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# Executive Summary

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KYRGYZ REPUBLIC: Trade Facilitation and Logistics Development Strategy  
Report  
- Executive Summary of Draft Final Report

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(For project preparatory technical assistance: All the views expressed herein may not be incorporated into the proposed project's design.)

**Asian Development Bank**

## LIST OF ABBREVIATIONS

ADB	Asian Development Bank
CAREC	Central Asian Regional Economic Cooperation program
CIS	Commonwealth of Independent States
CKD	Completely Knocked Down
EurAsEC	Eurasian Economic Community
EU	European Union
FIATA	International Federation of Freight Forwarders Associations
FSU	Former Soviet Union
FTL	Full Truck Load
FTZ	Free Trade Zone
GAC	General Administration of Customs (PRC)
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
IATA	International Air Transport Association
IDB	Islamic Development Bank
IFI	International Financial Institutions
ICAO	International Civil Aviation Association
IMF	International Monetary Fund
IRU	International Road Union
ISO 9000/14000	Set of standards for Management Systems
IT	Information Technology
LTL	Less than Truck Load
MA	Ministry of Agriculture and Water Resources (Kyrgyzstan)
MEDT	Ministry of Economic Development and Trade (Kyrgyzstan)
MTC	Ministry of Transport and Communications (Kyrgyzstan)
NGO	Non-Governmental Organization
PPP	Purchasing Power Parity
PRC	People's Republic of China
SCO	Shanghai Cooperation Organization
SPECA PWG-TBC	Special Program for the Economies of Central Asia, Project Working Group on Transport and Border Crossing
TIR carnet	Customs transit document used for an international transit operation of goods
TRACECA	Transport Corridor Europe-Caucasus-Asia

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## **EXECUTIVE SUMMARY**

Kyrgyzstan is a landlocked country, located at the western border of the PRC and neighboring 3 countries of the Former Soviet Union – Kazakhstan, Tajikistan and Uzbekistan. The territory of the country consists of a number of valleys, divided by mountain ranges, most of which exceed 4000 m above sea level. Its location along the ancient Silk Way route between PRC, Europe and Middle East provides an opportunity to develop this land into the land bridge between booming industrial regions of China, consumer markets of Europe and sources of fossil fuels in the Middle East.

This report provides an assessment on the country's business and legal environment, transport infrastructure and logistics capabilities. After examination of institutional and operational constraints for efficient trade and logistics development, a range of recommendations is proposed. The recommendations are divided into two main categories: development of institutional capabilities and development of operational capabilities. The recommendations, which fall into the group of "Development of institutional capabilities", are focused primarily on so called "soft issues", i.e. improvement of the business climate, regulations and government procedures, investment attractiveness of the country, and human development. Recommendations, grouped under the heading "Development of operational capabilities" are focused primarily on "hard issues", i.e. road network, logistics facilities, IT infrastructure, transportation and other equipment.

### **Business Environment**

Kyrgyzstan is one of the least successful countries in the FSU in implementation of reforms in private sector. After collapse of the Soviet Union and considerable decline of economy during the beginning and mid-90s, the country was able to resume growth, but in comparison to other countries of the region it continues to be unstable. Despite the fact that Kyrgyzstan has relatively liberal political and business environment in comparison with other countries of the region, law enforcement practices are very weak. According to the Business Environment and Enterprise Performance Survey (BEEPS), Kyrgyzstan is ranked considerably lower than average for CIS countries in Corruption, Tax administration, and Uncertainty about regulatory policies.

It is generally acknowledged that privatization in Kyrgyzstan was fast, but inefficient [1]. Many enterprises, including companies in the area of logistics and transportation, were privatized, but new owners were not successful in restructuring their businesses and making them profitable. Private sector is not fully independent from government officials; often success of companies depends on their “connections” with authorities.

Since the collapse of the Soviet Union, Kyrgyzstan lost both its industrial base and qualified labor force. Most of the ethnic Russians, who used to be employed in the industrial sector, left the country. Current estimates show that, more than 500,000 Kyrgyz people are employed in Russia, Kazakhstan and other countries and regularly remit salaries to their families in Kyrgyzstan.

### **Logistics Industry and Infrastructure**

Logistics industry of Kyrgyzstan followed faster downsizing than the rest of the economy. Since the end 80's, Kyrgyzstan experienced decline in all modes of transportation. The main mode of transport, which accounts for about 95% of cargo volume, is the road transport. During the last two decades due to inadequate maintenance, considerable portion of surfaced road infrastructure was lost and can be regained only through expensive rehabilitation projects.

