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COUNTRY CASE STUDIES

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Working Party of the Trade Committee

**TRADE FACILITATION REFORMS IN THE SERVICE OF DEVELOPMENT: COUNTRY CASE
STUDIES**

OECD Trade Policy Working Paper No. 12

by Evdokia Moisé

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ABSTRACT

This document presents country studies on customs reforms that have taken place in Mozambique, Angola, Pakistan and Peru. The studies were used as supporting material for the report on "Trade Facilitation Reforms in the Service of Development" (document TD/TC/WP(2003)11/FINAL).

Keywords: trade facilitation, customs, reform, developing countries, costs, benefits.

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TRADE FACILITATION REFORMS IN THE SERVICE OF DEVELOPMENT COUNTRY CASE STUDIES

1. The country case studies presented in this document contain the information used to prepare document TD/TC/WP(2003)11/FINAL "Trade Facilitation Reforms in the service of Development", which was declassified last year. Each of the case studies provides more detail than that document by offering a discussion of the rationale for reform, an explanation of the methods through which the reforms were implemented, and an analysis of the results which have been achieved. Studies A, B and C have been prepared by Crown Agents, at the request of the OECD. They draw upon Crown Agents' recent experiences in the field of customs reform, related to three specific projects undertaken on behalf of the Governments of Mozambique, Angola and Pakistan. Study D has been adapted by the Secretariat on the basis of information provided by the Government of Peru. An Appendix to study C, containing information provided by the Government of Pakistan, puts the narrow reform project described by the Crown Agents against the wider trade facilitation policy situation in Pakistan.

Case A: Operational Management of Customs in Mozambique

The Background to Reform

2. The civil war in Mozambique, which ran from 1975 to 1994, had a significant impact on the operations and performance of the country's customs administration. During the war it became impossible to exercise central control over customs operations, and as a consequence the organisation became severely disjointed and the physical infrastructure was destroyed. Customs staff found themselves vulnerable to the divisions which the war had created – some coming under the control of provincial governors that were supportive of the government, others coming under the control of those who supported the rebels. Revenues generated from customs duties were used to fund both sides in the conflict.

3. The situation in Mozambique had deteriorated to such an extent that, even after resolution of the conflict, customs revenue yields consistently failed to meet the targets set by the government. Mozambique's lengthy coastline and land borders in themselves make illegal smuggling very difficult to control by an administration that lacks sufficient capacity and resources. However, bottlenecks caused by dated and inefficient customs procedures further encouraged smuggling and greatly contributed to increased compliance costs for those involved in legitimate trade. For instance, the director of Mozambique's National Sugar Institute reported in 2001 that an estimated 70000 tonnes of sugar were smuggled annually into Mozambique and dumped on the local market at below cost prices, thereby suffocating the country's own sugar producers.

4. The Mozambican Government therefore chose to follow the route of other developing countries and introduced a Pre-Shipment Inspection (PSI) scheme, in an attempt to overcome the high levels of customs fraud and evasion. However despite these measures revenue collection continued to decline – and had virtually collapsed by 1995. The government concluded that the technical and infrastructural capacity of its customs administration had reached a level at which it was no longer capable of carrying out its primary function of assessing and collecting customs duties and taxes, and protecting domestic industry.

5. The government chose to address this situation by establishing a Customs Rehabilitation Unit (UTRA) within the Ministry of Finance & Planning (MoFP), the role of which would be to co-ordinate a program to modernise the customs service and introduce changes to the PSI scheme. In order to achieve genuine improvements in customs' operations, the program required radical changes in a range of customs fields – including legislation, systems and procedures, facilities, operational methods and human resource management systems.

6. Following discussions with the International Monetary Fund (IMF) and the World Bank, government acknowledged that it did not have the required expertise to address these issues on its own. However, rather than seeking traditional donor-funded technical assistance, it instead sought bids from private companies to take over the operational management of its customs administration, for an initial period of three years.

7. A British company, Crown Agents, was awarded a contract by the Mozambican Government and commenced operations in mid-1997, with a team of about sixty customs officials from Crown Agents' staff. This team provided a National Director for Customs, his Deputies, Heads of Policy and Administration, regional managers, and operational control officers.

Managing the Reform Process

8. The process of reform and modernisation within customs was led by the Government, through the UTRA. The UTRA took responsibility for the co-ordination of all reform activities, whilst Crown Agents was made responsible on a day-to-day basis for the performance and progress of the reforms. Customs policy issues and performance measures for the various stages of the reform were determined ultimately by the Ministry of Planning and Finance – the owners of the overall reform initiative.

9. The reform and modernisation program was planned and implemented under the supervision of a Project Board, chaired by the Director of the UTRA and consisting of Crown Agents' representatives and a Contract Manager funded by the United Kingdom's Overseas Development Administration¹ (ODA). This Project Board was responsible for:

- Setting and maintaining strategic direction throughout the lifetime of the reform program
- Informing senior Government officials of the program's progress
- Monitoring project deliverables, and
- Creating technical teams to manage the various stages of the reform.

10. Trade interests were considered to be an important input to the reforms and were therefore invited to participate in the modernisation process – particularly to help address those aspects of customs' operations which impinged most heavily upon importers and exporters. The Project Board also established a public relations section, with responsibility for ensuring that the public and trade were kept informed of activities during the reform process.

Issues Addressed by the Reform

11. The overall aim of the reform process was to develop an appropriate structure and organisation for a modern and efficient customs service, which could in turn play a critical part in the economic

¹ ODA – now renamed as the United Kingdom's Department for International Development (DFID)

recovery of Mozambique by facilitating trade and encouraging inwards investment. The reforms focussed on six specific technical fields of customs operations:

- Customs legislation
- Systems and procedures
- Human resource management and development
- Organisation and structure
- Information technology, and
- Financial management.

12. The paragraphs which follow outline the situation at the outset of the reforms, the specific issues that were addressed under each of the headings listed above, and the outcomes of the reform efforts.

Reform Component One – Legislation

13. The customs legislation in use at the start of the reforms dated from before Mozambique's independence, and was supported and amended by numerous decrees. Although in general terms this legislation allowed for the effective operation of customs, the various powers and responsibilities were dispersed over many acts and decrees and were often out-of-date or open to conflicting interpretation.

14. The volume of customs legislation and other legislation affecting customs activities posed problems for trade interests as well as the customs service itself. Legislative ambiguities served only to assist those traders who wished to avoid their full responsibilities, and at the same time enabled less skilled or unscrupulous customs officers to make knowingly incorrect decisions. In summary, the laws were not appropriate for a modern trading environment and contained no provisions for treating serious revenue evasion as a criminal offence.

15. During the course of the reform program, a consolidated Customs Act was drafted, supported by secondary legislation containing the necessary discretionary powers to enable customs to operate effectively. The legislation was based on the United Kingdom model, but modified to reflect local conditions.

Reform Component Two – Systems and Procedures

16. At the outset of the reform program, the main obligations of an importer or exporter seeking to obtain clearance of goods in Mozambique were the lodgement of a declaration with customs and the payment of any duties or taxes due. The declaration form was complex, and importers were also required to produce the original Bill of Lading at the time of its submission. After these documents were checked to ensure their accuracy and completeness, they would be passed to other customs staff for the examination and eventual release of the goods themselves.

17. The absence of a unique identification number for importers made effective control by the customs administration especially complicated. Without this identifying number it was difficult to analyse the performance of importers, particularly where under-declarations had been made. Cross-agency co-operation (for example, with the country's VAT department) was also made more difficult by the lack of a common reference number.

18. There was, furthermore, no official guidance to importers on how to complete the declaration form, nor were there instructions to customs officers on the checks they were expected to make to the documents. This inevitably led to unpredictable variations in the requirements demanded by individual customs officers, and in turn offered clear opportunities for corruption.

19. The examination of imported and exported goods is an integral element of revenue control, and in Mozambique it was policy at the start of the reform process to examine all goods entering or leaving the country – including transit traffic. Examinations were, however, carried out mechanistically, superficially, and without any form of risk assessment.

20. There were many changes in customs clearance systems and procedures under the modernisation program, all of which were designed to improve the effectiveness and efficiency of customs operations and at the same time to facilitate legitimate trade. The major changes were as follows:

- The introduction of a new Single Administrative Document (SAD), based on an internationally accepted format
- The development of training courses for customs staff and the trading community in the new customs procedures
- The implementation of a risk-based approach to customs control
- The introduction of management controls
- The design and installation of a computerised customs clearance system, and
- The preparation of guidance notes for staff and traders, to encompass all customs procedures.

