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# SmartLessons

*real experiences, real development*

## Putting Trade Logistics Reform "on the Map" in Armenia

*How can a country move up 54 places in the Doing Business "Trading Across Borders" ranking in just two years? Armenia did it through trade logistics reform — with help from IFC's Armenia Doing Business Reform and Regulatory Simplification Project, launched in February 2009. The Project team builds constructive relationships — including well-designed and consistent communication — with the Ministry of Economy, the Customs Service, and the private sector to identify key issues and challenges and to design and implement reform measures. A key element of this advice has been IFC's assistance in preparing a detailed Import/Export Process Map, used to guide trade logistics reforms. This SmartLesson explains the Project's design approach to trade logistics reforms in Armenia (which can be customized and implemented in other locations) and shares key lessons learned.*

### Background

Armenia is a small, net-importing, landlocked country located between the Black and Caspian Seas. It borders Azerbaijan (with which it has been in conflict since 1988), Georgia (recently in conflict with Russia), Iran (facing international trade sanctions), and Turkey (with which Armenia has not had diplomatic relations since 1991). Being landlocked — and surrounded by difficult geopolitical circumstances — amplifies Armenia's trade logistics challenges, making trade logistics reform critical. Since the early 1990s, Armenia has been reforming in the direction of trade liberalization. As an important step, Armenia was involved in the World Trade Organization (WTO) accession negotiations in the mid-1990s and became a member of the WTO in 2003. Efforts to comply with WTO rules stimulated and contributed significantly to the improvement of trade-related legal and institutional frameworks. Armenia has made further reform efforts to harmonize its regulations with those of the European Union (EU), and is currently negotiating a Free Trade Agreement with the EU.

However, a wide variety of challenges still confronted Armenia across different parts of



Because import/export procedures are complex, it is often difficult to pinpoint bottlenecks.

Photo Credit: Gagik Gabrielyan

the trade logistics supply chain. In 2009, the country was 136th in the Doing Business "Trading Across Borders" ranking. It took 30 days and 6 documents to export and 24 days and 8 documents to import. Critical trade logistics bottlenecks were:

- Large number of documents required for clearance, plus problems related to

document processing by multiple agencies, exacerbated by the lack of electronic self-declaration and clearance systems;

- Burdensome technical control carried out by multiple agencies at the border, causing goods to be detained at the border and leading to delays and increased costs, with technical control frequently requiring more time than customs;
- Lack of coordination between customs and technical control agencies, resulting in unsynchronized action and inefficiency, and requiring traders to travel multiple times to different agency offices;
- Low use of risk-based systems in customs and technical control procedures, resulting in an unreasonably high frequency of physical inspection of cargo; and
- Problems related to determination of the customs values of imported goods, in particular in following WTO principles in applying the transaction value method.

Because import/export procedures are complex and involve many different agencies, it is often difficult to identify where the real bottleneck resides. It is common for agencies to shift blame for delays. In Armenia, for instance, traders and other state agencies saw the Customs Service as the major source of delays. Conversely, the Customs Service argued that time delays were due to the inability of technical control agencies to conduct themselves efficiently — and to dishonest traders undervaluing cargo that required multiple inspections. Importantly, there was neither a clear understanding nor any appreciation of the complete trade logistics supply chain or of the customs and technical control procedures required in international trade.

## THE PROJECT

In response to a request from the government of Armenia, IFC launched an Advisory Services Project to support the business sector by providing advice to the government on improving the investment climate. IFC is implementing the Project in partnership with the Austrian Ministry of Finance, the Netherlands Ministry for Development Cooperation, the Luxemburg Ministry of Finance, and the Consortium of Commercial Promotion of Catalonia. One of the important components is Trade Logistics. The Project's Trade Logistics part takes the following approach:

- Prepare a detailed and comprehensive map of all the procedures, providing a broad overview accompanied by a detailed analysis of the import/export processes.
- Communicate extensively with all stakeholders to create a realistic assessment of the circumstances and build trust in the Project and its team.
- Identify the main issues and bottlenecks, including an analysis of the legal and institutional framework for trade logistics, and highlight potential short-term

quick wins and medium-term reforms.

- Assist relevant agencies in implementing the quick-win reforms.
- Build on the success of quick wins and dissemination plans with all the parties involved in trade logistics to create momentum for additional systemic medium-term reforms.

Using this detailed process mapping, the Project was able to identify and suggest to the government over 40 improvements, covering a large part of the trade supply chain. (See Box 1.)

