

Corruption in Customs

Gerard McLinden and Amer Zafar Durrani

Abstract

This paper identifies that no country is immune to the problem of corruption and that the challenges and vulnerabilities faced by customs administrations are ongoing and require constant vigilance and practical strategies to address the problem in a holistic way. Reference is made to the World Customs Organization's (WCO) Revised Arusha Declaration, pointing out that its ten key elements are still relevant and that World Bank projects contribute to efforts to combat corruption and inefficiencies in customs and border management. The ongoing need for customs reform and modernisation programs is highlighted – programs that address institutional weaknesses, including human resource management issues, and ways to improve formal consultative mechanisms between officials and the trading community. Examples are cited of projects that have had some success in Thailand, Cameroon and Afghanistan. The paper concludes that where initiatives have been implemented as part of much wider customs reform and modernisation programs, there is a high correlation between overall improvement in operational effectiveness and integrity enhancement.

Introduction

In 2005 the World Bank published the *Customs Modernization Handbook* which included a chapter on 'Integrity in Customs'. That chapter outlined the scope of the corruption problem and identified a series of very practical strategies that could be employed to deal with it. It drew heavily on the World Customs Organization's (WCO) Revised Arusha Declaration (2003) – a document developed by customs officials and representatives of the trade community who all understand very well the particular challenges and vulnerabilities that customs administrations face. The content of the chapter remains just as relevant today as it was when it was initially prepared so there is no need to go over the same ground again. Likewise, the Arusha Declaration's ten key elements still provide a sound framework for tackling the problem in a holistic way.

The current environment

In spite of meaningful progress in some countries, corruption continues to plague customs administrations around the world regardless of their level of development. Recent high profile cases in many first world countries simply reinforce what we always knew – that no country is immune to the problem and that there are no quick-fix solutions available. The very nature of customs work makes it vulnerable to many forms of corruption from the payment of informal facilitation fees to large scale fraud and other serious criminal activities.

It's a simple fact that customs officials, even at junior levels, enjoy extensive discretionary powers and interact daily with traders who have a strong incentive to influence their decisions. Moreover, the fact that many customs officials work in situations where careful supervision is practically impossible creates an environment ripe for corruption. Add to the mix the poor pay and difficult working conditions

customs officials in many countries have to contend with as well as very little probability of getting caught and it is no real surprise that Customs continues to be perceived as amongst the most corrupt of government institutions. Complicating matters further is the fact that many corrupt transactions occur side-by-side with honest ones and are conducted between parties that are frequently part of the same extended informal social and business network. As a former Secretary General of the WCO noted:

There are few public agencies in which the classic pre-conditions for institutional corruption are so conveniently presented as in a Customs administration. The potent mixture of administrative monopoly coupled with the exercise of wide discretion, particularly in a work environment that may lack proper systems of control and accountability, can easily lead to corruption.¹

Unfortunately, almost every function performed by Customs is vulnerable to corruption including the assessment of origin, value and classification; cargo examination; the administration of concessions, suspense, exemption and drawback schemes; post clearance audit; transit operations; passenger processing; the issuing of various licences and approvals; and in recent times, access to authorised or preferred trader schemes which confer special privileges to selected traders.

Anti-corruption plans and tools

With the support of the WCO and various development partners, including the World Bank, most customs administrations around the world have now developed anti-corruption plans of one form or another. Often they are heavily based on various elements of the Arusha Declaration and were developed using the WCO's anti-corruption tools. As it's relatively easy to do and is a reasonable first step, many customs administrations start by issuing a code of conduct that sets very clear standards of behaviour expected of officials, often backed by education campaigns. Indeed, in customs offices around the world it is common to see posters placed in public areas setting out the kind of professional behaviour traders should expect from customs officials. Often they state that integrity is one of the administration's core values and that corrupt activities by officials or traders will be punished severely.

