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# Trade Facilitation in the Caribbean: The case of customs performance

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# Trade Facilitation in the Caribbean: the case of customs performance

## 1. Overview

The Caribbean countries<sup>1</sup> have highly open economies (World Bank & OAS, 2009). The trade of goods and services and the inflows from Foreign Direct Investments (FDI) represent large proportions of their Gross Domestic Products (GDP), especially in English Speaking Caribbean (ESC) countries<sup>2</sup>. Therefore, the proper functioning of the channels that connect them to the rest of the world, including Customs offices, is essential to the performance of their economies.

However, this note will show that, despite their integration into the world economy, Customs performance in the Caribbean countries is comparatively low. There is an inconsistency between the high openness of their economies and the relative weakness of their customs operations. This note presents data from the Customs Assessment Trade Toolkit (CATT), which provides empirical evidence that processes do not meet adequate standards in terms of speed, predictability and transparency. This inconsistency is partially explained by the lack of an effective complementarity between the use of Information and Communication Technologies (ICT) systems and the actual operational practices.

There are at least two channels by which customs interventions impact the economy directly. First, through the pass through of duties, taxes, and transaction costs to domestic prices, being this effect particularly important in countries where most goods are imported. And second, through revenue collection, a key feature in countries with a narrow fiscal base. Nevertheless, the impact of customs systems on the economy is broader since they affect the capacity to attract investors, increase competitiveness and boost exports. This report will show that all these factors are critical for the Caribbean economies, and that their customs systems need improvements to meet those challenges.

### Box 1: CATT's methodology in detail.

Operationally, good practices are incorporated into the CATT through the definition of 120 indicators that measure the gap between the current situation and good practices, scoring it from zero to 100%. Once indicators are measured, they affect seven intuitive dimensions (processes orientation, strategic thinking, control, efficiency, effectiveness, facilitation, and transparency) which also are measured from zero to 100%. Finally, these seven dimensions are aggregated into two high level dimensions: performance and practice. This aggregation process enables the CATT team to present assessments outcomes through a bi-dimensional figure which, in ranks of 25 percent points, classifies customs in four categories: world class at the top, contender in the second quarter, progress in the third quarter, and underperforming at the bottom.

These reforms are entirely feasible to implement, and they would increase the competitiveness and growth of Caribbean economies.

## 2. Structure and methodology of this note

This policy note is organized as follows. Section 3 presents evidence on the economic profile of the Caribbean countries to show their high integration to the world economy. Trade and Foreign Direct Investments are they key aspects being considered in this regard. The World Bank's World Development Indicators and the Caribbean Community's (CARICOM) statistics are the main sources for this information.

<sup>1</sup> In this report the Caribbean refers to the World Bank definition for this region, which includes these 15 countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname and Trinidad and Tobago.

<sup>2</sup> In this report the English Speaking Caribbean (ESC) includes 12 countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Trinidad and Tobago.

Section 4 discusses the role of customs systems for economic development. It analyzes the performance of the Caribbean customs offices in a number of aspects (clearance times, predictability, and transparency) that the literature has identified as critical to promote competitiveness and development. This analysis relies on data produced by the CATT. The CATT, used by the World Bank since 2011<sup>3</sup>, is an integrated monitoring tool that considers the evidence provided by local teams and compares it against good practices in the field (See Box 1). These are defined in accordance to international best practices recommended and promoted by international organizations such as the World Customs Organization (WCO) and the World Trade Organization (WTO). Thus, the CATT is a source of objective evidence about the performance of the customs systems.

Section 5 expands this analysis by focusing on how the use of ICT can improve customs performance in those aspects. Proper use of ICT can reduce clearance times, ensure process' predictability and decrease the risk of corrupt practices. However, CATT data shows that the Caribbean countries are not taking full advantage of the opportunities provided by ICT systems. As a result, the effectiveness and the efficiency of their customs offices scored poorly in the assessments.

Section 6 summarizes the lessons learned by the analysis of these data. Finally, the conclusions section presents some policy recommendations to deal with the inconsistency between high economic openness and low customs performance in the Caribbean countries.

### 3. Profile of the Caribbean economies.

Trade represents 44% of the GDP of the entire Latin American & Caribbean (LAC) region, but for the Caribbean countries this value is substantially higher. This is especially true in most ESC economies: for Guyana, Antigua and Barbuda, Belize, Barbados, St. Lucia and Trinidad and

Tobago, trade represents over 100% of GDP, and for The Bahamas, St. Vincent and the Grenadines and Dominica, the values almost reach that figure. (See Figure 1).

In most Caribbean countries, this strong trade activity involves mainly exports of services (such as tourism)<sup>4</sup> and imports of goods. The receipts from tourism only represent 6% of the LAC exports, but for many ESC countries (Bahamas, Antigua and Barbuda, Grenada, Jamaica, St. Lucia, Barbados) this figure exceeds 50%. And while imported goods only constitute 19% of LAC's GDP, this proportion is substantially higher for every Caribbean nation. For several ESC countries, like Guyana, Antigua and Barbuda, Belize, St. Vincent and the Grenadines, St. Lucia and Barbados, the imports of goods even exceed 50% of their GDP. This fact underscores the importance of customs performance for their economies.

