

U4 Expert Answer



Combatting corruption in tax and customs administration in Asia-Pacific

Query

Please provide a synthesis of existing literature on: (a) common types of corrupt conduct and the processes most vulnerable to corruption in tax and customs administration, and (b) specific interventions for mitigating and combating corruption in tax and customs administration. We are particularly interested in cases studies and lessons learned from the Indo-Pacific region.

Purpose

To inform the design and management of donor programmes with partner tax and customs authorities.

Content

1. Processes most vulnerable to corruption in tax and customs administration
2. Interventions for mitigating and combating corruption in tax and customs administration
3. Case studies from the Indo-Pacific region
4. Further reading: Selected tools and guidance
5. References

Summary

Tax and customs administration is particularly prone to corruption due to the complexity and technical nature of regulations and processes, the high discretionary powers of revenue officials, and the disproportionate financial gains which can be made compared to the risk and cost of getting caught. Corruption in this area generally takes the form of evasion (by taxpayers/importers), collusion (between taxpayers/importers and officials) and extortion (by officials).

Approaches to mitigating corruption risks in tax and customs administration can be divided broadly into four areas: simplifying laws and processes; strengthening risk-based management and improving employment conditions; strengthening the ethics and monitoring framework; and promoting greater transparency in operations.

Author(s): Andrew McDevitt, Transparency International, amcdevitt@transparency.org

Reviewed by: Dieter Zinnbauer, Ph. D, Transparency International, dzinnbauer@transparency.org

Date: 25 August 2015 **Number:** 2015:13

U4 is a resource centre for development practitioners who wish to effectively address corruption challenges in their work. Expert Answers are produced by the U4 Helpdesk – operated by Transparency International – as quick responses to operational and policy questions from U4 Partner Agency staff.

Case studies from the Indo-Pacific region suggest that technical approaches to tax and customs administration reform can bear fruit, but only in a context of sustained political support, long term commitment from donors, and engagement with a broad range of stakeholders.

1. Common types of corrupt conduct and the processes most vulnerable to corruption in tax and customs administration

Tax administration

Tax administration is particularly prone to corruption due to the complexity of tax laws, the high discretionary powers of tax officials and the low cost of punishment (Bridi 2010).

The principal processes conducted by a state's tax administration which are most vulnerable to corruption include the registration and removal of taxpayers from the national registry, the collection of tax dues, the identification of tax liabilities and the inspection and prosecution of alleged tax offences.

Corruption and criminal activity in tax administration manifest themselves primarily in four major forms, namely tax evasion committed by taxpayers, extortion by tax officials, collusion between tax officials and taxpayers, or fraud by tax officials without direct involvement of taxpayers themselves. One study from Bulgaria suggests that, of these, tax evasion is the most pervasive form of criminal activity, with evasion of VAT accounting for up to 80% of all evasion cases (Pashev 2006).

Each of these forms may involve a range of specific administrative processes (Fjeldstad 2005; Child 2008; Martini 2014).

1. Tax evasion by taxpayers may include:

- Underreporting of (or failure to report) taxable income/transactions, underreporting of turnover, underreporting of the value of imports, or over-reporting of expenditures

- Misclassification of goods with high tax and duty rates into lower categories

2. Collusion between revenue officers and taxpayers may include

- Not registering a taxpayer in the tax registers.
- Issuing unjustified tax exemptions, falsifying claims for VAT refunds, misclassifying goods (such as reporting import goods as transit goods), underreporting the value of goods, or deliberately making files disappear
- Splitting goods into smaller units prior to export in order to avoid pre-shipment inspection triggered by a certain threshold.
- Selling insider information about competitors, profits, purchase costs, etc, or receiving payments to impede or hold back a competitor's business activities

3. Extortion/fraud by tax officials

- Taking advantage of taxpayers' lack of knowledge of tax laws and procedures to extort illicit payments from them or require them to pay above official rates
- Charging for services that should be free or for speeding up processes (to overcome complicated procedures or artificial delays) and to qualify for exemptions or duty free treatment
- Embezzling collected revenue often in collusion with bank employees and/or auditors within the tax administration.
- Falsifying tax receipts
- Turning a blind eye to irregularities in exchange for illegal payments

In addition to these forms of administrative corruption, there are also more organized forms of corruption which can seriously damage the functioning of a tax administration. One example is the use of patronage networks, whereby jobs and promotions in tax offices are not decided on meritocratic grounds but to hand out favours and benefits to political allies or kins. (TI 2014). On the

other side of the equation, former tax officers may be recruited by the private sector as they have insider knowledge on, and connections to, the operations of revenue authorities and can thus help game the tax system (Martini 2014).

