

RESEARCH PAPER

Customs-related Technical Assistance for Trade Capacity Building

A Resource Guide



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Contents

Executive Summary	iii
1. Introduction	1
What Is Customs?	1
Increasingly Complex Global Customs Environment	3
2. Customs Challenges for Developing Countries	7
Kinds of Customs Assistance Needed by Developing Countries	9
Previous Technical Assistance for Customs	11
3. Sources of Customs Technical Assistance	13
Multilateral Donors and Providers	13
Other International Actors	15
Regional Donors and Providers	16
Bilateral Donors and Providers	16
Self-funded Assistance	17
4. Guidelines for Customs Assistance Projects	19
Best-Practice Guidelines in Customs Technical Assistance	20
5. Illustrative Project Costs	25
Model 1. Financial Audits and Investigations Project	25
Model 2. Export Development Project	26
Model 3. Customs Modernization Project	26
Appendix A. Multilateral Donors and Providers of Customs Technical Assistance	
Appendix B. Customs Guidelines of the International Chamber of Commerce	
Appendix C. Guiding Principles and Action Plan of the Subcommittee on Customs Procedures, Asia-Pacific Economic Cooperation	
Appendix D. Bibliography	

Contents (continued)

ILLUSTRATIONS

Figures

Figure 1. Clearing Goods through Customs in Developing Countries	2
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Exhibits

Exhibit 1. Principal Customs-related Provisions of WTO Agreements	4
Exhibit 2. Trade Facilitation and the WTO	5
Exhibit 3. Revised Kyoto Convention	6
Exhibit 4. ASYCUDA	14
Exhibit 5. Staffing for Customs Technical Assistance	21

Executive Summary

For developing countries to benefit fully from the expanding world economy they must be able to participate in trade negotiations, implement trade agreements, and respond competitively in the global marketplace. The effectiveness and efficiency of a country's customs organization is integral to meeting each of these objectives.

Developing countries and their customs organizations face significant challenges on several fronts. In the last decade, for instance, changes in commerce have intensified demands on customs organizations. Many more integrated international supply chains are operating from national production and distribution platforms and trading across hundreds of national borders. Many more countries are competing to be platforms for manufacturing and marketing. Competition for global capital is requiring that customs organizations become very efficient—reducing clearance and processing times and transaction costs—while becoming predictable, stable, and transparent in administration. When many attractive manufacturing locations compete for foreign investment, an ineffective customs organization can cost a country investments that go to more efficient competitors.¹

In addition, the transaction costs associated with customs (e.g., slow processing times, high pre-shipment inspection rates, corruption, compliance with complex laws, unreasonable fees) must be reduced if producers in developing countries are to respond competitively to market opportunities. These costs hinder developing countries from becoming integrated into the global economy as importers, exporters, investors, and hosts to foreign investment. The demands of international trade push developing countries to lower trade barriers, release cargo more quickly, and reduce physical inspection requirements.

Customs organizations in developing countries must also meet WTO commitments, such as those involving the Customs Valuation Agreement, and keep track of complex and varied rules of origin, particularly in regional trade groupings or preferential trading arrangements.

In responding to these many challenges, customs organizations are hampered by endemic corruption, archaic laws and attitudes, poor cooperation with importers and exporters, and technical deficiencies.

The need for institutional and technical assistance to developing countries in customs and other fields is widely acknowledged. In the Doha Ministerial Declaration of November 2001, WTO member countries committed to a work program for technical assistance and trade capacity building. Trade facilitation, a principal element of the program, requires better customs regimes. WTO members have identified preconditions for successful customs projects: political will to undertake reforms related to trade facilitation, coordination and cooperation among assistance providers, reform program and legal transparency, and the involvement of all stakeholders in the reform process.

The catalog of customs technical assistance needs is long and varied. Generally, developing countries may need assistance in ensuring adherence to basic rules of transparency, due process, and

¹ See Lane, Michael H., *International Supply Chains and Customs* (mimeo). Mr. Lane is the Executive Director, International Customs Modernization Project, Sandler & Travis Trade Advisory Services, Inc.

customer service. Specifically, they may seek assistance for WTO accession and the implementation of WTO commitments, or both. Full customs modernization, including electronic clearance procedures, risk management, audit-based controls, and cooperation between customs organizations and the import-export trade, are all increasingly important. Not every developing country, however, needs a fully computerized processing system to release goods based on required paperwork; even in the absence of technical modernization, adherence to fundamental rules of transparency and due process can have tremendous trade benefits.

Multilateral, regional, and bilateral donors and technical assistance providers abound, some having assisted customs organizations for more than 40 years. The World Bank, International Monetary Fund, the United Nations Conference on Trade and Development (UNCTAD), WTO, and World Customs Organization are the leading multilateral donors and providers of customs technical assistance, with coordinated assistance provided through the Joint Integrated Technical Assistance Program and the Integrated Framework for Trade-Related Technical Assistance. The Asia-Pacific Economic Cooperation, Free Trade Area for the Americas, and regional development banks lead regional efforts. USAID is probably the leading bilateral funding source and provider of technical assistance, but European, Commonwealth, and East Asian countries also contribute. To ensure that assistance is efficient and effective, however, donors and providers must improve coordination among themselves and host customs organizations.

From the experience of these donors and providers we can derive guidelines for USAID and its Missions. For example, donors and providers have learned that customs organizations resist reform and that to be effective, programs must start with a clear commitment to the principles of transparency, due process, and customer service (e.g., publication of rulings, procedures for administrative review and correction, release of goods to users based on paper, with revenue collected later). These elements must be codified in law or regulations and communicated to customs organizations. Because customs organizations often resist reform, technical assistance without such commitments has often been stymied. Another lesson is that customs assistance is aided by having the impetus for reform outside the customs organization. Active support for reform by the customs organization itself can make a real difference as well.

USAID customs assistance could benefit from emphasizing customs reform as a multipurpose goal that relates to other principles of good governance. USAID should also seek to develop an archive of customs-related assistance projects, as well as to evaluate the effectiveness of customs reform projects it has supported. USAID should link its customs projects with those of other U.S. government agencies, as well as with the World Customs Organization, which is developing a diagnostic tool for assessing customs organizations and areas where assistance may be needed. Missions should strive to better coordinate customs assistance among donors and host-country institutions. The development of human capacity in host countries should be paramount, as the effectiveness and sustainability of customs modernization will depend on human resources. Other project techniques, such as pilot testing and benchmarking, and increasing support from (and assistance to) private sector firms and organizations, are also advisable.

This report provides models for estimating the costs of various customs assistance projects. The cost of technical assistance, particularly for customs modernization, can be considerable. Actual project costs may vary from the models depending on the scope of assistance, geography (including numbers of ports of entry), and existing technical, institutional, and human capacity.

1. Introduction

USAID supports trade capacity building activities to help developing countries benefit from the global trading system. To benefit from the global trading system, developing countries must participate in trade negotiations and related discussions, implement trade agreements, and have producers and consumers that engage effectively in both importing and exporting.

Customs reform is integral to each of these activities. Developing countries, however, often need assistance to participate effectively in negotiations over customs issues such as trade facilitation; to implement agreements and obligations, such as the Customs Valuation Agreement (CVA); and to reduce transaction costs associated with customs (e.g., slow processing times, high pre-shipment inspection rates, corruption, and unreasonable fees). These costs prevent developing countries from being competitive and from becoming fully integrated into the global economy as importers, exporters, investors, and hosts to foreign investment.

Developing countries' need for assistance with customs administration is growing rapidly. Assistance is needed especially to meet new commitments under the WTO and other international or regional agreements, and to meet the needs of an increasingly complex web of global market linkages characterized by integrated international supply chains.

