

**TECHNICAL ASSISTANCE  
FOR  
FORMULATING AND IMPLEMENTING  
AN INTERGOVERNMENTAL AGREEMENT OF THE  
SHANGHAI COOPERATION ORGANIZATION MEMBER STATES ON  
FACILITATION OF INTERNATIONAL ROAD TRANSPORT**

**December 2004**

## ABBREVIATIONS

ADB	–	Asian Development Bank
CAREC	–	Central Asia Regional Economic Cooperation
MOU	–	memorandum of understanding
PRC	–	People's Republic of China
RCSP	–	regional cooperation strategy and program
SCO	–	Shanghai Cooperation Organization
TA	–	technical assistance
TRACECA	–	Transport Corridor of Europe-Caucasus-Asia
UNESCAP	–	United Nations Economic and Social Commission for Asia and the Pacific

## TECHNICAL ASSISTANCE CLASSIFICATION

<b>Targeting Classification</b>	–	General intervention
<b>Sector</b>	–	Transport and communication
<b>Subsector</b>	–	Roads and highways
<b>Themes</b>	–	Sustainable economic growth, governance, and regional cooperation
<b>Subtheme</b>	–	Promoting economic efficiency and enabling markets, public governance

## NOTE

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

This report was prepared by Hong Wang, Transport and Communications Division, East and Central Asia Department.
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## I. INTRODUCTION

1. Developing a regional transport agreement is vital to eliminating nonphysical barriers to trade and to complementing physical transport infrastructure investments to facilitate the efficient movement of vehicles, goods, and people. The Governments of the Shanghai Cooperation Organization (SCO)<sup>1</sup> member countries—Kazakhstan, Kyrgyz Republic, the People's Republic of China (PRC), the Russian Federation, Tajikistan, and Uzbekistan—have therefore agreed to develop a multilateral agreement on facilitating international road transport. Based on the experience of the Greater Mekong subregional cooperation and with assistance of the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), the SCO members held an expert group meeting in Urumqi, PRC on 1–3 June 2004 to prepare the draft Intergovernmental Framework Agreement on Facilitation of International Road Transport. The first negotiating meeting on the draft framework agreement was held in Urumqi on 3–7 August 2004. The prime ministers of the SCO member countries are committed to completing negotiations on the framework agreement within the first half of 2005.<sup>2</sup>

2. Because the Asian Development Bank (ADB) is the region's premier development finance institution and has rich experience in regional cooperation, UNESCAP wrote to the SCO members in November 2004 seeking their endorsement of ADB support, as recommended at the August Urumqi meeting. The SCO member governments agreed, and UNESCAP invited ADB to join. Because ADB's Charter mandates fostering of regional cooperation, the regional technical assistance (TA)<sup>3</sup> is included in the regional TA program for 2004. Management approved the concept paper on 18 November 2004. A fact-finding mission visited UNESCAP from 2–4 December 2004 and reached agreements with UNESCAP staff on the objectives, scope, cost estimates, financing plan, implementation arrangements, and terms of reference for consultants for the TA. The TA framework is in Appendix 1.

## II. ISSUES

3. The six SCO members have close geographical links and strong economic complementarities. The PRC has advantages in producing consumer goods and industrial products. The Central Asian SCO members are well endowed with energy, nonferrous metallic ores, and agricultural resources. The Russian Federation is strong in high-technology products, machine building, processing of raw materials, and energy. These complementarities provide a solid basis for expanding trade, and this requires efficient cross-border and transit transport.

4. The SCO members depend to varying degrees on international road transport for development. The four landlocked Central Asian SCO members—Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan—rely heavily on the roads in the PRC and Russian Federation to access major developed markets. The Central Asian SCO members also provide shorter routes from the PRC and Russian Federation to third countries. SCO members increasingly rely on inter-country road networks for bilateral trade.

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<sup>1</sup> The Shanghai Cooperation Organization (SCO) was established in June 2001 with the goal of strengthening mutual trust, friendship and good neighborliness between the participating countries; effectively cooperating in broad economic and social fields; and undertaking joint efforts for regional peace, security, and stability. The six members signed the SCO Charter at the Second Summit Meeting in Saint Petersburg in June 2002 and approved the establishment of the SCO secretariat at the Third Summit Meeting in Moscow in May 2003. The secretariat was set up in Beijing on 15 January 2004.