Corruption may also happen at the political/policy level to change the rules of the game in favour of certain groups. For example, well-connected companies or sectors may exercise undue influence on how laws and regulations are decided. Policies may be manipulated to grant favours to specific private sector actors such as offering tax exemptions to supporters while at the same time excessive tax audits may be used to harass political opponents (Martini 2014).

Customs administration

Customs agencies are considered to be particularly vulnerable to corruption due to the combination of monopoly over a specific technical process, the existence of tariff schemes with numerous exceptions and red tape, and the potential for large illicit financial gains which can be made. Furthermore, unlike tax administrations, customs agencies often operate in geographically dispersed and remote posts with relatively few staff and limited supervision, increasing the risk of corruption networks appearing. (Ferreira et al. 2007). An additional risk area for customs is the need to cooperate with other agencies in conducting checks (immigration, border police, transport inspection, sanitary inspection, and veterinary control) making control more complicated. Importers may be unclear about which agency is responsible for specific processes, opening up further potential for abuse (Ferreira et al. 2007).

Customs agencies have three main functions which can be affected by corruption: collection of import and export duties and tariffs, overseeing trade in and out of a country, and denying entry and exit to certain goods or people considered harmful or dangerous to the state (Ardigo 2014).

As is the case with tax administration, corruption can also involve a mix of collusive or extortive elements (Ardigo 2014). The customs processes which are particularly vulnerable to corruption include (De Wulf 2005):

- *Processing of import, export, and transit declarations:* accelerating the processing of documents, ignoring undeclared cargo,

certifying the exportation of fictitious exports, or permitting goods in transit to be released for domestic consumption.

- *Assessment of origin, value, and classification of goods:* permitting under-invoicing of goods, not challenging the misclassification of goods to attract a lower tariff rate, accepting a false country of origin declaration to enable a preferential tariff regime or illicit transactions.
- *Physical inspection, examination, and release of cargo:* ensuring that an inspecting officer is chosen who will take an accommodating approach to the inspection, skip the inspection, influence the findings of the inspection, or simply speed up the inspection.
- *Administration of concessions, suspense and exemption schemes, and drawback schemes:* permitting traders to release, for domestic consumption goods that entered under suspense regimes; obtaining a release of the bond that is to protect customs revenues in cases of temporary admission of imports without adequate documentation; permitting traders to claim excessive input coefficients for exports produced with inputs that benefited from the suspense regimes; permitting traders to claim drawbacks for fictitious exports; permitting importers to transfer imports that benefited from duty relief to non-authorized users or for non-intended purposes, or permitting them to import such goods in excess of the amounts agreed to.
- *Conduct of post-clearance audits:* influencing the outcome of the audit findings.
- *Issuing of import licenses, warehouse approvals, and authorized trader status approvals:* issuing these licenses and certificates without proper justification.
- *Processing of urgent consignments:* granting preferential treatment or speedy clearance.

While many of these examples largely manifest collusion, many of them can equally involve extortion on the part of customs officials. For example, bribes may be extorted by arbitrarily detaining shipments or by threatening importers with misclassification of goods into more heavily taxed categories unless importers/exporters pay a bribe. Given that goods awaiting clearance are often part of just-in-time supply chains and need to reach their destinations on time the potential of extortionary hold-ups is particularly high.

2. Specific interventions for mitigating and combating corruption in tax and customs administration

The following section focusses largely on targeted interventions which are considered to contribute to reducing the levels of corruption in tax and customs administrations. Nevertheless it is important to emphasise that tax and customs administrations operate in a broader environment and cannot be treated in isolation. Reforming a revenue administration, although it has important technical aspects, is therefore as much a social and political phenomenon that intersects with broader institutional structures, systems and incentives (Fjeldstad 2005).

In this sense, a key prerequisite for effective tax and customs interventions is that the system is perceived as fair, that revenues are seen as yielding tangible results in terms of public services and that senior officials themselves do not expect special treatment from these authorities (especially from customs authorities) as this undermines trust in the system and hence the propensity by both citizens and officials to abuse it (Child 2008).

In addition, in the case of customs administration reform, any program aimed at reducing corruption should focus not just on customs but on the entire border administration, mapping corruption risks in all other border control agencies (Ferreira et al. 2007).

