



Completion Report

Project Numbers: 35495 and 36001
Loan Numbers: 1926 and 1927
December 2006

Kyrgyz Republic and Tajikistan: Regional Trade Facilitation and Customs Cooperation Program

Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit (Kyrgyz Republic)		–	som (Som)
	At Appraisal		At Program Completion
	23 April 2002		17 September 2004
Som1.00	=	\$0.021	\$0.023
\$1.00	=	Som47.94	Som43.14

Currency Unit (Tajikistan)		–	somoni (TJS)
	At Appraisal		At Program Completion
	23 April 2002		3 January 2005
TJS1.00	=	\$0.3731	\$0.3296
\$1.00	=	TJS2.6800	TJS3.0338

ABBREVIATIONS

ADB	–	Asian Development Bank
CAR	–	Central Asia republic
CAREC	–	Central Asia Regional Economic Cooperation
CCC	–	Customs Cooperation Committee
CCRM	–	Commission for Customs Reform and Modernization
CGCRM	–	Consultative Group for Customs Reform and Modernization
CSI	–	customs service intermediary
DCA	–	Drug Control Agency
DCS	–	Department of Customs Services
DTS	–	Department of Tax Services
FEZ	–	free economic zone
ICT	–	information and communications technology
MET	–	Ministry of Economy and Trade
MOF	–	Ministry of Finance
MSRD	–	Ministry of State Revenues and Duties
PPTA	–	project preparatory technical assistance
PRC	–	People's Republic of China
RCMIDP	–	Regional Customs Modernization and Infrastructure Development Project
RETA	–	regional technical assistance
SCI	–	State Customs Inspectorate
SDR	–	special drawing rights
TA	–	technical assistance
UAIS	–	unified automated information system
USAID	–	United States Agency for International Development
WTO	–	World Trade Organization

NOTE

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

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BASIC DATA (KYRGYZ REPUBLIC)

A. Loan Identification

1.	Country	Kyrgyz Republic
2.	Loan Number	1926-KGZ (SF)
3.	Program Title	Regional Trade Facilitation and Customs Cooperation Program
4.	Borrower	Kyrgyz Republic
5.	Executing Agency	Ministry of Finance
6.	Amount of Loan	SDR11,299,000.00 (\$15.0 million)
7.	Program Completion Report Number	977

B. Loan Data

1.	Appraisal		
	– Date Started	23 April 2002	
	– Date Completed	29 April 2002	
2.	Loan Negotiations		
	– Date Started	2 September 2002	
	– Date Completed	3 September 2002	
3.	Date of Board Approval	29 October 2002	
4.	Date of Loan Agreement	17 December 2002	
5.	Date of Loan Effectiveness		
	– In Loan Agreement	17 March 2003 (90 days)	
	– Actual	20 December 2002	
	– Number of Extensions	none	
6.	Closing Date		
	– In Loan Agreement	31 December 2004	
	– Actual	17 September 2004	
	– Number of Extensions	none	
7.	Terms of Loan		
	– Interest Rate	1% per annum during the grace period	
		1.5% per annum thereafter	
	– Maturity (number of years)	24	
	– Grace Period (number of years)	8	
8.	Disbursements		
a.	Dates		
	Initial Disbursement	Final Disbursement	Time Interval
	20 December 2002	17 September 2004	21 months
	Effective Date	Original Closing Date	Time Interval
	20 December 2002	31 December 2004	24 months

b. Amount ^a				
Category or Subloan	Original Allocation (SDR)	Amount Canceled	Amount Disbursed	Undisbursed Balance
Initial Disbursement	SDR5,650,000	0	SDR5,650,000 (\$7,579,475)	0
Final Disbursement	SDR5,649,000	0	SDR5,649,000 (\$8,281,321)	0
Total	SDR11,299,000 (\$15,000,000)	0	SDR11,299,000	0

^a The difference in the \$ equivalent of the SDR amount is due to exchange rate changes.

C. Program Data

Program Performance Report Ratings		
Implementation Period	Ratings	
	Development Objectives	Implementation Progress
From October 2002 to December 2002	Satisfactory	Satisfactory
From January 2003 to September 2004	Satisfactory	Satisfactory

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members
Fact-Finding	18 Feb–2 Mar 2002	1	13	Financial Economist
Appraisal	23 Apr–29 Apr 2002	3	21	Financial Economist, Economist, Counsel
Review Mission 1	1–5 Feb 2003	1	5	Senior Trade Economist
Review Mission 2	8–11 Dec 2003	3	12	Senior Trade Economist, Governance Specialist, Project Implementation Officer
Review Mission 3	18–20 Feb 2004	2	6	Governance Specialist, Project Implementation Officer

Program Completion Review^a

^a No project completion review mission was deemed necessary for this program. Interviews were conducted with the Kyrgyz Republic delegation from the State Customs Inspectorate under the Ministry of Finance of the Kyrgyz Republic during the Fifth Customs Cooperation Committee Meeting on 11–13 October 2006.

BASIC DATA (TAJIKISTAN)

A. Loan Identification

1.	Country	Republic of Tajikistan
2.	Loan Number	1927-TAJ (SF)
3.	Program Title	Regional Trade Facilitation and Customs Cooperation Program
4.	Borrower	Tajikistan
5.	Executing Agency	Ministry of Finance
6.	Amount of Loan	SDR7,522,000.00 (\$10.0 million)
7.	Program Completion Report Number	977

B. Loan Data

1.	Appraisal	
	– Date Started	23 April 2002
	– Date Completed	29 April 2002
2.	Loan Negotiations	
	– Date Started	2 September 2002
	– Date Completed	3 September 2002
3.	Date of Board Approval	29 October 2002
4.	Date of Loan Agreement	17 December 2002
5.	Date of Loan Effectiveness	
	– In Loan Agreement	17 March 2003 (90 days)
	– Actual	23 December 2002
	– Number of Extensions	none
6.	Closing Date	
	– In Loan Agreement	30 June 2005
	– Actual	3 January 2005
	– Number of Extensions	none
7.	Terms of Loan	
	– Interest Rate	1% per annum during the grace period 1.5% per annum thereafter
	– Maturity (number of years)	24
	– Grace Period (number of years)	8
8.	Disbursements	
a.	Dates	
	Initial Disbursement	Final Disbursement
	23 December 2002	3 January 2005
	Effective Date	Original Closing Date
	23 December 2002	30 June 2005
		Time Interval
		24 months
		30 months

b. Amount ^a				
Category or Sub-loan	Original Allocation (SDR)	Amount Canceled	Amount Disbursed	Undisbursed Balance
Initial Disbursement	SDR3,761,000	0	SDR3,761,000 (\$5,045,382)	0
Final Disbursement	SDR3,761,000	0	SDR3,761,000 (\$5,821,426)	0
Total	SDR7,522,000 (\$10,000,000)	0	SDR7,522,000	0

^a The difference in the \$ equivalent of the SDR amount is due to exchange rate changes.

C. Program Data

Program Performance Report Ratings		
Implementation Period	Ratings	
	Development Objectives	Implementation Progress
From October 2002 to December 2002	Satisfactory	Satisfactory
From January 2003 to January 2005	Satisfactory	Satisfactory

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members
Fact-Finding	18 Feb–23 Mar 2002	1	6	Senior Financial Economist
Appraisal	23 Apr–29 Apr 2002	2	14	Senior Financial Economist, Counsel
Review Mission 1	24–26 Feb 2003	1	3	Senior Trade Economist
Review Mission 2	1–5 Dec 2003	3	15	Senior Trade Economist, Governance Specialist, Regional Cooperation Specialist
Review Mission 3	29 Sep–1 Oct 2004	2	6	Governance Specialist, Portfolio Management Specialist

Program Completion Review^a

^a No project completion review mission was deemed necessary for this program. Interviews were conducted with the Tajikistan delegation from the Department of Customs Services of the Republic of Tajikistan during the Fifth Customs Cooperation Committee Meeting on 11–13 October 2006.

I. PROGRAM DESCRIPTION

1. In October 2002, the Asian Development Bank (ADB) approved Loan No. 1926-KGZ to the Kyrgyz Republic and Loan No. 1927-TAJ to the Republic of Tajikistan as part of the Regional Trade Facilitation and Customs Cooperation Program.¹ These loans were for SDR11.299 million (\$15 million equivalent) and SDR7.522 million (\$10 million equivalent), respectively, and financed through ADB's special fund resources.² The Program, a major pillar of ADB's overall Central Asia Regional Economic Cooperation (CAREC) Program, was designed to foster industrial and trade growth by helping integrate the region's transition economies into the world market. It also included project preparatory technical assistance (PPTA) grants to the Kyrgyz Republic (TA 3950-KGZ) and Tajikistan (TA 3951-TAJ) and a regional technical assistance (RETA) grant (TA 6058-REG).

2. The Program aimed to (i) strengthen governance, increase transparency, and improve the institutional capacity of customs administrations; (ii) strengthen the legal and regulatory framework for customs operations in line with international standards and conventions; (iii) improve operational efficiency of customs administrations to facilitate trade and enhance revenue collection; and (iv) develop an effective mechanism for cooperation among the region's customs administrations.³ By effectively supporting efforts to reform laws and institutions and modernize customs operations, the Program has helped customs authorities in the Kyrgyz Republic and Tajikistan carry out their mandates to facilitate trade, collect revenue, and curb smuggling and drug trafficking. By supporting simplification of customs procedures, the Program has contributed to transforming customs administrations in these countries from trade controllers to trade facilitators.

3. In the Kyrgyz Republic, the first tranche of the loan, which amounted to SDR5.650 million, was released in December 2002. The second tranche totaling SDR5.649 million was released in September 2004. The Program included six policy conditions for the release of the second tranche and eight additional monitoring conditions (Appendix 2).

4. In Tajikistan, the first tranche of the loan amounting to SDR3.761 million was released in December 2002. The second tranche of the same amount was released in January 2005. The Program included eight policy conditions for the release of the second tranche and 25 additional monitoring conditions (Appendix 3).

5. ADB closely monitored program implementation through three review missions each in the Kyrgyz Republic⁴ and Tajikistan⁵ and through its resident missions in these countries.

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

² The Kyrgyz Republic and Tajikistan had the weakest customs administrations in Central Asia according to preliminary studies.

³ The program framework is in Appendix 1.

⁴ Fielded in March and December 2003 and February 2004.

⁵ Fielded in March and December 2003 and September 2004.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

6. Since gaining independence in 1991, the Kyrgyz Republic and Tajikistan have faced the challenge of shifting to a private sector-led market economy. This has brought about an appreciation for the benefits of international trade and outward-oriented economic policies.⁶ Because of the vital role of the customs administration in facilitating trade, reforming this institution and introducing business process reengineering were recognized as crucial steps to increase revenue collection and attain sustainable economic growth.

7. The Government of the Kyrgyz Republic embarked on a customs restructuring and modernization program in the late 1990s.⁷ In November 2001, it requested ADB to support the needed reforms.⁸

8. The Government of Tajikistan faced an additional reconstruction challenge after a 5 year civil war that ended in 1997. Moreover, Tajikistan's geographic location and geopolitics, apart from its weak customs system, hindered expansion of trade and investment. Therefore, the Government incorporated customs reform and modernization into the country's overall structural reform agenda.⁹ The Program centered on increasing service efficiency, strengthening the legal and regulatory framework for operations, and optimizing tariff and nontariff measures.

9. ADB designed the Program primarily to help incorporate transition economies in Central Asia into the world trading system. The Program was part of ADB's wider regional economic cooperation framework for East and Central Asia, which viewed trade facilitation and market integration as vital elements of a strategy to promote growth and reduce poverty.

10. In line with Government objectives, the loans to the Kyrgyz Republic and Tajikistan were designed to encourage good governance and modernization of the customs sector and to promote trade. Loan implementation was satisfactory in both countries. As the Program's objectives were consistent with the national reform agendas, this encouraged strong ownership and compliance with loan conditions. Furthermore, it was supported by timely implementation of related technical assistance grants (i.e., the accompanying PPTA and RETA).

11. Associated PPTA supported Program objectives specifically in developing electronic links among key agencies, drawing up an information and communications technology (ICT) strategy and investment plan to automate customs operations, and designing a comprehensive plan to construct and install border infrastructure. The PPTA supported preparation of an investment loan, which gave customs authorities incentive to sustain institutional strengthening

⁶ The Kyrgyz Republic began liberalizing its economy in 1994.

⁷ The Government approved the Customs Reform and Modernization Plan (2000–2004) in 1999 and created the Commission for Customs Reform and Modernization (CCRM) in 2001 to implement it. The CCRM is chaired by the Prime Minister and includes representatives from the finance ministry, the local customs administration and international aid agencies (International Monetary Fund, United States Agency for International Development [USAID] and the Swiss Secretariat for Economic Affairs, with ADB as the lead agency).

⁸ The Development Policy Letter of the Government of the Kyrgyz Republic is in Appendix 4.

⁹ The Development Policy Letter of the Government of Tajikistan is in Appendix 5. Customs reforms were also undertaken as part of the country's efforts to gain World Trade Organization (WTO) membership.

measures and the overall reform program.¹⁰ ADB approved the loan in November 2004.¹¹

12. The accompanying RETA sustained program objectives in both countries by helping harmonize customs procedures with international standards, assisting to establish risk management systems, developing efficient transit procedures, and facilitating exchange of customs and trade data among Central Asian republics and the People's Republic of China (PRC).