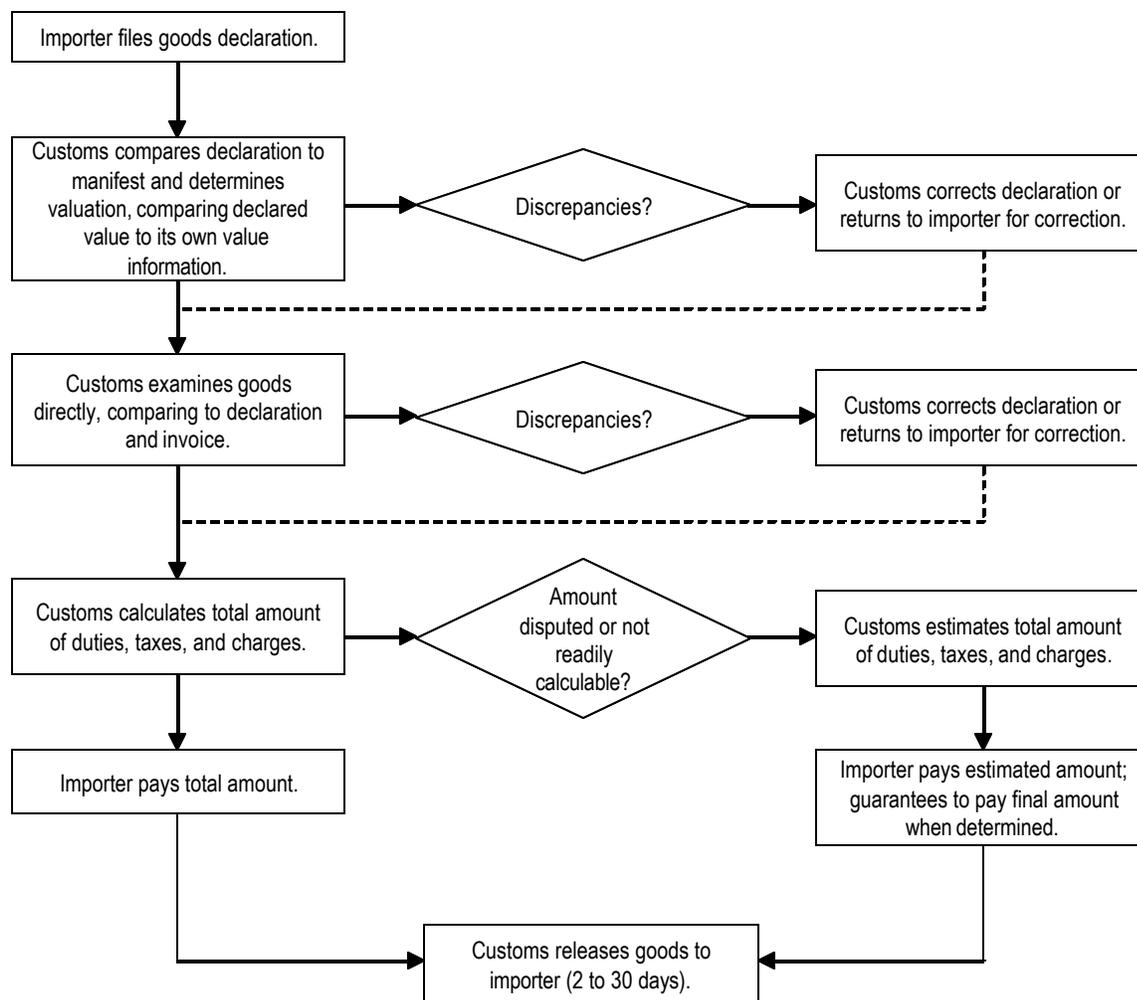
This paper describes (1) shortcomings common among developing countries, (2) illustrative programs for assistance in key areas, and (3) guidelines for designing effective customs-related projects. It also provides an overview of potential sources of technical assistance, including assistance from global customs organizations and multilateral and bilateral donors. It is designed to serve as a resource for USAID missions in defining customs-related technical assistance programs.

WHAT IS CUSTOMS?

The global supply chain consists of the traders, transport companies, insurance firms, banks, forwarders, agents, and others that create international trade. Customs organizations affect this supply chain. A customs organization is the government entity established to impose national sovereignty over goods when they enter a country, and to relinquish sovereignty when goods leave the country. The customs organization is the gatekeeper for international trade. Every country has a customs organization, whether or not it has a tariff. Even territorial possessions have their own customs organizations.

As the gatekeeper, customs organizations release goods once legal requirements are met and register and report on imports and exports for follow-up administration by other government entities (see Figure 1). The traditional goals of a customs organization include collecting revenue, protecting the country from goods that are considered dangerous to the country or its people, avoiding the loss

Figure 1. Clearing Goods through Customs in Developing Countries



of valuable or critical goods through exportation, and more. These goals are often, to a degree, inconsistent with one another, complicating the customs organization's task.

The relative importance of these goals changes with time and circumstance. Developing countries often consider revenue generation a primary goal because their internal tax base is small and because it is simple to collect revenue on imports through a limited number of ports. But emphasis on revenue collection may impede trade integration. Priorities continue to evolve, sometimes quickly, as can be seen in the reaction among customs organizations to the events of September 11, 2001.²

² For example, customs organizations receive technical assistance for drug interdiction, training of detector dogs, control of exports of nuclear materials, and security against terrorism. This paper is concerned with assistance provided for trade capacity building.

INCREASINGLY COMPLEX GLOBAL CUSTOMS ENVIRONMENT

Over the past 10 to 20 years, a number of changes have profoundly affected the activities of national customs organizations. Global and regional trade negotiations have lowered trade barriers, enabling and encouraging dramatic increases in trade volume. Transportation and technology advances, and changes in economic policy, have also contributed to the growth in trade. As trade transactions increase, so does the workload of customs officials who process each transaction.

At the same time, trade rules have become much more complex. In addition to multilateral rules, regional and bilateral trade agreements and preferential trading arrangements are proliferating. Each arrangement specifies its own set of tariffs. The tariff assessed on an incoming good typically depends on the country in which the good originated. But that is not necessarily the shipping country; depending on the product, the originating country may be the country in which the key production input was produced. Most trade agreements have very detailed and complex “rules of origin” for determining where the import originated for tariff purposes. Rules of origin have become especially critical in multilateral, regional, and bilateral trade agreements, as well as in preferential trade arrangements under which goods from certain countries may qualify for reduced tariff rates. Customs officials must have mastery of multiple rules of origin for any given product that may be entering the country.

Global rules pertaining to customs have mushroomed accordingly. When established in 1947, the General Agreement on Tariffs and Trade (GATT)—the cornerstone of international trade rules—provided a largely conceptual framework. Successive rounds of multilateral trade negotiations have broadened the reach of this agreement to the present-day Uruguay Round Agreements. Customs administration is affected by many of the provisions of this agreement, as noted in Exhibit 1. To comply with Articles I, II, and VI, customs merely enforces the decisions of other entities; but its role is detailed and significant in complying with Article VII and the Agreement on Implementation of Article VII (Customs Valuation Agreement). Customs involvement in the WTO Agreements is broad, although not deep in many of the agreements. Customs’ role in implementing Articles V, VIII, and X of the WTO Agreements is being highlighted because WTO members’ desire improved trade facilitation (see Exhibit 2.)

Trading rules have also been changed significantly through the Convention on the Harmonized Commodity Description and Coding System. Better known as the Harmonized System Convention, this international agreement has made tariff nomenclature uniform among most trading countries.

The Convention on the Simplification and Harmonization of Customs Procedures, or the Kyoto Convention, was restructured in 1999 (see Exhibit 3). It elaborates on the requirement of Article VIII of the 1947 GATT for member nations to “minimize the incidence and complexity of import and export formalities.” Accession to the Kyoto Convention requires that developed *and* developing countries alike review customs procedures against convention standards. The convention requires 40 members to accede for the convention to enter into force. Only 8 countries have ratified the convention, three of them developing countries. Another 16, half of them developing countries, have signed the convention, pending ratification. Thus, in spite of the rigor and detail required, developing countries have demonstrated their interest, ability, and will to become contracting partners.

All of these rule changes have profoundly affected the way customs organizations operate. The rule changes have demanded that customs organizations maintain closer ties with the WTO, which

administers the GATT, and with the World Customs Organization (WCO), which administers the Harmonized System and Kyoto Conventions and provides advice on the CVA.

Exhibit 1. Principal Customs-related Provisions of WTO Agreements

Because customs organizations are responsible for the clearance and release of goods at national borders, they could be involved in just about any of the provisions of the Multilateral Agreements, except, perhaps, the Agreement on Trade in Services. Their activities are most clearly affected by the following provisions:

- Articles I and II of GATT 1947—application of duties and other charges
 - Article V—freedom of transit
 - Article VI—antidumping and countervailing duties, along with the Agreement on Implementation of Article VI and the Agreement on Subsidies and Countervailing Measures
 - Article VII—valuation for customs purposes and the Agreement on Implementation of Article VII (Agreement on Customs Valuation)
 - Article VIII—fees and formalities for importation and exportation
 - Article IX—marks of origin
 - Article X—publication and administration of trade regulations
 - Articles XI through XIV—quantitative restrictions
 - Agreement on Application of Sanitary and Phytosanitary Measures
 - Agreement on Technical Barriers to Trade
 - Agreement on Pre-shipment Inspection
 - Agreement on Rules of Origin
 - Agreement on Trade-Related Aspects of Intellectual Property Rights concerning border enforcement measures
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Exhibit 2. Trade Facilitation and the WTO

The WTO has been addressing issues trade facilitation issues since its first Ministerial meeting in Singapore in 1995, where it announced exploratory and analytical work on “the simplification of trade procedures in order to assess the scope for WTO rules in this area.”

At the Fourth WTO Ministerial in Doha, Qatar, in November 2001, delegations agreed that simplifying trade procedures would accelerate economic development by saving time, money, and human resources. The Doha Declaration directed that negotiations on trade facilitation take place after the Fifth WTO Ministerial, to be held in September 2003, with emphasis on expediting the movement, release, and clearance of goods, including goods in transit, and the need for enhanced technical assistance and capacity building in the trade facilitation.

Before September 2003, the WTO Council on Goods is to review, clarify, and improve relevant aspects of Articles V, VIII, and IX, and identify members’ trade facilitation needs and priorities, especially those of developing and least developed countries.

Trade facilitation has become important in trade and development policy for several reasons:

- Tariff rate reductions under GATT/WTO have already been largely achieved. Costs for business to comply with

inefficient customs formalities are now more significant than the need for tariff reductions.

