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REPORT

KYRGYZ REPUBLIC'S STRATEGY on customs reform and modernization

Kyrgyzstan (General Information)

Kyrgyzstan (officially Kyrgyz Republic) is located in Central Asia. The area is 199.9 thousand square kilometers. Almost 90% of the territory is above the level of 1,500 meters above sea.

Capital – Bishkek.

Population – 5 million people.

State structure

Up to 1991 Kyrgyzstan was included in the structure of the Soviet Union, in 1991 it has acquired its independence. President is the Head of State. Prime-Minister is the Head of Government.

Kyrgyz Republic is the democratic state. Mr. Askar Akaev is the first President. According to the Constitution every citizen who reached the age of 18 is entitled to vote on the elections. The population elects the Parliament and the President. The Executive Power implements its authorities through the government and local public administration.

Economy

Main sector of Kyrgyz economy is the agriculture which produces over one third of the GDP. The most important step in reforms was the introduction of private property for land, which has given a new impulse to the development of the economy as a whole.

In Kyrgyz industry which produces a little over 25% of GDP one of the first places belongs to ferrous metallurgy and mining industry (around 60% of all industrial production). The gold is mined at Kumtor field, which accounts for around 40% of all Kyrgyzstan export.

Water and energy sector is the second important source of export revenues and has big perspectives for substituting the import of energy resources. It would be enough to say that the hydropower potential of Kyrgyz rivers several times exceeds the analogical capability of a Volga river.

It is also quite important that Kyrgyzstan is the only CIS country which pursues liberal currency policy.

Available intellectual potential had demand in Western European countries.

Geographic location.

Kyrgyz Republic is located in the North-West of Central Asia and occupies a part of Tian-Shyan and North chains of Pamir-Alay mountains. Borders mainly go through natural frontiers – edges of high mountain ridges and rivers, and only in some places they go down to plains of Chui, Talas and Fergana valleys.

On three sides: in the North, West and South it borders the republics of the former Soviet Union: Republic of Kazakhstan (border length is 1,113 km), Republic of Uzbekistan (border length is 1,374 km) and Republic of Tajikistan (border length is 972 km), and on the West and South-West it borders People's Republic of China (border length is 1,049 km). Total border length of Kyrgyzstan is 4,503 km, total area is 199.9 thousand km².

Kyrgyz Republic's territory from West to East is 900 km, and 410 km from North to South, it is located approximately between latitude 39° and 43° North. Average territory elevation above sea level is 2,750 m., the highest altitude is 7,439 (Pobeda peak) and the lowest is 394 m (on the South-West of the republic). Relief of Kyrgyzstan is predominantly mountainous. The country is rich in ferrous and rare metals ore, coal and other minerals.

Comprehensive Grounds for the Development of Kyrgyz Republic for 2000-2010: National Strategy

New era certainly requires new approaches for modern and efficient settlement of the most important problems of the state, the society and of a person.

And in order to develop a new policy for the development of a new society which would comply with upcoming realities the *Comprehensive Grounds for the Development of Kyrgyz Republic for 2000-2010: National strategy* were developed.

Distinguishing feature in the modern development of Kyrgyzstan is the aspiration of the society for updating in reply to challenges caused by the integration into the world community and changes associated with it. During recent years of country's sovereignty large reforms were pursued which were aimed to creation of a democratic state and economic and social development. During these reforms we had to face serious problems, the main one of which was the economic crisis, living standard reduction and growth in poverty.

To resolve the problems that emerged on the way of country's development there was a need in developing the long-term strategy which was the Comprehensive Grounds for the Development of Kyrgyz Republic up to 2010 (CGD).

CGD is a long-term strategy the implementation of which will allow to ensure the systemic mounting of the existing problems, dynamic development of the state and the society in political, social and economic areas. CGD reflects main approaches to accomplishing tasks faced by the state and the society.

Besides that CGD is designed for coordination of external assistance with emphasis on strengthening the efficiency in the implementation of programs and projects, and strategic components for the purpose of country's development.

One of the key components of the country's economic growth is the operation of customs service. Improvement of the investment climate and the economic situation in the republic is impossible without radical enhancement of customs operation and without strengthening its technical, legal, organizational and human resources basis.

Understanding these problems Kyrgyzstan in recent years has launched a number of reforms aimed to improve the operation of a public revenue collection system. In 2002 the Strategy of Fiscal Reform in Kyrgyz Republic was developed and adopted. The Concept for improving customs operation and new edition of Customs Code were prepared.

About Customs Service of Kyrgyz Republic

Customs Service of Kyrgyz Republic was established on December 31, 1991.

Period from 1992 to 1998 was a period of development and determining the place of Customs Service in the system of executive bodies of Kyrgyz Republic.

Then in 2002, according to the Strategy of Fiscal Reform, the Committee on Revenues under the Ministry of Finance of Kyrgyz Republic was established, and it included tax and customs services.

Customs of the republic has appropriate attributes of a separate service (flag, emblem, uniform and etc.)

The number of posts on roads and customs border of Kyrgyz Republic is 65, on air knots is 4 and 6 on the railway.

International customs cooperation

With understanding that pursuing an active foreign economic policy is an important priority for the country, the active work is being conducted for establishing and developing international customs cooperation according to obligations undertaken both by the Kyrgyz Republic and separately by customs administration of a country.

As of today bilateral relations have been established with many countries. At the same time given the geographic, economic and transport interests there is cooperation under multilateral and regional integration institutions.

