



POLICY COMMISSION

SP0124E1

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49<sup>th</sup> Session  
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Brussels, 6 June 2003.

## **CUSTOMS CAPACITY BUILDING STRATEGY**

**(Item VI (b) on the Agenda)**

### **Introduction**

1. During the Council Sessions in June 2002, Directors General discussed the issue of capacity building and concluded that it was timely for the Secretariat to formulate a comprehensive Customs Capacity Building Strategy. To assist the Secretariat in this endeavour, the Council recommended that a special High Level Working Group on Capacity Building with representation from each WCO Region be established. The Council directed that the Secretariat finalize preparation of the Strategy in time for consideration at the June 2003 Policy Commission and Council Sessions.
2. The High Level Working Group on Capacity Building has met twice (September 2002 and March 2003) to discuss and agree on the content, scope and format of the Strategy document. The Reports on the Working Group's two meetings are contained in Docs. HG0038 and HG0039 respectively. A copy of the draft Strategy document was distributed to all Member administrations in April 2003 and feedback received has been considered during finalization of the attached document.
3. The High Level Working Group, together with representatives of all key stakeholders, will meet again in financial year 2003/2004 to prepare a detailed implementation Action Plan which will identify respective roles, responsibilities and practical actions.

### **Content and Scope of the Proposed Capacity Building Strategy**

4. The Customs Capacity Building Strategy is designed to convince the donor community and governments on behalf of WCO Member administrations. It demonstrates to the international community that Customs is serious about addressing capacity building and wants to achieve meaningful and sustainable results. It also acknowledges the failings of past capacity building activities and recommends a range of practical solutions.

5. The Strategy includes :

- an introduction to what capacity building means in both the Customs and global context (particularly focusing on the WTO trade facilitation agenda, as well as issues such as the Customs contribution to national security, revenue collection, social protection, etc.);
- an overview of why Customs is a vitally important national asset and why its poor performance can be a significant barrier to economic development and increased participation in the global economy;
- a summary of lessons learned from previous capacity building activities and why some of them may not have met expectations;
- a summary of collective recommendations about what can be done to improve capacity building activities in Customs;
- a brief inventory of critical Customs capacity building needs;
- an introduction to the WCO Customs Capacity Building Diagnostic Framework;
- a section dealing with the key stakeholders and potential partners that might play a role in achieving meaningful capacity building in Customs; and
- a brief overview of funding options.

**Conclusions**

6. The Policy Commission is invited to :

- Endorse the Customs Capacity Building Strategy and recommend its adoption by the Council;
- Encourage Regional Vice-Chairpersons to take an active role in promoting the content of the Strategy within their Regions;
- Direct the Secretariat to promote the recommendations contained in the Strategy to donor agencies, international organizations and international financial institutions;
- Encourage Member administrations to continue to support the Secretariat in its capacity building efforts; and
- Encourage Member administrations to continue to support the High Level Working Group on Capacity Building, particularly in the development of the detailed implementation Action Plan.

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WORLD CUSTOMS ORGANIZATION

# Capacity Building in Customs

*A Customs Capacity Building Strategy prepared by the World Customs Organization on behalf of the international Customs community<sup>1</sup>*

## 1. Introduction

Customs administrations around the world play a vitally important role in the implementation of a range of critically important government policies and contribute to the achievement of a number of national development objectives. In addition, as Customs is often the first window through which the rest of the world views a country it does much to shape the perceptions of the key individuals and organizations involved in making important trade and foreign investment decisions.

Without an efficient and effective national Customs administration, governments will not be able to meet their policy objectives in respect to revenue collection, trade facilitation, trade statistics, and the protection of society from a range of social and national security concerns. Customs contribution to national development is potentially enormous and can make a significant difference to the lives of many impoverished people throughout the world.

As such, well-designed and targeted capacity building investments focussed on improving the efficiency and effectiveness of Customs administrations can deliver significant dividends for governments and donors alike and allow developing countries to take advantage of the many development opportunities provided by the expanding global trading system.

Unfortunately, to date at least, many capacity building initiatives in Customs have failed to meet their desired objectives. This strategy reflects the views of the international Customs community and presents a case for a more focussed, co-ordinated and well-resourced approach to undertaking capacity building in the Customs administrations of developing and least-developed countries.<sup>2</sup>

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<sup>1</sup> The WCO has organized two sessions of the High-Level Working Group on Capacity Building with the participation of our Members, international organizations including the WTO and the World Bank, donors, and representatives of the private sector in September 2002 and March 2003. This paper is based on the outcome of these meetings, contributions from other stakeholders and our own research.

<sup>2</sup> This Strategy is an attempt to respond to the WTO Doha Ministerial Declaration in November 2001 where the role of capacity building is highlighted in Customs-related areas. It will be a contribution to the WTO Ministerial Conference in Cancun in September 2003.

## **2. The Case for Comprehensive Capacity Building in Customs**

While the core roles and responsibilities of Customs have remained essentially the same for many years, the manner in which Customs administrations discharge these roles and responsibilities has changed significantly in recent times. The drivers for this change can be summarized as :

- globalization and continued growth in the level of international trade;
- heightened international awareness (and quantification) of the costs associated with complying with inefficient and outdated border formalities;
- increased investment by the private sector in modern logistics, inventory control, manufacturing and information systems, leading to increased expectation for Customs to provide prompt and predictable processing of imports and exports;
- increased use and availability of new information and communication technologies;
- greater policy and procedural requirements directly associated with international commitments (such as accession to the WTO);
- increased international competition for foreign investment;
- proliferation of regional trading agreements which significantly increase the complexity of administering border formalities and controls;
- increased workload and government expectations, with static or decreasing financial and human resource allocations;
- increased awareness of the importance of good governance and sound integrity within Customs services; and
- following the terrorist attacks of 11 September 2001, a significantly heightened awareness of the need for Customs administrations to play a more meaningful role in protecting society from a range of threats to national security.

As a result of these drivers for change there has been a growing realization, both amongst the business community and within major international financial institutions, of the importance of sound Customs administration to the economic and social prospects of developing countries. It is now clearly understood that a well-performing and ethical Customs administration can make a major contribution to effective revenue mobilization<sup>3</sup> and can assist governments to facilitate trade and investment and increase confidence in the quality and integrity of government institutions.

