

# Managing the risk of corruption in Customs through single window systems

*Dennis Ndonga*

## Abstract

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Corruption has hampered the efficiency of customs administrations in many developing countries. However, the problem has taken on a new dimension in the 21st century following the rise in international terrorism. Criminal corruption at border points, where criminal operators offer bribes to customs officials to allow them to smuggle arms and other illegal substances, has posed a great risk to both the internal and international security of many countries. This paper examines how single window systems can be used as a tool to combat customs corruption. It analyses the various facets of customs corruption and discusses its impact on the affected countries. The paper then takes an economic approach to understanding the root cause of customs corruption by following Klitgaard's 1988 analytical framework which states that corruption flourishes in situations where agents have monopoly power over clients, where agents have great discretion, and where accountability of agents to the principal is weak. The paper concludes by evaluating how single window systems can be used to combat customs corruption. It outlines several case studies including the Philippine Bureau of Customs, Georgia Customs and Qatar Customs where the automation of customs processes was credited with reducing corruption in the bureaus. The discussions in this paper aim to show how single window systems can be used as a tool to eliminate customs corruption which has far-reaching consequences.

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## 1. Introduction

Corruption is a cancer that has for decades tarnished the image of customs administrations around the world. Incidences of customs corruption have been well documented in various reports and other media sources. For instance, Global Witness (2009) reported that bribery along the Burma-China border had facilitated the importation of illegally logged Burmese timber to China.<sup>1</sup> United States of America (US) law enforcement agencies have also identified corruption among Mexico customs officers as a key barrier to their collaborative fight against arms trafficking (United States Government Accountability Office [GAO] 2009). While recently, more than twenty-four Australian Customs and Border Protection officers came under investigation for corruption-related offences (McKenzie & Baker 2012). Despite years of awareness, Customs ranks among the most corrupt government institutions in many developing countries. Corruption in Customs differs from that in other government agencies in the sense that most importers and exporters do not view it as a vice. Bribes requested by customs officials to expedite the clearance of goods have become tacitly accepted as a trade transaction cost that is routinely passed down to the clients or consumers (Ferreira, Engelschalk & Mayville 2007, p. 368). This lies with the monopoly powers that customs officials wield leaving clients with no other choice but to accept their corrupt demands.

Nonetheless, customs corruption can result in catastrophic consequences. Since Customs serves several crucial functions as the gatekeeper of the State, enforcer of trade policy and chief revenue collector, corruption at border points can result in the entry of illegal and harmful products, expose domestic industries to unfair competition from dumped imports, and loss of revenue from misclassified or undervalued goods. Moreover, the problem has taken on a new dimension in the 21st century following the recent rise in international terrorism. The smuggling of arms facilitated by corrupt dealings between terrorists and customs officials poses a great risk to both the internal and international security of many countries. Thus, there is a crucial need for governments to tighten customs management and weed out corruption.

This paper discusses how single window systems can be used as a tool to combat customs corruption. Part 2 discusses corruption in general and the types of corruption that occur within customs agencies. Part 3 analyses the causes of corruption using Klitgaard's (1988) framework on corruption. It elaborates how the monopoly powers, discretion and limited accountability of customs agents have resulted in corruption within customs agencies. Part 4 highlights the consequences of customs corruption, outlining its social and economic impacts. Part 5 outlines Klitgaard's strategy for combating customs corruption while focusing on the automation of customs processes. It analyses the role of computerisation in resolving customs corruption as envisioned by various international organisations. The last section of this part gives a summary of how the implementation of single window systems successfully reduced corruption in the Philippine Bureau of Customs, Georgia Customs and the Qatari General Directorate of Customs. Part 6 draws conclusions from this research.

## 2. Customs corruption

The term 'corruption' covers a range of situations and actions. It is essentially a phenomenon that occurs in both developed and developing countries and impacts various sectors of an economy. Common definitions for the term include the 'outright diversion and conversion of public funds to private use by public officials' (Nwabuzor 2005, p. 122), 'the abuse of public trust for private gain' (Todaro & Smith 2003, p. 711), 'the illegal use of power for personal gain' (Zimring & Johnson 2005, p. 793), and 'the abuse of public office for private gain' (Poverty Reduction and Economic Management [PREM] 1997, p. 8). This paper accepts all the above definitions. In essence, the term carries the idea of a public office contravening its governing rules for private benefit either through acts of bribery, patronage, extortion, nepotism, theft of public assets or diversion of state revenues. Within the context of Customs, corruption would involve the misuse of power by customs officials for private benefit.

### 2.1 Types of corruption in customs

Corruption has become an established norm in many customs organisations. Customs administrations of transitional economies, in particular, have been ranked amongst the most corrupt government institutions (Transparency International 2008, Table 7). Customs corruption has many faces. The nature of corrupt activities that customs officials typically engage in vary from country to country and range from acts of extortion, patronage, nepotism, embezzlement, kickbacks and cronyism. Quite often such activities are undertaken for a reward given either in cash or kind (Tarar 2010, p. 13).<sup>2</sup> The degrees of such graft also vary from simple acts of 'turning a blind eye' to severe acts of aiding in the smuggling of contraband. Thus, it is difficult to comprehensively expound on all forms of corruption that manifest in Customs. However, Hors (2001) offers a simple classification of the different forms of corrupt activities occurring in Customs. She categorises them into routine, fraudulent and criminal corruption.

