

# CUSTOMS MODERNIZATION INITIATIVES

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## CASE STUDIES

Editors  
Luc De Wulf • José B. Sokol



THE WORLD BANK

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# **CUSTOMS MODERNIZATION INITIATIVES: CASE STUDIES**

# FOREWORD

In recent years, policymakers have become increasingly aware of the importance of policies that can facilitate the flow of goods and services across borders. Sound trade facilitation policies are indeed essential if countries are to realize the potential gains available from enhanced market access, lowered tariffs, reduced transportation costs, and improved communications. Such gains can allow countries to achieve higher growth rates and reduce poverty.

Customs administrations are a critical component of this framework and are therefore important catalysts of economic development. Well-designed programs that focus on improving the efficiency of customs administrations can generate significant gains by helping to integrate developing countries into the global trading system. In this context, many countries have undertaken customs reform and modernization initiatives, often with the assistance of the World Bank or other development agencies.

The outcomes of those programs have been mixed because, unfortunately, many programs have

failed to meet their objectives. To help our member countries draw lessons from the successes and failures of such reform efforts, the International Trade Department of the World Bank is preparing a series of tools anchored on its *Customs Modernization Handbook*. This publication is a companion to the *Customs Modernization Handbook*. It documents the lessons to be learned from eight case studies that were prepared to inform the *Handbook*. The case studies reflect the realities of extremely diverse countries in terms of development, culture, and geography.

We hope that both the *Customs Modernization Initiatives* volume and the *Customs Modernization Handbook* will contribute to successful reforms that will help developing countries' to integrate into the global economy and achieve their ultimate objective of poverty reduction.

Uri Dadush  
Director  
International Trade Department



# ACKNOWLEDGMENTS

The country case studies are the product of a collaborative effort on the part of customs experts and consultants who either participated in the reform processes in the countries reviewed or have accumulated significant technical knowledge about customs reform and modernization processes in a worldwide context during the course of their professional experience. The studies were prepared using a methodology developed by Luc De Wulf and Michael Lane. The editors have revised and updated the studies submitted by the authors so as to obtain greater uniformity.

The editors reviewed the country case studies on an individual basis, as did a number of peer reviewers, including Amparo Ballivián (World Bank), Michael Engelschalk (World Bank), Carlos Ferreira (World Bank), Guillermo Gutierrez (National Customs of Bolivia), Allan Katiga (Uganda Revenue Authority), David Kloeden (International Monetary Fund), and Michael Lane (formerly with the U.S. Customs Service). The editors also wish to thank the staff members of the Ghana Community Network, who were most helpful to the author in undertaking the Ghana study, especially Emmanuel Darko and Nigel Gregory. Comments were received from the respective World Bank country teams. The contribution of Peter M. Kalil, chief of the Integration Trade and Hemispheric Issues Division,

Inter-American Development Bank, is also gratefully acknowledged, particularly in supporting the preparation of the Peru case study. In addition, Paul Duran (consultant) helped the editors ensure the consistency and coherence of all the case studies. The views expressed are entirely those of the contributors and do not necessarily reflect the views of the World Bank Group, the institutions with which the authors are affiliated, or the countries they represent.

This book is a product of the World Bank's Trade Department. It was initiated by the Africa Region under the leadership of Larry Hinkle, who at that time was completing a study on Africa's trade reforms ("How Far Did Africa's First Generation Trade Reforms Go?" Africa Region Working Paper Series No. 58a, June 2003). That study suggested that the benefits from trade liberalization policies would be greatly enhanced by reforms in the trade facilitation area, particularly in customs administration.

The editors are indebted to Melanie Faltas, Zeba Jetha, and Lili Tabada for their excellent administrative support throughout the project. Alice Faintich of The Word Doctor edited the document, which greatly improved its readability. Their dedication has significantly enhanced the quality of this product.

# ABOUT THE EDITORS

**Luc De Wulf**, a Belgian national, joined the Fiscal Affairs Department of the International Monetary Fund in 1972 and later worked on China in the Asia Department before moving to the World Bank in 1988, where he worked in the Africa Region and the Middle East Region. He retired from the Bank in 1999.