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<sup>3</sup> In contrast to most industrialized countries where Customs duty makes a negligible contribution to total government revenue, many developing and least-developed countries still depend on Customs for up to 50% or more of government revenue.

As traditional barriers such as tariffs have progressively been reduced, trade facilitation reforms that address non-tariff barriers to trade are becoming increasingly important. Following the Uruguay Round of multilateral trade negotiations, developing countries took on an unprecedented range of obligations, many of which relate directly to Customs. However, unlike traditional market access obligations, the elimination or reduction of a range of non-tariff barriers is not a simple or inexpensive task for many developing countries. The potential benefits that could be realized through such activities are, however, significant.<sup>4</sup>

Committing appropriate resources to undertaking practical capacity building initiatives in the Customs administrations of developing countries therefore represents a sound and cost-effective economic investment for governments and donor organizations. Moreover, it can assist Customs to make a more meaningful contribution to a range of national development objectives such as revenue collection, trade facilitation, community protection, foreign investment, national security and ultimately poverty reduction.

Indeed, as every single international shipment of goods is subject to Customs control and processing at the time of import and export, Customs is uniquely positioned to successfully co-ordinate, consolidate and simplify border-related regulatory formalities on behalf of all government stakeholders. Moreover, it is the only government agency capable of successfully responding to the need to facilitate trade while at the same time collecting all revenue due and protecting society from a range of social and national security threats.

While there is now widespread agreement amongst the donor community that more attention needs to be paid to improving the capacity of Customs administrations in many developing countries, there is far less agreement on how such improvements should be designed, resourced and implemented. What has been missing to date is a broad and comprehensive strategy designed to mobilize international support, increase co-ordination and co-operation between all stakeholders, and provide a sound framework for practical and sustainable capacity building in the Customs administrations of the developing world. This strategy is designed to fill this development vacuum.

### **3. What Does Capacity Building Mean in the Customs Context ?**

In the Customs context, capacity building is commonly understood to mean developing or acquiring the skills, competencies, tools, processes and resources needed to improve the capacity of the administration to carry out its allotted functions and achieve its objectives.

It is a broad and comprehensive process involving all aspects of Customs administration and cannot be tackled successfully on a narrow technical or single-issue basis. By way of example, the effective implementation of the WTO Valuation Agreement requires much more than simple government agreement. It usually involves legislative change, the creation of new administrative infrastructure, the development and implementation of new systems and procedures, and a significant increase in the skills and knowledge of national Customs officials.

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<sup>4</sup> The OECD has estimated that time delays, paperwork and compliance related to border crossing costs between 5 - 13% of the value of the goods involved. A recent study estimated that reducing the cost of international trade transactions by just 5% by 2006 could add \$US 154 billion or 0.9% to the Asia Pacific Economic Co-operation region's GDP each year. The same report concluded that Customs reforms in Singapore, Thailand and the Philippines are estimated to yield a \$US3.9 billion increase in real annual income.

While there is no universally accepted model for modern Customs administration, the international Customs community believes all capacity building activities in Customs should be focussed on increasing Customs' performance in respect of each of the key principles outlined in the Revised Kyoto Convention. The following principles are therefore based heavily on the Convention :

<b>Integrity</b>	Customs administrations should be free of corruption and strive to uphold the highest levels of integrity.
<b>Transparency</b>	Customs laws, regulations, administrative guidelines and procedures should be made public and provided to clients in an easily accessible manner.
<b>Accountability</b>	Customs administrations should be accountable for their actions through a transparent and easily accessible process of administration and/or judicial review.
<b>Predictability</b>	Customs laws, regulations, administrative guidelines and procedures should be applied in a stable and uniform manner.
<b>Facilitation &amp; Control</b>	While ensuring proper enforcement of Customs laws and regulations, Customs administrations should strive to facilitate the processing and clearance of legitimate trade by risk management.
<b>Client Service</b>	Customs administrations should continually strive to improve the level of service they provide to clients.
<b>Standardization</b>	Customs laws, regulations, administrative guidelines and procedures should, where appropriate, be harmonized with internationally agreed standards.
<b>Simplification</b>	Customs laws, regulations, administrative guidelines and procedures should be simplified to the extent possible so that Customs clearance can proceed without undue burden.
<b>Minimum Intervention</b>	Customs administrations should apply sound risk management systems, and audit-based controls to identify high-risk activities, people, cargo and conveyances and limit the level of Customs intervention.
<b>Information &amp; Communication Technology</b>	Customs administrations should make maximum use of information and communication technology to facilitate the adoption of the principles outlined in the Revised Kyoto Convention.
<b>Co-operation &amp; Partnership</b>	Customs should strive to develop co-operative relationships with all stakeholders including government agencies, the private sector and other Customs administrations.

<b>Continuous Improvement</b>	Customs should establish standards of performance and implement systems and procedures which strive to continually improve the efficiency and effectiveness of all business processes.
<b>Compliance Improvement</b>	Customs should work with clients to assist them to improve their level of voluntary compliance.

In addition, all Customs reform and modernization efforts should be focussed on establishing or strengthening the management and administrative capacity of Customs administrations.

#### **4. Six Lessons Learned from Previous Capacity Building Activities**

Research by the WCO Secretariat, Member administrations and donor organizations in recent years has identified a range of factors that contribute to the success or otherwise of capacity building initiatives. These lessons are summarized as follows :

##### **4.1. The Need for Sustained High-Level Political Will and Commitment**

Research conducted by several international organizations has identified the critical importance of high-level political will and commitment to the successful conduct of capacity building programmes.<sup>5</sup> Without such commitment, maintained over the longer term, capacity building efforts are likely to be unsuccessful, regardless of the quality of their design and implementation. As such, the international Customs community believes high-level political commitment should be regarded as a prerequisite or fundamental criterion for determining whether to support and fund capacity building activities in Customs.

While it is relatively easy for senior government officials to indicate their wholehearted support and commitment for Customs reform and modernization programmes, experience has shown that it is much more difficult for governments to demonstrate that degree of commitment through the allocation of appropriate human and financial resources.<sup>6</sup> The international Customs community believes that the prime responsibility for capacity building rests with governments and that they must be prepared to match donor funding and technical support with their own commitment of human and financial resources.

