



**USAID**  
FROM THE AMERICAN PEOPLE



PIXABAY

# IMPROVING CUSTOMS AND TRADE FACILITATION IN THE CONTEXT OF DOMESTIC RESOURCE MOBILIZATION

## A PRACTICAL GUIDE FOR USAID MISSIONS

This document was produced through the *Trade and Competitiveness Activity*, implemented by Resonance Global with support from SEGURA Consulting. The views expressed herein reflect the views of the authors and do not necessarily reflect the views of the U.S. Agency for International Development (USAID) or the U.S. government.

## TABLE OF CONTENTS

<b>ACKNOWLEDGEMENTS</b>	<b>1</b>
<b>INTRODUCTION TO THE GUIDE</b>	<b>2</b>
<b>DEFINITIONS</b>	<b>3</b>
<b>TECHNICAL BACKGROUND AND CONTEXT</b>	<b>5</b>
<b>RELEVANCE TO CURRENT USAID INITIATIVES AND PRIORITIES</b>	<b>5</b>
<b>THE ROLE OF TRADE FACILITATION AND CUSTOMS REFORM IN THE MOBILIZATION OF DOMESTIC RESOURCES</b>	<b>7</b>
<b>ROLE OF USAID</b>	<b>10</b>
<b>ROLE OF OTHER U.S. GOVERNMENT ACTORS</b>	<b>11</b>
<b>KEY STAKEHOLDERS</b>	<b>12</b>
Customs and other Public/Regulatory Authorities	12
National Trade Facilitation Committees	13
Private Sector Participants	14
<b>ACTIVITY DESIGN AND IMPLEMENTATION</b>	<b>15</b>
<b>ANALYTICAL APPROACHES AND CONSIDERATIONS FOR EFFECTIVE DESIGN</b>	<b>15</b>
<b>OTHER DESIGN CONSIDERATIONS</b>	<b>18</b>
<b>SUITE OF POTENTIAL INTERVENTIONS</b>	<b>24</b>
<b>BEST PRACTICES AND LESSONS LEARNED</b>	<b>25</b>
<b>SUSTAINABILITY CONSIDERATIONS</b>	<b>33</b>
<b>CONCLUSION</b>	<b>34</b>
<b>ANNEX I – INTERVENTION SHEETS</b>	<b>35</b>
<b>1. DEVELOPING STRONG RISK CRITERIA OR INDICATORS</b>	<b>36</b>
<b>2. USE OF COMPUTERIZED CUSTOMS SELECTIVITY SYSTEMS</b>	<b>37</b>
<b>3. IMPLEMENTING POST-CLEARANCE AUDITS</b>	<b>38</b>
<b>4. DEVELOPING INVESTIGATION &amp; ENFORCEMENT CAPACITY</b>	<b>39</b>
<b>5. IMPLEMENTING VOLUNTARY COMPLIANCE PROGRAMS</b>	<b>40</b>
<b>6. INTEGRATION OF COMPLIANCE, RISK MANAGEMENT, AND CONTROL PROCESSES</b>	<b>41</b>
<b>7. DEVELOPING STRATEGIC RISK MANAGEMENT CAPACITY</b>	<b>42</b>
<b>8. DEVELOPING ENTERPRISE INTELLIGENCE CAPACITY</b>	<b>43</b>
<b>9. ESTABLISHING AN INTERNAL AUDIT DEPARTMENT OR PROGRAM</b>	<b>44</b>
<b>10. UPGRADING INFORMATION AND INSPECTION TECHNOLOGIES</b>	<b>45</b>
<b>11. IMPROVED LEGAL AND REGULATORY FRAMEWORK</b>	<b>46</b>
<b>12. IMPROVING PROCESSES TO HIRE &amp; RETAIN QUALIFIED PERSONNEL</b>	<b>47</b>
<b>ANNEX 2 – REFERENCED DOCUMENTS</b>	<b>48</b>
<b>USAID DOCUMENTS</b>	<b>48</b>
<b>DOCUMENTS FROM TRADE/CUSTOMS-FOCUSED ORGANIZATIONS OR OTHER DONORS</b>	<b>49</b>
<b>OTHER ARTICLES OR REFERENCES</b>	<b>49</b>

## **ACKNOWLEDGEMENTS**

This guide was created as part of the Trade and Competitiveness Activity, administered from the USAID Bureau of Development, Democracy, and Innovation/Center of Economics and Market Development, and implemented by Resonance with support from subcontractor SEGURA Consulting. The principal author for this document was consultant Luis Zárate Quiero, supported by personnel from both Resonance and SEGURA Consulting.

In assembling this guide, the team wishes to thank interview participants from the below entities and organizations, who generously donated their time and shared their insights to inform this document:

**USAID/EI Salvador:** Lorena Aceto, Martin Schulz

**USAID/Honduras:** Hector Andrews

**USAID/Paraguay:** Federico Recalde, Alfonso Velazquez

**USAID/Moldova:** Corneliu Rusnac

**USAID/Ukraine:** Evgenia Malikova

**USAID/Vietnam:** Cabi Nguyen

**U.S. Customs and Border Protection, Office of International Affairs:** Bobby Pickett, Latisha “Kim” Yeggy

**DevTech Systems, Inc.:** John Yates

**United Parcel Service (UPS):** Maria Luisa Boyce

In addition, this guide was developed with valuable counsel and input from Authorized Economic Operator Customs Coordinators for the Latin America and Caribbean (LAC) region.

# INTRODUCTION TO THE GUIDE

## INTENDED AUDIENCES AND PURPOSE

The primary audience for this document is USAID Mission staff with limited or no experience in designing and/or managing programming aimed at promoting customs and trade reforms, including the important ways that such work can contribute to USAID's broader Financing Self-Reliance (FSR) goals, including domestic resource mobilization (DRM). Secondary audiences may include other USAID staff, implementing partners working in these technical areas, and cooperating country stakeholders – from both public and private sector – who both influence and are affected by these reforms.

The main purpose of this document is to provide Mission staff with an understanding of the role of customs and trade facilitation in strengthening domestic resource mobilization (DRM) and practical tips for project design and implementation in these areas. In addition, this guide hopes to support Mission personnel in their efforts to constructively engage and co-design with host country governments in two important ways. First, it will provide a base-level grounding in important concepts, principles, and interventions. Second, it will enable Mission personnel to better engage with country counterparts to set and promote realistic, sustainable goals for revenue mobilization through trade and customs and to target those interventions that are appropriate for their particular country context, including the sophistication of the trade regime, the related institutional and regulatory framework, and level of institutional capacity.

## GUIDE ORGANIZATION AND RECOMMENDED USAGE

The guide is organized in the following main sections:

- **Definitions:** highlights key terms utilized throughout the document
- **Technical Background and Context:** provides overview of relevant customs and DRM concepts, as well as the context of these issues both within USAID and externally
- **Key Stakeholders:** details the primary actors and interlocutors involved in these areas
- **Activity Design and Implementation:** offers guidance and tips for design and implementation in light of USAID analytical tools and frameworks
- **Suite of Potential Interventions:** introduces and explains how to use Annex I
- **Best Practices and Lessons Learned:** highlights advice and insights gained from interviews with Mission personnel and other colleagues, with focus on sustainability of interventions
- **Annex 1: Potential Interventions**
- **Annex 2: Cited Resources**

The recommended usage is to read through the relevant background sections first in order to better understand the suite of potential interventions in Annex I. **If the reader is primarily interested or focused on the interventions themselves, please start with page 24 for the key/explanation prior to moving to the annex.**

## DEFINITIONS

This section includes key terms used throughout the guide and other terminology utilized within the broader technical areas of customs, trade facilitation, and domestic resource mobilization.

**Advance Rulings** - binding decisions made by a Customs Authority at the request or behest of an entity seeking clarity on issues related to the intended importation or exportation of goods.

**Authorized Economic Operator (AEO)** – a certification program administered by a Customs Authority that provides a special distinction and benefits for private enterprises involved in the international movement of goods who comply with key supply chain security standards. Acceptance into an AEO program requires certification and validation by the applicable Customs Authority and can be rescinded or suspended. Benefits provided to approved AEOs can include special designations that enhance reputation and marketability as well as access to simplified customs procedures or programs.

**United States Customs and Border Protection (CBP)** – federal law enforcement agency of the United States Department of Homeland Security that is in charge of regulating and facilitating international trade, collecting import duties, and enforcing U.S. regulations, including trade, customs, and immigration. With presence through attachés and other staff in many USAID cooperating countries, CBP can be both a resource and partner for USAID in designing and implementing programming.

**Customs Authority or Customs Administration** – general terms used within this document to refer to the public sector institution within a national government with primary responsibility for overseeing customs and other functions as designated under that country’s prevailing regulations and policies. May be its own separate entity or housed within a larger Department or Ministry.

**Customs Reform/Modernization**– the organized efforts of the Customs Authority and related agencies (e.g., Sanitary and Phytosanitary Authorities, Standards and Consumer Protection Agencies, etc.) to simplify, standardize, harmonize, and optimize customs procedures. Examples include streamlining or digitizing customs paperwork; electronic platforms for customs declaration and clearance; risk management tools for customs inspections; and formal coordination procedures between border management agencies.

**Customs Revenue** – income collected by a Customs Administration on behalf of the government from duties, taxes, fees and other charges paid on the international movement of goods. The scope of transactions subject to Customs revenue requirements varies. Many countries apply revenue collection only to import transactions while others may apply revenue collection requirements to export, transshipment (when a cargo or container is moved from one vessel to another while in transit), or other customs procedures.

**Domestic Resource Mobilization (DRM)** – the process through which countries raise and spend their own funds to sustain their operations and support their citizens through delivery of public services (e.g., education, health, civil works). It is an important means of sustainable country-led development to reduce long-term reliance on foreign aid.

**Domestic Tax Revenue** – all taxes, duties, fees or other charges imposed by a governmental authority and collected from its domestic economy.

**Effectiveness** – the degree or extent to which an achieved result meets or deviates from the projected or expected result. A program or reform – for example, introducing an IT system over several years – may be technically effective despite being inefficient (see definition below).

**Efficiency** – the relationship between the goods or services provided and the cost or resources (including time) necessary for such output. A program or reform – for example, something implemented quickly but not sustainably – may be efficient without being effective.

**Non-Intrusive Inspection (NII)** – a method or system to inspect or screen goods without opening the means of transport (e.g., truck bed, shipping container, etc.) or unloading the cargo. X-ray detectors or imaging systems at an airport or public venue would be examples.

**Post-Clearance Audits (PCA)** – a systematic, audit-based customs control measure conducted by a Customs Authority after the release of goods to ensure compliance with applicable procedures and regulations. This may include examination of declarations, records, systems, and commercial data kept by persons/companies directly or indirectly involved in international trade.

**Risk Management (RM)** – a coordinated and systematic set of activities and methods utilized by a Customs organization to measure and control the risks that can affect its ability to achieve its objectives. This can include features like risk selectivity, targeting, and voluntary compliance, among others.

**Risk Indicators** – Specific criteria which, when taken together, serve as a practical tool to select and target movements that pose a risk of potential non-compliance with Customs laws. Risk indicators are typically utilized to identify high- or higher-risk traders, goods, and/or transactions.

**Time Release Studies (TRS)** – analytical tools to measure the time required for release and clearance of goods from the time of cargo arrival until the physical release. Performing a TRS can help a Customs Authority to identify bottlenecks and then develop possible solutions to improve performance.

**Trusted Trader Program (TTP)** – a type of voluntary compliance program designed to provide preferential treatment to qualified importers or exporters who meet or exceed trade compliance and supply chain security standards. TTP is similar to AEO and is sometimes considered a more general category of program under which AEO falls. Australia, for example, uses the term Trusted Trader for its preferential treatment program.

**Trade Facilitation** – a set of measures to simplify, standardize, and optimize the technical and legal procedures of international trade including activities, practices, and formalities involved in collecting, presenting, communicating, and processing data required for the movement of goods. Trade facilitation covers the full spectrum of border procedures from the electronic exchange of data about a shipment and the simplification and harmonization of trade documents to the possibility of appealing administrative decisions by border agencies.

**Value-Added Tax (VAT)** – a tax which represents the increased value of a product at each stage of its manufacture and distribution until its final consumption.

## TECHNICAL BACKGROUND AND CONTEXT

### RELEVANCE TO CURRENT USAID INITIATIVES AND PRIORITIES

**Journey to Self-Reliance.** In 2019, USAID released a new policy framework: *Ending the Need for Foreign Assistance*. The framework presents the Agency’s mission and vision for partnering with countries to foster self-reliance and defines self-reliance as, “the capacity to plan, finance, and implement solutions to local development challenges, as well as the commitment to see these through effectively, inclusively, and with accountability.” The ability of a country to finance its own development is central to USAID’s Journey to Self-Reliance (J2SR). To help partner countries achieve self-reliance, USAID recognizes that governments must spend public funds in an accountable, transparent, and effective manner that supports overall economic and social development. Similarly, governments and businesses must be able to harness domestic and international private capital over time to participate in growing and healthy economies.

**Domestic Resource Mobilization.** Taxes and other sources of domestic revenue pay for delivery of critical public services, such as hospitals and health centers, schools, and water and sanitation services. This includes personal and corporate income taxes, property taxes, and sales or consumption taxes, like value-added tax (VAT). In many low and middle-income countries – like Paraguay (see text box) – customs fees, duties or tariffs are also an important source of revenue.

In **Paraguay**, 45% of the country’s revenue comes from Customs and 60% of its GDP is related to international trade, according to the World Bank/IMF. As a result, improving the capacity and procedures of Customs are considered by the USAID Mission as critical developments on the country’s Journey to Self-Reliance.

Trade facilitation and customs reforms that reduce costs for both the government and the private sector – interventions that focus on enhancing efficiency, strengthening reliability, and creating clear and consistent rules – will encourage private sector compliance with regulations, investment, and other economic activity. Such reforms are the primary aim of the Trade Facilitation Agreement (TFA), which entered into force under the auspices of the World Trade Organization (WTO) in February 2017. Expediting the movement, release, and clearance of goods and enhancing cooperation between Customs and other authorities creates opportunities for countries to channel the benefits from trade towards domestic needs. The WTO estimates that full implementation of the TFA could increase global exports of goods by as much as \$1 trillion per year.<sup>1</sup> A World Bank study estimated that each day saved in border agency procedures could increase trade at that border from 1 to 7 percent.<sup>2</sup>

**Financing Self-Reliance.** The Agency released its Fiscal Year 2019-2023 Financing Self-Reliance (FSR) Strategy to reorient programming and investments to better support governments, civil society, and the private sector mobilize, manage and invest domestic resources while reducing and ultimately ending dependence on donor funding. The goal of the FSR Strategy is to improve self-reliance in USAID partner countries by strengthening their ability to finance their own development.

---

<sup>1</sup> World merchandise exports amounted to \$16 trillion in 2016. See World Trade Organization, *World Trade Statistical Review 2017* (Geneva: World Trade Organization, 2017). [https://www.wto.org/english/res\\_e/statis\\_e/wts2017\\_e/wts2017\\_e.pdf](https://www.wto.org/english/res_e/statis_e/wts2017_e/wts2017_e.pdf).

<sup>2</sup> Djankov, Freund, and Pham, “Trading on Time.”

Based upon programmatic learning, the FSR Strategy builds upon USAID's investments in domestic resource mobilization (DRM) and recognizes that a country's J2SR depends upon more than the ability to manage and grow its domestic revenue. It also depends upon the systems and safeguards that ensure government transparency and accountability, and on the ability of the enabling environment for private enterprise and capital to advance national progress through growth-enhancing investments. Although all are interrelated, the three pillars with most relevance to USAID's work in the areas of trade facilitation and customs reform are domestic revenue mobilization, fiscal transparency and accountability, and enabling environment for private investment.

