Assessment of the performance of Russian customs authorities

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Abstract

This research analyses the performance indicators of Russian customs authorities. The existing indicators do not form part of a single system; they are often duplicated and are differentiated by customs authorities' levels or tiers. This paper highlights a number of difficulties with calculating the indicators and inconsistencies in their application and documents the outcome of the research study undertaken. The research proposes an alternative, dual-purpose system of indicators that has been constructed from the perspectives of the participants of international economic activity and customs authorities. The results of the study should serve as a basis for the creation of a more practical model for assessing the performance of customs authorities.

1. Introduction

The effective management of Russia's customs authorities is critical, particularly during times of economic crisis and when there is a decline in commodity flows across its borders. Currently, Russia's customs authorities are strictly regulated, with various government bodies having established performance indicators that monitor and restrain their operating capabilities, including their staff and financial resources. The performance indicators applicable to customs authorities is therefore considered to be an important research issue (Knyshov, 2016). New methods of measuring customs authorities' activities have been developed in the past five years. During this time, they have been tested and have required repeated adjustments, with particular attention being paid to benchmarks and analytical indicators (Larionova & Dolgova, 2013; Rudakova, 2015b).

There is little variation in the type of research that has been undertaken in the field of international customs regulation as most research is based on international principles and on a coherent system of the relationships between the subjects and objects of management (Mindagulov, 2013). Many foreign authors believe that the main problem with Russian customs is not the lack of a clear system of performance indicators, but rather the integrity of the procedures due to bribery of customs officials (Beeslay, 2015; Tsvetkov, Zoidov, Medkov, & Ionicheva 2015a, 2015b). This is, however, a problem for many developing countries. For example, corruption in the Cameroon customs led to lobbying for the autonomy of customs apparatus, demonstrating the difficulties involved in government reforms (Cantens, 2012).

In order to effectively analyse the performance indicators of customs authorities it is necessary to address a number of issues and answer some crucial questions:

- How can the available information relating to the current performance indicators of customs authorities be systematised?
- What issues relating to the methods of calculating indicators may prevent the metrics from being effective?
- Which principles may help create an effective universal system of performance indicators for customs authorities?

2. Methods

2.1 Justification

The scope of the research covers all existing indicators used to assess the performance of customs authorities, as well as indicators developed by the author. They are studied together, by analysing the peculiarities of each indicator, their interactions, common elements, and principles of formation. The basic principle of the work is the adoption of a systematic approach to the various performance indicators.

The principle of irrationalism is present in this work. This principle involves changes in the relationship between participants of international economic activities and customs authorities. The study is based on the principle of evolution, as it views the metrics as a self-improving system. The research also includes the principle of multi-functionalism, involving the formation of indicators under different conditions of customs regulation and for all tiers of the customs authorities.

2.2 Research methods

The research involved a comprehensive analysis the various performance indicators of the Russian customs authorities. The main method used in the study is system analysis, which enables the identification of principles and patterns of constructing a system of indicators. The method highlights key strategic points, eliminating the influence of minor or external factors, and allows for the application of standard criteria for the assessment, simplification of the metrics and reduction of the time costs of customs officials.

The following methods are applied in this work:

1. weighted fractions of indicators to establish the importance of each indicator in the overall structure
2. vertical analysis of the indicator system to calculate total performance indicators of each element of the customs organisation
3. simulation of performance criteria of customs authorities, which allows for the creation of common approaches to developing indicators and eliminating the influence of irrelevant factors
4. comparative analysis of identical indicators, which avoids duplication when developing metrics
5. induction as a transition from particular areas of customs authorities' activities to a unified metrics system
6. ranking of the indicators according to their degree of importance to support customs management.

3. Discussion

The history of the system of performance indicators of customs authorities in Russia is a path between extremes: it goes from simple statistics on the operations of customs departments and officials, to total control in all spheres of the customs authorities' activities based on standard indicators. This leads to an excessive complexity of the system and the absence of any connectedness between its elements. Many researchers outside Russia believe that in developing countries customs authorities focus solely on inspections, forgetting that systematic attempts to reduce risks may result in revenue losses (Geourjon & Laporte, 2005). Some key problems with the current system of performance indicators are:

1. the lack of a single, balanced performance system for customs authorities
2. the absence of sufficient public information for the calculation and assessment of the authorities' performance
3. duplication and unnecessary detail in the performance indicators
4. the in-house approach to developing and monitoring indicators.

3.1 The lack of a single, balanced performance system for customs authorities

In national practice, there are groups of indicators that characterise the activities of customs authorities:

1. Indicators of regional customs offices, customs officials, and customs stations:
    - analytical indicators (their number is not defined)
    - benchmarks (38 indicators).
2. Overall performance indicators of customs authorities (cumulative indicators):
    - indicators for evaluating the performance of the officials on the creation of favourable conditions for business activities. These influence the performance evaluation of the customs heads (7 indicators)
    - key indicators (11 indicators).

