



**REVENUE COLLECTION
PERFORMANCE**



USAID | Iraq Economic Governance II

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General Commission of Customs

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INTRODUCTION

Revenue Collection

Revenue Collection has been of major importance to the economy of Iraq during the reconstruction period. The performance of the General Commission for Customs (GCC) is measured to a greater extent by the amounts of Reconstruction Levy (RL) it collects month by month.

There is no doubt that the GCC face difficulties in fulfilling the task of collecting the revenue on goods imported into Iraq. Some are due to security issues, some due to outdated organization and working practices and others due to integrity and corruption issues, one basic reality is that central government do not control all border sites. Despite these difficulties, the GCC must take steps, in the short term, to maximize revenue collection and protect society from the smuggling of prohibited goods.

Pending the adoption of a long-term modernization process some short-term measures are required to increase management controls and enhance revenue collection whilst moving towards a modern customs approach. Failure to start this process immediately will mean much continued loss of revenue and the resulting adverse effect on the economic situation in Iraq.

Customs are at the forefront of revenue collection and protection of society and must accept this responsibility and strive to overcome the many difficulties they will encounter. Senior and middle managers must now be made accountable for driving the GCC forward and producing the required results in an open and transparent manner.

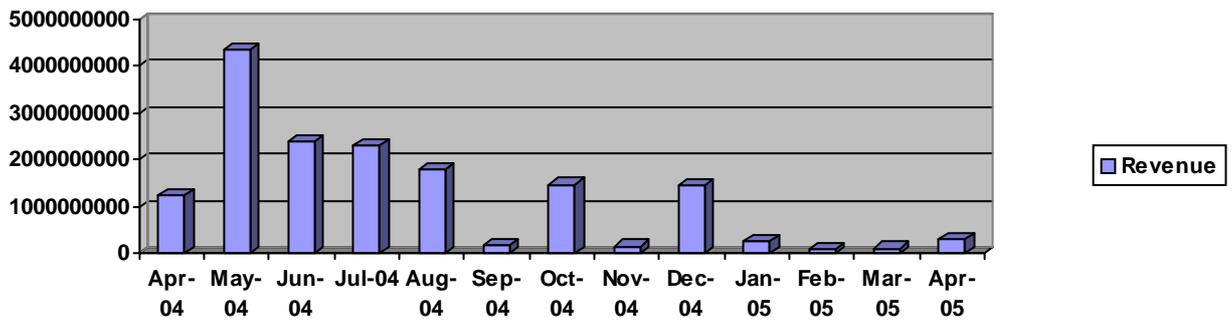
Enhancing revenue collection is the beginning of a long and difficult journey and those in the GCC management who are unwilling or unable to face the difficulties should be considered for less responsible positions.

Performance

PERFORMANCE

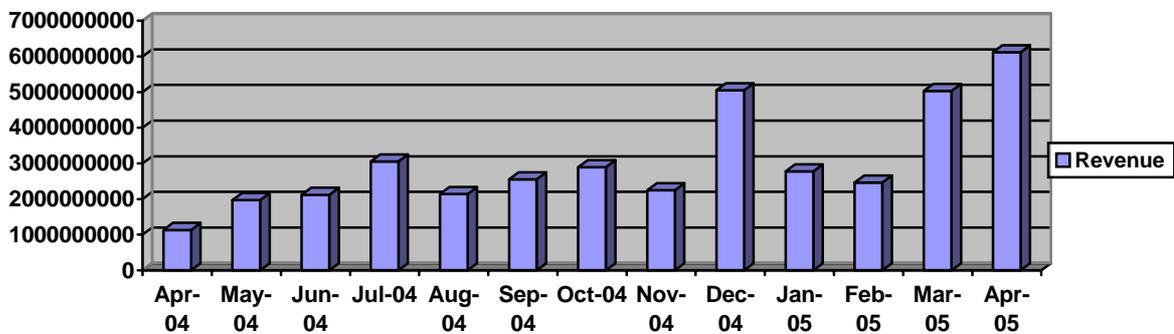
The following graphs show the month-by-month revenue collection figures for the GCC on a post-by-post basis. Whilst revenue collection from importations from Syria has declined, revenue from Baghdad International Airport (BIAP) and Kuwait has increased. The increase at BIAP may not only be due to increase traffic but also to the presence of Global Security which takes a pro-active role throughout the airport. Lower revenue yields from Al Mundhiriya are being compensated by increasing yields from Zurbatiya however there is no revenue being reported from the Turkish border posts. Lower revenue collection from the Syrian border may be due to the increased security problems in that area.