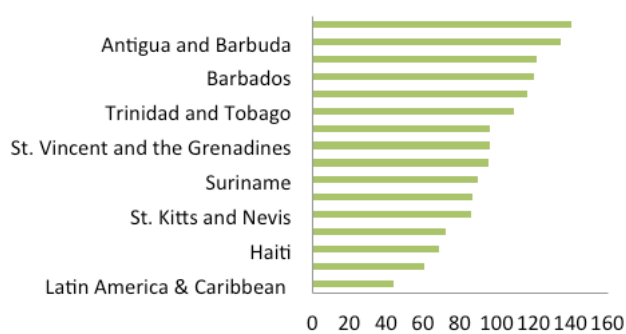
Intra-regional trade is low and concentrated on oil. All countries buy at least 60% of their imports from outside the region, and some of them (like Trinidad and Tobago and Belize) obtain almost all of their imports from outside the Caribbean. This lack of intra-regional trade is explained by the absence of complementarity and by the low competitiveness of their economies (CARICOM, 2010)<sup>5</sup>. The United States is by far the main trade partner of the Caribbean, denoting the influence of the US economic cycle on these countries' performance. The Caribbean economies also rely heavily on Foreign Direct Investments. Net inflows of FDI represent less than 3% of the LAC's GDP, but this figure is higher for most Caribbean nations (Trinidad and Tobago, Haiti, Jamaica and Suriname are the exceptions). For small economies, like the ones of St. Kitts and Nevis and St. Vincent and the Grenadines, FDIs exceed 15% of GDP (Chart 5 in the Appendix). Thus, we can observe how open the Caribbean countries are by combining the two dimensions of trade and FDIs as proportions of GDP (Figure 2). When compared to the LAC region as a whole, the Caribbean countries, and especially the ESC nations, depend substantially more on trade and on foreign investment.

<sup>3</sup>For detailed information about the CATT, visit [www.customscatt.org](http://www.customscatt.org).

<sup>4</sup>Unlike the exports of goods (which only represent, on average, 19% of the total exports in the Caribbean countries), the exports of services are not registered and controlled by customs systems. However, to provide these services companies (like hotels) usually need to import goods, which again highlight the relevance of the customs offices for their economies.

<sup>5</sup>The low regional integration can also be influenced by the cumbersome customs procedures in these countries, which can act as an entry barrier for smaller, region-based companies.

**Figure 1: Trade as % of GDP (2011)**



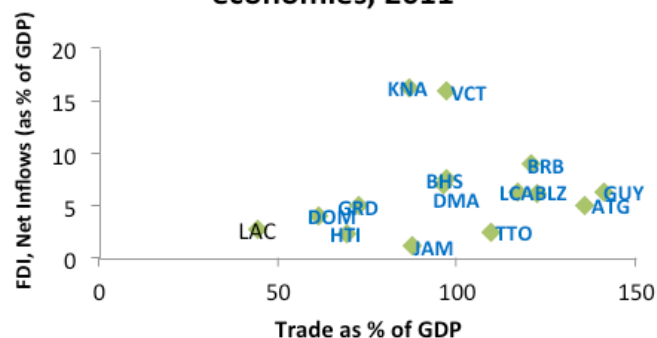
Source: calculated using merchandise trade and trade in services data from the World Development Indicators. For certain countries, 2010 data was used.

Their fiscal situation is also dependent on trade, due to their reliance on tariffs for the collection of revenue. Although in the last few years several countries have reduced their dependence on taxes on international trade, they still constitute a higher share of total revenue than in the LAC region as a whole. In Bahamas, taxes on trade exceed 50% of all government revenue, and this figure is approximately 25% in Belize and Grenada (Chart 6 in the Appendix). This is partly explained by the fact that all Caribbean countries have higher mean tariff rates than the LAC region taken as a whole, with particularly high rates in Bahamas, Barbados, Antigua and Barbuda, Suriname, St. Kitts and Nevis and Trinidad and Tobago (Chart 7 in the Appendix). This high reliance on trade taxes may reinforce a perception of customs offices simply as revenue-collection agencies, instead of seeing them as key actors for the smooth functioning of trade.

#### 4. The role of Customs in economic development

Over time, three factors have been identified as critical for customs administrations to promote economic competitiveness and development: clearance times, predictability and transparency (International Chamber of Commerce, 1999; OECD, 2009; Shujie and Shili, 2010). Economic losses companies suffer due to delays at borders and to the lack of transparency and predictability can even exceed the costs of tariffs (Engman, 2009). In small

**Figure 2: openness of Caribbean economies, 2011**



Source: calculated using data from the World Development Indicators. For certain countries, 2010 data was used.

and open economies that rely heavily on trade and foreign investment, like those of the Caribbean countries, these dimensions are especially relevant for their economic development<sup>6</sup>.

The first factor, clearance times, requires minimizing the burden associated with customs procedures, by simplifying the operations involved in the movement of goods across borders. The notion of "trade facilitation", with its emphasis on the reduction of time-consuming and unnecessary operations (Grainger 2011), is similar. It has been shown that elapsed times at the borders significantly reduce international trade (de Jong and Bogmans, 2011). Nowadays, when not only the trade of goods but also their production is global (Maskin, 2010), ensuring "just in time" delivery of inputs, capital goods, and goods is especially critical to ensure efficiency and competitiveness<sup>7</sup>. Delays are costly to investors, so they prefer to locate in countries with short customs procedures. Furthermore, a country's exports can also be significantly increased by a reduction in clearance times (Djankov, Freund and Pham 2010).