In practice, it is difficult to assess whether they have any real impact on behaviour. Few officials or traders engage in corrupt activities simply because they are unaware it is against the rules. Likewise, introducing severe penalties for corruption is a helpful part of an overall anti-corruption strategy but is likely to have little impact if the probability of actually getting caught remains low. To have major impact on the problem, anti-corruption efforts need to be comprehensive and sustained over the long term and focused where reforms are likely to make the most difference.

Customs reform and modernisation

In recent years there has been an emerging trend for anti-corruption initiatives to be introduced as part of wider customs reform and modernisation programs based on key WCO instruments such as the Revised Kyoto Convention. This is a positive development and makes good sense as it provides an opportunity to tackle the two fundamental issues of motive and opportunity at the same time in a comprehensive and meaningful way. A series of over 100 trade facilitation needs assessments conducted in the last few years under a World Trade Organization (WTO) program showed that almost every customs administration in the world is pursuing a reform and modernisation program of one form or another often with support provided by various development partners.

Reform efforts typically focus on the introduction of contemporary risk-based approaches to cargo processing and include the reengineering of systems and procedures to simplify and remove points which are vulnerable to corruption, the introduction or expansion of automated systems to limit opportunities for face-to-face interaction between officials and traders, and on improving transparency

and accountability mechanisms including by publishing the criteria upon which officials are entitled to exercise official delegations. These reforms all reduce the opportunities available for corrupt officials and traders to engage in inappropriate activities and all contribute to improving customs effectiveness.

In addition, customs reform and modernisation programs typically address institutional weaknesses including human resource management issues such as recruitment, promotion, mobility, remuneration, recognition, and competency gaps. They typically also focus on improving formal consultative mechanisms between officials and the trading community. In recent years, reform and modernisation programs have frequently been extended to include other government agencies involved in the processing and clearance of goods. New initiatives such as national single window systems and one-stop border posts based on collaborative border management models have expanded the scope and coverage of reform efforts and acknowledge that corruption and inefficiency at the border are not customs problems alone.

With some notable exceptions, such as the Thai Customs Formality Service Fee (FSF) initiative (see Box 1), these programs have been more successful in reducing opportunities for corruption than reducing motives, with little genuine attention paid so far to improving the salary and conditions of customs and border management officials. Many officials remain on extremely low salaries and the temptation to supplement their meagre incomes through informal means continues to be high. This is an area where increased attention needs to be paid by the development community. It is highly unlikely that officials will wholeheartedly support any major reforms that remove opportunities for rent-seeking and improve transparency unless they are combined with meaningful improvements in their conditions of employment.

Fortunately, few governments today resort to the costly and inefficient outsourcing of key roles to inspection companies as a quick-fix solution. This alone is a positive step and reinforces the now widely accepted view that investing in the development of key national institutions such as Customs is more constructive than simply outsourcing activities to private organisations that rarely have any incentives to develop local capacity to take over the services they provide.²

Box 1: Thai Customs Formality Services Fee (FSF)

Thai Customs had been attempting to tackle the problem of corruption for many years. It initiated reforms aimed at simplifying formalities and modernising systems and procedures, both to limit opportunities for rent seeking and to reduce incentives for traders to offer bribes to officials. While these efforts were partly successful, it became clear that the low wages paid to customs officials posed a significant barrier to meaningful progress in eliminating corruption.

After exploring a number of options, the Thai authorities decided to pilot the collection of a Formality Service Fee (FSF), with 95% of the proceeds used to supplement staff salaries and 5% to finance the introduction of new technology. The Thai FSF was introduced following extensive consultations with all key stakeholders, including relevant ministries and the private sector. It is tied to a series of other reform and modernisation initiatives.

Since its introduction in 2006, it has been subject to regular, independent evaluation. The results have been very positive, with reported complaints regarding misconduct by customs officials falling significantly from 92 in its first year of operation to 69 in 2007, to just 36 in 2008. Traders, though required to pay the FSF, are generally positive about its introduction as it is predictable, non-negotiable, and subject to a formal receipt, thus eliminating the time and costs incurred in negotiating the informal arrangements that frequently applied previously.