Northern Borders (Syria)



A steady decline is seen in revenue collection from May 2004 to the present low rates. The managers of the border posts should be required to submit a written report for the reasons for this. Security issues and military action may be the reason however this needs to be documented on a month by month basis by the GCC.

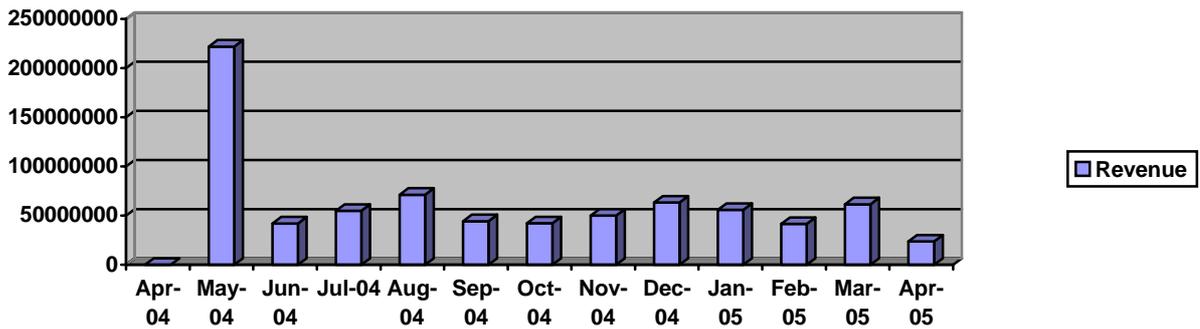
Southern Borders (Kuwait)



This region shows a steady increase in revenue collection that is apparent in only few customs posts.

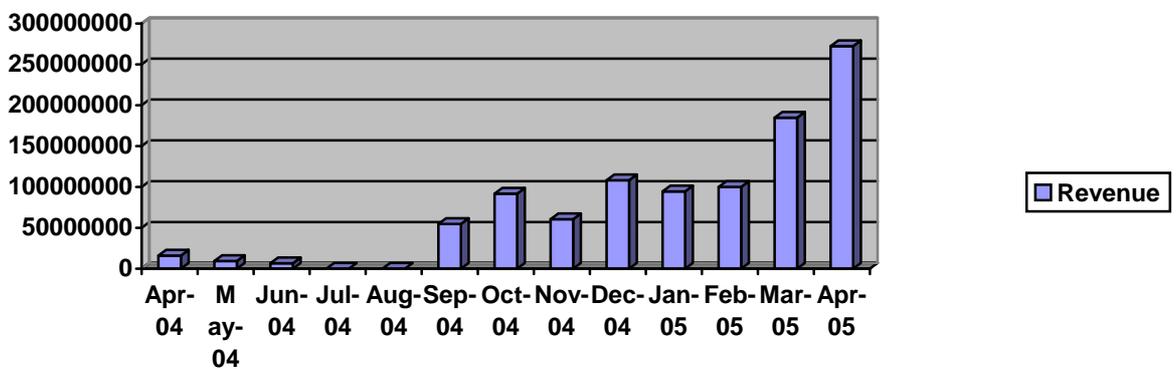
Performance

Al Mundhiriya (Iran border)



Whilst May 2004 was a very high yield month, investigations should be carried out to establish if the current levels are normal or could be improved.

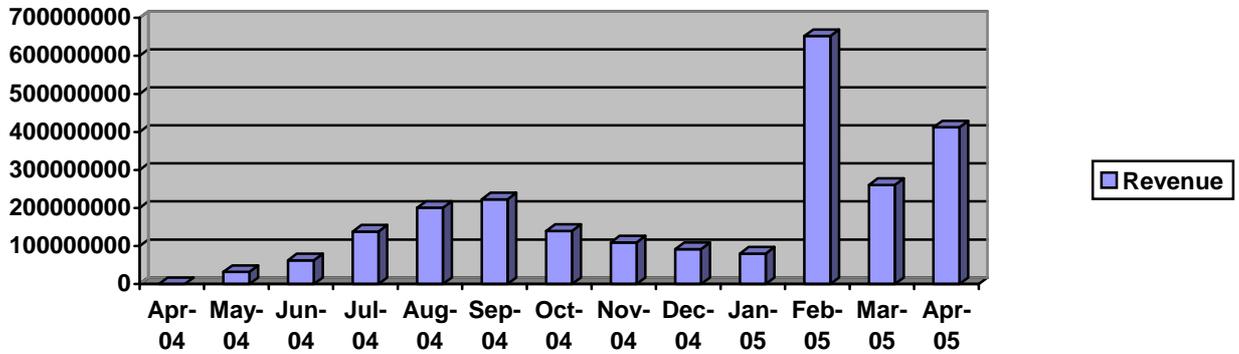
Zurbatiya (Iran Border)



From low levels of revenue in the early months of 2004, a steady increase has been maintained.

