
CHAPTER 4

Customs Administration

Corruption in Customs: How can it be Tackled?



Introduction

Why is it important to tackle corruption in customs administration in developing countries?

Modern customs administrations perform a number of tasks, including revenue collection, trade facilitation and protection of national borders. Corrupt practices often stand in the way of accomplishing these tasks, actively compromising revenue collection, trade facilitation, and internal security requirements such as trafficking in illicit goods, including weapons and narcotics.¹ Trade taxes—tariffs, excises and import value added tax—account for a significant portion of government revenues, commonly 30-50% of total tax revenues in low-income countries.² In fragile states, customs typically account for an even higher share of total tax revenues. However, estimates suggest that 30% or more of customs revenues are lost in some developing countries due to rampant corruption.³

Corruption in customs affects a country's capacity to benefit from the global economy. This is because corruption in customs delays the processing of imports and exports, increases the costs of doing business, and reduces the competitiveness of firms.⁴ As business and investment decisions by multinational companies are increasingly subjected to international competition, the presence of widespread corruption in customs can act as a major disincentive to foreign investors.⁵ In addition, corruption in customs takes on new significance in the current environment of heightened concern about national security and international terrorism. Sophisticated systems and procedures designed to detect weapons offer little protection if they can be circumvented by bribing customs officials.

What are the characteristics of corruption in customs?

There are few public agencies in which the preconditions for corruption are as clearly present as they are in customs administrations.⁶ Corrupt practices easily materialize in a working environment where officials enjoy discretionary powers over important decisions, and where risk-based systems of control and accountability are absent or easily breached. High tariffs and complex regulations offer

significant incentives for traders to try to reduce import charges and speed up transactions by bribing customs officials to undervalue or under-declare goods.⁷ Many cases of extortion by customs officials are reported where they threaten to use their authority to administer ambiguous tax laws against traders.⁸

As a border protection agency, customs' role is also to prevent the import of illegal goods. Smuggling of drugs and weapons, and large-scale smuggling of alcohol and cigarettes, places customs directly in the realm of organized crime. There is no scarcity of examples where criminals use any means, from extensive bribery to intimidation and violence, to promote their illegal transactions.⁹ Given the high financial stakes, rent-seeking opportunities are huge. In such settings, customs officials may have strong incentives to accept or ask for bribes in the execution of their duties.

Another important characteristic is that the relationship between customs and traders is normally managed through third parties (customs brokers and logistics operators). Over time these third parties may develop close relations with officials and exploit opportunities to act as facilitators of bribes. The participation of intermediaries in these relationships provides additional challenges in terms of communication, transparency, and accountability. For instance, complex procedures for customs clearance in the Philippines in the late 1990s required face-to-face interactions between operators and customs officers in practically all transactions—import entries, export entries, requests for transit and others.^{10,11} Excessive discretion was also common in the management of customs operations in Bolivia.¹² Consignments were selected for physical inspections on a discretionary basis, without the application of objective criteria, and with little use of technical methods. Even with modern, sophisticated clearance procedures, direct contact between customs officers and clearing agents cannot be avoided while goods are being physically inspected. Customs checks carry the risk of being conducted by individual officers, especially in small offices and during night and weekend shifts. Opportunities for corruption are high. Since customs administrations also operate in geographically dispersed, remote posts, with relatively few staff, adequate supervision of a customs office or individual officer is difficult.

Entrenched corruption is likely to affect the human resource management systems. When appointments and promotions are influenced by corruption, this facilitates the formation and maintenance of networks of accomplices. At larger border stations, harbors and airports, corruption may be conducted by reasonably well-organized networks, where trust and reciprocity are found between network members.¹³ Such relationships are likely to reduce transaction costs, as well as any moral costs that may arise from being involved in corruption. The peer networks often function as ‘repositories of knowledge’ for members, for example, on the attitudes of the top management to corruption, how the internal monitoring unit works, and who is potentially bribable among staff members and management. Establishment of a corruption network affecting an entire customs office is not unknown.

