

## The Organization of Customs Administration

*Patricio Castro and James T. Walsh*

This chapter outlines the type of organizational structure that is required to deliver effectively and efficiently a customs administration program: a decentralized structure consisting of headquarters, regional, and local offices. It then discusses current trends that are emerging in organizing customs (and tax) administrations.

### A. Organizational Structure

As outlined in Chapter 3, most customs administrations are decentralized, having headquarters, regional, and local offices. A customs administration's control responsibilities related to both goods and people require offices to be located in seaports, airports, and at land border crossings. (Most customs administrations also have "inland" offices that are far removed geographically from the border to process goods that have moved in transit to a location that is typically closer to the importer or exporter.) Organizations of this type must clearly delineate responsibilities among the various levels to ensure that good service is being provided and that legislation and procedures are being applied consistently across the country.<sup>122</sup>

#### Headquarters

The primary responsibility of headquarters is to develop operational policy and procedures for the regional and local offices. In addition, headquarters should develop performance criteria and monitor compliance with them. This may include reviewing selected transactions to determine if the policies are being applied correctly (by, for instance, operational reviews and/or internal audits). Headquarters should also be responsible for monitoring international agreements

---

<sup>122</sup>A constant theme of the private sector is the need for certainty in the customs treatment of its transactions. Companies need to know that the rates of duties and taxes applied on goods will be the same at all customs offices, so that they can make informed business decisions about the landed cost of their imports. They also need to know how long goods will be under customs control to assist in determining their inventory requirements.

and developments, particularly related to the World Trade Organization (WTO) and World Customs Organization (WCO), to ensure that current legislation and procedures are up-to-date and in compliance with a country's undertakings. In addition, headquarters should interact with policymakers, in the ministry of finance and elsewhere, to agree on such matters as revenue targets and to provide input on the administrative impact of proposed policy options.

Another important responsibility of headquarters is the development of recruitment and training policies and plans. Customs legislation and procedures are complex and difficult to apply (even after legislation and procedures have been simplified to the extent possible). Therefore, well-educated personnel must be recruited and training programs must be developed to ensure that staff are able to interpret and apply the legislation.

Headquarters organizational structures vary from country to country. Figure 10.1 outlines a typical structure that has a reasonable span of control for the head of the administration, overseeing divisions that are responsible for developing policies and procedures and monitoring implementation of key elements of the customs program.

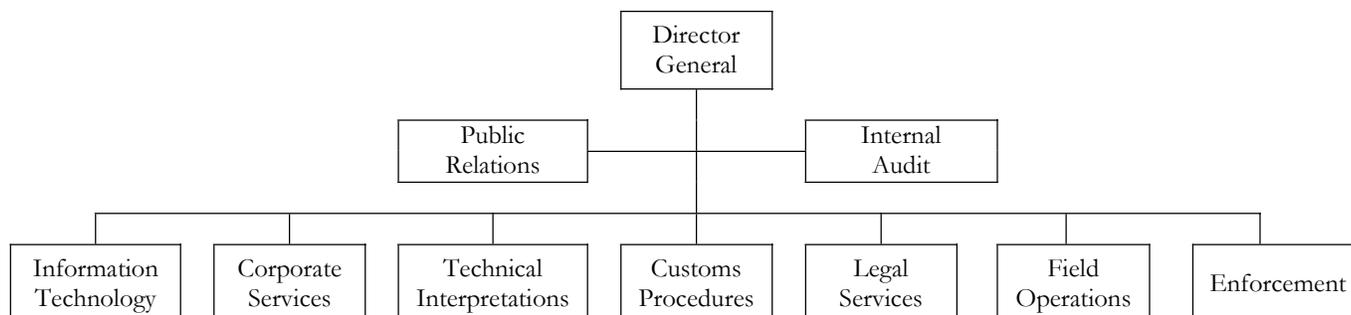
### **Regional offices**

Typically, regional offices are responsible for supervising the activities of several local offices. This would include ensuring that the offices are meeting the agreed-upon performance criteria and, when necessary, identifying the measures necessary to bring performance up to standards. In addition, the regions may carry out certain operational activities, such as responding to first-level appeals, processing and approving refunds up to a preestablished limit, and undertaking post-release verification activities, including valuation reviews. Typically, the regions archive the declarations and supporting documents for their local offices.

