

# PROMOTING TRANSPARENCY AT REGIONAL CUSTOMS



Yerevan, Armenia

2002

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## The Project is Funded by:



Support was provided by the United States Agency for International Development through the Eurasia Foundation's South Caucasus Cooperation Program. Views and expressed in the brochure do not necessarily represent those of the Foundation and the United States Agency for International Development.

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## **INTRODUCTION**

Recent technological innovations that have significantly reduced the costs of transport and communications over the past decade, combined with dismantling of trade barriers, have led to the accelerated growth in global trade. Nowadays, in a highly competitive world environment, international trade and investment tend to flow towards more efficient and facilitative locations. Therefore, governments throughout the world have to make radical changes in their countries' economies to adjust to the ongoing developments of the global market. The global trade and economic competitiveness of nations are heavily dependent on the effectiveness and efficiency of customs procedures. Given the situation, customs systems and processes must not be allowed to be a barrier to international trade and growth.

In this respect, honest and transparent customs can more effectively legitimize international trade and simultaneously take appropriate actions against illegal activities. Customs have been internationally recognized as an institution critical to good governance, economic growth and protection of society. In the meantime, customs should maintain the right balance between the need to control and the ability to provide service. Typically, reformation and modernization processes, both at the policy and operational levels, are aimed at making the customs operations more efficient, effective, and self-reliant through better use of resources, strengthening of management capacities, and devising of appropriate systems, processes and structures.

Although significant progress has been made in reforming and modernizing customs all over the world, provision of high-quality services is not evenly spread among all customs administrations. In fact, most Post-Soviet countries, including Azerbaijan, Armenia and Georgia, are still suffering the ill effects of inefficiency and corruption at customs. Thus the promotion of regional development in the South Caucasus through trade facilitation and compliance is still a problem. Obviously, by meeting the current demands of global trade and sharing the benefits of being WTO members, those countries may significantly improve their welfare, though their integration with the global economy is being hindered by political and economic instability within the region.

Governments of all three South Caucasus countries, in cooperation with the international donor community, have already taken some steps towards WTO membership. One step was to bring appropriate legislation, regulations and procedures into conformity with the international norms. Armenia, Azerbaijan and Georgia have adopted new customs codes as well as numerous related legal acts and regulations. The new legislation, however, does not fully eliminate opportunities for corruption and abuse of power. In some cases it even creates corrupt opportunities. As an example can be mentioned the vague procedures and regulations that leave room for interpretation. Given the poor law enforcement, the ineffectiveness of complain mechanisms and the lack of control over the day-to-day functioning of the customs points and houses across the region, the overall climate at regional customs is still not quite favorable for domestic and foreign investments.

Moreover, due to the state budget constrains, that are commonplace for the South Caucasus economies, customs administrations are constantly under the pressure to increase state revenues by collecting more taxes. Since shady "agreements" between bribe givers and takers on tax and duty evasion negatively affect state revenues, thus the state budget gap is being filled at the expense of those who are not involved in illegal practices. Needless to say that such illicit operations bring to the investment outflow from the region. Another problem is that though there is a number of intergovernmental agreements intended to facilitate trade and transportation in the region, yet very few of them are being currently followed by appropriate authorities.

Recognizing the vital importance of having better functioning regional customs for the development of the South Caucasus, in September 2001 three non-governmental organizations, namely, the Center for Regional Development/Transparency International Armenia, Entrepreneurship Development Foundation of Azerbaijan and Association of Young Economists of Georgia, launched a joint project entitled "Promoting Transparency at Regional Customs". The project, funded by the South Caucasus Cooperation Program, the Eurasia Foundation, was designed to identify the main problems in the field, provide a forum for discussions and make relevant recommendations on how to improve the situation, as well as to enhance public awareness on the customs legislation, procedures and regulations.

The first stage of the project implementation included a desk research - legal and administrative inventory of the customs-related legislation in all participating countries. At the second stage, a survey, with a sample of 1,200 individuals and company representatives, was conducted to assess the general situation and evaluate

the specific factors of customs services at the Armenian-Georgian and Azeri-Georgian borders; examine the most critical customs-related problems; measure the average time spent at the customs points and houses, and the amount of unofficial payments made to customs officers; and identify the respondents' attitude towards corrupt practices. The respondents' awareness of the customs-related legislation, as well as the main sources of information was pinpointed in the survey. In the end, the surveyed individuals and companies were asked to suggest solutions, that they thought would improve the current situation.

The next stage of the project included the regional comparative analyses of desk, as well as field research results, that were afterwards presented and discussed with experts during the national and regional round-table discussions. Booklets in the native, Russian and English languages were published in all participating countries to provide individuals and company representatives, crossing the regional borders, with information on customs procedures and regulations.

This brochure is published in Russian and English. Chapter 1 introduces the history and structure of the customs administrations in three South Caucasus countries. Summaries of desk and field research results are displayed in Chapters 2 and 3. The lists of the customs-related legal and normative acts are presented in Attachment 1, while Attachment 2 consists of the results of the Armenian-Georgian and Azeri-Georgian surveys.

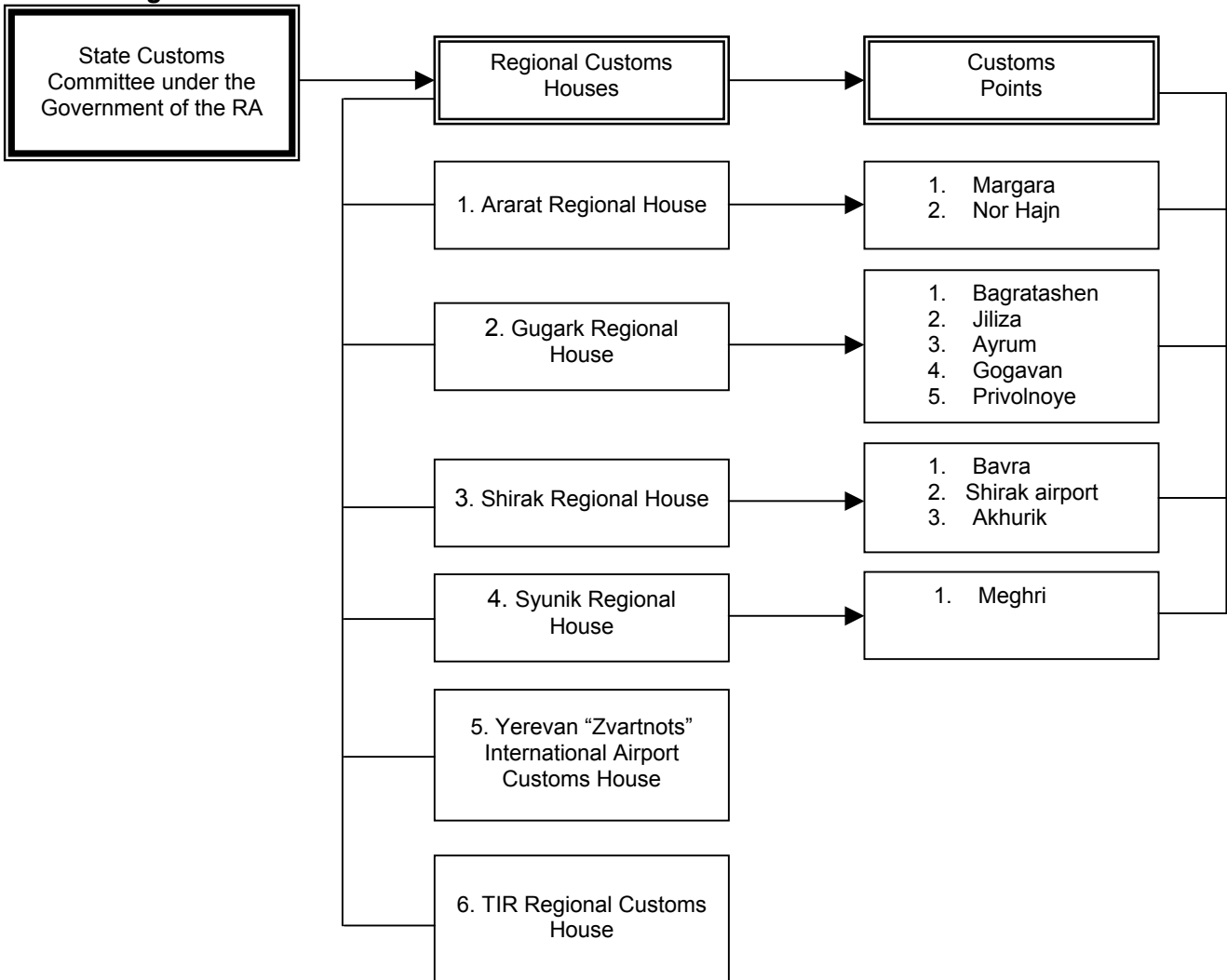
## CHAPTER 1: BACKGROUND INFORMATION

### A. Republic of Armenia

Since the first days of independence the Republic of Armenia (RA) has set a number of priorities for the development of national economy, including building of a fully-fledged market economy. In this respect, establishment of a new customs system was considered as one of the main pre-requisites for the promotion of a true market economy, and facilitation of trade and industry development in Armenia. The Customs Service System was created by the decree of the President of the RA signed on January 4, 1992. Today, all the customs bodies perform law enforcement functions and basically ensure application of the provisions of the customs legislation; supervise fulfilment of the requirements stipulated by the Customs Code; prevent, suspend and reveal violation of the appropriate laws and regulations; provide customs control and carry out customs formalities; fight against smuggling, illegal trafficking and crime; etc. **Chart 1** presents the structure of Customs Administration.

Initially, the customs legislation was slightly modified by the National Assembly of the RA on July 19, 1993. To move forward Armenia's accession to the World Trade Organization (WTO), several legislative acts and government decisions regulating the field were adopted as well (e.g. the Laws of the RA "On Customs Duties" and "On Customs Fees"). A new Customs Code was approved by the National Assembly of the RA on July 6, 2000, ratified by the President of the RA on August 9, 2000, and entered into force on January 1, 2001. Since the Code does not cover all the related legal aspects, a number of other legislative acts (such as the Laws of the RA "On Excise Tax" and "On Value Added Tax", etc), decrees, regulations, government decisions have been also accepted to regulate the entire range of customs-related activities in Armenia (see **Attachment 1a**).

**Chart 1. Organizational Structure of the Customs Administration of the RA**

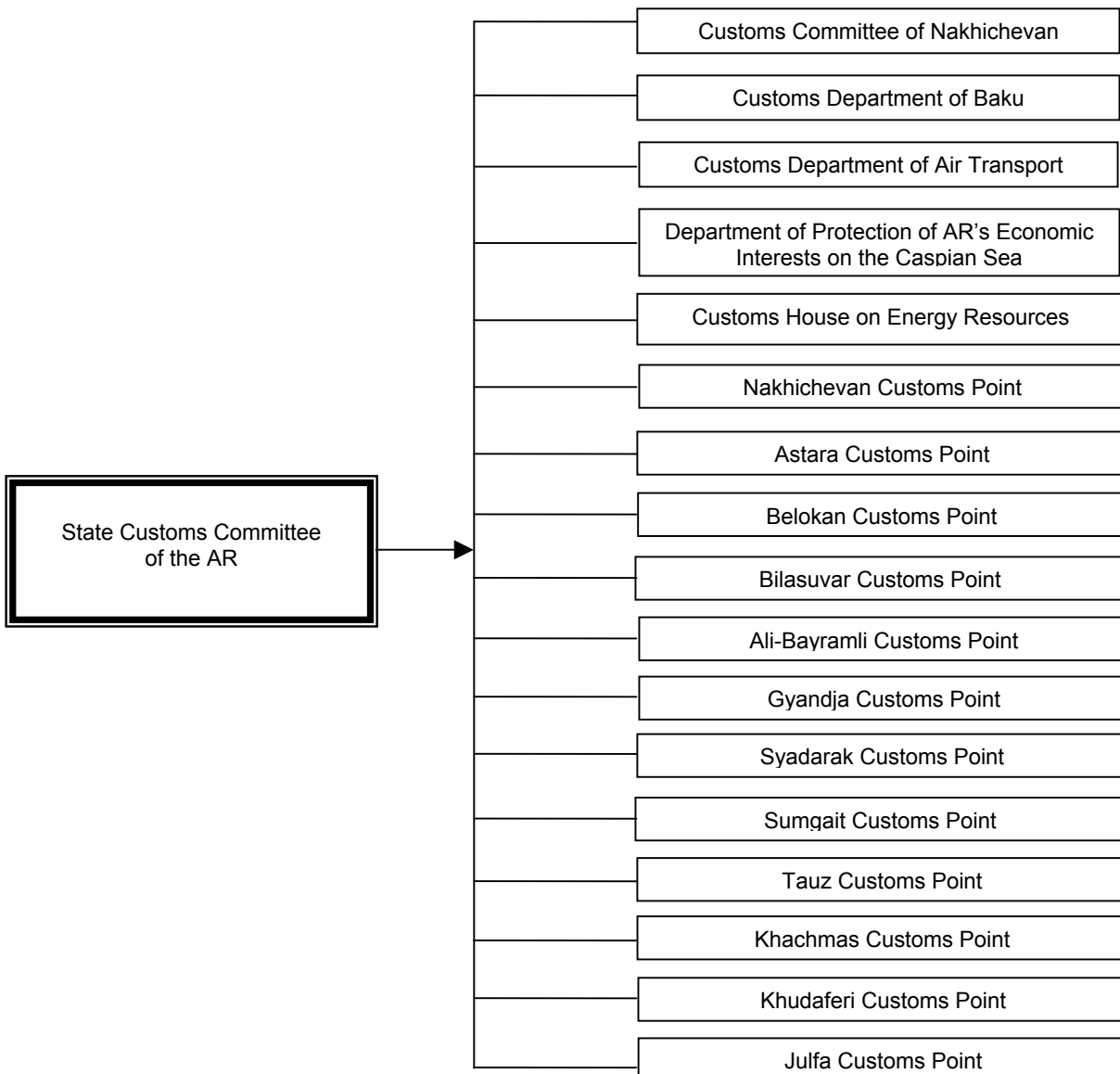


## B. Azerbaijan Republic

The State Customs Committee of Azerbaijan Republic (AR) was established by the President's Decree #561 on January 30, 1992. During its first year of existence, the main efforts were directed towards the solution of organizational issues, determination of the functions of the Customs Service, as well as its structure and number of staff. The key functions of the customs bodies' are enforcing customs legislation, ensuring economic safety of the country through controlling export and import of goods and vehicles, and developing and improving tariff-related policy. One of the most important functions of the AR Customs System is to collect state revenues in the form of customs duties and fees. The Customs System consists of the Committee, Departments, Houses, and Points (*see Chart 2*).

All the customs divisions are included in the State Customs Committee computer network. Initially, the Statistical Department was established within the Committee, which in 2000 was renamed as the Department of Statistics and Information Technologies. The Department's function is to gather and maintains all the relevant information. The customs-related activities are regulated by a number of legal and normative acts, decisions and instructions of the AR Cabinet of Ministers, State Customs Committee, as well as several international agreements (*see Attachment 1b*). On June 17, 1992 the State Customs Committee of the AR was accepted into the World Customs Organization (WCO). In 1999 it became a member of the WCO Finance Committee, and in 2000 was elected as a member of its Political Commission.

