



# Technical Assistance Report

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Project Number: 46026-001

Regional—Policy and Advisory Technical Assistance (R-PATA)

December 2013

## Facilitation of Regional Transit Trade in Central Asia Regional Economic Cooperation (Financed by the Japan Fund for Poverty Reduction)

Asian Development Bank

## ABBREVIATIONS

ADB	–	Asian Development Bank
CAREC	–	Central Asia Regional Economic Cooperation
CCC	–	Customs Cooperation Committee
ICT	–	information and communication technology
TIR	–	transports internationaux routiers (international road transport)
WCO	–	World Customs Organization

## TECHNICAL ASSISTANCE CLASSIFICATION

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

## NOTE

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

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## I. INTRODUCTION

1. The proposed technical assistance (TA) was included in Implementing Central Asia Regional Economic Cooperation (CAREC) 2020 Strategic Framework: Wuhan Action Plan, endorsed by the 11th CAREC Ministerial Conference on 30 October 2012. The Strategic Framework for the CAREC Program, 2011–2020 (CAREC 2020) has two strategic objectives: (i) trade expansion; and (ii) improving industrial competitiveness.<sup>1</sup> Within CAREC 2020, trade facilitation is one of the four priority sectors of CAREC. Work in this area is guided by the Transport and Trade Facilitation Strategy (TTFS), approved in 2007 at 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.

2. At the core of the trade facilitation agenda is the customs cooperation work led by the Customs Cooperation Committee (CCC), which consists of heads of customs administrations of CAREC member countries. The objectives of the CCC are to promote concerted customs reforms and modernization, and to serve as a regional forum to address issues of common interest.

3. The CCC focuses its work on five priority areas: simplification and harmonization of customs procedures and documentation, information and communication technology (ICT) for customs modernization and data exchange, risk management and post-entry audit, joint customs control, and regional transit development. These priority areas are fully consistent with the 10 building blocks for customs in the 21st century as promoted by the World Customs Organization (WCO).

4. The TA will support the CCC's priority area on regional transit development.<sup>2</sup> The TA was discussed during the 12th CCC meeting held on 18 September 2013 in Astana, Kazakhstan. Members of the CCC agreed that the regional TA reflects the objectives of the priority area and expressed their full support. The design and monitoring framework is in Appendix 1. The TA will reinforce and complement work initiated by other TA projects of the Asian Development Bank (ADB) under the CAREC Trade Facilitation Program.<sup>3</sup>

## II. ISSUES

5. International trade in Central Asian countries involves external customs transit through a neighboring country.<sup>4</sup> The reason is their landlocked geography and that most of their trade is with noncontiguous countries<sup>5</sup>. International rail and road routes, especially those in Kazakhstan and Uzbekistan, are heavily used for regional transit between the southern Central Asian countries and their main trading partners Russia, Europe and PRC.<sup>6</sup> It is estimated that the

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

<sup>2</sup> The TA first appeared in the business opportunities section of ADB's website on 24 October 2013.

<sup>3</sup> ADB. 2007. *Technical Assistance for Integrated Trade Facilitation Support for Central Asia Regional Economic Cooperation*. Manila (TA 6437-REG); ADB. 2009. *Technical Assistance for Central Asia Regional Economic Cooperation: Working with the Private Sector in Trade Facilitation*. Manila (TA 7353-REG).

<sup>4</sup> It involves transporting goods from the point of entry to the point of exit in the transit country without paying duties and taxes due on domestic consumption in that country.

<sup>5</sup> ADB, 2006 "Central Asia: increasing gains from trade through regional cooperation in trade policy, transport and customs transit".

<sup>6</sup> "International Transport in Central Asia: Current problems and ways forward", University of Central Asia, 2012.

overall transit freight traffic in 2009 in Azerbaijan, Uzbekistan, Turkmenistan and Tajikistan amounted near 62 million tons representing 58% of total trade of these countries. Even domestic trade between certain regions of Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan involves customs transit through another CAREC country.<sup>7</sup> Accordingly, the customs transit regimes in place affect both intra- and extra-regional trade in CAREC countries and constitute a binding constraint on trade in the region. Poorly designed and implemented customs transit regimes in Central Asia make transit time long and unpredictable and are a major factor in higher trade costs.

