Guidelines on the use of the Customs Capacity Building Diagnostic Framework

Overview

The Customs Capacity Building Diagnostic Framework has been prepared by the WCO to:

- provide a standardized diagnostic tool and project design and implementation guide to improve the quality of capacity building initiatives in the Customs administrations of developing countries;

- promote the effective implementation of WCO, WTO and other trade and Customs-related Conventions, instruments, best practice approaches and useful reference materials that can assist in the development of capacity building solutions that are appropriate to the individual needs and operating environments of Customs administrations; and

- equip senior Customs officials with the detailed information necessary to more fully engage and lead discussions/negotiations with donor agencies and other government officials.

Part A outlines the critically important role that an efficient and effective Customs administration can play in the economic and social development of countries and makes a sound case for increased investment in the reform and modernization of Customs administrations. It also describes what is meant by the term ‘capacity building’ and summarizes the findings of recent research into the successes and failures of previous capacity building efforts.

Part B describes the core elements of modern Customs administration and outlines the internationally agreed principles that should underpin all reform and modernization initiatives. It also describes a number of pre-requisite conditions that need to be met before comprehensive capacity building activities should be contemplated.

Part C introduces the Diagnostic tool and explains how it can be used to identify key developmental needs. Practical guidelines are provided to assist officials to identify any gaps between existing systems, procedures and practices and those outlined in the Part B of the Framework.

Part D provides practical guidelines and a reference model on how to undertake effective capacity building initiatives in the Customs administrations of developing countries. It covers the identification of needs, the development of project documentation, the implementation of capacity building activities and how such activities can be reviewed and evaluated.
Why invest in Capacity Building for Customs

Customs administrations around the world play a vitally important role in the implementation of a range of critically important government policies and contribute to the achievement of a number of national development objectives.

Without an efficient and effective national Customs administration, governments will not be able to meet their policy objectives in respect to revenue collection, trade facilitation, trade statistics, and the protection of society from a range of social and national security concerns.

As such, well-designed and targeted capacity building investments focussed on improving the efficiency and effectiveness of Customs administrations can deliver significant dividends for governments and donors alike and allow developing countries to take advantage of the many development opportunities provided by the expanding global trading system.

While the core roles and responsibilities of Customs have remained essentially the same for many years, the manner in which Customs administrations discharge these roles and responsibilities has changed significantly in recent times. The drivers for this change can be summarized as:

- globalization and continued growth in the level of international trade;
- heightened international awareness (and quantification) of the costs associated with complying with inefficient and outdated border formalities;
- increased investment by the private sector in modern logistics, inventory control, manufacturing and information systems, leading to increased expectation for Customs to provide prompt and predictable processing of imports and exports;
- increased use and availability of new information and communication technologies;
- greater policy and procedural requirements directly associated with international commitments (such as accession to the WTO);
- increased international competition for foreign investment;
- proliferation of regional trading agreements which significantly increase the complexity of administering border formalities and controls;
- increased workload and government expectations, with static or decreasing financial and human resource allocations;
- increased awareness of the importance of good governance and sound integrity within Customs services; and
- following the terrorist attacks of 11 September 2001, a significantly heightened awareness of the need for Customs administrations to play a more meaningful role in protecting society from a range of threats to national security.
As a result of these drivers for change there has been a growing realization, both amongst the business community and within major international financial institutions, of the importance of effective Customs administration to the economic and social prospects of developing countries. It is now clearly understood that a well-performing and ethical Customs administration can make a major contribution to effective revenue mobilization, and can assist governments to facilitate trade and investment and increase confidence in the quality and integrity of government institutions.

As traditional trade barriers such as tariffs have progressively been reduced, trade facilitation reforms that address non-tariff barriers to trade are becoming increasingly important. However, unlike traditional market access obligations, the elimination or reduction of a range of non-tariff barriers is not a simple or inexpensive task for many developing countries. The potential benefits that could be realized through such activities are, however, significant.

Indeed, as every single international shipment of goods is subject to Customs control and processing at the time of import and export, Customs is uniquely positioned to successfully co-ordinate, consolidate and simplify border-related regulatory formalities on behalf of all government stakeholders. Moreover, it is the only government agency capable of successfully responding to the need to facilitate trade while at the same time collecting all revenue due and protecting society from a range of social and national security concerns.

Devoting appropriate resources to undertaking practical capacity building initiatives in the Customs administrations of developing countries therefore represents a sound and cost-effective economic investment for governments and donor organizations.

While there is now widespread agreement amongst the donor community that more attention needs to be paid to improving the capacity of Customs administrations in many developing countries, there is far less agreement on how such improvements should be designed, resourced and implemented. What has been missing to date is a broad and comprehensive framework for the development of practical and sustainable capacity building in the Customs administrations of the developing world. This diagnostic framework is designed to address this need.

Part A

What does Capacity Building mean in the Customs Context?

In the Customs context, capacity building is commonly understood to mean developing or acquiring the skills, competencies, tools, processes and resources needed to improve the capacity of the administration to carry out its allotted functions and achieve its objectives.

Lessons Learned from Previous Capacity Building Activities

Research by the WCO Secretariat, Member administrations and donor organizations in recent years has identified a range of factors that contribute to the success or otherwise of capacity building initiatives. These lessons are summarized as follows:
The need for accurate diagnosis of Capacity Building Needs and the Development of Country Specific Responses

Experience suggests that one of the critical success factors associated with the conduct of effective capacity building initiatives is the accurate diagnosis of developmental needs. While Customs administrations throughout the world face similar strategic challenges and perform similar regulatory functions, their individual circumstances, operating environments, administrative competencies, resource availability and development ambitions vary greatly. As such, it is vitally important that appropriate account is taken of these factors during the analysis, design, development and implementation of individual capacity building interventions in developing countries.