**Chart 2. Organizational Structure of the Customs Administration of the AR**

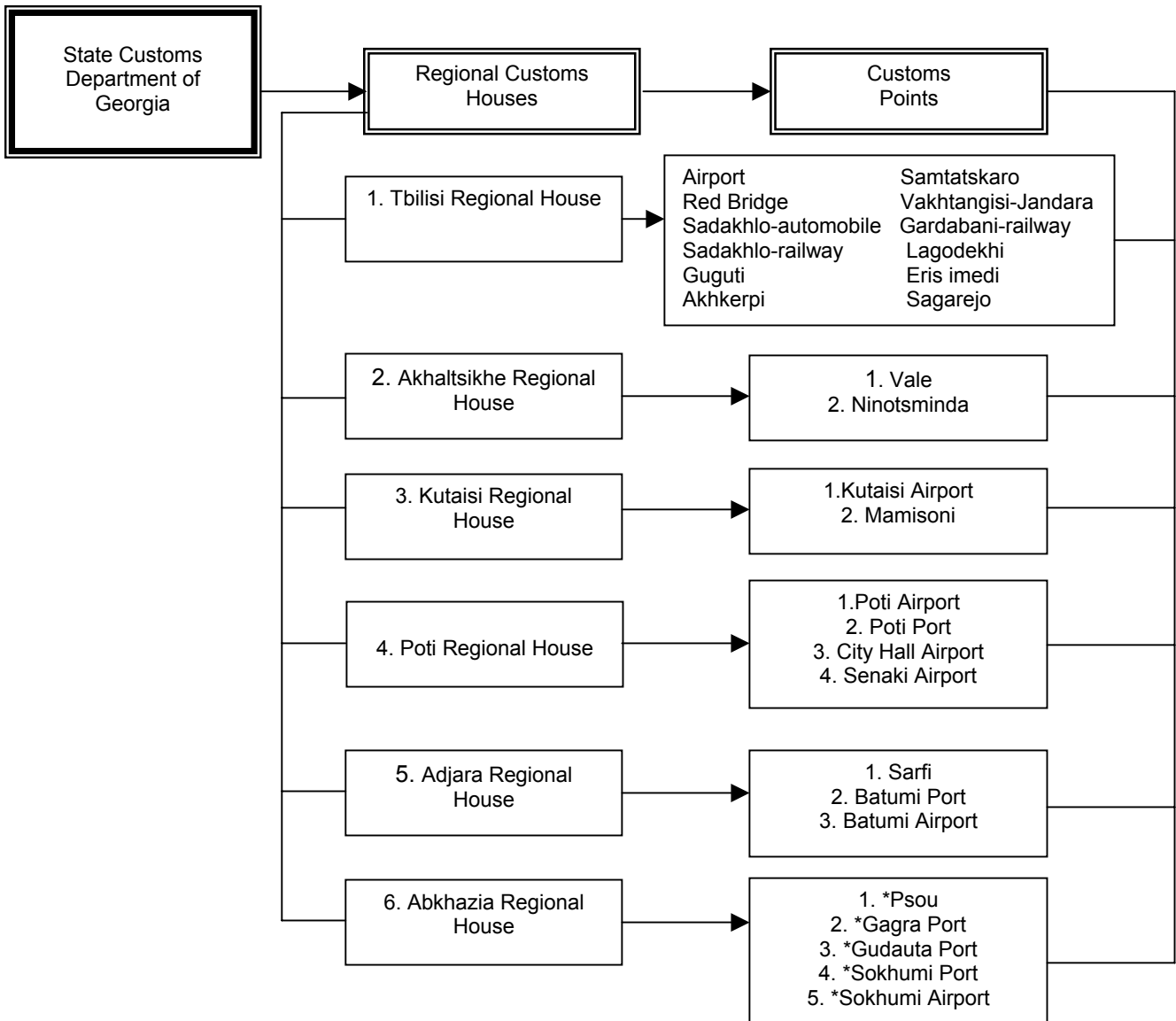


### C. Georgia

The Customs Service of Georgia was established after the independence of Georgia. The Law on the Customs Service was adopted on September 15, 1991, to define the main principles and functions of customs authorities. Later, the first Customs Code, Decree on Customs Tariffs (October 21, 1992), and the Law on Customs Duties (December 27, 1996) were adopted as well. In November 1997, the Parliament of Georgia approved the new Customs Code that was followed by the adoption of new laws on tariffs, duties, taxes, etc. On January 8, 1999, the Presidential Decree enforced the Statute of the State Customs Department of Georgia and the Statute on the Principles of Customs Service. Recently, numerous amendments are made in the appropriate legislation, and various new legal acts, regulations, international agreements, etc. are adopted (**see Attachment 1c**).

The Customs Department has been functioning within the Ministry of Finance of Georgia since 1995. In November 1998 it became the State Customs Department under the Ministry of Tax Revenues. Later, by the Presidential Decree # 261 of May 26, 2002, the Ministry of State Revenues was liquidated and the Customs Department again became a part of the Ministry of Finance. Its main functions, along with all the sub-units, are provision of customs services, supervision and control over implementation of the customs legislation, tax collection, etc. The Customs Department performs its activities in accordance with the Constitution of Georgia, Customs Code, other legal and normative acts, international agreements, etc. It consists of the Central Apparatus and subordinated customs units (**see Chart 3**).

**Chart 3. Organizational Structure of the Customs Administration of Georgia**



\*Marked customs points do not operate at the moment.



## **CHAPTER 2: SUMMARY OF THE DESK RESEARCH RESULTS**

The comparative analysis of all the gathered information regarding the history, organizational structure and current situation at customs, together with the customs-related legislation of the three South Caucasus countries demonstrates that despite the differences of each country, there are a lot of problems too that are common for the region. New customs systems in Armenia, Azerbaijan and Georgia were founded over 10 years ago, after the independence of those countries. Today, they are still undergoing through the modernization and reformation processes and, thus, experiencing difficulties typical for many other economies in transition. Meanwhile, some problems at regional customs can be explained by the specifics of the customs service itself rather than by the countries' political, historical or cultural heritage.

All three countries have relatively new customs codes which are the basic legal documents regulating the field, combined with numerous other related laws, decrees, regulations, decisions, procedures, etc. The customs legislations in the region have been mostly developed with the assistance of international experts, in compliance with international standards. Nevertheless, uncertainty of legal provisions, imperfectness of constantly changing secondary legislation, ineffective mechanisms of their implementation, and lack of control and coordination of the functioning of the customs systems still create a lot of corrupt opportunities at regional customs. For instance, the current Armenian legislation leaves room for the customs officers to interpret the regulations and procedures not in favor of individuals and company representatives, and thus make them pay bribes to speed up the processes.

In addition to this, uneasy access to any customs-related information creates quite favorable conditions for corrupt practices. Computerization and automation is also a problem that needs to be solved in the South Caucasus customs systems. When compared, the situation is more favorable in Azerbaijan where the entire system is well-equipped by computers, which make the data input and transfer to the Statistical Department of the AR State Customs Committee effective and flexible.

The issue of regulation of the control procedures and customs formalities is problematic for the whole region. There is a lot of inaccuracy in identification and fulfillment of export, import and transit procedures, which are rather complicated, ineffective and very time-consuming in all the countries. Frequently, being fully dependent on the will of customs officers, individuals and company representatives have to wait for a quite long time to be served. In fact, often customs procedures vary not only from country to country, but also may be executed differently in different customs points of the same country. Thus, carrying out joint customs control and formalities at the borders of the neighboring countries will make them more effective and efficient.

Another critical issue common for the regional customs is the current practice of valuation of goods. Though appropriate procedures are drafted to follow international standards, according to which individuals and company representatives themselves can determine the customs value of goods, yet it is almost always done by customs officers. Besides, there are cases when the documents necessary for the determination or confirmation of the customs value are missing or incorrect. In such a situation, the customer and the customs officer start negotiating, where the former usually tries to decrease and the latter attempts to raise the true value of goods. Negotiations may end up with unofficial payments, the cost of which is more affordable compared to the official payments.

According to the customs legislations of the countries, there are various customs regimes that require different timing and formalities. To avoid the delays in the process of customs clearance and other procedures resulting in waste of time and resources, individuals and company representatives tend to offer bribes to customs officials rather than follow the official regulations. Moreover, similar procedures are often duplicated at both sides of the same border. In this respect, it is worth mentioning about the problem of transit through the Georgian territory for transporting goods and vehicles to and from Armenia and Azerbaijan. Rather complicated formalities under the "transit" customs regime, lack of control over the implementation of relevant intergovernmental agreements and poor communication between customs authorities across the region bring to intervention and bribery initiated by the customs officers, passport control, police and other services of Georgian.

The issue of non-tariff regulation of trade (import and export) is also an important issue. Permissions, certificates, licenses and other documents required for importing and exporting certain goods and vehicles are typically provided by a number of ministries, departments and agencies across the region. Since they have various rules, regulations and timetables, often different from those of the customs services, the timely

submission of the documents become rather difficult and therefore creates another opportunities to ask for bribes in order to “smooth” appropriate procedures.

Taxation of the goods of so-called “double classification” can cause problems as well because of the absence of adjusted mechanisms of determination of the classification of goods combined with the lack of well-equipped test laboratories. For this reason, correct determination of the classification of goods and thus assessment of true customs value are not ensured at regional customs. Identification of the country of origin of goods is another opportunity for corruption, as some countries, for example, those of the CIS, enjoy certain privileges of customs payments’ exemption according to international agreements on free trade zones. This may be also an issue of “bargaining” between a customer and an officer in the case of a deliberate change of the name of country of origin when submitting the documents.

It is worthy to mention that according to the legislation both individuals and companies have the right to bring a case to the court against wrong decisions or negligence of customs officials. However, the existing complaint mechanisms are extremely ineffective, time-consuming and quite expensive because of the delays of the full clearance of goods and do not ensure actual protection of interests of those who are crossing the regional borders. For instance, 46 appeal cases were registered in Georgia within the last year and only one decision was made in favor of plaintiff, while the rest of cases were either counterclaimed or delayed. Under such circumstances, customers again tend to make unofficial payments rather than waste their time and resources.

Needless to say that unfavorable climate at regional customs administrations is also caused by poor human resource management and ineffective organizational development. Although there area number of customs departments in higher educational institutions across the region, namely in Azerbaijan and Georgia where students can receive an appropriate qualification (degree or diploma), only a small percentage of customs officials and officers have relevant educational background. Most employees attend special in-job-programs in the Training Centers under the State Customs authorities in their countries. Nevertheless, neither a diploma nor a training course certificate guarantees the qualified candidates will be employed. Hiring incompetent people and promoting them based on references from influential persons or the given bribes result in the lack of professionalism and commitment within the customs services.

Besides, there is a high turnover rate in all the South Caucasus customs services that, to some extent, is determined by low salaries. On average, the Azeri customs officer receives about \$50 per month, the Armenian customs officer – about \$30, and the Georgian – \$20. Low payment rates frequently serve as a valid excuse to justify widespread corruption at regional customs. Moreover, ongoing restructuring and reorganizing processes within the Customs Administrations are often accompanied by new appointment and recruitment circles, so many of the employees, because of the job insecurity, try to “earn” as much as possible within the short period of time. Lack of effective punishment mechanisms, absence of real incentives and motivation as well as low morale at regional customs significantly contribute to the creation of quite unfavorable conditions for trade expansion in the South Caucasus and hinder economic development of the region.

## **CHAPTER 3: SUMMARY OF THE FIELD RESEARCH RESULTS**

According to the survey results, both individuals and business representatives most frequently cross the Bagratashen Customs Point at the Armenian-Georgian border, while in the case of the Azeri-Georgian border, the majority of respondents most regularly use the Sinig-Kerpyu and Beyuk-Kyasik Customs Points. The majority of the surveyed individuals were male, 30 - 44 years old, with a secondary education, crossing the Armenian-Georgian and Azeri-Georgian borders for commercial purposes, being mainly engaged in export and import activities.

Whereas a great number of individuals surveyed on the Armenian-Georgian border had a permanent source of income, respondents passing the Azeri-Georgian borders mentioned that their income was not permanent and they normally earned money by re-selling consumer goods or selling agricultural products. Most companies that participated in the Armenian-Georgian part of the survey were “small size” enterprises involved in exporting goods. Representatives of the companies interviewed for the Azeri-Georgian part of the survey were basically small and medium and engaged in importing various types of equipment and food into Azerbaijan.

In individuals' opinion, the operations of the Armenian and Azeri Customs Services can be considered as satisfactory, while the Georgian Customs Service was evaluated as “bad” in both studies. As the Armenian-Georgian study data indicate, individuals pointed out artificially created complications, lack of technical capacity and improper behavior of the customs officers to be the most problematic factors at both Armenian and Georgian Customs. However, in the Azeri-Georgian study respondents mostly referred to explicit or implicit requests of bribe, ineffective appeal mechanisms and artificial barriers to be typical for both Azeri and Georgian Customs.

The ineffectiveness of the appeal mechanisms, customs value determination and extensive paperwork were considered the most problematic issues for company representatives in the case of the Armenian Customs. The extensive paperwork, procedures related to the customs full clearance of perishable products and classification of goods, along with the determination of the customs value, are mentioned in the case of the Georgian Customs. As for the Azeri-Georgian border, businessmen pointed to the following problems: explicit and implicit requests for bribes, artificial barriers and improper behavior of the customs officers with regards to the Azeri Customs, as well as explicit and implicit requests for bribes, artificial barriers and imperfect legislation/procedures regarding the Georgian Customs.

The analysis shows that the individuals, crossing the Armenian-Georgian border, face quite different problems than the business representatives typically do. Meanwhile, both individuals and businessmen, crossing the Azeri-Georgian borders, encounter almost the same kind of difficulties. The explicit and implicit requests for bribes are one of the three most problematic issues for the Azeri and Georgian Customs, but not for the Armenian ones. Interestingly, at the Armenian-Georgian border, the problems related to the Georgian and Armenian Customs operations were similar, and respondents mention the same problems while blaming on both Customs at the at the Azeri-Georgian border.

In the meantime, the surveyed individuals spend at the Armenian-Georgian border on average 1 hour 49 minutes to pass through the Armenian Customs Points and 1 hour 33 minutes to pass the Georgian Customs Points. In this case, the company representatives spent much more time to cross the borders than individuals do. The average time mentioned by the interviewed businessmen was 5 hours 13 minutes for passing through the Armenian and 5 hours 44 minutes – through the Georgian Customs Points.

Individuals spent 1 hour 14 minutes for crossing the Azeri Customs Points and 57 minutes for crossing the Georgian Customs Points. The situation is quite different for businessmen who spend on average 7 hours 52 minutes in the case of the Azeri and 5 hours 52 minutes in the case of the Georgian Customs Points. It is worthy to draw attention to the fact individuals spent more time to cross the Customs Points at the Armenian-Georgian border, while at the Azeri-Georgian border more time is needed for businessmen.

The number of individuals who made unofficial payments at the Armenian Customs Points (44.5%) and passport control points (1.6%) is less than of those who made unofficial payments at the Georgian Customs Points (59.5%) and passport control points (2.5%). Also, the average amounts paid to the Armenian Customs Points (\$25.7) and passport control (\$7.7) are lower than those paid to the Georgian Customs Points (\$34.7) and passport control points (\$10.1).

However, the most frequently mentioned unofficial payment to the Armenian Customs Points is twice the amount of the unofficial payment made to the Georgian Customs Points (\$10 vs. \$5). The average amount of bribes given at the Azeri-Georgian border is \$10. Interestingly, only 8.1% of individuals stated that they gave bribes to Azeri customs officers, and 8,6 % referred to the Georgian ones.

When looked at the data regarding unofficial payments made by the businessmen, one could notice that once again a number of company representatives paying bribes at the Armenian Customs points were less than those paying bribes at the Georgian Customs Points (25.1% and 40.7% respectively). Meanwhile, the most frequently paid amount of unofficial payments at both Customs Points was mentioned to be \$100. Respondents of the Azeri-Georgian survey were less honest in their answers concerning unofficial payments: only 7,6 % of the businessmen said that they paid bribes to the Azeri customs officers and 8,2 % - to the Georgian ones. Therefore it is hard to provide with any statistically significant data on the average amount of such payments at that border.

Only a limited number of the surveyed individuals passed the full customs clearance in the Customs Houses in Armenia and Georgia. They identified the following issues to be the most problematic in terms of the time spent and unofficial payments made: determination of the customs value and filling/submission of the declarations. Less than half of total number of individuals mentioned about problems they had at the Customs Houses in Azerbaijan with the determination of privileges and the country of origin of goods, etc.

Representatives of the companies normally more often passed the customs clearance both in Armenia or Georgia (63.5% out of the total number of respondents). In the case of the Armenian Customs Houses determination of customs value and customs payments, along with the use of customs warehouses, were pointed out as problematic. In the case of the Georgian Customs Houses, respondents mostly marked inspection of the documents, determination of customs value and selection of the customs regimes to be troublesome. Less than half of the companies faced difficulties at the Customs Houses in Azerbaijan. Here again, most respondents mentioned the customs clearance procedures, inspection of documents and determination of customs payments.

When asked about the reasons for giving bribe, the vast majority of the respondents in all three countries mentioned that they had done it to smooth the existing procedures. With respect to the Armenian-Georgian border, the second reason selected by individuals was "to avoid high official payments", while businessmen chose "to express gratitude" option. The Azeri-Georgian study results show that the respondents of both survey groups made unofficial payments to "express their gratitude" to the customs officers". Meanwhile, when asked to make payments that they are not familiar with most businessmen would either try to "negotiate with the customs officials" (42.7%) or make the payment without any clarification (26.8%). Only 27.3% of the interviewed businessmen would "ask for documents confirming the requested payments".

Remarkably, 55.1% of individuals noted that they would ask for documents verifying the payments vs. 18% of those who would "try to negotiate with the customs authorities" and only 7.2% of those who would make the payments without any clarification. However, since 92.9% of the Armenian and 94.2% of the Georgian individuals are used to make unofficial payments to smooth the existing procedures, one can say that they were not consistent in their answers. The company representatives were more consistent in this respect - only one third of them said that they would ask for confirmation. As to the Azeri-Georgian survey groups, 38.6% of individuals mentioned that they would try to negotiate with the Customs officials and 34.2% would ask for documents confirming the payment. In the meantime, half of the company representatives would ask for verifying documents, 41.2% would try to "negotiate", and only few (5.9%) would pay without any clarification.

Overall, more than half of the respondents surveyed for the Armenian-Georgian study were not familiar with the Customs legislation/procedures. Only 8.5% of individuals noted that they were aware and 32.8% - partially aware of the Armenian legislation/procedures, while 3.3% and 27.2% correspondingly were familiar with the Georgian ones. The situation is better in the case of company representatives: 40.1% of respondents claimed that they were familiar and 42.5% - partially familiar with the Armenian legislation/procedures, and 28.7% and 42.5% respectively - with the Georgian ones. As to the Azeri-Georgian study, 20.7% of individuals and 26.5% of businessmen said they had information, and 49.5% and 51.2% - had some information about the Azeri Customs legislation/procedures. Regarding the Georgian Customs legislation/procedures, 28.4% of individuals and 38.8% of businessmen were aware, whereas 47.4% and 38.8% were partially aware of it.

