

## CASE STUDY 11

## CUSTOMS ADMINISTRATION

# Customs Reforms in Afghanistan

Reducing parallel customs structures through automation of clearance processes in Afghanistan

## Overview

Anyone transporting goods in Afghanistan has to negotiate parallel tax structures: the official customs system, run by the government, as well as others run by powerful interests, including provincial chiefs and various insurgent groups. All collect taxes and/or fees at border crossings, on goods transiting domestic transport routes, and in domestic markets. This revenue collection process—often facilitated through informal negotiations—hinders the growth of legitimate trade and contributes to ongoing problems of tax evasion and smuggling at the borders.

Beginning in 2004, the Afghanistan Customs Department in collaboration with the World Bank started a countrywide computerization of customs clearance operations. The goal of computerization and automation was to improve the release of legitimate goods in an efficient manner and reduce opportunities for corruption. Throughout the implementation process, the customs department faced numerous capacity and security constraints. Security in border areas was constantly evolving, which impacted the extent to which the government could effectively control various customs points.

Through 15 years of efforts to improve processes and reduce opportunities for parallel customs structures, revenue collection increased, and truck release times

decreased substantially. Major challenges persist, however, with facilitation payments being routinely demanded and collusion and criminal corruption continuing to take place.

## Introduction

In May 2019, The Economist reported on the corruption lorry drivers in Afghanistan experienced when transporting goods across the country. The newspaper spoke with Muhammad Akram, one of those lorry drivers, who said that both the Taliban and the government demanded payments from drivers. “But when the Taliban stop [Akram] at the checkpoint, they write him a receipt,” The Economist reported. “Waving a fistful of green papers, [Akram] explains how they ensure he won’t be charged twice: after he pays one group of Talibs, his receipt gets him through subsequent stops. Government soldiers, in contrast, rob him over and over.”<sup>97</sup>

While the Afghanistan Customs Department (ACD) made remarkable progress in improving the release of legitimate goods in a fair and efficient manner from 2004 to 2019, Muhammad Akram’s story illustrates the magnitude of the challenge that ACD faces. Given the persistence of insecurity and conflict in Afghanistan, the threat posed by corruption in customs extends beyond just fiscal losses and high trade transaction costs. Major

national security issues associated with terrorism and drug trafficking are also at stake and are well beyond customs' capacity to manage on its own.<sup>98</sup>

In countries like Afghanistan, combating corruption and illicit trade is not simply a matter of collusion between inspectors, importers, and brokers—a problem faced by customs all around the world—but rather a problem that extends across the fabric of society. ACD operates in a fragile country environment with parallel systems that undermine government efforts. The ACD's efforts are part of a broader State building process, legitimizing the State's authority and control over territory and establishing a robust environment of sound governance. Revenue collection efforts are at the core of establishing the State's legitimacy. Like in many developing countries,<sup>99</sup> customs payments in Afghanistan account for a significant portion of government revenue, with the ACD collecting roughly 40% of total revenues. Expanding the domestic revenue base is crucial to Afghanistan's self-reliance, as external assistance is expected to decline in the years to come. Establishing good governance is a key component of this process.

In 2004, ACD began the long process of switching to automated customs procedures. Automation was expected to significantly reduce face-to-face contact and the resulting informal negotiations that were then a central feature of the relationship between customs and traders.<sup>100</sup> Automation was the driver of ACD's reform agenda, facilitating overall rationalization and streamlining of business processes and procedures. Moreover, it was meant as the vehicle to increase state legitimacy through enhanced control over revenue streams, reducing corruption and space for parallel structures from illicit actors.

Introducing automation across the board was a risky decision, however, since the government did not fully control all border posts, and it was not clear that inland and border customs departments would collaborate and agree to send more revenue to customs headquarters by declaring goods through the system. These border posts were—and still are—often heavily intertwined with local non-state actors, constituting a complex negotiated equilibrium of official and illicit payments around the clearance of goods. Infrastructure weaknesses, such as unreliable electricity, limited satellite connectivity, and poor fiber-optic cable availability added further challenges.

While the ACD had to rely on other parts of the government to directly tackle the parallel customs structures—like those run by insurgent groups—the automation reform would contribute to those efforts by reducing personal interactions and formally connecting border posts to the central government, increasing the government's ability to exert control.