### **Local offices**

These offices are the primary point of contact between the trade community and the customs administration and, as such, staff must be well informed and well trained. They are responsible for deciding on the level of verification that is required when processing a declaration and releasing goods. Of course, this decision should be based on guidelines that are established by headquarters and the regions. Nevertheless, in every customs administration, a great deal of discretion is in the hands of the local officials. In modern customs

Figure 10.1. Typical Structure of Customs Administration Headquarters



Notes: **Internal Audit.** Review financial, administrative, and operational systems, and monitor compliance with management policies.

**Public Relations.** Develop internal and external communications policies and procedures.

**Information Technology.** Manage computer operations, maintain hardware and software, and develop application software.

**Corporate Services.** Develop policies and procedures for human resource services (including training), administration, finance, and corporate planning.

**Technical Interpretations.** Develop policies and procedures related to valuation, tariff classification, exemptions, and origin determination, including contacts with the World Customs and World Trade Organizations and other customs administrations.

**Customs Procedures.** Develop policies and procedures related to import and export declaration processing, cargo reporting, transit, temporary admission, warehousing, and others procedures related to the processing of goods and passengers.

**Legal Services.** Draft legislation, provide legal interpretations, adjudicate appeals, and advise on policies and procedures related to penalties and prosecutions.

**Field Operations.** Manage all regional and local offices, including monitoring operations against preestablished performance criteria.

**Enforcement.** Develop policies and procedures for investigations and intelligence gathering and analysis.

administrations, much of this discretion is removed as information from the declaration is processed in an automated environment; certain of the data are compared with information in the selectivity system to determine, for example, if the importer has a past history of undervaluation, the type of goods that are often misdescribed, exporters in certain countries that are known for false origin certificates, etc. The system determines the level of verification that is required. The local office is accountable for meeting established performance criteria

related, for example, to the time required to process a declaration or physically inspect goods.

In some local offices, particularly at border locations, it is necessary to provide service for processing goods and passengers on a 24-hours-a-day, seven-days-a-week, 365-days-a-year basis. This requires preparation of staffing schedules that meet established traffic patterns (flight schedules and the like). In addition, the customs administrations should be sensitive to the needs of traders for extended hours of service (up to 24 hours a day) at inland warehouses to process imports and exports.<sup>123</sup> However, with the increased use of computers and information moving electronically, there are opportunities to separate information processing (such as declaration processing and payment) from the physical clearance of the goods. For example, a customs declaration can be sent electronically to the customs system before the arrival of the goods and, once accepted by the system, payment can be made by electronic funds transfer. Upon arrival at the border, a comparison of the information in the computer and the goods (container and seal number, for example) can be undertaken and the goods released. The implication for the organization are clear—there needs to be a very close working relationship between the border and inland offices and fewer staff will be required at the borders.

## **B. Trends in the Organization of Customs Administrations**

The preceding discussion has dealt with some of the day-to-day organizational issues that are encountered by customs administrations. A more fundamental problem that many countries are now confronted with is how to organize tax and customs administrations to increase both efficiency and effectiveness. These discussions have grown out of a realization that emerging trends, such as globalization, trade liberalization, the increased scope for transfer pricing, and the explosion of e-commerce have a significant impact on tax and customs operations. In turn, this has led to discussions of how best to organize revenue administrations to respond to these and other new challenges. For any country that is engaged in the reform and modernization of its customs administration, changes in the organizational structure are often an important component of the reform.