In this respect, 52.7% of the individuals interviewed on the Armenian-Georgian border stated that they usually had received information about appropriate customs legislation/procedures from the customs officers at the border and 39.5% - from mass media. Only a very small number of respondents pointed to special publications or other sources of information. In the case of the Azeri-Georgian border, 58.4% identified the customs officers as the main source of information on the customs legislation, 42.3% mentioned other sources, and 27% referred to mass media. Again, only few individuals said that they had received the relevant information from other sources such as the Customs Administrations or special publications.

52% out of all the surveyed companies crossing the Armenian-Georgian border received information concerning the Armenian or Georgian customs legislation/procedures from special publications, while 47.9% normally get it from mass media. Few company representatives pointed to the Customs officers at the border as a source of relevant information. The main source of information for 54.1% of those crossing the Azeri-Georgian border are NGOs and personal contacts, whereas mass media was identified as such by 49.4% of respondents. The Customs Administrations and special publications were rarely mentioned to be the main source of information for businessmen.

As seen by both target groups of the Armenian-Georgian and Azeri-Georgian studies, there is a number of possible solutions for improving the current situation at the South Caucasus Customs. Most interviewees indicated as such improvement of the customs legislation and simplification of the appropriate procedures. Among other suggestions were improvement of the recruitment, training and personnel assignment policies, increase of salaries of the customs officers and technical capacity of the Customs Administrations, application of control mechanisms and implementation of anti-corruption measures by law-enforcement agencies, etc.

## CONCLUSION

There has been a growing understanding of the negative consequences of customs ineffectiveness and inefficiency for economic development of the countries. Despite an increasing global trend to facilitate trade through reducing trade barriers, simplifying customs procedures and harmonizing export and import regulations, malfunctioning of the customs still has its devastating impact on many economies, particularly, in developing and transition countries. Since taxes collected through customs services of those countries amount to 40% and more of the state revenues, mismanagement, fraud and corruption lead to a substantial deficit of their state budgets that in its turn affect national security.

The results of the study presented above clearly demonstrate that imperfect procedures and regulations, poor law enforcement, lack of transparency and accountability, ineffective control and coordination as well as other factors significantly increase corrupt practices at the South Caucasus customs. The project experts mostly targeted the following two types of corruption: “routine corruption” - when individuals or company representatives pay bribes to get normal customs services or speed them up, and “made-up corruption” - when “blind eye” of customs officers or a “shady” agreement with them is sought by customers to reduce fiscal obligations or to increase profits. Criminal corruption, when bribes are paid to permit illegal operations such as drug trafficking, arms trade, etc., is not reflected in this study and needs to be examined through separate research studies.

First, one needs to identify the factors that create corrupt opportunities caused by certain conditions such as the lack of relevant information combined with a lot of uncertainty in the legislation, the possibility to have direct contacts between customs officers and their customers, as well as the opportunity for customs officials to interpret procedures and regulations and low risk of being scandalized and/or punished. A redesign of customs-related procedures and regulations, along with computerization and automation of the customs systems and an application of more effective control and punishment mechanisms, should be therefore at the core of the proposed reform strategies aimed at reducing corruption.

For instance, the practice of filling out some forms by customs officers themselves, provision of their signatures on appropriate documents, decisions made by them on customs value and classification of goods, selection of inspection and inspection itself, etc., traditionally offer opportunities of corruption. In this respect, improving the legal framework and bringing the secondary legislation in conformity with it, simplifying procedures, standardizing the required documents and forms and minimizing the requirements of information from customers will most likely reduce discretionary “power” of customs officers.

Other possibilities are the following: to make all the payments in one place (a non-stop shop concept); to have a universal form for all the permits; to agree with other state institutions on how to issue appropriate licenses and certificates not to duplicate mandates and activities; to limit communication between customs officers and customers through installation of the computer networks and development of the customs brokers’ institutions, etc. In the meantime, some experts and practitioners argue that there is no real market demand for such institution yet.

Application of effective control and punishment mechanisms as well as strengthening law enforcement are also among recommendations most frequently mentioned both by experts and customers. However, strategies based on investigation and sanctions can be effective only when there is low corruption and it is possible to prevent its further development. However, they will unlikely improve the situation of widespread corruption typical for the region where the judiciary and law enforcement systems are also corrupt. Anyway, introducing mechanisms of serious administrative penalties and practice of public reprimand could gradually improve the current situation. It is equally fair for adopting mechanisms of internal and external control within the customs systems in the South Caucasus.

Likewise, installation of positive incentives can appear to be ineffective when not accompanied by other reforms. For instance, though inadequate official salaries of customs officials are often seen as a major cause of corruption, even their substantial increases may not decrease the level of more profitable corrupt practices. Similarly, adopting the Law on Customs Service and the Customs Ethics Code would not solve the existing problems as far as many other factors influence moral climate within the system. Nevertheless, there is a real need to provide customs officials and officers with much better working conditions, to ensure their job security, to apply merit-based recruitment and promotion policy, along with developing new incentive mechanisms. Moral standards and ethical norms are also quite important to be promoted within the customs

across the region to make sure that the recruited individual has not high professional skills, but high morale and personal integrity.

Second, the broader involvement of interested parties is a crucial element in launching and maintaining serious reforms. There is a range of examples and best practices of how customs interest groups, political lobbies, private companies and NGO representatives operate and interact in relation to customs integrity problems and improvements. To promote more open and client-oriented customs service it is necessary to ensure easier access to customs-related information, better protection of consumers' rights, more effective appeal and compensation mechanisms in the case of substantial losses and serious damages caused by incorrect decisions or inactions of customs officers.

Enhancing public awareness through disseminating relevant information via print and electronic media, TV and radio programs, special publications, training programs and public discussions on first priority topics as well as building advocacy and lobbying capacity of interest groups, business associations and other interested parties are essential elements of the reform process. There are some evidences of successful cooperation of main stakeholders through participation in the joint state or independent commissions or councils to develop appropriate policies and facilitate their implementation.

Third, political will, at the highest level, remains a key factor for the successful implementation of reforms at the South Caucasus customs. Only manifestation of true will and commitment of national leadership can ensure credibility of reforms and their support by other parties. Regional governments and business community should pay more attention to crucial economic, political and social costs of corruption to correct customs malpractices and thus encourage foreign and domestic investments, reduce the cost of imported goods and enhance export performance. Intergovernmental working groups or committees as well as professional networks or public diplomacy groups can also assist in facilitating the reform processes at regional.

Taking into account all the mentioned above, it is quite important for donors not to impose customs reforms without understanding of the country or region specifics. Prior to drafting appropriate policy reforms, assessment of the current situation should be made to have a ground to adjust best international practices to local conditions. Often, circumstances make reformers initiate more implicit rather than explicit measures to ensure effectiveness of the reform process. Isolated measures of repression or incentive mechanisms alone cannot radically change the situation in the South Caucasus customs, since they are more difficult to implement and control within the poorly functioning system of governance. That is why, for example, replacing the existing customs procedures to reduce the interface between customs officers and those passing through customs formalities may reduce corrupt opportunities in a more effective way than using administrative sanctions or increasing salaries.

Finally, it can be concluded that it is crucial to harmonize the customs legislation in the South Caucasus region, share information and best practices and ensure better coordination of customs activities of the neighboring countries. All this will significantly contribute to the efficiency and effectiveness of the Armenian, Azeri and Georgian Customs Services and to a certain extent reduce corruption and lawbreaking. Well-functioning and "transparent" customs are the most critical pre-requisites and necessary pre-conditions for furthering economical development of the region and promoting political stability of the South Caucasus countries.

## **ATTACHMENT 1A: CUSTOMS LEGISLATION OF THE RA**

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2. The RA Law “On Value Added Tax”, 24 June 1997, RA Official Bulletin, #14, 1997.
3. The RA Law “On Excise Tax”, 27 July 2000, RA Official Bulletin, #17, 2000.
4. The RA Law “On Fixed Charges for Tobacco Products”, 31 March 2000, RA Official Bulletin, #6, 2000.
5. The RA Law “On Fixed Charges for Petroleum Imported into the RA”, 30 December 1997, RA Official Bulletin, #9, 2000.
6. The RA Law “On Road Tolls”, 25 March 1998, RA Official Bulletin, #7, 1997.
7. The RA Law “On the Fee for Environmental Pollution and Utilization of Natural Resources”, 28 December 1998.
8. The RA Law “On the State Frontier of the RA”, 17 July 1994.
9. The RA Law “On Export and Import of Cultural Values”, RA Official Bulletin, #13, 1994.
10. The RA Law “On Licensing”, 27 June 2001.
11. The RA Law “On Making Amendment in the Armenian Customs Code”, RA Official Bulletin, #33, 2000.
12. The RA Law “On Making Changes and Amendments in the Armenian Customs Code”, RA Official Bulletin, #18, 2002.
13. The RA Law “On Making Amendment in the Armenian Customs Code”, RA Official Bulletin, #22, 2002.
14. The RA Law “On Customs Service”, “Official Bulletin of the Republic of Armenia”, #32, 2002.
15. The RA Code on Administrative Infringement, 6 December 1985.

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1. The RA Government Decision # 615 “On Regulation of Certain Customs Associated Relations,” 6 December 1993, RA Official Bulletin, #6, 1998.
2. The RA Government Decision # 124 “On Non-Tariff Regulation of the Goods (Operations, Services) Import and Export in the Republic of Armenia”, 29 December 1995.
3. The RA Government Decision #58 “On the Export Regulation of Instruments, Machines and Other Equipment of Industrial Importance from the RA”, 16 February 1996.
4. The RA Government Decision #294 “On Providing Information to the Armenian Tax Inspection”, 24 July 1997, RA Official Bulletin, #19, 1997.
5. The RA Government Decision # 15 “On Mandatory Certification of Goods and Services in the RA”, 16 January 1998, RA Official Bulletin, #2, 1998.
6. The RA Government Decision #143 “On Making Changes in the RA Government Decision #615, 6 December 1993”, 5 March 1998, RA Official Bulletin, #6, 1998.
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8. The RA Government Decision #137 “On the Export Regulation of Cultural Values and Items”, 5 March 1999, RA Official Bulletin, #6, 1999.
9. The RA Government Decision # 230 “On the Procedure for Payment of Value Added Tax, Excise Tax, Customs Duties, (as well as substituting them fixed charges) and Pollution Fee for Goods Imported into the RA”, 19 April 1999, RA Official Bulletin, #10, 1999.
10. The RA Government Decision #463 “On Approving the Lists of Double-Purpose Goods and Technologies, and Control Procedures of Their Export and Their Transit across the Armenian Territory”, 19 July 1999, RA Official Bulletin, #21, 1999.
11. The RA Government Decision # 662 “On Affixing Updated Excise Marks on Certain Goods Imported or Produced in the RA and Subject to Imposition of Excise Tax, 26 October 1998, RA Official Bulletin, #27, 1999.
12. The RA Government Decision # 239 “On Mandatory Conformity Assessment of Goods and Services in the RA”, 12 May 2000.
13. The RA Government Decision # 122 “On Establishing Customs Control Zones at the Frontier Posts of Bagratashen, Tavush Marz; Bavra, Shirak Marz; Gogavan, Lori Marz”, 27 February 1998.
14. The RA Government Decision # 476 “On Approving of the Procedure for Disposal of Goods Considered as Direct Objects of Breach of the Customs Rules or Contraband and Confiscated by Customs Bodies”, 15 August, 2000, RA Official Bulletin, #20, 2000.
15. The RA Government Decision #581 “On Approving the Procedures of Import and Export of Medicine and Medicinal Substances”, 20 September 2000.



16. The RA Government Decision # 887 “On Approving the Procedure for the Transit Shipment of Goods and Means of Transport across the Customs Border of the RA and for Defining, when Cases of Compulsory Customs Escort Should Be Established”, 27 December, 2000, RA Official Bulletin, #1, 2001.
17. The RA Government Decision # 895 “On the Body Authorized to Define the Minimum Output to be Obtained as a Consequence of the Processing of the Goods Imported under the Regime of Temporary Importation for Inward Processing and the Goods Exported under the Regime of Temporary Exportation for Outward Processing, as Defined in the RA Customs Code, as well as to Determine the Country of Origin of Domestic and Foreign Goods in the RA”, of 31 December 2000, #1, RA Official Bulletin, 2001.
18. The RA Government Decision # 900 “On Approving the Procedure of Taking Samples for the Purposes of Customs Formalities”, 31 December 2000, #1, RA Official Bulletin, 2001.
19. The RA Government Decision # 901 “On Approving the Procedure for Applying the Customs Regime of Destruction, as Defined by the RA Customs Code”, 31 December 2000, RA Official Bulletin, #1, 2001.
20. The RA Government Decision # 902 “On Prohibition of the Carriage of Certain Types of Goods across the Customs Border of the RA under Any Customs Regime”, 31 December 2000, RA Official Bulletin, #1, 2001.
21. The RA Government Decision #3 “On Making Changes and Amendments in the RA Government Decision #230, 19 April 1999”, 8 January 2001, RA Official Bulletin, #2, 2001.
22. The RA Government Decision # 4 “On Approving of the Procedure for Natural Persons to Carry across the Customs Border of the RA of Goods via International Delivery Limited to 20 kg in Total Weight and to the Armenian Dram equivalent of US \$100 in Terms of Drams in Total Customs Value, Exempt of Customs Duties”, 8 January 2001, RA Official Bulletin, #1, 2001.
23. The RA Government Decision # 20 “On Approving of the Procedure for Providing Data to the RA State Revenues Ministry by the RA State Bodies for the Purpose of Determining the Customs Value of the Goods”, 13 January 2001, RA Official Bulletin, #2, 2001.
24. The RA Government Decision # 42 “On Approving of the Procedure for Licensing of the Activities as Defined by the RA Customs Code”, 18 January 2001, RA Official Bulletin, #3, 2001.
25. The RA Government Decision #78 “On Approving of the Procedures for Determining and Giving Special and Class Ranks to the Armenian Customs Officers, and Defining Benefits According to the Ranks”, 5 February 2001, RA Official Bulletin, #5, 2001.
26. The RA Government Decision # 81 “On Approving of the Methodology of Examination of a Person”, 5 February 2001, RA Official Bulletin, #5, 2001.
27. The RA Government Decision # 172 “On Approving of the Procedure for Performing the Customs Formalities in Places Other Than Those Designated for Carrying Out the Customs Formalities and Out of Working Hours of the Customs Bodies Carrying Out the Customs Formalities”, 9 March 2001, RA Official Bulletin, #10, 2001.
28. The RA Government Decision # 174 of “On Approving of the Procedure for Collecting, Presenting and Publishing the Data of the Customs Statistics”, 9 March 2001, RA Official Bulletin, #10, 2001.
29. The RA Government Decision # 177 of “On Defining of the Sample Quantities of Goods Imported into the RA within the Framework of Exhibitions, International Fairs and Similar Events”, 9 March 2001, RA Official Bulletin, #10, 2001.
30. The RA Government Decision # 236 of “On Approving of the Methodology for the Execution of the Customs Control”, 24 March 2001, RA Official Bulletin, #11, 2001.
31. The RA Government Decision # 239 of “On Approving the Procedures for Determining the Minimum Output to be Obtained in Consequence of the Processing of the Goods Imported under the Regime of Temporary Importation for Inward Processing and the Goods Exported under the Regime of Temporary Exportation for Outward Processing”, 27 March 2001, RA Official Bulletin, #11, 2001.
32. The RA Government Decision # 251 of “On Approval of the Size of Certain Types of Goods, Which Natural Persons May Carry across the Customs Border of the RA Without Paying Customs Duties”, 29 March 2001, RA Official Bulletin, #11, 2001.
33. The RA Government Decision #265 “On Making Changes in the RA Government Decision #902, 31 December 2000”, 31 March 2001, RA Official Bulletin, #11, 2001.
34. The RA Government Decision #310 “On Measures of Customs Administration Reforms”, 16 April 2001, RA Official Bulletin, #13, 2001.
35. The RA Government Decision # 413 of “On Approving the Lists of the Documents and Data for the Execution of the Customs Control and the Procedure for Their Submission”, 15 May 2001, RA Official Bulletin, #15, 2001.
36. The RA Government Decision #485 “On Making Amendments in the RA Government Decision # 239, 27 March 2001”, 2 June 2001, RA Official Bulletin, #15, 2001.
37. The RA Government Decision # 565 “On Approval of the Size of Certain Types of Goods Imported into the RA by Foreigners under Customs Regimes of Importation for Free Circulation and Re-Importation in Commercial Quantities”, 28 June 2001, RA Official Bulletin, #23, 2001.