<sup>6</sup>In this policy note we are not considering the differential impact that trade can have on a country's inequality levels (see Kremer and Maskin 2006). This is a broader topic, which exceeds the objectives of this note. But for countries with already open economies, poor customs performance (which increases transaction costs for imported merchandise) can disproportionately affect lower income individuals, who destine a larger share of their wages to the consumption of goods.

<sup>7</sup>Logistics performance is critical in a context when Central Banks are limited to depreciating the local currency to strengthen a country's competitiveness.

<sup>8</sup>During the CATT assessments it was evidenced as a common practice the rerouting of lanes by Customs officers when entries were selected for green lane (i.e. immediate release) to red lane without registering decisions and outcomes in the system.

<sup>9</sup>The table presents a selection of the main CATT indicators related to clearance times. The same procedure was applied in Tables 2 and 3. Countries are not indicated due to the reserved nature of CATT data.

The CATT assessments in the Caribbean show that the indicators related to clearance times are underperforming in comparison with good practices, as well as with the average for Latin America. In addition, their negative effect over the economy is aggravated due to the fact that nearly 100 percent of entries are subject to physical examination<sup>8</sup>. The following table presents a summary of the measurements of clearance times in six Caribbean countries<sup>9</sup>.

**Table 1. Caribbean customs performance in clearance times<sup>10</sup>**

| CATT indicators  | Country 1 | Country 2 | Country 3 | Country 4 | Country 5 | Country 6 | LA     | Good Practice |
|--|-----------|-----------|-----------|-----------|-----------|-----------|--------|---------------|
| <b>% of imports released in less than 24hs</b>                     | 36%       | 29.43%    | 14.51%    | 75.92%    | NA        | 0.47%     | 82.67% | 70%           |
| <b>Average number of days to import</b>                            | 5.55      | NA        | 12.11     | 1.76      | NA        | 3.19      | 2.55   | Closest to 0  |
| <b>% of imports processed in advance to goods arrival</b>          | 0%        | 3.43%     | NA        | 1.24%     | 0%        | NA        | 13.05% | 50%           |
| <b>Average time for imports' physical inspections (hours)</b>      | 37.68     | 66        | NA        | 128       | NA        | 40.13     | 27.21  | 8 hours       |
| <b>% of imports subject to physical or documentary inspections</b> | 75        | 84        | 100       | 100       | 35.21     | 41.15     | 14.87  | Closest to 0  |

Source: CATT. NA indicates that the value was not available.

The second factor, predictability, is also critical to improve a country's competitiveness. In general, institutional uncertainty has been found to significantly reduce trade by increasing transaction costs (Büge 2010). In the case of customs offices, erratic or unreliable procedures increase costs by requiring the maintenance of large "safety stocks" on the part of businesses, who need to cover from unexpected decisions. These costs are eventually transferred to the consumer, and therefore can be regarded as a hidden tax (and without the government collecting any revenue from it). Moreover, when businesses are uncertain

about how the customs will decide, they may be discouraged to even operate in a certain country. On the contrary, when formal processes are followed and delivery is consistent and predictable, costs are reduced and competitiveness is enhanced. Caribbean customs offices are performing poorly in terms of predictability, as shown in Table 2. In fact, almost none of the indicators associated to predictability (in the sense that they show how consistent and regular are the processes in the eyes of the traders) present positive values in any of the countries.

<sup>10</sup> Name of countries is not disclosed because assessed countries did not provide their non-objection to disclose it.

**Table 2. Caribbean customs performance in terms of predictability.**

| CATT Indicators   | Country 1 | Country 2 | Country 3 | Country 4 | Country 5 | Country 6 | LA | Good Practice |
|---|-----------|-----------|-----------|-----------|-----------|-----------|----|---------------|
| Existence of a single window mechanism for clearing import goods  | No        | No        | No        | No        | No        | No        | No | Yes           |
| Implementation of the Authorized Economic Operators Program (WCO) | No        | No        | No        | No        | No        | No        | No | Yes           |
| Legal processes are handled by specialized courts                 | No        | No        | No        | No        | No        | Yes       | No | Yes           |
| Existence of a maximum allowable time for clearance procedures    | No        | No        | No        | No        | No        | No        | No | Yes           |

Source: CATT

The third critical factor, transparency, is associated with the two previous ones. Traditionally, longer trade times are associated with higher levels of trade-related corruption because traders have an incentive to make side-payments to speed up procedures (Shepherd, 2010). Lack of predictability is also tied to a higher risk of corrupt behavior, because it creates an uncertain context under which those practices can occur. Arbitrary decisions in the valuation or inspection of goods can disrupt logistical flows and increase transaction costs, leading again to the imposition of a hidden

tax on the final value of the products. The presence of corruption also reduces the flow of foreign direct investments (Wei, 1997). Providing traders with clear and accessible information on the required documentation, for example, contributes to ensure transparency in the process. Caribbean customs are also underperforming in terms of transparency, as shown in Table 3. Most countries do not publish adequate and accessible information, and do not survey regularly about corruption perceptions.