### The Five FSR Pillars

- 1. Domestic Revenue Mobilization** refers to the design and administration of public revenues, including taxes collected by domestic tax agencies and customs; fees, fines, licenses, and rents; and royalties on natural resources and other sources of public revenues. Adequate public revenues provide governments with funds needed to alleviate poverty and deliver services and infrastructure.
- 2. Public Financial Management** systems include the set of laws, rules, systems and processes used by governments to allocate public funds, undertake public spending, and manage public debt, account for funds, and audit results, as well as analysis of these areas. Strategic planning linked to available resources; budget formulation and execution; treasury operations; management of procurement, contracts, and assets; monitoring and reporting on revenues, debt, expenditures; and public sector debt management are all important facets of PFM.
- 3. Fiscal Transparency and Accountability** require government commitment and robust accountability ecosystems that include capable and committed oversight bodies in all branches of government and in subnational government structures. Civil society, the private sector, faith-based organizations and the media are vital to ensuring fiscal transparency and accountability and they can and should play constructive 'watchdog' roles over the use of public resources.
- 4. Enabling Environment for Private Investment** stipulates that countries have secure property and ownership rights; strong rule of law and enforcement of contracts; transparency; inclusive competition policies; efficient public-private partnerships systems and institutions; well-developed entrepreneurship ecosystems; and robust anti-corruption enforcement. Trade policies and agreements should set rules for modern customs and border management and allow the private sector to participate in international commerce and foreign direct investment.
- 5. Functioning Financial Markets** refers to the liquid, diverse, transparent, and well-regulated local financial markets, which require appropriate financial sector regulation and oversight; empowered oversight institutions; strong financial institutions and intermediaries; well-developed financial market infrastructure and supporting systems; and effective risk mitigation tools and other financial instruments.

The U.S. government – through USAID and other agencies – is one of the largest donors to DRM-specific assistance, including efforts to help governments strengthen tax systems, mobilize public revenues, and take greater leadership to finance their own development. USAID is also a member of the Addis Tax Initiative, a multi-stakeholder partnership to foster DRM. For more about USAID's work in DRM, see <https://www.usaid.gov/what-we-do/economic-growth-and-trade/domestic-resource-mobilization>.

**Other USAID Policies or Strategies.** There are several other important USAID policies or strategies that can inform and help Missions better contextualize their work in the areas of customs or trade reform. Among these is USAID's [Private Sector Engagement Strategy](#), which broadly advocates for consultation and collaboration with the private sector in both planning and programming as a means to increase the sustainability and effectiveness of development outcomes. USAID's recently released [Digital Strategy](#) showcases the potential for digital development to enhance customs and trade-focused programming as integrating electronic technologies and related tools helps governments streamline rules and procedures in a way that eases customs burdens and facilitates trade more effectively. Digital tools and platforms can also help businesses to become more competitive, reach new markets, and engage in international trade. Yet, as will be discussed further below, digital solutions or upgrades cannot be effective without corresponding organizational changes and providing ongoing training to the primary users of these programs or technologies. USAID also recently released its new [Economic Growth Policy](#), which specifically discusses the importance of building trade capacity for beneficiary governments, including addressing the ways in which domestic taxes or sources of revenue may need to offset losses in tariffs or customs duties.<sup>3</sup>

## **THE ROLE OF TRADE FACILITATION AND CUSTOMS REFORM IN THE MOBILIZATION OF DOMESTIC RESOURCES**

The relationship between the customs function, trade facilitation, and the mobilization of domestic resources is both dynamic and multi-faceted. The sections that follow describe some of the important ways that these areas interrelate in the development context.

### ***Customs and Domestic Resource Mobilization***

As a public institution, Customs typically has as its key functions to both facilitate and control the cross-border movement of goods for international trade. More recently, Customs is increasingly assuming border control responsibilities through the lens of security or prevention efforts by identifying and intercepting prohibited or restricted goods. This includes enforcing environmental regulations, terrorism control, curtailing illegal immigration, sanitary and phytosanitary controls, consumer protection, and cultural heritage preservation.

The effectiveness of Customs controls is key to the collection of revenues from trade, especially in developing countries given the higher proportion that these revenues represent in relation to GDP. Customs revenues come mainly from the collection of import duties, excise duties, Value Added Taxes (VAT), and various other fees and charges that are taxed or levied on international trade. Taken together, these are the most significant direct contribution that Customs agencies make to domestic revenue, and Customs' ability to collect them is considered the primary indicator of effectiveness.

In practical terms, Customs contributes to the mobilization of domestic resources in the following ways:

- **Ensuring the payment of trade-related revenues.** The declaration and payment of revenues related to trade is the main public revenue flow under the Customs Authority. Supervision and control of this form of **voluntary compliance** involves not just ensuring that payments are made but, critically, that amounts are accurate and in accordance with Customs regulations. This is no easy task, given the frequently burdensome methods for correctly calculating what is to be

---

<sup>3</sup> USAID *Economic Growth Policy*, January 2021, accessible at <https://www.usaid.gov/documents/usaid-economic-growth-policy>.

paid, what goods need to be declared, etc. Although there are both financial and social or cultural aspects that affect the willingness to pay, from a practical point of view the most common barriers are the absence or inefficiency of modern payment systems, the lack or inadequacy of electronic declaration procedures, and the complexity of the systems for determining the proper amount of revenues due.

- **Recouping unpaid revenues.** In many countries, there is a substantial difference between the amount actually paid and what should have been paid as determined by law. This is frequently called the "compliance gap." When this compliance gap is produced by a deliberate taxpayer action, it is considered revenue evasion. In the context of international trade, the control of this "regulatory dysfunction" is a Customs responsibility. Accordingly, there are specialized **enforcement actions** to recoup these missing revenues and levy penalties or charges against entities (including persons, firms, or economic agents) in default. Effectiveness at recouping these revenues is determined by the capacity to detect potential illicit activities and execute specialized customs controls such as documentary verification, physical inspection, audits and investigations. Customs authorities are typically vested with the power and mandate to carry out these tasks by their respective national legal systems.
- **Customs collection of non-trade taxes.** Although VAT – sometimes referred to as a goods and services tax – is not typically thought of as a trade tax, Customs authorities play an important role in the collection of this important source of domestic revenue. In addition to customs duties, excise duties (as on alcohol or tobacco) or other consumption taxes, imported goods may be assessed an import VAT at the time of entry. Thus, Customs officers are charged with understanding, properly assessing, and collecting VAT.

Customs Administrations typically face substantial pressure to increase revenue collection. Where there are poor levels of voluntary compliance, Customs officials frequently employ strict requirements for documentary and physical inspections in order to verify the value, classification, and origin of goods. These verifications inevitably slow the clearance process and introduce opportunities for corruption. These processes further undermine the tenuous relationship between Customs Administrations and the private sector and trade-focused government agencies, who advocate for expedited and less intensive processing and clearance of goods.

### ***Role of Trade Facilitation***

There is also a more strategic view regarding the role of Customs in DRM – the role assigned to Customs when, as part of an economic growth strategy, policies are implemented to improve the international competitiveness of the private sector as a means of promoting trade. Each successive hour or day that passes with unattended shipments waiting or held up in bureaucratic red tape at a land border, port, or airport means added cost and frustration for both importers and exporters and disincentivizes voluntary compliance.

When a country strengthens the international competitiveness of the private sector by improving the efficiency of its export and import processes through modernization or other measures, this can be a more sustainable way to increase trade and thereby generate higher tax collections. Thus, decreasing costs

and economic burden through modernization of Customs functions is a frequent goal of developing countries.

Trade facilitation measures often involve modifying or simplifying procedures to reduce formalities and documentation and more quickly reduce the “release time” to get goods across borders. In practical terms, these measures reduce trade costs, consumer prices, and raw materials costs for importing companies. With lower trade costs, businesses would ideally be able to increase revenue and profits, thereby providing a higher base of recovery through domestic means (like corporate income taxes) to offset the reduced revenue rates (through import tariffs) at the border. The simplification of Customs procedures and the reduction of trade costs and delays can have tremendous benefits for developing countries who are trying to strengthen economic competitiveness and diversification. These same changes may also lead to greater foreign direct investment, which can further stimulate the economy and raise the domestic revenue base.

Efforts to facilitate trade can often have a negative effect on DRM in the short-term, especially where they are implemented in an ad hoc fashion. For example, to facilitate trade, a Customs Authority may decide to inspect a far lower percentage of cargo or greatly reduce tariffs for goods in certain value chains. While this may initially lead to more goods passing through the borders, it may also cause revenues to decrease – especially in the absence of strong data collection systems, well-established selectivity criteria, and/or well-qualified staff. Similarly, as noted above, reduced trading costs should hopefully spur firms towards higher growth and thus a larger revenue base for corporate income and other business-based sources of domestic revenue. A challenge may arise when the predicted increase in internal revenue fails to materialize as anticipated to offset the reduced Customs revenues, creating friction between Customs and other revenue authorities.

### ***Importance of Institutional Capacity***

Strong, inclusive economic and political institutions can be as important a factor in economic growth as are features like type of government, geography, or access to natural resources.<sup>4</sup> Individual and organizational actors are more likely to comply with both formal and informal “rules of the game” when they trust the capabilities and messaging of the public institutions with which they interact. In the context of trade, Customs has an important role to play in this regard. Through 1) consistent and fair execution of compliance and enforcement functions and 2) transparent processes for evaluating and implementing changes in policies or laws, Customs can help improve the perception of the efficacy and fairness of the government and ultimately strengthen the rule of law.

In the case of public sector organizations, improving institutional capacity requires addressing several interrelated features: operational capacity; effectiveness of control and anticorruption mechanisms; effectiveness in training, managing, and rewarding personnel; accountability in compliance and financial management, and the quality of systems for measuring results and performance. These features can be particularly challenging to address in the customs context. Customs authorities are responsible for significant flows of public resources while maintaining several functions at once (border security, revenue

---

<sup>4</sup> Acemoglu, D. & Robinson, J (2012), *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. New York City, New York. Crown Business (arguing via a number of both U.S.-based and international case study comparisons for the importance of institutions as a key factor in promoting economic prosperity). See also Rodriguez-Pose, A. and E. Garcilazo (2013), “Quality of Government and the Returns of Investment: Examining the Impact of Cohesion Expenditure in European Regions”, OECD Regional Development Working Papers, 2013/12, OECD Publishing. <http://dx.doi.org/10.1787/5k43n1zv02g0-en>

collection, environmental or veterinary compliance, etc.). Personnel are fairly decentralized, often spread distantly and disparately at points of entry throughout the country with minimal interaction with the headquarters-based Ministers, Directors, and other senior officials who make and refine operating policies and procedures. Moreover, Customs authorities themselves sometimes sit within other Ministries or Departments and thus are not autonomous in terms of hiring and evaluating their own staff or setting their own policies and directives. Measures aimed to strengthen institutional quality, capacity and perception could include: redesigning trade procedures and requirements to improve transparency and predictability; publishing applicable procedures, revenue rates, rules, laws, penalties, etc. in a non-discriminatory and easily accessible manner; or establishing and maintaining consistent procedures for appeal of administrative decisions or issuance of advance rulings in a reasonable, timely manner.

The **USAID/Honduras** Mission has very little separate funding for trade or customs work in-country, so most of it is done through the Regional Trade Facilitation project managed out of USAID/El Salvador. Given the close economic relationship of countries in the Northern Triangle, this is a more effective way to ensure cooperation. The role of the Mission is to provide supportive facilitation, checking in with stakeholders and IPs, and feeding on-the-ground information regarding institutional and policy changes to USAID/El Salvador to inform their program management and direction.

Annex I provides overviews of some of the key measures frequently employed to improve customs management and facilitate trade, including how these interventions affect DRM and the circumstances under which they may be appropriate for consideration in program design.

## **ROLE OF USAID**

Through program design and ongoing performance management, Mission personnel can effectively deploy and oversee USAID resources in furtherance of the strategic objectives of the Agency (including J2SR and Financing Self-Reliance) and the Mission (as expressed in the Country Development Cooperation Strategy).

Starting from the earliest stages of program design, USAID can serve as an interlocutor and sounding board for country-level public sector counterparts. In particular, USAID frequently works to find common ground and shared expectations between the initiatives or interventions desired by a host government and those identified by the Agency and Mission as important to advance country-level or regional goals. USAID Mission personnel also play an important role in terms of their convening power to bring disparate voices together in service of designing and programming holistically. In the context of trade or customs programming, this may mean ensuring that private sector associations or firms have a figurative or even literal seat at the table in proposing reforms or interventions. This may also involve going beyond the Directorate General office of a Customs Administration to understand the concerns and needs of more “rank-and-file” mid-level managers or front-line staff working not just at headquarters but at border crossings and points of entry like airports or ports. Moreover, customs and trade by their nature can involve juggling the oft-competing concerns or priorities of neighboring countries. This means USAID may also serve as mediator or referee, a task made more complicated where USAID only has presence (and thus some degree of leverage) on one side of the border.

Within a USAID Mission, designing and managing a trade or customs-focused program requires collaboration and consultation with a number of important actors. Depending on the configuration of the Mission, customs and trade-focused programming may be housed within a larger Economic Growth (EG) or Democracy, Human Rights, and Governance (DRG) group. Regardless, it will be important to consult with colleagues working in *both* groups to look for synergies with other ongoing or planned programming, understand the most current and relevant country-level background, and co-identify potential challenges to effective program start or continuation. There are several consistent themes

In designing its customs-focused programming, **USAID/Moldova** relied on on-the-ground knowledge from its local personnel and the resources of the E3 Bureau for specific expertise on planned interventions, including assistance with drafting relevant documents. Although managed out of the EG Office within the Mission, there has been productive collaboration with the DG personnel given the overlap on good governance and anti-corruption issues.

between EG and DRG programming – anti-corruption, the informal economy, etc. – and a stove-piped approach to program design or management can frustrate Agency or Mission goals in these areas. Mission MEL personnel are likewise an important resource to ensure that goals and performance targets are realistic, appropriate, and adhere to Agency (and State Department) rules, guidelines, and best practices.

Outside of Mission colleagues, there are many important Agency counterparts. Given the cross-border nature of trade and customs, representatives from neighboring Missions and/or a Regional Mission (if applicable) should be a first line of discussion and partnership. In addition, there are several important Washington D.C.-based resources for consultation and engagement:

- **Regional Bureaus:** In addition to a designated Desk Officer for your country (if one is assigned), Bureau Technical Officers from both EG and DRG groups within the Regional Bureau will typically have responsibility for interfacing with each Mission as well as their counterparts in the corresponding regional bureau at the Department of State. These regional bureaus also sometimes have Technical Specialists who consult on project design or implementation as requested.
- **Bureau for Development, Democracy, and Innovation/Center for Economics and Market Development (DDI/EMD):** Through trade capacity building, EMD's Trade Team helps developing countries remove trade barriers, improve customs procedures, modernize markets, and implement trade agreements that level the playing field and create economic growth for their citizens. They also monitor trade projects and share best practices from these activities across the agency, as well as provide technical expertise during the design and implementation phases of projects to ensure effective programs. While EMD incorporates the former Office of Economic Policy (EP), issues related to DRM are now handled by the DDI Center for Democracy, Human Rights, and Governance (DDI/DRG).

## **ROLE OF OTHER U.S. GOVERNMENT ACTORS**

Interagency coordination can be an important tool to maximize the effectiveness and reach of U.S. government resources. Accordingly, USAID frequently collaborates with a number of agencies and departments in carrying out its customs and trade-related programming. The most familiar are the **Department of State, U.S. Customs and Border Protection**, and the **Millennium Challenge Corporation**. It is important to establish connections with staff members from these organizations who

may be working in-country as well as those who may be administering programming remotely from Washington, D.C. CBP, for example, has a specific Office of International Affairs and corresponding country attachés in many of the countries where USAID works. USAID has formal interagency agreements with the **Department of Commerce, CBP, the U.S. Trade and Development Agency, and the Federal Trade Commission**. These agreements allow USAID to access the expertise of these agencies and also to fund their participation in USAID's overseas projects. In particular, CBP has frequently been called upon to provide training – for example, Border Management Academies to help border control officers better implement best practices and meet international standards – as part of USAID initiatives.