#### 2.1.1 Routine corruption

This occurs where private operators pay bribes to customs officials in order to receive a normal or accelerated completion of customs procedures (Hors 2001, p. 9). The gist of such corruption would

involve customs officials demanding bribes to perform their obligations. A manifestation of such corruption would typically encompass customs officials delaying the initiation or conclusion of customs procedures until a bribe is offered to them (Hors 2001, p. 59). The techniques of creating such delays may involve officials promptly attending to files of operators who have paid bribes while making others (non-bribe-paying operators) wait; or the officials may pretend to be absent or engaged elsewhere when a requested action is much needed and only become available once a bribe is paid. For instance, Ferreira, Engelschalk and Mayville (2007, p. 372) report that despite being employed to work 24 hours a day, the customs officials in Cambodia's port of Sihanoukville would end their daily operations at 5.00 pm, and could only be persuaded to work past that time through informal payments. Another expression of routine corruption occurs when customs officials create or threaten to create unwarranted complications in the clearance process. This often takes the form of officials conducting examinations in extreme detail; or requesting documents that are difficult to adduce; or sending the cargo for further controls such as quarantine or any other unnecessary actions that may complicate the clearance process (Hors 2001, p. 59).

### **2.1.2 Fraudulent corruption**

This occurs where operators persuade customs officials to 'turn a blind eye' to certain procedural requirements in order to reduce their tax liability or other import/export obligations (Hors 2001, p. 9). This form of corruption is, in essence, initiated by the operators who seek the customs officials' cooperation in committing fraudulent acts in their favour. It is commonly typified in the form of misdeclaration, misclassification or erroneous valuation of imports/export (Hors 2001, p. 59). In such cases the importers/exporters provide incorrect information regarding the nature, quantity, origin or value of their goods, and collude with customs officials by offering them bribes to ignore the true details. Such misclassification would result in erroneous calculation of duty, quite often lowering the operator's true tax obligation.

### **2.1.3 Criminal corruption**

This occurs where criminal operators offer bribes to customs officials to allow them to smuggle illegal substances (Hors 2001, p. 9). Incidences of colluded drug and arms trafficking with customs officials fall under this category.<sup>3</sup>

## **3. Causes of corruption**

The causes of corruption vary from one situation to the other. Quite often corruption is entrenched in a country's social history, economic policies or bureaucratic traditions and is relative to the particular state of affairs (PREM 1997, p. 12). However, the root cause of corruption may be analytically understood using Klitgaard's framework on corruption. He argues that corruption flourishes 'when agents have monopoly power over clients, when agents have great discretion, and when accountability of agents to the principal is weak' (Klitgaard 1988, p. 74). Accordingly, the framework maintains that corruption is a by-product of unchecked monopoly and discretionary powers.

This framework has particular bearing on the customs environment in several ways discussed below.

### **3.1 Monopoly/economic rent**

The concept of monopoly profit/economic rent applies where one person possesses something unique or special (stemming either from its nature or limited supply) (Myint 2000, p. 36). The logic is that the owner of the unique item can charge an exorbitant rate for its use and this would not affect its demand. In doing so the owner will earn economic rent which will be the extra amount paid over what would normally be paid for a suitable alternative (Myint 2000, p. 36). In relation to corruption, the framework argues that firms with monopoly status (originating either from lack of competition or their control of

a limited natural resource) enjoy higher rent and thus bureaucrats in charge of them enjoy a higher and more valuable control right (Ades & Di Tella 1999, p. 983). Examples of such firms and bureaucrats include the national land registration bodies that are exclusively empowered to register land ownership and land registrars who are the only officials authorised to issue land titles. The valuable control rights are expressed in the fact that clients served by such administrators would be willing to pay an extra amount to manipulate the way they exercise their duties. This makes it easy for such bureaucrats to reap some value ‘by surrendering their control rights in exchange for bribes’ (Ades & Di Tella 1999, p. 983). Thus, higher economic rent creates a higher incentive for the bureaucrats with controlling powers to engage in corruption.

This concept is relevant to customs agencies as they enjoy an administrative monopoly in the sense that they are usually the only agency with responsibility for certain regulatory and administrative functions relating to import, export and taxation (McLinden 2005, p. 71). This raises customs economic rent when it relates to the procedures, charges and penalties they impose. Consequently, operators anxious to clear their imports/exports through Customs will be willing to pay a price to manipulate the way customs officials exercise their controlling rights. A good example of this is illustrated in instances of fraudulent corruption whereby operators willingly offer bribes to customs administrators, enticing them to abuse the exercise of their control rights by misclassifying imports. Therefore, customs officials can use their monopoly position to acquire bribes from their clients.<sup>4</sup>

### 3.2 High discretionary powers

This concept encompasses the idea of an absence of decisive rules and regulations governing an economic activity, which are capable of managing all types of contingencies that could arise in the running of that activity (Myint 2000, p. 37). Thus, this gives the relevant administrators some flexibility in interpreting and implementing the rules.

