COMBATTING CUSTOMS FRAUD: EXPERIMENTAL EVIDENCE FROM MADAGASCAR

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Context: Customs performance pilot experiment


Objectives
• Improve performance of the risk analysis unit
• Increase fraud detection and customs revenue

Mechanisms tested
• Provide inspectors with more information on the unit price, similar transactions & potential issues on top of the valuation advice already routinely provided
• Increase of scrutiny of inspectors’ performance via auditing
Experimental design

**Experimental design** to get *causal effects* of the reform

- Prevent strategic manipulation of the intervention
- Prevent systematic differences between treated and control

**Two treatment arms**

- No intervention (Control Group)
- **Detailed comments (C)**: the risk management unit (SRAR) provided extensive risk analysis with information on (i) reference prices (ii) similar prior transactions
- **Monitoring (M)**: Declarations were tagged for ex-post auditing
Hypotheses and outcomes of interest

Detailed comments and extra audits should

- **Lower fraud**: % of reported fraudulent declarations, under and over valuation compared to reference price and discrepancy in weight
- **Speed up the clearance process**: time from first assessment to final clearance
- **Improve prioritization**: % upgraded or downgraded declarations, % of scanned declarations
Detailed comments

• +/- 100 declarations selected at random each week
• Among high risk categories or subject to valuation advice

Monitoring

• Inspectors were told they would be under extra monitoring
• Divide inspectors in groups to limit predictability
• +/- 25 high risk declarations a week marked at random for auditing
Data from Madagascar’ customs administration

Declaration level data
• Value declared, final value, type of good, time stamps, …
• From ASYCUDA

Inspector level data
• Actions taken: upgrades/downgrades, inspection,…
• From ASYCUDA

Risk information and valuation advice
• From the external agency, Gasynet, & the risk department

Reference prices
• From UN Statistics’ COMTRADE
Results – 1. Comments got more precise
Results – 2. Comments also got more relevant

Comments became more detailed for declarations with high taxation rate – higher risk!
Results – 3. Detailed comments increased inspectors’ attention

Declarations with extra comments

- Are 8% more likely to be upgraded
- Are 1% less likely to be downgraded
- 13 h longer for clearance
Results – 4. Detailed comments helped marginally in limiting the evasion gap

Increased auditing has no significant impact on fraud

Comments increased
- fraud detection by 3%
- tax adjustment by 20%
- the proportion of declarations for which value was adjusted upwards by 3%
- but only by very small margins (only 0.8% of suspected undervaluation)
Conclusion

Comments help detecting fraud
• Providing extra comments was an amazing effort by the risk department but…
• analysis of already routinely provided valuation advice and extra comments lead to similar findings: *more fraud detected but limited value adjustment*

Extra auditing does not have a significant impact but
• Low amount of declarations that could be monitored, low credibility of sanctions

Way forward ?
• Better understanding of incentives: reward, sanction, transfers of inspectors