The international Customs community is concerned that many of the capacity building programmes that have been undertaken in the past were based on an inaccurate or insufficiently comprehensive assessment and analysis of needs. There are many factors that contribute to this situation, including:

- lack of a high-quality diagnostic tool focussed specifically on Customs which could provide a sound model or framework for comprehensive assessment and analysis of capacity building needs;

- limited pool of adequately experienced and qualified Customs specialists and consultants competent to undertake diagnostic assessments; and

- insufficient attention being paid to mission-critical but non-Customs-specific issues such as sound public sector management and administration competencies, strategic planning, change management, external co-operation, management information and base-line statistics.

This Framework provides a comprehensive tool for undertaking assessment missions and will assist Customs specialists to focus on all aspects of Customs administration rather than simply the areas in which they enjoy particular professional expertise.

The Need for Sustained High-Level Political Will and Commitment

Research conducted by several international organizations has identified the critical importance of high-level political will and commitment to the successful conduct of capacity building programmes. Without such commitment, maintained over the longer term, capacity building efforts are likely to be unsuccessful, regardless of the quality of their design and implementation. As such, high-level political commitment should be regarded as a prerequisite or fundamental criterion for determining whether to support capacity building activities in Customs.

While it is relatively easy for senior government officials to indicate their wholehearted support and commitment for Customs reform and modernization programmes, experience has shown that it is much more difficult for governments to demonstrate that degree of commitment through the allocation of appropriate human and financial resources. The prime responsibility for capacity building rests with governments and they must be prepared to match donor funding and technical support with their own commitment of human and financial resources.
The Need for Enhanced Co-operation and Coherence

One of the perennial problems facing all capacity building recipients and providers is the poor level of co-ordination and communication between national, regional and international donors leading to duplication of effort in certain areas, and little or no attention to other strategically important areas of Customs administration.

Likewise, and in spite of recent improvements designed to increase the level of co-ordination and coherence in capacity building delivery, ensuring effective co-ordination between different donors continues to plague international capacity building efforts.

To achieve real improvement in this area, governments and Customs administrations must take a more active and strategic approach to meeting their capacity building needs. Moreover, governments need to avoid the temptation of accepting donor assistance simply because it is available and play a more strategic and positive role in determining the needs and shaping the direction of the reform efforts.

The Need for Greater Ownership and Participation of Customs Personnel

Feedback obtained by the WCO from a number of Customs administrations indicates that many capacity building programmes have failed to adequately address the need to obtain the full participation and commitment of Customs officials. As a result, many 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. Appropriate attention should also be paid to ensuring relevant information is conveyed throughout the course of the capacity building intervention. To successfully address this problem, special 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. Implementation teams and project support groups may assist in this endeavour. In essence, capacity-building initiatives should be seen as being driven by the government, the head of the Customs administration and his/her senior management team, with the involvement of - and in close co-operation with - the trade.

Customs consultants, technical specialists and in-country advisors should focus on ensuring adequate local participation and ownership, and such objectives should be clearly articulated in the design and development of project proposals and other documentation.

The Need for Realistic Government and Donor Expectations

In reviewing many capacity building projects and other activities that have been conducted during the past decade, the WCO identified few that met or exceeded their stated developmental objectives. While this is disappointing, given the amount of funding and technical assistance that has been provided to many Customs administrations, it seems likely
that many initiatives were evaluated against somewhat unrealistic and overly ambitious expectations. Moreover, in many cases the capacity building inputs were either inappropriate or insufficient to ensure the transformations expected.

Undertaking comprehensive reform and modernization programmes in the Customs administrations of developing countries is a difficult and challenging task. The WCO believes that expectations need to be realistic and calibrated to take account of the scale and scope of the problems to be overcome and the amount of resources allocated to the task. Likewise, and closely linked to the problems associated with ensuring the accurate diagnosis of needs, capacity building inputs need to be accurately targeted to the problems they are expected to overcome. For example, research undertaken by the WCO indicates that the vast majority of capacity-building activities undertaken around the world have concentrated on the provision of training and/or technical assistance. While such inputs can play a valuable role, capacity building inputs should also have been directed at a range of more broadly focussed management, administrative, procedural and infrastructure-related issues in order to produce the desired results.

Moreover, even when anecdotal evidence suggests that significant progress has been made as a result of a particular capacity building programme, there is usually a lack of objective base-line data upon which meaningful comparison can be made. This Framework specifically addresses this issue and provides advice on improving the quality of base-line data obtained at the start of any capacity building intervention.

The Need for Adequate Human and Financial Resources to be Devoted to Capacity Building Initiatives

Customs administrations in many developing countries typically face enormous pressure to maximize revenue collection. To achieve this, particularly in an operating environment characterized by poor levels of voluntary compliance, Customs officials routinely resort to high levels of documentary and physical inspection to verify the value, classification and origin of goods. This results in significant delays in Customs clearance and creates an operating environment that is vulnerable to corruption. At the same time, Customs administrations also face significant pressure from the private sector and trade-related government agencies to expedite the processing and clearance of goods. This can only be achieved by reducing the level of resource-intensive documentary and physical examination.

While experience in a wide range of industrialized countries has proved that such apparently competing demands and objectives can be successfully managed by an efficient and effective Customs administration, the scale and the scope of the improvements necessary to achieve this in many developing and least-developed countries are extensive. Having reviewed a wide range of case studies, the WCO has concluded that the quantum of human and financial resources devoted to achieving such fundamental changes has often been inadequate to achieve the changes required and in many cases, even when improvements have been made, they have proved unsustainable in the longer term.

By way of example, many Customs capacity building projects have devoted substantial attention to implementing information technology systems. While the WCO fully supports such activity, it is concerned that IT projects are often under-resourced relative to the scale of the changes being contemplated. The IT industry typically works on an implementation: post-implementation support ratio of 1:4. In other words, 25% of the costs associated with
implementing a new information technology system should be devoted to implementation itself and 75% to post-implementation hardware and software support.

