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ECUADOR FISCAL ADMINISTRATION STUDIES

STAFF PAPER No. 2

ECUADOR: DESIGN OF AN IMPROVED
CUSTOMS COLLECTION SYSTEM

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THE METROPOLITAN STUDIES PROGRAM
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4	The Impact of Intergovernmental Grants on Local Governments in Ecuador: A Study of FONAPAR	David Greytak
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It has been a great encouragement to note the enthusiastic acceptance of the need for reform, and the task of the mission has been made easier by the willing cooperation at all levels within the services to supply information and advice.

A special word of thanks is due also to Sr. Mario Vela, the Organization of American States (OAS) team leader whose life-long experience of the Ecuador Customs Service and many other administrations in Latin America has helped greatly in reaching an understanding of the special problems with which the authorities have to deal.

It is very much hoped that the joint efforts which have contributed to this report will be of service in achieving their desired results.

FOREWORD

The regulation, operation and imposition of Customs in Ecuador are the subjects of this report prepared by Kenneth Stacey. The analysis, findings and recommendations he presents are the product of a ten month effort, sponsored by USAID, which involved extensive field work including interviews and observation at all levels of the Customs operations. The purpose of this endeavor was to determine whether, and if so, where and how, the regulation and imposition of customs duties could be improved.

Mr. Stacey, in collaboration with Francisco Gonzalez and Oakley Austin, carefully examined the movements, storage, and documentation of traded goods, the methods and procedures by which they are valued, and the imposition of customs duties. All phases of their activities were supported and greatly facilitated by the cooperation of numerous public officials who are acknowledged elsewhere herein.

This report has been prepared as part of a project involving three studies undertaken at the request of Ecuadorian Ministry of Finance. The other studies, concerned with income taxation and intergovernmental aid, are the subjects of separate reports.

Kenneth Stacey is a former member of the British Customs Services and has studied the operations of customs services throughout the world.

This project is part of the Local Revenue Administration Project (LRAP) of Syracuse University and is supported under a cooperative agreement (AID/DSAN-CA-0198) with the United States Agency for International Development, Washington, DC. The views and interpretations in this publication are those of the authors and should not be attributed to the United States Agency for International Development.

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ECUADOR: DESIGN OF AN IMPROVED CUSTOMS
COLLECTION SYSTEM

1. Issues and Findings

1.1 Format of Report

The table of contents explains in general the format of the report. The principle followed has been to combine into one presentation the study areas of senior and customs research analysts all of which are essentially custom subjects. Because of the distinctive nature of the work of the Automated Data Processor (ADP) Advisor it does not easily fit into the general pattern of the report. Apart from introductory mention at the beginning of the main report, it has therefore been presented as an independent issue in Part IV with its own Appendix A.

1.2 Project Background

At the request of the Ministry of Finance, Government of Ecuador (GOE), USAID contracted the Local Revenue Administration Project of Syracuse University to conduct a study into certain aspects of revenue policy and administration which included the improvement of the customs collection system. A week's preliminary study was carried out in May 1985 as a result of which a technical assistance program in customs was formulated and planned to commence in September 1985.

At this point the GOE advised AID of the existence of an OAS Customs Team in Ecuador with similar terms of reference and requested AID to consult with OAS with a view to sharing responsibilities and draft a new scope of work accordingly. The result of the discussion was that all work connected with legal reform and tariff classification and part of the

training was left to the OAS Team. The AID scope of work was amended to include data processing and greater emphasis on investigation and cargo security.

A three-man team was recruited to conform with the final scope of work and their responsibilities are set out in Chapter 1.3. The duration of the project was from September 9, 1985, to April 7, 1986.

1.3 Objectives

To design and improve the systems for controlling customs documentation and detecting misinvoicing and other types of errors and noncompliance that reduce customs revenues. The specific tasks set to achieve this objective were:

- a. Perform a thorough assessment of the existing customs organization and operation including the General Directorates of Customs and Customs Taxation and other relevant agencies. Identify deficiencies in internal controls and documentation flow which permit evasion of duty.
- b. Review the laws, regulations, and policies affecting customs operations.
- c. On the basis of assessments made, recommend changes in organization, laws, regulations, staffing, documentary procedures, import permit control and other areas deemed necessary.
- d. Prepare a recommended plan with technical assistance for implementing the new system including a schedule of events, levels of effort, scope of work, and a training plan for customs staff.

1.4 Scope of Work

- a) Senior research analyst. Overall management, organization, valuation, some aspects of investigation, procedures and the preparation of a final composite plan for implementation with technical assistance. Duration: 4 months.
- b) Customs research analyst. Cargo security, investigation, procedures, and some training. Duration: 4 months.
- c) ADP technical advisor. Computerization of the system of entry verification and valuation with estimates of cost and staff savings. Duration: 1 month.

1.5 Present Condition of Customs Control

The detailed work plan below gives the findings for each individual issue but some general remarks are necessary in order to convey an idea of the special problems met with in this case.

There are two major abnormalities which seriously inhibit a coherent organization and effective central administration: the "separateness" of the Quito and Guayaquil groupings of GOE dependencies and the complete independence in practice of the customs military police (CMP) from the Director-General (D/G) of Customs.

The creation of the General Directorate of Customs Taxation in October 1978 was probably intended not only to establish an advisory body to the Minister of Finance (MOF) but to consolidate an effective form of control in the MOF over a distant D/G of Customs in Guayaquil. The result has been that a number of important Customs Headquarters (HQ) functions have been mixed with the essential nature of the General-Directorate which is to

advise on customs and tariff policy including the related tasks of exemption control and foreign trade statistics. It has not, however, succeeded in supervising the General-Directorate of Customs. A much more effective step in this direction was the appointment of a MOF Sub-Secretary for the Litoral. A further impulse to unifying the customs service will be the measures proposed later in this report for an investigation division, increased control of industrial incentives, change in the customs police structure, new valuation procedures, extension of computerization, and a reform of the Inspection system. All these involve strictly national activities which will tend to develop a unified "customs loyalty" rather than a "regional loyalty."

A further distortion of central control is the physical proximity of the Customs HQ to the Guayaquil Administration which has resulted in the absorption of many HQ responsibilities into the administration. Guayaquil at present collects 67 percent of customs revenue which is not enough to justify the degree of HQ attention it currently receives.

Some of the recommendations of this report are going to be difficult for the GOE to accept given the very real political and social problems with which they are faced. Nevertheless it is believed desirable to present recommendations based purely on technical considerations and where possible to give alternatives which could at least improve the present situation. In this way the GOE may appreciate the extent to which their customs administration has moved away from accepted norms.

Pay, working conditions, and lack of career expectations are having a serious effect on morale. Appendix B of this report gives an estimate of

revenue increase of US\$73 million after a year's operation of all the suggested reforms. It would be a wise investment to consider these factors in future budgeting for salaries.

1.6 Summary of Recommendations

- a) Reform Committee. Appoint a reform committee in the MOF to activate the necessary legislation and regulations for agreed reforms and to act as the chief counterpart to any technical assistance group.

Organization

- b) The General Directorate of Customs Taxation. Reform the constitution of the Directorate to confine their role to that of advisor to the Ministry of Finance on customs and tariff policy and related matters including the authorization of exemptions and transferring all customs operational and supervisory functions to the General-Directorate of Customs.

The detail of functions to be added and retained and those to be transferred will be found in paragraph 3.1.

- c) Organization of the General-Directorate of Customs. Remove the location of the General-Directorate to the Ministry of Finance in Quito or, if this is not acceptable, to the Ministry of Finance offices in Guayaquil.

Extend the responsibilities to embrace the operational duties to be transferred from the General-Directorate of Customs Taxation, from the customs military police and to administer a newly-created customs investigation division.

Terminate the operational units to be made redundant under the computerization plan and establish the Guayaquil Airport as a separate administration.

- d) Customs Military Police. Place the customs military police (CMP) under the control of the Director-General of Customs. If this is not acceptable, transfer an agreed number, say 200, from the CMP to the Director-General of Customs to perform cargo security duties to be recommended in this report. If this is not acceptable, recruit and train a new force of suitable strength for similar duties under the Director-General of Customs.

If any part of the CMP is to remain independent of the Director-General of Customs, they should relinquish any duties of a customs technical nature such as valuation of goods, participation in the examination of goods by the Vistaforador, approval of bonded warehouses, fraud investigation, etc.

- e) Société Générale de Surveillance (SGS). Request the Central Bank to consider terminating the contract with SGS for the verification of import and export values about one year after the inception of the customs computerization plan and using instead the valuation data to be produced under that plan.
- f) Customs Inspections. Abolish the General Inspectorate of Customs established under Article 138 of the Customs Organic Law 1978 and which has never functioned. Transfer all investigation duties of the customs inspection division to the new investigation branch and organize inspections of administrations according to a uniform and regular system.

- g) Guayaquil Airport. Undertake the necessary constructions to establish the airport as a fully independent customs administration.

Operations

- h) Valuation. Transfer all valuation work from the General-Directorate of Customs Taxation to the General-Directorate of Customs and give top priority to the computerization plan for collecting valuation statistics (see paragraphs 4.1 et seq.).

Eliminate the remaining official minimum values as soon as possible.

Initiate a Declaration of Facts as designed by the Customs Cooperation Council to establish trade relationship between supplier and importer.

Organize the valuation division in Customs HQ to include control visits to importers' premises.

- i) Customs Investigation. Recruit and train a customs investigation division to operate nationally in conjunction with the regional customs tribunals in the detection and prosecution of all contraband and technical customs offenses. The division could operate directly under the two Sub-Secretaries of Finance or under the Director-General of Customs with two sections operating respectively in Quito and Guayaquil.

- j) Regional Judiciaries. Conduct a study in the legal advisor's office MOF into the proper relationship between an investigation unit, the regional judiciary and the customs administrator and report on the propriety of independent judges being appointed by an interested party in the Ministry of Finance.
- k) Export and Industrial Incentives. Enlarge the present section in the General-Directorate of Customs to perform all operational functions on a national scale connected with export and industrial incentives such as approval of premises and the proper use of concessionary raw material.
- Develop a manual system within the section for centralizing information on concessionary industrial imports and product exports for eventual integration into the computerized system.
- l) Cargo Security. Employ a corps of customs police under administration control to tally discharging cargo, search ships, seal bonded stores, attend to damaged packages, enquire for missing cargo, control deliveries from the customs area, and ensure the security of cargo on the dock side and in warehouse.
- m) Ship and Aircraft Manifests. Reinstate the manifest in its role of basic accounting document through formal amendment by administrator of all discrepancies of manifest quantities encountered at the moment of receipt of the goods into the transit shed.
- n) Liquidation and Post-Audit Section. Abolish the post-audit section (Revisión y Rectificación de Tributos) in HQ and the

liquidation section in Guayaquil Administration after the advent of mechanization.