B. Program Outputs

1. Strengthening Governance, Transparency, and Institutional Capacity

13. **Kyrgyz Republic.** Under the Program, the Government undertook several reform measures to improve governance, transparency, and institutional capacity of customs administration (Appendix 2). To rationalize the organizational structure of customs administration, the Government approved a plan to reorganize the Ministry of Finance (MOF), including the customs agency. To facilitate the adoption of appropriate human resource policies, the Government approved a concept paper for customs development that included recommendations on reforms in personnel policy.¹² To improve performance, transparency, and accountability, the Government developed procedures for (i) conducting an annual customs service survey, (ii) creating a database of customs service information, (iii) publishing annual reports, and (iv) conducting periodic and special audits by an internal audit agency. These measures were completed prior to consideration by the ADB Board of Directors.

14. The Government made further progress in establishing a new structure for customs administration during implementation of the Program. MOF proceeded to reorganize its internal structure and established the Committee for Revenue, which supervised and coordinated the operations of the Department of Customs Service (DCS) and the Department of Tax Services (DTS). DCS and DTS used to be the State Customs Inspectorate (SCI) and State Tax Inspectorate, respectively.¹³ After reorganization, DCS implemented key measures such as publishing annual reports and conducting internal audits.¹⁴

15. **Tajikistan.** The Government of Tajikistan likewise completed a number of similar measures (Appendix 3). Early reforms implemented under the Program include (i) creation of the Ministry of State Revenues and Duties (MSRD) by combining two separate committees for customs and tax,¹⁵ (ii) adoption by MSRD of transparent and fair staff policies, (iii) development

¹⁰ ADB designed the program loan precisely to help reform, restructure, and build the capacity of customs administrations to enable these to implement and effectively utilize future funding for customs modernization based on PPTA results.

¹¹ ADB. 2004. *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*. Manila.

¹² This included adoption of transparent and fair human resource policies, including (i) recruitment, (ii) specific performance indicators and service standards, and (iii) a performance-based staff appraisal system.

¹³ This reorganization changed the original policy conditions only in terms of the relevant government agencies involved. Such changes have already been incorporated into this report.

¹⁴ Note though that the Government of the Kyrgyz Republic partially reverted to its old structure after the political change brought about by the so-called "tulip revolution" in March 2005. The SCI and STI were revived and replaced the newly formed DCS and DTS. These agencies now fall directly under the Government of the Kyrgyz Republic instead of MOF. Implications of this change are discussed in a later section.

¹⁵ In 2002, the two committees became the Customs Department and Tax Department, respectively, under MSRD.

of publications on customs activities for the general public,¹⁶ (iv) establishment of an audit department within MSRD, (v) institutionalization of periodic performance audits of MSRD by an external Government audit agency, and (vi) submission of a proposal by MSRD to the Government seeking sufficient budget allocation to support customs operation and maintain staff incentives. Budget allocation for MSRD to support tax policy reforms and customs modernization increased by 47% in 2003 and by 39% in 2004.

16. During program implementation, MSRD further improved human resource policies by (i) developing new staff appraisal criteria and adopting related regulations,¹⁷ (ii) establishing a detailed human resource database, and (iii) developing training programs in line with international best practices. To improve performance and transparency, the Program introduced the conduct of an annual survey on customs services and subsequent publication of the results. To address corruption in the form of collusive or coercive payments, MSRD (i) adopted a code of conduct that prohibited customs officers from acting as brokers while performing customs services,¹⁸ and (ii) established a transparent appeals system for decisions made by customs officials or authorities.

17. Two monitoring conditions on human resource management were partly complied with at the time of the second tranche's release. The Program had called for MSRD to develop an operations manual and supporting administrative circular to institutionalize performance indicators and service standards, but such a document could not be finalized by December 2004 as the revised Customs Code had just been approved. Nevertheless, MSRD was able to complete the manual in 2005 when the new Customs Code became effective. Another monitoring condition called for MSRD to adopt a plan to reform compensation schemes for customs officials and establish a performance-based bonus system. While MSRD introduced various performance recognition programs to reward outstanding staff, this monitoring condition could not be complied with fully since the customs administration followed general regulations for public officials.¹⁹

2. Strengthening the Legal and Regulatory Framework in Line with International Standards and Conventions

18. **Kyrgyz Republic.** The Government of the Kyrgyz Republic fulfilled two tranche release conditions aiming to simplify customs legislation and regulations, namely, (i) submission to Parliament of a simplified Customs Code in line with requirements of the World Trade Organization (WTO) and the Revised Kyoto Convention, and (ii) revision of implementing regulations on customs issues to ensure compliance with the new code. Under the Program, the Government also simplified the tariff structure according to the country's commitments to WTO (i.e., by reducing the number of tariff bands from six to four).

19. Revision of the Kyrgyz Customs Code began in 2001 with the assistance of the United States Agency for International Development (USAID) and in consultation with ADB.²⁰ The first

¹⁶ These aimed to (i) provide full and true data on exports and imports; (ii) analyze the principal tendency, structure, and dynamics of external trade flow; and (iii) provide information for the Government and other agencies interested in customs policy and regulations of external trade.

¹⁷ This was a second tranche release condition.

¹⁸ This is supported by several articles in the revised Customs Code. Penalties for violations are in the Decree on Disciplinary Regulations of Customs Bodies of the Republic of Tajikistan. This action was a second tranche release condition.

¹⁹ In this context, developing an independent compensation scheme was deemed unrealistic.

²⁰ USAID provided long-term assistance (until 2004) to Customs Code revision under its Trade and Investment Project.

draft was submitted to Parliament in January 2003, but amendments in the country's Constitution and other laws necessitated further changes to ensure legal compatibility. The upper chamber (the Legislative Assembly) approved the simplified code in April 2004, while the lower chamber (the People's Representatives' Assembly) adopted it in June 2004. The law, signed by the President of the Kyrgyz Republic in July 2004, became effective in January 2005.

20. A revised customs code was deemed crucial in the reform process since it provided the legal basis for a number of measures to improve customs administration. Two of the six conditions for release of the second tranche, for example, depended crucially on revising the code.

21. **Tajikistan.** In line with the Program, a working group under MSRD was established in July 2002 to develop new drafts of the Customs Code and Tax Code as a major legal reform for WTO accession. The draft Customs Code provided a clear distinction between primary laws and secondary regulations, and it complies with WTO requirements and the Revised Kyoto Convention. To promote legislative transparency, Government authorities circulated the draft to solicit comments from other Government agencies, international organizations, and the general public, as called for by a monitoring condition. In fulfillment of a second tranche release condition, the Government submitted the revised Customs Code to Parliament by late September 2004. It was approved in early November 2004.

22. Revision of the Tajikistan Customs Code provided a legal regulatory framework for customs administration and was therefore considered an important step for customs reform.²¹ The new code defines the scope of customs services and incorporates all essential implementing regulations, allowing for a reduction in the total number of regulations. In compliance with a second tranche release condition, MSRD developed implementing regulations to complement the code on areas where supplementary procedures were necessary and where new concepts (e.g., customs intermediaries, post-entry audit) were introduced. Some of these regulations had been adopted by administrative orders issued by MSRD and, together with the revised code, served as implementing regulations for daily operations.

23. Besides revising the Customs Code and Tax Code, the Government also introduced several laws to meet requirements stipulated in WTO's General Agreement on Tariffs and Trade and the General Agreement on Trade in Services. Under the Program, the Government also removed the licensing requirement for entities involved in foreign economic activities to further liberalize trade policy. In addition, the Government harmonized the tariff structure by adopting a single customs tariff band of 5% (except for those tariffs due under preferential rates and treaties) to simplify customs operations.

3. Improving Operational Efficiency to Facilitate Trade and Improve Revenue Collection

24. The Program improved operational efficiency of customs administrations by (i) strengthening coordination between customs and tax agencies, and enhancing policies for revenue collection; (ii) modernizing customs operations through the use of ICT and provision of adequate border infrastructure; (iii) intensifying efforts to detect corruption and combat smuggling; (iv) simplifying clearance and control procedures; and (v) developing properly supervised customs service intermediaries (CSIs). These are described for each country below.

²¹ Two out of the eight critical release conditions for the second tranche of the program loan depended crucially on Customs Code revision.

a. Strengthening Coordination Between Customs and Tax Agencies, and Enhancing Policies for Revenue Collection

25. **Kyrgyz Republic.** Initial review missions identified lack of coordination between tax and customs agencies as a major constraint to effective revenue collection in the Kyrgyz Republic. The reorganization that created DCS and DTS as departments under one committee in the MOF helped address this problem. The Program further strengthened institutional coordination by installing electronic linkage of the two departments' computer networks and databases,²² with support of accompanying PPTA. The Program also called for MOF to set up an identification number system to facilitate processing of payments of customs duties and taxes and improve interdepartmental information flow. This was completed prior to Board consideration.

26. The Government of the Kyrgyz Republic intensified efforts to raise revenues by strengthening the rules for free economic zones (FEZs) and establishing revenue collection benchmarks. Under the Program, MOF prevented revenue leakage by imposing stronger restrictions on the export of goods produced in FEZs to domestic markets. This policy has discouraged producers in FEZs from using the export zone system to evade taxes. MOF, with the support of USAID, has also developed econometric forecasting models to improve revenue projections and develop collection benchmarks.

27. **Tajikistan.** The reorganization of the tax and customs committees within MSRD significantly improved coordination between these two agencies, leading to an increase in the total amount of customs payments by 42.5% in 2003. Under the Program, MSRD also implemented the law on the use of taxpayer identification numbers. Further, the Program encouraged MSRD to integrate customs payment with the national treasury, enabling customs duties to be paid directly to banks near customs clearance points that transfer payments to the national treasury account.

28. Institutional coordination was further strengthened under the Program with the establishment of electronic linkage among computer networks and databases of departments in MSRD and among government agencies²³ (e.g., the MSRD, MOF, Ministry of Economy and Trade, Drug Control Agency, Ministry of Interior, border guards), and banks where the national customs agency maintains payment accounts. Accompanying PPTA supported creation of this electronic network.

b. Modernizing Customs Operations Through the Use of ICT and Provision of Adequate Border Infrastructure

29. Under the Program, the customs administrations in the Kyrgyz Republic and Tajikistan were able to develop (i) an ICT strategy and investment plan for modernizing customs operations,²³ and (ii) a comprehensive plan for constructing and installing border infrastructure, including basic search and examination equipment at border posts and processing points. These activities were supported by accompanying PPTA.²³

²² This was a second tranche release condition.

²³ DCS took the first step and developed a comprehensive investment strategy for a unified automated information system (UAIS). Consultants hired under PPTA then assessed the proposed system and drew up a detailed investment plan tailored to the needs of the country.

30. The ICT strategy aims to automate customs services in order to increase transparency, enhance revenue collection, and enable efficient risk management.²⁴ It also intends to improve coordination among government agencies concerned.²⁵ The ICT investment plan entails the creation of a unified automated information system (UAIS) that integrates various databases and allows customs declaration forms to be submitted and processed electronically. The border infrastructure investment plan, meanwhile, includes the following components: (i) improving conditions of selected border posts, (ii) developing facilities and procedures to be at par with modern customs control practices, and (iii) providing special equipment for the prevention of smuggling and drug trafficking. Reduced reliance on manual checks is expected to significantly improve efficiency and effectiveness of customs control.

31. In Tajikistan, two monitoring conditions could not be fully complied with by the end of the Program due to lack of resources. These involved (i) implementation of the investment plan for a UAIS and customs border infrastructure and (ii) provision of training for staff on the use and maintenance of the ICT system and customs examination equipment. The investment strategies produced through PPTA were subsequently implemented through a project loan and accompanying technical assistance grant for the Kyrgyz Republic and Tajikistan under the Regional Customs Modernization and Infrastructure Development Project (RCMIDP) (footnote 11). That project, which is being implemented until December 2009, comprises two components to develop (i) the UAIS and (ii) customs border post infrastructure.

c. Intensifying Efforts to Detect Corruption and Combat Smuggling

32. **Kyrgyz Republic.** DCS intensified efforts to detect corrupt practices and combat smuggling by (i) developing and adopting procedures and crosschecks to catch collusive or coercive transactions; and (ii) improving intelligence gathering and establishing a database of risk profiles identifying the routes, premises, and markets that smugglers tend to use. These corresponded to two monitoring conditions under the Program. While the first task had been accomplished on time, the second could only be partly achieved by the end of the Program due to lack of resources. DCS regularly collected information from regional offices, border posts, and processing points and updated its database accordingly. However, lack of computer software and equipment prevented adequate risk management (e.g., risk profiling and assessment) by its anti-smuggling unit. This is being addressed through the development of a UAIS under RCMIDP, which includes a subcomponent on the creation of a risk management and intelligence system.

33. **Tajikistan.** MSRD also sought to prevent illegal transactions by (i) improving intelligence gathering and setting up a risk profile database, and (ii) strengthening the capacity of its anti-smuggling division through training programs and provision of proper equipment. These corresponded to two monitoring conditions, both of which could only be partly complied with by the end of the Program. The anti-smuggling division lacked the necessary infrastructure to adopt a full risk management approach, while customs officers could only be appropriately trained with the installation of proper equipment at customs posts. As in the Kyrgyz Republic, these limitations are being addressed under RCMIDP.

²⁴ Risk management in the context of customs operations is a modern technique that allows customs authorities to systematically clear goods in increasing volume while minimizing the risk of overlooking wrongly declared transactions and goods covered by fraudulent documents.

