

WORLD CUSTOMS ORGANIZATION

WCO Trends and Patterns Report

– a Capacity Building estimate

“Moving from words to action”

ISSUE ONE – JUNE 2007



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Dear Reader:

When we launched the World Customs Organization Columbus Programme in January 2006 it was apparent that we had an enormous challenge in front of us. The aim of completing 100 two-week diagnostic missions in an 18 month period was the most ambitious programme that the WCO had ever embarked upon. We are pleased to announce that with several months to go we have completed over 60 diagnostic missions and are on track to complete 100 by July 2007. This objective could not have been reached without the support of our many partners, including WCO Members and international institutions. To each of you, we express our gratitude.

It was also apparent that by doing this work, the WCO is well positioned to conduct a trends and patterns report based on the diagnostic findings and recommendations. You will find our analysis in this, the first issue of the WCO capacity building trends and patterns report. The information is drawn directly from our experiences since January 2006 working in over 60 countries. This comprehensive report will supplement the existing research material directly or indirectly related to the operations of Customs administrations.

As stated in the executive summary, there is now a clearer picture of the current status of Customs administrations and what needs to be achieved for further modernisation. There is a long way to go but with the completion of these needs assessments, we are optimistic we are heading in the right direction.

This is only the beginning. The knowledge and understanding that emerges from the WCO capacity building trends and patterns report will enable the global Customs community to build on existing programmes and enhance modernisation support programmes. The report findings identify where we are now and chart out a clear direction forward.



A stylized, handwritten signature in black ink, appearing to read 'Michel Danet'.

Michel Danet
Secretary General
World Customs Organization



A stylized, handwritten signature in black ink, appearing to read 'Lars Karlsson'.

Lars Karlsson
Director, Capacity Building Directorate
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ACKNOWLEDGEMENTS

The trends and patterns capacity building report is based on the findings of 32 completed diagnostics conducted by WCO Columbus Programme diagnosticians during needs assessment missions from January 2006 to January 2007. The missions were staffed with diagnosticians from the WCO Secretariat and national Customs administrations.

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The WCO would like to also thank the Customs administrations who generously hosted WCO diagnosticians in their countries. While the purpose of the Columbus Programme is to assist WCO Members in accelerating their modernisation programmes, WCO diagnosticians learned a great deal from the expertise and experiences of Directors General and the Customs officers working at the frontlines of Member countries.

EXECUTIVE SUMMARY

The World Customs Organization (WCO) actively provides capacity building for its Members to help their operations become more effective, efficient, transparent, and predictable. While capacity building takes varying forms, the WCO's chief activity is strategically analysing a Customs administrations' modernisation needs. Since January 2006, the WCO Secretariat and WCO Members have completed needs assessment diagnostic missions in over 60 countries under the rubric of the Columbus Programme. Consequently, the WCO now has a sizeable portfolio of diagnostic reports that contain findings and recommendations on Customs operations around the world. This document is a trends and patterns analysis of 32 of the diagnostic reports.

By conducting the diagnostic missions and analysing the reports, the WCO has a clearer knowledge and understanding of global trade management trends and they are contained in this report. Consequently, the WCO can enhance its strategy for concretely addressing the major challenges faced by Customs administrations. In particular, the WCO continues to help Customs administrations reach their modernisation objectives with multifaceted programmes, instruments, guidance, and support.

Many of the challenges faced by Customs administrations can be met without new funding. Some activities require modest amounts of funding, such as strategic planning support. There are some modernisation areas where substantial funding is required, such as border post refurbishment and maintenance of automation systems; it is the WCO's perception that much of this can be re-directed from already existing or planned development projects based on improved prioritisation and proper sequencing.

For projects that require funding, the WCO continues to collaborate with donor Members and institutions to better leverage limited resources. The aim is to bring together large

and small providers of funding, personnel, and technical support for Customs reform and modernisation, with the purpose of marshalling additional resources, enhancing co-ordination, and planning the future of Customs development.

The encouraging conclusion from this analysis is that many Customs administrations are cognizant of the modern principles contained in the revised Kyoto Convention and the SAFE Framework of Standards, including systematic data collection, risk management, post-clearance audit, advance binding rulings, Single Window, and use of electronic information, and desire implementation of these standards. They are also aware that providing good controls across comprehensively balances the key responsibilities of revenue collection, trade facilitation, security, gathering trade statistics, economic development, and social protection. Customs administrations don't need a guide, they already know the way.

Challenges remain. Customs need assistance in putting theory and awareness into action. In particular, they are asking for support to develop the business skills, such as strategic planning, contracting, information and communication technology usage, and project management, needed to change and grow. In addition, they seek assistance in sifting through the plethora of recommendations from myriad stakeholders, especially when it comes to proper sequencing of development. Customs Directors General also require assistance in influencing their nation's political leaders and economic operators.

For many administrations, the modernisation agenda is about reducing clearance times and indeed, many administrations are making progress in achieving faster cargo releases. There is not, however, adequate application of the broad spectrum of modern Customs controls needed to support a secure and facilitated approach. What needs to be further cultivated is selectivity using sound automated risk analysis and targeting, post-clearance audit to monitor

systemic processing and adjust risk profiles, and anti-smuggling expertise.

In summary, the following are the key trends and patterns observed during the Columbus Programme needs assessment missions:

- Customs administrations have significant awareness and understanding of what needs to be achieved for modernisation.
- Customs administrations are well versed in the principles of the revised Kyoto Convention and SAFE Framework of Standards but need implementation assistance, especially on strategic planning, project management, political influence, marketing, equipment maintenance, and contracting.
- There needs to be a more holistic approach to Customs operations so that focus is not lost as a result of over-emphasising one role or responsibility. Thus, all Customs administrations should ensure that adequate attention is given to all responsibilities, including revenue collection, trade facilitation, security, enforcement, social protection, and gathering reliable trade statistics.
- Misconceptions still abound that inspecting all consignments leads to higher revenue collection or better security; or that inspecting few consignments is needed for trade facilitation and does not harm revenue collection, security, and enforcement. Accordingly, 100% or 0% inspections are not effective controls.
- Risk analysis is generally understood but, in practice, an enhancement of risk analysis and targeting is needed to achieve a more comprehensive risk management strategy.
- There is a substantial existing computer infrastructure; what is missing is optimum usage of the available functionality.
- There is a growing amount of trade consultation; progress is still required for the development and implementation of authorised economic operator programmes.
- Stand-alone integrity programmes are common. These need to be broadened so that they are integrated into the entire modernisation agenda.
- Customs administrations have taken the lead on developing integrated border management systems. Political influence needs to be better wielded to encourage other government agencies to participate more intensely in these initiatives.
- There is potential for enhancing trade facilitation. Growing trade and a healthy business environment strengthen economies and increases revenue intake. To make trade facilitation improvements sustainable and to improve facilitation further, it is essential to develop Customs compliance management skills and to implement modern and effective compliance and control systems.
- It is self-evident that by addressing the challenges elucidated in this document, Customs management will be strengthened and global trade will be more secure and more facilitated. Fortunately, many of the building blocks (tools, international conventions, and guidelines) are already available. To achieve the overall objective of modernisation, concerted action managed appropriately is needed. In addition, while training and technical assistance is still needed and recommended under the right circumstances, it must be pursued as part of a holistic and comprehensive change management ethos.

CAPACITY BUILDING FOR CUSTOMS MODERNISATION

The World Customs Organization (WCO) has provided Customs capacity building since inception. The WCO's current capacity building strategy, which was adopted by the WCO Council in June 2003, asserts that to be successful, capacity building must be conceived strategically and it must be sustainable. Astride this strategy are six key principles: (1) the need for accurate diagnosis of capacity building needs and the development of country-specific responses; (2) the need for sustained high-level political will and commitment; (3) the need for enhanced co-operation and coherence; (4) the need for greater ownership and participation of Customs personnel; (5) the need for realistic government and donor expectations; and (6) the need for adequate human and financial resources to be devoted to capacity building initiatives.

The WCO defines capacity building as "activities which strengthen the knowledge, abilities, skills and behaviour of individuals and improve institutional structures and processes such that the organisation can efficiently meet its mission and goals in a sustainable way." Capacity building can be supplied by outsiders but ultimately it is the insiders, the Customs administration itself, which must build capacity.

Customs capacity building is directly linked to *Customs modernisation* (which in essence means a broad strategy and goal of improving the effectiveness, efficiency, transparency, and predictability of an administration's operations so that it can better meet the demands of modern times). Thus, Customs modernisation is the idea and goal; capacity building is the means or action.

Capacity building programmes differ especially because administration's goals diverge. Traditionally, Customs'

role involves the control of goods and people crossing borders. There is, however, nuance in this because Customs administrations have varying roles, resources, and authority. While all Customs collect duty, for some it is the *raison d'être*; if Customs revenue funds a substantial amount of a government's budget, the Customs Director General's political masters will demand emphasis on duty collection. For others, governmental income is not the sole emphasis, as non-financial matters like narcotics trafficking or security take priority. Another side is that nations with low import tariffs and who are attempting to increase participation in international trade are determined to improve trade facilitation. If Customs revenue is a *de minimis* percentage of overall government income, the political leaders will demand something else, such as fast clearance times or aggressive anti-smuggling enforcement.