- o) Transit Goods and Bonded Warehouses. Abolish the practice of allowing removal of non-duty-paid goods from the point of arrival for duty payment elsewhere. Ensure strict examination procedure for goods removed for bonded warehousing, institute regular stock and delivery checks in warehouse and prohibit storage of unexamined goods. Establish and maintain uniform standards of warehouse security and enforce bond regulations for sealed or escorted removals in transit.
- p) Treatment of Containers. Perform a customs tally of all containers on unloading in the Port Authority warehouses reporting deficiencies to the Customs Administrator. Under the administrator's control institute specific checks on goods and documents on leaving the compound on final delivery.
- q) Training. Establish a permanent training institution in Guayaquil to train customs staff in conventional and specialist subjects in coordination with the MOF training center and the OAS advisory team.

Computerization

- r) Within the present customs computerization plan give high priority to the mechanization of entry checking procedures and the collection of valuation data with a view to early increases in revenue collection and staff savings.

- s) Nominate an official in the General-Directorate of Customs to act as national coordinator between that office and the Department of Organization and System (DOS) and a further coordinator in the Administration of Guayaquil.
- t) Arrange for training of selected personnel from customs and DOS in a country operating an effective computerized valuation and entry checking procedures.

2. Study Approach

2.1 Liaison between Consultants

The customs research analyst served two separate two-month periods October-November 1985 and February-March 1986. The ADP technical advisor served during the month of February 1986. The senior research analyst planned his own work and supervisory visits for shorter terms over the full course of the project in such a way as to coincide with the arrivals and departures of the other two consultants. He was also present for the December 1985 visit of the Syracuse University Project Director when an interim report was presented to the Minister of Finance.

2.2 Liaison between Consultants and the GOE

The Project commenced with a joint meeting between the Sub-Secretary for Rentas MOF, the AID representative, the project counterpart who is the Director General of Rentas and the senior research analyst. It resulted in a redrafting of the scope of work to accommodate an OAS customs advisory team which has been referred to in Chapter 1.1.

Subsequently the three consultants worked in coordination with counterparts in the MOF, General-Directorate of Customs and Customs Taxation, various customs administrations, the Central Bank, the Department of Organization and Systems, and representatives of the private sector. Details are given in Appendix F. Throughout the project close contact was maintained with the USAID Division Chief and the OAS representative. A final briefing was held with the Sub-Secretary of Rentas at which were present the project counterpart, the USAID representative and the senior and customs research analysts. The final report was written at Syracuse University in consultation with the project director.

3. Detailed Work Plan: Organization

Note: In the following section some paragraphs have an extra sub-heading for "present position" when lengthy findings and recommendations are involved.

3.1 The Restructure of the General-Directorate of Customs Taxation

a) Findings. The General-Directorate was created in October 1978 with the role of advising the Minister of Finance on customs, tariff policy, control of exemptions and valuation, supervision of certain customs activities. In May 1980 the collection and publication of foreign trade statistics was transferred to it from the Sub-Secretary of the Budget in Guayaquil. The whole is divided into two directorates: one controlling tariff policy, valuation and foreign trade and the second, exemption policy and authorization, taxation analysis and the operational control of certain Customs functions such as temporary import control, survey of industrial

users of concessionary raw material. Although certain of its functions are designated as "supervision" the directorate is actually performing the customs work.

The following operations are identified as being normally the responsibility of the Customs HQ:

Directorate of Foreign Trade

- Valuation

Directorate of Control and Taxation Analysis

- Approval of Industrial bonded warehouses
- Operational control of export manufacturers in the Quito area
- Operational control of temporary importations other than exempted raw materials for manufacture
- Assessment of duty on depreciation of exempted machinery and equipment
- Granting of authority for temporary importations and their re-export
- Authorization of export of waste from industrial processes on exempted raw material

The directorate is responsible for authorizing all types of exemptions including raw material for exporters and for manufacturers authorized under the industrial incentive laws. Most of these are granted in consultation with other involved ministries but the Directorate acts for the MOF in authorizing the actual concession.

The processing of Foreign Trade Statistics is a large operation which serves the dual purpose of informing the public and assisting the directorate in their role as policy advisors.

b) Recommendations. Insofar as the operations listed above are concerned, the Directorate is merely acting as the Quito arm of the General-Directorate of Customs. In the specialized case of exempted raw materials for exporters, authority should in strictness be granted by customs as the industrial bonded warehouse system is employed. As the directorate is already dealing with a much larger number of concessionary imports under the Industrial Incentive Law which need liaison with the Ministry of Industry, Commerce, and Integration, there is a strong argument for maintaining the present position.

Future developments in computerization are likely to increase the need for closer coordination with the Central Bank in the fields of valuation, incentive laws importations and statistics which the directorate could conveniently provide. A more active participation with aid donors for foreign training and with the Customs Cooperation Council in Brussels for technical development would also be beneficial.

It is recommended that:

- all the functions itemized in 3.1.a above be transferred to the General-Directorate of Customs.
- the directorate be given responsibility for liaison with the Central Bank over the mechanization of the customs entry checking system and valuation and that they play a greater role in obtaining foreign training in customs through aid donors and the dissemination of technical developments via the Customs Cooperation Council in Brussels.

3.2 Organization of General-Directorate of Customs

a) Findings. The General-Directorate organization chart follows conventional lines except that it lacks certain functions that are

currently exercised by the General-Directorate of Customs Taxation (see 3.1 above). It is situated in the same building as the Guayaquil Administration and over a period of time some HQ functions have become fused with those of the administration, notably inspection and revision of entries. Comment has been made in paragraph 1.4 regarding this and the division between the Quito and Guayaquil spheres of influence.

Although the CMP operate freely in the docks and warehouses there is no systematized contact between Customs HQ and the police.

Until recently the Director-General was subordinate to the Sub-Secretary of Rentas in Quito but a Sub-Secretary of Finance for the Litoral is now stationed in Guayaquil.

b) Recommendations. Nearly all the many structural changes proposed for Customs HQ are separately dealt with under the respective work heading and are therefore only summarized in the list below.

The question of location is of great importance. Ideally it should be situated in Quito where it could maintain closer contact with the Minister and also be better placed to perform a truly national function rather than become too closely identified with the Guayaquil operations. If this is not possible it should at least be moved away from the administration building and housed preferably in the MOF building in Guayaquil.

It is recommended that:

- Customs HQ should be moved preferably to MOF Quito or to a separate location in Guayaquil, preferably the MOF building.
- The General-Directorate be enlarged by absorbing the functions recommended for transfer from the General-Directorate of Customs Taxation and the CMP and by adding new dependencies as follows:

- The section of inspection of special procedures be enlarged as proposed in paragraph 3.10.
- Control be assumed over the CMP, or a specially delegated force from the CMP or a newly-recruited force to perform cargo security duties as proposed in paragraphs 3.3 and 3.11.
- An investigation division be created to operate nationally as proposed in paragraph 3.8.
- Coordinators be appointed fulltime in the technical directorate at HQ and Guayaquil Administration to cooperate with the DOS in the implementation of data processing.
- The valuation functions be taken over and operated on mechanized lines as proposed in paragraph 3.7.
- The General-Directorate abolish the Department of Revision and Correction of Duty Payments with the advent of computerization and create a new administration at Guayaquil Airport.

3.3 Customs Military Police

a) Present position. According to the Organic Customs Law of 1978 Article 148 et seq; the CMP is under the orders of the MOF. They come under the direction of the Minister of Defense at times of public disorder. Their role is to prevent contraband entering by land, sea, or air and to place all seizures in the hands of the customs administrator. Any person arrested should be placed before the competent judge. They are empowered to inspect transport entering or leaving a customs zone and this power may be extended to houses, factories and places of sale on the written instructions of a judge or the district commandant.

During the course of the project several attempts were made to discuss reform with the commandant of the CMP but were not successful. Customs HQ

and most administrations see the police at work but are unaware of what they are doing, and there is minimal cooperation at all levels.

Some of the duties taken on by the CMP include intervention during the official examination of goods, participation in the approval of bonded warehouses, follow-up investigation of offenses, detention of goods on questions concerning valuation, etc.

The civil customs at present limit their control to the moment the imported goods enter the dock warehouse. Any discrepancy between the manifest and the goods received by customs is attended to by the Port Authority and ship's agent who are both said to do tallies of landed goods. A considerable quantity of cargo goes missing under these conditions and although the police presence is seen on the dock side there is no customs tallying of goods, searching of vessels, investigation of manifest discrepancies, special treatment of broken packages, etc.; or at least none is reported to the administrator. The same conditions apply to the operations at the international airports.

The present full strength of the CMP is 861.

b) Findings. It is commonly accepted practice that custom police operate under the direct control of the Director of Customs and occasionally at Sub-Secretary level with a national commandant who is responsible for the administration of the force and for carrying out the operational instructions of the Director-General of Customs. At the administration level these instructions are implemented by the administrator who conveys them to the local CMP delegation and exercises operational control.

There are many benefits from this arrangement. Tallying, ships' search and dock patrols can be arranged by the administrator who has full prior knowledge of ships' movements and contents. This avoids the delivery of separate manifests and documents to the CMP. Through the customs tally the administrator is enabled to be aware at once of deficiencies from manifest and to make enquiries. It is he who is responsible for allowing the amendment of the manifest and not the Port Authority who play no role in the safeguarding of the revenue. Broken packages can be immediately referred to an examining officer to take the account and place the goods in the special locked customs compartment.

Under the reformed system the Customs HQ would control temporarily imported goods and the administrator could advise the CMP of any action necessary for goods not re-exported. Data processing will provide information in the administration which will assist the CMP in their selection of vehicles to be re-examined on leaving the compound. The administrator through the Director-General can have the Port Authority correct security risks such as fencing off areas for bulk uncleared goods, particularly vehicles; and removing empty containers which could be a concealment for contraband.

Although the present law could conceivably be stretched to permit police intervention in matters such as investigation, valuation, warehouse approval, examination of goods, etc., these are clearly and traditionally civil customs functions. Notably in the case of investigation, the officers must be technically capable of enquiring into matters such as fraud in valuation, diversion of concessionary raw material, incorrect

classification of goods, infraction of bonded warehouse rules; all of which require specialist training in the civil sector.

The forthcoming plan for computerization of entry and manifest clearance greatly reduces the scope for fraud and error but it relies on the manifest, as the basic accounting document, being correct. This can only be achieved if the customs have first-hand knowledge of what comes off the ship and this can only be done by a customs tally.

c) Recommendations

- Transfer the operational control of the CMP to the Director-General of Customs or the Sub-Secretaries of the MOF;
- Transfer a force of about 200 men from the CMP to act in a cargo security role under the control of the Director-General of Customs in locations selected by him;
- Recruit a new force of about 200 guards for cargo security duty.
- If any part of the CMP is to remain independent of customs control they should confine their activities to the repression of contraband and relinquish those which relate directly to the civil sector of the customs service.

3.4 Société Générale de Surveillance

a) Present Position. The SGS is a private Swiss firm which specializes in the valuation of imported and exported goods and verification of quality and quantity. It enters into contracts with, usually, third-world countries to help them prevent fraud in foreign exchange or customs valuation. In the Western Hemisphere the SGS has contracts with Haiti, Surinam, and Paraguay.

In March 1985 the Central Bank of Ecuador signed a contract with SGS to eradicate foreign exchange fraud through the overvaluation of imports and the undervaluation of exports. The terms were to pay SGS in foreign currency 2 percent of the Freight on Board (FOB) price of imported goods inspected and 1 percent of the FOB price for exports. In the first year of operation the consultant estimates a payment to SGS of US\$28.5 million and the Chamber of Commerce of Guayaquil estimates US\$30 million. The fees are paid by the importers and exporters to the Central Bank on applying for their import and export permits.