²⁵ In the Kyrgyz Republic, these include MSRD, MOF, DCS, DTS, and the National Bank of the Kyrgyz Republic. In Tajikistan, these include MSRD, MOF, Ministry of Economy and Trade, and the National Bank of Tajikistan.

d. Simplifying Clearance and Control Procedures

34. **Kyrgyz Republic.** Under the Program, DCS adopted and made publicly available new customs clearance and control procedures based on the revised Customs Code and harmonized with international standards and procedures. This monitoring condition aimed to improve service efficiency by replacing time-consuming goods clearance practices that entail inspecting each transaction with a method that involved selective post-clearance verification based on systematic risk assessment. DCS also provided staff members with introductory training in the revised procedures and practices.²⁶

35. Since the revised Customs Code had been newly approved by Parliament, the monitoring condition that required DCS to develop an instruction manual incorporating new customs clearance and control procedures and to distribute these materials to all staff members concerned for use in daily operations could only be partially fulfilled when the final tranche release was released. At that time, though, the Government had already developed draft instructions for the new procedures and regulations based on the revised code. This monitoring condition was fully complied with when the revised Customs Code became effective in 2005.

36. **Tajikistan.** Revision of the Customs Code allowed the Government to satisfy two monitoring conditions that aimed to simplify customs processes, namely, (i) adopting new customs and control procedures in accordance with international standards and (ii) introducing post-clearance audit procedures based on risk assessment and a preferred importer/exporter mechanism.

37. The new code introduced a section on customs control (Section IV) as well as one on currency and export control (Section V), which together contain 51 articles describing important customs operation aspects. These articles were harmonized with international standards by incorporating recommendations of the Revised Kyoto Convention and meeting WTO agreements.

38. Articles 433–435, meanwhile, introduced post-clearance audit procedures based on risk management. MSRDC established the Division of Post-Clearance Control and Audit, which has worked with relevant tax offices and importers to implement these procedures. The plan for a UAIS currently being executed under RCMIDP contains a subcomponent on the creation of a risk management and intelligence system that will improve risk profiling and thus enable the customs administration to effectively carry out post-clearance audit.

e. Developing Properly Supervised Customs Service Intermediaries

39. **Kyrgyz Republic.** To satisfy a second tranche release condition, the Government of the Kyrgyz Republic developed and adopted regulations and associated supervision procedures for such CSIs as brokers, declarants, and transit facility operators. Legal impediments hindered compliance with this particular loan condition, leading to a slight delay in releasing the second

²⁶ The revised Customs Code introduces the concept of risk management as a customs operation principle. It also describes the operational scope of audit-based methods of customs clearance, which is supplemented by the newly developed regulations on post-clearance verification.

tranche from the expected date of June 2004 to September 2004.²⁷ Government authorities and ADB, however, immediately acted upon the matter. Regulations were developed and drafts submitted to ADB in May 2004 and, with the necessary amendments to pertinent laws in place, were officially adopted in August 2004 by an administrative order of MOF. These came into force in January 2005 simultaneously with the revised Customs Code.

40. In line with the revised code, the regulations defined the scope of activities of customs brokers and declarants as well as warehouse operations, including transit facilities. Setting up a legal framework for CSIs was considered essential because of the important role these entities play in trade facilitation (especially customs brokers), with their accumulated professional experience and wide access to updated information. The fulfillment of this tranche condition sent an encouraging signal to the private sector that the Government is ready to engage in mutually beneficial alliances.

41. The Government also met a monitoring condition requiring MOF to develop and submit for approval regulations that prohibit DCS staff from acting as customs brokers, with sanctions and disciplinary actions for violations. The revised Customs Code stipulates the responsibility of customs officers, barring them from performing any paid work on customs-related activities offered outside of the customs administration, while the Code of Conduct for public officers details the disciplinary measures.

42. **Tajikistan.** In compliance with a second tranche release condition, MSRD established an association of customs brokers that functioned as a self-regulatory organization. Such an organization provides a venue for voicing brokers' concerns and suggestions on customs-related matters and can be instrumental in improving transparency and accountability of customs services. Senior customs officials indicated that half of trade in Tajikistan would be cleared through brokers in the near future. Properly regulated customs brokers have the capacity to promote efficient trade by facilitating customs processing.

43. Since only a small number of brokers were in operation during the loan period, there was initially a lack of private sector initiative for such an organization. MSRD formed a critical mass by inviting other service providers such as freight forwarders and warehouse operators. MSRD developed a statutory act to support the creation of a customs intermediaries association and initiated discussion with customs intermediaries. The customs brokers association was established in November 2004.

4. Developing an Effective Mechanism for Regional Cooperation

44. In compliance with a monitoring condition, the Kyrgyz Republic and Tajikistan participated in the first meeting of the Customs Cooperation Committee (CCC) under CAREC's

²⁷ Although the revised Customs Code contained the basic norms on regulating the activity of CSIs, introduction of corresponding implementing rules required making changes in a special law on licensing in the Kyrgyz Republic. Parliament approved the amendments to this law on 24 June 2004. The President of the Kyrgyz Republic signed the new law in August 2004. ADB maintained that full compliance with the loan release condition entailed the signing of the regulations, with the second tranche of the program loan scheduled for release three weeks after signing.

regional trade facilitation program²⁸ and endorsed the Common Action Plan²⁹ to foster cooperation among customs administration in the region.

45. To complete a second tranche release condition that required establishing procedures to simplify transit shipment, DCS signed a bilateral transit agreement with the Kazakhstan customs administration in March 2004³⁰ and subsequently developed simplified procedures for controlling transit shipment to supplement the agreement. In November 2004, MSRD reached a similar agreement with DCS, which included recognizing transit documents and establishing a financial guarantee system.³¹

46. During the CCC Regional Seminar on Trade Facilitation and Customs Modernization held in August 2003, participating countries, including the Kyrgyz Republic and Tajikistan, developed and agreed on key data fields to be included in the national customs database and communication protocols for ease of exchanging customs information. This facilitated compliance of both countries with a monitoring condition that aims to improve data exchange among Central Asian republics and the PRC.

47. The Program also called for both countries to initiate bilateral negotiations with key trade partners in order to promote trade flow. DCS conducted bilateral negotiations with the Kazakhstan customs administration on joint border customs processing,³² with the PRC customs administration on data sharing,³³ and with customs agencies of other CCC member countries.³⁴ MSRD also initiated bilateral negotiations with customs administrations of neighboring countries. In 2003, bilateral agreements on anti-smuggling and entry-point cooperation were reached involving the MSRD, DCS, and the Uzbekistan customs administration. Viewed broadly, bilateral agreements initiated through the CCC framework are important steps toward reaching region-wide agreements.

C. Program Costs

48. The loan to the Kyrgyz Republic was for SDR11.299 million (\$15 million equivalent) and was fully disbursed in two installments (SDR5.650 million and SDR5.649 million). The loan to Tajikistan amounted to SDR7.522 million (\$10 million equivalent) and was fully disbursed in two equal tranches (SDR3.761 each).

²⁸ Current members of CAREC include Afghanistan, Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, People's Republic of China, Tajikistan, and Uzbekistan.

²⁹ The Common Action Plan included harmonization and simplification of customs procedures and documentation, endorsement of which is a monitoring condition for Tajikistan. Other areas covered under the Plan include (i) developing border posts and facilities; (ii) developing simplified transit systems; (iii) data consolidation, information sharing, and ICT development for customs operations; (iv) developing risk management and post-entry audit; (v) developing a regional intelligence system; and (vi) capacity building for regional customs organizations.

³⁰ The bilateral transit agreement is on the "Transit Movement of Goods by Road Transport through the Territory of the Republic of Kazakhstan".

³¹ The financial guarantee system is a key component of any transit agreement and defines the mechanism for collecting relevant payments if goods are lost in transit.

³² A bilateral agreement on joint customs control between the Kyrgyz Republic and Kazakhstan was subsequently signed in July 2006.

³³ By the time of second tranche release, DCS and the customs administration of PRC had already agreed on a framework for data exchange and were scheduled to sign a bilateral agreement.

³⁴ The Kyrgyz Republic signed bilateral agreements on mutual administrative assistance and customs cooperation with Mongolia in March 2004 and Azerbaijan in December 2004.

D. Disbursements

49. The proceeds of the loan were withdrawn in accordance with ADB's standard disbursement procedures.

E. Program Schedule

50. The loan to the Kyrgyz Republic was approved on 29 October 2002 and became effective on 20 December 2002, the date of the initial disbursement. The release of the second tranche was approved on 30 August 2004 while final disbursement occurred on 17 September 2004, almost 3 months after the original scheduled date (30 June 2004), due to a delay in complying with one loan condition. However, both the Government of the Kyrgyz Republic and ADB acted promptly to prevent further setbacks.

51. The loan to Tajikistan was approved on 29 October 2002 and became effective on 23 December 2002, the date of the initial disbursement. The second tranche was approved on 13 December 2004 and released on 3 January 2005. The loan was originally scheduled to be fully utilized by 31 December 2004.

F. Implementation Arrangements

52. Implementation arrangements were adequate to deliver outputs and achieve program objectives in the two countries. In the Kyrgyz Republic, the original program design (footnote 1) identified MOF as the Executing Agency for the loan and SCI as the implementing agency. MOF thus had overall responsibility for program implementation and for ensuring that policy measures were undertaken in accordance with agreed upon schedules, while SCI was tasked with carrying out institutional and organizational reforms. The Commission for Customs Reform and Modernization³⁵ was entrusted with overseeing and coordinating the Program.

53. Due to the reorganization within MOF, DCS replaced SCI as the implementing agency. The change did not adversely affect the Program but rather strengthened it, as rationalization of the organizational structure had in fact been part of the reform package and led to closer institutional coordination. The reorganization changed policy conditions only in terms of renaming the relevant government agencies.

54. In Tajikistan, MOF was also the Executing Agency for the loan. MSRD served as the implementing agency and key policymaking body for the customs sector while the Ministry of Economy and Trade provided support with regard to trade policy issues. The Program established the Consultative Group for Customs Reform and Modernization to serve as venue for interagency consultation and to coordinate international funding agencies (footnote 7). MSRD efficiently coordinated Program implementation.

G. Conditions and Covenants

55. The August 2004 progress report on the Program submitted to the Board stated that the Government of Kyrgyz Republic complied with all six policy conditions for release of the loan's second tranche.³⁶ The Government experienced slight delay in meeting one condition which

³⁵ CCRM is chaired by the Prime Minister and comprises representatives from MOF, SCI, the Prime Minister's Office, and international aid agencies, with ADB as the lead aid agency.

³⁶ Summary status of compliance of the Kyrgyz Republic is in Appendix 6.

required legislative approval in order to be met. Six out of eight monitoring conditions were similarly complied with at the time of second tranche release, with the remaining two only partly completed. Lack of resources held back compliance with one monitoring condition, but this was eventually addressed by approval for the RCMIDP. The other partially accomplished monitoring condition merely needed additional preparation time before it was eventually fulfilled.

56. The Government of Tajikistan complied on schedule with all eight policy conditions necessary for release of the second tranche, as indicated in the December 2004 progress report to Board.³⁷ Nineteen out of 25 monitoring conditions were fully complied with at the time of second tranche release, and the remaining six only partly fulfilled. Four conditions are being addressed by the RCMIDP.

H. Related Technical Assistance

57. Accompanying PPTA (TA 3950-KGZ and TA 3951-TAJ) was intended to assess the investment requirements for customs modernization and support implementation of reforms envisaged under the Program. The PPTA facilitated compliance with second tranche release conditions (electronic linkage of tax and customs agencies and development of an ICT strategy and investment plan) and several monitoring conditions (e.g., development of a comprehensive plan for constructing border infrastructure). The PPTA helped prepare the RCMIDP, which was approved in November 2004.

58. Accompanying RETA (TA 6058-REG) was intended to strengthen regional customs cooperation in order to establish efficient and effective customs systems that can facilitate foreign trade and investment. This RETA supported the Program with the establishment of the CCC, which facilitated compliance with one second tranche release condition (i.e., development of procedures for simplified transit shipment) and several monitoring conditions. A separate technical assistance (TA) completion report will be prepared for this RETA.

I. Performance of the Borrower and the Executing Agency

59. **Kyrgyz Republic.** Overall performance of the Government of the Kyrgyz Republic, with MOF as the Executing Agency, was satisfactory. The Government made significant progress in complying with second tranche release conditions at an early stage of implementation, specifically in rationalizing the organizational structure for customs operations and revising the Customs Code. This benefited the Program since a more effective institutional coordination enhanced revenue collection, while modification of the Customs Code was a major step toward complying with key policy conditions. Despite the delay in meeting a second tranche release condition,³⁸ the Government's commitment ensured that the actual date of compliance was not more than 3 months off from the original schedule.

60. DCS, as implementing agency, satisfactorily implemented the required operational and organizational reforms. The customs authorities' active participation in CCC activities bode well for the Program. DCS hosted the August 2003 CCC seminar in the Kyrgyz Republic, which developed communication protocols for data sharing among member countries, enabling the Government of the Kyrgyz Republic to comply with a monitoring condition.

³⁷ Summary status of compliance of Tajikistan is in Appendix 7.

³⁸ In close consultation with ADB, DCS is to develop and submit to the Government for approval regulations and associated supervision procedures on CSIs, such as brokers, declarants, and transit facility operators. Copies of submitted regulations are to be furnished to ADB.

61. **Tajikistan.** The Government of Tajikistan, with MOF as the Executing Agency and MSRD as the implementing agency, also performed satisfactorily. Despite continuing reorganization within the MSRD³⁹ and uncertainty regarding the timing of the revised Customs Code's ratification,⁴⁰ the Government eventually made headway in undertaking various policy reforms, especially those related to human resource and institutional development. The revised code was ratified on schedule, and key loan covenants were promptly complied with.