### Box 1: Reform and Results

With the Project's assistance, the government adopted and implemented over a dozen improvements, including the following:

- Reducing the number of documents required for customs clearance (for example, elimination of prior written permissions for export/import of animal and plant products, elimination of certificates of conformity, and reduction in the number of documents required by the Customs Service);
- Simplifying six technical control procedures (certification of origin of goods, veterinary and phytosanitary control of imports/exports, mandatory conformity assessment of imports, control over the import of consignments including measuring devices, and export control over dual-use goods);
- Improving the risk management system (reducing customs and technical control costs for businesses during import/export processes, certification of origin procedures, veterinary and food safety controls, and assigning of green, yellow, or red channel for imported cargo);
- Preparing a Web-based interactive step-by-step detailed practical guide for businesses, now available on the Armenian Development Agency's website ([www.ada.am](http://www.ada.am)), which significantly increases the transparency of import/export procedures. This interactive map covers all procedures of customs and technical control at different levels of detail, with references to relevant documents and legal acts, and it can serve as a resource for traders as well as other parties involved in trade procedures.

## Lessons Learned

***Lesson 1: Process mapping works! It identifies pressure points and convinces skeptics of the need for trade logistics reform.***

At the beginning of the Project, the need for an overview of import/export processes became clear — to help policymakers understand the trade logistics supply chain, identify pressure points, and propose solutions. The key

counterpart agency was skeptical and believed the primary bottlenecks were outside of Armenia. The Project team, recognizing that a process-mapping exercise would help clarify the reality, conducted a preliminary study and analyzed Armenia's trade logistics supply chain. The team summarized the results of the study, together with recommendations for facilitating import/export-related procedures, in a "Trade Logistics Memo" that provided a bird's-eye view of the trade logistics supply chain within Armenia.

The memo became an excellent catalyst, sparking comprehensive discussions on the need to reform trade transactions by outlining the scope and scale of in-country bottlenecks. As a result, the client asked the team to prepare a more detailed and thorough process map to present a comprehensive picture of Armenia's trade procedures covering all trade related agencies. (See Figure 1.)

**Lesson 2: To achieve quick wins, it is important to capitalize on client goodwill.**

When the client requested a detailed process map, the team capitalized on the goodwill — established through the initial interactions — to also focus on identifying issues and constraints that could lead to quick wins. The team followed a dual strategy — building the process map (see Figure 2), and simultaneously opening discussions about pressure points with different agencies to drive the reform process and maintain momentum.

The process-mapping exercise served as a vehicle for intensive discussions with the Customs Service, the Ministry of Economy, and business to press for key reforms. The choice to do in-depth analysis of the import/export process



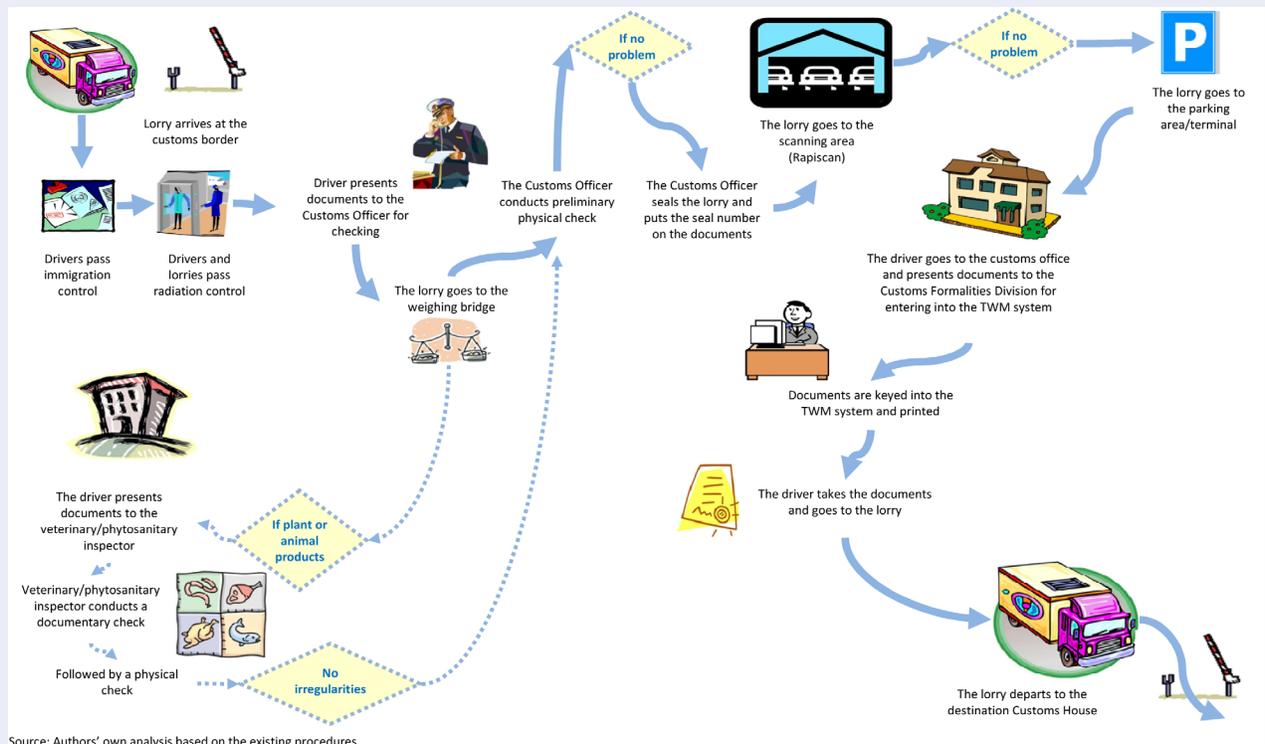
Requirements often caused delays of entire consignments.

