

**BOARD
OF
DIRECTORS**

ASIAN DEVELOPMENT BANK

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5 November 2004

**PROPOSED LOANS AND TECHNICAL ASSISTANCE GRANTS
REGIONAL CUSTOMS MODERNIZATION AND
INFRASTRUCTURE DEVELOPMENT PROJECT
(KYRGYZ REPUBLIC AND TAJIKISTAN)**

1. The Report and Recommendation of the President (RRP: REG 37544 and REG 38177) on proposed loans and technical assistance grants (financed by the Japan Special Fund) to the Kyrgyz Republic and Tajikistan for the Regional Customs Modernization and Infrastructure Development Project is circulated herewith, together with the (Draft) Loan Agreements.

2. This Report and Recommendation should be read with (i) *Kyrgyz Republic: Country Strategy and Program (2004-2006)*, which was circulated to the Board on 4 November 2003 (DOC.Sec.M103-03); (ii) *Kyrgyz Republic: Country Strategy and Program Update (2005-2006)*, which was circulated to the Board on 28 July 2004 (DOC.Sec.M57-04); (iii) *Tajikistan: Economic Assessment*, which was circulated to the Board on 10 September 2002 (DOC.IN.219-02); and (iv) *Tajikistan: Country Strategy and Program (2004-2008)*, which was circulated to the Board on 1 October 2003 (DOC.Sec.M93-03).

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ASIAN DEVELOPMENT BANK

**RRP: REG 37644
REG 38177**

**REPORT AND RECOMMENDATION
OF THE
PRESIDENT
TO THE
BOARD OF DIRECTORS
ON
PROPOSED LOANS
AND TECHNICAL ASSISTANCE GRANTS
TO THE KYRGYZ REPUBLIC AND THE REPUBLIC OF TAJIKISTAN
FOR THE
REGIONAL CUSTOMS MODERNIZATION AND INFRASTRUCTURE
DEVELOPMENT PROJECT**

November 2004

CURRENCY EQUIVALENTS

(as of 15 October 2004)

Kyrgyz Republic	Currency Unit	–	som (Som)
	Som1.00	=	\$0.023
	\$1.00	=	Som43.021
Tajikistan	Currency Unit	–	somoni (TJS)
	TJS1.00	=	\$0.330
	\$1.00	=	TJS3.026

ABBREVIATIONS

ADB	–	Asian Development Bank
CAREC	–	Central Asia Regional Economic Cooperation
CSD	–	Customs Services Department
EA	–	executing agency
ECAR	–	East and Central Asian Region
EIRR	–	economic internal rate of return
EU	–	European Union
GDP	–	gross domestic product
ICT	–	information and communication technology
MOF	–	Ministry of Finance
MSRD	–	Ministry of State Revenues and Duties
PMO	–	Project Management Office
PSC	–	Project Steering Committee
RTFCCP	–	Regional Trade Facilitation and Custom Cooperation Program
SOE	–	statement of expenditure
TA	–	technical assistance
UAIS	–	Unified Automated Information System
USAID	–	United States Agency for International Development
VAT	–	value-added tax
WTO	–	World Trade Organization

NOTES

- (i) The fiscal year of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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LOAN AND PROJECT SUMMARY

Borrowers	The Kyrgyz Republic and the Republic of Tajikistan
Classification	Targeting classification: General intervention Sector: Industry and Trade Subsector: Trade Themes: Sustainable economic growth with key thematic areas including regional cooperation and governance Subthemes: Fostering physical infrastructure development and anticorruption
Environment Assessment	Category C. No significant adverse environmental impacts are anticipated.
Project Description	<p>The Project is a continuation of Asian Development Bank (ADB) support for customs reform and modernization for the Kyrgyz Republic and Tajikistan following the launch of the Regional Trade Facilitation and Customs Cooperation Program in December 2002. This program initially consisted of two program loans for the two countries, two project preparatory technical assistance (TA) grants and a regional TA to support regional customs cooperation in the East and Central Asian region. Demonstrating ADB's long-term engagement in the sector, the Project will reinforce the ongoing customs legal and institutional reforms supported by the program loans, and strengthen the two countries' participation in regional customs cooperation.</p> <p>The Project comprises two components for the Kyrgyz Republic and Tajikistan to develop (i) a unified automated information system (UAIS), and (ii) customs border-post infrastructure.</p> <p>This first component consists of three interrelated subcomponents to (i) develop core UAIS application systems and associated operations-support systems, (ii) develop communications infrastructure to support UAIS operation (i.e., provide and strengthen communication links between customs headquarters, regional customs offices, and border posts), and (iii) train staff and develop a public awareness campaign to ensure sustainability and broad-based support for customs modernization.</p> <p>The second component aims to (i) improve customs border posts and facilities, (ii) provide customs operations and antismuggling equipment, and (iii) extend capacity building and promote border interagency cooperation.</p>

Rationale

Since independence in 1991, the Kyrgyz Republic and Tajikistan have been in transition to private sector-led and market-oriented economies. Since both countries are highly dependent on international trade, development of an outward-oriented trading environment is an integral part of the transition strategy. Significant progress has been made in trade liberalization and trade-related policy reforms in both countries as evidenced by the Kyrgyz Republic's accession to the World Trade Organization in 1998 and Tajikistan's preparatory progress in this regard.

Progress in trade facilitation is equally significant and has effectively complemented trade policy reforms. As tariffs have come down, trade facilitation in terms of reducing government bureaucracy, and harmonizing and automating trade procedures is widely recognized as just as important as trade liberalization measures. Of all the agencies relevant to trade facilitation and border controls, customs administration is commonly recognized as one of the most important because of its border control functions, revenue collection, and prevention of smuggling and drug trafficking.

The customs administrations of the Kyrgyz Republic and Tajikistan are relatively young, with weak institutional capacity, low efficiency, and poor governance. To address these weaknesses, in 2002 both countries launched comprehensive modernization programs to facilitate trade and thus reduce the most critical bottleneck. Supported by ADB and other major international financial institutions, both countries adopted a comprehensive program of reforms and modernization consisting of (i) improving the customs legal and regulatory framework, (ii) strengthening governance and institutional capacity, (iii) promoting regional customs cooperation, and (iv) developing customs infrastructure to improve operational efficiency and revenue collection.

Significant progress has been made, particularly with legal and institutional reforms, and strengthening of cooperation with the customs administrations of neighboring countries. However, the benefits of customs legal and institutional reforms and regional customs cooperation initiatives cannot be fully realized, unless there is commensurate development and modernization of customs physical infrastructure to improve efficiency and transparency of customs services. The Kyrgyz Republic and Tajikistan do not have adequate information and communication technology infrastructure to support automated customs services. The border-post conditions are poor because of inadequate budget support and the effects of the civil war in Tajikistan.

The Project is directly relevant to ADB's strategic objectives in the two countries. The overall objective of the Country Strategy and Program for the Kyrgyz Republic for 2004–2006 is to reduce poverty by promoting private sector-led economic growth and providing selective support for human development. ADB supports private sector-led economic growth through (i) agriculture and rural development, (ii) financial sector development, and (iii) regional cooperation with an emphasis on trade and transport infrastructure. The Country Strategy and Program for Tajikistan for 2004–2008 focuses on promoting economic growth through rural development and regional cooperation.

Trade facilitation is a strategic pillar of ADB's Regional Cooperation Strategy and Program for 2005–2007 and the Project is a priority project. ADB supports trade facilitation by helping to (i) modernize customs infrastructure, including customs legal and physical infrastructure; (ii) develop customs-supporting infrastructure by fostering customs intermediaries and their associations (such as brokers' associations); and (iii) support regional customs cooperation to address issues of common concerns (e.g., regional transit development), and complement country-specific support.

Objectives

The Project's objectives are to (i) improve the efficiency and transparency of customs services, and reinforce the ongoing customs legal reforms and simplification of custom procedures; and (ii) facilitate trade and promote regional customs cooperation through concerted customs reforms and modernization in the East and Central Asian region.

Cost Estimates

The total project cost is estimated at \$22.75 million equivalent. The Kyrgyz component is estimated to cost \$9.37 million equivalent (foreign exchange cost of \$4.83 million and local currency cost of \$4.54 million equivalent), and the Tajikistan component is estimated to cost \$13.38 million equivalent (foreign exchange cost of \$8.42 million and local currency cost of \$4.96 million equivalent).

Financing Plan

(\$ million)				
Source	Foreign Exchange	Local Currency	Total Cost	Percent
Kyrgyz Republic				
ADB	4.83	2.67	7.50	80
Government	0.00	1.87	1.87	20
Total	4.83	4.54	9.37	100
Tajikistan				
ADB	8.42	2.28	10.70	80
Government	0.00	2.68	2.68	20
Total	8.42	4.96	13.38	100

ADB = Asian Development Bank.

Loan Amount and Terms	Loans in various currencies equivalent to Special Drawing Rights (SDR) 5,106,000 (\$7.5 million equivalent) for the Kyrgyz Republic and SDR7,266,000 (\$10.7 million equivalent) for Tajikistan will be provided from ADB's Special Funds resources. The loans will have an amortization period of 32 years, including a grace period of 8 years, an interest rate of 1% per annum on the principal amount disbursed during the grace period, 1.5% per year during the remaining amortization period, and such other terms and conditions set forth in the draft loan and project agreements.
Period of Utilization	Until 30 June 2010
Estimated Project Completion Date	31 December 2009
Executing Agency	Kyrgyz component: Ministry of Finance (MOF) Tajikistan component: Ministry of State Revenues and Duties (MSRD)
Implementation Arrangements	<p>The Committee for Revenues under MOF will be the Implementing Agency for the Kyrgyz project component, and the Customs Services Department under MSRD will be the Implementing Agency for the Tajikistan component. Each government will establish a project steering committee (PSC) before or immediately after loan effectiveness to guide the overall direction and coordinate issues related to project implementation. In the Kyrgyz Republic, the PSC will be headed by the chair of Committee for Revenues and include the CSD head and deputy head. In Tajikistan, the PSC will be chaired by the MSRD minister and include the CSD head and deputy head. Both PSCs will comprise representatives from relevant Government agencies and private sector.</p> <p>The chair of the Committee for Revenues in the Kyrgyz Republic and the MSRD minister in Tajikistan will be designated as the project directors with overall responsibility for project management. Each project director will appoint a senior CSD staff member as deputy project director. To oversee day-to-day project implementation, a full-time project management office (PMO) will be set up within the Committee for Revenues for the Kyrgyz project and the CSD for the Tajikistan project component. The PMO will be headed by a qualified PMO director and deputy director assisted by a group of qualified technical and administrative specialists. The PMO will remain adequately staffed throughout project implementation and be assisted by international and domestic consultants financed by the loan and the accompanying TA.</p>

Procurement

All services, supplies, and equipment to be financed by ADB will be procured in accordance with ADB's *Guidelines for Procurement*. Equipment and materials for packages valued at \$500,000 or more will be procured through international competitive bidding. Supply contracts and items costing less than \$500,000 will be procured using international shopping. Equipment and materials costing \$100,000 or less will be procured through direct purchase.

Civil works contracts estimated at \$1 million equivalent or more will be carried out by prequalified contractors using international competitive bidding, while those valued below \$1 million equivalent will use local competitive bidding procedures acceptable to ADB. Force account, with an upper limit of \$50,000 per package, will be applied to border-post infrastructure development.

Consulting Services

The consultants will be engaged either as individuals, and/or consulting firm(s) of international consultants with domestic associates to be selected following the quality- and cost-based selection method, in accordance with ADB's *Guidelines on the Use of Consultants*. The implementing agencies and ADB have agreed that most of the consultants will be hired through firms. Domestic consultants will be selected and engaged in accordance with arrangements satisfactory to ADB. The Kyrgyz component will require about 20 person-months of international and 45 person-months of domestic consulting services; and the Tajikistan component, 24 person-months of international and 52 person-months of domestic consulting services.

Project Benefits and Beneficiaries

The Project is expected to have an economic internal rate of return of 21.50% for the Kyrgyz component and 23.34% for the Tajikistan component. The main benefits accruing include economic benefits from (i) trade expansion and associated economic growth and employment generation, and (ii) efficiency gains from reduced transaction costs and waiting times at border crossings and inland clearance points. The Project will have a positive impact on overall economic development because trade is an engine for growth and customs services modernization is key for facilitating trade and improving the enabling environment for private sector-led economic development.

The Project will have a positive regional impact by (i) improving transit conditions of the two countries, greatly facilitating trade with neighboring countries, (ii) contributing to the improvement of the overall trading and investment environment in the region through strengthened regional customs cooperation for trade facilitation and prevention of smuggling and drug trafficking.

Reduced transaction costs make trade in small volumes possible and therefore directly benefit poor and small traders. The overall social benefit derives from increased revenue collection that contributes to sound fiscal management and provision of social services.

Risks and Assumptions

The governments are fully committed to customs modernization and trade facilitation thus mitigating the risk of lack of political commitment for customs reform and modernization. The adoption of the revised customs codes provides the legal foundation for simplifying customs procedures, and automating and applying these at border posts. Project-specific risks may include (i) lack of commitment to change management, and resistance from vested interest groups that benefit from lack of transparency and inefficient customs clearance systems, (ii) lack of consultation and cooperation with the trade community and relevant government agencies, (iii) the implementing agencies' difficulty recruiting and retaining competent and experienced information technology personnel, and (iv) inadequate budget provision for maintenance and following phases of customs modernization. These risks are mitigated by the ongoing measures adopted by the two countries' executing agencies, the project and TA design, and government assurances.

Technical Assistance

Two accompanying grant-financed TAs will be provided; one each to the Kyrgyz Republic and Tajikistan to help ensure that (i) customs modernization through automation and border-post infrastructure development is supported by the institutional structure and the business processes of the CSDs, and (ii) the UAIS and border-post infrastructure development are carried out with sound supervision and quality assurance. Each TA consists of three components: (i) change management and public-private partnership for customs modernization, (ii) reengineering of customs business processes, and (iii) quality and security assurance of the UAIS and border-post infrastructure development.

Each TA is expected to cost \$600,000 equivalent, comprising \$400,000 in foreign exchange cost and \$200,000 equivalent in local currency cost. ADB will provide the TAs on a grant basis, \$500,000 each to the Kyrgyz Republic and Tajikistan from the Japan Special Fund, funded by the Government of Japan, to finance the entire foreign exchange cost and \$100,000 equivalent of the local currency cost. The Government will finance the remaining \$100,000 equivalent of local currency cost.

The TAs will finance 14 person-months of international consulting for the Kyrgyz Republic and 12 person-months for Tajikistan, and 58 person-months of domestic consulting for each country. The proposed international and domestic consultants include (i) customs modernization and change management specialist (2 person-months international and 10 person-months domestic for each country); (ii) customs automation and procedures specialist (8 person-months international for the Kyrgyz Republic and 6 person-months international for Tajikistan, and 24 person-months domestic for each country); (iii) information and communication technology quality and security assurance specialist (4 person-months international and 18 person-months domestic for each country); and (iv) civil works and construction supervision specialist (6 person-months domestic for each country). The TA consultants will work closely with the implementing agencies, relevant agencies and institutions, the PMO, private sector stakeholders, and ADB staff.

THE CENTRAL ASIAN REPUBLICS
 REGIONAL CUSTOMS MODERNIZATION AND
 INFRASTRUCTURE DEVELOPMENT

Kyrgyz Republic/Tajikistan



I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on the proposed loans to the Kyrgyz Republic and the Republic of Tajikistan for the Regional Customs Modernization and Infrastructure Development Project. The report also describes proposed technical assistance (TA) for Capacity Building and Institutional Strengthening for Customs Modernization and Infrastructure Development in each of the Kyrgyz Republic and the Republic of Tajikistan, and if the Board approves the proposed loans, I, acting under the authority delegated to me by the Board, will approve the TAs.

II. RATIONALE: SECTOR PERFORMANCE, PROBLEMS, AND OPPORTUNITIES

2. Recognizing the importance of trade for countries' transition to a market economy and private sector-led economic development, most of the Central Asian republics have embarked on comprehensive trade policy reforms and trade facilitation measures since gaining independence in the early 1990s. Due to their land-locked conditions, they rely on each other for transit trade; the benefits of trade can only be realized through concerted regional efforts to improve the trading environment. Such a concerted effort is being rigorously pursued by the Central Asian republics, as demonstrated by their (i) collective commitment to accession to the World Trade Organization (WTO) and reform of trade policies according to WTO rules and agreements; and (ii) concerted efforts to reform customs codes and modernize customs services as key measures to facilitate trade.