According to a survey conducted in August 2008, 85.7% of economic operators agreed with the continuation of the FSF provided that the modest fee amounts were maintained. A more recent review by the Ministry of Finance also supported its continuation.

Source: Adapted from McLinden et al. 2011, p. 208.

Of course, corruption in any country is rarely restricted to Customs. Public agencies like Customs are simply a microcosm of the society in which they operate. It's rare to find an island of integrity in a sea of corruption. Corruption is a product of poor governance, not the other way around, and this fact needs to be understood in order to devise practical solutions. In spite of these societal limitations, efforts to reduce Customs' corruption are paying real dividends. Data from the World Bank's Logistics Performance Indicators illustrates the significant progress that has been made by customs administrations in recent years, particularly in East Asia and Sub-Saharan Africa. Between 2007 and 2012, the number of respondents citing solicitation of informal payments as high or very high has fallen from 30.41% to 16.92% and 53.67% to 25.69% respectively. Significant but more modest improvements were also recorded in Latin America and the Caribbean as well as in South Asia. While this evidence of widespread improvement is a positive development, and should provide some reinforcement to reformers, there is still a long way to go. Even East Asia's impressive drop to 16.92% is significantly higher than the OECD average which has also fallen from 5.55% in 2007 to 4.27% in 2012.³ Clearly, there is more work to be done.

The World Bank has supported around 120 customs reform programs over the past twenty years and currently has a portfolio of almost USD400 million devoted to customs modernisation projects. These projects always include anti-corruption activities and have provided the Bank with an opportunity to invest in an institution that remains central to the development ambitions of many countries. The Bank's work on customs reform has also provided an opportunity to work closely with national reformers to pilot a number of innovative strategies. Two of these, in Cameroon and Afghanistan, deserve special mention as the approaches pursued are quite different, reflecting very different circumstances, but have application in many other countries.

The 'integrity action plan' in Cameroon Customs

Commencing in 2010, but building on previous reform efforts, the World Bank, with the support of the WCO, assisted the Cameroon customs administration to introduce a system of performance contracts designed to strengthen the chain of command by holding each link in the chain accountable – with the assistance of activity, performance, control, and risk indicators – to provide an effective decision making tool and to reduce corruption. Cameroon Customs had already carried out steps to strengthen accountability. They included the regular publication of revenue collection data, increased formal consultation with the business community and automation of key customs processes.

However, the Director General was not satisfied with the performance of Customs and wanted to initiate a second wave of reforms; to change the behaviour of front line officials, to reduce corruption and increase organisational performance. Accordingly, she commissioned the development of an integrity action plan with a specific focus on human resource policies through a monitoring and incentive framework. A pilot program was established and performance contracts for officials at the two largest customs offices were developed. In early February 2010, following a dialogue with front line officers and senior management, individual and team performance contracts with measurable indicators were signed. Each inspector's performance was to be assessed through eight indicators; four related to trade facilitation and four related to the customs clearance process and fines. For each indicator, a maximum or minimum value was set based on median monthly values in the three preceding years. An inspector was deemed to have achieved his or her contract if they improved performance by 15% on all indicators by the end of the six-month pilot period. For the best performing inspectors a limited financial bonus was granted along with non-financial recognition.

The results achieved to date are impressive. Between 2009 and 2012 revenues have increased by almost 0.3% of Cameroon GDP. Without the reforms Cameroon Customs would have lost 30 billion FCFA or approximately USD60 million. Moreover, the impact of the program on trade facilitation was positive.

Prior to the implementation of the program, less than 80% of declarations were assessed on the day they were registered compared with 90% now. More importantly, the improvements in customs processes have been noted by the trading community. Based on survey results, only 17% of respondents had a positive perception of the customs officials at the start of the program compared to 90% at the end of the pilot period. According to the survey, the most important impact of the program has been the reduced clearance time and much improved attitude of customs officials. Finally, the contracts have contributed to increased information flow from front line staff to the Director General and her executive management team and are now institutionalised for the four largest customs offices in the country. The contracts also form an important component of the assessment of officials for promotion and transfer.