The procedures followed for import and export are:

- Importation. The importer presents his invoice to the Central Bank to apply for foreign exchange at the intervention rate. The bank issues an import license endorsed "Subject to import inspection by the SGS" and the importer pays the fee for inspection.

The local SGS representative daily collects all orders for inspection from the bank and notifies their office in the country of export nearest to the port of export. At the same time the importer informs his supplier of the impending examination and the supplier must then give seven days notice to the SGS when the goods are ready for inspection. The inspection is made, the SGS having the contractual right to examine the books of the exporting firm to help them verify the value. The invoice is stamped "agreed" or the SGS value is imposed on the invoice.

The SGS value then becomes the invoice value and foreign exchange granted on this basis. When this invoice is present to customs they are not legally bound to accept it as it is a commercial value and not strictly in line with the Brussels definition of value on which customs law is based. In practice, because of the lack of a practical valuation system, the values of SGS are accepted as the basis for duty apart from exceptional cases.

- Exportation. The exporter presents his invoice at the Central Bank who issue a provisional license with a 10 day validity similarly endorsed for SGS inspection. The

exporter's commercial bank must also give a guarantee that foreign exchange proceeds will be delivered in full. The exporter pays the fee to the bank and SGS inspects the goods. If SGS varies the value, the revised amount is what the bank will insist on receiving if the export goes ahead. It is also the basis in practice for export duty calculation when payable.

b) Findings. Because of the lack of their own valuation system the customs examiners feel constrained to accept the SGS value. There is however a dangerous conflict of interest which could result in "authorized" undervaluation. Although the SGS contract stipulates that the bank must give a "true value," the object of the arrangement is that the bank will not grant too much foreign exchange and therefore the increase of an import value by SGS would be detrimental to the bank.

There is a prevalent suspicion, which is reinforced by the many cases of flagrant undervaluing approved by SGS, that the latter are more concerned with reducing an import value rather than increasing it. In the case of exports, as world commodity prices are usually well known, most fraud consists of an underdeclaration of weight of bulk exports, a fact which is confirmed by SGS. The customs, therefore, could easily control this themselves were they supplied with adequate weighing facilities at considerably less cost than the amount being paid to SGS.

There are long procedural delays in the transmission of documents and because of the time necessary for the SGS abroad to examine the goods before export to Ecuador. Very often the nearest SGS office is a long way from the port of export and their enquiries might lead them to examine factory records which could be in yet another location.

There are serious complaints from the Ecuador private sector who naturally resent having to pay the extra charges and suffer the delay as well. There have also been organized complaints from associations of US exporters about the bureaucracy and delay. (Thirty-nine percent of Ecuador's imports come from the US and 21 percent come from the European Economic Community (EEC).

The economics of the case raise some doubt as to whether this system is producing the desired result bearing in mind the objective of improving the balance of payments. The Central Bank's Boletin 1585 of December 15, 1985, shows an increase in imports of US\$101.7 million and an increase in exports of US\$96 million over the life of the SGS contract, at that time 8 months. Add to this a proportionate payment to SGS of US\$20.4 million and the gross deterioration of the balance is US\$26.1 million, annualized to US\$39.2 million. It could, of course, be said that but for the intervention of the SGS the figures would be much worse but there can be no strong claim here that the venture has been a great success.

In the later chapters on valuation and mechanization it will be seen that the intention is to mechanize the collection of valuation data in a way that would produce credible unit values for merchandise. This project would proceed whether or not the SGS contract with the Central Bank continued but the figures would always be available for transmission to the Central Bank's computers in case they wished to dispense with SGS services.

c) Recommendations. This report is concerned with advising the MOF on measures for improvement of the customs service and it would be improper to make a direct recommendation to the Central Bank over the SGS

contract. The repercussions on the customs, however, cannot be ignored, i.e., that SGS has effectively replaced the customs valuation system at high cost to the GOE and with data of doubtful accuracy.

After a year's operation of the mechanized custom valuation system there could be a clearer indication of whether the bank needs to continue with the SGS.

It is recommended that the mechanized valuation system continue simultaneously for a year along with the present SGS operation and that the Central Bank at that time be invited to consider using the customs unit values in lieu of contracting the SGS.

3.5 Customs Inspection

a) Findings. There are two official bodies charged with the inspection of customs operations: the General Inspectorate of Customs of the MOF and the Customs Inspection Unit responsible to the Director-General of Customs.

- General Inspectorate of Customs. Article 138 of the Customs Organic Law 1978 appoints the Director-General of Customs and Customs Taxation and the Commandant of the CMP to form a General Inspectorate of Customs to carry out inspections in all three organizations. It has not functioned since the promulgation of the law.
- Customs Inspection Unit. The functions are defined in Article 17 of the Functional Regulations of General-Directorate of Customs of August 1979. They are essentially to inspect administrations to ensure that customs regulations are being complied with in a uniform manner and to report on the disciplinary and operational effectiveness of the personnel.

Due to the proximity of the Customs HQ to the Guayaquil Administration referred to previously, the inspection unit has come to be used largely for investigation purposes and to perform duties which relate more properly to the administrator. The Director-General has had no other

recourse in these matters as he has not been able to call upon an investigation division of his own nor a dependent customs police. The result has been that routine, systematized inspections have not been carried out and that most of the inspectors' attention has been concentrated on Guayaquil at the expense of the other administrations.

b) Recommendations. At Appendix D is a list of inspectors' duties to be carried out on visits to administrations. They are planned to cover all foreseeable areas of operations and to monitor action taken by administrators to remedy faults found on previous visits. Inspectional work not completed in one year would be continued in the next.

- It is recommended that all investigative duties be transferred to the proposed investigation division or to a dependent police unit according to their nature and that the inspection unit organize their visits to administrations according to a regular system and following the lines of the proposed Inspection Report at Appendix D.
- It is recommended that the General Inspectorate of Customs be abolished.

3.6 Guayaquil Airport

a) Findings. The customs at Guayaquil Airport operate as a sub-administration to Guayaquil Port. Goods are unloaded from aircraft and taken to adjacent warehouses owned by the Civil Aeronautics Board and open 24 hours a day. This operation takes place under the general control of the CMP but no manifest tally is made on unloading as far as the sub-administrator is aware. There is no comparison between the manifest items and customs entries.

All the documentary work for clearance of the goods is performed at the Guayaquil Administration an hour's difficult drive away through the city. The examination and clearance of the goods is carried out at the airport by a staff of two inspectors and four examining officers. If any discrepancies are found the documents must be taken back to the port for amendment and signature of the administrator and others. Duty is paid at a Central Bank branch at the airport. The CMP patrolling the general area intervene frequently in the examination of cargo and of passengers' baggage, both of which are the responsibility of the examining officer.

Although there is no accurate measure of airport cargo movement or of duty paid, the sub-administration began to keep informal statistics in December 1985 which will shortly give an indication of the work load. Office accommodation at present is very limited and a new construction adjacent to the warehouse would be needed if the office were to be upgraded to an administration.

b) Recommendation. The airport operation reveals in microcosm faults previously noted: failure to tally goods and check the manifest, independent action by the CMP particularly in work proper to the civil sector and the employment of inspectors in routine clearance operations. The distance from the administration causes great hardship and cost to the importers particularly considering that air freight has paid a higher charge because of its urgency.

There is said to be a Ministerial Commission looking into the feasibility of extending the construction in order to create a separate administration but the consultant has not been able to identify it.

It is recommended that the necessary construction work be undertaken and the office upgraded to a customs administration.

Operations

3.7 Valuation

a) Present Position. The Tariff Law Decree 198 of 1982 established the Brussels system of valuation and at the same time authorizes the Minister of Finance to establish official minimum values. There is no intention at present of moving to the more modern General Agreement on Trade and Tariffs (GATT) system of valuation.

The central control of valuation is laid to the General-Directorate of Customs Taxation under their functional regulations and operates as a department under the Directorate of Foreign Trade. Administrations are expected informally to keep enough valuation data for their day-to-day use and to consult with the central valuation office in Quito as necessary. In fact there is no provision in the organization structures of either the General-Directorate of Customs or any of the administrations for a valuation office.

One of the features of the Brussels system is the preparation of a declaration of fact by the importer stating the relationship between himself and his supplier and showing the separate components of his declared value. This declaration has never been introduced in Ecuador.

The GOE had imposed minimum values on a range of goods but this is being gradually phased out and at present there are very few remaining. The minimum values system is incompatible with either the Brussels or GATT systems of valuation and is considered unacceptable under the GATT.

b) Findings. As stated in paragraph 3.1 valuation is usually a function of Customs HQ from where information can routinely be disseminated to the administration. There is currently very little valuation activity in the valuation department of the General-Directorate of Customs Taxation. Customs entries are not routed to the department; therefore there is no systematic collection of data. Some information is sought from foreign sources on an ad hoc basis and to assist in adjusting prices of the few remaining goods liable to minimum values. There are no outside enquiries done at traders' premises and there is no system for uplifting values due to a trade relationship between importer and supplier.

As explained in paragraph 3.4 the SGS-approved invoices are routinely accepted by customs as a legal value except in flagrant cases when the offices will refer the matter to the valuation department. There is very little valuation of exports as so few categories are dutiable.

As there is no valuation branch envisaged in the administration organization it is no surprise that no systematic action is taken to obtain unit values except in the case of the Quito Airport where indices of invoices are kept to give a guide to the correctness of declared values.

There are two potential offenses met with in import valuation. One is the straightforward undervaluing of goods to reduce the duty payment and the other is overvaluing to obtain foreign exchange from the Central Bank in excess of what is required for payment. The Central Bank calculates this exchange at the intervention rate which is about 25 percent lower than the free market rate. The importer can arrange to make a profit even if he is paying extra duty on his goods.

In paragraphs 4.4 and 4.5 below a plan is described for the mechanization of valuation data collection which, it is hoped, will fill all the gaps in the present system. Pending the introduction of data processing it would not be worthwhile establishing a manual system but there are other measures which can be taken before that time.

c) Recommendations. It is recommended that:

- the valuation department of the General-Directorate of Customs Taxation be transferred to the General-Directorate of Customs where the department head should work closely with the proposed HQ coordinator for mechanization in developing the valuation data system which should be accorded top priority in the computerization plan.
- the remaining official minimum values be eliminated as soon as possible.
- the valuation department should design a declaration of fact on the lines of the Brussels prototype and obtain its legal introduction as a necessary adjunct to the customs entry.
- before and after computerization the valuation department should organize visits to importers' premises to investigate doubtful declarations or cases of trade associations which could have depressed the declared values.

3.8 Customs Investigation

a) Findings. There is at present no investigation branch operating at either MOF or Customs HQ level. If cases arise needing investigation, personnel from the Customs HQ Inspectors office or civil personnel from the particular administration would be delegated for the task.

The position of the CMP is unclear. By law when they make a seizure it should be handed over within 24 hours to the administrator who puts the

case to the regional judge. If a person is arrested the CMP should hand him over immediately to the regional judge. In either case it appears that the police should not conduct the enquiry.