<sup>2</sup> *Joint Communiqué of the Council of the Government Heads (Prime Ministers) of Shanghai Cooperation Organization Member States*, 23 September 2004, Bishkek, Kyrgyz Republic.

<sup>3</sup> The TA first appeared in the *ADB Business Opportunities* (internet edition) on 8 October 2004.

5. Despite the increase in number of border crossings for road transport<sup>4</sup> and improvement of cross-border road infrastructure since the 1990s, nonphysical barriers to efficient cross-border and transit transport by road remain among SCO members. Major nonphysical barriers include (i) inconsistent policies and procedures among SCO members, (ii) a lack of involvement on the part of concerned government agencies, and (iii) limited human resource capacity. Transport security has also become an emerging issue. These barriers severely hinder transport and trade development among SCO members and with other countries. Action must be taken to address them.

6. The current policies and procedures on cross-border and transit road transport among SCO members are less effective. Several factors account for this. First, these policies and procedures vary among SCO members. For example, the PRC and other SCO members have different (i) road traffic rules, (ii) driving permit requirements, (iii) road signs and signals, (iv) consignment notes and contract conditions, (v) cross-border and transit charges, and (vi) regulations on the use of Transports Internationaux Routier (TIR – international road transport) vehicles and carnets. Customs procedures among SCO members have not been standardized or harmonized according to international customs instruments.<sup>5</sup> Divergent policies and procedures have also led to different documentary requirements and standards for cross-border and transit transport among SCO members, creating difficulty for cross-border road transport. Second, the policies and procedures are developed based on domestic experience and are not always consistent with international conventions or best practices. Third, the policies and procedures have changed frequently to meet domestic needs, making them difficult to understand and observe for road transport operators. Fourth, there is often a lack of transparency in formulating policies and procedures, which often creates confusion for road transport operators and traders. These constraints have delayed cross-border and transit road transport and increased corruption. The SCO members need to develop, in a transparent way, a multilateral agreement that harmonizes policies and procedures on cross-border and transit road transport based on international conventions and best practices.

7. While some SCO members have made arrangements for cross-border and transit road transport, these arrangements have at least two major drawbacks. First, the arrangements are primarily bilateral. Border crossings under the arrangements were at times closed because of controversy over implementation or other problems between participating countries. Second, the arrangements are mainly made by transport authorities with little involvement from other government agencies responsible for border crossing (e.g. immigration control, customs clearance, goods inspection, and quarantine). Several government agencies operate separately at border crossings, creating barriers to international road transport as some of these agencies require the same inspections and documents. Clearing cross-border and transit documents at border crossings sometimes takes more time than it does to move goods and people to their destination.<sup>6</sup> A multilateral agreement covering all aspects of cross-border and transit transport by road would foster the movement of vehicles, goods, and people among SCO members.

8. There are several existing regional transport agreements involving several SCO members, among which include the Economic Cooperation Organization Transit Framework

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<sup>4</sup> By the end of 2002, 82 border crossings among SCO members had opened for road transport.

<sup>5</sup> SCO members do not recognize each other's customs seals, inspections, or documents. Each SCO member relies on its own inspections and checks data based on its domestic requirements. Customs escorts are often required as post-entry control measures after border clearance.

<sup>6</sup> According to an UNESCAP study on transit transport issues in landlocked developing countries undertaken in 2002–2003, road transport through an SCO transit country requires 1.6 days but clearance at a border crossing between two SCO countries takes 3 days. UNESCAP. 2004. *Report of Study on Formulation of Shanghai Cooperation Organization Multilateral Agreement on International Road Transport*. Bangkok, Thailand.