Overemphasising one role can affect other responsibilities. For example, some administrations physically inspect every consignment, which in turn constrains trade facilitation. There can be many reasons for high controls and low facilitation: on one Columbus Programme diagnostic, WCO experts learned that officers examine every consignment because the police have the authority to punish low-level Customs officers who inadvertently fail to discover non-payment of duty.

We do not live, however, in an ideal world, meaning that pure trade facilitation (no screening or inspection) leads to tax avoidance and unimpeded entry or exit of illegal goods. The government will likely raise less revenue than it could and goods such as dangerous weapons or counterfeit medicines will slip over borders with impunity.

Thus, Customs must strive to achieve balance. It is widely accepted that risk management or selectivity leads to higher revenues because it makes the process more efficient and facilitates trade, leading to more profitable businesses.

WCO DIAGNOSTIC FRAMEWORK

The central capacity building tool developed by the WCO is the internationally recognised *WCO Customs Capacity Building Diagnostic Framework*. The framework designed Diagnostic Framework is strategic planning guidance covering seven clusters: (1) Strategic Management; (2) Resources (Human and Budgetary); (3) Legal Framework; (4) Customs Systems and Procedures; (5) Information and Communication Technology; (6) External Co-operation, Communication, and Partnership; and (7) Good Governance (especially anti-corruption). The Diagnostic Framework is presented in tabular form by listing a series of diagnostic questions, associated common weaknesses, suggested methods of improvement, and recommended reference materials.

The Diagnostic Framework, which includes the principles found in the WCO revised *Kyoto Convention* and the *SAFE Framework of Standards to Secure and Facilitate Global Trade*, guides an analyst in reviewing the effectiveness and efficiency of an administration from a strategic perspective. It can also be used by administrations to produce a self-portrait of where they are and where they are going. The revised *Kyoto Convention* provides a road map on what an administration in the 21st Century should look like. The Framework of Standards presents the need for a balance between security and trade facilitation, and how this balance can positively affect all roles and responsibilities.

WCO COLUMBUS PROGRAMME

The WCO *Columbus Programme*, the WCO's primary driver for bolstering capacity building, emerged from a confluence of events. The WCO transformed its capacity building policy and programmes with high-level political leadership; philosophical consensus (widespread acceptance of the Diagnostic Framework approach); strategic impetus

resulting from the emergence of innovative instruments (the revised *Kyoto Convention* coming into force and the embrace of the *SAFE Framework of Standards to Secure and Facilitate Global Trade*); organisational reconfiguration (the establishment of the WCO Capacity Building Directorate); financial supplements (monetary donations from Members earmarked for capacity building); and the leveraging of resources (donor co-ordination and personnel secondments).

Central to this evolution, the WCO was at the vanguard of the idea that to achieve sustainability, capacity building must involve an accurate diagnosis of developmental and technical needs, and cannot be considered in isolation. Empirical evidence collected from experiences of success and failure fuelled this transition. The belief that training and technical assistance will be effective without considering the litany of related challenges, such as trainee motivation and skills sets; language barriers and cultural sensitivities; technology and its maintenance; legal authority; high-level political will; organisational structure; resources; and follow-up monitoring; is now anachronistic. This is not to contend that training and technical assistance are never useful; the new capacity building ethos merely asserts that projects must be placed in the proper context and with the appropriate sequencing.

Emanating from this perspective, the Columbus Programme's fundamental activity is an expert producing a comprehensive and accurate diagnosis of a Customs administration's capacity gaps based on research and analysis conducted in country. The diagnostic report, which contains findings and a list of prioritised recommendations, is presented by the WCO analyst to the leadership of the Customs administration under review and other high-level government officials. The Customs administration subsequently has the flexibility and responsibility on further action – it can elect to implement some, all, or none of the recommendations. If the administration seeks to pursue

some or all of the recommendations, the WCO is available for further consultations and guidance, such as supporting the preparation of an action plan.

The Columbus Programme has three phases: needs assessment (diagnostics), implementation, and monitoring. Phase one began in January 2006 and will conclude in July 2007 with the completion of 100 diagnostic missions. Phase two is the most crucial and lengthy phase and involves many implementation activities, such as action planning, change management, and training. Phase three involves measuring implementation progress for each of the Columbus beneficiaries.

CAPACITY BUILDING TRENDS AND PATTERNS

As of 1 March 2007, the WCO and its partner Members have completed over 60 Columbus Programme diagnostic missions in every region of the globe. The reports that are submitted at the conclusion of the diagnostic missions contain findings and recommendations for sustainable development. At no other time has there been a portfolio of so many recent analyses of Customs administrations. Thus, the WCO is well positioned to conduct a trends and patterns analysis of the condition of Customs administrations worldwide. This document is the first issue of the WCO capacity building trends and patterns report and presents information that was identified during Columbus Programme missions from a global perspective. Future reports will present additional global trends identified during the Columbus diagnostic missions; regional trends; and in some issues focus on one theme, such as risk management, in order to provide more detailed analysis.

In recognition of the sensitivity of the information, the report does not specifically identify individual countries in the analysis. It is also important to note that this report is

not based on benchmark data; the trends report is based on qualitative reporting from the diagnostic missions. Thus, this is research that complements quantitative reporting such as the OECD's recent report that collected and analysed trade facilitation data such as time spent at the border, the number of signatures needed to export or import goods, and the number of documents needed to clear Customs¹ and the WCO's time release studies, which aim to identify the bottlenecks in border-related procedures. The WCO conducted time release studies in Mozambique, Nigeria, and Zambia during 2006.

The report organises the presented trends and patterns by several key findings and by each of the seven Diagnostic Framework clusters. In addition, where applicable, information is presented on the activities of the WCO's leadership and its three Directorates to promote progress; this is interspersed in the text and at the conclusion of the report.

This report includes inconvenient truths that should not be feared or avoided, but embraced to collaboratively devise solutions. There is also the responsibility within the Customs community to consider the blowback, benign and adverse, of past, present, and future recommendations and activities as every action will have unforeseen impacts.

Key Findings

Of paramount importance is a need for a more holistic approach to Customs compliance and controls. In many countries, Customs focuses on one major aspect, such as revenue collection, trade facilitation, or security, and this is potentially to the detriment of other responsibilities. For example, too much trade facilitation is counterproductive

¹ OECD, Norbert Wilson, *Examining the Trade Effect of Certain Customs and Administrative Procedures*, OECD Trade Policy Working Paper No. 42, TD/TC/WP(200618/FINAL), 26 January 2007.

for good controls, i.e. detecting and deterring illegitimate trade. For every control, Customs should use objective criteria to analyse the level of risk that the particular consignment poses for undervaluation, counterfeiting, narcotics, arms trafficking, and other threats. Overemphasis is not only disadvantageous because inaction ignores important functions, but also because it can create direct negative consequences. To achieve a better understanding of the facts on the ground, Customs administrations need to more systematically collect basic data related to the processing of imports, exports, and transshipments.

Linked to overemphasis, there is error in thinking that inspecting every consignment leads to higher revenues and/or to enhanced security, or that inspecting few or no consignments leads to trade facilitation. Each of these approaches leads to lackadaisical controls and the weakening of traditional Customs skills and knowledge, such as valuation, classification, or enforcement. With full inspection, the administration loses focus, even on the supposed central task.

In addition to preventing the loss of traditional Customs expertise, there is now the challenge that new skills must be developed. While the leadership of most Customs administrations know what is needed, some lack help on non-Customs skills such as strategic planning, project management, political influence, marketing, equipment maintenance, and contracting. To put Kyoto and SAFE into effect, there will need to be further development of these particular skill sets.

Strategic Management

Awareness

Following the overwhelming commitment to implement the SAFE Framework of Standards, WCO officers were also impressed by the remarkable interest shown by administra-

tions for receiving a diagnostic mission. A reason why so many missions have been completed in such a short time is that most administrations took the diagnostic process very seriously and were highly responsive to information requests. In addition, the WCO is pleased to report that Columbus Programme diagnosticians found determination and commitment within the membership to implement what is necessary to speed up Customs modernisation.

Political Hierarchy

WCO diagnosticians noted in many missions that Customs leaders are expected to be technocrats: the ministers they report to demand that they be successful at mechanics, such as meeting revenue targets or seizures, but limit their involvement in policy development on issues such as trade, economics, or national security. This perception can inhibit Customs leaders from fully participating in policy transformation. In addition, some ministers seem to not fully be aware of the complexity of Customs. Customs leadership thus face challenges in educating ministers about the needs and realities of Customs administrations. Finally, linked to the aforementioned key finding of overemphasis, there is an endemic feature of excessive pressure on Customs to have one focus.

Focus on Revenue Collection

It does not come as a revelation that revenue collection remains the primary objective of most Customs administrations, especially in the developing world. Until a nation's economy has grown sufficiently to contain citizens who can contribute substantial salary tax, this cannot and should not be expected to change. Although we are unaware of any regression analysis to so prove, there appears to be a direct correlation between a nation's wealth and Customs administration's emphasis. Developing countries will have Customs administrations that focus on revenue collection because this is the primary means of funding government operations. Developed countries need not focus on Customs duty because they have alternative

methods of governmental revenue. However, due to this wealth, increased disposable income, and possibly being the target of existential violence, their Customs administrations address narcotics trafficking, security, and other social protection agendas.