The degree of autonomy given to the revenue departments is one of the key aspects to be dealt with in the context of a reform effort.<sup>124</sup> In recent years, there has been a trend toward increased autonomy for revenue administrations as a

---

<sup>123</sup>Many customs administrations pay shift-differential bonuses to compensate staff who are required to work holidays, weekends, and evening and night shifts.

<sup>124</sup>The term “revenue department” (or “administrations”) refers to the institutions that administer both direct and indirect taxes.

way of facilitating change, especially in developing countries.<sup>125</sup> Giving more autonomy to the administrations is seen as an effective way of facilitating change and addressing such chronic problems as low salaries, tolerance of low levels of performance and/or corruption, and slow and ineffective procurement and budgeting.

Two main arguments are often made to support these recommendations. First, successful revenue administrations in developed countries have traditionally enjoyed significant degrees of independence. Second, in developing countries, so called “autonomous” public sector institutions—in particular central banks—have been found to be more efficient and to have better human and material resources than tax and customs administrations.

The term autonomy has different meanings in different circumstances. Moreover, greater autonomy for revenue administrations is pursued for different reasons in different countries. In some countries, the main objective is to improve the quality of the resources devoted to revenue administration and to combat corruption. In others, the purpose is to insulate daily operations, as much as possible, from political interference. As used in this chapter, the term autonomy represents the set of conditions that confers a reasonable level of independence from political influence and independence in the administration of human and material resources. One can distinguish between two different dimensions of autonomy: “hierarchical autonomy,” related to the degree of independence from political influence; and “operational autonomy,” related to financial and procedural independence from the general rules of the public sector that govern the administration of human and material resources. Both dimensions of autonomy serve different purposes, and—as will be seen—an administration can enjoy different degrees of each.

Restructuring revenue administrations to provide increased autonomy represents an attempt to satisfy the more stringent demands of a professional service while maintaining an adequate degree of accountability. This is not always easy to achieve.

### **The role of autonomy in effective customs administrations**

Effective customs administrations display certain common characteristics—shown in Box 10.1—even though their specific organizational structures and degree of autonomy differ widely. In many countries, it has long been recognized that the customs administration should be a highly professional career service, where all positions are filled solely on the basis of competence, and continuity of tenure and promotion on the basis of merit are assured. Customs administration

---

<sup>125</sup>See, for example, Jenkins (1994b).

### **Box 10.1. Characteristics of an Effective Customs Administration**

Effective customs administrations are expected to ensure that duties and taxes are collected as prescribed by the legislation, and to do so in the most efficient way and in a manner that is as free as possible from corruption and political influence. The experiences of many countries point to some key characteristics that permit the customs administration to operate effectively:

- A clear separation between the setting of tax policy and its administration, with laws and regulations that are as simple and transparent as possible.
- Confidentiality of taxpayer information (for example, the ministry of finance and other government departments should not have access to individual taxpayer files or transactions, except under well-defined and controlled circumstances in exceptional cases).
- Performance criteria adopted for the customs administrations, including revenue targets, service expectations, and the resources required to meet the established criteria.
- A body of professional customs administrators that are well trained and well paid.
- A code of conduct for the staff of the customs administrations that clearly spells out expectations and consequences of nonperformance (not least, the disciplinary actions that will be taken in cases of corruption)—and that is enforced.
- An effective internal audit function within the customs administration, with responsibility for determining that the systems and procedures have been followed and investigating cases of alleged corruption.
- An atmosphere that encourages taxpayers to raise issues of interpretation of the tax laws and their administration. Many countries establish a formal consultative mechanism with taxpayers (e.g., industry associations) to address this issue.

has become a complex and specialized field where merit, training, and experience, protected by secure tenure, are essential.

