



Technical Assistance Report

Project Number: 47081-001
Regional—Capacity Development Technical Assistance (R-CDTA)
December 2013

Aligning Customs Trade Facilitation Measures with Best Practices in Central Asia Regional Economic Cooperation

(Financed by the Japan Fund for Poverty Reduction)

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
AEO	–	authorized economic operator
CAREC	–	Central Asia Regional Economic Cooperation
CCC	–	Customs Cooperation Committee
ICT	–	information and communication technology
RKC	–	Revised Kyoto Convention
SAFE	–	Security and Facilitation in a Global Environment
WCO	–	World Customs Organization

TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	Regional—Capacity development technical assistance (R-CDTA)
Targeting	–	General intervention
classification		
Sector (subsectors)	–	Industry and trade (trade and services)
Themes (subthemes)	–	Regional cooperation and integration (trade and investments), economic growth (promoting economic efficiency and enabling business environment), capacity development (institutional development)
Location (impact)	–	National (high), regional (high), rural (low), urban (low)
Partnerships	–	Japan Fund for Poverty Reduction

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. The Strategic Framework for the Central Asia Regional Economic Cooperation (CAREC) Program, 2011–2020 (CAREC 2020) has two strategic objectives: expanding trade and improving industrial competitiveness.¹ Within CAREC 2020, trade facilitation is one of four priority sectors. Work in this area was guided by the Transport and Trade Facilitation Strategy (TTFS), approved in 2007 by the 6th CAREC Ministerial Conference. The TTFS has undergone a midterm review during 2012–2013 to optimize its implementation for the remaining period (2014–2020). As a result, a Refined TTFS 2020 and Implementation Action Plan has been developed and approved in 2013 by the 12th CAREC Ministerial Conference on 23–24 October in Astana, Kazakhstan. The refined strategy strengthens an integrated approach, focusing on the development of six CAREC corridors through infrastructure investments and trade facilitation initiatives to improve the movement of goods and people through and across these corridors.

2. Customs cooperation has been at the core of the trade facilitation program of CAREC since its establishment in 2001, with the Customs Cooperation Committee (CCC) serving as a regional forum to discuss issues of common interest. The CCC is composed of heads of customs administrations of the 10 CAREC countries.

3. The CCC defined five priority areas on which to focus its work: (i) simplification and harmonization of customs procedures and documentation, (ii) information and communication technology (ICT) for customs modernization and data exchange, (iii) risk management and post-entry audit, (iv) joint customs control (JCC), and (v) regional transit development. These five priority areas are fully consistent with the 10 building blocks for customs in the 21st century as promoted by the World Customs Organization (WCO). The proposed regional technical assistance (TA) will provide support in three of the five CCC priority areas:² the simplification and harmonization of customs procedures and documentation, ICT for customs modernization, and data exchange and risk management techniques.³

4. The proposed TA was discussed during the 12th CCC meeting on 18 September 2013 in Astana, Kazakhstan. Members of the CCC agreed that the regional TA reflects the objectives of the identified priority areas, to which they gave their full support. The design and monitoring framework is in Appendix 1.

II. ISSUES

5. CAREC countries have made important progress in customs modernization and trade facilitation consistent with the identified five priority areas. Achievements to date in CAREC customs cooperation include:

- (i) accession to the Revised Kyoto Convention (RKC) by five countries;
- (ii) automation of customs functions with the aid of ICT, simplification and harmonization of customs procedures; and application of risk management procedures;

¹ ADB. 2012. CAREC 2020: A Strategic Framework for the Central Asia Regional Economic Cooperation, 2011–2020. Manila.

² Priority (iv) on joint customs control will be supported by TA “Coordinated Border Management for Results” while priority (v) on regional transit development will be supported by TA “Facilitation of Regional Transit Trade in Central Asia Regional Economic Cooperation (CAREC)”.

³ The TA first appeared in the business opportunities section of ADB’s website on 24 October 2013.

- (iii) pilot-testing of JCC in 2 pairs of countries through adoption of a unified cargo manifest and the gradual move toward mutual recognition of inspection results,
- (iv) accession to the TIR Convention in 8 countries for regional transit, and
- (v) capacity building programs for customs officials and training of trainers for customs training institutes in the region.