Because of globalisation's advantages and disadvantages, it has become more important to broaden the role of Customs administrations. The so-called "transition concept" advocates this shift. It has also been supported by the significant support for implementation of the SAFE Framework of Standards, which consists of diversification of the revenue collection, security, and trade facilitation roles. Thrown into this mix is the need for capacity building for developing countries to attain this balance. It is critical that this not just be understood and pursued by developing countries; it is crucial that donors also tout this message.

For countries that are growing economically at reasonable rates, diagnosticians noted that the portion of the overall governmental budget that comes from Customs duty is generally declining, and will likely continue to diminish due to bilateral and multilateral free trade agreements, and due to the rising income of the nations' citizens and the corollary salary tax augmentation (for some administrations, Customs duty is falling but VAT collection is increasing). Due to this dynamic of falling duty collection, Customs administrations should reposition themselves to increase efforts in non-fiscal areas. Frequently, Customs may want to consider a strengthening of its anti-smuggling capacity.

Some of the developing countries that received diagnostic missions are broadening their approaches to Customs policy beyond merely revenue collection. These countries are shifting away from full inspection to a risk management approach where consignments are designated as "red line" (high-risk) or "green line" (low-risk). These countries are using automated risk management systems and post-

clearance audit to make their operations more effective, efficient, and fast. They are finding that trade is facilitated and not harming their economies.

The mission statements of other diagnosed countries place clear emphasis on revenue collection and, as a consequence, broader roles of Customs in areas of trade facilitation, social protection, collecting trade statistics, and security have not been a priority for planning and monitoring purposes. This is amplified by the development over the last decade in some countries of incorporating Customs into Revenue Authorities. In addition, many Customs remain committed to examining every consignment because they fear anything less will lead to reduced revenue. As a consequence, performance indicators are only collected for revenue collecting. Most ominously, some external stakeholders have identified the slow Customs process as a major hindrance to increasing foreign direct investment and raising the country's economic productivity.

WCO diagnostics also confirmed that Customs Directors General are driven by the direction of Ministers of Finance. This political master is intent on raising Customs revenue and places this pressure on Customs Director Generals, leaving Customs with less flexibility to modify operations. Accordingly, it is clear that influencing ministers is just as critical as influencing changes within the Customs administrations.

Proper Sequencing

Proper sequencing is vital for successful and sustainable Customs modernisation. It is pointless to implement a new programme if one does not have the previous required step in place. Many of the diagnosed Customs administrations are pursuing proper sequencing. One area where proper sequencing needs improvement relates to the acquisition of equipment prior to fully understanding how it can be used or having the infrastructure needed to support new technology. For example, diagnosticians observed in several

countries situations where computers sat idle because their purpose had not been specified. Diagnosticians also observed scanner usage by administrations that did not have risk management programmes.

Project and Change Management

Most administrations visited by the WCO are familiar with the modern principles contained in the revised Kyoto Convention and the SAFE Framework of Standards. Combined with this is the challenge that donors and consultants have devised sophisticated strategies or action plans for Customs reform that are difficult for Customs administrations to digest and to implement. Accordingly, such Members have requested help on project and change management skills to assist in implementing these principles and expert recommendations. The WCO has begun this process in its phase two missions with action planning and project management workshops.

Resources (Human and Budgetary)

Funding For Development

WCO experts found that while much can be done quickly and without funding (Jeffrey Sachs' "quick wins"),² there remains a need for funding of projects such as automation systems and border post renovation. While new funding is needed for building Customs capacity, much of this can come from already pledged donor support for non-Customs trade development.

Operational and Capital Budgets

Some Customs administration budgets are allocated from the overall government budget. Interestingly, some Customs budgets are based on a percentage of what is collected by Customs. For example, in one diagnosed country, the

² Sachs, Jeffrey D. *The End of Poverty: Economic Possibilities for Our Time*. New York: Penguin Press, 2005.

Customs administration's budget is five percent of the revenue that it collects annually. In this instance, the government can modify the five percent allocation if the nation's economy produces unusually high or low Customs revenue.

While the WCO does not have a position on this policy, diagnosticians have raised some concerns about this practice. The potential problem is that the budgeting is not based on what is needed to operate and more importantly to plan, but on the vagaries of the economy's cycles. Consequently, this approach can dilute long-term budgetary planning, especially for capital budgets. Financial management should ensure, not hinder, the sustainability of development projects.

Budget for Kyoto and SAFE Implementation

Few administrations have budgets specifically targeted at implementation of Kyoto and SAFE. Shifting from general budgeting to earmarked budgeting of these important instruments would bring more focus to the implementation process.

Schools and Academies

While some administrations only have on-the-job training, others are taking the positive step to invest in their own professional schools. These schools include courses for new Customs officers on basic Customs procedures, language skills, and IT training. Some are so successful that they are now receiving Customs students from many other countries of their region under official agreements. The WCO is actively supporting these training centres to help them to modernise their teaching and to introduce new concepts such as risk analysis, selection process, and post-clearance audit.

AIDS/HIV

Preventing and treating disease may be more the bailiwick of the World Health Organization, but Customs administrations are directly affected by medical epidemics.

AIDS/HIV is an acute example. One African administration reported that since 2002, nearly 100 of its Customs officers have either died or been incapacitated by this terrible illness. This tragedy requires honesty and action. To the credit of this administration, it is courageous to report on the problem and has developed an active education awareness programme.

Legal Framework

Customs Law and Proposed Legislation

Most Columbus Members have an adequate Customs law in place that provides authority for the key responsibility of Customs, namely basic controls of goods and people crossing borders. There does need, however, to be an expansion of inspection authority to all consignments, especially for export controls. In another example of this, we identified some administrations that cannot legally inspect containers with alleged counterfeit goods without the permission of the shipper. There is also a lack of primary and secondary legislation on the Authorized Economic Operator (AEO) concept, although this is to be expected since the idea is still in its infancy even in the developed world. There is the existence of some basic legislation for "white list" trader co-operation and electronic lodging of manifest and declarations (e-Customs, e-signature). Frequently, there is no legislation for post-clearance audit. There is also the challenge that in some countries, the Customs law contains provisions authorizing the use of risk management but omits the flexibility to cope with changing events.

An area that WCO Members may want to pursue is modifying the WCO model Bilateral Agreement to incorporate provisions of SAFE implementation. Language in existing bilateral and multilateral agreements does not include clauses relating to SAFE.

Data Protection

In many Columbus countries, Customs do not have laws or regulations for purposes of data protection. Others that do have references in the national legislation fail to provide adequate protection for individuals and the trade community. This is a major obstacle for mutual administrative assistance and information exchange between Customs and traders.

Customs Systems and Procedures

Risk Management

Risk analysis is the cornerstone of a balanced and modern Customs administration. It is a measure for controls and trade facilitation. It allows compliant traders to move their goods more quickly through Customs controls by experiencing fewer documentary checks and physical examinations. At the same time, risk analysis can better identify illegitimate trade. Risk analysis also provides an opportunity for the Customs administration to undertake more targeted selection and speedier clearance of goods.

Some Columbus Customs administrations are undertaking initiatives to introduce risk analysis and targeting; however, with a few exceptions, even for the most advanced it remains at a rudimentary level. Risk analysis is infrequently and unsystematically being used to develop standard risk management policies and tools. In addition, the tendency is for risk analysis parameters to be narrowly focused on revenue collection, rather than areas such as social protection and security. Risk management is rarely implemented in a harmonized way in the whole Customs territory and there is thus a need for nationwide and equal implementation. There is frequently a lack of effective post-clearance audit and evaluation of the risk management process, as evidenced by the fact that risk indicators are not updated on a regular basis. Customs controls in the application of risk analysis and targeting remain high, thereby weakening the purpose of risk

management and causing unnecessary delays for legitimate trade.

The link between compliance and trade facilitation is often misunderstood, leading to either too strict or too lax controls. Full implementation of a rigorous risk management approach is often seen as a threat to the existing Customs control procedure and not as an asset.

As part of its work on security and facilitation, the WCO developed a Data Model of 27 data elements. Some administrations have begun to use some of these elements; however, none of the Customs administrations under Columbus are using all of the 27 data elements.

Post-clearance audit or PCA, an integral part of a comprehensive risk management system, is known as nomenclature but in practice is usually asymmetrical to what Kyoto provides. In most countries, PCA is only used and based on the WTO Valuation Agreement. Some administrations are using PCA merely as a deferred system of controls. It is being used with the objective of raising duty rather than a refiner of its risk management system. In addition, lessons learned from PCA are frequently not being used to update risk criteria.

Import Controls

The dearth of risk management systems is further weakened or perhaps directly linked to high levels of documentary and physical inspection of imports in much of the developing world. The fear continues that full physical inspection is needed to prevent any cheating. The issues of risk management, PCA, trust between the trade and Customs, and excessive physical inspection are closely entwined.

Export Controls

Most administrations are almost exclusively focused on import controls; controls for exports remain superficial and with limited physical inspection. This appears to be

primarily due to the emphasis on revenue collection and efforts to grow exports. Another challenge for improving export controls is that the involvement of multiple agencies is even more convoluted than it is for import controls. With the emergence of international networks involved in nuclear weapon technology proliferation, like the A.Q. Khan network, it is critical that Customs accelerate its involvement and application of export controls.

