Caucasus Trade Facilitation Workshop
Promoting Private Investment in Transport and Telecommunications
In Armenia, Azerbaijan and Georgia

Final Report and Recommendations of the Workshop

Co-sponsored by
Georgian National Communications Commission
Georgian Ministry of Transport and Communications
World Bank
Private Public Infrastructure Advisory Facility (PPIAF)
Tbilisi, Georgia, June 18-20, 2001
EXECUTIVE SUMMARY:

The June 18-20 Caucasus Trade Facilitation Workshop in Tbilisi provided an opportunity for representatives of the governments of Armenia, Azerbaijan and Georgia, their business communities, NGOs, international organizations and donors to begin a dialog on specific potential areas for cooperation in the fields of transport, trade facilitation, telecommunications and information technology. The purpose of the workshop was to identify major obstacles to the development of trade, transport and telecommunications in the South Caucasus, and to consider regional strategies to overcome them, and encourage the inflow of private investment into the region’s transport and telecommunications infrastructure.

The Workshop was co-sponsored by the Government of Georgia, the World Bank, and the Private Public Infrastructure Advisory Facility (PPIAF). Discussions were based on a series of studies, carried out by the World Bank, identifying major weaknesses in transport, trade and telecommunications infrastructure in the region, which have hindered the region’s competitiveness and its ability to serve as a transport corridor between Europe and Asia. Participants in the workshop verified the findings, considered the experience of other countries in resolving such weaknesses, and proposed a series of concrete measures for cooperation, as part of an overall strategy.

The next step is for the governments of Georgia, Armenia and Azerbaijan to consider the conference findings and recommendations. At the same time the report will be distributed to participants of the workshop, and more widely to individuals, organizations and donors, who are concerned with these issues and may be interested in supporting the next stage of this work.

This Executive Summary summarizes the key recommendations of the workshop. The Report itself gives the strategy and recommendations organized around five themes: (1) Strengthening Policy and Regulations in Telecommunications; (2) Developing Private Investments in Transport and Telecommunication; (3) Enabling E-commerce and E-government; (4) Strengthening the Institutional Capacity of the Public Administrations Dealing with Trade and International Transport; and (5) Building up a Sustained Public-Private Dialogue. Detailed discussion from the Workshop, and a list of participants are available in the appendices to this report.

Key Recommendations for Telecommunications/Information Technology:
- Coordinating the timetables and marketing efforts of telecom privatizations and issuance of new licenses in the South Caucasus countries;
- Creating a regional entity to facilitate harmonization of regulation and attraction of private investment in telecom projects in the region;
- Harmonization of spectrum allocation and monitoring in the region;
- Optimizing and harmonizing import regulations for IT and telecommunications equipment;
• Simplification of licensing requirements for all providers;
• Support for and expansion of telecommunications infra-structure in rural areas;
• Conclusion of operator agreements on interconnection between operators in the region;
• Facilitating development of regional operators;
• Developing coordinated IT strategies in the region,
• Use of Georgian experience in legislation in support of e-commerce as a model for similar legislation in the other two countries;
• Exchange of experience and development of common frameworks for e-government;
• Creation of government websites to ensure access to information for enterprises and citizens of the region.

Key Recommendations for Transport/Trade Facilitation:

• Elimination of opportunities for corruption in public services dealing with trade and transport;
• Expansion of TRACECA national committees to include representatives of the business communities, chambers of commerce, associations of road transport operators, freight forwarders and other NGOs;
• Working-level Public-Private Fora to facilitate border crossing improvements (based on example of Bulgarian Pro-Committee);
• Explore possibility of shuttle freight trains for Poti/Yerevan and Poti/Baku to be operated as joint subsidiaries of the national railroads (and later privatized);
• Set up transport and trade facilitation joint website to publish information on border crossing procedures and conditions;
• Regular trade facilitation meetings among the transport, customs and other representatives of the Armenia, Azerbaijan and Georgia;
• Regular meetings for Ministers of Transport and staff from Georgia, Armenia and Azerbaijan to exchange information and experience on transport reforms;
• Support efforts by national associations of road transport operators to work with governments to liberalize regional road transport (introduction of multi-country road permits, free small vehicles from quotas, etc.)
• Establish a regional knowledge center for trade, transport and logistics offering training programs and a forum for specialists.
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The South Caucasus Trade Facilitation Workshop was based on the following Mission Statement: "To attain international competitiveness by creating the national and regional physical and institutional environment necessary to enhance intra-regional trade in goods and services, and significantly reduce the economic distance to key world markets.”