Simplification of regulations and processes

A typical technical assistance program for tax administration reform addresses several reform measures in strategic sequence. In the short term

(within 18 months), the program aims to simplify tax instruments and processes; facilitate underlying legal reforms; consolidate subnational taxes and fees; and provide training and capacity building for tax officials and the private sector to successfully implement the streamlined, consolidated tax instruments and processes.

In the medium-term (within 36 months), the program will redesign tax administration architecture that involves institutional autonomy; reorganize the system and services based on types of taxpayers; and implement human resource management policy, automation, incentive mechanisms, and checks and balances. (Rahman 2009).

Reforming taxes

Reducing the number of taxes, the level of tax rates and the number of tax exemptions may help limit the discretion of tax officials and at the same time make it easier for tax-payers to understand their rights and obligations (Martini 2014).

Reorganising tax administration

Reorganising tax administration by type of taxpayer and function may also help reduce the opportunities for corruption. Tax administrations are typically organised according to (i) the type of tax (ii) the different functions performed by the tax administration (human resources and administration; information technology; legislation and appeals; taxpayer registration and services; audit; and collection enforcement); and (iii) the type of tax-payer (large, small or specific sectors) The latter two models (or a combination thereof) are expected to reduce the number of interactions between tax-payers and officials, enhance control and accountability, reduce corruption and improve compliance by allowing for specialisation and a better understanding of tax-payer behaviour. (Martini 2014).

Introducing single tax identification numbers

Another measure that aims to limiting opportunities for corruption is the introduction of single tax identification numbers for individuals and companies. This number should be used for all tax purposes, including in customs. Combined with the introduction of information and communication technology tools, it can facilitate the detection of tax evasion and corruption (Fjeldstad and Moore 2013).

Introducing tax self-assessments

Self-assessment, where tax-payers have to calculate their own liabilities, file returns and pay taxes is considered to have a positive impact on the control of corruption as it reduces the opportunities for negotiations between tax-payers and tax officials and also streamlines procedures (Martini 2014).

Automating payment and collection processes

Automating tax, and customs duties and tariff payment and collection processes is understood to reduce revenue officials' discretionary power, increase predictability, and reduce the burden for taxpayers to comply and hence reduce the opportunities for corruption. Standardizing procedures and electronic and physical forms, which are made widely available to taxpayers, limits one-on-one contact between officials and taxpayers. This should be accompanied by safeguards to avoid unauthorized use, abuse, or tampering (e.g. user passwords, limiting individual access to only the necessary parts of the system, recording amended documents within the system). Providing taxpayers with options, such as e-filing of returns, e-payment of taxes, filing of relevant applications online, e-tracking of such applications, downloading of tax bills, and viewing of tax payments made in banks also reduces personal contact (Martini 2014; Murdoch 2013).

Introducing trade facilitation policies for customs administrations

In the case of customs authorities, a number of trade facilitation policies are recommended to reduce the risk of corruption.

Pre-shipment inspection, for example, (usually by private companies) involves inspecting price, quantity and quality of goods ordered overseas at the port of exit, and conveying the findings to the recipient country's customs agency and the importer for verification before arriving at port (Ardigo 2014). It should be noted however, that the evidence on the impact of pre-shipment inspection on reducing corruption and fraud is ambiguous (Anson et al. 2003).

Transparent licensing and approval processes of agents, warehouses, etc., physical inspections and occasional stocktaking, meanwhile, are all considered important anti-corruption measures at locations where duty free or uncleared goods are stored (Child 2008).

Strong management and operational autonomy

Separation of functions

A clear separation is necessary between the tax administration, which manages taxpayer datasets, and the responsible Ministry (usually the Ministry of Finance) which develops tax policy and drafts legislation. This is to minimise political interference in the day to day operations of the tax administration through, for example, politically motivated appointments of staff. (Bridi 2010).

Semi-autonomous revenue authorities (ARAs), have been promoted, especially in Africa and Latin America, as giving more autonomy to tax administration agencies and ensuring more independence from governments and politicians. Studies show that while some ARAs were initially successful in sanctioning tax officials and reducing corruption in the first years of operation, control and oversight have not been continuously and consistently implemented and reports of political interference, bribery and extortion have since emerged (Martini 2014).

