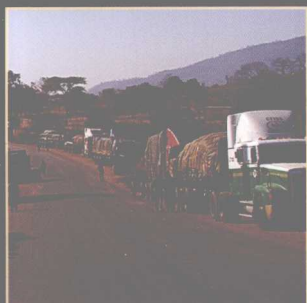


BORDER MANAGEMENT MODERNIZATION



THE WORLD BANK

Gerard McLinden, Enrique Fanta
David Widdowson, Tom Doyle; Editors

Border Management Modernization

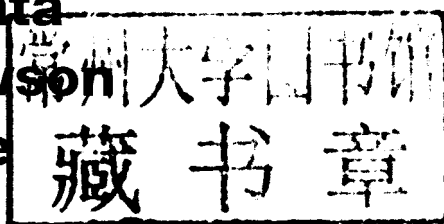
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THE WORLD BANK

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Foreword

Trade is an important driver of economic growth and development: integration into world markets allows producers to specialize and reap the benefits of economies of scale. Trade also gives firms and households the opportunity to buy goods, services, and knowledge produced anywhere in the world.

Developing countries face many challenges in fully utilizing the opportunities offered by participation in the global economy. Some of these are associated with traditional trade barriers: tariffs and nontariff measures that impede market access. While such barriers continue to be important for products in which many developing countries have a comparative advantage—such as agricultural goods—the average level of tariffs has fallen significantly in recent decades. Moreover, many of the poorest countries have duty free access to high income markets. It is increasingly recognized that a key factor determining the competitiveness of developing country exporters is the national investment climate and business environment, as this is a major determinant of the costs—and thus the profitability—of production.

An important part of the agenda to lower operating costs is to reduce administrative red tape and remove unnecessary regulation. While there is nothing countries can do to improve their geography or resource endowments, they can take action to facilitate trade and to eliminate unnecessary administrative burdens for traders when moving goods across borders. Many developing countries have taken steps

to simplify trade procedures and to use information technology to implement risk management systems to facilitate trade. However, progress has often been halting and has yet to make a real difference in many countries. On average it still takes three times as many days, nearly twice as many documents, and six times as many signatures to import in poor countries as it does in rich ones.

The development community, including the World Bank, has invested heavily in the reform and modernization of customs administrations around the world, and the results achieved in terms of reduced clearance times have at times been very impressive. But recent data compiled in the World Bank's Logistics Performance Indicators suggest that customs authorities are only responsible for approximately one third of the delays traders encounter at the border. An array of other government institutions are responsible for the majority of the problems traders face at the border. It matters little if customs are fully automated if traders still need to carry bundles of paperwork to a multitude of other government agencies that continue to process them manually. Likewise, it matters little if customs employ sophisticated risk management

techniques to limit the number of time consuming physical inspections they perform if other agencies continue to require containers to be opened for routine inspection.

Focusing exclusively on customs reform is therefore unlikely to realize the sorts of breakthroughs necessary to significantly improve the competitiveness of traders in developing countries. A wider and much more comprehensive ‘whole of government’ approach is necessary. While there is no shortage of blueprints and reform tools available to guide the customs reform agenda, this is not the case for the many other agencies involved in clearing goods. In contrast to customs agencies that are linked into the World Customs Organization, most of these agencies are not connected through an intergovernmental body that acts as a focal point for the development of international instruments and the sharing of good practice approaches.

The objective of this book is to summarize and provide guidance on what constitutes good practices in border management—looking beyond customs clearance. The contributions to the volume make clear that there are no simple or universally applicable solutions. Instead, the aim is to provide a range of general guidelines that can be used to better understand the complex border management environment and the interdependencies and interrelationships that collectively need to be addressed to secure meaningful change and improvement.