This Mission Statement was elaborated in five strategic goals:

- Strengthening Policy and Regulations in Telecommunications
- Developing Private Investments in Transport and Telecommunication
- Enabling E-commerce and E-government
- Strengthening the Institutional Capacity of the Public Administrations dealing with Trade and International Transport
- Building up a Sustained Public-Private Dialogue

Each of the five strategic goals was the subject of seminars that reviewed the current issues and obstacles, considered international experience in solving them, and developed proposals and recommendations for further action. This report summarizes the proposals and recommendations in each sector. The workshop discussions on each of the five strategic goals, along with introductory statements and a list of participants can be found in the appendices to this report.
RECOMMENDATIONS

1. **Strengthening Policy and Regulations in Telecommunications by harmonizing telecommunications policy and regulation in order to promote the region as a single market for private investment.** (For detailed discussion, please see Appendix 2.)

- **Create a regional entity to promote regulatory harmonization and private investment in projects in the region:**

  Such an entity would promote relations between regulatory authorities, the private sector and potential investors within the region. Its primary goal would be to support harmonization of the legal and regulatory framework in telecommunications and IT sectors, possibly also transport. This entity would also promote private sector investment opportunities in the region, coordinate donor assistance and facilitate the execution of projects in the region.

- **Simplify or eliminate licensing requirements:**

  Liberal entry, particularly in the ISP sector, without unnecessary regulatory burdens, will facilitate the extension of the Internet infrastructure within the region to areas currently without service and foster the emergence of region-wide ISPs.

- **Facilitate the emergence of regional operators:**

  Harmonized legal and regulatory frameworks would enable the creation of a single market for private investment in the sector and open the door for regional operators capable of exploiting economies of scale. Coordination between countries in privatization and new entry opportunities further supports this.

- **Harmonize spectrum management and monitoring in the region:**

  This includes creation of a regional co-ordination council dealing with frequency allocation in Caucasus countries based on implementation of the computerized Spectrum Management System (SMS) and effective Radiomonitoring and Radioallocation Systems. As a first step the current version of Basic Automated Spectrum Management System (WIN BASMS) developed by ITU, should be implemented in the three countries. Further, based on the recommendations of the 1999 La Valetta conference, the three Caucasus countries will create effective spectrum management centers following the creation of independent regulators. The first such center is already under consideration in Georgia and will facilitate training and regional dissemination. Further details on this proposal are provided in Appendix __.
2. Developing Private Investments in Transport and Telecommunication by:
(i) identifying and removing institutional and regulatory barriers, and (ii) introducing regional joint initiatives through a systematic dialogue between public and private bodies in order to simultaneously explore and maximize both national and regional attractiveness vis-à-vis international and local investor community.
(For discussion please see Appendix 3.)

1. TRANSPORT AND TRADE FACILITATION

• Develop and agree on the long-term economic vision for each country;

• Gather a capable non-bureaucratic forum of public and private decision-makers for designing a long-term regional economic vision, built on facts and realism

• Prepare a strategy for the development of logistic/distribution/industrial centers in the Caucasus region:

Based on the national and regional economic vision, a strategy should be prepared to promote a market-driven proposal for logistic/distribution/industrial centers. Such a strategy, followed by consistent actions by the respective Governments, would offer a good setting to attract investors. A regional approach is warranted in designing the enabling environment for attracting private investors in logistic/distribution and/or industrial centers, after having studied the different options and models.