Just as Customs Administrations interact with a range of other specialized agencies, the **Office of the U.S. Trade Representative** has a Trade Policy Staff Committee that includes USAID and most other executive branch agencies.<sup>5</sup>

## KEY STAKEHOLDERS

In designing and overseeing programming in the areas of customs reform, trade facilitation, and domestic resource mobilization, stakeholders will come from both the public and private sectors, at national and municipal levels, and include both domestic and international counterparts. The effectiveness of any particular program or initiative will depend on sufficient input and buy-in from a range of stakeholders, both in terms of breadth (i.e., from as many types of stakeholders as possible) and depth (i.e., higher-level decision-makers *and* mid-level and operational personnel who will carry out directives).

## CUSTOMS AND OTHER PUBLIC/REGULATORY AUTHORITIES

Customs authorities are generally located within the national public administration structure under a ministerial authority, secretary, or director general. The customs mandate is established through national laws that define its public function and hierarchical relationships with other government agencies.

Given the need to oversee miles of borders and transnational water boundaries, centrally located Customs authorities are augmented by regional agencies or delegations that oversee operations in ports, airports, and land crossings. These smaller offices are typically located on-site and staffed from local communities. A decentralized structure is necessary to cover all critical entry points, but the lack of geographic proximity and interaction with headquarters operations frequently results in weak oversight and increased potential for inefficiencies and corruption.

In some countries, Customs authorities operate as independent agencies. However, there are a growing number of countries where after a process of modernization, Customs agencies are integrated either with the internal tax/revenue authority or as a part of a national security structure. The United States, for example, has several trade-focused agencies. However, its primary Customs Authority, U.S. Customs and Border Protection, is considered a federal law enforcement agency of the Department of Homeland Security (DHS).<sup>6</sup>

---

<sup>5</sup> <https://ustr.gov/about-us/executive-branch-agencies-trade-policy-staff-committee-and-trade-policy-review-group>

<sup>6</sup> CBP was formerly housed as part of the U.S. Department of the Treasury but transitioned to DHS after its creation in the wake of the September 11, 2001 terrorist attacks.

From an operational point of view, even though Customs is the most relevant public agency in cross-border trade of goods, other government authorities also participate in the regulation of both trade and the control of people and means of transport that accompany goods. Not all of these are physically present at ports, airports, and land border crossings, however.<sup>7</sup> These related agencies and their primary areas of responsibility may include:

- Phytosanitary/Veterinary Controls: agricultural, livestock, aquaculture regulations, etc.
- Sanitary Controls: health or sanitary norms of the merchandise, as well as of its conditions and means of transport.
- Public security/Law Enforcement/Border Control: This includes police authorities, immigration services, and maritime agencies (e.g., Coast Guard).
- Transportation: rules that regulate the conditions and characteristics of international means of transport.
- Environmental Protection: with particular reference to the application of international treaties and national laws that protect the environment.
- Consumer Protection: rules or policies that regulate the quality of goods in order to protect national consumers.
- Cultural Heritage: regulation of the entry or transport of assets of particular cultural value, like artwork or archeological artifacts.
- Other Authorities such as telecommunications, emergency or disaster response, drug control, etc. depending on the type of merchandise or the matter under regulation.

While one of the main customs functions is to assess and collect revenues on international trade, the internal tax/revenue authority is a key partner for both the implementation of voluntary compliance and enforcement programs, either related to the application of VAT or to other variables with implications for the subsequent determination of domestic taxes. The relationship between Customs authorities and tax/revenue authorities is therefore critical for addressing challenges to robust, effective revenue collection.

## **NATIONAL TRADE FACILITATION COMMITTEES**

The creation of a national body or entity is one of the most widely used trade facilitation measures to ensure that public and private sector stakeholders are broadly and routinely consulted and involved in the development and implementation of national trade facilitation reforms. Increasingly, countries are creating Trade Facilitation Committees at the highest level in order to coordinate, direct, and ensure the sustainability of a facilitation program during its implementation and evaluation period. Creation of a

---

<sup>7</sup> Often in developing countries, many of these other agencies will have personnel at the border which adds extra layers of procedure and delay. This is different from the approach in the United States, where CBP has broad powers to enforce laws from more than 40 U.S. government agencies, reducing the need for personnel from these other agencies at the border and thereby helping to minimize confusion and holdups.

National Trade Facilitation Committee is also a binding obligation of Article 23.2 of the WTO TFA and is required upon ratification. In countries without National Trade Facilitation Committees, the responsibility to convene public and private sector stakeholders for trade facilitation discourse may rest with Chambers of Commerce, Customs agencies, other government ministries/secretaries, or private or quasi-private companies.

### PRIVATE SECTOR PARTICIPANTS

Any cross-border trade can involve a number of private sector entities who are subject to the wide range of regulations and rules promulgated by the agencies and other public sector institutions described above. At the firm level, these can be loosely grouped into three main classifications: (1) importers; (2) exporters; and (3) representative agents/service providers.

This last group includes firms who act as middlemen for cross-border transactions, such as freight forwarders, transport service suppliers, customs agents/brokers and other private economic agents.

Private sector entities typically participate in international trade in the following ways:

- Manufacturers, retailers and wholesalers who are active in the business of purchasing and/or selling goods.
- Shipping and transport companies that organize and take care of the physical movement of goods or arrange commercial transportation in the case of freight forwarders and logistics companies.
- Other transport intermediaries such as port and airport authorities, terminal handlers, stevedores and warehouse operators, who are involved in the physical movement of goods. While these are sometimes run by the government, they are frequently outsourced or contracted to private firms working through government contracts.
- Commercial banks and insurance companies, which are used by traders for payment of goods, payment of duties and taxes, insurance of goods during transport, insurance of vehicles, and the deposit of guarantees and securities.
- Other intermediaries who are involved in the fulfillment of procedures, including customs brokers, Single Window operators, and businesses that provide a service to one or a number of parties in the supply chain, usually in form of data processing and information exchange.

In **Honduras**, the creation of an NTFC is one of USAID's successes through the Regional Trade Facilitation Project. It took more than 18 months to design and operationalize, but it has buy-in from eight key economic sectors (including through trade and industrial organizations) and all relevant government agencies. Although it is the newest to be established in the region, the Honduras NTFC meets the most frequently and was the first to have its own workplan and indicators.

Aside from individual firms, there are also groups of companies in the form of business or industry associations with vested interests in the regulation of trade. This may include sector-agnostic organizations like Chambers of Commerce, associations of firms in a given sector or sub-sector (e.g., an association of fruit and vegetable exporters), or associations of firms serving a role or function in the process of international trade (e.g., customs brokers organizations). While these organizations typically operate at the regional or national levels, there may also be relevant international trade groups or associations at play (e.g., the International Air Transport Association (IATA) and the International Federation of Freight Forwarders Associations (FIATA)). Trade and industry associations play an important role in representing the interests of their members as part of public-private dialogue on national laws, regulatory processes and procedures, and programs of national relevance such as trade facilitation. They often also play a key role in organizing the supply chain and developing related standards.

**Mexico** provides a good example of the occasionally challenging relationship between the private sector and Customs Administrations. When the government first rolled out an AEO program in 2012, few companies were interested. The program was positioned as a means to get companies to be more transparent with their financial and accounting practices rather than a security-based measure to reward compliant businesses. Firms saw this as overreaching and evidence of a lack of trust from the government and were reluctant to engage. Mexican Customs continued to work to market the AEO program and clarify its benefits, and by mid-2014 Mexico had more than 1,000 certified companies. Mexico's AEO program currently has mutual recognition with the United States through the Customs Trade Partnership Against Terrorism program (CTPAT).

## ACTIVITY DESIGN AND IMPLEMENTATION

### ANALYTICAL APPROACHES AND CONSIDERATIONS FOR EFFECTIVE DESIGN

By their very nature, activities that promote customs reform and facilitate trade – within the broader Agency goal of supporting partner countries to mobilize, manage, and invest domestic resources - address complex, interdependent issues and involve multiple country and international actors within often dynamic contexts. Per USAID guidance, activities should be designed to achieve clear and measurable results and strengthen local systems so that results are sustained after an activity concludes.<sup>8</sup> Activities should align with the priorities of local actors, leverage local resources, and increase local implementation over time.

Despite often being delineated and managed either as an Economic Growth (EG) or Democracy, Rights and Governance (DRG) activity, customs and trade assistance involves common aspects in important areas for both disciplines, like the rule of law and anticorruption. Therefore, it is important to think broadly in terms of the consultative process, including where there may be synergies and opportunities between EG and DRG to leverage existing USAID resources, understand lessons learned, and incorporate best practices. In addition, for USAID staff designing and implementing customs and trade facilitation activities, there are several key frameworks, analytical tools, and approaches that can be used to ensure a local systems approach and contributions to broader DRM and FSR goals.

---

<sup>8</sup> See ADS 201.3.4 Activity Design and Implementation.

**Resources:** Local systems transform resources—such as budgetary allocations or raw materials or inputs—into outputs.

**Roles:** Most local systems involve a number of actors who take on various defined roles: producer, consumer, funder and advocate.

**Relationships:** In a similar fashion, the interactions between the actors in a local system establish various types of relationships. Some may be commercial; others more administrative and hierarchical.

**Rules:** An important feature of local systems is the set of rules that govern them. These rules define or assign roles, determine the nature of relationships between actors and establish the terms of access to the resources on which the system depends.

**Results:** The concept of “results” is expanded to include measures of the overall strength of the local system as well as traditional outputs and outcomes.

**Local Systems.** Developed in 2014, USAID’s Local Systems Framework is rooted in the reality that achieving and sustaining any development outcome depends on the contributions of multiple and interconnected actors, their interrelationships, and the incentives that guide them. A deep, nuanced understanding of the partner country systems with which USAID Missions and implementing partners engage is key to fostering self-reliance and must be incorporated into activity design and implementation. The focus needs to be on the system as a whole, categorized by the 5Rs as described in the accompanying graphic. Focusing on a single actor or strengthening a single relationship is not sufficient and may undermine the sustainability of the whole system.

Application to Customs and Trade Facilitation. USAID’s White Paper, *Enhancing DRM through Customs and Trade Facilitation Reforms*, highlights the gulf that often exists between domestic revenue authorities and Customs departments and emphasizes the importance of enhancing coordination. Among other benefits, such coordination can yield a more complete view of each taxpayer, help identify anomalies related to VAT collection and returns, and support trend analysis for the development of compliance models and response strategies – broadly contributing to a more efficient and effective approach to DRM. Similarly, one Mission described the challenges encountered

between the national Customs Agency and the Ministry of Food Security. Duplication of effort and inefficiencies between these two entities caused extensive delays at the border and contributed to the death of livestock. Ultimately, to resolve the situation, Ministry of Food Security representatives were withdrawn from the border and border control authorities actually assumed responsibility for inputting relevant data into the Ministry’s database.<sup>9</sup>

These examples illustrate why a local systems approach is critical as a point of departure for program design and as a frame for the other analytical tools and participatory approaches described below. A local systems approach helps staff to: identify strengths and weaknesses in existing local systems; identify principal actors and others with interest, incentive, or influence; and understand where and how to focus resources for the greatest impact.

### **Thinking and Working Politically (TWP) and Applied Political Economy Analysis (PEA).**

TWP is an approach that recognizes that formal and informal political relationships can serve as barriers or pathways to progress. It is centered on three main principles: 1) strong political analysis, insight, and

---

<sup>9</sup> This mirrors the point made earlier (in footnote 7) regarding the complexities of having personnel from multiple border-focused agencies at points of entry. While consolidating personnel at the border helps to simplify and reduce delays, agencies whose personnel are removed may regard this as decreasing or undermining their authority. In reality, such consolidation allows each agency to focus more competently on their actual mission.

understanding; 2) detailed appreciation and response to the local context; and 3) flexibility and adaptability in program design and implementation. In 2018, under the leadership of USAID’s Center of Excellence on Democracy, Human Rights and Governance, USAID issued a guide to help staff and implementing partners operationalize TWP through applied PEA. USAID’s recent Strategy for Financing Self-Reliance emphasizes the importance of TWP when working with country partners to promote reforms.

Applied PEA “operationalizes” a more politically informed approach to working, helping Missions and implementing partners recognize and respond more effectively to contextual realities. PEA can be applied at the country, sector, or problem/issue level. PEA may set a baseline that can be helpful during activity design or initial phases of activity implementation. It may also provide ongoing analysis during activity implementation, contributing to an activity’s capacity to adapt to changing circumstances

**Illustrating the Importance of TWP: A Mission’s Experience**

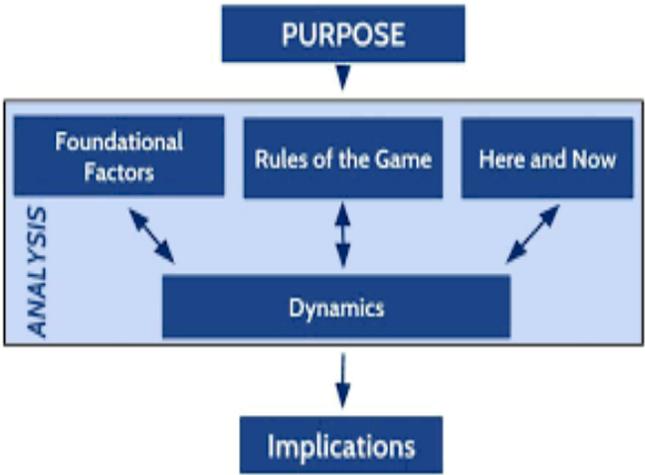
In Paraguay, the Customs Administration was compliant with USAID recommendations but appeared to be “checking the box” rather than robustly implementing controls and buying-in to the principles behind them. Controls were implemented without criteria, hastily, and without much meaning. USAID suspected that controls were actually being used to facilitate bribes.

**PEA Characteristics**

- Concern with the role of formal and informal rules of the game
- An analysis of power and processes of contestation and bargaining between political and economic elites
- A focus on the interests of different groups

An analysis of how those interest impact development outcomes

The graphic at left demonstrates the steps of the Applied PEA Framework. The **purpose** helps define the reasons for conducting the analysis itself, to help properly frame the inquiry and methodology. The **analysis** focuses on three key areas: foundational factors (long-term national, sub-national, or international structures that shape the character and legitimacy of the state, its systems, and its structures); rules of the game (both formal and informal rules and norms that shape behavior, incentives, relationships, power dynamics, and capacity); and “the here and now” (how current events and circumstances influence objectives and behavior of key stakeholders).



Application to Customs and Trade Facilitation. When asked about the biggest challenges faced in the design and implementation of customs reform and trade facilitation activities, Missions frequently cite intangible elements such as political will, leadership, and institutional culture. Progress often occurs in fits and starts, ramping up or even shutting down completely with elections and the arrival of new political leadership, starting from the highest office and

running through ministerial and directorate positions, such as ministers of finance, customs director generals, and/or directors of internal affairs, among others. In addition to the impact of immediate events

and actors, foundational influences (such as history or geography) and the institutional framework (formal laws and informal practices) influence behaviors and outcomes. For example, USAID’s customs and trade facilitation activities in Central America support key regional institutions and regional business associations. This is influenced by the regional geography and Central American countries’ ratification of the WTO’s Trade Facilitation Agreement. TWP and applied PEA tools enable staff to widen their program design ‘viewpoint.’ Considering potential technical solutions within a politically informed framework helps staff to better understand how and why things work the way they do and to identify the incentives and constraints affecting the behavior of actors within a given system. Consider as an example the case of two neighboring countries in Central America, as shared through an interview with USAID’s COR for the *Regional Trade Facilitation* project in the Northern Triangle. After the launch of an AEO program in El Salvador, only two companies were part of the program by May 2020. This is not because the private sector is opposed to AEO programs or the concept of affording benefits and recognition to proven partners, but rather that the benefits of El Salvador’s AEO program are perceived to be insufficient or are insufficiently known to incentivize greater participation. A TWP/PEA lens would help to identify the key barriers in such a scenario and the recommended approaches to achieve long-term results. In this case, it would likely include early and continuing engagement with the private sector (both at the firm and cluster/association levels). Understanding their concerns, better communicating incentives and benefits, and clarifying the government’s rationale for introducing the program would all be part of a healthy consultative process to arrive at a solution that meets the needs of the government and is sufficiently attractive to companies. Indeed, this is borne out by Guatemala – where the private sector has a much stronger voice and closer relationship with the Customs Authority – and which therefore has a far more robust AEO program with 20+ companies and more in the process of obtaining certification.

