003, at http://www.press-service.uz/eng/pressa_eng/pressa_eng32a.htm.

operate there. It is important that any cuts in aid or lending to the central government not lessen interest in other ways of engaging with the country. There is still plenty of scope for work with local government, local communities, educational institutions, private enterprise, and NGOs.

Legal reform and aid should be donor priorities, although with the present state of the criminal justice system, projects must not become window-dressing to hide lack of systemic reform. Surveys suggest that small business people are very willing to pay for legal advice and consulting, areas that require significant expansion.¹³⁷ Knowledge of the law does not guarantee protection of course, but it can mean at least some defence.

Poverty alleviation is difficult without wider economic reform, but some TACIS and USAID community development programs seem to be having good impacts in the regions and could probably be expanded. Microcredit and small-scale financing also offer some alleviation for the poorest sectors of society. An understandable focus on the Fergana Valley region, which faces particular problems of high unemployment, needs to be balanced with attention to other regions, such as southern Uzbekistan and the north-west regions of Khorezm and Karakalpakstan.

There are many good projects in Uzbekistan that are making a difference to people's lives, and it is possible for international organisations to do more of this. Not all such projects need to have an overtly political approach; there is plenty of scope to engage with society on health, education, culture and sport, as well as more difficult areas. But some ground rules need to be developed to cover the following:

- ❑ *Critical edge*: projects need to promote reform and modernisation in a demonstrable way, not just encourage technical or legal changes;
- ❑ *Flexibility*: all projects need to engage different social sectors, from government officials to unregistered organisations;
- ❑ *Localisation*: all projects need to work towards self-sustainability and encouraging local initiatives;

- ❑ *Transparency*: all organisations need to be honest about what they are attempting and their results; too many organisations are silent about failures;
- ❑ *Independence*: organisations must avoid being manipulated by the government; this involves employment strategies (too many international organisations are staffed by family members of leading officials) and not accepting government statistics in their own reports without question; and
- ❑ *Cooperation*: agencies need to take more joint initiatives to avoid being played against each other.

There is no easy answer to the problems of engaging in Uzbekistan and promoting change but there needs to be increasing willingness to take risks, pursue more creative approaches, and follow a more critical line on a range of policy issues.

¹³⁷International Finance Corporation, "Business environment in Uzbekistan as seen by small and medium enterprises", December 2003.

V. CONCLUSION

Many scenarios are conceivable for Uzbekistan, but that of a more open society, politically and economically, is becoming increasingly unlikely in the short term. There is serious danger of greater isolationism, a stagnating economy and a closed political system.

That system is potentially fragile, but can probably continue to function at the present level at least for the medium term. The shadow economy and the creative ability of Uzbeks to adapt allows some level of business to continue; a ubiquitous police force and other repressive instruments keep social and political discontent in check. Many able intellectuals and potential political leaders have left the country, and the public opposition remains weak and fragmented.

In the long term, however, there are many dangers in continuing with no or only limited reform. Increasing discontent will likely lead to further radicalisation of young people and greater attractiveness of Islamist ideas. More and more young people will seek emigration as a way out, and social ills -- drug abuse, criminal activity, prostitution and human trafficking - - are likely to rise. The system is simply not viable in the long term and will face increased instability and potential collapse.

A more open economy would undermine much of the appeal of radical political alternatives and provide opportunities for the 600,000 young Uzbeks who join the work force every year. The population is still fairly well-educated, there is a strong tradition of private enterprise and trade, and the country has considerable potential as a regional centre for trade and tourism, as well as in its traditional resource extraction sectors. Manufacturing will always face problems in competition with China and others, but here too there are some niches, particularly in food products, that Uzbekistan could usefully fill if it had a more progressive economic atmosphere. Economic liberalisation would immediately lead to increased economic activity, particularly in small businesses and in trade, directly impacting on the living standards of the most vulnerable groups.