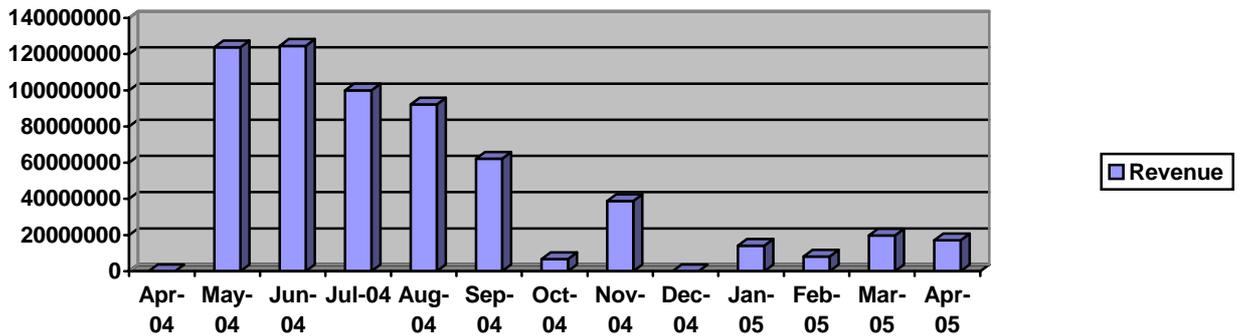
Performance

Baghdad International Airport



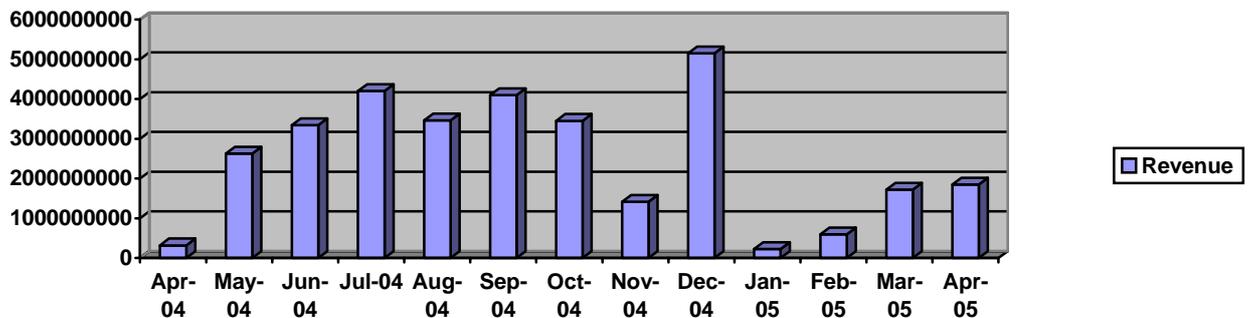
Baghdad airport shows a tendency for increasing revenue that may be partly due to a increase in traffic and partly due to the activities of Global Security which tends to limit the more overt corrupt practices.

GCC (HQ)



A considered drop is noted from the earlier higher levels and is reported that it is due to importers taking advantage of corrupt practices at border posts and deferred payment not being used.

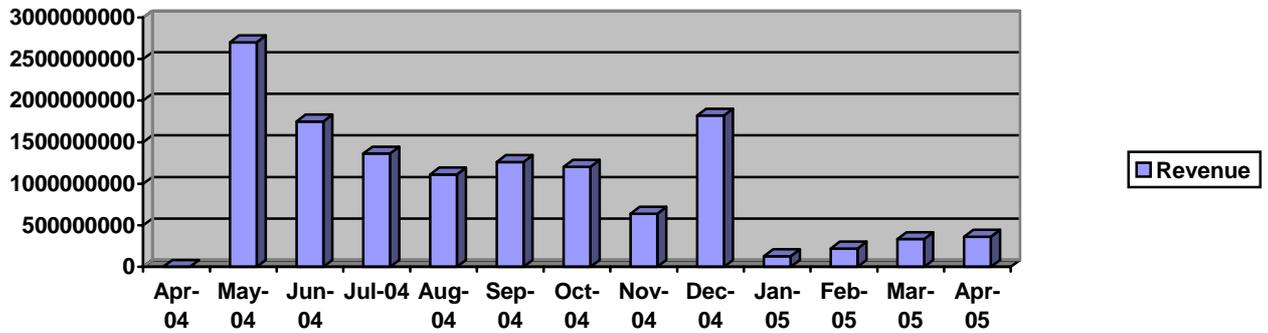
Traibeel (Jordan)



This post shows a worrying drop in revenue in the first 4 months of 2005 that needs explanation.