- Rapid progress in computer and communications technology has made it possible to set up much more efficient trade management procedures.
- In the modern business environment of just-in-time production and delivery and global integrated supply chains, traders need fast and predictable release of goods.
- Unlike tariff rate reductions, trade facilitation helps importers, exporters, and their countries.³

The impetus for negotiations on trade facilitation has come principally from developed countries, who favor a two-track approach to negotiations based on (1) building on rules in existing WTO provisions to increase commitment to improved border and border-related procedures, and (2) a greatly expanded and comprehensive technical assistance program in parallel to negotiations. Many developing countries are not prepared to launch these negotiations, although they generally support the objective of trade facilitation. Many least-developed countries are not willing to accept new legal commitments to the WTO. They are concerned that more rules will exceed their ability to implement them, making make them susceptible to dispute settlement.

³ Wilson, John S. et al, *Trade Facilitation: A Development Perspective in the Asia Pacific Region*, Asia Pacific Economic Cooperation (mimeo), October 2002.

Exhibit 3. Revised Kyoto Convention

The Kyoto Convention was adopted at Kyoto, Japan, in 1973. In 1999, the World Customs Organization (WCO) fully revised it to provide customs organizations with uniform principles for simple, predictable customs procedures that ensure effective customs control.

The revised convention is intended to be the blueprint for standard and facilitative customs procedures in the 21st century. As a response to radical changes in trade, transport, and administrative techniques, it incorporates modern methodologies to balance customs control and revenue collection with trade facilitation. The use of information technology and risk-management techniques has been integrated into the core of the convention.

The key feature of the revised convention is a new structure consisting of a General Annex—containing core

procedures and practices for clearance of goods—and Specific Annexes. To accede to the convention, a nation must accept the General Annex without reservations. Reservations are acceptable in the Specific Annexes.

The Kyoto Convention contains no provision for enforcement or dispute resolution—either in its original or revised version. Some developed countries have proposed using the Kyoto Convention as a basis for binding rules for trade facilitation that would clarify Articles V (freedom of transit), VIII (fees and formalities connected with importation and exportation), and X (publication and administration of trade regulations) of GATT 1947. A review of those articles will be reported on at the Fifth Session of the WTO Ministerial Conference in 2003.

2. Customs Challenges for Developing Countries

The leaders of developing countries want what all national leaders want in the expanding world economy—increased trade and improved economic development. To achieve these goals, developing countries must be able to respond effectively to the challenges of the global marketplace.

This marketplace has changed dramatically over the past decade. The number of integrated international supply chains that operate from national production and distribution platforms and that trade across hundreds of national borders has surged. Competition has intensified among countries seeking to be platforms for manufacturing and marketing. Rapid customs clearance and processing times; low transaction costs; and a high degree of predictability, stability, and transparency in customs administration have become critical to competition for global capital. In a world where many potentially attractive manufacturing locations compete for limited amounts of foreign investment, the effect of customs performance is considerable. Countries with ineffective customs organizations tend to lose out to their more efficient competitors.⁴

The severity of the challenges to customs organizations cannot be overstated. All customs organizations face demands for change created by

- International agreements,
- Private traders seeking reduced transactions costs and enhanced efficiency,
- Government leaders seeking to improve the country's competitiveness and/or to reduce corruption,
- Increased workload and static budgets,
- Conflict between domestic industry and importers,
- More passengers and cargo and limited facilities for customs processing, and
- Peaking in airline flight schedules, which results in thousands of airline passengers arriving at nearly the same time.⁵

Like government institutions worldwide, customs organizations find it difficult to change quickly because they are not motivated by profit or competition as is the private sector. In addition, customs organizations in developing countries are encumbered by weak political development, corruption, poor management and governance, outmoded thought and work habits, and a host of other

⁴ See Lane, Michael H., *International Supply Chains and Customs* (mimeo). Mr. Lane is the Executive Director, International Customs Modernization Project, Sandler & Travis Trade Advisory Services, Inc.

⁵ Lane, Michael H., *Customs Modernization and the International Trade Superhighway*, Quorum Books, Westport, CT, 1998.

difficulties. International donors and suppliers of technical assistance can lend a valuable hand in ameliorating these conditions.⁶

Developing countries and donor agencies alike have expressed interest in improving and reforming customs administration. For example, developing countries have complained of difficulties in implementing WTO obligations and have sought a firmer commitment by developed countries to provide technical assistance. In response to this complaint, the Doha Ministerial Declaration of November 2001 established a Work Program that focuses attention on the need for technical assistance and capacity building in several areas, including trade facilitation. Several critiques have emphasized the difficulties faced by developing countries in implementing customs reforms.⁷ As a result of these influences, the World Bank and the International Monetary Fund (IMF) have begun studies of customs reform.⁸

The importance of improved customs administration to national economic development has been highlighted by diagnostic studies conducted under the Integrated Framework for Trade-related Assistance to Least-developed Countries.⁹ All studies to date have identified a direct link between high transactions costs (including customs delays) and substandard performance of key sectors of the economy, such as small business and industry, agriculture, fisheries, mining, and tourism. All of the studies have recommended the introduction of risk management, post-audit, and electronic processing techniques in customs administration, as well as improved customs-private sector cooperation.

New Customs Diagnostic Tools

The World Customs Organization is developing a blueprint for capacity building in customs administration. The blueprint will incorporate diagnostic tools for assessing all aspects of a customs organization. It will not impose a Western model, but will recognize that certain activities are required to operate an efficient and responsive organization. The diagnostic tools are expected to be ready in the spring of 2003. No such tools have been developed before. These tools will be much more comprehensive than the diagnostic process developed under the WCO's Customs Reform and Modernization (CRM) program.

⁶ Customs organizations of developing countries can make some changes on their own. For example, they have demonstrated that they can make significant improvements in customs clearance times, with only limited outside assistance, in limited areas, such as air and express delivery consignments.

⁷ Finger, J. Michael, and Schuler, Philip, *Implementation of Uruguay Round Commitments: The Development Challenge*, Policy Research Working Papers Series 2215, World Bank, Development Research Working Group, Washington, D.C., 1999; and Rege, Vinod, "Customs Valuation and Customs Reform," Chapter 15 of *Development, Trade, and the WTO: A Handbook*, World Bank, June 2002.

⁸ These studies are expected to be completed in 2003. Little public information is available on their scope, but it is expected that the World Bank studies will (1) provide a systematic analysis of the various facets of an effective customs service; (2) evaluate World Bank and IMF experience in improving customs services in developing countries; (3) offer a systematic approach to comprehensive and successful customs reform, drawing on successful experiences; and (4) provide a customs reform handbook and training module for World Bank Task Managers involved in trade facilitation and customs reform. This handbook might include an overview of resources that could be brought to bear on implementing customs reforms.

⁹ Agencies participating in these studies include the IMF, International Trade Centre, United Nations Conference for Trade and Development, United Nations Development Program, and WTO. To date, studies have been carried out for three developing countries: Cambodia, Mauritania, and Madagascar. Others are underway.

KINDS OF CUSTOMS ASSISTANCE NEEDED BY DEVELOPING COUNTRIES

Customs organizations serve many purposes and are the principal gatekeepers to international trade. It is therefore not surprising that customs projects are part of many technical assistance programs to developing countries. For example, a fiscal reform project must take customs administration into account. Projects involving intellectual property rights or trade-related investment measures often point to the need for customs changes. Export incentive projects require customs improvements. A diagnosis under the WCO Customs Reform and Modernization Program may identify various needs for customs technical assistance.

The type of assistance needed is directly related to a goal. “Improvement of the customs organization” is too general. The question to be answered is “improvement of the customs organization for what result?” The answer may be to increase revenue collection, reduce customs barriers to investment, improve customs duty-free regimes to encourage exports, reduce smuggling and contraband, or some other purpose (or group of purposes) related to the larger plan under which the technical assistance is considered and offered.

Customs organizations of developing countries need technical assistance to realize their various goals in a manner consistent with national economic development objectives and international commitments. Technical assistance by donors, including USAID, can and has helped improve customs organizations in the following areas:

- **WTO Membership.** Assisting customs organizations in supporting the national effort to join the WTO and in implementing WTO Agreements, particularly those relating directly to customs administration.
- **Needs Assessment.** Determining the technical assistance and training needed by the customs organization to meet trade development goals.
- **Customs Modernization.** Assisting customs organizations in modernizing, perhaps in coordination with the WCO Customs Reform and Modernization Program, and in applying the best practices of the Kyoto Convention, including use of the tools of electronic processing, risk management, audit-based controls, and trade cooperation.¹⁰
- **Trade Facilitation.** Assisting customs organizations with mutual cooperation, simplification of import and export procedures and forms, and adoption of risk management procedures.
- **Export Incentives.** Assisting customs organizations in improving the application of duty relief regimes (such as duty drawback systems, temporary admissions, bonded warehouses, and export-processing zones) to encourage exports.
- **Valuation.** Assisting customs organizations in establishing and carrying out the Customs Valuation Agreement.
- **Harmonized System Convention.** Assisting customs organizations in joining and implementing the Harmonized System Convention.

¹⁰ Audit-based controls include any kind of post-release document check. They may require firms to provide supporting documents to customs offices and to allow visits by customs officers to view selected records and conduct financial audits.