New borders in the Central Asia deprived the country of access to a considerable portion of roads, previously used for transportation between different parts of the country. Less and less transparent borders with the neighboring countries of the Central Asia, especially with Uzbekistan, require considerable investments for construction of road links through the territory of Kyrgyzstan. Most of these links go through the unfriendly mountainous terrain.

Rail network of Kyrgyzstan is not linked within the territory of Kyrgyzstan. In order to get from the north of the country to the south by rail, it is necessary to travel through the territories of Kazakhstan and Uzbekistan. Compared to the road network, main track of the Kyrgyz rail is in good condition, partially due to a reasonable maintenance and partially due to a severe decline of the usage of tracks. All rail lines of Kyrgyzstan are one-track lines.

Trucking companies of Kyrgyzstan are represented by small and very small carriers. Most of them use old trucks, majority of which are produced in the Soviet times. These trucks are prone to frequent breakage, not safe and are ecologically unfriendly.

Locomotive fleet of Kyrgyzstan is small and old, although relatively well maintained. Rail car and rail platform fleets participate in the exchange with fleets of other countries of the CIS rail network. Thus, the shortage of own rail cars often can be recovered by the use of rail cars of the neighboring countries.

Air fleet of Kyrgyzstan is represented by several old Soviet planes. There is no national carrier in the country, which would be capable to serve new lines and invest into the fleet.

Airport infrastructure of Kyrgyzstan consists of 2 international airports: Manas and Osh and about 20 small airports and airfields. In 90's airport Manas underwent a considerable reconstruction. Currently it can accept heavy planes like Boeing-474, has a cargo terminal and is used as a US Airbase. Geographical location, good condition of the runways and new cargo terminal allowed to increase cargo flow through the airport. On the other hand, inadequate maintenance facilities and very small number of domestic and international lines, served from the airport, constraint the development of Manas as a transit point for transcontinental lines.

Water transportation is represented by the operations on the Issyk-Kul Lake. It is used primarily for the movement of bulky materials between Balykchi and other towns around the lake, mostly Karakol and Cholpon-Ata.

Pipeline transportation is represented by the gas pipeline Maily-Say – Jalal-Abad – Kara-Suu – Osh and the transit pipeline Bukhara – Tashkent – Bishkek - Almaty.

Import-export operations and transit through Kyrgyzstan are characterized by very bureaucratic procedures, a lot of paperwork and bribes. The number of required trade documents is approximately double compared to Russia and China. There is no efficient control of import-export operations, which results in absence of reliable data about import-export and transit volumes through the country.

Kyrgyz cross-border points are not properly equipped with IT infrastructure and inspection equipment. Inspections by various authorities are not aligned to each other, which results in the considerable loss of time by importers and exporters at cross-border points.

Part of Kyrgyz logistics facilities, constructed during Soviet times, were lost due to inefficient privatization. Apart from several developments like a cargo terminal in the airport Manas and container yard on Alamedin railway station, there were no other considerable investments into logistics facilities of Kyrgyzstan.

Logistics industry of Kyrgyzstan is represented by a number of freight forwarding companies and road carriers. Kyrgyz Railways is the national company, although there are plans for privatization. Freight forwarders are mostly resellers of rail and road transit services. Customers prefer to use freight forwarding companies mostly to overcome unfriendly documentation requirements and processes of Kyrgyz Rail and Kyrgyz Customs. Cost of their service always includes provisions for bribes, which should be paid to smooth transit and clearance services, and later to “explain” these payments during tax audits. Freight forwarders and carriers are united into 3 associations: Kyrgyz Freight Forwarding Association, Association of National Road Carriers and Association of International Road Carriers. There is more competition between these associations than partnership relationships.

The government of the country, NGOs and international aid agencies are concerned with the existing state of the logistics industry and infrastructure. Within the last several years a number of infrastructure rehabilitation projects were completed or initiated. The most significant projects are the rehabilitation of the road Bishkek – Osh, Bishkek – Almaty, Osh – Sary-Tash – Irkeshtam (ongoing), Taraz – Talas – Suusamyр (ongoing).

In October 2007 the government of Kyrgyzstan approved the development of the border trade and logistics center in Sary-Tash, located near Chinese border along the transit route Osh – Sary-Tash – Ishkerta. Another significant initiative was the Decree of the President of the Republic of Kyrgyzstan about simplification of international trade documentation and procedures.



## Recommendations

Recommendations are divided into two groups: Trade Facilitation projects and initiatives and development of Physical Infrastructure. Each of the two groups is further divided into public projects and projects, which can be implemented either by private sector or through Private/Public Partnership (PPP). All recommendations are summarized in the Exhibit 1.