In relation to customs corruption, this concept entails the idea that customs management leaves customs officers with extensive discretion in determining various factors. In practice, the daily agenda for most customs authorities is primarily governed by trade policies (Management Systems International [MSI] 2006, p. 2). Customs is the principal enforcer of various requirements like differential tariffs, rules of origin, anti-dumping measures, quantitative restrictions and trade embargoes (Gill 2001, p. 129). These policies are complex and dynamic in nature as they regulate different aspects of import and export controls. Measures regulating imports often outline guidelines on the goods that can be freely imported and those that are prohibited and subject to import licence requirements; and they identify sensitive local industries and set out tariffs for competing imports; they identify the country’s trading partners and lay down favourable import quotas; and they may also ban some imports from particular countries for economic or political reasons (MSI 2006, p. 2). While the export measures mostly grant certain incentives to exporting industries that fulfil specific preconditions (MSI 2006, p. 2). These complexities give customs officials wide discretion in applying the policies to specific cases. In addition, most customs codes are often out-dated as they are subject to regular amendments aimed at keeping them up-to-date with the changing circumstances (Tarar 2010, p. 17). This further makes it difficult for operators to comprehend them at any given time, thereby granting customs officials more discretion in their operations. Similarly, some customs officers lack access to reference prices, which further gives the officials wide discretion in valuing goods and assessing duties and taxes (GTZ 2005, p. 19).

An illustration of how the implementation of trade policies creates room for discretion can be drawn from Myint’s elaboration of the classification process for purposes of duty calculation. On this issue, he states:

An audio cassette player can be regarded as a “luxury consumer electronic product” when it is used for listening to popular songs in the living room of a well-to-do family. But the same cassette can be looked upon as an “educational tool” when used by a student in the language lab of a foreign

language institute. Likewise, it can also be considered as a “device to propagate religion and to uplift the spiritual well-being and moral standards of the people” when used to broadcast the teachings of a revered monk at a religious gathering (Myint 2000, p. 38).

Following Myint’s explanation, the circumstance may be that different import duties are charged depending on whether the cassette player is categorised as a ‘luxury consumer electronic product’, an educational tool or a religious broadcasting tool. Hence, the application of trade policies leaves a lot of loopholes. Such ambiguities therefore confer enormous discretionary powers on customs officials who often abuse those powers by extorting operators.

### **3.3 Accountability/lack of efficient controls**

The concept of accountability deals with the proper observance of rules and regulations, and the requirement that the enforcer of the regulations be held accountable for their actions. Accountability has a counter effect on corruption in the sense that the more accountable administrators are held, the less likely they are to engage in corrupt activities (Myint 2000, p. 39).

Most cases of customs corruption have been blamed on ineffective accountability mechanisms. Such accountability has often been undermined by two factors: negligible governing rules and the failure to correctly apply the rules. First, governing rules are said to be negligible where the sanctions imposed appear to be insignificant when compared to the potential benefits that can be gained from engaging in corrupt practices. Customs corruption has continued to exist since such activities give officials the opportunity to make a fortune before they are dismissed, and the recovery of the illegal amount (if any) is usually a small portion of the total sum (Tara 2010, p. 18). Thus, the rules of accountability cannot generate a deterrent effect as the benefits officials gain from the illicit behaviour far outweigh the costs they may incur for such actions.

Second, the failure to correctly apply accountability rules occurs in situations where officials lack the willpower or resources to enforce disciplinary actions. Here the rules meant to hold corrupt customs officials accountable are in place, but are not being enforced. As a result, perpetrators of customs corruption go unpunished. For instance, Hors argues that in Pakistan, one of the disciplinary actions set for dealing with a customs official suspected of corruption was to post them as ‘Officer on Special Duty’ (OSD). Here they would be excluded from public administration until a special OSD post is created for them. However, the exercise of this measure was never accompanied by any investigation, follow-up action or sanctions. The officers posted as OSD would simply ‘manoeuvre their rehabilitation and return to regular assignments’ (Hors 2001, p. 18). Moreover, there may be situations of total failure of accountability. This would normally arise where the rules or management mechanisms for holding administrators accountable for their actions may have broken down completely or be non-existent (PREM 1997, pp. 12-13). In the context of Customs, this would imply the lack of proper rules for the review of customs officials’ activity or audit.

Thus, the three pre-conditions outlined in Klitgaard’s framework have a direct bearing on customs corruption.