• Accelerate the reform of transport institutions and Customs administrations in each country:

Georgia has made considerable progress by setting up the Ministry of Transport and restructuring it. Once these reforms are implemented, the policy and regulatory functions of the government will be organized for transport in a way, which meets the requirements of modern market economy. Through this restructuring, the Ministry of Transport will dissociate itself from the delivery of transport services, opening progressively the area to private investors. Sharing experience would be useful for the other two countries, and particularly for Azerbaijan, where the creation of the Transport Ministry and thus an integrated sector development management is a task in the future. On the other hand, the reforms initiated in the railways sector in Armenia could be of interest for the other countries.

• Establish an information database of transport and trade related laws and regulations, review and compare current legal framework between all
Caucasus states and identify critical irregularities and conflicts from a bi-
lateral and multi-lateral economic co-operation points of view:

A joint information database could significantly increase transparency for investors, accelerate the reforms, and at the same time support experience sharing across the Caucasus. It would enable to learn from the difficulties and pitfalls already encountered. Increased transparency would also further empower both the government and the business community to fight more effectively against corruption thereby attracting investors. A review of the legal framework should notably compare current legal taxation practices between all Caucasus states and identify optimal procedures from a joint business and trade activity points of view.

- **Initiate a shuttle train (freight) pilot project on two transit corridors:**
  
The creation of a joint subsidiary or subsidiaries to operate shuttle trains (freight) between Poti and Baku, and Poti and Erevan would enable a significant reduction in transport time and improved service delivery by railway operators. This trains would operate non stop between their origin and destination with advanced processing at origin to avoid delays at border crossing. This could be supported by the design of competitive multi-modal logistics operation and application of a joint tariff system in practice. The subsidiary could be privatized in due course.

2. **TELECOMMUNICATIONS**

- **Coordinate privatization and new entry calendars and promotion activities between the countries of the region:**
  
Though it may not be advisable to try to move with both current privatization processes (Georgia and Azerbaijan) in exact unison, given their different starting points, however, by working together, these countries can make it known to potential investors that both transactions will take place within a short time frame. This will allow potential investors to establish a regional strategy and enhance the attractiveness of both transactions. Issuance of new licenses in the future for new services, such as 3G mobile services, could be coordinated between the three countries, so as to make the regional market more attractive to potential investors.

- **Prepare thoroughly for privatization of state-owned assets:**
  
Privatization of telecommunications state-owned assets is not a trivial task, therefore governments should prepare thoroughly for this process, by establishing upfront a clear sale strategy, based on an open and transparent tender and clarifying ahead of time all the aspects of the regulatory environment and the exact structure of the transaction. The process should involve officials at the highest possible level, in particular the managers of the companies, in intensive
promotion activities, backed by a solid internal organization capable of answering promptly to all the questions and requests for information by potential investors.

- **Optimization and harmonization of import conditions of telecom and IT equipment:**

  The current structure of import duties and VAT payments for telecommunications and IT equipment imported into the countries of the region is complex and quite onerous for operators, discouraging technological development in the region. It is advisable to support measures aimed at simplifying and harmonizing these taxes and duties, as well as lowering their levels as much as possible (even down to zero) so as to encourage investment in new technologies, promote modernization of the infrastructure and overall technological innovation that will lead to economic growth.

- **Support the extension of telecommunications infrastructure to rural areas:**

  Currently, access to telecommunications infrastructure, and in particular to Internet services, is very low beyond the major urban areas. Governments should support initiatives to enhance the attractiveness to private investment of currently unserved areas, possibly based on international experiences of “smart subsidies”, of the type used in Chile, Peru, Nepal and other countries around the world.

- **Formulate correspondent and interconnection agreements between operators, in particular ISPs, in the region:**

  Operators in the region should formulate partnership and/or correspondent agreements and arrange for direct interconnection to originate and terminate traffic. Similarly, ISPs should strive to interconnect directly at any feasible point, although it is acknowledged that today it still does not make commercial sense to create an Internet Exchange Point in the region, given the low degree of regional traffic and the high cost of the existing fiber optic connections.
3. Enabling E-commerce and E-government in order to increase efficiency of government and businesses in the region through the use of Information Technologies (For discussion please see Appendix 4)

- **Development of coordinated IT strategies in the region:**

  Governments need to make IT a national policy priority, analyze the requirements and obstacles in the effective utilization of IT in the country, and establish priorities among those requirements. The development of such strategies could be done at a regional or national level, but coordination, both within and among countries, would allow the region to achieve economies of scale. Such IT strategies should take into account international trends towards outsourcing and involvement of the private sector in the provision of IT services, both within and outside of government.