Political interference is a major concern

In some countries, customs administration has been an attractive target for political interference.¹⁴ This is because it offers both relatively well-paid jobs and considerable rent-seeking opportunities.¹⁵ Political control over the customs administration can pay high political dividends.¹⁶ Politicians may intervene in customs to grant favors, such as attractive managerial positions and tax exemptions to supporters, or to harass political opponents through excessive audits and delays in the clearing of goods. A recent study from Tunisia, for example, found that firms owned by the then president and his family were more likely to evade import tariffs. Tariff evasion in Tunisia led to considerable fiscal losses, and resulted in substantial competitive disadvantages for companies not aligned with the president’s family.

Experiences from some developing countries demonstrate that the public sector may become an instrument for the political elite to build public support based on patron-client reciprocity.¹⁷ Patronage undermines the implementation of policies and rules-of-law more generally. For instance, distribution of civil-service positions based on non-meritocratic criteria results in a civil service less apt for the task with which it is charged.¹⁸ Meritocratic recruitment and promotion are overshadowed by the politics of *who knows whom*.¹⁹ Clientelistic structures and patronage may pervert integrity and modernization reforms. The absence of a cadre of committed professionals and managers, structured in a robust civil-

service career plan, affects the continuity and resilience of reform and modernization efforts after changes in top leadership.²⁰ It also offers opportunities for the appointment of key strategic customs management positions based on political alignment. In April 2015, the International Community Against Impunity in Guatemala accused the political elite of the country to be part of a sophisticated network of corruption and smuggling in customs. The corruption scandal (“The Line”) became famous due to the mass protests that ultimately led to the resignation, investigation and arrest of then President Otto Pérez Molina.²¹

The role of family and social relationships must not be underestimated

Customs officers and managers may also remain under the strong influence of traditional patterns of social relations and kinship.²² These relations operate at cross purposes to the formal bureaucratic structures and positions. The informal traditional system may rule over the formal “modern” one. Because ordinary citizens perceive that customs officers receive high salaries, extended family members expect to get their share of the high wages (and rents acquired by other means). A person in a position of power is expected to use that influence to help his or her kin and community of origin. It is one’s social obligation to help and share.

In such cases, customs staff are seen by their family members and social networks as important potential patrons who have access to money, resources, and opportunities that they are morally obliged to share. To accumulate, even in corrupt ways, is not necessarily perceived to be bad in itself. It is accumulation without distribution which is considered unethical.²³ Only someone who accumulates can redistribute and be identified as “a man of honor”.

It is also in the customs officer’s own interest to help others because he or she might be the one who needs help the next time around. Thus, a manager in the customs administration may “forgive” a customs officer who is caught taking bribes or embezzling money, because next time he or she may be the one who needs forgiveness. Instead of being fired, common practice in some countries is to transfer customs officers detected for corruption to other positions within the revenue administration.²⁴ Favors of this kind may also

be understood as a way of consolidating and building social capital. In other words, customs officers are building up networks made up of family, friends, and acquaintances that are based on trust and reciprocity as a way of banking assistance for the future. The larger the network, the greater the accumulation of social capital that can be drawn on in a future time of need. One possible explanation for the persistent corruption in customs administrations in some countries may be the fact that people at the middle and low end of the political-economic spectrum are just as involved in vertical networks of patronage as the elite patrons who benefit the most.²⁵

What do we know about fighting corruption in customs?

Recent international reports and declarations have sought to address the problem of corruption in customs administration, but effective reform measures are not easy to implement. The Revised Arusha Declaration provides a global framework to address corruption in customs and increase the level of integrity of customs officials for World Customs Organization (WCO) members.²⁶ There are only small differences between the *WCO Arusha Declaration*²⁷ and recommendations by other international organizations such as the IMF's integrity paper *Practical measures to promote integrity in customs administrations*,²⁸ and the OECD's²⁹ report *Integrity in customs. Taking stock of good practices*. They all emphasize that there is no quick solution to the problem of customs corruption

and that a comprehensive approach is needed. These documents identify a number of factors that contribute to high integrity in customs administrations. However, they provide less insight into how to implement measures to reform a corrupt administration.³⁰

How does the principal-agent relationship play out in practice?

Much of the policy debate on anti-corruption strategies in revenue administrations is rooted in the principal-agent (incentive) theory. Klitgaard's³¹ popularization of this approach has been widely promoted and applied in a number of developing countries during the last two decades, as reflected in the World Bank's *Customs Modernization Handbook*.³² Klitgaard's work has also been used extensively in the development of the *Revised Arusha Declaration on Integrity in Customs*, as well as in a range of the WCO's integrity-related tools.

