

Developing performance measurement for the Russian Customs Service

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Abstract

This paper examines customs performance measures and various indicators in light of the drawbacks to and limitations of the current system of performance measurement adopted by the Russian Federal Customs Service (FCS). The existing system of customs performance measurement is far from perfect and, to some extent, can cause problems in itself. For example, it is difficult to use, is resource-intensive and does not measure the results of activities objectively. In other words, it is in need of improvement. This paper explains how performance can be measured in a way that improves the current system by ensuring it achieves the objectives of the FCS more comprehensively and enhances its overall effectiveness and efficiency.

Introduction

The measurement of customs performance assumes great importance for researchers and practitioners in terms of national security, use of limited public resources, development of the national economy, and facilitation of foreign trade.

On the one hand, the Federal Customs Service (FCS) of the Russian Federation achieved impressive results in 2010, especially considering that it oversees the largest customs territory in the world. The value of foreign trade reached USD625.4 billion (export – USD396.4 billion; import – USD229 billion); customs duties and taxes amounted to USD142.7 billion; there were 4,116 criminal cases; and illegal imports and exports amounted to USD363 million.

On the other hand, the FCS also consumes considerable resources: it has a complex structure comprising eight regional customs departments, four specialised regional departments, 104 customs offices, 572 customs stations, eight ancillary institutions; and a total staff of 68,189. Its costs total more than USD2 billion.

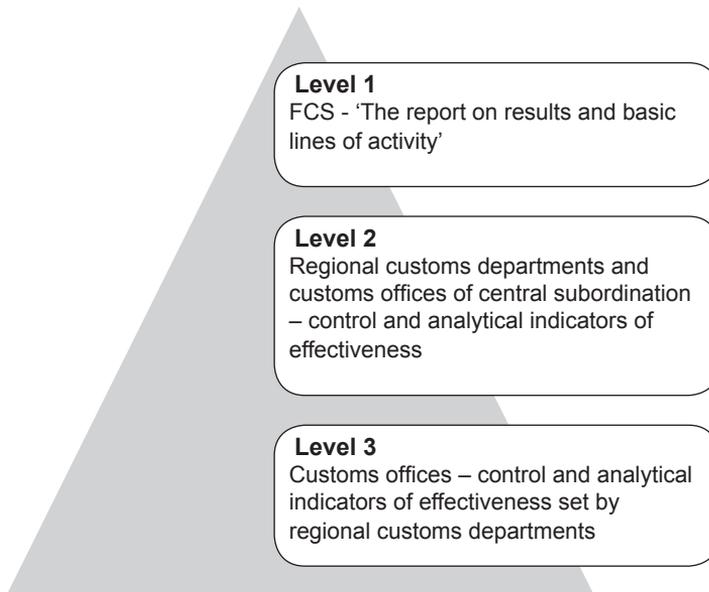
These figures say nothing about the effectiveness and efficiency of the Russian customs service. Nevertheless, how well the customs service is performing and what indicators should be adopted for this purpose are among the most fundamental questions confronting society, government and central customs administrations today.

Current performance measurement system of the FCS of Russia

The FCS has established a three-level system of performance measurement, shown in Figure 1.

The first level is mostly for external use. Each year, the FCS prepares a report on the results and basic lines of activity ('the Report') which serves to implement the methods of medium-term budgetary planning. The Report focuses on results in the budgetary process in accordance with the principle of efficient spending of funds established by the Russian Budgetary Code.

Figure 1: Current performance measurement system of the FCS



Source: Federal Customs Service (FCS) of the Russian Federation

The main purpose of the Report is to provide the information necessary for drawing up the government report on the results and objectives of budgetary policy; projecting the financial plan and federal budget for the next fiscal year (based on the most efficient expenditure of budget funds); and implementing state policy both generally and in relation to the activities of the federal enforcement authorities.

The Report establishes the strategic objectives of the FCS.¹ The first is to increase the level of compliance with the customs legislation of the Russian Federation, and to ensure the full and timely payment of customs duties, taxes and customs charges. The Report underlines the importance of this objective which is to provide a stable source of revenue for the federal budget. The increase in revenue helps to solve problems of macroeconomic stability and integrate the Russian economy into the international market.

In the Report, these strategic objectives are linked to the goal of promoting the state's social and economic development. So, for example, Strategic Objective 1 serves to maintain macroeconomic stability, increase the competitiveness of Russian enterprises and develop international economic cooperation.