- **Georgian experience in e-commerce legislation can facilitate formulation of similar legislation in the other two countries:**

  Given Georgia’s advanced situation in the drafting and discussion of e-commerce and e-signatures legislation, Armenia and Azerbaijan have expressed their interest in learning from the Georgian model, which can be achieved by establishing the appropriate communication channels between the relevant agencies in each of the countries. In this respect, the Development Gateway initiative, present in all three countries, is playing an important role in bringing the three countries together and disseminating best practices.

- **Governments should take the lead in implementing e-government legislation:**

  In order for e-commerce and e-government legislation, in particular on e-signatures, to be effectively adopted, government should take the lead in making use of it in their every day interaction between agencies, as well as with citizens and businesses.

- **Government agencies should create their own websites and make available on them all relevant information for businesses and citizens within the region:**

  As a first step towards e-government, and in order to improve government interaction with citizens and businesses, all agencies should be required to create and maintain their own websites, possibly interlinked through a unified government portal. All information posted should be available not only in the local language but also in Russian and English, so as to facilitate its diffusion within the region and worldwide.
• **Sharing experience and developing common solutions for e-government:**

All three countries in the region have expressed their interest in learning from each other’s experiences in this area, primarily from Georgia, and advance towards definition and implementation of common solutions and standards for government portals and e-government applications. The Development Gateway initiative, mentioned above, could be used as a platform for such purpose. Special attention should be paid to capacity building and training of government officials in the effective provision of e-government services.
4. Strengthening the Institutional Capacity of the Public Administrations
Dealing with Trade and International Transport to ensure the provision of
efficient public services, together with the requisite physical and institutional
frameworks, to optimize the provision of transport services.

I. Legal and Regulatory Framework

- Consider, select, promote and implement modalities to empower both the public
  and private sector in the fight against corruption;

- Constantly review with the private sector the legal framework to amend laws
  that impede the development of trade and to introduce needed laws;

- Introduce coordination mechanisms with private sector operators to streamline
  procedures and closely monitor their transparent implementation;

- Explore possibilities of multilateral liberalization of road transport (no permit for
  small vehicles/joint road permits) and harmonization of requirements on vehicles;

- Identify and review possible structures for the purpose of establishing a credible,
  independent ‘ombudsman’ in the area of trade facilitation;

II. International Standards and Documentation

- Promote the adoption of harmonized, multi-lingual documentation in the area of
  trade facilitation;

- Reduce the current level of transit fees, and seek to replace the old system of
  bilateral permits, with multilateral authorization;

- Introduce the monitoring and analysis of waiting times at the border and at
  clearance terminals to enable a re-engineering of procedures and facilitate the
  removal of obstacles to the free flow of trade; and

- Review the current international standards, to ensure compliance with, or
  movement towards, the requisite standard;

III. Greater Integration

- Launch initiatives that encourage multi-agency interactions at a policy, physical
  and operational level, such as pilot sites;
Foster co-operation between the different international bodies involved in trade facilitation in the region;

Clarify the lines of responsibility of the different national bodies involved in trade facilitation;

Assess the advantages of the extended deployment of ASYCUDA across the three countries.

IV. Improving efficiency of transport services and infrastructure

Improve transport investment planning and harmonize those of regional importance;

Huge backlog in maintenance of transport infrastructure has been accumulated in all the three countries. Therefore priority should be given to maintenance and rehabilitation of the network over new construction. Long term investment plans should be prepared in all transport modes and in each country with due attention to affordability of the program. Those parts of the national programs that have a regional impact (e.g. road sections leading to the border) will be regionally consulted and interventions harmonized to the extent possible in order to achieve the maximum benefit from infrastructure improvement along the main international corridors.