Research conducted by the WCO has found that in many of the cases reviewed the ratio was closer to the reverse. As a result, many Customs administrations in the developing world are unable to adequately support their current information technology infrastructure and are unlikely to obtain government support to migrate to later versions of the same product. This problem is compounded by the fact that implementation of new information technology systems typically involves a significant amount of non-IT-based business-process re-engineering.

Successful capacity building initiatives often specify the involvement of high-quality Customs advisors to assist local officials to implement project objectives. Placing skilled advisors in developing countries often represents a significant proportion of the costs associated with capacity building projects. As a result, many capacity building projects deliberately limit the number and duration of short and long term advisors assigned to particular projects.

The WCO is concerned that in many cases the advisors are appointed for inadequate periods and that insufficient attention is paid to post-implementation support and assistance. As a result, improvements made are sometimes not maintained in the longer term. Indeed, in a number of cases, Customs administrations have had a succession of medium to large-scale capacity-building projects one after the other; all designed to address similar institutional needs.

**Roles and Responsibilities of Potential Stakeholders**

The scale and scope of the capacity building challenges facing the Customs administrations of the developing world are significant. To achieve meaningful and sustainable improvement in efficiency and effectiveness, many Customs administrations will require the concerted and cooperative effort of all stakeholders including:

- governments;
- Customs administrations;
- the private sector;
- key international organizations;
- international financial institutions, regional development banks and national assistance agencies;
- WCO Member administrations from developed countries; and
- the WCO Secretariat.

Each of the above groups has an important role to play in undertaking capacity building in Customs. A brief summary of their potential contribution follows.
Governments

The key responsibility for capacity building rests with individual governments. Governments must establish the sound administrative infrastructure necessary for effective Customs administration and must ensure that the human and financial resources allocated to Customs are commensurate with its potential contribution to the achievement of national development objectives. Customs administrations in many developing and least-developed countries are under-resourced, poorly equipped, and inadequately remunerated. Moreover, governments rarely place sufficient priority on Customs reform and modernization during consultations and negotiations with international financial institutions and donor organizations. As donor organizations lend money to governments and not to individuals or international organizations, it is vital that governments build convincing business cases for capacity building in Customs and actively seek the necessary funding support.

Governments are also uniquely positioned to direct and co-ordinate the capacity building efforts of other stakeholders, including the donor community. In some cases, governments have been content to allow donors or capacity building providers to dictate the direction of reform and modernization efforts and have shopped around for assistance rather than taking a strategic approach to obtaining support.

Customs Administrations

As Customs in most countries is the key agency associated with border control and facilitation, it has the responsibility to provide value-for-money services to the community it serves. Customs understands the environment in which it operates and has day-to-day contact with other government agencies and the private sector. Customs administrations should take a strategic approach to identifying their capacity building needs and should take responsibility for setting the direction and content of their improvement programmes.

Many capacity-building initiatives require a relatively small amount of money and can be accommodated within existing human and financial resources without necessarily resorting to external funding or assistance. Customs administrations should also allocate appropriate resources to support productive capacity-building initiatives and be more active in promoting their developmental needs to government and other stakeholders. Moreover, Customs administrations should make better use of capacity building offered by donor organizations to ensure improvements achieved are maintained and further developed.

The Private Sector

The private sector has an important role to play in capacity building. In many cases, private sector corporations are the prime beneficiaries of any improvements achieved through capacity-building initiatives in Customs. For most businesses, speed of delivery, predictability and a secure supply chain are vital for their business survival. As such, the private sector should use its influence with governments to direct necessary resources to Customs reform and peak industry bodies to generate and sustain support for sound capacity-building initiatives. Likewise, it should participate, wherever possible, in such activities. Where appropriate, the private sector could also augment capacity building assistance provided by donors either through the provision of training and technical assistance or via direct funding support. In order to develop viable mechanisms for private sector involvement, individual
corporations and relevant industry bodies will need to take a long-term view and avoid narrow sectional interests.

A sound and fully functioning Customs administration is an asset to all stakeholders, and opportunities to participate in reform and modernization initiatives should be viewed from this perspective. The private sector also has a responsibility to support Customs capacity building efforts by participating in consultative fora and by adopting modern and ethical business standards.

**International Organizations**

International organizations have - and will continue to play - an important role in supporting the capacity building efforts of Customs administrations. International organizations are able to generate global support for international agreements and standards and can support such efforts through targeted training and technical assistance programmes. Organizations such as the WTO, the OECD, UNCTAD, the UNDP and the World Economic Forum are all active in formulating and delivering a range of Customs-related capacity-building initiatives. In addition, peak private sector bodies such as the International Chamber of Commerce have been active in establishing recommendations for modern and effective Customs administration.

International financial institutions such as the World Bank and the International Monetary Fund play a vitally important role in the formulation and provision of capacity building assistance. Many developing and least-developed countries do not have the financial or human resource capabilities necessary to undertake comprehensive capacity building programmes. International and regional financial institutions can play an important role by providing guidance and access to appropriate funding for productive capacity building initiatives.

It is important for international financial institutions to recognize the critical value of Customs to the economic, social, fiscal and trade ambitions of nations and to emphasize Customs as a key component of their country-specific development programmes.

**Regional Organizations**

Regional development banks provide guidance and funding to assist Customs administrations to undertake various capacity-building activities. In many cases, the assistance that is provided is directly related to complementary regional initiatives. Assistance is generally provided to Customs administrations through bilateral partners, international organizations or private sector consultants. For example, the WCO has been involved in capacity building programmes funded by the Asian Development Bank and the Inter-American Development Bank where its Customs-related expertise is able to add value to regional initiatives. Likewise, the WCO has worked in close cooperation with organizations such as the APEC Sub-Committee on Customs Procedures and is currently pursuing closer relationships with a range of organizations, including COMESA, ASEAN and the Commonwealth Secretariat.

