

AID-FOR-TRADE CASE STORY

GERMANY

Three-Party South-South Cooperation: Using Senegalese Knowledge and Experience to Improve Trade Administration Systems in Central Asia

Date of submission: January 2011

Region: Central Asia

Country: Kyrgyzstan (Kazakhstan, Tajikistan, Uzbekistan)

Type: Programme component, AfT category 2 (CRS code 25010)

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MINISTRY OF ECONOMIC REGULATION
OF THE KYRGYZ REPUBLIC

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On behalf of
Federal Ministry
for Economic Cooperation
and Development

CASE STORY IV

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Acronyms

ABT	Administrative Barriers to Trade
ADB	Asian Development Bank
AfT	Aid for Trade
BMZ	German Federal Ministry for Economic Cooperation and Development
CAREC	Central Asian Regional Economic Co-operation
CIS	Commonwealth of Independent States (of the former Soviet Union)
CRS	Creditor Reporting System (OECD)
EDB	Ease of Doing Business Report from the World Bank
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (German International Cooperation)
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (German Technical Cooperation)
IT	Information Technology
NTB	Non-Tariff Barrier
PCSW	Pre-Customs Single Window
TBT	Technical Barriers to Trade
UNECE	United Nations Economic Commission for Europe
USAID	United States Agency for International Development
WTO	World Trade Organization

Executive summary

This case story describes a successful case of three-party cooperation in the area of removing administrative barriers to trade, involving considerable know-how transfer from an African country. Central Asia is generally accepted as one of the most difficult regions for international trade due to its distance from the sea and the heavy burden of bureaucracy. The Kyrgyz government used practical examples and consultants from Senegal to introduce a pre-customs single window as a trade facilitation measure. The Senegalese model of a single window was found to be far better suited to the Central Asian context than examples and expertise from the more classical, leading trading nations.

Since the start of the programme in 2006, Kyrgyzstan has reduced by 60% the selection of forms that need to be filled out for foreign trade Tajikistan also shows similarly impressive results.

German development cooperation played a key role in promoting and financing this South-South cooperation. The knowledge resulting from the project has since been used in other countries both in the region and in Central America.

1. Issues addressed

Central Asia is widely recognized as one of the most difficult regions for international trade. Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan are situated thousands of kilometres away from the sea, transport infrastructure is mostly from the Soviet legacy and there are huge mountains hindering access to the East. Furthermore, human barriers in the form of inspections, taxes, police controls and other non-tariff barriers (NTBs) to trade exacerbate the isolation of these relatively small economies from each other and the rest of the world. This isolation leads to reduced opportunities for trade and a loss of potential earnings for its mostly poor inhabitants.

A Single Window for pre-customs procedures is widely recognized as one of the most effective ways to reduce NTBs. Currently a trader has to physically go from one administrative body to another, collecting the 15 or so forms and up to 20 signatures needed to gain official permission to import and export. This may take several days. Through an electronic single window the trader can simply log on to one internet portal using a prearranged code number, then fill out all the forms, pay the fees and receive the necessary certificates on-line.

Such pre-customs single windows (PCSW) already exist in more than 30 countries of the world: highly developed trading centres such as South Korea, Sweden and Singapore offer them, but also less technically advanced countries like Senegal, Ghana and Morocco. In 2006 Kyrgyzstan and the other countries of Central Asia decided to consider introducing their own single windows and asked for assistance through German development cooperation.

Clearly it was important to prevent energy and resources being spent on reinventing known concepts from scratch. The most relevant international examples of best practice had to be identified and introduced to the countries involved in a socially and technically appropriate manner. This paper is an account of how German development cooperation was used to systematically develop close cooperation between Senegal and Kyrgyzstan in a textbook case of tri-party support to transfer know-how from Africa to other regions of the world.

The overall programme is marked with a CRS Code 25010 and is thus an example of AfT category 2 "Trade Development" as the programme largely focuses on capacity development of business support services and institutions. However, this particular case which is one component of the programme, addresses the modernization of trade administration and would, as a stand alone measure, have been classified as AfT category 1 with the CRS Code 33120 (trade facilitation).