Reliance on an effective civil service yields an additional measure of independence to government entities: a professional civil service avoids political appointments, which are often subject to political interference. This supports another key feature of effective customs administration, its lack of politicization. The quality of the mechanisms against political interference built into the institutional system is very important. One of the key features present in many countries with effective customs administrations is the presence of an independent judiciary or magistrates who are authorized by law to undertake independent reviews of all tax matters, particularly cases of fraud and corruption.

Thus, the most important questions are: How does a customs administration undertake a successful reform and achieve the characteristics described above? And what degree of autonomy is required to ensure that they are implemented?

*Degrees of autonomy in a customs administration.* As a starting point for an analysis of the possible degrees of autonomy of a customs administration, two basic dimensions should be addressed: the degree of centralization;<sup>126</sup> and the type of external control exercised over the agency.

The degree of centralization given to government entities is a useful tool to analyze the many possible alternatives of organization found within the civil service structure. At the nucleus of the government are the most centralized agencies, which are usually hierarchical bodies headed by high-level civil servants or deputy ministers who are accountable only to a minister. These agencies, whose names may vary in accordance with the type of government (parliamentary or presidential, unitary or federal, and so on), are usually referred to as “departments.” These departments are centralized in the sense that they are an integral part of the government’s administrative structure. Traditionally, customs administrations fit this definition.

In contrast with these more traditional, highly centralized governmental entities, there are other structures, distinguished by varying degrees of decentralization. These entities can be generically described as “decentralized administrative structures,” and they usually enjoy a higher level of autonomy than centralized agencies. In practice, these structures may be constituted as boards, commissions, agencies, etc., and may be established for a number of reasons:

- Decentralized agencies may be established in response to particular economic or business concerns, when a specialized agency, insulated from political pressures, is needed. These agencies typically deal with licensing, rates, and other regulatory matters, in areas such as telecommunications and transportation.
- Where commercial or quasi-commercial activities are involved, a decentralized agency free from many of the procedural controls common to the public service may be created (e.g., state-owned enterprises).
- In federal countries, decentralized administrative agencies allow cross-delegation of powers between the federal and state or provincial governments, or between the latter and municipalities.

The degree of decentralization in a particular agency depends on many factors and is subject to wide variation. In most cases, however, the permanent staff of the agency are directly answerable not to a minister, but to a board, a commission, or an individual office holder less directly connected with the government.

---

<sup>126</sup>As used here, the term “centralization” is not related to any geographical or operational characteristic of a government agency, but rather to its relative standing within the government’s administrative structure.

### **Recent trends: revenue boards and other autonomy-related measures**

Since the early 1990s, several countries have restructured their revenue administrations, aiming at increased effectiveness. Two distinct trends have emerged in connection with these efforts. The first has been the unification or merging of previously separate revenue agencies into an integrated tax and customs administration. Since the early 1990s, this has taken place in, for instance, Denmark, Canada, Mexico, Venezuela, Guatemala, and Argentina (in the latter, the administration of social security taxes was also merged into a new single agency). The objectives of these mergers have been the improvement of services to taxpayers, by reporting to a single government agency and better adapting to new trends in international trade; increased efficiency, by combining common functions such as personnel and administration; and increased effectiveness, by the establishment of joint audit and investigation services.

Second, in many cases an attempt was made to increase the degree of autonomy of the revenue administrations (for instance, Spain, Peru, Argentina, Bolivia, Venezuela, Ghana, and Uganda). As mentioned before, autonomy for administrations is sought for different reasons in different circumstances. Some countries with effective administrations see autonomy as a way of better adapting to new operational challenges while preserving independence from political influence. Countries with less effective administrations see autonomy as an instrument for liberating the administration from the limitations of underfinanced civil services and from inadequate personnel regulations. This has been the case in many developing countries in recent years.