Reform Component Three – Human Resources

21. In mid-1997, the customs administration employed approximately 980 staff. The reputation of customs amongst the trading community and the wider general public was poor, and there was a widespread perception that staff were neither well managed nor properly trained. There was evidence of ill-discipline, corruption, incompetence and general over-staffing. There was also no succinct statement of basic standards of conduct which could have been given to new recruits to make them immediately aware of the levels of performance expected of them. It was inevitable that the high levels of inefficiency and corruption amongst staff necessitated identifying and then recruiting a large number of new recruits.

22. Training, however, was almost completely absent – apart from an initial induction course. There was no training accommodation, minimal training equipment, and indeed no training structure. The lack of any formal training program meant that recruits had to learn by working with and watching their ineffective and often corrupt colleagues – and a cycle of inefficiency was thus perpetuated.

23. A comprehensive assessment of existing staff resulted in almost 90% of them being either retrenched or re-assigned to other agencies. It was a deliberate policy that only new staff, or existing staff who had proved satisfactory, undertook implementation of the new operational systems and procedures introduced in customs during the course of the programme. New recruitment procedures were also developed and over 700 new staff were appointed and given the newly devised basic training – re-enforced by a two year practical training period during which performance was assessed on a quarterly basis.

24. Managers were selected for all posts and Management Development Programs were implemented for middle and senior managers. The external consultants who were holding executive management

positions within customs provided on the job mentoring to their counterpart trainee managers. The roll-out of new staff and procedures made a positive impact on revenue, and, just as importantly, improved the public perception that the customs administration was getting to grips with the problems which it faced.

25. Much effort was put into developing systems and procedures to deter and detect corrupt activity by staff. An internal audit unit was set up to audit systems and procedures, identifying weaknesses in controls and recommending improvements. A Staff Irregularities Unit (SIU) was also set up to investigate cases of internal fraud and corruption. The Unit was heavily involved in the training of new recruits and retraining of existing retained staff, and through this training the new Code of Conduct and the ethos of integrity and honesty was re-enforced. This raised the confidence of the general public and the trade community in the customs administration.

Reform Component Four – Organisation and Structure

26. Although a central administrative structure existed to manage customs' regional offices in Mozambique, the civil war had vested effective control of them in the provincial governors. Even after the resolution of the conflict, the de facto control and financing of regional offices remained with provincial governors, despite the fact that local customs heads were in theory accountable direct to the central Customs Director in Maputo. There was thus no central control nor direction.

27. Grading in the customs administration was not determined by the needs of particular posts nor was it based on merit or the ability of the individual. The sole determinant was the length of service. Staff were appointed to a post when they were recruited and continued to do the same job throughout their career, but at increasingly higher grade levels (at the start of the reform programme there were 37 staff grades). There were thus a large number of staff lacking in the experience, aptitude and skills to hold down senior management posts, who were nevertheless senior in grade and performing low grade work.

28. The lack of central management guidance combined with budgetary control by provincial governors resulted in a disparate organisation in which there was no common sense of direction – and from the trade perspective no consistency in customs' decision making.

29. As a result of the reform program, the number of grades within customs was reduced from 37 to 9, and the organisation was rationalised to ensure that the best managers were re-assigned to the most demanding posts. A management development scheme was introduced and a system of promotion based on a formal selection process of tests and interviews was introduced.

Reform Component Five – Information Technology

30. At the time of the reform program's commencement, there had been no concerted effort to introduce automated systems to support customs operations in Mozambique. A steering committee had been appointed to look at the alternatives for a computerised customs processing system, but no progress beyond that had been made.

31. Computer literacy within customs was limited and the administration had no clear business plan or policy on which to base any possible information systems strategy. The administration also lacked staff with the experience and capability to develop suitable IT policies and requirements.

32. As part of the reform and modernisation effort, an IT Strategy team was appointed and trained. A user requirement was prepared for a customs processing system, and staff recruited and trained to implement, maintain and operate the new system. Necessary infrastructural changes were made to allow implementation of the system across regional offices, and every major customs location has now been computerised and networked for operational and local administrative systems, including risk profiling.

Reform Component Six – Financial Management

33. At the outset of the reforms, funding systems for customs operations were in disarray. Allocations were made by provincial treasury departments for regional offices but by the MoFP for the Maputo customs offices, resulting in salaries being drawn from nine different budgets. Budget allocations were frequently inadequate, and did not depend on performance or results. The absence of a single customs budget and the complexity of transferring budgets led to a situation that was inflexible, failed to meet the needs of the work, and, in any case, consistently under-funded customs.

34. In a similar manner, the allocation of manpower was neither related to revenue risk nor workload, with the result that some regions were seriously overstaffed while others had insufficient resources to control the work. Managers were not required to review their workloads and resources, and neither was there any external inspection or audit system to review staffing levels.

35. Government also required that targets were set for revenue receipts, and their achievement was intended to be a key objective for customs. However, revenue targets were consistently under-achieved – in 1996, for example, receipts were 76.1% of the Government's target, and in 1995 receipts were 75.5% of target. Meanwhile there was no mechanism for reviewing the reasons for this underperformance and for adjusting future targets accordingly.

36. The annual, unrealistic revenue collection target was in fact the only means of performance measurement set by the customs administration. Neither administrators at the centre nor operational managers in the field had any measures by which to judge their effectiveness or on which to base bids for additional resources.

37. As a consequence of these weaknesses, several reform measures were implemented. Costed proposals for a national customs budget were prepared, and systems were implemented to make managers more accountable for their allocated resources. The basis of target setting for customs revenue receipts was revised to take into account external as well as internal influences, in an effort to ensure that they were more realistic in the light of all relevant factors.

Conclusions

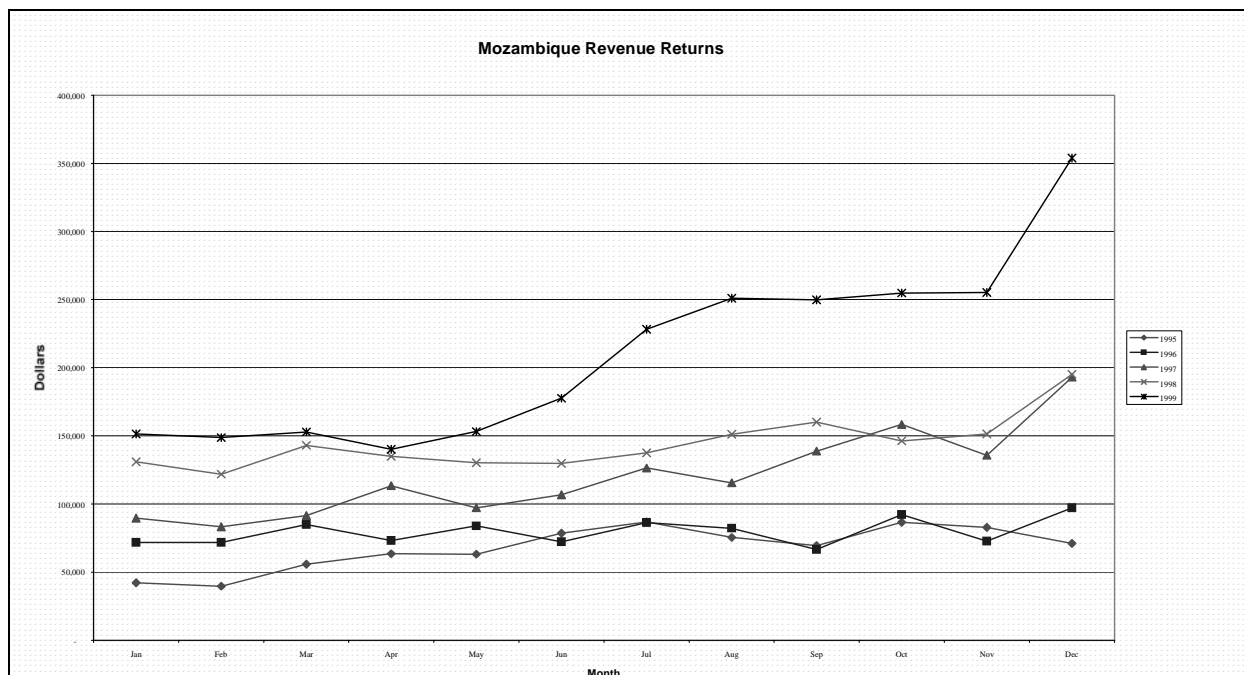
38. The employment of a private company to take over the operational management of customs, whilst not without risk, was nevertheless an innovative means of implementing a programme of reform within customs. Indeed, it could be argued on the available evidence that in circumstances such as those faced by Mozambique, there was no alternative if meaningful and lasting change was to be achieved.