38. The RA Government Decision # 569 “On the Procedure for Determining the Greatest Aggregate Quantity for the Purpose of Determination of the Customs Value of the Goods” June 2001, RA Official Bulletin, #23, 2001.
39. The RA Government Decision # 720 “On Approval of the List of Goods Imported as a Supplement to the Basic Funds of Commercial Organizations, Relieved from the Customs Duties, 7 August 2001, RA Official Bulletin, 2001, #29.
40. The RA Government Decision #603 “On the Establishment of the Customs State Committee under the RA Government”, 6 July 2001, RA Official Bulletin, #24, 2001.
41. The RA Prime Minister’s Decision #536 “On Approving of the Charter and Structure of the Central Administration of the Customs State Committee under the RA Government”, 17 July 2001.
42. The RA Government Decision # 742 “On Issuing Resolutions for Legal and Physical Persons Importing and Exporting Plants Protection Means”, 10 August 2001, RA Official Bulletin, #29, 2001.
43. The RA Government Decision # 770 “On the Implementation of Amendments and Changes to Several Government Decisions”, 25 August 2001, RA Official Bulletin, #30, 2001.
44. The RA Government Decision # 778 “On the Approval of Plants Sanitary Regulations of Import and Export of Plants, Vegetable Products and Other Related Subjects”, 27 August 2001, RA Official Bulletin, #30, 2001.
45. The RA Government Decision # 913 “On the Implementation of Amendments and Changes to the Government Decision # 799 of 31 December 1999 and Decision # 902 of 31 December 2000”, 29 September 2001, RA Official Bulletin, #32, 2001.
46. The RA Government Decision #955 “On Approving the Coordination of the Activities of the Court Decision Enforcement Agency under the Ministry of Justice of RA with the Ministries of State Revenues, State Property Management, the Customs State Committee under the Government of the RA, State Social Security Foundation, as well as on the Approval of the Procedures of Exchange of Relevant Information”, 8 October 2001, RA Official Bulletin, #33, 2001.
47. The RA Government Decision # 1018 “On the Regulation of the Border Trade Market Activities of Bagratashen, Tavush Marz”, 22 October 2001, RA Official Bulletin, #33, 2001.
48. The RA Government Decision # 1019 “On Reserving Authorities to the State Customs Committee of RA Government”, 22 October 2001, RA Official Bulletin, #35, 2001.
49. The RA Government Decision # 1097 “On the Establishment of Regional Custom Houses for International Transportation by State Customs Committee”, 13 November 2001, RA Official Bulletin, # 37, 2001.
50. The RA Government Decision # 1098 “On Establishment of Customs Point in Nor Hajn, Ararat Region” 13 November 2001, RA Official Bulletin, # 35, 2001.
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52. The RA Government Decision #6 “On Approving of the Identification Mark of the Customs Authorities and their Transportation Facilities”, 7 January 2002, RA Official Bulletin, #5, 2002.
53. The RA Government Decision #275 “On Providing the Consumers with Information about the Imported Poultry”, 21 March 2001, RA Official Bulletin, #12, 2002.
54. The RA Government Decision #522 “On Making Changes and Amendments in the RA Government Decision #294, 24 July 1997”, 11 May 2002, RA Official Bulletin, #17, 2002.
55. The RA Government Decision #551 “On Approving of the Procedures of Transportation of Goods by the Individuals on a Passenger Train through the RA Border, and the Execution of Customs Control and Customs Formalities of Those Goods”, 15 May 2002, RA Official Bulletin, #17, 2002.
56. The RA Government Decision #656 “On Providing the Armenian Customs Officials with Arms”, 6 June 2002, RA Official Bulletin, #19, 2002.
57. The RA Government Decision #802-A “On Defining the Uniform Style of the Armenian Customs Officials”, 6 June 2002, RA Official Bulletin, 2002.
58. The RA Government Decision #844 “On Approving the Procedures of Licensing of Certain Types of Activities that are Subject to Licensing According to the Armenian Customs Code”, 22 June 2002, RA Official Bulletin, #25, 2002.

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2. The RA Government Procedure “On Filling out the Declaration of Goods Transported across the Customs Border of RA in Cases of Cargo Shipment under the Release Customs Regime”, RA Normative Acts Bulletin, #9, 1998.
3. The RA Government Instruction “On the List of Relevant Documents and Data Needed to be Declared by Persons Crossing the Customs Border of RA”, RA Normative Acts Bulletin, #10, 1998.

4. RA Ministry of State Revenues Order # 02/1507 "On Supporting of the Protection of Intellectual Property Rights by RA Customs Authority", 5 December 2000.
5. RA Ministry of State Revenues Order # 02/1508 "On Fulfilling of the Requirements of Articles 70, 96 (Clause 2) and 117 of Customs Code", 5 December 2000.
6. RA Ministry of State Revenues Order # 02/1623 "On the Order and Cases of Prior Declaration of Goods Transported through Pipe Lines and Electricity Cables", 26 December 2000.
7. RA Ministry of State Revenues Order # 02/1624 "On Making Inventory of Turnover of Goods in Customs Warehouses and on the Order of Providing Information of Such to the Customs Authorities", 26 December 2000.
8. The RA Ministry of State Revenues Order # 02/207 "On the Approval of the Procedure of Filling Out the Details on Customs Value in the Declaration", 26 February 2001.
9. RA Ministry of State Revenues Order # 02/208 "On Approval of Protocol Form for Customs Regulations Intended for Taking Samples and Models of Commodities", 26 February 2001.
10. RA Minister of State Revenues Order #20/775 "On Determining the Places of Storage of Goods and Transportation Facilities that Are under the Protection of the Customs", 6 July 2001.
11. Order #02/13 of the Chairman of the State Customs Committee under the RA Government "On Approving of the Staff of the Committee Responsible for the Coordination and Organization of Destruction of the Goods Imported into the Armenian Territory under the Customs Regime of "Destruction", 13 February, 2002.
12. Order #02/19 of the Chairman of the State Customs Committee under the RA Government "On the Regulating of the Circulation of the Service-Related Information on the Customs Issues and Its Sources", 18 March 2002.

## **International Agreements**

1. Agreement between the Armenian Customs Administration and the Georgian Customs Committee on Establishing a Customs Point on Their Border, May 19, 1993, Collection of International Agreements of RA, 1991-1995.
2. Agreement between the Armenian Customs Administration and Georgian Customs Committee on Cooperation in Fight against the Illegal trade of Narcotics and Psychotropic Substances, May 19, 1993, Collection of International Agreements of RA, 1991-1995.
3. Agreement between the RA Government and the Government of Georgia on Basic Principles of Transit Transportation, May 19, 1993, Collection of International Agreements of RA, 1991-1995.
4. Agreement between the RA Government and the Government of Georgia on Mutual Recognition of Visas, May 19, 1993, Collection of International Agreements of RA, 1991-1995.
5. Agreement between the Armenian Customs Administration and Georgian Customs Committee on the Procedures of Customs Formalities of Transit Goods, June 15, 1993, Collection of International Agreements of RA, 1991-1995.
6. Agreement between the Armenian Customs Administration and Georgian Customs Committee on Cooperation in the Area of Customs Issues, June 15, 1993, Collection of International Agreements of RA, 1991-1995.
7. Agreement between the Armenian Customs Administration and Georgian Customs Committee on Principles of Cooperation in the Area of Customs Issues, June 24, 1993, Collection of International Agreements of RA, 1991-1995.
8. Agreement between the RA Government and the Government of Georgia on Free Trade, August 14, 1995, Collection of International Agreements of RA, 1991-1995.
9. Agreement between the RA Government and the Government of Georgia on International Motor Vehicle Communication, May 3, 1997, Collection of International Agreements of RA, 1991-1995.
10. 1961 Vienna Convention on Diplomatic Relations /RA joined the Convention under the Decision # 0704-1 of the Armenian Supreme Council, 6 October 1992/.
11. 1963 Vienna Convention on Consular Relations /RA joined the Convention under the Decision 0704-1 of the Armenian Supreme Council, 6 October 1992/.
12. Membership of the RA to the Inter-Parliamentary Summit of the CIS Member States /Approved by the Armenian Supreme Council Decision #0795-1, 12 April, 1993/ under the Agreement of March 27, 1992 in Alma-Ata.
13. Membership of the RA to the Summit of the Economic Cooperation Council of the Black Sea /approved by the Armenian Supreme Council Decision #0796-1, 12 April 1993/.
14. 1961 Joint Convention on Narcotics /RA joined It under the Armenian Supreme Council Decision #0836-1, 24 May, 1993/.
15. UN Convention on Fight Against Illegal Trade of Narcotics and Psychotropic Substances, 19 December 1988 /RA joined under the Armenian Supreme Council Decision #0837-1, 24 May 1993/.

16. UN Convention on Psychotropic Substances /RA joined under the Armenian Supreme Council Decision #0838-1, 24 March 1993/.
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18. UN Convention on Concordance of the Conditions of Border Control of the Cargo, 21 October 1982 in Geneva /Republic of Armenia subscribed to it by Armenian Supreme Council Decision # 0926-1, 27 September 1993/.
19. UN Customs Convention on the International Transportation of Cargo with Application of TIR Carnet, 14 November 1975, Geneva /RA joined under the Armenian Supreme Council Decision #0927-1, 27 September 1993/.
20. Warsaw Convention on the Unification of Certain Rules of International Air Transportation, 15 October 1929 /RA joined under the Armenian Supreme Council Decision #1026-1, 16 March, 1994/.
21. Agreement on International Registration of Signs, 14 April 1891, Madrid /RA joined under the Armenian Supreme Council Decision #1038-1, 16 March 1994/.
22. Convention on Powers of International Agreements, 23 May 1969, Vienna /RA joined with Reservation, under the Armenian National Assembly Decision #131-1, 23 October 1996/.
23. Agreement on Cooperation in the Area of Regulation of Transit Transportation, signed between the Republic of Uzbekistan, AR, Georgia and Turkmenistan, 13 May 1996, Seraskh /RA joined under the Armenian National Assembly Decision #199-1, 27 September 1997/.
24. Convention on the Control of Transfer of Hazardous Waste from Country to Country, 22 March 1989, Bazel /RA joined under the Armenian National Assembly Decision #322-1, 26 March, 1999/.
25. Protocol of Madrid Convention on International Registration of Signs, 27 June 1989, Madrid /RA joined under the Armenian National Assembly Decision #079-2, 5 April 2000; from October 19, 2000 it is in force in the RA/.

### **Customs-Related Legislation**

<u>Constitutional:</u>	RA Constitution, July 5, 1995 RA Law on Status of Foreign Citizens, May 25, 1994
<u>Taxation:</u>	RA Law on Taxes, May 14, 1997 RA Law on State Duties and Fees, December 26, 1997
<u>Agriculture:</u>	RA Law on Plant Protection and Plant Quarantine, April 19, 2000 RA Law on State Agricultural Inspectorate, June 10, 1996 RA Law on Veterinary Medicine, November 11, 1999 RA Law on Food Safety, December 31, 1999
<u>Intellectual Property:</u>	RA Civil Code (Section 10), January 1, 1999 RA Law on Copyright and Neighboring Rights, January 20, 2000 RA Law on Patents, December 16, 1999 RA Law on Trademarks, Service Marks and Appellation of Origin of the Goods, April 15, 2000
<u>Foreign Investment:</u>	RA Law on Foreign Investment, July 31, 1994
<u>Criminal:</u>	RA Criminal Code, Article 185. Smuggling, March 7, 1961
<u>Judiciary:</u>	RA Civil Procedure Code, January 1, 1999 RA Criminal Procedure Code, January 12, 1999 RA Law on Arbitration Courts and Arbitration Proceedings, May 5, 1998 RA Law on Judicial Structure, June 18, 1998

## ATTACHMENT 1B: CUSTOMS LEGISLATION OF THE AR

### Legal and Normative Acts

1. Constitution of Azerbaijan Republic, 12.11.95
2. Customs Code of Azerbaijan Republic, 10.06.97
3. Criminal Code of Azerbaijan Republic, 30.12.99
4. Regulations of the Service in Customs Bodies, from December 7 1999
5. Law of Azerbaijan Republic "On the Customs Tariffs", June 20, 1995
6. Regulations for the Transportation of Goods, Not Intended for Industrial and Commercial Purposes across the Customs Border of Azerbaijan Republic by Physical Persons, May 31, 2001
7. Law of Azerbaijan Republic "On Exit from the Country, Entry into the Country, and Passports", June 14, 1994
8. Instruction on Customs Formalities of Goods Transported by Pipelines and Electrical Lines from Customs Border of Azerbaijan Republic, 03.06.97
9. Regulations on the State Expert Commission on the Certification and Special Art Examination Founded with the Purpose of Exporting Modern Art Works from Azerbaijan Republic to Foreign Countries, 11.05.98
10. Regulations on Transportation of Foreign Currency by Non-Resident Physical Persons through the Customs Border of Azerbaijan Republic, 03.07.98
11. Regulations on the Complete or Partial Exemption from Customs Duties and Taxes of the Goods Temporarily Exported from (Imported to) Azerbaijan Republic, 27.07.98
12. Statute on the State Customs Committee of Azerbaijan Republic, 27.10.98
13. Technical Scheme of the Allocation of Goods and Items in the Regime of Temporary Storage under the Customs Control (approved by SCC Order № 035, 22.01.98)
14. Regulations on Filling of Customs Declarations on Cargo, Approved by the Order # 027 17.06.98 of the State Customs Committee
15. Decree # 91 of the Cabinet of Ministers of Azerbaijan Republic "On the Rates of Customs Duties on Exports and Imports in Azerbaijan Republic", April 22, 1998
16. List of Goods Exempted from Customs Duties, Imported into the Territory of Azerbaijan Republic (Addendum to the Decree # 91, from April 22, 1998)
17. Regulations on Transport of Foreign Currency by Non-Resident Physical Persons through the Customs Border of Azerbaijan Republic, Approved by SCC Order # 029, from 03.07.1998
18. Decree # 33 of the Cabinet of Ministers of Azerbaijan Republic "On the Regulations of State Control over Alcoholic Beverages and Tobacco Products", March 04, 1999
19. Regulations on Issuing Import Licenses for Import of Ethyl (Food) Alcohol, Alcoholic Beverages and Tobacco Products into the Territory of Azerbaijan Republic, Approved by the Decree # 33 of the Cabinet of Ministers, March 4, 1999
20. Regulations on Issuing Sales Licenses for Sales of Ethyl (Food) Alcohol, Alcoholic Beverages and Tobacco Products into the Territory of Azerbaijan Republic, Approved by the Decree # 33 of the Cabinet of Ministers, March 4, 1999
21. Regulations on Ordering the Preparation of the Excise Stamps, Their Sales and Record Keeping, Approved by the Decree # 33 of the Cabinet of Ministers, March 04, 1999
22. Decree # 61 of the Cabinet of Ministers of Azerbaijan Republic from June 16, 1997, "On the List of Goods Imported to the Territory of the Azerbaijan Republic from Non-CIS Member Countries, and Exempted from the Value-Added Tax
23. Law of Azerbaijan Republic "On Foreign Currency Regulation", from October 21, 1994
24. Methodology of Customs Statistics of Foreign Trade of Azerbaijan Republic, Approved by State Customs Committee Order # 011 from February 15, 1999
25. Regulations on the Reception of Guarantees by the Customs Authorities from the Insurance Companies on the Payment of Customs Duties during the Transit of Goods from the Territory of Azerbaijan Republic under the Customs Control, State Customs Committee's order # 035, from 19.05.99
26. Regulations on the Guidelines on the Registration and Record Keeping of Customs Rules Violation Cases in the Customs Bodies of Azerbaijan Republic, approved by the Order # 1089, from December 19, 1997
27. Law of Azerbaijan Republic "On Operational-Investigative Activities", from October 28, 1999
28. Criminal-Procedural Code of Azerbaijan Republic, from July 14, 2000
29. Law of Azerbaijan Republic "On the Fight on the Illegal Circulation of Narcotic and Psychotropic Substances", June 18, 1999
30. Law of Azerbaijan Republic "On Normative-Legal Documents", from November 26, 1999

31. Structure of the State Customs Committee of the Azerbaijan Republic, approved by the Decree of the President of the Azerbaijan Republic of October 27, 1998
32. Regulations of Swearing and Adjuration of AR Customs Bodies' Officials, addendum to the SCC AR Order # 012, from March 30, 1998
33. Statute on the Certification of AR Customs Bodies' Officials, approved by the Order # 008, from January 24, 2000
34. Statute on the Individual Rewarding of the Employees of Azerbaijan Republic's Customs Bodies, approved by the Order # 010, from March 23, 1998
35. Rules of Storage, Transfer and Use of Customs Equipment in the Central Customs Administration in Baku, approved by the Order of August 05, 1998
36. Statute "On the Fund of the Off-Budget Development of Azerbaijan Republic's Customs System and Guidelines on Spending of Its Means", approved by the Decision N140, from December 25, 1997
37. Law of Azerbaijan Republic " On the State Protection of the Employees of the Judicial and Law-Enforcement Bodies", from December 11 1998
38. Customs Duties on Export, approved by the Decree # 80 of the Cabinet of Ministers of the Azerbaijan Republic from April 12, 2001
39. Decree # 80 from April 12, 2001 of the Cabinet of Ministers of the Azerbaijan Republic "On the Size of Fees for Customs Registration and Customs Duties for Import"