The civil services of most of the developing world are characterized by an unsatisfactory level of development of human resources and inadequate resources. Systems theoretically based on competence and experience as criteria for hiring and promotion end up in practice being driven by political needs. In such a context, continuity of tenure becomes more a means of protecting a person from being fired after a change in government than an essential ingredient of a professional civil service. Furthermore, hiring practices that are part of the political patronage system imply that, most of the time, the main remuneration of employees arises from their ability to exploit their position within the administration for personal benefit. There are few places in the public sector where there are greater opportunities for this than in customs administrations.

All this leads to a civil service that is generally perceived as incompetent, inefficient, and corrupt. This, combined with severe budgetary restrictions, often leads to an erosion of the compensation system whereby civil servants' salaries are allowed to deteriorate, until they reach levels that are just too low to recruit and retain skilled, competent, and honest people. In this environment, revenue administrations simply cannot be effective. This is one of the main reasons why

the idea of the separation of revenue administrations from the civil service has gained momentum.

Recent trends toward increased autonomy in developing countries cover several possibilities. At one end of the spectrum, some countries (such as Argentina and Colombia) have chosen to maintain the hierarchical relationship of their revenue administrations within the ministry of finance. At the same time, the agencies have been given increased operational autonomy, specifically control over organization, administration, procedures, enforcement, personnel,<sup>127</sup> and procurement. At the other end of the spectrum, revenue authorities outside the ministry of finance have been established in a number of countries (such as Peru and Uganda), with the purpose of providing the degree of autonomy that central banks typically enjoy. In some instances (Peru, Venezuela, and Bolivia), financial independence has been provided by assigning a fixed percentage of total collections to cover the operational expenses of the agency. This may be accompanied by a “contract” between the ministry of finance and the revenue agency that defines performance-related allocations of resources, as is the case in Bolivia. A high degree of administrative independence; specific procedures for personnel selection, compensation, and dismissal; and special rules for appointment and dismissal of the head of the service are usually given to these newly created entities.

In the context of the reform of customs and tax administrations that suffer from lack of effectiveness, the different alternatives considered for autonomy aim at achieving essentially the same objectives, namely,

- financial independence—the agency should be able to allocate its budget as it deems appropriate;
- administrative independence—the agency should be capable of formulating its own administrative policies and objectives; and
- independence from the civil service—the agency should be responsible for its own recruitment, salary structure, career path and training, and establishing a code of conduct for its employees.

### C. Experience in Selected Countries

#### Traditionally independent revenue administrations

*United States.* The Customs and Internal Revenue services have traditionally been part of the Treasury Department, reporting to the Secretary of the

---

<sup>127</sup>Including the establishment of an independent pay scale different from the common civil service salary structure, at times including the creation of a specific career path for the customs administration.

Treasury,<sup>128</sup> reflecting the desire to forge close coordination of revenue policy and revenue collection. But much of the authority of the Secretary of the Treasury with respect to the administration of both services has been delegated (through formal documents of delegation that clearly define the area of authority being delegated), so that the services are in practice independent. They have guarded this independence in administering the laws to ensure that tax collection is nonpolitical and that the services are career-oriented.

The terrorist attacks against the United States on September 11, 2001, however, have led to a fundamental repositioning of the Customs Service, which is to be moved out of the Treasury and into the newly created Department of Homeland Security. With combating terrorism now “the No.1 priority of the agency,”<sup>129</sup> the rationale of this restructuring is to better align the work of customs both with national security concerns and with the work of other organizations with border responsibilities. Though potentially significant in that wider context, this repositioning in itself seems likely to have little effect on—indeed, if anything, it would tend to enhance—the traditional de facto independence enjoyed by the U.S. Customs Service in its revenue-collection function.

***New Zealand.*** The Customs and Inland Revenue departments have responsibilities similar to those of their U.K. counterparts. However, the departments are independent of the Treasury, each reporting to separate ministers who are responsible to Parliament for their operation. The commissioners are appointed by the state services commissioner and are statutorily charged with the overall leadership and operational direction of the departments. The commissioners are autonomous, with certain specific exceptions, and have powers of delegation. There is no involvement of the ministers in the administration of taxes, with respect to decisions relating to individual taxpayers.