**Bilateral Donors**

National development assistance agencies also provide a valuable source of funding and technical assistance for capacity building in Customs, particularly in cases where the recipient country enjoys close historical ties and/or is of strategic importance to the donor country. Increasingly, national agencies are undertaking joint projects with international organizations and international financial institutions to ensure limited resources are used most effectively.
Agencies such as the United States Agency for International Development (USAID), the UK Department for International Development (DFID), The Japan International Co-operation Agency (JICA), the Agence Francaise de Développement, and the national agencies of Germany, Denmark, Sweden, Korea, the Netherlands and New Zealand have been generous in funding Customs-related activities in the past.

In many cases, successful capacity building programmes in Customs rely heavily on access to highly skilled and qualified Customs expertise. While some of this expertise is available through international organizations such as the WCO and through the private sector, the pool of available personnel is extremely limited. In order to adequately resource capacity-building initiatives undertaken in developing and least-developed countries, the continued contribution of developed-country Member administrations is required. Member administrations will need to continue to be actively involved in supporting bilateral assistance programmes and providing policy guidance to the WCO Secretariat.

WCO

The WCO’s mission is to enhance the efficiency and effectiveness of Customs administrations in the areas of compliance with trade regulations, protection of society and revenue collection, thereby contributing to the development of international trade and to the economic and social well-being of nations. In order to fulfil this mission, the WCO pursues three main capacity building strategies:

Firstly, through its conventions, other instruments and best-practice approaches the WCO provides an internationally agreed series of models for effective Customs administration.

Secondly, the WCO provides a forum for international co-operation and the exchange of information and experience between Member administrations, other international organizations and the private sector.

Thirdly, through its training and technical assistance programme it provides a range of high-quality capacity-building opportunities in areas of organizational competence.

Part B

Capacity Building Pre-requisites

In 2003 the WCO conducted a comprehensive survey of Member administrations to determine the key capacity building needs, barriers and challenges facing its Member Customs administrations. WCO Member administrations identified six key building blocks which were considered essential prerequisites for effective and comprehensive capacity building in Customs. The pre-requisites were identified as:

- sufficient political will, leadership and stakeholder support to ensure sustainability of capacity building initiatives;
- adequate long-term resourcing and access to sustainable funding;
• a fully functioning civil service which provides the basic infrastructure necessary to administer national laws and international commitments;

• a sound legal framework and a functioning judicial system;

• adequate remuneration and employment conditions for Customs officials; and

• a broad climate supportive of change and improvement.

Each of these issues was regarded by WCO Members as fundamentally important for successful capacity building. While it was acknowledged that some of the above-described issues are out of the direct control of Customs personnel, it was emphasized that without these building blocks in place it would be difficult to achieve meaningful and sustainable improvement. As such, in assessing the capacity building needs of particular administrations it is vital that appropriate attention be paid to these issues.

Where it is determined that one or more of these fundamental building blocks is not present, or at least not to some realistic threshold level, then capacity building programmes such as those conforming to the model described in this Framework may be inappropriate. In such cases, and particularly where normal border controls and infrastructure are not present or viable, then recourse to some form of emergency measures might be appropriate.

For example, in cases where revenue collection vital to the functioning of the government is at risk and established capacity building solutions are not viable in the short to medium term, a number of governments and international financial institutions have resorted to the adoption of pre-shipment inspection (PSI) regimes. While acknowledging the reasons why governments have decided to employ such regimes, the WCO and its Member administrations have traditionally been concerned about their longer-term effects on capacity building of Customs, because PSI regimes have often been viewed as substituting Customs rather than as a stopgap measure. Instead, the WCO recommends that the service of private companies be employed as complementary measures to support Customs activities while concerted efforts are made to establish the infrastructure necessary to manage Customs in a more sustainable manner. As such, comprehensive capacity building programmes, conforming to the models described in this document, should be conducted simultaneously with the use of pre-shipment inspection.

**Key Principles for Modern Customs Administration**

While there is no universally accepted model for modern Customs administration, the international Customs community believes all capacity building activities in Customs should be focussed on increasing Customs’ performance in respect of each of the key principles outlined in the Revised Kyoto Convention. The following principles are therefore based heavily on the Convention:

**Integrity**

Customs administrations should be free of corruption and strive to uphold the highest levels of integrity.

**Transparency**

Customs laws, regulations, administrative guidelines and procedures should be made public and provided to clients in an easily accessible manner.
<table>
<thead>
<tr>
<th><strong>Accountability</strong></th>
<th>Customs administrations should be accountable for their actions through a transparent and easily accessible process of administration and/or judicial review.</th>
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<tr>
<td><strong>Predictability</strong></td>
<td>Customs laws, regulations, administrative guidelines and procedures should be applied in a stable and uniform manner.</td>
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<td><strong>Facilitation &amp; Control</strong></td>
<td>While ensuring proper enforcement of Customs laws and regulations, Customs administrations should strive to facilitate the processing and clearance of legitimate trade by risk management.</td>
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<td><strong>Client Service</strong></td>
<td>Customs administrations should continually strive to improve the level of service they provide to clients.</td>
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<td><strong>Standardization</strong></td>
<td>Customs laws, regulations, administrative guidelines and procedures should, where appropriate, be harmonized with internationally agreed standards.</td>
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<td><strong>Simplification</strong></td>
<td>Customs laws, regulations, administrative guidelines and procedures should be simplified to the extent possible so that Customs clearance can proceed without undue burden.</td>
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<td><strong>Minimum Intervention</strong></td>
<td>Customs administrations should apply sound risk management and audit-based controls to identify high-risk activities, people, cargo and conveyances and limit the level of Customs intervention.</td>
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<td><strong>Information &amp; Communication Technology</strong></td>
<td>Customs administrations should make maximum use of information and communication technology to facilitate the adoption of the principles outlined in the Revised Kyoto Convention.</td>
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<td><strong>Cooperation &amp; Partnership</strong></td>
<td>Customs should strive to develop co-operative relationships with all stakeholders including government agencies, the private sector and other Customs administrations.</td>
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<td><strong>Continuous Improvement</strong></td>
<td>Customs should establish standards of performance and implement systems and procedures which strive to continually improve the efficiency and effectiveness of all business processes.</td>
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<td><strong>Compliance Improvement</strong></td>
<td>Customs should work with clients to assist them to improve their level of voluntary compliance.</td>
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In addition, all Customs reform and modernization efforts should be focussed on establishing or strengthening the management and administrative capacity of Customs administrations.