Agreement (1998), the Agreement on International Transport for Development of Europe-Caucasus-Asia Corridor (TRACECA, 1998), the Commonwealth of Independent States agreements, and the United Nations Economic Commission for Europe's agreements and conventions relating to international road transport. However, neither the PRC nor the Russian Federation is a member of the Economic Cooperation Organization Transit Framework Agreement or the TRACECA Agreement. The PRC is also not a party to the relevant agreements of the Commonwealth of Independent States or the United Nations Economic Commission for Europe's agreements and concerned conventions.

9. Lack of human resource capacity among SCO members is major constraint to efficient international road transport. Many government agency staff responsible for cross-border and transit road transport have limited knowledge of international conventions or best practices for international transport and trade. Most frontier stations are remote and officers lack proper training. This has led to inefficient, ineffective operations and improper implementation of relevant agreements, policies, and procedures. Training needs to be provided to strengthen human resource capacity.

10. Since 1997, ADB has been promoting regional cooperation through the Central Asia Regional Economic Cooperation (CAREC) program,<sup>7</sup> of which the PRC and four Central Asian countries are the members. The CAREC program's objectives are to increase trade and integration with large markets, reduce costs of transport and facilitate transit, improve supplies of energy, and tackle negative externalities. ADB's Regional Cooperation Strategy and Program (RCSP) for CAREC Member Countries (2005–2007)<sup>8</sup> identifies transport as a priority area for ADB assistance. Since members of the CAREC and SCO are largely overlapping and ADB is the lead agency for transport under the CAREC program, it is important that ADB help the SCO members formulate and implement a multilateral agreement on facilitation of international road transport. The TA is thus consistent with ADB's RCSP for CAREC members. It would be a good beginning to support development of an enabling policy environment that complements transport infrastructure investments to facilitate regional transport cooperation under the CAREC program. It would also take the transport initiative to a multicountry level, as contrasted with the current focus on bilateral cross-border agreements<sup>9</sup> under the CAREC program. The TA would be the first step in supporting development of the regional transport agreement in East and Central Asia. Further assistance could be provided subsequently to expand the agreement to all CAREC members and other developing member countries in the region.

11. Three lessons learned from the CAREC program, the Greater Mekong subregional cooperation program, and other regional cooperation programs were applied when formulating the TA. First, high-level authorities' commitment is the key to the TA's success. The SCO member governments are strongly committed to conclude the negotiations on the Framework Agreement on Facilitation of International Road Transport within the first half of 2005 and the protocols by 2006. The TA design is thus highly relevant and responsive to SCO members' needs. Second, developing international transport agreements is complex, and a step-by-step approach should be taken to gradually improve existing arrangements without interrupting cross-border and transit transport and trade. The TA will take a gradual approach (para. 14).

<sup>7</sup> The members of the Central Asia Regional Economic Cooperation Program are Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, the PRC, Tajikistan, and Uzbekistan.

<sup>8</sup> ADB. 2004. *Central Asia Regional Economic Cooperation Member Countries Regional Cooperation Strategy and Program (2005–2007)*. Manila.

<sup>9</sup> ADB assisted the Governments of Kazakhstan and the Kyrgyz Republic in signing a Cross-Border Agreement under the Almaty-Bishkek Regional Road Rehabilitation Project. ADB. 2000. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grants to the Republic of Kazakhstan and to the Kyrgyz Republic for the Almaty-Bishkek Regional Road Rehabilitation Project*. Manila.

Third, sufficient human resource capacity is crucial to effectively implement the agreement. Given the limited human resource capacity in SCO member countries, the TA includes the components of advisory services and training for relevant government officials and other stakeholders to enhance their capacity for implementing the agreement.

### III. THE TECHNICAL ASSISTANCE

#### A. Purpose and Output

12. The goal of the TA is to promote transport, trade, and tourism among SCO member countries in support of sustainable and inclusive economic growth. The purpose is to help these countries formulate and implement an intergovernmental agreement on facilitation of international road transport. The Intergovernmental Agreement on Facilitation of International Road Transport will be consistent with existing international conventions and will take into account ongoing negotiations on the Transit Traffic Agreement Framework among the PRC, Mongolia, and the Russian Federation.<sup>10</sup>

13. The TA will comprise the following components: (i) support for negotiating the Framework Agreement on Facilitation of International Road Transport,<sup>11</sup> (ii) preparation of eight protocols<sup>12</sup> and support for negotiating the protocols, (iii) provision of advisory services and training to concerned government officials and other stakeholders in SCO members for implementing the Agreement. The expected TA outputs are (i) negotiated Framework Agreement and protocols by SCO member governments, and (ii) strengthened capacity of government officials and other stakeholders in SCO members for implementing the Agreement.