**Table 3. Caribbean customs performance in terms of transparency.**

|  | Country<br>1 | Country<br>2 | Country<br>3 | Country<br>4 | Country<br>5 | Country<br>6 | LA  | Good<br>Practice |
|--|--------------|--------------|--------------|--------------|--------------|--------------|-----|------------------|
| <b>Publishes changes in law, new regulations and programs</b>                    | No           | No           | Yes          | No           | No           | Yes          | Yes | Yes              |
| <b>Measures the corruption perception by using surveys or equivalent systems</b> | No           | No           | No           | No           | No           | No           | Yes | Yes              |
| <b>Allows users to view the status of imports/exports declarations online</b>    | Yes          | Yes          | No           | No           | No           | Yes          | Yes | Yes              |
| <b>Publishes tariff classification and valuation rules</b>                       | No           | No           | No           | Yes          | No           | Yes          | Yes | Yes              |

Source: CATT

The economic literature argues that the three factors covered in this section (clearance times, predictability and transparency) can be improved by the adoption of technologies that make customs procedures shorter, more consistent and less arbitrary. The next section will analyze in greater detail how these six countries have been implementing ICTs in their customs systems.

## 5. Customs Performance in the Region

Beyond clearance times (i.e., facilitation), predictability (i.e., process orientation) and transparency, the CATT measures the dimensions of strategic thinking, control, efficiency, and effectiveness. Since the CATT is evidence based, proper roll out of ICT systems is a core aspect to measure indicators and dimensions properly, as information coming out from ICT systems will evidence the way Customs operations perform. Nevertheless, proper roll out is not only about the existence of information systems but rather about the effective complementarity between the use of ICT systems and operational practices.

### 5.1 Use of ICT for Customs Management and Development

It is supposed that, with the support of ICT systems, customs offices will enhance their management and development, and will also impact positively their countries' competitiveness through the improvement of the three critical factors of clearance times, predictability, and transparency. The idea that the implementation of ICT systems should help customs offices to perform more effectively and efficiently is widely shared<sup>11</sup>. For instance, ICT systems are crucial to systematize customs operating procedures, and also to provide to stakeholders more transparency of their enforcement by making customs decisions more predictable, avoiding in-person interactions. Information systems also support data analyses that allow customs to implement risk management systems to strengthen control and facilitate trade.

The next section will show the results of the CATT evaluations in six Caribbean countries. Since the results of the CATT evaluations on clearance times, predictability and transparency have been reported in section 4 of this note, the next section will highlight the results on the remaining four CATT dimensions: control, efficiency, effectiveness and strategic thinking in light of the ICT systems' implementation in the Caribbean.

## 5.2 ICT versus Practices in the Caribbean

Implementing ICT systems has become one of the few modernization aspects that seem to have a general consensus among practitioners. Nevertheless, as this note shows, modern customs go beyond ICT systems' implementation. ICT systems become a powerful tool only when they are complemented effectively with good practices and a set of economic incentives (not necessarily monetary incentives)<sup>12</sup>.

First, as it was indicated, we will look at the level of integration and sophistication of ICT systems in Caribbean countries through the analysis of the results of selected CATT indicators. The CATT evaluations found that, in the six countries assessed, only one of them does not have an integrated information system working. Most of these countries are using some of the three versions of the ASYCUDA (Automated System for Customs Data) developed by UNCTAD. Table 4 presents the main features of the core Customs information systems' implementation in the selected Caribbean countries.

As table 4 shows, critical aspects for customs control and performance have not been implemented properly. The most illustrative case is the low percentage of cargo manifests that are

submitted to the customs office electronically before the cargo arrives at the customs office even though most of the systems are capable to accept the cargo-manifest electronically. The lack of this good practice implies that it is hard to implement facilitation measures based on risk assessment. In addition, critical modules as transit and warehouse (including the control of abandoned goods) have not been activated. This situation reinforces the weak position of the customs administrations to provide facilitation measures based on effective control mechanism.

Why have the Customs offices not activated such modules? A possible answer is the lack of a Standard Operating Procedures (SOP) Manual formally approved and disseminated, as well as other important measures and practices to ensure a quality of services. SOPs constitute the backbone of any Customs office. Without SOPs there is the risk of improper ICT roll out due to the fact that no "straitjacket" exists to make the activation of the overall modules mandatory. SOPs also make Customs decisions more transparent and predictable. The CATT evaluations found that Caribbean customs offices follow international standard regulations on issues such as tariff classification, valuations, rapid release guidelines, etc.; however, none of them were applied properly. Therefore, in some cases, the issue is not the procedure, which sometimes exists, but its implementation and enforcement. In order to tackle this issue, a set of economic and legal incentives have to be in place to make customs officers fully accountable. For example by strengthening links between work-oriented training and career development; introducing monetary and non-monetary incentives; systematic and transparent rotation policy; HR systems with complete performance records, and the authority of customs management to take disciplinary actions.

<sup>11</sup> Many international organizations including the World Bank, the Organization for Economic Cooperation and Development (OECD), the World Customs Organization (WCO), the World Trade Organization (WTO), Regional Development Banks such as the Inter-American Development Bank (IDB) and Asian Development Bank (ADB) and the European Union (EU) have recommended the use of ICT systems to improve customs processes, facilitate trade and therefore enhance countries' competitiveness. See Lewis (2009) in World Customs Journal.