## **4. Consequences of corruption**

Corruption in customs negatively impacts a country’s image and economy. In essence, it destroys the legitimacy of customs administration by rendering it ineffective and unable to contribute to the government’s objectives (McLinden 2005, p. 68). Such practices can further frustrate a country’s development goals. One of the major consequences of customs corruption is that it results in the loss of revenue. Corrupt practices such as misclassification, undervaluation of imports or even colluded tax evasion by operators and customs officials have a direct impact on the amount of revenue collected.

A study conducted by Arze del Granado (2007) on public revenue collection confirmed the existence of a negative correlation between corruption and revenue collection, with an increase in the level of corruption resulting in a direct decrease in overall revenue collected. Several case studies have also confirmed similar results. For instance, in 2004, Russia lost USD4.5 billion in duties on European imports which was mainly attributed to false declarations linked to organised corruption (Ferreira, Engelschalk & Mayville 2007, p. 371). While in 2008, the Moldova-Ukraine border lost almost USD113 million to corruption (Wilcox-Daugherty & Holler 2010). Such outcomes can have a crippling effect on a number of economies. Many developing countries rely heavily on customs proceeds as a major source of internal revenue used for development. Thus, a decrease in the amount of duty collected can cause a government to lack investment funds, thereby stalling economic development. Moreover, imported goods that evade value added tax (VAT) distort domestic price signals causing unfair competition which could force tax compliant producers and importers out of business (Ferreira, Engelschalk & Mayville 2007, pp. 370-1). Such an outcome could lead to an increase in unemployment rates thus increasing the fiscal burdens on a country's development prospects.

Furthermore, the delay techniques used by customs officials to solicit bribes in circumstances of routine corruption have a direct impact on the cost of doing business. Such delays may cause economic losses especially in circumstances where time is of the essence, for instance, in the shipment of perishable items. Moreover, the delay may force traders to incur additional expenses such as storage expenses which will be passed on to the price of the goods thereby making them less competitive in the markets (MSI 2006, p. 2). This will ultimately deter domestic companies from engaging in international trade and may also drive away Foreign Direct Investment (FDI). Over 60% of today's global production chain is dominated by just-in-time (JIT) trading systems which cannot tolerate unreliable and unpredictable customs administrations that disrupt the flow of operations (Mbekeani 2010, p. i92). Hence, progressive multinational corporations (MNCs) would simply overlook countries with inefficient customs services as investment locations. In summary, these outcomes will have a negative impact on a country's economic growth as both international trade and FDI are important tools for development.

Customs corruption can endanger the wellbeing of a country's population. Border points controlled by customs officials are one of the main entry points for illegal weapons and drugs. For instance, 70% of the total drugs seized in Germany annually are detected at customs checkpoints (Ferreira, Engelschalk & Mayville 2007, p. 372). The smuggling of prohibited items such as narcotics facilitated through criminal corruption can expose the society to severe public health and law and order issues (MSI 2006, p. 2). Worse still, such practices can have a whole new meaning in the current global environment of intensified concern about the safety of international trade. Existing systems and measures, including quarantine, that are designed to detect weapons of mass destruction and biohazards will be rendered futile if terrorists or smugglers can circumvent them by simply bribing customs officials (McLinden 2005, p. 68).

Such disastrous consequences magnify the importance of finding a solution to the problem of customs corruption.

## 5. Combating customs corruption

According to Klitgaard (1988, p. 74) corruption can be resolved by implementing a corrective strategy that consists of five distinct but related steps. McLinden reiterates these steps in the context of customs corruption as follows:

- changing administrative systems to remove the corruption-inducing combination of monopoly power combined with officer discretion plus limited accountability
- selecting agents (in this case, customs officials) for incorruptibility as well as job-specific skills

and educational qualifications

- changing the rewards and penalties mix facing agents and clients
- increasing the likelihood that corruption will be detected and punished
- altering attitudes towards corruption (McLinden 2005, p. 72).

The practical implementation of these steps would involve a range of activities. Nonetheless, what is of concern to this section is how single window systems can be used to resolve corruption. Referring to the five-step strategy, the introduction of automation would come as part of the activities necessary to implement a change of administrative systems to remove monopoly power, officer discretion and limited accountability (McLinden 2005, p. 73).

## 5.1 Role of single window systems in resolving customs corruption

Various international organisations involved in combating customs corruption have recognised the use of automation as an important tool for reducing such practices. From the mid- to late-1980s, the international customs community, through the World Customs Organization (WCO), had been actively involved in efforts to formulate a ‘comprehensive integrity and anticorruption strategy’ (McLinden 2005, p. 72). These efforts culminated, in 1993, with the adoption of the WCO Arusha Declaration by its members.<sup>5</sup> The Declaration set out a list of twelve practical steps that customs administrations ought to follow when implementing integrity programs. One of the practical steps highlighted was the use of automation. The Declaration recognised automation (including electronic data interchange [EDI]) as a powerful tool against corruption and recommended that its utilisation should take priority in any integrity program. The Declaration was further recognised by the United Nations Conference on Trade and Development (UNCTAD) in 1994 at the Trade Efficiency Symposium held in Columbus, Ohio. Recommendation 11 was passed which stated that:

Governments should take steps to ensure the highest level of integrity and professional standards within their Customs service. The measures identified by the Customs Cooperation Council in the Arusha Declaration on Integrity in Customs should be implemented. Effective sanctions are also required to discourage low standards of integrity in the trading community (Customs Co-operation Council 1994).