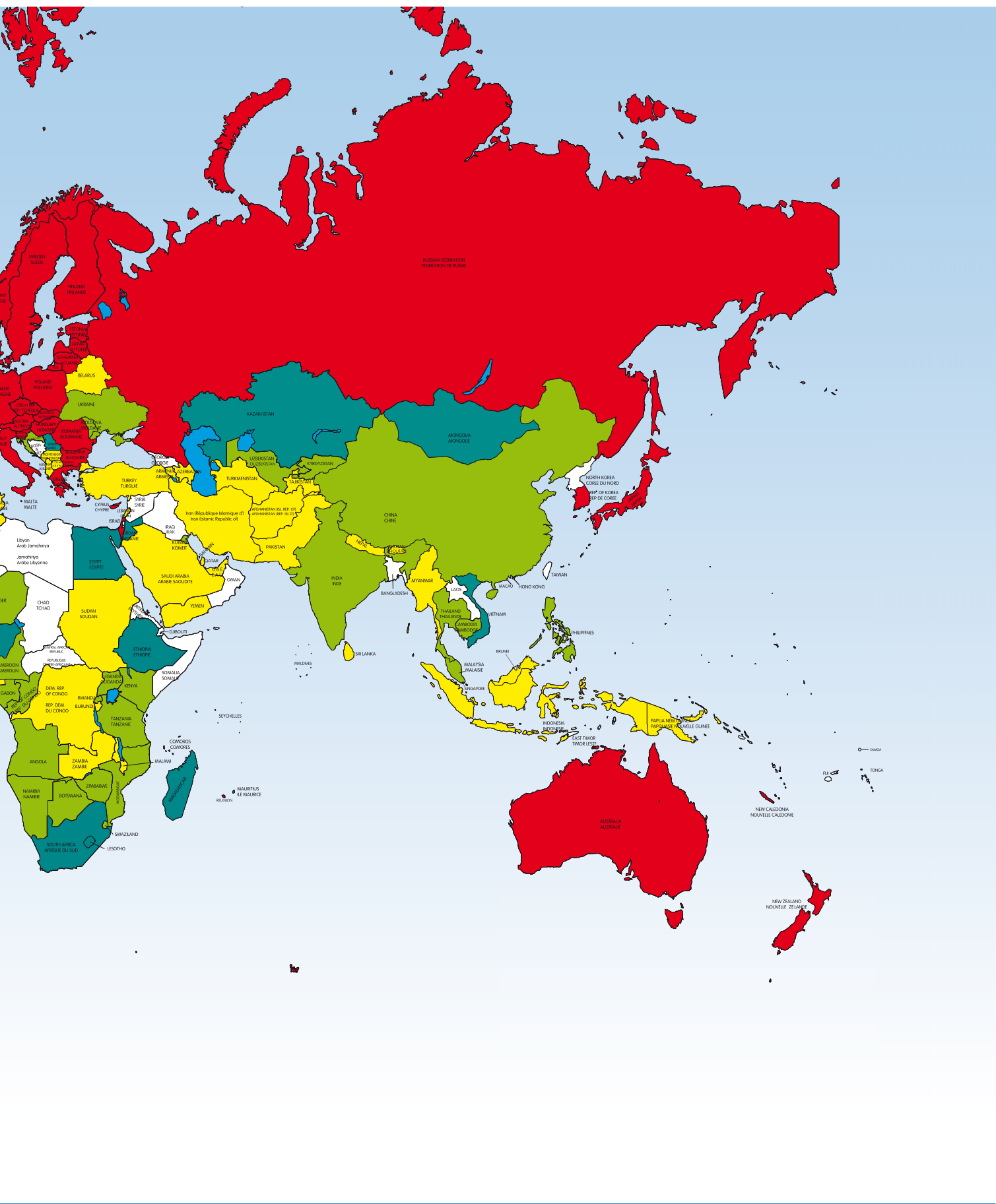
Reward programmes

WCO diagnosticians have observed within some administrations examples of incentive or reward programmes where Customs officers are remunerated based on the value of seizures they have made or the ensuing penalties. The purpose appears to be benevolent and generally involves efforts to supplement low salaries and to provide motivation for identifying law violators. The WCO is not aware of any studies with empirical data to evaluate the impact, positive or negative, of these programmes.

WCO diagnosticians, however, have some concerns about how these programmes are perceived by stakeholders and the skewed incentives that are created. Some private stakeholders have raised concerns that such programmes influence Customs officers to inspect only high-value consignments and to focus on valuation fraud. Some have claimed that there are incidents of faulty classification and valuation in order to assess penalties. Ultimately, perception is as important as reality so the unpopularity of these programmes needs to be considered. This is a topic that should be further discussed in the context of WCO committee meetings, especially the Integrity Subcommittee and the Permanent Technical Committee.

Scanners

Container scanning equipment (generally x-ray or gamma ray scanners), also known as non-intrusive inspection equipment or NII, can make a positive contribution to identifying illegitimate cargo by providing Customs officers



Programme
de l'OMD



WCO Columbus Programme diagnostics completed
 Diagnostics du Programme Columbus de l'OMD achevés



Implementation of the WCO Columbus Programme
 Mise en oeuvre du Programme Columbus de l'OMD

to Secure and Facilitate Global Trade
visant à sécuriser et à faciliter le commerce mondial

with the ability to conduct examinations without protracted and expensive manual searches. WCO diagnosticians found that the acquisition of scanners is growing rapidly.

If used by a trained and experienced expert within a Customs administration with a properly functioning risk assessment system, scanners can help identify smuggling and facilitate legitimate trade. In essence, scanning can be effective when there is effective risk assessment, targeting, post-clearance audit, and a Customs-business partnership programme in place so that only high-risk containers (targeted using information preferably received in advance) are scanned.

Customs administrations, however, should introduce NII cautiously. As stated in the WCO's document on container scanning equipment³, "it is essential for the risk assessment infrastructure to be in place before introduction of scanning equipment. Inherent within this is a requirement for pre-arrival data to permit the risk assessment to take place in time to advise necessary parties that a given container has been selected for scanning." In addition, "the equipment requires a large capital outlay and the process of introducing it, from conception through to operation, impacts on the whole control and intelligence sectors and may entail changes to departmental infrastructure and procedures."

Columbus reports note that many administrations are introducing scanners while simultaneously refining their risk management programmes. A worrisome trend, however, is that some countries are using scanners without risk assessment, proper sequencing, clear strategies, or sufficient infrastructures.

The rush to obtain scanners is occurring for a variety of reasons. The main reason, of course, is that they can be effective when used properly. More adversely, some

³ World Customs Organization, *Container Scanning Equipment: Guidelines to Members on Administrative Considerations of Purchase and Operation*, Task Force on Supply Chain Security, TF0022E1, 22 October 2003.

inaccurately view scanners as a panacea to the difficult challenge of undervaluation and anti-smuggling. Some feel pressured to obtain scanners to broaden their role beyond revenue collection. Some administrations are purchasing NII without first analysing what equipment is really needed, how it will be used under the new risk management system, what training will be needed, and maintenance requirements. In addition, selling scanners is profitable; WCO diagnosticians noted examples of sellers profiting from the overemphasis on scanners for countries that are not yet prepared for their usage.

Some diagnosed administrations are scanning all consignments and then manually inspecting some of those consignments, even when the scanning identified no potential problems. This defeats the purpose for scanning.

As previously noted, scanners are very expensive and the technology is constantly improving, making them even more prohibitive in cost. Many developing countries do not have the financial resources to purchase scanners and thus are looking to donors or payment schemes to help with acquisitions. Related to this, WCO diagnosticians also have seen scanner payment programmes. In one country, the administration was unable to afford scanners so it arranged for a private company to provide the equipment at no charge. The company is willing to do this because it will cover the costs and garner a profit by charging a substantial fee to traders for every container scan. The company itself is conducting the scanning. Traders are displeased with this because it adds to rather than reduces, their costs. Moreover, the country is not ready for scanners as it does not have a risk management system.

Penalising Customs Officers Who Use Risk Management

In some countries, legislation provides for penalties against Customs officers if their decisions are later found to be incorrect, even if the mistake occurred during application of risk

analysis. In one country, officers complained that if they do not conduct a manual search and the police later discover a violation (such as undervaluation), it is the Customs officer who is punished, not the company. This poses a threat to officers who apply risk management to their decisions and makes anything less than examining every consignment nearly impossible. Whether in insurance or in Customs procedures, risk management is not perfect; there will inevitably be violations that slip by even the best system. At a minimum these laws should distinguish between intentional abrogation of catching violations and the realities of using selectivity. Ideally, national law should reflect internationally accepted standards in Customs procedures as stated in the revised Kyoto Convention.

Valuation

Diagnosticians observed many countries which still face difficulties in applying the WTO Valuation Agreement. Under Article 1 of the Agreement, Customs is obligated to use the transaction value as the basis for valuing goods. If the transaction value cannot be used, the secondary points for consideration are, in order, transactional value of identical merchandise, transactional value of similar merchandise, deductive value, and computed value. We noted in some countries that price databases are used as a reference for verifying the declared value. Frequently, this includes the situation where the transaction value is under the price list value, causing conflict between Customs and the trader. Limited post-clearance audit is another obstacle to proper application of the WTO Valuation Agreement. Of course, difficulties in applying the Agreement are not only a lack of capacity within the administrations; regularly undervalued consignments and poor or non-existent commercial records are also a significant factor.