Moreover, given the high level of political change and volatility in many countries, greater attention needs to be paid to obtaining bipartisan political support for capacity building initiatives. Without such support it is unlikely that the improvements achieved will be sustainable or resilient to policy and/or environmental changes.

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<sup>5</sup> See World Bank PREM notes series, April 2002, No. 67, OECD Development Centre, Technical Paper No. 175, April 2001, and WCO Policy Commission document, SP0119.

<sup>6</sup> A relatively long and stable tenure of Directors General of Customs is desirable for a strong leadership by senior management.

#### **4.2. The Need for Greater Ownership and Participation of Customs Personnel**

Feedback obtained by the WCO from a number of Member administrations indicates that many capacity building programmes have failed to adequately address the need to obtain the full participation and commitment of Customs officials. As a result, many Customs personnel have had little personal stake in, or commitment to, the organizational and administrative reforms being promoted through various capacity-building activities.

Such participation needs to be obtained well before the implementation of any capacity building programmes. Where appropriate, local Customs personnel should be involved from the earliest stage of the capacity building initiative, including the diagnostic stage, to identify capacity building needs. Appropriate attention should also be paid to ensuring relevant information is conveyed throughout the course of the capacity building intervention. To successfully address this problem, special attention needs to be paid to involving local Customs officials at all levels in the formulation, design, implementation, monitoring and evaluation of capacity building efforts.

Where practical, capacity building initiatives should be under the overall direction of local Customs personnel and senior officials should be actively involved in the promotion and communication strategy. Implementation teams and project support groups may assist in this endeavour. In essence, capacity building initiatives should be seen as being driven by the government, the head of the Customs administration and his/her senior management team, with the involvement of, and in close co-operation with, the trade.

Customs consultants, technical specialists and in-country advisors need to focus on ensuring adequate local participation and ownership, and such objectives should be clearly articulated in the design and development of project proposals and other documentation.

In this connection, pursuing appropriate regional approaches may provide a useful opportunity for participants to exchange experience with other Customs officials and administrations which often face a range of similar problems.

#### **4.3. The Need for Accurate Diagnosis of Capacity Building Needs and the Development of Country-Specific Responses**

Experience suggests that one of the critical success factors associated with the conduct of effective capacity building initiatives is the accurate diagnosis and analysis of developmental needs. While Customs administrations throughout the world face similar strategic challenges and perform similar regulatory functions, their individual circumstances, operating environments, administrative competencies, resource availability and development ambitions vary greatly.

As such, it is vitally important that appropriate account is taken of these factors during the analysis, design, development and implementation of individual capacity building interventions in developing countries.

The international Customs community is concerned that many of the capacity building programmes that have been undertaken in the past were based on an inaccurate or insufficiently comprehensive assessment and analysis of needs. There are many factors that contribute to this situation, including :

- lack of a high-quality diagnostic tool focussed specifically on Customs which could provide a sound model or framework for comprehensive assessment and analysis of capacity building needs;
- limited pool of adequately experienced and qualified Customs specialists and consultants competent to undertake diagnostic assessments;
- diagnostic assessment results being driven by the requirements, competencies or objectives of donors or training and technical assistance providers rather than the recipient administrations; and
- insufficient attention being paid to mission-critical but non-Customs-specific issues such as sound public sector management and administration competencies, strategic planning, change management, external co-operation, management information and the collection and analysis of base-line statistics.

In order to overcome these problems, more attention needs to be paid to thoroughly analysing the needs and circumstances of recipient Customs administrations. In addition, to increase the quality and scope of diagnostic assessments, greater attention needs to be paid to the selection, training and qualifications of Customs specialists engaged to conduct in-country assessments. The WCO's Customs Capacity Building Diagnostic Framework will provide a comprehensive tool kit for undertaking assessment missions and will assist Customs specialists to focus on all aspects of Customs administration rather than simply the areas in which they enjoy particular professional expertise.

Capacity building programmes should respond to country-specific needs and be designed to fit the individual political, economic and social circumstances of each Customs administration. In Customs, as elsewhere, it is clear that one size does not fit all. In other words, it requires situational solutions.

#### **4.4. The Need for Realistic Government and Donor Expectations**

In reviewing many capacity building projects and other activities that have been conducted during the past decade, the WCO identified few that met or exceeded their stated developmental objectives. While this is disappointing, given the quantum of funding and technical assistance that has been provided to many Customs administrations, it seems likely that many initiatives were evaluated against somewhat unrealistic and overly ambitious expectations. Moreover, in many cases the capacity building inputs were either inappropriate or insufficient to ensure the transformations expected.

Undertaking comprehensive reform and modernization programmes in the Customs administrations of developing countries is a difficult and challenging task. The international Customs community believes that expectations need to be realistic and calibrated to take account of the scale and scope of the problems to be overcome and the quantum of resources allocated to the task. Likewise, and closely linked to the problems associated with ensuring the accurate diagnosis of needs (described above), capacity building inputs need to be accurately targeted to the problems they are expected to overcome. For example, research undertaken by the WCO has indicated that the vast majority of capacity building activities undertaken around the world have concentrated on the provision of training and/or

technical assistance inputs. While such inputs can play a valuable role, capacity building inputs should also have been directed at a range of more broadly focussed management, administrative, procedural and infrastructure related issues in order to produce the desired results.

Moreover, even when anecdotal evidence suggests that significant progress has been made as a result of a particular capacity building programme, there is usually a lack of objective base-line data upon which meaningful comparison can be made. The WCO's Customs Capacity Building Diagnostic Framework addresses this problem in some detail and should provide a sound basis for improving the quality of base-line data obtained at the start of any capacity building intervention. Likewise, the WCO's Time Release Study methodology should be regarded as a fundamental tool for the collection and analysis of Customs' operational performance.<sup>7</sup>

#### **4.5. The Need for Adequate Human and Financial Resources to be Devoted to Capacity Building Initiatives**

Customs administrations in many developing countries typically face enormous pressure to maximize revenue collections. To achieve this, particularly in an operating environment characterized by poor levels of voluntary compliance, Customs officials often resort to high levels of documentary and physical inspection to verify the value, classification and origin of goods. This results in significant delays in Customs clearance and creates an operating environment that is vulnerable to corruption. At the same time, Customs administrations also face significant pressure from the private sector and trade-related government agencies to expedite the processing and clearance of goods. This can only be achieved by reducing the level of resource-intensive documentary and physical examination.