6. The existing transit arrangements in the region are as follows:

- (i) **Bilateral and regional agreements.** There are many bilateral and regional transport agreements designed to mitigate nonphysical barriers to the movement of goods and people between CAREC member countries. These include (i) the Cross-Border Transport Agreement under the framework of CAREC, which has been ratified by two countries (the Kyrgyz Republic and Tajikistan) and is being studied for possible accession by a third (Afghanistan); and (ii) multilateral agreements, such as those under the Transport Corridor Europe–Caucasus–Asia Program, the Economic Cooperation Organization, and the Shanghai Cooperation Organization. Progress in finalizing and implementing these agreements has been varied. They mainly address key constraints on cross-border transport, such as restrictions on the entry of motor vehicles and different vehicle dimension standards. In terms of transit, these agreements tend to articulate only broad goals as policy directions for developing regional transit systems, while the bilateral agreements often reflect a balance between the interests of the two country parties and do not give sufficient consideration to other parties' interests. The existing bilateral and multilateral agreements in the region are not always in accordance with the WCO's general principles of customs transit; and some core customs transit issues, such as guarantee procedures, are usually left out of these agreements.
- (ii) **National transit regimes.** National transit applies to customs transit not covered by international or regional agreements<sup>8</sup>. National transit regimes are limited to national territory and do not provide a chain guarantee<sup>9</sup> linking the adjacent countries. Consequently, a transport operator has to submit separate transit documents in several countries which increases transport time substantially. Providing separate guarantees in several countries is quite costly. In the absence of a guarantee, convoying is usually required and the fee for the service is rather high in some countries ranging from US\$100 to US\$285<sup>10</sup>. Another problem is that accumulating sufficient vehicles to make up a convoy takes time. In addition, all the vehicles in a convoy arrive at the same time creating an uneven workload for customs at border crossing points and causing significant processing delays.
- (iii) **International road transport customs transit system.** International road transport (TIR) is the international customs transit system implemented in the region to facilitate cross-border movements by providing a single procedure from the point of departure to

<sup>7</sup> The transport networks inherited from the former Soviet Union crisscross their national borders.

<sup>8</sup> It occurs when transit goods that have entered the country of destination are transferred within the national borders from the point of entry into the country to a location where they clear customs (dry port or inland container depot).

<sup>9</sup> The principal of the transit operation is required to deposit a guarantee covering the value of taxes and duties that would be due in the country of transit. A guarantee can be provided as a bond by a bank, or as a form of insurance by a guarantor who can be reinsured internationally by well-known and reliable insurance companies.

<sup>10</sup> ADB, 2006 "Central Asia: increasing gains from trade through regional cooperation in trade policy, transport and customs transit"

the point of destination, with an international guarantee chain.<sup>11</sup> It allows trucks covered by TIR carnets to travel through transit countries without a customs escort and payment of customs deposits. However, in CAREC countries, TIR is predominantly used for long-distance and high-value international shipments to Europe, Iran, and Turkey.<sup>12</sup> It is rarely used for shorter-distance movements within CAREC, because it is not regarded by national transporters as a cost-effective system for such shipments. The fixed costs of the TIR system are too high for most transport operators from Central Asia.

7. Currently, transit movements in the region are inhibited by a lack of regional cooperation especially (i) the lack of mutual recognition of customs control procedures, and customs seals and stamps; and (ii) inadequate regional guarantee systems.<sup>13</sup> Even when a trade corridor crosses several countries, the basic transit procedure is implemented at the country level. It is partly due to transit difficulties through neighboring countries that some Central Asian countries have spent a considerable amount of resources on the construction of new roads primarily to avoid transit through a neighboring country.

8. Authorities in each customs territory along CAREC corridors are ultimately responsible for transit in that territory and can set their own rules. However, integrating transit across borders along a trade corridor instead of using a chain of national procedures will facilitate the movement of goods in transit. Large gains are possible with cross-border cooperation and the creation of a framework to integrate transit across territories into a single set of seamless procedures.

9. The Refined TTFS focuses 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. In view of customs transit constraints in the region and considering the corridor-based approach adopted, this TA proposes to assist in identifying options for the establishment of an effective and affordable corridor-based customs transit regime as an option for transport operators.<sup>14</sup> The TA will also determine the feasibility of implementing a pilot customs transit regime along a priority corridor involving two or more countries.

### III. THE TECHNICAL ASSISTANCE

#### A. Impact and Outcome

10. The impact of the TA will be enhanced cross-border transit in CAREC. The outcome of the TA will be improvement of regional cooperation in customs transit for intraregional trade along CAREC corridors.