There are 11 indicators that will measure the attainment of this objective for 2011.

1. No more than 40% of the total number of cases brought before the courts by customs authorities shall be dismissed.
2. The Federal Budget Law regarding the collection of customs debts payable shall be implemented in 100% of cases.
3. The customs debts paid by operators involved in foreign trade which infringe the payment terms established by standard documents shall be no more than 1.15% of the total sum of customs debts paid to the federal budget.

Strategic Objective 1 is further divided into four tasks.

Task 1.1. Reducing the outstanding customs debts to the federal budget as well as reinforcing and optimising the control measures which prevent such debts from arising in the first place.

- The sum of retired debts on customs payments and fines shall be no less than USD626 million.
- The debts resulting from the unlawful use of privileges (including their improper use), shall be no more than USD15 million in total.
- The debts arising from guarantee certificates shall be no more than USD3 million in total.

Task 1.2. Strengthening controls on the accuracy of customs declarations.

- The customs payments made as a result of corrections in the customs duties payable on the goods shall be no less than 97.5% of the total sum of customs payments charged by the results of such corrections.
- The difference in the indicators of import to the Russian Federation (according to the FCS of Russia) and export from the Russian Federation (according to the International Monetary Fund) shall be no more than 10%.

Task 1.3. Increasing the effectiveness of currency inspection.

- Violations of the currency legislation of the Russian Federation shall be no less than USD1.08 billion in terms of value.

Task 1.4. Improving the enforcement of legislation and carrying out of controls by customs authorities as well as improving the legality of legal decisions, actions or omissions.

- The number of cases relating to administrative offences in which sanctions are imposed and processing is not halted due to appeals/protests, as a proportion of the total number of decisions relating to administrative offences.

Figure 2 below identifies briefly all three strategic objectives of the FCS, together with the number of tasks and indicators to achieve these objectives.

Figure 2: The report on results and basic lines of activity (methodology)



Source: Federal Customs Service (FCS) of the Russian Federation

The second and third levels of performance measurement (see Figure 1) are intended for internal use in evaluating the performance of customs bodies. The control indicators categorise performance as ‘good’, ‘satisfactory’ or ‘unsatisfactory’. There are 51 indicators for each quarter (including sub-indicators), calculated as a progressive total. Each indicator has a numerical value and, together, they cover all fields of activity.

The current list (for 2011) of performance indicators for the FCS of Russia is as follows:²

1. The effectiveness of controls in ensuring correct calculations, as well as the timely and complete payment of customs charges and other payments transferred to the federal budget (five indicators).
2. The effectiveness of customs authorities’ cost controls within the framework of risk controls.
3. The amount of customs payments and penalties collected as a proportion of the total of customs payments additionally charged and the penalties imposed resulting from customs inspections after release (taking into account the customs payments and penalties returned or cancelled).
4. The effectiveness of customs inspections following the release of goods as a proportion of the total number of inspections performed in relation to each type of customs control.
5. The increased levels of information and openness of customs authorities (two indicators).
6. The effectiveness of the customs authorities’ use of risk control systems (three indicators; four sub-indicators).
7. The effectiveness of customs controls of timber exports (two indicators, 10 sub-indicators for each kind of timber).
8. The effectiveness of the customs authorities’ inspection techniques in relation to goods and vehicles.
9. The time savings in carrying out customs procedures at cross-border check points for cars (two indicators).
10. The number of counterfeit goods discovered.
11. The monitoring of compliance with prohibitions and restrictions (non-tariff).
12. The effectiveness of currency controls (two indicators).
13. The effectiveness of the customs authorities’ controls to ensure the correct classification of goods according to the HS of the Customs Union.
14. The average time needed to react to evidence of fissionable and radioactive materials crossing the customs border and to goods exhibiting increased levels of ionising radiation (three indicators each for airport, railway and automobile check points).
15. The monitoring of compliance with time limits for transferring electronic copies of customs declarations to the central database of the unified automated information system of the FCS (two indicators).
16. The percentage of goods imported by car which are released by border customs authorities in relation to the total number of goods imported by car which are released.
17. The legality of decisions taken by customs authorities (three indicators).
18. Customs investigations and audits (two indicators).
19. The consistency of budgetary funds expenditure.
20. The consistency of capital investments expenditure.
21. Reduction in the difference between the indicators of import from China to Russia and the indicators of export from China to Russia for surplus goods.