Each of these issues is addressed in the Diagnostic tool included in this Framework.
Core Components of a Modern Customs Administration

Experience has shown that successful capacity building projects are generally comprehensive in their scope and focus. As modern Customs administration involves the management of a complex set of interdependent functions and systems, it is essential that reform and modernization efforts address all of the core components of the administration. For example, a capacity building project focussed on automation will only be successful if sufficient attention is also paid to issues such as obtaining sufficient resources and infrastructure, reforming Customs systems and procedures, improving co-operation with other government agencies and the private sector, and introducing sound planning and management processes.

Research undertaken by the WCO in recent years has identified seven core components that are considered essential for modern Customs administration. The seven components together with a range of key sub-components are described in the following table.

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<thead>
<tr>
<th>Core Components for Capacity Building</th>
<th>Sub-components</th>
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<tr>
<td>1. Strategic Management</td>
<td>Leadership and Strategic Planning</td>
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<td>Organization and Institutional Framework</td>
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<td>Change Management and Continuous Improvement</td>
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<td>Management Information and Statistics</td>
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<td>2. Resources</td>
<td>Human Resource Management</td>
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<td>Financial</td>
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<td>Physical</td>
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<td>3. Legal Framework</td>
<td>Legislation</td>
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<td>Customs Control</td>
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<td>Customs Offences</td>
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<td>4. Customs Systems and Procedures</td>
<td>Appeals</td>
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<td>Carriage of Goods Coastwise</td>
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<td>Free Zones</td>
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<td>Information, Decisions and Rulings</td>
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<td>Inspection and Examination</td>
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<td>Inward Processing</td>
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<td>Relief from Import Duties and Taxes</td>
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<td>Security and Facilitation of the International Supply Chain</td>
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<td>Rules of Origin</td>
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<td>Relief Consignments</td>
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<td>Relationships with 3rd Parties</td>
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<td>Revenue Collection</td>
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<td>Securities and Guarantees</td>
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<td>Specialized Programmes</td>
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<td>Warehousing</td>
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Part C

Diagnostic Tool

Each of the above described components and sub-components have been analyzed and broken down into a series of issues and questions that will assist diagnosticians to review and evaluate the current situation and performance of a Customs administration. The questions are not intended to be exhaustive. Furthermore, the nature and weight to be accorded the issues identified will necessarily differ from administration to administration.

The Diagnostic tool provided for this purpose is structured in the following way:

<table>
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<tr>
<th>Diagnostic Questions</th>
<th>Common Weaknesses</th>
<th>Potential Solutions and Improvement Options</th>
<th>Useful Reference Materials</th>
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<tr>
<td>Designed to collect information on the current situation and to identify priority areas for attention.</td>
<td>Describes the situation that may typically be found in many developing countries. Assists the diagnostician to go beyond the diagnostic question.</td>
<td>Suggests options and solutions based on international best practice.</td>
<td>Describes any useful reference materials that might be available.</td>
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</tbody>
</table>
It is important, however, that diagnosticians understand that reviewing and evaluating the situation and performance of a Customs administration is not an exact science. There are rarely any right or wrong answers to the diagnostic questions included in the tool. Likewise, a yes or no answer is rarely useful as the diagnostic questions are intended to stimulate discussion and identify appropriate solutions. Rather, the questions and other elements of the tool are provided to ensure that diagnosticians are comprehensive in their coverage of the issues in question. Similarly, making judgements based on the answers provided to the questions will require the exercise of experience and judgement and an understanding of the individual needs, circumstances, priorities, and concerns of the country and Customs administration concerned. Obtaining accurate answers to the questions will sometimes require direct observation and/or review of Customs systems and procedures and operational data.

To assist diagnosticians to adequately prepare for in-country needs assessment missions, two additional tools are provided. The first is a Pre-Mission Research template and the second is an In-Country Strategic Assessment tool. These tools will assist diagnosticians to obtain country and administration-specific background information necessary to commence the needs assessment process. Likewise, they will assist to identify the pre-requisite conditions necessary for comprehensive capacity building described at Part B above.

The importance of undertaking a thorough process of pre-mission preparation cannot be underestimated. The degree of support provided by the host administration, the quality of the conclusions reached during need assessment mission, and the likelihood of recommendations being accepted by the administration and donors is dependent on the professional competence and credibility of the diagnosticians. Undertaking thorough pre-mission research is critically important to establishing such credibility.

The Diagnostic tool has been developed in such a way as to provide both a template for external Customs specialists or consultants to use to review and evaluate current systems and procedures and as a self assessment tool for use by Customs officials.

At all stages of the diagnostic needs assessment process diagnosticians should be cognizant of the need to ensure thorough consultation and cooperation with the Customs administration concerned. The approach should instill a sense of cooperation and partnership and contribute to ownership of the needs assessment outcomes. Attention should be paid to carefully explaining the purpose of the needs assessment and testing any initial conclusions that are reached on the adequacy of systems and procedures with the officials concerned. Diagnosticians should avoid jumping to conclusions without adequate research and investigation and all assumptions should be thoroughly tested prior to making any recommendations.