Policy instruments need to be directed at both the incentives and opportunities for corruption. Following Klitgaard,³³ corruption is most likely to occur when agents (customs officers) enjoy monopoly power over clients (traders), when agents enjoy discretionary decision power over the provision of services (for instance, assessments of origin, value and classification of goods), and when the level of accountability is low. At the theoretical level, this approach explains how customs officers have a number of incentives and opportunities for engaging in corrupt transactions. At



the more practical policy level, the approach indicates that policy instruments may be divided into those which influence the number of corrupt opportunities, and those influencing the incentives. This includes policy instruments that affect the expected (gross) gain of the corrupt act, the probability of being caught, and the size of the penalty if detected. If the expected gains of corruption are higher than the expected costs, the agent will, according to the theory, choose to be corrupt. For example, the expected gain for customs officers is higher when they have wide discretionary powers and considerable monopoly power in their jobs.

Understanding the role of the principal reveals a major difficulty in implementing reforms. While the principal-agent-client model is a useful analytical framework to explore incentive problems in customs and other public agencies, its dependency on the role of the principal reveals one of the greatest obstacles to reform. There are (at least) two objections to this approach: First, there may be several principals involved, each with incoherent objectives and interests. Second, the principal(s) may also be corrupt and not acting in the interests of society but pursuing his or her narrow self-interests. Thus, part of the explanation why anti-corruption reforms in countries plagued by widespread corruption fail, is that they are based on a theoretical mischaracterization of the problem of systemic corruption, taking the existence of non-corruptible principals for granted. Thus, Persson *et al.*³⁴ argue that in thoroughly corrupt settings, corruption rather resembles a collective action problem.

How important are social norms and informal practices?

Collective behaviors like corruption can be sustained by social norms. These norms are rooted in “shared understandings about actions that are obligatory, permitted, or forbidden within a society”.³⁵ Such norms provide the unwritten rules of behavior. Especially when formal rules such as laws fail to regulate conduct, as is often the case in countries riddled with corruption, social norms structure many social interactions by dictating the rules of the game.³⁶ Thus, there may also be social sanctions for violating these norms.³⁷

Informal practices are pervasive in some countries. These practices decisively shape the interactions among power networks of political and business elites

and influence how state actors relate to the general public.³⁸ What makes such informal social networks relevant in the context of customs reforms is that they generate strong moral imperatives, including a sense of obligation to provide mutual assistance and reciprocity for favors given, which go above and beyond any consideration for the formal legal framework.

Efforts to address these factors have not always been successful

Addressing the root causes of corruption goes beyond legal and regulatory reform. A major challenge to the effectiveness of mainstream anti-corruption technical assistance is that it usually does not take into account the evidence that corruption often is deeply embedded in the norms and expectations of political and social life.³⁹ Even if most customs officers may morally disapprove of corruption and are fully aware of its negative consequences for society at large, few rational actors have a clear-cut interest in establishing or defending clean institutions. The functional relevance of informal practices also points to the problems with the tendency to address corruption by means of adopting tougher formal laws. An adequate legal framework is, of course, important to establish, and so are measures to reduce opportunities for corruption, including simplification of processes and rate structures, automation, etc. But laws and regulatory reforms must also be supplemented with other approaches that address the root causes of corruption. Otherwise one risks ending up designing and implementing reforms that have little impact on the incidence as well as perception of corruption. Misalignment of legal practice and ethical norms may result in mere law-based compliance and “lawful, but awful” practices.⁴⁰

Important progress can be achieved through modern compliance management. Beyond the update of the legal framework and simplification of procedures, modern compliance management demands that customs administrations not only identify and sanction non-compliant behaviors but also promote transparency and provide better guidance, as well as recognize compliant operators and offer different treatment (e.g. the Authorized Economic Operator Programmes). The adoption of modern risk-based compliance management changes the relationship model with the private sector and traders and contributes to integrity improvement.

Would private management and outsourcing of revenue collection be an option?