***United Kingdom.*** Although the Treasury has the ultimate direction and control of the Boards of Inland Revenue and of Customs and Excise, and has statutory rights to issue instructions, it has no direct role in day-to-day activities—the actual administration of taxes. In that respect, the members of the boards, although they are full-time civil servants, enjoy a considerable degree of independence. The boards have a distinct legal status, as their members are appointed by the Crown and hold positions created by statute, unlike other U.K. civil servants. This status means that the boards exercise some powers and functions that in other departments would be exercised by a minister.

---

<sup>128</sup>The Treasury Department equates to the Ministry of Finance in other countries and the Secretary to the Minister.

<sup>129</sup>Speech of U.S. Customs Commissioner Robert C. Bonner, August 26, 2002.

### Autonomous agencies

**Argentina.** In 1988, the General Tax Directorate was given autonomy in its organization, administration, personnel, procedures, and control. Similar measures were introduced at the same time in the National Customs Administration. In October 1996, both agencies were merged into an autonomous revenue agency within the Ministry of Economy and Public Works, the Federal Administration of Public Revenue (*Administración Federal de Ingresos Públicos*, AFIP). The General Director of AFIP is appointed by presidential decree and has the authority to organize and regulate the internal functioning of the agency.<sup>130</sup> Thus, AFIP enjoys a high level of operational autonomy. AFIP is responsible for the administration, collection, and audit of taxes and social security contributions, while tax policy issues are dealt with by the Secretary of Finance. The General Director has considerable autonomy in day-to-day operations and has the overall authority to administer the laws as they relate to specific cases.<sup>131</sup>

**Bolivia.** After several attempts at institutional reform along traditional lines, a new customs law was adopted in August 1999, whereby the customs administration has greater autonomy and is managed by a board approved by congress. The new autonomous customs service is headed by a five-person board, appointed by the executive branch from a list of candidates proposed by Congress. Board members have a five-year tenure and cannot be removed except in cases of grave offenses. The board has considerable autonomy in matters of personnel policy and material resources. The president of the board is appointed by presidential decree and has full authority to organize and regulate the functioning of the agency. A percentage of revenue collection is earmarked to cover operational costs. The law requires that the president of the board reach an annual agreement with the minister of finance on issues such as revenue targets, performance criteria to be met, staff development objectives, etc.; additional resources for the service are contingent on the achievement of these targets. A new career service was created for customs staff, supported by a comprehensive recruitment and training program. In 2002, a law was passed granting a similar organization to the National Tax Service.

**Canada.** Since confederation in 1867, there has always been a separate revenue department headed by a member of the federal cabinet. The Department of National Revenue was responsible for the collection of federal direct and indirect

---

<sup>130</sup>Including organizational structure, personnel policy (including the establishment of monetary incentives for productivity to deal with the potential for corruption), hiring, assignment of functions and responsibility, as well as establishing its own procedures for procurement and administrative matters.

<sup>131</sup>The tax regulations establish that the Secretary of Finance (equivalent to a deputy minister) and then the Minister are responsible for appeals on certain tax cases.

taxes and social security contributions.<sup>132</sup> Two organizations, Taxation and Customs and Excise, operated quite distinctly from one another, each under the direction of a deputy minister (the highest level of civil servant in Canada) until 1993, when the two departments were merged. On November 1, 1999, this merger was followed by the creation of the Canada Customs and Revenue Agency to replace the Department of National Revenue. The agency carries out the same functions as the previous department but it also has an enlarged mandate that enables it to enter into agreements directly with the provinces for the administration of their taxes.<sup>133</sup> Tax policy, including the setting of rates, is the responsibility of the minister of finance.