Ensuring a properly regulated work environment

At the operational level, managers should institute checks and balances so that individual lapses are both more difficult to perpetrate and easier to detect. They should also require record-keeping of decisions, particularly in exercising discretion, and closely monitor requests for changes of shifts or location of work (Child 2008).

On the other hand, closely controlled rotation of staff from risky locations and posts may itself be used as a risk mitigation strategy, although this can be costly, especially for geographically dispersed and remote customs offices (Ardigo 2014). Moreover, even when staff are transferred, they may find it difficult to refuse participation in any institutionalised illegal schemes which may exist at their new workplace (Ferreira et al. 2007).

Other steps to control corruption include the use of access control systems (e.g. key pads or swipe cards) to prevent staff from visiting areas where they do not work, restricting the access of unofficial visitors, ensuring designated contact points for enquiries, restricting the use of mobile phones, allowing post-clearance audits by appointment only, requiring mandatory recoding of all appointments and conducting random spot checks by managers (Child 2008).

Conducive employment conditions

Appointments should be based on competence, skills and integrity. Revenue authorities should have well defined appraisal systems which reward staff according to performance (based on agreed personal objectives beyond monetary collection targets), clear professional advancement opportunities based on merit and a clear career path, a sense of organizational belonging and professionalism, and competitive salaries commensurate with similar jobs in the private sector (Murdoch 2013). With regards to the latter, it should be noted that there is some dispute as to the effectiveness of increased salaries in disincentivising corruption and even some evidence that they may increase corruption without effective monitoring (Martini 2014). Staff loan facilities, meanwhile, have been suggested as a way to help overcome periods of financial difficulty (Child 2008).

Strong integrity framework

Codes of conduct

Codes of conduct/ethics in revenue authorities should: (i) explicitly identify those acts that would receive the most severe sanctions, (ii) stipulate that immediate supervisors are also liable for serious violations of their staff if they knew/should have known about the violation, (iii) require all officers to sign an acknowledgement that they have reviewed and understood the Code (Murdoch 2013). They should include, at a minimum, clear rules on: (i) conflicts of interest; (ii) confidentiality of tax information; (iii) bribery; and (iv) gifts and favours (Martini 2014). Beyond this, codes of conduct should aim at addressing tough ethical choices that customs staff are faced with on a daily basis, rather than merely state what is allowed and what is not allowed to do. Many codes of conduct for revenue administration officials also include social and cultural norms that are context specific and spell out what is expected from officials when confronted with corruption or other forms of wrongdoings.

Asset declarations

Many countries have also introduced rules requiring tax and custom officials to declare their assets and liabilities in order to identify potential illicit enrichment situations. Asset declarations may be required for either senior management, or

for senior management and all technical staff, including assets and income of close family members (Martini 2014; Murdoch 2013). In order for asset declarations systems to be effective, declarations need to be verified (even if for a random sample) and preferably published.

Internal audits, monitoring and investigations

It is important to conduct regular audits and have effective and skilled internal investigation teams, with effective links to other law enforcement agencies. An internal audit function should be responsible for: advising management on loss prevention and risk analysis; detection, investigation, and prevention of corrupt practices by employees and taxpayers; and conducting background investigations on tax administration job applicants and appointees. Suspected staff should be suspended immediately so that evidence is not compromised, and investigations should be swift. Sanctions should be equitable for all staff with no exceptions. Ideally, the revenue administration should press for court sentences and also seek sanctions against payers of bribes. The outcomes of cases should be published. Trends should be analysed, to learn from cases, and to close any identified loopholes (Child 2008; TI 2014; Murdoch 2013).

In the case of customs authorities, post-importation audits by staff not involved in entry processing are recommended, with audit cases being assigned at random. Risk-based management controls including accompanied or follow-up visits, and thorough checking of reports are also recommended (Child 2008).

Appeals and complaints mechanisms

All decisions and/or actions of the administration must be subject to complaint, as appropriate. Consideration should also be given to the idea of establishing a telephone number, which is widely publicised, where taxpayers and tax officials can anonymously report violations of the Code of Conduct. Establishing an independent (Tax) Ombudsman office allows the public to file complaints of harassment or corruption, with the reassurance that any genuine complaint will be promptly redressed (Murdoch 2013).