Despite the overwhelming international support for the 1993 Declaration, member countries made little effort to adopt its provisions (McLinden 2005, p. 72). This prompted the WCO to conduct a comprehensive review and in 2003 the Council adopted the Revised Arusha Declaration on Integrity. The latter document consisted of ten elements considered to be crucial to the development and implementation of an all-inclusive and sustainable integrity enhancement program. Automation still featured in the new Declaration and on this it stated:

Automation or computerization of Customs functions can improve efficiency and effectiveness and remove many opportunities for corruption. Automation can also increase the level of accountability and provide an audit trail for later monitoring and review of administrative decisions and the exercise of official discretion. Where possible, automated systems should be configured in such a way as to minimize the opportunity for the inappropriate exercise of official discretion, face-to-face contact between Customs personnel and clients and the physical handling and transfer of funds (WCO 1993).

The above provision is closely aligned with Klitgaard’s framework. The revised Declaration highlights automation as an element designed to reduce monopoly power and the improper use of official discretion by, among other things, reducing face-to-face interaction between Customs and its operators while at the same time increasing the level of accountability by setting a platform for the review of administrative action. The roles of automation as envisaged in the revised Declaration were echoed in the 2005 WCO Compendium of Integrity Best Practices.

The International Monetary Fund (IMF) has also recognised the role of automation in resolving customs corruption. An IMF integrity paper highlights computerisation as one of the factors necessary to ensure customs integrity. On this issue, it states:

The introduction of computerized support for the processing of customs documents, perhaps more than any other change, provides the opportunity to implement standardized procedures that leave little to the discretion of the officials. A properly designed system ensures that the correct rates of duties and taxes are applied; exemptions are only granted to authorized organizations and for authorized goods and services; the required information and documentation is presented; timeframes for payment are met; and those who do not comply with filing and payment timeframes are identified and follow-up action is taken. In addition, the system can provide useful management information including, for example, identifying transactions that do not meet time standards for processing or individual officers who undertake actions that are out of the ordinary (e.g., physically inspecting too many shipments) (Crotty 2010).

The aforementioned documents reaffirm the international view that customs corruption can be reduced or eliminated by implementing single window systems. The argument is that although computerisation will not change customs monopoly in matters of imports and exports, it will, however, reduce discretion and increase levels of accountability. Automation affects officials' discretion in two ways. First, a well-designed system would streamline processes and substantially reduce face-to-face contact between customs officials and clients (Ferreira, Engelschalk & Mayville 2007, pp. 377-8). This would subsequently minimise opportunities for the inappropriate exercise of officials' discretion. Second, the introduction of computerised systems would also increase customs transparency by improving the accessibility of relevant information. Such systems allow administrators to upload relevant legislation, policy changes and explanatory circulars on the internet where any interested parties can view them and be informed and made aware of their rights and requirements (Ferreira, Engelschalk & Mayville 2007, p. 377). Automated systems also cater for customs accountability by providing an electronic audit trail of all processes which can be relied on for future evaluation and review. This would force customs officials to follow the defined rules and procedures as any corrupt practices would be traceable through the system (Ferreira, Engelschalk & Mayville 2007, pp. 377-8).

However, it must be recognised that what may be calculated and anticipated in theory may not yield the same result when practically applied. In order to fully appreciate automation as a solution to customs corruption, the implementation of such systems should have adduced such result in practical application. Such practical results have been experienced in several agencies including the Philippine Bureau of Customs, Georgia Customs and Qatar Customs.

### 5.1.1 The Philippine Bureau of Customs

Customs reform in the Philippines started in 1992 with the election of President Fidel Ramos. The newly elected president placed emphasis on the incoming customs commissioner 'to remove all "kalokohan" (foolishness) in customs' (Hors 2001, p. 35). This resulted in the formation of a reform program *Customs Development Towards the Year 2000*, which was to be the vessel to steer Customs to a new era (Hors 2001, p. 35).

The key objective of the program was to increase the efficiency of revenue collection by reducing corruption. This was to be attained through extensive re-engineering of customs processes. One key philosophy behind the program was that it recognised complex bureaucratic procedures requiring face-to-face interactions between importers and customs officers as a key feature of the widespread corruption. Virtually all customs transactions from import/export entries to transit requests required operators to personally interact with officials (Hors 2001, p. 35). Hors (2001, p. 18) argues that since the Bureau of Customs handled an estimated four million transactions annually, with each operation requiring an average of ten detached processes, corruption opportunities could be estimated to amount to not less

than forty million. Thus, the reforms targeted these areas of interaction between customs officials and operators.