Development agencies have in some cases helped fund what might appear to be experiments in the privatization of tax collection.⁴¹ Historical evidence⁴² and more recent experiences from developing countries, including Angola and Mozambique⁴³ give reason for concern: such reforms have achieved few sustainable results; the transfer of skills has been limited and the contract has been expensive for the government. Tax practitioners are therefore increasingly questioning the value of outsourcing customs administration. Outsourcing of some customs activities, for instance, verification, convoy security and warehousing, might be appropriate, though experience suggests it may be expensive and susceptible to corruption especially in a medium- to long-term perspective. Outsourcing of other activities, such as valuation and entry processing can also be challenging, since it places the collection of government revenue directly into the hands of non-government interests.

Pre-Shipment Inspection (PSI) programs have had mixed results.

During the past three decades, several developing countries have adopted PSI programs to improve the efficiency of tariff collection, and to fight customs administration corruption.⁴⁴ In these programs, the inspection of imports is outsourced to a private surveillance company (a PSI firm). Foreign PSI-inspectors are tasked to verify the tariff classification and the value of individual incoming shipments before they leave their countries of origin and forward this information to the client government. Pre-shipment inspection aims to complement information provided in customs declarations and is used to evaluate customs duties. This additional information is expected to limit the discretionary power of customs officers and thus be an efficient means of reducing customs corruption. Experiences with PSIs are mixed. In a study covering 19 developing countries that have implemented PSI, Yang⁴⁵ finds that these programs increased import duties on average by 15-30% during the first five years. However, Anson et al. (2006) find less clear-cut results; PSI programs may decrease or increase fraud. This is consistent with Dequiedt et al.⁴⁶, who find that entering a PSI program is not optimal for all countries. They conclude that for countries with a high level of corruption, PSI programs are not the solution. In highly corrupt environments, there is no reason to believe that private interests are any less corrupt or more transparent in their dealings than staff of the customs administration.

Should customs officers' salaries be increased?

Some scholars argue that increasing civil service wages will reduce corruption.⁴⁷ The basic idea is that a rise in the tax collector's salary is like an increase in the fine for bribery, since that is what (s)he will lose if detected and fired. Van Rijckeghem & Weder⁴⁸ find that corruption seems to be lower in countries where bureaucrats are relatively well paid compared to private sector employees. However, in order to eliminate corruption, very large increases in salaries are needed⁴⁹ and this is not socially acceptable because customs officers are already the best paid of public service employees in most low-income countries. Hence, fighting corruption only on the basis of wage incentives may be extremely costly to the authorities both financially and politically, and will most likely have limited impact if not combined with other measures such as improved auditing and monitoring of tax officers.⁵⁰ This is also reflected in experiences from reforms in Tanzania and Uganda.⁵¹ Despite a dramatic increase in pay rates in the revenue authorities compared to normal rates in the public sector, it was not enough to compensate the tax officers for the expected gains from corruption. This argument is supported by Foltz & Opoku-Agyemang.⁵² Based on detailed survey data and experimental evidence from West Africa, they find that the salary reform generally worsened petty corruption, caused by the increased effort by civil servants to get bribes, which made them increase the value of each bribe taken. The results suggest that merely raising salaries without changing the context and incentives within which civil servants operate will not have the desired effects on corruption.

Raising salaries to combat corruption fails to fully recognize the important role played by social obligations.

Economic research on human behavior also indicates that reformers and economists have an inclination to exaggerate the impact of monetary incentives because of a too narrow understanding of intrinsic motivation and group dynamics.⁵³ It is a well-known fact in sociological management theory that workplaces are social environments and that people in them are motivated by much more than pure economic self-interest.⁵⁴ An additional aspect of wage incentives that has received little attention in connection with institutional reforms in developing countries is associated with the role of family networks and obligations (as mentioned above). Increased pay rates may in some cases also imply more extensive social obligations, which in turn may lead to an actual net loss to the individual.⁵⁵ This state-of-affairs can develop into a vicious circle with higher wages leading

to more corruption because the tax officer has to make up for the loss caused by such obligations.

The international customs community has recognized that integrity development cannot be addressed exclusively by incentives associated with higher wages. The WCO advocates a comprehensive approach for customs professionalism, addressing relevant aspects of management of people (long-term attractive career plan, competency-based human resources management, merit-based recruitment and promotion, including for key management positions,

and a robust human resource development plan that should address adherence to desired values and attitudes) (see the Madagascar and Afghanistan case studies). It is important to build an *esprit de corps*, with a common spirit of purpose, devotion, observance of institutional values and a collective commitment to guard integrity and report corruption cases. In addition to the customs staff, it is important to work with traders and other operators and establish clear rules for expected behavior, for instance through joint development of codes of conduct with customs brokers.