### **International Agreements**

1. Customs Convention on the Temporary Import of Motor Vehicles for Trade and Commercial Purposes, 18.05.56
2. "Memorandum on the Mutual Administrative Aid by Customs Bodies", between the Governments of Azerbaijan Republic and the United Kingdom of Great Britain and Northern Ireland, 02.07.97
3. Treaty on Mutual Aid on Customs Issues between the Governments of Azerbaijan and Lebanese Republic, 11.02.98
4. Treaty on the Mutual Cooperation in the Sphere of Customs between the Governments of Azerbaijan Republic and Republic of Bulgaria, 02.12.99
5. Treaty between the Governments of Azerbaijan Republic and Georgia on the Cooperation in the Combat against Smuggling and Customs Violations, 07.05.95
6. Treaty on the Cooperation in the Sphere of Customs between the Governments of Azerbaijan and Ukraine, 24.03.97
7. Treaty on the Cooperation in the Sphere of Customs between the Governments of Azerbaijan and Kazakhstan, 10.06.97
8. Treaty on the Cooperation in the Sphere of Combat against Smuggling and Customs Violations between the State Customs Committees of Azerbaijan and Uzbekistan, 25.07.00
9. Treaty on the Cooperation and Mutual Recognition of the Customs Documentation and Customs Support between the Azerbaijan Republic and Ministry of Public Revenues of the Republic of Kazakhstan, 07.04.00

## ATTACHMENT 1C: CUSTOMS LEGISLATION OF GEORGIA

### Laws

1. The Constitution of Georgia, 24.08.1995
2. Law of Georgia on Normative Acts, 29.10.1996-# 458
3. Law of Georgia on the Structure and Norms of Conduct of Executive Authorities, 08.12.1995, # 35
4. Law of Georgia on Civil Servants, 31.10.1997, #1022
5. Customs Code of Georgia, 14.11.1997, # 1101
6. Tax Code of Georgia, 13.06.1997-#768
7. Private Administrative Code of Georgia, 25.06.1999-#2118
8. Administrative-Procedural Code of Georgia
9. Administrative-Legal Code of Georgia
10. Law of Georgia on the Customs Tariffs and Fees, 20.03.1998, N1316 - II
11. Law of Georgia on the Foundations of the System of Customs Fees, 06.02.1998
12. Law of Georgia on the Customs Fees, 18.02.1998, N1226 - II
13. Law of Georgia on the Entrepreneurs, 28.10.1994, N1226 - II
14. Law on Import of Goods for Processing in Georgia or Export of Goods for Processing Abroad, #16, 31.01.1995 by the Customs Service of Georgia
15. Law on the Passage of Grants through the Georgian Border, and Control and Registration over Their Utilization, #322; 604, 28.10.1997 by the President of Georgia
16. Law on the Establishment of Customs Control Measures on Seed Potato Imported to Georgia, #356, 28.05.1998

### Resolutions

1. On the List of Goods Imported by Physical Persons, Order of Their Taxation and List of Goods Exempted from Taxes, #273 II, 13. 05.1996
2. On the List of Goods Imported by Physical Persons on Each Entry and Subject to Excise Taxation, #273 II, 13.05.1996
3. Customs Formalities Expert, #16, 31.01.1995 by the Customs Service of Georgia
4. Establishment of Customs Points for Exit and Entry in the Cities of Georgia, #97, 30.03.1995 by the Chairman of the Parliament of Georgia
5. Reinforcement of Public Observance on Improvement of Customs Affairs, Reorganization Measures Customs and Subsidiary Systems, and International Cargo Transportation, # 409, 24.06.1996; #593, 08.09.1996 by the President of Georgia
6. Measures for the Improvement of the Control of the Registration of the Cargo of the Auto-Motor Transport and Their Crossing across the State Border, #224, 01.05.1997 by the President of Georgia
7. Certain Measures on Regulating the Production, Import, and Retail and Wholesale of Tobacco Products on the Territory of Georgia, #391, 28.06.1998
8. Measures to Improve the Control over the Auto-Motor Vehicles, Registration of Cargo and Crossing across the State Border of Georgia, #471, 04.08.1999
9. Reforms of the Customs System and Pre-Shipment Inspection of Goods, #631, 25.11.1999; #433, 04.10.2000
10. Approval of the State Border Protection Regime Procedures, #676, 20.12.1999

### Orders

1. Strategic and Functional Reforms of the Customs Department of the Ministry of Tax Revenues of Georgia, # 1325, 12.12.2001; #323, 20.04.2001 by the President of Georgia
2. Joint Inspection Conducted with the Participation of the Experts from Customs and Tax Departments, #1325, 12.12.2001 by the President of Georgia
3. Complete Customs Control on the Customs Goods Transported by Railways and the Mechanism of Their Subsequent Final Registration, #241, 15.02.1998 by the Minister of Finance
4. Customs Registration of Oil Products Imported as Grants, #93, 10.04.1998 by the Minister of Finance
5. Declaration of the Physical Person, #86, 25.25.2000 by the Ministry of Tax Revenues
6. Form of the Cargo Customs Declaration # 2, #87, 25.25.2000 by the Ministry of Tax Revenues
7. Receipt of Marketable Surpluses, #362, 09.10.2000 by the Ministry of Tax Revenues
8. Adoption of Instructions Regulating the Import and Recording of Light, Medium and Heavy Oil Distillates, #475, 15.11.2000 by the Ministry of Tax Revenues

9. Joint Activities of Customs Authorities and Extraordinarily Authorized Legion in the Detection of Violations of Tax and Customs Legislation and Imposition of Punitive Sanctions, #532, 18.12.2000 by the Ministry of Tax Revenues
10. Paper Work on the Applications, Complaints and Appeals Submitted to the Customs Department and Customs Units, #104, 30.06.1994 by the Customs Service
11. Procedures of Customs Control and Registration of the Movement of Mechanical Transport and Trailers on the Territory of Georgia, #263, 14.12. 1998
12. Rule for Definition of Customs Value of Goods Imported to Georgia, #186, 04.01.1999 by the Chairman of the Customs Department
13. Rule for Definition of the Country of Origin for Goods Imported to Georgia, #198, 18.10.1999
14. Rules on Importing of Goods Subject to Mandatory Certification, #62-24/1233, 15.05.1996 by the Deputy Minister of Finance, Chairman of the Customs Department, Chairman of the Department of Standardization, and Certification
15. Exemption of Transit Goods from the Fee Paid for Quarantine Service, #2-407, 21.09.1998 by the Ministry of Agriculture
16. Adoption of Quotas, #159, 07.07.1999 by the Ministry of Finance, Ministry of Agriculture, Ministry of Economy and Customs Department

### **Instructions**

1. Temporary Law Regulating the Import and Export of Items, Currency and Valuables by Physical Persons, #16, 31.01.1995 by the Customs Service of Georgia
2. Use of the Form #1 of Internal Transit for the Enforcement of Customs Control within the Territory under the Jurisdiction of the Customs House
3. Movement of Cultural Valuables at the Customs Border, #16, 31.01.1995 by the Customs Service of Georgia
4. Preparing Customs Cargo Declarations for Goods under the Customs Control, #16, 31.01.1995

### **International Agreements**

1. Ratification of the Agreement between the Government of the United States of America and the Government of Georgia on Cooperation in the Field of Humanitarian and Technical-Economic Assistance, #252-I, 11.12.1996
2. Ratification of the Agreement between the Government of Germany and the Government of Georgia on the Cooperation in the Field of Humanitarian and Technical-Economic Assistance
3. Establishment of a Temporary State Investigative Commission Concerned with the Expediency of Unification with the Customs Union of CIS Countries, #90, 01.03.1996 by the President of Georgia
- 4.** Further Development and Regulation of Customs Regulations with the Neighboring Countries, #73, 05.05.2000 by the Ministry of Tax Revenues of Georgia



## ATTACHMENT 2: OVERVIEW OF THE FIELD RESEARCH

### A. General Information

The Survey was designed to measure the customs related problems through the evaluation of the opinions and the actual experiences of individuals and business representatives crossing the Armenian-Georgian and Azeri-Georgian border. The survey was conducted through personal interviews. were chosen for the study. The samples represent (i) the individuals, who were crossing the Armenian-Georgian border for both travel and commercial purposes, (ii) and the representatives of Armenian and Georgian private companies (mostly small and medium-sized), that are exporting/importing goods. The field research implementation consisted of three main stages: methodology design, including preparation of survey instruments and selection of samples; data gathering; and data processing, analysis and interpretation.

The questionnaires' format and content were discussed with the representatives of customs administration in each country. The main questions covered in the questionnaires were: **general questions** (information about the place of residence, citizenship, sex, age and education – for the individuals, and the place of registration, main location and field of activity as well as the number of employees – for the businesses); **main questions** (evaluation of the current situation at the Armenian-Georgian border crossing points, respondents' experience with the customs authorities, and their suggestions on how to solve the existing problems); **additional questions** (information about availability of permanent source of income and annual volume of export/import operations – for the individuals, and annual turnover of the company and annual volume of export/import operations – for the businesses).

The sample of the individuals was developed based on the statistics received from the appropriate state institutions on the number of individuals who crossed the above-mentioned bordering points in 2001. The interviews with individuals were conducted in the bus and train stations, at the selected customs points as well as in different market places.

As for the data on business companies, the Project Coordinator (*Armenia*) had meetings with the representatives of the Department of Small and Medium Entrepreneurship, and the Export Directorate of the Ministry of Trade and Economic Development; National Statistical Service of the Republic of Armenia, and the Customs State Committee. No statistics was available on the number of business companies that crossed the Armenian-Georgian border, thus the companies were selected from the list prepared by the Project Team based on the information provided by a number of Business Associations and some Information Agencies. The Survey Team contacted the company representatives and set up an interview time in advance.

Overall 10 interviews were carried out for the pre-testing of the questionnaires – 5 individuals and 5 companies. The final format of the questionnaires was developed based on the pre-testing results and the comments and suggestions received from regional partners. The same methodology was used by the Azeri and Georgian Project Teams for preparing and conducting the field research in their countries.

### B. Survey Findings of the Armenian-Georgian Study

#### **Demographic Data**

Overall the Armenian and Georgian Project Teams interviewed 614 respondents, out of which 447 individuals, who had crossed the Armenian-Georgian border either for traveling or for commercial purposes within the last year; and 167 representatives of private companies, that have exported/imported goods through the Armenian-Georgian border during the last year.

The sample for the individuals was distributed according to the following criteria: *citizenship* (Armenian - 62.2%, Georgian - 35.1%, CIS countries - 0.8%, and other countries - 2%); *reason for crossing the border* (tourism - 36.5%, commerce - 66.4%); *border crossing points* (Bagratashen/Sadakhlo (60.8%), Ayrum/Sadakhlo (railway) (24%), Bavra/Ninotcminda (15.5%) and Gogavan/Guguti (6.5%); *sex* (*male* - 65.8%, *female* - 34.2%); *age* (18 – 25 years old (11.9%); 30 – 44 years old (51%); 45 – 59 (33.3%); 60 and above (3.8%); *education* (elementary (0.4%); incomplete secondary (1.6%); secondary (47%); vocational (9.4%); incomplete higher (6%), and higher (35.6%); *income* (51.7% had and 47.2% did not have permanent source of income; 1.1% of the respondents did not answer the question).

The sample for the enterprises was distributed in the following way: *field of activity* (manufacturing - 20.4%, services - 31.1%, and commerce - 48.5%); *company size* (small – 49.2%, medium – 40.7%, large – 10.1% (the company is considered small if it employs 20 or fewer employees, and the company is considered medium if it employs from 21 to 100 employees); *place of registration* (Georgia – 40.1%, and Armenia – 59.9%); *level of sales/import/export* (see Tables 1a and 1b); and *border crossing points* (see Table 2).

**Table 1a: Average Volume of Sales, Export and Import among the Surveyed Companies (by field of activity)**

Main type of activity	Sales (US\$)	Imports (US\$)	Exports (US\$)
Manufacturing	271,818	221,930	174,506
Services	607,124	291,286	107,270
Commerce	860,587	262,674	25,538
Total	665,320	263,532	80,424

**Table 1b: Average Volume of Sales, Export and Import among the Surveyed Companies (by size)**

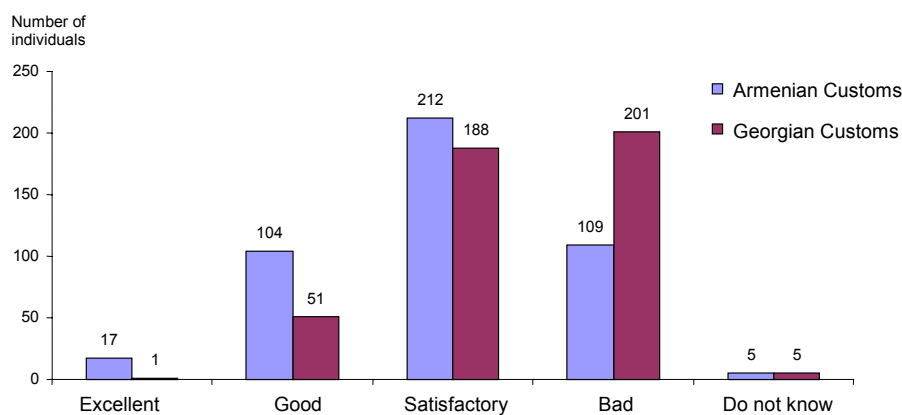
Size	Sales (US\$)	Imports (US\$)	Exports (US\$)
Small	238,182	245,974	44,106
Medium	1,014,390	191,189	121,180
Large	1,512,000	624,706	110,718
Total	665,320	263,532	80,424

**Table 2: Average Number of Times that the Surveyed Companies Crossed the Border**

Reason for crossing the border	Bagratashen		Ayrum		Bavra		Gogavan	
	# of comp.	# of times	# of comp.	# of times	# of comp.	# of times	# of comp.	# of times
Import	85	50.9	21	12.6	5	3.0	2	1.2
Export	116	69.5	37	22.2	15	9.0	1	0.6

## Main Findings

**Figure 1a: General Evaluation of the Customs Services by the Individuals**

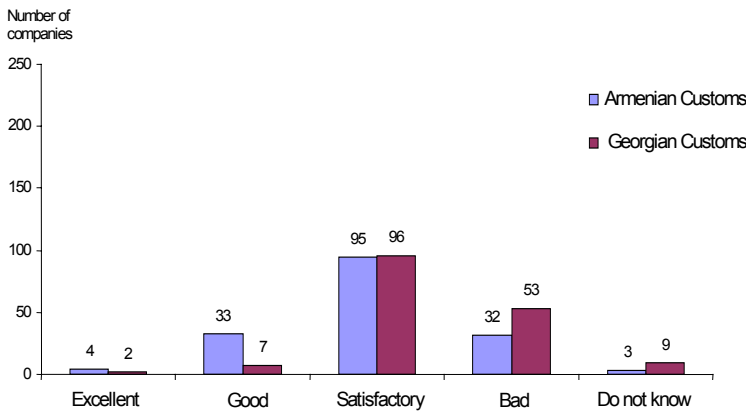


(24.38%) than with the Georgian authorities (44.96%). Only 1.11% individuals mentioned the option “don’t know”.

As shown in Figure 1a, the citizens of both countries were more satisfied by the Armenian (47.42%) than the Georgian Customs (42.05%) operations. A small number of respondents evaluated the operation of both customs authorities as “excellent” (3.80% - Armenian, and 0.22% - Georgian) or “good” (23.26% and 11.40% respectively). Individuals were less dissatisfied with the operation of the Armenian

As Figure 1b demonstrates, representatives of the business sector were almost equally satisfied with the operations of both Armenian and Georgian Customs (56.88% and 57.48% accordingly). The answers for other options of the question were distributed as follows: excellent – 2.39% (Armenian Customs) and 1.19% (Georgian Customs), good – 19.76% and 4.19%, bad – 19.16% and 31.73% respectively. From 167 respondents, 1.79% mentioned that they cannot evaluate the Armenian, and 5.38% - the Georgian Customs procedures.

Figure 1b. General Evaluation of the Customs Services by the Companies



The survey showed that the manufacturing and service companies were generally less satisfied with the operation of the Armenian Customs than the commercial companies. In the meantime, the service and commercial companies were less satisfied with the Georgian Customs, while manufacturing companies seemed to be more satisfied. Interestingly, big companies considered the Armenian Customs less problematic than the Georgian Customs. On the contrary, small size companies found the Armenian Customs to be more problematic than the Georgian Customs.

Figure 2a: Evaluation of the Specific Factors of the Customs Services by the Individuals

As presented in Figure 2a, the surveyed individuals mentioned the same three factors to be the most problematic in the Armenian and Georgian Customs Services: artificially created complications (2.86<sup>1</sup> – Armenian Customs and 2.92 – Georgian Customs), poor technical capacity (2.83 and 2.86 respectively) and improper behavior of the Customs officials (2.79 and 2.94). It is interesting to note that the explicit or implicit requests for bribes are in the fourth place for both countries.