Key indicators relate to:

1. speed of customs operations for import and export procedures, and reducing costs of stakeholders in customs operations
2. timeliness and completeness of customs payments
3. effectiveness of preventing criminal and administrative offences.

Opinions about the criteria for grouping indicators differ, but many researchers believe that for each tier of customs authority there should be different performance indicators due to differences in the functions performed (Agamagomedova, Grigorenko, & Kozlova, 2014; Rudakova, 2015).

3.2 Absence of sufficient public information for the calculation and assessment of the authorities' performance

Studies have shown that some of the indicators that are currently applied are missing in public sources:

1. systematic analytic performance indicators of customs authorities' activities: not standardised and not assessed
2. planned main performance indicators
3. planned benchmarks 2014, 2015, 2016
4. performance indicators for managers
5. development and application of methods of analytical indicators and benchmarks
6. ongoing reporting on the application of indicators.

In addition to missing data, there are contradictions and gaps in the existing performance indicators. Many indicators are identical, but differ in the calculation methodology, including almost all benchmarks that are differentiated according to risks. Some indicators are outdated. Indicators related to the refund of customs duties, based on decisions made by a head customs body or a court, are standardised, which is very limiting. Controls are not equally allocated between the various offices of customs authorities, and the system for assessing benchmarks is very complicated. According to this system, the activities of customs authorities receive two, three or four estimates, with points being assigned for each. In the future, however, point correction will be possible under certain circumstances.

3.3 Duplication and unnecessary detail in the performance indicators

There are currently 56 indicators in the assessment system of the customs authorities' activities, not including analytical indicators. Many of the indicators are duplications or are outdated, do not have a significant impact on the assessment of customs authorities' activities, and do not reflect the relationship of customs authorities to participants of international economic activity. The calculation methods are complicated due to in-house disagreements and, as a result, there is a simplified and subjective 'success–failure' approach to the assessment of customs activities according to the system, which is significant, as it destroys all previous efforts to calculate and analyse indicators.

Also, some indicators are misleading. For example, the failure of a customs authority to maintain benchmarks for objective or formal reasons as a result of the transition of responsibilities to another authority is not an indication of the authority's effectiveness. A portion of indicators is established as unattainable (Turbin, 2014). It is therefore necessary to reduce the number of performance indicators and regulate the selection criteria in any new system of indicators.

Experience in other countries allows for the identification of key controls in customs activities.

It is also considered that performance indicators should focus on key functions. As well as the improvement of customs procedures, indicators should address the effectiveness of customs enforcement.

3.4 In-house approach to developing and monitoring indicators

The Government of the Russian Federation has responsibility for defining the system of indicators, their structure, and the methodology of their monitoring, while the Federal Customs Service of Russia approves orders on performance benchmarks and analytical performance indicators that are developed by the customs authorities (Agamagomedova et al., 2015).

Since benchmarks are developed by various offices, the opportunity exists for differing interpretation and calculation of indicators, which results in an in-house approach to their development and interpretation. In this way, the public authorities assess the results of their own work.

4. Results

Our analysis identified contradictions, omissions and gaps in the indicators applied to assess the performance of customs authorities, and a new system of measuring customs performance has been proposed. The system will be universal for all tiers of customs, logically rationalised, and available to all users.

4.1 Principles for a system of effective performance indicators

The general principles adopted for the planning, calculation, and implementation of a system of indicators for customs authorities as government institutions are the:

- attainability of the performance indicators
- differentiation of indicators according to the specifics of customs authorities' activities
- possibility of determining the degree of a performance indicator's realisation
- transfer of knowledge about performance assessment techniques to subordinate customs authorities
- the ability of subordinate customs authorities to understand performance assessment techniques
- objectivity of the indicators' evaluation.