2. Objectives pursued

This case story concentrates on the programme's efforts to eliminate unnecessary Administrative Barriers to Trade (ABTs) in Central Asia. It should be noted that this is

only one of its two components, the other being to reduce Technical Barriers to Trade (TBT).

The programme's overall objective states: "*The structures for regional and international economic cooperation and trade in the Central Asian countries of Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan have improved.*" As an indicator of progress by 2014; "*In at least three Central Asian states, 2/3 of customs declarations are dealt with by single windows, one stop shops or comparable client orientated structures (baseline 2007: nil).*"

The programme also aims to raise the position of CA countries in the foreign trade category of the World Bank's Ease of Doing Business (EDB) report, which measures the number of documents, cost and time required for export and import. In 2007 all four countries were in the bottom third of an extracted list of 30 lower- and middle-income landlocked countries (Kazakhstan and Kyrgyzstan occupied the very last places). The programme aims to improve the rankings of at least three of the four Central Asian countries to reach the top third of the said list by 2014. This indicator was chosen because of the relevance of this particular ranking for the governments of the region. Each country has the ambition to improve its ranking not only to measure the effects of its efforts to reduce unnecessary bureaucracy, but also to enhance its image abroad and attract additional foreign direct investment (FDI).

The objective of the programme component "Reduction of Administrative Barriers to Trade" (ABTs) reads: "ABTs in regional goods trade are reduced." One of the indicators of progress is a 50% reduction, in at least two Central Asian countries, in the number of a) documents, b) signatures and c) days needed to gain official permission to import or export. The key approach used here is installment of an electronic, pre-customs single window in Kyrgyzstan, Tajikistan, Kazakhstan and Uzbekistan. Such a single window should allow business people to work more easily, thus increasing the region's attractiveness as a trading and distribution centre between the major markets of Asia and Europe.

Through the reduction in the considerable existing ABTs, and strengthening of the competitiveness of Central Asian businesses, the trade volume among the countries of the region (and also between the region and major global markets) should increase, thus creating new employment opportunities in trade and production sectors. At the highly aggregated impact level, this should contribute to sustainable, inclusive development and poverty reduction. Studies by the ADB indicate an inverse correlation in Central Asia between general growth in GDP and poverty rates.

3. Design and implementation

The programme “Support of Regional Economic Cooperation in Central Asia” is implemented by GIZ (formerly GTZ)¹ on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ). It is planned to run from 2005 till 2014 with a total volume of 16.5 million euros.

In 2006 the project team, consisting of forward-thinking staff of the administrations regulating trade in the respective countries and GIZ experts, accompanied several traders in their trips across the border. Both legal and informal trade procedures were identified and described. The team discovered that although informal trade procedures worked relatively efficiently, the official ones were among the most cumbersome in the world. This made the informal procedures even more attractive to business people, increasing the temptation for corruption (for both the traders and officials) and reducing the amount of tax money flowing into state coffers. These observations were corroborated by the EDB report which placed Central Asian countries as among the very lowest ranked in the world for the category of foreign trade.

Until this point, many governments in the region had not recognized the full seriousness of this problem, or its negative implications for state budgets and national economic growth. The project team needed further ways to capture senior politicians’ attention and encourage them to take concerted action so as to find a long-term solution. One suggestion that proved to be very effective was to run a study in each country showing the macroeconomic advantages of re-structuring the trade administration procedures and introducing best practice from abroad.

The studies showed that introducing the full set of instruments: i.e. PCSW, a single administrative document, a modern closed customs systems (including computerized risk management) and a one-stop shop at the border would increase GDP by around 1.5% and this for a relatively modest investment of three to five million USD². Also a simulator supplied by the World Bank was used to show the effect of implementing such measures in Central Asia³. It showed that the EDB trade ranking would improve by up to 50 places. These were prospects local leaders felt they could no longer afford to ignore.