### *Exhibit 1. List of recommendations*

Source: Author

<b>Trade Facilitation, Public Projects</b>			
<b>#</b>	<b>Recommendation</b>	<b>Stakeholder</b>	<b>Priority</b>
TF.1	Weight certification	MTC, MEDT	High
TF.2	Cross-border process management	MEDT, Customs	High
TF.3	Improvement of customs guarantee system	MEDT, Customs	Moderate
TF.4	Development of specifications for cross-border infrastructure	Customs	High
TF.5	Customs cooperation program	Customs	High
TF.6	Integrated Information System for International Trade	MEDT, Customs, MTC, Border Police	High
TF.7	Promotion of Kyrgyzstan in PRC	MEDT	Moderate
TF.8	Deployment of safe packets	Customs, MTC	High

<b>Trade Facilitation, PSP/PPP</b>			
<b>#</b>	<b>Recommendation</b>	<b>Stakeholder</b>	<b>Priority</b>
TF.9	Strengthen product certification capability	MEDT	Moderate
TF.10	Road maintenance support	MTC	High
TF.11	Process management education for public servants and private organizations. ISO 9000	MEDT	Moderate.
TF.12	CKD production in FTZ	MEDT	Low
TF.13	Logistics training and development	MEDT	Moderate
TF.14	Investment support program for development	MEDT	Moderate

	of logistics centers		
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<b>Transport/Logistics Infrastructure development, Public Investments</b>			
<b>#</b>	<b>Recommendation</b>	<b>Stakeholders</b>	<b>Priority</b>
IP.1	Cross-border infrastructure development	Customs	High
IP.2	Construction of Kashgar – Kara-Suu rail link	MTC, MEDT	High
IP.3	Construction of Kara-Keche – Balykchi rail link	MTC, MEDT	Moderate.
IP.4	Rehabilitation of Kashgar – Irkeshtam – Osh road	MTC, MEDT	High
IP.5	Rehabilitation of Kashgar – Torugart – Balykchi – Bishkek road	MTC, MEDT	High
IP.6	Development of Balykchi multimodal hub	MTC, MEDT, Rail	Moderate.
IP.7	Development of Alamedin multimodal hub	MTC, MEDT, Rail	High
IP.8	Development of Osh container yard	MTC, MEDT, Rail	High
IP.9	Development of Kara-Suu multimodal hub	MTC, MEDT, Rail, Customs	High
IP.10	Assessment of Jalal-Abad – Suusamyр – Balykchi road	MTC	Low
IP.11	Railway electrification	Rail, MTC	Moderate
IP.12	Improvement of in-transit service capability in airport Manas	MTC, Manas	Moderate
IP.13	Road rehabilitation: Osh-Isfana, Taraz-Talas-Suusamyр, Issyk-Kul Circular Road	MTC, MEDT	Moderate to High

<b>Transport/Logistics Infrastructure development, PSP/PPP</b>			
<b>#</b>	<b>Recommendation</b>	<b>Stakeholders</b>	<b>Priority</b>
IP.14	Development of At-Bashi logistics terminal	MEDT, MTC, Customs, Naryn FTZ	High
IP.15	Development of Sary-Tash logistics terminal	MEDT, MTC, Customs	Moderate.
IP.16	Development of Balykchi multimodal hub	MTC, MEDT, Rail	Moderate.
IP.17	Development of Alamedin multimodal hub	MTC, MEDT, Rail	High
IP.18	Development of Osh container yard	MTC, MEDT, Rail	High

IP.19	Development of Kara-Suu multimodal hub	MTC, MEDT, Rail, Customs	High
IP.20	Agribusiness marketing and logistics centers	MEDT, MA	High
IP.21	Railway electrification	Rail, MTC	Moderate
IP.22	Improvement of in-transit service capability in airport Manas	MTC, Manas	Moderate
IP.23	Road rehabilitation: Osh-Isfana, Taraz-Talas-Suusamy, Issyk-Kul Circular Road	MTC, MEDT	Moderate to High

Given the existing economic system and state of Kyrgyz economy, establishment of logistics depots is expected to be financed by private sector or through the PPP. Decisions of private investors to invest into particular projects can be determined by economic factors and assessment of investment risks. Kyrgyz government can increase investment activeness of logistics projects through the allocation of land for logistics projects development and provision of incentives for potential investors. Based on the existing road infrastructure and centers of economic activity, a number of locations are recommended for establishment of certain types of logistics depots (Exhibits 2 and 3). It is important to note that logistics functionality of depots should not necessarily be concentrated in one place. Depending on the competition and willingness of customers to pay the price for the certain service portfolio, it is reasonable to expect a range of big and small logistics centers with different service portfolios and price offers.