3. The Asian Development Bank (ADB) plays a major role to provide support for a regional and concerted approach for trade policy reforms and trade facilitation. In 2002, the Regional Trade Facilitation and Customs Cooperation Program (RTFCCP) was launched as part of the broad Central Asia Regional Economic Cooperation (CAREC) Program. The RTFCCP is a combination of support for (i) bilateral and regional customs cooperation initiatives, and (ii) country-specific activities with strong regional orientation. A key objective of the RTFCCP is to promote concerted customs reforms and modernization of the CAREC member countries in an effort to harmonize customs legal frameworks and procedures. To support the CAREC member countries' accession to WTO and trade policy reforms, a trade policy committee was recently created as part of the CAREC Program to be coordinated by the International Monetary Fund. The first trade policy committee meeting was conducted as part of the Senior Officials' Meeting on 13–14 September 2004 in preparation for the Third Ministerial Conference on 31 October and 1 November 2004.

4. The Project is a continuation of ADB's support for customs reforms and modernization for the Kyrgyz Republic and Tajikistan following the launch of the RTFCCP. The initial phase of the RTFCCP consisted of program loans for the Kyrgyz Republic and Tajikistan,¹ project preparatory technical assistance (TA) for customs modernization and infrastructure

¹ ADB. 2002. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grants and a Regional Technical Assistance Grant to the Kyrgyz Republic and Republic of Tajikistan for Regional Trade Facilitation and Customs Cooperation Program*. Manila.

development for the two countries,² and regional TA³ in support of regional customs cooperation activities in the East and Central Asian region (ECAR).⁴ The Project demonstrates ADB's long-term commitment to promoting the development of regional trade and engagement in the sector, providing a comprehensive package of support implemented in a phased approach. The Project will support the implementation of the two countries' poverty reduction strategies by (i) improving governance practices and (ii) promoting sustained economic growth. It will reinforce the ongoing customs legal and institutional reforms supported by the program loans, and strengthen the two countries' participation in regional customs cooperation activities supported by ADB. The Project Framework is in Appendix 1.

A. Performance Indicators and Analysis

5. Since independence in 1991, the Kyrgyz Republic and Tajikistan have been in transition to private sector-led and market-oriented economies. Development of an outward-oriented trading environment is an integral part of the transition strategy. Both countries are highly dependent on international trade, with exports in 2003 accounting for 31% of gross domestic product for the Kyrgyz Republic and 57% for Tajikistan. However, the two countries' external sectors are vulnerable to changes in terms-of-trade due to the dominance of raw materials and agriculture products in exports and the narrow production base. With a combination of trade liberalization and trade facilitation measures, the governments aim to diversify exports, broaden the production base, and improve the enabling environment for foreign direct investment and trade, including transit trade of neighboring countries. Recent economic development and sector analysis are provided in Appendix 2.

6. Significant progress has been made in trade liberalization and trade-related policy reforms in both countries. The Kyrgyz Republic became a WTO member in 1998 in recognition of its achievements in trade and trade-related policy reforms. Tajikistan is in the advanced stages of WTO accession. The tariff structure is compliant with WTO's rules, with the adoption of a single tariff band of 5%, except for areas subject to preferential agreements and treaties. A wide range of trade-related policies have been amended in conformity with the relevant WTO agreements, particularly in foreign direct investment policy and financial services liberalization.

7. Progress in trade facilitation is equally significant and effectively complements trade policy reforms. As tariffs have come down, trade facilitation in terms of reducing government bureaucracy and harmonizing and automating trade procedures is widely recognized as just as important as trade liberalization measures. Among all the agencies relevant to trade facilitation and border controls, the customs administration is commonly recognized as one of the most important, because of its revenue collection function and prevention of smuggling and drug trafficking.

8. The customs administrations of the Kyrgyz Republic and Tajikistan—the customs services departments (CSDs)—are relatively young, with weak institutional capacity, low efficiency, and poor governance. In 2002, both countries launched comprehensive modernization programs to address this most critical bottleneck of trade facilitation.⁵ Supported by major international financial institutions, both countries adopted a program of reforms

² ADB. 2002. *Technical Assistance to the Kyrgyz Republic for Customs Modernization and Infrastructure Development*. Manila. ADB. 2002. *Technical Assistance to the Republic of Tajikistan for Customs Modernization and Infrastructure Development*. Manila.

³ ADB. 2002. *Regional Technical Assistance for Trade Facilitation and Customs Cooperation*. Manila.

⁴ The developing member countries joining the Regional Customs Cooperation Program are Azerbaijan, People's Republic of China, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan, and Uzbekistan.

⁵ The Problem and Constraints Analysis (Problem Tree) is presented in Appendix 3.

consisting of (i) improving the customs legal and regulatory framework, (ii) strengthening governance and institutional capacity, (iii) promoting regional customs cooperation, and (iv) developing customs infrastructure to improve operational efficiency and revenue collection. ADB has been supporting the reform agenda through a program loan for each country. By 24 June 2004, the Kyrgyz Republic had complied with all six core conditions in the policy matrix for the second tranche release of the program loan, and six of the eight monitoring conditions. The second tranche was released on 15 September 2004. Tajikistan has complied with five of the eight core conditions, while the remaining three are expected to be complied with by the end of December 2004—the target date for the second tranche release. The revised Customs Code of Tajikistan was submitted to Parliament on 30 September 2004 to comply with a major core condition. Tajikistan's CSD is also actively (i) pursuing a transit agreement with the Kyrgyz Republic, and (ii) facilitating the development of a brokers' association to comply with the two remaining core conditions. CSD has also made considerable progress in complying with Tajikistan's 24 monitoring conditions. A description of major accomplishments of the governments' reform programs follows.⁶

B. Analysis of Key Problems and Opportunities

1. Government Reform Program

9. **Legal and Regulatory Framework.** The main focus has been the revision of the Customs Code. The Legislative Chamber of the Kyrgyz Republic Parliament ratified the new Customs Code on 13 April 2004, and the Kyrgyz President approved it on 12 July 2004. For Tajikistan, the final version of the revised Customs Code was submitted to Parliament on 30 September 2004. The revised customs codes have two important features: (i) they are in line with the Revised Kyoto Convention, which serves as a benchmark for reforms and customs modernization of customs administrations worldwide; and (ii) they provide detailed regulations and procedural guidance for all customs control regimes, which will greatly help reduce the number of existing customs regulations. The existence of multiple customs regulations is a major source of confusion, corruption, and tension between customs officers and traders during customs clearance. Simplification of the existing customs regulations and procedures is a key objective of revising the customs codes. Concerted customs legal reforms in line with the international conventions support the process of harmonizing customs procedures in the ECAR—a major RTFCCP initiative.

10. **Governance and Institutional Reform.** The CSDs in both countries have implemented several measures to enhance staff morale, strengthen internal management, and reduce corruption. Human resource management has significantly improved through the adoption of a staff appraisal system that objectively evaluates staff performance, and a compensation system that responds to staff evaluation and rewards outstanding performance. To reduce corruption, both the revised customs codes and codes of conduct include articles and regulations prohibiting customs officers from acting as customs intermediaries. To improve transparency and client-orientation of customs services, both the CSDs (i) maintain periodicals to inform the public of customs statistics and legal and regulatory changes, (ii) maintain a consultative council to dialogue with traders and their representatives, and (iii) conduct regular surveys to strengthen client orientation of customs services. These legal and personnel measures help reduce corruption and improve professionalism of customs officers.

⁶ Two progress reports were prepared for the second tranche release of the program loans for the Kyrgyz Republic and Tajikistan.

11. **Regional Customs Cooperation.**⁷ The launch of the RTFCCP has significantly strengthened the two countries' policy dialogue and cooperation with customs administrations of neighboring countries. The customs cooperation activities supported by the regional TA is coordinated and supervised by the Customs Cooperation Committee, comprising heads of the customs departments of eight ADB developing member countries in the ECAR, including the Kyrgyz Republic and Tajikistan. The Customs Cooperation Committee serves as an effective forum for addressing regional issues of common concern, such as developing transit arrangements and sharing customs data to reduce corruption. Customs officials from the Kyrgyz Republic and Tajikistan cochair the transit development initiative, and are actively promoting transit agreements initially involving Kazakhstan, the Kyrgyz Republic, and Tajikistan. The Kyrgyz Republic entered into a transit agreement with Kazakhstan on 26 March 2004. Sponsored by ADB, the customs administrations of the Kyrgyz Republic and Tajikistan conducted two rounds of consultation on a draft transit agreement, and both parties agreed to target the signing of the agreement by the end of 2004. The Kyrgyz Republic is also making progress in developing a data-sharing agreement with the customs office of the People's Republic of China—to be signed by the end of 2004. Tajikistan recently opened a new border post with the People's Republic of China.

12. **Development of Customs Physical Infrastructure.** Development of customs physical infrastructure is an integral part of government efforts to facilitate trade, improve revenue collection, reduce corruption, and stop smuggling and drug trafficking. Of the Customs Cooperation Committee member countries, the Kyrgyz Republic and Tajikistan have the least infrastructure capacity in terms of customs automation and border-post facilities, because of inadequate budget support and destruction during the civil war in the case of Tajikistan. Neither country has an automated customs declaration system for exports and imports. Their limited information and communication technology (ICT) infrastructure does not support modern customs practices based on risk management and postentry audit as promulgated in the revised Customs Code and the Revised Kyoto Convention.⁸ Without customs automation and adequate border-post infrastructure, the benefits of customs legal reforms and procedure simplification cannot be fully realized, and regional customs cooperation initiatives cannot be effectively carried out.

13. In the Kyrgyz Republic, a local area network is only available in CSD headquarters and two regional customs offices. Servers and a limited number of computers are available at CSD headquarters. Communication between the headquarters and the 15 regional customs offices is through the Government's wide area network, which has low capacity and functions poorly. None of the border posts have communication facilities, resulting in delay of the submission of customs statistics to customs headquarters.

14. Of the five regional offices in Tajikistan, only one has telecommunications tools for data exchange through a radio communications data-transfer system. Data exchange between

⁷ ADB. 2004. *Regional Trade Facilitation and Customs Cooperation Program, Progress, and Future Directions*. Manila.

⁸ Risk management is a broadly recognized modern customs technique allowing customs to clear increasing volumes of goods, while minimizing the risk of not detecting wrongly declared transactions as well as those covered by fraudulent documents. Its application requires establishment of risk profiles in a computer system that contain information on the history of transactions of traders, origin, and route of their imports. Traders with "low risk profile" are distinguished from those with "high risk profiles" allowing customs to facilitate traders with low risk profiles and devote more resources to inspect traders with high risk profiles. Post-entry audit allows customs to examine the book and records of traders especially those identified as high risk. It helps improve the risk profiles and strengthen the risk management system.

border posts and regional offices are carried out using floppy disks. A major source of revenue loss and corruption at border posts has been the lack of technology capacity to capture importers' entry data for customs declaration in a centralized location to calculate duties and taxes and validate the entry. The quality of customs statistics is poor and cannot be readily verified and easily distributed to the relevant Government agencies for trade facilitation and antismuggling purposes.

15. The border-post conditions in both countries are poor mainly due to inadequate budget provision for construction and maintenance. Very few border posts have permanent structures originally designed for customs operations. Customs equipment for inspection and antismuggling purposes is rarely present or operational. Very few customs posts have equipment for weighing and preventing contraband and drug trafficking. At most border posts, electricity supply is unstable and at best provided only 7-8 hours a day, thus increasing opportunities for illicit trade.

16. Recognizing these constraints and the need to modernize customs services to improve transparency and fight corruption, both governments adopted strategies to develop a unified automated information system (UAIS). The UAIS as a development concept is embraced by all the customs administrations joining the RTFCCP under the CAREC Program. It includes not only developing software and hardware for automating customs declaration, but also introducing modern customs techniques (e.g., simplified customs procedures and a risk management system), management information system, change management, and capacity building and institution building to ensure broad-based support and sustainability of the UAIS. The Project is an important step in helping the governments realize the concept of the UAIS and develop border-post infrastructure.

2. The Asian Development Bank Strategy

17. The Project is directly relevant to ADB's strategic objectives for the two countries. The overall objective of the Country Strategy and Program for the Kyrgyz Republic (2004–2006) is to reduce poverty, supported by (i) promotion of private sector-led economic growth and (ii) selective support for human development. Regional cooperation with an emphasis on trade and transport infrastructure is a priority area in support of private sector-led development. ADB's Country Strategy and Program for Tajikistan (2004–2008) focuses on promoting economic growth through (i) rural development and (ii) regional cooperation.

18. Trade facilitation is a strategic pillar of ADB's Regional Cooperation Strategy and Program for 2005–2007 and the Project is a priority. ADB adopts a three-pronged strategy for trade facilitation to help (i) modernize customs infrastructure, including customs legal and physical infrastructure; (ii) develop customs-supporting infrastructure by fostering customs intermediaries and their associations, such as brokers' associations; and (iii) support regional customs cooperation to address issues of common concern and complement country-specific support.

3. Lessons Learned

19. Knowledge-sharing is the main activity of the RTFCCP, particularly in sharing country experience and lessons learned in developing the UAIS according to country circumstances. Several forums focused on this issue, including the August 2003 seminar in the Kyrgyz Republic; and the April 2004 conference in the People's Republic of China. Several customs administrations in the ECAR have developed or are planning to develop their own UAIS.

Nonetheless, lessons learned were gathered not only from ECAR members, but from other countries and regions, such as Australia, the Philippines, and member countries of the European Union (EU).

20. Major lessons learned that are reflected in the Project and TA design include the following:

- (i) **Sequencing of modernization and procedure reengineering.** At the Customs Cooperation Committee Seminar held in the Kyrgyz Republic in August 2003, country representatives developed 10 general principles for applying ICT to customs modernization.⁹ A key principle is that countries must first reform customs laws and procedures according to country circumstances and international best practices, and then use ICT to reinforce the reform process. ICT should not be used to reengineer poor and antiquated customs procedures in the hope that it will help solve inefficiency, corruption, and other problems. ADB's support for customs legal and procedure reforms, followed by support for customs infrastructure development, is in line with this key lesson learned.
- (ii) **Importance of compatibility.** The EU's experience with integrating national automated customs information systems to develop the newly computerized transit system shows that no existing ICT system is ideal. One of the key attributes of the national systems is that they are compatible with each other and can readily transfer data, taking into consideration international conventions such as the Revised Kyoto Convention and common documentation standards such as the Single Administrative Document administered by the United Nations Economic Commission for Europe.
- (iii) **Phased rollout and development.** Customs modernization has high economic and social benefits, but is a long-term and costly endeavor. It requires comprehensive planning, with prioritization and sequencing of development and implementation. Experience in the Philippines shows that project completion in computerization does not mean the conclusion of the entire project. In fact, it is only a milestone to mark the start of modernization. Adequate financial support must be provided for following phases of development to upgrade and maintain the system, and keep up the momentum of customs modernization.
- (iv) **Capacity building and human resource development.** Human resource development is essential to maintain the newly developed or adopted system and constantly upgrade and adapt it to the country's circumstances. Computers are only tools; effective performance depends on the user's skills. Users must be well trained to maintain and upgrade the system to support the overall efficiency of customs operations. However, a key challenge is to realize the benefits of training. A major lesson learned from training supported by the EU's Transport Corridor Europe-Caucasus-Asia Program is that training is generally ineffective unless it is conducted with well-defined implementation purposes and measurable outcomes. The Project takes into account this important lesson learned by (i) introducing incentives and performance measures to maximize the impact of training, and (ii) ensuring that lower ranking and operations staff are the

⁹ *Summary of Discussions of the ICT Working Group*. Seminar on Trade Facilitation and Customs Modernization, 4-8 August 2003, Issyk-Kul, Kyrgyz Republic. Available: http://www.adb.org/Documents/Events/2003/CCC/Trade_Facilitation_Customs_Modernization/ICT_final_English.pdf.

main beneficiaries of training. The human resource policy will be revised, supported by the accompanying TA, to provide incentives for staff to acquire new skills to meet the challenge of customs modernization.

- (v) **Change management and public consultation.** Change management and consultation with customs staff and stakeholders (such as traders and brokers) are essential. Migration to automation is often met with concerns because automation is unknown to most customs officers and a manual operation in customs services is the norm for many developing countries. The benefits of automation must be emphasized and explained, and fears allayed by a dedicated group—the change management team.

4. External Assistance and Aid Coordination

21. In the Kyrgyz Republic, the International Monetary Fund and United States Agency for International Development (USAID) have supported customs legal reforms through TA and engagement of long-term consultants to help revise the Customs Code in line with the Revised Kyoto Convention. The EU through its TA for the Commonwealth of Independent States (TACIS) has been supporting customs modernization by providing special customs equipment and pilot projects on automated data exchange at two customs border posts between the Kyrgyz Republic and Kazakhstan. The EU's Eurocustoms has supported training on modern customs practices. The World Bank provided a small grant to equip the customs headquarters with computers and servers. The Government of the United States also provided funding for customs equipment and associated training.