Advance Binding Rulings

Advance binding rulings on classification and valuation bring predictability to trader transactions and reduce the opportunity for individual Customs officers to use their discretion. In addition, building a portfolio of advance rulings is beneficial for

Customs administrations as it negates the need to repeat the same research. These substantial advantages are seen in the experiences of modern Customs administrations and are the reason it is a key principle within the revised Kyoto Convention. Despite the fact that some Columbus countries have ratified the revised Kyoto Convention, there are very few examples of administrations that have installed systematic programmes for advance rulings.

Information and Communication Technology

Use of Automation

Most Customs administrations have some computerisation; however, the challenge is usage and skills. In several Customs administrations, diagnosticians observed new computers that remained idle because there was uncertainty as to their purpose and a lack of computerisation skills. Shortages of electricity and faulty communication networks in some countries made the use of automation inconsistent. This observation illustrates the spectre within development assistance where expensive technology is procured without carefully considering proper sequencing, maintenance, and purpose of usage.

Automated Customs Clearance

Most administrations have automated clearance systems, either one provided by donors or their own internally designed system. Despite these installations however, much functionality is not used, such as pre-cargo information, the selection process, automatic valuation data, and risk analysis. This situation leads to the perpetuation of excessive manual procedures, even though sophisticated automated Customs clearance systems are in place. Donors should work with these Customs administrations to foster more comprehensive application of these useful functionalities. One of the challenges for change on this issue is something observed by diagnosticians related to Direct Trader Input

(DTI). In this purportedly paperless system, the trader enters declaration information electronically and transfers it to the Customs. However, we observed several instances where the Customs still requires the declaration and background information in paper form to check what has been inputted by the trader. Thus, it is not a truly paperless system as the change is only that the trader is now responsible for inputting the data; the Customs still requires paperwork. This is not a positive trend for trade facilitation, as it could actually be more time consuming for the economic operator.

External Co-operation, Communication, and Partnership

Customs-Business Partnerships

There are many informal Customs-business partnerships at rudimentary stages. There is a need for closer co-operation with business partners to ensure that systematic changes are understood and, if possible, supported by stakeholders; lacking this, the introduction of new functions will not be well received and their potential operability will be weakened. This approach will also contribute to gaining valuable information and sharing insights to strengthen the Customs risk management process and facilitate development of an AEO programme.

Progress on Co-operation Agreements/ Single Window and One Stop Service

Customs administrations are signing more advanced bilateral and multilateral co-operation agreements with neighbouring countries than ever before. These agreements include the use of joint border station facilities, joint equipment, joint control teams, and sharing of intelligence.

While reform in Customs administrations is occurring and clearance times are declining, there is the added complexity that this must be in parallel with other agencies, such as tax, immigration, police, defence, and agriculture to ensure implementation is effective and efficient. For all Columbus

countries, international trade flows are subject to the intervention of various regulatory agencies responsible for exercising specific forms of administrative control. Customs administrations are taking the lead in developing partnerships with other government agencies with the eventual intention of creating Single Window systems. As is the case in the developed world, there are problems with co-ordination and turf protection. In several diagnosed countries, there are one stop service initiatives that involve introductory steps on the way to Single Window. Of particular note, the ASEAN countries have banded together to develop a regional Single Window system.

Governance

Corruption

Customs administrations around the world have historically suffered from corruption due to their unique roles and responsibilities. As a consequence, the WCO adopted the Arusha Declaration to promote integrity in Customs. In addition, there are preventative measures that can be taken against integrity problems, such as adopting a Code of Conduct, being as transparent as possible, and minimising isolated in-person interaction between Customs officers and enterprises to reduce officer discretion by adopting ICT and simplification of Customs procedures. The emergence of Customs-business partnerships is also contributing to addressing integrity.

Due to the surreptitious nature of bribery and other corruptive behaviour, strategic diagnostic missions are not the appropriate vehicle for investigating the level of integrity problems. Thus, the Columbus Programme is not in a position to assess the level of Customs corruption. What the WCO diagnosticians are equipped to do is to highlight the trends and patterns of anti-corruption programmes and measures.

Most diagnosed Customs administrations are aware of the Arusha Declaration principles and many have designed Codes of Conduct based on these principles. What is missing

to a large degree are proactive measures. For example, very few administrations have annual surveys of stakeholders to help identify the level of the problem. In addition, very few administrations have offices of internal affairs that are solely devoted to investigating and prosecuting corruption. What we have seen in the majority of cases is that corruption is pursued primarily when evidence of such comes to the attention of managers or when it is exposed by external forces such as the media.

More consideration should be given to publicising corruption incidents and trends, how they are investigated and the related sanctions, by issuing press releases and placing information on the Customs website. This will increase disincentives for employees to commit abuses. In addition, rather than emphasising corruption problems, this approach will symbolize how seriously Customs considers such matters and the skill of its corruption investigators. Administrations should also consider publishing internally the processes to be used to handle allegations of malfeasance by officers.

Rotation Policies

The Arusha Declaration states that Customs administrations should ensure that "decisions on the deployment, rotation and relocation of staff take account of the need to remove opportunities for Customs personnel to hold vulnerable positions for long periods of time." Drawing from this, it has been the habit of development consultants to recommend the geographic rotation of Customs officers. This is a recommendation that requires more consideration of the ensuing complications. Geographic rotation is limited in most of the diagnosed countries. Indeed, these administrations have given significant thought to the consequences. In large countries or countries with border posts in the hinterland, geographic rotation can : create morale problems for employees; significant extra costs for an administration with limited resources; limited impact on corruption; and result in the potential loss of expertise needed by a particular Customs post. Thus, automatic recommendation of geographic rotation should be reconsidered.

CONCLUSION

This first issue of the trends and patterns capacity building report has presented information on observations made by diagnosticians during the needs assessment phase of the Columbus Programme, which is now nearing completion. By June 2007, 100 diagnostic missions will have been completed. The challenge now is the implementation phase, or phase two. This of course is the more difficult activity, where many programmes have failed in the past. Implementation takes longer, is more expensive, and faces greater challenges.

In phase two, the WCO's involvement will be more concentrated than in phase one for a number of reasons. For example, a number of countries are making great progress without a significant need for support from the WCO. Others are receiving substantial support from institutional donors. Accordingly, the early part of the WCO's 2007 phase two strategy will focus on support for a compact number of countries. The pool of these 2007 phase two countries will have been narrowed down, inter alia, by the aforementioned reasons, and will be also be determined by various additional criteria. Most notably, these countries will have shown the political will to modernise. Secondary criteria will include a completed action plan, donor support and funding secured, and a balanced distribution across regions.

FOLLOW-UP

The WCO Members in the early part of phase two will be the pioneer countries for the Columbus Programme. Their progress and pilot activities, will serve as models for other Customs administrations moving forward with implementation.

The WCO is supporting administrations who are seeking to address challenges in many ways. The recommendations

listed in the diagnostic reports are a key component of this assistance. In addition, the WCO is actively providing implementation support in other ways through its international conventions, committee work, tools, and published guidelines.

Assistance will be determined by the individual needs of the Member administration; however it is likely that the primary focus by the WCO will be to assist Members to establish the requisite structures and mechanisms needed to manage their own development and implement change, including :

- Developing project management support
- Building upon and co-ordinating current development projects
- Directing consultancy and advisory missions
- Recruiting specialist support

- Donor co-ordination
- Launching a global development programme for managers
- Intervening at high political levels
- Supporting non-Customs competencies, such as tendering and contracting
- Supporting pilot activities

The WCO Secretariat will also continue to provide :

- SAFE Framework of Standards and other technical seminars
- Time Release Studies
- Technical guidelines
- Sustainable training, technical assistance, and blended learning through regional structures
- Sharing of information and outcomes with WCO Members and donors

All data, charts, and maps in this report were current as of April 2007.