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

<sup>11</sup> The international transit regime initially known in French as *transports internationaux routiers* (international road transport) is now commonly referred to TIR. All CAREC countries except the People's Republic of China (PRC) and Pakistan are contracting parties of the TIR Convention. The PRC and Pakistan are in process of accession.

<sup>12</sup> Major long-distance routes using TIR are (i) between Europe and Central Asia, (ii) between Iran or Turkey and Central Asia, (iii) between Europe or Turkey and Azerbaijan, and (iv) between Azerbaijan and Iran.

<sup>13</sup> Cooperation and mutual recognition ensure that control measures undertaken by the customs office of the exporting country are accepted by customs offices in the transit and destination countries, and cargo will not be subjected to repeated inspections unless otherwise justified in exceptional cases.

<sup>14</sup> The TIR coexists in many countries with national, bilateral and regional transit systems. Transport operators have the freedom to choose a transit system with the understanding that operators are not forced to switch from one system to another once transit transport has started from the customs office of departure.

- (i) **Establishment of a single regional guarantee mechanism.** Developing a single regional guarantee throughout the transit period instead of multiple guarantees is the core component of a regional transit regime. This would be a chain guarantee system that ensures that customs duties and taxes at risk are covered by the national guarantee system of the transport operator.
- (ii) **Assessment of requirements for a streamlined legal and regulatory framework for regional customs transit.** Compatibility between the countries' national transit legislation will be assessed to minimize additional legislation requirements, and to prepare a set of draft requirements for a regional transit system that takes into consideration national and international dimensions.
- (iii) **Identification of a set of recommendations on ICT system development for the regional transit regime.** It is important to identify ICT solutions that can add value to the development of a regional guarantee system. Unlike customs clearance, which happens in one place, transit requires an exchange of information from at least three places: transit initiation, transit termination, and guarantor (to validate and discharge the bond). The management and tracing of cargo manifests are not always properly and rigorously implemented, and in many cases are not automated, causing major errors and delays. An ICT system can be an instrument for seamless exchange of information on a transit manifest, and for initiation and termination of a bond. ICT options should be reviewed at an early stage and should be decided on during the development of a transit system. The TA will provide recommendations on the proposed role of and requirements for an ICT system.

## **B. Methodology and Key Activities**

12. The following activities will be undertaken under the TA:

- (i) **Single regional guarantee mechanism.** The project will support consultations between customs authorities, potential guarantee organizations (banks and insurance companies), transporters, and members of the CAREC Federation of Carrier and Forwarder Associations with a view to designing a chain guarantee system to ensure that customs duties and taxes at risk are covered. This will include discussions with current guarantors under national transit systems to consider how their national guarantees might be extended across borders.
- (ii) **Legal and regulatory framework.** Assistance will be provided to assess the compatibility between CAREC countries' national transit legislation to minimize legislation requirements. The results of the assessment will be used to prepare a set of draft requirements for a regional transit system that takes into consideration national and international dimensions.
- (iii) **ICT support systems.** An assessment will be done on the current use of ICT in transit operations in CAREC countries, and opportunities will be identified for enhancing ICT to support the development of a regional transit system.

## **C. Cost and Financing**

13. The TA is estimated to cost \$1,500,000, which will be financed on a grant basis by the Japan Fund for Poverty Reduction and administered by ADB. The project will be part of the Trade Facilitation Mechanism initiated by the Government of Japan in November 2010. 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 are in Appendix 2.

#### **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 be a focal point and will administer the TA in close coordination with the CAREC Unit of the Central and West Asia Department. 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 TA will be implemented over 2 years and 2 months, from 1 March 2014 to 30 April 2016.

15. A total of 20 person-months of international consulting services and 70 person-months of national consulting services will be required to provide advisory and technical services under the TA. The outline terms of reference for consultants are in Appendix 3. All consultants will be selected and engaged through a firm, except for a transit facilitation project analyst who will be recruited on an individual basis. The preferred selection method for the consultants is quality- and cost-based selection with a quality cost ratio of 80:20. All consultants will be recruited in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). Proceeds of the TA will be disbursed in accordance with the *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

16. The international consultants will be specialists in customs transit, transport, and trade facilitation. They will be supervised by ADB's task manager(s), with a lead consultant serving as the main focal point and providing overall coordination to a team of experts working mainly in the field. National consultants will be recruited to assist the international consultants by researching and compiling documents and information, translating documents, organizing training seminars and other events, and providing administrative and logistical support. The national consultants will have extensive, in-depth regional and local knowledge.