What is needed to reduce corruption in customs?

Making customs reforms part of a broader reform of the public sector

Rwanda and Georgia are two success stories, where customs reforms were not carried out in isolation. There have been many prescriptions and initiatives on how to tackle corruption in customs, but the results have often been disappointing. However, there are a few success stories, with Georgia and Rwanda as notable cases. In Georgia, the tax code was simplified, including the elimination of many tax loopholes and a reduction in the number of taxes and import tariffs.⁵⁶ One-stop windows were introduced for customs clearing procedures. In Rwanda, reforms led to significant improvements in collection efforts and auditing procedures. The tax and customs reforms in these countries were not implemented in isolation but were part of larger and radical reforms of the public sector.⁵⁷ The reform packages involved a drastic reshaping of the bureaucracies. Discredited public agencies were dismantled and replaced with new ones based on principles of leaner bureaucracies and administrative simplification. The new rules were strictly enforced based upon effective monitoring mechanisms and little or no tolerance of deviations. Thus, the opportunity space to engage in corrupt practices was dramatically reduced.

What can we learn from the cases of Rwanda and Georgia? The experiences from Georgia and Rwanda are, of course, context specific and refer to

particular events in the two countries' history. In both countries a new leadership came to power who was not dependent on informal ties and obligations to the networks associated with the previous regimes.⁵⁸ Still, some lessons of broader relevance can be identified. In both countries, a combination of measures addressing the broader social and political roots of corruption and technical measures based on the principal-agent framework were applied.

- 1. Send a clear signal from key leaders.** Leaders at the top can provide a strong signal that there is a "new order" under which corruption is no longer tolerated. Changing norms from the top is challenging. However, they can happen when specific events open a window of opportunity in which to take advantage of social discontent with the status quo.⁵⁹ Opportunities to establish pro-integrity norms within institutions are not always triggered by revolutions such as the one in Georgia. They can also be created by a whistleblower exposing corruption, a major political scandal, or public frustration with ineffective anti-corruption efforts (as described above in the case of Guatemala).⁶⁰ When these opportunities arise, it is important to "seize the moment". Incentives and interests matter for potential reform, and leaders may only support reform if it is in their interest to do so. Thus, reformists need a strong understanding of the underlying political economy of a country and of the interests and incentives that influence

key leaders who may be in a position to flip norms and instill a sense that corrupt practices are no longer tolerated.

2. Create a new organizational culture that values integrity.

If provided with the autonomy to do so, pro-integrity leaders and managers in customs can demonstrate exemplary behavior, build up organizational values, and create an environment where it is safe to challenge norms. Shared responsibility and a sense of moving together are important in creating a new organizational culture. Getting everyone on board may require some additional resources. For example, support for a new human resources management system may be important in establishing more secure employment arrangements. When an individual cannot be certain of future income, this insecurity may heighten the influence of horizontal pressures to engage in self-enriching acts,⁶¹ a situation that is not conducive to normative shifts within organizations. Strengthening employment security may provide a basis for nurturing a culture of integrity over the long term.

3. Establish ownership of the reform within the revenue administration.

Ownership of the reform among the officials involved in reforming the revenue administration is a critical issue for sustainability. An administrative reform is unlikely to succeed if the main source of energy and leadership for it comes from outside. A locally grounded policy intervention is also less likely to have unintended side effects. International development agencies should therefore not play a leading role and they should not dictate the content, pace and direction of the reforms. Integrity reforms are often highly political processes that may pose a threat to important local stakeholders. Thus, a strong and well-placed leadership of the customs administration is essential for overcoming the political and bureaucratic obstacles it is confronted with.