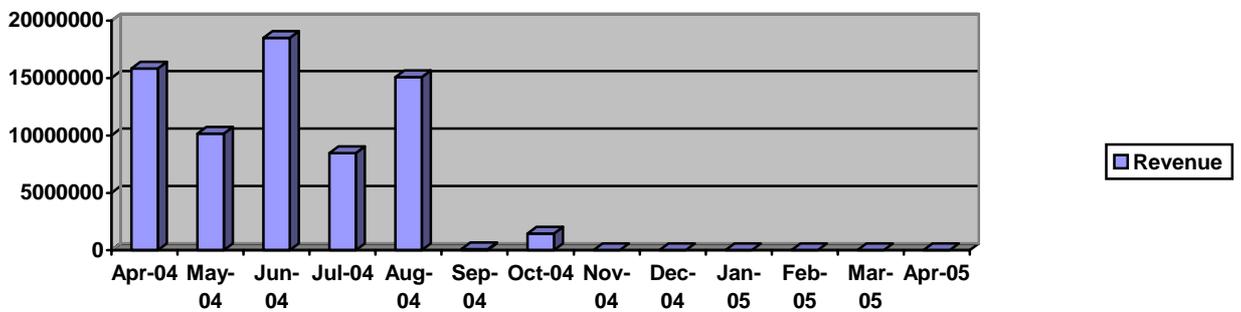
Performance

Al Walid (Syria)



A steady decline is seen in revenue collection from December 2004 to the present low rates. The managers of the border posts should be required to submit a written report for the reasons for this. Security issues and military action may be the reason.

Al Qa'em (Syria)



This border post has been closed to cargo traffic.

Ar'Ar (Saudi Arabia)

Only minimal collections of revenue in December 2004 and January 2005, no other revenues collected.

Turkey

No revenue is being reported from importations through the border post with Turkey.

An overview of the total reconstruction levy collected since May 2004 is attached at appendix A

CONCLUSION

The requirement is for short-term plan objectives that are aimed at immediate improvements to the customs service and the enhancement of government revenues. These will involve improvements to the operation and administration of the current Iraq Construction Levy System (ICLS) and improved revenue and statistical reporting. Moving to a system of transaction-based valuation and enhanced targeting and compliance programs that can be introduced immediately will further improve efficiency. Innovative solutions such as collecting revenues in Jordan, Turkey, and the UAE at free-zone points on goods bound for Iraq are already being explored with the GCC.

The amounts of revenue being collected by the GCC have shown a steady decline over the first 4 months of 2005 in comparison to the amounts of Reconstruction Levy (RL) collected in 2004. Whilst there may be many reasons for this, the GCC must be in a position to explain the reasons for lack of performance in this vital area. Many reasons may have an adverse effect on performance, one being the ongoing security situation. However tales from the border posts that only 20% of vehicles that cross the border are being declared due to widespread corrupt practices by all border agencies, threats to customs officers and, inefficiency need to be addressed. If GCC and other border agencies cannot control the borders and ensure correct revenue collection procedures are implemented and anti smuggling measures are in place then stringent border control must be undertaken with support from the security forces and Iraq National Army. Closure of some border posts must be considered with canalization of commercial traffic through designated posts with enhanced security measures, independent recording of each vehicle crossing the border point, fully trained staff and, if necessary visits by advisory staff as part of an assurance program.

With the intended plan to raise the level of reconstruction levy from 5% to 10% in September, the GCC and government of Iraq has a short period of time to address the problems.

The current import declaration is not completed by the importer, in general is not supported by a commercial invoice and supporting commercial documents and does not contain sufficient data to provide important import statistics. The GCC must at this stage move away from the use of minimum import values and adopt and implement Article VII of the General Agreement on Tariffs and Trade 1994 (GATT) as detailed in CPA Order 54 in 2004 relating to Trade Liberalization Policy. The GCC continues to be in breach of this order and must issue directives to all managers with immediate effect. Adherence to the provisions of GATT valuation should have a positive effect on revenue collection in the long term, however, endemic corruption at border posts requires urgent action if anecdotal stories are even half true.

