

Some lessons of customs reforms in Madagascar

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Why are customs so important in developing countries?

- **A major source of revenues:** Customs revenues account for 48% of total tax revenues in Madagascar,
- Important for trade facilitation (level-playing field argument between importers),
- 10-15 inspectors collect up to 50% of total state revenues (2-3% of total revenues per inspector),

The pre-reform situation (2015)

A mirror analysis study highlighted substantial fraud: 30% gap (minimum)

Poor results from controls (risk analysis, scanning, frontline inspections, post-clearance audits)

Despite sizeable investments in it, revenues had not increased so much and corruption has remained prevalent

Despite the implementation of a unit working on clearance times (2011), delays had not decreased



The main corruption risks in Customs

Human factors

- ❑ Collusion, bribery and ethics

IT risks

- ❑ Manipulated allocation of customs declarations
- ❑ Sophistication of fraud with the development of IT

Other risks

- ❑ Information leakages
- ❑ Transactional values (especially with informal operators...)

The followed approach and the main steps of the reforms process

The approach

- 1. Gradual improvement with realistic targets to reduce resistance to reforms by inspectors and importers.**
- 2. Any decision grounded on facts and data → introduction of performance dashboards and evaluation of any reform.**
- 3. Outreach to private sector operators**

The main steps

Feb. 2015: Creation of a performance unit reform, in charge of designing and monitoring reforms.

Summer 2015: Reform for AEO (processus accéléré de dédouanement (PAD)).

Jan. 2016: Presentation and discussion with the private sector of the findings of the mirror statistics study.

Sept. 2016: Beginning of the implementation of individual performance contract in Toamasina port.

May 2017: Beginning of the second phase – removal or reassignment of 1/3 of inspectors.

Oct. 2018: Randomization to improve risk analysis information and inspector monitoring (first one in the world).

Individual performance contracts – quick facts

- Signed between DG and inspectors (individual)
- Indicators aiming at:
 - a. Facilitate trade (reduce clearance time)
 - b. Improve revenue collection
 - c. Improve risk analysis and fraud detection
- Based on quantitative data and targets (monitored each month/reviewed every six months – defined based on median of the last 2 years).
- Expansion to airport and one unit (fight against fraud).

Main revenue trends: almost doubled in four years

Revenue collected per
TEU: 3435 USD (2016)
à 5020 USD (2018)

	2014	2015	2016	2017	2018
Customs revenues (in bn Ariary)	1255	1459.2	1682.7	2047.1	2427.9
Revenues trends (en %)	7.1%	16.3%	15.3%	21.7%	18.6%
Customs share in GDP	4.9%	5.1%	5.3%	5.7%	N/a

The main results in terms of customs efficiency

2014

- Fraud estimated to at least 30% of customs revenues (mirror statistics).
- Numerous and inefficient controls and widespread corruption.
- Abusive exemptions.
- Trade not facilitated; on average, clearance in 2 days.

2018

- Reduction of physical inspections from 60% to 20%.
- Reduction of 3/4 of OEA – benefits granted based on objective criteria (fraud cases or late payments).
- 1/3 inspectors suspended or moved.
- Collusion measure reduced from 4% to 1% between inspectors and brokers.
- Reduction of exemptions in Council of Ministers (112 bn in 2016 to 60 bn in 2018).
- Reduction of almost 50% of average clearance time (but increase in 2018 due to strikes).

First findings of the randomization...

- Broadening of the performance team (strong ownership of directors, including HR)
- Excellent reaction of the risk analysis unit : more detailed comments are completed,
- Difference between offices under performance contract and small offices without
- Demonstrated the lack of coordination in valuation between units.

BUT DESPITE IMPROVEMENTS IN RISK ANALYSIS MESSAGES, IN THE MAIN PORT, INSPECTORS CONTINUE NOT TO ACT.

Most important findings after four years....

1. Inspectors (in general) have the required capacity and information to detect fraud...
2. But they have very strong financial incentives not to detect them,
3. And if their working environment enables them not to do it,
4. They will simply not detect them with corruption and tax evasion as consequences...

The remaining challenges...

- Despite evidence, almost impossible to have inspectors trials and trial sentences. Justice is itself crippled by corruption in some cases.
- Still a challenge to have decisions based on facts and not on rumours.
- Possibilities to compare data and customs data.

Some possible next steps and some ideas for research?

- Implementation of a new clearance center (away from ports)?

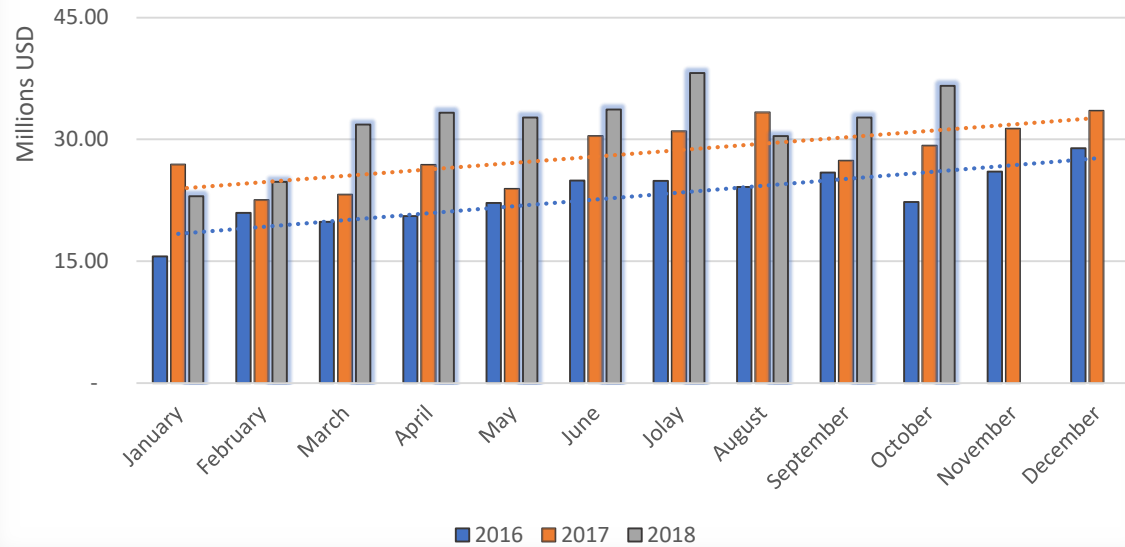
Would it solve the problem of inspectors' behaviors?

