Governance Analysis Toolkit for Customs and Border Management

Economic Commission for Europe
Inland Transport Committee
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The corruption complex

We always talk about tough anti-corruption and zero-tolerance, but what really delivers is good enough governance

- Anticorruption approaches subjective and appear to retard Trade Facilitation:
- Corruption measurements difficult; need proxies and even these difficult to monitor and evaluate
- Often TI CPI and DB plus anecdotes and ‘gut feeling’
- Often overt focus on old fashioned enforcement (e.g., 100 percent inspections) instead of risk management
...often addressed in a non-holistic enough view...

- Focus only on transparency, individual integrity and accountability
- Corruption perceived as something wrong with an agency whereas corruption is a society-wide issue (i.e., the microcosm)
- Governance is bigger than what we can do
- Inter-linkages of actions, and between agencies, are not recognized
..and often carry an anti-corruption slogan and focus..

- Results of which often include:
  - Corruption goes ‘under’, fights back harder
  - higher costs to trade and more ‘dangerous’ corruption

- Corruption (derivative) focus rather than governance (source) focus
..instead of managing governance risks..

• Obligation = improve governance to reduce opportunities for corruption [not zero corruption]
• Managing governance risks = Reducing opportunities for corruption
  – Systemically fixing processes; focus on high impact rather than public appeal (vote bank)
  – Recognizing within and outside agency linkages; apportion responsibility
  – Fiscal versus overall business environment
  – Governance starts from within
..which can be assessed through various available approaches..

• Many ways to go about this:
  – Business Process Re-engineering (BPR) and Enterprise Resource Planning (ERP) or Value Chain Analysis (VCA)
  – Committee of Sponsoring Organizations (COSO) of the Treadway Commission
  – WCO Integrity Development Guide (IDG)
  – World Bank Guidelines on Governance Accountability Action Plans
Starting with vulnerability to corruption assessment as part of the decision tool

1 - Vulnerability to Corruption [The ‘RISK’]
• Probability
• Impact

2 - Governance Complexity
• Sector [Policy, Institution, Process, HR-A]
• Other Influence Peddlers

3 - Remedial Actions [Managing the ‘RISK’]
• Priority Process
• Tools
• Interaction between processes

Monitoring and Evaluation
• Reassess (redo 1 through 3)
• Interaction
Measuring vulnerability to corruption (risks), step 1 is process mapping.

Arrival/Landing/Reporting → Immediate Customs Control → Compliance Checks → Detection & Reporting

Processing & Adjudication of Valuations → Assessment → Payment of Duty → Exit

Transit → Warehousing → Re-export → Post Release Verifications

Customs investigations
..each process [and thus risk] can be further ‘drilled down’..

Process: Arrival/Landing/Reporting
(Examples of issues linked to different steps)

- Foreign release and entry into country
- Reach the approved Customs crossing
- Queue
- Rent-seeking
- Border infrastructure
- Immigration and other controls
- Transhipment
- Reporting
- Driver and passenger checks
- Additional cargo/vehicle control by specific agencies
- Weighing (vehicles)
- Release to proceed inward
- Isolated or subsequent checks
- Initiation of transit
- Clearance

Who does what?
Overlaps, competition, vested interests

- Agencies: Customs, Police, Health and SPS...
- Importers
- Drivers
- Political agents
- Headquarters
- Foreign agencies
- Clearing agents

What is the related risk?

- Non-reporting
- Missing cargo or discrepancy
- Ineffective control
- Delay
- Diversion
- Deliberate avoidance of control
- Revenue loss
- Documentation not available
..followed by a typical risk assessment of the processes.

Risks in each process step(s)?

Impact of each risk?

Probability of the risk materializing?
Thus these risks have varying intensity or corruption opportunities index (COI)

<table>
<thead>
<tr>
<th>Steps</th>
<th>Risks</th>
<th>Agencies</th>
<th>Impact</th>
<th>Probability</th>
<th>Risk Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Release</td>
<td>Unreported/ Misreporting/ Exiting Cargo</td>
<td>Foreign Customs</td>
<td>3</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Border Infrastructure</td>
<td>Ineffective control</td>
<td>All Agencies</td>
<td>3</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Immigration and other controls</td>
<td>Identity Checks</td>
<td>Customs, Border Police, Counter Narcotics,</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Driver and Passenger checks</td>
<td>Insufficient risk management</td>
<td>Customs</td>
<td>3</td>
<td>3</td>
<td>9</td>
</tr>
</tbody>
</table>
Then combine governance assessment with the decision support tool..