## The implementation process

Automation of ACD's customs procedures was rolled out in three phases, starting in 2004; an initial phase in which 8 out of 25 customs offices were connected to headquarters' central system, followed by a second and third phase aimed at countrywide coverage. All three phases were supported by the World Bank and other international donors (see Box 4.3).

Automation started with the computerization of the domestic transit process and was rolled out across three trade corridors. The first corridor connected the busiest border crossing point (Torkham, on the road from Peshawar and the port of Karachi, Pakistan) to Kabul, the capital city, via the Jalalabad inland clearance post (see Figure 4.3). This involved computerization of customs processes from scratch and equipping border posts with the basic essentials of reliable power supply and communications.<sup>101</sup>

Automation was then carried out in the second busiest corridor, connecting to Iran via Islam Qala to Herat, followed by the northern corridor from Uzbekistan via Hairatan to Mazar-e Sharif. This automation allowed ACD to gain better control over customs revenues from provincial governments and implement a domestic transit policy for the first time, allowing traders to clear goods at inland customs points as opposed to border posts. Prior to that, if goods were not reported to the ACD at the border, they tended to be lost for good. Moreover, without the automation of customs points, revenues declared at the border were hard to track, verify, and consolidate and thus easily subject to diversion.

In Torkham, the first customs border post to be automated, brokers and traders initially resisted using the automated system. Most of them had never worked with computers before. Whereas before they were able to process goods using paper forms, moving from one customs official to the next, they now had to enter the

FIGURE 4.3 ACD Presence and Main Transit Trade Routes



Source: ACD

details of shipments into the automated system at the start of the process, after which the digitized forms provided the basis for subsequent clearance checks and verifications. For automation to work, ACD had to train brokers and traders on how to use the systems. In order to facilitate computerized declarations, the ACD provided a computer center in Torkham where brokers and traders could access the system to declare goods. In subsequent implementations at border crossings, brokers and traders were required to provide these facilities themselves.

One challenge that quickly emerged was the diversion of illicit trade and smuggling from automated customs offices to non-automated ones. To counter this “border shopping,” the government wanted to automate remaining offices as fast as possible.<sup>102</sup> By 2010, eight customs points had been automated. The remaining 17 were automated in subsequent phases.

Revenue collection during the first phase increased fivefold and clearance time reduced from 1.5 days to 1.5 hours.<sup>103</sup> The trade volume also grew during the same period but far more slowly than the revenue gains. Improvements were also reflected in the perceptions of the business community: Afghanistan’s rank in the World Bank Logistics Performance Indicator improved significantly. In 2007, Afghanistan was rated as the worst performer in the world, whereas in 2010 it had jumped to 104<sup>th</sup> out of 155 countries.

Under the second phase of automation, the focus was on (i) upgrading the ASYCUDA ++ version to ASYCUDA World;<sup>104</sup> (ii) computerizing three more trade corridors (Turkmenistan, Tajikistan and Southeast Iran); and (iii) addressing human resource issues associated with the retention, motivation, and competence of some of ACD’s key ASYCUDA staff.

## BOX 4.3

## Donor Support to Afghanistan Customs Department

Throughout the reform process, ACD has been supported by the international donor community. The automation effort of the ACD has been sustained through three different World Bank funded projects: the Emergency Customs Modernization and Trade Facilitation Project (2004 – 2010), the Second Customs Reform and Trade Facilitation Project - (2010 – 2018), and more recently the Fiscal Performance Improvement Support Project (2018–2021). UNCTAD has been an active implementation partner during this time, working closely with the ACD on supporting the implementation of the Automated System for Customs Data (ASYCUDA), a computerized customs management system. Other donors, such as USAID, have provided bilateral support to the ACD on various other customs functions (e.g., export facilitation), complementing the ongoing automation reform effort. Donor support is coordinated through an Informal Customs Network that meets at regular intervals.