62. There were difficulties encountered in meeting conditionalities that required establishing an association of customs brokers and developing simplified transit shipment procedures, as meeting these conditions were to some extent beyond the control of the Government. Establishing a customs brokers association required private sector involvement, while simplifying transit procedures entailed consent of neighboring governments (e.g., through signing of bilateral agreements). Nonetheless, MSRD generally remained responsive to ADB's advice and comments, and it leveraged the CCC framework to meet policy conditions.

J. Performance of the Asian Development Bank

63. ADB's performance was satisfactory. Detailed economic and sector study allowed ADB to come up with a suitable program design. Supervision was also adequate with the support of ADB resident missions in the Kyrgyz Republic and Tajikistan. Three review missions from ADB headquarters assessed program implementation in each country (footnotes 4 and 5). These missions diligently noted and addressed possible drawbacks,⁴¹ reflecting the vigilance of ADB staff. ADB also ensured close coordination of the loan with associated interventions (i.e., accompanying PPTA and RETA) and maintained strong cooperation with other development partners.

III. EVALUATION OF PERFORMANCE

A. Relevance

64. The Program design was relevant to addressing constraints in the customs sector of the Kyrgyz Republic and Tajikistan, particularly those stemming from weaknesses in the operation and governance of customs administrations. The Program addressed these issues by supporting legislative reforms, organizational changes, and other policy measures meant to build institutional capacity and improve customs services.

65. The Program's objectives were consistent with the development priorities of the two countries, which both shifted to a free market system after gaining independence in 1991. Viewing international trade as a catalyst for economic growth, Governments sought to restructure their customs administrations and modernize customs operations. Expected

³⁹ MSRD established the Bureau of Modernization of Tax and Customs Services to formulate a comprehensive strategy that included (i) improving the country's tax and custom codes, (ii) modernizing customs through ICT, and (iii) human resource development. Formulation and implementation of such a strategy was crucial for compliance with second tranche release conditions, especially those related to human resource management (i.e., introduction of a staff appraisal system, reform of compensation schemes, and establishment of a human resource database).

⁴⁰ Without submission of the revised Customs Code to Parliament and endorsement by lawmakers, the Government of Tajikistan would have faced difficulties in complying with core conditions, particularly those requiring (i) identification of new customs regulations and procedures, and (ii) establishment of an association of customs brokers.

⁴¹ In the Kyrgyz Republic, potential risks to the program that were noted by ADB were delays in Customs Code ratification and difficulties in forging regional transit agreements. In Tajikistan, these also included the lack of private sector initiative in forming a customs brokers association.

outcomes of the Program remain particularly relevant in an increasingly integrated world economy. Apart from encouraging trade and improving balance of payment positions, greater customs efficiency was expected to increase revenue collection and create fiscal space for social services expenditures.⁴²

66. Program goals were also consistent with ADB's regional strategy to foster economic growth and reduce poverty in Central Asia and neighboring areas. In its three-pronged approach to regional development, ADB gave high priority to (i) trade facilitation and market integration, (ii) developing an efficient transport system, and (iii) cooperation in the energy sector to promote rational use of resources. Regional cooperation, a core component of the Program, was viewed as critical for political and economic stability. This is particularly so, as countries in the region are landlocked and hence more dependent on their neighbors for trade and transit movement.

67. The program design was therefore highly relevant with respect to the Government's development strategy and ADB's strategic objectives in the region. Program design could have been strengthened further through the use of quantitative targets and monitoring indicators in the program design and monitoring framework, which would in turn facilitate ex-post evaluation of program effectiveness. The absence of quantifiable indicators largely reflects the fact that many of the envisioned outcomes are not easily quantifiable. Nonetheless, indicators such as the time and documentary requirements for customs clearance and customs revenues could have been used to more effectively capture program effectiveness.

B. Effectiveness in Achieving Outcome

68. Notwithstanding the weaknesses noted above, the Program effectively brought the Kyrgyz Republic and Tajikistan closer to their goal of establishing an efficient and effective customs system that facilitates foreign trade and investment, encourages movement of goods and people, increases Government revenues, and promotes economic growth. The first desired outcome—strengthened governance, transparency, and institutional capacity—was achieved by (i) rationalizing the structure of their respective customs administrations; (ii) improving management and personnel policies (e.g., regarding recruitment, performance assessment, compensation, and promotions); and (iii) establishing procedures to increase customs sector performance and transparency through (a) creating a customs service information database, (b) annual survey of customs services, (c) producing publicly available annual reports, and (d) performing audits.

69. The second desired outcome—a stronger legal and regulatory framework consistent with international standards and conventions—was also satisfactorily achieved with the ratification of revised customs codes in both countries and development of related regulations.

70. The Program was likewise effective in improving operational efficiency of the customs sector to facilitate trade and improve revenue collection through adopting simplified clearance and control procedures, establishing electronic linkages to improve institutional coordination, and developing investment strategies for customs modernization. While lack of resources prevented the establishment of a complete risk management approach, this was eventually addressed by ADB through a project loan and technical assistance grant under the RCMIDP.

⁴² Improved revenue collection and greater trade owing to greater customs efficiency as well as generally better compliance due to simpler customs processes and tariff structures were seen to counterbalance the pressure placed by trade liberalization reforms on the two countries' fiscal positions.

71. The Program significantly enhanced regional cooperation by promoting the CCC framework. The CCC aims to promote concerted customs reforms and modernization and serve as a regional forum to address such issues of common interest as regional transit development. The CCC served as an essential institutional mechanism that facilitated the pursuit of policy reforms in the customs administration of the Kyrgyz Republic and Tajikistan.

C. Efficiency in Achieving Outcome and Outputs

72. Program implementation was highly efficient in Tajikistan. Loan covenants were complied with on schedule. The holistic approach taken to institute reforms, including support from accompanying TA, contributed to meeting the Program's objectives.

73. The Program was efficiently implemented in the Kyrgyz Republic. There was a brief delay in fulfilling a tranche release condition that called for adopting new regulations and supervision procedures for CSIs based on the revised Customs Code because a related law also had to be amended (footnote 27). With this exception, all other program measures were implemented in a timely manner.

D. Preliminary Assessment of Sustainability

74. Strong Government commitment and effective capacity building will most likely sustain program outcomes in both countries. Relative political stability in Tajikistan is a positive indication for sustainability of the reforms. The Kyrgyz Republic experienced a political change in March 2005, when the ruling Government was replaced during the so-called "tulip revolution." The new Government dissolved DCS and DTS and revived the SCI and State Tax Inspectorate, placing the two agencies directly under the Government of the Kyrgyz Republic instead of the Committee for Revenue of MOF. This latest reorganization is partly a return to the structure that existed prior to the organizational reform under the Program. However, the current Government of the Kyrgyz Republic has assured that, despite the change in organizational structure, its commitment to reforms remains strong. Moreover, many of the key supporters of reform in the customs bureaucracy have been retained in their positions.

75. Accompanying RETA provided substantial capacity building and knowledge-sharing through regional forums and country-specific training programs to promote sustainable customs reforms and modernization. The Kyrgyz Republic and Tajikistan have benefited from various regional seminars on trade facilitation, customs automation and data exchange, transit development, harmonization of customs procedures, customs intelligence, risk management and post-entry audit, among others.

76. ADB's continued support from additional funding for both countries' customs modernization efforts through the RCMIDP loan and accompanying TA can help sustain the improvements in the operational efficiency of the customs sector. In addition, the approval of another ADB RETA⁴³ (TA 6203-REG) in December 2004 to support phase II of CAREC's trade facilitation program will help ensure that institutional capacity will be further strengthened.

⁴³ ADB. 2004. *Technical Assistance for the Regional Trade Facilitation and Customs Cooperation Program (Phase II)*. Manila (approved in December, for \$900,000).

E. Impact

77. The Program contributed to institutional development in the customs sector through, among other things, improved organizational structures of the customs administrations, better human resource policies that enhance the rewards system for personnel and provide greater motivation for improved performance, and introduction of feedback mechanisms for the public.

78. The Program also contributed to developing a regional cooperation mechanism, helping both countries to cope with the demands of an increasingly integrated regional and world economy. By encouraging the country's active participation in regional forums as well as bilateral discussions, the Program has enhanced the Governments' abilities to forge external relationships and pursue cooperative endeavors.

79. In addition, advocacy of customs reforms has led to stronger cooperation between the public and private sectors. There is now a deeper awareness within the governments of the Kyrgyz Republic and Tajikistan of the important role for private CSIs in promoting efficient trade and the potential for mutually beneficial partnerships.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

80. The program loans to the Kyrgyz Republic and Tajikistan are each rated successful.⁴⁴ Program design was relevant for both countries, having addressed the most critical weaknesses in customs administrations. Program goals were consistent with country objectives and ADB's regional strategy. Accompanying TA grants helped in pushing forward the needed changes.

81. The Program was efficient as it brought the two countries nearer to their goal of improving the customs sector with only minor difficulties. Through various policy conditions, it has effectively improved governance and institutional capacity as well as operational efficiency of the countries' customs administrations, established a stronger legal and regulatory framework for the customs sector, and strengthened regional cooperation.

82. Strong commitment on the part of the Governments and effective capacity building of customs administrations, as well as ADB's continued support to customs reforms in both countries under the RCMIDP and TA 6203-REG, will most likely ensure sustainability of the results of the Program.

B. Lessons

83. **Need for a Long-Term View of the Reform Process.** Customs reforms deal with a variety of issues pertaining to a country's policies, laws, and institutions, particularly in transition economies. Considering the two countries' stage of development as well as the availability of resources, it was acknowledged during program implementation that all concerns cannot be suitably addressed by a single round of reforms. The process takes time and requires a long-term view. Every new set of measures should build on past reforms. Results of the Program made it clear that approval of the RCMIDP was essential to advance the reform process.

⁴⁴ The project completion report is part of a sample of completion reports independently reviewed by ADB's Operations Evaluation Department. The review has validated the methodology used and the rating given.

84. **Benefit of a Holistic Program Design.** Packaging the program loan with TA grants represented a holistic approach and regional perspective to customs reform and it also provided a built-in assistance program to facilitate government officials' efforts to implement required policy changes. Related PPTA, in particular, offered technical support in preparing various investment plans for future financing of customs infrastructure. With this technical support, together with TA 6058-REG, customs authorities recognized the benefits of customs modernization across and outside of CAREC member countries. This not only convinced customs authorities of the benefits of reforms but also made it possible for them to undertake the necessary reforms.

85. **Need for Sustained Policy Dialogue.** The fulfillment of a key policy condition in the Kyrgyz Republic was slightly delayed due to the need to first amend a pertinent law. To facilitate compliance with program conditions requiring passage of laws, it is important to undertake upfront and sustained policy dialogue with policymakers, members of Parliament and other stakeholders, including to disseminate the benefits of reform through seminars and workshops.

86. **Benefit of Regional Interaction and Cooperation.** Trade facilitation and customs reforms require intensive and ongoing cooperation and coordination with trade partners. Regional forums (e.g., those organized by the CCC) provide a good venue for multi-country discussions and a convenient launching pad for bilateral talks. Such meetings also build camaraderie among countries and their top officials, and they help foster regional economic cooperation. The governments of the Kyrgyz Republic and Tajikistan did not have difficulty fulfilling program conditions that called for bilateral agreements and negotiations, as neighboring countries also saw the benefit of such reforms and were therefore strongly supportive.

C. Recommendations

1. Program Related

87. **Future Monitoring.** Progress of reforms should be further monitored. With the appropriate legislation in place, focus would now be on enforcing regulations and procedures. In the same manner, it would be beneficial to follow up on the implementation of bilateral agreements. Implementation of the proposed investment plans that are now supported by ADB under the RCMIDP should also be monitored.

88. **Covenants.** Key policy conditions were satisfactorily complied with.

89. **Further Action or Follow-Up.** Government authorities must ensure that the results of the Program are maintained or enhanced. In particular, new laws and corresponding regulations and procedures should be enforced, electronic links sustained, investment plans implemented, and simplified transshipment procedures applied to a wider set of trade partners. Considering the importance of private sector intermediaries in developing a sound customs sector, the customs authorities in both countries should also continue to encourage activities of the newly formed customs brokers association.

90. **Additional Assistance.** Further support has already been granted to the Kyrgyz Republic and Tajikistan. This comes in the form of project loans amounting to SDR5.106 million (\$7.5 million equivalent) and SDR7.266 million (\$10.7 million equivalent), respectively, and a technical assistance grant worth \$500,000 under the RCMIDP, core components of which are to develop the envisioned UAIS and customs border-post infrastructures. Both countries, too, are among the beneficiaries of RETA to support phase II of the regional trade facilitation program.

91. **Timing of the Program Performance Evaluation Report.** Program performance evaluation should be undertaken in 2 to 3 years to have a better perspective of the impact of reforms on customs sector performance, in particular, and on trade, investment, and the economy, in general.

2. General

92. Given its positive experience and expertise in supporting customs reforms, ADB should continue its support, especially in modernizing customs infrastructure and procedures. Further support should focus both on country-specific investments as well as bilateral and regional initiatives to actively promote policy dialogue and region-wide agreements to enhance regional and global trade.