#### B. Methodology and Key Activities

14. Given the complexity of negotiating international transport agreements, the TA will adopt a step-by-step approach. Support will be extended first for negotiations on the Framework Agreement that would set general, principal provisions of international road transport operations and list the protocols to be agreed. After the Framework Agreement is finalized, negotiations on the protocols would cover technical details based on relevant international conventions. This approach will help achieve results quickly and maintain momentum for cooperation.

15. The TA has been designed in close collaboration with UNESCAP. The TA proposal was endorsed for further development at the ADB-UNESCAP consultation meeting on the memorandum of understanding (MOU) between ADB and UNESCAP<sup>13</sup> on 11 October 2004. ADB and UNESCAP will make joint efforts during the TA implementation. The TA is an example of ADB-UNESCAP cooperation in support of regional cooperation in transport.

<sup>10</sup> The PRC, Mongolia, and the Russian Federation are negotiating a draft Transit Traffic Framework Agreement with assistance from the United Nations Conference on Trade and Development. Five negotiating meetings have been held and the next will take place in Geneva in December 2004.

<sup>11</sup> The Framework Agreement is expected to have eight parts: (i) general provisions; (ii) transport operations; (iii) traffic safety, security, and environmental protection; (iv) temporary admission of vehicles and containers; (v) facilitation of interstate and transit formalities; (vi) institutional arrangements; (vii) miscellaneous provisions; and (viii) final clauses.

<sup>12</sup> The eight protocols cover (i) routes and border-crossings for international road transport, (ii) charges for use of infrastructure, (iii) permits for international road transport, (iv) dangerous goods, (v) weight and dimensions of road vehicles, (vi) compulsory third party liability insurance scheme of vehicles, (vii) documentation and procedures for frontier controls, and (viii) terms of reference of the joint working group on facilitation of international road transport.

<sup>13</sup> The memorandum of understanding (MOU) between ADB and UNESCAP signed on 16 May 2004 in Jeju, Republic of Korea states that ADB and UNESCAP would explore the potential of cofinancing regional and sub-regional programs and projects. Transport has been identified as a priority area for collaboration under the MOU.

16. The key TA activities will include (i) assisting in preparing the protocols under the Agreement on Facilitation of International Road Transport, (ii) supporting negotiating meetings of SCO members on the Framework Agreement and protocols, and (iii) providing advisory services and training to relevant government officials and other stakeholders in SCO members for implementing the Agreement.

### **C. Cost and Financing**

17. The total TA cost is estimated at \$1,530,000 equivalent. ADB will provide \$500,000 on a grant basis by ADB's TA funding program. UNESCAP will provide \$980,000, including \$850,000 in kind. UNESCAP cash contribution will be in parallel financing to cover the expenses incurred by the Russian Federation including its participation in negotiating meetings and training. The SCO member governments will finance the remaining costs in kind by providing offices, counterpart staff, and administrative support. Detailed cost estimates and financing plan are in Appendix 2.

### **D. Implementation Arrangements**

18. ADB will be the Executing Agency. The Transport and Communications Division under the East and Central Asia Department will be responsible for implementing the TA. ADB will collaborate closely with UNESCAP, the SCO secretariat, and concerned government agencies of SCO members during TA implementation. Before implementation, ADB will sign an MOU or a similar document with UNESCAP defining roles and responsibilities, as well as tasks of the consultants. ADB may provide some of its contribution to UNESCAP for implementing some TA components.

19. The TA will provide 11 person-months of international consulting services. Two international consultants with expertise in international or regional road transport agreements and legal transport will be recruited individually. The consultants to be financed by ADB will be engaged according to the *Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers*. The outline terms of reference for the consultants are in Appendix 3.