While experience in a wide range of industrialized countries has proved that such apparently competing demands and objectives can be successfully managed by an efficient and effective Customs administration, the scale and the scope of the improvements necessary to achieve this in many developing and least-developed countries are extensive. Having reviewed a wide range of case studies, the WCO has concluded that the quantum of human and financial resources devoted to achieving such fundamental changes has often been inadequate to achieve the changes required and in many cases, even when improvements have been made, they have proved unsustainable in the longer term.

By way of example, many Customs capacity building projects have devoted substantial attention to implementing communication and information technology systems. While the international Customs community fully supports such activity, it is concerned that such projects are often under resourced relative to the scale of the changes being contemplated. The information technology industry typically works on an implementation : post-implementation support ratio of 1:4. In other words, 25% of the costs associated with implementing a new information technology system should be devoted to implementation itself and 75% to post-implementation hardware and software support.

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<sup>7</sup> The WCO Time Release Study is currently being automated to facilitate its use by consultants and WCO Member administrations. Funding for the automation project was provided by the World Bank under the Global Facilitation Partnership for Transport and Trade Initiative.

Research conducted by the WCO has found that in many of the cases reviewed the ratio was closer to the reverse. As a result, many Customs administrations in the developing world are unable to adequately support their current information technology infrastructure and are unlikely to obtain government support to migrate to later versions of the same product. This problem is compounded by the fact that implementation of new information technology systems typically involves a significant amount of non-IT-based business process re-engineering.

Many successful capacity building initiatives often specify the involvement of high-quality Customs advisors to assist local officials to implement project objectives. Placing skilled advisors in developing countries often represents a significant proportion of the costs associated with capacity building projects. As a result, many capacity building projects deliberately limit the number and duration of short and long term advisors assigned to particular projects.

The international Customs community is concerned that in many cases the advisors are appointed for inadequate periods and that insufficient attention is paid to post-implementation support and assistance. As a result, improvements made are sometimes not maintained in the longer term. Indeed, in a number of cases, Customs administrations have had a succession of medium to large scale capacity building projects one after the other, all designed to address similar institutional needs.

In order to redress these problems, capacity building initiatives should :

- incorporate significantly longer implementation timeframes;
- make better provision for post-implementation support;
- incorporate adequate provision for short- and long-term in-country advisors; and
- include mechanisms for the provision of additional support and long term funding provisions (particularly in the case of communication and information technology based interventions).

#### **4.6. The Need for Enhanced Co-operation and Coherence**

One of the perennial problems facing all capacity building recipients and providers is the poor level of co-ordination and communication between national, regional and international donors leading to duplication of effort in certain areas and little or no attention to other strategically important areas of Customs administration.

Despite recent improvements designed to increase the level of co-ordination and coherence in capacity building delivery, ensuring effective co-ordination between different donors continues to plague international capacity building efforts. For example, the WCO Secretariat was recently involved in discussions with one Member administration where six different national and international donor organizations were all offering significant capacity building programmes to the administration. In such cases, the WCO may be able to play an important co-ordination and facilitation role.

To achieve real improvement in this area, Member governments and Customs administrations must take a more active and strategic approach to meeting their capacity building needs. Moreover, governments need to avoid the temptation of accepting donor assistance simply because it is available and play a more strategic and positive role in determining the needs and shaping the direction of the reform efforts.

In addition, existing vehicles for such co-operation such as the Integrated Framework for Trade-Related Assistance to Least Developed Countries, should be utilized<sup>8</sup> to ensure greater coherence in the identification of needs and the deployment of appropriate capacity building expertise and resources.

## **5. Capacity Building Needs and Challenges**

In early 2003 the WCO conducted a comprehensive survey of Member administrations to determine the key capacity building needs, barriers and challenges facing its Member Customs administrations. The results of this survey, complemented by data obtained from additional consultations, is summarized as follows :

WCO Member administrations identified six key building blocks which were considered essential prerequisites for effective and comprehensive capacity building in Customs. The building blocks were identified as :

- sufficient political will, leadership and stakeholder support to ensure sustainability of capacity building initiatives;
- adequate long-term resourcing and access to sustainable funding;
- a fully functioning civil service which provides the basic infrastructure necessary to administer national laws and international commitments;
- a sound legal framework and a functioning judicial system;
- adequate remuneration and employment conditions for Customs officials; and
- a broad climate supportive of change and improvement.

Each of these issues was regarded by WCO Members as fundamentally important for successful capacity building. While it was acknowledged that some of the above-described issues are out of the direct control of Customs personnel, it was emphasized that without these building blocks in place it would be difficult to achieve meaningful and sustainable improvement. As such, in assessing the capacity building needs of particular administrations it is vital that appropriate attention be paid to these issues. The WCO has included a "Readiness Assessment" tool within its Customs Capacity Building Diagnostic Framework for this purpose.

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<sup>8</sup> Agencies participating in the Integrated Framework include the World Bank, IMF, International Trade Centre, UNCTAD, UNDP and the WTO. The WCO makes a contribution in providing experts for diagnostic missions upon request.

Where it is determined that one or more of these fundamental building blocks is not present, or at least not to some realistic threshold level, then capacity building programmes such as those conforming to the model described in this document may be inappropriate. In such cases, and particularly where normal border controls and infrastructure are not present or viable<sup>9</sup>, then recourse to some form of emergency measures might be appropriate.

For example, in cases where revenue collection vital to the functioning of the government is at risk and established capacity building solutions are not viable in the short to medium term, a number of governments and international financial institutions have resorted to the adoption of pre-shipment inspection (PSI) regimes. While acknowledging the reasons why governments have decided to employ such regimes, the WCO and its Member administrations have traditionally been concerned about their longer-term effects on capacity building of Customs, because PSI regimes have often been viewed as a substitute for Customs rather than as a stopgap measure. Instead, the WCO recommends that the service of private companies be employed in a complementary capacity to support Customs activities while concerted efforts are made to establish the infrastructure necessary to manage Customs in a more sustainable manner. As such, it is critical that comprehensive capacity building programmes, conforming to the models described in this document, be conducted simultaneously with the use of pre-shipment inspection.