22. In Tajikistan, the International Monetary Fund and World Bank have supported civil service reforms and customs legal reforms through their policy-based and structural adjustment programs. The EU, Swiss State Secretariat for Economic Affairs, and USAID have been supporting revision of the Customs Code and Tax Code, and accession to WTO. USAID has provided consulting services to help develop a strategy and investment plan for modernizing tax services; this complements ADB's support for developing a strategy and investment plan for customs modernization. These efforts have helped the Government realize its long-term goal of integrating customs and tax services through ICT.

23. The Kyrgyz Republic and Tajikistan governments play the lead role in aid coordination in their respective countries. The Prime Minister of the Kyrgyz Republic directly oversees the progress of reforms supported by ADB's program loan, and chairs the Commission for Customs Reforms and Modernization, comprising representatives from relevant public and private sector agencies and major funding agencies. The minister for State Revenues and Duties in Tajikistan oversees the reform progress, and chairs the Consultative Group for Customs Reforms and Modernization for interagency consultation. ADB is recognized as the lead institution in support of customs reforms and modernization in the Kyrgyz Republic and Tajikistan because of the comprehensive packages of support extended and planned long-term engagement in the sector. Following the support for customs legal reforms through the program loans, the Project will extend a comprehensive package of support combining physical infrastructure development with support for change management, consultation with private sector stakeholders and other border agencies, and capacity building and institutional strengthening. Such comprehensive support makes the Project unique among the assistance provided by the development partners. Compared with the general training on international conventions and modern customs practices provided by other development agencies, training provided under the Project will be conducted with clear implementation purposes and measurable outcomes. Incentives for training will be

provided through a change in human resource policy, for staff to embrace the opportunities and challenges of customs modernization. The emphasis on behavioral change and improved staff competency represents the value-added and niche of the Project in training provided by the development partners. Appendix 4 provides detailed information on external assistance in the customs area.

5. Policy Dialogue

24. Policy dialogue has been focusing on reform initiatives supported by the ongoing program loans for the two countries, particularly in (i) customs legal reform, and (ii) promotion of customs intermediaries and their associations. Besides progress in revising the Customs Code, the Kyrgyz Republic adopted a new law on customs intermediaries on 24 June 2004 and the Tajikistan CSD will facilitate establishment of a brokers' association in the near future. The adoption of the new customs codes provides the legal foundation for simplified customs procedures and their automation. Promotion of customs intermediaries and their association will strengthen the client orientation of customs services and stakeholders' participation in customs modernization.

25. Project sustainability is another focus of policy dialogue. Extensive discussions were held on other countries' experiences with developing a UAIS so that that the lessons learned could be incorporated in the design of the Project and the accompanying TA. The emphasis on change management, human resource development, and reengineering of the customs business process in the Project reflects the lessons learned. Development of the UAIS has high economic and social returns, but also entails significant financial costs, not only for system development, but also for maintenance and upgrading to keep up with technology development. Therefore, the Project should be viewed as an initial phase of UAIS development, and its priorities should be the core UAIS application systems. To maintain the momentum of customs modernization, the governments are advised (as reflected in the project assurances) to ensure adequate budgetary support for maintenance and upgrading, and implementation of the next phase of the UAIS in the near future.

III. THE PROPOSED PROJECT

A. Objectives

26. The Project's objectives are (i) improved efficiency and transparency of customs services, to reinforce the ongoing customs legal reforms and simplification of custom procedures; and (ii) trade facilitation and promotion of regional customs cooperation through concerted customs reforms and modernization in the ECAR.

B. Components and Outputs

27. The Project comprises two components each for the Kyrgyz Republic and Tajikistan for development of: (i) the UAIS, and (ii) border-post infrastructure.

1. Development of the UAIS

28. This component consists of three interrelated subcomponents: (i) developing the core UAIS application systems and associated operation-support systems; (ii) developing communications infrastructure to support UAIS operation (i.e., providing and strengthening the communication links between the CSDs' headquarters, regional customs offices, customs

border posts, and inland clearance points); and (iii) providing training and a public awareness campaign to ensure sustainability and broad-based support for customs modernization efforts. The major components and functions of the UAIS for customs services are given in Appendix 5.

a. Development of Core Application Systems of the UAIS

29. This subcomponent consists of (i) establishing the operating environment on which the database systems and application software will operate; (ii) installing a database system for the management and integration of various databases, and (iii) developing the core operation systems of the UAIS, including the (a) core elements of the customs declaration processing system¹⁰ that forms the backbone of the UAIS; (b) operations support systems, such as the customs intelligence system and WTO valuation system; and (c) selected management support systems, such as human resource management and financial management systems.

b. Development of Communication Infrastructure

30. This involves (i) installing a communications network connecting the CSD headquarters, regional offices, and priority customs border posts with associated protocol for communications; (ii) providing telecommunications services to connect customs posts with the CSD headquarters and regional offices; (iii) installing small-scale local area networks in the regional offices and priority border posts; and (iv) upgrading the capacity of the existing wide area network to facilitate data-sharing and communication with the CSDs, agencies, and customs administrations of other countries.

c. Human Resource Development and Public Awareness Campaign

31. This includes (i) training for customs officers on basic computer skills and applications systems; (ii) advanced training on system administration, network management, systems development, and systems maintenance and support; (iii) training on modern customs techniques based on risk management and postentry audit; and (iv) consultation with stakeholders and relevant border agencies to ensure sustainability and broad-based support for the modernization effort and simplification of border procedures through automation.

2. Border-Post Infrastructure Development

32. The second component aims to (i) improve customs border posts and facilities, (ii) provide customs operations and antismuggling equipment, and (iii) extend capacity building and promote border interagency cooperation.

a. Improvement of Customs Border Posts and Facilities¹¹

33. This subcomponent will address inadequate infrastructure for customs operations. It covers (i) construction and rehabilitation of border posts and facilities; and (ii) provision and reorganization of border-post facilities to strengthen customs processing capacity and facilitate trade in line with modern customs practices.

¹⁰ The customs declaration processing system aims to automate and simplify major customs control procedures for trade movement. The core application systems cover major customs control regimes such as import entry processing, export processing, and transit movement.

¹¹ Including inland clearance points and terminals.

b. Provision of Customs Operations and Antismuggling Equipment

34. Equipment will be provided for priority border posts to enable customs officers to effectively undertake their customs control and antismuggling function. Each selected border post will be provided with operations and search facilities (e.g., mobile inspection platform, X-ray machines, and detectors). The reduced reliance on manual checks is expected to significantly improve efficiency and effectiveness of customs control. This subcomponent will also include acquisition of mobile intervention equipment (e.g., patrol vehicles) to carry out patrols along major transit routes and the borders.

c. Capacity Building and Border Interagency Cooperation

35. This subcomponent includes provision of training to customs officers on modern customs control practices and the use of newly acquired equipment, as well as training on investigation techniques. In view of the multiple parties involved in trade facilitation and border controls, this subcomponent will include creation of cooperative partnerships between border inspection agencies and traders to simplify border-post procedures, and provide effective coordination and management of border-post facilities.

C. Special Features

36. The Project has several features relevant to thematic priorities and development approaches promoted by ADB.

- (i) First, the Project will promote private sector participation in the process of customs modernization. Consultation with traders and their representatives will be held during project implementation and through existing forums, such as the Consultative Council, where customs and private sector stakeholders meet regularly to exchange views and discuss major nontrade barriers and customs regulatory issues. Such public-private partnerships will enhance the client orientation of customs services.
- (ii) Second, change management, human resource development, and institutional strengthening are key components of the Project and accompanying TA. These efforts will ensure that the organizational structure and personnel policy are compatible with automation, and customs modernization is broadly supported by commensurate development in staff capacity.
- (iii) Third, the Project presents a unique opportunity to deepen regional customs cooperation under the RTFCCP. The CSDs of the Kyrgyz Republic and Tajikistan will establish a joint working group for regular consultation and project implementation. Other countries joining the RTFCCP have already expressed interest in sharing their knowledge on UAIS development and offering advice on functional and technical specifications of the UAIS. The Project will also offer an opportunity to broaden knowledge sharing and customs modernization in areas such as change management.
- (iv) Fourth, the Project will complement ADB's transport facilitation initiatives by improving border posts and the inland clearance points along ADB-financed road projects in the Kyrgyz Republic and Tajikistan.

D. Cost Estimates

37. The total project cost is estimated at \$22.75 million equivalent. The Kyrgyz component is estimated to cost \$9.37 million equivalent (foreign exchange cost of \$4.83 million and local

currency cost of \$4.54 million equivalent), and the Tajikistan component is estimated to cost \$13.38 million equivalent (foreign exchange cost of \$8.42 million and local currency cost of \$4.96 million equivalent). The costs are summarized in Table 1 and in Appendix 6. The detailed cost estimates and financing plan are in Supplementary Appendix A.

Table 1: Project Cost Summary
(\$ million)

Project Component	Kyrgyz Republic			Tajikistan			Total
	Foreign Exchange	Local Currency	Total Cost	Foreign Exchange	Local Currency	Total Cost	Project Cost
A. Investment Cost							
Component 1: Development of the UAIS							
1. Development of Core Application Systems of the UAIS	2.80	0.67	3.47	2.75	0.50	3.25	6.72
2. Development of Communication Infrastructure	0.32	0.00	0.32	0.76	0.00	0.76	1.08
3. Human Resource Development and Public Awareness Campaign	0.27	0.58	0.85	0.40	0.36	0.76	1.61
Component 2: Border-Post Infrastructure Development							
1. Improvement of Customs Border Posts and Facilities	0.72	1.26	1.98	2.91	1.47	4.33	6.31
2. Provision of Customs Operations and Antismuggling Equipment	0.20	0.00	0.20	0.68	0.00	0.68	0.88
3. Capacity Building and Border Interagency Cooperation	0.22	0.32	0.54	0.30	0.26	0.55	1.09
Taxes and Duties^a	0.00	1.35	1.35	0.00	1.56	1.56	2.91
Subtotal (A)	4.53	4.18	8.71	7.80	4.10	11.89	20.60
B. Contingencies^b							
1. Physical Contingency	0.13	0.12	0.25	0.28	0.18	0.46	0.71
2. Price Contingency	0.00	0.24	0.24	0.00	0.68	0.68	0.92
Subtotal (B)	0.13	0.36	0.49	0.28	0.86	1.14	1.63
C. Interest Charges^c							
Total	4.83	4.54	9.37	8.42	4.96	13.38	22.75

UAIS = unified automated information system.

^a Taxes and duties are computed at 20% of civil works, equipment, and software development for the Kyrgyz Republic; and 26% of equipment and 20% of civil works costs for Tajikistan.

^b Physical contingency is estimated at 5% of civil works and equipment costs. Price contingency is estimated at 0% of foreign exchange cost for both countries; and 4% of local currency cost for the Kyrgyz Republic and 5% of local currency cost for Tajikistan.

^c Interest charges are computed at 1% during the project period for both countries.

Source: Asian Development Bank estimates.

E. Financing Plan

38. The financing plan for the Project is summarized in Table 2 and detailed in Appendix 6. The Government of the Kyrgyz Republic has requested a loan of \$7.5 million equivalent in Special Drawing Rights and the Government of Tajikistan has requested a loan of \$10.7 million equivalent in Special Drawing Rights from ADB's Special Funds resources to help finance the Project. The loans will have an amortization period of 32 years, including a grace period of 8 years, with an interest charge of 1% per year on principal amount disbursed during the grace period, and 1.5% per year during the remaining amortization period.

39. For the Kyrgyz component, the loan will finance 80% of the total project cost including the full amount of the foreign exchange cost estimated at \$4.83 million, and about 59% of the local currency cost estimated at \$2.67 million. For the Tajikistan component, the loan will

finance 80% of the total project cost including the full amount of the foreign exchange cost estimated at \$8.42 million, and about 46% of the local currency cost estimated at \$2.28 million. The remaining \$1.87 million equivalent for the Kyrgyz Republic and \$2.68 million for Tajikistan will be provided by the respective governments as counterpart financing. The counterpart support includes taxes and duties, part of the civil works for both countries, and part of training costs for Tajikistan.

Table 2: Financing Plan
(\$ million)

Source	Foreign Exchange	Local Currency	Total Cost	Percent
Kyrgyz Republic				
ADB	4.83	2.67	7.50	80
Government	0.00	1.87	1.87	20
Total	4.83	4.54	9.37	100
Tajikistan				
ADB	8.42	2.28	10.70	80
Government	0.00	2.68	2.68	20
Total	8.42	4.96	13.38	100

ADB = Asian Development Bank.

Source: Asian Development Bank estimates.

F. Implementation Arrangements

1. Project Management

40. **Executing and Implementing Agencies.** For the Kyrgyz component, the Ministry of Finance (MOF) will be the Executing Agency (EA), and the Committee for Revenues under MOF, will be the Implementing Agency. For the Tajikistan component, the Ministry of State Revenues and Duties (MSRD) will be the EA, and MSRD's CSD will be the Implementing Agency. The EAs will have overall responsibility for the implementation of project activities. The organization charts for the EAs are in Supplementary Appendix B.

41. **Project Steering Committee.** Each EA will establish a project steering committee (PSC) before or immediately after loan effectiveness to guide the overall direction and coordinate issues related to project implementation. In the Kyrgyz Republic, the PSC will be headed by the chair of MOF's Committee for Revenues and include the CSD head and a deputy head. In Tajikistan, the PSC will be chaired by the MSRD minister and include the CSD head and deputy head. Other PSC members may include relevant ministries and agencies (such as the drug control agency) and private sector stakeholders. The PSCs will also serve as mechanisms for private sector participation in customs modernization. This is in addition to the consultative councils existing in the two countries where customs and private sector stakeholders meet regularly to discuss customs-related issues and address major nontrade barriers facing traders and their representatives. The PSCs will meet twice a year or as needed.

42. **Management.** The chair of the Committee for Revenues in the Kyrgyz Republic and the MSRD minister in Tajikistan will be the project directors with overall responsibility for project management. The respective project director will appoint a senior CSD staff member as deputy project director. To oversee day-to-day project implementation, a full-time project management office (PMO) will be set up within the Committee for Revenues for the Kyrgyz project component and the CSD for the Tajikistan project component. The PMO will be headed by a qualified PMO

director and deputy director selected on a competitive basis, acceptable to ADB. The PMO director will be assisted by a group of qualified technical and administrative specialists who may include loan finance officer/accountant, procurement specialist, ICT and training specialists, customs infrastructure specialist, and office manager and interpreter. Such staff will be selected by the Government on a competitive basis. The PMO will remain adequately staffed throughout project implementation and be assisted by international and domestic consultants financed under the loan and the accompanying TA. The PMO will have the following responsibilities: (i) planning and scheduling of project activities; (ii) administration of procurement activities and selection of consultants; (iii) bookkeeping and maintenance of project accounts, and preparation and consolidation of liquidation reports; (iv) supervision and monitoring of the work program and project performance; (v) coordination of field activities; (vi) engagement of consultants or firms to conduct audits of the project account and financial statements; (vii) liaison with ADB, concerned Government agencies, and private sector stakeholders; and (viii) preparation of quarterly and annual project monitoring and progress reports.

2. Implementation Period

43. The Project will be implemented in 5 years starting in January 2005. The project implementation schedule is in Appendix 7.

3. Procurement

44. The PMO will be responsible for procurement of all equipment, services, and civil works financed under the Project. All services, supplies, and equipment to be financed by ADB will be procured in accordance with ADB's *Guidelines for Procurement*. Equipment and materials for packages valued at \$500,000 or more will be procured through international competitive bidding. Supply contracts and specialized items estimated to cost less than \$500,000 will be procured using international shopping. Minor items of equipment and materials costing \$100,000 or less will be procured through direct purchase.

45. Civil works contracts estimated at \$1 million equivalent or more will be carried out by prequalified contractors using international competitive bidding, while those valued below \$1 million equivalent will be carried out using local competitive bidding procedures acceptable to ADB. Civil works will be required to install ICT equipment and develop border-post infrastructure. If the civil works' size, nature, and location make them unsuitable for competitive bidding, and if the EA has the facilities and capacity to implement them expeditiously and at a reasonable cost, then ADB may agree to force account procedures. Force account will be applied to civil works related to border-post infrastructure development, and will have an upper limit for a package of \$50,000. The award of all civil works contracts will be subject to ADB approval. The indicative list of contract packages is in Appendix 8. The EAs were advised of the need to maintain transparency and accountability in procuring goods and services, as required under ADB's *Anticorruption Policy*.