This scenario depends on the appearance of politicians willing to promote change. There have always been two major domestic policy trends. One has been a kind of authoritarian modernisation, inspired by the successes of South East Asia and

China in promoting economic development without significant political liberalisation. It figured heavily in earlier regime rhetoric and often resurfaces, particularly in discussion with the international community. Within this policy there is talk of support for small and medium-sized business, sometimes good laws to that effect, stress on technical education, international exchanges, and economic reform, and some political liberalisation.

It is probably the kind of policy supported by those members of the government whom some in the international community view as more reformist -- smart English-speaking technocrats who sit in the ministries of foreign affairs or finance. This is indeed the side of the regime that most visiting delegations see and with which they are most comfortable dealing.

The other policy, which seems to reflect better the reality on the ground, is more rooted in a kind of neo-feudalist political system. It is essentially anti-modernist, and views the West as a threat to traditional values. It generally eschews globalisation in favour of an "Uzbek way" and favours personal forms of politics over laws on paper. This is the reality of politics in many regions, which are run by what are essentially feudal lords who do not distinguish between branches of power, or indeed between public and private sectors.

The existence of these two ideologies explains some policy inconsistencies. When good laws are introduced, they are seldom implemented. When technical changes are praised internationally, it does not mean that there is a real difference on the ground. While international organisations are encouraged by new regulations apparently limiting state intervention in agriculture, for example, everything goes on as before. The governor of Jizzakh province reportedly gathers 800 farmers in a room, not to explain why they have not been paid for months but to swear at them for not fulfilling their state procurement targets.¹³⁸

One local analyst is losing patience:

The parliament is an imitation parliament, the elections will be imitation elections, our convertibility is an imitation of what

¹³⁸ Report of the meeting from the Human Rights Society of Uzbekistan, "Krepkii mat -- osnova demokrati?" [Strong swear words -- the basis of democracy?], HRSU bulletin, 28 February 2004.

convertibility should be, and the economy you hear about is the imitation of a real economy. The danger is that soon our state will become an imitation state.¹³⁹

In the long term, neo-feudalism means economic bankruptcy and increasing political repression. It is a policy without any long-term vision and a very shaky grasp of international economics. This kind of policy has been even partially viable only in countries with major resource extraction sectors, such as the Gulf States. Even there it faces increasing challenges, and it is unlikely to survive long in a poor country such as Uzbekistan.

Yet, this closed and anti-modernist sentiment seems to be growing. A December 2003 article in the official press roundly criticised Western organisations and the West in general for attempting to undermine Uzbek cultural values and pointedly commented that outside forces should not dictate to the government.¹⁴⁰ On 8 December, in his address to the nation, President Karimov criticised:

...international organizations and some Western countries who are implementing pressure on Uzbekistan and making the Uzbek nation adopt Western values of democracy and human rights which are alien for Uzbek society and thus cannot be incorporated.¹⁴¹

This tendency towards isolationism would be disastrous for Uzbekistan. Encouraging it by international disengagement would be a mistake. But international organisations also need to maintain credibility, which requires much greater care for the message they are sending to the population at large.

The struggle between these two policy visions is fundamental to Uzbekistan's future. As the leadership feels increasingly concerned about social discontent and its political position, it is more likely to fall back on tried and tested methods of social control and avoid economic reforms that will cause serious social change. Though many in the elite know that avoiding change is impossible, not enough of them think strategically or long term. Quick security and financial gain are usually prioritised.

International policy-makers need to be unashamedly on the side of modernisation. That means continuing support for technical education, international links at all levels, private enterprise, and economic reform. It also means support for social modernisation, including women's rights and more opportunities for young people. But it also should include an increasing emphasis on information flow and media freedom, legal reform and support for human rights groups, and civil society as a whole.

Secular modernisation and democratisation are losing support in Uzbekistan. Increased social discontent instead feeds an alternative opposition based on Islamist values and anti-modernism. Continued support for the regime that feeds these tendencies cannot be in Western interests, any more than it is in the interests of the majority of Uzbek citizens. It is time for the international community to change tack, and recognise that its own credibility and long-term security interests are at stake.