17. The TA outputs, particularly the findings and recommendations from assessments and studies, will be disseminated through workshops, seminars, conferences, and publications, as well as the CAREC website. Progress of the TA will be monitored using the intended outcome and outputs described in the design and monitoring framework.

#### **IV. THE PRESIDENT'S DECISION**

18. The President, acting under the authority delegated by the Board, has approved ADB administering technical assistance not exceeding the equivalent of \$1,500,000 to be financed on a grant basis by the Japan Fund for Poverty Reduction for Facilitation of Regional Transit Trade 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
<b>Impact</b>  Enhanced cross-border transit in CAREC corridors	By 2020, transit trade in the corridors where the agreed customs transit regime is piloted increases by 15% compared to the 2010 baseline <sup>1</sup>	National customs service reports  CAREC trade and transport facilitation progress reports  CAREC Corridor Performance Measurement and Monitoring quarterly and annual reports  CCC meeting reports  TA completion report	<b>Assumption</b>  CAREC governments continue to support regional cooperation initiatives to expand trade and improve competitiveness in the region.  <b>Risk</b>  Political instability in some CAREC countries may disrupt reforms being undertaken.
<b>Outcome</b>  Regional cooperation in customs transit improved for intraregional trade along CAREC corridors	By September 2016 CAREC countries agree to pilot a customs transit regime for a corridor, involving at least two countries	CAREC trade and transport facilitation progress reports  CCC meeting reports  TA completion report	<b>Assumption</b>  Regional transit development remains a regional cooperation priority for customs authorities of CAREC.  <b>Risk</b>  Control mentality and prevalence of customs convoys may hamper the adoption of the regional transit system.
<b>Outputs</b>  1. Establishment of a single regional guarantee mechanism	By June 2015, an assessment of the potential to integrate current national transit systems to form a corridor-based customs transit regime undertaken  By June 2015, options for the establishment of a chain guarantee mechanism examined	Progress and final reports by consultants  CAREC trade and transport facilitation progress reports  CCC meeting reports  Ministerial Conference and Senior Officials Meeting progress reports	<b>Assumptions</b>  Customs administrations cooperate to identify constraints and develop solutions.  TA recommendations are applied.

<sup>1</sup> 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
<p>2. Assessment of requirements for a streamlined legal and regulatory framework for regional customs transit</p> <p>3. Identification of a set of recommendations on ICT system development for regional transit regime</p>	<p>By December 2015, an implementation plan for pilot testing of the transit regime prepared</p> <p>By May 2015, a regulatory review completed</p> <p>By July 2015, review of ICT status and ICT requirements for regional transit completed</p>		
Activities with Milestones		Inputs	
<p><b>1. Establishment of a single regional guarantee mechanism</b></p> <p>1.1 Develop questionnaires for various stakeholders (by May 2014)</p> <p>1.2 Undertake consultations with potential guarantee organizations (banks and insurance companies), transporters, and customs (by December 2014)</p> <p>1.3 Assess feasibility on how national guarantees could be extended across borders (by March 2015)</p> <p>1.4 Analyze potential methods of developing a chain guarantee system (by June 2015)</p> <p>1.5 Prepare implementation plan for pilot testing of the transit regime (by December 2015)</p> <p>1.6 Launch regional customs transit along at least one CAREC corridor (by February 2016)</p> <p><b>2. Assessment of requirements for a streamlined legal and regulatory framework for regional customs transit</b></p> <p>2.1 Conduct legislative evaluation to assess compatibility between the countries' national transit legislation (by March 2015)</p> <p>2.2 Prepare a set of draft requirements for a regional transit system taking into consideration national and international dimensions (by May 2015)</p> <p><b>3. Identification of a set of recommendations on ICT system development for regional</b></p>		<p><b>Japan Fund for Poverty Reduction: \$1,500,000</b></p> <p>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.</p>	

Activities with Milestones	Inputs
<p><b>transit regime</b></p> <p>3.1 Assess current use of ICT in transit operations in CAREC countries (by May 2015)</p> <p>3.2 Develop system requirements and operational scope of an ICT system in support of the regional transit regime (by July 2015)</p>	

CAREC = Central Asia Regional Economic Cooperation, CCC = Customs Cooperation Committee, ICT = information and communication technology, TA = technical assistance.

Source: Asian Development Bank.