The indicators are to be used by the regional customs departments and directly subordinate customs offices. On the third level, regional customs departments set the values of indicators for each subordinate customs office. In addition to control effectiveness indicators, there are analytical indicators³ which are used to analyse performance. These are examined in the same way as the other indicators but their results do not influence the total evaluation of the customs authorities' performance. The reason for this is that it is not always possible to calculate such indicators objectively owing to the influence of various uncontrolled factors.

This concludes the general overview of the performance measurement system used by the Russian customs service. As already mentioned, the system has three levels and many indicators; it measures the performance of each customs office as well as the FCS as a whole. The following section examines the problems which need to be addressed in order to improve the system as a whole.

Problem statement

Currently, it is difficult to carry out an adequate evaluation of customs performance for the following reasons.

First, there are some gaps in the theory. There is no uniform understanding of what the key results should be, which reflects the absence of a common understanding of customs service priorities amongst experts and practitioners. Obviously, supporters of trade liberalisation will view performance standards differently than autocrats. Indicators such as time savings in the performance of customs formalities, a reduction in the number of customs controls and growth in international trade help to maximise the facilitation of foreign trade. Nevertheless, national security demands that certain customs examinations and inspections be carried out. This suggests that the criteria and indicators of customs performance do not always reflect the results of activities objectively.

Accordingly, it is difficult to measure customs performance today because:

- There is no agreement on what the results of customs performance should be.
- The criteria and indicators of customs performance do not reflect the results of activities objectively.
- The existing system is both difficult to use and resource-intensive.

In order to be successful, any solution must employ a methodology that reflects the characteristics of these problems. Therefore, it is necessary to:

- divide the results of customs activities into categories
- formulate the objectives of the customs service
- design indicators which adequately reflect the results of the customs activity in question.

The overview of indicators above shows that most are linked to customs revenue. Without belittling the value of fiscal incomes, it should be noted that the indicator itself often does not reflect customs performance but only the external economic conditions. In our opinion, ensuring the stable source of revenue to the federal budget really depends on a high level of compliance with customs legislation as well as the complete and timely payment of customs debts. The share of oil and gas revenue as export duties is levied by customs authorities and used to repay the deficits in the federal budget and maintain the Russian Federation's reserve fund. However, the efforts of the customs authorities in guaranteeing compliance with customs legislation are minimal. On the other hand, the exports of oil, natural gas and oil products are controlled without difficulty: their prices are known (and therefore cannot be underestimated) and only a limited number of companies are involved in their export.

According to the Report, ensuring the consistent collection of a significant part of the federal budget will allow the state to create and use such financial mechanisms to increase the competitiveness of Russian enterprises as well as to establish conditions for their innovative development and use of protectionist

customs tariff policy measures. However, this statement contains an inherent contradiction, that is, protectionist customs tariff policy will negatively affect the income of the federal budget insofar as setting customs duties at protectionist rates will hinder trade.

Research results

The foregoing analysis of the current customs performance measurement system enables us to draw the following conclusions.

1. The system is too complex; calculation is very resource-intensive, costly and barely manageable. There are three levels of measurement with almost 90 indicators, which is too many. Each quarter, over 50 indicators have to be calculated and each has its own method of computation.
2. Some of the indicators resemble a ‘Procrustean bed’ for customs offices (that is, they are too inflexible). The most difficult indicators to develop are those measuring law enforcement activities. For example, the third strategic objective of the Report concerns ‘revealing and suppressing the smuggling of weapons, drugs, counterfeit production and other goods prohibited from entering the Russian Federation as well as the goods, subjects and the values of exports forbidden by the Russian Federation’.⁴ According to the Report, the importance of this objective lies in the need to safeguard the economic security of the state. Considering the current criminal involvement in foreign trade, difficult operative conditions and criminal activity in frontier regions, phenomena such as contraband not only represent a considerable threat to the interests of economic security but also create conditions favourable to international criminals involved in drugs and terrorism.

The first indicator for measuring the attainment of Strategic Objective 3 is the amount of imported goods which customs authorities detain for infringements of legislation in relation to the total of imported goods. The value of this indicator is defined by the following formula:

$$D = \frac{Sdet_gds + Supd_gds + Shs_IPP_gds + Scurr_gds}{Sdom.cons_gds} \times 100$$

Where:

Sdet_gds = total value of goods detained during the law enforcement activities of customs authorities

Supd_gds = value of the goods as a result of their updating

Shs_IPP_gds = value of the goods calculated as a result of carrying out controls ensuring the correct origin and classification of the goods in accordance with the Harmonised System of the Customs Union, compliance with the prohibitions and restrictions imposed by the legislation of the Russian Federation as well as the protection of intellectual property rights

Scurr_gds = the total value of goods imported into the Russian Federation which infringe the currency legislation of the Russian Federation

Sdom.cons_gds = the total value of the goods released under the customs regime of domestic consumption.