Based on these general principles, the following is proposed:

1. Reduce the elements of customs authorities (management) that perform only analytical functions, which would also reduce the number of controlled indicators. The main customs indicators will be those of customs authorities who directly provide customs services.
2. Combine head customs offices according to identical functions (indicators).
3. Recognise that individual managing departments of customs authorities are necessary to ensure the activity of customs authorities, but are secondary, and the calculation of indicators is secondary. Payment bonuses for such offices should be connected to the quality of service for main elements of customs which authorities provide.
4. Apply a standard set of indicators to all customs; customs directly subordinated to the Federal Customs Service of Russia should not be distinguished as special elements.
5. Introduce a procedure to establish all indicators and methods for their calculation to the Ministry of Finance of the Russian Federation, and not to the Federal Customs Service of Russia.
6. Calculate two summary performance indicators of customs authorities: one from customs authorities themselves and one from participants of international economic activity. Identify the following indicators: 'Efficiency of customs authorities in creating a favourable environment for participants of international economic activity' and 'Effectiveness of customs authorities in the implementation of their powers'.
7. Apply universal indicators to all levels of customs authorities. For higher customs authorities, it is necessary to calculate the outcome indicator as a total of indicators for subordinate bodies, taking into account the proportionate number of officers.
8. Calculate an outcome indicator as a total of indicators, accounting for the weight of each indicator, for subordinate authorities. The weight reflects the importance of an indicator or a group of indicators in the activity.
9. Distribute weight fractions of outcome indicators and indicators within them in accordance with the needs of society. The first indicator from point 6 is 35 per cent, the second is 65 per cent. Maximum weight should be on the main indicators of each group, namely 'Speed and quality of customs operations and customs control' for the first outcome indicator, and 'Effectiveness of control and supervision in the field of customs payments' and 'Effectiveness of risk profiles' for the second.
10. Cancel analytical indicators as not planned and not standardised, but only used in the formation of initial data for calculating the benchmarks.
11. Eliminate the duplication of indicators.
12. Use only indicators that match the duties and skills of customs authorities. Do not use outdated indicators.
13. Assess (quantitatively) all performance indicators for customs authorities' activities.
14. Use relative indicators. Within a homogenous group, the indicators' denominator must contain the same value to make it possible to compare results and obtain related indicators.
15. Establish standards only for possible and relevant indicators. Other indicators must be monitored upon their realisation.
16. Calculate all indicators quarterly on an accrual basis.
17. Create concise indicator names that reflect the nature of the indicator.

The proposed system of performance indicators of customs authorities is presented in Tables 1 and 2.

Table 1: Outcome performance indicator for the Federal Customs Service of Russia: 'Customs authorities' efficiency in creating a supportive environment for participants of international economic activity' (35% weighting)

Level of customs authorities			
Customs		**Customs administration**	
Indicator type			
Specified		**General**	
Indicator	**Weight, %**	**Indicator (management)**	**Weight, %**
Ratio of time of customs control at automobile checkpoints to the time of customs operations	5	Speed and quality of customs operations and customs control (General Directorate of customs clearance and control)	30
Ratio of the time of customs control of goods being exported to the time of customs operations	5		
Ratio of the time of customs control of goods being imported to the time of customs operations	5		
Ratio of the time of customs control for citizens to the time of customs operations	4		
Ratio of the time for the decision to release goods after registration of customs declaration to the time of customs operations	4		
Proportion of customs costs for the movement of goods across the border to the number of customs duties	7		
Ratio of the number of participants of international economic activity who filled in customs documents according to the step-by-step instructions of customs authorities to the total number of participants of international economic activity	1	Efficiency of informational support for participants of international economic activity (IT Chief Directorate, Office of public affairs)	5
Ratio of the number of participants of international economic activity who filled in customs documents in the single-window system for excisable goods to the total number of participants of international economic activity	3		
Ratio of the number of participants of international economic activity customs who consulted customs authorities to the total number of participants of international economic activity	1		

Table 2: The outcome performance indicator of the activity of the Federal Customs Service of Russia: 'Efficiency of customs bodies in their powers implementation' (65% weighting)

Level of customs authorities			
Customs		**Customs administration**	
Indicator type			
Specified		**General**	
Indicator	**Weight, %**	**Indicator (management)**	**Weight, %**
Total amount of assessed customs duties (reference data)	–	Effectiveness of control and supervision over customs payments (Chief Directorate of federal customs revenue and tariff regulation)	18
Proportion of collected customs duties within total assessed customs duties	4		
Proportion of all additionally assed customs charges within total assessed customs duties	2		
Proportion of customs duties recovered within total assessed customs duties	3		
Proportion of additional customs duties paid by participants of international economic activity within total assessed customs duties	3		
Proportion of disputed customs duties by participants of international economic activity within total assessed customs duties	4		
Proportion of all customs duties returned to participants of international economic activity within total assessed customs duties	2		
Total number of consignments (reference data)	–	Efficiency of risk profile use (risk management and operational control with Chief Directorate on counter-contraband operations)	8
Proportion of released consignments within the total number of consignments	2		
Proportion of consignments for which customs inspection was conducted within the total number of consignments	3		
Proportion of consignments in which violations were detected within the total number of consignments	3		