6. While much has been achieved in the five priority areas, countries still are confronted with excessive transaction costs and delays. Central Asian countries face comparatively longer time frames to export and import as well as relatively high number of documentation requirements. Exporters can expect to spend an average of 26 days to complete all export formalities – 16 days more than the average in OECD economies⁴. A more focused and coordinated approach is needed across all CCC members to align customs-related measures and procedures with international best practices. To avoid fragmented actions by individual countries and promote a harmonized approach toward reforms in CAREC countries, international best practices must be further applied.

7. The simplification and harmonization of customs procedures relies heavily on the legal framework that regulates customs operations in each of the 10 countries. All the CAREC countries are members of WCO and almost all have amended their laws to conform to the International Convention on the Simplification and Harmonization of Customs Procedures, or Revised Kyoto Convention (RKC).⁵ Five countries have acceded to the RKC (Azerbaijan, the People's Republic of China, Kazakhstan, Mongolia, and Pakistan) and the remaining five (Afghanistan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan) are in the process of accession. At the 9th CCC meeting in Tokyo in 2010, the target was set to have the remaining five countries accede to the RKC by 2015.

8. Another CCC priority area that requires immediate attention is the upgrading of risk management techniques used by CAREC customs authorities as the means to achieve a balanced approach to facilitation and control. Most customs authorities in CAREC have initiated efforts to introduce risk management in their clearance procedures, but much more needs to be done to wean them away from 100% control procedures. Providing customs with the necessary support to lead efforts in integrating risk management systems of all border regulatory agencies is essential. Also, a disciplined and structured approach to managing risk by CAREC customs is needed, which will allow the formulation of new initiatives whereby low-risk traders are permitted to operate under less stringent regulatory requirements.

9. Application of ICT for customs modernization and data exchange is also a priority for CCC members. Many customs administrations in CAREC countries use varying degrees of automation to support core customs functions and augment risk management techniques. However, CAREC lacks an information exchange mechanism to enable electronic exchange of data between customs administrations to promote real-time collaboration.

III. THE TECHNICAL ASSISTANCE

10. The proposed TA will promote a concerted approach to customs reforms in CAREC countries by applying international best practices. The TA will support accession to and improve

⁴ Doing Business Report 2013.

⁵ The convention's full title is International Convention on the Simplification and Harmonization of Customs Procedures. The original convention was concluded in Kyoto in 1973 and entered into force in September 1974. It was reviewed over a period of years and was ultimately amended in 1999. The convention is commonly referred to as the Revised Kyoto Convention.

compliance with the RKC. Risk management systems will be strengthened and options will be explored for data exchange and information sharing between and among CAREC customs administrations.

A. Impact and Outcome

11. The impact of the TA will be enhanced trade facilitation regimes in CAREC countries that will increase international trade flows so as to further integrate CAREC countries into the world trading community. The outcome of the TA will be simplified and harmonized customs clearance procedures that align customs trade facilitation measures with international best practices.

B. Methodology and Key Activities

12. The impact and outcome of the TA will be achieved through the delivery of the following outputs and activities:

- (i) **Actions plans to align customs procedures with Revised Kyoto Convention.** The RKC provides a foundation for modern and efficient customs procedures and is therefore central to customs modernization and reforms. The adoption and implementation of the convention by CAREC economies will deliver tangible benefits to the region by increasing transparency and efficiency in customs administration, while helping reduce transaction costs and boost trade security. By increasing consistency and alignment of national legislations with the RKC, customs will be able to process imports and exports more smoothly. Five CAREC countries are in the process of accession (para. 6) and need assistance to complete their accession action plans. WCO has developed a self-assessment tool to help guide countries through a series of logical steps that will enable them to prepare for accession. Capacity-building workshops and training units will be delivered to the 10 CAREC countries to develop an understanding of what is required to comply with and accede to the RKC, and to train personnel on the use of the WCO self-assessment tool. Special follow-up support will be given to the five countries pending accession to guide them in preparing an accession action plan. Support will be provided to undertake a situation analysis by comparing provisions of the RKC with existing national legislations. This will highlight the provisions that countries already comply with, and those that need compliance. A gap analysis will follow to identify the legislative and procedural amendments that need to be done. Finally, an accession action plan for each country will be put in place.
- (ii) **Proposals for the modernization of risk management systems.** Sound risk management is fundamental to effective customs operations. Drawing on intelligence, information, and experience, customs administrations adopt procedures designed to detect illegal activity in an effort to reduce its risks. By increasing efficiency of risk management operations and streamlining processes and procedures, interventions in trade transactions will be minimized, thereby reducing the regulatory burden on the commercial sector. Eventually, an authorized economic operator (AEO)⁶ program for CAREC countries may be