20. The TA is expected to begin in February 2005 and end in December 2007. The outputs and outcome evaluation will be disseminated at the ministerial conferences, senior officials' meetings, and transport sector coordinating committee meetings, as well as the CAREC website.

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

21. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$500,000 on a grant basis for Formulating and Implementing an Intergovernmental Agreement of the Shanghai Cooperation Organization Member States on Facilitation of International Road Transport, and hereby reports this action to the Board.

## TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators and Targets	Monitoring Mechanisms	Assumptions and Risks
<p><b>Goal</b> Promotion of transport, trade, and tourism among the Shanghai Cooperation Organization (SCO) member countries</p>	<p>Increased road traffic, trade, and tourism among SCO member countries</p>	<p>Economic and transport statistics of SCO members</p> <p>Asian Development Bank (ADB) technical assistance (TA) performance audit report</p>	
<p><b>Purpose</b> Assistance to the SCO members to formulate and implement an Intergovernmental Agreement on Facilitation of International Road Transport (the Agreement)</p>	<p>The Agreement to be consistent with international conventions and best practices</p> <p>The Agreement to be completed by December 2006</p>	<p>TA progress reports</p> <p>TA review mission reports</p> <p>ADB TA completion report</p> <p>The Trade Facilitation Assessment Tool and Time Release Study Guide of the World Custom Organization</p>	<p><b>Assumption</b> Continued commitment of the SCO member governments to implement the Agreement</p>
<p><b>Outputs</b> The Framework Agreement negotiated</p> <p>Eight protocols negotiated</p> <p>Enhanced capacity of SCO member governments to implement the Agreement</p>	<p>Concluded by December 2005</p> <p>Concluded by December 2007</p> <p>Training conducted by December 2007</p>	<p>Report of negotiating meetings of SCO members</p> <p>TA progress reports</p> <p>TA review mission reports</p> <p>ADB TA completion report</p>	<p><b>Assumptions</b> Close cooperation of SCO members during TA implementation</p> <p>Collaboration from the SCO secretariat</p>
<p><b>Activities</b> Negotiating meetings on the draft Framework Agreement</p> <p>Preparation of protocols</p> <p>Negotiating meetings on the protocols</p> <p>Training conducted for concerned government officials and other stakeholders in SCO members</p> <p>Advisory services provided to SCO member governments for implementing the Agreement</p>	<p>To be held in Beijing in the first half 2005</p> <p>To start in March 2005 and be completed by August 2005</p> <p>Two negotiating meetings in 2005 and the third one in 2006 (venues to be decided)</p> <p>Three training courses in 2007 (venues to be decided)</p> <p>January–December 2007</p>	<p>TA progress reports</p> <p>TA review mission reports</p> <p>ADB TA completion report</p>	<p><b>Assumptions</b> Support from all stakeholders to the consultants.</p> <p>Active participation of SCO members in negotiating meetings and planned training</p>

Design Summary	Performance Indicators and Targets	Monitoring Mechanisms	Assumptions and Risks
<b>Inputs</b> Consulting services ADB funding Counterpart funding from United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) Counterpart funding from SCO member governments Staff time	11 person-months (international) \$500,000 equivalent \$980,000 equivalent (including \$850,000 equivalent in kind) \$50,000 equivalent (in kind)	Consultants' contracts TA disbursement data TA review mission reports	<b>Assumptions</b> Availability of competent consultants Timely counterpart funding from UNESCAP and SCO member governments Sufficient staff time to effectively supervise consultants' work

ADB = Asian Development Bank; SCO = Shanghai Cooperation Organization; TA = technical assistance; UNESCAP = United Nations Economic and Social Commission for Asia and the Pacific.

