What is corruption?...

- Abuse of public office for private gain:
  - **State capture:** corruption in laws and policies: e.g. buying legislative votes, decrees, illicit political party financing
  - **Administrative corruption:** in the implementation of laws and policies: e.g. bribery, “speed money”, extortion.
…and why is the World Bank concerned?

• Corruption is the biggest single obstacle to poverty reduction
• Corruption stands in the way of economic and social development
• Corruption poses risks to World Bank financed projects and use of funds
Why it matters: the costs of corruption

- To the public: through bribe extraction, poor service delivery, hitting the poor hardest
- **Macro-fiscal**: through lower revenue and higher expenditure
- **Investment and growth**: through regulatory abuse, unreliable contract enforcement
- **Legitimacy of the state**, cynicism, loss of confidence in public institutions
World Bank strategy since 1997

- Supporting countries’ efforts to develop national anticorruption programs
- Mainstreaming
  - In WB country assistance strategies, programs and projects
  - Criteria for IDA assistance
  - Assessment of country risk
- Strengthening WB internal safeguards
- International cooperation
- Analysis, empirical evidence, knowledge management and dissemination
The power of information: an example from Latvia

• Diagnostic surveys can tell you what is:
  – *most costly to households*: road police, health services
  – *highest bribe flows*: State Real Estate Agency
  – *least honest*: Customs, Telecoms
  – *most damaging to society*: corruption among politicians and in the judiciary
Multipronged Strategy for Good Governance and Anticorruption

**Institutional Restraints:**
- Independent and effective judiciary
- Legislative oversight
- External audit
- Independent prosecution, enforcement
- Decentralization with accountability

**Civil Society Oversight:**
- Freedom of information
- Public hearings of draft laws
- Monitoring by media/NGO's

**Political Accountability:**
- Political competition
- Transparency in party financing
- Asset declaration, Conflict of interest rules
- Decentralization -- with accountability

**Competitive Private Sector:**
- Competitive restructuring of monopolies
- Regulatory simplification for entry
- Transparency in corporate governance
- Collective business associations

**Public Sector Management:**
- Meritocratic civil service with adequate pay
- Financial management and procurement reform
- Tax and customs administration
Vulnerability assessment: Latvian Customs

- Unclear legal framework
- Focus on document control but lack of real time info. on goods in transit
- Poor control of warehouses, escorts, but no customs corridors
- No deposits required for temporary imports
- TIN not used in Customs declarations

- No scales or x-rays -> physical clearances impeding trade facilitation
- Fragmented information systems, uneven supervision, and poor communications within and across borders
- Close personal contact, high level of discretion, risk analysis still to come
- Inadequate pay structure
Technical problems? Or governance issues?

• Political interference, politicization of key Customs positions, sale of jobs
• Integrity and efficiency of civil service
• Effectiveness of internal and external audit
• Courts - an effective recourse?
• Scrutiny by Parliament, civil society and the media
Key components of a customs anti-corruption strategy

- Committed political leadership
- Clear policy framework
- Simple and transparent procedures
- Professional HRM
- Code of conduct
- Effective internal audit
Bangladesh: 5 Practical Lessons?

- Automation, automation, automation to --- reduce delays (inefficiency)
  reduce discretion (corruption)
  facilitate monitoring (control)

- Simple, transparent, documented structure
- Operate PSI in parallel with change process
Use of IT to reform the BOC in the Philippines

- Streamlining processes and repositioning of controls to where they are most effective without obstructing business and trade
- Full automation of processes to reduce human interventions
- Provision of remote lodgment facilities
- Complete paperless and cashless processes
Use of IT to reform the BOC in the Philippines (cont.)

- Privatization of certain operations
- Electronic linkage of all the participating agencies in the system
- Use of clear and simple rules
Before reform

- 79 signatures required
- Cargo release process 6 to 8 days
- All shipments examined
- Order of payment, official receipts and proof of bank payments required

After reform

- 5 signatures
- 4 to 6 hours green lane; 48 hours yellow and red lanes
- 15% physical examination
- Payments to banks, transmitted to collection division via computers
Before reform

- Examination done anywhere at the pier
- Dozens of accounting and reporting forms
- 13 copies of inward foreign manifest submitted

After reform

- Examination at designated examination areas (DEA)
- One single administrative document (SAD) used
- 3 copies of the IFM and one diskette submitted
Lessons from BOC experience

• Fully committed leadership as key condition
• Sustainability depends heavily on active role of private sector
• Encouraging of external feedback from business
• Need to strengthen independent monitoring and auditing department
• Willingness to punish the corrupt
Project Design Bangladesh

- Emphasize exports and export-related imports in first project phase
- Strong focus on introduction of IT
- Measures planned to reduce corruption and inefficiencies are complemented by related activities such as training, taxpayer information, legislative changes etc
- Develop clearly defined performance indicators
Autonomous revenue agencies: the way forward?
Can PSI help reduce corruption in customs?
What problems can PSI help with?

• Over-invoicing: Not as important today
• Under-invoicing: The primary focus today
• Price verification
• Product categorization
• Outright deceit
Under what conditions can a country benefit from PSI services?

The necessary conditions are:

• The national customs administration is weak or corrupt and unable to or will not value or verify the nature of goods correctly.

• The Government is able to verify that PSI information is acted upon by the customs administration to protect its revenue, I.e. successful ex-post reconciliation is necessary.
What problems can PSI cause?

- Delays and extra compliance costs.
- Commercial risk due to inadequate confidentiality.
- Inadequate professionalism or standards of some PSI companies.
- Substitution of goods can occur after inspection.
- Fees paid could be more efficiently used in the domestic economy
Problems Cont’d

- No arrangement for monitoring and auditing PSI firms. Nor an assurance that skills are transferred to the local customs administration.
- PSI companies often remain in place for long periods causing delay in building up local capacity.
The two necessary conditions for success can be contradictory!

*Recent Paper by Noel Johnson*

- If weak institutional capacity, PSI can’t reduce corruption on its own.
- If weak institutional capacity, credible commitment to ex-post reconciliation might not exist.
Capacity building is key to reduced corruption

Priority must be given to:

- A comprehensive program of reforms based on rationalization and simplification of the tariff structure.
- Modernization of customs administration.
- Building of local capacity.
- PSI must be viewed as one element, closely monitored and with periodic cost assessments.
- A PSI exit strategy must be developed.