The first wave of reform saw the automation of customs processes with the Philippine Bureau of Customs implementing the ASYCUDA (Automated SYstem for CUstoms DAta) software package in 1995 (Bhatnagar 2001). Other customs-related activities were also computerised in order to remove the rampant corruption opportunities. For instance, there were incidences of customs collecting officers fleeing with their cash collections. The reform program dealt with this issue by introducing the Project Abstract Secure (PAS), a joint initiative between the Bureau and the Bankers Association of the Philippines (Parayno 1999, p. 62). PAS required taxes and duties to be paid via a cashless process to an Authorised Agent Bank (AAB). The AAB would then confirm the payment by keying in the payment details into their computer system and then encrypt them 'for the secured electronic transmission of the payment file to Customs via a gateway' (Parayno 1999, p. 62). This new cashless system ensured that customs cashiers did not get an opportunity to abscond with their cash collections.

Another system that boosted integrity in the Bureau was the Automated Customs Operating System (ACOS) which was implemented to facilitate the clearance of shipments through Customs. At the core of ACOS was a risk assessment program SELECTIVITY which analysed the 'risk profiles of shipments by subjecting their particulars (e.g., kinds of goods, tariff rate, country of origin, etc.) with some 18 reference files or screens' (Parayno 1999, p. 63). Previously the task of risk assessment was manually handled by customs officials who would regularly misuse their discretion by delaying or threatening to delay shipment through unnecessary inspection unless a bribe was offered (Hors 2001, p. 59). SELECTIVITY resolved this issue by categorising shipments into high, medium or low risk transactions depending on their particulars (Hors 2001, p. 37). Those profiled as low risk would pass through a green channel that avoided any interaction with customs officials.<sup>6</sup>

The aforementioned automated systems have been credited with reducing corruption in the Philippine Bureau of Customs (MSI 2006, p. 4). The introduction of the various systems played a key role in reducing the extensive discretionary interfaces that customs officials enjoyed and consistently manipulated for their personal gain. Unsurprisingly, although the project received overwhelming support from senior government officials, the media and the private sector, the main opposition to the reform came from junior customs officials who viewed the corrupt practices as a way of enriching themselves (Hors 2001, p. 38-9). However, one should be careful to note that automation has to be accompanied with other reform measures in order to completely eliminate corruption.

### **5.1.2 Georgia Customs**

Prior to 2003 corruption was rife in Georgia's Customs department with numerous incidences of operators paying bribes to customs officials to bring in goods, such as jeans from Turkey and fuel from Russia, without paying duty (World Bank 2012, p. 37). The smuggling of drugs, weapons and explosives was also possible with payment of larger bribes. Corruption had enriched many poorly paid customs officials and created a demand for customs jobs. Prospective applicants viewed customs positions as an investment opportunity and would pay up to USD10,000 to 'purchase' customs employment, with the expectation of recovering profits from bribery (World Bank 2012, p. 37). This unscrupulous recruitment of officials continued to fuel the cycle of corruption in the agency.

Nonetheless, after 2003 the Georgian government made several modifications that positively transformed the agency. A key reform was the introduction of a one-stop-shop system that significantly reduced interaction between customs officials and traders. Previously, importers had to endure the tedious work of going to different customs windows to lodge different processes (World Bank 2012, p. 41). These numerous interaction points created avenues for officials to demand bribes. However, under the new system all processes were relocated to a single window where the operators' documents were assigned a number and processed in back offices thereby eliminating contact with customs officials (World Bank

2012, p. 41). This system both enhanced customs processing and reduced opportunities for corruption.

Additionally, in 2009 the agency implemented an automated risk management system that catalogues importers into risk categories based on fifteen criteria (World Bank 2012, p. 42). The low-risk operators are 'fast tracked' through Customs without exposing them to unnecessary inspections that customs officials used as platforms for soliciting bribes. This resulted in an 8% reduction of declarations being subjected to unwarranted scrutiny between June 2009 and 2011 (World Bank 2012, p. 42). The risk management software was also programmed to select declarations for random checks. This reduced officials' discretion which was being abused by customs officers targeting declarations of operators they could derive bribes from.

The operational layouts introduced by the automated systems have significantly contributed to the decreased level of corruption in Georgia's Customs department by reducing avenues for bribe payment and rent seeking.

### 5.1.3 Qatari General Directorate of Customs

It has been confirmed by the Qatari General Directorate of Customs (QGDC) that the introduction of the Qatar Customs Clearance Single Window (QCCSW) has reduced corruption and promoted integrity in the QGDC.<sup>7</sup> The QGDC launched the QCCSW project in November 2008 in a bid to, among other things, raise customs capacity to clear goods expeditiously; facilitate the import and export process with Gulf Cooperation Council (GCC) countries and other local partners; create an electronic environment that complies with WCO and World Trade Organisation (WTO) standards; promote transparency in Customs; and enhance the security and safety of international trade. The system essentially provides an electronic interface linking operators with relevant government agencies thereby facilitating customs clearance by integrating information on cargo manifest submission, cargo release modules, goods declaration, duties payment, pre-arrival details, inspection and post-audit clearance (CrimsonLogic 2011). As of December 2012, the system had been launched in four major customs points including Doha Port (launched 26 September 2011), Collins Port (launched 1 April 2012), Messaid Port (launched 2 April 2012) and the Doha International Airport (launched 7 August 2012).