- ***Tariff Policy.*** Assisting customs organizations and other policymaking bodies in implementing tariff-rate reform.
- ***Tariff Administration.*** Assisting customs organizations in increasing the predictability and transparency of tariff administration through such mechanisms as advance rulings on rules of origin, dispute settlement, and appeal.
- ***Country of Origin.*** Assisting customs organizations and industries in carrying out the WTO Rules of Origin Agreement and the preferential rules of origin in regional agreements.
- ***Financial Audits and Investigations.*** Assisting customs organizations in carrying out financial audits and fraud investigations so they can properly implement the WTO Customs Valuation Agreement, provide a rationale for faster clearance times based on risk assessment, and improve revenue collections.¹¹
- ***Customs Integrity Program.*** Assisting customs organizations in reducing corruption through an integrated program of improved recruitment and hiring techniques, code of conduct protocols, simplified and automated procedures, internal controls and audits, and an internal security system and organization.
- ***Anti-contraband Operations.*** Assisting customs organizations in reducing the harmful effects of contraband on revenue collection, implementation of WTO Agreements, and general respect for law and order.
- ***Tax and Revenue Collection.*** Assisting customs organizations in increasing duty and value-added tax collection by plugging loopholes, improving duty-exemption procedures, improving coordination between tax and customs authorities, exchanging information about and statistics on taxpayers regularly, and coordinating duty and tax audits.
- ***Training and Institutional Capacity Building.*** Training customs and trade officials at all levels in the basics of the WTO Agreements and in basic skills of customs administration, including tariff classification, valuation, and rules of origin. Training customs managers in the management skills required for a modern customs administration.
- ***Customs-related Private Sector Services.*** Training and assisting importers and customs brokers (clearing agents) in customs valuation and customs automated procedures. Assisting in the formation and operation of import–export related trade associations. Assisting banks and insurance companies in improving customs guarantee programs. Training and assisting carriers in customs automated procedures.

Customs technical assistance has been most successful when recipient countries have already made certain fundamental political and legal commitments. These include commitments to

¹¹ Financial audit involves reviewing financial books and records to identify discrepancies and to form an opinion about their cause. Fraud investigation involves determining whether a law was broken and, if necessary, making a case for prosecutorial action. In many developing countries, distinctions between audits and investigations, and among error, negligence, and criminal intent, are absent from or unclear in the law, and must be established.

transparency (publishing laws, regulations, and rulings that traders need to comply with); due process (published procedures for administrative and judicial appeals of customs actions or omissions); and customer service that would support assistance aimed at quick release of goods, including conditional release under guarantee.

PREVIOUS TECHNICAL ASSISTANCE FOR CUSTOMS

For more than 40 years, USAID and other international donors have funded customs-related technical assistance projects. These efforts have produced a wealth of experience. Recent customs assistance includes the following:¹²

- USAID assistance to
 - Ukraine, Kazakhstan, and Kyrgyzstan to facilitate joining the WTO;
 - The Southern African Development Community to simplify and modernize customs administration in intra-Community trade and transport of goods;
 - Guatemala to establish a system for the control and release of cargo to better implement the Customs Valuation Agreement; and
 - Egypt to establish a low-cost risk assessment methodology for tax and customs audits.
- World Bank assistance to
 - Armenia to draft new customs laws, train staff, and computerize procedures (1993–1997, \$1.6 million);
 - Lebanon to train staff, introduce new tariff classifications, and computerize procedures (1994–2001, \$3.8 million);
 - Bangladesh to reform its customs administration as part of a government-wide anti-corruption campaign;
 - The Philippines to establish free zone customs procedures in connection with the conversion of the Subic Bay Naval Base to a Special Economic Zone; and
 - Macedonia to facilitate transit and improve customs procedures
- World Bank and USAID assistance to Jordan to establish customs procedures for the newly established Aqaba Special Economic Zone and to modernize Jordan’s customs administration.

¹² The U.S. Customs Service, through Participating Agency Service Agreements, provided most USAID-funded customs assistance until the late 1980s. Because of changed political and management philosophies, assistance since then has been provided largely by and through private contractors. The USAID examples cited represent projects involving private contract assistance.

3. Sources of Customs Technical Assistance

Technical assistance for customs administration is available through many donors as well as other sources of help and guidance. Each has its own charter and objectives. Given the number of donors, coordination among them is vital to ensure that (1) donor funding is well spent, and (2) customs organizations and host country governments receive consistent guidance and information.

MULTILATERAL DONORS AND PROVIDERS

The following multilateral institutions provide assistance on a worldwide or special-need basis. Summary information on them is provided in Appendix A.

- ***International Monetary Fund.*** The IMF Fiscal Affairs Department provides technical assistance in customs administration to support member countries' efforts to strengthen fiscal policies. Usually member countries request such assistance, but IMF monetary surveillance activities may also lead to requests. Because requests exceed available funding, the IMF screens requests according to established priorities. Technical assistance is usually provided free of charge, except in the case of long-term experts assigned to middle - and upper-income countries. The kind of customs assistance provided depends on the country's fiscal needs and targets.
- ***World Bank Group.*** The International Bank for Reconstruction and Development (IBRD) and associated entities provide customs assistance through programs designed to strengthen the economy of poor countries through the international flow of capital for productive purposes. Assistance is provided through World Bank funds and is tailored to the needs of each country.
- ***United Nations Conference on Trade and Development.*** UNCTAD customs assistance is principally for automation of customs procedures through its Automated System for Customs Data Management (ASYCUDA) program (see Exhibit. 4). Outside donors, including the United Nations Development Program (UNDP), World Bank, and others finance the assistance. Besides its customs efforts, UNCTAD has been a tireless advocate of trade facilitation in developing countries.

Exhibit 4. ASYCUDA

ASYCUDA is UNCTAD's largest technical assistance project. Its core is a software program that has been installed in more than 80 developing and transition countries since 1985. Incorporating recommendations, standards, and codes of the UN Economic Commission for Europe (ECE) and the WCO, as well as other standards, the software streamlines and reduces customs forms and procedures. The program's purpose is to rid customs systems of outdated procedures and practices and to incorporate international practices and standards and thereby increase customs revenue by reducing costs and improving clearance times. The program has been updated and revised frequently to improve capacity and performance. A new version, ASYCUDA++, offers direct trader input through electronic data interchange. This allows importers and carriers to transmit declarations and manifests directly to customs for selective processing that follows risk management principles. The program's strengths and weaknesses are as follows:

STRENGTHS

Widespread Use. Now used by 85 countries, ASYCUDA appears to have reached critical mass and has thus become the de facto world standard.

Uniformity and Standardization. ASYCUDA facilitates establishment of transparent and predictable processes and standards.

Technological Upgrades. ASYCUDA developed from a small PC-based system intended to generate trade data to a sophisticated system with manifest, transit, and selectivity modules, as well as automated trade and payment interfaces.

UNDP Support. ASYCUDA was developed by UNCTAD, but UNDP provides, maintains, installs and provides training in the software.

Conformity with U.S. Systems. ASYCUDA borrowed much from the U.S. Automated Customs Service (ACS) system, as well systems of other developed countries.

WEAKNESSES

Difficulty/Expense of Upgrading. ASYCUDA was created in a programming language not widely understood or used outside of France. There is no upgrade path between the original and new versions. Countries with the original system are using obsolete software that cannot be upgraded, modified, or supported. Replacing the software will cost an estimated \$2 million or more.

Inflexibility/Lack of Country Tailoring. UNCTAD will not customize ASYCUDA to local circumstances. Customs organizations must change procedures to adopt the new computer system. Because of this inflexibility, some countries use the system as a "calculator"—a data entry and printing device—with no meaningful impact on the efficiency, transparency, or predictability of customs operations.

Focus on Automation, Rather Than Broader Reform. Computerization alone does not solve all of the problems of customs administration in developing countries. The biggest problems are fraud, poor revenue collection, and corruption. Automation should support a broader reform program.

- **World Trade Organization.** The WTO provides training and technical assistance to customs organizations in applying WTO Agreements, specifically the Customs Valuation Agreement, and in using WTO mechanisms to do so. WTO assistance is, in general, limited to neutral and factual information on the rights and obligations of developing nations and on progress in trade negotiations.¹³
- **World Customs Organization.** The WCO has long provided customs-related training on a very limited budget. It recently established a more ambitious Customs Reform and Modernization Program to help customs organizations with self-assessment and diagnosis leading to reform and modernization. The WCO provides guidance for planning, implementing, and evaluating modernization, but actual work is carried out by the member country, with donor assistance where needed.
- **Joint Integrated Technical Assistance Program.** JITAP is a project of the WTO, UNCTAD, and the UNCTAD/WTO-funded International Trade Centre. Initially limited to eight African countries, the program provides assistance in implementing customs-related provisions of WTO Agreements. After the 1999 WTO Seattle ministerial conference, JITAP was restructured for extension to 10 to 15 African countries, with more attention to be paid to African regional integration.¹⁴ The program is funded by the UN agencies and bilateral partners.
- **Integrated Framework for Trade-Related Technical Assistance to Least-developed Countries.** The IF program is a joint operation of the IMF, UNCTAD, UNDP, World Bank, International Trade Centre, and WTO. It pools the expertise of these organizations in delivering trade-related technical assistance to least-developed countries. A restructuring of the IF, similar to that of the JITAP, was undertaken after the 1999 WTO Ministerial in Seattle. So far, needs assessments of three LDCs have been performed under the IF; all of these assessments identified a need for customs assistance. Follow-up customs assistance would be provided by one or more IF partners and supplemented by bilateral donors.