4. Design mechanisms that create a balance between simplification and controls.

Opportunities for corruption in customs and border control can be reduced by designing mechanisms that create appropriate incentives, limit discretion by public servants and include enhanced controls (see Box 4.1 for experiences from some Latin American countries). It is important to establish a balance

between easing red tape, such as simplification of trading procedures, and having appropriate controls, while taking into account the local context and inherent risk areas.⁶² Relevant actions of a technical nature include:

- processes that reduce compliance costs and are based on a risk-based approach;
- effective internal audit units;
- revenue administration processes that are digitalized and automated (including an automated system of internal controls and risk assessment); and
- ongoing performance assessments of relevant tools, procedures and controls

Providing ongoing education and training

The education and training of staff are identified as important factors affecting customs performance, and key to building technology absorption capacity, as well improving the transferability of skills.⁶³

Regular training of customs officers has been particularly important when introducing new electronic systems, such as customs management systems or national electronic single windows. A comparison among regions of the average time for export clearance shows that requiring a college degree is not necessarily associated with better customs efficiency.⁶⁴ Many other variables impact the efficiency of customs procedures, such as technology, legal support and infrastructure. However, customs administrations that offer regular training for customs officials have shorter customs clearance times than those that do not.⁶⁵ The World Bank's *Doing Business* data indicate that the average time required to clear customs (for both exports and imports) is about 34% lower in economies where customs officers receive regular training compared to those where no regular training is provided. Sub-Saharan Africa and the Middle East and North Africa are the regions where the difference in clearance time is largest between economies where regular training is offered and where it is not.

Introducing individual performance contracts

Implementation of reforms can be strengthened through individual performance contracts. A

BOX 4.1

Standard Operating Procedures and Internal Audit Capacities in Latin America

The customs administrations in Chile, Uruguay, Peru, Paraguay and Bolivia have adopted quality management as part of their integrity strategy. They have invested in the implementation of standard operating procedures and internal audit capacities to ensure consistency, improve the quality of service provision, and better frame the application of discretionary powers and accountability. A common feature in these administrations has been the adherence to ISO 9001 standards for selected procedures.

For further information see:

<https://www.aduana.cl/aduanas-mantiene-y-amplia-certificacion-iso/aduana/2014-08-28/181638.html>

<http://www.sunat.gob.pe/legislacion/aduana/certiso9000.htm>

<https://www.aduana.gob.bo/aduana7/content/aduana-obtiene-certificaci%C3%B3n-iso-90012015-para-su-archivo-central-de-regional-santa-cruz>

major problem identified in recent studies is that reforms often do not cascade to the level of frontline officers due to an information asymmetry between the senior management of customs and frontline officers.⁶⁶ Recent experiences from Cameroon and Madagascar demonstrate that the hierarchical link can be strengthened by individual performance contracts.⁶⁷ A performance contract is a formalized agreement between the customs managers and the customs officers. It has at its core a system of non-financial incentives and sanctions to be applied to an individual officer's performance.⁶⁸ The contracts detail the results that must be met by individual customs officers in a specific period of time for a set of specific indicators. The indicators go beyond the revenue targets fixed by the government to include organizational and good practice issues. Customs officers who are successful in meeting their performance goals will receive mainly non-financial incentives such as options to participate in training courses and congratulatory letters from the management that are put in the officer's permanent file and disseminated publicly to provide wider recognition. If the performance contract commitments are broken, warnings are issued of possible disciplinary action if performance does not improve.

The effect of the contracts program on trade facilitation has been positive in Cameroon and Madagascar. The volume of declarations processed generated substantial improvements in revenue

collection and reductions in clearance times. Further, customs officers seem to have become more aware of their responsibilities, and the relationship between customs agents and their managers has improved. One important insight from these experiences is that administrative reforms in customs is about behavioral change, which requires internal leadership who is trained to use the internal performance measurement policy. Individual performance measures and the threat that poor results can be measured, compared and publicly released, may protect senior managers from appointing officials as subordinates in their units based on political allegiance.⁶⁹ It also requires cooperation with external control authorities and consultations with private sector operators and intermediaries that provide services to traders.

Incentivizing stakeholders to make customs administrations accountable

Another insight from these experiences is that motivation for reform must also come from taxpayers and traders. Business communities, import-export associations, clearing agent associations, and other influential stakeholders have a critical role to play in pressuring the customs administration to do a better job of serving society. It is important to provide incentives for stakeholders in the private sector to adopt anti-corruption policies and practices, and to

collaborate with customs and other relevant public sector actors to identify integrity vulnerabilities and appropriate mitigation measures. Establishment of formal spaces between customs and the private sector for exchanging information and reporting complaints might be an effective trust-building device.⁷⁰

The customs broker profession is evolving.