4. Consulting Services

46. The Project will finance international and domestic consulting services for project implementation. The terms of reference for the consulting services include systems analysis and design (technical specifications, hardware and software strategy), systems development and integration, systems implementation, and project management advice. About 20 person-months of international and 45 person-months of domestic consulting services will be required for the Kyrgyz Republic, while 24 person-months of international and 52 person-months of domestic consulting services will be required for Tajikistan. The terms of reference for the consulting

services are in Appendix 9. The consultants will be engaged either as individuals, and/or consulting firm(s) of international consultants with domestic associates to be selected following the quality- and cost-based selection method, in accordance with ADB's *Guidelines on the Use of Consultants*. The CSDs and ADB have agreed that most of the consultants will be hired through a firm. Domestic consultants will be selected and engaged in accordance with arrangements satisfactory to ADB. Advance recruitment of consultants will be undertaken in accordance with ADB's *Guidelines on the Use of Consultants*. The advance action includes finalizing the terms of reference and evaluation criteria, identifying suitable candidates, and ranking the candidates and submitting their names and qualifications for ADB approval, together with the draft contract for the negotiation. The governments were informed that approval of advance action does not commit ADB to finance the Project or to finance the recruitment costs.

5. Disbursement Arrangements

47. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook*. To expedite project implementation through timely release of loan proceeds, the governments will each establish an imprest account promptly after loan effectiveness with an initial deposit of \$500,000 equivalent from loan proceeds. The ceiling of total advances at any time is not to exceed the estimated expenditures for the next 6 months or 10% of the loan amount, whichever is lower. The imprest account will be established at a bank acceptable to ADB, and will be managed and liquidated in accordance with detailed arrangements agreed on by the implementing agencies and ADB, consistent with ADB's *Loan Disbursement Handbook*. Statement of expenditure (SOE) procedures will be used to reimburse, liquidate, and replenish the imprest account for eligible expenditures not exceeding \$20,000 per payment. Force account procedures will be used to reimburse expenditures for civil works involving the use of the EAs' work force, equipment, and other resources. ADB reserves the right to conduct spot or random checks of expenditures covered by SOE. Notwithstanding the Government's own disbursement procedures, sufficient supporting documentation, as defined in ADB's *Loan Disbursement Handbook*, must be kept to substantiate all expenditures incurred from the loan proceeds.

6. Accounting, Auditing, and Reporting

48. In view of the governments' inadequate financial management capacity, the PMOs will maintain separate accounts exclusively for the Project and will register in such accounts all receipts and payments for the Project. Each PMO will include a loan finance officer/accountant to ensure that the Project is managed according to sound accounting principles and procedures. The accounts and financial statements for each fiscal year, including the imprest account and SOE records, will be audited annually by independent auditors acceptable to ADB. The audit report will include a statement verifying that the loan disbursed by ADB against the SOEs is used for the purposes for which the loan is provided. The implementing agencies will provide ADB with an audit report, together with audited accounts and financial statements within 6 months after the end of each fiscal year. Both the financial statements and auditor's report will be in English. The implementing agencies were informed of ADB's policy on submission of audited accounts. If the delay in submitting financial statement is more than 6 months, ADB will not issue a commitment letter and may not approve new contract awards. If the delay is more than 12 months, loan disbursements may be suspended or the loan may be canceled.

49. To ensure effective implementation, monitoring and evaluation of the Project will be continuous, with timely reporting. The PMO will submit brief quarterly and annual reports to ADB, indicating progress made and problems encountered during the review period, steps taken or proposed to be taken to remedy the problems, proposed program of activities, and

expected progress during the following period. Within 3 months of physical project completion, the EAs will submit to ADB a completion report providing details about implementation, costs, benefits, and other information requested by ADB.

7. Project Performance Monitoring and Evaluation

50. The implementing agencies will each establish an appropriate project performance management system in the PMO within 1 year of effectiveness. For periodic monitoring, key indicators and baseline conditions will be developed through surveys and incorporated in the regular reporting system. The implementing agencies and ADB have agreed on a preliminary set of project performance indicators, which are incorporated in the Project Framework. Project monitoring and evaluation reports will be submitted to ADB on a quarterly basis. On project completion, the impacts of the Project will be evaluated according to a schedule and terms of reference agreed upon by the EAs and ADB.

8. Project Review

51. The EAs and ADB will jointly review the Project at least twice during the first year of project implementation and at least once a year thereafter, and will monitor overall performance of the PMO. After 3 years of implementation, a comprehensive midterm review of the Project will be carried out jointly by the EAs and ADB, to identify any problems and constraints encountered, and assess the need for midterm modification of the project scope and implementation arrangements. Technical and budgetary changes to the project document requested or arising from the review will also be considered, as will be the inclusion of additional activities or the consideration of possible expansion of activities/areas over the remaining project life.

9. Anticorruption Policy

52. ADB's Anticorruption Policy was explained to the EAs. Attention was drawn to the section on fraud and corruption in ADB's *Guidelines for Procurement* and *Guidelines on the Use of Consultants*. ADB emphasized that ADB's anticorruption policy requires borrowers (including beneficiaries of ADB loans), as well as consultants, bidders, suppliers, and contractors under ADB-financed contracts, to observe the highest standards of ethics during the recruitment, procurement, and execution of such contracts; and that sanctions as per the guidelines, would be taken if fraud and corruption were discovered. The EAs are committed to creating corruption-free environments and would like the Project to be implemented strictly following ADB's guidelines.

IV. TECHNICAL ASSISTANCE

A. Objectives and Scope

53. An accompanying grant-financed TA will be provided to each of the Kyrgyz Republic and Tajikistan¹² to ensure that (i) customs modernization through automation and border-post infrastructure development is supported by the institutional structure and the business processes of the two countries' CSDs, and that (ii) the UAIS and border-post infrastructure development are carried out with sound supervision and quality assurance. Each TA consists of

¹² The TA for Tajikistan was first listed in the *ADB Business Opportunities (ADBBO)* (Internet version) on 31 March 2004 and the TA for the Kyrgyz Republic was listed in the *ADBBO* on 9 July 2004.

three components: (i) change management and public-private partnership for customs modernization, (ii) reengineering of customs business processes, and (iii) quality and security assurance of the UAIS and border-post infrastructure development. Appendix 10 includes cost estimates and outline terms of reference for consultants.

54. **Change Management and Public-Private Partnership.** This component will ensure that the customs administration's organizational structure and human resource policy support the customs modernization efforts, and that the potential impact of customs modernization on the organizational structure and staff employment is properly explained and fears are allayed. Therefore, the main task under this component is to review the organizational structure and human resource policy (including in-house training capacity) and propose necessary changes to support the customs modernization efforts. It will support the integration of all the project components to develop a master plan and maximize the development impact of customs modernization. The component will also support (i) consultation with traders and their representatives to ensure stakeholders' participation and support, and (ii) design and conduct of a survey of pilot border posts to provide the benchmarks and inputs for the project performance management system and project evaluation.

55. **Reengineering of Customs Business Processes.** This component will help ensure that customs practices and procedures are in line with the Revised Customs Code, Revised Kyoto Convention, and customs-related WTO agreements; and that automation and procedural changes reinforce each other. The TA will support the review of all customs control procedures and documentation, and provide inputs for design of the UAIS.

56. **Quality and Security Assurance.** The TAs will support an ICT systems development audit to establish quality and security assurance for the systems development plan and implementation, and the security aspects to cover all the components of the UAIS (e.g., databases, data transfers, services, workstations). This component will also provide for quality aspects and supervision for civil works and border infrastructure equipment.

B. Costs Estimates and Financing Plan

57. The cost of each of the TAs for the Kyrgyz Republic and Tajikistan is estimated at \$600,000 equivalent, including \$400,000 in foreign exchange cost and \$200,000 equivalent in local currency. ADB will provide, on a grant basis, \$500,000 each to the Kyrgyz Republic and Tajikistan from the Japan Special Fund, funded by the Government of Japan, to finance the entire foreign exchange costs and \$100,000 equivalent of local currency costs. Each government's contribution of \$100,000 will cover office accommodations, provision of support staff, local communication, and logistic support for workshops and seminars.

C. Implementation Arrangements

58. For the Kyrgyz TA, MOF will be the EA, and the Committee for Revenues the Implementing Agency. For the Tajikistan TA, MSRD will be the EA, and CSD the Implementing Agency. The TAs will commence in January 2005 and be completed by December 2007 in order to support project implementation. The PSCs will be charged with overseeing government coordination, and providing timely guidance and management support to the respective TAs. All equipment to be purchased under the TAs will be procured in accordance with ADB's *Guidelines for Procurement*. An advance payment facility will be established, as workshops/training/seminars require funds prior to the conduct of the events.

59. The TAs will finance 14 person-months of international consulting in the Kyrgyz Republic and 12 person-months in Tajikistan, and 58 person-months of domestic consulting for each country. The proposed international and domestic consultants include specialists in (i) customs modernization and change management (2 person-months international and 10 person-months domestic for each country), (ii) customs automation and procedures (8 person-months international for the Kyrgyz Republic and 6 person-months international for Tajikistan; and 24 person-months domestic for each country), (iii) ICT quality and security assurance (4 person-months international and 18 person-months domestic for each country), and (iv) civil works and construction supervision (6 person-months domestic for each country). The breakdown of consulting requirements is indicative and subject to change at the consultant selection stage.

60. In consultation with the EAs, ADB will engage qualified firm(s) of international consultants with domestic associates and additional individual consultants as necessary to provide services in accordance with the terms of reference using the quality- and cost-based selection method, following ADB's *Guidelines on the Use of Consultants* and arrangements satisfactory to ADB for the engagement of domestic consultants. The consultants will work closely with the respective implementing agency, relevant agencies and institutions, the project PMO, private sector stakeholders, and ADB staff.

V. PROJECT BENEFITS, IMPACTS, AND RISKS

61. The project benefits include

- (i) trade facilitation and enhanced revenue collection by simplifying procedures, automating customs declaration, and introducing modern customs controls based on risk management and postentry audit;
- (ii) prevention of smuggling and drug trafficking by developing an ICT-based intelligence system and enhanced exchange of information between customs headquarters and border posts, and cooperation between border agencies;
- (iii) reduced corruption and improved governance practices by improving transparency of customs services, and minimizing direct interfaces between customs officers and traders and their representatives;
- (iv) support for regional customs cooperation by promoting concerted customs reforms and modernization essential for improving regional trading environment, and providing the ICT infrastructure to address issues of common concern, such as transit development and data sharing; and
- (v) strengthened human resource management and institutional capacity by introducing a management information system, and modern accounting and financial management practices.

A. Economic Analysis

62. The Project is expected to have an economic internal rate of return of 21.50% for the Kyrgyz component and 23.34% for the Tajikistan component. The Project will have a positive impact on the overall economic development of the two countries because trade is an engine for growth, and modernization of customs services is key for facilitating trade and improving the enabling environment for foreign direct investment and private sector-led economic development. The main benefits that accrue to the Project include (i) economic benefits from improved trade and associated economic growth and employment generation; and (ii) reduced transaction costs due to enhanced customs integrity and reduced waiting times at border crossings and inland clearance points. The Project is expected to reduce transaction costs for

trade in two ways: (i) efficiency gain by automating customs services and improving border clearance facilities, and (ii) reduced corruption by minimizing direct interfaces between customs officers and traders and their representatives. Other nonquantifiable benefits include improved institutional capacity of the customs administration, strengthened regional customs cooperation, and improved transit and investment conditions in the ECAR.

63. The fiscal impact of the Project is expected to be positive. Improvement in the overall efficiency of customs services, enhanced customs integrity, more selective approach to customs controls based on risk management, and stronger enforcement capacity will enable the CSDs to both expand the official volume of trade and deter underreporting and undervaluation. Increased trade volume through formal channels will boost the CSDs' revenue collection. Automation will improve transparency and reduce corruption by minimizing direct interfaces between customs officers and traders and their representatives. Enhanced customs integrity reduces revenue leakage resulting from smuggling and undervaluation. The introduction of a risk management system under the Project will result in an increased rate of detection of smuggling and drug trafficking. All these project outcomes will enhance the CSDs' revenue collection and contribute to sound fiscal management for poverty reduction and provision of social services. The economic and financial analyses are included in Appendix 11.

B. Regional Benefits

64. The Project will have a positive regional impact by (i) improving transit conditions of the two countries that will greatly facilitate trade of neighboring countries, and (ii) contributing to an improved overall trading and investment environment in the ECAR through strengthened regional customs cooperation.

65. Transit development for international trade is vital for ECAR member countries because of their small-economies and land-locked natures. They depend on each other to trade within the ECAR as well as with major trading partners in the rest of the world. Automation coupled with improved border facilities and customs integrity will strengthen the national transit systems and improve the transit conditions in the Kyrgyz Republic and Tajikistan. Further improvement in the regional transit conditions requires active cooperation of ECAR member countries to establish a viable regional transit arrangement. Development of a regional transit arrangement supported by computerized national transit systems is a major initiative of the RTFCCP under the CAREC Program. However, progress has been slow because of significant disparity in the customs infrastructure conditions of the member countries. Several member countries including the Kyrgyz Republic and Tajikistan do not have a unified automated information system to support their national transit systems and allow timely sharing of customs data and intelligence information for transit control. The Project will help the Kyrgyz Republic and Tajikistan to catch up with customs infrastructure development of the neighboring countries and effectively participate in the development of a regional transit arrangement. Through faster and more effective data sharing, the Project will also help implementation of the transit agreement recently signed between the Kyrgyz Republic and Kazakhstan, and a proposed transit agreement between the Kyrgyz Republic and Tajikistan expected to be signed by the end of 2004.

C. Social and Poverty Impact

66. The poor will benefit from employment generated from enhanced trade and foreign direct investment. Reduced transaction costs make trade in small volumes possible and therefore directly benefits the poor and small traders. Civil work for border-post development financed by the Project will directly benefit the poor through employment. The poor will also benefit from the CSDs' greater revenue contribution to the governments' budget. Customs revenue collection

represents a significant percentage of the governments' budget (currently estimated at around 35%). Adequate revenue collection is the key for sound fiscal management for poverty reduction and sustainable economic development. The Summary Poverty Reduction and Social Strategy is in Appendix 12.

D. Environmental Impact

67. ADB has classified the Project in environmental category C based on the site visits and assessment under the project preparatory TAs. Site visits were made to the regional customs offices and border posts to examine the infrastructure development requirements. Construction and civil works will be required at the border posts and inland clearance points selected for the Project for establishing permanent customs structures, reorganization of border-post facilities, and installation of equipment for the development of communications networks. Some of the more remote locations will also require generators because they either have no main electricity or the supply is unreliable. All construction, rehabilitation, and installation activities will be carried out within the premises of the existing customs properties, which are located at the side of existing road and rail structures. No land acquisition or resettlement is required.

68. During construction some minor noise and dust pollution will occur; most will be contained within existing structures. The civil work contracts will include mitigating measures to minimize such pollution. Therefore, the environmental impact of the Project is minimal and can be kept to acceptable levels by implementing mitigation measures in the civil works contracts. The environmental analysis is included in Supplementary Appendix C.

E. Project Risks

69. The governments are fully committed to customs modernization and trade facilitation, which mitigates the risk of lack of political commitment. The adoption of the revised Customs Code in the Kyrgyz Republic and Tajikistan's firm commitment to WTO accession and to revise the Customs Code provide the legal foundation for simplifying and automating customs procedures. Project-specific risks may include (i) lack of commitment to change management, and resistance from vested interest groups that benefit from lack of transparency and inefficient customs clearance systems; (ii) lack of consultation and cooperation with the trade community and relevant government agencies, (iii) the implementing agencies' difficulty to recruit and retain competent and experienced information technology personnel, and (iv) inadequate budget provision for maintenance and following phases of customs modernization. These risks are mitigated by ongoing measures adopted by the two countries' EAs, the project and TA design, and government assurances.

70. Both EAs fully embrace change management as a key component for customs modernization to ensure broad-based support and manage resistance from vested interest groups benefiting from lack of transparency and inefficient customs services. Senior management of the two EAs are firmly committed to customs modernization, and accountability of a team dedicated to customs modernization and project implementation. Strong emphasis has also been given to consultation with private sector stakeholders through both the existing mechanism and a new mechanism introduced under the Project.

71. Reorganization is already ongoing to prepare for customs modernization. In the Kyrgyz Republic, the division in charge of customs automation was recently expanded into a department with an increase in staff positions. In Tajikistan, the division, Programming and System Development, has been established within the department in charge of customs automation. This has resulted in an increase in staff positions in the department. The Project

offers an opportunity to attract qualified ICT specialists to join the customs modernization efforts. The EAs will give special attention to staff retention, especially for specialists who join project implementation.

72. The potential counterpart fund risk has been mitigated by the governments' strong support for the Project and their assurances. The MOFs of both countries assured ADB that adequate counterpart funds will be provided during project implementation and requested their respective implementing agencies to submit a proposal for the counterpart funds. Adequate funding for maintenance and expansion of customs modernization is expected to be available beyond the implementation period with the MOFs' assurance of supporting following phases of customs automation and border-post infrastructure development.

73. The potential risk of project delay could be due to (i) inadequate attention to planning and (ii) lack of experience with ADB's project implementation procedures. The former is mitigated by the governments' assurance to set up a working group before loan negotiations to prepare a master plan for project implementation, and the latter will be mitigated by intensive training on project implementation and support from ADB review missions.