1-Vulnerability to Corruption
[The ‘RISK’]
- Probability
- Impact

Monitoring and Evaluation
- Reassess (redo 1 through 3)
- Interaction

2 - Governance Complexity
- Sector [Policy, Institution, Process, HR-A]
- Other Influence Peddlers

3 - Remedial Actions
[Managing the ‘RISK”]
- Priority Process
- Tools
- Interaction between processes

Monitoring and Evaluation
- Reassess (redo 1 through 3)
- Interaction
..governance assessment, step 1 = at what level is risk managed..
...the higher the level, the higher the governance vulnerability index (GVI)...
Therefore: governance responsibility index, step 2 = who best manages risk..

At what level can the identified risk be managed? (GVI)

- Policy
- Institution
- Procedures
- Human Resource and Administrative Capacity

Who is involved in each process step(s)? [the ‘Responsibility Index’]
..higher governance responsibility index; more agencies ‘govern’ the risk..

72% is not under direct Customs control
..and then developing the governance action plan using the decision support tool..

1 - Vulnerability to Corruption [The ‘RISK’]
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..by combining corruption risks and governance vulnerability and responsibility..
..targeting most important & easiest to implement governance reforms..

Detailed mapping of Afghan Customs Department’s Procedures based on implementability and impact resulting from the GAC Analysis

Ease of Implementation = “Easier to tackle” Governance Issue

Importance = Corruption Opportunity Reduction

High

Low

Difficult

Agencies involved

Easy
The strategic path

To find the best way down the mountain and around the hills...
..and then developing the governance action plan using the decision support tool..

1 - Vulnerability to Corruption [The ‘RISK’]
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- Reassess (redo 1 through 3)
- Interaction

Reassess (redo 1 through 3)
Interaction
As reforms are implemented the GAAP tool also becomes the M&E tool by plugging in GAC variables improvement …… for example GVI should decrease over time depending on the success of implementing remedial measures …

<table>
<thead>
<tr>
<th>Main steps</th>
<th>Components GVI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrival/Landing/Reporting</td>
<td>60 45 24 4 111</td>
</tr>
<tr>
<td>Immediate Customs control</td>
<td>12 20 14 6 38</td>
</tr>
<tr>
<td>Compliance Checks</td>
<td>20 15 16 6 49</td>
</tr>
<tr>
<td>Detection and reporting</td>
<td>15 25 4 2 17</td>
</tr>
<tr>
<td>Processing and adjudication of violations</td>
<td>18 30 0 0 14</td>
</tr>
<tr>
<td>Assessment</td>
<td>8 18 0 0 7</td>
</tr>
<tr>
<td>Payment of duty</td>
<td>12 6 2 0 20</td>
</tr>
<tr>
<td>Exit</td>
<td>4 3 6 1 14</td>
</tr>
<tr>
<td>Transit</td>
<td>20 45 4 0 18</td>
</tr>
<tr>
<td>Warehousing</td>
<td>8 9 4 0 17</td>
</tr>
<tr>
<td>Re-export</td>
<td>6 3 0 0 7</td>
</tr>
<tr>
<td>Post release verifications</td>
<td>22 0 9 12 29</td>
</tr>
<tr>
<td>Customs investigations</td>
<td>30 18 6 3 20</td>
</tr>
<tr>
<td><strong>Initial GVI</strong></td>
<td>595</td>
</tr>
</tbody>
</table>
... solving 50% of policy issues should bring a reduction of 20% in GVI ... (and a commensurate decrease in overall organizational COI)
... further solving arrival/landing/reporting issues should improve GVI cumulatively to 37% ...