39. Both the Government and the trading community have benefited in measurable ways. For Government, the overall costs of the five-year program have been greatly exceeded by the tangible benefits – principally through increased customs revenue collections. The investments made during the initial stages of the program were recouped within 14 months from additional revenue receipts. Reforms targeting internal corruption and efforts to combat smuggling were increasingly successful, leading to a decline in the number of incidents of unlawful importation of goods and an increase of the number of seizures, even if the situation still calls for improvement.

40. As an illustration of the program's success, calculations show that in dollar terms the growth of imports in Mozambique in 1998 was 2.9%, while the revenue collected went up by 16.5% in spite of significant duty rate reductions. Furthermore, combining the results of the first two years of the program shows that imports decreased by 0.2% in the period, but customs revenue increased by 38.4%. In 2000 the Customs department collected the equivalent of \$150 million, rising to \$179 in 2001 and \$225 million – 106% of its set target in 2002. It now contributes almost half of Mozambique's domestic revenue.

41. There has, inevitably, been a knock-on effect on other tax revenues. The more effective collection of taxes at the borders, the use of importer identifier numbers, the introduction of automation, and improved co-ordination between agencies has led to increased use of valuable intelligence information to control traders' other tax affairs.

Figure 1. – Revenue Performance of Customs in Mozambique



42. The benefits of reform have not, however, been restricted to increased revenues for Government. Additional revenue receipts could have been achieved in the short term without the scale of institutional reform measures that were undertaken – but their sustainability would have been in question, and there would not necessarily have been any concrete benefits to the trading community.

43. Trade has been facilitated because customs clearance procedures have been streamlined, simplified and made more efficient by a wide range of interventions, which have included:

- Clarifying and consolidating customs legislation
- Introducing the SAD, and abolishing of import and export licences
- Adopting risk-based controls for selective physical examination
- Designing and implementing a computerised customs processing system
- Enhancing the skills and technical knowledge of customs staff
- Introducing post-import audit systems and encouraging greater reliance on trader control
- Designing more effective measures to deter, detect, and punish corruption
- Establishing improved recruitment, retention and other human resource policies

- Fostering greater collaboration between Government and trade in the design and implementation of the customs reforms.

44. As a result of the reforms, there has been a significant reduction in the clearance time of goods at Mozambique's principal points of entry. Recent surveys indicate that in Maputo, the capital, 80% of road imports and 62% of imports by sea are cleared by customs within 24 hours of correct documentation being submitted. Meanwhile, at a busy road terminal outside Maputo, 82% of goods entering the cargo terminal are now cleared within four hours. One recent report by a business risk assessment company² has stated that '*...The main port of Maputo has received a much needed boost from a project by Crown Agents to modernise customs administration. Goods are now cleared 40 times faster than the pre-reform rate, making Maputo one of the most efficient terminals in Africa. The port is now a strong rival to Durban City port in attracting merchandise exports from the rest of Southern Africa...*'

45. The Mozambican customs administration is now trusted to a much greater extent by trade, the public, and other agencies within Government. This has made it easier for customs to secure the funding from Government necessary to continue to run the service efficiently – in turn ensuring that all the changes effected under the reform program are maintained and that trade facilitation measures continue to be developed. In early 2002, a customs agreement on information and intelligence sharing with South Africa was formalised, adding to agreements already in place with Zambia and Tanzania and demonstrating Mozambique's commitment to SADC's free-trade ambitions.

46. The introduction of computerised systems and the setting up of a dedicated Economic Analysis Unit in Customs headquarters, to provide statistical information and predict trends, has provided the support to government that will allow better informed policy and economic decisions to be made.

47. Although the impetus for reform was principally revenue generation, the modernisation program has, as a consequence of the changes in customs, benefited trade interests. While businesses still report concerns about integrity and cumbersome customs procedures, they also acknowledge continuous improvement in their usual business terms. The program of reform was so wide-ranging that there are doubts as to whether the more traditional input of technical assistance and training by donors could have achieved the same result in terms of sustainable attitudinal change and skills transfer.

Case B: Customs Expansion & Reform in Angola

The Background to Reform

48. Angola, like Mozambique, has endured a fierce and long-lasting civil war over recent decades. This conflict rendered Angola almost entirely dependent on imports, and has devastated much of the country's physical infrastructure. As observed in the case of Mozambique, regional customs offices fell into the control of provincial governors, and a large proportion of customs revenues were therefore spent, by both sides, on the war effort. The customs department lacked central direction, and was burdened with inefficient and ineffective systems and procedures. Its ability to collect revenue, detect fraud and evasion, and to facilitate legitimate trade had been severely reduced.

49. The shortfalls in revenue collection were a particular problem for the Government of Angola, which took the decision to address its concerns through a program of rationalisation across the country's revenue administration. The Customs Expansion & Modernisation Program (CEMP) is a significant part of that revenue rationalisation initiative. The overall objective of the CEMP is to contribute to the creation, in accordance with government policy, of an international trade environment that will balance modern

² Dunn & Bradstreet, *Country Report for Mozambique* (January 2003).

controls and effective collection of revenue with the need to facilitate legitimate trade and encourage external investment.

50. The majority view across both Angola's public and private sectors was that the customs administration was inefficient, ineffective and poorly managed – and that many of the external controls on the clearance of goods appeared to have been put in place specifically because of the lack of confidence in customs to do its job properly. This lack of confidence had led to an increase in bureaucratic systems and procedures, which in themselves still failed to address the basic problems of controlling the movement of goods across the country's borders.

51. In order to implement the CEMP, a contract for a period of five years was awarded to Crown Agents in September 2000. This provided for Crown Agents to assume operational management for the National Customs Directorate with the aim of reforming customs into an effective, efficient and modern customs service. The key objectives of the CEMP were therefore to enhance revenue yields, whilst at the same time facilitating the clearance process and reducing transaction costs for both customs and the trading community.

52. The program would entail:

- Developing the technical skills of customs staff at all levels
- Advising on improvements in customs legislation, systems and procedures
- Recommending improvements to terms and conditions of employment for customs staff
- Instituting measures to increase accountability and transparency within customs' operations, and
- Implementing a modern computerised customs processing and management information system and,
- Investing in the infrastructure, tools and equipment required by customs staff to carry out their duties effectively.

53. A team of more than fifty foreign customs experts are now present in Angola. They have executive authority over customs operations, and are applying the policies set by Government. These experts work in close collaboration alongside Angolan counterparts – with the objective that as the skills of these counterpart customs staff develop, so the external experts will move towards a more advisory role. The process of hand-over to local staff will be lengthy, and will be planned according to the capability levels of the individual counterpart staff. The hand-over will be completed with sufficient time before the external consultants leave Angola, in order to ensure that the new Angolan customs management team have the chance to implement their acquired skills, whilst retaining the 'safety net' assurance of a continuing external presence.

54. The reform program is now two years into their five-year duration, and this study is therefore based on actual and planned achievements.

Management of the Reform Process

55. In order to ensure the implementation of the CEMP in line with government policies, the Ministry of Finance (MoF) established, by ministerial decree, a Technical Unit for Customs Modernisation (UMA). The UMA has the legal authority to direct, manage and monitor the modernisation programme,

and reports to the office of the Minister of Finance. This provides for a program management structure under which the MoF gives strategic direction through the UMA, and the UMA carry out day-to-day monitoring of performance by the Crown Agents customs team. In order to avoid any conflict or ambiguity, the UMA team are fully involved in the development of all customs plans and activities designed or undertaken by Crown Agents. Thus, the overall executive responsibility for the reform and monitoring of the consultants progress is vested in UMA. Ownership of the program remains at all times with the Minister of Finance.

Issues Addressed by the Reform

56. Prior to the reform program, customs was regarded as being inefficient, ineffective and poorly managed. A number of factors had contributed to this perception – including complex and inappropriate procedures, inadequate and outdated legislation, an inappropriate organisation and structure, ineffective management, poorly trained and demotivated staff, and no effective use of automation. Consequently, the reform program was designed through a series of interventions across six key technical fields. It would address:

- Customs' organisation and structure
- Customs legislation
- Human resource management and development
- Systems and procedures
- Financial management, and
- Information technology.