While the editors have tried to be as comprehensive as possible in the choice of the topics addressed

in the book, they have also been selective. Thus, the book does not focus on subjects that have been dealt with in some depth in other publications or on which there is already significant resource material. For example, customs reform is the subject of a 2005 World Bank publication on customs modernization and is therefore not addressed in great depth in this book. Instead the focus is on those emerging issues that present the most perplexing challenges for efficient border management.

I hope that the advice, guidelines, and general principles outlined in the book will help government officials, the trade community, and development practitioners to better understand both the importance of effective border management and the challenges of and options for making the border less of a barrier for traders. Designing and implementing practical initiatives and programs that make a positive difference to national competitiveness is conditional on governments giving priority to border management reform and modernization. There are costs associated with launching the kind of comprehensive border management modernization agenda outlined in this book. Reform in this area can be a long, complex, and at times frustrating process. But the costs and risks associated with ignoring this very important dimension of trade competitiveness are significant.

Bernard Hoekman
Director, International Trade
Department, The World Bank

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Introduction and summary

Gerard McLinden

This book provides border management policymakers and reformers with a broad survey of key developments in and principles for improving trade facilitation through better border management, including practical advice on particular issues. In contrast to the traditional border management reform agenda, with its focus on improving customs operations, this book addresses both customs reform and areas well beyond customs—a significant broadening of scope. The book thus presents a new, more comprehensive approach to trade facilitation through border management reform: an approach that embraces a much wider, “whole of government” perspective.

Facilitating legitimate trade through better border management: the problem

In recent years countries have realized, perhaps more than ever, the importance of trade to achieving sustainable economic growth. Accordingly, they have lowered tariffs, established regimes to encourage foreign investment, and pursued opportunities for greater regional integration. Yet progress in trade facilitation is still slow in many countries—and progress is hampered by high costs and administrative difficulties at the border.

Outdated and overly bureaucratic border clearance processes imposed by customs and other agencies are now seen as posing greater barriers to trade than tariffs do. Cumbersome systems and procedures and poor infrastructure both increase transaction costs and lengthen delays to the clearance of imports, exports, and transit goods.

Such costs and delays make a country less competitive—whether by imposing deadweight inefficiencies that effectively tax imports, or by adding costs that raise the price of exports. Moreover, inefficient border management deters foreign investment and creates opportunities for administrative corruption.

While border clearance processes are among the most troublesome links in the global supply chain, they are especially so in poor countries, where it frequently takes three times as many days to import goods as it does in rich ones. Imports to poor countries require nearly twice as many documents and six times as many signatures (World Bank and IFC 2006). In Africa the difficulties are particularly severe: excessive physical inspections are a major source of delays, and the time between accepted customs declaration and customs clearance is four days, while in Organisation for Economic Co-operation and Development countries it is one (Arvis and others 2007).

Governments and donors are responding to the problem of inefficient border management by investing in border management reform, with measures designed to make countries more competitive by removing unnecessary barriers to legitimate trade. Virtually all countries now agree that trade facilitation reform will bring benefits to all. Recent bilateral and regional trading agreements include many border management provisions to ease trade. And many countries desire enhanced multilateral rules for trade facilitation within the World Trade Organization—part of an overhaul of the trade facilitation provisions in the General Agreement on Tariffs and Trade, which are now over 50 years old. Trade facilitation reform is a key element of the global Aid for Trade initiative.

Even so, customs and other border management agencies in many countries pay no more than lip service to trade facilitation. Traditionally the roles of these agencies have focused on the control of goods for revenue collection, industry assistance, and community protection. Over the last two decades these traditional roles have widened to include—in principle—the facilitation of legitimate trade. In practice, however, this new objective is honored only so far as it does not infringe on the agencies' existing border control practices.

Border management agencies in many countries regard trade facilitation as a secondary function. A Director General of Customs, from a developing country in Africa, explains the problem:

My job relies entirely on my capacity to reach revenue collection targets. When the minister calls he has never once asked about clearance times. He is interested only in revenue collection. That's why I have a big board in my office detailing monthly, weekly, and daily collection results. I don't even have reliable information on clearance times. My job doesn't depend on knowing those numbers.