OTHER INTERNATIONAL ACTORS

The following international organizations play an important role in promoting the improvement of customs systems and procedures but do not finance or deliver technical assistance or training:

- **Organization for Economic Cooperation and Development.** The OECD Development Assistance Committee's Guidelines for Strengthening Trade Capacity for Development place customs assistance clearly within the context and framework of trade-related assistance.
- **United Nations Economic Commission for Europe.** The UN/ECE has been a leader for 30 years in the analysis of trade (including customs) formalities as embodied in information

¹³ Kosteci, Michel, *Technical Assistance Services in Trade-Policy*, International Centre for Trade and Sustainable Development, November 2001.

¹⁴ See Luke, David F., "Trade-Related Capacity Building for Enhanced African Participation in the Global Economy," Chapter 50 of *Development, Trade, and WTO: A Handbook*, World Bank, 2002.

requirements, and the development of electronic transmission methods. Through its Centre for Facilitation of Procedures and Practices for Administration, Commerce and Transport (CEFACT), it has developed standardized codes and data elements for electronic-based information exchange, now embodied in the UN Trade Data Element Directory (UNTDDED). The Centre also developed UN/EDIFACT, an international standard for formatting and sequencing data for electronic data interchange. UNTDED and UN/EDIFACT provide the foundation for ASYCUDA, which has been widely adopted by customs organizations in developing countries (see Exhibit 3).

- ***International Chamber of Commerce.*** The ICC has led the international business community in pressing for simplification and harmonization of customs procedures. In 1997, it established best-practice guidelines for customs procedures (see Appendix B). These guidelines had a strong influence on the 1999 revision of the Kyoto Convention for the Simplification and Harmonization of Customs Procedures.

REGIONAL DONORS AND PROVIDERS

- ***Asia-Pacific Economic Cooperation.*** This organization of Pacific-rim countries works to eliminate trade barriers among members. Its Subcommittee on Customs Procedures seeks to simplify and harmonize customs procedures. Technical assistance is provided for member customs organizations encountering difficulties in implementing procedural changes. Some of this assistance is funded by APEC; the rest is funded bilaterally by member countries.
- ***Free Trade Area of the Americas.*** The ultimate goal of FTAA is to integrate the economies of the Western Hemisphere into a single free trade area. As a step toward integration, members have agreed to harmonize various customs procedures. Technical assistance toward harmonization may be provided by a Tripartite Committee of the Inter-American Development Bank, the Organization of American States, and the UN Economic Commission for Latin America, or by bilateral donors.
- ***Regional Development Banks.*** In addition to participating in joint efforts with FTAA and APEC, the Inter-American Development Bank and the Asian Development Bank have provided funding for customs assistance projects to meet their own objectives for regional economic development. The assistance is provided through bilateral partners or through direct contracts to private firms.

BILATERAL DONORS AND PROVIDERS

Funding and delivery of bilateral technical assistance must meet national rather than multilateral objectives, although these objectives are often intertwined. Bilateral funding is an important source of technical assistance worldwide.

- ***United States***
 - ***United States Agency for International Development.*** USAID is the U.S. government's principal source of funding for customs-related technical assistance and training for trade

- and development. Most of this assistance is provided through contracts with the private sector.
- ***United States Trade and Development Agency.*** Intended primarily to help U.S. companies pursue overseas business in selected areas such as transportation, the USTDA has provided technical assistance in the use of new technology, such as scanner technology to detect contraband. It could also be used to deliver assistance to customs-related private sector entities, such as clearing agents, carriers, customs bond or security guarantors, and other links in the transport chain.
 - ***U.S. Customs Service.*** The USCS has an extensive outreach program that provides assistance to foreign customs organizations. Funded primarily by the State and Defense Departments, the program is intended mainly for law enforcement. However, some projects (funded by other U.S. agencies, such as USAID) involve trade facilitation, modernization, and computerization that serve trade capacity building purposes. Also, the USCS provides customs technical assistance under the Southeast European Cooperative Initiative, partly funded as a World Bank regional loan project, and under programs of the APEC and FTAA. Under the Trade Act of 2002, the USCS was authorized \$1.3 million to deliver technical assistance in connection with the African Growth and Opportunity Act. U.S. Customs is generally a provider of customs-related expertise, rather than funding; requests for USCS technical assistance without an identified funding source are normally denied.
 - ***United Kingdom—Department for International Development.*** DFID has an extensive customs assistance program, particularly in African and Commonwealth countries. Many of these programs involve secondments, where U.K. officials or contract personnel are placed in operational positions with the host customs organization.
 - ***Germany—DSE.*** This international assistance agency provides bilateral customs assistance in a number of countries, often including funding and technical assistance on UNCTAD ASYCUDA projects.
 - ***Other countries.*** Other countries that have provided bilateral customs assistance in recent years, usually through national development assistance agencies, include Australia, Canada, Denmark, France, Sweden, Japan, Korea, the Netherlands, and New Zealand.

SELF-FUNDED ASSISTANCE

Some governments have undertaken their own customs assistance. They have used their own funding to hire outside assistance or have enlisted funding from private sources such as the Soros Fund or the Ford Foundation. Some of this assistance has been provided under preshipment inspection (PSI) contracts, although questions have been raised as to whether this practice creates a conflict-of-interest for PSI companies.¹⁵

¹⁵ See Chapters 15 and 16 on customs valuation and trade facilitation in *Development, Trade, and the WTO: A Handbook*, World Bank, Washington, D.C., 2002; and Raven, James, *Trade and Transport Facilitation: An Audit Methodology*, World Bank, Washington, D.C., 2000.

4. Guidelines for Customs Assistance Projects

To date, neither USAID nor the World Bank has systematically reviewed the results of customs assistance projects.¹⁶ Personal and anecdotal evidence, however, is supported by several references. Certainly, not all customs assistance has produced the results intended. Evaluation of successes and failures provides a basis for the following general observations:

- ***Customs organizations are not easy to reform.*** Most customs organizations have entrenched bureaucracies and processes that need to be reformed. In many countries, the customs organization is an important source of government revenue, which gives the organization a substantial power base in the national government. For rent-seeking individuals, the customs organization is where the money is. Antiquated customs practices have a strong constituency in protectionists, special interest groups, Ministries of Finance, revenue authorities, and domestic industries.¹⁷
- ***Customs reform requires sound institutions, laws, and regulations.*** Improving customs performance requires an adequate legal foundation to ensure transparency in information and due process in administrative reviews and appeals to an independent judiciary. Trade facilitation must also have political support and an attitude favorable to quick release of goods under a guarantee. Guarantees require a supportive banking and financial system to allow a significant increase in conditional releases of goods.
- ***Customs modernization takes money.*** Customs reform can demand substantial amounts of technical assistance, training, and sometimes equipment, particularly for the automation and modernization of procedures. The magnitude of modernization will depend on such factors as the size of the economy, number of ports, the existing base of technology, and human capacity.¹⁸
- ***Customs reform takes time.*** Customs reform must last long enough to take effect. Among other things, failure of political will or interest, decrease in outside pressure or funding, and

¹⁶ The World Bank is undertaking a systematic review and evaluation of its customs assistance projects. The review is expected to be completed in 2003.

¹⁷ Lane, Michael H., *International Supply Chain Management and Customs: Peru—a Case Study* (mimeo).

¹⁸ Finger, J. Michael, and Schuler, Philip, *Implementation of Uruguay Round Commitments: The Development Challenge*, Policy Research Working Papers Series 2215, Development Research Working Group, World Bank, Washington, D.C., 1999. This paper was updated after the Doha Conference and rewritten as Chapter 48 in *Development, Trade, and the WTO: A Handbook*, World Bank, Washington, D.C., 2002. This research has drawn criticism from some reviewers, who believe the analysis exaggerates the cost of customs reform, particularly of relatively limited and inexpensive changes such as implementation of the Customs Valuation Agreement.

premature disappointment cut reform efforts short so benefits are never realized. Some of these factors are beyond the control of the donor.

- ***Successful reform requires support and/or pressure from outside the customs organization.*** Reform may be motivated by the appointment of new and aggressive leadership from outside the customs organization, IMF requirements, donors' loan conditions, or other forces inside or outside the country. Reform could come about as the result of WTO commitments, such as the Customs Valuation Agreement and potential new WTO trade facilitation commitments. It could also be motivated by the persuasive force of the WCO Customs Reform and Modernization Program. But reform in developing countries is not usually the result of direct pressure from the trade as in developed countries. The normal reaction of the trade to customs deficiencies is to avoid the country, leave the country, or accommodate through bribery and corruption. But trade groups generally support customs reform. Customs reform may be easier when the customs organization is an integral part of larger entity, such as a Revenue Board, whose leadership has a larger view of what can be expected of the customs organization and is less attached to the status quo. To accomplish reform, Revenue Board leadership must recognize that customs is more than just a revenue source and that it plays a multi-faceted role in the government and economy.
- ***Even if change comes from the outside, customs ownership is necessary.*** If the customs organization is not fully involved in identifying what assistance it needs, it will most likely not take full responsibility for reform and modernization. Reform will lose momentum and practices will revert to the *status quo ante*.¹⁹
- ***Outside assistance is not easy.*** Conditions inside and outside a country that favor customs reform can change, and change quickly. Donor emphases may change. Assistance may have been provided by different international donors with little coordination. Donors sometimes enter into an assistance program unaware of earlier assistance efforts or their results. As noted, the customs organization may have little or no sense of ownership of reform measures.