Unless the GCC can improve performance and efficiency in the area of revenue collection and integrity, actions such as external revenue collection may become a long-term possibility.

Recommendations

For immediate action:

1. The GCC receive a monthly report from all customs post managers on revenue collection and, problems relating to revenue collection and performance. Explanations should be submitted detailing any reasons / incidents that affect ability to collect the correct level of revenue.
2. The GCC implement a more comprehensive import declaration form allowing more detailed management information and statistical data to be collected.
3. The Iraq Customs Levy System is amended to accept the new import declaration form.

Conclusion and Recommendations

4. The GCC does not accept any import declarations that are not supported by a commercial invoice and supporting documents and implements fully the valuation guidelines as set out by CPA Order 54 and GATT guidelines.
5. A notice is issued to all importers explaining, and giving guidance on, the new procedures.

These recommendations should be issued in a directive from the Minister of Finance to the Director General of Customs who will take responsibility for implementation and notification to all GCC staff.

Further recommendation will be made as the current changes are monitored and results assessed.



Appendices

APPENDICES



Appendices

APPENDIX A – REVENUE COLLECTION TOTALS

DATE (Border)	NORTHERN (Syria)	SOUTHERN (Kuwait)	AL-MUNDHIRIYA (Iran)	ZURBATIYA (Iran)	BIAP (Airport)	HQ (HQ Only)	TRAIBEEL (Jordan)	AL-WALEED (Syria)	AL-QA'EM (Syria)	ARAR (Saudi)	TOTAL
Apr-04	1,250,000,000	1,131,539,983	0	16,309,900	0	0	317,094,610	0	0	0	2,714,944,493
May-04	4,337,390,000	1,971,369,714	221,844,818	9,525,000	32,075,364	123,726,743	2,627,230,700	2,702,053,954	15,827,375	0	12,041,043,668
Jun-04	2,403,338,870	2,115,518,026	42,143,550	6,797,500	62,420,961	124,553,894	3,343,250,000	1,750,400,500	10,148,350	0	9,858,571,651
Jul-04	2,307,005,500	3,052,940,316	54,919,795	0	138,147,175	99,900,489	4,198,370,000	1,363,256,975	18,492,800	0	11,233,033,050
Aug-04	1,796,901,250	2,139,310,617	71,253,915	0	200,662,651	92,233,860	3,461,163,000	1,111,611,740	8,468,250	0	8,881,605,283
Sep-04	178,569,000	2,551,030,425	44,318,832	54,642,250	223,135,094	62,083,882	4,096,850,332	1,262,512,448	15,064,200	0	8,488,206,463
Oct-04	1,478,189,000	2,891,147,060	42,185,937	91,920,500	139,960,550	6,743,885	3,449,220,981	1,204,118,095	88,000	0	9,303,574,008
Nov-04	161,199,750	2,248,338,492	50,144,523	60,734,000	109,702,500	38,803,500	1,413,478,671	640,819,537	1,453,500	0	4,724,674,473
Dec-04	1,471,446,000	5,050,730,581	63,329,472	108,144,000	92,143,950	0	5,150,394,250	1,819,911,511	0	733,750	13,756,833,514
TOTALS	15,384,039,370	23,151,925,214	590,140,842	348,073,150	998,248,245	548,046,253	28,057,052,544	11,854,684,760	69,542,475	733,750	81,002,486,603
Jan-05	277,986,000	2,773,197,197	55,956,838	94,661,000	80,454,000	14,094,722	223,546,000	129,546,964	0	166,000	3,649,608,721
Feb-05	87,130,000	2,458,285,947	41,665,400	100,066,000	652,109,700	8,061,897	596,467,000	221,933,805	0	0	4,165,719,749
Mar-05	118,514,500	5,028,167,154	61,540,500	184,880,000	260,970,800	19,853,750	1,718,866,000	334,703,683	0	0	7,727,496,387
Apr-05	314,223,500	6,117,485,876	23,841,350	272,025,000	412,070,750	17,122,769	1,844,926,000	364,389,223	0	37,000	9,366,121,468
TOTALS	797,854,000	16,377,136,174	183,004,088	651,632,000	1,405,605,250	59,133,138	4,383,805,000	1,050,573,675	0	203,000	24,908,946,325

Northern = Rabiya, Transient Zone
Southern = Safwan, Um Qasir, Abu Floos, Khour Al Zubair, Ashalamcha,
 Al Faw, Al Maaqal, Transient Zone



Appendices