PROGRAM FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
Goal Promote sustainable economic growth and raise the living standards in Kyrgyz Republic, Tajikistan, and rest of the Central and East Asia region	Reform of trade and customs policy and legal framework, as well as strengthening regional cooperation among customs organizations Establish an efficient and effective customs system to promote and facilitate foreign trade and investment, encourage movement of goods and people, and promote economic growth Total trade both inter- and intra-region to increase by 30% during the program period.	Regular surveillance of economic and social indicators by government agencies, along with special review and studies to be conducted by Asian Development Bank (ADB) and other funding agencies	Continued political commitment to reform and social stability is a prerequisite for the public to maintain confidence. Public finance stress may crowd out necessary investment for customs modernization.
Purpose Establish an efficient and effective customs system by strengthening governance and the legal and regulatory framework, improving operational efficiency, and developing an effective mechanism for good regional cooperation	Improve responsibility, accountability, transparency, and institutional capabilities of customs organizations; strengthen the legal and regulatory framework in line with international standards and conventions; improve operational efficiency by providing adequate border infrastructure, inspection and servicing systems, and modern information and communication; and enhance good regional cooperation through harmonization of customs regulation and procedures, improvement in exchange of data with other countries, and simplification of transit procedures	Government agencies concerned to monitor implementation and evaluate implementation progress guided by Commission for Customs Reform and Modernization (CCRM) of Kyrgyz Republic, Consultative Group for Customs Reform and Modernization (CGCRM) in Tajikistan, and supervised by ADB review missions	The policy and institutional reforms and structural adjustments envisaged under the Program will lead to a major challenge for the Government to maintain a balanced reform process and effective interagency coordination and collaboration.
Outputs Strengthen governance and transparency while improving institutional capability	Rationalization of customs authorities' organizational strategy and structure Adoption of proper human resource policies, incentive structure, and capacity building	Government agencies concerned to monitor implementation and evaluate implementation progress, guided by CCRM and CGCRM and supervised by ADB review missions	Resistance from vested interests and territorial interests of various ministries Complexity in maintaining effective interagency coordination and collaboration

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
	<p>Improvement of performance and transparency; adoption of internal and external audits to ensure compliance and accountability</p> <p>Ensuring high staff morale by recognizing honesty and giving staff full responsibility for their actions</p> <p>Reduction of corruption in the form of collusive or coercive payments</p>		<p>Difficulties in maintaining smooth transition and public confidence in the restructuring and retrenchment process</p>
<p>Strengthen the legal and regulatory framework in line with international standards and conventions</p>	<p>Simplification of legislation and regulations for customs operations</p> <p>Harmonization of the tariff structure and commodity codes</p> <p>Improvement of legislative transparency and public surveillance to reduce abuses</p>	<p>Government agencies concerned to monitor implementation and evaluate implementation progress, guided by CCRM and CGCRM and supervised by ADB review missions</p>	<p>Delays in preparing, reviewing, and introducing legislation</p>
<p>Improve operational efficiency to facilitate trade and improve revenue collection</p>	<p>Provision of adequate border infrastructure, inspection and servicing systems, as well as modern information and communication technology</p> <p>Simplification of clearance and control procedures and shift from pre-clearance to risk-based, post-clearance audit verification</p> <p>Strengthened coordination between customs authorities, tax authorities, and the Ministry of Finance to facilitate and enhance revenue collection</p> <p>Development of properly supervised customs service intermediaries</p> <p>Strengthened efforts to combat smuggling and prevent revenue loss due to smuggling</p>	<p>Government agencies concerned to monitor implementation and evaluate implementation progress, guided by CCRM and CGCRM and supervised by ADB review missions</p>	<p>Lack of institutional capability in implementing the customs reform program</p> <p>Loose control and malpractice in conducting investment activities for customs modernization</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
Develop an effective mechanism for good regional cooperation	<p>Development of an effective mechanism for customs cooperation and conflicts resolution</p> <p>Harmonization of customs regulation and procedures</p> <p>Improvement in data exchange with other countries</p> <p>Simplification of transit procedures while increasing transit trade by 30% during the program period</p> <p>Implementation of at least two pilot joint border processing projects</p> <p>Establishment of satisfactory key bilateral relationships to promote trade flow</p>	Government agencies concerned to monitor implementation and evaluate implementation progress guided by CCRM and CGCRM and supervised by ADB review missions;	<p>Lack of commitment to cooperation</p> <p>Disagreement and lack of enforcement</p>
Inputs The proposed assistance will comprise program loans to Kyrgyz Republic and Tajikistan for customs and trade policy reforms, project preparatory technical assistance (PPTA) and regional technical assistance (RETA).	Subject to adequate progress in policy actions and the feasibility work, the second phase will comprise investment loans to Kyrgyz Republic and Tajikistan for customs modernization.	Government agencies concerned to monitor implementation and evaluate implementation progress, guided by Kyrgyz CCRM and Tajik CGCRM and supervised by ADB review missions	Commitment of key policy makers and of all Government agencies involved is key to successful implementation of the Program.
Program loans to Kyrgyz Republic and to Tajikistan, respectively, for customs and trade policy reforms	<p>\$15 million to the Kyrgyz Republic and \$10 million to Tajikistan</p> <p>Loans will be released in two equal tranches in both countries with the first tranche to be released upon loan effectiveness and the second tranche before June 2004 in the Kyrgyz Republic and December 2004 in Tajikistan upon satisfactory completion of the program's conditionalities.</p>	<p>Loan review missions</p> <p>Progress reports</p>	
PPTA (\$500,000 each for Kyrgyz Republic and Tajikistan) for preparing the Customs Modernization and Infrastructure Development	Examine existing policy environment, operational framework, and physical infrastructure	<p>Periodic TA reports</p> <p>Review missions</p> <p>Progress reports from</p>	Availability of counterpart support, and full cooperation between the consultants and counterpart staff

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
Project	<p>Conduct detailed due diligence and needs assessment of the investment component</p> <p>Perform technology audits</p> <p>Prioritize investment activities</p> <p>Develop the action plan for modernization</p> <p>Provide justification for investments based on cost-benefits analysis and financial and economic rates of return</p>	consultants	
RETA (\$2 million) for trade facilitation and customs cooperation	<p>Simplification and harmonization of customs documentation</p> <p>Development of border posts and facilities</p> <p>Development of simplified transit systems</p> <p>Data consolidation and information sharing, as well as information and communication technology development for customs operations</p> <p>Development of risk management and post-entry audit</p> <p>Development of a regional intelligence system</p> <p>Capacity building for regional customs organizations, including organization of seminars and curriculum design for joint regional training initiatives</p>	<p>Periodic TA reports</p> <p>Review missions</p> <p>Progress reports from consultants</p>	Availability of counterpart support and full cooperation between the consultants and counterpart staff
Potential investment in Kyrgyz Republic, Tajikistan, and other countries in the region for customs modernization and infrastructure development	<p>Information and communication technologies and facilities</p> <p>Management information</p>		

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
	<p>system</p> <p>Customs examination equipment</p> <p>Physical infrastructure for cross-border processing</p> <p>Associated technical assistance (TA) for implementation of new systems and procedures</p>		

POLICY MATRIX

Loan 1926-KGZ: Regional Trade Facilitation and Customs Cooperation Program
Tranche Release and Monitoring Conditions^a

Overall Goal		
<p>The overall goal of the assistance is to promote sustainable economic growth and raise living standards in the Kyrgyz Republic. An efficient and effective customs system will promote and facilitate foreign trade and investment, encourage movement of goods and people, increase Government revenues, and promote economic growth. Proper application and efficient collection of customs tariffs will increase government revenue and thereby provide more resources for fiscal programs. Increased efficiency in combating smuggling of consumer goods will increase revenues, and combating smuggling of illicit drugs and alcohol will help achieve social stability. Strengthened regional cooperation through efficient and effective customs service will facilitate trade and investments as well as improve access to regional and international markets.</p>		
Objective	Program Conditions	Status of Compliance and Remarks
A. Strengthening Governance, Transparency, and Institutional Capacity		
1. Rationalization of customs sector organizational structure	1. Department of Customs Services (DCS) to develop and submit for approval a rationalized organizational plan, a copy of which is to be provided to Asian Development Bank (ADB), consistent with DCS' mandate. The Ministry of Finance (MOF) and the agencies under MOF, including DCS, may be reorganized during the program period. ADB will be consulted on such reorganization involving DCS as it will affect the Program.	Complied with (prior to Board consideration). The Order of the Finance Minister on 15 May 2002 established a new structure for DCS. A Decree of the President of the Kyrgyz Republic on 1 August 2002 approved the plan submitted by MOF on "Reforming the System of the Ministry of Finance", which also covered DCS.
2. Adoption of proper human resource policies	2. DCS to develop a Concept Paper for Customs Reform to be approved by the Government upon recommendation of the Commission on Customs Reform and Modernization, and detailed Concept Papers for specific areas indicated in the general Concept Paper, copies of which are to be provided to ADB for review. The detailed Concept Paper on Improvement of Management and Personnel Policy at DCS should include: <ul style="list-style-type: none"> • Human resource policy, including recruitment policies for DCS that are transparent and fair, • Specific performance indicators and service standards for DCS staff, and • A staff appraisal system that evaluates staff's competencies and performance that forms the basis for promotions. 	Complied with (prior to Board consideration). The Concept Paper for "Customs Development in the Kyrgyz Republic (2002–2010)" was approved per Government Resolution No. 403 on 25 June 2002.
4. Improvement of performance and transparency	3. DCS to establish procedures for (i) undertaking an annual customs service survey, (ii) setting up a database of customs service information, and (iii) publishing the results on its web site, with a copy of the adopted procedures to be provided to ADB for review.	Complied with (prior to Board consideration). Government Resolution No. 513: "Plan of Measures on Implementation of Reform and Modernization of Customs Services," dated 22 August 2002, has specific

Objective	Program Conditions	Status of Compliance and Remarks
	4. MOF to establish procedures for DCS to produce and make publicly available an annual report for DCS starting from 2003.	stipulations for customs survey, compilation of statistics, and database construction. Complied with (prior to Board consideration). Procedures have been established as part of the aforementioned Concept Paper.
5. Adoption of internal audits to ensure compliance and accountability	5. MOF to establish procedures for the internal audit unit at MOF to undertake periodic and special audits of DCS.	Complied with (prior to Board consideration). Procedures have been established for the Audit Commission of MOF to conduct periodic and special audits of DCS. A sample audit report was submitted to ADB.
B. Strengthening the Legal and Regulatory Framework in Line with International Standards and Conventions		
1. Simplification of the customs code and regulations for customs operations	<p>6. Submission to Parliament of a revised Customs Code that is simplified as agreed upon in a memorandum of understanding with USAID and harmonized with World Trade Organization (WTO) requirements and the Revised Kyoto Convention.</p> <p>7. Revision of implementing regulations on customs issues to ensure compliance with the revised Customs Code. A list of regulations as well as drafts of such regulations will be submitted to ADB for review.</p>	<p>Complied with. The Customs Code was approved by the Legislative Chamber of the Parliament on 13 April 2004 and by the People's Representatives Chamber on 13 June 2004. The revised Customs Code, which is in line with the Revised Kyoto Convention and WTO requirements, took effect on 1 January 2005.</p> <p>Complied with. The working group at DCS identified and developed the list of regulations to be amended or developed and submitted the list of regulations to ADB on 10 December 2003 and drafts of the regulations on 6 May 2004.</p>
2. Simplification of the tariff structure	8. The Government to reduce the tariff bands from six to four in line with the Government's commitment to WTO by moving (i) items taxed at 20% to the 17.5% bracket, and (ii) items taxed at 6.5% to the 5% bracket.	Complied with (prior to Board consideration). Per Law of the Kyrgyz Republic No. 107 "On Changes and Amendments to the Law of the Kyrgyz Republic on Customs Tariffs for 2002," dated 7 December 2001.
C. Improving Operational Efficiency to Facilitate Trade and Improve Revenue Collection		
1. Improvement of revenue collection	9. Strengthen the policies for free economic zones (FEZ) by (i) prohibiting the export of goods produced in the FEZ into the domestic market unless there has been at least 30% value added and at least 15% for electronic goods and household appliances, and (ii) limiting domestic shipments to 30% of goods produced in the FEZ.	Complied with (prior to Board consideration). This was also monitored by the International Monetary Fund under the Poverty Reduction Growth Facility agreed upon in November 2001.

Objective	Program Conditions	Status of Compliance and Remarks
	10. MOF to establish revenue collection benchmarks for DCS based on proper econometric forecasting models.	Complied with (prior to Board consideration). Revenue forecasting models were developed with support from USAID.
2. Strengthening of the coordination between customs and tax agencies to facilitate and enhance revenue collection	<p>11. MOF to issue identification numbers to juridical persons to facilitate processing of payments of customs duties and taxes and to improve the information flow between Department of Tax Services (DTS) and DCS.</p> <p>12. With support of ADB project preparatory technical assistance (PPTA), MOF to develop electronic links between the computer networks and databases of DCS and DTS.</p>	<p>Complied with (prior to Board consideration). Per Government Resolution dated October 2001 on the "Creation of Single Registration System of Tax Payers to Improve the System of Taxpayers Accounting."</p> <p>Complied with. A direct electronic communication channel between DCS and DTS has been installed.</p>
3. Modernization of the customs administration through the use of information and communications technology (ICT)	13. With support of ADB PPTA, DCS to develop an ICT strategy and investment plan aimed at service automation, collection, reconciliation, and dissemination of information, and improve coordination with the Ministry of Finance, DCS, DTS, and the National Bank of the Kyrgyz Republic.	Complied with. A medium-term ICT strategy was developed to modernize customs services through a unified automated information system (UAIS). TA 3950 contributed to assessing the system and to developing an investment strategy that included a prioritized investment plan of key components, a list of required equipment, and financial analysis.
4. Detection of corruption in the form of collusive or coercive payments and strengthened efforts to combat smuggling	<i>14. DCS to develop and adopt procedures and crosschecks to detect corruption in the form of collusive or coercive payments.</i>	Complied with. Crosschecks have been incorporated in several regulations in customs operations. Disciplinary measures for customs officials involved in collusive or coercive transactions are specified in the Disciplinary Charter of Customs Organization.