Transparency and accountability mechanisms

Tax administrations should invest in communicating the steps taken by the administration to reduce the scope for corruption and in educating taxpayers on their rights and obligations, through e.g. citizen or taxpayer charters, user-friendly guides, information brochures, inquiry services, seminars, etc. In particular, the use of posters at border posts that explain customs procedures and tariffs and the publishing of customs service evaluations can minimise the likelihood of unofficial fees imposed by customs officials used to extract rents (Ardigo 2014). Transparency concerning statistics as a measurement of fiscal projections and public sector accounts is a strongly recommended feature of a healthy tax administration (Bridi 2010; Murdoch 2013).

3. Case studies from the Indo-Pacific region

The majority of empirical literature on fighting corruption in tax and customs administration focusses on Europe, Africa and Latin America. Nevertheless, a small number cases studies provide examples of success and failure from the Indo-Pacific region, especially in the field of customs reforms.

The cases suggest that automation and streamlining of processes (Philippines, Pakistan), increasing salaries (Thailand), and the use of bespoke modelling tools (Afghanistan), have proved partially successful at combatting corruption in tax and customs administration.

Importantly, however, the success of these more technical approaches depends on sustained political support, long term commitment from donors, and engagement with a broad range of stakeholders. The case of Bangladesh, on the other hand, demonstrates that where political will is absent and patronage networks are entrenched, the opportunities for meaningful reform are severely reduced.

Sapere 2014: Evaluation of taxation reform in the Pacific

<http://www.oecd.org/derec/newzealand/Evaluation-of-Pacific-Taxation-Reform.pdf>

While not explicitly dealing with the challenges of corruption, this evaluation addresses the question of whether donor funded interventions have provided for effective policy dialogue on tax reform in Pacific countries. The evaluation concludes that reform efforts in the Pacific have yielded significant formal changes in tax regimes, but more modest changes in tax practices. While the experience of taxation reform in the Pacific overall is positive, substantial deficiencies remain in terms of: realization of revenue potential; sustained improvement in the administrative capacity; and tax paying culture and understanding of the tax system in civil society.

One particular criticism is donors' overreliance on discreet projects, whether policy-related or administrative, and an underestimation of the commitment required for the implementation of reforms and the ongoing nature of capacity building.

Other lessons of particular relevance here include:

- Integrity of overall tax system is critical to sustainability: Donor support for audit activity and the basics of tax administration are essential to the long-term success of taxation reform.
- Politics: Even where there are severe political constraints to reform it will often be possible to advance policy reforms of a technical or remedial nature that can provide substantial benefits to the tax administration and the overall integrity of the tax system. Donors should consider supporting such programmes even though they may be seen as outside the ambit of tax reform as normally understood.
- Engagement with civil society matters: Recent reform efforts have recognized that civil society actors – specifically tax agents, accountants and business associations - are likely to be crucial intermediaries in fostering political support for reform. Countries that have successfully targeted communication with the 'demand side' are showing better results in terms of registration and compliance. Donors should therefore consider technical assistance for building tax capacity/knowledge in the business

communities, especially for small and medium sized enterprises.

ICTD, 2013, The Political Economy of Tax Reform in Bangladesh: Political Settlements, Informal Institutions and the Negotiation of Reform

<http://www.ictd.ac/sites/default/files/ICTD%20WP14.pdf>

This paper discusses the reasons for resistance to reform Bangladesh's apparently dysfunctional tax system. The tax system is characterised by a broad range of exemptions, incentives and special regimes which create large scope for discretion, coupled with limited administrative modernisation.

Unlike many other low-income countries which have sought to progressively increase reliance on self-reported tax returns, voluntary compliance and risk based auditing, Bangladesh maintains an outdated 'control' based system, which relies on the physical monitoring of taxpayers in order to enforce compliance and low levels of automation. This allows tax officials to retain enormous discretion and, in turn, provides opportunities for collusion with, or extraction from, taxpayers.

Furthermore, whereas there has been a trend across many low-income countries towards greater integration across administrative units, the Bangladesh tax administration remains divided with little data sharing across departments opening up space for collusion, arbitrariness and abuse. In addition, even where tax assessment has been effective, enforcement mechanisms have been weak thanks to the ability of large taxpayers to use political influence to avoid enforcement and a weak judicial system, where appeals are subject to long processing delays.

As a result, even relatively straightforward reform efforts, many of which have been successfully undertaken in other low-income countries, have largely failed in Bangladesh, despite significant external pressure for reform.