The increase in value of an indicator should be no less than 1.6% of the expense of carrying out the preventive actions aimed at reducing latent criminality in a field of customs activity.

In our opinion, this indicator is incorrect. The activities should be directed towards preventing crimes instead of revealing them once they have been committed. Besides, the indicator established for the customs authority states that imports which infringe customs requirements shall be no less than 1.6% of

the total value of the goods. If, as a result of preventive actions, the volume of infringements falls below this value, it doesn't necessarily mean that the customs authorities are not performing satisfactorily.

The most difficult task is to measure the attainment of such an objective. The customs service reveals offences in the external economic sphere and imposes various sanctions on traders accordingly. The basic indicator of the effectiveness of law enforcement by the FCS is the total number of penalties.

This results in a paradoxical situation: the worse the compliance with customs legislation, the higher the number of criminal cases and penalties and, therefore, the better the results of law enforcement activities.

3. Accordingly, the emphasis is not on outputs (as stated in the example above), but on outcomes and not on a decrease in criminality but on the number of criminals apprehended. Not much importance is attached to what is happening to foreign trade and how much revenue customs offices are contributing to the federal budget. The main concern is how effectively the customs service is contributing to the country's economic development. The final point is a complex issue involving economic growth, structural shifts in the economy, the improvement of conditions and the population's quality of life.

In our opinion, non-compliance with the customs legislation has a number of negative consequences for the economy:

- The effectiveness of customs regulation will be reduced (for example, the rate of customs duties is 10% but only 5% of the customs value of the goods has actually been paid). The main reasons may be both dishonesty of foreign trade operators and the reduction of prices by suppliers if Russia is a large market for them. Consequently, more goods will be imported to the domestic market due to their low price.
- Domestic producers of similar competing goods will suffer losses because, once protective tariffs have been introduced, it will be presumed that the prices of imported goods will be higher. As a consequence, they will not be competitive and will lose their share of the domestic market.
- If the decrease in the amount of customs payments has been caused by tax evasion, legal importers are likely to suffer. They pay their customs debts in full and, as a result, their goods will be more expensive and less competitive.

The consequences of failing to ensure the complete payment of customs debts are the decline of the federal budget, fall in domestic production, and increased criminal involvement in foreign trade. It is therefore necessary to design the indicators of such outcomes.

4. There is a lack of input from the business community, government and other (especially foreign) stakeholders. The following survey (Table 1) by the World Bank, 'Doing Business', provides an example.

Table 1: Doing Business 2011, Trading across Borders: data for the Russian Federation

Indicator	Russian Federation	Eastern Europe & Central Asia	OECD
Documents to export (number)	8	6.4	4.4
Time to export (days)	36	26.7	10.9
Cost to export (USD per container)	1,850	1,651.7	1,058.7
Documents to import (number)	13	7.6	4.9
Time to import (days)	36	28.1	11.4
Cost to import (USD per container)	1,850	1,845.4	1,106.3

Source: World Bank 2011.

Contrary to the FCS Report, this research suggests that the situation is far from optimistic. Russia ranks 162 out of 183 economies; it takes three times as many days to export or import goods than in OECD countries; and the costs are higher. Of course, the customs service is not the only actor but it plays a key role in the facilitation of foreign trade.

5. There is no evaluation of the efficiency in using resources. The Report only provides information on the distribution of budgetary expenses between objectives and tasks. There are only two control indicators of efficiency which relate to resources: the consistency of budgetary expenditure and capital investments expenditure. Niven uses the same example in his book describing the implementation of balanced scorecards for non-commercial organisations. He states that the only goal for the Department of Defense (DoD) in relation to procurement is the percentage of procurement funds requested and appropriated by Congress as compared to the identified needs of the DoD. This is a measure of inputs and lobbying success but says nothing about what results have been achieved with the funds appropriated.⁵

6. The responsibility for performance is not shared by the staff generally. Only the director of the customs office has personal responsibility. However, in order to achieve optimal performance, each employee should be measured by personal indicators and held personally responsible for their performance.