Members requesting the WCO to conduct a Columbus Programme Diagnostic Mission

Afghanistan	Georgia	Nigeria
Albania	Ghana	Pakistan
Angola	Guatemala	Panama
Argentina	Guinea	Papua New Guinea
Armenia	Honduras	Paraguay
Azerbaijan	Hong Kong China	Peru
Bahrain	India	Philippines
Belarus	Indonesia	Qatar
Bahamas	Jamaica	Rwanda
Benin	Jordan	Saint Lucia
Bermuda	Kazakhstan	Saudi Arabia
Bolivia	Kenya	Senegal
Botswana	Kuwait	Serbia
Brazil	Kyrgyzstan	Sierra Leone
Burkina Faso	Lebanon	South Africa
Burundi	Lesotho	Sri Lanka
Bhutan	Macau China	Sudan
Cambodia	Madagascar	Swaziland
Cameroon	Malawi	Tajikistan
Chile	Malaysia	Tanzania
China	Maldives	Togo
Costa Rica	Mali	Thailand
Cuba	Mauritania	Trinidad and Tobago
Côte d'Ivoire	Mauritius	Tunisia
Cape Verde	Mexico	Turkey
Comoros	Moldova	Uganda
Croatia	Mongolia	Ukraine
Democratic Republic of Congo	Montenegro	United Arab Emirates
Dominican Republic	Morocco	Uruguay
Ecuador	Mozambique	Uzbekistan
Egypt	Myanmar	Vietnam
El Salvador	Namibia	Yemen
Ethiopia	Nepal	Zambia
Former Yugoslav Republic of Macedonia	Netherlands Antilles	Zimbabwe
Gabon	Niger	

Phase I - Diagnostic Mission Completed

Argentina

Angola

Bahrain

Bahamas

Benin

Bermuda

Bolivia

Botswana

Brazil

Burkina Faso

Cambodia

Cameroon

China

Congo (Republic of the)

Croatia

Dominican Republic

Egypt

Ethiopia

Gabon

Ghana

Guatemala

Honduras

Hong Kong China

India

Jordan

Kazakhstan

Kenya

Kuwait

Kyrgyzstan

Lesotho

Madagascar

Malaysia

Maldives

Mali

Mauritius

Mexico

Moldova

Mongolia

Morocco

Mozambique

Namibia

Netherlands Antilles

Niger

Nigeria

Panama

Peru

Philippines

Rwanda

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Senegal

Serbia

Sierra Leone

South Africa

Swaziland

Tanzania

Togo

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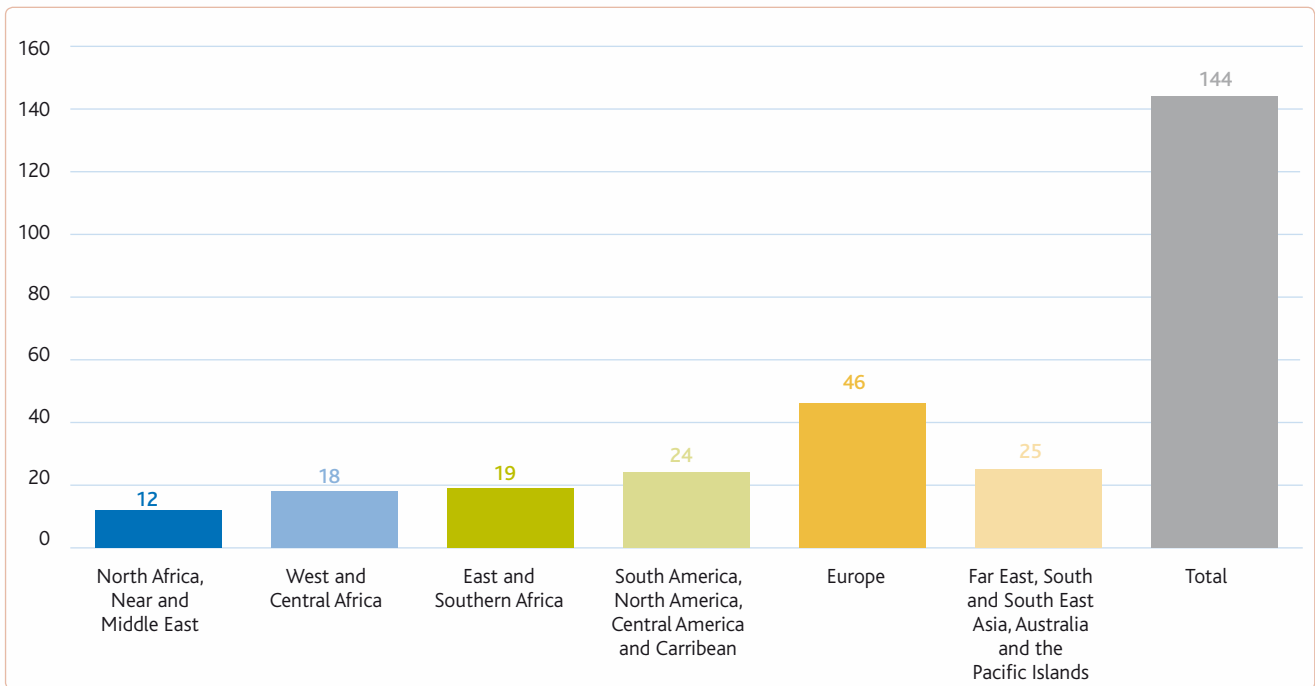
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Uzbekistan

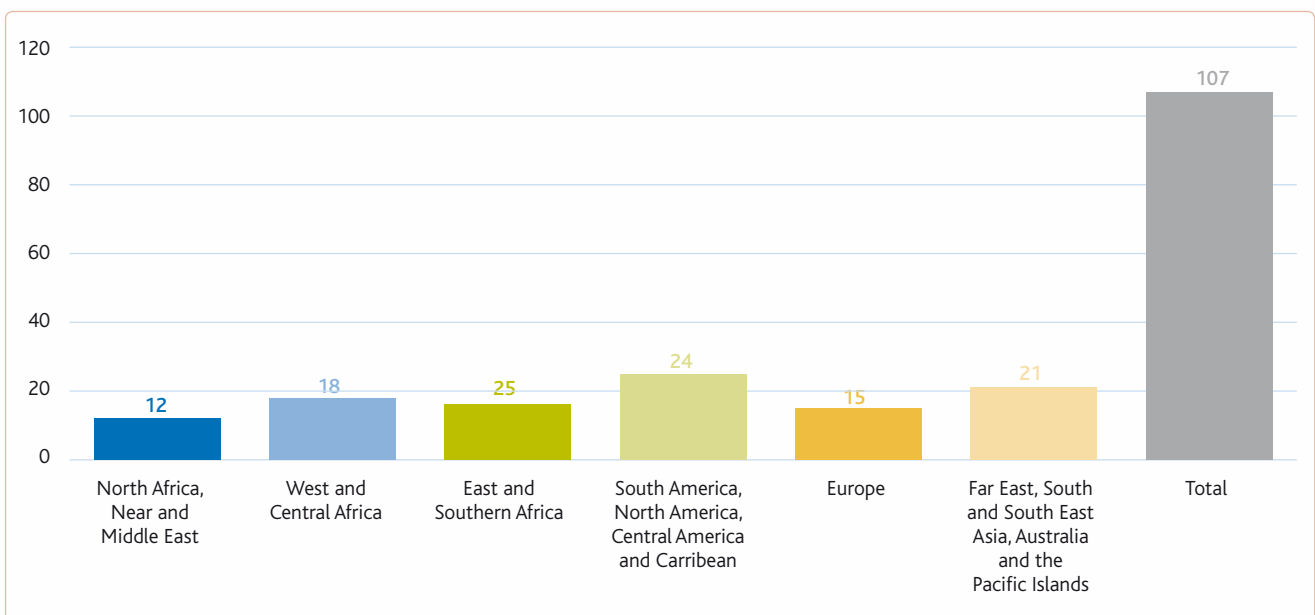
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Zimbabwe

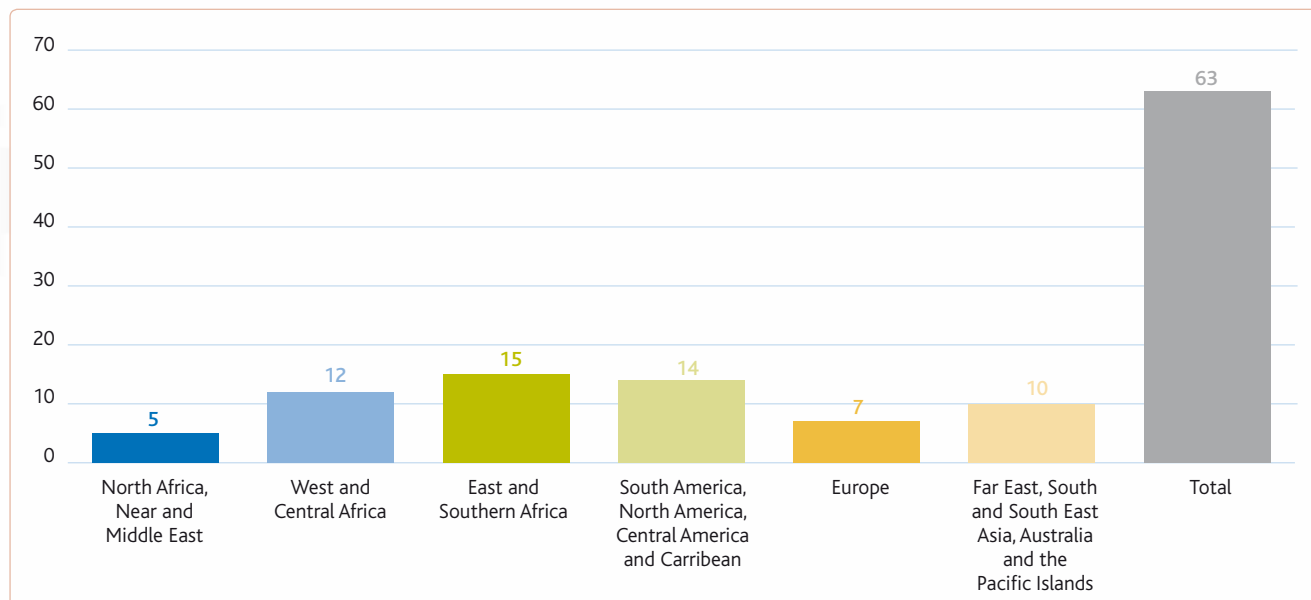
Number of WCO Members Committed to Implement SAFE



