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“I hope to be reborn as a customs official”

- CEO of Thai firm

(Prof. Jakob Svensson of Stockholm University, 2005)
1. OVERVIEW

- **Cost of corruption in customs administrations**
  - World - about USD 2 Bn
  - India - USD 334 Mn
  - Russia - USD 223 Mn
  - China - USD 170 Mn

  (Michael, 2012)

- **Still a big problem**

- **Need to revisit conventional anti-corruption measures**
2. ANTI-CORRUPTION MEASURES IN CUSTOMS

WCO measures

   - Initially adopted in 1993 and revised in 2003
   - Describes ten key elements essential for effective integrity program

2. Integrity Development Guide (2012)
   - Application of key elements described in Arusha Declaration
2. ANTI-CORRUPTION MEASURES IN CUSTOMS

10 Key Elements of Arusha Declaration

1. Commitment of the higher management
2. Harmonization and simplification of procedures
3. Transparency in laws, regulations and procedures
4. Automation
5. Reforms and modernizations
6. Monitoring and controlling
7. Code of conduct
8. Human resource management
9. Feeling of pride of reputation
10. Transparent and productive relationship with stakeholders
3. FAILURE IN THEORITICAL BASE

Principal-Agent Model

- Agreement between principal and agent
- Principal hires agent – Government delegates powers to customs administration
Corruption as a Principal-Agent problem

- Agent directly deals with clients
- *Information Asymmetry* – Agent knows more than principal
- Two problems:
  1. *Adverse Selection*: Agent covers real information to the principal
  2. *Moral Hazard*: Agent can misuse his powers for personal gain acting contrary to agreement – *Corruption*
- Conventional anticorruption measures are based on Principal-Agent Model addressing these problems
Supervisor monitors the acts of the agent and reports to the principal.
3. FAILURE IN THEORITICAL BASE

Common measures based on P-A problem

- **Automation**
  - Restricts face-to-face interactions between officers and traders
- **Reducing discretionary powers of officers**
- **Reinforcement of monitoring and auditing of officers’ actions**
- **Hiring of private sector for customs functions**
  - eg. Pre-shipment Inspection programs by private companies
  - But PSI can switch corruption practices from government officials to private companies
3. FAILURE IN THEORITICAL BASE

Principal-Agent problem or Collective Action problem

When whole system is corrupted in a country:

- Corrupt behaviour is the expected behaviour
- Collusion between principal and agent (and also supervisor)
- Nobody to monitor → Principal–Agent model will be collapsed
- It becomes Collective Action Problem
- Conventional anticorruption measures based on principal-agent model are not effective
4. PURPOSE OF THE STUDY

To identify suitable measures for safeguarding customs integrity through Behavioural Insights
5. BEHAVIOURAL INSIGHTS FOR PUBLIC POLICY

Why Behavioural Insights?

- Economic theories assume individual decision making is based on rational choice model (making cost-benefit analysis).
- Theories assume that individual’s behaviour is predictable.
- But not always rational because:
  - Limited capacity of individuals
  - Cognitive biases
  - Heuristics
“An inductive approach to policy making that combines insights from psychology, cognitive science, and social science with empirically-tested results to discover how humans actually make choices.”

(OECD web site)
Three routes for Behavioural Insights

1. How human senses are tuned to detect changes, contrasts and personal relevance

2. How human behaviour is influenced by others

3. How human decision making is influenced by mental shortcuts

(Halpern, 2015)
In 1700s famine, king Fedrick the Great used BI to introduce potatoes as second crop

In 1853, Queen Victoria used chloroform to ease the birth of her child

Between 1910-20, introduced white-line on center of road to reduce accidents
5. BEHAVIOURAL INSIGHTS FOR PUBLIC POLICY

- Problem of spillage around urinals in Amsterdam airport
- ‘Urinal flies’ reduced spillage by 80% (~8% of bathroom cleaning costs)
5. BEHAVIOURAL INSIGHTS FOR PUBLIC POLICY

Applying Behavioural Insights for today policies

- Between 2009-12 in US, under Obama, established Office of Information and Regulatory Affairs (OIRA) to add BI for US government regulations.

- In 2010 in UK, David Cameron government established Behavioural Insight Team (BIT) to closely work with government departments to apply BI for policies (One letter could collect GBP 210 Mn to tax department - Low cost).
6. BEHAVIOURAL INSIGHTS FOR CUSTOMS INTEGRITY

Behavioural Insights to fight against corruption

Afghanistan marathon effort to fight against corruption
In Paraguay, made pocketless suits to protest against corruption and named as “Ibanez” suits to remember corrupted politician Maria Ibanez
Customs administrations may:

- **Arrange anti-corruption social events** with the participation of stakeholders
- **Organize educational campaigns** about consequences of corruption and damages to the society in order to educate staff and stakeholders
Establish a working group:

1. To build up a discourse among staff against corruption
2. To create anti-corruption behavioural insights understanding the environment of their customs administration
7. CONCLUSION AND RECOMMENDATIONS

- Conventional anticorruption measures are not equally effective for all custom administrations particularly in some countries where the whole system is corrupted.

- Application of BIs for fight against corruption would be more effective and low cost.

- Change the environment of the customs administration - Organize social events against corruption - Educate both staff and the stakeholders about social damages of corruption

- Establish a working group inside the customs to make a voice against corruption and to find suitable anti-corruption BIs.
SMALL CHANGE CAN MAKE A BIG DIFFERENCE