Through the capacity building survey, Member Customs administrations identified seven priority areas of capacity building assistance. While responses varied significantly in terms of detailed requirements, Members highlighted the following areas as of particular relevance. Members require capacity building assistance to :

- prepare and implement modern Customs legislation;
- develop and/or improve systems and procedures to accommodate changes required to comply with international and regional commitments;
- strengthen strategic and operational planning capacity;
- strengthen the management and leadership competency of Customs personnel;
- analyse, design and implement effective organizational and administrative structures;
- implement or improve communication and information technology systems and infrastructure;
- review and improve Customs systems and procedures to bring them in line with modern practice (as outlined in the Revised Kyoto Convention and other WCO instruments);
- improve the level of co-operation, communication and partnership with external stakeholders including other government agencies and the private sector;
- improve the level of integrity; and

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<sup>9</sup> For example, during or immediately following periods of civil war or international conflict.

- obtain appropriate infrastructure, technical aids and equipment and human and financial resources.

In addition, in analysing the responses that were received to the WCO Capacity Building Survey it was clear that many Customs administrations had defined their capacity building needs according to their current government priorities. As a result, a great deal of attention was paid to identifying capacity building needs associated with ensuring that implementation of the WTO Valuation Agreement does not have a detrimental impact on revenue collection. Related to this issue, many administrations were anxious to obtain assistance to deal with the perception of widespread valuation fraud. As described elsewhere in this document, dealing successfully with this issue will require significant investment in a wide range of Customs system and procedural improvements.

Due to the current focus on heightened national security concerns, Customs administrations also identified capacity building needs associated with implementation of the WCO Resolution on Security and Facilitation of the International Trade Supply Chain. Respondents agreed that capacity building assistance was required to :

- improve the level of co-operation and communication with other government agencies involved in trade, transport and national security;
- improve physical security and surveillance over Customs-controlled areas;
- obtain timely submission of relevant import/export data in order to identify high-risk cargo and conveyances (legal, procedural and IT implications);
- improve inspection and examination capabilities (including enhanced human competencies and deployment of appropriate technical aids such as scanners);
- improve Intelligence capacity, including exchange of information with other national and international agencies;
- establish co-operative agreements with the Trade;
- improve integrity; and
- implement the provisions of the Revised Kyoto Convention.

While the above capacity building needs were highlighted in connection with implementation of the Resolution, a number of respondents correctly identified the significant degree of overlap between these issues and the wider capacity building needs identified earlier in the paper.

## **6. Roles and Responsibilities of Potential Stakeholders and Partners**

As described above, the scale and scope of the capacity building challenges facing the Customs administrations of the developing world are enormous. To achieve meaningful and sustainable improvement in efficiency and effectiveness, many Customs administrations will require the concerted and co-operative effort of all stakeholders including :

- governments;
- Customs administrations;
- the private sector;
- key international organizations;
- international financial institutions, regional development banks and national assistance agencies;
- WCO Member administrations from developed countries; and
- the WCO Secretariat.

Each of the above groups has an important role to play in undertaking capacity building in Customs. A brief summary of their potential contribution follows.

### **6.1. Governments**

The key responsibility for capacity building rests with individual governments. Governments must establish the sound administrative infrastructure necessary for effective Customs administration and must ensure that the human and financial resources allocated to Customs are commensurate with its potential contribution to the achievement of national development objectives. Experience demonstrates, however, that this is often not the case.

Customs administrations in many developing and least-developed countries are under-resourced, poorly equipped, and inadequately remunerated. Moreover, governments rarely place sufficient priority on Customs reform and modernization during consultations and negotiations with international financial institutions and donor organizations. As donor organizations lend money to governments and not to individuals or international organizations, it is vital that governments build convincing business cases for capacity building in Customs and actively seek the necessary funding support.

Governments are also uniquely positioned to direct and co-ordinate the capacity building efforts of other stakeholders, including the donor community. In some cases, governments have been content to allow donors or capacity building providers to dictate the direction of reform and modernization efforts and have shopped around for assistance rather than taking a strategic approach to obtaining support.

## **6.2. Customs**

As Customs in most countries is the key agency associated with border control and facilitation, it has the responsibility to provide value-for-money services to the community it serves. Customs understands the environment in which it operates and has day-to-day contact with other government agencies and the private sector. Customs administrations should take a strategic approach to identifying their capacity building needs and should take responsibility for setting the direction and content of their improvement programmes.

Many capacity building initiatives require a relatively small amount of money and can be accommodated within existing human and financial resources without necessarily resorting to external funding or assistance. Customs administrations should also allocate appropriate resources to support productive capacity building initiatives and be more active in promoting their developmental needs to government and other stakeholders. Moreover, Customs administrations should make better use of capacity building offered by donor organizations to ensure improvements achieved are maintained and further developed.

## **6.3. The Private Sector**

The private sector has an important role to play in capacity building. In many cases, private sector corporations are the prime beneficiaries of any improvements achieved through capacity building initiatives in Customs. For most businesses, speed of delivery, predictability and a secure supply chain are vital for their business survival. As such, the private sector should use its influence with governments to direct necessary resources to Customs reform and peak industry bodies to generate and sustain support for sound capacity building initiatives. Likewise, it should participate, wherever possible, in such activities.

Where appropriate, the private sector could also augment capacity building assistance provided by donors either through the provision of training and technical assistance or via direct funding support. In order to develop viable mechanisms for private sector involvement, individual corporations and relevant industry bodies will need to take a long-term view and avoid narrow sectional interests.

A sound and fully functioning Customs administration is an asset to all stakeholders, and opportunities to participate in reform and modernization initiatives should be viewed from this perspective. The private sector also has a responsibility to support Customs capacity building efforts by participating in consultative fora and by adopting modern and ethical business standards.