## **OTHER DESIGN CONSIDERATIONS**

**Co-Creation.** Co-creation is not new. USAID has long recognized the importance of bringing stakeholders together to produce mutually beneficial outcomes. Nevertheless, in recent years the Agency has revived, reimagined, and developed new resources to facilitate the involvement of others in problem identification and ensure that activities are better informed by local context with increased ownership by other development actors.

Application to Customs and Trade Facilitation. Among the Missions surveyed for this guide, customs-related activities are managed either through a democracy and governance lens – with good governance, rule of law, and/or anti-corruption as driving factors - or from an economic growth perspective, with trade facilitation as the priority. In one Mission in Latin America, customs reform initiatives are handled within the DRG office and siloed from DRM activities carried out under the EG office. In light of this dynamic, it is critical that “co-creation” begin at the Mission level, with a multi-sectoral approach to activity design, framed by broader DRM and FSR goals. Expanding to other USG agencies, the Department of State, the Department of Justice, and the U.S. Customs Border and Protection’s Office of International Affairs are important stakeholders in this process. CBP attachés are present in select countries and Branch Chiefs have regional responsibilities and can serve as resources in both activity design and implementation.

At a country level, key institutional stakeholders outlined in the next section should be engaged in any consultation/co-creation process. Activity design presents an opportunity to understand, foster dialogue around, and develop targeted interventions to bridge the frequent disconnect between countries' Customs and domestic tax administrations, notwithstanding their shared responsibility for revenue collection. Improving coordination between these entities – even when they are housed within the same agency - holds significant promise for DRM.

As with almost all USAID technical sectors, customs and trade challenges tend to be deeply political and inherently complex. While USAID and other USG agencies have supported countries to make meaningful advances, consultation, coordination, and/or co-creation with other donors is necessary to amplify reach and long-term impact. Missions commonly identify the World Bank, the International Monetary Fund, the regional development banks, the European Union, and the German Agency for International Cooperation as collaborators, but degrees of consultation and coordination vary widely. Nevertheless, Missions frequently describe scenarios where they either pick up efforts previously supported by other donors or hand over efforts to other donors. This further underlines the importance of co-creation from the outset and the need for sustained support to achieve meaningful reform. In the same vein, unlike other technical sectors, most FSO and FSN staff gain customs experience on the job, with little to no formal training, further reinforcing the value of analysis and participatory design processes to ensure clear understanding of the problem to be solved.

### Benefits of Co-Creation

- Fosters better understanding of the problem to be solved
- Enables coordinated strategies and problem-solving
- Contributes to fit-for-purpose solutions and/or out-of-the-box ideas with greater potential for breakthrough change
- Can bring greater quantity or quality of resources to bear on activities
- Strengthens coordination across system actors
- Promotes greater ownership and integration of local or end-user interests and needs into solutions
- Avoids duplication of efforts or working at cross-purposes

**Theory of Change.** In alignment with ADS Chapter 201 Program Cycle Operational policies, an established theory of change should flow from Country Development Cooperation Strategies to the design and implementation of projects and activities. Theories of change describe how and why an approach is expected to achieve a specific purpose in a given context and help to focus strategies, projects, and activities on the ultimate intended outcomes rather than on resources, outputs, and/or interventions.

Application to Customs and Trade Facilitation. To ensure customs reform and trade facilitation activities ultimately contribute to DRM and FSR goals, it is important for staff to clearly incorporate these outcomes into a theory of change that is grounded in the findings from the analytical approaches and tools described above. Considering the FSR strategy goal of *enabling conditions under which the private sector can operate effectively* and using the example of El Salvador's AEO Program, a theory of change centered around DRM and FSR goals would likely lead to staff prioritizing interventions that address the root causes – whether it be lack of political will, inefficiencies, corruption, lack of trust between customs and the trading community - of limited private sector participation in that program.

As noted previously, many low- and middle-income countries are overly reliant on customs collections as a share of their total revenue. If a theory of change is framed by the FSR goal of *mobilizing increased levels*

of public revenues, while ensuring local and national governments spend these resources in an accountable, transparent, and effective manner to support development priorities, customs and trade facilitation activities would prioritize interventions – identified through consultation, co-creation, and analysis - that have the greatest impact on enhancing efficiencies (increasing trade volume) and improving the quality of customs controls.

**Human and Institutional Capacity Development (HICD).** Historically, USAID and other donors have often defaulted to short- or long-term training to address issues of institutional capacity. However, training does not have an impact unless the knowledge or skills acquired by trainees are successfully applied to a specific work situation, which, in turn, result in a measurable improvement in performance. Moreover, training is only one piece of the organizational performance puzzle.

Developed in 2011 by the Bureau for Economic Growth, Education, and Environment, the HICD framework is a key resource for assisting partner governments and other entities to improve institutional capacity, an immense challenge that affects all USAID technical sectors. HICD helps to identify performance gaps and solutions to close those gaps through a comprehensive analysis of organizational performance based on six performance factors, divided into both environmental factors (information, resources/tools, and incentives) and individual factors (knowledge/skills, capacity, and motives).

HICD-related analysis can be incorporated into other analyses during activity design or included as part of an initial phase of activity implementation, to inform the establishment of institutional performance measures to be tracked across all levels.

Application to Customs and Trade Facilitation. Customs and trade facilitation activities nearly always involve a high degree of institutional reform. In discussions, Mission staff highlight the following institutional challenges frequently faced by Customs Administrations and other key partner institutions: inadequate and/or insufficient use of resources; antiquated civil service rules and job descriptions; and lack of skilled personnel and incentives for staff to gain, maintain, and apply needed skills. Furthermore, Customs entities may not have the ability to hire, promote, or redesign positions to fill the changing roles produced by reforms.

On the other side of the equation, USAID and other donors tend to focus on reforming legal and regulatory frameworks, addressing needs expressed by higher level officials, and technological solutions, often overlooking the needs of middle managers and lower-level staff and longer-term, less tangible institutional strengthening measures – such as change management - that are often the linchpin to sustainable performance improvement. Applying HICD to customs and trade facilitation activities will help Missions, implementers, and country counterparts to identify the fundamental causes of performance gaps, address those gaps through an array of performance solutions in the context of all human performance factors, and enable continuous performance improvement through the establishment of performance monitoring systems.



As will be discussed further, continuing and robust commitment to HICD is an important factor in increasing the effectiveness and sustainability of USAID programming. HICD and organizational change principles must be integrated holistically into CDCS development, program design, and ongoing work planning processes.

## Monitoring, Evaluation, and Learning (MEL)

To UPS Vice President of Global Affairs Maria Luisa Boyce, one of USAID's strengths is its ability to impose metrics on stakeholders to both gauge success and to emphasize urgency. This can be challenging, however, where the metrics are not properly calibrated for the intervention or when the assigned government counterparts lack the capacity or knowledge for effective data collection, measurement, and monitoring.

Both internally for Missions in terms of design and evaluation and for cooperating country governments as part of planning and execution of activities, sustained progress requires mechanisms for systematic and routine measurement and monitoring. The proper collection and analysis of data form the basis for effective adaptive management and improved decision-making. As part of designing technical assistance, it is important to understand how and how well cooperating country governments collect data and the ways in which they use it. Technical capacity building in MEL for government stakeholders and/or subsidizing access to reliable sources of third-party data is important for strengthening these institutions as well as how they are perceived by the business community (as seen in the text box at left).

It is important to take a critical view of data – particularly data produced directly by governments or third parties that is frequently used as a basis for decision-making. Consider two examples below.

- Despite predictions that the economies of sub-Saharan Africa would collectively shrink by 3.2% in 2020 amidst COVID-19 and other challenges, Tanzania forecasted GDP growth of 5.5% that year. But the credibility of government statistics has come under scrutiny after the IMF uncovered irregularities in 2019. A subsequent analysis by *The Economist* revealed several areas for concern. Foreign Direct Investment has fallen by half since 2013 and exports and imports both fell from 2012-18. Data from the Tanzanian Central Bank showed that tax revenues shrunk in real terms in the most recent year available (from 2018-19). The story painted by these figures indicates that GDP may have been overestimated.<sup>10</sup>
- The World Bank's annual *Doing Business Report* is considered one of the most important and objective global studies of the ease of doing business in 190 countries. It is heavily relied upon by governments and donors as a means of either promoting areas of success or highlighting areas of concern for further action or support. In August 2020, the World Bank suspended the report and called into question the results from 2018 to 2020 due to reported irregularities that suggested that data on at least four countries may have been inappropriately altered by staff.<sup>11</sup>

---

<sup>10</sup> Why Tanzania's Statistics Look Fishy, *The Economist*, July 23, 2020.

<sup>11</sup> Zumbun, Josh, World Bank Halts Report on National Competitiveness Rankings Amid Concerns of Data Manipulation, *Wall Street Journal*, August 27, 2020. For more perspective on this data integrity issue, see Michael Klein, What Future for the World Bank's Doing Business Project, *The Brookings Institution's Future Development Blog*, September 9, 2020 (<https://www.brookings.edu/blog/future-development/2020/09/09/what-future-for-the-world-banks-doing-business-project/>)

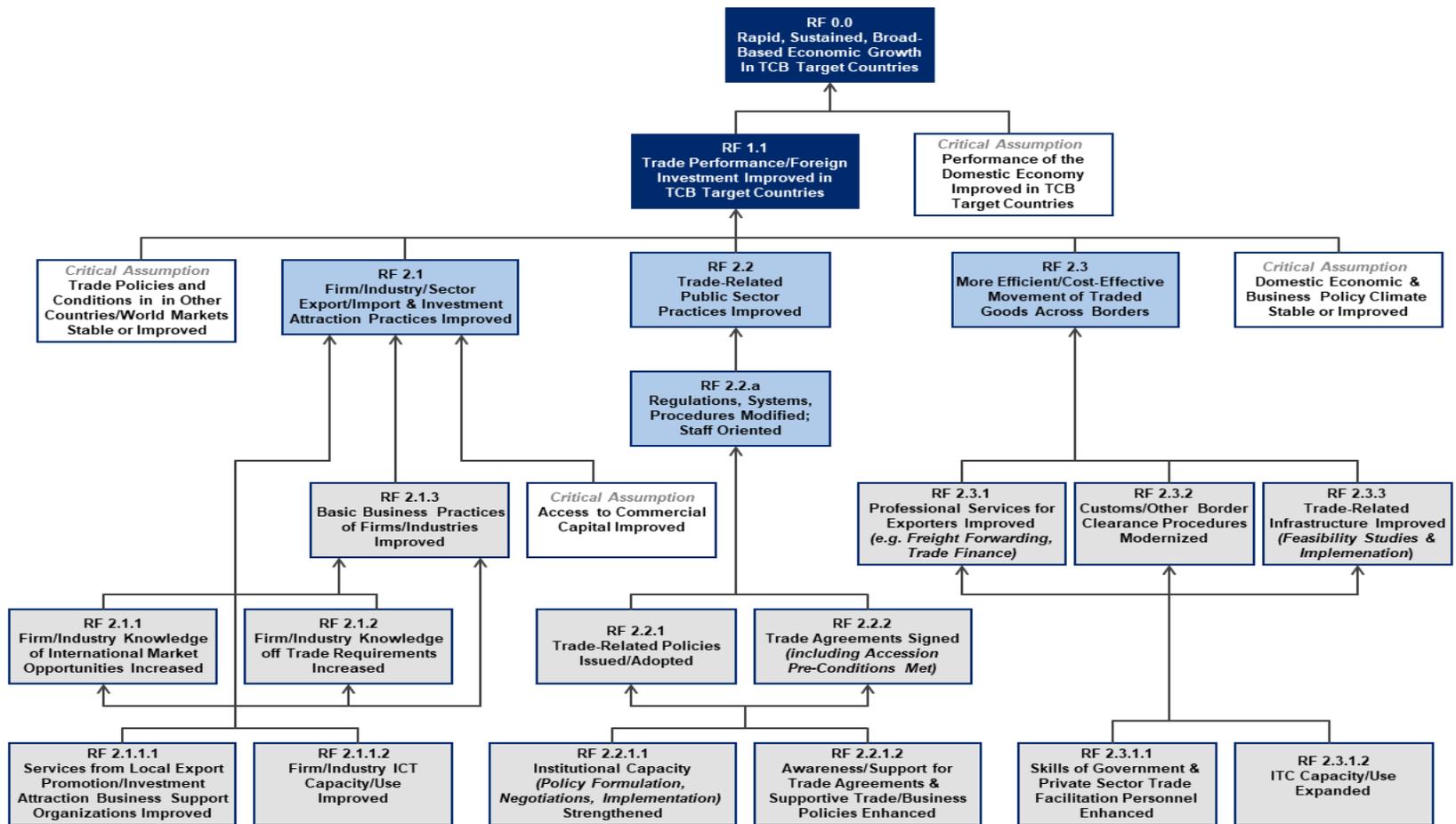
In addition to designated M&E professionals at your Mission, consider engaging the resources of the Bureau for Policy, Planning, and Learning (PPL). PPL is the principal Bureau in charge of measuring and evaluating USAID partner countries as part of the Journey to Self-Reliance, including maintaining and updating the Self-Reliance Country Roadmaps, and monitoring the data and assumptions underlying those Roadmaps. Each Regional Bureau also has personnel who can provide analytical support to inform the design and evaluation of Mission development portfolios.

Application to Customs and Trade Facilitation: As the Mission level, it is important to choose the right indicators when designing programs and then re-evaluate them as part of a Data Quality Assessment. For Missions with a trade focus as part of their CDCS, for example, there are a few standard indicators to consider at the activity or program level, including: number of WTO Trade Facilitation Agreement provisions supported by USG assistance; average time (in hours) to export goods along trade corridor receiving USG assistance; and number of firms receiving USG assistance that have obtained certification with (an) international quality control institution(s) in meeting minimum product standards.<sup>12</sup>

As part of a comprehensive meta-evaluation of USAID's Trade Capacity Building programming from 2001 to 2010, USAID included the graphic on the following page, representing common components of its Results Frameworks for these types of programs. It may be helpful to you as a starting point in conceptualizing how to measure and design for results.

---

<sup>12</sup> *Project Starter Toolkit: Standard Indicators*, USAID Office of Trade and Regulatory Reform (now DDI//EMD), November 2013. See also *Trade Indicators Handbook: Illustrative Performance Indicators Organized by Trade Program and Project Results*, November 2013. Accessible at [https://www.usaid.gov/sites/default/files/documents/Trade\\_Indicator\\_Handbook\\_FINAL.pdf](https://www.usaid.gov/sites/default/files/documents/Trade_Indicator_Handbook_FINAL.pdf).



## SUITE OF POTENTIAL INTERVENTIONS

As noted above, effective program design or execution involves close collaboration with relevant government stakeholders. In the customs and trade programming arenas, there can often be a disconnect between the ambition or sophistication of interventions requested by cooperating country governments and the appropriateness of the intervention for the particular country context, time horizon, or level of available resources. Annex I of this guide provides concise one-page overviews of some of the key interventions in trade and customs reform in developing countries. These overviews are meant to provide you with a sufficient grounding in what these initiatives entail, under what circumstances they might be appropriate, and resources with further information. Each page follows a similar format as explained below.