Initially, De Wulf's interest in the taxation of foreign trade was driven by the important revenue contribution of taxes in many developing countries. Recently he has worked intensively as a consultant on trade and development issues, particularly in Mauritania and Senegal. During the course of this work, he increasingly recognized that trade liberalization, with its emphasis on improving market access and lowering both tariff and nontariff trade barriers, would not fulfill its promises of growth and poverty alleviation without significant strengthening of trade facilitation. In the area of trade facilitation, customs is a key agency that in a number of countries fails to reduce the cost of trade sufficiently, and its potential contribution to trade facilitation is frequently not fully realized. Hence, this publication emphasizes increasing the effectiveness and efficiency of customs operations.

**José B. Sokol**, a Panamanian national, joined the World Bank in 1977 following a career as a senior government official responsible for economic, budgetary, and financial matters at Panama's Ministry of Planning and Economic Policy. At the World Bank, Sokol worked in the Latin America and the Caribbean Region and in the Africa Region. He retired in May 2001.

Initially, Sokol's work focused on macroeconomic issues and the contribution that policies in this area can bring to a country's development efforts. His work on Argentina, Colombia, and the Commonwealth Caribbean countries gradually shifted to the area of structural adjustment with an emphasis on trade liberalization, particularly on reducing tariff and nontariff barriers to trade. Later his work in the Africa Region shifted to addressing growth, poverty reduction, governance, and capacity-building issues. His more recent work has focused on evaluating both the impact of country assistance strategies and adjustment operations on growth and poverty reduction and the contribution that trade facilitation and customs modernization can have on strengthening a country's outward-looking growth orientation.

# ABBREVIATIONS AND ACRONYMS

ACIT	Administration of Customs and Indirect Taxes (Administration des Douanes et Impôts Indirects) (Morocco)	MOF	Ministry of Finance
ACV	Agreement on Customs Valuation	MOTI	Ministry of Trade and Industry (Ghana)
ASYCUDA	Automated System for Customs Data	NCB	National Customs of Bolivia (Aduana Nacional de Bolivia)
BOC	Bureau of Customs (Philippines)	NCS	National Customs Service (Superintendencia Nacional de Aduanas) (Peru)
CCMS	Computerized Customs Management System (Turkey)	PSI	preshipment inspection
CEPS	Customs, Excise, and Preventive Services (Ghana)	PTCP	Philippine Tax Computerization Project
COMESA	Common Market for Eastern and Southern Africa	SADC	Southern African Development Community
CSCC	Computerized Support for Customs Clearance	SGS	Société Générale de Surveillance
DFID	Department for International Development (United Kingdom)	SPACE	selectivity, postaudit, advance clearance, client self-assessment, and electronic data processing
DIS	destination inspection services	TCA	Turkish Customs Administration
DTI	direct trader input	TIMS	Trade Information Management System
EDI	electronic data interchange	TURC	Technical Unit for Restructuring Customs (Unitade Técnica de Reforma das Alfândegas) (Mozambique)
EU	European Union	UNCTAD	United Nations Conference on Trade and Development
GCMS	Ghana Customs Management System	URA	Uganda Revenue Authority
GCNet	Ghana Community Network	VAT	value added tax
GDP	gross domestic product	WCO	World Customs Organization
ICT	information and communication technology	WTO	World Trade Organization
IDB	Inter-American Development Bank		
IMF	International Monetary Fund		
ITS	Intertek Testing Services		
MEF	Ministry of Economy and Finance (Peru)		



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# OVERVIEW

*Luc De Wulf and José B. Sokol*

This volume presents case studies of customs modernization initiatives in eight developing countries: Bolivia, Ghana, Morocco, Mozambique, Peru, the Philippines, Turkey, and Uganda. The purpose of these case studies was to obtain a firsthand view of how these countries undertook customs reforms and to assess their success. The overall lessons learned from these studies are presented in chapter 2 of the *Customs Modernization Handbook* (World Bank forthcoming), a companion volume that provides policymakers, practitioners, and project managers from development agencies with an overview of the key issues they need to address in preparing and implementing customs modernization initiatives. The audience for the *Customs Modernization Handbook* is customs officials who are called on to design and implement customs reform and modernization strategies, as well as staff members of the World Bank and of other multilateral and bilateral development agencies who support developing countries in implementing such strategies. All the case studies except for the one on Ghana were prepared using basically the same methodology, which aimed at identifying the origins of the reforms, the main drivers, and the outcomes. The Ghana case study is somewhat different, because it focuses on how the automation

of trade and customs processes took the lead in the trade facilitation and customs reform.