Customs reform in Afghanistan

In Afghanistan, the World Bank started supporting customs reform efforts in 2004, focusing on infrastructure improvement, automation of customs procedures and clarifying and reforming the roles and responsibilities of the various government agencies operating at the border. Automation, in particular, was seen as a major reform facilitator as it was expected to reduce face-to-face contact and the negotiations that were then a central feature of the Customs-Business relationship. It also increased both transparency and national consistency as traders couldn't simply go to the border station that offered the best deal thus avoiding the 'port shopping' practice that was also common. When the automated system's centralised targeting was overruled by an official at a border post an audit trail would be created that could be monitored and appropriate action taken. Role clarification amongst agencies also reduced somewhat the opportunity for various agencies to apply controls that should normally be managed by Customs.

The results of the initial reforms were impressive. Revenue collection increased (from USD77 million in 2003-04 to more than USD900 million in 2009-10) and truck release times decreased substantially (for Kabul ICD from 428 minutes for Customs in 2003 to 277 minutes in 2006). At border stations such as Torkham and Hairatan, truck release time fell to 39 and 26 minutes respectively (from an average time of almost a day or more). As in the Cameroon case, from 2010 the Afghan Customs Department was also regularly publishing revenue collection data, had increased transparency in procedures and had established mechanisms for regular contact with the business community. An integrity action plan based on the WCO's Arusha Declaration had also been developed and was being implemented.

In spite of these improvements, the overall corruption situation in Afghanistan did not significantly improve. Even the impressive revenue collection performance of Customs and vastly improved border clearance times did little to change the business community's continuing perception that Customs was one of the three most corrupt institutions in the country.⁴

Moreover, due to the specific geo-political issues Afghanistan faces, the threat posed by corruption in Customs was far more serious than just fiscal losses and higher trade transaction costs faced by traders. Major national security issues associated with terrorism and drug trafficking were also at stake with little confidence in the capacity of Customs and other border management agencies to effectively manage border integrity and security. The usual prescriptions had all been tried and were only partially successful at best. Key indicators had improved significantly but corruption continued to be a key feature of the cross border trade environment. Understanding the particular circumstances that contributed to this situation in Afghanistan became a major development objective.

The World Bank, working in collaboration with the Afghan Customs Department and other development partners, developed a new quantitative approach to identifying vulnerabilities to corruption in the customs and border management process. The Governance Analysis Tool (GAT) drew on previous work using detailed business process analysis; a COSO⁵ Audit; the WCO Arusha framework; and World Bank's Government Accountability Action Plan (GAAP)⁶ guidelines, but tailored the approach to the unique

border management situation in Afghanistan. The GAT tool breaks down individual elements of the border management process into a series of procedural steps and maps the points that are most vulnerable to corruption. Using some sophisticated modelling tools, it also identifies the corrective strategies that have the most impact on addressing the vulnerabilities identified. As such it allows reformers to target specific areas where the impact will be greatest and the probability of success highest.

Using an automated tool to map and assess vulnerabilities and identify the strategies that offer the most return on investment, the tool helped authorities to develop a clear consensus around the next phase of the customs reform and modernisation plan. Interestingly, in the Afghan situation, the arrival, landing and reporting of goods was the most vulnerable stage in the entire import process. Moreover, on careful analysis, it was found that Afghan Customs Department officials were only directly responsible for controlling 30% of the environment they were mandated to control. Effectively, while they were being held responsible for 100% of the integrity failings, they were operationally only responsible for managing less than a third of the border management vulnerabilities. This was instrumental in galvanising support for the priorities that were addressed in the World Bank's second Customs Modernization and Trade Facilitation Project and helped the government clarify agency roles and strengthen customs responsibilities at the border. While developed to align with the particular circumstances and needs of Afghanistan, the GAT is now being developed as a generic tool for application in other border management environments.⁷

Summary

The purpose of this paper is not to suggest that the examples cited are suitable for all customs administrations. They are not. They are included simply to describe some relatively innovative approaches that have shown genuine promise in challenging operational environments. Different environments present different challenges and often require different solutions. The Cameroon example highlights the importance of identifying individual and team accountabilities for performance and the power of accurately measuring results over time.⁸ The Afghanistan example shows the value of carefully assessing key vulnerabilities at the process level and targeting reform efforts where they have the most impact and probability of success. It also illustrates the need to look beyond Customs when tackling corruption vulnerabilities at borders.⁹ The Thai FSF regime likewise describes one means of tackling the perennial problem of grossly inadequate salaries. A similar approach may be useful in many developing countries where it is difficult for customs officials to survive on their meagre official income without turning to informal payments.