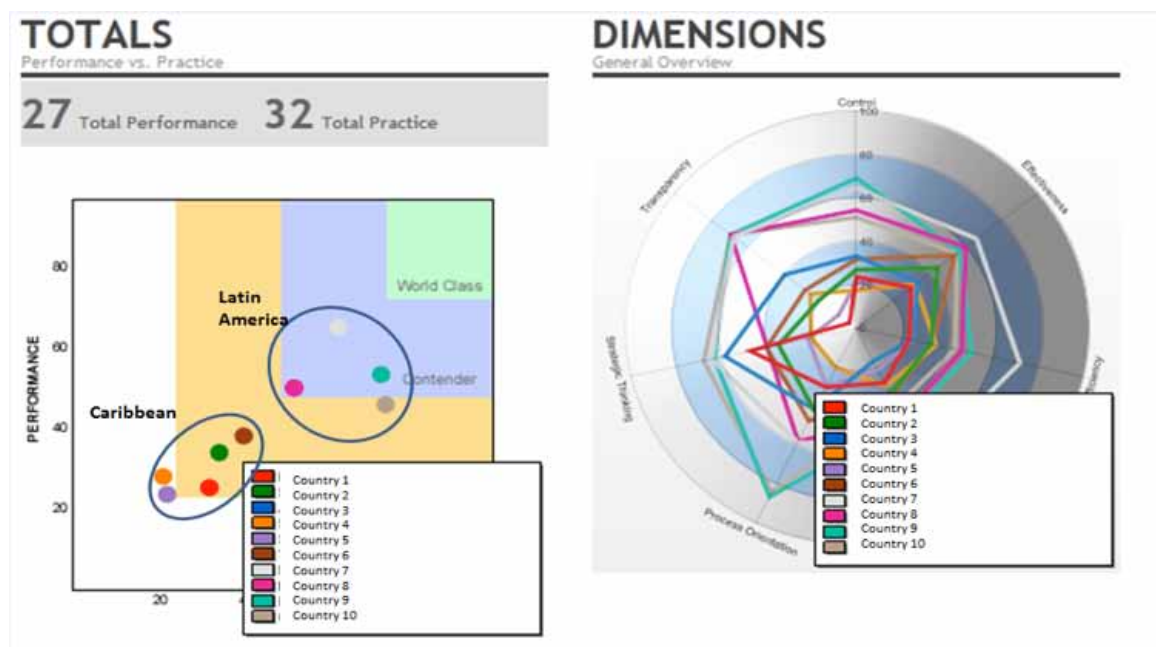
On control mechanisms, the effect of the ICT systems has been also limited. The CATT evaluations show that only in three of the six countries there is a historical database containing information of all customs declarations for the purpose of risk assessment. However, in none of them the risk assessment analysis is done systematically. None of these countries use modern customs control practices for selectivity control and risk assessment based on risk profiling. Despite the tendency to inspect a high percentage of all declarations, the rate of detection in the inspections is very low (less than 1% for two countries and 12% for the outperformer country, which is still a low rate).

This is clearly a signal that the inspections are not well targeted being the most visible outcome the high discretionary power of Customs officers. On the side of the trading community high transition costs come up in dealing with Customs. Tensions between Customs and the trading community can arise because of the lack of an effective feedback mechanism<sup>13</sup>. Table 5 summarizes the situation of good practices that should complement ICT systems in these countries:

Finally, a critical aspect is that Customs in the region cannot envision better scenarios in the future to ensure continual improvements. The CATT data evidenced that ICT systems have been implemented only for revenue purposes, being tax and duties collection the only one strategic goal that government authorities pursue. Most countries lack a strategic plan, a long term technology plan or a modernization plan, and only half of them identify quantifiable performance measures. Optimizing performance, therefore, has not been a central priority. Table 6 shows the main results regarding strategic thinking.

The CATT allows us to graph the overall performance of these six Caribbean countries compared to a group of selected Latin American countries<sup>14</sup>. As Figure 3 shows, the Caribbean countries are underperforming in the two dimensions (performance and practice) in which all of the indicators are grouped. None of the Caribbean customs reaches the "contender" category (50% of good practices).

Figure 3: CATT results comparisons between Caribbean and Latin-American countries



Source: CATT.

<sup>12</sup> There are some basic necessary conditions that have to be in place before, during and after implementation of any ICT system. First, it is crucial to have strong political will to implement ICT changes; second, it is necessary to identify a champion to lead the process, explain its benefits and deal with people opposed to the changes; third, it is crucial to address with customs staff the cultural change that implies going from a culture of physical records on paper to a culture of virtual records and electronic entries; fourth, it is very important to ensure the availability of financial resources to complete implementation of the ICT systems and to provide staff the necessary training to facilitate its use and maintenance; fifth, a legal reform has to accompany the implementation of ICT systems to provide support and sustainability to the changes; and sixth, the implementation of the ICT systems has to be part of a broader technology plan in which a clear vision is outlined for the different phases of its implementation and its role within the strategy plan of the institution is explained. The analysis of these conditions is beyond the scope of this technical note.

<sup>13</sup> This is also extensive to the internal feedback mechanism

<sup>14</sup> Countries were selected to be a representative sample for Latin America regarding the size of the country (i.e. big, middle, and small).