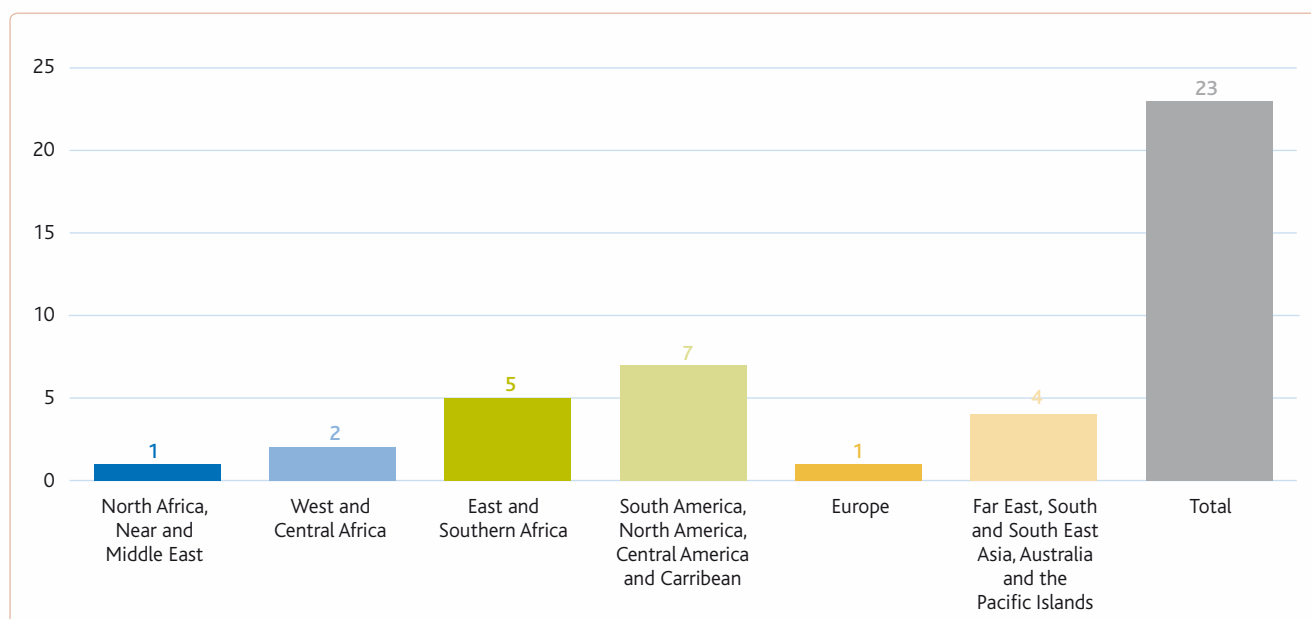
Request for Columbus Programme Diagnostic Missions



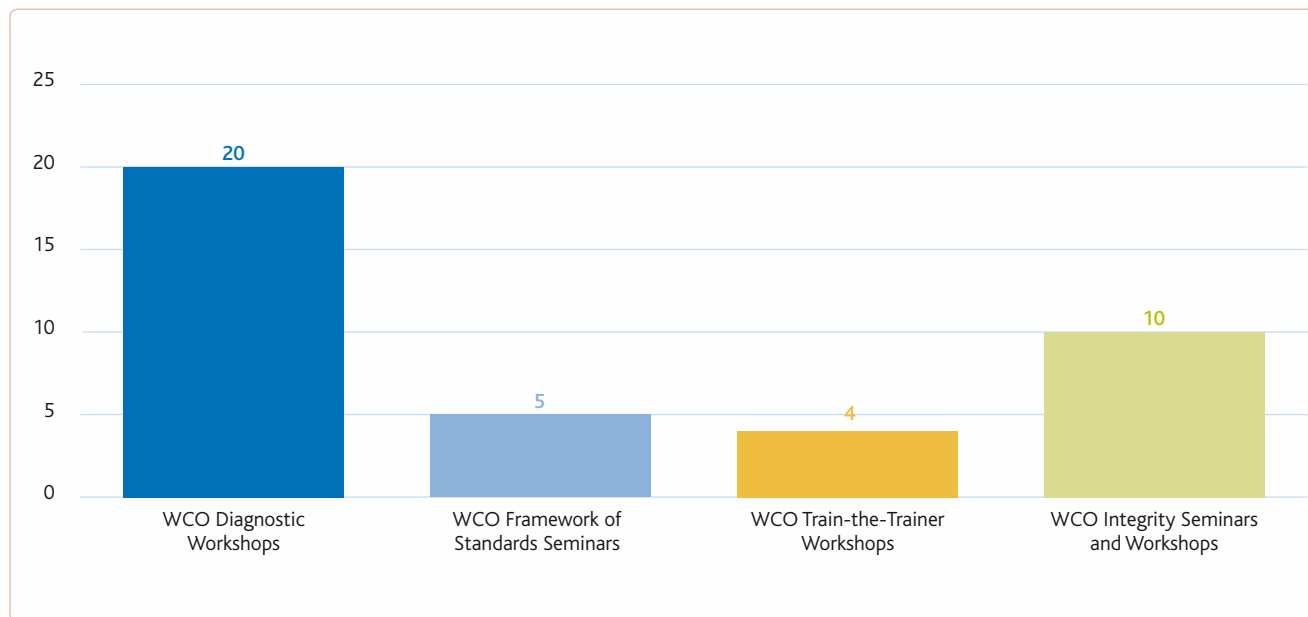
Completed diagnostic missions



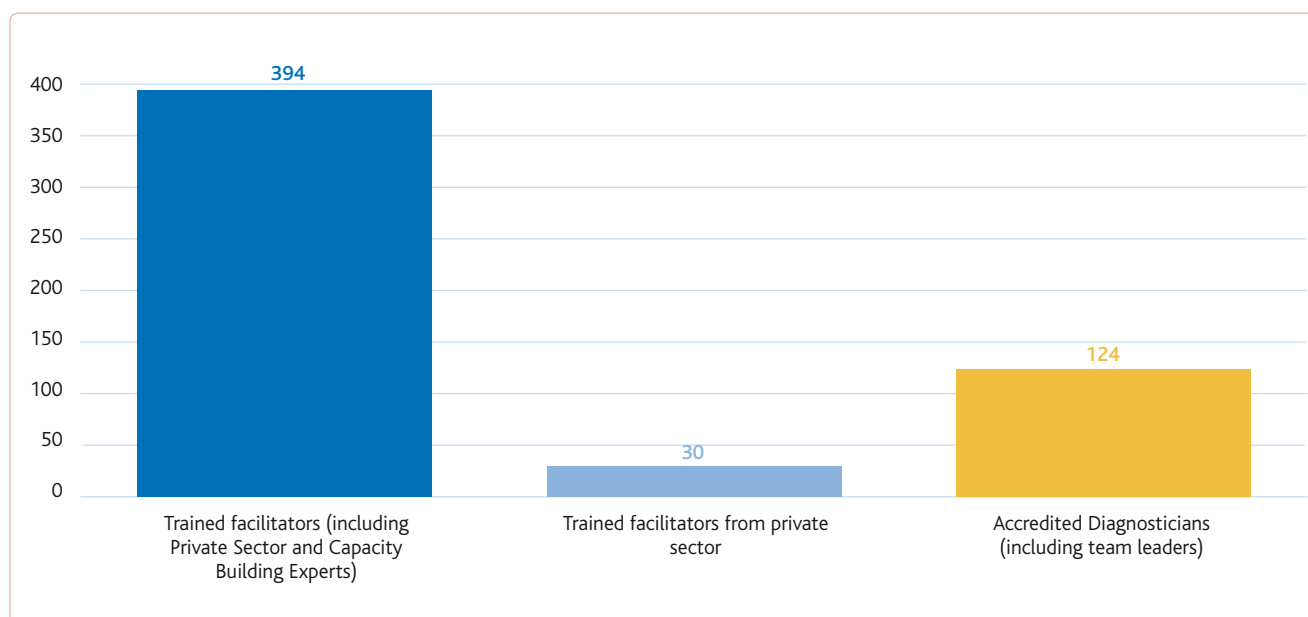
Columbus Programme Phase II (Implementation) Activities