The country case studies were prepared by customs experts and consultants who had either participated in the reform processes in the countries reviewed or accumulated significant technical knowledge of customs reform and modernization processes in a worldwide context. The selection of countries aimed to assess initiatives used in different continents in the hope that their unique characteristics would yield interesting insights.

The country case studies were undertaken with a common approach to ensure comprehensiveness and comparability. They targeted five areas of the reform process:

1. The background of the reform and modernization process, including its economic and institutional context, factors leading to reform decisions, supporters, objectives and design, and financial and technical support
2. The issues pertinent to the reform process
3. The reform measures themselves, including legislation; management changes; staff-related questions, such as pay, selection, training, integrity, and corruption; information technology; valuation; experience with preshipment

inspection; special import regimes; and selectivity in pre- and post-release control

4. The outcomes, including the effect of reform on fiscal performance, trade facilitation, corruption, staffing and workloads, and conformity with international standards plus, where available, an assessment of quantitative performance indicators and users' reactions
5. The lessons that each of these reforms contain a judgment about the sustainability of the modernization initiatives

The findings and conclusions of each case study are based primarily on interviews conducted in the field with public sector representatives—mainly customs officials—as well as oversight authorities and private sector representatives, including importers, brokers, carriers, and their professional associations. The findings were at times complemented by further dialogue between the editors and others with valuable insights in relation to reform processes and outcomes.

Interviews were conducted at three levels: (a) with sponsors and originators of the reform process so as to identify the motivating and encouraging actors behind the reform, (b) with customs officials and other officials involved in implementing reform who were in a position to provide details about the reform process and methodology, and (c) with users of customs services who are directly affected by customs operations and who could help assess the reform process and outcomes.

Although the country case studies share the same approach and cover the same topics, they differ in the depth and extent of treatment of the issues examined. This difference reflects the varying expertise of the consultants who undertook the studies, the information available about the details of the reform, the specificity of the country initiatives, and the relative importance of different reform elements in the various programs. Also, because these studies were largely undertaken in mid-2002, some of the findings may be somewhat outdated.

## **Bolivia**

Initiated within the framework of an institutional reform covering the entire government and provided with strong leadership by the vice president,

customs reform in Bolivia aimed at total transformation. One of the key elements of the reform was a complete staff renewal, designed to rid the customs service of deeply embedded corruption. Under the reform, new staff members were selected on the basis of competitive recruitment of qualified candidates conducted by outside consultants. With the adoption of the Automatic System for Customs Data (ASYCUDA++) software, the National Customs of Bolivia (NCB; Aduanas Nacionales de Bolivia or ANB in Spanish) was able to achieve random selectivity in the inspection of shipments and limit physical controls to 20 percent of shipments. The upgrading of information and communication technology (ICT) allowed the NCB to monitor customs clearance times closely, thereby enabling it to remedy weaknesses and help design measures to reduce clearance times. The program also provided for a gradual handover of the valuation function to the NCB. In addition to a significant reduction in corruption, smuggling of products of mass consumption declined. However, control of informal trade remains a challenge. In recent years, smuggling activity in the informal sector appears to have increased sharply in response to a deterioration in economic conditions following adverse external and domestic shocks. Also resources earmarked for the NCB to cover its operations appear to be inadequate to sustain the financial autonomy that it was granted as part of the reform.

## **Morocco**

Although not codified in a detailed action plan, Morocco's program of customs reform and modernization reflected a comprehensive vision and covered all aspects of customs operations. Reform actions were undertaken in a deliberate and pragmatic process. The priorities of the Administration of Customs and Indirect Taxes (ACIT; Administration des Douanes et Impôts Indirects or ADII in French) changed significantly, away from revenue generation and law enforcement and toward the facilitation of trade and transparency. The reform process has benefited greatly from the close involvement of the ACIT's private sector partners in designing the reform, which included an overhaul of the Customs Code and the implementation of the Customs Valuation Agreement of the World

Trade Organization. The ACIT actively engaged the entire customs staff in elaborating and implementing the reform while strengthening training and staff incentives. The close involvement of both staff members and users of customs services in the reform effort benefited greatly from the early development of customs communications. Substantially reinforced ICT led to considerable progress in automating customs operations. With selectivity limiting physical inspections to 10 percent of declarations and other process simplifications, customs clearance time was substantially reduced. This result, posted on the ACIT's Web site, put pressure on other public and private sector agents to streamline their operations so as to reduce delays in releasing shipments to importers.