VI. ASSURANCES

A. Specific Assurances

74. In addition to the standard assurances, the Kyrgyz and Tajikistan governments have given the following assurances, which are incorporated in the respective legal documents.

- (i) The Government will ensure that Working Group comprising EA and CSD staff will prepare master plan for the development of the UAIS and border-post infrastructure. The master plan will be completed during the first year of project implementation. The master plan for the UAIS will include functional and technical specifications, priority and sequencing of the development of various application systems for the UAIS, piloting testing, change management, consultation, and training measures.
- (ii) The Government will establish a PSC to consult with relevant government agencies and private sector stakeholders before or immediately after loan effectiveness.
- (iii) The Government will ensure that the EA implements the training plan (as part of the master plan).
- (iv) The Government will ensure that during project implementation (a) CSD prepares an operation plan indicating counterpart fund requirements for the following year, and (b) MOF allocates and disburses necessary counterpart funds on a timely basis.
- (v) The Government will ensure that the EA conducts an independent audit on the project account and financial statement within 6 months after the close of each fiscal year during project implementation.

- (vi) The Government will ensure that the EA establishes a project performance management system with assistance of consultants within 1 year from the commencement of project implementation.
- (vii) By the end of year 3 of project implementation, the Government will ensure the development of an investment plan for upgrading the UAIS and customs border-post infrastructure.

B. Condition for Loan Disbursement

75. The Government agreed to the following condition for withdrawal of loan proceeds, which is incorporated in the Loan Agreement: establishment of the PMO in a manner satisfactory to ADB.

VII. RECOMMENDATION

76. I am satisfied that the proposed loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and, acting in the absence of the President, under the provisions of Article 35.1 of the Articles of Agreement of ADB, I recommend that the Board approve

- (i) the loan in various currencies equivalent to Special Drawing Rights 5,106,000 to the Kyrgyz Republic for the Regional Customs Modernization and Infrastructure Development Project from ADB's Special Funds resources with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft Loan Agreement presented to the Board; and
- (ii) the loan in various currencies equivalent to Special Drawing Rights 7,266,000 to the Republic of Tajikistan for the Regional Customs Modernization and Infrastructure Development Project from ADB's Special Funds resources with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft Loan Agreement presented to the Board.

Joseph Eichenberger
Vice President (Operations 2)

4 November 2004

PROJECT FRAMEWORK¹

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal</p> <ul style="list-style-type: none"> Promotion of international trade and an enabling environment for private sector development. 	<ul style="list-style-type: none"> Increased international trade and foreign direct investment 	<ul style="list-style-type: none"> Government's economic and social statistics; and statistics compiled by international financial institutions 	
<p>Purpose</p> <ul style="list-style-type: none"> Improved efficiency and transparency of customs services. Trade facilitation and promotion of regional customs cooperation. 	<ul style="list-style-type: none"> Corruption reduced and quality of customs services improved as reflected in periodic surveys of traders/brokers' perceptions Revenue collection increases by 25% by the end of project implementation compared with the baseline measurements (\$114 million in 2003 for the Kyrgyz Republic, and \$103 million in 2003 for Tajikistan) Incidences of smuggling and irregularities in customs declaration reduced as monitored by the customs headquarters. The baseline indicators will be provided by the implementing agencies. Transit agreement signed between the Kyrgyz Republic and Tajikistan by the end of 2004; a data-sharing agreement between the Kyrgyz Republic and the People's Republic of China signed by the end of 2004. 	<ul style="list-style-type: none"> Periodic surveys conducted by the Customs Services Departments (CSD) Consultation through the project steering committee and the existing Consultative Council with traders and brokers Survey conducted under the Project and technical assistance (TA) Quarterly report on customs revenue collection Incidences of smuggling and drug trafficking captured as compiled by the CSD Reports prepared for the Customs Cooperation Committee meeting, senior officials' meetings, and the Ministerial Conference for the Central Asia Regional Economic Cooperation Program 	<ul style="list-style-type: none"> Senior management leadership of the Executing Agencies (EAs) and accountability of a team in the implementing agencies dedicated to customs modernization and customs cooperation will continue. Further trade liberalization and tariff reduction poses a risk for revenue collection in the short run. Adequate budget support International development institutions facilitate regional customs cooperation with adequate technical assistance and staff support

¹ For some of the proposed indicators and targets, surveys will be conducted under the technical assistance to establish the baseline indicators and the performance targets.

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Outputs</p> <ul style="list-style-type: none"> • Development of a unified automated information system (UAIS) • Border-post Infrastructure development • Human resource development, public awareness campaign, and border interagency cooperation (to support implementation of components 1 and 2) 	<ul style="list-style-type: none"> • Number of customs declarations filed and processed through automated systems; system rollout expected last quarter in year 2 of project implementation, and 60% of declarations expected to be processed through automation by the end of year 5 • Import/truck clearance time monitored at pilot-border posts; baseline indicators and target will be determined through survey in year one • Incidences of undervaluation, fraudulent declarations, and contraband captured at pilot border posts and the overall incidences compiled by the customs headquarters. Baselines will be provided by the EAs. • Number of border posts introducing “green corridors” and “selective inspections” supported by the risk management system and postentry audit; 10 major border posts will introduce risk management practices by the end of project implementation. • New human resource policy introduced (based on the review and recommendations of the accompanying TA) by early 2006. • Institutional structure reorganized and new business processes introduced in light of change management efforts 	<ul style="list-style-type: none"> • CSDs’ internal reports and publications on smuggling and irregularities in customs declaration • Project management office (PMO) quarterly reports • Survey conducted by the the CSDs and under the TA • TA reports • Asian Development Bank (ADB) staff review missions 	<ul style="list-style-type: none"> • Project implemented smoothly as envisaged under customs modernization • Master plans developed by the EAs and CSDs • Effective implementation of change management to manage resistance from vested interest groups benefiting from lack of transparency and inefficient customs systems. • Strong emphasis on consultation with private sector stakeholders and relevant agencies • Intensive training with clearly defined outcomes (e.g., staff reaching higher professional levels and ability to operate the automated declaration processing system)

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
	<p>and review supported by the TA, by the end of 2006.</p> <ul style="list-style-type: none"> • Number of trained officers reached higher professional levels as defined by newly introduced human resource policy • Number of staff qualified to operate the automated information system • Border-post procedures streamlined in consultation with the other border agencies and private sector stakeholders by the end of 2007 		
<p>Activities</p> <ul style="list-style-type: none"> • Development of the UAIS • Border-post infrastructure development • Human resource development, public awareness campaign, and border interagency cooperation (to support implementation of components 1 and 2) 	<ul style="list-style-type: none"> • Exports and imports clearance will be automated, and management information systems will be established. • About 10 border posts in the Kyrgyz Republic and 50 in Tajikistan will be rehabilitated and constructed, and control facilities reorganized in line with best practices in trade facilitation • About 10 border posts in the Kyrgyz Republic and 50 in Tajikistan will receive operations and antismuggling equipment • About 28 border posts will be connected to the customs headquarters system • Number of customs officers undergoing ICT training courses and on-the-job training on the automated system and 	<ul style="list-style-type: none"> • PMO progress reports • ADB review missions 	<ul style="list-style-type: none"> • Inadequate attention to planning and development of the master plans for all projects components • Selection of qualified consulting firms and individual consultants under the loan and TA • Selection of competent PMO Director and specialists • Timely release of the counterpart funds • Effective project implementation for procurement and disbursement • Lack of experience with ADB's project procedures

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
	<p>customs equipment (to be determined in the detailed plan)</p> <ul style="list-style-type: none"> Number of consultation meetings/workshops organized for customs officers, traders, and other border agencies as part of change management efforts, streamlining of border procedures, and public awareness campaign (to be determined in the detailed plan). 		
<p>Inputs</p> <ul style="list-style-type: none"> Component 1: Development of the UAIS Development of core application systems of the UAIS Development of communication infrastructure Human resource development and public awareness campaign Component 2: Border-post infrastructure development Improvement of customs border posts and facilities Provision of customs operations and antismuggling equipment Capacity building and border interagency cooperation 	<p>(\$ million)</p> <p>6.72</p> <p>1.08</p> <p>1.61</p> <p>6.31</p> <p>0.88</p> <p>1.09</p>	<ul style="list-style-type: none"> PMO reports Annual audit reports ADB loan review missions 	

SECTOR ANALYSIS

A. Kyrgyz Republic

1. Economic Development

1 Real gross domestic product (GDP) grew at 6.7% in 2003, the highest growth rate since the Russian financial crisis in 1998, which brought an economic slowdown to all of Central Asia. Economic rebound was broad-based, led by not only recovery in gold production, but also nongold industrial production, such as electricity generation, food processing, chemicals, and nonmetallic products. The service sector grew at 5.8%, the highest rate for the past decade. Deregulation and steady growth in tourism was attributable to the growth. However, the agriculture sector grew at only 3.8% due to unfavorable weather. Inflation continued its downward trend in 2003, growing at 3% compared with 3.7% in 2002 and 9.6% in 2001.

2 The fiscal deficit decreased by 0.4% to 5.0% of GDP in 2003. It was, however, higher than targeted due to the unanticipated spending on disaster relief and emergency rehabilitation. Total tax and duty revenues increased by 0.8% of GDP to 18.7% of GDP in 2003 because of improved tax and duty collection. The value-added tax (VAT) was introduced on large farms in April 2003. Property tax legislation was approved and is likely to be introduced in 2005 after agreements on valuation and exemption limits. Excise duties on petroleum fuels were cut by 50% resulting in a sharp fall in smuggling and a rise in revenue.

3. The Government maintained prudent fiscal policy in 2003 as part of its debt reduction strategy. As a result, public investment fell to 3.6% of GDP in 2003 from 4.7% in the previous year. The debt-servicing burden eased as the Government successfully negotiated with the majority of bilateral creditors following the understandings reached in the Paris Club in March 2002. The understandings with the Paris Club creditors include a goodwill clause that the country may be able to secure still more debt restructuring, including substantial reduction of debt outstanding provided that the ongoing Poverty Reduction and Growth Facility is successfully completed.

4. The trade deficit increased in 2003 to \$82.7 million. This was due to strong imports and reduced smuggling of oil products resulting from the success of the excise tax reform. During 1993–2003, exports increased from \$340 million to \$580 million, while imports increased from \$448 million to \$717 million. In 2003, exports accounted for 30% of GDP, while imports accounted for 37%. Approximately 50% of imports come from the Russian Federation, Kazakhstan, and Uzbekistan. The Russian Federation and Central Asian countries are also major destinations of Kyrgyz exports.

2. Customs Administration

5. Established in 1991, the customs administration has a decade of experience in customs services. The Customs Services Department (CSD) is placed under the Committee for Revenues of the Ministry of Finance, along with the Tax Department. CSD employs about 1,270 officers working in the headquarters, regional offices, and border posts. There are 15 customs regions and 65 border crossing points (of which 4 are railways). CSD processed 70,000 declarations in 2002 consisting of 45,974 imports and 23,765 exports declarations. These figures only relate to freight traffic and exclude personal declarations such as those made by passengers at the airports and border posts.

6. **Customs Legal Framework.** A major change in the Customs Code was introduced in December 1998 as part of the country's effort to join the World Trade Organization (WTO). Further revision has been made in the past few years in an effort to streamline customs regulations and adopt modern customs practices based on risk management and postentry audit. The revised Customs Code was adopted on 13 April 2004. Parliament ratified a separate law on customs licensing on 24 June 2004 to stipulate the legal status and regulation of customs intermediaries. Currently, only the so-called infrastructure staff, originally hired and trained by CSD, have the authority to prepare declarations and act as obligatory intermediaries between importers and CSD. They also operate bonded warehouses and clearance sheds, for which they charge fees, and are responsible for the sale of unclaimed goods.

7. **Customs Control.** The approach to clearance and general customs operations demonstrate CSD's commitment to customs modernization:

- (i) WTO's valuation system is in force.
- (ii) CSD has introduced the Single Administrative Document as the standard declaration form, which unifies all customs documents in the Central Asian countries.
- (iii) Data is shared with the Tax Department for VAT control purposes, and a taxpayer identification number issued by the Tax Department is in use.
- (iv) The concept of selectivity for physical examinations is fully understood in CSD headquarters, and "green corridors" are introduced at selected border posts to allow approved importers to be entitled to simplified procedures, such as accelerated border processing and deferred payment of duty (subject to 0.3% interest), and direct clearance on the premises of importers is envisaged.
- (v) A streamlined system for settling out of court minor customs violations is used.

8. **Revenue Collection.** CSD collects customs duty, excise tax, and VAT on international trade. The contribution of customs revenues to the fiscal budget has been rising, currently accounting for over one third of all revenues. During 2000–2003, total customs revenue collections increased by more than 100% in dollar terms. In 2003, CSD contributed \$114 million to the Government budget. The efficient collection of revenue by CSD is critical to the national economy and to poverty reduction and other social sector programs.

9. In addition to CSD acting as a revenue collection agency on behalf of the Government, it is authorized to collect fees on transaction charges based on 0.15% of import value. The revenue generated from such fees is insufficient to cover overall CSD expenditure and therefore the Ministry of Finance provides a budget allocation of about \$1 million per annum. Of the revenue from the fee collection and budget provision, approximately two thirds is spent on staff remuneration. Of the remainder, half is spent on equipment and a mere 3% on building maintenance. The remaining fund is insufficient for major customs infrastructure undertaking.

10. **Information and Communication Technology Infrastructure Conditions.** CSD does not have the core customs application systems and adequate communications infrastructure to automate customs services and support modern customs control practices based on risk management as promulgated in the revised Customs Code. Communication within the headquarters is provided by a corporate local area network. The connection of computers and printers via dual servers enables E-mail and limited Internet access.

11. Communication between regional CSD offices and headquarters is through the Government's wide area network, which cannot accommodate the growing volume of

information flow and performs poorly. None of the border posts have communications facilities resulting in delayed submission of customs statistics to headquarters.

12. **Regional Customs Cooperation.** The Kyrgyz Republic is a member of the Eurasian Economic Community, which includes Belarus, Kazakhstan, Russian Federation, and Tajikistan. It was created in 2000 to promote trade and economic cooperation among the members within the framework of a customs union. From the beginning, the countries agreed to remove all tariffs and nontariff barriers among the members and to keep external tariffs low. At the annual meeting held in May 2003 in Dushanbe, Tajikistan, members agreed to have a similar tariff structure for external trade rather than a common external tariff in view of varied stages in WTO accession. The objective of having a common external tariff is now deferred to 2010.

13. The Kyrgyz CSD is a member of the ADB-sponsored Regional Customs Cooperation Program for East and Central Asia consisting of seven other countries. The program provides a forum for the Kyrgyz CSD to advance a number of bilateral initiatives to improve regional transit conditions, share customs information, and pilot test joint customs processing. The Kyrgyz Republic entered into a transit agreement with Kazakhstan on 26 March 2004, and initiated joint border processing with Kazakhstan at one border post effective July 2004. Sponsored by ADB, the customs administrations of the Kyrgyz Republic and Tajikistan conducted two rounds of consultation on a draft transit agreement in June and August 2004, and both parties agreed to reconvene soon to finalize the draft agreement. The Kyrgyz CSD has also made progress in developing an agreement on data sharing with the customs department of the People's Republic of China.

B. Tajikistan

1. Economic Development

14. Economic development remained buoyant in 2003, growing at a brisk pace of 10.2% compared with 9.1% in 2002. While cotton and aluminum, the two traditional pillars of the economy, remain important driving forces, growth has become more broad-based. Economic diversification is led in part by the rapid expansion of the service sector growing at 14.7% in 2003. Inflation grew at 16.4% in 2003 compared with 14.2% in 2002 and an average rate of 35% during 1999 and 2001. High inflation was mainly due to sharp increases in prices of imported grains and wheat flour, and tariff increases for electricity and gas introduced under the energy sector reforms.

15. External debt declined to 65% of GDP from 82% of the previous year. The Russian Federation and Uzbekistan are two major creditors from which Tajikistan imports oil and gas. The external debt will be eased because of the recent agreement with the Russian Federation to write off \$250 million in exchange for ownership of space facilities.

16. The economy of Tajikistan is highly dependent on foreign trade, with exports equivalent to 57% of GDP. Cotton and aluminum are responsible for over 80% of export earnings, rendering the economy extremely vulnerable to changes in the terms of trade, i.e., the prices of these commodities in the international market. Imports are dominated by raw materials, particularly aluminum oxide for aluminum processing, gas for providing heating in major cities, petroleum products, and grain and flour. Major export destinations are Iran, Latvia, Netherlands, Russian Federation, Switzerland, Turkey, and Uzbekistan, while imports mainly come from Azerbaijan, Kazakhstan, Russian Federation, Ukraine, and Uzbekistan. Despite the favorable conditions for cotton and aluminum on the international market, the trade deficit widened in

2003 due to the increase in imports associated with strong growth. Exports reached \$798 million, and imports \$881 million. However, the current account deficit narrowed due to a sharp increase in remittance from migrant workers reaching \$202 million in 2003 compared with \$65 million in 2002.