Roads: Restructure the Road Administrations, give priority to road maintenance funding to reduce vehicle operating costs, and revise and improve the road revenue and expenditure systems;

Roads are of essential importance for the development of trade and the economy, therefore road management efficiency improvements will have to be accelerated. Close cooperation between the customs and the road administrations is also required in order to stop traffic diversion to lower capacity road(s) only because of the less stringent customs controls at other sites.

Railways: Identify priorities for eliminating major speed limitations and in favor of competitive freight tariffs review the tariff setting mechanisms;

Explore the opportunities for shuttle trains between Poti and Baku, and between Poti and Yerevan potentially to be operated by joint subsidiary or subsidiaries, that could be privatized in due course (See 2.1); and

Ports: Reduce the time a cargo should stay within the port due to port and/or Customs inefficiencies.

Ports on the Back sea and the Caspian sea serve shippers and the growth of trade with the world both of the Caucasus and the Central Asian countries. Therefore their physical and institutional development needs to be combined with customs reforms
and other related border crossing facilitation in order to decrease waiting times and costs.

V. Improving Education and Information in the field of transport and trade facilitation

- **Develop and provide training for shippers, transport operators and forwarders in partnership with the business sectors:**

  Training requirements evolve rapidly in the fields of shipping, transport and forwarding. The Caucasus will need to develop an overall scheme for the education system in transport and logistics, including an institutionalization of training for transport operators and forwarders. The education scheme inclusive of vocational training would ensure that access to profession is opened only to qualified operators. An expansion to the Caucasus of the Global Facilitation Partnership Distance Learning Initiative for shippers, transport operators and forwarders could be considered as part of the effort. The education strategy should be supported by an overall financing plan and include clear plans to stimulate trade, transport and forwarders associations and non-governmental organizations in knowledge collection, processing and dissemination.

- **Establish a regional knowledge institute in the field of transport and trade facilitation, linked with national centers in Armenia, Azerbaijan and Georgia:**

  Based on the national approach above, a regional institute could be developed in cooperation with the transport sector, transport users and education/training institutions in logistics and transport in each country to broaden the pool of regional and international expertise available locally.

- **Explore the possibility to disseminate trade/transport laws and regulations through the preparation of both a comprehensive booklet and of a regional website using the expertise acquired in Southeast Europe under the Trade and Transport Facilitation Program in Southeast Europe:**

  The first tool to fight against corruption is the provision of all governmental entity requirements transparently.

  All applicable rules and regulations affecting trade and transport should be published and regularly updated for all three countries in the region and be made available electronically to the trade and transport community. The consultative national commissions (see next section) in close cooperation with the business community should undertake the overall responsibility for the preparation of this document.

  Under the Trade and Transport Facilitation Program in Southeast Europe, the Governments of six countries in partnership with the Chambers of Commerce and
PRO committees are preparing a coordinated regional website. This website will offer a continuously updated source of information on all applicable requirements from governmental entities interacting with international transport and trade. A similar approach would raise significantly the level of informed compliance among traders and transport companies in the Caucasus, by ensuring that they are aware of official requirements.
5. **Building up a Sustained Public-Private Dialogue via an efficient public-private partnership, based on combined resources, active dialogue, close and objective cooperation and perception of a common goal.**

- Representative of business associations, i.e. ngo-s and particularly the Road Transport Operators’ Associations and the Freight Forwarders’ Associations together with the national Chambers of Commerce should be invited to participate into the work of the national commissions created under the framework of the TRACECA Multilateral Transport Agreement.

- Business Associations and the Government should consider the creation of a bottom-up national forum. This forum can be in the form of a “Pro-Committee” type approach, using the model developed in South East Europe or other forms adequate to the South Caucasus countries. The purpose of this forum would be to empower the business community to improve trade and transit conditions through bringing all stakeholders (Ministry of Transport, Customs, Border Police, transport operators, freight forwarders, main shippers etc.) and thus through institutionalized public-private dialogue. This structure would enable regular exchanges to propose innovative solutions for barriers to transport and trade facilitation at national and regional level.