Corruption in Customs: The case of the Thai Customs Formality Services Fee (FSF)

McLinden, Durrani, 2013

http://www.worldcustomsjournal.org/media/wcj/-2013/2/WCJ_V7N2_McLinden_and_Durrani.pdf

Despite implementing reforms aimed at simplifying formalities and modernising systems and procedures to limit opportunities for

corruption, the Thai Customs authorities realised that the low wages paid to customs officials posed a significant barrier to meaningful progress in eliminating corruption. To address the issue, the authorities introduced the collection of a Formality Service Fee (FSF), with 95% of the proceeds used to supplement staff salaries and 5% to finance the introduction of new technology.

The results have been very positive, with reported complaints regarding misconduct by customs officials falling significantly from 92 in its first year of operation to 69 in 2007, to just 36 in 2008. Traders, though required to pay the FSF, are generally positive about its introduction as it is predictable, non-negotiable, and subject to a formal receipt, thus eliminating the time and costs incurred in negotiating the informal arrangements that frequently applied previously.

According to a survey conducted in August 2008, 85.7% of economic operators agreed with the continuation of the FSF provided that the modest fee amounts were maintained. A more recent review by the Ministry of Finance also supported its continuation.

Corruption in Customs: The case of customs reform in Afghanistan

McLinden, Durrani, 2013

http://www.worldcustomsjournal.org/media/wcj/-2013/2/WCJ_V7N2_McLinden_and_Durrani.pdf

In Afghanistan, the World Bank started supporting customs reform efforts in 2004, focusing on infrastructure improvement, automation of customs procedures and clarifying and reforming the roles and responsibilities of the various government agencies operating at the border.

The results of the initial reforms were seen as a success with a significant increase in revenue collection, a decrease in truck release times, and increased transparency, among other things. However, due to the specific context Afghanistan faced, the threat posed by corruption in Customs went beyond financial losses to security issues associated with terrorism and drug trafficking.

In order to address the problem, the World Bank, in collaboration with the Afghan Customs Department developed the Governance Analysis Tool (GAT), tailored to the unique border management situation in Afghanistan. The GAT tool breaks down individual elements of the border management process into a series of procedural steps and maps the points that are most vulnerable to corruption. Using some

sophisticated modelling tools, it also identifies the strategies that have the most impact on addressing the vulnerabilities identified.

The tool helped to establish that the arrival, landing and reporting of goods was the most vulnerable stage in the entire import process. Moreover, it was found that Afghan Customs Department officials were only directly responsible for controlling 30% of the environment they were mandated to control. These findings informed the World Bank's second Customs Modernization and Trade Facilitation Project and helped the government clarify agency roles and strengthen customs responsibilities at the border.

Managing the risk of corruption in Customs through single window systems - Philippines

Ndonga, 2014

http://www.worldcustomsjournal.org/media/wcj/-2013/2/WCJ_V7N2_Ndonga.pdf

The 1990s saw the introduction of a comprehensive reform programme of Customs in the Philippines to increase the efficiency of revenue collection by reducing corruption. The reforms targeted in particular those areas of interaction between customs officials and operators, in recognition of the fact that complex bureaucratic procedures requiring face-to-face interactions between importers and customs officers were a key feature of corrupt transactions.

The first wave of reform saw the automation of customs processes with the Philippine Bureau of Customs implementing the ASYCUDA (Automated SYstem for CUstoms DAta) software package and the introduction of Project Abstract Secure (PAS), which required taxes and duties to be paid via a cashless process to an Authorised Agent Bank. Another system that boosted integrity in the Bureau was the Automated Customs Operating System (ACOS) which was implemented to facilitate the clearance of shipments through Customs using a risk assessment program which analysed the risk profiles of shipments automatically.

These automated systems have been credited with reducing corruption in the Philippine Bureau of Customs by reducing the extensive discretionary interfaces that customs officials enjoyed for their personal gain.

Customs reforms in the Philippines: Improving Efficiency, Effectiveness and Anti-Corruption Outcomes

USAID, 2006

<http://www.fsmb.am/Maac/ImprovingEfficiencyEffectivenessAndAnti-CorruptionOutcomes.pdf>

This study describes the USAID-sponsored Economic Growth Technical Assistance (EGTA) program - conducted between 1998 and 2004 in the Philippines. The EGTA program targeted three major reforms in the Philippines Bureau of Customs: implementation of a transaction value methodology for assessment, development of a Super Green Lane, and initiation of post-entry audits.