Osh/Brussels, 11 March 2004

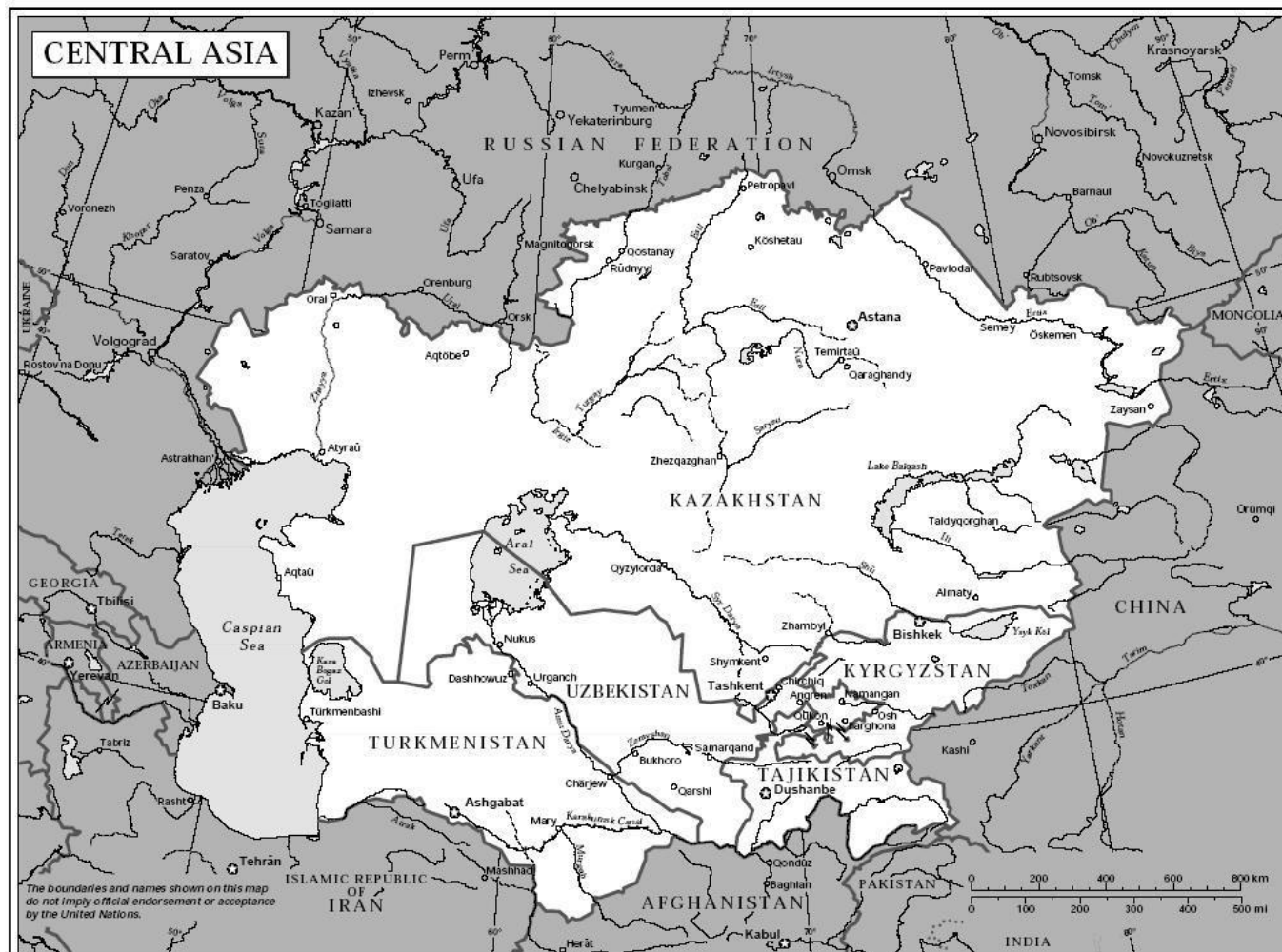
¹³⁹ ICG interview, February 2004.