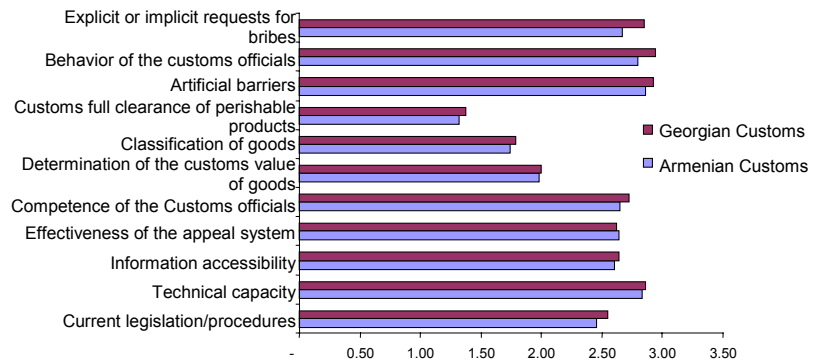
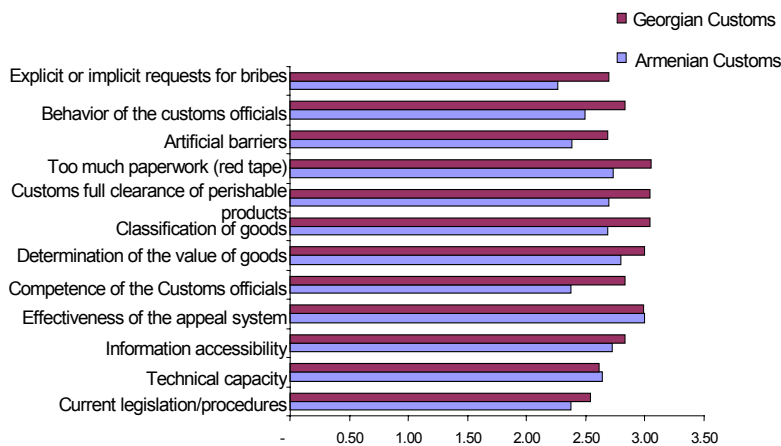


Figure 2b: Evaluation of the Specific Factors of the Customs Services by the Companies



The problems mentioned by the company representatives were different from those identified by the individuals. The following three most problematic factors were identified for the Armenian Customs: ineffectiveness of the appeal mechanisms (3.00), determination of the customs value of goods (2.79) and extensive paperwork (2.73). The following factors were highlighted to be problematic for the Georgian Customs: extensive paperwork (3.05), problems related to the customs full clearance of perishable products, and classification of goods (3.04 each), and determination of the customs value (3.00).

Individuals were also asked to evaluate<sup>1</sup> the Passport Control Points at the Armenian-Georgian border. As Table 3 demonstrates, the main problem mentioned was the behavior of the passport control officers. Incompetence of the customs officials and lack of technical capacity were stated as the second and the third problematic factors for the Armenian Passport Control Service, whereas artificially created barriers and incompetence of the officials were the second and the third factors mentioned regarding the Georgian Passport Control Service.

<sup>1</sup> in a four-point scale, where 1 is excellent, 2 – very good, 3 – good, and 4 - bad  
<sup>1</sup> on the four-point scale, where 1 stands for not problematic and 4 – for very problematic

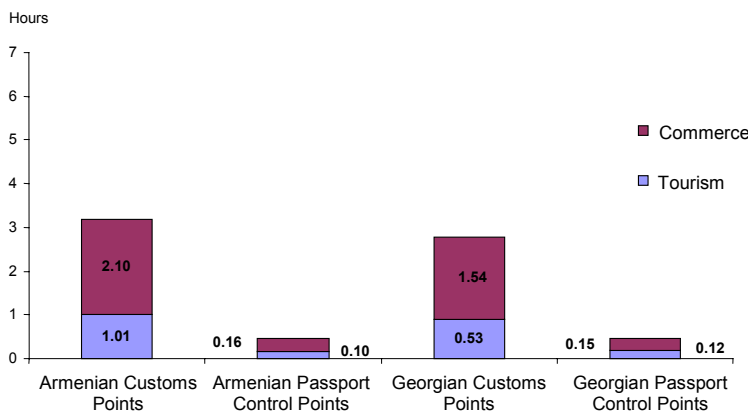
**Table 3: Evaluation of the Situation at the Passport Control Points**

Factors	Armenian Passport Control	Georgian Passport Control
	Mean evaluation score	Mean evaluation score
Current legislation/procedures	1.61	1.69
Technical capacity	2.00	2.06
Competence of the officials	2.02	2.11
Artificial barriers	1.96	2.15
Behavior of the officials	<b>2.06</b>	<b>2.17</b>
Explicit or implicit requests for bribes (or gifts)	1.85	1.98

The respondents were requested to identify the amount of time spent and the amount of unofficial payments made when crossing the Armenian-Georgian border. The individuals indicated that on average they spent 1 hour 49 minutes for passing through the Armenian customs points, and 1 hour 33 minutes – for passing through the Georgian Customs Points.

Also, as the surveyed individuals noted they spent 14 minutes for passing through the Armenian Passport Control Points, and 14 minutes – for passing through the Georgian Passport Control Points. *Figure 3a* shows the distribution of the individuals' answers based on the reason for crossing the border. The individuals crossing the border for commercial purposes spent more time both at the customs points and passport control, compared to those travelling as tourists. They also spent more time at the

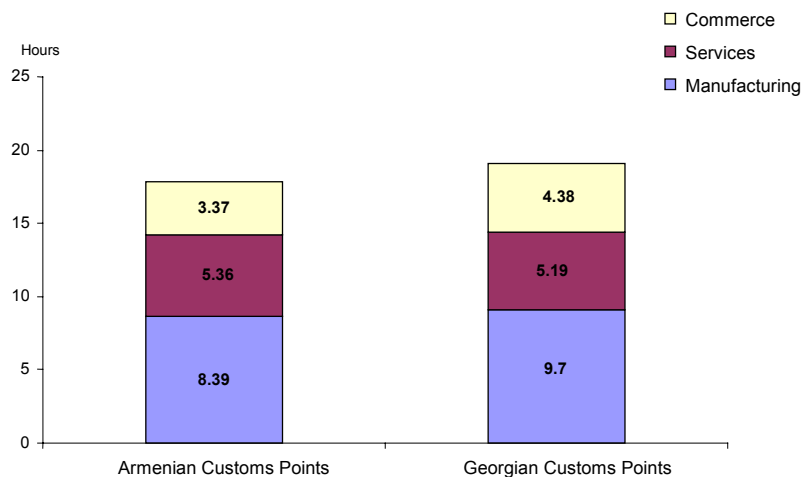
**Figure 3a: Average Time Spent by the Individuals when Crossing the Border**



Armenian than the Georgian Customs Points, whereas the time spent at the Passport Control Points was almost the same for both countries.

**Figure 3b: Average Time Spent by the Company Representatives when Crossing the Border**

Compared to the individuals, representatives of business community spent more time at the border crossing points. They estimated 5 hours 13 minutes on average, for passing the Armenian Customs Points, and 5 hours 44 minutes for passing through the Georgian Customs Points. The mode value of the time indicated by the companies for passing through both the Armenian and Georgian Customs Points was 2 hours. According to the survey results, it took longer for the manufacturing companies to cross the border than for the service providers and commercial enterprises. Compared to the individuals, who spent more time at the Armenian border crossing points, the companies spent more time at the Georgian border crossing points (see *Figure 3b*).



According to the data demonstrated in *Table 4* large size businesses spent more time for crossing the border, than small and medium ones.

**Table 4: Average Time Spent by the Companies (by Size) at the Customs Points**

Size	Armenian Customs Points		Georgian Customs Points	
	Time spent		Time spent	
Small	4.42		4.44	
Medium	4.18		4.45	
Large	11.28		14.28	

As for the unofficial payments, 192 individuals indicated that on average they paid US\$25.7 (with the mode value of US\$10.0) in the form of bribes for passing through the Armenian Customs Points, and 7 individuals mentioned US\$7.7 (with the mode value of US\$5.0) - for passing through the Passport Control. At the same time, 266 individuals stated that on average they made unofficial payments equal to US\$34.7 (mode value – US\$5.0) for passing through the Georgian Customs Points, and 11 individuals stated US\$10.1 (mode value of US\$5.0) – for passing through the Georgian Passport Control.

**Table 5a: Unofficial Payments Made by the Individuals at the Customs Points**

Purpose of crossing the border	Armenian Customs Points		Georgian Customs Points	
	Number of payments	Average amount of bribes (US\$)	Number of payments	Average amount of bribes (US\$)
Tourism	21	20.0	44	14.7
Commerce	171	9.3	222	15.6

As the data in *Table 5a* indicates, 78.5% of the surveyed individuals crossing the Armenian-Georgian border for commercial purposes paid bribes at the Georgian, and 60.0% – at the Armenian Customs Points. As for the individuals traveling for tourism, 33.8% paid bribes at the Georgian, and 17.2% of individuals – at the Armenian Customs Points.

Representatives of 42 companies mentioned that on average they paid US\$1,286 (mode value of US\$100) in the form of bribes for passing through the Armenian Customs Points, while representatives of 68 companies said that on average they made an unofficial payment in the amount of US\$383 (mode value – US\$ 100) for passing through the Georgian Customs Points. As *Table 5b* presents, commercial companies on average spent the largest amount of bribes at the Armenian Customs Points, whereas the average amount of bribes given at the Georgian Customs Points was higher for the manufacturing companies.

**Table 5b: Unofficial Payments Made by the Companies (by Field of Activity) at the Customs Points**

Main type of activity	Armenian Customs Points		Georgian Customs Points	
	Number of companies	Average amount of bribes (US\$)	Number of companies	Average amount of bribes (US\$)
Manufacturing	5	300	7	714
Services	15	80	25	68
Commerce	22	2,332	36	536
<b>Total</b>	<b>42</b>	<b>1,286</b>	<b>68</b>	<b>383</b>

The highest average amount of unofficial payments was made by the small size companies when passing both through the Armenian and Georgian Customs Points (see *Table 5c*).

**Table 5c: Unofficial Payments Made by the Companies (by Size) at the Customs Points**

Size	Armenian Customs Points		Georgian Customs Points	
	Number of companies	Average amount of bribes (US\$)	Number of companies	Average amount of bribes (US\$)
Small	23	2,247	45	430
Medium	17	126	21	287
Large	2	100	2	325
<b>Total</b>	<b>42</b>	<b>1,286</b>	<b>68</b>	<b>383</b>

For the Customs Houses the indicated numbers are quite different. From the surveyed individuals 14.8% stated that they had passed the customs clearance in the territories of Armenia and Georgia. According to the survey findings, the amount of unofficial payments made by those individuals on average equals to US\$175. The time and money, in the form of bribes, were mainly spent for: (i) determination of the customs value of the imported/exported goods (on average, 9.9 hours and US\$36.7, respectively), (ii) valuation of goods (5.04 hours and US\$24.0), and (iii) filling in and submission of declaration (1.58 hours and US\$32.5).

From the surveyed companies 63.5% said that they had passed the customs clearance either in the territory of Armenia or Georgia. As *Table 6* demonstrates, on average the highest unofficial payments were made during the determination of customs value and customs duties and the use of the Customs Warehouses in Armenia, and during the inspection of documents, determination of customs value and the selection of customs regimes in Georgia. The longest time, when passing through the customs procedures, was spent for the determination of the customs value, use of customs warehouses and customs duties in Armenia, and for the inspection of documents, valuation of goods and filling in the declaration – in Georgia.

**Table 6: Unofficial Payments Made and Time Spent by the Companies at the Customs Houses**

Customs clearance procedures	Unofficial payments made (US\$)		Time spent (in hours)	
	in Armenia	in Georgia	in Armenia	in Georgia
Filling in declaration	0.5	1.5	18.8	0.4
Submission of declaration	0.0	10.0	16.7	0.3
Inspection of documents	0.0	70.0	0.0	8.5
Valuation of goods	0.0	25.0	0.0	0.9
Customs duties	100.0	0.0	24.7	0.2
Use of customs warehouses	33.3	0.0	32.1	0.2
Determination of customs value	200.0	50.0	48.0	0.0
Determination of the country origin	0.0	0.0	0.0	0.0
Classification of goods	0.0	0.0	0.0	0.0
Selection of customs regime	0.0	50.0	1.0	0.0
Determination of privileges	0.0	0.0	0.0	0.0
Other /please specify/	0.0	0.0	0.0	0.0

Among the surveyed individuals, 16.6% indicated that they had problems with the representatives of the other state authorities of Georgia, most frequently with the Ministry of Interior, traffic and municipal police. Only 1.1% said that they had problems with other Armenian state authorities, among which 0.7% were unsatisfied with the services provided by the Ministry of Nature Protection.

**Table 7a: Amount of Unofficial Payments and Time Spent by the Individuals for Other Related Services**

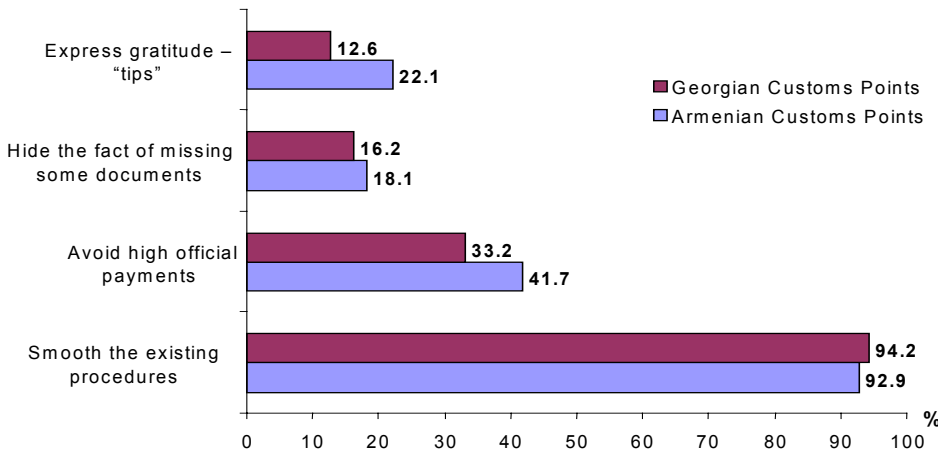
	Percentage of individuals	Unofficial payments made (US\$)	Time spent (in hours)
Licenses on exporting	0.2%	1.00	1.01
Certificates of the RA Ministry of Health for export/import of pharmacological means	1.1%	39.7	30.0
Statements of the RA Ministry of Agriculture for importing plants, animals and chemicals	0.2%	0.0	<b>48.0</b>
Statements of the RA Ministry of Nature Protection	0.7%	<b>57.3</b>	10.0
Certification of goods	1.1%	0.0	30.0

Of all the surveyed companies stated 29.3% that they had problems with the representatives of other Georgian state authorities (mostly the Ministry of Interior, escort services, traffic police, and municipal police), and 63.5% said they had problems with other Armenian state authorities. The following services were mentioned more frequently: statements of the RA Ministry of Agriculture for importing plants, animals and chemicals, certificates of the RA Ministry of Health for exporting/importing pharmacological goods (see *Tables 7a and b*).

**Table 7b: Amount of Unofficial Payments and Time Spent by the Companies for Other Related Services**

	Percentage of companies	Unofficial payments made (US\$)	Time spent (in hours)
Licenses on exporting	20.4%	3.0	7.6
Certificates of the RA Ministry of Health for export/import of the pharmacological means	1.8%	0.0	<b>24.0</b>
Statements of the RA Ministry of Agriculture for importing plants, animals and chemicals	2.4%	<b>51.0</b>	18.0
Statements of the RA Ministry of Nature Protection	4.8%	8.0	17.1
Certification of goods	40.7%	13.1	32.3

Figure 4a: Reasons Indicated by the Individuals for Making Unofficial Payments



As Figures 4a and 4b illustrate, vast majority of the individuals and entrepreneurs made unofficial payments to smooth the existing procedures. The second reason mentioned by the individuals was to “avoid high official payments”, whereas the businessmen indicated - “expression of a gratitude”. The representative of only one company pointed out that bribe was paid because the requested officially documents were missing.

Figure 4b: Reasons Indicated by the Company Representatives for Making Unofficial Payments

From the surveyed individuals 55.1% noted they would ask for documents confirming the payments, while 42.7% of the company representatives mentioned that they would try to “negotiate” in case they were asked to make payments unknown to them (see Figure 5).