- More deterrent sanction mechanism? Removal of PSI share of revenues?

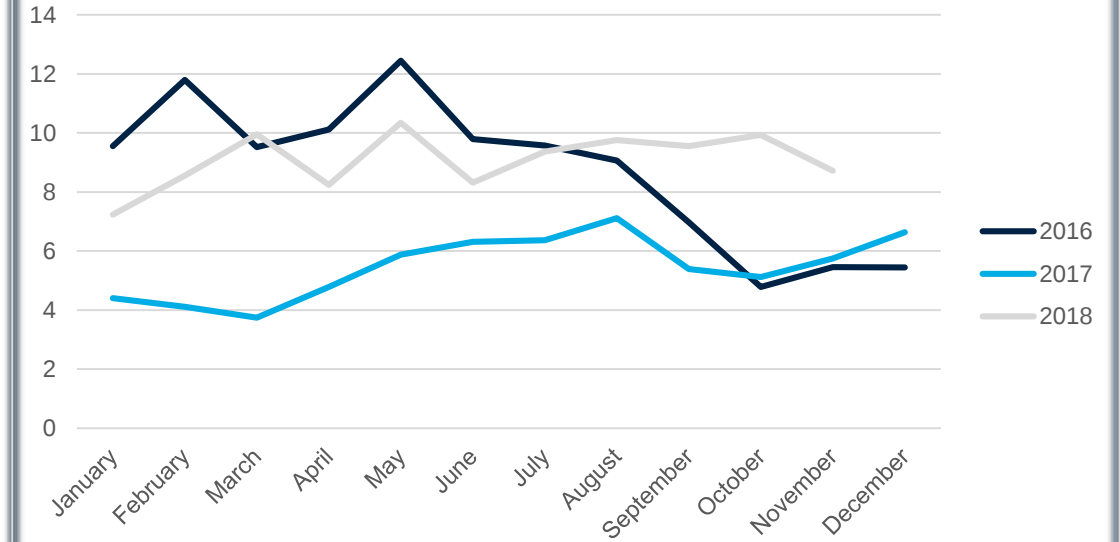
- What should be done to reduce increasing IT risks?

Additional slide

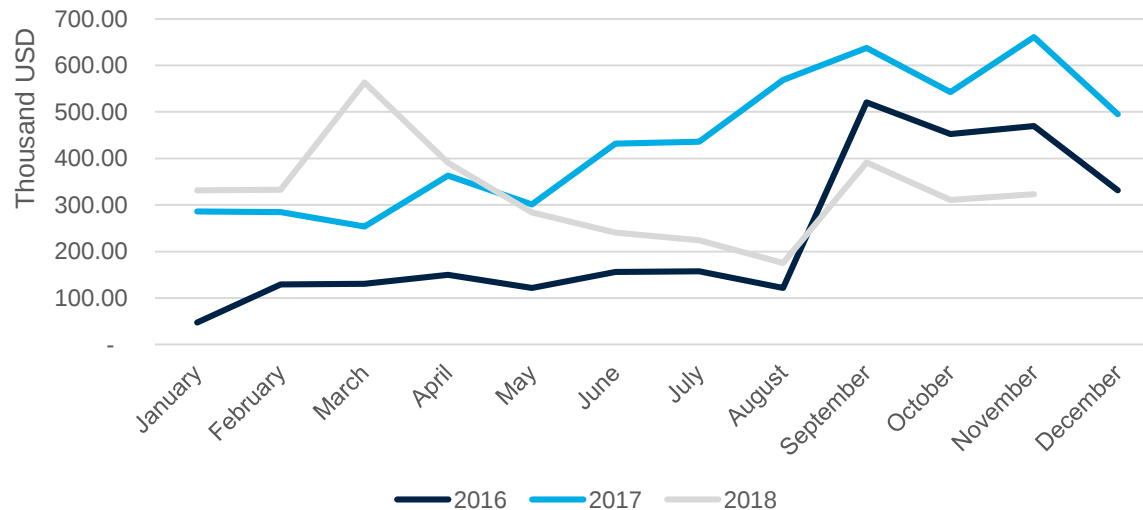
Tax trend



Delay trend (in hours)



Penalties trend



- Improvement in tax collection /average tax collected for one container (equivalent 20 ft) 3435 Usd (2016) to 5020 USD (2018)
- Decrease in delay of processing since september 2016 but disturbance observed in 2018, due to strikes,
- Penalties amount increased since september 2016. A decrease encountered since april 2018 due to a postponement in performance contracts.