¹⁴⁰ The article was written under a pseudonym, but given its prominent position in a state newspaper can be taken to represent a certain trend in official views at the top of the political system. The writer rails against Western influence, the immoral behaviour of women, and Hollywood movies in much the same spirit as a Hizb ut-Tahrir leaflet. Part of the nationalist-isolationist agenda is directed against international organisations. Specifically Human Rights Watch came in for criticism for its assertions about the rights of women being breached and its reporting on the repressive nature of local *mahalla* committees. Abduazimkhujja Sherzodkhujja Ughli [pseudonym], "Millat rukhiga sadoqat" [Loyalty to the National Spirit], *Khalq suzi* (Tashkent) 16 December 2003.

¹⁴¹ Address of the Uzbek President to the nation, 1st TV-channel, 8 December 2003, Tashkent.

APPENDIX A

MAP OF CENTRAL ASIA



Map No. 3763 Rev.4 UNITED NATIONS
October 1998

Department of Public Information
Cartographic Section

APPENDIX B

EBRD BENCHMARKS, COUNTRY STRATEGY UZBEKISTAN, 2003-04.

In the political sphere:

- Ensure greater political openness of the system and freedom of the media. The assessment of the situation in this area by the OSCE Representative on Freedom of Media would be an important factor in measuring actual progress made by the country.
- Open up the political processes to a variety of interests. Registration and free functioning of independent local NGOs, including those involved in the area of rule of law and protection of human rights, would be an essential element of this process.
- Improve the country's human rights record. This involves co-operation by the authorities in implementation of the recommendations to be made in March 2003 by the UN Commission on Human Rights based on the report of the UN Special Rapporteur on Torture.

In the economic sphere:

- Further progress in eliminating remaining foreign exchange distortions and the achievement of current account convertibility, as well as the implementation of the recently adopted measures to liberalise state procurement in agriculture.
- Opening of the economy to effective competition, including through the elimination of discriminatory barriers against foreign trade, improving conditions for entry of domestic businesses and protecting their property rights, acceleration of privatisation through the sale of at least a few large enterprises and determined efforts to attract more FDI (foreign direct investment).
- Adoption and first steps in implementation of a banking sector reform program, moving towards fully market-based allocation of credit and providing the basis for privatisation of the main state banks;
- Evident progress in adjusting tariffs in public utilities towards cost recovery levels, most importantly in the energy sector.

APPENDIX C

ABOUT THE INTERNATIONAL CRISIS GROUP

The International Crisis Group (ICG) is an independent, non-profit, multinational organisation, with over 90 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

ICG's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, ICG produces regular analytical reports containing practical recommendations targeted at key international decision-takers. ICG also publishes *CrisisWatch*, a 12-page monthly bulletin, providing a succinct regular update on the state of play in all the most significant situations of conflict or potential conflict around the world.

ICG's reports and briefing papers are distributed widely by email and printed copy to officials in foreign ministries and international organisations and made generally available at the same time via the organisation's Internet site, www.crisisweb.org. ICG works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The ICG Board – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring ICG reports and recommendations to the attention of senior policy-makers around the world. ICG is chaired by former Finnish President Martti Ahtisaari; and its President and Chief Executive since January 2000 has been former Australian Foreign Minister Gareth Evans.

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March 2004

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* The Algeria project was transferred from the Africa Program to the Middle East & North Africa Program in January 2002.

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Former U.S. Congressman

Gareth Evans, President & CEO

Former Foreign Minister of Australia

S. Daniel Abraham

Chairman, Center for Middle East Peace and Economic Cooperation, U.S.