Upgrading the systems to ASYCUDA World required considerable skills from the national ASYCUDA staff, which until 2010 were hired as civil servants under the Ministry of Finance. But the national ASYCUDA team was experiencing human resource issues due to difficulties in retaining highly qualified staff, a common issue experienced by governments when dealing with in-house Information Technology systems. To address this issue, 20 local ASYCUDA staff were contracted by the United Nations Conference on Trade and Development (UNCTAD), the main UN body working on trade issues. Working under a UN contract provided staff with better job security and more competitive remuneration.<sup>105</sup> This national team built significant capacity over time and the rollout of ASYCUDA post-2012 was largely implemented by them. The team guaranteed the functioning and integrity of the system, supported by access to international expertise through UNCTAD. The UNCTAD contracts were supposed to be a medium-term solution; however, the return of these officers to a sustainable ASYCUDA structure within the ACD, with appropriate job security and better salaries, did not eventuate.

A third phase of reform began in 2018. It involved further expanding coverage of border and inland customs offices, as well as expansion of ASYCUDA modules such as risk management and post-clearance audit. These modules allowed for further streamlining and

automating core customs functions, specifically in the area of risk management. In addition, new technology such as fingerprint readers to avoid unauthorized use of log-ins to the ASYCUDA system was installed, a problem that had emerged over time as automation was being rolled out. E-payment is also underway, which will contribute to further reducing clearance time, as well as eliminate cash payments from the clearance process.

### Reflections

At the end of 2019, almost all border customs posts, as well as inland customs departments, were fully automated, except for 3 border posts in particularly remote and insecure locations—Paktika, Ghulam Khan and Badakhshan.

While on the one hand, ASYCUDA greatly facilitated and to some extent formalized customs processes, a parallel paper trail still exists for each transaction. In addition to submitting declarations through the automated system, a paper-based declaration package forms the basis for clearance decisions along the various steps in the clearance procedure and moves from customs officer to customs officer for approval. This impacts clearance times and also weakens potential gains in reducing corruption by failing to eliminate discretionary and

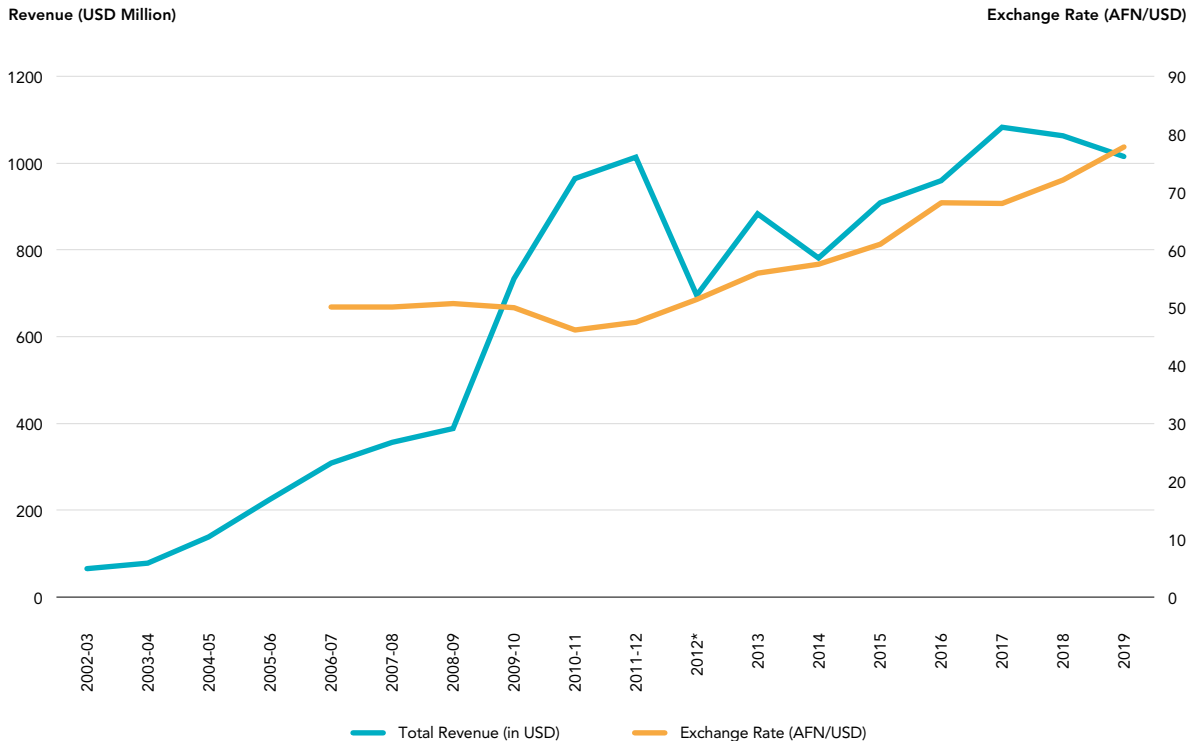
unnecessary human contact. The barriers to removing the parallel paper trail are both legal (e.g. Afghanistan does not yet have an e-governance law)<sup>106</sup> and political, as there are incentives within the customs offices to maintain the parallel paper trail as this provides an opportunity for much needed supplements to income, which is currently very low at between \$100–\$200 a month. Indeed, even though the number of signatures and interactions between customs officers and clients decreased with the introduction of automation, anecdotal evidence suggests that the actual bribe price at other points has increased, seemingly compensating for eliminated collection opportunities.<sup>107</sup>