**Peru.** In July 2002, the National Superintendency of Customs (*Superintendencia Nacional de Aduanas*, SUNAD) was merged with the National Superintendency of Tax Administration (*Superintendencia Nacional de Administración Tributaria*, SUNAT). The main goal of this process, which has SUNAT as the incorporating entity, is to consolidate tax administration in one agency in order to facilitate cross-checking through improved information integration. SUNAT continues under the direction and control of the ministry of finance, although in practice the agency is quasi-independent. The head of the agency, who is appointed by presidential decree, enjoys complete independence in the areas assigned to the agency.

**Russia.** The State Customs Committee, an executive agency of the federal government, manages seven regional directorates, which supervise 140 customs offices. The regional and customs offices, however, enjoy considerable autonomy, being separate agencies with their own current accounts under the federal budget. A number of other customs-related activities are managed by separate agencies that also enjoy autonomy in financial management and human resources. These arrangements appear to have given scope for significant political interference by regional governors.

**Spain.** In 1991, a new autonomous revenue agency was created, the Tax Administration State Agency (*Agencia Estatal de Administración Tributaria*, AEAT). AEAT is subject to the control of the Ministry of Finance and has responsibility for the administration of all taxes, including customs duties. The creation of AEAT came as a response to perceived problems of inadequate human and material resources.<sup>134</sup> AEAT enjoys less horizontal control than other centralized agencies in the government and has a considerable degree of discretion in the

---

<sup>132</sup>Personal income taxes were also collected on behalf of several provincial governments.

<sup>133</sup>The Minister of National Revenue is responsible to Parliament for the delivery of the tax, customs, and trade programs. The commissioner of the agency is the chief executive officer responsible for day-to-day operations. There is a board of management responsible for overseeing the organization and management of the agency. The board has 15 members, 11 of whom are nominated by the provinces and territories.

<sup>134</sup>See Yubero (1992).

creation and application of rules for hiring, salaries, and other personnel matters, as well as for handling material resources. At the same time, AEAT enjoys a significant degree of independence in all operational areas. There is no direct involvement of the Minister of Finance in the administration of taxes, nor intervention in decisions relating to individual taxpayers.

**Venezuela.** In 1994, the Integrated National Service of Tax Administration (*Servicio Nacional Integrado de Administración Tributaria*, SENIAT) was created following, in part, the Peruvian model. SENIAT is a decentralized, public agency, vested with its own financial, administrative, technical, and functional autonomy. Unlike its Peruvian counterpart, however, SENIAT reports to the Ministry of Finance. SENIAT is charged with the administration of internal taxes and, through the Customs Directorate, with the administration of taxes on foreign trade. By law, SENIAT receives between 3 percent and 5 percent of the central government non-oil revenue to cover its expenses. The superintendent (appointed by presidential decree with Parliament's consent), enjoys considerable autonomy in matters of personnel policy and material resources. There is no involvement of the ministry in the administration of taxes and the SENIAT is free to carry out day-to-day operations.

### Revenue boards

In certain countries in Africa, the approach to civil service reform has been to separate or “enclave” certain functions of government in the hope of rapidly improving performance. This approach has been applied to tax and customs administrations through the creation of revenue authorities in Ghana in 1985 and Uganda in 1991. (The approach has more recently been introduced in Zambia, Kenya, Tanzania, and Malawi.) The creation of revenue authorities is seen as a means of improving tax collection as it provides the mechanism to address poor management, low pay, and corruption. It is also seen as an expedient way to improve performance of the revenue agencies in the context of a revenue crisis.<sup>135</sup>

**Ghana.** The National Revenue Secretariat (NRS) was set up independent of the civil service with its own conditions of service and pay, the ability to recruit and dismiss, and control over its own management policies and organization structure. Salaries were raised to a par with the private sector. Fixed revenue targets were established and bonuses were paid for the achievement of the targets. Operational expenses are met from the proceeds of the revenue collected. The secretariat implemented tough sanctions for tax evasion and fraud and enforced them rigorously. However, by the mid-1990s, the NRS no longer

---

<sup>135</sup>Prior to the adoption of the new approach, collections in Ghana had fallen to about 4.5 percent of GDP. In Uganda, the ratio was about 5 percent.

functioned effectively and internal revenue, VAT, and customs and preventative services were operating independently, each with its own board overseeing operations. At the same time, it had lost much of its independence and had become closely integrated with the Ministry of Finance.