Morton Abramowitz

Former U.S. Assistant Secretary of State and Ambassador to Turkey

Kenneth Adelman

Former U.S. Ambassador and Director of the Arms Control and Disarmament Agency

Richard Allen

Former U.S. National Security Advisor to the President

Saud Nasir Al-Sabah

Former Kuwaiti Ambassador to the UK and U.S.; former Minister of Information and Oil

Louise Arbour

Supreme Court Justice, Canada; Former Chief Prosecutor, International Criminal Tribunal for former Yugoslavia

Oscar Arias Sanchez

Former President of Costa Rica; Nobel Peace Prize, 1987

Ersin Arioglu

Member of Parliament, Turkey; Chairman, Yapi Merkezi Group

Emma Bonino

Member of European Parliament; former European Commissioner

Zbigniew Brzezinski

Former U.S. National Security Advisor to the President

Cheryl Carolus

Former South African High Commissioner to the UK; former Secretary General of the ANC

Jorge Castañeda

Former Foreign Minister, Mexico

Victor Chu

Chairman, First Eastern Investment Group, Hong Kong

Wesley Clark

Former NATO Supreme Allied Commander, Europe

Uffe Ellemann-Jensen

Former Minister of Foreign Affairs, Denmark

Ruth Dreifuss

Former President, Switzerland

Mark Eyskens

Former Prime Minister of Belgium

Marika Fahlen

Former Swedish Ambassador for Humanitarian Affairs; Director of Social Mobilization and Strategic Information, UNAIDS

Yoichi Funabashi

Chief Diplomatic Correspondent & Columnist, The Asahi Shimbun, Japan

Bronislaw Geremek

Former Minister of Foreign Affairs, Poland

I.K.Gujral

Former Prime Minister of India

Carla Hills

Former U.S. Secretary of Housing; former U.S. Trade Representative

Asma Jahangir

UN Special Rapporteur on Extrajudicial, Summary or Arbitrary Executions; Advocate Supreme Court, former Chair Human Rights Commission of Pakistan

Ellen Johnson Sirleaf

Senior Advisor, Modern Africa Fund Managers; former Liberian Minister of Finance and Director of UNDP Regional Bureau for Africa

Mikhail Khodorkovsky

Chief Executive Officer, Open Russia Foundation

Wim Kok

Former Prime Minister, Netherlands

Elliott F. Kulick

Chairman, Pegasus International, U.S.

Joanne Leedom-Ackerman

Novelist and journalist, U.S.

Todung Mulya Lubis

Human rights lawyer and author, Indonesia

Barbara McDougall

Former Secretary of State for External Affairs, Canada

Mo Mowlam

Former Secretary of State for Northern Ireland, UK

Ayo Obe

President, Civil Liberties Organisation, Nigeria

Christine Ockrent

Journalist and author, France

Friedbert Pflüger

Foreign Policy Spokesman of the CDU/CSU Parliamentary Group in the German Bundestag

Surin Pitsuwan

Former Minister of Foreign Affairs, Thailand

Itamar Rabinovich

President of Tel Aviv University; former Israeli Ambassador to the U.S. and Chief Negotiator with Syria

Fidel V. Ramos

Former President of the Philippines

Mohamed Sahnoun

Special Adviser to the United Nations Secretary-General on Africa

Salim A. Salim

Former Prime Minister of Tanzania; former Secretary General of the Organisation of African Unity

Douglas Schoen

Founding Partner of Penn, Schoen & Berland Associates, U.S.

William Shawcross

Journalist and author, UK

George Soros

Chairman, Open Society Institute

Pär Stenbäck

Former Minister of Foreign Affairs, Finland

Thorvald Stoltenberg

Former Minister of Foreign Affairs, Norway

William O. Taylor

Chairman Emeritus, The Boston Globe, U.S.

Ed van Thijn

Former Netherlands Minister of Interior; former Mayor of Amsterdam

Simone Veil

Former President of the European Parliament; former Minister for Health, France

Shirley Williams

Former Secretary of State for Education and Science; Member House of Lords, UK

Jaushieh Joseph Wu

Deputy Secretary General to the President, Taiwan

Grigory Yavlinsky

Chairman of Yabloko Party and its Duma faction, Russia

Uta Zapf

Chairperson of the German Bundestag Subcommittee on Disarmament, Arms Control and Non-proliferation