*Exhibit 2. Recommended location and functionality of Logistics depots*

Source: Author

Priority	Logistics depots	Rationale for establishment	Main functions of logistics depots
1	Bishkek	<ul style="list-style-type: none"> <li>Capital city with 18% of the country population (Bishkek area and Chui oblast account for 33% of country population)</li> <li>Close to the key CBPs with Kazakhstan (Ak-Tilek, Ak-Zhol)</li> <li>Dordoi wholesale market</li> <li>International airport Manas</li> </ul>	<ul style="list-style-type: none"> <li>Trade and support of trade</li> <li>Inland Container Depots (ICD) and intermodal operations</li> <li>Import/export clearance</li> <li>Storage and bonded storage (esp. for goods from PRC)</li> </ul>

2	Kara-Suu	<ul style="list-style-type: none"> <li>• Close location to the largest city in the Southern Kyrgyzstan – Osh</li> <li>• Three-directional rail link to Osh, Jalal-Abad and Uzbek railway network</li> <li>• Kara-Suu wholesale market</li> <li>• Highly volume of agricultural production in Fergana valley (both Kyrgyz and Uzbek sides)</li> </ul>	<ul style="list-style-type: none"> <li>• Trade and support of trade</li> <li>• Agricultural marketing and logistics centers</li> <li>• Inland Container Depots (ICD) and intermodal operations</li> <li>• Import/export clearance</li> <li>• Storage and bonded storage (esp. for goods from PRC)</li> </ul>
2	Osh	<ul style="list-style-type: none"> <li>• Key city of the Southern Kyrgyzstan</li> <li>• Highly volume of agricultural production in Fergana valley (both Kyrgyz and Uzbek sides)</li> <li>• Osh International airport</li> <li>• Terminal railway station of the southern branch of Kyrgyz rail network</li> </ul>	<ul style="list-style-type: none"> <li>• Inland Container Depots (ICD) and intermodal operations</li> <li>• Agricultural marketing and logistics centers</li> <li>• Import/export clearance</li> <li>• Storage and bonded storage (esp. for goods from PRC)</li> </ul>
2	Balykchi	<ul style="list-style-type: none"> <li>• Gateway to Issyk-Kul tourist area</li> <li>• Terminal railway station of the northern branch of Kyrgyz rail network</li> <li>• Gateway to the mineral resources of South-Eastern Kyrgyzstan</li> <li>• Lake port</li> <li>• Established as large transportation center during Soviet era, with good potential for further expansion and development</li> </ul>	<ul style="list-style-type: none"> <li>• Inland Container Depots (ICD) and intermodal operations</li> <li>• Storage and bonded storage (esp. for goods from PRC)</li> <li>• Import/export clearance</li> <li>• Trade and support of trade</li> <li>• Agricultural marketing and logistics centers</li> </ul>

2	Jalal-Abad	<ul style="list-style-type: none"> <li>• Third largest city in Kyrgyzstan</li> <li>• Highly volume of agricultural production in Fergana valley (both Kyrgyz and Uzbek sides)</li> <li>• One of the key railway stations in the southern branch of Kyrgyz rail network</li> </ul>	<ul style="list-style-type: none"> <li>• Inland Container Depots (ICD) and intermodal operations</li> <li>• Import/export clearance</li> <li>• Storage and bonded storage (esp. for goods from PRC)</li> <li>• Agricultural marketing and logistics centers</li> </ul>
3	At-Bashi (Torugart)	<ul style="list-style-type: none"> <li>• Key cross-border point with PRC</li> <li>• Intended to reduce vehicle axle load and reduce destruction of Kyrgyz roads</li> </ul>	<ul style="list-style-type: none"> <li>• Import/export clearance</li> <li>• Storage and bonded storage (esp. for goods from PRC)</li> <li>• Border trade</li> <li>• Transloading operations</li> </ul>
3	Sary-Tash (Irkeshdam)	<ul style="list-style-type: none"> <li>• Key cross-border point with PRC</li> <li>• Intended to reduce vehicle axle load and reduce destruction of Kyrgyz roads</li> </ul>	<ul style="list-style-type: none"> <li>• Import/export clearance</li> <li>• Storage and bonded storage (esp. for goods from PRC)</li> <li>• Border trade</li> <li>• Transloading operations</li> </ul>
3	Kyzyl-Kiya	<ul style="list-style-type: none"> <li>• Highly volume of agricultural production in Fergana valley (both Kyrgyz and Uzbek sides)</li> <li>• Terminal railway station of the southern branch of Kyrgyz rail network</li> </ul>	<ul style="list-style-type: none"> <li>• Agricultural marketing and logistics centers</li> <li>• Inland Container Depots (ICD) and intermodal operations</li> </ul>

Exhibit 3. Map of Transit routes and recommended logistics deports

Source: Author based on CAREC corridor map of TERA International and Population density map of Center for International Earth Science Information Network (CIESIN), Columbia University