The first section includes icons to display graphically:

	<b>HOW COMPLEX THE INTERVENTION IS</b>
	<b>HOW TIME-INTENSIVE THE INTERVENTION IS</b>
	<b>HOW COSTLY THE INTERVENTION IS</b>
	<b>HOW IMPORTANT POLITICAL WILL IS TO ITS SUCCESS</b>
	<b>HOW MUCH IT RELATES TO TECHNOLOGY OR SYSTEMS IMPROVEMENTS</b>
	<b>HOW MUCH INTERAGENCY COORDINATION IT ENTAILS</b>

These icons are followed by:

- A short description of each intervention
- An explanation of the benefits of the intervention
- A description of the relationship of the intervention to improved DRM

Then, the table at the bottom answers the following questions:

- What other interventions should already be in place to increase the effectiveness of this intervention?
- What other interventions should be implemented concurrently to increase impact?
- What capacity building is required? Which other agencies may need to be involved?
- What resources are available to learn more, both internal to USAID and externally?

## BEST PRACTICES AND LESSONS LEARNED

Given USAID’s long history of involvement in these functional areas, there is a wealth of institutional knowledge to draw from, including best practices to be followed and lessons learned to consider. This section will set forth key pieces of guidance gleaned from interviews with USAID Mission personnel, reports from USAID implementers, USAID-prepared case studies, and other relevant materials. As each country situation is different, the guidance here applies broadly and is meant to address high-level commonalities. Annex 2 highlights a number of specific resources for further study, including more detailed handbooks prepared by USAID, final reports for relevant projects, and other materials.

---

*Rome wasn’t built in a day (and neither were Dakar, Phnom Penh, Belgrade...)*

---

Public sector reform is notoriously slow, even when it is considered successful. At each potential stage of an addition or change in law or policy – evaluating, selecting/finalizing, implementing, post hoc review of the effects – bureaucracy and scale slow down the process. Features like public-private dialogue or regulatory impact assessments can be important checks and balances to ensure transparency and avoid

Consider the case of Bosnia and Herzegovina, a small country in the Western Balkans, with a complex political structure of two separate governmental entities within its borders. A USAID case study on its DRM from 2000 to 2016 noted that despite consensus from leaders and the international community on the need to reform taxation and a clear agenda to do so, it took several years for personal and corporate income tax reform to occur. Even with robust technical assistance from USAID experts, the first reforms in this area took two years to become law and it was several more years until regulations and policies regarding personal and corporate income were harmonized throughout the country.

undue burdens or effects. Yet, they still add time and complexity to a process that may already need to pass through several layers of approval at multiple agencies, houses of legislature, and/or a President or Prime Minister that may be contending with issues like disaster response or civil unrest. Further, customs reform (including trade facilitation) and domestic resource mobilization can be fairly technical and hard to digest. As such, they may be less “top of mind” for officials and thus pushed back frequently to address more politically expedient topics.

At both the planning and execution stages, there is likely to be pressure from government counterparts for “quick wins” and/or “shiny” solutions – like the purchase of an expensive software platform or a short-term, drastic

reduction in duties to promote trade in a key sector. It is important to guide stakeholders towards reasonable options, but also to set expectations clearly from the outset and revisit them frequently. The intervention sheets in Annex I are meant to give you a simplified view of the relative length of time to implement these initiatives, to better prepare you to engage with stakeholders on which interventions may be possible or advisable.

Internally, the long time-horizon for reforms in these key areas should also be considered when determining program length, choosing activities, and setting indicators and targets. Because initiatives may take years to be fully realized, they will span multiple projects and implementing partners, U.S. presidential administrations, USAID policy directives, etc. This reinforces the need for patience and also adaptability, discussed in a section below.

---

*Political will is both incredibly important and often unpredictable*

---

One of the most consistent themes across interviews with USAID Mission staff was how essential political will is as a driver for sustainable change, and how frequently political changes frustrate the progress of customs reform. This is a challenge of political reform and governance work more generally, of course, so it similarly plagues work focused on domestic resource mobilization and trade facilitation.

Within customs, political will relates to consistent commitment on the part of both executive and legislative decisionmakers that Customs Administrations will have sufficient time and resources to implement reforms or needed modernization procedures. This is challenging for several reasons, not the least of which is because – as this guide has explained – of the perception that more modern or efficient customs operations facilitates trade liberalization to the detriment of national coffers. Moreover, the decentralized nature of customs frequently means that its operations can be “out of sight, out of mind” when it comes to political precedence.

Political will is considered a necessary but insufficient weapon against corruption. This has implications for both customs and domestic resource mobilization, given the link between corruption and reduced revenue generation and retention. Bribes, kickbacks, willful evasion, and procedural or financial loopholes can all frustrate efforts to collect taxes at the border just as with domestic sources of revenue like sales tax or corporate income taxes. In its April 2019 *Fiscal Monitor* report, the IMF analyzed 180 countries and found that the least corrupt governments collected 4 percent more of GDP in tax revenue than did the most corrupt countries, even when comparing only countries at similar levels of economic development. Given the strong links between political will, anti-corruption, and governance, this makes even clearer the importance of strategic collaboration between EG and DRG colleagues when designing projects and working through implementation challenges.

Even where hard-fought political will is gained, it can be easily lost. When the party in power changes, it brings its own priorities and personnel. Relationships, goodwill, and influence cultivated over years suddenly disappear. Although not all political changes are predictable, it is worthwhile in advance of elections or other planned changes to devote time and energy to engaging with representatives from political parties or other stakeholders who may soon be your counterparts. This was a key tip from personnel at the Office of International Affairs at U.S. Customs and Border Protection, who found that it

helped establish relationships, gave CBP the chance to share necessary background and lobby for its priorities, and overall made for a much smoother transition.

The loss of political will does not require a shift in governing party; sometimes, the loss of an effective champion within a Ministry or as the head of a Customs Administration is sufficient to slow or undo hard-earned progress.

Given the frequent uncertainty in the political landscape, recall the benefit of analytical tools like Political Economy Analysis or stakeholder mapping to help you assess preferred paths for gaining political will.

This is not to say that political will is a one-way street, however. The leadership within Customs authorities needs to demonstrate its own commitment to the initiatives and reforms occurring within the administration. Leadership must encourage and equip the staff so that they can demonstrate tangible results that show “return on investment” and capture the attention of policymakers. The tension, of course, is that placing too strong a premium on results may ultimately incentivize corruption and undermine reform efforts.

In **Ukraine**, USAID enjoyed a strong relationship with the accessible pro-reform head of the State Customs Service, Maksym Nefjodov. Upon his promotion in July 2019, he prioritized digitalization and personnel reform. Of three primary customs objectives (security, promotion of trade, and collecting revenue), he ranked revenue collection first in terms of priority. Yet in April 2020, he was summarily dismissed from his position for alleged failures to meet revenue targets.

This followed uncertainty in late 2016 when USAID ended funding for its customs reform project in the Black Sea region. Despite some successes – such as single window clearance for ports – the appointed head of Odessa customs quit, citing lack of political will to fire corrupt officials or build a new computerized terminal.

---

### *Sequencing is key*

---

Both at the planning and implementation stages, a principal challenge is that government stakeholders frequently lobby USAID or other donors for technical assistance, technology, or other support that may be inappropriate or ill-advised for their current context. For example, a cooperating country government may insist on the installation of a new advanced system when it has failed to properly or consistently utilize a previously installed, simpler system.

In any project, the correct sequencing of interventions is key to successful implementation. There are several ways to improve customs operations, but some interventions are prerequisites to others and still others will need to be implemented concurrently. For example, a new computerized risk selectivity system is of limited value if there are not already clearly developed risk indicators or staff members who have been trained on how to use the new system. Before implementing post-clearance audits or conducting internal investigations, there must be adequate staff capacity to perform documentary analysis and utilize appropriate verification techniques. In evaluating the wide range of customs interventions that may be

requested by a beneficiary government, consider how each may fit as a piece of a larger programmatic puzzle and timeline.

#### Pilots

A great tip from UPS VP of Global Affairs Maria Luisa Boyce is to consider the use of pilots to test a concept and demonstrate to the government how it will work in practice. This allows for a real-world understanding of effects, facilitates buy-in, and gives both USAID and the government a chance to troubleshoot any issues before undertaking a wider rollout. Consider whether a pilot may be an appropriate and cost-effective way to introduce and vet a new procedure in a limited, controlled environment – like at one border post.

Other important considerations include the economic or political context at the time. A planned initiative may need to be jettisoned after a post-election change in governing party. A costlier upgrade may be delayed in the event of a budget shortfall or redirection to address more pressing government considerations. The availability and readiness of personnel resources to effectively implement a change is another way to evaluate whether a particular intervention can and should happen at a particular time. Ultimately, this relates back to the need to be adaptable and gauging when and how best to pivot to react to changed or unplanned circumstances.

Annex I indicates, for each proposed activity, which other activities will ideally have been completed or are ongoing prior to considering this intervention. It similarly

indicates some other interventions which may be considered concurrently to jointly maximize their effectiveness.

---

*Keep the systems approach in mind*

---

As this guide has detailed, implementation of customs and trade reforms involve a wide array of stakeholders and complex interrelationships. Maintaining a systems-based approach as part of design or in evaluating potential interventions should help ensure the consideration of a wider variety of perspectives and a more robust anticipation and evaluation of possible effects. New or changed activities or policies which are implemented reactively, superficially, or on an ad hoc basis to address a short-term concern may produce troubling longer-term effects. This is particularly true in the case of trade facilitation measures, which may help a country reach some minimum standards (such as that required as part of WTO accession), but if implemented haphazardly may ultimately hamper revenue collection efforts and disincentivize or frustrate border agents.

In **Vietnam**, a primary challenge has been inter-agency coordination and harmonization between stakeholders. Customs is tasked with carrying out reforms but is often handcuffed by the Ministry of Finance within which it sits. There are nine line Ministries who work at the border and Customs has been limited in its ability to work directly with these Ministries because it must work through Ministry of Finance channels. The Vietnam NTFC was set up in part to bring together relevant agencies but has not been functioning well. Agencies have therefore not been collaborating smoothly on trade-related issues.

In the case of Customs as a border-focused agency, its operations and procedures will affect and be affected by the activities and directives of a host of other agencies. Consider the example of the United States, which had the U.S. Customs Service until 2003. U.S. customs functions were then transferred to the newly-created Customs and Border Protection under the Department of Homeland Security, along with other inspection-focused agencies like U.S. Border Patrol and the inspection departments of the Immigration and Naturalization Service. While CBP retained many of the principal duties and activities of the U.S. Customs Service, the focus shifted more acutely

towards security, protection, and prevention.

A proper systems approach will consider not just the broad groups of stakeholders detailed in Section 5 above, but also the various levels of actors within any given organization. This is particularly important in the case of Customs organizations that may have a highly decentralized structure. Senior officials may be both literally and figuratively distant from the middle managers and frontline personnel who carry out policies or directives. The motivations, observations, and input of these lower-level officials are rarely considered. A professional, well-compensated civil service that operates with transparent procedures for pay and promotion reduces the incentives for corruption. As part of Mission planning, it is important to integrate these perspectives in designing programs or interventions. It is equally or more important to push and hold Customs Directors General and other high-level personnel accountable for doing the same.

In **Honduras**, the Customs Director fired hundreds of employees that did not meet the proper screening or failed aptitude tests and improved screening and hiring procedures. To further reform the civil service and dissuade corruption, he quadrupled salaries of border agents in remote regions. Five months after making these changes, he began hearing allegations of corruption regarding newly hired personnel. As Customs has historically been viewed as one of the most corrupt agencies, it will be a slow, long process to change its operation and its perception.

This last point reinforces a key role of USAID in promoting a systems approach – capitalizing on the Agency’s considerable convening authority. In your role, you can help gather the diverse constituencies and bring them to the literal or figurative table for co-planning or to resolve challenges. An important way to exercise convening authority is to ensure that members representing the interest of customs and tax/finance are well integrated into each other’s planning and goal-setting activities. In its *Guidelines for Strengthening Cooperation and the Exchanging of Information between Customs and Tax Authorities at the National Level*, the World Customs Organization (WCO) lists the following types of potential joint customs/tax activities to consider:

- Joint risk profiling/analysis for the identification of potential risk areas
- Joint investigations/examinations

- Joint identification of measures and their application in the fight against revenue evasion and transnational crime, e.g., contraband smuggling, money laundering, and illicit transfer of money
- Joint audits
- Coordination of control/compliance activities within Free Zones
- Coordination and conduct of joint controls
- Coordination on transfer pricing/Customs valuation matters
- Common programs, e.g., Common Customs/Tax Authorized Economic Operator schemes
- Joint research and analysis on revenue-related topics
- Joint training/workshops to enhance the understanding of each other's roles and responsibilities and to educate officers on cross-sectoral risks and challenges
- Joint approach on legislative/policy matters and taxpayer education
- Secondment programs involving officers being interchanged between agencies to enhance cross-sectoral capacity.

---

*Capacity building is critical*

---

The effectiveness of a government entity in choosing, promoting, and then seeing through a new reform or policy is directly related to the quality of its processes and people. Capacity building through direct technical assistance and training is foundational to sustainable progress, and thus institutional strengthening should be an integral part of any form of assistance. Failure to consider initiatives or activities that strengthen institutional quality and capacity may substantially limit effectiveness and achievement of goals. When a program ends or donor funds dry up, the skills and knowledge imparted to host country governments and other public sector actors are paramount. For capacity building to be effective and sustainable, it cannot be provided on an ad hoc or one-time basis. It must be integrated from the start, woven throughout, and then carried forward consistently by host country government partners.

The WCO has highlighted the importance of political will and local ownership to capacity building success, including the value of making high-level political commitment “a prerequisite or fundamental criterion for determining whether to support and fund capacity building activities in Customs.” As confirmed by our interviews with Mission personnel, senior government officials indeed frequently tout their support for reform and modernization efforts but fail to consistently and adequately demonstrate this support by devoting necessary personnel and financial resources to capacity building. Look for ways to ensure that host country counterparts make good on promises to commit to local capacity, including by providing matching funds to mirror their own financial commitment or tying funding to hitting benchmarks for providing training and other support.

One consistent “pain point” with regard to capacity building relates to IT systems, digital technologies, and upgrades to technical components like forms of non-intrusive inspection. This is consistent with findings from the WCO, which noted that while the IT industry typically budgets for 25% of the costs related to implementing a new technology for installation or introduction and 75% for post-implementation support, their research showed that with Customs Administrations, the ratio is closer to the reverse. Although this finding was from 2003, interviews with Mission personnel for this guide substantiate that there are still frequent requests for expensive assistance to replace or upgrade IT systems with insufficient commitment – financial or otherwise – to invest in the capacity building required to train personnel to effectively use these systems. Tools for risk detection and systems for risk management are not themselves substitutes for qualified, trained personnel. These technologies and systems are only as good as the officers who work with and administer them on a daily basis.

When capacity building is built into programming, it has historically been provided by skilled advisors or companies from developed countries. Given the high cost necessary to compensate and provide for the related expenses for these advisors, their involvement is usually limited in terms of frequency and duration. This type of capacity building frequently trails off toward the end of projects when it is in some ways the most vital. Although lower-level or mid-level civil servants often maintain employment when political parties change, frequent and consistent capacity building efforts can counteract the loss of institutional knowledge that may occur. Based on interviews with USAID personnel and input from other colleagues and stakeholders, proposed capacity building initiatives should be evaluated in terms of:

“...[M]any Customs personnel have had little personal stake in, or commitment to, the organizational and administrative reforms being promoted through various capacity building activities. Such participation needs to be obtained well before the implementation of any capacity building programmes. Where appropriate, local Customs personnel should be involved from the earliest stage of the capacity building initiative, including the diagnostic stage, to identify capacity building needs...[S]pecial attention needs to be paid to involving local Customs officials at all levels in the formulation, design, implementation, monitoring and evaluation of capacity building efforts. Where practical, capacity building initiatives should be under the overall direction of local Customs personnel and senior officials should be actively involved in the promotion and communication strategy.

*-WCO Customs Capacity Building Strategy, 2003*

In **Moldova**, the Customs authorities had been ineffectively implementing risk management for 7 years until USAID intervened to overhaul the system and introduce necessary rigor. There was considerable inertia to make changes and efforts by the EU to introduce previous systems had failed. This included replacing all of the risk management profiles, most of which were not written in a way to help agents make meaningful distinctions. USAID provided comprehensive training for the entire Customs department and embedded a consultant with the Customs Department. This provided for a more relaxed environment for staff to raise questions or requests for clarification as issues arose.