<table>
<thead>
<tr>
<th>Simulation table</th>
<th>Policy</th>
<th>Institution</th>
<th>Procedure</th>
<th>HR Capacity</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrival/ Landing/ Reporting</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>111</td>
</tr>
<tr>
<td>Immediate Customs control</td>
<td>6</td>
<td>20</td>
<td>14</td>
<td>6</td>
<td>38</td>
</tr>
<tr>
<td>Compliance Checks</td>
<td>10</td>
<td>15</td>
<td>16</td>
<td>6</td>
<td>49</td>
</tr>
<tr>
<td>Detection and reporting</td>
<td>7</td>
<td>25</td>
<td>4</td>
<td>2</td>
<td>17</td>
</tr>
<tr>
<td>Processing and adjudication of violations</td>
<td>9</td>
<td>30</td>
<td>0</td>
<td>0</td>
<td>14</td>
</tr>
<tr>
<td>Assessment</td>
<td>4</td>
<td>18</td>
<td>0</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Payment of duty</td>
<td>6</td>
<td>6</td>
<td>2</td>
<td>0</td>
<td>20</td>
</tr>
<tr>
<td>Exit</td>
<td>2</td>
<td>3</td>
<td>6</td>
<td>1</td>
<td>14</td>
</tr>
<tr>
<td>Transit</td>
<td>10</td>
<td>45</td>
<td>0</td>
<td>0</td>
<td>18</td>
</tr>
<tr>
<td>Warehousing</td>
<td>4</td>
<td>9</td>
<td>4</td>
<td>0</td>
<td>17</td>
</tr>
<tr>
<td>Re-export</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Post release verifications</td>
<td>11</td>
<td>0</td>
<td>9</td>
<td>12</td>
<td>29</td>
</tr>
<tr>
<td>Customs investigations</td>
<td>15</td>
<td>18</td>
<td>6</td>
<td>3</td>
<td>20</td>
</tr>
</tbody>
</table>

Imporvement: 

Cumulative GVI Improvement 37% 
(595 -> 477 -> 374)

Dealing with transit from an institutional only perspective brings an improvement of 45 %.
Country Example:

Afghanistan Customs Department

GAT applied to prepare Governance Accountability Action Plan for Afghan Customs in 2009
Societal acceptance of high levels of corruption makes the State’s job of good governance difficult

- Opium—almost all of the world’s opium currently coming from Afghanistan
- Government’s writ not entirely established and over reliance on external assistance
- Dysfunctional Governance
- Post Conflict Societal Vulnerabilities
- Unique social support systems; dependence on extended family networks
- Some level of “corruption” momentarily tolerated – otherwise goes underground or results in strong political opposition to good governance measures

—a parallel familial economic unit—a government—with a stronger writ?!
Corruption impacts the state fiscally, commercially and socially!
Tackle overall governance not just corruption; GOA’s risk appetite ‘realistic’

<table>
<thead>
<tr>
<th>Afghan Society</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghan Government</td>
</tr>
<tr>
<td>Afghan Customs Department</td>
</tr>
</tbody>
</table>
| Customs Reform Project | - Governance Assessment  
|                        | - Governance Action Plan  
|                        | - Monitoring and Evaluation |

anti-corruption is a result, not an initiative!
This leads to a direct linkage of the corruption risk mapping to governance assessment.

<table>
<thead>
<tr>
<th>Issues/ Risks</th>
<th>Agencies</th>
<th>Impact</th>
<th>Probability</th>
<th>Risk Level</th>
<th>Mitigating action</th>
<th>Recommendation(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unreported/Misreporting/Exiting Cargo</td>
<td>Customs</td>
<td>3</td>
<td>2</td>
<td>6.0</td>
<td>Powers of enforcement</td>
<td>Border line control</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Rules of business</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>24/7 presence</td>
<td>1</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Border patrol</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Inland checks</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>E-link</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Identity check</td>
<td>Customs, Border Police, Specialized</td>
<td>1</td>
<td>1</td>
<td>1.0</td>
<td>Powers of enforcement</td>
<td>Cross border coordination between</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Agencies</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>24/7 presence</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Border patrol</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Inland checks</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>E-link</td>
<td>1</td>
</tr>
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<td></td>
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<td></td>
<td></td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

9/29/2010
..and showed why despite a large focus on capacity building governance reform has ‘not moved’ in Afghanistan!
But it helped in assessing what reforms are within the controls of Afghan Customs............

<table>
<thead>
<tr>
<th>Customs Procedures</th>
<th>Influence</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Customs</td>
<td>Non-Customs</td>
<td>Both</td>
<td>Corruption Opportunities/Risks</td>
<td>Governance Risk attributed to</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Policy</td>
</tr>
<tr>
<td>Compliance Check</td>
<td>9</td>
<td>3</td>
<td>2</td>
<td>67</td>
<td>5</td>
</tr>
<tr>
<td>Arrival-Landing-Reporting</td>
<td>4</td>
<td>8</td>
<td>2</td>
<td>50</td>
<td>6</td>
</tr>
<tr>
<td>Customs Control (Immediate)</td>
<td>6</td>
<td>2</td>
<td>1</td>
<td>35</td>
<td>3</td>
</tr>
<tr>
<td>Payment</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>33</td>
<td>5</td>
</tr>
<tr>
<td>Enforcement</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>27</td>
<td>3</td>
</tr>
<tr>
<td>Transit</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>24</td>
<td>2</td>
</tr>
<tr>
<td>Warehousing</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>24</td>
<td>1</td>
</tr>
<tr>
<td>Release</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>21</td>
<td>1</td>
</tr>
<tr>
<td>Irregularities</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>19</td>
<td>4</td>
</tr>
<tr>
<td>Post Clearance Activity</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>Re-export</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
only a quarter of what needs to be done...high “interference”
but, “interference” not proportional to “importance” of particular Customs reform; there is a chance!