**Table 4: CATT Results on ICT indicators**

| CATT indicators   | Country 1 | Country 2         | Country 3               | Country 4 | Country 5 | Country 6         | LA                | Good Practice |
|---|-----------|-------------------|-------------------------|-----------|-----------|-------------------|-------------------|---------------|
| <b>% Border Offices with Communication services 24x7</b>  | 0         | 92.3              | 100                     | 92        | 42.86     | 100               | 90.11             | 100           |
| <b>Level of integration of core customs IT systems</b>  | Total     | Mostly integrated | Total                   | Partial   | None      | Mostly integrated | Mostly integrated | Total         |
| <b>Transmit and receive data electronically using EDI</b>   | None      | None              | Manifest + declarations | All       | None      | All               | 75% All           | All           |
| <b>Access to institutional email, intranet and internet (% staff)</b>                                       | 47.18     | 100               | 100                     | 17        | 0         | 11.73             | 93.76             | 100           |
| <b>% Administrative processes controlled by any software</b>  | 25        | NA                | 37.5                    | 54.54     | 11        | 37.5              | 52.86             | 100           |
| <b>% of cargo manifests presented to the Customs office in electronic format</b>                            | 100       | NA                | 100                     | 100       | 0         | 3.14              | 86.39             | 100           |
| <b>% of cargo manifests submitted to the customs office electronically in advance</b>                       | NA        | NA                | NA                      | 18.03     | 0         | 0.44              | 67.22             | 100           |
| <b>Operates a computerized systems for transit control</b>  | No        | No                | No                      | Yes       | No        | No                | 25% Yes           | Yes           |
| <b>Customs office can generate report of all transport documents considered abandoned</b>                   | No        | No                | No                      | Yes       | No        | No                | 25% Yes           | Yes           |
| <b>Average days goods considered abandoned remain in that state before being disposed of</b>                | NA        | NA                | NA                      | 1.27      | NA        | NA                | 229.3             | 1             |
| <b>Uses selectivity based on automated compliance measurement and risk-assessment and profiling systems</b> | No        | No                | No                      | No        | No        | No                | 50% Yes           | Yes           |
| <b>% of economic operators with risk profiles defined</b>   | NA        | 3.4               | NA                      | 2.1       | NA        | NA                | 52.71             | 100           |
| <b>% of economic operators with HIGH risk profiles</b>  | NA        | 3.4               | NA                      | 0.074     | NA        | NA                | 10.04             | Closest to 0  |

Source: CATT.

**Table 5: CATT results on Good Practices Indicators**

| CATT indicators  | Country 1 | Country 2 | Country 3 | Country 4 | Country 5 | Country 6 | LA         | Good Practice |
|--|-----------|-----------|-----------|-----------|-----------|-----------|------------|---------------|
| <b>Procedures Manual</b>   |           |           |           |           |           |           |            |               |
| <b>Applies the WCO Harmonized System Convention</b>                                | Yes       | Yes       | Yes       | Yes       | Yes       | Yes       | Yes        | Yes           |
| <b>Applies the WTO Valuation Agreement</b>   | Yes       | Yes       | Yes       | No        | Yes       | Yes       | Yes        | Yes           |
| <b>The Customs office implements a Single Administrative Document (SAD)</b>        | Yes       | No        | Yes       | Yes       | Yes       | Yes       | 75%<br>Yes | Yes           |
| <b>Applies the WCO Immediate Release Guidelines</b>                                | No        | No        | No        | Yes       | No        | No        | 50%<br>Yes | Yes           |
| <b>Defines special procedures for express cargo (Courier)</b>                      | NA        | No        | Yes       | No        | Yes       | No        | Yes        | Yes           |
| <b>Effective Feedback Mechanisms</b>   |           |           |           |           |           |           |            |               |
| <b>Exists a mechanism to capture process feedback from internal users</b>          | No        | No        | No        | No        | No        | No        | 75%<br>Yes | Yes           |
| <b>Exists a mechanism to capture process feedback from external users</b>          | No        | No        | No        | No        | No        | No        | 75%<br>Yes | Yes           |
| <b>Implements customer satisfaction surveys for external trade operators</b>       | No        | Yes       | No        | No        | No        | No        | 75%<br>Yes | Yes           |
| <b>Conducts employee satisfaction surveys regularly</b>                            | No        | No        | No        | No        | No        | No        | Yes        | Yes           |
| <b>Procedures in the Customs web page</b>  |           |           |           |           |           |           |            |               |
| <b>% of core customs procedures and legislation that is loaded in the Web page</b> | 0         | 15        | 33.34     | 16        | 0         | 0         | 99         | 100           |
| <b>Makes tariffs and duties available on the web page</b>                          | No        | Yes       | No        | Yes       | No        | No        | Yes        | Yes           |
| <b>Customs has an on-line support system for external trade operators</b>          | No        | No        | No        | No        | No        | No        | 50%<br>Yes | Yes           |
| <b>Customs has an on-line statistics and reporting system for external users</b>   | No        | No        | Yes       | Yes       | No        | No        | 50%<br>Yes | Yes           |
| <b>Complaints Office</b>   |           |           |           |           |           |           |            |               |
| <b>Existence of a complaints office within the Customs office</b>                  | No        | No        | No        | No        | No        | No        | 50%<br>Yes | Yes           |
| <b>Complaints lodged per month by external operators per thousand employees</b>    | NA        | NA        | NA        | 0.8       | NA        | 2.33      | 14.72      | Closest to 0  |
| <b>Appeal Mechanisms</b>   |           |           |           |           |           |           |            |               |
| <b>% of judicial processes that were resolved in favor of Customs (one year)</b>   | NA        | 84.36     | NA        | 60        | 0         | 42.31     | 40.56      | 70            |
| <b>Average time to resolve legal process (months)</b>                              | NA        | 5         | NA        | 24.6      | 1         | 1.08      | 51.80      | 6             |
| <b>% of administrative processes that were resolved in favor of the Customs</b>    | NA        | 11.03     | NA        | 0         | 70.58     | 98.61     | 66.17<br>1 | 70            |
| <b>Average time to resolve an administrative appeals(days)</b>                     | NA        | NA        | NA        | NA        | 68.94     | 39        | 184.6      | 15            |