## **Mozambique**

In Mozambique, the most significant characteristic of the reform was the willingness to rely extensively on external consultants to manage and implement the reform and to value imports and exports for customs purposes. Mozambique adopted this unusual approach in the midst of rebuilding a government service that had been totally destroyed after many years of war. The reform design was, from the outset, comprehensive and ambitious; however, its implementation was gradual and phased, with careful monitoring systems built in. Significant foreign financing supported the reform. Under the reform, the Mozambique Customs Administration (or *Direcção Geral de Alfândegas*) introduced a modern ICT system and initiated a program of staff renewal, with recruitment based on new standards of qualification and integrity, and a new salary scale. A sizable portion of the existing staff was scheduled to be released. The contract for external consultants was extended twice because more time was needed to prepare national management to direct an efficient and effective customs organization and to gear up for integration into the envisaged new central customs authority. Whether this innovative approach is the best way to ensure the sustainability of reform is yet to be determined. Mozambique has still not completed the process of streamlining its staff. It also needs to develop the ICT system further to deal effectively with persistent corruption and smuggling problems.

## **Peru**

In Peru, customs reform and modernization were high on the agenda of the president, who provided strong political support throughout enactment of the reform. The customs administration was vested with full ownership of the reform and maintained the necessary continuity to see the process through to completion. Peru created the National Customs Service (*Superintendencia Nacional de Aduanas*) to grant the customs administration the operational flexibility required to improve services and to be held accountable for the results. The reform program was comprehensive, and it was implemented in a systematic way that led to steady progress. An entire series of measures was taken at the beginning, followed by a period of consolidation. Major areas that were addressed included adopting new legislation; streamlining procedures; implementing full automation of operations based on an integrated, domestically developed computer program; introducing risk analysis and postrelease audits; and initiating broadly based personnel renewal. The administrative and financial autonomy granted to the customs administration allowed it to introduce effective management and personnel policies that included the provision of attractive salaries and the removal of unqualified and corrupt staff members. The use of preshipment inspection services illustrates how such services can contribute to effective and efficient customs operations.

## **Philippines**

Decisive factors in the success of the reform in the Philippines included strong, top-level political backing; strong, able, and sustained operational leadership; ownership of the reform by the head of the Bureau of Customs; and support that included some funding by private sector users of customs services. Among the weaknesses of the reform were a failure of customs staff members to commit to it, caused partly by their inadequate compensation, a problem that the Bureau of Customs could not address because it lacked the requisite authority and funding. This lack of commitment, together with the loss of political interest on the part of the subsequent administration, led to later backsliding on reform. In addition, other agencies involved in import and export clearance did not go along

with the modernization efforts and continued to impede trade flows. Nevertheless, the adoption of simplified procedures and the significant progress in automation affected nearly all segments of the clearance process. The introduction of ASYCUDA++, with its support of risk assessment and selectivity, contributed to a substantial enhancement of customs controls and a reduction in clearance times.

## Turkey

Two goals dominated customs reform and modernization efforts in Turkey: bringing customs legislation and administrative structures in line with European Union standards, and automating customs procedures. The establishment of an independent Modernization Project Unit with strong political support and steady management by the Turkish Customs Administration (TCA; Gümrük in Turkish) was a critical element in the effective coordination of automation activities. Such activities included adoption of a new ICT system and its rapid deployment and application, which permitted automation of the entire clearance process; introduction of risk-based selectivity; and implementation of postrelease controls. The TCA also witnessed a significant improvement in staff quality, as well as improvements in physical infrastructure, which were occasionally funded by private sector contributions. Some regional customs offices lagged in deploying the new ICT system, hiring qualified personnel, and adopting automated procedures. The TCA's lack of autonomy in salary setting and in recruitment hampered its modernization effort. Inefficiencies in the procedures other agencies used to fulfill their own mandates, including the Ministry of Health, Ministry of Agriculture, and Standards Institute, undermined the overall benefits that traders reaped from the customs reform.

