



Brussels, 1 October 2015.

MEASUREMENT OF THE BUSINESS ENVIRONMENT FOR CUSTOMS

(Item IV b) on the Agenda)

1. At its 72nd Session in December 2014, the Policy Commission “acknowledged the importance of performance measurement in the Customs context, and the need for the WCO to take up this matter in terms of providing guidance on the possible content and parameters of Customs performance indicators”.¹ As a first and major component, the Secretariat developed the “Achieving Excellence in Customs (AEC)” framework and presented it at the 207th/208th Sessions of the Permanent Technical Committee (PTC) (March 2015) and the 73rd Session of the Policy Commission (June 2015). The Policy Commission “instructed the Secretariat to continue working on the AEC framework”.²
2. This document supplements Doc. PC0428E1a presenting the ongoing work on the AEC framework. As part of a global reflection on what determines the performance of Customs administrations, it focuses on “measurement of the business environment” of Customs administrations. The aim of this document is to initiate discussions on measurement of the business sector that impacts the performance of Customs administrations and to obtain input from experts, before presenting it to the Policy Commission. The content of this measurement is discussed in section II below; however, by way of background, applying measurement to the private sector involved in international trade basically means measuring its compliance with Customs legislation and its efforts to contribute to collective objectives also supported by Customs, such as trade facilitation, revenue collection and protection of society.
 - I. **Background**
3. Customs administrations are subject to numerous evaluations, both direct and indirect, developed by intergovernmental organizations (World Bank, IMF, OECD, UNCTAD) and transnational organizations (WEF and Transparency International, among others).³ These evaluations are conducted following different approaches and aims : trade

¹ SP0506E1a - paragraph 236.

² SP0526E1b - paragraph 30.

³ By “direct” and “indirect” evaluations, we mean that some evaluations directly address Customs issues and focus on Customs processes and structures, while others measure the effects of Customs procedures

facilitation at large, global representations of corruption, compliance with international standards. These evaluations result in international rankings within which Customs and, more generally, governmental or public services are compared between countries. These evaluations and rankings give substance to technical assistance/public aid policies and national reforms, and contribute to global advocacy for standardization of trade governance. The influence of these rankings on personal choices should also not be overlooked: the “performance” of national public services with respect to trade control could prove an additional incentive for multinational companies when choosing countries where they wish to roll out their activities.

4. The effects of Customs “performance” evaluations are, therefore, potentially important. However, current evaluations and rankings mainly express the perspective of public service users. They do not fully account for the political and business environments within which the evaluated public services have to exercise their functions and authority.⁴ There is no distinction between Customs administrations based on the priorities assigned to them by governments (revenue collection, protection of society, trade facilitation, etc.), no distinction based on the degree of private sector compliance with international standards and norms that may facilitate the action of administrations responsible for controls (accountability, formalization of status, existence of offices, etc.), and no distinction based on the level of national production and availability of technologies. All these peripheral indicators already exist, but are not necessarily connected to the evaluation of Customs administrations and public services at borders.
5. Several reasons may explain the difficulties faced by stakeholders when trying to assess the performance of a business environment through systematic approaches. First, current evaluations of Customs administrations are judgments on Customs’ fulfilment of private sector expectations in terms of facilitating economic activities. Customs’ other roles are not taken into account in such rankings, as they may differ from one country to another despite “trade facilitation” being the watchword all over the world. The second, and possibly major, reason is that data for evaluating the business environment are not commonly used at the present time. They are collected by Customs IT systems in the procedures flow, but are not systematically exploited for data mining and statistical purposes.
6. Customs IT clearance systems are unique in their features, comprehensively capturing almost all trade-related data. Customs administrations therefore possess “firm-level” data that can be used for statistical purposes in order to calculate numerical trends and indicators (averages, medians, ratios, etc.) related to business operators. The process of computing firm-level data converts it into statistical indicators, making it impossible to identify the companies themselves. By providing measurement on the business sector involved in international trade, Customs authorities would enable policymakers and multinational companies to place the existing evaluations and rankings of Customs performance in a wider perspective.⁵

without distinguishing between what is attributable to Customs and what is attributable to other administrations or border services.

⁴ For instance, despite the fact that the *Logistics Performance Index* accounts for the efficiency and effectiveness of the logistics sector, it does not account for importer compliance. All the ranking exercises are conducted through surveys sent to private sector officials, who cannot be asked to report on potential fraud or non-compliant practices.