Source: CATT.

**Table 6: CATT results on Strategic Thinking Indicators**

| CATT indicators   | Country 1 | Country 2 | Country 3 | Country 4 | Country 5 | Country 6 | LA         | Good Practice |
|---|-----------|-----------|-----------|-----------|-----------|-----------|------------|---------------|
| <b>Customs office applies Balanced Scorecard or equivalent methodology</b>              | NA        | Yes       | No        | No        | No        | No        | 75%<br>Yes | Yes           |
| <b>Customs office has a documented and approved strategic plan for at least 5 years</b> | Yes       | Yes       | No        | No        | No        | No        | 25%<br>Yes | Yes           |
| <b>Strategic plan identifies quantifiable performance measure for targets</b>           | Yes       | Yes       | Yes       | No        | No        | No        | 75%<br>Yes | Yes           |
| <b>Customs has a documented long term technology plan</b>                               | No        | No        | No        | No        | No        | No        | 25%<br>Yes | Yes           |
| <b>Customs has a reform and/or modernization program</b>                                | Yes       | No        | No        | No        | No        | No        | 75%<br>Yes | Yes           |
| <b>% of workforce trained in their areas of responsibility</b>                          | NA        | 38.5      | 82.1      | 31.96     | 0         | 56.8      | 53.7       | 100           |

Source: CATT.

## 6. Lessons learned

This report has presented evidence on a number of aspects related to the Caribbean countries' customs systems. This section systematizes the note's key messages:

**The Caribbean economies are highly open, but their customs systems are not up to the challenge.** Almost all Caribbean countries, and especially the ESC countries, rely heavily on trade and foreign direct investments for the functioning of their economies. However, one of the key channels through which these interactions occur, the customs offices, performs poorly in terms of clearance times, predictability and transparency. The CATT data shows that elapsed times are long, processes are not consistently followed and the required information is not easily accessible to the traders.

**This inconsistency affects the competitiveness and development of these countries.** There is a large body of evidence that indicates how these factors impact a country's competitiveness. High clearance times impose costs on trade and discourage the attraction of foreign investment. Inconsistent procedures require the maintenance of large "safety stocks", something that may not be possible for new entrepreneurs or for smaller companies<sup>15</sup>. Lack of transparency, in addition to acting as a hidden tax, unfairly discriminates against those who play by the rules. The combination of

all these factors increases transaction costs and greatly affects the performance of the economy, especially in countries (like those of the Caribbean) where trade plays such a critical role. Due to the large proportion of goods that are imported consumers' purchasing power is also affected by these extra costs. Higher prices disproportionately affect lower income households that destine a larger share of their income to the purchase of goods.

**Customs offices may be performing additional functions, which in a context of scarce resources can also distract them from performing their core functions.** In some of these countries, customs are working to facilitate the inflow of foreign investments by, for example, implementing tax and duty exemptions for investors. In a globalized context in which not only trade but also production has been internationalized (Kremer and Maskin, 2006), this is an important role, especially because Caribbean countries rely on foreign investments for their tourism industry. However, resources used for this task are diverted from the customs core function of controlling the flow of goods in a timely and appropriate manner. This can partly explain their low performance in the dimensions previously discussed.

**The main strategic function that could be evidenced was the tax and duties collection, while important functions such as policy advisor, trade facilitator and security provide appear to be neglected.** Although the role of Customs as revenue collectors contributes to fiscal stability, focusing only on revenue collection has distorted other core Customs functions (Shujie and Shili, 2010). As policy advisors, Customs in the region cannot effectively support policy decisions by providing accurate and on-time trade statistics; as policy implementers, they lack standard operating procedures to make their decisions predictable; as trade facilitators, they lack effective facilitation measures; and as security providers, they lack risk management systems based on electronic submission of cargo information in advance and risk profiling of authorized operators.

**Modernization efforts are should not be limited exclusively to ICT implementation.** Most of the Caribbean countries have been implementing ICT systems, or are in the process of upgrading previous versions or seeking new integrated solutions. However, the CATT data show that, to become a world class customs, government authorities need to pay attention to the adoption of good practices in several key dimensions that complement the use of ICT systems. ICT adoption is a requisite for a modern customs, but it needs to be supplemented by improvements in other aspects too. In particular, the absence of strategic thinking (in the form of plans, modernization programs or even quantifiable indicators of performance) hurts the ability to make most of the technological tools being adopted.

<sup>15</sup> In this sense, poor customs performance can act as an entry barrier to new competitors, reinforcing the region's lack of economic diversification and dependence on few industries.