**Part D**

**Guidelines on Undertaking Effective Capacity Building**

All donor organizations and most private sector consultants have developed their own unique approaches to undertaking capacity building initiatives. The WCO has distilled the critical elements of the different approaches that are currently employed around the world into a seven step generic capacity building ‘Project Lifecycle’.
The seven stages in the WCO Project Lifecycle are as follows:

1. Project Identification
2. Initial Assessment
3. Needs Assessment Diagnostic
4. Project Preparation
5. Implementation
6. Monitoring
7. Evaluation

Each of the seven steps is interdependent and critical to successful project design and implementation. It is important that all seven steps proceed sequentially and that short-cuts are not made to speed up project identification, assessment and preparation.

Project Lifecycle
1. Project Identification

Customs capacity building projects can be initiated in a number of ways. Firstly, as the entity with principal responsibility for the delivery of economic and social objectives, the government may decide to reform and modernize its Customs administration to ensure it makes a more effective contribution to government objectives such as trade facilitation, revenue collection, protection of society, or more recently, national security. Frequently governments will act due to some form of eternal pressure or criticism. Such pressure or criticism may come from bilateral or multilateral partners or due to governments making economic or trade related commitments such as those required under WTO accession.

Secondly, Customs administrations may decide to initiate a Customs capacity building project. Almost all Customs administrations around the world are constantly looking to improve their performance and to adopt best practice approaches to Customs administration. Frequently, however, Customs managers do not have the detailed knowledge of international best practices and require external assistance to identify needs and design effective capacity building strategies. This is particularly so in respect to the adoption of IT systems where access to domestic sources of technical competence may be extremely limited.

Thirdly, capacity building projects may be initiated by multilateral or bilateral donors that identify the potential for Customs to make a more effective contribution to trade facilitation and revenue collection/mobilization. Such initiatives are often initiated as part of regular meetings and dialogue between governments and donors. Likewise, such initiatives may follow ministerial visits, sector studies, donor consultative forums, and reviews of earlier projects.

2. Initial Assessment

In each of the three cases identified above, contact may be made with the WCO which will then decide whether to initiate a capacity building initiative. In determining whether to proceed the WCO will:

- assess whether the Member administration concerned is fully committed to the initiative;
- review any previous capacity building initiatives undertaken in the administration to assess the probability or otherwise of success;
- determine whether the WCO has the technical and administrative capacity (either itself or via its network of Member administrations) to undertake the initiative;
- identify and analyze the risks involved in participating in the initiative to ensure the WCO and its network of Member administrations is not exposed to financial or reputational risk;
- analyze the proposed objectives of the initiative to determine whether they are in keeping with the goals of the WCO and international best practice as described in a range of key WCO and other Conventions and instruments; and
- estimate the human and financial resource implications to determine whether suitable development partners can be identified.
To adequately assess the above described issues, it may be considered necessary to undertake a preliminary Pre-Diagnostic Mission. The purpose of the mission is to assess the existence or otherwise of the necessary pre-conditions described in Part B above and to determine the degree of commitment to improvement present within the recipient administration and key stakeholders.

Such a mission should not undertake a detailed needs assessment but rather simply identify the core skills and competencies that may be required in the team of diagnosticians that may visit at a later time and assess any key environmental factors that will need to be taken into account when deciding to proceed with a comprehensive capacity building initiative. A Pre-Diagnostic Mission can help focus a later, more complete diagnostic and provide a considerable resource savings. Moreover, a secondary purpose of the Pre-Diagnostic Mission is to inform the recipient government and Customs administration of the critical factors necessary for successful capacity building. Specifically, the Pre-Diagnostic Mission should:

- assess the political and administrative commitment to the initiative;
- gain an understanding of local development priorities;
- clarify the objectives and priorities of the administration;
- collect base-line data and information necessary for more detailed research;
- consider the lessons learned from previous capacity building initiatives undertaken in the country;
- assess stakeholder perceptions about the administration; and
- identify a range of logical next steps.

The officials selected to undertake a preliminary Pre-Diagnostic Mission should possess the following:

- ability to engaged constructively with senior officials from government, Customs, other stakeholders and the resident donor community;
- broad Customs managerial and operational experience;
- knowledge of international best practice; and
- experience in working with the Customs administrations of developing countries.

Following the Pre-Diagnostic Mission and once the necessary detailed research and analysis has been completed, a decision should be made on whether the WCO should proceed with the capacity building initiative. If so, it will then be necessary to undertake a more detailed needs assessment. While the above outlines the approach to be taken by the WCO, others initiating a capacity building effort may want to consider a similar approach.
3. Needs Assessment Diagnostic

As described in Part A above, experience throughout the world suggests that one of the critical success factors associated with the conduct of effective capacity building initiatives is the accurate diagnosis of developmental needs. While Customs administrations worldwide face similar strategic challenges and perform similar regulatory functions, their individual circumstances, operating environments, administrative competencies, resource availability and development ambitions vary greatly. As such, it is vitally important that appropriate account is taken of these factors during the needs assessment diagnostic phase of any capacity building initiative.

Research undertaken by the WCO suggests that the quality of the needs assessment diagnostic process is dependent on several factors including:

- adequate pre-mission preparation and research;
- composition and competency of the needs assessment diagnostic mission team;
- methodology and approach employed by the team during the mission; and
- ability to communicate and test findings and conclusions both orally and in written form.

To ensure adequate mission preparation and research, all available documentation, reports, and other information should be identified and analyzed. Special attention should be paid to the results of the Pre-Diagnostic Mission report and any documentation prepared by donor agencies on previous capacity building initiatives. Team Members should be aware of trading patterns, geo-political issues and history, economic ambitions and wider developmental objectives.

Attention should be paid to establishing a balanced and competent needs assessment diagnostic mission team. The individual experience and skill sets of the individuals should be balanced to ensure effective coverage of each of the seven components described in Part B above. The leadership of the team should be invested in one person with each individual taking responsibility for the preparation of one or more components. Team roles, responsibilities and accountabilities should be discussed and agreed before the mission.