⁶ The authorized economic operator (AEO) is a party involved in the international movement of goods in whatever function has been approved by or on behalf of a national customs administration as complying with WCO or equivalent supply chain security standards. AEOs may include manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses, distributors, and freight forwarders.

introduced. The WCO developed the WCO SAFE package which includes all the guidelines and instruments that support implementation of the SAFE framework.⁷ The SAFE package includes tools to assist in establishing and administering AEO programs. Support will be provided to countries to put together a risk management program to expedite clearance of legitimate shipments while maintaining appropriate border control by identifying high-risk cargo. This will allow the establishment of a fast-track program in which approved and authorized traders with good compliance records can obtain the release of cargo with minimum customs intervention. Using the WCO Customs Risk Management Compendium as the common methodology to detect and treat potential risk, a review and assessment of the risk management practices will be developed in select countries. The assessment will also evaluate the readiness to embrace and introduce an AEO program. A set of recommendations and practical tools that can aid implementation of risk management will be drafted. Workshops on the WCO Risk Management Compendium will be organized to raise awareness and understanding of the methodology. In select countries, the concept of AEO will be introduced using the WCO SAFE framework package. To raise awareness and understanding of AEO, workshops and consultations between customs and traders will be organized.

- (iii) **Framework for a CAREC customs information exchange mechanism.** Customs administrations need closer real-time collaboration in facilitating legitimate trade and exerting controls. The TA will include assistance in designing a framework for an electronic information exchange among and between CAREC customs authorities that will ensure seamless, real-time, and paperless flows of information and connectivity. The ICT systems used by CAREC customs administrations will be reviewed and the feasibility of developing an information exchange mechanism for CAREC customs will be assessed. Drawing from the assessment, a framework will be designed for an electronic information exchange among and between CAREC customs authorities. The framework will be piloted in two countries with the view of extending it to the region at a later stage.

C. Cost and Financing

13. The TA is estimated to cost \$1,350,000, of which \$1,250,000 and will be financed on a grant basis by the Japan Fund for Poverty Reduction and administered by ADB. The TA will be part of the "Trade Facilitation Mechanism" initiated by the Government of Japan in November 2010.⁸ The governments of CAREC countries will provide counterpart support in the form of necessary office space, counterpart staff, and other services to the consultants, and will assist in arranging meetings with counterpart agencies. The cost estimates and financing plan is in Appendix 2.

⁷ SAFE stands for Security and Facilitation in a Global Environment. The instrument was later renamed the SAFE Framework of Standards to Secure and Facilitate Global Trade. It was approved by the customs directors general of WCO member countries in June 2005. In June 2010, the WCO issued a SAFE framework package bringing together all the guidelines and instruments that support implementation of the SAFE framework.

⁸ In November 2010 the Government of Japan announced a new initiative called "Trade Facilitation Mechanism" to contribute up to \$25,000,000 to ADB for trade facilitation in Asia from 2011 to 2015. The mechanism aims at facilitating trade-related procedures, mainly customs-related procedures, with a view to contributing to the expansion of trade and economic growth in Asia.

D. Implementation Arrangements

14. ADB will serve as the executing agency. The Public Management, Financial Sector and Regional Cooperation Division of ADB's East Asia Department will serve as a focal point and administer the TA in close coordination with the CAREC Unit of the Central and West Asia Department; the resident missions in CAREC countries; and the CAREC Institute which will provide the TA training courses. The TA will be implemented in close coordination with the WCO and will contribute to implementation of the memorandum of understanding between ADB and WCO signed on 4 May 2010 during ADB's 43rd Annual Meeting in Tashkent, Uzbekistan. In addition, the Customs and Tariff Bureau of Japan's Ministry of Finance and Japan International Cooperation Agency were consulted in terms of relevance and approach of the proposals. It was decided that ADB will provide them with information about activities to be undertaken during implementation and that the Customs and Tariff Bureau will participate in workshops and events for experience sharing with CAREC countries. The 2-year implementation period will be from 1 February 2014 to 31 January 2016.