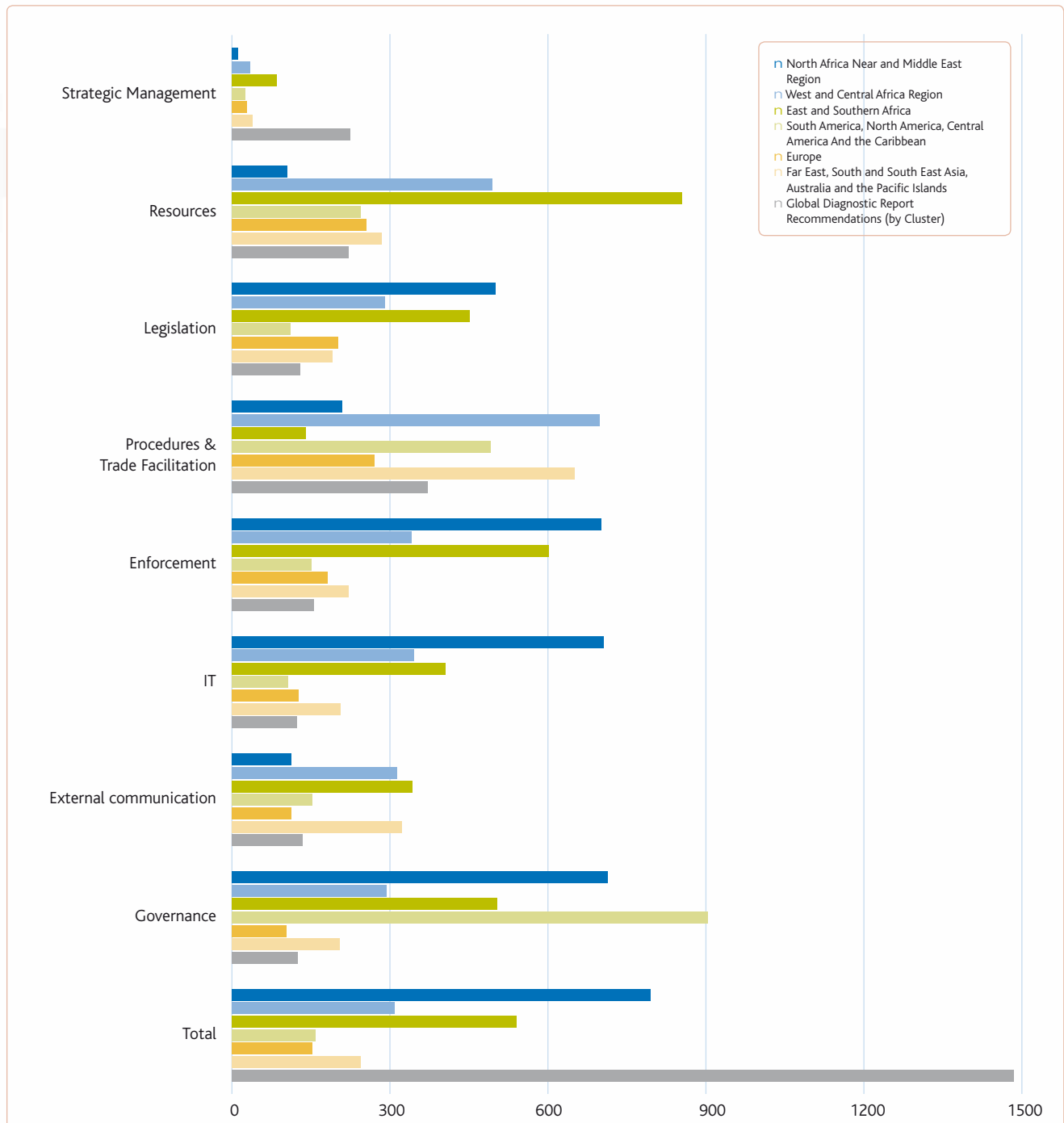
Columbus Programme seminars and workshops



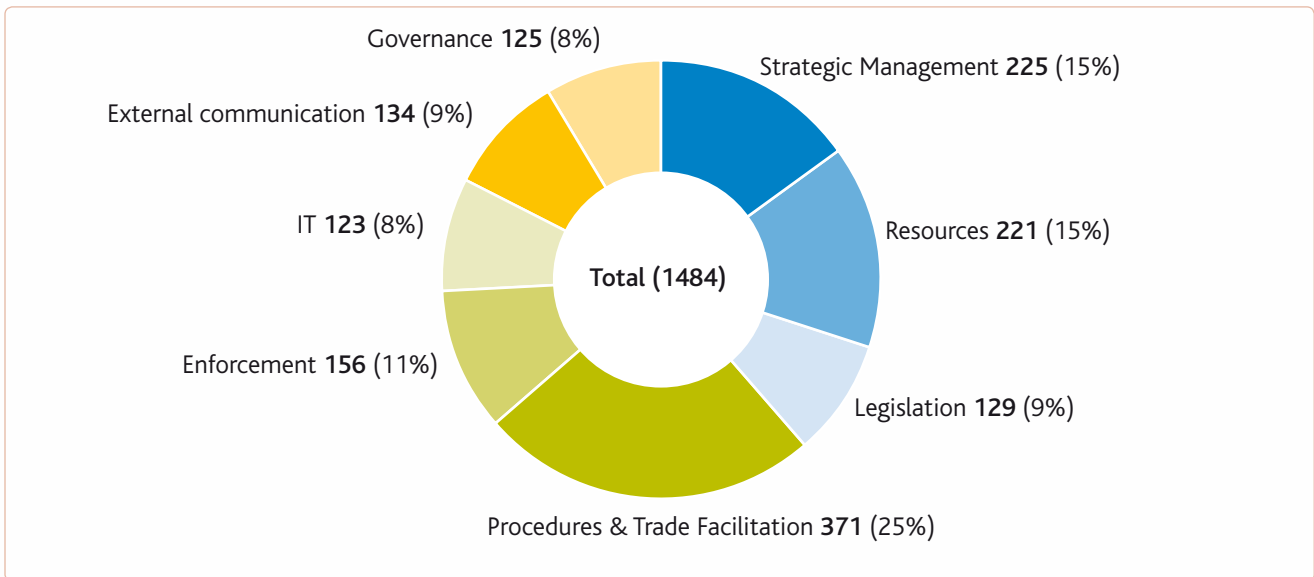
WCO Facilitator Workshops



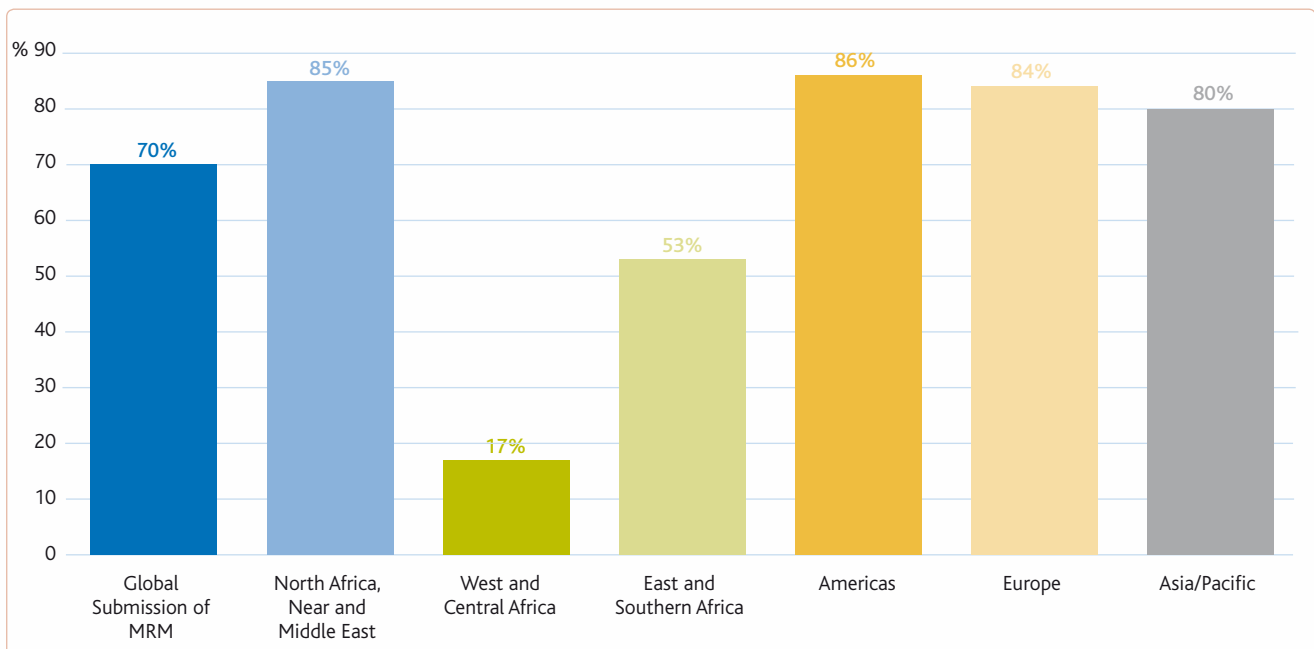
Global Diagnostic Report Recommendations - Clusters by region



Global Diagnostic Report Recommendations - Clusters by global

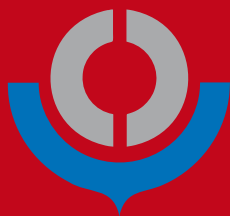


Global and Regional Submission of Monitoring Matrix (MRM)



WCO COLUMBUS PROGRAMME GLOBAL POSITION MATRIX

CURRENT POSITION	Ability and authority to receive and exchange advance electronic cargo information	Risk Management is applied to all imports, exports, and transit goods	Ability and authority to inspect imports, exports and transit goods	Trading community facilitation linked to level of compliance	Level
Current position has been identified	26	18	15	30	1
Implementation plan developed	6	7	7	3	2
Development or pilot projects underway	42	20	13	41	3
Full implementation underway	11	17	17	15	4
Evaluation underway	5	30	34	6	5
Fully meets the SAFE requirements	8	6	12	3	6



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