BEST-PRACTICE GUIDELINES IN CUSTOMS TECHNICAL ASSISTANCE

In improving customs-related assistance, USAID and individual missions can benefit from the experience of USAID as well as other donors and technical assistance agencies. The best-practice guidelines that follow are for the *planning and implementation* of technical assistance to customs organizations.²⁰ They are distinct from best practices for *customs administration*, exemplified in the Kyoto Convention, which is too large to include in this paper. Other kinds of best-practice guidelines for customs administration have been issued by the International Chamber of Commerce (see Appendix B) and the Sub-Committee on Customs Procedures of the Asia-Pacific Economic

¹⁹ See the World Customs Organization Policy Document on Customs Reform and Modernization Programme, on the WCO website, at www.wcoomd.org.

²⁰ See also Staples, Brian Rankin, "Trade Facilitation: Improving the Invisible Infrastructure", Chapter 17 of *Development, Trade, and the WTO: A Handbook*, World Bank, 2002.

Cooperation (see Appendix C.) These guidelines provide useful background for USAID Missions and may suggest reform goals for customs organizations.

Exhibit 5. Staffing for Customs Technical Assistance

Most donors do not have a full-time staff devoted to customs assistance projects. Usually assistance is provided through private contractors, either through direct contract with the donor or through private firms that recruit customs experts under long-term or short-term subcontracts.

Customs experts are individuals who have gained their skills in customs organizations and who have left those organizations, usually by retiring. This pool of experts is small because many retirees have a limited number of years during which they may be willing or able to consult or they may be reluctant to work in developing countries.

Customs brokers and import-export firms hold a potential pool of experts. This pool may be ripe for

exploitation. The need for assistance to customs-related private sector firms in developing countries is increasing. Cyclical downturns in the world economy occasionally displace import-export experts in developed countries, making them available to provide such assistance.

Some customs experts may be drawn from national customs organizations by leave of absence or by special arrangements such as Participating Agency Service Agreements. National customs organizations, however, vary widely in their willingness to encourage temporary assignments. Willingness may depend on internal staffing and budget demands and the relationship of the assistance project to the organization's goals and objectives.

USAID Headquarters

- ***Set Up Customs Assistance Archives/Database.*** Little information on customs assistance projects is available. USAID contracts should require delivery of completed papers on customs assistance projects (and other trade-related technical assistance projects) to a central library or intranet database.
- ***Evaluate Previously Funded Customs Assistance.*** Following the example of the World Bank, USAID should systematically review customs technical assistance projects and disseminate lessons learned to USAID Missions.
- ***Reinforce Links to the U.S. Private Sector.*** Customs modernization requires a significant amount of technical assistance to automate business systems for electronic data interchange, form and operate trade associations, and establish adequate customs guarantee systems through banks and insurance companies. Links to the private sector should be established with the USTDA, to the extent its charter permits, to undertake private sector assistance in support of customs modernization.

USAID Missions

- ***Coordinate Customs Projects With Other Donors/Assistance Providers.*** When customs assistance is needed, the Mission should review past customs assistance projects in its jurisdiction, consult other assistance donors (including companies under PSI contracts) about their efforts, and consult the customs organization and the Revenue Board or Ministry of Finance about past and ongoing assistance. The Mission should become aware of the kinds of assistance attempted and the results of those efforts. Documentation of these efforts should be retained for application in new assistance efforts. Where the customs organization is receiving assistance from one or more donors, the Mission should build on existing programs through consultation and negotiation with the customs organization and the donors.
- ***Evaluate General Environment for Customs Assistance.*** Before a customs assistance project is initiated, the Mission should assess the general needs of the customs organization, as well as needs relating to immediate project goals. Equally important is an assessment of the organization's political and economic environment, including analysis of political will and other factors supporting or opposing change.
- ***Cultivate Ownership of the Initiative by the Customs Organization.*** The organization must actively support the proposed improvements. Without such support, improvements will not survive after the project. Project goals must be "owned" and championed by top customs managers, including Revenue Board and Ministry of Finance officials, during the time needed to complete the project and until improvements are institutionalized. A group of managers and rank-and-file employees who will support top management in reform efforts should be identified and strengthened.
- ***Develop Human Capacity.*** The key requirement for customs modernization is a staff that is expert in tariff classification, valuation, rules of origin, Kyoto Convention procedures, and management (particularly at the first-line level). Similar expertise is needed for private sector personnel. A training plan should be built into project plans to accomplish these aims.
- ***Take Customs Modernization as a Goal in Itself.*** Because the efficiency of the customs organization is a key link in trade capacity building, the Mission should consider funding customs modernization as a goal in itself. This could possibly entail assistance in automation and electronic processing, as well as in key elements of the Kyoto Convention, such as risk assessment, compliance measurement, audit-based controls, and the building of trade cooperation.
- ***Be Cognizant of the Full Costs of Effective Technical Assistance.*** The Mission should be aware of the true extent of assistance needed. Although some elements of customs reform may not require technological upgrades (e.g., instruction in the requirements of the Customs Valuation Agreement may entail only modest expense) other aspects of customs reform and modernization may require more costly technical assistance.²¹

²¹ Finger, J. Michael, and Schuler, Philip, *Implementation of the Uruguay Round Commitments: The Development Challenge*, World Bank, Washington, D.C., 1999.

- ***Provide Time and Money Needed to Ensure Change.*** The assistance project should be planned to last long enough, and have sufficient funding, to accomplish and institutionalize the intended change.
- ***Provide for Pilot Testing.*** To ease change and transition, a customs assistance project plan should contain provisions for pilot testing and proof of new procedures and techniques on a commodity, geographic, organizational, or similar basis.
- ***Combat Corruption.*** Corruption is endemic in some customs organizations, and staffs earn their daily bread and butter from it. Customs assistance projects should attack corruption through well-rounded integrity programs that reduce the need, attraction, and opportunity for corruption.
- ***Employ Benchmarks, Measurements, and Targets.*** The project should establish benchmarks that identify initial project conditions, such as average clearance times, percentage of consignments physically inspected, etc. Progress should be measured periodically against the initial benchmarks and the project targets. This process must be undertaken and absorbed by customs organization staff, and not be an esoteric exercise of donor management.
- ***Collaborate Where Possible with the World Customs Organization.*** The WCO Customs Reform and Modernization Program allows donors to assist customs organizations not only in managing and implementing improvements, but also in assessing and diagnosing barriers to modernization. USAID Missions should stand ready to assist in these efforts. By targeting assistance effectively, WCO needs assessments can significantly reduce the need for USAID funding in customs modernization.
- ***Engage the Private Sector in the Process and Objectives.*** Although most of the private sector supports customs improvements and modernization, support is not usually monolithic. Since trade cooperation is an important element of customs control, the Mission should identify proponents and opponents of change so as to improve project support. The Mission should consult with key private sector organizations and keep them informed during all phases of the project.
- ***Assist the Private Sector in Customs Modernization.*** Key elements of customs modernization require active private sector support, such as electronic data input for import and export procedures and assumption of guarantees for early release of goods or temporary importations. Private firms may need technical assistance in these areas. The Mission should stand ready to provide such assistance, either directly or through coordination with another donor, such as the Trade and Development Agency or the UN/WTO-sponsored International Trade Centre in Geneva.

5. Illustrative Project Costs

Customs assistance costs vary with the nature of the project. In some projects, customs assistance is a minor component and others the *raison d'être*. Cost is also affected by (1) the extent to which the project is a joint venture with other donors, such as UNCTAD or other bilateral donors, where the USAID's cost is relative to its share of the project; (2) the institutional development of the customs organization, as determined by a needs assessment; and (3) size of the organization, including number of ports of entry. Costs for technical assistance and training are relatively modest, whereas modernization projects may also require significant funding for computers and peripheral equipment, communications equipment, laboratory equipment, and other kinds of apparatus. The cost of a full customs modernization project encompassing technological enhancement may be considerably higher.

In budget planning, costs may be estimated according to models of various kinds of customs assistance programs.

MODEL 1. FINANCIAL AUDITS AND INVESTIGATIONS PROJECT

The aim of this project would be to improve customs' ability to review private financial records to support customs risk management and shorter cargo-release times. It assumes that (1) customs modernization is well underway and automated to the point of electronic data interchange, and (2) customs officials can and do perform post-release document checks.

Staffing

Short-term experts in customs and financial law, financial audits, fraud investigations, and trade cooperation development (12 staff-months)	\$330,000 (senior)
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Other direct costs and travel costs

\$110,000

Local training

20 auditors and investigators in 2-month course on financial law and international version of Generally Accepted Accounting Principles	\$15,000 (translation, logistics)
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TOTAL

\$455,000

MODEL 2. EXPORT DEVELOPMENT PROJECT

The aim of this project would be to improve customs administration of import and export processing and duty-relief regimes to encourage exports. The model assumes partial automation of customs' import and export processing at the approximate level of ASYCUDA 2.7. The Chief of Party would be the head of the Export Development Project.