Customs brokers play a crucial role due to their in-depth knowledge of the industry, customs laws, tariffs and regulations.⁷¹ Brokers are often the only channel through which domestic companies can sell their goods internationally. By hiring an agent, firms gain access to international markets without incurring the

upfront costs and risks associated with searching for new markets or negotiating deals. The internet and e-commerce are prompting customs brokers to offer more sophisticated services rather than merely filing documents for customs clearance. These insights are echoed in several recent studies,⁷² with the WCO recommending that modernization and customs reforms are accompanied by the required training and sharing of information between the government and brokers. Box 4.2 illustrates how this has been put into practice by the Uruguay Customs Administration. In addition, the International Trade and Customs Broker Association recommends capacity-building for brokers through certification programs and examinations.

BOX 4.2

Comprehensive Modernization of Customs: The Uruguay Case

From 2010 onwards the Uruguay Customs Administration embarked on a comprehensive modernization program with a number of complementary projects that included further automation and adoption of technology (e.g. electronic filing system, single window (*Ventanilla Única de Comercio Exterior*), risk management, electronic seals, and a cargo tracking and tracing system); improvement of management systems and procedures (strategic planning, project management and business processes management, establishment of a results framework and monitoring system); development and professionalization of customs staff (including the update of career plans and review of salaries, a performance based incentive system and management agreements); renovation and maintenance of customs infrastructure (which raised internal morale).

One of the highlights of this development cycle was the cooperation with the private sector and customs brokers to tackle integrity. The Customs Administration implemented a communication strategy (with public campaigns and open doors policy to disseminate information and raise awareness of how customs works); developed a Code of Ethics and Conduct; and established procedures for reporting integrity breaches.

The Customs Administration signed 11 Integrity Agreements with private sector associations and representatives, making explicit the expected behaviors and commitment with a set of values. Communication channels were established to address concerns and manage conflicts.

A strategic Public and Private Sector Consultative Forum was established, which also supported the development of the Authorized Economic Operator (OEA) program.

The Customs Administration implemented regular anonymous perception surveys to traders on the quality of services rendered by the administration. The perception of integrity and the reputation of the Customs Administration have improved after the reform and modernization program.

Coordinating and sharing information with relevant authorities

Since tax crime and corruption are often linked, tax and law enforcement authorities can benefit from more effective cooperation and sharing of information.⁷³ Improving the sharing of information on international trade could also help to reduce corruption in customs. International cooperation is becoming an increasingly important element in anti-corruption

efforts and in building stronger institutions.⁷⁴ More countries are following the example of the US *Foreign Corrupt Practices Act*, which makes it an offense for US firms to pay bribes to get business abroad. These efforts include coordinated action through international initiatives, such as the OECD Anti-Bribery Convention. However, enforcement by individual countries has been uneven, and the flow of information between countries is slow and unreliable, making it harder to investigate and prosecute corrupt acts.⁷⁵

‘How to’ matters a lot

Taking a measured approach to reforms

Overambition has been cited as a common cause of project failure in various countries.⁷⁶ This does not imply that governments should keep the scope of customs administrative reforms limited. But when governments decide what measures to take as part of their reform programs, they should bear in mind the state of the economy and the resources at hand. Most developing countries have neither the political capital nor the administrative capacity to sustain more than a limited range of concurrent initiatives. An incremental process of change can add up to a radical transformation if it is sustained long enough. Nevertheless, experiences from Madagascar suggest that ‘quick wins’ in the form of fast revenue growth might be necessary to establish credibility and trust in customs reforms.⁷⁷

and inevitable part of the process. The big challenge is to use failures as learning opportunities, rather than as excuses for abolishing reforms.

Understanding the prevailing environment

Anti-corruption efforts require an understanding of the norms and incentives of key players and should therefore be based on thorough analysis of the customs administration and the environment of which it is a part. Baez-Camargo & Passas⁷⁸ argue that a nuanced understanding of the political economy of corruption will help practitioners to recognize that, in the “challenging” cases, we are confronted with complicated systems comprising powerful and tightly interwoven interests; this calls for an evidence-based, systematic, and collective response. Understanding social normative pressures in a given context can help practitioners design interventions to relieve those pressures, allowing collective behavior to change.⁷⁹ While it is well documented that peer networks can impose social pressure to engage in corruption, such networks can also be employed to mitigate the same pressures.