57. The following sections examine in more detail these institutional weaknesses in customs and discuss the methods through which they are being tackled.

Issue One – Organisation and Structure

58. Prior to the modernisation program, the number and level of the positions in customs was determined directly by Ministerial decree. Job levels and reporting structures were based on outdated historical information, and each employee held a rank related to their length of service, qualification and performance on internal tests. There were, as a result, a large and confusing number of grade levels. There was furthermore no separation of functions in those key areas where this is desirable for reasons of transparency, integrity or efficiency.

59. The organisation was also regionally based. Regions were relatively autonomous, with little or no central direction or control. The structure was not geared to respond to changing trade patterns or work demands. In fact, the autonomy of the regional managers and the lack of central direction led to inconsistent treatment of importers and exporters. The lack of any method for allocating resources to meet needs resulted in serious over-manning at some customs locations and insufficient staff at others. The lack of central direction also weakened systems and procedures and meant that there were insufficient internal controls to deter corruption.

60. The Angolan customs department is not a large organisation, and during the early stages of the reform program it was decided that the organisational structure should be based on central control, with as many as possible of the support functions led from headquarters. Whilst the responsibility for service

delivery of core customs business would continue to rest with the regional sites, they could no longer be allowed to develop policy or manage finances and resources in isolation and irrespective of wider customs' needs and priorities. Headquarters also needed to be restructured, to take on responsibility for development of policy, for the setting of standards, the co-ordination of budgets, the maintenance of external relations, and the development of strategic direction.

Issue Two – Customs Legislation

61. Prior to the reform program there were 119 separate customs-related laws, developed by the Portuguese during the colonial period between 1931 and 1967. Most of these laws, replicating those of the colonial power, were still in force at the start of the reform program – despite the fact that they had since been repealed in Portugal in 1986. The flurry of new legislation passed in the 1980's served to confuse matters, because whilst some old laws were explicitly revoked, others were only implicitly overtaken.

62. The legislation in force prior to the reform program was characterised by the following weaknesses:

- There was no consolidation of past and more recent legislation
- Some legislation was outdated and had been overtaken by Ministerial Decrees, and
- There was a high degree of confusion amongst customs staff and trade, leading to inconsistency of application and enforcement.

63. Although the laws were robust enough to allow the organisation to function, customs legislation was not geared to the needs of modern trading practices, the use of technology, and the requirements of WTO compliance.

64. In order to meet address these problems, the reform program has entailed:

- The redrafting of customs legislation into a consolidated Customs Law
- The introduction of new customs legislation which complies with WTO and GATT valuation requirements
- A transition from Brussels Definition of Value (BDV) to GATT valuation methods
- The termination of the pre-existing PSI scheme and the passing of responsibility for valuation back to Angola Customs, and
- The delivery of valuation training to customs staff and traders.

65. As can be seen, the reform of customs legislation has entailed a considerable effort to retrain customs staff – in addition to the actual legislative redrafting.

Issue Three – Human Resource Management and Development

66. Prior to the modernisation program, customs staff were generally considered to be of low technical capability. They were perceived to be lacking in motivation and frequently corrupt – a particular concern being the dearth of effective and well-trained management. Younger junior staff generally had good qualifications and an aptitude for their work, but suffered from a lack of guidance and good management.

67. Responsibility for the oversight of staff was divided between customs' Human Resources Department and the Training Department, each reporting separately to the National Customs Director. There was no evidence that the policies developed by the two Departments were compatible, or were the result of close co-ordination and co-operation. Neither Department was pro-active in supporting business aims, focusing instead on administration of, rather than involvement in, the various human resource management and development activities.

68. Bureaucratic procedures for recruitment, selection and placement often led to the process taking up to six months to complete. The tests and interviews in use during recruitment were not job-related, resulting in employees finding themselves in positions unconnected to their experience, qualifications and personal abilities. Meanwhile, a lack of job descriptions meant that staff had no clear guidance on what their jobs involved nor what was expected of them – and managers had no basis on which to determine the accountability of employees. The conditions of employment and remuneration were insufficient to allow customs' management to demand integrity and quality performance from staff. On integrity issues, there was a complete lack of appropriate guidance to customs employees on their role and obligations, and no machinery for publicising what trade and the public should expect from customs services.

69. At the start of the reforms, there was no systematic technical training program in place for customs officers, and staff were selected for training courses by their supervisors on an ad-hoc basis. This meant that staff were lacking the knowledge, skills, and competencies necessary for effective performance. The absence of a performance appraisal scheme also meant that although there was a pool of successors to fill senior positions throughout the civil service, it did not necessarily contain candidates with in-depth customs or managerial knowledge, skills or aptitudes.

70. As a consequence of these various weaknesses, a number of reform measures have been undertaken. Firstly, the management of all activities associated with the identification, selection, development, motivation, reward and training of staff was integrated into a single structure. Recruitment and selection procedures were then revised, and staff were assessed and recruited using the new methods. Tests and interviews were related to competencies for particular posts in customs, and staff were subjected to an annual appraisal system that was based on appropriate performance measurement criteria.

71. Training has been a key element of the reform program, involving all retained and new staff. A training strategy was developed by the reform team, to ensure that all technical skills are covered. Particular emphasis has been placed on the needs of management and the implementation of management development courses. This has been supported by the development of job descriptions that identified in rigorous detail the activities involved in specific customs roles.

Issue Four – Systems and Procedures

72. At the start of the reforms, declarations processing and the other obligations associated with the import and export of goods were complicated, time consuming and expensive – for traders and the customs service itself. Prior to importation there were a number of obligations which traders were expected to fulfil – ranging from obtaining licenses, acquiring loading certificates and securing a myriad of approvals from individual ministries. The absence of a consolidated import and export guide made it difficult for traders to establish the precise requirements. Numerous government agencies required separate certificates for the import of goods – and appeared to do so primarily because they lacked confidence in the trade and statistical information provided by customs.

73. The manual declaration processes in use in Angola were excessively complicated, and officers were required to concentrate on ensuring that documentation was fully, rather than correctly, completed. There was little or no verification of the veracity of the information supplied about the imported goods, and

customs placed great reliance on the activities of the incumbent PSI scheme. There was no differentiation in customs' treatment of low and high risk consignments and 100% of imports were physically inspected – notwithstanding the fact that customs officers' examinations were generally ineffective.

74. Commercial fraud was undoubtedly widespread – not only because the sanctions, when one was caught, were not particularly punitive, but also because there was no effective deterrent anti-smuggling activity. Staff had fixed posts and dealt with business as it came to them. There was no co-ordination of activity within the organisation, and no separate unit to proactively identify and detect smuggling.

75. The lack of risk based controls, the complicated documentary procedures and the 100% physical checking of consignments added considerably to the direct and indirect compliance costs for importers. Direct compliance costs included:

- Demurrage and storage charges for cargo held up at the wharf or airport
- Penalty charges resulting from delays in returning containers to shipping companies and,
- Penalty clauses relating to late payment of bills of exchange.

76. Importers who actively sought to comply with customs requirements were disadvantaged when compared to non-compliant competitors, not least because the weak legislation and procedures relating to penalties and seizures were insufficient to act as a deterrent to those seeking to evade customs.

77. The 'zero tolerance' policy on customs examinations operated in Angola allowed no differentiation between compliant and non-compliant importers. No attempts were made to carry out selective examinations, nor were there information systems from which to develop a risk-based approach to control. The extent of examinations was also very much an individual matter for customs staff, since there were no defined standards or training courses for the examination of persons or goods entering and leaving Angola.

78. Under the CEMP, Flexible Anti-Smuggling Teams (FAST's) of officers were selected and trained to work with Crown Agents' expert staff, in order to detect commercial smuggling. These teams have developed intelligence systems to determine risk and identify potential under-declaration or smuggling. Such FAST's do not operate from fixed customs points and instead base their work on countering the areas of greatest revenue risk. Their presence at customs locations cannot be pre-determined by local staff or trade interests, and this element of surprise and unpredictability serves as a considerable deterrent to illegitimate traders. This model of flexible, risk based control is common in most modern customs services.

79. A new computerised entry processing system has also been introduced. This system has allowed for the development of risk assessment models which in turn have supported the move to risk-based control and examination. As the system is refined and the staff become more expert, so legitimate trade will increasingly benefit.

80. All the above initiatives serve to present further deterrents to staff corruption. The computerised system takes away some of the checking and decision making that previously resided with officers and presented the opportunity for corrupt action. The FAST's' activity, based on the concept of mobile staff making promiscuous visits in no determined and regular manner equally serves as a deterrent to corrupt staff.