In terms of anti-corruption outcomes, the report suggests that reforms have had little, if any, effect on corruption in the Customs Bureau. In particular, widespread unofficial practices were indicated by firms in the very domains where the EGTA interventions were implemented – 45 percent of firms indicated that they experienced more or the same amount of unofficial practices since the transaction valuation regime was established; 93 percent of firms indicated that they had been asked for bribes during the post-entry audit process some or most of the time; and 74 percent of firms accredited to the Super Green Lane (an electronic rapid clearance and processing system) have had to pay unofficial fees during clearance processing.

The report suggests that while the EGTA reforms were well-conceived and effectively implemented, a major flaw was the inadequate management supervision, poor enforcement, and lack of controls within the Bureau. Some of the reforms were delayed substantially, others were circumvented by Bureau staff, and others were suspended due to complaints from clients.

The authors contrast this with the situation during the successful World Bank sponsored reforms during the 1990s (See Ndonga, 2014, above) when strong leadership from the head of Customs and higher political leaders had been evident. They therefore conclude that effectiveness of such reforms in other countries is likely to depend upon strong political will by top leadership, de-politicization of the customs administration, strict enforcement of procedures, predictable and swift sanctions for abuses, an adjustment to incentives, and personnel reorganization.

Reforming Customs Clearance in Pakistan (Manzoor, 2010)

<https://openknowledge.worldbank.org/handle/10986/10503>

Following a failed experiment at outsourcing Customs functions in the 1990s, Pakistan introduced a bespoke single window system for customs clearance in 2005, called the Pakistan Customs Computerized System (PaCCS). Customs processes at the port of Karachi have been simplified considerably since PaCCS was implemented. The port, once considered among the worst functioning in the world, is now competitive with any in the region—including those in India.

Under PaCCS one simple electronic declaration has replaced up to 26 clearance steps, 34 signatures, and 62 verifications. After the system was first introduced, 87 percent of consignments cleared the single window within an hour, though that pace has slowed considerably since some manual checks were introduced. Rebates to traders are made automatically without their having to file claims, and refunds now take less than 2 days, compared with 90 before.

PaCCS also introduced more sophisticated risk management. It maintains a taxpayer compliance history for the past year, and taxpayers with higher compliance ratings are considered less risky. Conducting fewer examinations based on automated risk profiling greatly reduces processing costs for port operators, who can begin processing before shipments arrive, and for shipping companies, which no longer have to maintain ships at port while goods are cleared.

Pakistani officials estimate that 90 percent of corruption has been eliminated for goods passing through the single window system in Karachi (which accounts for 60 percent of Pakistan's international trade). Collusion between taxpayers and tax collectors is largely mitigated by physical structures that separate taxpayers from examination and assessment areas. In addition, biometric identification and cell phone jammers are used to ensure that customs staff remains unaware of the identity of taxpayers.

4. Further Reading: Selected Tool and Guidelines

Tax Administration Diagnostic Assessment Tool (TADAT)

IMF, 2015

<http://www.tadat.org>

Hosted by the IMF, TADAT aims complement the public expenditure and financial accountability (PEFA) programme by applying a detailed methodology to produce objective, evidence-based assessments and baselines of a tax administration's performance. The objective is to inform stakeholder dialogue on reform priorities. A TADAT assessment will focus on tax administration outcomes rather than inputs or processes.

Tax administration: detecting corruption

CleanGovBiz, 2012

<http://www.oecd.org/cleangovbiz/toolkit/49360071.pdf>

This short toolkit provides a checklist to help ensure increased deterrence, detection, reporting and prosecution of corrupt activities in tax administrations.

Guide to Corruption Risk Mapping

World Customs Organisation, 2015

http://www.wcoomd.org/en/topics/integrity/~/_media/WCO/Public/Global/PDF/About%20us/Legal%20Instruments/Declarations/Risk-Mapping-Guide_June-2015.ashx

The Guide to Corruption Risk Mapping starts by explaining the notion of risk mapping, in particular in the Customs context and in relation to corruption. It then explores the benefits of using such an approach and describes elements of a methodology to obtain information and identify those who will carry out such an exercise, providing detailed explanations of key steps. It concludes by describing in detail the different steps of the risk mapping process.

Draft Model Taxpayer Charter

Confédération Fiscale Européenne, 2013

<http://www.cfe-eutax.org/publications/cfe-books>

This model taxpayer charter prepared by the Asia-Oceania Tax Consultants Association (AOTCA),

the Confédération Fiscale Européenne (CFE) and the Society of Trust and Estate Practitioners (STEP) is derived from a survey of taxpayer rights and responsibilities in 37 countries, collectively accounting for over 73 per cent of world GDP. The overriding purpose of the charter is to provide in due course a model which can be adapted and used in nation states to embed in law the basis on which taxpayers' obligations to the state are balanced against the rights of taxpayers.