2. Customs Administration

17. Customs administration, CSD, is under the Ministry of State Revenue and Duties (MSRD). It has about 1,500 employees located at the headquarters, regional offices, and border posts and inland clearance points.

18. CSD plays a crucial role in trade facilitation, revenue collection, and curbing smuggling and drug trafficking. Despite its infancy, CSD's contribution to the national budget is significant with over one third of all revenues. With its sizable contribution to the national budget, effective and efficient customs services are critical to the country's economic growth and development.

19. **Customs Legal Reforms.** The Customs Code has been revised and is widely circulated to relevant authorities and organizations for comments and suggestions. It was submitted to the Parliament on 30 September 2004. A key objective of the revision of the Customs Code is to reduce and simplify the existing customs regulations and procedures. The revised code has two important features: it is compliant with the Revised Kyoto Convention, which is the benchmark for reforms and modernization of customs administrations worldwide; and it provides detailed regulations and procedural guidance to help significantly reduce the number of existing customs regulations.

20. **Revenue Collection.** CSD collects import duties, excise taxes, and VAT on imported goods. In 2003, total revenues collected were \$103 million compared with \$72 million in 2002, and \$49 million in 2001. The introduction of the VAT resulted in the sharp increase in revenue collection. In addition, CSD collects a fee of 0.15% on the value of goods cleared, and penalties imposed on inappropriate customs declaration and undervaluation. The fee collected amounted to \$2.3 million in 2003, which represents a major source for staff salary, pension and insurance, and infrastructure development. Additionally, MSRD as a whole receives about \$2 million from the Government as part of the administrative budget.

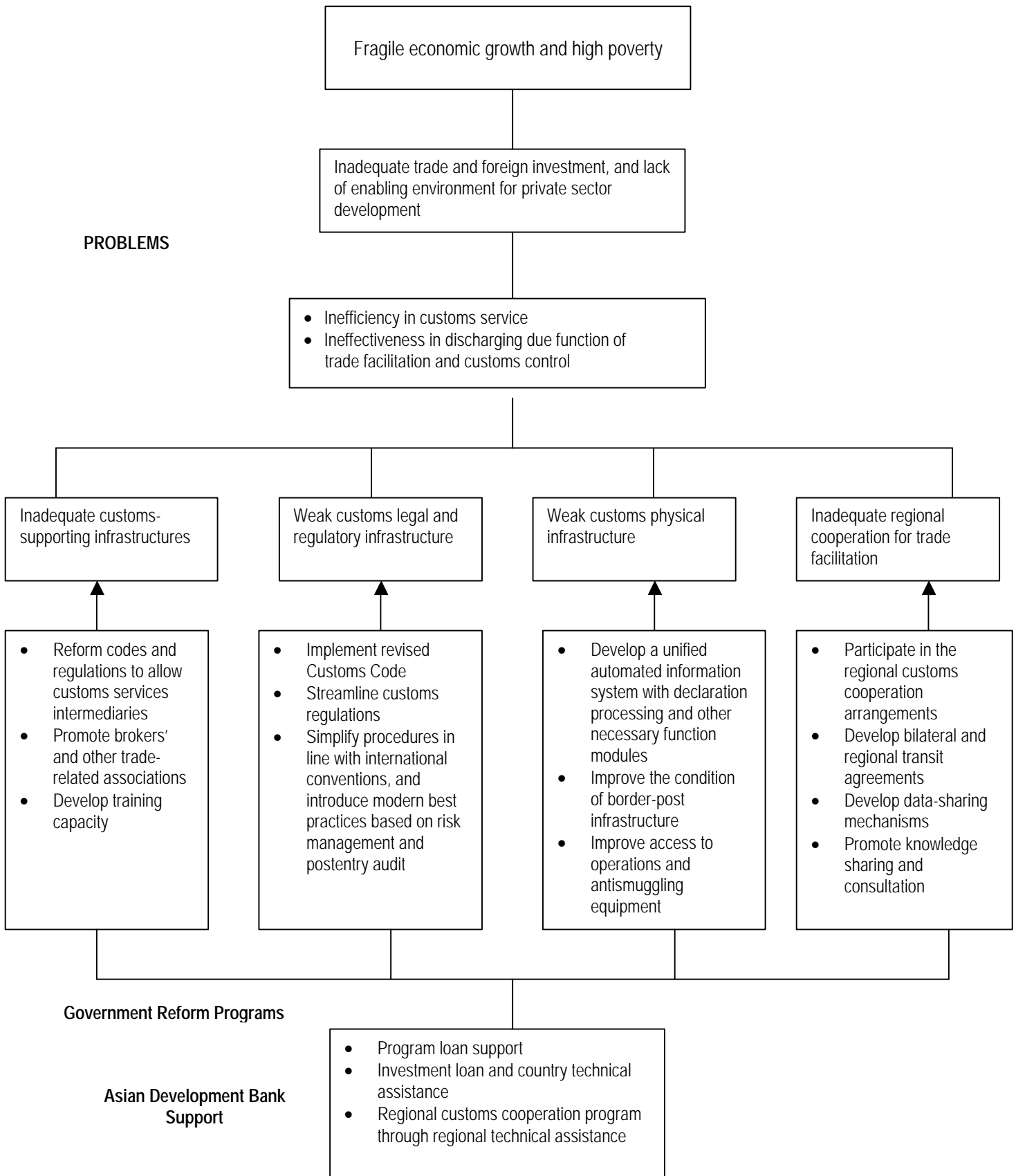
21. **Customs Infrastructure.** CSD has no automated declaration system or adequate communications infrastructure to support modern customs practices, such as risk management and postentry audit. Among the five regional offices, only one has telecommunications tools for data exchange through a radio communications data transfer system. Data exchange between border posts and regional offices are carried out using floppy disks. The lack of technology capacity to capture importers' entry data for customs declaration in a centralized place for calculating duties and taxes and validating the entry is a major source of revenue loss and corruption at border posts. The quality of customs statistics is poor and cannot be easily distributed to the relevant government agencies for trade facilitation and antismuggling purposes.

22. The border-post conditions are poor due to the civil war and inadequate budget provision for maintenance. Very few border posts have permanent structures originally designed for customs operations. Very few customs posts have equipment for weighing and preventing contraband and drug trafficking. In most border posts, electricity supply is unstable and at best provided only for 7–8 hours a day, which gives opportunities for increased illicit trade. Without

customs automation and adequate border-post infrastructure, the benefit of customs legal reforms and procedure simplification cannot be fully realized.

23. **Regional Customs Cooperation.** Tajikistan is a member of the Eurasian Economic Community pursuing the objective of forming a customs union of the member countries. Under the Regional Customs Cooperation Program sponsored by ADB, Tajikistan is actively pursuing a transit agreement with the Kyrgyz Republic. Tajikistan also initiated dialogue with the Kyrgyz CSD to establish consultation and working arrangements in the development of a unified automated information system. Tajikistan opened a new border post with the People's Republic of China in June 2004.

PROBLEM ANALYSIS



EXTERNAL ASSISTANCE

A. Kyrgyz Republic

Source	Area of Assistance	Scope	Status
European Union Transport Corridor Europe-Caucasus-Asia Program	Provision of customs equipment and training of customs officers	Provide computers and customs equipment at the designated border posts and provided training for customs officers. The assistance was completed in 2003.	Complete
Eurocustoms and Technical Assistance for Commonwealth of Independent States	Training; provision of uniforms and equipment; and support for legislative reforms, assessment and strategic planning for trade promotion and customs administration	<p>Provide training on the revised Customs Code.</p> <p>Provide support for improving the recruitment system for customs officers.</p> <p>Provide training on customs ethics awareness courses, and risk assessment and selectivity.</p> <p>Provide customs equipment and uniforms for border posts mutually agreed with the Customs Services Department (CSD), and support CSD's laboratories</p> <p>Support the Dog Training Center.</p> <p>Develop a comprehensive strategy for trade promotion.</p>	Ongoing
International Monetary Fund	Customs reforms	Provide technical assistance to develop a 30-point plan for customs administration reform and modernization in 1999.	Complete
United Nations Development Programme	Border Management Programme in Central Asia	Technical assistance funded by the European Union aims to strengthen the capacity of border guards in Central Asia. Areas of assistance include policy advice, information sharing among the countries joining the program, and limited civil work.	Ongoing
	Central Asia Drug Action Programme	Technical assistance has been implemented in phases to provide (i) drug control equipment and training; (ii) legal assistance; and (iii) establishment of intelligence and monitoring systems for prevention of drug trafficking.	Ongoing
United States Government	Trade Facilitation and Investment Project	The program was extended during 2001–2003 to reform the Customs Code and regulations. Long-term consultants were provided to help draft the revised Customs Code.	Complete
	Small and Medium Enterprise Trade and Investment	The project aims to (i) remove investment constraints; (ii) support implementation of the World Trade Organization (WTO) agreements; and (iii) support implementation of the revised Customs Code.	Ongoing

Source	Area of Assistance	Scope	Status
	Customs control and border security	Provide training for customs officers and border guards, and equipment for antismuggling, control of weapons, and radioactive substances.	Ongoing
World Bank	Computer equipment	Provide a small technical assistance grant to purchase computers and servers installed at the CSD headquarters during 2000–2002.	Complete

B. Tajikistan

Source	Area of Assistance	Scope	Status
International Monetary Fund	Customs and tax reforms	Develop a 30-point plan for customs administration reform and modernization in 1999, and promoted revision of the Tax Code.	Complete
	Pension reform, budget, and governance	Support pension reforms under the ongoing Poverty Reduction and Growth Facility affecting customs officers.	Ongoing
United Nations Development Programme	Border Management Programme in Central Asia	Technical assistance funded by the European Union aims to strengthen the capacity of border guards in Central Asia. Areas of assistance include policy advice, information sharing among the countries joining the program, and limited civil work.	Ongoing
	Central Asia Drug Action Programme	Technical assistance has been implemented in phases to provide (i) drug control equipment and training; (ii) legal assistance; and (iii) establishment of intelligence and monitoring systems for prevention of drug trafficking.	Ongoing
European Union Transport Corridor Europe-Caucasus-Asia Program	Customs equipment	Provide customs equipment for selected border posts (such as search and scanning equipment, and scales)	Ongoing
	Technical Assistance for Commonwealth of Independent States	Technical assistance supports the implementation of the European Union Partnership and Cooperation Agreement. Scope to be determined in consultation with the Ministry of State Revenues and Duties and development partners.	Ongoing
Swiss State Secretariat for Economic Affairs	WTO accession	Implemented by the United Nations Institute of Training and Research. The technical assistance provided training, participation in WTO-related meetings, and support for WTO accession activities.	Ongoing
	Participation in the multilateral trading system	Technical assistance provides support for development of trade strategies, trade support services, enterprise support services, private sector supply management, and public procurement and export quality management.	Ongoing

Source	Area of Assistance	Scope	Status
	Customs reform	Provide a small technical assistance grant in support of the World Bank's Second Structural Adjustment Credit Phase II.	Completed
United States Government	Export Control and Border Security Program	Provide border guards and CSD with equipment, vehicles, and training.	Ongoing
	International Narcotics and Law Enforcement Program	The program supports the Drug Control Agency in its fight against drug trafficking, and helps improve the airport management system in Dushanbe.	Ongoing
	Tax information system	Implemented by the United States Agency for International Development, the Project has been supporting the development of a long-term technology plan for a tax information system. Pilot testing is being conducted on a computerized tax registration system.	Ongoing
	Trade Facilitation and Investment Project	Provide support for negotiations for WTO accession.	Complete
World Bank	Second Structural Adjustment Credit	The reform package has two elements relevant to CSD: (i) revision of the Customs Code, and (ii) civil service reforms.	Ongoing
	Trade Diagnostic Study	Provide sector assessments of trade and transport facilitation, and trade and trade-related policy reforms as required by WTO accession.	Ongoing

**UNIFIED AUTOMATED INFORMATION SYSTEMS FOR CUSTOMS SERVICES:
MAJOR COMPONENTS AND FUNCTIONS**

Component	Description
<p>A. Automated Customs Operations System</p> <p>1. Import Entry Processing System</p> <ul style="list-style-type: none"> • Bonds and Liquidation System • Manufacturing Warehouse Liquidation System • Informal Entry Processing System • Transshipment and other Transfers Processing System • Licensing and Clearance System <p>2. Export Entry Processing</p> <p>Assessment, Selectivity, and Automated Release System</p> <p>3. Passenger Entry Processing</p> <p>Passenger Database Assessment Module, Collection System, and Baggage Handling Monitoring System</p> <p>4. Cargo and Baggage Tracking</p> <p>General Purpose Cargo and Baggage Handling System</p>	<p>Application of bonds, demand letters, or cancellation of bonds</p> <p>Tracks importations under bond to be manufactured, reexported, and the process of liquidation monitored</p> <p>Automates processing of informal entries (with assessment, manifest clearance, selectivity, collection and online release)</p> <p>Tracks cargo for transshipment</p> <p>Provides data entry of licensing information i.e. tax exempt certificate or import permit, that can be accessed by the automated customs operations system while processing the documents (import and export)</p> <p>Manages the inverse operation of import entry for export declarations (e.g., generation of authority to load, certificate of loading and inspection, and database for retro-check of certificate of origin)</p> <p>Handles incoming airline passengers and their baggage; provides electronic submission of passenger manifest; links with the Bureau of Immigration and Deportation for risk management of passengers, and the automated processing of baggage declaration, assessment, and payment of duties and taxes, monitors held/seized baggage</p> <p>Tracks movement within a storage area from entry to customs jurisdiction to the release or disposal of seized cargo</p>
<p>B. Operations Support Management</p> <p>1. World Trade Organization Valuation System</p>	<p>Provides a set of automated tools/systems to customs officers involved in valuation to enable them to access vital information (e.g., range of values, price reference import volumes) in making decisions for the correct customs values</p>
<p>2. Trade Compliance System</p>	<p>Empowers postentry audit to check valuation</p>

<p>3. Risk Management and Intelligence System (consisting of (i) intelligence database, (ii) client registration profiles systems, (iii) goods intelligence system, and (iv) risk management)</p>	<p>Provides comprehensive set of tools for intelligence authorities to detect fraud. It uses automated customs operations system transactions using statistical tools and other reasonable tests</p> <p>Enables CSD to exercise selectivity in customs clearance based on historical data and traders' performance</p>
<p>4. Statistical Analysis and Reporting System</p> <p>5. Legal Management System (including legal database and tracking systems)</p>	<p>Consolidates import and export transaction data and converted into usable file from which various analysis programs on trends are available</p> <p>Provides indexed text and annotations; legal opinions; and other related laws, rules, and regulations; and monitors status of cases and claims</p>
<p>C. Resources Management and Information Support System</p> <p>1. Human Resources Management System (including human resources information system, leave monitoring system, payroll system, and career path system)</p> <p>2. Financial Management System (e.g., accounting system and budget monitoring)</p> <p>3. General Services Management System (such as fixed asset management system and equipment inventory and control system)</p>	<p>Provides automated systems to handle the complex tasks of human resource management</p> <p>Provides integrated set of applications to handle financial transactions</p> <p>Includes procurement, inventory control, fixed assets management, building maintenance, and motor pool management</p>

PROJECT COST ESTIMATES AND FINANCING PLAN

Table A6.1: KGZ: Customs Modernization and Infrastructure Development Project
(\$ million)

Item	Total			Bank			Government		
	Foreign Exchange	Local Currency	Total Cost	Foreign Exchange	Local Currency	Total Cost	Foreign Exchange	Local Currency	Total Cost
A. Investment Cost									
Civil works	0.720	1.080	1.800	0.720	0.8800	1.600	0.000	0.200	0.200
Equipment									
a. ICT equipment	1.293	0.000	1.293	1.293	0.000	1.293	0.000	0.000	0.000
b. Other equipment	0.522	0.000	0.522	0.522	0.000	0.522	0.000	0.000	0.000
c. Equipment support	0.000	0.616	0.616	0.000	0.6160	0.616	0.000	0.000	0.000
Consultant services									
a. International consultants	0.440	0.000	0.440	0.440	0.000	0.440	0.000	0.000	0.000
b. Domestic consultants	0.000	0.037	0.037	0.000	0.037	0.037	0.000	0.000	0.000
c. Project Management	0.000	0.230	0.230	0.000	0.230	0.230	0.000	0.000	0.000
Training, fellowships, and workshops	0.049	0.298	0.347	0.049	0.2980	0.347	0.000	0.000	0.000
Software development	1.500	0.228	1.728	1.500	0.2280	1.728	0.000	0.000	0.000
Awareness campaign	0.000	0.080	0.080	0.000	0.0800	0.080	0.000	0.000	0.000
Operating costs	0.000	0.260	0.260	0.000	0.260	0.260	0.000	0.000	0.000
Taxes and duties ^a	0.000	1.354	1.354	0.000	0.000	0.000	0.000	1.354	1.354
Subtotal (A)	4.524	4.183	8.707	4.524	2.629	7.153	0.000	1.554	1.554
B. Contingencies^b									
Physical contingencies	0.136	0.122	0.258	0.136	0.025	0.161	0.000	0.097	0.097
Price contingencies	0.000	0.237	0.237	0.000	0.013	0.013	0.000	0.224	0.224
C. Interest Charges^c	0.173	0.000	0.173	0.173	0.000	0.173	0.000	0.000	0.000
Total	4.833	4.542	9.375	4.833	2.667	7.500	0.000	1.875	1.875

KGZ = Kyrgyz Republic.