Level of customs authorities			
Customs		**Customs administration**	
Indicator type			
Specified		**General**	
Indicator	**Weight, %**	**Indicator (management)**	**Weight, %**
Proportion of consignments in which violations of currency legislation were detected within the total number of consignments	3	Effectiveness of currency and export customs control (Administration of trade restrictions, currency and export control)	6
Relationship between the sum of identified illegal currency transactions, funds that are not credited on time to accounts of authorised banks, and funds that are paid for non-imported goods to the assessed customs value	3		
Proportion of consignments and customs duties disputed by participants of international economic activities within the total number of consignments	4	Effectiveness of legal maintenance of activity of customs bodies (Legal Department with Office of customs investigations and inquiries)	21
Proportion of consignments for which decisions were made in favour of participants of international economic actors within the total number of consignments	3		
Proportion of consignments for which criminal cases were opened within the total number of consignments of goods	3		
Assessed fines, penalties (reference data)	–		
Proportion of fines and penalties paid within all assessed fines and penalties	1		
Proportion of participants of international economic activity complaining about customs officials' actions (lack of action) within the total number of participants of international economic activity	4		
Ratio of the total number of official offences to the total number of customs officials	3		
Ratio of the number of official offences to the total number of customs officials	3		

Level of customs authorities			
Customs		**Customs administration**	
Indicator type			
Specified		**General**	
Indicator	**Weight, %**	**Indicator (management)**	**Weight, %**
Budgetary funds at the disposal of customs authorities (reference data)	–	Efficiency of budget management of financial costs of customs authorities (Chief financial and economic management with Directorate of logistics)	6
Proportion of budgetary savings in budgets at the disposal of customs authorities	2		
Proportion of overspent budget funds within the overall budget at the disposal of customs authorities	2		
Proportion of the budget expenditure operations which were stopped due to irregularities in budgetary resources at the disposal of customs authorities	2		
Number of consignments (reference data; calculation is possible using the mentioned indicators)	–	Efficiency of customs control after the release of goods (General Directorate of customs supervision after the release of goods)	4
Proportion of inspections completed after the release of goods within the total number of consignments	2		
Proportion of inspections completed after the release of goods for which violations were found within the total number of consignments	2		

5. Conclusions

The advantages of the system of the performance of customs authorities proposed in this paper are that the system:

1. reduces the intermediate elements of customs authorities and merges offices of customs authorities with identical functions
2. promotes the elimination of management elements due to the decrease in the outcome indicator while narrowing the range of duties of individual managers
3. introduces a universal approach to all levels of customs authorities and uses common performance indicators of customs authorities for all levels
4. makes it possible to create and handle proposals on indicators from any level of customs authorities as a result of unified calculation

5. shifts the accent on stimulation and significance towards customs authorities directly involved in customs services, including the allocation of subsidiary offices focused on the main customs authorities
6. provides for external control of customs authorities' activities, the development of indicators, and monitoring of said indicators by a higher authority—the Ministry of Finance of the Russian Federation
7. records legislative violations by customs authorities and their executives
8. defines distinct limits of punitive sanctions and payment bonuses for customs authorities based on key performance indicators
9. reduces chains of information flows in the development, regulation and control of performance indicators of customs authorities; eliminates duplication
10. encourages the performance of official duties by a smaller number of staff by accounting for customs staff in the outcome indicator
11. relieves customs officials of formal calculations to perform basic duties
12. reduces controlled performance indicators for customs authorities to only the fundamentally important, including cancelling a group of analytical indicators
13. eliminates the duplication of indicators and abandons outdated performance indicators
14. provides quantitative evaluation of all indicators
15. provides the possibility of selective regulation of indicators based on the indicators' relationship to the powers of customs authorities
16. ensures the comparability of indicators among all levels of customs authorities, stating the customs authorities' ranks regardless of the specifics of the work being completed
17. separates performance indicators related to the activities of participants of international economic from the activities of customs authorities themselves
18. ensures the possibility of changing the weight of outcome performance indicators depending on state policy
19. expands the group of indicators to establish favourable conditions for participants of international economic activity
20. ensures the redistribution of weight among outcome performance indicators depending on the priorities of customs authorities' activities
21. simplifies the calculation of indicators, including bringing a group of indicators to a common denominator, and eliminates the system of numerical ratings (2,3,4)
22. eliminates the subjective adjustment of performance indicators by customs authorities.

This research may be useful to the Ministry of Finance of the Russian Federation, the Federal Customs Service of Russia, and customs researchers, teachers and students. The system of performance indicators of customs authorities outlined in this paper could serve as a basis for the reform of customs authorities' control system. It could also be useful for improving the principles of control. The author is planning to conduct further studies on adapting the suggested system of indicators to the work of customs authorities at all levels, and to complete calculations of outcome indicators for particular customs and customs offices.

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