Integrity Development Guide (IDG)

World Customs Organisation, 2014

http://www.wcoomd.org/en/topics/integrity/~media/WCO/Public/Global/PDF/Topics/Integrity/Instruments%20and%20Tools/Integrity_guide_EN.ashx

The IDG provides a practical framework to examine the management, administrative and integrity strategies currently in place and to identify opportunities for further improvement, based on the Revised Arusha Declaration on Integrity in Customs.

Compendium of Integrity Best Practices

World Customs Organisation, 2007

<http://www.wcoomd.org/en/topics/integrity/~media/F8980A7CB73A4F2E80A137967AF75CA8.ashx>

This compendium includes integrity best practices from member countries for customs along the 10 principles outlined in the revised Arusha declaration on customs integrity. The aim of the compendium is to identify and share the most successful operational standards or strategies available in the customs community.

Model code of ethics and conduct

World Customs Organisation

[http://www.tcboostproject.com/_resources/resource/Model_Code_of_Ethics_and_Conduct%20\(WCO\).pdf](http://www.tcboostproject.com/_resources/resource/Model_Code_of_Ethics_and_Conduct%20(WCO).pdf)

The World Customs Organisation has developed a model code of ethics and conduct to provide members with guidance on ethical standards. It aims at setting out in very practical and clear terms the standard of behaviour expected of all customs officials.

5. References

Ardigo, I. 2014. Literature review on corruption in customs and tax administration. Anti-Corruption Helpdesk, Berlin: Transparency International http://www.transparency.org/whatwedo/answer/corruption_in_tax_and_customs_authorities

Anson, J., Cadot, O. and Olarreaga, M. 2003. Tariff Evasion and Customs Corruption: Does Pre-Shipment Inspection Help?, Washington, DC: World Bank. <http://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-3156>

Bridi, A. 2010. Corruption in Tax Administration. U4 Anti-Corruption Resource Centre <http://www.u4.no/publications/corruption-in-tax-administration/>

Child, D. 2008. Key Steps to address corruption in tax and customs. <http://www.u4.no/publications/key-steps-to-address-corruption-in-tax-and-customs/>

De Wulf, L. and Sokol, J.B. 2005. Customs Modernization Handbook. Washington, DC: World Bank.

Fereira, C. Engelschalk, M. and Mayville, W. 2007 "The Challenge of Combating Corruption in Customs Administrations." In *The Many Faces of Corruption*, edited by J. Edgardo Campos and S. Pradhan, Washington DC: The World Bank. http://www.igac.net/pdf/publications_adb_manyfacesofcorruption.pdf

Fjeldstad, O. and Moore, M. 2009. Revenue authorities and public authority in sub-Saharan Africa. *Journal of Modern African Studies*, 47, 1, pp. 1–18 <http://bit.ly/1lj7tZ1>

Fjeldstad, O. 2005. Revenue administration and corruption. U4 Issue, Bergen: Chr. Michelsen Institute. <http://www.cmi.no/publications/publication/?2558=revenue-administration-and-corruption>

Martini, M. 2014. Approaches to curbing corruption in tax administration in Africa. U4 Anti-Corruption Resource Centre http://www.transparency.org/whatwedo/answer/approaches_to_curbing_corruption_in_tax_administration_in_africa

Murdoch, T. 2013. Detailed Guidelines for Improved Tax Administration in Latin America and the Caribbean
Chapter 17. Integrity, Washington D.C: USAID
https://www.usaid.gov/sites/default/files/LAC_Tax_Book_Ch%2017%20-%20ENGLISH.pdf

Pashev, K. 2006. Understanding Tax Corruption in Transition Economies: Evidence from Bulgaria. MPRA Paper No. 974, 2007.
<http://mpa.ub.uni-muenchen.de/974/>

Rahman, A. 2009. Tackling Corruption through: Tax Administration Reform. Investment Climate in Practice, Washington, DC: World Bank.
<http://bit.ly/1phtl1c>

TI. 2014. Tax administration and corruption. Topic Guide: Anti-Corruption Helpdesk, Berlin: Transparency International
http://www.transparency.org/whatwedo/answer/topic_guide_on_corruption_in_tax_administration