**Duration:** Have you built in sufficient time for implementation, including for unforeseen delays? Have you sequenced initiatives throughout the implementation period?

**Frequency:** Is capacity building happening consistently throughout the implementation period? Is it also occurring strategically to respond to unplanned developments (e.g., when departments are combined or separated)?

**Thoroughness:** Have you provided for sufficient post-implementation follow-up and support, especially with IT-based interventions? Does the capacity building allow for post-provision evaluation and feedback to inform future efforts?

It is worth noting that in a post-COVID paradigm, training and capacity building may be more

frequently provided remotely and thus more cost-effectively. Similarly, it may lead to engaging qualified local advisors rather than relying on costlier international consultants which ultimately serves USAID's goal of building self-reliance.

USAID previously catalogued and evaluated its Trade Capacity Building over several years as part of the 2010 meta-evaluation, *From Aid to Trade: A Cross-Country Evaluation of USAID Trade Capacity Building*. In part based on findings from that meta-evaluation, USAID revised its Policy for Trade Capacity Building in September 2016. Those documents are linked in Annex 2 and while substantial in terms of size and scope of content, are worthwhile to review.

In Annex 1, each intervention sheet shows the extent to which it requires capacity building as well as types of capacity building to be considered.

Although this section addresses capacity building as a continuing, critical component of assistance to foreign governments, capacity building and training are also an important part the development of Mission staff. This guide provides references to some materials and trainings which may be useful to you in expanding your knowledge of customs reforms, trade facilitation, and domestic resource mobilization issues. USAID University also offers a wealth of resources and materials on these topics. The DDI Bureau's EMD and DRG Centers have likewise assembled materials and guides – both agency-generated and through current and prior projects – to help expand your knowledge in specialized technical areas.

---

*No Mission is an island*

---

The poet John Donne famously wrote that “no man is an island,” conveying that individuals are actively and passively interconnected through formal and informal communities. So too the work that you do in your respective Mission is necessarily linked to the work of others in your same Mission, to colleagues in

bordering or Regional Missions, to USAID Bureaus, and to the wider USAID community. In designing programs, in brainstorming how to address implementation challenges, and in evaluating progress, consider the wealth of information and perspectives available to help you. Several are listed in Annex 2. Reach out liberally and build in time for consultation, consensus, and collaboration.

In **EI Salvador**, DRM used to be housed within EG, but was moved to DRG in 2019 due to a restructuring of offices. DRM-focused personnel did not have direct involvement in design of the Regional Trade Facilitation Project. As part of ongoing DRM programming, USAID has not subsequently been able to work directly with the Customs Administration due to a lack of resources. Other donors have seemed largely uninterested in bridging the gap between Customs and DRM efforts.

This starts at the Mission level. What other ongoing or recently completed programming should you be aware of? Remember that customs reform and DRM are deeply linked to both traditional economic growth and democracy and governance programming, regardless of where your particular Mission houses these programs. Given the cross-border nature of trade, engage closely with bordering Missions and Mission personnel in countries that are frequent trading partners. Regional Missions and Regional Bureaus can be important sources of information and guidance on multi-country initiatives and resources that may be available to you.

The DDI Bureau's EMD and DRG Centers will be invaluable resources and should be consulted early and often when designing programs. In addition to this guide itself, many of the resources in Annex 2 were produced either directly by these offices or through programming overseen by them.

Finally, do not overlook the work being done by the Department of State, Customs and Border Protection, other USG agencies, and other donors. Their attachés should be points of contact for staying aware of current activities or for finding opportunities for collaboration, and as additional sources for on-the-ground observations. Consider also how multiple agencies or donors sending a consistent message and acting as a “united front” may be a powerful way to guide a reluctant or lethargic cooperating country government toward the desired outcome.

## **SUSTAINABILITY CONSIDERATIONS**

Sustainability underpins USAID's Journey to Self-Reliance and goal for its partner countries to end their need for foreign aid. Although several points discussed previously in this guide touch on sustainability, it is worthwhile to summarize some of the key considerations for you to keep in mind.

**Locally-driven Development:** Sustainable development must be driven from within by the local actors that USAID supports. Locally-driven development is more than political will, however. It starts with integrating local data and opinions into design and planning, including considering input from a broader swath of perspectives than just the host country government. At a minimum, this should include the private sector, civil society, marginalized or underserved populations, and indigenous communities.

**Persistent USAID Support:** While the successful start of a new program (like Authorized Economic Operator) or installation of a new feature (like electronic risk profiles) is to be celebrated, continued support from USAID is important to ensure those “wins” remain long-term successes. Continuing support and collaboration can help stakeholders maintain focus on new initiatives and counteract the risks of lost

political will or interest. This may be as simple as periodic follow-ups to check in on progress, but could also involve more robust, long-term handholding to see initiatives through.

**Capacity Building:** Skills development for stakeholder management and staff is one of the most important legacies that USAID can leave behind. This reaches beyond providing the training or coaching itself to instilling a culture of capacity building in the institutions that USAID serves. As this guide has noted, frontline Customs staff are frequently undertrained when policies change or new systems are introduced. This both hampers the effectiveness of the change, but further exacerbates inertia to new changes, regardless of how needed or meaningful they may be.

**Measurement and Accountability:** USAID's Self-Reliance Metrics are an important way for the Agency to help country partners adequately assess and understand where they are in their development journeys. USAID must also be prepared to help guide and teach its stakeholder partners how to measure, monitor, and evaluate their performance in order to better know what activities to replicate or continue, and which to revise or jettison. Moreover, similar to capacity building, USAID must help its partners see continuing accountability as a necessary tool to be woven into the fabric of its operations. Just as with indicators or goals, levers for accountability may need be adjusted as circumstances require to incentivize desired behaviors.

**Adaptability:** USAID's use of and commitment to Collaborating, Learning, and Adapting is important for the Agency to teach and model to its partners. Given the host of internal and external factors that affect development, country partners need to know how to use the information they have gathered to identify bottlenecks and challenges and then strategically pivot to new or different solutions. As USAID does, they must embed flexibility into their own planning and build in time for feedback loops and meaningful reflection.

## CONCLUSION

We hope that this guide has increased your familiarity with and understanding of some of the key issues and possible interventions to consider as part of designing and implementing customs programming, including its important link to domestic resource mobilization. As this was meant to be more of an overview and "jumping off" point, we encourage you to consult the resources in the annexes as well as USAID's other publications, trainings, and relevant points of contact to dive more deeply into technical concepts of interest for your programming needs.

## ANNEX I – INTERVENTION SHEETS

The intervention sheets are organized into two groups – **blue (1-7)** and **red (8-12)**. **Blue** interventions represent processes related to compliance, risk management, and reform of controls, with higher numbers typically reflecting more advanced processes. **Red** interventions, on the other hand, are more holistic and support the efficacy and sustainability of the blue interventions.

The chart below is a quick reference to qualitative ratings for each intervention on each dimension.<sup>13</sup>

	COMPLEXITY	TIME	ESTIMATED COST	POLITICAL WILL REQUIRED	LINK TO TECHNOLOGY	INTERAGENCY COORDINATION
						
1. DEVELOPING STRONG RISK CRITERIA OR INDICATORS	Low-Medium	Medium	Low-Medium	Low-Medium	Medium-High	Medium
2. USE OF COMPUTERIZED CUSTOMS SELECTIVITY SYSTEMS	Medium	Low-Medium	Medium	Low-Medium	High	Medium
3. IMPLEMENTING POST-CLEARANCE AUDITS	Medium	Medium	Low-Medium	Medium-High	Low-Medium	Low-Medium
4. DEVELOPING INVESTIGATION AND ENFORCEMENT CAPACITY	Medium	Medium	Low-Medium	Medium-High	Low-Medium	Medium
5. IMPLEMENTING VOLUNTARY COMPLIANCE PROGRAMS	Medium	Medium-High	Medium	Medium-High	Low-Medium	Medium-High
6. INTEGRATION OF COMPLIANCE, RISK MANAGEMENT, AND CONTROL PROCESSES	Medium-High	Medium	Medium	Medium-High	High	Medium-High
7. DEVELOPING STRATEGIC RISK MANAGEMENT CAPACITY	Medium-High	Medium-High	Medium	Medium-High	Medium-High	Medium-High
8. DEVELOPING ENTERPRISE INTELLIGENCE ANALYSIS CAPACITY	Medium	Medium	Low-Medium	Medium-High	Medium	Medium
9. ESTABLISHING AN INTERNAL AUDIT DEPARTMENT OR PROGRAM	Medium	Medium	Low-Medium	Medium-High	Low-Medium	Medium
10. UPGRADING INFORMATION AND INSPECTION TECHNOLOGIES	Medium	Medium	Medium-High	Medium-High	High	Medium-High
11. IMPROVED LEGAL AND REGULATORY FRAMEWORK	Medium	Medium	Medium	High	Low-Medium	Medium-High
12. IMPROVING PROCESSES TO HIRE AND RETAIN QUALIFIED PERSONNEL	Medium-High	Medium	Medium-High	High	Low-Medium	Low-Medium

<sup>13</sup> The qualitative ratings here reflect feedback from USAID, the results of a short survey sent to LAC-based customs personnel, and the input from TCA project staff and consultants working on this guide.

## I. DEVELOPING STRONG RISK CRITERIA OR INDICATORS

COMPLEXITY	TIME	ESTIMATED COST	POLITICAL WILL REQUIRED	LINK TO TECHNOLOGY	INTERAGENCY COORDINATION
					
Low-Medium	Medium	Low-Medium	Low-Medium	Medium-High	Medium

**Description:** Risk criteria and indicators are tools that Customs Agencies use to characterize cargo, companies, people, customs declarations, or means of transport according to their perceived level of compliance. Traditional risk management approaches typically focus on tactical or operational risk indicators, whereas more modern approaches incorporate strategic risk indicators and management. Risk criteria may be applied manually or integrated in a computer system. Customs officials must monitor and update risk criteria to adapt to changes in national priorities or environmental conditions (e.g., fraudulent medical equipment as part of COVID-19 response). They must also create or update risk criteria to address changes in smuggling patterns and fraud by noncompliant traders. Risk management systems with aging, static risk criteria may hamper rather than facilitate effective collection.

**Benefits:** Sustained and systematic use of these criteria increases the efficiency of customs procedures by applying controls or elevated focus to those transactions that are considered higher-risk. By targeting higher-risk actors or cargo, customs controls can better identify and address potential infractions.

**Relationship with DRM:** Effectively developing and applying risk criteria can lead to a significant decrease in the number of controls performed at the border. It reduces customs interventions that needlessly stop the flow of legitimate cargo. This assists in lowering costs and, consequently, promotes trade growth and customs revenue collection. In addition, the increased level of effectiveness of controls helps Customs Agencies to recover lost revenue by promoting voluntary compliance.

<b>TO ENHANCE SUCCESS, HAVE IN PLACE:</b>	<b>OTHER INTERVENTIONS TO INCREASE IMPACT:</b>
<ul style="list-style-type: none"> <li>• Trained physical inspection officers</li> <li>• A computerized (electronic) customs declaration system (preferable)</li> <li>• Basic management control systems</li> </ul>	<p><b>2:</b> A risk-based selectivity system allows you to apply risk profiles with a broader scope and with greater transparency.</p> <p><b>6:</b> Risk criteria are an important component of an integrated approach to compliance and risk management</p>
<b>CAPACITY BUILDING REQUIRED:</b>	<b>RESOURCES TO CONSULT:</b>
<ul style="list-style-type: none"> <li>• Training for border control agents</li> <li>• Training for risk analysts who create and adjust the risk criteria/indicators</li> </ul>	<p><b>USAID Internal:</b></p> <p>Customs Modernization Handbook: Establishing Risk Management and Cargo Selectivity Capability</p>
<b>COORDINATING AGENCIES TO CONSIDER:</b>	<b>External:</b>
<ul style="list-style-type: none"> <li>• Agricultural Service and other border-based authorities.</li> </ul>	<p>WCO Risk Management Compendium, Risk Assessment, Profiling and Targeting.</p>

## 2. USE OF COMPUTERIZED CUSTOMS SELECTIVITY SYSTEMS

COMPLEXITY	TIME	ESTIMATED COST	POLITICAL WILL REQUIRED	LINK TO TECHNOLOGY	INTERAGENCY COORDINATION
					
Medium	Low-Medium	Medium	Low-Medium	High	Medium

**Description:** A customs selectivity system is a computerized tool that allows Customs to automatically select customs declarations or other electronic transactions for verification or inspection. This computerized system uses risk profiles to classify transactions according to risk, determining not only the type of control necessary but also whether it should be carried out at the border or other entry points or post-clearance. Normally, this processing of customs transactions/declarations is carried out prior to the release of merchandise and is mandatory for all international trade operations.

**Benefits:** These systems permit Customs to allow customs transactions/declarations with low risk to be automatically released without inspection “on-border,” which contributes significantly to reducing cargo release times and speeding up trade flows. In addition, it can be a very efficient tool for determining whether cargo must be verified or inspected on either an “on-border” or post-clearance basis.

**Relationship with DRM:** A computerized customs selectivity system that works properly and utilizes updated risk profiles greatly increases the effectiveness of customs controls to identify high-risk transactions. This increase in effectiveness strengthens Customs’ ability to recover potentially lost revenues. Such a system helps simplify the procedures that are carried out before goods are released, which can reduce the cost and time importers and exporters spend at the border.

<b>TO ENHANCE SUCCESS, HAVE IN PLACE:</b>	<b>OTHER INTERVENTIONS TO INCREASE IMPACT:</b>
<ul style="list-style-type: none"> <li>• Trained physical inspection officers</li> <li>• A computerized (electronic) customs declaration system (preferable)</li> <li>• Basic management control systems</li> </ul>	<p><b>1:</b> Developing and updating risk criteria facilitates the continuous improvement of a risk selectivity system because it helps customs officers respond to updated threats</p> <p><b>5:</b> Voluntary compliance programs should be linked with a risk selectivity system to simplify or streamline risk management</p>
<b>CAPACITY BUILDING REQUIRED:</b>	<b>RESOURCES TO CONSULT:</b>
<ul style="list-style-type: none"> <li>• Specialized training for IT personnel.</li> <li>• Training in standardized operational procedures.</li> </ul>	<p><b>USAID Internal:</b></p> <p><i>Customs Modernization Handbook: Establishing Risk Management and Cargo Selectivity Capability</i></p>
<b>COORDINATING AGENCIES TO CONSIDER:</b>	<b>External:</b>
<ul style="list-style-type: none"> <li>• Agriculture Service and other border-based authorities.</li> </ul>	<p><i>Customs Risk Management and Selectivity – United Nations.</i></p>

### 3. IMPLEMENTING POST-CLEARANCE AUDITS

COMPLEXITY	TIME	ESTIMATED COST	POLITICAL WILL REQUIRED	LINK TO TECHNOLOGY	INTERAGENCY COORDINATION
					
Medium	Medium	Low-Medium	Medium-High	Low-Medium	Low-Medium

**Description:** Post-clearance audits are specialized control procedures executed after the release of goods to verify compliance and facilitate clearance. Customs officers generally review traders' documents, systems, or records to verify compliance. This may include the correct determination of value, origin, tariff classification, or any other regulatory requirement.

**Benefits:** The use of post-clearance audits allows the streamlining of cargo flows by reducing the frequency of the controls carried out at the border for compliant traders. Segregating release and clearance helps to accelerate the movement of goods and incentivize voluntary compliance. By reducing the necessity for full physical examinations, post-clearance audits can be a means to reduce opportunities for grift or corruption.

**Relationship with DRM:** The implementation or improvement of post-clearance auditing can help to facilitate more efficient movement of goods by reducing control time and encouraging voluntary compliance. It ideally provides border agents more time and bandwidth to focus on higher-risk traders who are more likely to evade proper collection and payment. Where post-clearance audits are framed and used more as a means of enforcement to recover additional revenue, this typically exacerbates mistrust and frustration from the private sector, especially compliant or trusted traders.