Objective	Program Conditions	Status of Compliance and Remarks
	<p><i>15. With support of ADB regional technical assistance (RETA), DCS to improve intelligence gathering and establish a database with risk profiles including the routes, premises, and markets that smugglers tend to use to enable DCS' anti-smuggling unit to assess risks and adopt necessary measures.</i></p>	<p>Complied with. (Partly complied with at the time of second tranche release.) The anti-smuggling unit regularly collects information from regional offices, border posts, and processing points; updates database accordingly; and disseminates updated information. However, lack of computer software, equipment, and trained personnel did not allow adequate risk management (e.g., risk profiling and risk assessment) at the time of the second tranche release.</p> <p>ADB provided additional financing under the Customs Modernization and Infrastructure Development Project, which included a project loan to the Kyrgyz Republic as well as a technical assistance grant. The project's core components are the development of a UAIS and customs border-post infrastructure. The planned UAIS includes a risk management and intelligence subcomponent consisting of (i) an intelligence database, (ii) a client registration profiles system, (iii) a goods intelligence system, and (iv) risk management methods and techniques.</p>
<p>5. Simplification of clearance and control procedures and move from pre-clearance to risk-based selective post-clearance verification</p>	<p><i>16. With support of ADB RETA, DCS to (i) adopt and make publicly available new customs clearance and control procedures harmonized with international standards and procedures aimed at improving service efficiency by introducing post-clearance verifications based on risk assessments and (ii) provide DCS staff with training in the revised procedures and practices.</i></p> <p><i>17. With support of ADB PPTA, DCS to develop and distribute to the staff of customs organization at the headquarters, regional offices, border posts and processing points a procedural and instruction manual for use in their daily operations. The manual would contain, among other things, the revised customs clearance and control procedures.</i></p>	<p>Complied with. Article 9 of the revised Customs Code introduced the concept of risk management as a customs operation principle. Article 349 describes the operational scope of audit-based methods of customs clearance. This is supplemented by the supporting procedure on post-clearance verification. DCS has conducted introductory training on the revised code.</p> <p>Complied with. (Partly complied with at the time of second tranche release.) The Government developed instructions for the revised Customs Code with regulations, but passage of the law was needed before these could be compiled into a manual and distributed to relevant offices.</p> <p>Manuals were ready to be distributed to local customs officers by the time the new Customs Code became effective in January 2005.</p>

Objective	Program Conditions	Status of Compliance and Remarks
6. Development of properly supervised customs service intermediaries	<p>18. In close consultation with ADB, DCS to develop and submit to the Government for approval regulations and associated supervision procedures on customs service intermediaries such as brokers, declarants, and transit facility operators. Copies of submitted regulations to be furnished to ADB.</p> <p><i>19. MOF to develop and submit to the Government for approval regulations that prohibit DCS staff to act as customs brokers, and impose sanctions or disciplinary actions for violations. Copies of submitted regulations to be furnished to ADB.</i></p>	<p>Complied with. The Government submitted to ADB drafts of the regulations on 6 May 2004. These were officially adopted on 24 August 2004 by an administrative order of the MOF. The regulations define (i) the scope of activities of customs brokers and declarants and (ii) warehouse operations, including transit facility operations.</p> <p>Complied with. Article 404 of the revised Customs Code stipulated the responsibility of customs officers that prohibited them from acting as brokers. The disciplinary measures for violations are described in the existing Code of Conduct for public officers.</p>
7. Support for trade facilitation and curbing illegal trade by providing adequate border infrastructure plus inspection and servicing systems	<p><i>20. With support of ADB PPTA, DCS to develop a comprehensive plan for construction and installation of border infrastructure, including basic search and examination equipment at border posts and processing points selected based on criteria agreed upon by ADB and DCS.</i></p>	<p>Complied with. The investment plan formulated by DCS included development of border infrastructure and purchase of special equipment. ADB's PPTA assessed the status of existing borders posts and developed an investment strategy in compliance with international best practices.</p>
D. Developing an Effective Mechanism for Regional Cooperation		
1. Establishment of a mechanism for customs cooperation in the region	<p>21. DCS to participate in the Customs Cooperation Committee (CCC) with members from Central Asian republics (CARs) and the People's Republic of China (PRC), and endorse the Common Action Plan to facilitate regional cooperation among customs with the aim of facilitating trade, curbing smuggling, and exchanging data and information.</p>	<p>Complied with (prior to Board consideration). The Director of DCS attended the CCC meeting in Urumqi in August 2002 and endorsed the Common Action Plan on behalf of DCS.</p>
2. Improvement in exchange of data among CARs and the PRC	<p><i>22. With support of ADB RETA, DCS to develop standard formats for databases and communication protocols for exchange of customs and trade data and information among CARs and the PRC.</i></p>	<p>Complied with. DCS participated in the CCC meeting to develop the scope and communication protocols for data sharing among member countries. It continued discussions on the scope of data exchange with PRC Customs, which led to the signing of a bilateral agreement.</p>
3. Simplification and harmonization of transit procedures	<p>23. DCS to establish procedures satisfactory to ADB for simplification of transit shipment procedures.</p>	<p>Complied with. DCS signed a bilateral agreement on transit shipment with the Kazakhstan customs organization on 26 March 2004. A simplified procedure for controlling transit shipment was accordingly developed to supplement the agreement.</p>

Objective	Program Conditions	Status of Compliance and Remarks
4. Establishment of satisfactory key bilateral relationships to promote trade flow	24. <i>Within the regional cooperation framework, initiate bilateral negotiations with key trade partners to improve bilateral relationships.</i>	Complied with. DCS initiated meetings with counterparts in PRC (on data sharing), Kazakhstan (on joint border processing), and other CCC member countries (on transit proposals).

^a Second tranche release conditions appear in bold print. Monitoring conditions appear in italics.

POLICY MATRIX

Loan 1927-TAJ: Regional Trade Facilitation and Customs Cooperation Program
Tranche Release and Monitoring Conditions^a

<p align="center">Overall Goal</p> <p>The overall goal of the Program is to promote sustainable economic growth and raise the living standards in Tajikistan. An efficient and effective customs system will promote and facilitate foreign trade and investment, encourage movement of goods and people, and promote economic growth. Increased foreign trade and investment will help to strengthen the current account and balance of payments. Proper application and efficient collection of customs tariffs help strengthen the government budget and fiscal programs, and proper application of tariffs eliminates rent-seeking opportunities while promoting market competition. Effectiveness in combating smuggling will help achieve social stability, deter smuggling of narcotics and weapons, and allow domestic industries to realize growth potential. Better regional cooperation through improved customs helps to realize comparative advantage by gaining access to the regional market via proper transshipment arrangements.</p>		
Objective	Program Conditions	Status of Compliance and Remarks
A. Strengthening Governance, Transparency, and Institutional Capacity		
1. Rationalization of customs organizational structure, distribution of resources, and obtaining sufficient funding	<p>1. Ministry of State Revenues and Duties (MSRD) to develop a corporate strategy for customs operations, which will be provided to Asian Development Bank (ADB), aimed at rationalization of its organizational structure and optimal distribution of staff resources according to good international practices acceptable to ADB.</p> <p>2. MSRD to draft a proposal to Government to seek sufficient budget allocation to support proper operation of customs and maintain adequate incentives for staff.</p> <p>3. <i>Government to allocate sufficient funding to MSRD to support proper operation of customs during the program implementation period.</i></p>	<p>Complied with (prior to Board consideration). Customs and Tax Committees were consolidated into the MSRD per Decree of the President of the Republic of Tajikistan No. 745 "On Establishing the Ministry of State Revenues and Duties of the Republic of Tajikistan," dated 24 January 2002. Organizational structure and regulatory aspects of MSRD were provided by the Resolution of the Government of the Republic of Tajikistan No. 48, dated 12 February 2002 on "Issues of the Ministry of State Revenues and Duties." MSRD managed to reduce its staff by 20% by September 2002.</p> <p>Complied with (prior to Board consideration). A proposal was submitted by MSRD in accordance with existing procedures.</p> <p>Complied with. The budget to support tax policy reforms and customs modernization increased by 47% in 2003 and by 39% in 2004.</p>
2. Adoption of a proper human resource policy, incentive structure, and capacity building	4. MSRD to develop in customs area a staff manual with adequate (a) recruitment policies that are transparent and fair, (b) code of ethics, and (c) code of discipline.	Complied with (prior to Board consideration). A new staff policy in accordance with the Labor Code and the Law on Civil Services was adopted after the establishment of the MSRD. The newly formed agency adopted the model manual of civil service procedures and code of ethics developed under the World Bank's Second Institutional Building Technical Assistance (IBTA2) Project.

Objective	Program Conditions	Status of Compliance and Remarks
	<p>5. <i>MSRD to develop an operations manual and supporting administrative circular that meet ISO 9000 standards in order to institutionalize performance indicators and service standards.</i></p> <p>6. MSRD to introduce a staff appraisal system in customs organization that objectively evaluates staff's competencies and offers opportunities for career development and rewards for outstanding performance.</p> <p>7. <i>MSRD to establish a human resource database for customs staff, supplemented by job descriptions and selection criteria.</i></p> <p>8. <i>MSRD to conduct targeted training courses and design curriculums in line with international best practices.</i></p>	<p>Complied with. (Partly complied with at the time of second tranche release.) MSRD released a staff instruction manual in 2005 when the new Customs Code became effective. The manual could not be completed at the time of the second tranche release as the revised Customs Code was only newly approved.</p> <p>Complied with. MSRD adopted a staff appraisal system and new regulations on its performance-based appraisal system. It issued Order No. 238 on Appraisal System Criteria for MSRD staff on 3 October 2003.</p> <p>Complied with. MSRD created a database that includes detailed information on individual staff, job descriptions, and selection criteria. It is updated every quarter.</p> <p>Complied with. The training institute of MSRD offers more than 10 courses for both newly hired and regular staff. It adopted a new curriculum that conformed to international standards during the loan period.</p>
3. Improvement of performance and transparency	<p>9. MSRD to develop a guideline acceptable to ADB for publication of relevant statistical reports and policy and service information for the general public in a timely and accurate manner.</p> <p>10. <i>MSRD to undertake an annual customs services survey and publish the MSRD annual report, acceptable to ADB and make it available to the general public.</i></p>	<p>Complied with (prior to Board consideration). Statistics are prepared in accordance with the "United Methodology for Customs Statistics on External Trade of States-Participants of CIS" and "Guidelines for Users of External Trade Statistics (Eurostat, 1990)." MSRD began releasing a monthly publication and publicized its activities through the newspaper.</p> <p>Complied with. Customs Department of MSRD conducted a survey on customs services through its regional offices and published a quarterly report. It published a comprehensive 5 year report in 2004 and released its first consolidated annual report in 2005.</p>
4. Adoption of internal and external audits to ensure compliance and accountability	11. MSRD to establish an internal audit department which is capable of conducting periodic and special audits and ensure manuals and regulations are consistently adopted and enforced.	Complied with (prior to Board consideration). MSRD established the internal audit department (the Department of Inspection of Jurisdictional Branches) per Resolution No. 48, dated 12 February 2002.

Objective	Program Conditions	Status of Compliance and Remarks
	12. Government to establish routines for external Government audit agency to conduct periodic performance audits of the customs systems.	Complied with (prior to Board consideration). The Government audit agency was established on 22 April 2001. It conducts periodic audits of MSRD.
5. Ensuring high staff morale	13. <i>MSRD to adopt a plan, satisfactory to ADB, to reform compensation schemes in customs and establish a performance-based bonus system within the customs organization.</i>	Partly complied with. MSRD introduced various staff performance recognition programs that reward outstanding staff performance. However, the compensation scheme could not be introduced unless adopted for all public officers.
6. Reduction of corruption in the form of collusive or coercive payments	<p>14. MSRD to develop and adopt regulations, satisfactory to ADB, prohibiting customs officers from acting as customs brokers by imposing disciplinary action for violations.</p> <p>15. <i>MSRD to establish a transparent system for consideration of appeals and complaints that is operated conscientiously and with integrity,</i></p>	<p>Complied with. The revised Customs Code incorporated the proposed regulation. MSRD's Code of Conduct now prohibits customs officials from acting as customs brokers. Staff members violating this code are to be penalized according to disciplinary actions stipulated by the Decree on "Disciplinary Regulations of Customs Bodies of the Republic of Tajikistan."</p> <p>Complied with. MSRD established a system through which the private sector can appeal decisions or actions made by customs officials or authorities. Cases can also be brought to the court system of Tajikistan.</p>
B. Strengthening the Legal and Regulatory Framework in Line with International Standards and Conventions		
1. Simplification of legislation and regulations for customs operations	<p>16. MSRD to set up a working group for the revision of the Customs Code, comprising representatives from other agencies concerned.</p> <p>17. MSRD to submit to the Parliament the revised Customs Code to (i) avoid ambiguity and provide clear distinction of areas of coverage between primary laws and secondary regulations, (ii) ensure harmonization with the Revised Kyoto Convention and World Trade Organization (WTO) requirements.</p>	<p>Complied with (prior to Board consideration). A working group was established to develop a new draft of the Customs Code in line with Order No. 73 of the Minister of State Revenues and Duties, dated 15 July 2002. Revision of the Customs Code of Tajikistan was based on the draft Russian Code.</p> <p>Complied with. The revised Customs Code was submitted to Parliament on 30 September 2004. The revised Customs Code, which is in line with the new Kyoto Convention and WTO requirements, took effect on 1 January 2005.</p>