An interview conducted by the author found that prior to implementation of the QCCSW, Qatari Customs had relied on a manual semi-paperless version of the ASYCUDA system and a documentary cycling program (Bin neamah) to govern its clearance process. Both these systems had failed to safeguard against corruption and dishonesty. Though actual corruption incidences were low owing to the country's religious and moral values that completely spurned such practices, the fact that the prevailing systems were vulnerable to corruption was an issue of concern. The QGDC attempted to resolve the problem by establishing an audit and control unit<sup>8</sup> and periodically increasing the salary of customs officials.<sup>9</sup> Though these efforts helped increase integrity levels, they did not reduce the system's high risk of corruption. The manual processing of shipment created avenues for fraudulent corruption to thrive in several key clearance protocols.

- The old protocols allowed for the manual entry of cargo declaration and did not integrate the information provided. This created an opening for unscrupulous operators to defraud Customs by using a single manifest and certificate of origin more than once to declare different imports as the semi-paperless systems could not detect repetition of a declaration code or number. Consequently, such operators could easily misrepresent their declarations which facilitated the smuggling of items and also decreased tax collection as operators would use documents of goods that have lower tax value to declare imports that attract higher taxes and, in some instances, totally avoid paying duty.
- The classification of cargo as per the Harmonized Commodity Description and Coding System (HS code) was entered manually by the clearing company and only verified by customs officials during manual inspection of cargo. This procedure relied heavily on the honesty of clearing agents to classify the goods correctly, and knowledge of customs officials to be able to detect any misclassification

during inspection. As such the process was extremely vulnerable to misclassification from deceitful agents and lack of detection by inexperienced customs officials.

- The value of the duty was calculated by the old system as a percentage of the total value of goods entered by the clearing company. The calculated duty value was only subject to the approval or disapproval of the inspecting customs official. Similarly, this process was dependent on the honesty of clearing agents and the knowledge of the inspecting official on the general value of all imported goods. Thus, the procedure was extremely vulnerable to fraudulent corruption by clearing agents which could easily be overlooked by unapprised customs officials.
- The payment of duty was effected manually through bank deposits, cheque slip or cash payment. This mode of payment was insecure and, in the absence of systematised auditing, was vulnerable to loss of cash and cheques and even misappropriation of payments by the receiving officials.
- The release of cargo from customs perimeters was undertaken manually through issuance of a gate pass. Customs officials would rely on the declaration documents to manually draft and stamp a gate pass that identified the goods that were to be released. The gate pass would be the sole document relied on at the security gates. The efficiency of this procedure relied heavily on the knowledge, attention and honesty of both the operator and the customs official issuing the gate pass. There had been instances where operators were discovered with gate passes that allowed for the release of cargo that was not indicated in their declaration documents.
- Import licence verification was performed manually by customs officials during inspection of cargo and payment of duty. Generally, all trade activity of any company is licensed by the Qatar Ministry of Business and Trade. These entitlements were then manually entered into the customs system by customs officials. This process relied heavily on the knowledge and training of the verifying official. Thus, there were opportunities for deceitful importers to mislead inexperienced or uninformed customs official on their licence entitlement in relation to cargo they had not been licensed to import. In some cases, the verifying customs officials would see no harm where traders were willing to pay tax on the unlicensed cargo, and therefore would incorrectly use their discretion to allow such traders to clear the shipment.

The introduction of the QCCSW tightened customs procedures from corruption risks in several ways.

- The QCCSW integrated the declaration process and thus sealed off gaps that allowed for fraudulent recycling of declaration documents. The new system integrates and stores all entry information. Thus, manifests and certificates of origin entries can only be processed once, and the system would easily detect any repetition of the entry information and reject the duplicate application.
- The system provided an avenue for cross-checking the classification of cargo in accordance with the HS code. Under the system the classification of the cargo is entered by the importing company, which is later accessed by the clearing agent by comparing it through the system with the data provided by the manifest list provided pre-arrival of shipment by the shipping company. The cross-checking of the importer's classified declaration with the manifest ensures uniformity of data. Finally, the cargo classified is cross-checked by customs officials during random inspection.
- The system automated the verification of import duty. Duty value is still calculated as a percentage of the total value entered by the clearing company. However, the QCCSW first verifies the agents declared total value by calculating the average value of similar goods imported previously and in the recent past, and compares this with the declared value. Consequently, the system is able to detect any discrepancies where the declared value significantly varies from the average value of similar goods.
- The QCCSW introduced a new way of making secured payments of duty by catering for online payment transactions through a highly secured online banking system and credit card facilities. This new form of transacting is secure from any loss or misappropriation of payments.
- The system has eliminated the integrity risks associated with the release of cargo through manually processed gate passes. Gate passes are now processed automatically and accurately for shipments

cleared through Customs and an electronically generated slip is relied on to release cargo at customs gates.