<b>TO ENHANCE SUCCESS, HAVE IN PLACE:</b>	<b>OTHER INTERVENTIONS TO INCREASE IMPACT:</b>
<ul style="list-style-type: none"> <li>Officers specialized in customs audits, risk management and specific customs risks.</li> <li>Trust and communication with the private sector</li> <li>Integrity control systems</li> </ul>	<p><b>1, 2:</b> Risk profiles and a risk selectivity system help post-clearance audits to be more effective by producing a preliminary risk assessment for each customs transaction/declaration.</p> <p><b>5,6:</b> Having integrated compliance and risk management functions, including voluntary compliance programs, facilitates post-clearance audits as a means to simplify inspection (rather than as an enforcement action)</p>
<b>CAPACITY BUILDING REQUIRED:</b>	<b>RESOURCES TO CONSULT:</b>
<ul style="list-style-type: none"> <li>Specialized training for audit officers in the creation of standardized procedures as well as the collection, management, and analysis of data and information.</li> </ul>	<p><b>USAID Internal:</b></p> <p>Customs Modernization Handbook: Post-Clearance Audit Programs</p>
<b>COORDINATING AGENCIES TO CONSIDER:</b>	<b>External:</b>
<ul style="list-style-type: none"> <li>Internal Revenue Service or other investigatory agencies.</li> </ul>	<p>WCO Guidelines for Post-Clearance Audit (PCA), Volume 1 (public) Volume 2 (Restricted WCO members only).</p>

#### 4. DEVELOPING INVESTIGATION AND ENFORCEMENT CAPACITY

COMPLEXITY	TIME	ESTIMATED COST	POLITICAL WILL REQUIRED	LINK TO TECHNOLOGY	INTERAGENCY COORDINATION
					
Medium	Medium	Low-Medium	Medium-High	Low-Medium	Medium

**Description:** Investigation and enforcement capacity refers to the authority of Customs to execute intensive inspections in order to verify and collect evidence of fraud or other offenses. The scope of responsibility and authority for investigation and enforcement can differ widely from one Customs Authority to another. Investigation and enforcement actions may focus on criminal acts or other serious violations. These may include contraband smuggling, money laundering and significant cases of fraud.

**Benefits:** If used efficiently, transparently, and in accordance with the national legal system, investigation and enforcement mechanisms not only strengthen the rule of law and the perception of involved governmental agencies, but also can help to improve overall compliance and increase voluntary compliance. Having effective law enforcement tools and capabilities can also boost the morale of Customs Authorities who feel more empowered to counter serious transgressions.

**Relationship with DRM:** Investigatory and enforcement capacities to better identify and address serious evasions or crimes can help with recouping lost duties or taxes more widely and effectively. The existence of a robust investigatory or enforcement scheme also discourages non-compliance which may lead to higher customs revenues.

<b>TO ENHANCE SUCCESS, HAVE IN PLACE:</b>	<b>OTHER INTERVENTIONS TO INCREASE IMPACT:</b>
<ul style="list-style-type: none"> <li>Officials specialized in conducting audits, risk management and/or specific customs laws (valuation, classification, origin rules, Intellectual Property, narcotics trafficking, etc.).</li> <li>Adequate national legislation for customs investigation and enforcement activities.</li> </ul>	<p><b>3:</b> Post-clearance audits facilitate investigation activities into specialized offenses, including those related to valuation, classification, and rules of origin.</p> <p><b>8, 9:</b> Developing risk management and intelligence capacities significantly increases a Customs Agency's effectiveness in identifying customs offenses and recovering evaded taxes.</p>
<b>CAPACITY BUILDING REQUIRED:</b>	<b>RESOURCES TO CONSULT:</b>
<ul style="list-style-type: none"> <li>Specialized training in enforcement techniques and legislation for Customs officers and investigation/enforcement management for supervisors.</li> </ul>	<p><b>USAID Internal:</b></p> <p><i>A Field Guide for USAID D&amp;G Officers: Assistance to Civilian Law Enforcement in Developing Countries</i></p>
<b>COORDINATING AGENCIES TO CONSIDER:</b>	<b>External:</b>
<ul style="list-style-type: none"> <li>Internal Revenue Service and any other law enforcement, investigation, intelligence, and national security agencies.</li> </ul>	<p><i>Kyoto Convention – Specific Annex H – Chapter I Guidelines on Customs offences.</i></p>

## 5. IMPLEMENTING VOLUNTARY COMPLIANCE PROGRAMS

COMPLEXITY	TIME	ESTIMATED COST	POLITICAL WILL REQUIRED	LINK TO TECHNOLOGY	INTERAGENCY COORDINATION
					
Medium	Medium-High	Medium	Medium-High	Low-Medium	Medium-High

**Description:** Voluntary compliance occurs when a trader presents and reports the information required by the Customs Authority, correctly declares goods, and pays revenues in a timely manner, without the need for additional control procedures. Customs Agencies promote voluntary compliance mainly by implementing public education programs and direct assistance services. This includes training private sector employees who interact with Customs; simplifying or reducing costs borne by traders; and incorporating ICT tools into Customs procedures such as reporting and declaration platforms. Examples of voluntary compliance programs include Trusted Trader frameworks or strategies (as in the United States or Australia) and Authorized Economic Operator (AEO) programs. AEO is a principal building block within the WCO's Framework of Standards to Secure and Facilitate Trade (SAFE). As part of a voluntary compliance program, traders who meet program requirements or metrics may receive designations or certifications that entitle them to particular benefits (e.g., fewer physical inspections).

**Benefits:** Voluntary compliance programs encourage economic operators to become more compliant which reduces Customs' need to execute more costly control and inspection actions. In addition, high levels of voluntary compliance allow Customs to focus control measures such as physical inspections, audits, investigations, and other activities on high-risk transactions. These programs also streamline and simplify certain cross-border procedures, which decreases the cost and time of transporting goods across the border.

**Relationship with DRM:** The implementation of these programs can have direct and sustained effects on customs revenue collection. They increase both the accuracy of declarations and corresponding revenue payments.

<b>TO ENHANCE SUCCESS, HAVE IN PLACE:</b>	<b>OTHER INTERVENTIONS TO INCREASE IMPACT:</b>
<ul style="list-style-type: none"> <li>• Mechanisms for communication with the general public and the private sector.</li> <li>• Officials specialized in communication, compliance, training, and project management.</li> </ul>	<p><i>1,2: Risk criteria and related systems strengthen customs regulation by putting focus on higher-risk traders and deterring non-compliance</i></p>
<b>CAPACITY BUILDING REQUIRED:</b>	<b>RESOURCES TO CONSULT:</b>
<ul style="list-style-type: none"> <li>• A capacity building program to build communication and compliance evaluation.</li> <li>• A training program in compliance control, risk assessment/evaluation, and risk management.</li> </ul>	<p><b>USAID Internal:</b> Customs Modernization Handbook: Authorized Economic Operator Programs; Customs Modernization Handbook: How Authorized Economic Operators Have Evolved: Latest Developments (2018)</p>
<b>COORDINATING AGENCIES TO CONSIDER:</b>	<b>External:</b>
<ul style="list-style-type: none"> <li>• The Public Communication Secretary as well as other border authorities including ports, airports, and land border authorities and operators.</li> </ul>	<p>WCO Voluntary Compliance Framework; Customs Amendment (Australian Trusted Trader Programme) Act 2015, Trusted Trader</p>

## 6. INTEGRATION OF COMPLIANCE, RISK MANAGEMENT, AND CONTROL PROCESSES

COMPLEXITY	TIME	ESTIMATED COST	POLITICAL WILL REQUIRED	LINK TO TECHNOLOGY	INTERAGENCY COORDINATION
					
Medium-High	Medium	Medium	Medium-High	High	Medium-High

**Description:** An integrated approach to compliance, risk management, and control systematizes all of a Customs Agency’s risk management functions in a manner that brings related but disparate transactions into a single coordinated, organized, and operationally coherent system. For example, it might include combining and simplifying all instances where Customs requires a risk assessment (e.g., when deciding whether to carry out a physical inspection, implement a post-clearance audit, or establish a trust-based regulatory framework).

**Benefits:** Integrating these processes into one system increases the efficiency and effectiveness of the customs control decision-making processes and can simplify data gathering and reporting. Having integrated risk management and compliance processes and information can help facilitate the implementation of voluntary compliance programs, like Trusted Trader programs or Authorized Economic Operator programs.

**Relationship with DRM:** Integrating these processes into a single system is a critical step in both strengthening the effectiveness and efficiency of reform measures seeking to bolster customs revenues, and providing the necessary conditions for the implementation of more complex measures. Simplifying procedures for trade facilitation can lead to increases in revenue through higher volumes of trade.

<b>TO ENHANCE SUCCESS, HAVE IN PLACE:</b>	<b>OTHER INTERVENTIONS TO INCREASE IMPACT:</b>
<ul style="list-style-type: none"> <li>Officials with knowledge (or access to training) in risk management, compliance management, and ICT.</li> <li>Mechanisms for cooperation/communication with the private sector.</li> </ul>	<p><b>5:</b> Voluntary compliance programs set specific objectives around integrating the customs risk assessment and control functions.</p> <p><b>7:</b> Strategic risk management capability enables the integration of risk control and assessment functions in Customs’ strategic/priority areas.</p>
<b>CAPACITY BUILDING REQUIRED:</b>	<b>RESOURCES TO CONSULT:</b>
<ul style="list-style-type: none"> <li>Specialized training for managers, including assistance on how to integrate systems (ICT, operations, decision-making, etc.)</li> </ul>	<p><b>USAID Internal:</b></p> <p>Customs Modernization Handbook: Establishing Risk Management/Cargo Selectivity Capability; Customs Modernization Handbook: Applying Risk Management in the Cargo Processing Environment</p>
<b>COORDINATING AGENCIES TO CONSIDER:</b>	
<ul style="list-style-type: none"> <li>Revenue Service, Ministries of Agriculture and Public Health, border security agencies or other public risk management or enforcement authorities.</li> </ul>	<p><b>External:</b></p> <p>(Not Available)</p>

## 7. DEVELOPING STRATEGIC RISK MANAGEMENT CAPACITY

COMPLEXITY	TIME	ESTIMATED COST	POLITICAL WILL REQUIRED	LINK TO TECHNOLOGY	INTERAGENCY COORDINATION
					
Medium-High	Medium-High	Medium	Medium-High	Medium-High	Medium-High

**Description:** Strategic risk management capacity can be defined as a Customs Agency’s ability to effectively develop and implement decision-making processes based on assessment and management of strategic risks. Strategic risk management is supported by the collection and analysis of strategic intelligence, which is typically considered more advanced than operational or tactical intelligence. Strategic intelligence might focus on the risks from a particular country trade partner (e.g., the rigor of their compliance systems), sector or category of imports (e.g., cigarettes, COVID equipment, etc.), or a new method or type of fraud. Since strategic risks are the most complex to assess and prevent, a Customs Agency’s ability to gather strategic intelligence and evaluate it in order to make meaningful decisions that limit or control strategic risk reflects a high level of capacity and sophistication.

**Benefits:** Strategic risk management capacity helps a Customs Agency to better identify and prioritize needed changes, e.g., to policies and procedures, or organizational adjustments like staff reallocation. It aids a Customs Agency to be more proactive in making deliberate decisions grounded in data and observations, which may increase the confidence and trust of traders and thereby increase voluntary compliance. Strategic risk management can help ensure that trade compliance control systems are developed or refined to meet new or changed legal and regulatory requirements – both domestically and via international agreement.

**Relationship with DRM:** Having this capacity in place increases the probability of facilitating sustained trade measures over time, as it ensures the proper resources – both systems-based and personnel-based - are in place and equipped to monitor and assess risk and develop alternative solutions to address persistent or new challenges.

<b>TO ENHANCE SUCCESS, HAVE IN PLACE:</b>	<b>OTHER INTERVENTIONS TO INCREASE IMPACT:</b>
<ul style="list-style-type: none"> <li>Managers with knowledge in strategic management and officers specializing in undertaking strategic analysis tasks.</li> <li>An adequate information management system.</li> <li>Coordination mechanisms with national authorities and other enforcement agencies.</li> </ul>	<p>5: Voluntary compliance programs can deliver critical information about strategic risks and approaches to counter them, and offer an opportunity for private sector input into processes and procedures</p>
<b>CAPACITY BUILDING REQUIRED:</b>	<b>RESOURCES TO CONSULT:</b>
<ul style="list-style-type: none"> <li>Specialized training for managers in strategic management and for customs officers in strategic risk analysis methods.</li> </ul>	<p><b>USAID Internal:</b> (Not Available)</p>
<b>COORDINATING AGENCIES TO CONSIDER:</b>	<b>External:</b>
<ul style="list-style-type: none"> <li>Internal Revenue Service (IRS) or any other border authority or public risk compliance and enforcement agency.</li> </ul>	<p>Customs Risk Management (CRiM): A Survey of 24 WCO Member Administrations, 2011; Strategic Risk Management (Chapter 3): The Development Compendium 2009, WCO.</p>

## 8. DEVELOPING ENTERPRISE INTELLIGENCE CAPACITY

COMPLEXITY	TIME	ESTIMATED COST	POLITICAL WILL REQUIRED	LINK TO TECHNOLOGY	INTERAGENCY COORDINATION
					
Medium	Medium	Low-Medium	Medium-High	Medium	Medium

**Description:** Enterprise intelligence capacity refers to an organization’s ability to collect, process, analyze, and disseminate timely, relevant, and actionable information to inform decision-making. In the customs context, intelligence allows Customs Agencies to identify trends, develop risk profiles, and detect violations. The use of the term “enterprise” is meant to reflect a coordinated or “whole-of-organization” approach that ensures that personnel at all levels and across locations are properly trained on relevant techniques and guidelines. As described in Sheet #1. *Developing Strong Risk Criteria and Indicators*, customs intelligence is frequently categorized as operational, tactical, or strategic. Ideally, intelligence collection measures should be as comprehensive as possible (e.g., collecting data on each transaction, vs. only on violations) and training is critical to ensure information is gathered and analyzed in a reliable, useful manner. Sharing intelligence among domestic agencies or between international Customs Administrations also contributes to coordinated enforcement efforts.

**Benefits:** By producing useful operational information, intelligence analysis allows decision-makers to significantly increase their effectiveness in preventing and addressing non-compliance trends. Intelligence can be used to guide tactical or strategic analysis, strengthening the planning of activities and facilitating the deployment of resources to enforce compliance. It can also assist policy-makers in formulating and implementing high-level goals, objectives, policies, and compliance and enforcement plans.

**Relationship with DRM:** A robust intelligence capacity allows Customs Agencies to identify and address cases of non-compliance, including revenue evasion violations.

<b>TO ENHANCE SUCCESS, HAVE IN PLACE:</b>	<b>OTHER INTERVENTIONS TO INCREASE IMPACT:</b>
<ul style="list-style-type: none"> <li>• A computerized (electronic) customs declaration system and accessible commercial databases.</li> <li>• System of risk indicators and Risk-based Selectivity System in place.</li> </ul>	<p><b>I0:</b> Upgrading electronic and inspection technologies facilitates a broader scope for intelligence analysis activities</p> <p><b>I1:</b> Establishing legal authority and a regulatory framework for Customs facilitates the creation of memorandums of cooperation and exchange of information with other agencies or countries</p>
<b>CAPACITY BUILDING REQUIRED:</b>	<b>RESOURCES TO CONSULT:</b>
<ul style="list-style-type: none"> <li>• Training for customs officials in intelligence techniques (e.g., information collection, evaluation, and analysis) and data management.</li> </ul>	<p><b>USAID Internal:</b></p> <p><i>Intelligence – Information Collection, Analysis, and Dissemination; Customs Modernization Handbook: Establishing Risk Management Cargo Selectivity Capability; Customs Modernization Handbook: Applying Risk Management in the Cargo Processing Environment</i></p>
<b>COORDINATING AGENCIES TO CONSIDER:</b>	<b>External:</b>
<ul style="list-style-type: none"> <li>• National information, intelligence, or enforcement agencies and border authorities.</li> </ul>	<p><i>Global Information and Intelligence. WCO - Risk Management Compendium.</i></p>

## 9. ESTABLISHING AN INTERNAL AUDIT DEPARTMENT OR PROGRAM

COMPLEXITY	TIME	ESTIMATED COST	POLITICAL WILL REQUIRED	LINK TO TECHNOLOGY	INTERAGENCY COORDINATION
					
Medium	Medium	Low-Medium	Medium-High	Low-Medium	Medium

**Description:** Internal audits are the process by which an organization assesses compliance with its internal regulations, policies, and procedures. Customs Agencies utilize a risk management approach to internal auditing similar to that used in the inspection and control of goods traveling across borders. Internal auditing may be done by a specialized unit within a Customs Administration or another government agency that conducts such forms of oversight.