Objective	Program Conditions	Status of Compliance and Remarks
	<p>18. MSRD to develop implementing regulations under general provision of the Customs Code for day-to-day operations of the customs system.</p> <p><i>19. Government to draft the Law on "The Order and Conditions of Customs Services" to determine customs services legal status following the principle of integrity.</i></p> <p><i>20. As part of Tajik Government's overall effort to acquire WTO membership, Government to identify necessary amendment to laws and regulations in conformity with WTO requirements.</i></p> <p><i>21. Government to submit to Parliament amendments to key laws identified by the Government and agreed upon with ADB and to prepare corresponding amendments to regulations to be WTO compliant.</i></p> <p><i>22. Ministry of Economy and Trade to remove the licensing requirement for entities involved in foreign economic activities.</i></p>	<p>Complied with. MSRD drafted implementing regulations to supplement the revised Customs Code. Some of these regulations were adopted by administrative orders issued by the customs agency.</p> <p>Complied with. Section VI of the revised Customs Code defines the scope and conditions of customs services.</p> <p>Complied with. The Government introduced several laws to meet requirements stipulated in the WTO General Agreement on Tariffs and Trade and the General Agreement on Trade in Services. This formed part of the country's overall effort to acquire WTO membership.</p> <p>Complied with. Revision of the Customs Code and Tax Code were major legal reforms needed for WTO accession. The Government also adopted the revised Tax Code, which incorporated new regulations in line with WTO requirements.</p> <p>Complied with. In May 2004, Parliament approved a new Law on License where this requirement was removed.</p>
2. Harmonization of the tariff structure	23. Government to adopt a single customs tariff band of 5%, except those due to preferential rates and treaties, aimed at enhancing transparency and simplification of customs operations.	Complied with (prior to Board consideration). Per Government Resolution No. 187 on "Customs Tariffs of the Republic of Tajikistan," dated 30 April 2002.
3. Improvement of legislative transparency and public participation, along with surveillance to reduce abuses	24. <i>The Government to establish guidelines to ensure that any draft legislation developed for customs operations will be made available for review and comments by the general public through publication.</i>	Complied with. The Law of the Republic of Tajikistan states that legislative proposals should be made available to the public for review. The revision process of the Customs Code complied with this law.

Objective	Program Conditions	Status of Compliance and Remarks
C. Improving Operational Efficiency to Facilitate Trade and Improve Revenue Collection		
1. Provision of adequate border infrastructure, inspection and servicing systems, and modern information and communication technology	With support of ADB PPTA, MSRD to: <i>25. Develop a comprehensive plan for the construction and installation of customs border infrastructure, including basic search and examination equipment at high priority border posts and processing points.</i>	Complied with. The strategy developed under ADB project preparatory technical assistance (PPTA) included border-post infrastructure development as a major component.
	<p>26. Develop an IT strategy aimed at service automation, collection, reconciliation, and dissemination of information and improve coordination with the Ministry of Finance (MOF), Ministry of Economy and Trade (MET), National Bank of Tajikistan, Drug Control Agency (DCA), and other agencies.</p> <p><i>27. Implement the investment plan in customs border infrastructure, IT facilities, networks, and communications at key customs border posts and processing centers.</i></p> <p><i>28. Provide training for its staff in using and maintaining the customs examination equipment and the IT system.</i></p>	<p>Complied with. The information and communications technology strategy for customs modernization was developed with assistance from ADB PPTA. USAID supported development of a separate strategy for tax administration.</p> <p>Complied with. (Partly complied with at the time of second tranche release.) ADB approved the Regional Customs Modernization and Infrastructure Development Project (RCMIDP), consisting of a project loan and accompanying technical assistance, in November 2004 to support implementation of the investment plan. RCMIDP was implemented beginning in 2005.</p> <p>Partly complied with. Training will be provided during the course of implementing the RCMIDP.</p>
2. Simplification of clearance and control procedures and move from pre-clearance to risk-based post-clearance and audit verification	<p><i>29. MSRD to adopt new customs clearance and control procedures harmonized with international standards.</i></p> <p><i>30. MSRD to introduce post-clearance audit procedures based on risk assessments and preferred importer/exporter mechanism.</i></p>	<p>Complied with. Sections IV and V of the revised Customs Code contain 51 articles that describe the operational aspects of customs control. These articles are harmonized with international standards by incorporating recommendations of the Revised Kyoto Convention and by meeting specific WTO agreements.</p> <p>Complied with. Articles 433-435 of the new Customs Code introduce post-clearance audit procedures using risk management methods. MSRD set up the Division of Post-Clearance Control and Audit, which has collaborated with relevant tax offices and importers to implement a post-clearance procedure.</p>

Objective	Program Conditions	Status of Compliance and Remarks
<p>3. Strengthening of coordination among customs services, the tax services, Ministry of Finance, and banks to facilitate and enhance revenue collection</p>	<p>31. MSRD to develop electronic linkages among the computer networks and databases with its departments, MOF, MET, Ministry of Interior, Ministry of Security, DCA, border guards, and banks where the customs organization maintains payment accounts.</p> <p><i>32. MSRD to use ID numbers of juridical persons to facilitate processing of payments of customs duties and taxes and improve information flows.</i></p> <p><i>33. MSRD to integrate customs payments with the operation of a national single treasury account.</i></p>	<p>Complied with. The Government installed electronic links among MSRD, Ministry of Interior, Ministry of Security, and DCA. Electronic database exchange to combat smuggling began in February 2004. The electronic database exchange system involving MSRD, MOF, MET, the National Bank of Tajikistan, and DCA became operational in June 2004.</p> <p>Complied with. MSRD instructed compliance with Article 31 of the Tax Code of 1999 on the use of taxpayer identification numbers.</p> <p>Complied with. Customs duties are now paid directly to banks (near customs clearance points), which transfer payments to the single treasury account.</p>
<p>4. Development of properly supervised customs service intermediaries</p>	<p><i>34. MSRD to develop a regulation to prohibit customs officers to also act as intermediaries in line with international practices.</i></p> <p>35. MSRD to establish and make functional the association of customs brokers and participants of external economic activities as a self-regulatory organization.</p>	<p>Complied with. Same condition as number 14.</p> <p>Complied with. Government developed a statutory act to support the creation of a customs brokers association and facilitated discussion among brokerage companies. The association was established on 17 November 2004.</p>

Objective	Program Conditions	Status of Compliance and Remarks
5. Strengthening of efforts to combat smuggling and prevent revenue loss due to smuggling	<p>36. <i>MSRD to improve intelligence gathering and establish a database with risk profiles including the routes, premises, and markets that smugglers tend to use to enable the team to assess risks and take measures accordingly.</i></p> <p>37. <i>MSRD to develop training programs for the anti-smuggling team and ensure that it possesses adequate and proper equipment to effectively combat smuggling.</i></p>	<p>Complied with. (Partly complied with at the time of second tranche release.) To enable its anti-smuggling team to assess risks and adopt necessary measures, MSRD regularly collects information from regional offices, border posts, and processing points, and disseminates updated information. However, lack of computer software, equipment, and trained personnel did not allow adequate risk management (e.g., risk profiling and risk assessment) at the time of the second tranche release.</p> <p>ADB provided additional financing under the RCMIDP. The project's core components are the development of a unified automated information system (UAIS) and customs border-post infrastructure. The planned UAIS includes a risk management and intelligence subcomponent consisting of (i) an intelligence database, (ii) a client registration profiles system, (iii) a goods intelligence system, and (iv) risk management methods and techniques.</p> <p>Partly complied with. Customs officers will be appropriately trained when the proper equipment is installed at customs posts. In the meantime, officers working at customs clearance points and border posts were given on-the-job training.</p>
D. Developing an Effective Mechanism for Good Regional Cooperation		
1. Development of an effective mechanism for customs cooperation and conflict resolution	38. <i>MSRD to endorse the overall framework for regional customs cooperation initiatives sponsored by ADB and adopt effective mechanisms for customs cooperation and conflict resolution.</i>	Complied with (prior to Board consideration). Tajikistan endorsed the Common Action Plan during the first Customs Cooperation Committee (CCC) meeting in Urumqi, People's Republic of China. The plan aimed to facilitate trade, curb smuggling, and ease the exchange of data and information.
2. Harmonization of customs regulations and procedures	39. <i>MSRD to endorse regional harmonization efforts for customs regulation and procedures in accordance with the Revised Kyoto Convention and other international conventions such as WTO valuation standards.</i>	Complied with. The Government endorsed regional harmonization efforts and participated in the CCC meeting on Harmonization and Simplification of Customs Documentation and Procedures.

Objective	Program Conditions	Status of Compliance and Remarks
3. Improvement in exchange of data with other countries	<i>40. MSRD to develop standard formats, satisfactory to ADB, for databases and communication protocols for easy exchange of customs information with other countries in the region.</i>	Complied with. MSRD participated in the CCC meeting to develop communication protocols for data sharing among member countries.
	<i>41. MSRD to exchange information through the regional database to be established under ADB regional technical assistance as part of the anti-smuggling and anti-drug trafficking campaign.</i>	Complied with. The CCC initiative to establish a regional intelligence system and database was shelved as per advice of heads of customs agencies attending the second CCC meeting in Tashkent in October 2003. Instead, CCC activities will be used to strengthen member countries' participation in and encourage data sharing through the existing Regional Intelligence Liaison Office (RILOs are coordinated by the World Customs Organization).
4. Simplification of transit procedures	42. MSRD to establish procedures for simplification of transit shipments.	Complied with. MSRD reached an agreement with the Kyrgyz customs organization on 26 November 2004 to simplify transit shipment between the two countries. Accordingly, MSRD established a procedure for transit that regulates national level customs control to supplement the agreement.
5. Establishment of satisfactory key bilateral relationships to promote trade flow	<i>43. Within the regional cooperation framework, MSRD to initiate bilateral negotiations with key trade partners to improve bilateral relationships and simplification of procedures.</i>	Complied with. The Government reached several trade agreements with neighboring countries. It signed a bilateral agreement with the Kyrgyz customs organization on cooperation at entry points.

^a Second tranche release conditions appear in bold print. Monitoring conditions appear in italics.

DEVELOPMENT POLICY LETTER (Kyrgyz Republic)

Кыргыз Республикасынын
Финансы Министрлиги



Министерство Финансов
Кыргызской Республики

Ministry of Finance
of the Kyrgyz Republic

720040, Кыргыз Республикасы
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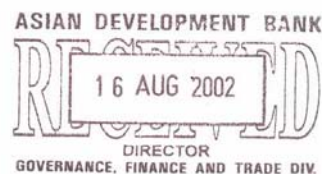
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на № _____

DEVELOPMENT POLICY LETTER

Mr. Tadao Chino
President
Asian Development Bank
Manila, Philippines



Dear President Chino!

The Government of the Kyrgyz Republic has launched a customs reform and modernization program to facilitate regional and international trade and strengthen the State Customs Inspectorate. In November 2001 the Government requested ADB to support these reforms with a program loan and technical assistance under the Regional Customs Cooperation Program.

Enhancing the customs service of the Kyrgyz Republic is necessary to adjust to world trends, international trading rules and requirements, customs principles and procedures to increase trade and investments.

The Regional Customs Cooperation Program aims to establish efficient and effective customs systems in the Kyrgyz Republic and the region that will facilitate foreign trade and investment, encourage movement of goods and people, and promote economic growth. The main components of the Program are: (i) strengthen governance and improve institutional capability of the State Customs Inspectorate, (ii) strengthen the legal and regulatory framework in line with international standards and conventions, (iii) improve operational efficiency to facilitate trade and improve revenue collection, and (iv) develop an effective mechanism for good regional cooperation.

The Government has closely coordinated with the ADB mission and other donors in formulating the RCCP framework. Through this development policy letter the Government hereby commits to take all measures needed to meet the objectives of the RCCP to ensure successful implementation.

The first component of the RCCP seeks to rationalize the State Customs Inspectorate by restructuring the organization to enhance efficiency, developing a human resource policy that promotes transparency in recruitment, performance evaluation and promotion processes. SCI's staff will also be trained in international procedures and practices as part of the modernization

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program for SCI and customs operations. Furthermore, the transparency of SCI's operations will increase by introduction of an annual customs survey with published results, and internal audits. SCI will also establish procedures to improve performance and transparency of its operations and develop procedures for an annual report of SCI that will be publicly available. The Concept Paper for Custom Reform for period 2002-2010 was approved by the Government of the Kyrgyz Republic by Resolution No 403 of June 25, 2002. At the moment, the Concept Paper is under consideration of Parliament of the Kyrgyz Republic. This Concept will contribute to the development of custom, investments flows and economic growth in the Kyrgyz Republic.

The second component aims to improve legislation make it compliant with the WTO agreement and the Revised Kyoto Convention, and harmonize it within the Eurasian Customs Union by 2004. A Procedural and Instruction Manual will be developed to help customs officers in their daily operations and ensure correct application of tariffs and smooth processing. Furthermore, the WTO agreement will be fully implemented in 2002 through rationalization of the tariff bands from six to four.