81. In a move designed to further facilitate legitimate trade, it is planned under the CEMP to introduce a security scheme to enable the clearance of goods without the necessity for bank payment of

each individual transaction. It is also planned to introduce a period entry scheme for some large importers and exporters who have demonstrated a good revenue record.

Issue Five – Financial Management

82. In line with other sections within the Angolan customs department, the finance function was shaped by the rapid departure of the colonial administration and the subsequent withdrawal of skilled local management, either out of the country or to other areas of government. This left a core of middle and junior managers who, having been appointed to senior positions, maintained the customs function to the best of their ability based on the old Portuguese procedures.

83. A lack of confidence in the ability of customs to manage its own budget contributed to the MoF's decision to withdraw control over the budget and funding processes from the customs department. By the time the reforms began, the MoF was paying little attention to any budgets produced internally within customs, preferring to allocate funds to cover only the most basic of customs services. The finance function within customs headquarters played no role whatsoever in consolidating accounts for the department or establishing financial policy for the organisation.

84. Financial controls within customs were poor, with no form of cash flow forecasting, and accounts under the control of customs were rarely subject to reconciliation with bank statements. With the exception of revenue statistics, customs produced no management information to support planning, forecasting or performance management. In short, there was no transparent budgeting process and little accountability on customs, whose role was reduced to merely receiving, and then spending, set levels of funding.

85. On the revenue side, there were no systems to provide structured information on revenue receipts as compared to forecast, nor on which to base estimates of future revenues. Customs was unable to provide the information necessary to allow for trend analysis and forward planning.

86. As a critical part of the reform process, budgetary monitoring, forecasting and reporting were delegated to the customs department by the MoF. This has enabled customs headquarters to set up systems and procedures to monitor and manage allocations, whilst at the same time delegating daily responsibility to regional managers. A management information system is also being developed that will enable the department to relate resources to results more effectively. Managers will have delegated budgets and will be accountable for the expenditure and results achieved.

Issue Six – Information Technology

87. Prior to the reform program, customs in Angola made little use of information technology. A stand-alone statistical information system was in use in one port, but there was no strategy to reduce the manual processing of transactions. There had been some ad-hoc investment in computers, primarily to use as word processors. Policy and procedures for implementing new information technologies were laid down by the IT Department of the MoF – who also administered customs' systems, given that there was no internal capacity to do this.

88. The introduction of appropriate automation is crucial to effective customs modernisation. Automation provides for improved efficiency in declaration processing, speedier and more accurate processing, and allows for greater analysis of trade data to support better informed decision making. Technology is also essential as a tool to support the development of intelligence and risk-based controls – essential to modern Customs control and to trade facilitation.

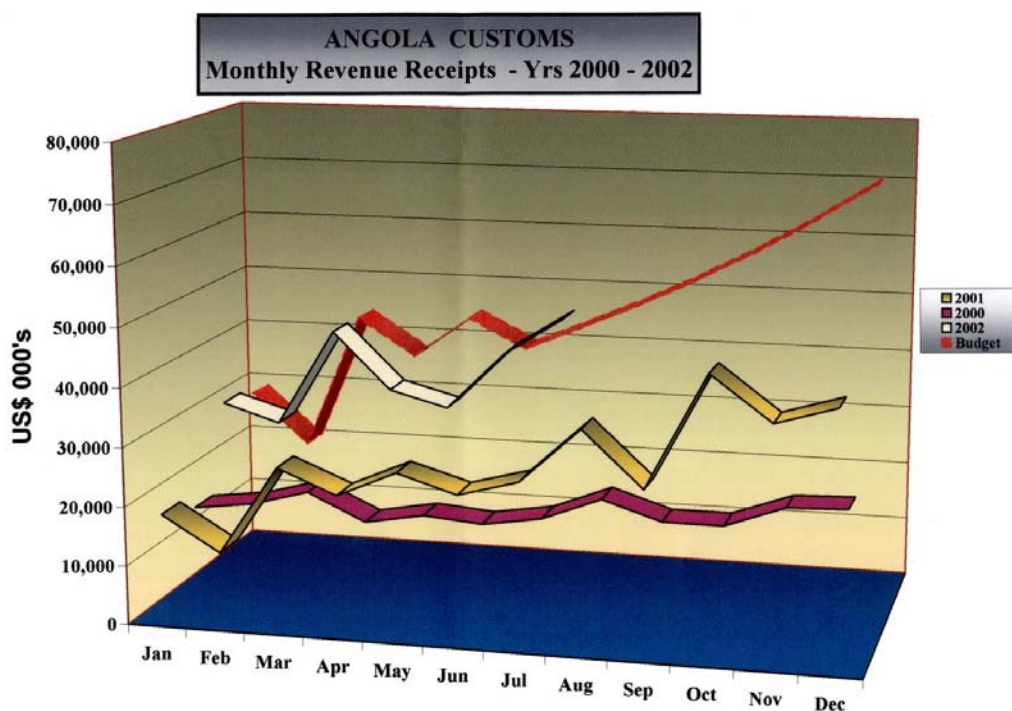
89. A technology support unit has been established within customs and an IT strategy, in line with MoF policies, has been developed. A computerised customs declaration processing system has been

implemented at the main port and airport in Luanda, supported by the development of an intelligence system to assist risk assessment and covering up to 85% of imports. Information systems now support many administrative functions such as budgeting, accounting and revenue forecasting, as well as providing management information reports for the MoF, customs headquarters and regional managers.

Conclusions

90. At the time of writing this report, the reforms in Angola were entering the third year of their five-year term. It may therefore be too early to draw concrete conclusions about the full extent of improvements for government and the trading community. Revenue receipts have, however, already increased dramatically – as shown in figure 3 below – making a further leap of 150% between 2002 and 2003, and the processing time for correct import documentation has been reduced during 2003 to the set target of twenty-four hour turnaround from lodging to release of import documents.

Figure 2. – Revenue Performance of Customs in Angola



91. The benefits of reform have not however been restricted to increased revenues for Government. Already there have been significant benefits to trade as a direct result of the customs reform program. In particular, customs clearance procedures have been streamlined, simplified and speeded up through:

- The introduction of a single administrative document. The streamlining of documentary requirements has allowed Angola to become the first country in the SADC region to adopt a SAD;
- The adoption of the harmonised tariff system of classification;
- The implementation of a computerised processing system, and the adoption of risk-based controls for selective physical examination;

- The clarification of customs legislation;
- The enhancement of skills and technical knowledge amongst customs staff; and
- The reduction in the opportunity for customs corruption.

92. The introduction of new methods of operation within customs has highlighted the drawbacks of modernising in isolation. Considerable time and effort has had to be spent addressing issues which are outside the control of customs, but which nevertheless impact considerably on the success of measures to improve the level of customs' performance and efficiency. The development of stronger working relationships with agencies such as the Fiscal Police, the port authorities, the banking sector, the trading community and the Ministry of Commerce have continued to be a priority.

93. This suggests that in order to facilitate trade, improvements in customs operations need to be matched by reform in other areas. One advantage in the case of Angola, however, is that other Ministries and Agencies can see the effect of customs reform and can use the methodologies for managing change as a template for their own organisations. The CEMP may itself act as a catalyst for wider reforms across the public sector.

94. On matters of integrity, the various initiatives adopted in the course of the reform program to deter or detect corruption are having a significant impact on customs staff. Angola's trading partners report that the effects of the reform in reducing corruption are now noticeable³. However, the sustainability of this particular aspect of reform will be determined not only by customs but by the wider environment in which customs staff live and work, and in particular will be affected by the perceived integrity of officials at all levels in other parts of government. The fight against institutionalised corruption requires clear leadership, not just within customs.

Case C: Re-engineering Customs Procedures in Pakistan

Background to Reform

95. Exports are a major contributor to the economic performance of Pakistan, and trade policy is thus a vital element in determining the country's growth. In order to maintain the competitiveness of its exporters the government, in common with most countries, maintained a policy of providing relief from duties for imported goods used in the manufacture of exported commodities. In the overwhelming majority of cases, such relief was provided through a duty drawback system. However, the customs systems and procedures in place to control drawback were ineffective and inefficient. Evidence from the early 1990's indicated that the sums being repaid as drawback regularly exceeded the duties collected at import. Effectively therefore the system provided a 'subsidy' to exporters.