⁵ There is growing advocacy in favour of using of firm-level data to complement macro-policies. Firm-level data have been already used by experts and administrations to provide policy analysis. See, for instance, Carlo Altomonte, Giorgio Barba Navaretti, Filippo Di Mauro and Gianmarco Ottaviano, 2011, *Assessing competitiveness : how firm-level data can help*, Bruegel Policy Contribution. See also CompNet

II. Possible indicators to measure the business environment

7. Examples of indicators are set out in the Annex to this document. Most of these indicators have already been implemented by certain WCO Members, with technical assistance from the Secretariat. A specific module forming part of a computerized Customs clearance system has been designed to automate their calculation.⁶
8. It transpires from field research conducted in partnership with these Members that measuring the “performance” of the business sector has helped Customs leaders to : (i) reduce the information asymmetry between them and field officers; and (ii) put their performance into perspective when holding discussions with political authorities, by developing and strengthening their own narrative on Customs reform and efficiency, underpinning their case with figure-based statements.
9. The indicators should be as descriptive as possible and should not aim to set Customs and the private sector against each other or compare actors’ practices with any “best practices” or standards. They could, for example, describe the structure of the main private actors groups (shipping lines, brokers, importers and exporters), the capacity of these private actors to participate in the Customs clearance process and their degree of compliance. The form of these indicators should give Customs total freedom to use them for analysis and public discussion.

III. Action required

10. The PTC is invited to (i) examine the need for Customs to be able to provide its own indicators on the features and capacity of private sector actors involved in international trade, and (ii) discuss a potential list of indicators.
11. The PTC’s deliberations will be presented at the next Policy Commission and other technical committees, for further discussion.

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Task Force, 2014, *Micro-based evidence of EU competitiveness : the CompNet database*, European Central Bank.

⁶ See Cantens, Ireland, Revesz, 2014, *The Why and How of Performance Measurement Contracts*, WCO.

The following indicators exemplify the three dimensions of measurement potentially applicable to the private sector.

<p>Structure of private actors</p>	<p>Indicators may provide information on the structure of private sector actors involved in international trade activities and directly connected to Customs (shipping lines, brokers, importers and exporters), their economic and political weight, their degree of concentration, and the consistency and diversity of flows of goods. Indicators of this type can be used to contextualize the relationship between Customs and the private sector, its complexity, and the private sector's capacity to influence and negotiate with governments and administrations, as well as the potential impact of Customs decisions on the economy and of fluctuations in economic activities on Customs performance.</p> <p>Indicators may include :</p> <ul style="list-style-type: none"> - the average/median/standard deviation of the number of containers/metric tons processed per shipping line and per year; - the average/median/standard deviation of the number of Customs declarations per importer/exporter and per year; - the ratio of the number of importers/exporters that together process over 50 % of the declarations (or 50 % of the amount of taxes and duties); - the ratio of the number of products (HS6) that together provide 50 % of the revenue collection; - the average/median/standard deviation of the number of products (HS6) per importer.
<p>Capacity of private actors</p>	<p>Other indicators may describe the level of the private sector's contribution to trade facilitation objectives, as well as the speed with which it declares goods (either before or after a vessel's arrival), pays Customs taxes and duties (whether cash payment following Customs assessment, advance payment, Customs credit, etc.) and removes goods from Customs areas and warehouses. These indicators may not give a full picture of the capacity of a particular type of stakeholder given that, for instance, an importer's actions may depend on the swiftness of action of his banker or broker. These indicators are aimed at generating public discussion, rather than singling out any specific responsibilities. Field research has shown that importers and exporters deem it important to assess their partners in the Customs clearance process. Indicators of this type may increase transparency within the market of professionals involved in Customs and borders activities, as well as shape dialogue among Customs professionals.</p> <p>By way of example, indicators may include :</p> <ul style="list-style-type: none"> - the average/median/standard deviation time delay between a vessel's arrival and registration of the manifests in the Customs system; - the percentage of declarations registered prior to a vessel's arrival, the average/median time delay between assessment of the declaration and payment of taxes and duties (this may be a negative figure in the event of of any form of advance payment or guarantee); - the percentage of the amount of taxes and duties paid on the day, or before the day, on which the declaration is assessed/total amount of taxes and duties assessed.

Degree of compliance of private actors	<p>The actual degree of compliance is impossible to assess. However, it could be helpful to have quantitative indicators on the degree of compliance as assessed by Customs, i.e. through detection of fraud or errors. Although the information obtained through indicators of this kind focuses on the degree of compliance of private actors and on Customs' effectiveness in detecting non-compliant practices, these indicators may be the best proxies for evaluating private sector compliance. Other methods, such as mirror analysis, offer greater accuracy with respect to private sector compliance, but using them on a regular basis may call for additional technical resources as external data are required.⁷</p> <p>By way of example, indicators may include :</p> <ul style="list-style-type: none">- percentage of bills of lading showing an excess or shortage;- rate of litigation : ratio of Customs declarations (number) for which fraud has been detected;- disputed amount rate (percentage of the volume of taxes and duties recovered/amount of taxes and duties assessed).
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⁷ Cantens, T. (2015). Mirror Analysis : Customs Risk Analysis and Fraud Detection. *Global Trade and Customs Journal*, 10(6), 207-216.