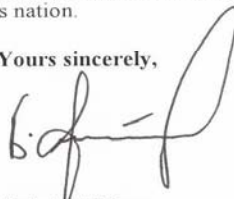
The third component will focus on improving operational efficiency by streamlining customs processes and procedures along international practice, and improve the usage of information and communication technology to support the new procedures and facilitate the necessary flow of information between border post and headquarters, and headquarters and other ministries.

The final component pertains to strengthening regional cooperation to facilitate trade and investments. To enhance regional cooperation a framework among the regions customs authorities will be established to effectively work with and oversee implementation of regional efforts supported by ADB technical assistance in training for customs officials, development of harmonized procedures for border crossings, transits, and risk-based audits. To effectively combat smuggling the Kyrgyz Government will work with the regional governments and enhance information sharing. Finally, on the Ak-Jul border post with Kazakhstan, joint processing of customs will be tested on a pilot basis in order to facilitate the flow of goods and people between the Kyrgyz Republic and Kazakhstan. The Government has been active in the establishment of a regional Customs Coordination Committee that will facilitate regional cooperation among customs authorities to facilitate trade, curb smuggling and exchange data and information in the region.

Hereby, the Government of the Kyrgyz Republic assures you that all the possible ownership on its behalf on Regional Customs Cooperation Program will be adhered to.

Using this opportunity I wish to express my deep respect and gratitude on the behalf of the Government of the Kyrgyz Republic for assistance provided by the Asian Development Bank in the course of economic reforms of this nation.

Yours sincerely,



Bolot Abildaev
Minister of Finance
Kyrgyz Republic



САРВАЗИРИ ҶУМҲУРИИ ТОҶИКИСТОН

ПРЕМЬЕР-МИНИСТР РЕСПУБЛИКИ ТАДЖИКИСТАН

THE PRIME-MINISTER OF THE REPUBLIC OF TAJIKISTAN

г. Душанбе

№ 12.2/6

27 августа 2002 года

Ваше Превосходительство,

Позвольте выразить искреннюю признательность лично Вам и в Вашем лице Азиатскому Банку Развития за поддержку и помощь, оказываемую нашей стране.

Правительство Республики Таджикистан успешно предпринимает последовательные шаги по укреплению основ государственности и реформированию экономики. Мы высоко ценим поддержку Азиатского банка Развития в проводимых экономических преобразованиях в Таджикистане.

В результате реализации Правительством Республики Таджикистан мер по реформированию экономики, осуществляемых при поддержке международных финансовых институтов, в последние годы сохраняется тенденция макроэкономической стабилизации и темпов экономического роста.

Однако географическое расположение Таджикистана и сложившиеся геополитические условия сдерживают в той ли иной мере развитие и расширение международной торговли.

При этом неразвитость таможенной системы становится препятствием для развития торговли и соответственно инвестирования. Правительство Республики Таджикистан, признавая важную роль таможенных органов в развитии рыночной экономики, приняло план по реформированию и модернизации таможенной службы, как часть общей программы Правительства по структурным преобразованиям.

Предлагаемая специальная программа реформирования таможенных органов на 2001-2005 годы направлена на повышение эффективности таможенного обслуживания и контроля, укрепления законодательной базы и оптимизации мер по тарифам. В этой связи Правительство Республики Таджикистан уже предприняло определенные шаги по совершенствованию законодательной базы, регулирующей таможенный режим. Проводятся

*Его Превосходительству
господину Тадао Чино
Президенту Азиатского Банка Развития
Манила, Филиппины*

мероприятия по реструктуризации государственных финансовых служб, в том числе Таможенной службы, включающие развитие системы компьютеризации таможенных служб, сокращения министерского персонала, разработку механизма отчисления от сборов на нужды таможенных служб.

Ускорение реформирования таможенных служб связано также с процессом вступления Таджикистана в ВТО, подготовительные мероприятия которого в настоящее время активно осуществляются в республике.

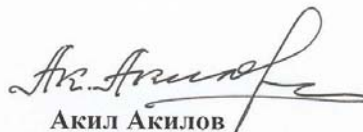
Правительство Республики Таджикистан в плане реформирования таможенной системы координирует свою деятельность с Миссией Азиатского Банка Развития и другими донорами и готово обеспечить реализации задач Региональной Программы по таможенному сотрудничеству (РПТС).

Предполагаемая программа является важным элементом общей стратегии развития, осуществляемой Правительством, которая направлена на развитие торговли и таможенных процедур, а также развитие транспорта и энергетики. В рамках наделенных полномочий, программа направлена на укрепление управления и институциональных возможностей для развития торговли и модернизации таможенных служб, а также для совершенствования системы и механизмов, способных помочь Таджикистану участвовать в конкуренции и дальше развивать торговлю, что в конечном итоге окажет поддержку в возрождении промышленной основы Таджикистана.

Мы надеемся, что реализация Региональной Программы по таможенному сотрудничеству (РПТС), подготовленная Азиатским Банком Развития, приведет к созданию эффективной и продуктивной таможенной системы, и в целом будет способствовать экономическому росту.

Со своей стороны, Правительство Республики Таджикистан обязуется принять все необходимые меры для реализации Региональной Программы по таможенному сотрудничеству (РПТС).

С уважением,



АКИЛ АКИЛОВ

**DEVELOPMENT POLICY LETTER
(Republic of Tajikistan)**

PRIME-MINISTER OF THE REPUBLIC OF TAJIKISTAN

Dushanbe

Ref. No. 12.2/6

27 August 2002

Your Excellency,

I would like to avail of this opportunity to express sincere gratitude personally to you and through you to the Asian Development Bank for support and assistance provided to our country.

The Government of the Republic of Tajikistan successfully undergoes gradual steps towards strengthening the basis of governance and economic reforms. We greatly appreciate the assistance from the Asian Development Bank in the ongoing economic reforms in Tajikistan.

As a result of the economic reform measures taken by the Government of the Republic of Tajikistan with support from international financial institutions, there is continuous tendency for macroeconomic stabilization and trends of economic growth observed in recent years.

However, the geographic location of Tajikistan and existing geopolitical conditions restrain the expansion of international trade. In addition the inefficient customs system is an impediment to trade and investment.

The Government of the Republic of Tajikistan recognizes the important role of customs in the development of a market economy and has adopted reform and modernization plans for customs services as part of the country's overall structural reform program.

A proposed special program of customs development for 2001-2005 is focusing on improving efficiency of customs service and control, strengthening the legislative framework, and optimizing tariff and nontariff measures. In this regard, the Government of the Republic of Tajikistan has already undertaken steps to strengthen the legislative framework and optimize the customs regime. The special measures recently taken to accelerate the process of restructuring government fiscal agencies, which include the customs services agency, covers computerization of customs services, reduction of ministry staff, and development of the mechanism for revenue collection for customs needs.

The acceleration of customs reforms also interrelate with the process of applying for WTO membership and the preparation activities are actively done in the Tajikistan Republic.

The Government has closely coordinated with the ADB mission and other donors in formulating the Trade Facilitation and Customs Reform Program framework and hereby commits to take all measures needed.

The proposed Program is one of the key pillars of the broader development strategy pursued by the Government which aims to foster trade facilitation and customs development, as well the development of transport and energy sectors. Within this broader mandate, the Program aims to promote good governance and the institutional structure that deals with trade facilitation and customs modernization, upgrade the systems and mechanisms to position Tajikistan better for the growing competition, and promote greater diversification in trade, which would eventually support a transformation of Tajikistan's weak industrial base.

We hope that implementation of the Regional Trade Facilitation and Customs Cooperation Program (TFCCP) prepared by the Asian Development Bank will promote establishment of an efficient and effective customs system and promote economic growth.

Hereby, the Government of the Republic of Tajikistan assures you that the possible ownership on its behalf on Regional Customs Cooperation Program will be adhered to.

Yours sincerely,

Akil Akilov

**SUMMARY STATUS OF COMPLIANCE WITH LOAN COVENANTS
(Kyrgyz Republic)**

Reference	Covenant	Status of Compliance
Loan Agreement, Attachment 2 to Schedule 3 (Conditions for Release of Second Tranche)	<p>(a) The Borrower shall have submitted to the Parliament a revised and simplified Customs Code as agreed upon in the MOU of 29 March 2002 and harmonized with WTO requirements and the Revised Kyoto Convention.</p> <p>(b) The Borrower shall have submitted to ADB a list of implementing regulations on customs issues to be revised to ensure compliance with the revised Customs Code, as well as drafts of such regulations for the ADB's review and revised such regulations to be compliant with the revised Customs Code.</p> <p>(c) The Borrower shall have developed electronic links between the computer networks and databases of DCS and DTS.</p> <p>(d) The Borrower shall have, with the support of PPTA, developed an ICT strategy and investment plan aimed at service automation, collection, reconciliation, and dissemination of information; and improving coordination between the MOF, DCS, DTS, and the National Bank of the Kyrgyz Republic.</p> <p>(e) The Borrower shall have, in close consultation with ADB, developed and adopted regulations and associated supervision procedures on customs service intermediaries, such as brokers, declarants, and transit facility operators; and furnished copies of such regulations to the Bank.</p> <p>(f) The Borrower shall have established procedures, satisfactory to the Bank, for simplification of transit shipment procedures.</p>	<p>Complied with by February 2004.</p> <p>Complied with by May 2004.</p> <p>Complied with by December 2003.</p> <p>Complied with by June 2004.</p> <p>Complied with by September 2004.</p> <p>Complied with by March 2004.</p>
Loan Agreement, Section 3.01	The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Program in accordance with the provisions of the Loan Agreement.	Complied with.

Reference	Covenant	Status of Compliance
Loan Agreement, Section 4.01	<p>(a) The Borrower shall cause the Program to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, foreign trade, and customs administration practices.</p> <p>(b) In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.</p> <p>Schedule 5 pertains to the use of counterpart funds, implementation arrangements, policy performance and dialogue, and program monitoring.</p>	<p>Complied with.</p> <p>Complied with.</p>
Loan Agreement, Section 4.02	The Borrower shall make available, promptly as needed, the funds, facilities and services and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Program.	Complied with.
Loan Agreement, Section 4.03	The Borrower shall ensure that activities of its departments and agencies with respect to the carrying out of the Program are conducted and coordinated in accordance with sound administrative policies and procedures.	Complied with.
Loan Agreement, Section 4.04–4.05	Sections 4.04–4.05 basically refer to the maintenance of records and documents on loan use and progress, with such documents and other reports submitted to ADB as requested.	Complied with.

ADB = Asian Development Bank, DCS = Department of Customs Services, DTS = Department of Tax Services, ICT = information and communications technology, MOF = Ministry of Finance, MOU = memorandum of understanding, PPTA = project preparatory technical assistance, WTO = World Trade Organization.

**SUMMARY STATUS OF COMPLIANCE WITH LOAN COVENANTS
(Tajikistan)**

Reference	Covenant	Status of Compliance
Loan Agreement, Attachment 2 to Schedule 3 (Conditions for Release of Second Tranche)	(a) The Borrower shall have introduced a staff appraisal system in the customs organization that objectively evaluates staff's competencies and offers opportunities for career development and rewards for outstanding performance.	Complied with by December 2003.
	(b) The Borrower shall have developed and adopted regulations, satisfactory to ADB, prohibiting customs officers from acting as customs brokers and imposing disciplinary actions for violations.	Complied with by December 2003.
	(c) The Borrower shall have submitted to Parliament the revised Customs Code to (i) avoid ambiguity and provide clear distinction between primary laws and secondary regulations, and (ii) ensure harmonization with the Revised Kyoto Convention and WTO requirements.	Complied with by September 2004.
	(d) The Borrower shall have developed and adopted implementing regulations required under the general provisions of the Customs Code for day-to-day operations of the customs system.	Complied with by November 2004.
	(e) The Borrower shall have developed an information technology strategy aimed at service automation, collection, reconciliation, and dissemination of information; and improving coordination between MSRD, MOF, MET, the National Bank of Tajikistan, DCA, and other agencies.	Complied with by September 2004.
	(f) The Borrower shall have developed electronic linkages among the computer networks and databases of MSRD, MOF, MET, Ministry of Interior, Ministry of Security, DCA, border guards, and banks where the local customs organization maintains payment accounts.	Complied with by June 2004.
	(g) The Borrower shall have established and made functional the association of customs brokers and participants of external economic activities as a self-regulatory organization.	Complied with by November 2004.

Reference	Covenant	Status of Compliance
	(h) The Borrower shall have established procedures, satisfactory to ADB for simplification of transit shipment procedures.	Complied with by November 2004.
Loan Agreement, Section 3.01	The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Program in accordance with the provisions of the Loan Agreement.	Complied with.
Loan Agreement, Section 4.01	<p>(a) The Borrower shall cause the Program to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, foreign trade, and customs administration practices.</p> <p>(b) In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.</p> <p>Schedule 5 pertains to the use of counterpart funds, implementation arrangements, policy performance and dialogue, and program monitoring.</p>	<p>Complied with.</p> <p>Complied with.</p>
Loan Agreement, Section 4.02	The Borrower shall make available, promptly as needed, the funds, facilities and services and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Program.	Complied with.
Loan Agreement, Section 4.03	The Borrower shall ensure that activities of its departments and agencies with respect to the carrying out of the Program are conducted and coordinated in accordance with sound administrative policies and procedures.	Complied with.
Loan Agreement, Section 4.04–4.05	Sections 4.04–4.05 basically refer to the maintenance of records and documents on loan use and progress, with such documents and other reports submitted to ADB as requested.	Complied with.

ADB = Asian Development Bank, DCA = Drug Control Agency, MET = Ministry of Economy, MOF = Ministry of Finance, MSRD = Ministry of State Revenue and Duties, WTO = World Trade Organization.