96. As a member of the WTO, Pakistan has committed to adopt certain requirements that facilitate international trade – in particular, the GATT basis of valuation for imported goods. However, businesses and international organisations such as the International Monetary Fund (IMF) were concerned that Pakistan's customs administration had not adopted these rules, and instead continued to apply duties on assessed market prices rather than transactional values.

97. In order to redress this situation the Government of Pakistan (GoP) adopted a medium-term export strategy, as part of its Trade, Export Promotion & Industry (TEPI) initiative. This strategy aimed at strengthening the country's trade policy regime by broadening the coverage of duty exemption

³ Hugh Ellis, "Angolan customs switch has positive impact" in The Namibian, July 22, 2003

mechanisms to small and medium-sized enterprises (SME's), and at the same time by strengthening regulations to allow for proper tax neutrality and compliance with WTO requirements.

Issues Addressed by the Reform

98. As part of the effort to develop an efficient free trade regime for exporters, a program of technical assistance was initiated to support the modernisation and restructuring of the customs administration, with support and funding from the Asian Development Bank (AsDB) in the form of an AsDB loan of \$3 million.

99. The customs reforms were designed to encompass:

- A review of the regulations and administrative arrangements for Pakistan's customs duty exemption schemes and duty drawback system;
- The re-engineering and simplification of related procedures and systems across customs;
- The automation of free trade schemes for exporters to ensure effective implementation of the duty exemption and duty drawback systems;
- The operationalisation of an Input-Output Coefficient Organisation (IOCO), to systematically estimate input-output coefficients (IOC) and duty drawback rates; and
- The transformation of the customs valuation system from the fixed import trade price system to an invoice-based system, in order to facilitate Pakistan's compliance with the WTO Agreement on Customs Valuation.

100. The programme undertaken by Crown Agents was therefore designed to address specific aspects of customs' operations, rather than being a complete overhaul of the entire administration – as was the case in both Angola and Mozambique.

101. The following paragraphs outline the situation at the outset of the reform process, and describe the progress achieved in two of the key technical areas of customs identified – the development of the duty drawback scheme and the enhancement of the customs valuation system, commissioned by the Government of Pakistan to Crown Agents. However, Pakistan Customs have carried out a series of reforms in other areas, which are briefly described in the Appendix.

Issue One – Redeveloping the Duty Drawback Scheme

102. Traditionally, about 95% of Pakistani exporters relied on the duty drawback system to obtain relief from import duties and taxes. However the system, as operated, failed to provide a full free trade status to exporters – not least because the imposed taxes at import often had to be financed through borrowings raised at high interest rates that inevitably increased manufacturing costs and thus impacted on the competitiveness of exports. Exporters also experienced frequent delays in the refunding process – not least because of an overly complicated refunding mechanism, which segregated sales tax and duties from other taxes to be refunded.

103. The drawback scheme was administered by a section of the customs administration called the Survey & Rebate Cell (SCR), which used prescribed duty drawback rates to refund the various selective taxes (import duty, central excises, and sales tax) paid on the import of goods used for export production. The SCR had never been able to systematically estimate or update input-output coefficients and the actual process of fixing duty drawback rates lacked transparency. A major plank in the reform of the drawback

scheme, therefore, was the planned development of an independent Input-Output Coefficient Organisation responsible for the development, administration and maintenance of more accurate drawback co-efficient rates.

104. It was a part of the Pakistan Government's strategy to strengthen free trade policy by increasing the use of duty exemption procedures as alternatives to drawback – not having to pay duty at the time of import clearly maximises the potential benefit to legitimate traders. At the start of the reform process however, there was little take-up of existing duty suspension provisions – despite the problems associated with the drawback system. A more detailed examination of the working of the drawback scheme showed that in global terms the monies paid out to exporters consistently exceeded the sums collected at import, and exporters were in effect receiving a subsidy. As an illustration, the drawback rate determined by the customs SRC in respect of 100% printed cotton fabric was 5.8% of FoB (Free on Board), although it should have been 1.11% of FoB.

105. The Pakistani authorities recognised that the setting of accurate drawback rates was likely to remove the current incentives towards the use of the drawback scheme. It was anticipated that when traders saw no financial gain in the drawback system, they would be more persuaded of the benefits of using other duty exemption schemes that do not carry the added costs of drawback. Inevitably, the Pakistani trading community had no desire to see any changes to the drawback system, and were reluctant to take part in discussions with or provide information to the customs administration.

106. During the course of the reforms a new IOCO was established, with legal powers under which to operate, and with procedures for ensuring a systematic method of determining and maintaining IOC's and drawback rates. Computerised applications were introduced to assist in the revision of IOC rates, and the IOCO will in future be responsible for carrying out standardised calculations of the quantity and value of dutiable input materials required to produce a given quantity of export product. Using this information, drawback rates will be calculated to accurately reflect the incidence of actual duties and taxes incurred in production.

107. Unfortunately, the reforms have had to progress largely without traders' assistance and consultation. For the reasons referred to above, there was no great will on the part of the trading community to support this process of reform, thus compromising the successful and full implementation of the new duty drawback infrastructure, which depends on appropriate legislation and regulations being enforced, and trade interests taking their full part in consultations with the IOCO.

108. In response to this situation, the Government of Pakistan had the rules of the Duty and Tax Remission on Exports (DTRE) scheme revisited in November 2002 by a Committee including all stakeholders. In parallel IOCO re-examined the duty drawback rates and notified new substantially reduced rates. The new scheme is now rapidly gaining ground, bearing substantial promise for the future, as shown by the fact that, despite an increase of exports of over 20% during 2002-2003, the total duty drawback got reduced by more than 33%.

Issue Two – Instituting GATT Valuation Procedures

109. In January 2000 Pakistan made provision under its Customs Act to introduce the methods of valuation for imported goods defined under Article VII of GATT 1994. Efforts were made at the time to train staff in the new valuation techniques, using uncustomised WCO material, and through the provision of a single handout – the legal text of the 1994 WTO Valuation Agreement. No procedures had been prepared to provide for the new valuation system, nor had trade interests been targeted through any form of publicity. The existing procedures for dealing with valuation issues remained unchanged, and when customs officers were dissatisfied with declared values at points of entry, they frequently re-assessed the

value by uplifting it in accordance with local guidelines. No justification for increasing the import value was required other than the officer not being satisfied, and there were no adequate mechanisms for resolving valuation disputes.

110. The move from traditional and outdated imposition by customs of arbitrary values to WTO compliant measures requires changes in systems, procedures and techniques for identifying and resolving valuation issues. Under WTO guidelines the responsibility lies with customs to disprove that a declared value is not the transaction value. Such proof can rarely, if ever, be obtained at the time and place of import declaration, and most modern customs administrations have developed post-import audit as the means by which true transaction values can be established. This requires new skills and generally some organisational and legislative change.

111. In order to protect the revenue under the new valuation guidelines, it was considered essential that customs valuation staff had some means of identifying which importers should be subjected to post-import audits. As not all traders could realistically be audited it was important that those who posed the highest risk were subjected to scrutiny first. There was thus a need in Pakistan to develop a risk assessment system that would assist in identifying under-declared values.

112. During the course of the reform program, legislation in accordance with WTO guidelines has been drafted and enacted, and new procedures for entry processing and subsequent post-import audit have been devised. Some limited training has been given to selected staff in the techniques of post-import audit, and to staff and the trading community in general on the new valuation requirements. A Customs Valuation Information System (CVIS) now connects Customs stations through a computer network allowing them to exchange data on assessed import values of each individual consignment on a daily basis. Following scrutiny by the System Administrator the entire database may be accessed by the general public through the Internet. Traders who have a proven record of integrity benefit from new schemes, such as the Electronic Assessment System (EASY), where there is no prior checking of customs valuation.

113. However, notwithstanding all the above, fears remained within Customs that there will be large revenue losses if the move towards the new valuation scheme is adopted in full – in spite of evidence from limited trials conducted during the reforms, which demonstrate that potential revenues collected from post-import audit can far exceed the sums collected at entry review through the arbitrary uplifting of declared values by nuisance amounts. As a consequence of these concerns, it is reported that the procedures adopted by customs officials do not always reflect the legislation change, and customs staff continue to uplift import values without documented and provable cause. Progress towards the full implementation of the WTO Valuation Agreement has thus been slow and incomplete. The major obstacle to progress remained the traditional approach to valuation still employed by customs, and the administration's resistance to moving away from entry-by-entry review processing. In light of persisting concerns relating to potential revenue losses, Pakistan has suggested in the context of the WTO General Council that co-operation between exporting and importing countries might help solve valuation problems, e.g. by allowing the sharing of information on values contained in the export declaration.