Results in terms of ease of implementation of significant reforms
thematic reform actions cross the various processes to help targeting and bring about efficiencies.

<table>
<thead>
<tr>
<th>Measures</th>
<th>Occurrences</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer checks</td>
<td>40</td>
<td>14%</td>
</tr>
<tr>
<td>Management</td>
<td>25</td>
<td>9%</td>
</tr>
<tr>
<td>Audits</td>
<td>22</td>
<td>8%</td>
</tr>
<tr>
<td>E-link</td>
<td>14</td>
<td>5%</td>
</tr>
<tr>
<td>Inland checks</td>
<td>13</td>
<td>5%</td>
</tr>
<tr>
<td>Performance measurement</td>
<td>13</td>
<td>5%</td>
</tr>
<tr>
<td>Cross border coordination between neighbouring Customs</td>
<td>11</td>
<td>4%</td>
</tr>
<tr>
<td>Inter-agency coordination</td>
<td>10</td>
<td>4%</td>
</tr>
<tr>
<td>Legislation</td>
<td>10</td>
<td>4%</td>
</tr>
<tr>
<td>Risk management</td>
<td>9</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>281</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

**Total** 59% Other Measures 41%
.... Based on this agree with the ACD/MOF/GOA on the various policy, institutional and procedural reform

<table>
<thead>
<tr>
<th>Topic/Process Step</th>
<th>Type of Risk/Vulnerability to Corruption</th>
<th>Risk Level (average)</th>
<th>Mitigating Action</th>
<th>Agency</th>
<th>Priorities Ease &amp; Importance</th>
</tr>
</thead>
</table>
| Compliance Checks        | • During document controls Customs officers misuse their discretionary powers  
• Insufficient coordination between various agencies present at the border cause delay, opportunities for rent seeking  
• Goods are undervalued  
• Incorrect tariff regime is applied  
• Importers are subject to an excessive rate of control  
• Exemptions are issued by directive  
• During physical control goods may be subject to pilferage, inadequately or excessively examined or control affected in return for a bribe | 72/11 6.55           | Policy level:  
• Other agencies delegate power to Customs to ensure compliance (e.g. MoA, MoF, MoPH)  
• Amending and clarifying rules of business and penal legislation for Customs to have power to prosecute/punish deliberate,  
• Introducing special statute for Customs (see below)  
Institutional and Procedural level:  
• Establishing and refining internal Customs procedures to ensure adequate checks and balances, proper reporting, measurement and mechanisms for management feedback  
• Ensuring that clearance operations are well coordinated with other agencies  
• Computerising valuation process/introduce ASYCUDA valuation module  
Human Resource level:  
• Training Customs officers in valuation (see below) | ACD MoF, MoA, MoPH, MoC, MoI, standards authorities IARCSC                          | HIGH/IMMEDIATE       |
| Detection and Reporting  | • Levels of penalties are inadequate to have deterrent effect  
• Irregularities are not reported  
• Distinction between minor and severe irregularities is not made  
• Customs abuses their discretionary powers                                                                                                                          | 21/3 7               | Policy level:  
• Enhancing legislation to increase penalties and strengthen enforcement capacity of Customs  
• Introducing special statute for Customs (see below)  
Institutional and Procedural level:  
• Introducing computerised reporting                                                                                                                                   | ACD                            | MEDIUM                      |

Ease & Importance:  
- HIGH/IMMEDIATE  
- Ease 5  
- Import. 72  
- MEDIUM  
- Ease 6  
- Import. 21
The conclusion

• Do a self assessment built into the model
• Benchmark it: What is really wrong with us, come up with an integrity action plan
• A year after repeat steps one and two
• Introduce an enhanced integrity action plan

This tool does all three steps in a Cartesian manner