Equally, the methodology and approach to be employed during the mission should be discussed and agreed before departure. However, sufficient flexibility should be built into the methodology to ensure it can be adjusted to respond to the situation in-country. Generally, the mission should commence with an entry interview with the head of Customs and the senior management team. The team leader should introduce the individual members of the team and provide an overview of the mission objectives and working methodology.

The Diagnostic Framework provides a useful tool for the information collection and analysis phase; however, answers should be tested by direct observation of systems and procedures and interviews/discussions with operational staff and stakeholders. The approach employed by team members should be collaborative and problem solving in focus. The needs assessment diagnostic mission is not an audit and care should be taken to ensure open staff participation and input. Where appropriate, meetings should be held with individual work groups and observation, conclusions and recommendations discussed and tested.
The mission should conclude with a meeting with the head of Customs and the senior management team at which time preliminary findings should be outlined and discussed. The final report should reflect these discussions and the content should not contain any surprises. Such an approach does not, however, suggest that there may be no room for disagreement regarding the team’s findings and recommendations but rather that such issues should have been highlighted during the mission and areas of disagreement noted. A detailed report should be completed as soon as possible after the mission. The responsibility for individual parts of the report should be discussed, agreed and documented prior to departure from the recipient country. Where specific assumptions underpinning the probable success or sustainability of the mission recommendations are identified these should be clearly articulated in the final report.

As the product of such missions is typically a detailed report, attention should be paid to the accurate recording of notes and observations. Such detailed note taking will greatly assist in the preparation of the final report. The Diagnostic Framework has been formatted to provide adequate space for initial observations and conclusions.

4. Project preparation

Once a comprehensive needs assessment diagnostic has been undertaken it is necessary to proceed to project preparation. This should take into account issues such as: available resources; lessons learned from previous capacity building initiatives in the country; leadership and commitment, training and technical assistance; procurement; legal and administrative barriers; sequencing of inputs and the identification of measurable performance indicators. It should be practical and be based on the current and future capacity of the Customs administration to absorb change. Any project plan must recognize that Customs administrations are at different stages of development thus the plan must be situational.

The sequencing and pacing of activities should take into account the process of continuous improvement to allow a realistic transition from the current state as identified by the Diagnostic and use of the Framework, to the desired state.

In this regard, special attention should be paid to change management strategies required to underpin the developments and improvements envisaged during project implementation. Where change management barriers have been identified during needs analysis or project preparation, specific activities should be incorporated into the project design to deal with them. Staff incentives and disincentives should receive special attention.

To assist in the design of comprehensive and sustainable capacity building initiatives, many donor organizations have adopted a template known as a ‘Logical Framework’ or ‘Log Frame’ as it is typically known. The purpose of the Log Frame is to ensure sound project planning, management and monitoring mechanisms are employed and that the project achieves meaningful results.

An outline of the components that make up a generic Log Frame are illustrated as follows.
## Generic Logical Framework

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Performance Indicators</th>
<th>Means of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purpose</strong>: The expected results or development outcomes expected at the end of the project. All project components will contribute to this.</td>
<td>Conditions at the end of the project indicating the purpose of the project has been achieved.</td>
<td>Sources of information and means/methods to collect and report it.</td>
<td>Pre-requisites or conditions which impact upon achievement of the purpose.¹</td>
</tr>
<tr>
<td><strong>Component Objective</strong>: The objectives of each individual project component and how they all contribute to the project purpose.</td>
<td>Measures the extent to which project objectives have been met. Used during review, supervision and evaluation.</td>
<td>Sources of information and means/methods to collect and report it.</td>
<td>Assumptions concerning individual components.²</td>
</tr>
<tr>
<td><strong>Outputs</strong>: The direct measurable results of the project described in terms of deliverables.</td>
<td>Measures of the quantity and quality of project outputs.</td>
<td>Sources of information and means/methods to collect and report it.</td>
<td>Assumptions concerning the outputs of the project.³</td>
</tr>
<tr>
<td><strong>Activities</strong>: The tasks carried out to implement the project and deliver the identified outputs.</td>
<td>Implementation and/or work undertaken. May be useful to include milestones.</td>
<td>Sources of information and means/methods to collect and report it.</td>
<td>Assumptions concerning the outputs of the project.⁴</td>
</tr>
</tbody>
</table>

In preparing a Logical Framework, officials should pay attention to each of the individual components of the template. All are important and interdependent and all contribute to sound project design. The Logical Framework should be prepared prior to the development of a detailed Implementation Plan. Where necessary, dependent activities should be identified and appropriately sequenced and paced. In addition, as the Logical Framework requires the preparation of performance indicators and the identification of suitable means of verification, the template provides a sound basis for later monitoring and evaluation of progress against project objectives.

¹ For example, an assumption might be that the government will meet its project obligations to contribute an agreed amount of counterpart funds to the project.

² For example, if a component of the project was directed at establishing a Valuation Unit it would be reasonable to include an assumption that the government would adopt the WTO Valuation Agreement within a specified timeframe.

³ For example, if an agreed output of the project was the introduction of Post Clearance Audit function it may be appropriate to include an assumption that the government would pass appropriate legislation to allow such audits to be conducted.

⁴ For example, if one of the activities concerned the provision of specialized training it may be appropriate to include an assumption that the Customs administration would release the correctly qualified people to attend the training.
Once the Log Frame has been prepared it is relatively easy to prepare a comprehensive Project Implementation Plan. The Plan should describe in detail all the project inputs, outputs, and estimated costs by activity. Costs should be calculated using realistic estimates as mistakes made during project preparation may undermine later project implementation and success. In particular, special care should be exercised when estimated the cost of long term in-county advisors. Likewise, professional expertise may be required to estimate the costs of extensive acquisitions of information and communication technology as these have been traditionally problematic to accurately estimate.