Photo Credit: Gagik Gabrielyan

is critical. An extremely detailed mapping exercise can identify the exact pressure points. At the same time, you have to closely adhere to the big picture so as not to slow down valuable reform momentum. This approach — including both short-term wins and long-term dialogue — gave the Project credibility as well as the resources to tackle more difficult reforms later in the cycle.

Completion of the detailed process map also had other benefits. Some trade-related agencies did not see their control functions as bottlenecks, because they believed their roles in the trade transaction process were minor. For instance, the National Institute of Metrology was required

Figure 1: Procedure Map: At the Customs Border



Source: Authors' own analysis based on the existing procedures.

to inspect every imported measuring device at the point of entry. Goods subject to metrological control could be cleared only after successfully completing the certification process — that is, goods were detained at the customs border or customs warehouse until completion of the certification process. This requirement often caused delays of entire consignments of other goods, leading to increased costs for traders. The situation was similar for another technical control — mandatory certification (conformity assessment) of imported goods.

Detailing this process and bringing these findings to the attention of the Ministry of Economy, the lead agency for Doing Business reform, galvanized its resolve to revise the laws. As a result, these two technical control procedures were reformed. Sampling, testing, and certification are now conducted once goods have cleared and been transported to the importer’s premises, thus saving time and money for both businesses and inspection agencies.

Mapping resulted in quick-win reforms in six technical control procedures, including certification of origin (see Box 2).

**Lesson 3: To create strong partnerships that accomplish reform, you must build constructive relationships with multiple agencies.**

Detailed and comprehensive mapping involved extensive interaction with multiple agencies. The Project adopted an amicable, relationship-based approach to interactions with a mixed group of international and local experts. The team



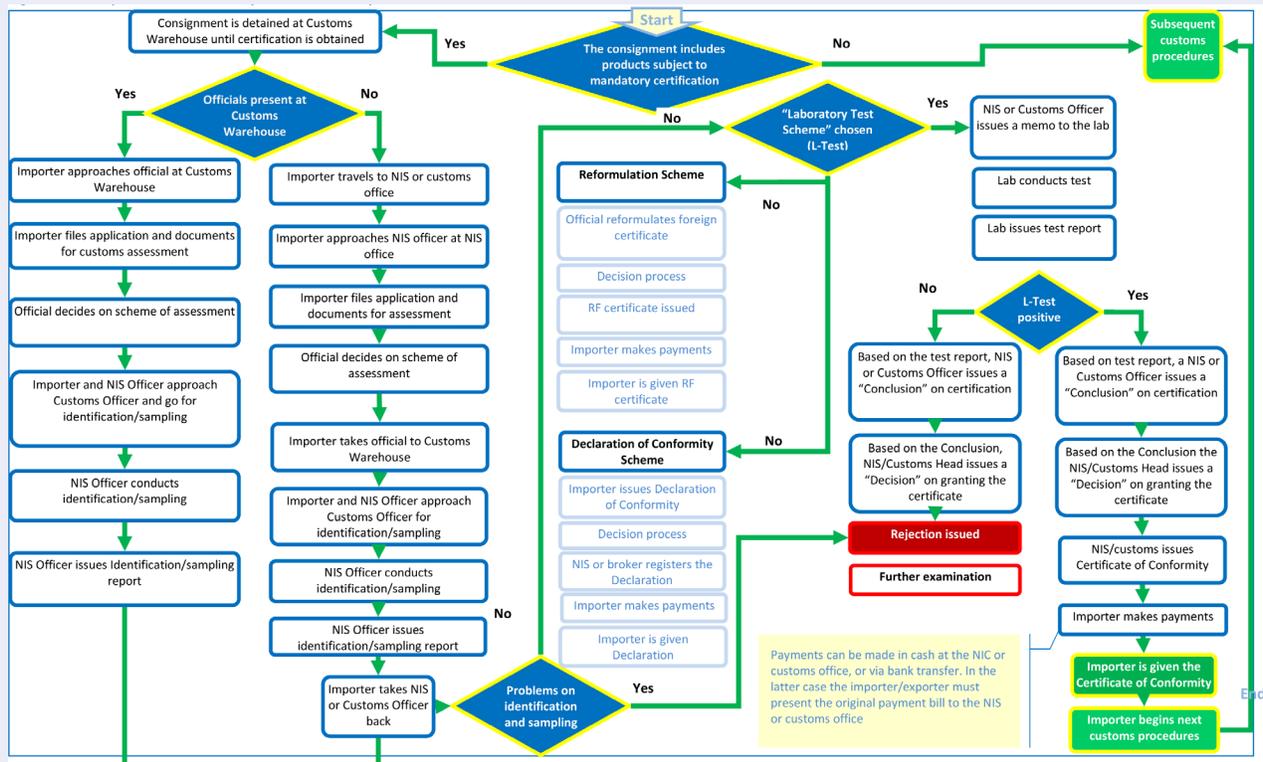
New procedures eliminate the requirement to sample and test all consignments at the border.