By law the administrator makes a report to the regional judge for corresponding sentence (Article 147 of the Organic Customs Law) which implies that investigation must be made to bring the case to the required level for deciding sentence. The law also states that the judge's role is to apply judgment.

It follows that the investigation of an offense lies in the administrator's domain and, lacking an investigation branch, it has to be done by any civil personnel available.

The sophistication of customs control is such that offenses are now much more technical than simple contraband; falsification of documents, exchange control evasion, valuation, and classification fraud, diversion of concessionary raw material, bribery, etc. Investigators should not only have a knowledge of these techniques but also be trained in the skills of investigation and preparation of statements and legal reports.

This delimitation would not prevent the CPM from conducting obvious enquiries relating, say, to the origin of a contraband or the identifying of accessories to an offense but reasonably this should not exceed the 24 hours for the handing over of the contraband.

b) Recommendations. The usual custom is for an investigation unit to work directly under the Director-General but occasionally they may be directed by the Minister or his Sub-Secretary. In the local environment it would in either case be advisable to have two subsections covering Quito and the Litoral.

It is recommended that:

A unit of approximately 20 investigators be recruited and trained in specialist customs techniques and the skills of investigation to operate in two sections in Quito and the Litoral under the control of the Director-General of Customs or the two Sub-Secretaries.

3.9 Regional Judiciaries

a) Findings. There are three regional judiciaries for customs matters, each directed by a lawyer appointed by the Minister of Finance. Each judiciary acts as the court of first instance on cases submitted by the customs administrators to whom contraband must be delivered either by the CMP or Civil Customs. The administrator, according to Article 147 of the Customs Organic Law, should remit all cases of infractions to the regional tribunal for judgment and consequently execute the sentence. The administrators therefore may be assumed to have the power to decide whether the evidence supports a presumption of guilt but not himself to impose any penalty. It is understood, however, that fines are sometimes imposed without reference to the tribunal.

Further investigation of an offense may be carried out by the administrator and his staff on their own initiative or as a result of instructions from the regional judge. No trained investigators are available either in the CMP or the Civil Customs; in fact the investigation of offenses is not included in the duties of the CMP.

b) Recommendations. If recommendations are accepted to form an investigation Unit under the Director-General of Customs it will be necessary to decide whether their cases prepared for prosecution should go direct to the regional judges or be submitted through the administrator. A

more fundamental question also arises as to the degree of independence of judges who are appointed by the Finance Ministry to judge matters relating solely to that Ministry.

Both these questions involve important legal traditions which preclude hasty recommendations made solely on the basis of administrative preference.

It is recommended that:

the legal advisor's office to the MOF be given the task of studying the issues and recommending the legal procedure for a future Investigation Unit and to suggest to the Minister any suitable measures to ensure the independent status of customs judges.

3.10 Export and Industrial Incentives

a) Present Position. Insofar as customs duty concessions are concerned, the importation of raw materials and components for manufacture are governed by the Industrial Warehouse Regulations Article 417 seq. of the Customs Organic Law 1978 in the case of exports, and the Industrial Incentive Laws for domestic production.

- Exports. An exporter wishing to import raw materials for manufacture first applies to the General-Directorate of Customs Taxation for authority to import a year's supply duty-free under the industrial warehouse regulations. The application is forwarded to the Ministry of Industry and Commerce (MIC) who arrange to visit the factories and establish the formula of each export product, showing the imported input and waste produced. The warehouse is then approved for the storage of duty-free material by a joint delegation of customs, CMP and Customs Taxation and a bond taken out under custom control.

Having got the prior agreement of the MIC the General-Directorate of Customs Taxation issues the authority and imports and exports proceed in the normal way. Reports are rendered periodically by the manufacturer to the MOF

and an annual "fiscalization" is conducted to check inputs against outputs.

The fiscalization is performed in the Litoral by the Technical Directorate of Customs HQ (about 20 manufacturers) and in Quito by the General-Directorate of Customs Taxation (about 10 manufacturers).

Duty free machinery is not allowed under this particular law.

- Domestic Production. The Industrial Incentive Laws grant a variety of incentives with different levels of concession according to the classification of the firm. The maximum exemption is a reduction of 65 percent of the total duty on the raw material. The classification of firms is carried out by the Inter-Ministerial Committee on Industrial Incentives. The Central Bank concedes import permits according to the quota authorized and is responsible for seeing that the quota is not exceeded. The manufacturer is permitted to operate by an authority issued by the General-Directorate of Customs Taxation with the agreement of the National Director of Industry.

The MIC is supposed to control the use of the concessionary raw material through a team of analysts but it is understood that there is little practical control. The customs allow the import of the goods at reduced duty on a customs entry endorsed with the authority but take no further action in subsequent control.

Similar concessions are allowed under other laws such as small industry, artesanía, tourism, fisheries, etc., in which the General-Directorate of Customs Taxation plays a part in authorizing the exemption but similarly there is no subsequent control by customs.

The Industrial Incentive Law also does not allow exemption for machinery.

No statistics have been found to indicate the number of firms operating under the Industrial Incentive Law nor the extent of their concessions. The Director of the Asociación Nacional de Empresarios in March 1985 spoke of a "representative sample" of 218 manufacturers into whom he was enquiring. The only guide to the level of exemption in general is provided by the Foreign Trade Statistics office which shows that in 1983 the total CIF value of exempted goods was US\$788,763,272 in a total of US\$1,506,625,437 (rather more than half).

b) Findings. The concessions under the export incentive scheme of industrial warehouses are a small revenue risk at present, but it is likely that export manufacture will grow under the impetus of the government's policy. The present controls are not sufficient to inhibit diversion of the duty-free material.

The case of industrial incentive concessions is much more serious. There are no readily available statistics, but given the high total of exemptions of all classes it is evident that the figure for industrial incentives is sufficiently high to cause concern over the almost complete lack of control. Before deciding on the extent of the necessary control the MOF needs to know the number of enterprises receiving concessions under the Industrial Incentive Laws and how much duty has been exempted. There is a practical limit to the extent of formal exemption control and in this case it seems advisable to leave exemption under the other laws, tourism, small, industries, etc., to sporadic checks which could be made by the proposed investigation unit.

There already exists a nucleus of control in the Technical Directorate of Customs HQ--the Inspectorate of Special Procedures, to whom it is proposed to transfer the work now being done by the General-Directorate of Customs Taxation in the Quito area (paragraph 3.1). This unit would have to be expanded to cover Industrial Incentives once the extent of the task were known.

There is scope in both these sectors of control for mechanization under the existing plan but it is a complication that would be better

postponed until data processing were soundly established. Meanwhile it is necessary to develop a manual system on a national basis for centralizing information on imports and exports by manufacturers and to pay regular visits to exporters based on the revenue risk involved instead of relying completely on the manufacturer's own reports and doing a yearly "fiscalization." The same process could be employed with necessary adjustments with extra staff when the extent of industrial incentive control became known.

The following recommendations should be read in conjunction with those made in paragraph 3.1.

c) Recommendations. The importance of reform in this field should be assessed not only on the small number of manufacturing exporters now operating but more on the potential revenue loss from the much greater number operating under Industrial Incentive Laws.

It is recommended that:

- the present Inspectorate of Special Procedures in Customs HQ be enlarged to embrace the proposed transfer of work from the General-Directorate of Customs Taxation and that staff be again increased to assume control of industrial incentive concessions once the extent of the work is known.
- a manual system be developed to centralize information on imports and exports of manufacturers in advance of an eventual absorption into the data processing system and that regular control visits should be paid to concessionaires.
- the MOF in collaboration with the MIC should initiate a study to determine the number and details of concessionaires under the Industrial Incentive Laws and the amount of duty exempted in each case.
- approval of the bonded industrial warehouses be carried out only by the Technical Director of Customs HQ under the supervision of the Director-General.

3.11 Cargo Security

a) Findings. All the arguments for improving cargo security have already been set out in the justification for the restructure of the CMP in paragraph 3.3. It is only necessary to repeat the recommendation below.

b) Recommendation. It is recommended that:

Detachments of the proposed CMP operate at ports and airports under the control of the administrator to tally discharging cargo, search ship and aircraft when instructed, seal bonded stores, attend to damaged packages, enquire for cargo short of manifest, control delivery from the customs area and ensure the security of cargo on the dock side and in the warehouse.

3.12 Ship and Aircraft Manifests

a) Findings. This question also has been largely dealt with under paragraph 3.3 but a particular point arises in the cancellation of manifests which has been highlighted by the data processing study. Cancellation of ship and aircraft manifests by clearance documents will in future be done mechanically, which emphasizes the need, already stressed, for a properly amended manifest to account satisfactorily for deficient cargo.

Computerized cancellation does not effectively clear the manifest completely as there will be some items which, although physically delivered from the warehouse, still need customs control, e.g., goods in transit and temporary importations, abandoned and seized goods for auction and transshipment goods.

During the implementation of data processing means will have to be found to ensure that goods released conditionally, whether or not under bond, are not cleared from the manifest until that condition has been fulfilled. See paragraphs 4.4 and 4.5 on computerization below.

b) Recommendations. It is recommended that:

- the manifest be reinstated in its role as the basic accounting document through formal amendment by the administrator of all discrepancies of manifested quantities encountered at the moment of receipt of the goods into the transit shed.
- the manifest should not be considered cancelled until all conditional releases have been accounted for.

3.13 Liquidation and Post-Audit of Documents

a) Findings. The revision and correction of duty payments section of the General-Directorate of Customs has responsibility for revising all customs entries from all administrations to ensure that the correct amount of duty was paid and subsequently call for supplementary payments or issue credit notes. At present because of frequent errors in the liquidation of entries in the Guayaquil Administration, the section is revising entries in that administration even before goods are cleared, admittedly with very good results. It is nonetheless a good example of the blurring of the distinction between Customs HQ and administration.

Recommendations could be made for improvement, but as this section will disappear when data processing is introduced it would be superfluous. Computerization will ensure that all the entries are correctly compiled, which will eliminate the need for either the liquidation section in the administration or the Customs HQ Revision Section. Computerization will

also deal with the cancellation of the manifest, a task which has been omitted from the duties of the revision section.

b) Recommendation. It is recommended that:

with the advent of computerization the revision section in the Customs HQ be abolished and the liquidation section in the administrations as and when they are mechanized. Some revision work would be maintained for administrations awaiting mechanization.

3.14 Transit Goods and Bonded Warehouses

a) Present Position.

- Transit Goods. In this context the term applies to merchandise which is landed at a particular port and transferred under security to a bonded warehouse in another place for full examination. The goods may be transferred in containers or in open trucks depending on their condition on arrival and will be handed over to the CMP for escort to their destination. Receipt documents from the examining officer at the warehouse of destination should be returned to the point of original receipt. No bond is required for the transfer of the goods as they are under escort. Goods are not examined internally until they arrive at their destination, when they either pay duty on an entry or are taken into bonded warehouse.
- Bonded Warehouses. In this context the term applies only to premises approved and bonded for the storage of goods prior to payment of duty. They are approved by the relative administrator and should comply with accepted standards of security, although these standards are not specified in regulations. The Customs Organic Law stipulates that operators must keep records of transactions in and out of warehouse, that the Customs HQ should perform a yearly audit of transactions, including a physical inventory, and that receipts and deliveries of goods must be attested by an officer.

b) Findings.