15. The TA will require 20 person-months (international) and 56 person-months (national) of intermittent consulting services. Consultants and resource persons will be specialists in the areas of customs reforms, customs law, trade facilitation, and ICT. In view of the TA's varied activities, consultants and resource persons will be selected and engaged on an individual basis in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). The outline terms of reference for consultants and resource persons are in Appendix 3. Proceeds of the TA will be disbursed in accordance with the *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

16. Progress of the TA will be monitored based on the intended outcome and outputs described in the design and monitoring framework. Experience and knowledge gained through the TA will be widely disseminated through knowledge products such as strategic publications, policy and strategy papers, and conferences.

IV. THE PRESIDENT'S DECISION

17. The President, acting under the authority delegated by the Board, has approved ADB administering technical assistance not exceeding the equivalent of \$1,250,000 to be financed on a grant basis by the Japan Fund for Poverty Reduction for Aligning Customs Trade Facilitation Measures with Best Practices in Central Asia Regional Economic Cooperation, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Enhanced trade facilitation regimes that increase international trade flows	<p>By 2020 time taken to clear a border crossing point decreases by 35% to 5.7 hours (2010 baseline: 8.7 hours)</p> <p>By 2020 cost incurred at a border crossing point clearance decreases by 20% to \$149 (2010 baseline: \$186)</p> <p>By 2020 eight CAREC countries acceded to the RKC (2010 baseline: five)</p>	<p>Corridor Performance Measurement and Monitoring reports</p> <p>National customs service reports</p> <p>WCO reports</p>	Assumptions CAREC governments continue to be politically committed to customs reforms and trade facilitation CAREC governments continue to support regional cooperation initiatives to expand trade and improve competitiveness in the region Risks Political instability in some CAREC countries can disrupt reforms being undertaken Vested interests can exert influence to delay reforms
Outcome Simplified and harmonized clearance procedures based on best practice	<p>By 2016, reduce by 15% the percentage of imports and exports subjected to physical inspection (compared with 2012¹)</p> <p>By 2016 reduce the average customs clearance time by 5% (2010 baseline: 2.8 hours)</p>	<p>National customs service reports using a well-defined methodology for data collection</p> <p>Corridor Performance Measurement and Monitoring reports</p>	Assumption Customs authorities agree to recommendations of the TA and implement reforms
Outputs 1. Action plans to align customs procedures with the RKC	<p>By 2016 action plans for RKC accession endorsed by countries</p> <p>RKC workshops delivered</p> <p>By 2016 risk management proposals for four countries submitted to customs authorities</p>	<p>TA reports</p>	Assumption Customs authorities of participating countries continue to give high priority to RKC accession and adoption of best practice, adopt risk management principles instead of total control, and are willing to work with the private sector in implementing reforms Risk Political changes can alter priorities and lead to withdrawal

¹ The baseline data will be established during implementation of the TA.

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
2. Proposals for the modernization of risk management systems 3. Framework for a CAREC customs information exchange mechanism	By 2016 information exchange framework submitted to customs authorities By 2016 pilot testing of the framework initiated in two countries		of support
Activities with Milestones 1. Action plans to align customs procedures with the RKC 1.1 Deliver workshops on RKC and self-assessment tools by Q3 2014 1.2 Conduct training on use of WCO self-assessment tools by Q3 2014 1.3 Undertake situation analysis by Q1 2015 1.4 Undertake gap analysis by Q2 2015 1.5 Prepare RKC accession action plan by Q3 2015 2. Proposals for the modernization of risk management systems 2.1 Complete assessment of customs risk management systems in place by Q1 2015 2.2 Develop recommendations to upgrade risk management systems by Q3 2015 2.3 Conduct workshop to discuss assessment results and recommendations by Q3 2015 2.4 Formulate a proposal on upgrading risk management systems and introduction of authorized economic operator program in select countries by Q4 2015 3. Framework for a CAREC customs information exchange mechanism developed 3.1 Complete assessment of customs ICT in selected countries by Q2 2015 3.2 Based on assessment, develop a framework for a single information space framework for CAREC customs by Q3 2015 3.3 Propose a pilot project to test the single information space framework by Q3 2015			Inputs Japan Fund for Poverty Reduction: \$1.25 million Note: The government will provide counterpart support in the form of necessary office space, counterpart staff, and other services to the consultants, and will assist in arranging meetings with counterpart agencies and other in-kind contributions.

CAREC = Central Asia Regional Economic Cooperation, ICT = information and communication technology, Q = quarter, RKC = Revised Kyoto Convention, TA = technical assistance, WCO = World Customs Organization.
 Source: Asian Development Bank.