## **6.4. International Organizations and Financial Institutions**

International organizations have, and will continue to play, an important role in supporting the capacity building efforts of Customs administrations. International organizations are able to generate global agreement to international agreements and standards and can support such efforts through targeted training and technical assistance programmes. Organizations such as the WTO, the OECD, UNCTAD, the UNDP and the World Economic Forum are all active in formulating and delivering a range of Customs-related capacity building initiatives. In addition, peak private sector bodies such as the International Chamber of Commerce have

been active in establishing recommendations for modern and effective Customs administration.

International financial institutions such as the World Bank and the International Monetary Fund play a vitally important role in the formulation and provision of capacity building assistance. Many developing and least-developed countries do not have the financial or human resource capabilities necessary to undertake comprehensive capacity building programmes. International and regional financial institutions can play an important role by providing guidance and access to appropriate funding for productive capacity building initiatives. Increasingly, international financial institutions are working together through initiatives such as the Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries to ensure assistance is well designed and effectively targeted to meet key developmental needs.

Likewise, the Global Facilitation Partnership for Transportation and Trade (GFP) is a key World Bank programme aimed at bringing together all interested parties, public and private, national and international, to achieve significant improvements in transport and trade facilitation. The Partners will work together to design and undertake specific programmes towards meeting this objective, making use of their respective comparative advantage in the subject matter in a co-ordinated fashion.<sup>10</sup>

It is important for international financial institutions to recognize the critical value of Customs to the economic, social, fiscal and trade ambitions of nations and to emphasize Customs as a key component of their country-specific development programmes.

## **6.5. Regional Organizations**

Regional development banks provide guidance and funding to assist Customs administrations to undertake various capacity building activities. In many cases, the assistance that is provided is directly related to complementary regional initiatives. Assistance is generally provided to Customs administrations through bilateral partners, international organizations or private sector consultants. For example, the WCO has been involved in capacity building programmes funded by the Asian Development Bank and the Inter-American Development Bank where its Customs-related expertise is able to add value to regional initiatives. Likewise, the WCO has worked in close co-operation with organizations such as the APEC Sub-Committee on Customs Procedures and is currently pursuing closer relationships with a range of organizations, including COMESA, ASEAN and the Commonwealth Secretariat.

## **6.6. Bilateral Donors**

National development assistance agencies also provide a valuable source of funding and technical assistance for capacity building in Customs, particularly in cases where the recipient country enjoys close historical ties and/or is of strategic importance to the donor country. Increasingly, national agencies are undertaking joint projects with international organizations and international financial institutions to ensure limited resources are used most effectively. Agencies such as the United States Agency for International Development (USAID), the UK Department for International Development (DFID), The Japan International

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<sup>10</sup> The WCO has been working with the World Bank in enhancing GFP activities with more focus on Customs.

Co-operation Agency (JICA), the Agence Française de Développement, and the national agencies of Germany, Denmark, Sweden, Korea, the Netherlands, Australia and New Zealand have been generous in funding Customs-related activities in the past.

### **6.7. WCO Member Administrations**

In many cases, successful capacity building programmes in Customs rely heavily on access to highly skilled and qualified Customs expertise. While some of this expertise is available through international organizations such as the WCO and through the private sector, the pool of available personnel is extremely limited. In order to adequately resource capacity building initiatives undertaken in developing and least-developed countries, the continued contribution of developed country Member administrations is required. The WCO Capacity Building Diagnostic Framework will guide national experts and thus serve as quality control of advisory service. In addition, Member administrations will need to continue to be actively involved in supporting bilateral assistance programmes and providing policy guidance to the WCO Secretariat.

## **7. The Role of the WCO**

The WCO's mission is to enhance the efficiency and effectiveness of Customs administrations, thereby assisting them to contribute successfully to national development goals particularly in the areas of trade facilitation, revenue collection, community protection and national security. In order to fulfil this mission, the WCO pursues three main capacity building strategies :

Firstly, through its conventions, other instruments and best-practice approaches the WCO provides an internationally agreed series of models for effective Customs administration.

Secondly, the WCO provides a forum for international co-operation and the exchange of information and experience between Member administrations, other international organizations and the private sector.

Thirdly, through its training and technical assistance programme it provides a range of high-quality capacity-building opportunities in areas of organizational competence.

In addition, the WCO is actively involved in :

- improving the quality of, and access to, its high-quality training and technical assistance programmes through the development and implementation of an e-learning-based distance education programme;<sup>11</sup>

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<sup>11</sup> The first e-learning module on Customs control will be ready by the end of June 2003.

- promoting the importance of efficient and effective Customs administrations at various international fora and to key donor organizations;<sup>12</sup>
- re-developing its Customs Reform and Modernization programme to make it more accessible, flexible and responsive to WCO Members' needs;<sup>13</sup> and
- improving the level of co-operation and coherence in the delivery of international capacity building efforts;<sup>14</sup>
- identifying opportunities where delivery of capacity building activities can be outsourced to Member administrations and, where appropriate, private sector consultants;
- exploring means of better co-ordinating capacity building assistance through the development of appropriate regional mechanisms.<sup>15</sup>

In addition, based on the need to focus its limited resources on those areas of most strategic value, the WCO is developing a comprehensive Customs Capacity Building Diagnostic Framework which will serve as a key tool in identifying needs and in developing effective capacity building programmes in Member administrations. An outline of the Diagnostic Framework follows.

## 8. Funding Options

Given the scale and scope of the capacity building needs and challenges identified in this paper, it is clear that the quantum of financial support required to achieve meaningful and sustainable capacity building results will be significant. The international Customs community has identified only four possible sources of funding support for capacity building initiatives. These are :

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<sup>12</sup> The WCO has energetically stressed the importance of Customs in economic and social development and the need for capacity building at various international fora, including the WTO, the OECD, various UN agencies, and non-governmental organizations such as the World Economic Forum. It has also vigorously advocated the case for Customs reform to the IMF, the World Bank, regional development banks (including the Asian Development Bank and the Inter-American Development Bank) and other donor organizations, including the Commonwealth Secretariat.

<sup>13</sup> The WCO High-Level Working Group on Capacity Building has intensively reviewed the past WCO capacity building activities, including the Customs and Modernization programme. This resulted in the development of a Customs Capacity Building Diagnostic Framework by the Secretariat (see Section 9 below).