A Customs Cadre Regulation allowing for higher pay through competitive recruitment was developed and approved in 2018, aimed at addressing the human resource problems. However, the regulation is not yet

implemented, largely due to political reasons. The Cadre Regulation has many opponents, who prefer keeping the current system of patronage appointments at customs in place. Indeed, there are widespread allegations of political appointments, of pressure leading to the rehiring of dismissed staff, of preference given to individuals with links to the political elite (at the central or local level), and of the sale of lucrative posts.<sup>108</sup> These pressures keep the Cadre Regulation from being effectively implemented.

Over time, traders, brokers and customs officers have also learned how to game the new system. Traders in Afghanistan can shop around for the border station that offers the best deal, even if it will increase transportation costs. While automation should have reduced this practice, turning a blind eye to undervaluation or misclassification can go a long way in facilitating these

**FIGURE 4.4 Customs Revenue (in USD)**



Source: Afghanistan Customs Department. All figures prior to 2005 may not be accurate.

\* In 2012, the Afghan calendar was changed from starting the new calendar year on March 21st to starting the new calendar year on December 23rd. 2012 as recorded here thus only covers nine months (March 21st – December 22nd, 2012). The previous year covered March 21st, 2011 – March 20th, 2012. The next year covers December 23rd, 2012 – December 22nd, 2013.

kinds of offers and deals. Discounts offered at customs posts are partially an unintended response to officials trying to meet ever increasing revenue targets with the idea that offering informal discounts will bring in more traders and thus result in more revenue for that particular customs post. From a national perspective, however, the Treasury loses out as goods are cleared at discounted rates. Not only does this impact revenue collection, it also greatly distorts trade statistics and growth estimations of the economy. The ACD has recently started to combat this practice, moving towards a new negotiated equilibrium with traders and brokers and also customs personnel, where more accurate valuation and classification is being applied and corresponding higher taxes are being paid, but implementation will likely take time.

Indeed, it appears that the ACD is at a critical crossroads where initial gains from automation now require further, politically difficult, decisions in order to move to the next level. The first phase of reforms saw large gains in terms of revenue increases and improved processes, but the subsequent phases failed to deliver similar progress. Between 2007 and 2010, Afghanistan customs jumped from being the worst performer in the World Bank's Logistics Performance Indicator to being ranked 104 out of 155 countries, but by 2018 it again ranked as one of the worst performers (158 out of 160 countries). As Table 4.2 illustrates, revenue collection increased fivefold in the first 5 years of reform, from USD138 million in 2004/5<sup>109</sup> to over USD733 million in 2009/10. Customs revenues increased at a slower rate during subsequent phases of reform, reaching over USD1 billion in 2016 and then plateauing. Since then, improvements in revenue collection have been mostly driven by depreciation in the exchange rate.

In summary, the endeavor to automate Afghanistan's clearance process brought major benefits to the government, including increased revenue and improved clearance time. Other gains include improved transparency of trade transactions, better (although not yet accurate) customs and foreign trade statistics,<sup>110</sup> simplified procedures, standardized documents, and the possibility to declare goods online. Automation also increased transparency of customs operations and national consistency across borders and has resulted in better predictability of the trade environment.<sup>111</sup>

While automation helped the ACD to boost revenue, this technocratic approach can only go so far. Ongoing challenges relate to the extension of automation to

remote areas, human resources, technical capacity, security, and finally vested interests and political challenges. Tackling corruption in environments like Afghanistan needs a multi-pronged approach that has to be revisited on a continuous basis as vested groups find loopholes that need to be repeatedly plugged.