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

<b>Item</b>	<b>Cost</b>
<b>A. Asian Development Bank Financing<sup>a</sup></b>	
1. Consultants	
a. Remuneration and Per Diem of International Consultants	200.0
b. International and Local Travel	50.0
c. Reports and Communications	10.0
2. Training, Seminars, and Meetings	190.0
3. Miscellaneous Administration and Support Costs	10.0
4. Contingencies	40.0
<b>Subtotal (A)</b>	<b>500.0</b>
<b>B. Financing of the United Nations Economic and Social Commission for Asia and the Pacific</b>	
1. Remuneration and Per Diem of Counterpart Staff (in kind)	850.0
2. Consultants	
a. Remuneration and Per Diem of International Consultants	8.0
b. International and Local Travel	2.0
3. Training, Seminars, and Meetings	100.0
4. Miscellaneous Administration and Support Costs	20.0
<b>Subtotal (B)</b>	<b>980.0</b>
<b>C. Financing of the Governments of the Shanghai Cooperation Organization Member Countries<sup>b</sup></b>	
1. Office and Transport	20.0
2. Remuneration and Per Diem of Counterpart Staff	20.0
3. Administrative Support	10.0
<b>Subtotal (C)</b>	<b>50.0</b>
<b>Total</b>	<b>1,530.0</b>

<sup>a</sup> Financed by the Asian Development Bank's technical assistance funding program.

<sup>b</sup> Financed by the Governments of Kazakhstan, Kyrgyz Republic, People's Republic of China, Russian Federation, Tajikistan, and Uzbekistan.

Sources: Asian Development Bank and United Nations Economic and Social Commission for Asia and the Pacific estimates.

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

### A. Introduction

1. A total of 11 person-months of international consulting services will be provided under the technical assistance (TA) to help the Shanghai Cooperation Organization (SCO) member countries formulate and implement an Intergovernmental Agreement on Facilitation of International Road Transport (the Agreement). The consultants should have expertise in international or regional road transport agreements and will be recruited individually. The Asian Development Bank (ADB) will finance 10 person-months of consulting services, while the United Nations Economic and Social Commission for Asia and the Pacific will finance one person-month of consulting services. The consultants to be financed by ADB will be recruited according to the *Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers*. The outline terms of reference for the consultants follow.

### B. Terms of Reference

2. The consultants will undertake the following tasks:

- (i) Assist in preparing for negotiations draft protocols under the Intergovernmental Agreement on Facilitation of International Road Transport. Eight protocols to be prepared have been tentatively identified as follows:
  - Protocol 1: Routes and Border-crossings for International Road Transport
  - Protocol 2: Charges for Use of Infrastructure
  - Protocol 3: Permits for International Road Transport
  - Protocol 4: Dangerous Goods
  - Protocol 5: Weight and Dimensions of Road Vehicles
  - Protocol 6: Compulsory Third Party Liability Insurance Scheme of Vehicles
  - Protocol 7: Documentation and Procedures for Frontier Controls
  - Protocol 8: Terms of Reference of the Joint Working Group on Facilitation of International Road Transport
- (ii) Assist in SCO members' negotiations on the draft Framework Agreement on Facilitation of International Road Transport and eight protocols listed in (i) above.
- (iii) Assist in preparing training materials for relevant government officials and other stakeholders in the SCO members for implementing the Agreement on Facilitation of International Road Transport, including making arrangements for translating the training materials into Chinese and Russian languages to be provided to SCO member governments prior to the training.
- (iv) Assist in organizing training courses and serve as resource persons for relevant government officials and other stakeholders of the SCO members.
- (v) Provide advisory services to SCO member governments for implementing the Agreement on Facilitation of International Road Transport.

### C. Composition of Consultants

3. The consultant team comprises two international consultants: an international road transport specialist to be engaged for 6 person-months and a transport legal expert for 5 person-months. The international road transport specialist will cover technical aspects while

the transport legal expert will handle legal matters. The two international consultants should work closely during the assignment. One of the proposed consultants will also serve as consultant team leader responsible for undertaking the assignments and preparing the required reports during the TA implementation.

#### **D. Reporting Requirements**

4. The consultants to be financed by ADB will be required to submit to ADB (i) brief monthly progress reports, and (ii) other reports on their assignment as required. The reports will be delivered in a format and substance satisfactory to ADB, and will be submitted in three copies, all in English. Electronic copies of the eight protocols and training materials (in Word or Excel format, and in compact disc) in English, Chinese, and Russian languages and a summary of training materials (in Powerpoint in the English language) will be submitted to ADB as soon as they are prepared.