- Transit Goods. The removal of goods in transit in container is not being carried out under proper control. An example was given of 86 transfers of containers from Guayaquil to Ambato during the first three months of 1986, of which only 6 consignments were officially acknowledged

as received by a returned Transit Note. Such dereliction also takes place regularly in other districts. The whereabouts of such consignments is not known and the case was quoted as one example of the results of the failure to coordinate CMP and civil customs' actions. Because of the existence of a CMP escort no bond can be put in suit for the loss of revenue.

When noncontainerized goods are removed in transit they are frequently carried in open trucks which cannot be secured. When goods move in convoy, whether containerized or not, the number of guards is rarely sufficient to ensure the supervision of each vehicle.

The principle of payment of duty as near as possible to the time and place of arrival is not observed, and the normal revenue risks met with in the movement of transit goods are not countered by efficient controls.

- Bonded Warehouses. Standards of security of bonded warehouses vary greatly between districts and often reveal serious revenue risks. Goods are frequently accepted into warehouse without any internal examination and stock checks are almost never made against warehouse records. The annual "fiscalization" even when carried out is insufficient to reveal malpractices.

c) Recommendations. There is a virtual breakdown of control of transit goods which could be remedied to a great degree by placing the CMP under the direct control of the administrator, but this alone may not be sufficient to eradicate the abuses. Forceful measures are necessary in the case of goods for removal for payment of duty elsewhere. Better control of bonded warehouses is also essential for goods in transit for deposit in such warehouses.

It is recommended that:

- the practice of allowing goods to be removed from the place of arrival to another place for examination and duty payment be abolished and that the goods be examined and cleared at the original port.

- where goods are removed for bonded warehousing, at least an external examination of packages should be made inside the container or the removal vehicle, and that a full examination should be made on delivery into and eventually out of bond.
- all transfers of non-duty-paid goods be covered by bond and that removal vehicles be approved for adherence to security standards and adequacy of locking or sealing arrangements.
- the administrator arrange for frequent stock checks against the register and comparison of duty-paid entries against warehouse receipt records.
- no cargo be stored in a bonded warehouse until it has been examined by an officer and account taken on unloading from the transit vehicle.

3.15 Treatment of Containers

a) Findings. This paragraph concerns regular examinations of container traffic at the port of entry and does not include transit goods discussed above at paragraph 3.14.

When the complete contents of a container are destined to a single importer, the container remains sealed until the goods are entered and the customary examinations made. When more than one importer share the contents of a container, it is opened by the Port Authority in their warehouses, unloaded and held for examination by an officer. In the particular case of Quito airport where there are limited facilities for examination, bonded warehouse operators are authorized to keep unexamined containers on their premises ready for examination.

There is lack of control over "multiple" containers in that their unloading and tallying to manifest takes place under Port Authority control without presence of the customs. There have also been several cases where

container-loads have been found to be completely at variance with the manifested goods which, apart from genuine error, can only imply expected collusion with the examining officer in presenting a false entry.

b) Recommendations. The unloading and tallying of container contents is in line with the tallying of merchandise unloaded from the vessel and in view of the high percentage of containerized cargo it is obvious that to be effective, tallying by customs should be extended to the container.

It is recommended that:

- the customs should perform an independent tally of goods unloaded from container in the Port Authority warehouses and report any discrepancies to the customs administrator.
- under the direction of the administrator the CMP should check indicated consignments on leaving the compound to compare the entry with the goods, making seizures where necessary and reporting immediately to the administrator.

3.16 Training

a) Present Position. There are at present two training institutions covering customs: the MOF Training Center with HQ in Quito and the Customs School in Guayaquil. The MOF Center is responsible for training over the whole field of MOF administration and offers occasional customs courses usually on conventional subjects such as tariff structure, classification, valuation, etc., in which it is assisted where possible by the OAS advisory team who arrange for visiting instructors. Their central budget also provides rent for the Guayaquil Customs School and a staff of three appear in the customs budget.

Within the last 12 months little use has been made of the Customs School for purely customs subjects because of failure to recruit staff, insufficient funding, and lack of classroom equipment.

b) Findings. Although genuine attempts have been made by the MOF and OAS to include customs in their training program it has not been possible to supply systematic training to the extent required to have sufficient impact on the Customs Service. There is also an unfortunate and serious disincentive to study in the Customs Service because of short-time political appointments in key positions, the rapid change around and promotions of personnel because of political considerations. Other factors such as pay and working conditions have produced a low level of morale and it is unlikely that, unless these defects are corrected, a training program would produce the desired effects.

Proposals for adequate training will, however, be made to cater to the more dedicated personnel and in the hope that the Civil Service Law will eventually acknowledge the essential nature of the career reforms mentioned.

Deficiencies of the present system can be identified as follows:

- lower and middle level training in routine procedures including liquidation of entries, examination of goods, and classification.
- middle level training in specialist subjects including those envisaged in proposed reforms.
- middle and upper level training in customs and tariff policy, customs and related laws, exchange controls, exemption policy and administration, etc.
- lack of an established, properly equipped school in Guayaquil with permanent staff, funding and functional terms of reference.

Once a Customs School is established it should maintain contact with the OAS and the MOF Center to prevent duplication of effort and to utilize other instructors. It should have all its own funding within the Customs budget to avoid complications over minor transactions.

b) Recommendations. In Appendix E to this report a blueprint is set up showing the proposed structure of the School of Customs, courses to be presented and class of student, equipment required and cost. No attempt has been made to separate recruits from serving personnel, as in the present environment there is an equal lack of training.

3.17 Effects on Staffing

Of all the activities mentioned in this chapter, the staffing of three of them will be affected by the implementation of recommendations (see paragraph 4.9 for savings due to computerization).

a) Customs Military Police. If it is not possible to use personnel of the CMP for cargo security work under the Director-General of Customs control the extra cost of 200 guards will be about US\$210,000 per annum.

b) Customs Investigation. There will be a need for 20 investigators and four clerical staff at an extra cost of US\$35,000 per annum.

c) Export and Industrial Incentives. The extension of the section--Inspectorate of Special Procedures in Customs HQ--has been recommended to include control of industrial as well as export incentives. A study has also been recommended in paragraph 3.10 to determine the number

and details of concessionaires under the Industrial Incentive Laws. Until this is done there is no way of estimating the extra staff needs.

4. Computerization

4.1 Project Background

As explained in paragraph 1.1 of this report the data processing element was added at the request of the GOE following a reallocation of spheres of activity with the OAS. The scope of work received the approval of the Sub-Secretary of Rentas, Director-General of Customs and the Director of the DOS. The mission was originally planned for two months, but due to developments reported below it was possible to complete it in one month from January 24 through February 25, 1986.

4.2 Objective

Within the overall objectives of the project stated in paragraph 1.2 the mechanization study was designed to:

- review the DOS plan and any other plan under consideration by the GOE to computerize the customs activity and comment on the feasibility of such plans.
- develop a plan to give higher priority status to the valuation and entry checking processes in the computer system selected.

4.3 Scope of Work

Within the general scope of work stated in paragraph 1.3.c. the detailed work plan was as follows:

- Study the proposed computer systems for the mechanization of customs operations.
- Study the manual processes in the Customs Administration of Guayaquil. Become familiar with the work flow and

document processing procedures from receipt of the goods at the warehouse to final clearance and removal by the importer.

- Determine whether all the required manual processes had been included in the computerized system.
- Suggest changes or additions to the computer system to allow the valuations and entry checking processes to be implemented at an earlier date than previously envisioned.

4.4 Present Situation of Mechanization

At the outset it was learned that the Director-General of Customs had already approved the DOS computerization proposal and that no other plan was under consideration. The DOS system analysts advised that the computer system for customs had been designed to be implemented in three phases and that several of the computer programs for Phase I had already been written. The remainder of the programs in that Phase were in the final stages of development.

Phase I includes computerized recording and tracking of import documents from presentation to final release of the merchandise, but does not include computer calculation of import duties, an essential element in entry checking.

Phase II was expected to be implemented within six months to one year after Phase I was fully operational. This phase would include computer verification of tariff rates according to the tariff nomenclature, and computer calculation of import duties and charges.

Phase III was not planned to start for at least another year and would include support for the valuation process through the use of computerized price lists of representative imported goods.

Acceptance of the DOS plan and the advance already achieved in Phase I enabled the study to be completed in one month instead of two.

4.5 Summary of Recommendations

- The Director of Customs and the Administrator of the Guayaquil District should each name a coordinator to coordinate Customs activity with DOS.
- Upgrade the Guayaquil Airport to a full-service customs office, and include it in the computer system.
- Give priority to the installation of the computer terminals in Guayaquil.
- Test the system with actual "live" data, and include the newly installed terminals in Guayaquil in the test.
- Implement the computer system on a parallel basis for a limited period of time to insure that it is functioning properly.
- Provide an alternate constant and adequate power supply for the computer.
- Give priority to the acquisition and installation of the additional auxiliary disk storage units needed for full implementation of the customs computer system.
- Provide third-country training for the DOS personnel associated with the customs system in the form of a fact-finding visit to a country with a computerized valuation system.

4.6 Detailed Work Plan

This plan appears as Appendix A.

4.7 Training

Customs personnel who will input data via the display terminals will need some training in their use and in the manner in which the data must be entered. DOS personnel will provide the training and will prepare the instructions for operating the terminals.

Training in use of the terminal is simple and can be accomplished in a short time. Familiarity with a typewriter keyboard would be an asset for a terminal operator. The computer programs are "user friendly" which means that through the use of prompts on the screen the operator is asked to enter specific data. The programs also perform some validity checking of the data as it is entered. If an error is encountered the operator is informed and is asked to enter the data again.

4.8 Equipment Costs

At the time of this study it does not appear that additional equipment is necessary. The display terminals and remote printers have already been purchased and delivered to DOS. The Director of DOS stated that the additional disk storage units have been ordered and are awaiting delivery. It has not been established that a communication control unit or a front-end processor is an absolute necessity at this time, but their provision would be a distinct advantage.

A front-end processor is a minicomputer and prices of this type of equipment continue to drop. A front-end processor can probably be acquired for less than \$10,000.

DOS is waiting for delivery of two IBM3375 units. They will provide the capacity necessary for the full customs system. IBM Quito quoted a price of S/.5,800,000 for an IBM3375 disk unit. The price quoted includes all taxes, so if the unit were purchased duty-free the final cost could be considerably less.

4.9 Staff and Cost Savings

Staff savings are estimated to be S/.7,835,000 per year. All of the savings will come from eliminating the liquidation and revision

departments. The computer programs will make the calculations now done manually by 24 employees in the liquidation department. With automated liquidation, the revision unit can be disbanded.