In 2007 a pragmatic approach was adopted, namely to concentrate resources initially on making practical progress in Kyrgyzstan and then use this example to encourage other countries in the region to undertake similar reforms. Being the region’s only WTO member and not richly endowed with easily marketable natural resources, ease of trading was relatively more important to Kyrgyzstan, making its government enthusiastic about trade facilitation measures.

¹ The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH was formed on 1 January 2011. It brings together the long-standing expertise of the Deutscher Entwicklungsdienst (DED) gGmbH (German Development Service), the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH (German technical cooperation) and InWEnt – Capacity Building International, Germany.

² Please see Tapio Naula (2007): Simplifying Import and Export Procedures in the Kyrgyz Republic. GTZ. Bishkek. 2007. Similar publications by the same author are available for the other Central Asian countries.

³ Please see: <http://www.doingbusiness.org/reforms/reform-simulator> (version of 2008).

In order to proceed, it was essential to build a strong coalition among donors and local ministries. In early 2007 the Kyrgyz government decided the Ministry of Economic Regulation should be the lead implementing agency with support from State Customs. Among the international partners, GIZ would provide project management, USAID technical and legal expertise and the Asian Development Bank (ADB) would consider financial assistance.

Once it became apparent we had adequate backing, the Kyrgyz government decided to create a cross-functional team of local stakeholders and experts to draw up a concept for their single window. Particular care was taken to include private sector representatives, such as the customs brokers and freight forwarders associations, whose members would be the users and beneficiaries of the PCSW. These representatives consulted their members to orientate the working group towards the main problems involving trade. They also provided a useful “reality check” when trying to describe the administrative processes that needed to be re-engineered.

In order to motivate the group and show them such windows are a working reality in other countries, not just science fiction dreamed up by foreign specialists, a suitable practical example had to be found for the Kyrgyz partners to use as a base. Classic global best practice cases like Singapore, Hamburg and Hong Kong were studied. However, these busy ports handling several thousand containers per day did not seem useful benchmarks for Central Asian countries that may handle only a few thousand containers per month. Finally a specialist from UNECE came up with the tip of looking for a suitable benchmark in Senegal.

After some web research and phone calls to Dakar it became apparent the Senegalese state joint-venture company, GAINDE 2000, had a model of single window model that would be an appropriate base for our own countries. In early 2008 a group of 13 Central Asian specialists went to Western Africa to study how Senegal had managed to develop and set up a simple but effective pre-customs single window. The Senegalese welcomed us and for five days showed us how to introduce and run a single window. They arranged for us to meet with their staff, their clients and their political backers, so we could obtain a general overview of their situation. They were open and confident enough to show us not just their successes, but also their problems and lessons learned. We found it inspiring that, even in a country with several other development problems, a small dedicated team could manage to create an example of technical excellence. The Senegalese single window team had evidently managed to technically “leapfrog” the established global players, creating a completely new system designed for the internet and PCs, rather than trying to endlessly adapt legacy software made for a cumbersome mainframe computer from the 1980s.

Once we returned to Kyrgyzstan the project team got down to writing a “blueprint” to obtain government approval and ADB financing. To help discuss several of the trickier issues and their solutions, we invited specialists from GAINDE to visit Kazakhstan, Kyrgyzstan and Tajikistan. They convinced everyone who met with them with the depth

of their knowledge and their ability to think their way into our situation. For most given problems they were able to show us a range of possibilities, then stand back to let us consider and choose for ourselves.

By autumn of 2008 President Bakiev of Kyrgyzstan issued a decree to create a PCSW and the ADB awarded the government a 2.5 million USD grant as financial assistance. In 2009 the Kyrgyz government created a fledgling state company, Tulpar System, to start practical implementation. Several key experts from the international donor community were seconded to the company to reinforce local staff from the ministry. Once positive results in one Central Asian country could be shown, the others would soon become more interested.

Tajikistan, whose specialists also took part in the GAINDE visit, declared its interest in a single window in 2008 and subsequently started simplifying its trade procedures in order to facilitate computerization.