The next steps for the ACD in further eliminating corruption and facilitating trade will be to work towards a fully automated self-assessment, eliminating the parallel paper trail, and optimizing the functionalities ASYCUDA World has to offer. In this case, traders and brokers would submit their self-assessed declarations online through the automated portal and pay taxes based on their preliminary assessments, which would subsequently be verified and checked by the ACD, supported by automated controls and (post-clearance) assessments. This will be a gradual process, however, as the existing business processes must first be formalized across the various customs offices in the country, supported by appropriate regulations and formal procedures. To date, automation has contributed to reducing opportunities to engage in corrupt behavior but has done little to tackle incentives. For this, some politically difficult decisions will be required, such as addressing weaknesses in the ACD's human resource capacity and effectively negotiating a new equilibrium with traders and brokers in which proper taxes are being paid and directed to the government. Unless these challenges are addressed in parallel, it may be difficult for the ACD to sustain and improve on the progress it has already made.

## Notes

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- The corruption scheme was organized by a telephone contact, known as "The Line". Senior tax and customs officials and customs brokers were involved in the case. For more information see: [https://es.wikipedia.org/wiki/Caso\\_de\\_La\\_L%C3%ADnea\\_en\\_Guatemala](https://es.wikipedia.org/wiki/Caso_de_La_L%C3%ADnea_en_Guatemala)
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  25. It is important to emphasize that such corruption networks are not a specific developing country phenomenon. In 2013, investigations revealed deep rooted corruption within the Australian Customs and Border Protection Service at Sydney International Airport (WCO, 2017: 16). Widespread corruption was the result of long-term collusion between Customs officers at the airport to facilitate the importation of illicit drugs. The officers used their inside knowledge to defeat surveillance. They had privileged access to databases. By working together, they exploited weaknesses in the supervision system and exploited connections that they had developed in the workplace to gather information and to cover their tracks.
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  37. The importance of social norms in sustaining corrupt practices is increasingly recognized in the literature. Behavioral research in economics and social psychology points towards social norms as an important lens for understanding corruption (Fisman & Golden, 2017; Köbis et al., 2018). Current directions in anti-corruption increasingly make use of the concept (Kubbe & Engelbert, 2018). For instance, research on corruption in East Africa, Nigeria, and the Democratic Republic of Congo has started to incorporate social norms as a key feature of analysis (Jackson & Köbis, 2018: 2).
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56. IMF, 2019.
57. Baez-Camargo & Passas, 2017.
58. Ibid.
59. Jackson & Köbis, 2018.
60. Panth (2011) provides a collation of 18 case studies from around the world, with real examples on how changing social norms have been used to change public services affected by corrupt practices.
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83. Mirror statistics calculate the gaps of foreign trade statistics between two trading partner countries and can be used to detect potentially fraudulent import flows. See Cantens et al. (2012) for detailed discussion.
84. Misclassification consists of importing a good on which there is an import tax or value-added tax (VAT) but declaring it as another good for which there is no import tax or VAT.
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88. Despite initial resistance, the majority of inspectors when surveyed said they preferred performance contracting after being trained on using the new monitoring system. However, some inspectors have not accepted the change.
89. Risk management systems generate a risk score for the shipment. The risk score determines the probability of inspection and the rigor of the inspection should it occur. High-risk shipments face the highest degree of scrutiny via physical inspection whereas lower-risk shipments are given less scrutiny, being subject to documentary inspection only (Chalendard et al. 2018).
90. Chalendard et al., 2018.

91. Some of them were reintegrated with a new DG appointed in March 2019.
92. For more information on the rationale of the approach, see Raballand and Rajaram (2013), "Behavioral Economics and Public Sector Reform - An Accidental Experiment and Lessons from Madagascar", mimeo.
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95. Cameroon was the first country in Sub-Saharan Africa to implement such a scheme (Raballand and Rajaram 2013). Later, other countries, such as Togo and Liberia undertook fairly similar initiatives.
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