The explanation of the staff savings follows.

a) Checking. The work in this unit will remain the same. Two positions of the persons making entries in the control logs can be eliminated, but they will be replaced by the two console operators.

b) Examination. This work will continue as before under the manual system. The person keeping the log book will be replaced by a console operator.

c) Liquidation. This unit can be abolished after computerized liquidation is implemented. From that time on the import duties will be calculated by the computer. The calculations will be made much faster (in seconds, rather than minutes) and will be much more accurate. The unit consists of 24 persons at an estimated monthly salary of S/.13,900. Annual savings for this unit will be S/.4,000,000.

d) Revision. This unit can be eliminated after computerized liquidation has begun. Twelve positions eliminated, at S/.13,900 per month, will result in an annual savings of S/.3,335,000.

e) Collection. Three positions can be eliminated in this unit by replacing the accounting machine operators, log book personnel and report preparer by two console operators. Three positions at an average of S/.13,900 per month will produce a savings of S/.500,000 in one year.

It should be noted that no staff savings will be realized until the mechanization process is implemented. That cannot take place until after

the additional disk storage units are delivered and the tariff rate table data base has been created. When the disk units are available the data base can be created in four to six weeks.

4.10 Conclusion

The computer will be able to successfully control the steps in the process of releasing imported goods through customs. What is more, it will be able to perform the important entry checking step faster and more accurately. Assuming that the tariff categories are correct, the computer can guarantee that the proper tariff rate is used in the calculation.

In addition, the computer will also be able to perform some tasks that are neglected at present. They are:

- Maintain control over receipt of goods listed on the Manifest.
- Control abandoned shipments by indicating when the 30 day period has passed, and keeping a record of the goods until they are either removed or sold at auction.
- Maintain controls over goods released subject to re-liquidation. It can keep records of the type of goods released, the importer to whom released, and advise when the statute of limitations to re-liquidate (two years) is about to expire.

4.11 Acknowledgement

This report would not have been possible without the full cooperation of the many Ministry of Finance employees interviewed. Employees of the Customs Directorate, the Customs Taxation Directorate, and the Department of Organization and Systems (DOS) were interviewed in both Quito and Guayaquil. All employees interviewed were helpful and forthright in providing information, answering questions, and explaining customs procedures relating to their jobs.

5. Miscellaneous Issues

5.1 Central Bank Procedures

The objectives for the project include a review of import permit control to ensure that goods could not be imported in excess of permit.

The Central Bank issues the final permit when the application for foreign exchange is made. If the goods are restricted they will have received a "licencia previa" from the MIC and any other Ministry particularly concerned such as Health or Agriculture. The bank therefore sees that the request for foreign exchange is in line with the "licencia previa" and issues the permit subject to SGS verification (see paragraph 3.4).

The SGS-approved invoice (amended or not) is then presented to Customs with the goods and the examining officer checks the goods against both the invoice and the bank permit. There is no loophole in the system apart from outright falsification of documents or bribery.

5.2 Public Auctions

There is a serious backlog of unauctioned merchandise, both seized and abandoned, lying in various customs warehouses around the country. In most cases it is not stored separately from normal uncleared merchandise and often has deteriorated to a point where it is virtually unsaleable. It has also been pilfered extensively over the years.

The State is losing much revenue through this laxity and it would be useful if the Director-General of Customs were to have reports from his administrators on the status of all abandoned and seized goods and a record of previous auctions held.

5.3 Security at Seaport Enclosures

In the port of Guayaquil and some other administrations the customs zone has fenced off areas for the storage of cargo not suitable for warehousing. Some is uncleared cargo and some abandoned awaiting auction. There is obvious pilfering due to the lack of systematic security of these areas, which is also hampered because of the lack of coordination between the administrators and the CMP. These restricted areas are also invaded quite openly by small stall holders and individual retailers who have been allowed to make their base there. Empty containers lie around making ideal hiding places for petty contraband. Acceptance of the proposals for the restructure of the CMP will go far toward improving these conditions (paragraph 3.3).

6. Technical Assistance

Although this study is designed only to identify deficiencies and propose reforms in the organization and administration of customs, it is clear that implementation of the proposals will be a major and difficult operation given the available manpower and workload. If the GOE feels disposed to request technical assistance from a suitable donor source, it may be helpful to indicate what are regarded as essential prerequisites to successful implementation of specific reforms under a technical assistance project. They are listed below.

<u>Reform</u>	<u>Prerequisites to Technical Assistance</u>
a) Valuation	(i) Appointment of technical coordinator between customs and DOS. (ii) Acceptance of valuation as top priority by DOS in computerization of customs. (iii) Transfer of valuation to Customs HQ

<u>Reform</u>	<u>Prerequisites to Technical Assistance</u>
a) Valuation	(i) Appointment of technical coordinator between customs and DOS. (ii) Acceptance of valuation as top priority by DOS in computerization of customs. (iii) Transfer of valuation to Customs HQ control.
b) Data Processing (entry checking procedure)	Appointment of technical coordinator and acceptance of priority in DOS.
c) Investigation	Acceptance of reorganization and appointment of investigators ready for training.
d) Cargo Security	Acceptance of one of the three proposals for CMP reform and appointment of personnel.
e) Industrial Incentives	(i) Completion of study on data of Customs concessions to manufacturers under the Industrial Incentive Law. (ii) Transfer of all control work to Customs HQ.
f) Controls of Containers, Transit Goods and Bonded Warehouses	Acceptance of one of the three proposals for CMP reform and of the salient features of the new controls proposed in this report.
Note:	While not essential to the progress of any particular reform, the separation of Customs HQ from the Administration of Guayaquil and the introduction of systematic customs training will play an important overall role in development.

APPENDIX A

DETAILED WORK PLAN: COMPUTERIZATION

Customs Operations

All of the operations involved in clearing imported goods through customs were observed in detail at the Customs Administration Offices in Guayaquil. The operations observed include:

- a. Checking Department. There are 14 people in this unit. This is the first step in the clearance process. In this step the import permit, bill of lading, invoice, and several other documents are reviewed. If all the required documents are present and correct, a control number is assigned to the documents.
- b. Examination Department. There are approximately 60 people in this unit. In this step the packing case or container is opened in the presence of the importer or his agent and the merchandise is physically examined to verify that the description on the invoice and import permit is correct. If there is a question about the value of the goods or the tariff classification, the documents are sent to the valuation unit (three employees) to verify the tariff classification and the declared value. Less than 10 percent of the imports processed are referred to the valuation unit. If the value cannot be determined, the goods are released subject to reliquidation at a later date and the facts are sent to the valuation department of the Customs Taxation Directorate in Quito for review and additional assessment if warranted. The clearance process continues to the next step.
- c. Liquidation Department. There are 24 persons in this unit. In this step the import duties and charges for each tariff category are calculated manually and written on the documents.
- d. Review Department. There are 19 persons in this unit, which is in fact a department of the Director-General's HQ. Their function is to review the calculations made in the liquidation department of all entries and to check the tariff classification to insure that the proper duty has been charged. It was stated that errors in calculation of

the import duty are found in approximately 15 percent of the cases. Two errors were found by one reviewer during the time his work was being observed.

- e. Collection Department. There are 21 persons in this unit. In this department the documents are again reviewed and a copy of the import form is given to the importer. The importer pays the amount indicated at the Central Bank and returns to this unit with the receipt from the bank. The payment data is recorded on one of two accounting machines and the papers for release of the goods are given to the importer. At the end of each day total collection statistics by several categories are extracted from each of the accounting machines and a consolidated total is manually prepared by typewriter.

In general there appears to be much confusion and disorganization in all of the above operations. Importers, or their agents, are allowed to enter the work areas and talk to the employees who are working on their documents. This distracts the employees and creates confusion as the agents go from desk to desk trying to determine who has been assigned to their case. The doors to each of the units are locked in an attempt to keep the importers/agents out, but many of the agents are recognized by the office staff and are allowed to come in.

Physical facilities in the Customs Administration Headquarters in Guayaquil are poor. Many of the offices do not have air conditioning, the work area is cramped and crowded, and documents are piled on desks or on the floor because of lack of storage space. The Guayaquil Administration, which accounts for 70 percent of the import receipts for Ecuador, deserves better facilities.

The DOS Computer System

The computer system designed by DOS for customs administration is a transaction oriented data base management system. The computer programs were developed using the software MANTIS. The mainframe computer is an IBM4341 with 4MB of memory. In addition, the system contains six direct access auxiliary disks as follows:

<u>Unit</u>	<u>Number</u>	<u>Storage Capacity (per unit)</u>
IBM3375	2	820MB
IBM3344	2	560MB
IBM3340	2	140MB

The Director of DOS stated that the two IBM3340 units will soon be replaced by two additional IBM3375 units. The change has been approved and is pending at this time. The change will result in a net gain of 1300MB of storage capacity. The additional storage is needed before the tariff classifications table and the valuation price data can be included in the system because the existing disk storage is filled to capacity. If the two larger disk units are not acquired, the customs computer system will be stalled at Phase I. That is to say, the computerized liquidation process will not be possible, because that process depends on using the tariff nomenclature.

Furthermore, without the additional disk storage it will not be possible to create the computer data base of price information for valuation purposes.

When the proposed system is implemented, customs employees will be able to access the computer through the use of data communication techniques and terminals. Computer display terminals will be used to input data, and for queries to the data base. Remote printers will be used for reports and other printed data.

Because the customs office will operate "on-line" it is very important that the main computer in Quito be provided with an uninterruptible power supply. Without it all computer activity will stop every time there is a

power failure in Quito. In such a case, all transactions taking place at the time of the power failure will be lost, and all other processing will be paralyzed. There are two solutions to the problem. One is to acquire a generator that will automatically turn on when the power fails, and limit the generator to provide power only to the computer. (The Ministry of Finance does have such a generator but it is used only for emergency lighting. It does not have enough power to also supply the computer.) Another solution would be to acquire a special Uninterruptible Power Supply (UPS) (Sistema de Potencia Ininterruptible). The UPS units are equipped with rechargeable batteries that are able to supply power to the computer for from 30 to 60 minutes in the event of a power failure. The Ministry has a UPS unit rated at 37.5KVA, but it is not large enough to supply the power needs of the computer, estimated to be 55KVA. Another unit could be acquired to run in parallel with the present unit, or the present unit could be "traded in" on a unit with larger capacity. (It is not known what condition the existing UPS unit is in, or if it has received proper maintenance. It is not presently in use because it is not adequate for the present power needs of the computer.)

The one telephone line now used by DOS for data communication between Quito and Guayaquil is judged to be capable of handling the additional traffic that will be generated by customs. The line is now used primarily by the Direccion General de Rentas for processing taxpayer registration information. The optimum solution would be to acquire a single line dedicated exclusively for the customs system. A single line for customs use would reduce computer response time but would reduce the possibility of

outside line interference. The single line for customs is a desirable item but should not be considered a priority. As the volume of transactions increases, consideration should be given to acquiring the second line.

To facilitate data communications between DOS and customs in Guayaquil a front-end processor should be acquired. This is a programmable communications control unit. These units are minicomputers designed to handle the transfer of data between the computer and the data communication lines. They interpret control information, such as codes to indicate the end of a message. They can also be programmed to edit records for valid data, control the transmission lines, and allow only authorized users to have access to the computer system. The tasks that can be accomplished by the front-end processor do not have to be performed by the main computer. This allows the main computer to concentrate more time on processing application programs. Computer industry statistics indicate that computer systems with a high volume of data communication activity can spend up to 25 percent of processing time monitoring communication lines, editing data, and performing other tasks that can be performed by a front-end processor. Again, this is a desirable but not a priority item. However, as the volume of data communication transactions increases with the expansion of the customs and rentas systems, the need for the front-end processor to reduce response time will be more evident. For that reason it makes good sense to include the front-end processor at the time the customs system is implemented.