<sup>14</sup> The WCO has delivered joint technical assistance with the WTO and the Commonwealth Secretariat. It has been working as executing agency for the UNDCP African Seaport Project and the USAID Programme of Technical Assistance in Valuation for Sub-Saharan Countries. In addition to providing experts to the diagnostic missions for the Integrated Framework (see footnote 8 above), the WCO is currently working with the World Bank on enhancing the GFP activities with more focus on Customs capacity building (see footnote 10 above). It is also discussing the delivery of country-specific capacity building activities for Customs with the Commonwealth Secretariat.

<sup>15</sup> Taking into account the increased importance of regional trade arrangements, the WCO is developing a regional approach for capacity building, including assistance for regional groups to base their Customs procedures on international standards.

- Self funding by national governments;
- Loans and grants from international and regional financial institutions and other donor organizations;
- Voluntary contributions by private sector corporations and peak industry bodies; and
- User fees or service charges.

All of the above sources of funding for capacity building have advantages and disadvantages, some of which are summarized below.

<b>Funding Sources</b>	<b>Advantages</b>	<b>Disadvantages</b>
Self Funding	<ul style="list-style-type: none"> <li>• High level of local ownership</li> <li>• No conditionality applied by external agencies</li> <li>• High degree of flexibility in utilization of funding</li> <li>• Limited external monitoring</li> </ul>	<ul style="list-style-type: none"> <li>• Inadequate quantum of support</li> <li>• Lack of sustainability</li> <li>• Vulnerable to policy and political changes</li> </ul>
Loans from Donors	<ul style="list-style-type: none"> <li>• Continuity of funding</li> <li>• External monitoring of performance</li> <li>• Access to external advice and guidance</li> </ul>	<ul style="list-style-type: none"> <li>• Debt to repay</li> <li>• Sometimes lengthy negotiation process</li> <li>• Conditionality applied</li> <li>• Limited local ownership</li> <li>• Limited flexibility in utilization of funding</li> </ul>
Grants from Donors	<ul style="list-style-type: none"> <li>• No debt incurred</li> <li>• Particularly useful for short-term projects or infrastructure acquisition</li> </ul>	<ul style="list-style-type: none"> <li>• Limited flexibility in utilization of funding</li> <li>• Lack of predictability and sustainability</li> </ul>
Private Sector Contributions	<ul style="list-style-type: none"> <li>• Contributes to shared sense of responsibility and potential for partnership approach</li> </ul>	<ul style="list-style-type: none"> <li>• Potential for conflicts of interest</li> <li>• Lack of predictability and sustainability</li> </ul>
User Fees and Charges	<ul style="list-style-type: none"> <li>• Predictable and sustainable funding</li> <li>• Benefits of improved performance channelled directly to beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>• Increased cost to traders</li> <li>• Cost of administration of scheme</li> <li>• Potential for income to be diverted to national budget</li> </ul>

In an attempt to identify potential sources of funding to assist Member administrations to fund the capacity building requirements associated with implementation of the WCO Resolution on Security and Facilitation of the International Trade Supply Chain, the WCO Secretariat recently commissioned a comprehensive research study into potential funding mechanisms.<sup>16</sup> The report concludes that there are three main sources of funding : payment by the users; private sources; and public sources. It outlines the advantages and disadvantages of each and provides a number of alternative scenarios that offer potential for long-term financing. It also identifies the potential benefits to be gained from establishing national and/or international development funds based on the collection of fees associated with individual container movements. The proposals outlined in the research study deserve further investigation and will be analysed by the WCO Secretariat and relevant working groups in the coming months.

At the WCO level, there is significant potential to expand the current level of voluntary contributions to the Customs Co-operation Fund (CCF). To facilitate this process, the WCO is currently developing a range of marketing and promotion products and will emphasise the importance of the Fund in bilateral discussions with Member administrations. Moreover, it is examining the feasibility of establishing a regional approach to capacity building designed to increase the quantum of funding provided at the regional level.

## **9. Developing a Customs Capacity Building Diagnostic Framework**

In recent years, governments, donors and Member administrations have increasingly looked to the WCO to provide sound advice and direction on the diagnosis of Customs needs and the content, focus and methodologies needed to effect real and sustainable improvement in the Customs administrations of the developing world. In effect, they have been looking to the WCO to provide a comprehensive guide or road map on how to achieve effective modernization of Customs administrations in the developing world.

Fortunately, unlike some other areas of public administration, the basic building blocks for improving the efficiency and effectiveness of Customs already exist. The WCO maintains a range of internationally agreed conventions, instruments and best-practice approaches that collectively provide a sound blueprint for modern Customs administration. The International Convention on the Simplification and Harmonization of Customs Procedures (Revised Kyoto Convention), the Harmonized System Convention and the Arusha Declaration on Integrity in Customs are examples of the internationally agreed standards that are currently available to guide sound capacity building initiatives.

However, there is currently no standardized and comprehensive approach available for identifying and addressing Customs capacity building needs. Likewise, many previous efforts have been narrow in focus and have had little linkage to WCO instruments, tools and best-practice approaches. This had led to poorly diagnosed and conceived capacity building interventions.

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<sup>16</sup> Dulbecco, P. and Laporte, B. "How to Finance the Security of the International Supply Chain ? A Global Approach for the Public Good", "Centre d'études et de recherches sur le développement international", April 2003.

The WCO's Customs Capacity Building Diagnostic Framework brings together in one clear and concise document all key elements and foundations necessary to establish an efficient and effective Customs administration. It provides a comprehensive and standardized methodology for the diagnosis of needs and the design and development of appropriate capacity building programmes. It promotes WCO conventions, instruments and best-practice approaches, as well as a range of relevant materials provided by other organizations.<sup>17</sup> It is designed to be a practical capacity building tool and will be of use to WCO officials, Member administrations, donor organizations and anyone involved in designing and implementing Customs-related capacity building initiatives.