## Uganda

In Uganda, customs reform has been a long-term process. Started in 1990–91, its main aim was to strengthen revenue mobilization and to combat corruption. At the beginning of the reform, the customs administration became part of an

autonomous revenue agency that also managed domestic taxes. Measures were implemented to enhance staff member integrity, in part by significantly upgrading salaries and removing staff members who had been tainted by previous integrity shortcomings. Those efforts were reinforced by a wide-ranging anticorruption campaign. In 2002, the reform also streamlined several steps in the clearance process. The reform process still has a considerable unfinished agenda, because audit controls are at an embryonic stage of development and a realistic database still needs to be developed. Now that ASYCUDA++ has been adopted, the automation of customs processes is making progress. However, no fully fledged risk management system is operational yet, and the physical inspection rate is still close to 100 percent. The fight against corruption has proved to be an arduous task, requiring steadfast efforts with high-level political support. Yet some noteworthy successes have recently been registered. In mid-2002, several high-ranking officials were arrested, and the campaign against corruption is still high on the agenda. As the reform moves ahead, it may benefit from a greater focus on the promotion of integrity and trade facilitation in combination with strong enforcement.

## Ghana

The Ghana case study is quite different from the other case studies. It was initially undertaken as a case study of reform that would improve the investment climate and would be used as an input in the *World Development Report* (World Bank 2004). It is reproduced with permission from the *World Development Report* team, because it clearly illustrates how introducing ICT, even in the absence of comprehensive customs reform, can strengthen revenue mobilization and speed up cargo clearance. Ghana has adopted a novel approach to the introduction of ICT by commissioning this task to a joint venture company, the Ghana Community Network. The vision is to connect all members of the trading community in an electronic network so as to facilitate all aspects of the trade transaction for both traders and the government agencies overseeing these transactions, each of which has its own agenda. Progress so far has been good in terms of raising revenue and speeding up customs clearance



times. The lessons learned from this experience show that (a) ICT can serve as a powerful force to streamline trade and customs procedures; (b) the sustainability of the improvements registered will depend on modernization of the non-ICT aspects of customs work; and (c) the inclusion of other members of the trading community in the electronic network requires more political will than has been mustered so far.

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# BOLIVIA

*Flavio Escobar*

Bolivia successfully adopted an open market economy model in 1985; however, economic growth and employment generation have been insufficient for the country to make headway in narrowing its sizable inequalities in incomes and standards of living. In an effort to address these issues, the Bolivian authorities pursued a comprehensive economic reform program that included modernization of the customs administration.

## Trade Policy and Taxation

In 1985, Bolivia launched significant reforms in the area of international trade that included reducing tariffs and simplifying controls. Initially the authorities introduced a uniform tariff of 20 percent for capital and other goods, but the tariff schedule is no longer uniform, because in 1987, the authorities further reduced the tariff on capital goods to between zero and 5 percent and lowered the tariff on other goods to 10 percent.

In addition to customs duties, levies on imports include a value added tax of 14.9 percent and a selective consumption tax that ranges from 50 percent on cigarettes and other tobacco products to between 10 and 18 percent on automobiles. Other taxes include a specific tax of Bs 0.15 per liter

applied to soft drinks, as well as a specific tax of Bs 0.3 to Bs 1.2 per liter applied to alcoholic beverages. Bolivia also levies a special tax on the import and domestic sale of hydrocarbons and their derivatives; for example, in 2002, the specific tax on diesel oil was Bs 0.66 per liter.

Import taxes account for a significant portion of total tax revenue. As figure 2.1 shows, customs revenue from taxes on international trade represents between 30 and 40 percent of the National Treasury's total tax revenue. Customs revenue as a share of total revenue peaked in 1997 and 1998 because of imports required for the construction of a gas pipeline between Bolivia and Brazil, as well as increases in foreign investment in privatized companies.

Among the contributions of the various taxes on international trade to total National Treasury revenue, the value added tax, which is levied on all final imports of goods and services, is the most important, representing about 21 percent of the total. Customs duties are the second most important source of tax revenue and account for about 8 percent of total tax revenue (figure 2.2).

Figure 2.3 shows the effective rates of import taxes as measured by the ratio of customs duty collection to the total value of imports. In 1999–2001,