- The QCCSW resolved the integrity problems encountered during the licence verification process by electronically verifying licences with the imported cargo. The QCCSW integrates with seventeen government agencies including the Ministry of Business and Trade. In doing so, the system electronically acquires licence information from the Ministry's database and links this information with the declarations made by operators. Consequently, the QCCSW is able to electronically detect unlicensed imports and alert customs officials to the unauthorised cargo. Additionally, the fact that all system processes and alerts are visible to all officials and subject to future auditing has further reduced instances of customs officials abusing their discretion by allowing unlicensed cargo to pass.

These changes introduced by the QCCSW have greatly improved integrity levels in the QGDC.

## 6. Conclusions

Customs corruption remains an issue of international concern that strongly affects many developing countries. Occurrences of routine, fraudulent and criminal corruption do not just impede customs efficiency but can further result in social and economic upheavals that will both hinder development and threaten international security. As indicated in Klitgaard's framework, these incidences stem from the monopoly and discretionary powers that customs officials wield without proper accountability measures. A key strategy of resolving such corruption is by implementing single window systems. The WCO, IMF and UNCTAD have recognised automation as a tool for decreasing officials' discretion and increasing accountability thereby reducing customs corruption. The introduction of single window systems in several agencies including the Philippines, Georgia and Qatar Customs has successfully decreased corruption by substantially reducing face-to-face contact between customs officials and clients; increasing customs transparency by improving the accessibility of relevant information; and tightening customs accountability by providing an electronic audit trail of all processes. Thus, the introduction of single window systems in developing countries is guaranteed to have a positive influence in the fight against customs corruption.

However, automation by itself does not provide a comprehensive solution to customs corruption. The introduction of single window systems has to be accompanied with other integrity measures in order to thoroughly eliminate corruption in Customs.<sup>10</sup> Notwithstanding, automation remains an important technical tool for implementing an anticorruption program.

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## Notes

- 1 Global Witness 2009: in 2005 the Chinese government banned the importation of Burmese timber in an effort to support the Burmese government's crackdown on illegal logging that had depleted much of Burma's northern forests in the Kachin state. However, corruption along the Burma-China border has facilitated the continued illegal importation of Burmese timber into China by unscrupulous timber traders.
- 2 In some cases, corrupt customs officials have been known to accept gift rewards of an item from the importer's cargo or discount sale of the item. See Tarar 2010.
- 3 For instance, the Revolutionary Armed Forces of Colombia (FARC), which is one of the world's wealthiest terrorist groups has been known to bribe Colombian customs officials to allow them to import arms and run their drug trafficking network. See Rotberg 2010, p. 185.
- 4 In illustrating economic rent, Myint (2000, p. 36) takes the example of a minor bureaucrat working in a business licensing office of a government ministry who is responsible for typing, stamping and getting the relevant authorisation for a grant of licence. He argues that business executives engaged in the relevant line of trade would be anxious to have their letters typed, stamped and forwarded and, because of this, they would be willing to pay a price for this 'special' service. Thus, the minor bureaucrat with the monopoly on these functions can use their position to acquire economic rent from their clients.
- 5 Arusha Declaration of the Customs Co-operation Council concerning Integrity in Customs.
- 6 Though the concept behind the SELECTIVITY risk management program appears to be a fitting solution to the corruption problem, its practical application has led to several problems that have rendered it ineffective, such as its inability to maintain account-based monitoring and analysis; problems related to it being prone to manipulation by unscrupulous individuals who manipulate the entry information to obtain a preferred routing result, and others. For more information, see Center for Economic Policy Reform (CEPR) Team 2005.

- 7 The author conducted a series of email interviews with a manager at the General Directorate of Customs, State of Qatar, from October 2012 to January 2013. All information concerning the Qatar customs clearance single window system presented in this article was acquired from this series of interviews. Reference materials can be supplied on request.
- 8 The audit and control unit was established in 2003 and tasked with the function of conducting random auditing of customs declarations (at least 5% of all declarations made in every port), reviewing customs procedures and auditing customs financial records. See note 7.
- 9 The first review of customs officials' salaries was done in April 2005 and increased by 70%. In December 2007, the salaries were increased by 20%. In April 2009, they were increased by 50% and finally, by 60% in September 2010. These increases in salary helped tackle incidences of bribery within the QGDC. See note 7.
- 10 The introduction of automation may shift the point of corruption to other customs processes that are not automated. Thus comprehensive customs reform is necessary in order to eradicate corruption. Other reform measures aimed at improving customs integrity include the recruitment and training of new staff; raising customs officials' salaries and investing in new technologies. See McLinden 2005.

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### Dennis Ndonga



Dennis Ndonga is a PhD candidate in the Faculty of Law, Monash University. He holds a Master of Laws (Commercial Law) degree from that university and has worked as a teaching assistant in the Faculty of Law. His research interests focus on international trade, electronic commerce and customs single window systems.