Conclusions

114. The reforms undertaken in Pakistan struggled to yield the results expected by the government for some time after the completion of the consulting company's task. A key complicating factor in the way of successful implementation has been the reluctance of the most important stakeholders, namely Customs staff and parts of the trading community, although each for different reasons. For the latter it was a question of safeguarding advantages, while for the former there was concern that long-term-efficiency measures might come at a considerable short-term cost in terms of customs revenue. However, more recent endeavours undertaken by the Government of Pakistan seem to yield promising results.

115. If changes of the sort described above are to be implemented successfully they will require commitment by a full range of stakeholders – both inside and outside of customs. In the case of the revised drawback scheme, one of the major stakeholders was the export trade sector – which saw no benefit in overhauling the existing drawback system, despite the fact that a duty exemption scheme had considerable potential to facilitate legitimate trade. The renewed consultations held by the Government of Pakistan in 2002 were clearly a step in the right direction.

116. Meanwhile, although customs legislation now complies with WTO valuation requirements, it is evident that it will be a long time before the new practices and procedures are actually adopted by customs staff. This feature of the reform highlights one of the major problems facing developing countries which seek to comply with external agreements and requirements such as WTO valuation. The focus of many developing country governments in the customs field is on the collection and protection of revenue – and whilst it is a relatively straightforward matter for these countries to develop, with technical assistance, the legislation and procedures necessary to apply new agreements and obligations, particular care is needed to avoid detrimental effects in the short to medium term in terms of revenue collection.

117. New valuation procedures are a simple example of the problem – understanding the principles of valuation methods, introducing legislation and clearance procedures can be achieved fairly easily. However, the result of introducing the new procedures is that customs then need to use new skills and techniques in order to maintain control of the taxes. Post-import audit skills and techniques have to be acquired in an environment in which traders' records are often missing or inadequate, and customs staff have no experience of audit control. The question is then to what extent narrow-focus reforms can be sustainable outside a more comprehensive modernisation programme aiming to enhance the capacity of the administration to cope with change.

Case D: Customs Modernisation in Peru

The Background to Reform

118. Customs reform undertaken in Peru in the 1990s was directed at an institution reputed for its inefficiency and corruption. Poor equipment, inadequate facilities, poorly-trained, incompetent staff and under funding created a vicious circle difficult to break. The fiscal impact of Customs revenue was only 23% (US\$626 million in 1990), despite high and complex tariffs with 39 duty levels ranging from 10% to 84%. A number of earlier attempts to reform had failed, namely because of pressure from prevailing political and economic interests and of strong opposition from the trade unions.

119. Attempts by the Financial Inspection authorities to implement efficient tax controls were hampered by administrative disorganisation. As fiscal controls were deficient, payments through false or dud cheques were common practice, revenue collection quite low, while fraud was rarely pursued in justice. Director Generals were named for very short time periods, insufficient for introducing and consolidating administrative reforms, and lacked sufficient political and economic support from the government. Promising programs, like the "Proyecto Guadalupe", were discontinued as soon as their instigators retired from Customs. The lack of infrastructure was such that Customs officers had to rely on customs agents even for stationery. The institution had a limited budget, entirely dependent on financing by the Ministry of Finance and mainly aimed at covering salary expenses. Despite its low levels, the budget was only partially spent as investment expenses remained practically non-existent (in 1990, out of 11 948 317 US\$ budgeted for Customs, only 7 241 001 were spent, of which 374 792 for investments).

Managing the Reform Process

120. In 1991 a new management team was established to carry forward a reform program aimed at moralising the institution, professionalizing the personnel, and modernizing Customs operations. The responsibility for the reform process design and implementation lay directly with the local team, although initial management guidance and financial support were provided by the Inter-American Development Bank, the Organization of the American States, and the World Bank. Consultants were employed on an ad hoc basis only when the specific expertise and skills were not locally available or obtainable. Reform was undertaken in a centralised, top-down manner, based on procedures and controls from the top and aiming to bring the Customs administration into a self-sustaining improvement process.

Issues Addressed by the Reform

121. Reform started with the fundamentals, such as the institutional status and structure of Customs, including through reshuffling the underlying customs legislation. Institutional changes set the stage for subsequently addressing the issue of the competence of human resources. The process then moved step-by-step towards additional improvements, including upgrading skills and infrastructure, as the first positive results came along.

Reform Component One - Rethinking the Institution

122. Immediate emphasis was placed on new customs legislation that was meant to establish a more transparent environment and ensure concerted actions of customs officials. Prior to reform, the customs legislation contained overly complex, confusing and conflicting provisions, resulting in lack of coherence in implementation between various border posts. There were no implementation guidelines, nor price references to support value conciliations, so that subjective valuations were regularly overturned by fiscal tribunals. Bureaucratic and burdensome formalities generated substantial transaction costs (there were 10 different formalities for imports and 11 for exports, corresponding to various registries, licences, certificates and authorisations, and the average clearance times ranged from 20 to 30 days). The wide discretionary powers and excessive physical controls (an inspection rate of 70 to 100%) created opportunities for rent-seeking by corrupt officials. Everyday practice commonly applied a presumption of bad faith on every importer, seen as a potential smuggler. Yet, as there were no integral plans to fight smuggling, no repression operations were ever conducted at the national level. With too many excessive or unessential tasks to perform, overstretched staff and infrastructure resources were unable to meet central control and revenue collection tasks.

123. The new customs law reduced the 39 tariff levels ranging from 10% to 84% to only two tariff levels of 15% and 25%. Other changes in legislation focused on conformance of Peruvian regulations with international customs standards, such as those established by the Kyoto Convention on the Harmonization and Simplification of Customs Procedures. The new legislation established the principle of good faith of traders undergoing customs procedures and narrowed the scope of intervention of the customs administration to what was necessary for ensuring revenue and safety controls. Excessive control operations were suppressed, while peripheral but necessary functions were gradually transferred to the private sector.

124. Customs were given institutional, operational and economic autonomy, but were at the same time subjected to stricter and more efficient fiscal inspections. The new Customs law allowed wider flexibility in spending decisions and linked the global budget amount allocated to Customs to the customs revenue collected annually. Customs operations were allocated 2% of collected revenue and an additional 1% was later attributed to infrastructure investments. Thanks to the improvements in revenue collection brought by

the reform, this amount increased by 287%, passing from 18 728 million US\$ in 1991 to 72 569 million US\$ in 2000, and solving many funding problems of the Customs administration.

Reform Component Two - Human Resources

125. In 1991 Peruvian Customs had a staff of more than 4000 people without well-defined functions. Only 2% of personnel were professional employees having a university background. The rest was mainly composed of support personnel remunerated on the product of seizures, and of “trainees”, which did not receive salary but were remunerated through tips. There were no career plans, as both recruitment and promotion were entirely dependent on political and business recommendations. As a result customs staff completely lacked credibility and authority, while there were no training programs that could help improve the situation. Remunerations between 40 and 50 US\$, including overheads, were totally insufficient to cover staff's living expenses and were a clear incitation for seeking additional revenue. The levels of corruption were high, as demonstrated by cases of personal enrichment that found their way to courts, including cases among high level officials widely publicised by the press.

126. As a first step of the reform in the area of human resources, all employees involved in corruption cases were immediately laid off and the remaining staff was submitted to competence tests so as to retain only people sufficiently qualified for customs needs. In parallel, salaries of the retained personnel were increased to a level corresponding to private sector standards and equalling almost 10 times the amount of previous salaries. Although substantial pressure was exerted on the customs to rehire discharged employees, customs management, backed up by support elsewhere in government resisted this pressure.

127. New hires for professional positions were limited to university graduates. In addition, new skills and knowledge were brought to the organization through external recruitment of mid-career professionals—economists, auditors, statisticians, and information technology experts, so as to support increasing emphasis on systems-based audits and use of information technology. As a result of these measures, the percentage of professional employees in Peruvian customs increased from 2% to 55% in 2000, the rest of the staff being Customs technicians (16%), specialised technicians (9%) and administrative personnel (20%). Staffing was reduced by approximately 30% from 3800 to 2600 persons. The management team established a training academy and introduced programs of lifelong training. It also defined clear levels of responsibility, corresponding to minimum levels of qualifications. Periodic personnel evaluations were also introduced and carrier development was linked to these evaluations.