On two different occasions a demonstration of Phase I of the customs computer system was observed. The system appears to be functioning

properly with the fictitious transaction data input to the system. Before the system is implemented it should be tested with live data, that is, actual import documents that can be supplied by customs.

DOS personnel have had some difficulty in obtaining required information from customs, and as they themselves are not experts in that field the developing process has been retarded. Middle rank customs personnel are uncertain to what extent they should cooperate with DOS because they have had no direction on the subject. For this reason a proposal appears later in this report for the appointment of coordinators at Customs HQ and Guayaquil Administration. The new tariff rates have been published and computer programs to create the tariff classification data base have been prepared. However, because of the lack of additional disk storage, the data base cannot be created until the disks are available.

Several discussions were held with DOS system analysts regarding the data base of price information for use in valuation. There are several methods that can be employed to create the data base. However, before work can begin, Customs, as the user of the data, should formally advise DOS in detail exactly what information is required. That information should include:

- description of the item;
- tariff category;
- country of origin;
- unit price;
- date of sale.

Specific information regarding the way the price should be stored in the computer should also be provided to DOS. That is, should the price be stated in sucres, dollars, or in the currency of the country of origin?

Should freight and other charges be considered? DOS needs to have the answers to those and other questions before work can begin on the computer programs to create the data base. Also, customs must decide at what point in the document flow the price data will be extracted. What unit will extract the data and in what manner? Customs must become actively involved if the system is to succeed and become a reality.

It would be beneficial and extremely worthwhile if two or three of the DOS System Analysts/Programmers who are responsible for the customs system could travel to Mexico, Colombia, or another Spanish speaking country that has already developed a valuation data base. Techniques learned would certainly speed up the process of establishing the valuation data base. DOS personnel could benefit from the experiences of another country (the old saw about not re-inventing the wheel). Aside from determining what data to include on the file, questions remain regarding format and how much data should be retained on the data base for a particular item. That is, should all prices for a specific item be included, such as:

<u>Irons, Japan</u>		
27 2/86		\$12.00
15/4/86		\$17.00
10/5/86		\$13.00
13/5/86		\$15.00
et cetera,		

or should only the price range be shown, such as:

<u>Irons, Japan</u>		
27/2/86		\$12.00
15/4/86		\$17.00

Because such a data base file is a new concept in Ecuador and DOS has no prior experience in the subject, a visit to another country with a similar data base file in operation should be considered high priority.

Findings and Recommendations

Coordination between DOS and Customs

Findings. DOS personnel have at times experienced difficulty in obtaining specific information regarding decisions that should be made by customs. Also, customs should prepare directives, timetables, and schedule installation of the equipment and training of personnel for the new computer system. All of this should be done by customs and coordinated with DOS.

During the final days of this study it was learned that customs is studying a plan to redesign the import declaration. DOS was not aware of the study and had not been contacted by customs about the redesign. The extent of the redesign is unknown at this time, but it is conceivable that any change to the form could affect the computer system and could cause chaos if the form is changed after the system is operational.

Recommendations. The Director-General of Customs should name one person as customs coordinator for the computerized processing system. This person should be the single contact point between DOS and customs. All communications between the two organizations should be directed through him. The coordinator should be located on the staff of the Director-General, where both may be in direct contact. The coordinator will be responsible for preparing directives related to the computer system to customs

employees at a national level. The coordinator should work with DOS and customs employees to prepare implementation schedules and training plans on a national level. The national coordinator should also be responsible for working with DOS to prepare manuals and operating instructions for customs employees, and to keep DOS posted of actions that could have an impact on the computer system (such as a change in forms).

Each customs administrator of an administration to be mechanized should also name his own coordinator from his staff to be responsible for coordination within that particular office. The local coordinator will work with the national customs coordinator regarding training of personnel, the implementation schedule, preparation of facilities, and other related matters. Difficulties or problems encountered at the local level should be communicated to the national coordinator, and from there communicated to DOS.

Persons selected as coordinators must be forward looking, not resistant to change, and able to communicate effectively.

Airport Operations - Guayaquil

Findings. The lack of an independent customs operation at the airport results in inconvenience to importers and causes unnecessary delays in clearing the merchandise. The computer system is capable of processing import declarations presented at the airport just as though they had been presented at the customs administration main office at the docks. Better control of merchandise will result in less inconvenience to importers.

Recommendation. Upgrade the Guayaquil Airport to an independent administration, and include the office in the computer system.

Installation of Computer Terminals

Findings. Computer terminals and remote printers have been acquired for the installation of the pilot system in Guayaquil. Some of the necessary cables have been installed but are lacking in other areas. Also needed at some locations are electric outlets to power the equipment. In addition, some areas must be enclosed to provide security and a dirt-free environment. Terminals will be installed as follows:

<u>Area</u>	<u>Display Terminal</u>	<u>Printer</u>
Director-General	1	--
Customs Administrator	1	--
Checking	2	1
Examination	1	1
Liquidation	2	1
Collection	2	1
Bonds	1	1

Recommendation. Proceed with the installation of the computer hardware as a priority matter.

Testing the Computer System

Findings. The computer system has been tested only with fictitious data and appears to be functioning as planned. However, testing the programs with "live " data, i.e., actual import declarations, is necessary before the system is implemented.

Recommendation. The computer system should be tested with actual import documents to insure that it will perform as designed when actually implemented. The national coordinator and the Guayaquil Administration coordinator should participate in the test in order to become familiar with the operation of the system. A minimum of 100 documents should be used in

the test. The documents used to test the system should contain some deliberate errors to determine if the system will detect the errors. Using only correct data will not insure a proper test of the system. The computer terminals in Guayaquil should be used as part of the test.

Implementation of the Computer System

Findings. Until customs employees are familiar with operating the computer system, errors or omissions may occur that can affect the operation of the system. Also, there may be "bugs" in the computer programs that were not detected during the test with "live" data.

Recommendation. Implement the computer system on a parallel basis with the current manual operation. This will create a small amount of additional work during the period of the parallel operation. After a period not to exceed six months, the manual operations can be dropped if the results of both operations are the same.

Constant Power Supply

Findings. The present computer equipment is not provided with an Uninterrupted Power Supply. Power failures are common occurrences in Quito. A power failure in Quito will result in lost transactions and will paralyze the operation in Guayaquil during the period of time the power is off.

Recommendation. Provide a constant and adequate source of power for the computer during a power failure through the purchase of a generator or other Uninterruptible Power Source apparatus.

Computer Auxiliary Disk Storage

Findings. Auxiliary disk storage for the present computer configuration is saturated. Lack of additional disk space inhibits the

development of two priority customs system operations: entry checking and valuation.

Recommendation. Give priority to the acquisition of the two IBM3375 disk units requested by DOS. (It was reported that the request was approved and the units have been ordered.)

Price Information for Valuation

Findings. DOS has not received information from customs on the form that the price information data base should take. Furthermore, DOS personnel lack experience in customs operations and in the creation of such a (valuation) data base.

Recommendation. Arrange for a visit to a Spanish-speaking country with a computerized customs valuation data base for key DOS system analyst/programmers and customs officials so they can learn from the experiences of another country in this area.

APPENDIX B

ESTIMATE OF EFFECT OF REFORM ON REVENUE COLLECTIONS

The following estimates attempt to quantify the effect of recommended reforms in terms of extra revenue. In many cases the necessary statistics are not available; in others the time for research is not justified by the nature of this study. There are many vital organizational reforms which are necessary to ensure the success of the operational reforms which have been quantified but the indirect impact of the former makes it impossible to calculate individual assessments of revenue growth in their case.

Experiences of reforms in similar developing countries have also played some part in the estimates produced, but they naturally take no account of any future changes in duty rates or exemption policy.

Although the matter is outside the scope of this study it is worth commenting that exemption rates under the Industrial Incentive Laws are high and there is also a further extensive range under laws dealing with small industries, tourism, fisheries and agriculture, etc. If extra revenue is being sought, a reduction of these incentives should be an obvious target.

	<u>US\$ (at Sucre 130)</u>
Total Customs revenue for 1984	117.69 million
Total Customs revenue for 1985 (based on 9 months figures)	160.59 million

COLLECTIONS IN CUSTOMS ADMINISTRATION AS A PERCENTAGE OF
THE WHOLE, BASED ON FIGURES
JANUARY-AUGUST 1985

	<u>Percent</u>
Guayaquil	66.9
Esmeraldas	12.5
Quito	11.5
Cuenca	3.2
Manta	1.7
Remaining 10 Administrations	4.2

Annual Increases in Revenue

	<u>US\$ (million)</u>
1. <u>Elimination of SGS</u>	\$28.5
<p>This charge is paid by the private sector to SGS via the Central Bank who makes the payment in dollars. There would be a further saving on administrative costs to both sectors. Cost to GOE - nil.</p>	
2. <u>Valuation</u>	12.85
<p>There is an estimated 12 percent undervaluation of which two-thirds may be detected. Effective increase 8 percent after first full year's operation of data processing. Cost to GOE - see Data Processing.</p>	
3. <u>Data Processing</u>	9.64
<p>Of entry checking, manifest cancellation and temporary imports. Effective increase 6 percent after first full year's operation of data processing. Cost to GOE - US\$93,000 for priority action on valuation and entry checking (already in the 1986 budget).</p>	
4. <u>Investigation</u>	6.42
<p>Four percent increase after first year's operation of Investigation Division. Cost to GOE - US\$35,000 per annum.</p>	

5.	<u>Cargo Security</u>	6.42
	Four percent increase after first year's operation of a customs police force under administrator's control. The estimate is net of the cost of a 200 man force at 0.21 million per annum.	
6.	<u>Industrial Incentives Control</u>	4.82
	Control of approximately 220 industrial concerns receiving concessionary raw material should produce a 3 percent increase after a year's operation with a fully trained new section. Cost to GOE - not known until outcome of proposed study.	
7.	<u>Control of Containers, Transit Goods and Bonded Warehouses</u>	4.82
	Effective increase of 3 percent after a year's operation of new controls. Cost to GOE - included in No. 5, Cargo Security.	
8.	<u>Staff Savings</u>	0.06
	Introducing of data processing of valuation, entry checking procedures, etc., will result in immediate staff reduction.	
	TOTAL	\$73.53

APPENDIX C

LEGAL AND REGULATORY CHANGES

The following is a commentary on legal and regulatory changes involved in the implementation of the recommendations of this report. According to an agreement with the GOE at the outset of the project, legal reform was left in the hands of the OAS Customs Team who were already well advanced on a new Customs law. It will therefore be advisable to inform the OAS representative when any of the recommendations are approved.