4. Problems encountered

Several local partners and even some private businesses had vested interests in keeping the old system running. Trade administration procedures that are transparent and user-friendly were seen as a direct threat. Additionally, even legitimate status symbols, like the number of staff employed in a government department, would be put into question by the project. Often ministries would not want to share information or would not trust information coming from elsewhere. For every administrative step we would have to ask ourselves very painstakingly: “Why do we need this information? What do we do with it?” and “Is there a more business-friendly, less invasive way of obtaining it?”

Local authorities are often structured to carry out their day-to-day work on a routine basis. They experience difficulty trying to implement future-based projects, experimenting and trying out new ideas. Often we would find ourselves entangled in a web of regulations and technical barriers to trade: “You cannot get rid of this form because it is required by the standards body to fulfill an international agreement among CIS states!”

Coordination among large donor and international organizations is not easy when it comes to purchasing and administration procedures etc. They all have different conditions which sometimes even contradict one another. Practical details get in the way: “Who will keep the original receipt for a jointly purchased object?”, “We can buy desks, but we cannot help them paint the walls or install an air conditioner!” etc.

Another very specific hesitance also appeared during initial contacts. As part of the Soviet Union, the Central Asian states used to provide technical and financial assistance to African countries. Twenty years later, it is difficult, almost embarrassing, for some civil servants (and even one national government) to accept that an African state-owned company could now offer them up-to-date technical advice. The project team tried to put

a positive spin on this one: “Here is the proof that your earlier assistance was effective.” Such general apprehensions about receiving support from Africa evaporated completely once the individual specialists started presenting their advanced ideas so convincingly.

5. Factors for success

A strong coalition was built up between the lead ministry and the donors. There were clear common objectives and indicators based on reliable economic studies. Each party’s particular strengths and role were defined. A feeling of interdependency and synergy was fostered. Cooperation became interesting, even fun, for the professionals involved who work together to take on an exciting, shared challenge.

Presidential support was key to securing agreement and cooperation between ministries. This support took the form of an original decree followed by regular monitoring and reporting through the President’s Investment Council. The President himself used the macro-economic data supplied by the project team to show the PCSW’s importance for the national economy (and the country’s image expressed through its EDB rating). These arguments were used to override individual or ministry resistance to reform. Private sector representatives were encouraged to speak up in public about their current problems with trade bureaucracy and the advantages they saw in the project.

Several examples from abroad were studied. The members of the cross-functional team of local people introducing the project could see in other countries what they wanted to install in their own. This meant they did not have to re-invent everything anew. When doubters among the civil service started saying “it cannot be done”, the PCSW advocates could convincingly reply “yes it can, we’ve seen it in Senegal, here is the video to prove it!” Later, the Senegalese consultants visiting Central Asia could even display simulated loads of goods being put through their companies’ PSCW in real time over the internet. This was a public demonstration of how confident they are about their IT system.

6. Results achieved

In Kyrgyzstan and Tajikistan the selection of forms that must be filled out for foreign trade has been reduced by 60% since 2007. As a result of re-engineering efforts to prepare for the single window the number of forms required per declaration in Tajikistan was reduced from 13 to 7. This cut down the time to get a 20-foot container to the nearest port by one day, which – as a rule of thumb – translates into a one percent increase of trade⁴, and reduced the respective costs to export by 500 USD.

Between 2008 and 2011 Kyrgyzstan improved its rating in the foreign trade category of the World Bank EDB report by 25 places. Its rating remains a relatively low 156, however this is partly tied to the country’s landlocked geographic location. The final

⁴ Djankov S, Freund C, Pham C (2006), Trading on Time, World Bank Policy Research Working Paper 3909, Washington, 2006. Downloadable at: <http://www.doingbusiness.org/research/trading-across-borders>.

completion of the trade single window in 2014 should raise the country several places higher. Kyrgyzstan was mentioned as one of the top 10 reforming countries two years in a row.

The ADB awarded Kyrgyzstan a 2.5 million USD grant in November 2008 to set up its PCSW. A company was set up which has already installed pilot systems in six partner ministries. The tender for the main server system was issued in December 2010.