Staffing

Automated customs procedures expert (12 staff-months)	\$300,000 (senior)
Short-term experts in customs law, drawback, temporary importations, and free zones (6 staff-months)	\$165,000 (senior)
Other direct costs and travel costs	\$475,000

Outside training

2 customs and trade officials for 2-week observation of fixed-rate drawback administration in Chile	\$30,000
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TOTAL **\$970,000**

MODEL 3. CUSTOMS MODERNIZATION PROJECT

The aim of this project would be to fully train and equip customs personnel to conduct electronic processing of imports and exports, use risk management and compliance measurement techniques, and carry out audit-based controls using both document/record checks and financial audits. The model assumes that the country has sufficient trade to warrant automated processing and direct trader input. Project length would be three years.

Staffing

Chief of Party (36 staff-months)	\$865,000 (senior)
Information technology expert (24 staff-months)	\$470,000 (mid-level)
Training expert (18 staff-months)	\$315,000 (senior)
Short-term experts in customs law, risk management, audit, fraud investigation, valuation, duty-relief regimes, and trade cooperation development (100 staff-months)	\$2,360,000 (senior, mid, junior)
Local staff for administrative support and IT, accounting, and legal expertise (100 staff-months)	\$1,140,000
Other direct costs and travel costs	\$2,500,000

Outside training

12 customs officials for 2-week observation of valuation, audit, and fraud investigation practices in the United States	\$100,000
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5 customs and trade officials for 1-week observation of electronic data interchange and processing in the United States	\$40,000
Equipment	
65 personal computers	\$130,000
12 printers	\$7,500
3 backup generators	To be priced separately
Installation of 3 miles of land lines	To be priced separately
Laboratory equipment	To be priced separately
Communications equipment (cell phones and walkie-talkies)	To be priced separately
TOTAL	\$7,927,500+

Appendix A. Multilateral Donors and Providers of Customs-related Technical Assistance

ORGANIZATION	EMPHASIS	CUSTOMS ASSISTANCE	LIMITATIONS
International Monetary Fund	Strengthen fiscal policies of member countries.	Revenue improvement and elimination of revenue leakages.	Assistance depends on identified fiscal needs and targets of country, not necessarily those related to trade capacity building.
World Bank	Country-specific programs to strengthen economies of poor countries through the international flow of capital for productive purposes.	Specific country needs.	Assistance mostly limited to poorer countries.
UNCTAD	Integrated treatment of development issues of developing and transition economies, including programs on trade-related issues.	Carried out principally through the ASYCUDA program.	Mostly limited to computerization under ASYCUDA.
World Trade Organization	Implementation and application of WTO Agreements.	Explaining and facilitating the application of WTO Agreements affecting customs.	Assistance limited to application of WTO Agreements and implementation issues.
World Customs Organization	Worldwide customs harmonization and simplification of customs procedures and techniques; assistance provided through Customs Reform and Modernization Program.	Given in response to initiatives by member countries, principally to explain WCO customs conventions. Developing customs diagnostic tools; completion target date of Spring 2003.	Assistance based on self-evaluation by member customs organizations, under guidance of WCO, and not necessarily for purposes of trade capacity building.
Joint Integrated Technical Assistance Program	Joint program of WTO, UNCTAD, and ITC for capacity building and integration into multilateral trading system; concentrated in African countries.	Specific country needs.	Assistance limited to specific African countries.
Integrated Framework for Trade-Related Technical Assistance to Least-developed Countries	Joint program of IMF, UNCTAD, ITC, UNDP, WTO, and World Bank to deliver trade-related technical assistance to least-developed countries.	Comprehensive country-specific assessment of policy, institutional, infrastructural impediments to trade integration and competitiveness, with a focus on implications for poverty reduction; recommends specific technical assistance.	Assistance limited to least-developed countries. Assessments are comprehensive, but generally require about one year to complete.

Appendix B. Customs Guidelines of the International Chamber of Commerce (ICC)

An initial business contribution to the ICC Cooperation Agreement (1996) with the World Customs Organization (WCO), the guidelines presented here express a comprehensive set of practices that the ICC considers important for international trade and transport and that should characterize modern customs administrations.

The guidelines draw on documents established by the WCO, including the Kyoto Convention and the Columbus Declaration. Many recommended practices—for example, the use of risk-assessment techniques with pre-entry and post-audit procedures—will improve customs control and facilitate trade. The guidelines refer specifically to the value of systematic customs and trade cooperation through Memorandum of Understanding programs.

The guidelines can be readily expanded into a comprehensive Code of Best Customs Practices, which would be of considerable value to customs and trade in many emerging and transition economies. They should prove useful for rapid analysis of customs quality by such lending agencies as the World Bank or the IMF. International trade performance, greatly influenced by customs efficiency, is a key factor in these agencies' financing and loan assessments. The guidelines can also serve as the basis for regular review and classification of customs services and as a reliable index of progress. They anticipate potential extensions of current practice and so provide signposts to customs innovations.

These guidelines will be adapted over a period of time to reflect new trading, transport, and administrative techniques, particularly with respect to information and communication technologies. The ICC expects to gain much from using them in their present form in European transition economies and in the customs activities now under way in APEC and NAFTA. They are a powerful tool for integrating practical freedom for individual international transactions with the policy objective of global trade liberalization.

In some countries, certain procedures may not yet be feasible because of legal constraints. It is not the intent of the ICC to have customs administrations question national legislation. The points set out in the guidelines, however, have been applied successfully by some leading customs administrations and the ICC advances such proposals in the expectation that legal obstacles elsewhere will be removed eventually.

These guidelines do not imply that traders will be less responsible for complying fully with customs laws and regulations. They are intended to encourage cooperation between customs and commerce so that both can fulfill their obligations without conflict.

GUIDELINES

A modern, efficient, and effective customs administration:

A. Strategic Plan

1. Associates its business community with the development of a strategic plan, looking forward three to five years, which describes its overall strategy and key priorities, supported by an annual management plan containing more detailed targets, objectives and performance measures.
2. Publishes an annual review, up-dating strategy and reporting progress.

B. Workforce and Structure

3. Employs a highly professional workforce, which is recruited competitively, well trained, adequately paid and screened for enforcement risks, with written, standardised job descriptions and objectives, supporting transparent career development and promotion policies.
4. Establishes an internal security unit, or is subject to an equivalent external body, to deal with issues of employee integrity. These arrangements should be known to the trade community, which should be given information enabling them to contact the appropriate security agency as and when necessary.
5. Ensures that all employees having contact with the public carry proper identification, which should be shown on request.
6. Employs, trains, and identifies, as appropriate, tariff classification, valuation and rules of origin experts, to assist the trade community in these areas.
7. Trains officers to investigate complex frauds, and recommend appropriate action.

C. Cargo Processing (General)

8. Applies the WCO Kyoto Convention and actively supports current WCO work on its review and revision.

D. Cargo Processing (Inwards)

9. Relates physical control procedures to documentary control procedures, in such a way that essential control data are processed in advance of the arrival of the goods, while other, administrative data are handled by post-clearance controls.
10. Gives the declarant the option to secure immediate or rapid release by filing entry data in advance of the arrival of the goods.
11. Gives the declarant the option to enter data, either manually or electronically, and comply with essential control requirements, at a place different from the location of the goods.

12. Establishes control and release systems that enable the importer or agent to obtain the goods prior to the completion of administrative requirements and payment of duties, taxes and fees.
13. Applies the WCO Express Guidelines for consignments for which immediate or expedited release or clearance is requested, regardless of weight, value, size, type of operator or carrier, or mode of transport.
14. Applies a de minimis regime whereby certain goods, including documents, private gift packages and trade samples, not exceeding a certain value or weight, are exempted from import duties and taxes and from formal declaration procedures.
15. Reviews de minimis levels regularly to take account of such factors as inflation.
16. Gives the importer the option to file entries himself or to use an authorized agent.
17. Releases goods at carrier's point of arrival, without requiring their interim transfer to a government-operated or -designated warehouse.
18. Uses selectivity, based on automated compliance measurement and risk-assessment and profiling systems, to target suspect consignments and so minimise the incidence of physical examinations.
19. Operates a corporate surety bonding system, or other appropriate means, such as a duty- and tax-deferral system, to protect the revenue and ensure compliance with customs laws without unnecessarily delaying the release of goods.
20. Fixes, in the absence of any evidence of fraud, a reasonable limit on the time during which it can demand additional duties and/or the re-delivery of the goods.
21. Develops the use of non-intrusive examination techniques, such as X-ray.
22. Develops and applies performance standards to check that its processing and release of goods are timely and meet reasonable business needs.
23. Allows authorized importers to file single entries covering all their importations in a given period, e.g., monthly.
24. Replaces transaction-by-transaction treatment by account-based, post-entry procedures for importers with proven compliance histories and consistent import patterns (e.g., types of goods and origins).
25. Has government authority to perform certain control functions, at the time of import, for other official agencies and links these agencies to customs automated systems and databases for targeting and risk-assessment purposes.
26. Adapts its working hours to ascertained commercial needs and operational requirements, and operates any necessary overtime or other exceptional service systems on transparent cost bases negotiated with business clients.