Encouraging stability of leadership and management

Sustainable change demands sustained effort, commitment and leadership over time. In the countries referred to in this chapter as examples of progress, like Uruguay, Georgia, Madagascar and Rwanda, the modernization process was strongly supported by a management team that remained in place for longer than usual or by a cadre of middle managers that obtained support and sustained the initiatives even when there were changes at the top management and executive levels. Reformers need political backing, and one must accept that some initiatives will fail. Mistakes and setbacks are a normal

Adopting a whole-of-government approach

The international customs community, represented by the WCO, advocates that integrity reforms should be placed at the highest policy level, and should have a whole-of-government approach.



This would require the commitment of other external control authorities (such as the police, prosecutors and judicial power) and also private sector operators and intermediaries that provide services to traders. The development strategies should be comprehensive (as proposed by the Arusha Declaration) and sufficiently resilient to be sustainable when the top leadership of the customs administration changes.

Building integrity on a broader scale

The reform strategies discussed above should take place in the context of wider efforts to build integrity through increased enforcement of anti-corruption legislation, and better checks and balances targeting the customs administration and the private sector.⁸⁰ Such efforts include:

- Simplify the tariff structure to the maximum with a limited number of tariff peaks and variation within harmonized classification chapters.
- Continue to commit to transparency and anti-corruption requirements through trade agreements.
- Enforce the *Convention on Combating Bribery of Foreign Public Officials in International Business Transactions* to dissuade businesses and individuals from engaging in corrupt cross-border transactions and encourage the world's major exporters and investors to ratify the Convention.
- Implement effective internal management tools in the administration and ensure transparency and accountability in internal procedures.
- Incentivize the private sector to be more transparent and push for integrity within private sector associations.

Conclusion: How can the fight against corruption be further strengthened?

As a first step, it is important to understand how things actually function in the specific context, independently of how we would expect customs to perform according to good governance logic.

This calls for more robust analysis of country and local contexts. Anti-corruption efforts require a thorough analysis of the customs administration and the environment of which it is a part, in order to understand the norms and incentives of key players.

Based on this analysis, a two-pronged approach to reform needs to be adopted.

The first prong relates to the development of policy instruments that are directed at both the incentives and opportunities for corruption. Unless customs officers recognize that the penalties for being caught are much more severe than the potential gains, they are going to continue to take the risk. This, of course, requires enforcement of the rules, which depends on the willingness at the top to eradicate corruption. In addition, the current structure of most customs administrations is not conducive to the implementation of reforms as the principal-agent-client model places too great an emphasis on the role of the principal. New approaches to address this situation need to be explored.

The second prong must go beyond legal and regulatory reform to address the root causes of corruption.

Many efforts to adopt stricter rules for customs administrations have failed because the informal practices have continued. Changing culture and mindsets is much more difficult than bringing in new regulations because social norms are deep rooted.

The experiences of Rwanda and Georgia, in particular, provide guidance on approaches and actions that have been successful.

It is important that customs reform be part of a broader reform of the public sector with a clear commitment from the country's leader that corruption will not be tolerated. This message is then taken on board by the leadership of the customs administration, who tries to inculcate a new organizational culture that values integrity. Where this leads to ownership of the reform by the customs administration, the sustainability of the reforms can be achieved.

In addition to ownership, several other measures can promote sustainability.

Reforms can fail because enthusiasm wanes and people return to their former practices. It is therefore essential that training become a key component of each officer's work program. Given the increasing use of technology, which can also reduce the opportunities for corruption, officers must be adequately trained to ensure that such technology facilitates their work rather than becoming a burden. Other measures include (i) performance contracts that provide incentives, albeit largely non-financial, to individual officers who meet their work objectives, and (ii) incentives to stakeholders in the private sector to adopt anti-corruption policies and collaborate with customs to build trust and stamp out corruption.

Successful reforms in customs administrations are not achieved overnight.

Reformers must keep this perspective in mind and not be discouraged when they face challenges in implementing their reforms. Nevertheless, significant progress can be made if the foundation blocks discussed above are put in place at the beginning of the process. Should unexpected difficulties arise during implementation, senior leadership will need to identify the root cause and make adjustments that will bring the reform back on track. Thus, achieving the goal of tackling corruption will require both time and a strong commitment from senior leadership.