In developed countries, by contrast, border control regimes may focus more on national security than on revenue collection. Still, border management officials in all countries face similar tensions—and apparent contradictions—among the various objectives they are expected to meet.

How then can governments balance the need to facilitate legitimate commercial activities by compliant traders with the need for effective regulatory control—the main aim of traditional border management? This book explores the prospects for improvement, in part by shedding new light on the problems. With its 20 chapters and associated online tools, it can help development professionals and policymakers learn what works, what doesn't, and why.

To help officials meet their traditional control responsibilities while facilitating legitimate trade, the contributors to this book discuss three broad themes: the need for more investment in border management reform, the development of a new approach to border management, and the implications of institutional and political-economic factors for border management reform. In particular, the chapters in the book propose answers to the following questions:

- How can agencies develop and implement cost effective, trade friendly clearance processes and mechanisms while maintaining regulatory control?
- How can risk management and selective intervention techniques, increasingly employed by customs authorities, be extended to all agencies operating at the border?
- How can compliance improvement regimes that appropriately mix incentives with disincentives, and that progressively encourage higher levels of voluntary compliance, be established across border agencies?
- What hard infrastructure and information and communications technology (ICT) can be designed and deployed to appropriately achieve the most cost effective border clearance processes?
- Most important, how can policymakers build and maintain the political will and institutional commitment needed to undertake meaningful reform; to overcome strong vested interests; and to manage change?

Each chapter can be read in isolation or, preferably, as part of the whole.

The book has several intended audiences. First, it should help development professionals not specializing in border management—especially World Bank staff members engaged in customs and trade

facilitation projects and diagnostic work—to have better informed discussions about policy choices with client governments, private sector counterparts, and public sector officials, notably by providing diagnostic tools and performance metrics. Second, it should help border management officials carry out reform and modernization initiatives by presenting sound guidance on designing, running, and monitoring programs, including good practice examples and reference tools. Third, it should nurture the political will and commitment to initiate and sustain meaningful border management reform, both among the high level government officials who are often called upon to assess and sponsor reform efforts and among participants engaged in the World Trade Organization negotiations on trade facilitation. Finally, it should help policymakers put into practice such regional integration activities as customs unions and regional trade agreements—agreements that invariably include provisions related to trade facilitation or other measures requiring changes at the border. The book aims especially to illuminate areas of the border management reform agenda that are not well addressed in other publications, or for which no practical resources already exist. It thus complements, without replacing, earlier reference guides such as the World Bank's *Customs Modernization Handbook* (De Wulf and Sokol 2005). Other useful materials and tools are mentioned in the text (and are more fully summarized in chapter 11).

What the book does not do is present off the shelf solutions. Managing borders is a complex task. Border management officials are presented with multiple, sometimes contradictory, objectives. Experience has shown that solutions must be tailored to national circumstances. But while there are no universal prescriptions for reform, many successful and promising initiatives are under way around the world. Many examples of good practice can be studied, adapted, and replicated elsewhere.

For the international customs community there is the World Customs Organization, which helps to shape that community's reform agenda. In other areas of border management reform, however, there have been few attempts to identify and document changing needs and concerns—leaving policymakers and development professionals generally in the dark. They work to address similar problems, but

they do so independently, without the benefit of guidelines or good practice examples. As a result, reformers' efforts are duplicated, resources are wasted, and outcomes are less than ideal. The problem is acute in Sub-Saharan Africa, which lags badly behind other regions in trade facilitation. For example, in one African region several donors are financing separate one stop border programs for regional countries. Likewise, several countries are developing single window systems, with minimal sharing of models and information and little attention to making the systems regionally uniform and integrated.

An opportunity has been created by a broad range of initiatives to spur regional trade integration—but that opportunity is being missed. With the help of this book, World Bank staff and others will be better equipped to recapture it.