Recommendation	Legal Reform
1. Change in structure of the General-Directorate of Customs Taxation	Amendments to Organic Customs Law 1978 and the functional regulation for the Director-General (D/G) of Customs Taxation of 18 October 1978
2. Change in structure of the D/G of Customs	Amendments to Organic Customs Law 1978 and the Functional Regulations for the D/G of Customs of 9 August 1979
3. Change in control structure of the customs military police	Amendments to Arts 148-153 of the Organic Customs Law 1978
4. Retraction of the Contract for the Société Générale de Surveillance	Withdrawal of the Central Bank's special instructions to importers
5. Modification of Inspection procedure	Minor amendment to Art 17 of the Functional Regulations for the D/G of Customs
6. Regrading of Guayaquil Airport as a separate administration	Introduction of a special decree following a recommendation by the D/G of Customs under Art 8 of the Functional Regulations of the D/G of Customs

Recommendation	Legal Reform
7. Transfer of Valuation to D/G of Customs	Part of Recommendation 1
8. Creation of a customs investigation division	Amendment to the Organic Customs Law 1978 and promulgation of a Functional Regulation
9. Expansion of export and industrial incentive controls	Amendments to Art 34 of the Functional Regulation of the D/G of Customs--also part of Recommendation 1
10. Improvement of cargo security system	To be incorporated into a Functional Regulation to be issued following the legal reform contemplated in Recommendation 3
11. Reduction of the post-audit function following mechanization of customs procedures	Amendment to Art 33 to the Functional Regulation of D/G of Customs to limit post-audit to administrations not yet computerized
12. Transit goods and bonded warehouses and container control	Appropriate amendments to the Functional Regulations of the D/G of Customs
13. Data processing	All legal aspects of mechanization will be handled between the Directors of DOS and customs via their coordinating officials

APPENDIX D
INSPECTOR'S REPORT

Administration Inspected
Name of Administrator

Date

The following areas of work should be covered insofar as they relate to the administration inspected. If for any reason it is not possible to complete the full range of enquiries, the items not attended to should be covered on the next visit. The inspector's report should indicate for each work area whether the controls exercised are satisfactory or in what respect they are deficient. Airport control inspection should be modified as necessary.

Section A

1. Reporting of ships, treatment of documents, sealing of bonded stores, searches, etc.
2. Permission to unload, supervision of loading and transhipments.
3. Use of customs and other tallies in amendment of manifests.
4. Cargo security between unloading and deposit in transit shed.
5. Revision (comprobación) of entries and supporting documents.
6. Liquidation of entries.
7. Treatment of errors on entry-amendment system and imposition of fines.
8. Arrangements for ensuring correct tariff classification--records of decisions, borderline cases, etc.
9. Arrangements for assisting in the correct valuation of goods--local records of price lists, trade literature, etc., access to valuation branch, amendments resulting in uplifts of declared values, etc.
10. Inspection of merchandise--correct percentages of opened packages, attendance of agent, satisfactory working conditions, adequate experience of examining officers, etc.

11. Special treatment given to examination of containers.
12. Treatment of goods removed for examination at traders' premises.
13. Treatment of goods in transit.
14. Treatment of packages found damaged on unloading.
15. Examination of export cargos.
16. Control of duty payments when authorized to be made to Customs.
17. Records of bonds for all purposes.
18. Examination and subsequent control of temporary imports.
19. Security and segregation of abandoned and seized goods and arrangements for public auctions.
20. Arrangements for the cancellation of manifests against delivery documents.
21. System of verification and issue of credit and debit notes for incorrect duty payments.
22. Control of goods between landing and receipt into bonded warehouses.
23. Control of goods within bonded warehouses, stock checks, and examinations on delivery.
24. Special arrangements for the survey of premises of manufacturers dealing with exonerated raw materials.
25. Timely submission of routine reports and transmission of documents.
26. Personnel rosters for overtime and special duties.
27. Inventories of equipment and furniture.
28. Discipline, complaints procedure, reports on personnel for promotion, censure, special training, etc.

Section B

List in this section all deficiencies and irregularities noted on the previous inspection visit with a view to verifying any corrective measures taken.

Work areas not dealt with should also be listed here for priority treatment on subsequent visits.

Section C

Special enquiries ordered by the Director-General of Customs or other superior authority should be listed here together with the outcome of such enquiries.

APPENDIX E
TRAINING PLAN

1. Permanent Staff

<u>Position</u>	<u>Monthly Salary</u>
Director	S/.27,500
Assistant Director	22,500
Secretary	15,000
Handyman	11,500

The Director-General of Customs would issue the job descriptions for the senior post which would be in general terms: Director--management of the school, course planning, examination preparation, notation of personal files, progress reports to the Director-General, accounts and budget. Assistant Director--logistic arrangements for courses, travel and expenses, liaison with administrations for provision of students, instructors, etc., security of equipment, discipline, etc.

Operational cost with rent, materials and utilities	S/.1,618,000 per annum
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2. Instructors

Instructors would be enrolled from senior ranks of the customs service, the Department of Organization and Systems (for computerization), OAS, MOF and any available consultants assigned as project advisors. If an advisory team were employed for implementation of the project part of the scope would be the training of instructors, cargo security and investigation, and some specialist subjects.

Serving customs and government officials should continue to be paid hourly for their services (at, say, S/.700 an hour).

3. Lower and Middle Level Training (Basic)

- Students of these ranks should be drawn from all administrations and would include cargo security personnel whether or not drawn from the CMP. They would be formed into classes of about 25 for instruction purposes. In the event of specialist employees (e.g., investigators) not having a customs background, they should begin training at this level.
- Basic training should cover but not necessarily be limited to the following subjects: elementary customs law and regulation; elementary related law of import licensing and Port Authority work; MOF and customs organization interrelationship; documentary procedures concerned with entry presentation and clearance; tariff classification; elementary aspects of special regimes for clearance; duty exemptions (except industrial); seized and abandoned goods; civil service staff regulations.

Cargo security personnel would concentrate additionally on ships' report procedure, tallying, discharge discrepancies from manifest, duties of ships' agents and Port Authority, security patrolling and legal powers.

4. Middle and Higher Level Training

- Middle grade students of greater potential should be trained at this level with higher ranks on a more informal basis and smaller classes with the emphasis as much on discussion as on instruction.
- The following specialist subjects should be included in the curriculum, which would also stress the rationale for the proposed reforms and their implementation: advanced aspects of customs and related laws and regulations; responsibilities of associated agencies such as the Central Bank and Port Authority; valuation; industrial exemption policy and control; advanced aspects of special regimes for clearance; for computer training see paragraph 4.7.

5. Investigation

The proposed unit of 20 should preferably be recruited from in-service personnel in civil customs, CMP or MOF with a sound knowledge of conventional customs work. Their training should be concentrated on subjects directly related to their proposed employment and should include the following subjects:

- Customs organic law as related to the specific activities in the curriculum.
- Functions of regional judiciaries and the administrators.
- Division of responsibilities between the CMP and the administrators.
- The structure of the MOF and related agencies.
- Powers of customs in relation to contraband, search of persons and property, arrest, etc.
- Specialist customs subjects: exchange control, valuation, classification, transit goods, container inspection, bonded warehouse control, concessionary raw materials, temporary importations, miscellaneous exemption controls, checking of retail outlets, falsification of documents, disciplinary enquiries (bribery and collusion)
- Investigative skills--interrogation, taking of depositions, types of evasion encountered, public relations.

6. General Rules

Lower and middle level courses should always be terminated by examinations conducted by the school director and the results routinely made known to the Director-General and entered in personnel records. In order to stimulate enthusiasm for training, there should be an evident policy of promotion and preference for successful students. Employees on short-term contracts, such as examining officers, should not continue in post unless they successfully complete the training course.

The best students should be put forward for foreign training when it becomes available. On-the-job training should supplement classroom work when it is practical to do so.

7. Equipment and Cost

The following are the estimated needs and cost of furniture and equipment for the central office, two classrooms and storeroom of the customs school in Guayaquil.

	<u>Sucres</u>
Two executive desks with chairs	S/. 100,000
One electric typewriter	65,000
Two file cabinets with safety locks	55,000
One stenographer desk with chair	35,000
One room air conditioner	45,000
One telephone line	30,000
50 chair-desks	250,000
4 blackboards	40,000
Two 1 1/2-ton capacity air conditioners	700,000
Two flip chart stands, paper & marking pens	5,000
Shelvings	10,000
Wooden table	2,000
Overhead projector	20,000
Slide projector	35,000
Video-cassette recorder/player	35,000
Duplicating machine	70,000
One TV monitor, color	<u>45,000</u>
TOTAL ESTIMATED COST	S/. 1,542,000

APPENDIX F
LIST OF OFFICIALS CONSULTED

Ministry of Finance

Dr. Francisco Swett	Minister
Eco. Carlos Juez F.	Sub-Secretary of Rentas
Eco. Roberto Baquerizo	Sub-Secretary of Rentas for the Litoral
Ing. Jorge Morales	Sub-Secretary of Administration
Eco. Edmundo naranjo R.	Director-General of Rentas and Project Counterpart
Dr. Fausto Albuja F.	Director of Department of Organization and Systems
Lic. Vizcarr	Legal Advisor, Subsecretariat of Finance

Directorate-General of Customs

Eco. Enrique Jijón O.	Director-General
Ernesto Perazzo	Deputy Director
Sr. Alfredo Suárez	Administrator Guayaquil
Sr. Alvaro Luque	Ex-Administrator Guayaquil
Sr. Luis Delgado	Inspector
Sr. Luiz Jiménez	Sub-Administrator Guayaquil Airport

Directorate-General of Customs Taxation

Dr. Galo Burbano	Director-General
Dr. Enrique Gutiérrez	Director of Control and Revenue Analysis
Lic. Miguel Angelo Romero	Director of Foreign Trade
Dr. Marco Canelo	Chief of Valuation Department

Central Bank

Eco. Alejandro Rubio	Deputy Manager
Sr. Jaime Zeas	
Sr. Carlos Landázuri	

Private Sector

Dr. Antonio Terán S.
Ing. Juan Chiriboga

Lic. Roberto Illingworth
Ing. Luis Salazar

Asociación Nacional de Empresarios
Vice-President Guayaquil Chamber of
Commerce

Secretary Guayaquil Chamber of Commerce
National Exporters Federation

Miscellaneous

Sr. Mario Vela
Sr. Renato Paéz
Sr. Philippe Berberat

Chief of OAS Custom Team
OAS Custom Team
Representative of Société Générale de
Surveillance

USAID

Mr. Orlando Llenza
Mr. Gerald Wein
Mr. E. Thomas Chapman
Mr. Randall Roeser

Director
Deputy Director
General Development Officer
Office of Project Development

APPENDIX G
LIST OF PUBLICATIONS CONSULTED

Organic Customs Law and Regulation 1978

Taxation Law 1975

Industrial Incentive Law 1973 and subsequent decrees

Customs Tariff Law 1982 and Tariff

Regulation on the Functions of the Director General of Customs 1979

Regulations on the Functions of the Directorate-General of Customs Taxation
1978

Ministry of Finance Manual on Organization Structure 1979

Department of Organization and Systems Report on Customs Computerization

IBM report on computerization of Guayaquil Customs

Central Bank contract with the Société Générale de Surveillance

USAID background papers on the Project

OAS Terms of Reference from GOE

IMF Survey of the Ecuador Tax System 1983