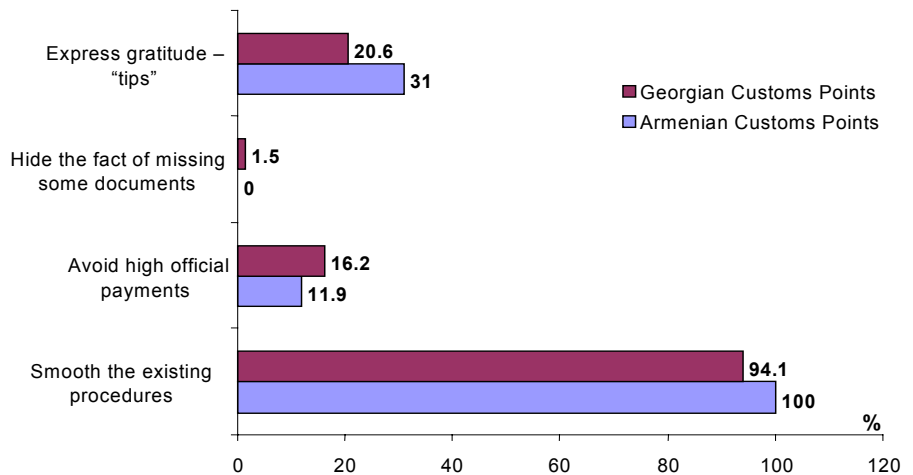
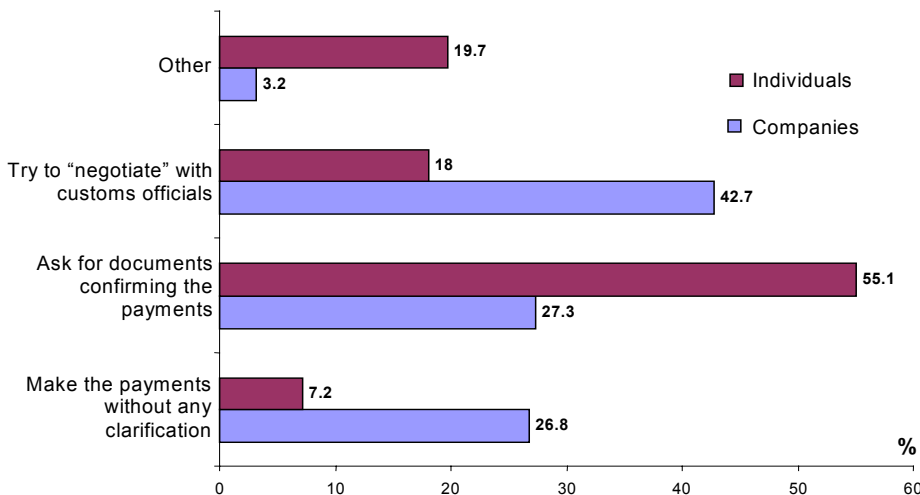


Figure 5: Behavior of the Individuals and Company Representatives when Asked to Make Unknown Payments



Number of the companies stating that they “would make the payment without any clarification” was very high (26.8%), compared to the individuals (7.2%). Respondents also gave such answers as “I will never pay anything” and “I will never have any problem”.

Figure 6a: Familiarity of the Individuals with the Customs Legislation and Procedures

As for the awareness of the individuals on the customs legislation, it can be seen that big percentage of them were not aware of the relevant policies and procedures (see Figure 6a). However, if compared, more individuals were familiar or partially familiar with the Armenian than with the Georgian customs legislation.

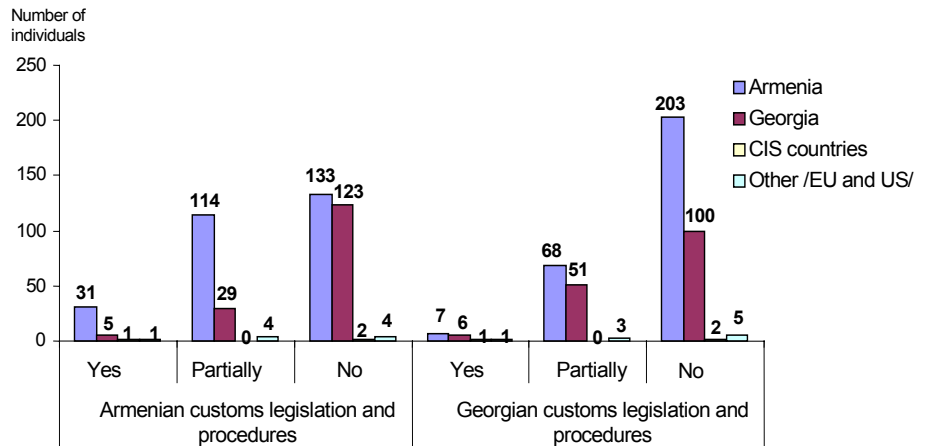
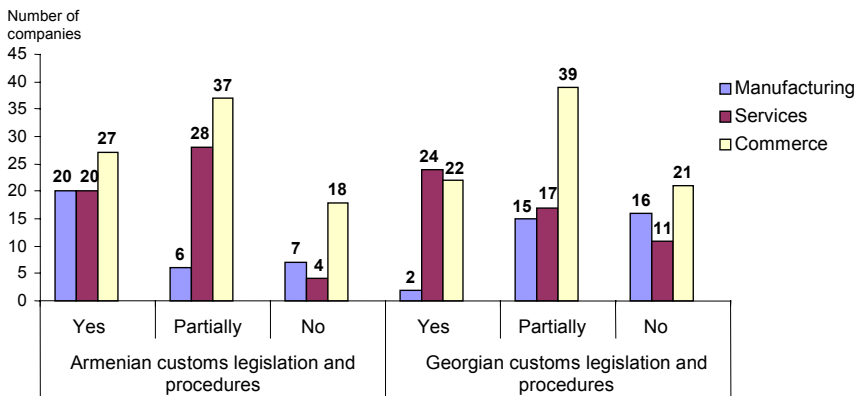


Figure 6b: Familiarity of the Company Representatives with the Customs Legislation and Procedures



Representatives of the business sector were more familiar with the customs legislation. As can be seen in Figure 6b, manufacturing companies were more aware of the current customs legislation and procedures than those from the service and commercial type of companies. The distribution of the answers based on the company size shows that the representatives of small and medium-sized companies were

less familiar with the appropriate legislation and procedures than the large-sized companies.

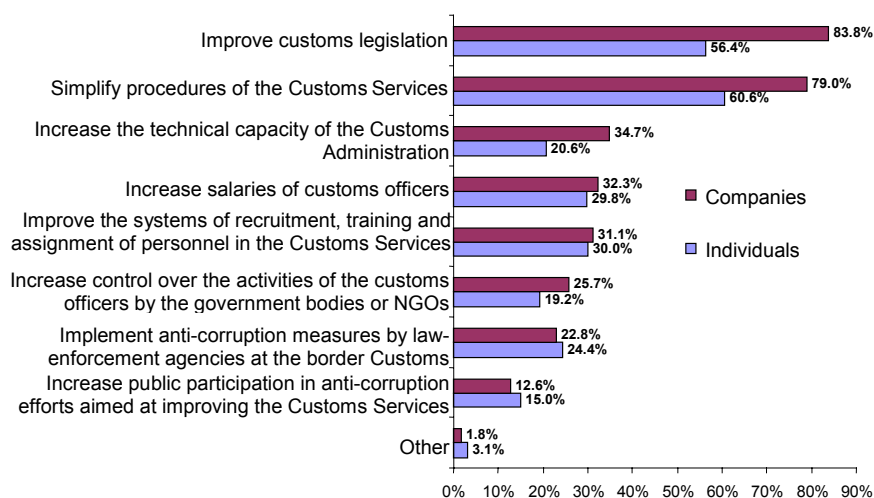
As for the sources of information on the customs legislation and procedures, 236 individuals pointed out customs officials; 177 individuals mentioned mass media; 23 – special publications, 22 – other sources of information, such as colleagues and friends; and 17 individuals – materials presented by the Customs Committee.

From the surveyed companies 87 considered special publications as one of the main sources for getting information about the customs legislation and procedures of Armenia and Georgia; 80 companies mentioned mass media; 23 – materials presented by the Customs Committee; 15 – information presented by customs officials at the bordering points, and 4 companies pointed out other sources such as clients, colleagues and lawyers.

As Figure 7 illustrates, the majority of respondents mentioned the following solutions for improving the current situation at regional Customs: simplification of procedures and improvement of legislation; improvement of the recruitment system, training and assignment of personnel; raising salaries of customs officials; and implementation of the anti-corruption measures by law-enforcement agencies at the Customs Points.



Figure 7: Possible Solutions of the Existing Problems Suggested by the Respondents



### C. Survey Findings of the Azeri-Georgian Study

#### Demographic Data

The sample of the Azeri-Georgian survey is 600, among which 400 were interviewed in Azerbaijan and 200 in Georgia. From the sample of 600, 430 were individuals and 170 - companies. Social - demographic structure and distribution of interviewed individuals according to the citizenship is as follows: 64,7% - citizens of Azerbaijan, 35,1% - Georgia and 0,2% - other countries. As for the gender and age distribution - 72,3% were men and 27,7% women; and 16,0% - people from the 18-29 age group, 34,9% - 45-59 age group, 47,7% - 30-44 age group, and 1,2% - 60 years and over. About one third of the surveyed individuals had higher education, over 65% - secondary and specialized secondary education.

As the data show, the prevailing majority of people crossing the Azeri-Georgian border are of average age, and with higher education. Taking into consideration that this is the most mature part of the population, it can be assumed, that their assessment of the situation in the customs points reflect the reality.

Tables 1 and 2 show that frequency of crossing the customs points, according to which "Sinig-Korpu" and "Boyuk-Kyasik" are the most heavily used ones. Almost one third of the total number of respondents crossed the border regularly. More than half of them crossed the border for commercial purposes. As for the "tourism" category, these are mainly people who crossed the border to travel to Turkey through Georgia.

Table 1: Number of Times of Crossing the Border by the Surveyed Individuals

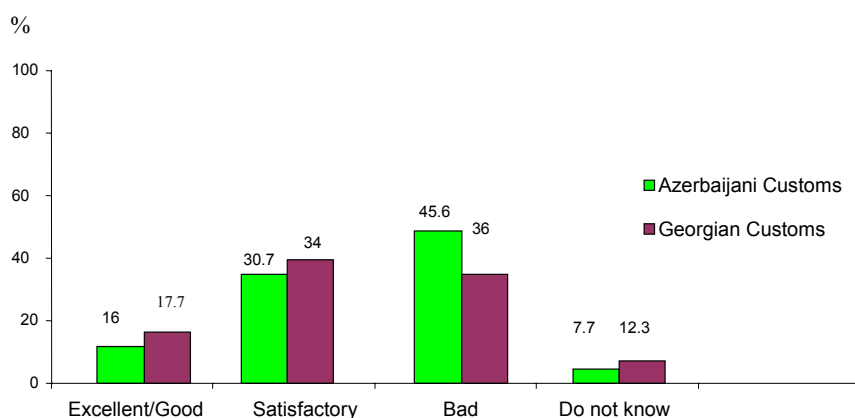
	Commerce			Tourism					
	once	5 times	always	From Azerbaijan			To Azerbaijan		
				once	5 times	always	once	5 times	always
Sinig-Korpu	4,4	15,8	27,9	6,5	5,6	22,1	0	2,6	0,9
Boyuk-Kyasik	0,5	2,6	6,5	0,7	0,9	0	0,2	0,2	0
Poylu	0,7	3,7	9,8	0	0	0	0	0	0
Djandargel	0,2	0,2	0,2	0	0	0	0	0	0
Kirzan	0,2	0	0	0	0	0	0	0	0
Sadykhly	0,2	0,7	0,2	0,2	0,2	0	0	0	0
Mazimchay	3	3	0,5	0	0	0	0	0	0
Muganly	0,9	0,5	0	0	0	0	0	0	0
Total, if details are not known	5,1	6,7	7,9	0,2	0	0	0	0	0

**Table 2: Number of Times of Crossing the Border by the Surveyed Companies**

	Commerce		
	once	5 times	repeatedly
Sinig-Korpu	5,9	14,7	50
Boyuk-Kyasik	1,2	2,4	11,8
Poylu	1,2	0,6	4,7
Djandargel	0,6	1,2	2,4
Kirzan	0	0	0
Sadykhly	0	0	0,6
Mazimchay	0	0	0,6
Muganly	0	0	0
Total, if details are not known	0	2,4	16,5

### Main Findings

**Figure 1a:** Evaluation of the Customs Services by the Individuals

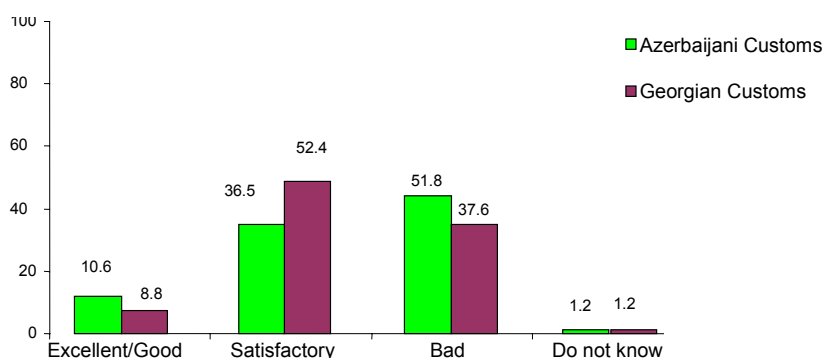


According to Figures 1a and b, the number of respondents, who considered the activities of border customs authorities not satisfactory is higher, than the number of those who consider it good or satisfactory. Also the situation at the Azerbaijani customs is worse, than in Georgia. The number of those who could not answer the question was high, which may be because of the fact

that most individuals, especially the ones traveling for tourism reason, don't deal with customs officials when crossing the border.

**Figure 1b. General Evaluation of the Cu**

Compared to the individuals, the evaluation made by the representatives of companies was more negative. It is worth mentioning that according to the reports of the interviewers, company representatives showed better knowledge of situation in comparison with individuals. Again, this may be because of the fact that most businesses have to deal with customs officials when passing through the customs points.



Attention should be paid to the fact that in contrast to the company representatives, a very high percent of interviewed individuals could not answer the questions concerning the specific factors of customs operations (see Figure 2a). From those who answered, many individuals indicated the following problems that they have encountered: explicit or implicit request for bribes; artificial barriers and absence of the effective appeal system. As it can be seen, most of the factors are evaluated to be worse in Azerbaijan than in Georgia.

Figure 2a: Evaluation of Specific Factors of the Customs Services by the Individuals

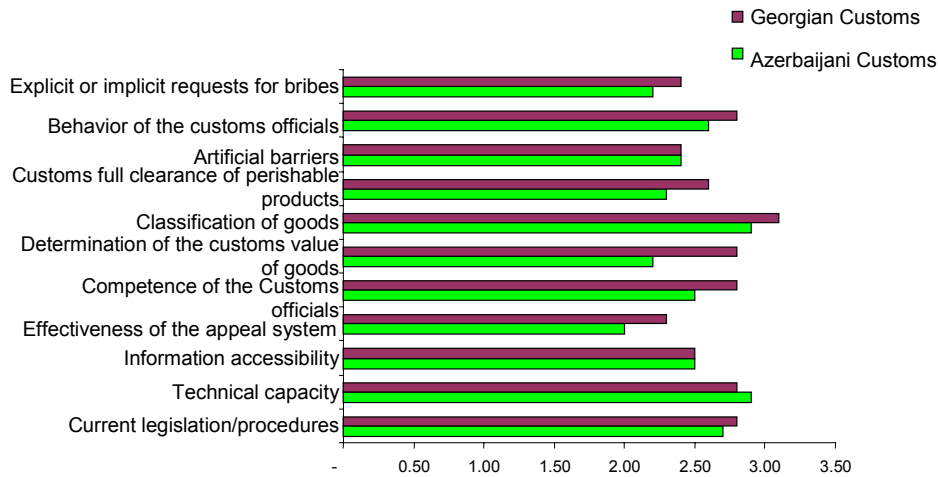


Figure 2a: Evaluation of Specific Factors of the Customs Services by the Companies

Entrepreneurs have highlighted the following factors as the most problematic: classification of goods, determination of the customs value and full clearance (see Figure 2b). In the whole, individuals estimated almost all the factors of customs operations of both Azerbaijan and Georgia 1,5-2 times more critically than businesses. As in the cases of individuals, companies too evaluated the situation in Azerbaijan as worse compared to Georgia. Though such factors as explicit or implicit request for bribes, creation of artificial barriers, and efficiency of the appeal system are sharing the last places in the chart, but their score does not differ from others greatly. In comparison with the customs activities, the situation in the passport control services looks better. Except for the factors of “creation of artificial barriers” and “the explicit or implicit request for bribes”, others were more positively estimated. However, the evaluation of the passport control in Azerbaijan is more negative, than in Georgia.