It includes a readiness assessment tool and a series of ten chapters that cover all the core components of a comprehensive capacity building programme. The ten components cover :

- Leadership and strategic planning
- Information technology
- Customs systems and procedures
- External co-operation and partnership
- Organizational and institutional framework
- Change management and continuous improvement
- Legal framework
- Good governance
- Resources (human, financial and physical)
- Management information and statistics

The Diagnostic Framework includes a comprehensive assessment tool or checklist for each of the above-described components. In addition, it includes practical guidance on how to conduct diagnostic assessments ensuring maximum objectivity, as well as the active participation of stakeholders including local Customs officials. The Framework is designed to identify individual developmental strategies that are appropriate to the social, cultural, political and economic needs and circumstances of recipient Customs administrations.

To ensure that the Diagnostic Framework leads to the design, development and implementation of sound programmes, it includes guidelines on how to design, implement and monitor capacity building initiatives. The guidelines include specific sections on :

- Preparation of action plans, project proposals and costing schedules;
- Identification of project objectives, input/activities, outputs, performance indicators, assumptions, etc.;
- development of a logical framework; implementation advice including input/activity sequencing, project management, stakeholder participation and programme support; and
- monitoring and evaluation guidelines.

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<sup>17</sup> For example, the content of the ICC Customs Guidelines and Columbus Declaration provide some useful input into the Framework.

The Customs Capacity Building Diagnostic Framework has already been completed and is available in draft form. It will continue to be refined and developed as a result of feedback obtained during a series of pilot tests that have been conducted in recent months.

## 10. Recommendations for Change

Based on the conclusions of this Customs Capacity Building Strategy, the international Customs community strongly recommends that future capacity building initiatives directed at improving the efficiency and effectiveness of Customs administrations be based on the following recommendations :

- Governments, international organizations, regional and international financial institutions and donor agencies recognize the significant contribution that Customs administrations make to national development objectives and commit appropriate human, financial and technical resources to comprehensive capacity building initiatives in Customs administrations around the world.
- Governments take primary responsibility for the initiation, direction and resourcing of capacity building efforts. Governments maintain their commitment in the longer term and take responsibility for ensuring the sustainability of capacity building initiatives.
- Greater attention be paid to the accurate diagnosis and analysis of capacity building needs and interventions be tailored to the cultural, political, social and economic situation of individual Customs administrations. The WCO should finalize its Capacity Building Diagnostic Framework as soon as is practically possible and make it available to the international Customs community.
- Greater attention be paid to improving the selection and competencies of Customs specialists engaged in the conduct of diagnostic study missions and in the design of capacity building interventions. Action will be required by the WCO, national Customs administrations and a range of organizations involved in sourcing Customs specialists for capacity building missions. The WCO could play an important role by ensuring Customs specialists are adequately skilled in the use of its Diagnostic Framework and by using its extensive Member network to source appropriately skilled and experienced Customs specialists.
- Donor organizations and the international Customs community commit to achieving a greater degree of co-ordination and coherence in the delivery of capacity building assistance. To achieve significant improvement in this area, Member governments and Customs administrations must take a more active and strategic approach to meeting their capacity building needs. Governments must avoid the temptation to accept donor assistance simply because it is available and play a more strategic and positive role in determining the needs and shaping the direction of the reform efforts.

- Existing vehicles for international and inter-agency co-operation such as the Integrated Framework for Trade-Related Assistance to Least-Developed Countries and the Global Facilitation Partnership for Transport and Trade, should be supported by all members of the international Customs community to ensure greater coherence in the identification of needs and the deployment of appropriate capacity building expertise and resources.
- Greater use be made of existing regional organizations and fora to ensure the cost-effective deployment of scarce capacity building resources. Where possible, capacity building interventions conducted on a regional or sub-regional basis should complement or be aligned with existing programmes and developmental opportunities. The modalities for such an approach will have to be established. However, the WCO's regional network may provide an appropriate vehicle for undertaking such a co-ordination role. The WCO should conduct a feasibility study into the efficacy of developing a regional approach to capacity building.
- Customs personnel in recipient administrations be actively involved in the formulation, design, implementation, monitoring and evaluation of capacity building initiatives. Donor agencies must specify the level of participation required by local Customs personnel, and recipient administrations must be prepared to allocate high-quality personnel to such work.
- Donor expectations should be realistic and calibrated to take account of the scale and scope of the problems to be overcome and the quantum of resources allocated to the task. To ensure adequate sustainability of any improvements achieved, greater attention needs to be paid to non-Customs technical issues, such as management, administration, strategic planning and change management. In addition, capacity building initiatives need to incorporate significantly longer timeframes, make better provision for post-implementation support, include adequate provision for in-country advisors and identify suitable long-term financing arrangements, particularly for information technology acquisitions.
- All stakeholders including governments, Customs administrations, the private sector, regional and international organizations, donor agencies and the WCO commit to a new and more effective approach to undertaking capacity building in Customs based on the observations and conclusions described in this Strategy. In order to achieve a significant improvement in quality and quantity of capacity building support provided to the Customs administrations of the developing world, each stakeholder will need to commit to adopting the recommendations described above.

## 11. Conclusions

Customs administrations around the world play a vitally important role in the implementation of a range of critically important government policies, and contribute to the achievement of a number of national development objectives. Without an efficient and effective national Customs administration, governments will not be able to meet their policy objectives in respect to revenue collection, trade facilitation, trade statistics, and the protection of society from a range of threats to national security.

Well-designed and effectively targeted capacity building investments focussed on improving the efficiency and effectiveness of Customs administrations can deliver significant dividends for governments and donors alike, and allow developing countries to take advantage of the many development opportunities provided by the expanding global trading system.

To improve the quality and relevance of Customs capacity building initiatives, governments, Customs administrations, donors and all sections of the international Customs community need to draw lessons from the successes and failures of the past and commit to a range of new approaches and practical strategies. The key lessons to emerge, together with suggestions for improvements in the design, development and implementation of capacity building initiatives, are articulated in this document.

The WCO's Customs Capacity Building Strategy is designed to provide a pragmatic response to identifying and addressing the capacity building needs of Customs administrations in the developing world. Likewise, the WCO's internationally agreed conventions, instruments and best-practice approaches provide the building blocks necessary for sound Customs administration.

The much-needed road map is therefore now available for undertaking successful capacity building initiatives in Customs. It is now up to all stakeholders to commit themselves to the practical implementation of the principles and suggested actions contained in this strategy.

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