7. Most indicators are retrospective and not prospective in nature. However, only the latter indicators enable the organisation to make adjustments based on result.⁶

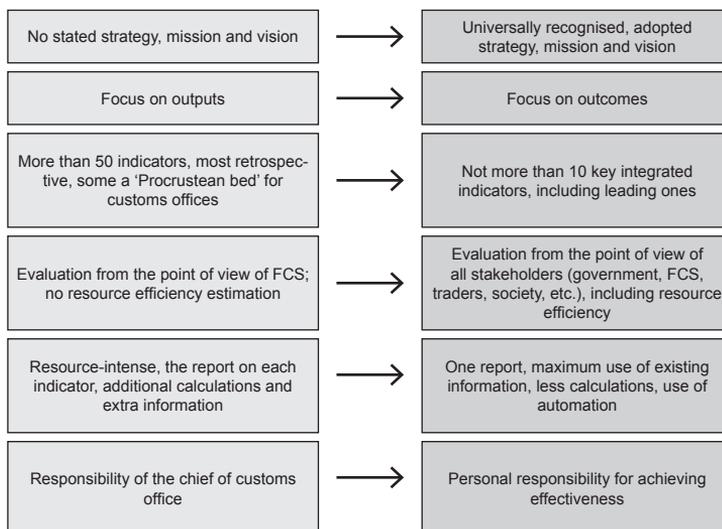
The conclusion, generally-speaking, is that this system is difficult to use, resource-intensive and does not fully reflect the results of activities impartially. In other words, it needs improvement.

The development of a performance measurement system holds the key to increasing customs performance.

Ways of developing a system to measure performance

By exposing the deficiencies in the existing system of customs performance measurement, we can determine how to improve it, as Figure 3 below shows.

Figure 3: Summary of recommendations for developing indicators to measure the effectiveness of controls



First, the FCS should elaborate its strategy, mission, and vision. Although there is the ‘FCS Strategy to 2020’, it is a strategy for development.⁷ The strategy ensures the entire organisation is focused on achieving the overall goals.⁸

The Balanced Scorecard invented by Kaplan and Norton emphasises the realisation of the strategy rather than the strategy itself.⁹ The problem is that most organisations never achieve their strategies. The Balanced ‘Scorecard uses measurement as a new language to describe the key elements in the achievement of the strategy. The use of measurement is critical to the achievement of strategy’,¹⁰ performance indicators must seek to provide the universally recognised strategy with a mission and values. In this case, ‘universally’ means that it is evaluated from the point of view of all stakeholders (that is, government, FCS, traders, society, and so on) and takes resource efficiency into consideration.

The focus should be on outcomes not outputs. Outcome indicators shift the focus from activities to results, from how a program operates to the benefits it brings.¹¹ Outcomes demonstrate results and provide guidance on how to allocate resources. Focusing on outcomes, rather than inputs or outputs, serves to point the entire organisation towards its true aims. Accountability is also enhanced when the focus shifts to outcomes.¹²

There should be approximately 10 indicators of performance in the system of measurement. Limiting the indicators means increasing the commitment to monitor strategic measures and reducing the dependency on operational indicators.¹³ According to Holloway, ‘The selection of KPIs [key performance indicators] should not be dictated by the fact that they may be easy to measure or have been used previously but rather that they deliver a meaningful indication of outcomes related to objectives.’¹⁴

Holloway maintains that ‘It is therefore important that KPIs utilise existing data sources as much as possible ... dipping into an information stream that already exists (say, as part of logistics processes) is preferable to creating an entirely new stream of information. This becomes a simple cost/benefit exercise.’¹⁵

The indicators of performance should satisfy the basic criteria of the ‘4Cs’: clarity, completeness, (lack of) complexity and consistency.

Moreover, the productivity indicators should correspond to the ‘SMART’ concept and should be: specific, measurable, achievable, relevant and time certain.¹⁶ There is also a need to develop customs performance indicators measuring resource consumption. We need to focus on outcomes as well as outputs. For example, the weight and cost of the drugs detained does not tell us much in itself; general tendencies that decrease their importation are more important.

Conclusions

The existing system of customs performance measurement is far from perfect and in some ways presents its own problems. According to the arguments presented above, it is nevertheless possible to improve the current system of performance measurement, ensure it contributes to the achievement of FCS objectives, make it less resource-intensive and generally improve its effectiveness and efficiency.

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Endnotes

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