**Benefits:** By establishing an internal auditing unit with sufficient capacity to act independently and obtain needed access or documentation, a Customs Agency can attain greater efficiency of operations and achieve governance objectives such as legal compliance, integrity, and accountability. An appropriately functioning internal audit structure is a Customs Agency’s main mechanism to prevent corruption and operational inefficiency, even though contextual factors can make its effective functioning very difficult at times.

**Relationship with DRM:** An effective internal audit unit can identify both sources of inefficiency in customs processes (bottlenecks, duplicated effort, etc.) and opportunities for corruption or grift that reduce the amount of revenue collection. An internal audit department also stays abreast of relevant regulations and other rules from partner agencies (such as a Ministry of Revenue) to ensure compliance with their laws, policies, and directives.

<b>TO ENHANCE SUCCESS, HAVE IN PLACE:</b>	<b>OTHER INTERVENTIONS TO INCREASE IMPACT:</b>
<ul style="list-style-type: none"> <li>Officers with basic knowledge of audits and risk management.</li> <li>Mechanisms for cooperation/communication with internal authorities and, eventually, the general public.</li> </ul>	<p><b>8:</b> Developing intelligence analysis capacity can significantly strengthen the implementation and effectiveness of an internal audit function/unit.</p> <p><b>11:</b> Establishing legal authority and a regulatory framework for Customs facilitates the adequate integration of internal audit verification procedures throughout the whole organization and regulates the reception of external information and the correct legal processing of cases.</p>
<b>CAPACITY BUILDING REQUIRED:</b>	<b>RESOURCES TO CONSULT:</b>
<ul style="list-style-type: none"> <li>Specialized training for audit officers in integrity, legal procedures (administrative law), standardized control procedures, and intelligence analysis.</li> </ul>	<p><b>USAID Internal:</b></p> <p>TCBaseline Customs Assessment Tool</p>
<b>COORDINATING AGENCIES TO CONSIDER:</b>	<b>External:</b>
<ul style="list-style-type: none"> <li>Comptroller General and related secretariat or agencies.</li> </ul>	<p>WCO, “Compilation of Integrity Practices on Internal Control and Relationship with External Controls”. WCO The Revised Arusha Declaration.</p>

## 10. UPGRADING INFORMATION AND INSPECTION TECHNOLOGIES

COMPLEXITY	TIME	ESTIMATED COST	POLITICAL WILL REQUIRED	LINK TO TECHNOLOGY	INTERAGENCY COORDINATION
					
Medium	Medium	Medium-High	Medium-High	High	Medium-High

**Description:** The upgrading of information and inspection technologies involves the implementation of computer systems for information management and the application of inspection technologies for the operational activities of customs control. Computer resources allow data management, processing, and analysis to occur much more efficiently and systematically. Likewise, operational inspection activities—especially those related to non-intrusive inspection like x-ray imaging—typically require specialized equipment and tools.

**Benefits:** The incorporation of up-to-date information technology in the implementation of customs reform measures is a key determinant of their success. From the creation of risk indicators and selectivity systems to the implementation of integrated risk management systems, automation and digitization can reduce the risk of human error and help reach more reliable conclusions. Similarly, incorporating non-intrusive technologies into cargo inspections can increase the speed and efficiency of inspections since they obviate the need to physically unload and open the cargo.

**Relationship with DRM:** Effective revenue collection through customs requires the incorporation of information and inspection technologies such as those described above. In particular, utilization of automated information reduces human error and can help to identify trends that may suggest leaks or loopholes in the revenue collection process. The use of non-intrusive inspection technologies both helps to increase the speed and effectiveness of inspections and to identify and deter violations.

<b>TO ENHANCE SUCCESS, HAVE IN PLACE:</b>	<b>OTHER INTERVENTIONS TO INCREASE IMPACT:</b>
<ul style="list-style-type: none"> <li>Officers with basic knowledge of informatics tools/software.</li> <li>Adequate facilities and reliable energy supply systems for technology.</li> </ul>	<p><i>I2: Identifying, engaging, and retaining the most qualified personnel encourages adequate and efficient use of these technologies</i></p>
<b>CAPACITY BUILDING REQUIRED:</b>	<b>RESOURCES TO CONSULT:</b>
<ul style="list-style-type: none"> <li>Specialized training for analysts/officers on software and applied technology tools, X-ray or gamma-ray equipment.</li> </ul>	<p><b>USAID Internal:</b> (Not Available)</p>
<b>COORDINATING AGENCIES TO CONSIDER:</b>	<b>External:</b>
<ul style="list-style-type: none"> <li>Technology and communication agencies to assist in the evaluation and procurement process.</li> <li>Border authorities to coordinate the implementation and use of inspection technologies.</li> </ul>	<p>Kyoto Convention – General Annex – Chapter 7 “Guidelines on Application of Information and Communication Technology”; WCO Border ICT Solutions Mapping Tool</p>

**II. IMPROVED LEGAL AND REGULATORY FRAMEWORK**

COMPLEXITY	TIME	ESTIMATED COST	POLITICAL WILL REQUIRED	LINK TO TECHNOLOGY	INTERAGENCY COORDINATION
					
Medium	Medium	Medium	High	Low-Medium	Medium-High

**Description:** Countries must amend their customs laws, regulations, and supporting legal systems to ensure that Customs Administrations have both the adequate legal authority to achieve their objectives and an accompanying regulatory framework supporting simplified and differentiated processes that promote transparency and efficiency.

**Benefits:** In general terms, promulgating laws and regulations that support the effective operation of Customs brings two major benefits. First, it enables the effective collection of revenues by strengthening the authority to detect and deter illicit trade. Additionally, it can enhance trade opportunities and attract foreign investment through simplifying and clarifying procedures and demonstrating transparency and predictability.

**Relationship with DRM:** Clear legislation that clarifies the role and responsibilities of a Customs Administration and strengthens its authority to carry out activities to address non-compliance ultimately benefits customs revenues. A differentiated regulatory framework allows Customs to develop simplified procedures that facilitate trade and, as a consequence, mobilize domestic resources.

<b>TO ENHANCE SUCCESS, HAVE IN PLACE:</b>	<b>OTHER INTERVENTIONS TO INCREASE IMPACT:</b>
<ul style="list-style-type: none"> <li>• An adequate legal and enforcement unit</li> <li>• Mechanisms for cooperation/communication with national legal/judicial authorities and the National Comptroller Authority.</li> <li>• Mechanisms for cooperation/communication with the private sector and other stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>9:</b> Structured use of internal audits ensure legal modifications are properly applied in accordance with the law.</li> <li>• <b>12:</b> Qualified and trained personnel with knowledge of regulations and the rights of economic agents and other trade actors</li> </ul>
<b>CAPACITY BUILDING REQUIRED:</b>	<b>RESOURCES TO CONSULT:</b>
<ul style="list-style-type: none"> <li>• Specialized training for legal personnel in trade facilitation and customs regulatory practice.</li> <li>• Training for supervisors and officers in legal aspects of trade facilitation and legal authority in compliance control and enforcement activities.</li> </ul>	<p><b>USAID Internal:</b> (Not Available)</p>
<b>COORDINATING AGENCIES TO CONSIDER:</b>	<b>External:</b>
<ul style="list-style-type: none"> <li>• Trade/Finance ministry, Comptroller General, border authorities, and related secretariats or agencies must be engaged to coordinate/assess scopes, objectives, effects, and interrelations with other national legal systems.</li> </ul>	<p>World Bank, 3. Legal Framework for Customs Operations and Enforcement Issues (Customs Modernization Handbook).</p>

## 12. IMPROVING PROCESSES TO HIRE AND RETAIN QUALIFIED PERSONNEL

COMPLEXITY	TIME	ESTIMATED COST	POLITICAL WILL REQUIRED	LINK TO TECHNOLOGY	INTERAGENCY COORDINATION
					
Medium-High	Medium	Medium-High	High	Low-Medium	Low-Medium

**Description:** Personnel management refers to those administrative processes that aim to identify, engage, and retain personnel to benefit an organization’s institutional objectives. As with most organizations, the strength of a Customs Agency lies in its human resources. This includes ensuring quality and appropriateness of hired personnel for their jobs, developing procedures for fairly evaluating and compensating employee performance, and providing for continuous training and professional development to strengthen capacity and soft skills. This helps ensure that the customs workforce is able to adapt to changes in policies, technologies, etc.

**Benefits:** All customs reforms are critically dependent on the capacity of customs officers at all levels of seniority and in both border posts and the headquarters for operations. Therefore, any measure that strengthens human resources by building technical capacities, improving employees’ morale and sense of public service, or reinforcing a commitment to ethical principles, ultimately promotes the goals of a Customs Administration and its effective functioning.

**Relationship with DRM:** Measures that promote the hiring and retention of qualified customs personnel directly impact a Customs Agency’s achievement of DRM-related goals. Border agents are the frontline workers and “first line of defense” in carrying out inspections and collecting duties. Mid-level managers may oversee programs or other measures which incentivize compliance and deter efforts to evade collection. Not having the right people in place – and not supporting the development and growth of qualified personnel once hired – can frustrate all of customs’ important functions, revenue collection chief amongst them.

<b>TO ENHANCE SUCCESS, HAVE IN PLACE:</b>	<b>OTHER INTERVENTIONS TO INCREASE IMPACT:</b>
<ul style="list-style-type: none"> <li>• A dedicated HR unit or HR professionals</li> <li>• Access to training facilities and expert training services.</li> <li>• Standardized procedures for recruiting, promotion, and other HR management functions.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>9:</b> Structured use of internal audits ensure that decisions related to human resources management are transparent and in accordance with the law.</li> <li>• <b>11:</b> Establishing legal authority and a regulatory framework for Customs establishes a legal base for the effective development of HR functions.</li> </ul>
<b>CAPACITY BUILDING REQUIRED:</b>	<b>RESOURCES TO CONSULT:</b>
<ul style="list-style-type: none"> <li>• Specialized training for supervisors/officers in HR management, national civil service legislation, and design, evaluation, and administration of training projects.</li> </ul>	<b>USAID Internal:</b> Customs Modernization Handbook: Establishing and Implementing a Customs Integrity Program, Component 15: Human Resources Management.
<b>COORDINATING AGENCIES TO CONSIDER:</b>	<b>External:</b>
<ul style="list-style-type: none"> <li>• Civil Service, Comptroller General, and related secretariat or agencies.</li> </ul>	World Bank, 2. Human Resources and Organizational Issues in Customs (Customs Modernization Handbook).

## ANNEX 2 – REFERENCED DOCUMENTS

### USAID DOCUMENTS

[USAID Customs Modernization Handbook: Applying Risk Management in the Cargo Processing Environment](#) (July 2018)

[USAID Customs Modernization Handbook: Authorized Economic Operator Programs](#) (March 2010)

[USAID Customs Modernization Handbook: Establishing and Implementing a Customs Integrity Program. Component 15: Human Resources Management](#) (September 2005)

[USAID Customs Modernization Handbook: Establishing Risk Management and Cargo Selectivity Capability](#) (July 2004)

[USAID Customs Modernization Handbook: How Authorized Economic Operators Have Evolved: Latest Developments](#) (2018)

[USAID Customs Modernization Handbook: Post-Clearance Audit Programs](#) (October 2011)

[USAID Digital Strategy \(2020-2024\)](#) (June 2020)

[USAID Draft Economic Growth Policy \(for Public Comment\)](#)(December 2019)

[USAID Fact Sheet for Bureau for Development, Democracy, and Innovation](#)

[USAID Field Guide for USAID D&G Officers: Assistance to Civilian Law Enforcement in Developing Countries](#) (January 2011)

[USAID From Aid to Trade: Delivering Results. A Cross-Country Evaluation of USAID Trade Capacity Building](#) (November 2019)

[USAID Human and Institutional Capacity Development Framework](#) (May 2013)

[USAID Local Systems: A Framework for Supporting Sustained Development](#) (April 2014)

[USAID Policy Framework: Ending the Need for Foreign Assistance](#) (April 2019)

[USAID Private Sector Engagement Strategy](#) (April 2019)

[USAID Program Cycle Discussion Note: Co-Creation Additional Help](#) (May 2017)

[USAID Strategy for Financing Self Reliance: 2020-2023](#) (January 2020)

[USAID TC Baseline Customs Assessment Tool](#) (December 2019)

[USAID Thinking and Working Politically through Applied Political Economy Analysis](#) (2018)

[USAID 2017 Trade Capacity Building Evaluation](#) (April 2017)

[USAID Trade Indicators Handbook](#) (November 2013)

## **DOCUMENTS FROM TRADE/CUSTOMS-FOCUSED ORGANIZATIONS OR OTHER DONORS**

Cross-Border Research Association, [Customs Risk Management \(CRiM\): A Survey of 24 WCO Member Administrations](#) (February 2011)

[Customs Amendment \(Australian Trusted Trader Programme\) Act 2015, Trusted Trader](#)

Kyoto Convention – [General Annex – Chapter 7 “Guidelines on Application of Information and Communication Technology”](#);

[Kyoto Convention – Specific Annex H – Chapter 1 Guidelines on Customs offences](#)

[United Nations Trade Facilitation Guide: Customs Risk Management and Selectivity](#)

WCO, [“Compilation of Integrity Practices on Internal Control and Relationship with External Controls”](#).

WCO, *Global Information and Intelligence. Risk Management Compendium* (available for purchase)

[WCO Guidelines for Post-Clearance Audit \(PCA\), Volume 1 \(public\); Volume 2 \(Restricted WCO members only\).](#)

[WCO, Risk Management Compendium, Volume 1](#)

WCO Risk Management Compendium, Volume 2: Risk Assessment, Profiling and Targeting (Restricted to WCO members)

[WCO, Strategic Risk Management \(Chapter 3\): The Development Compendium 2009](#)

[WCO Voluntary Compliance Framework](#);

[World Bank, Chapter 3. Legal Framework for Customs Operations and Enforcement Issues \(Customs Modernization Handbook\)](#)

[World Bank, Chapter 2. Human Resources and Organizational Issues in Customs \(Customs Modernization Handbook\)](#)

World Trade Organization, [World Trade Statistical Review 2017](#) (Geneva: World Trade Organization, 2017).

## **OTHER ARTICLES OR REFERENCES**

Acemoglu, D. & Robinson, J (2012), *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. New York City, New York. Crown Business

Djankov, Simeon and Freund, Caroline L. and Pham, Cong S., [Trading on Time \(April 2006\)](#). World Bank Policy Research Working Paper No. 3909

Klein, Michael, [What future for the World Bank’s Doing Business Project](#), *The Brookings Institution’s Future Development Blog*, September 9, 2020

Rodriguez-Pose, A. and E. Garcilazo (2013), [“Quality of Government and the Returns of Investment: Examining the Impact of Cohesion Expenditure in European Regions”](#), OECD Regional Development Working Papers, 2013/12, OECD Publishing.

Why Tanzania’s Statistics Look Fishy, *The Economist*, July 23, 2020 (accessible with subscription)

Zumbrun, Josh, World Bank Halts Report on National Competitiveness Rankings Amid Concerns of Data Manipulation, *Wall Street Journal*, August 27, 2020 (accessible with subscription)