Border management reform: more than customs modernization

The new agenda for better border management is about more than customs clearance. Driving the new agenda are seven key developments, none of them exclusively related to customs:

- A rise in global competition for foreign investment.
- A growing awareness of the costs created for traders by outdated, inefficient border formalities.
- An expectation of prompt, more predictable processing for imports and exports (the result of increased private sector investment in advanced logistics and just-in-time manufacturing regimes).
- A multiplication of policy and procedural requirements directly related to international commitments (for example, World Trade Organization accession).
- A proliferation of regional trading agreements, making customs work more complex.
- An increased expectation of and respect for integrity and good governance.
- A heightened awareness of the need for customs and other border management agencies to play a more central national security role.

Customs agencies have typically led border management reform efforts, and improving the performance of customs remains a high priority for many countries. But customs is only one of the agencies

involved in border processing, and evidence suggests it is often responsible for no more than a third of regulatory delays. Data from the World Bank's Logistics Performance Indicators (Arvis and others 2010) suggest that traders are much more satisfied with the performance of customs than with that of other border management agencies. The data highlight the need to reform and modernize border management in areas other than customs, such as health, agriculture, quarantine, police, immigration, and standards. Moreover, in many developing countries, time release studies—using the methodology adopted by the World Customs Organization (WCO 2002)—suggest that improvements meant to speed goods through customs are undermined by the comparative failure of other border management agencies to reform and modernize using similar modern approaches and risk based selective inspection techniques.

Border management agencies other than customs have not received much attention from the development community—so progress has been patchy at best. There is little knowledge of diagnostic tools, reform and modernization guidelines, or international best practices. Where such tools are available they generally are confined to customs; other border agencies lack the internationally agreed instruments and blueprints that have guided much of the customs reform agenda (in part because they have nothing equivalent to the World Customs Organization). Few practical mechanisms have been developed to help these agencies cooperate and share information. And little work has been done to analyze the political-economy factors and dynamics that affect their ability to cooperate meaningfully.

Because clearance times are largely determined by the weakest link in a border processing chain, meaningful trade facilitation presupposes comprehensive reform initiatives across the whole of border management. There must be cooperation and information sharing among all agencies involved. The keen interest of many developing countries in harmonizing, streamlining, and simplifying border management systems and procedures has led to such initiatives as:

- *Coordinated border management.* This can include information sharing, co-located facilities, close interagency cooperation, delegation of

administrative authority, and crossdesignation of officials.

- *One stop border posts.* Neighboring countries coordinate import, export, and transit processes, so that traders need not duplicate regulatory formalities on both sides of a border.
- *Single window systems.* Traders can submit all import, export, and transit information required by regulatory agencies at one time—through a single electronic gateway—rather than submit essentially the same information repeatedly to various government entities.

These initiatives, which have some common themes, promise significant improvement in border management and clearance. Yet they face political, technical, institutional, and procedural problems that so far have proved extremely difficult to overcome. As a result, the conceptual and technological leaps made elsewhere in the business world have not yet transformed border management. Even where progress has been made, most strategies and results have not been distilled, documented, or shared with the wider trade facilitation and development community. And the information that has been shared typically focuses on narrow technical issues. It does not address a much greater challenge: that of securing the political and institutional will and commitment needed to design and carry out cost effective border management reform.

The need for leadership, a clear vision, and strong political commitment

Comprehensive border management reform requires both a very clear vision and strong political will and commitment. If either the clear vision or the political commitment is lacking, reformers will be unlikely to prevail against the strong influence of domestic constituencies that benefit from existing business process inefficiencies, interdependencies, and relationships. In addition, reformers often need knowhow and financial resources that can be hard to access—especially in developing countries, where governments face many pressing challenges and competing development priorities.

Chapter summaries

The preceding discussion has framed this book's approach to modern border management reform