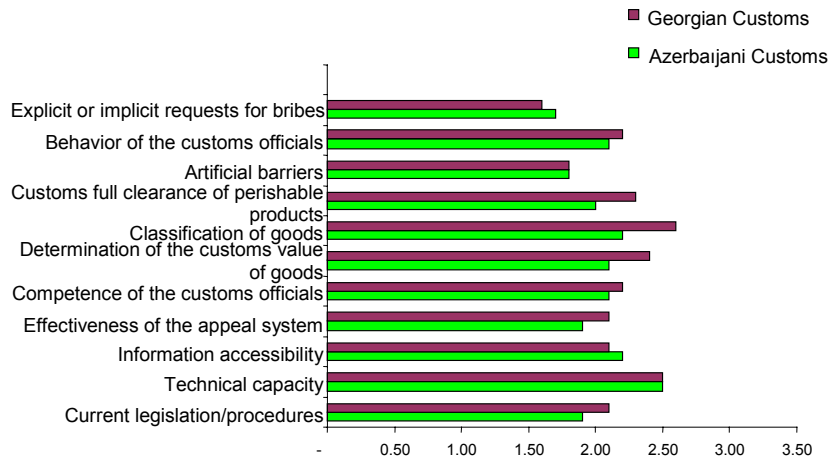
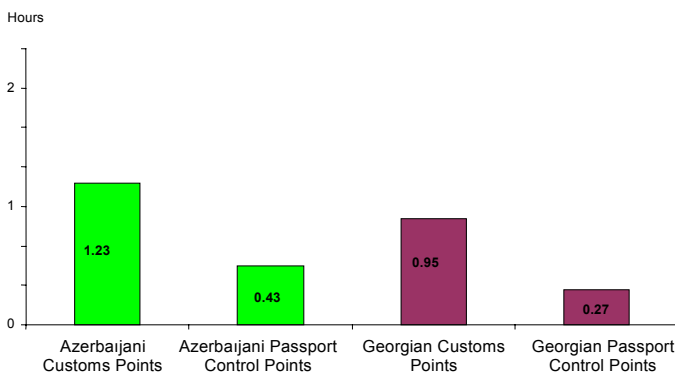


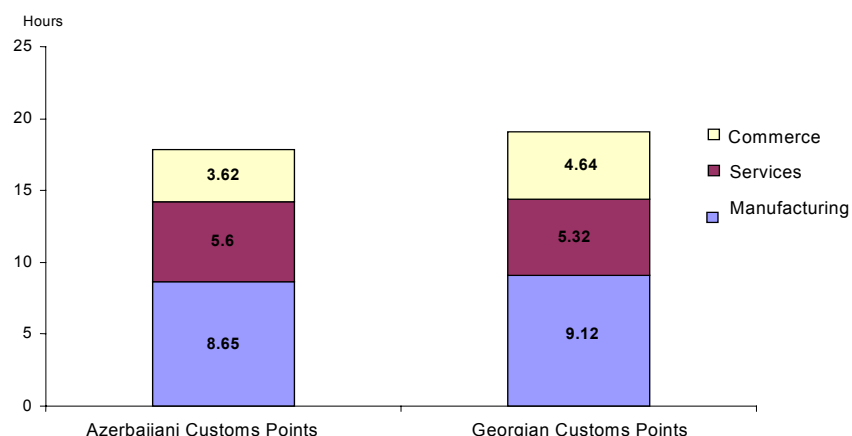
Figure 3a: Average Time Spent by the Individuals when Crossing the Border



As it can be seen from Figures 3a and 3b, the time spent for passing through customs procedures and passport control is unreasonably long. It is evident that respondents did not keep timing when passing through each procedure, so the information provided is very approximate.

However, the fact that simply amazes is that even if taking into account the given circumstance, the cumulative time spent by the individuals and

companies while crossing the border is from 1,5 to 5 hours in Georgia and from 2 to 13 hours in Azerbaijan, respectively. This fact directly shows the deliberate delays in time with the purpose to make the citizens make unofficial payments in order to speed up the process.



Tables 3 and 4 present the amount of unofficial payments made at the customs points, passport control, etc. It must be noted that the respondents were very careful when answering to this question. This may be explained by the fact that according to the legislation, the bribe-giver bears the same responsibility as the bribe-taker. More than half of the individuals did not answer to this question, whereas the businesses were more open in this respect. According to the study, the average amount of bribes at Azeri-Georgian border is approximately \$10.

**Table 3: Unofficial Payments Made by the Individuals**

	Azerbaijan			Georgia		
	yes	no	if yes, how much	yes	no	if yes, how much
Customs points	8,1	48,8	11,47	8,6	51,9	9,88
Passport control points	6	63,3	3,36	7,2	66,3	2,8
Other services (specify)	0	31,6	5,6	0,5	29,5	0
General, if details are not known	0,2	0	0,01	0,2	0,9	10,43

**Table 4: Unofficial Payments Made by the Companies**

	Azerbaijan			Georgia		
	yes	no	if yes, how much	yes	no	if yes, how much
Customs points	7,6	65,3	0,01	8,2	67,6	0,01
Other services (specify)	8,2	75,9	7,07	8,2	79,4	13,49
General, if details are not known	1,2	14,1	39,04	0,6	25,3	11,29

As the data show, most of the problems that the respondents encountered were the inspection of the documents, collection of customs duties, determination of value and classification of goods. When looking from the point of view of unofficial payments made, the leading services in terms of the amount of bribes were the determination of the country of origin (about \$100) and determination of privileges (almost \$170). For the representatives of companies the greatest amount of bribes was paid for the inspection of documents (more than \$400) and for other services listed under the category "other" - (more than \$600). It is because the companies that are engaged in export-import transactions solve their basic issues during the registration of the appropriate documents, and other payments are simply characterized as "tips".

**Table 5: Number of the Individuals and Companies who Made Unofficial Payments to Other Related Services**

Services	Individuals	Companies
Passport control	17,9 %	2,94
Customs control	15,34 %	14,7
Determination of the customs value of goods	6,98 %	0
Border services	2,56 %	2,94
Motor licensing and inspection department	0,23 %	11,76
Police	2,56 %	0
Sanitation	0	1,17
Road service	0	4,11

As Table 5 shows, interviewed individuals put the problems with passport control on the first place. Taking into account, that many citizens of Azerbaijan and Georgia still use the old Soviet type passports, it is obvious that it gives a lot of opportunities for corrupt practices. Representatives of the companies have put customs service on the first place as the main problem. If a problem of determination of the customs value of the goods is added to this figure, in total the problem of customs will be on the first place for individuals as well. The study showed that individuals had big problems with the border guards and policemen, while the representatives of companies were more concerned with motor inspection and road police.

**Table 6: Number of the Companies who had Problems with other State Services of Azerbaijan**

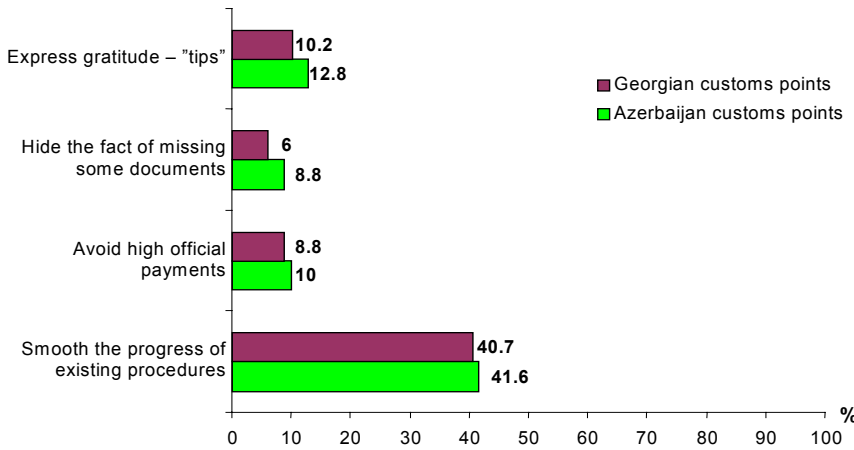
Activity	Yes	No	Unofficial payment
1.Licenses on export	0,9	72,8	59,14
2.Certificates of the Ministry of Health for export/import of the pharmacological means	1,6	73,5	0
3.Statements of the Ministry of Agriculture for importing plants, animals and chemicals	0,5	74	0
4.Statements of the Ministry of Ecology	0,2	75,1	4,16
5.Certification of goods	0,7	74,2	20,89
6.Other	1,4	3,5	0

**Table 7: Number of the Individuals who had Problems with other State Services of Azerbaijan**

Activity	Yes	No	Unofficial payment
1.Licenses on export	13,5	71,2	13,9
2.Certificates of the Ministry of Health for export/import of the pharmacological means	4,7	82,9	502,77
3.Statements of the Ministry of Agriculture for importing plants, animals and chemicals	2,9	83,5	2,08
4.Statements of the Ministry of Ecology	4,7	82,9	126,93
5.Certification of goods	5,9	82,4	92,1
6.Other	1,8	40,6	476,72

Only a small number of interviewed individuals indicated that they had problems with other state structures of Azerbaijan when crossing the border. The number of representatives of companies in this respect was comparably high. Most of the problems were caused by export licensing. Ministry of Health is in the second place.

Figure 4a: Reasons Indicated by the Individuals for Making Unofficial Payments



Reasons indicated by the surveyed individuals and companies for making unofficial payments are shown in Figures 4a and 4b respectively. As illustrated, for the individuals, artificial barriers and time spent for crossing the customs points make people give bribe in order to speed up the existing procedures. "Tips" are the second reason for making unofficial payments, which is mostly explained by the Caucasian culture/mentality. In other words, both officials on the border and the persons crossing

it, follow some private rules of behavior, when money is paid as the expression of gratitude.

Figure 4b: Reasons Indicated by the Company Representatives for Making Unofficial Payments

For the businesses number one reason for making unofficial payments is to express their gratitude, as indicated by about half of the respondents. Speeding up the existing procedures is only on the second place, and the percentage of those who gave such answer is very low.

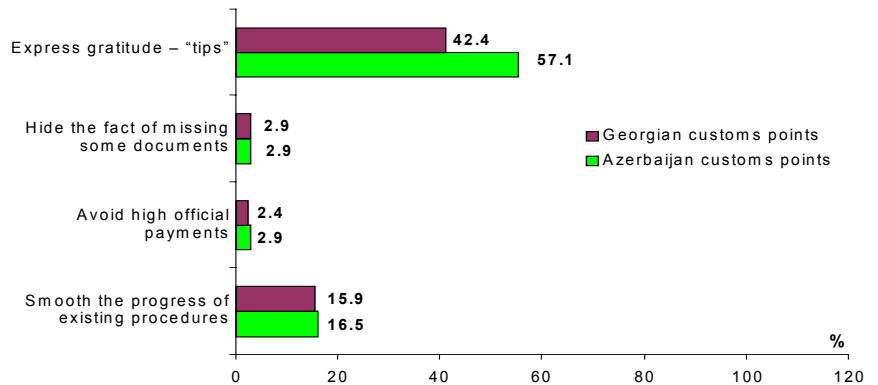


Figure 5: Behavior of the Individuals and Company Representatives when Asked to Make Unknown Payments

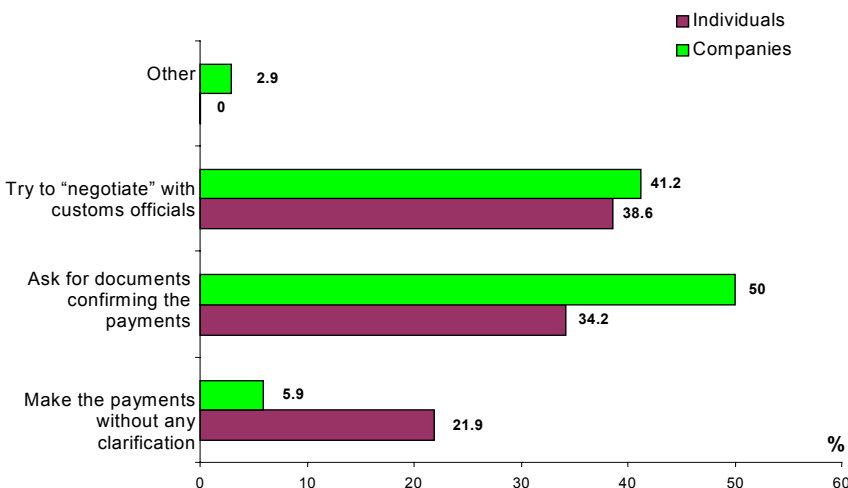


Figure 5 illustrates, that only one third of the interviewed individuals, and half of the company representatives, when asked to make unknown for them payments, asked for the confirmation of appropriate documents. Others tried to negotiate to lower the amount of payment, or pay the required amount without any clarification. Among the "other" category answers like "I will never pay anything" and "I will never have any problem" were prevailing.

Figure 6a: Familiarity of the Individuals with the Customs Legislation

Figure 6a presents the level of awareness of the interviewed individuals with the customs legislation of both countries. Two thirds of them had full or partial knowledge of the customs legislation, rules and procedures, whereas 25-30% did not have relevant knowledge.

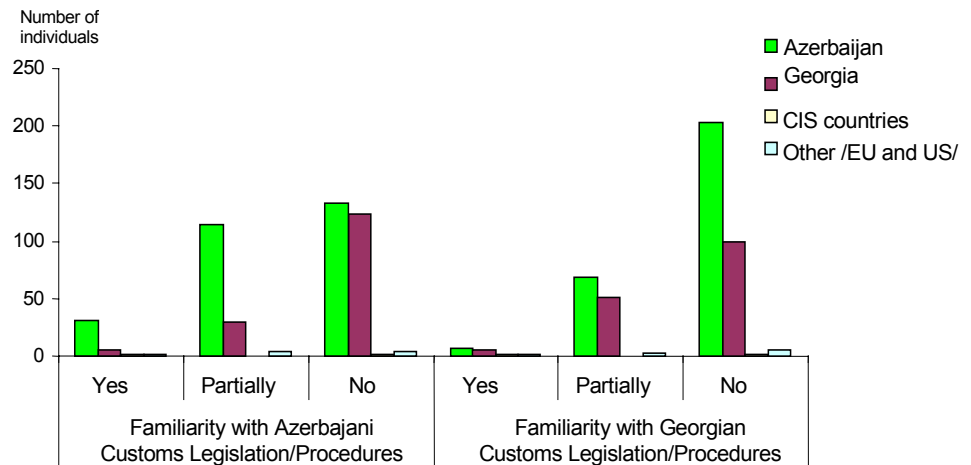
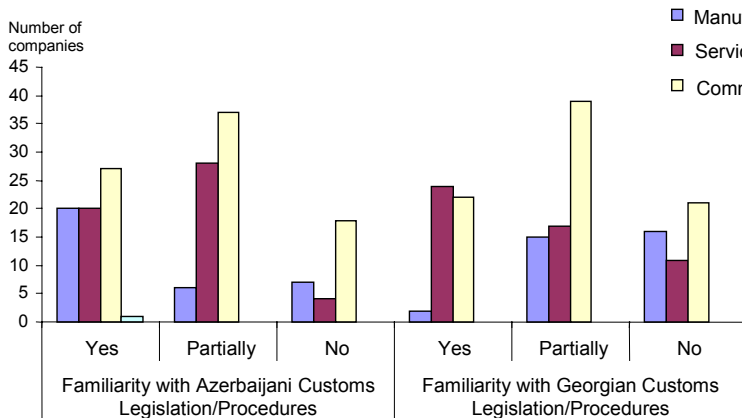


Figure 6b: Familiarity of the Companies /by Field of Activity/ with the Customs Legislation



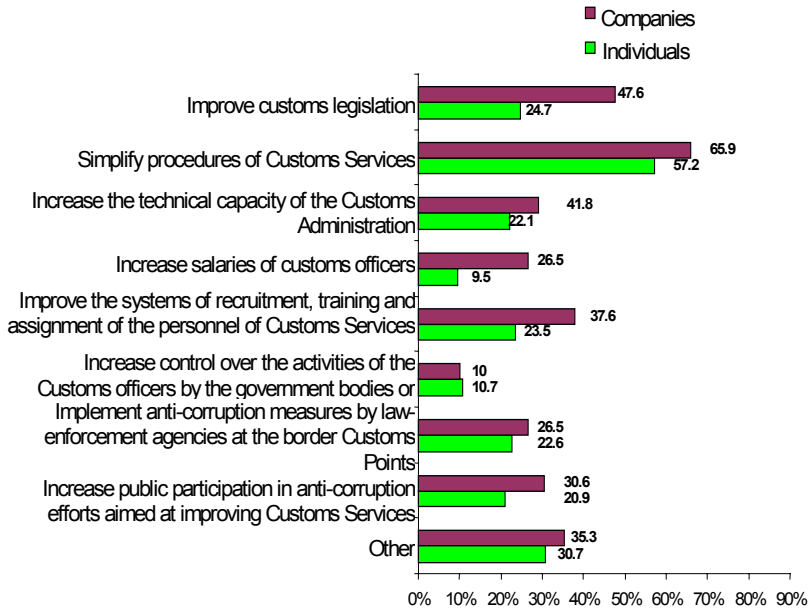
As can be seen in Figure 6b, the situation is not much different for the companies. Overwhelming majority of them fully or partially aware of the customs related legislation. Also, the commerce-related businesses are more knowledgeable compared to the businesses of other fields.

Table 8: Sources of Information Concerning the Customs Legislation of Azerbaijan and Georgia

Sources of Information	Individuals	Companies
1.Mass media	27,0	49,4
2.Materials presented by customs services	7,2	11,8
3.Special publications	3,7	27,1
4.Information presented by customs official	58,4	21,8
5.Other services (please specify)	42,3	54,1

As it can be seen from the table above, the majority of individuals receive information on customs rules and procedures directly from the employees of the appropriate institutions. Mass media is on the second place in this respect. However, mass media information and special publications are mentioned to be the main sources of relevant information for the businesses. The number of respondents who mentioned the option 'other sources' is very high. The most frequently specified answers under the category "other" were colleagues and friends.

Figure 7: Possible Solutions for the Existing Problems Suggested by the Respondents



As it can be seen from Figure 7, all interviewed individuals suggest the acceleration of customs procedures as the first solution for the improvement of the situation. Both individuals and the representatives of companies have put the problem of improvement of customs legislation on the second position. Improvement of the system of recruitment and training of the customs staff was on the third place. Meanwhile, representatives of companies put the issue of increasing the salary of the customs employees higher, as they see it as a solution for the decrease of the request of bribes by the customs officials.