Photo Credit: Gagik Gabrielyan

also provided a bridge between different agencies with different points of view and became the go-to mediator.

At the beginning of Project activities, team members realized that they had to establish real trust, especially with agencies (for example, Customs) that have a long history of viewing businesses with distrust and considering them primarily as a source of state revenue. The Project team worked on building trust through consistent communication, addressing problems, building capacity, and helping

Figure 2: Procedure Map: Mandatory Certification of Imports



relevant agencies design reform measures. This was relatively easy, because the implementation was led by local experts from the team — people who knew local practices, procedures, laws, customs, and, most important, local attitudes. These experts, who took on the role of insiders, were complemented by the international expertise that helped bring best-practice credibility to the exercise.

**Lesson 4: Be alert to certain pitfalls — such as misperceptions and short-term “pain.”**

The team had to work consistently to ensure that IFC was not perceived as predetermining outcomes. Sometimes the sheer push for implementing reform was worrisome to the partners. The Project achieved credibility by communicating to counterparts that they themselves were the decision makers. It was important for IFC to be viewed as a facilitator rather than the change agent.

In some instances, it was necessary to help those who experienced short-term losses recognize the long-term benefits of the reforms. For example, reforming the procedure for certification of the origin of goods (Box 2) caused reduction of fee revenue for the Chamber of Commerce and Industry (CCI), which issues the certificates, and tested that group’s relationship with the Project. It was important to continually communicate clearly to the CCI the benefits of the reform to all the parties — and that the effective use of a risk-based system would increase the overall efficiency of CCI operations and reduce costs. This was particularly true with regard to excessive use of physical inspections and testing. The savings gained could be redirected toward the CCI’s core advocacy function.

**Conclusion**

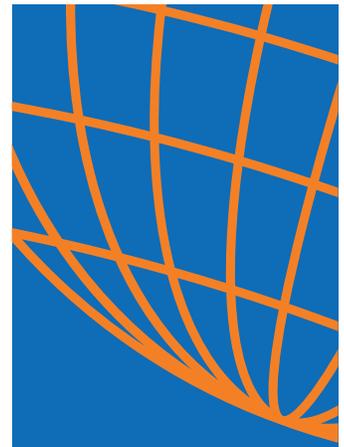
Import/export procedures are complex and involve many different agencies and interests. In Armenia, detailed yet all-encompassing process mapping was crucial for identifying where the real bottlenecks reside and for designing solutions to mitigate them. It was also critical to build trust and constructive relationships with state and other actors, for which a well-designed and consistent communication strategy was of utmost importance. This, combined with a quick-win strategy, catalyzed reform momentum and resulted in significant improvements to Armenia’s trade transaction processes.

**Box 2: Reforming Certification of Origin Procedures**

Certification of origin of goods, a technical procedure, was burdensome to traders, time-consuming, and costly, especially for small and medium enterprises. Obtaining a certificate of origin for only one type of a product in a consignment cost approximately \$100 and took five days. All consignments had to go through a physical inspection and testing process, adding further costs, including travel time for traders.

Based on the Project’s recommendations (resulting from a detailed analysis), the government reformed the procedure as follows:

1. Reduced the costs of certification of origin (both for testing and for issuing the certificate) from \$100 to \$50.
2. Reduced the need for testing by almost 50 percent by introducing testing on the basis of risk assessment. Rather than being subject to testing with every consignment, a given product type will be tested only on the first occasion of export and subsequently registered.
3. Increased the validity period of the certificate and testing report to one year, assuming no changes are made to the product.
4. Reduced the duration of the certification process from five days to three days, if products are tested, and within one day if no testing is required.
5. Envisaged the possibility of the “producer (exporter) declaration” method for certification of origin.



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