E. Cargo Processing (Outwards)

27. Ensures that the statistical requirements for recording purposes are not applied in ways, or at times or places, that could significantly affect the efficiency of the export operation.
28. Accepts, as far as possible, a commercial document, e.g., invoice, containing the necessary particulars, as the export declaration, in place of an official form.

F. Cargo Processing (Transit)

29. Applies appropriate international transit conventions, for example, those noted in Annex E.1 of the Kyoto Convention.
30. Cooperates closely with other neighbouring customs administrations to assist effective control and facilitation of common transit traffic.
31. Operates computerised systems providing early, reliable notice of discharge of declarants', carriers' and guarantors' transit obligations and effective means of identifying and preventing fraud.
32. Accepts that guarantees or deposits for the transit operation remove any need for supplementary undertakings or payments at point of entry;

G. Transparency of Regulation and Administration

33. Publishes its strategic plan and all customs regulations and makes them available to the public through the most modern and practical media, while ensuring that existing and new regulations and legislation are simple in form, content and presentation.
34. Consults the trade community, systematically, to obtain views on proposed new regulations and procedures, or amendments to existing requirements, and gives them timely notice of any eventual changes.
35. Adopts a Memoranda of Understanding programme, based upon that sponsored by the WCO, by which improved cooperation with the trade community is established in the areas of information exchange, security and training, with a view to more effective interdiction of customs fraud, in particular drug trafficking, infringements of intellectual property rights and threats to endangered species.
36. Provides the means for the trade community to question or appeal decisions, by local officials, to a higher level, within customs, and, eventually, to a court of law, settling minor violations, normally, at the local level.
37. Establishes an ombudsman, specialised in customs matters, as a medium for approaching the administration and a general information office or section to deal with queries from the trading community;

H. Automation

38. Operates a nationwide automated system to provide electronic filing facilities for the trade community in respect of declaration data to be submitted at both import and export and for banks and corporate sureties in respect of duty and tax guarantees and surety bonds.
39. Is able to transmit and receive data, nationally and internationally, using appropriate international EDI standards.
40. Provides automated systems for the payment of duties, taxes and other fees by electronic fund transfer.
41. Makes tariff and related information/data available to the trading community from an automated system.
42. Establishes and operates an automated enforcement information system, using risk assessment and other modern control techniques.
43. Requires, as a matter of routine, in automated systems, only those data items which can be clearly linked to significant gains in customs operational efficiency;

Tariff Classification and Valuation

44. Applies the WCO Harmonized System Convention.
45. Applies the WTO Valuation Agreement.
46. Issues binding pre-entry classification and valuation rulings, on request, which will be honoured by officers, throughout the customs territory.
47. Identifies and makes available customs experts to advise the trade community on tariff classification and valuation matters.
48. Provides a sound, scientific basis for classification decisions through the use of laboratory analysis, equipment and technology.
49. Publishes tariff classification and valuation rulings, either in printed form or on electronic media, and makes them available to traders and other customs administrations;

J. Origin

50. Publishes current origin rules and rulings.
51. Applies, in due course, the WTO Rules of Origin;

K. Disputes and Sanctions

52. Accepts and applies the penalty regimes in Annex H.2 of the Kyoto Convention.

53. Favors the resolution of disputes with traders through conciliation and financial adjustment rather than recourse to courts;

L. International

54. Is a WCO member and participates in WCO and regional customs activities.
55. Shares information with, and provides technical assistance to, other customs administrations for enforcement and facilitation purposes.
56. Consults with major traders/carriers to develop customs/customs/business electronic information systems that would, initially, link and, eventually, replace traditionally separate export and import formalities;

M. Passenger Processing

57. Relies on passenger observation techniques and behaviour profiles rather than routine questioning of all passengers.
58. Establishes benchmark standards for passenger processing times and checks performances with corresponding benchmarks in other customs administrations.
59. Uses automation techniques, including EDI, to improve the efficiency and security of passenger processing, including, where appropriate, the capture of Advance Passenger Information (API) from machine-readable travel documents, leading to expedited passenger clearance.
60. Uses a passenger processing system that is integrated with immigration and other control authorities, in order to avoid procedural duplication.

Appendix C. Guiding Principles and Action Plan of the Subcommittee on Customs Procedures, Asia-Pacific Economic Cooperation

GUIDING PRINCIPLES

The guiding principles (“FACTS”) were established in February 1995 in Fukuoka, Japan:

- **Facilitation.** While ensuring proper enforcement of Customs laws and regulations, APEC Customs Administrations should strive to improve facilitation of Customs clearance procedures.
- **Accountability.** Customs Administrations should be accountable for their actions through a transparent and easily accessible process of administration and/or judicial review.
- **Consistency.** Customs laws, regulations, and administrative guidelines and procedures should be applied in uniformly in each economy.
- **Transparency.** Customs laws, regulations, and administrative guidelines and procedures should be made publicly available in a prompt and easily accessible manner.
- **Simplification.** Customs laws, regulations, and administrative guidelines and procedures should be simplified to the extent possible so that Customs clearance can proceed without undue burdens.

ACTION PLAN OBJECTIVES AND EXPECTED OUTPUTS

OBJECTIVES

EXPECTED OUTPUTS

Harmonization of Tariff Structure with the HS Convention

To ensure consistency of application, certainty and a level playing field for business through the HS Convention, the standard international harmonized system for the classification of goods.

Accurate, consistent, and uniform application of the HS Convention by all APEC member economies.

Public Availability of Information on Customs Laws, Regulations, Administrative Guidelines and Rulings provided to the business sector on an ongoing basis

To ensure traders have access to all the pertinent information for business decisions through the provision of accurate, consistent, and user-friendly information to business on an ongoing basis.

More transparent APEC Customs Administrations.
Enhanced APEC Customs Administrations' competence in dissemination of information on customs laws, regulations, procedures, rulings, and guidelines.

Simplification and Harmonization on the Basis of the Kyoto Convention

To improve efficiency in customs clearance and the delivery of goods in order to benefit importers, exporters and manufacturers through simplified customs procedures and best practices.

Simplified and standardized customs procedures implemented by all APEC members.

Adoption and Support for the UN/EDIFACT

To use the standard UN electronic messaging format for automated systems, the United Nations/Electronic Data Interchange for Administration, Commerce and Transport, to promote an electronic highway for business.

Implementation by member administrations of UN/EDIFACT international electronic messaging standards as the basis for computerization programs.

Adoption of the Principles of the WTO Valuation Agreement

To facilitate administration of the WTO's Valuation Agreement on standard procedures for valuing goods.

Implementation of the Agreement by members, in a timely and orderly manner, to meet members' international obligations under the Agreement.

Adoption of the Principles of the WTO Intellectual Property (TRIPS) Agreement

To implement border enforcement procedures for protecting intellectual property rights.

Strategic program to implement border endorsement of the Agreement by members, in a timely and orderly manner, to meet international obligations under the Agreement.

OBJECTIVES

EXPECTED OUTPUTS

Introduction of Clear Appeals Provision

To provide business with an opportunity to challenge potentially erroneous or inequitable Customs decisions through mechanisms for transparent, independent, and timely appeals.

Implementation of customs appeal mechanisms by all members. More transparent and effective appeals process and client service initiatives in APEC customs administrations.

Introduction of an Advance Classification Ruling System

To establish simplified procedures for providing classification information prior to importation, thus bringing certainty and predictability to international trading and helping traders to make sound business decisions based on legally binding advice.

Introduction of simplified procedures for an advance classification ruling system to the customs procedures of each APEC economy by 2000.

Provisions for Temporary Importation (e.g., acceding to the A.T.A. Carnet Convention or the Istanbul Convention)

To help business move goods such as commercial samples, professional equipment, tools of trade and exhibition material across borders with a high degree of certainty as to how these goods will be treated by Customs by having standard procedures for admitting goods on a temporary basis.

- Implementation of terms of the A.T.A. Carnet and Istanbul Conventions.
- Provision of common import/export document for temporary importation of goods.
- Internationally accepted security for goods entitled to temporary admission without payment of duties and taxes.

Harmonized APEC Data Elements

To develop a comprehensive directory supported in UN/EDIFACT which includes a simplified "core set" of data elements, largely derived from commercially available data, that would satisfy the standard data requirements of the majority of APEC trade transactions and so facilitate the exchange of information and provide a foundation for common forms and electronic commerce.

- The development of a set of
- Trade data elements required for ordinary goods for home consumption.
 - Best practices guidelines for processing and clearance associated with movement of goods until goods are no longer under customs controls.

Risk Management Techniques

To focus Customs enforcement efforts on high-risk goods and travelers and facilitate the movement of low-risk shipments, through a flexible approach tailored to each APEC economy.

Implementation of a systematic risk management approach to allow APEC Customs administrations to facilitate legitimate trade and travel while maintaining control.

Guidelines on Express Consignments Clearance

To implement principles contained in the *WCO Guidelines on Express Consignment Clearance*, the international standard procedures for clearance of express goods, working in partnership with express industry associations.

- Timely implementation of international standard for customs clearance of express shipments.
- Trade facilitation while maintaining essential customs control responsibilities.

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