128. On the other hand, strong emphasis was placed on the development of corporate culture through the introduction of clear objectives for enhancing the corporate image of the institution. These objectives were incorporated in a Code of Conduct meant to communicate the change in culture and standards within the organization. As a result of these efforts, employee corruption decreased, while competence levels improved.

Reform Component Two – Infrastructure development and Information Technology

129. Peruvian Customs were plagued by a very poor physical infrastructure, even with respect to basic equipment for daily needs. This included inadequate physical premises and an antiquated car fleet which hindered smuggling control activities, as well as practically non-existent communication networks, hindering the distribution of uniform implementation directives, the timely distribution of norms of immediate application, and creating exchange rate distortions which would even generate unforeseen additional charges for the importers.

130. Prior to the reform none of the customs operations was automated apart from the Definitive Import and Export operations. Customs lacked an IT unit responsible for developing or maintaining IT

systems. The absence of computer networks in all border posts other than the post of Callao and the airport, imposed an entirely paper-based data transmission, resulting, among other things, to a 10 years delay in the collation of statistical information.

131. The financial autonomy of Customs and the increase of their operating budget along the improvement of revenue collection allowed the administration to engage in an aggressive program of infrastructure investments. During the period of 1991-2000 Customs invested 109 253 million US\$ in building new premises, both centrally and at the different border posts, completely renovating their car fleet and purchasing new computers and communications equipment.

132. Customs management introduced information systems to coordinate and streamline the clearance process. After consideration of ASYCUDA and a few other IT alternatives, Peru decided to automate the trade process by developing its own system, SIGAD (integrated system of customs management), tailored specifically to the local needs. The new information system included communication with the banks and the warehouses and the development of a valuation database. It enabled customs agents to file entries electronically, pay duties directly to the designated financial institutions, and consult in real time with any other members of the network.

133. The introduction of SIGAD allowed the targeting of specific shipments for intensive inspection, reducing paperwork, collecting accurate trade statistics, and facilitated the flow of goods through customs control. Electronic cataloguing and identifying high and low risk shipments allowed officers to reduce manual inspection rates from 70-100% to a maximum of 15% and average clearance time fell from 15 to 30 days to a range of 2 hours to 2 days. SIGAD not only enabled Peruvian Customs to handle an expanded workload with a reduced staff but also relieved officers from many routine tasks and allowed the newly skilled workforce to focus on analytical problems. The success of the system led several other South American Customs, including Ecuador, Uruguay, El Salvador and Honduras, to consider it for adoption. The costs of implementation for these countries were estimated to be around 2 million US\$.

Conclusions

134. As a result of the reform, the efficiency of Peruvian customs was significantly improved. In December 1999 the customs Administration has obtained ISO Quality Management certification 9002. This achievement, combined with high levels of existing automation and transparency has been critical for the recent launching of second generation reforms in Peruvian Customs. The successes of the reform quickly translated into improvements in the area of trade facilitation. The most remarkable achievement is the combination of a reduction in tariffs and personnel with a huge increase in the revenues : Customs revenue increased by 4 times from \$626 million to \$2723 million despite reductions in inspection rates, personnel and duty rates. Customs contribution to national revenue collections increased from 23% to 35%. At the same time, release times went down from 15 to 30 days to a range of 2 days to 2 hours. Import value increased nearly 100% from \$4 billion in 1990 to \$7.5 billion in 1996.

135. The example of Peruvian customs demonstrates that economies can implement successful trade facilitation projects in a relatively short period of time. The two essential factors for the success of the reform were political support from top government officials and a strong management team capable of implementing changes. Moreover, it became clear that customs can enhance revenue collection, improve standard compliance, and facilitate trade at the same time; enforcement needs not be emphasized at the expense of trade facilitation.

136. There remain areas for improvement. Following the first generation reforms, the trade and business community in Peru had expressed concerns on a number of issues, including remaining inefficiencies in cargo release, the seriousness of penalties for minor mistakes, or the fact that smuggling and contraband trafficking are not yet completely excluded from customs practice. However, the successes achieved by that date were not only widely acknowledged but have also generated momentum for second generation reforms that the Peruvian Customs undertook subsequently.

APPENDIX

Reform of Customs Administration in Pakistan

Pakistan Customs has been undergoing a reform process for the last several years. Successive governments tried various options but with mixed results. In 1999, a fresh two-pronged approach for modernisation of the Customs Department was initiated. For export procedures (including review of duty drawback scheme) and valuation, services of foreign experts through Crown Agents were hired. In other areas, a self driven fast-paced reform process was initiated to achieve expeditious clearance of goods and international passengers through customs. These reforms were achieved basically through simplification of the tariff structure and customs procedures. Consistency and predictability of Customs laws (including duty rates) was strengthened. Also non-core functions were outsourced and best international practices were adopted. Details of improvements in specific areas are given below.

Simplifications of the Tariff Structure

Over the years Pakistan's tariff regime had become rather complicate. Not only there were a large number of national sub-headings, their scope as to what kind of goods were covered was also not clear. As a result, there were frequent tariff classification disputes, which often resulted in delays in clearance of goods and gave rise to corrupt practices. Therefore, an exercise was conducted to simplify the tariff structure. Over 400 subheadings, which were not required for statistical or tariff purposes, were deleted. The number of tariff slabs was reduced to 4. All goods which were liable to different duty rates but were difficult to differentiate were made liable to the same rate of duty. As a result, the number of cases where goods were held up at the port for classification issues were reduced by almost 90%. During the last two years there were only two cases of classification disputes which were referred to the World Customs Organisation for their opinion as against 20-30 per annum previously. Those were in addition to dozens of other classification disputes which used to be resolved locally.

Simplification of Procedures

- A single administrative document known as Pakistan Goods Declaration (PGD) has been introduced to replace several documents such as various kinds of Bills of Entry, Shipping Bills, Baggage Declarations, Transshipment Permits, etc. After successful completion of the pilot project at one of the ports, PGD is gradually being introduced country wide.
- Similarly baggage rules for incoming/outgoing passengers were simplified and made more enforceable. Based on risk profiling of international flights, green and red channels have been made more effective. Thus clearance time for international travellers has been reduced from over one hour to an average of about 1-2 minutes per passenger.
- All customs related rules/general orders issues over the last 30-40 years were revisited. Those which had become redundant were deleted and the rest were updated and published in electronic format as well as in hard copy.
- All customs clearances details including customs values accepted for clearance purposes are made available to general public through daily published reports and on the Central Board of

"Revenue website ensuring complete transparency. Not only the competitors have a chance to raise objections to any unusually low customs values or wrong classification accepted by customs, but also government agencies can exercise more control on customs functionaries. Greater transparency resulted in greater compliance by trade, reduced chances of corruption, and promoted closer cooperation between traders and customs.

- There were a large number of Statutory Orders which allowed preferential tariff treatment for the same goods to different categories of importers. For example, industrial users had preferential rates as compared to commercial importers. The number of such statutory orders was reduced over a two year period between 2000-2002 by almost 75% (from 120 to 30). This process substantially reduced rent seeking and misuse of concessionary regimes.
- Those functions which did not involve any special customs knowledge such as document processing, X-ray screening at the airports etc. were outsourced.
- In order to expedite the appeal process, the number of Appellate Tribunal benches was increased three-fold. Moreover, executive and judicial functions were completely separated.
- International standards were adopted, including the WTO Valuation Agreement, the HS 2002 Version, the revised Kyoto Convention, TIR and the Istanbul Convention. As a result applicable legal instruments and procedures were updated. This brought more certainty and efficiency in the working of customs
- In order to enhance co-operation amongst government authorities and between government authorities and the trading community a National Trade and Transport Facilitation Committee was set up. Furthermore, in order to ensure smooth implementation of WTO Agreement on Customs Valuation, relevant trade associations are regulatory involved in the process.

Consistency and Predictability

Relevant laws were amended to ensure that abrupt changes could not be made in duty rates. Tariff rate changes can now only be made following detailed investigations and recommendations by an independent Tariff Commission. As a result, tariff rate changes are only made once a year at the time of the annual budget. Moreover, to the extent possible, the schedule of annual changes in tariff rates due to tariff reforms is announced well in advance. Wherever possible a road map is established to ensure smooth implementation of such changes.

A system of providing advance binding rulings was introduced. Traders can seek binding tariff rate information prior to effecting import.

As a result of these reforms over a period of three years, there is significant change in the working of the Customs Department. The Customs Department has become far more effective in the fight against drug smuggling, and at the same clearance of goods is much quicker and in 90% of cases, does not take more than 24 hours as against 7-10 days previously.