^a Taxes and duties are computed at 20% of civil works, equipment, and software development.

^b Physical contingency is estimated at 5% of civil works and equipment costs. Price contingency is estimated at 0% of foreign exchange cost; and 4% of local currency cost.

^c Interest charges are computed at 1% during the project period.

Source: Asian Development Bank estimates.

Table A6.2: TAJ: Customs Modernization and Infrastructure Development Project
(\$ million)

Item	Total			Bank			Government		
	Foreign Exchange	Local Currency	Total Cost	Foreign Exchange	Local Currency	Total Cost	Foreign Exchange	Local Currency	Total Cost
A. Investment Cost									
Civil works	0.974	1.133	2.107	0.974	0.678	1.652	0.000	0.455	0.455
Equipment									
a. ICT and other equipment	4.539	0.000	4.539	4.539	0.000	4.539	0.000	0.000	0.000
b. Vehicles	0.200	0.000	0.200	0.200	0.000	0.200	0.000	0.000	0.000
c. Equipment support	0.000	0.283	0.283	0.000	0.283	0.283	0.000	0.000	0.000
Consultant services									
a. International consultants	0.528	0.000	0.528	0.528	0.000	0.528	0.000	0.000	0.000
b. Domestic consultants	0.000	0.023	0.023	0.000	0.023	0.023	0.000	0.000	0.000
Training, fellowships, and workshops	0.056	0.246	0.302	0.056	0.096	0.152	0.000	0.150	0.150
Software development	1.500	0.500	2.000	1.500	0.500	2.000	0.000	0.000	0.000
Awareness campaign	0.000	0.100	0.100	0.000	0.100	0.100	0.000	0.000	0.000
Operating costs	0.000	0.250	0.250	0.000	0.250	0.250	0.000	0.000	0.000
Taxes and duties ^a	0.000	1.561	1.561	0.000	0.000	0.000	0.000	1.561	1.561
Subtotal (A)	7.797	4.096	11.893	7.797	1.930	9.727	0.000	2.166	2.166
B. Contingencies^b									
Physical contingencies	0.276	0.183	0.459	0.276	0.033	0.309	0.000	0.150	0.150
Price contingencies	0.000	0.677	0.677	0.000	0.318	0.318	0.000	0.359	0.359
C. Interest charges^c	0.346	0.000	0.346	0.346	0.000	0.346	0.000	0.000	0.000
Total	8.419	4.956	13.375	8.419	2.281	10.700	0.000	2.675	2.675

TAJ = Tajikistan.

^a Taxes and duties are computed at 26% of equipment and 20% of civil works costs.

^b Physical contingency is estimated at 5% of civil works and equipment costs. Price contingency is estimated at 0% of foreign exchange cost and 5% of local currency cost during the five-year project period.

^c Interest charges are computed at 1% during the project period.

Source: Asian Development Bank estimates.

Implementation Schedule

Component/Subcomponent/Activities	Year 1				Year 2				Year 3				Year 4				Year 5					
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4		
Start-up Activities																						
Establish project management office (PMO) and recruit consultants	■																					
Review customs legislations, systems, structure, and resources	■																					
Define performance criteria, quality standards	■																					
Prepare implementation plans	■																					
Component 1: Development of the UAIS																						
1.1: Development of Core Application Systems of the Unified Automated Information System (UAIS)																						
1.1.1 Review existing information and communication technology (ICT) infrastructure, databases, and procedures	■																					
1.1.2 Develop information plan, and hardware/software strategies	■																					
1.1.3 Prepare preliminary systems design, define architecture	■		■																			
1.1.4 Produce final functional and technical specifications	■		■																			
1.1.5 Develop, integrate and test priority application systems	■		■		■																	
1.1.6 Procure system components and hardware	■		■		■																	
1.1.7 Implement application systems, system software, Management Information System (MIS), Data Base Management System (DBMS)	■		■		■				■													
1.1.8 Systems maintenance and operations	■		■		■				■													
1.2: Development of Communication Infrastructure																						
1.2.1 Review existing communications infrastructure/local area network (LAN)	■																					
1.2.2 Design, install and maintain communications hardware & software	■		■																			
1.3: Human Resource Development (HRD) and Public Awareness Campaign																						
1.3.1 Prepare HRD plan, including training and staffing plans	■		■																			
1.3.2: Implement change management; train customs staff on ICT	■		■		■																	
1.3.3: Design and conduct public consultation and awareness campaign	■		■		■																	
Component 2: Border-Post Infrastructure Development																						
2.1: Improvement of Customs Border-Posts and Facilities																						
2.1.1: Survey and prioritize border posts in selected areas and prepare bid documents for renovation and construction of border posts	■		■																			
2.1.2: Renovate existing border posts in selected areas	■		■		■																	
2.1.3: Equip renovated border posts; strengthen laboratories at headquarters (HQ)	■		■		■																	
2.2: Provision of Customs Operations and Anti-Smuggling Equipment																						
2.2.1: Determine priority posts and prepare bid documents	■		■																			
2.2.2: Procure and allocate customs operations and anti-smuggling equipment	■		■		■				■													
2.3: Capacity Building and Border Interagency Cooperation																						
2.3.1: Conduct consultation and strengthen inter-agency cooperation for effective border management	■		■		■																	
2.3.2: Retrain customs staff at border posts and clearances on equipment and modern customs procedures	■		■		■				■													
Project Management	■																					

CONTRACT PACKAGES

Table A8.1: The Kyrgyz Republic: Indicative Contract Packages

Activities	Number of Contracts	Mode of Procurement	Aggregate Amount (\$'000)
A .Civil Work	Multiple	ICB/LCB/FA	1,800.0
B. Equipment			
1. Information and Communication Technology	Multiple	ICB/IS/DP	973.8
2. Communications	Multiple	DP	320.0
3. Training	1	DP	48.6
4. Other	Multiple	IS/DP	322.0
Subtotal			1,664.4
C. Software Development			
Systems Development Packages	Multiple	ICB/IS/DP	1,728.0
Total			5,192.4

DP = direct purchase, FA = force account, ICB = international competitive bidding, IS = international shopping, LCB = local competitive bidding.

Source: Asian Development Bank estimates.

Table A8.1: Tajikistan: Indicative Contract Packages

Activities	Number of Contracts	Mode of Procurement	Aggregate Amount (\$'000)
A .Civil Work	Multiple	ICB/LCB/FA	2,107.0
B. Equipment			
1. Vehicles	1	IS	200.0
2. Information and Communication Technology	Multiple	ICB/IS/DP	1,247.3
3. Communications	Multiple	IS/DP	763.5
4. Training	1 or 2	IS/DP	111.0
5. Other	Multiple	IS/DP	2,417.2
Subtotal			4,739.0
C. Software Development			
Systems Development Packages	Multiple	ICB/IS/DP	2,000.0
Total			8,846.0

DP = direct purchase, FA = force account, ICB = international competitive bidding, IS = international shopping, LCB = local competitive bidding.

Source: Asian Development Bank estimates.

TERMS OF REFERENCE FOR PROJECT CONSULTING SERVICES

A. Introduction

Specialization	Kyrgyz Republic		Tajikistan	
	International (person-months)	Domestic (person-months)	International (person-months)	Domestic (person-months)
Team Leader and Project Management	12	0	8	16
ICT Systems	4	12	6	12
ICT Development	4	12	10	16
Border Infrastructure and Civil Engineering	0	0	0	8
Domestic Pool of Specialists ^a	0	21	0	0
Total	20	45	24	52

ICT = information and communication technology.

^a Domestic pool of specialists may include ICT systems specialist, ICT development specialist, and border infrastructure and civil engineer.

Source: Asian Development Bank estimates.

B. Team Leader and Project Management Specialist

1. The consultant will be responsible for overseeing project implementation, including preparation of master project plans, implementation priorities, and detailed project implementation plans; and will coordinate the technical assistance (TA) and loan activities to ensure effective project implementation. Responsibilities include the following:

- (i) Prepare detailed project work and financial plans.
- (ii) Develop implementation schedules, procedures, and guidelines for key project activities and for coordinating implementation with the concerned customs offices.
- (iii) Design and develop the project performance management system.
- (iv) Procure goods and services, including prepare bid documents and evaluation criteria, evaluate bids, select winning bidders, and award contracts.
- (v) Monitor progress of all project components and ensure implementation according to project plans.
- (vi) Prepare regular progress reports for submission to the Executing Agency (EA) and the Asian Development Bank (ADB).

C. Information and Communication Technology Development Specialist

2. The consultant, who will be responsible for the overall design and implementation of the unified automated information system (UAIS), will work closely with other information and communication technology (ICT) and specialists under the loan and TA to carry out the design and implementation of all the UAIS components, including training and assistance in pilot-testing and phased implementation. Responsibilities include the following:

- (i) Together with other team members, undertake
 - (a) architectural analysis and design of all the components of the UAIS (e.g., functional and technical specifications of various customs control procedures, and software, hardware and communications requirements);
 - (b) systems development plans (detailed terms of references for various software and hardware requirements, preparation of bid documents for selection of software firms and procurement of computers and telecommunications hardware);
 - (c) technical and infrastructure requirements for use of the UAIS by traders and their representatives, and security requirements (e.g., back-up systems, antivirus, and firewalls); and
 - (d) development of training and implementation plans for pilot-testing and phased rollout of the UAIS.
- (ii) Define common performance criteria, key performance indicators, and project monitoring procedures; and work with the quality and security assurance expert (under the TA) to produce quality standards and quality control mechanisms for UAIS development and implementation.
- (iii) Determine the training needs of customs officials and staff in basic computer operations and telecommunications, and conduct training.
- (iv) Facilitate regional customs cooperation activities to ensure system compatibility.

D. Information and Communication Technology Systems Specialist

3. The consultant will have significant hands-on experience implementing large-scale customs enterprise systems. Responsibilities will extend to the corporate local and wide area networks, telecommunications, and the customs department website; and include the following:

- (i) Work with the team leader and members to produce a project plan for each component of the UAIS.
- (ii) Assess the operations environment, telecommunications, local and wide area networks, hardware, database, systems software, and applications needs leading to functional and technical specifications of all customs regimes, operations support systems, management information systems (such as intranet), database and communications network requirements of the entire UAIS, and production of a detailed architectural design and integration plan.
- (iii) Propose the design of various databases.
- (iv) Develop detailed project implementation schedule for pilot-testing, prioritization, and phased implementation of the UAIS.
- (v) Help the project management office director prepare bid documents and procurement arrangements for various components of the UAIS.
- (vi) Together with the team, supervise pilot-testing and conduct of quality assurance.

E. Border Infrastructure and Civil Engineer

- (i) Work with ICT specialists to develop site database to accommodate the infrastructure component and help develop master plans to rehabilitate priority regional and post facilities.
- (ii) Review the assessment and border-post infrastructure investment plan prepared by the project preparatory TA; conduct site visits; prepare architectural/concept plans and specifications for the design of posts, shelters, and inspection sheds for selected border posts and inland clearance points, taking into account the infrastructure needs for the UAIS.
- (iii) Help with tender arrangements, operation and maintenance, quality aspects, and supervision for civil works and border infrastructure equipment.
- (iv) Supervise and monitor implementation of civil works, including preparation of progress reports.
- (v) Inspect and certify quality completed civil works.

F. Project Management

4. The consultants for the Kyrgyz Republic are also expected to meet the expenses of project management on a reimbursable basis (for which no proposal needs to be submitted).

**COST ESTIMATES AND TERMS OF REFERENCE FOR TECHNICAL ASSISTANCE FOR
CAPACITY BUILDING AND INSTITUTIONAL STRENGTHENING FOR CUSTOMS
MODERNIZATION AND INFRASTRUCTURE DEVELOPMENT**

A. Cost Estimates and Financing

1. Table A10.1 provides cost estimates and the financing plan for the technical assistance to the Kyrgyz Republic and Table A10.2 provides this information for Tajikistan.

Table A10.1: Cost Estimates and Financing Plan for the Kyrgyz Republic
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Japan Special Fund Financing^a			
1. Consultants			
a. Remuneration			
i. International	238.00	0.00	238.00
ii. Domestic	0.00	46.40	46.40
b. Per Diem			
i. International	61.30	0.00	61.30
ii. Domestic	0.00	4.50	4.50
c. International Travel	30.00	0.00	30.00
d. Local Travel	0.00	2.50	2.50
2. Training/Seminars/Consultations	15.00	9.80	24.80
3. Survey Studies	0.00	10.00	10.00
4. Technical Assistance Negotiations	15.00	0.00	15.00
5. International Study	10.00	0.00	10.00
6. Equipment	15.00	0.00	15.00
7. Miscellaneous Technical Assistance Administration and Support (including translation)	0.00	24.00	24.00
8. Contingencies	15.70	2.80	18.50
Subtotal (A)	400.00	100.00	500.00
B. Government Financing			
1. Office Accommodation	0.00	25.00	25.00
2. Counterpart Staff and Support Services	0.00	25.00	25.00
3. Travel and Per Diem Costs of Counterparts	0.00	10.00	10.00
4. Workshops and Seminars	0.00	20.00	20.00
5. Logistics Support in Project Area	0.00	10.00	10.00
6. Local Communications	0.00	10.00	10.00
Subtotal (B)	0.00	100.00	100.00
Total	400.00	200.00	600.00

^a Funded by the Government of Japan.
Source: Asian Development Bank estimates.

Table A10.2: Cost Estimates and Financing Plan for Tajikistan
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Japan Special Fund Financing^a			
1. Consultants			
a. Remuneration			
i. International	204.00	0.00	204.00
ii. Domestic	0.00	46.40	46.40
b. Per Diem			
i. International	63.00	0.00	63.00
ii. Domestic	0.00	4.50	4.50
c. International Travel	25.00	0.00	25.00
d. Local Travel	0.00	2.50	2.50
2. Training/Seminars/Consultations	35.00	9.80	44.80
3. Survey Studies	0.00	10.00	10.00
4. Technical Assistance Negotiations	15.00	0.00	15.00
5. International Study	10.00	0.00	10.00
6. Equipment	15.00	0.00	15.00
7. Miscellaneous Technical Assistance Administration and Support (including translation)	0.00	24.00	24.00
8. Contingencies	33.00	2.80	35.80
Subtotal (A)	400.00	100.00	500.00
B. Government Financing			
1. Office Accommodation	0.00	25.00	25.00
2. Counterpart Staff and Support Services	0.00	25.00	25.00
3. Travel and Per Diem Costs of Counterparts	0.00	10.00	10.00
4. Workshops and Seminars	0.00	20.00	20.00
5. Logistics Support in Project Area	0.00	10.00	10.00
6. Local Communications	0.00	10.00	10.00
Subtotal (B)	0.00	100.00	100.00
Total	400.00	200.00	600.00

^a Funded by the Government of Japan
Source: Asian Development Bank estimates.

B. Terms of Reference for Consulting Services

1. Introduction

2. Table A10.3 presents the list of consultants and the number of person-months allocated to each consultant. Detailed terms of reference follow.

Table A10.3: Summary of Expertise

Specialization	Kyrgyz Republic		Tajikistan	
	International (person-months)	Domestic (person-months)	International (person-months)	Domestic (person-months)
Customs Modernization and Change Management	2	10	2	10
Customs Automation and Procedures Information and Communications Technology Quality and Security Assurance	8	24	6	24
Civil Works and Construction Supervision	4	18	4	18
Total	14	58	12	58

Source: Asian Development Bank estimates.