In January 2011 the EU decided to grant Tajikistan 2 million euros to build a PCSW following a government request endorsed by the President. In the same month the President of Uzbekistan announced the inclusion of a PCSW for exports in the country's official economic development plan to be implemented by 2015.

It appears the programme is well on its way to achieving its stated goal of 3 out of 4 CA countries establishing a PCSW by 2014. In fact, as the Kazakh government set up a working group in January 2011 under the Vice Prime-Minister to study the issue, even all 4 countries involved in the programme may even enjoy the benefits of a PCSW by the time the project ends.

7. Lessons learned

A number of lessons were learned from this intervention. These relate to methodological matters, such as whether the right indicators were set and could be followed but also much broader issues.

Showing practical existing examples from other developing countries (rather than simply global best practice from highly developed economies) is particularly valuable. These examples should then be adapted by a cross-functional team of local specialists and ministry representatives in order to achieve ownership.

When undertaking strategic trade facilitation measures, support from the highest political levels, above the individual ministries, is essential. This assures the commitment and coordination from the ministries that is required to create efficient administration procedures focused on the needs of business. Regular (quarterly) monitoring of progress by a senior political figure over the medium term has proven particularly helpful.

International donors can work together to introduce trade administration innovation to a country if they build up local support on macro, meso and micro level involving both the public and private sectors. To work effectively common goals must be agreed and each organisation must contribute according to its particular strengths.

All indicators of this particular case were defined at the outcome level, measuring trade logistics performance at the medium- and long-term outcome level. Data was obtained either from available indicator systems (e.g. the EDB ranking) or own inquiries. There are quite some indicator systems available that can be drawn on to picture AfT

interventions. However, as these systems mainly measure trade performance on a much aggregated level, it is inevitably to also look at the sub-categories of such indices and/or collect own data. In both cases a baseline has to be set right at the beginning of the implementation process and indicators have to be quantified with concrete numbers in order to measure valid and reliable results.

Other indicators of the programme (not discussed here) focus on measuring capacity development and thus “structural changes” (short-term outcome level) which is an integral part of the program to ensure sustainability of its trade facilitation approach.

Impact indicators have not been set in the programme, but should be monitored and followed as well as these indicators allow for anticipating the overall success of an intervention. Although it is difficult to attribute single activities with changes on the impact level, such information is relevant to draw conclusions of the intervention’s effects on trade and economic performance as well as poverty reduction.

Finally, in a landlocked country-context like Kyrgyzstan it is important to be mindful of the fact that improvements in trade logistics performance in the country very much depends on parallel trade facilitation measures in neighbouring countries.

8. Conclusions (applicability to other programmes)

South-South technology transfers can be a particularly effective way of introducing trade systems innovation to a developing economy. Such transfers can and should be encouraged and sponsored by third parties from international and bilateral aid organisations. Senegalese examples inspired Kyrgyz politicians and experts to overcome scepticism and resistance and introduce a PCSW.

Kyrgyzstan is seen and respected as a regional front-runner in the field of trade facilitation. Its evident progress has sparked healthy competition for reform among its neighbouring Central Asian States. Central Asian Regional Economic Co-operation (CAREC), a major regional forum backed by the ADB is now considering the concept of a regional network of national single windows in Central Asia. This would allow a trader to simultaneously fill out information for export declarations for his home country and import documents for the country of destination. Such a system would also have great potential to facilitate transit procedures in the region.

The South-South spread of trade facilitation systems and knowledge based on the Senegalese model is continuing. In mid-2010 the project leader received a phone call from colleagues working on a regional programme in El Salvador, who are assisting the government there in expanding their existing exports single window to cover the more complicated procedures for imports and transit. In November 2010 he visited San Salvador and showed examples of global best practice which included a lot of GAINDE training material. In February 2011 a scoping mission by Central Asian GIZ staff will take place to Afghanistan to assess the potential for a PCSW there. If the mission shows positive results, one of our first recommendations will be a stakeholder visit to Dakar!