5. Implementation

In addition to comprehensive needs assessment and diagnosis (based on all seven components of the Diagnostic Framework), and sound project preparation (based on the development of a comprehensive Log Frame), effective implementation depends on the following factors:

- a clear, shared and pragmatic vision for the future;
- high level commitment sustained over the duration of the project;
- staff and stakeholder participation and ownership;
- allocation of adequate human and financial resources;
- effective communication and coordination;
- sound project management incorporating verifiable milestones and performance indicators; and
- a commitment to achieving measurable and sustainable results.

To ensure all of these factors are adequately addressed, the recipient administration should establish appropriate project implementation mechanisms including subject or theme-specific working groups and/or committees. Sufficiently senior, experienced and credible officials should be allocated to the implementation team and their current work and ongoing responsibilities reallocated to others. Project management can rarely be sufficiently addressed as a part time responsibility.

The recipient should also prepare a Strategic Plan incorporating all the key elements of the capacity building initiative. Care should be taken to ensure effective integration and compatibility with pre-existing initiatives and planned developments. The capacity building initiative should be regarded as a means of achieving the administration’s long-term vision; but not separate to the strategic objectives of the administration.

Adequate human and financial resources should be allocated to the project based on a realistic assessment of the quantum of assistance required to achieve meaningful results. Too often in the past, comprehensive capacity building initiatives have been under-resourced leading to slippage in implementation timetables and disappointing results.

Where short or long term advisors are appointed to assist in project delivery they should work extremely closely with administration officials. Care must be taken to ensure they assist,
support and work closely with relevant officials in project implementation and not be seen as assuming responsibility for the management and administration of Customs. It is critically important that officials of the recipient administration attend and fully participate in any meetings held with external stakeholders. Advisors should pay particular care not to undermine or be seen to undermine the authority of administration officials.

Where possible and/or where multiple advisors are utilized they should be co-located with the administration officials they are working with and not be located in an expatriate officials office or the like. Care should be taken to ensure clear and unambiguous communication channels are established with key officials and any disagreements or changes in project objectivities or activities are discussed and agreed in a prompt and open manner. Advisors should avoid participating in internal disagreements and avoid being seen as supporting any particular interest groups or cliques.

Senior management should be encouraged to take an active leadership role in all aspects of project implementation. They should also take prime responsibility for communicating project activities to their staff and stakeholders. Where possible, regular meetings with project personnel should be scheduled and reports on progress provided to all officials and stakeholders.

Experience throughout the world suggests, however, that external advisors are frequently appointed for inadequate periods of time and that insufficient attention is paid to post-implementation support and assistance. As a result, improvements made are sometimes not maintained in the longer term. In order to redress these problems, capacity building initiatives should:

- incorporate significantly longer implementation timeframes;
- make better provision for post-implementation support;
- incorporate adequate provision for short and long-term in-country advisors; and
- include mechanisms for the provision of additional support and long-term funding provisions (particularly in the case of communication and information technology-based interventions).

6. Monitoring

Research conducted by the WCO and several donor organizations has highlighted the importance of effective project monitoring and supervision. The officials assigned to undertake such work should be independent from the implementation process and should focus on achievement of the objectives, milestones and performance indicators included in the Log Frame and Project Implementation Plan.

The preparation and analysis of periodic progress reports will assist sound project monitoring. The reports should highlight any variables that have impacted or may impact on the achievement of project objectives. Where particular assumptions that underpinned project preparation have proved to be incorrect, adjustments may need to be made to project objectives, milestones and verifiable performance indicators.
The purpose of input/activity/output monitoring is to keep track of project implementation efficiency. Inputs should convert through activities to verifiable outputs. It provides project managers, donors and relevant stakeholders with information on progress toward planned objectives and the use of project objectives on time and within budget expectations. The main data requirements for effective monitoring should have been identified in the Log Frame and Project Implementation Plan. Other key resource materials include periodic reports and performance against baseline data collected during the needs assessment and design phases of the project.

At monthly or agreed intervals, project officials should prepare detailed statements of financial expenditure. They should be in a form which complies with donor requirements and the recipient administration’s budget process. Likewise, they should be easily reconcilable against the approved Project Implementation Plan. Where, for any reason, project expenditure appears that it might not be expended according to schedule, provision should be made to reschedule or rollover expenditure into the next financial reporting period. The purpose of detailed financial monitoring is to ensure appropriate accountability for project funding thus avoiding any suggestion of impropriety or corruption. It is necessary, however, to ensure sufficient flexibility in project disbursements by enabling activities to proceed as and when required and not simply to ensure that funds are spent in any particular accounting and/or reporting period.

In determining the level and timing of project monitoring, attention should be paid to any risks identified in the project identification, assessment and project preparation phases. Moreover, the level of financial exposure involved will determine the most appropriate monitoring regime for the project.

7. Evaluation

Unlike monitoring, evaluation should be based on the achievement of desired objectives and outcomes. It should be undertaken at the completion of the project and designed to measure the administration’s performance in respect to base-line data collected at the beginning of the project, and the achievement of agreed project goals and objectives. It should be outcome and results focussed rather than input and output focussed. It should also address issues such as any recommended supplementary inputs required or any post-project support mechanisms that may be required to ensure long term sustainability of the improvements realized during project implementation.

Conclusion

The Customs Capacity Building Diagnostic Framework is an important contribution to improving the design, implementation and evaluation of capacity building projects with a goal to improve the performance of Customs administrations around the world. It will be useful for both developed countries that typically fund and manage capacity building projects and to developing and least developed countries that are typically beneficiaries of such efforts. Likewise, it will be useful to private sector consultants and donor organizations involved in activities designed to achieve practical improvement in the capacity of Customs, and its sustainability.