2. Customs Modernization/Change Management Specialist

3. The consultant will ensure that the potential impact of customs modernization on staff is properly explained to ensure broad-based support for customs modernization. Responsibilities include the following:

- (i) Determine the scope of changes in areas to be affected by the implementation of the unified automated information system (UAIS); and assess the potential impact of customs modernization on the institutional structure, human resource policy, and staff employment; paying particular attention to the review of the human resources policy.
- (ii) Provide advice and briefings to senior officials on managing the reform process, including changes in skills mix and measures for enhancing staff motivation and coordination during the reform process.
- (iii) Evaluate customs regulations and procedures, and make recommendations to reinforce customs automation.
- (iv) Conduct consultations and surveys with private sector stakeholders and customs officers at border posts and inland clearance points to ensure broad-based support for customs modernization; and establish a project performance management system in cooperation with the project management office (PMO) director.
- (v) Conduct participatory planning workshops for customs officers, traders, and their representatives for project implementation strategies

- (vi) Develop and conduct a training program together with other consultants and PMO staff on change management and modern customs practices based on the Revised Customs Code and the Revised Kyoto Convention.
- (vii) Develop newsletters/publications and public information programs to highlight the benefits and potential issues of customs modernization.
- (viii) For all subsystems of the UAIS, develop a project implementation plan aimed at minimizing potentially negative impact on productivity and disruption of customs operations, avoiding problem/conflict with customs officers and private sector stakeholders.

3. Customs Automation and Procedures Specialist

4. The consultant will be familiar with declaration processing systems and automation of customs procedures. Responsibilities will include the following:

- (i) Examine the legal and regulatory aspects in relation to introduction of the UAIS.
- (ii) Review practices and procedures in relation to (a) harmonization of commodity description and coding system, (b) compliance with World Customs Organization conventions and World Trade Organization agreements, (c) adoption of standard and simplified procedures and practices under the revised Kyoto Convention, (d) quotas, (e) simplification and harmonization of customs documentation, (f) single-window and one-stop solutions to expedite customs transactions, (g) development of simplified transit systems and acceptance of the Transport Internationaux Routiers (TIR) carnet at border crossings, and (h) improvement of communication and exchange of information between border control agencies.
- (iii) Reengineer customs methodologies, procedures, and systems, including customs information and intelligence; and improve collection, processing, and management of customs revenue.
- (iv) Document data and information flows between border posts, regional offices, and headquarters, including design of forms and declarations; and make recommendations to simplify procedures with automation.
- (v) Develop best-practice guidelines and manuals on integrated customs clearance procedures, including declaration, classification, valuation, rules of origin, risk profiling, intelligence feedback mechanisms, legal powers and sanctions, and inspection procedures.
- (vi) Develop and conduct a training plan for the loan and TA in consultation with the Executing Agency, PMO staff and other consultants.

4. Information and Communications Technology Quality and Security Assurance Specialist

5. The specialist will be familiar with all the stages of system development and have in-depth knowledge of information systems procedures, security, and audit. Responsibilities will include the following:

- (i) Set quality standards, define measurement criteria to determine whether the standards have been met, and produce a quality assurance plan and schedule.
- (ii) Review the system development plans, taking into consideration quality assurance for optimized database designs.
- (iii) Help designated local staff to apply standards and control project quality.
- (iv) Undertake periodic independent audits to ensure that quality standards have been maintained, produce status reports, and recommend remedial action if such is needed.
- (v) Review the system and information and communications technology infrastructure (network, back-up support, servers, encryption, and confidentialities) to ensure standards and security compatibility.

5. Civil Works and Construction Supervision Specialist

6. Responsibilities will include the following:

- (i) Oversee the development of a master plan to rehabilitate and construct border-post facilities.
- (ii) Review the border-post infrastructure investment plan prepared by the project preparatory TA; conduct site visits; prepare architectural/concept plans and specifications for the design of posts, shelters, and inspection sheds for selected border posts and inland clearance points, taking into account the infrastructure needs for the UAIS.
- (iii) Help with the quality aspects and supervision for civil works and border infrastructure equipment.
- (iv) Supervise and monitor implementation of civil works, including preparation of progress reports.
- (v) Inspect and certify quality of completed civil works.

ECONOMIC AND FINANCIAL ANALYSIS

A. Economic Analysis

1. The economic analysis of the Project was conducted with a comparison of the with- and without-project scenarios. The with-project scenario provides significant improvement in efficiency of customs services resulting from automation, better border facilities, and simplified customs procedures. Corruption would be reduced because of less direct interfaces between customs officers and traders and their representatives. As a result, economic benefits associated with (i) incremental increase in trade from improving the overall trading environment and an increase in foreign direct investment, and (ii) time savings from reduced transaction costs at border posts and inland clearance points. These two benefits are included in the measurement of the economic internal rate of return (EIRR) through a set of assumptions (para. 3). The without-project scenario would be the current situation where customs declaration are processed manually and no major changes are made to border-post conditions because the revenue generated from customs services fees is not even adequate for maintenance.

2. The EIRR is calculated over 25 years. The benefits consist of incremental increase in trade and time savings. The EIRRs are 21.50% for the Kyrgyz component and 23.34% for the Tajikistan component. The regional benefits resulting from improved transit conditions in the two countries are not quantified as they mainly accrue to neighboring countries. Another major nonquantified benefit is the promotion of the transport sector in the East and Central Asian Region.

3. Specifically, the main assumptions for the EIRR are as follows:

- (i) **Economic project cost.** The Kyrgyz component is estimated to cost \$8.98 million, while the Tajikistan component is estimated to cost \$12.73 million.¹
- (ii) **Incremental recurrent cost.** Cost for maintenance, replacement, and upgrade of equipment and the system are about \$898,000/annum for the Kyrgyz Republic and \$1.08 million/annum for Tajikistan over 25 years.
- (iii) **Benefits from reduced transaction cost.** Modernization of customs services supported by the ongoing customs legal reforms, including the approval of the revised customs codes, will contribute to speeding up of the customs clearance procedures. As a result, the transaction costs and losses associated with long processing time will decline considerably. The annual savings on transport costs at border crossings and inland terminals under the Project will progressively reach about \$1.9 million in the Kyrgyz Republic and \$2.8 million in Tajikistan by the end of 2029, compared with small progress expected without the Project.²

¹ Costs exclude price escalation, taxes and duties, interest, and commitment charges.

² Currently, the customs declaration has to be submitted to customs control where it is checked and registered in a journal. It then goes to the cashier's desk, and physical inspection of goods. Relevant parts of the declaration are submitted to the regional statistics office. The procedures generally take 1.5 hours to cross the border and complete customs clearance. The project activities are estimated to reduce the time costs of customs clearances by 10 minutes, and as such, yield benefits to both the government and traders. It is assumed that (i) 200 trucks cross the border posts each day, (ii) there are 330 working days per year, and (iii) truck costs are \$6 per hour. It is also assumed that 185 customs officers are engaged in processing the above-cited transactions and that their remuneration is at the rate of \$0.12 per hour (based on data from the National Statistics Commission, Kyrgyz Republic).

The estimated cost-benefits achievement path is as follows: 2005—5%, 2006—20%, 2007—30%, 2008—40%, 2009 and thereafter—50%.

- (iv) **Benefits from expansion of trade.** At present, the growth of foreign trade is restrained partly due to lack of efficient and transparent customs services. The Project will address these major constraints and contribute to the development of an enabling trading environment in the two countries. Delivery of goods will become more reliable and efficient; this will stimulate the development of the trade sector and of logistics services. In the medium-term, these factors are expected to contribute to a sustained increase in trade. The economic benefits of expanded trade will stimulate growth of cargo transportation and other commercial services related to foreign trade leading to creation of new jobs, broadening of tax base, and growth of customs duties and fees. Due to the difficulty to quantify the broad economic benefit of expanded trade, the benefit is assumed to be 20% of the benefit from reduced transaction costs.

4. Additional technical assumptions in calculating the financial and economic costs and benefits of the Project based on the *Guidelines on Economic and Financial Analysis of Projects* of the Asian Development Bank (ADB) include

- (i) main indicators and coefficients are expressed in dollars;
- (ii) the period of analysis covers 25 years (2005–2029), carried out in constant 2004 dollar prices, with domestic prices used as the numeraire;
- (iii) financial costs are converted into economic costs by excluding taxes and duties, and price contingencies;
- (iv) economic costs are calculated based on the annual project cost disbursements, with incremental recurrent costs estimated at about 10% of capital costs; and
- (v) tradable goods of capital and operation and maintenance costs are adjusted based on a shadow exchange rate factor of 1.10 (based on ADB guidelines). Tradable goods are about 70% of project costs.

Table A11.1: Economic Cost-Benefit
(\$ million)

Year	Kyrgyz Republic		Tajikistan	
	Costs	Benefits	Costs	Benefits
2005	1.18	0.22	1.55	0.28
2006	2.09	0.87	2.84	1.12
2007	2.55	1.31	3.49	1.68
2008	3.01	1.79	4.14	2.23
2009	1.68	2.18	2.24	2.79
2010–2029	20.92	47.36	25.42	69.84
Total	31.42	53.73	39.67	77.94
EIRR		21.50%		23.34%
NPV @ 12%		3.04		5.54

EIRR = economic internal rate of return. NPV = net present value.

Source: Asian Development Bank estimates.

B. Sensitivity Analysis

5. Economic viability of the Project was tested by changing the assumptions of two key variables: (i) reduced incremental increase in trade by 50% (scenario 1) and (ii) reduced incremental increase in time savings by 20%. In both scenarios, the EIRRs remain above the threshold of 12%.

Table A11.2: Sensitivity Analyses

Item	Kyrgyz Republic		Tajikistan	
	Scenario 1	Scenario 2	Scenario 1	Scenario 2
EIRR	17.83%	14.11%	16.99%	13.87%
NPV @ 12%				
Discount Rate	\$1.84 million	\$0.65 million	\$2.69 million	\$1.00 million

EIRR = economic internal rate of return. NPV = net present value

Source: Asian Development Bank estimates.

C. Financial Sustainability

6. The fiscal impact of the Project is expected to be positive. Improvement in the overall efficiency of customs services, enhanced customs integrity, more selective approaches to customs controls based on risk management, and stronger enforcement capacity will enable the customs service departments (CSDs) to both expand the official volume of trade and deter underreporting and undervaluation. Increased trade volume will boost revenue collection by the CSDs. Automation will improve transparency and reduce corruption by minimizing direct interfaces between customs officers and traders and their representatives; enhanced customs integrity reduces revenue leakage resulting from smuggling and undervaluation. The introduction of a risk management system under the Project will result in increased rate of detection of smuggling and drug trafficking, which will also have a positive impact on revenue generation. The Project will enhance the CSDs' contribution to the Government budget.

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

A. Linkages to the Country Poverty Analysis

Is the sector identified as a national priority in country poverty analysis?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Is the sector identified as a national priority in country poverty partnership agreement?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<p>Contribution of the sector or subsector to reduce poverty in the Kyrgyz Republic and Tajikistan:</p> <p>The Project is a continuation of Asian Development Bank (ADB) support for customs reform and modernization for the Kyrgyz Republic and Tajikistan under the Regional Trade Facilitation and Customs Cooperation Program launched in 2002. The Project aims to improve efficiency and transparency of customs services thereby contributing to the enhancement of the enabling environment for international trade and foreign direct investment. The poor will benefit from employment generated from enhanced trade and foreign direct investment. The Project is expected to reduce transaction costs for trade in two ways: (i) efficiency gain through automation of customs services and improved border clearance facilities, and (ii) reduced corruption by minimizing direct interfaces between customs officers and traders and their representatives. Reduced transaction cost makes trade in small volume possible and therefore directly benefits the poor and small traders. Civil work for border-post development financed by the Project will directly benefit the poor through employment.</p> <p>Improved efficiency and governance will enhance revenue collection by the customs services departments. This revenue represents a significant percentage of the government budget (currently estimated at around 35%). Adequate revenue collection is the key for sound fiscal management for poverty reduction and sustainable economic development. The poor will benefit from improved provision of social services from the government budget.</p>			

B. Poverty Analysis

Proposed Poverty Classification: Other

The ADB country strategies and programs for the Kyrgyz Republic and Tajikistan show that the incidence of poverty for both countries remains high in spite of recent progress in economic development and macroeconomic stabilization.

For the Kyrgyz Republic, latest available data shows that almost half of the population is poor. The level of poverty peaked at an estimated 55.3% on a per capita expenditure basis in 1999, following the Russian Federation's financial crisis. Subsequent economic recovery significantly reduced aggregate poverty, with the headcount index of absolute poverty declining by about 11% in 2000–2002. Despite this progress, poverty remains high, with an estimated 44.4% of the population living in absolute poverty and 13.8 % living in extreme poverty in 2002.

Rural poverty declined over 1998–2001 at an average rate of 8% per year largely due to better performance of the agriculture sector. However, rural poverty continues to be significantly higher than urban poverty. About three quarters of the poor people in 2001 were living in rural areas.

There is general consensus on the causes and determinants of poverty in the Kyrgyz Republic. The emergence of high levels of poverty can be traced to the disintegration of the Soviet Union, which caused severe reductions in production due to the disruption of geographically spread production and distribution chains and the loss of traditional markets. This in turn led to rapidly increasing unemployment at a time when the state's capacity to respond was impaired by the loss of federal budgetary support and a sharp shrinkage of the revenue base. The continuing high levels of poverty are largely due to challenges in the reform of state institutions and the restructuring of society and the economy according to market rules and mechanisms, specifically: (i) difficulties creating and sustaining opportunities for gainful employment on a substantial scale; (ii) problems relating to external and domestic market development for Kyrgyz products, reflecting the landlocked nature of country with its trade and transit problems, limited natural resources, and small domestic market; (iii) limited capacity of the state to address essential needs in the social sectors due to fiscal constraints; and (iv) continuing corruption and inefficiency in the instruments of state governance that inhibit private enterprise and legitimate entrepreneurial activity.

Poverty reduction is the overarching objective of the Comprehensive Development Framework of the Kyrgyz Republic for 2001–2010. The Kyrgyz Republic's Poverty Reduction Strategy, which is a medium-term operational plan (2003–2005) to implement the goals of the Comprehensive Development Framework, envisages a three-pronged approach to development: (i) building an effective and transparent state, (ii) building a fair society, and (iii) promoting sustainable economic growth. The importance of regional cooperation to this landlocked country particularly in trade, and transport links for enhancing exports is stressed in the Poverty Reduction Strategy.

For Tajikistan, poverty likewise increased dramatically after 1991 with the collapse of the former Soviet Union. The World Bank's earlier estimates show that over 80% of the 1999 population lived below the poverty line. Poverty is more pronounced in rural than in urban areas, with 81% of the poor living in rural areas. Families with many children and old people living alone have the highest risk of poverty. Female-headed families account for almost 30% of the poor.

According to the recent preliminary assessment by the World Bank, the incidence of poverty has come down to 68% from the previous level of 83% as estimated by the 1999 survey. However, much of the improvement comes from the urban sector. The poverty incidence remains high in rural areas, particularly in the southern part of the country.

The major causes of poverty in Tajikistan are: (i) a decline in output, wage levels, and employment resulting from the collapse of the Soviet Union and the civil war; (ii) severance of central subsidies and fiscal adjustment, which reduced the access of the poor to vital social services, health, education, and heating; and (iii) rising inequality.

The Tajikistan Government's Poverty Reduction Strategy, finalized in June 2002, has three main pillars to reduce poverty: (i) sustained high economic growth; (ii) improved governance; and (iii) improved access to social services, in part through better targeting. The strategy views growth of the agricultural sector and increased agricultural exports—as well as adequate infrastructure for energy, transport, water supply, and communications—as key to achieving economic growth and poverty reduction.

The Project supports the two countries' poverty reduction strategies. The Project provides investment and assistance to (i) strengthen governance and transparency, and improve institutional capability in customs services to improve the enabling environment for market-oriented and private sector-led economic development; (ii) improve operational efficiency to facilitate trade and improve revenue collection, which generates employment and ensures adequate provision of social services; and (iii) develop an effective mechanism for good regional cooperation in customs service that would in the longer-term stimulate trade and economic growth, benefiting the poor and non-poor in the whole region.

C. Participation Process

Stakeholder analysis prepared:

Extensive consultations were undertaken during project preparation with various stakeholders including government agencies, chambers of commerce, transport organizations, relevant private sector representatives, and international assistance agencies, in relation to information and communication technology system design requirements, operational procedures, and border development. Consultations were also held with local personnel at the borders and local authorities, where relevant.

Is there a participation strategy? Yes No

D. Gender Development

Strategy to maximize impacts on women:

The customs administrations operate an equal opportunities policy. The Project has no specific gender implications.

Has an output been prepared? Yes No

E. Social Safeguards and other Social Risks

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
Resettlement	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Full <input type="checkbox"/> Short <input checked="" type="checkbox"/> None
Affordability	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Labor	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	The introduction of increased automation in customs service is expected to result in a small overall reduction in customs personnel. This would require some retraining of customs officers to undertake new duties, especially in the implementation of new streamlined procedures. Given the relatively high staff turnover, no compulsory redundancies are expected.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Indigenous Peoples	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Other Risks and/or Vulnerabilities	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No