# Conclusions

Based on the lessons learned from this study, there are a number of ways by which the Caribbean countries can improve the performance of their customs systems in all their core roles (policy advisor, policy implementer, trade facilitator and security provider). Implementing these changes, which are all feasible and realistic, would boost the competitiveness of the Caribbean economies and solve many of the problems detected in this report. These recommendations can be divided in (a) policy changes and (b) institutional reforms.

The following are the main policy changes that these countries could adopt:

- **Reduce the dependence on tariffs for the government's total revenue.** The high reliance of Caribbean countries on trade taxes reinforces the idea that customs offices are just revenue-collection agencies. Thus, their officials have incentives to simply concentrate on raising revenue, instead of focusing on their key role in trade facilitation. A reduction in tariffs (compensated for example by greater emphasis on internal consumption taxes) would also reduce the incentives to smuggle goods or to bribe customs officials. This increase in transparency would lower the transaction costs involved in trade, benefiting the Caribbean producers and consumers.

- **Clarify the role of the customs offices. Customs offices in the Caribbean usually deal with issues that should be the responsibility of the tax collecting agency.** Customs, for example, have to implement the numerous tax exemptions designed for the attraction of foreign investment. But these added responsibilities divert resources from the customs core functions, hurting their performance. Locating these tax enforcement responsibilities in the appropriate government agencies would allow the customs to focus on their essential missions.

- **Promote regional agreements to consolidate customs processes.** The Caribbean is composed of multiple islands, most of them with small populations. Establishing a common entry port (a hub) and controlling the transits to the different islands would contribute to improve trade

efficiency, reduce costs and decrease clearance times. Although this cannot be an immediate goal, advancing with regional agreements to consolidate and streamline trade processes would be a positive first step in this direction.

- **Establish alliances with the private sector. The private companies are key partners to ensure the smooth and predictable operation of customs procedures.** Their collaboration is needed to alert about problems that need to be solved, and they have a strong interest in the reduction of the high transaction costs associated with these customs systems. It would be important to build mutual trust and cooperation in these interactions. Working together, it is likely that clearance times, predictability, transparency and therefore competitiveness would be improved.

In addition to these policy changes, we can identify a number of institutional reforms that would contribute to enhance the performance of these customs systems in all their core roles:

- **Above all Customs offices in the Caribbean region could prioritize the completion, roll out and dissemination of SOPs.** Without SOPs it is hard to conceive these public offices either as modern Customs or traditional ones. Within the public sector no entity needs to operate through the definition and implementation of basic rules of the game as a Customs office must do. Trade transitions are complex and in some cases they imply risks for national security, sanitary status, revenue, health and other related aspects. This is why they need to be regulated. Nevertheless the regulatory system should be simple and transparent to improve the flow of trade performance.

- **Promote continual improvements by strengthening the strategic thinking.** Performance cannot be improved in a sustainable way if customs authorities focus only on day-to-day operations. CATT indicators show that the Caribbean customs are lagging behind in terms of defining strategic goals for their agencies. Setting objectives and defining the best ways to achieve them are critical actions to consolidate a culture of permanent improvement and reform. Moreover, establishing measurable indicators for these goals would create incentives to meet adequate standards of timely



and predictable processes. One critical aspect affecting the strategic thinking is the lack of training on core technical themes such as classification, valuation, procedures, and rules of origin. The CATT evidenced that most of the Customs officers were not trained on those themes in the last 10-15 years.

- **Ensure that ICT information is available to the decision-makers.** To serve as a proper policy advisor, customs need to be able to provide timely and accurate data to the policymakers. The current situation, in which only the IT staff has the capacity to access these data, limits the ability to effectively use the data produced by the customs in the decision-making process, and also as an instrument to achieve accountability and transparency. Moreover, ensuring a broader access to this information would foster a more evidence-based approach to policymaking and impact in the implementation of better and more accurate customs controls.

- **Establish the procedures and the incentives to fully seize the potential of ICT systems.** To act as an adequate policy implementer, the adoption of ICTs can only have significant effects if complemented by other measures. Among them we can mention: (i) the importance of training to address the cultural change and to avoid natural reluctance to use the new systems; (ii) Link training on systems with staff promotions and salary increases; (iii) a legal reform to accompany and validate many processes and procedures introduced by the systems; (iv) name a champion with strong political support to implement and follow up on the dissemination of the system; (v) availability of resources to complete the implementation of the system, provide maintenance and monitor future developments, (vi) provide incentives for customs staff to make research with the information provided by the system, i.e. grant recognition to best research work and implement the recommendations of their findings and (vii) ensure that ICT systems are part of a bigger Strategy and modernization plan of the institution since that will force customs management to provide a vision and a general equilibrium view on its implementation.

- **Introduce productivity incentives to promote better performance.** The CATT can serve as a useful tool to collect objective evidence about how different sections within a customs office are performing. With these data, and with the establishment of clear goals, it would be possible to create incentives that foster the achievement of measurable results. For example, making training courses more relevant to work activities, measuring the knowledge internalized by staff on those courses and linking training with promotions could be a way to provide the right incentives to promote the use of ICT systems. Sections that meet the proper standards in terms of predictability or clearance times could be rewarded accordingly. To provide the flexibility needed to achieve these goals, granting greater autonomy for the customs offices could also be considered.

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