Interestingly, in all the cases cited, the initiatives were implemented as part of much wider customs reform and modernisation programs, suggesting a high correlation between overall improvement in operational effectiveness and integrity enhancement. The general improvements in customs integrity recorded in the World Bank's Logistics Performance Indicators suggest things are progressively improving, particularly in Sub-Saharan Africa and East Asia. Such results are extremely encouraging and should provide some positive reinforcement to reformers. The Logistics Performance Indicators data does, however, also suggest there is still much to be done before many developing countries can reach the relatively high levels of integrity that OECD countries enjoy.

Notes

- 1 JW Shaver, Secretary General of the WCO, 1994-98.
- 2 Such a conclusion is not meant to suggest there is no place for outsourcing or private sector participation in Customs but rather simply to note that certain core customs functions such as classification and valuation should be performed by customs officials.
- 3 *Connecting to compete: trade logistics in the global economy*, Logistics Performance Index and its Indicators, World Bank, 2007 and 2012.

- 4 Transparency International in 2009-10.
- 5 See COSO Model of Internal Control, The Committee of Sponsoring Organizations of the Treadway Commission (COSO) methodology. See www.coso.org/IC.htm.
- 6 The Governance Accountability Action Plan (GAAP) is a standard document used by the World Bank to baseline and then monitor improvements in the governance environment for a project. The GAAP is mostly developed at appraisal and then monitored during project implementation as one of the tools to reduce project implementation's vulnerability to, amongst others, corruption-related governance risks.
- 7 For more information, see G McLinden, E Fanta, D Widdowson & T Doyle (eds) 2011, *Border management modernization*, World Bank, Washington, DC. Available at www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2011/01/07/000356161_20110107013015/Rendered/PDF/588450PUB0Bord101public10BOX353816B.pdf.
- 8 For information on the Cameroon example, see the World Bank's 2011 Good Practice Guide, *Gazing into the mirror II: performance contracts in Cameroon customs*, available at www.worldbank.org/afr/ssatp.
- 9 For further information on the Afghanistan example, see Chapter 20, 'Integrity risk modeling in the border management context' in McLinden et al. 2011.

Gerard McLinden



Gerard McLinden is the convener of the World Bank's Customs and Border Management Practice Group and a member of the Global Expert Team on Trade Facilitation and Logistics. As Lead Customs and Trade Facilitation Specialist, he is responsible for the development and supervision of a range of trade facilitation, regional integration and border management projects and knowledge products. He has worked in over 95 countries for the World Bank, the World Customs Organization and the Australian government and has undertaken assignments on behalf of a number of national and international organisations. He holds a Bachelor's degree in political science and economics and a Master's degree in management as well as an advanced diploma focused on business process redesign.

Amer Zafar Durrani



Amer Zafar Durrani works for the World Bank in their Almaty Regional Office as the Senior Regional Cooperation Specialist for Central Asia. His current role is to support the World Bank's Country Management Teams to build strategic partnerships with donors and development partners in addressing major development challenges of the Central Asia region. Amer joined the Bank in 1998, as a Highway Engineer, and was until recently working as a Senior Transport Specialist focusing on trade facilitation, customs, border management, transport logistics, governance, and regional integration issues in Pakistan and Afghanistan, prior to joining the Central Asia Office in Almaty. He has specific expertise in governance risk management in post conflict and fragile states. By training, he is a professional certified Civil Engineer, but over the last 16 years has branched off into trade facilitation and border management, amongst other practices.