*Uganda.* The revenue authority was created with many of the same features of the Ghanaian Revenue Secretariat. One major difference was the decision to absorb the entire previous workforce. The intent was to eliminate poor performers at a later date, but this proved to be very difficult, reportedly due to political interference. In fact, as many examples in other countries have shown, this issue—whether the old staff is universally accepted into the new revenue administration or if some selective criteria are applied for the transfer—is one of the key aspects of the reform. Although it is politically sensitive, experience has shown that automatic transfer of all staff into the new administration could seriously undermine the whole reform effort.<sup>136</sup>

The revenue authorities in both Ghana and Uganda were established with high degrees of both operational and hierarchical autonomy. A similar level of autonomy has been granted to the revenue boards recently established or under consideration elsewhere in Africa.

Table 10.1 summarizes the degree of operational and hierarchical autonomy for the countries described in this section.

---

<sup>136</sup> The Fiscal Affairs Department's advice is that all current staff should be screened based on objective criteria that include a review of performance and financial asset disclosures. In some countries, this assessment has been contracted out to management consulting firms that have both designed the evaluation criteria and conducted the testing and interviewing.

**Table 10.1. Operational and Hierarchical Autonomy for Selected Countries**

Selected Countries	Operational Autonomy <sup>1</sup>			Hierarchical Autonomy <sup>2</sup>		
	High	Medium	Low	High	Medium	Low
Argentina	X				X	
Australia			X	X		
Bolivia	X			X		
Canada	X			X		
Ghana	X			X		
New Zealand			X	X		
Peru	X			X		
Russia	X			X		
Spain	X			X		
Uganda	X			X		
United Kingdom			X	X		
United States of America			X	X		
Venezuela			X		X	

<sup>1</sup> “Operational autonomy” refers to the degree of independence from normal civil service rules and regulations.

<sup>2</sup> “Hierarchical autonomy” refers to the degree of independence from political influence in the day-to-day operation of the administration.

## D. Summary and Conclusions

Customs administrations will continue to be required to provide service related to both goods and people at border locations, around the clock every day of the year. For this, a modern customs administration needs an organizational structure that balances the assignment of its staff and responsibilities among the different levels—headquarters, regional, and local. Achieving this, and implementing an effective organizational structure, requires both a commitment to change and an ability to do so.

In the context of a major reform of the tax policy and customs administration—including legislative changes oriented toward a simplification of the tax system and general improvements in its efficiency—the degree of administrative autonomy required to support the reform needs to be considered. Increased autonomy can facilitate the separation of tax and customs policymaking from its

administration, and lead to the development of a well-trained and well-motivated customs service. But autonomy will in itself do little to improve performance. It does not automatically solve the problems of a weak customs administration, and may lead to new problems if the newly autonomous administration is not properly accountable for its performance.

The choices of the level of hierarchical autonomy and of the degree of independence from the ministry of finance will, in the end, be conditioned on what can be achieved in practice. It can be argued that complete independence from the ministry of finance may not be desirable, since it can lead to conflicts over the division of power in the area of tax policy, and over the degree of oversight at the highest levels of the revenue authority. It is clear, however, that it is of the utmost importance to preserve day-to-day operations of the customs agency from interference from the political system, be it through the ministry of finance or through the parliament. Unfortunately, there is no sure-fire way to do this: experience in many developing countries has been that autonomy by itself is not enough to prevent political interference. It is only when the highest levels of the government are publicly committed to insulate the revenue administration from direct control by politicians that independence is achieved.