Kyrgyz Republic is a member of WTO starting December 1998, and the member of World Customs Organization starting February 2000.

In 1997 Kyrgyz Republic has joined the Customs Convention on International Cargo Movement with application of the MDP handbook dated 1995.

In December 2003 Kyrgyz Republic has joined the International Convention on the Harmonized System of Goods Description and Coding dated June 14, 1983, and amended by the Amendments Protocol as of June 24, 1986.

At the same time in the near future Kyrgyz Republic intends to join:

- The International Convention on Simplification and Harmonization of Customs Procedures reviewed as of 1999 (Kyoto Convention).

One can with great satisfaction mention that customs administration successfully cooperates on different customs issues with international financial institutions such as the Asian Development Bank, World Bank, European Union, TASIS, USAID, UNDP and International Monetary Fund.

Integration processes in the world community, namely globalization, significant increase in cross-border movement of goods, great advance in the IT development have predetermined the new direction for Kyrgyz customs development.

Beginning from 2000 customs authority of Kyrgyz Republic conducts the work on customs reform and modernization according to the Concept for Customs Development in Kyrgyz Republic.

Kyrgyz Republic Customs reform and modernization

To carry out reforms in customs activity the Resolution of the Government of Kyrgyz Republic # 403 dated June 25, 2002 has approved the *Concept for Customs development in Kyrgyz Republic*.

The following strategic directions were identified for the reforms:

1. Customs legislation reform and improvement.

Integration processes in the world community have predetermined the need for unification of national legislation not only with neighboring countries, but also with international legal acts. One of the efficient methods for unification of customs legislation at the international level is the reviewed Convention on Simplification and Harmonization of Customs Procedures (Kyoto Convention).

For these purposes the new edition of Kyrgyz Republic's Customs Code (CC) was developed and as of today approved by the Jogorku Kenesh (Parliament). New CC edition complies with main principles of the reviewed Kyoto convention and provisions of WTO/GATT, the provisions in it are clear and understandable for the participants of foreign economic activity (FEA).

2. Customs processing and control.

Provisions in the new CC edition stipulate for introduction of modern, simple and easily understood customs procedures, which assumes the principle of selectivity and high independence for FEA participants.

3. Improving the system for management and provision of cadres for customs service.

It is necessary to completely change the existing staff policy in the customs administration of the republic. In order to change the existing staff policy, the package of normative-legal acts on the issues of servicing in customs authorities is being developed, the disciplinary charter for a customs officer and other laws pertaining to staffing in customs are being reviewed.

One of the main tasks is the training and capacity building of customs officers. There is a need for a new approach in the system of vocational education that complies with modern requirements and objectives of customs authorities, and for ensuring on this basis the radical increase in professionalism and culture of customs officers.

High qualification and knowledge of customs legislation is the critical factor for successful performance of customs authorities of Kyrgyz Republic. Changes in customs legislation, appearance of new methods used by violators of customs rules require from a customs officer an ongoing professional upgrade.

For that reason the establishment of an independent training center managed and operated according to modern standards is viewed as one of the most important methods for increasing the overall level of performance of customs authorities in the republic.

4. Development of information and technical (IT) policy in the field of customs (automation and computerization of Kyrgyz customs service).

Purpose of the ICT policy in the field of customs is to create a common automated information system of customs authorities and to create a technical infrastructure, which would provide new opportunities for increasing the budget income, expediting customs processing procedures, improving reliability of customs statistics and increasing the efficiency of combating smuggling and customs rules violations (CRV).

5. Material and technical basis of customs service.

Material and technical basis of customs service is poorly developed. Mainly trailers are placed on customs posts. The work is being done on determining the number of customs posts and their characteristics. The capital investment plan has been developed, calculations have been done for equipping with special technical means of customs control. The issue on establishing own cynology service in Kyrgyz Republic is being worked on.

6. Near-customs infrastructure.

Active work on attracting internal and external investments is needed to develop services market in the near-customs area. In such areas as declaration, temporary warehouses (TW), customs warehouses and duty free shops it is expedient to open access for private domestic capital, which would allow to develop competition.

Expected results from customs reform in Kyrgyz Republic:

- Updated customs legislation consistent with fulfillment of obligations under membership in economic communities and international agreements, which is clear for the participants of FEA, and is a consolidation of regulations on customs issues, following which foreign investors receive reliable protection for their capital;
- Changed system for hiring, discharge and attestation of customs staff, and for upgrading its qualification;

- Substantially simplified procedure for customs processing and control;
- Automation and computerization of customs control;
- Development of automated means for information exchange with neighboring partner republics;
- Incentives for developing the customs brokerage institute, i.e. independent customs agents, erection of special brokerage firms that offer services in providing efficient assistance in carrying out the foreign economic activity.

Implementation of the Convention's provisions requires certain financial expenditures. For these purposes customs is working on preparation of the Investment Plan for Attracting Financial and Technical Assistance which will reflect interaction with such international organizations and financial institutions as the Asian Development Bank, World Bank, WTO/CTC, ECO, UNDP, EC, USAID, TESIS, IMF and many others.

Close cooperation is being established with international organizations and international financial institutions, other donors and interested parties in the region for the purpose to ensure interrelation and continuous implementation of activities under Kyrgyzstan's strategy for customs development.

Customs service of Kyrgyzstan through receiving financial and technical assistance expects to equip customs authorities, provide them with special technical means, complete the automation of customs service, create customs infrastructure that would be in line with modern models, and also to train customs officers in modern customs methods both in the republic and abroad.