

AID-FOR-TRADE: CASE STORY

WORLD CUSTOMS ORGANIZATION (WCO)

Customs Reform and Trade Facilitation in Ethiopia

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CUSTOMS REFORM AND TRADE FACILITATION IN ETHIOPIA
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EXECUTIVE SUMMARY

Ethiopia is a land locked country which has defined frontiers with Kenya, Sudan, and Djibouti and disputed or undefined frontiers with Eritrea and Somalia. All goods are cleared at inland clearance stations with the exception of the Kenyan border; this is supported by a large internal transit system. Most exports and imports enter through Djibouti (90%) and through the airport at Addis Ababa (5%). There is also international transit traffic to Sudan. Ethiopia is Member of the Common Market for Eastern and Southern Africa (COMESA).

Ethiopia has a Public Sector Reform Programme (PSCAP) in place managed by the Ministry for Capacity Building. A major part of this programme is a tax reform programme to which a Customs reform component was included in 2003. The reform programme to date has resulted in rationalization of tariff rates, reduction in documentary requirements, simplification of procedures and computerization. This has achieved a dramatic reduction in clearance times, an increase in revenue collection and the elimination of systemic corruption.

The World Customs Organization (WCO) was approached by the Ethiopian Ministry of Revenue (MoR) to review the development of the Ethiopian Customs Authority (ECuA) against international standards to identify priorities and how the WCO could assist ECuA in meeting its reform goals.

In May 2005, a team from the WCO Secretariat visited Ethiopia to conduct a needs assessment mission using the WCO Diagnostic Framework tool. The team visited Customs Headquarters, interviewed senior managers and policy makers, met with operational officers, observed operations and met with stakeholders from both the private and public sectors. This assessment mission was followed up by a series of action with the purpose to support ECuA in planning to address the issues identified.

In July 2008, as part of the ongoing reform, there was a merger of three already existing bodies, the Ministry of Revenue, Ethiopian Customs Authority (ECuA) and the Federal Inland Revenue Authority. The merger resulted in the creation of the Ethiopian Revenue and Customs Agency (ERCA). The Authority has the main responsibility of revenue collection on behalf of the Federal Government of Ethiopia as well as to secure and facilitate legitimate trade. The Authority works closely with the federal police, standardization authority, Ministry of Health and Immigration Service and with other stakeholders.

1. ISSUES ADDRESSED

The management of the Ethiopia Customs Authority had embraced the need for reform and numerous proposals for development and improvement had been included in the planning system and put forward to Government for funding.

To support in this process Ethiopia requested WCO Secretariat assistance. Following a series of meetings between the WCO Secretariat officials and senior officers from the Ethiopian Government, a programme was developed based on the WCO diagnostic approach. The initial support that had to be provided by the WCO to ECuA was agreed as follows:

- A review of the ECuA Modernization Programme to assess progress and identify any further development needed.
- A comparison of ECuA against international standards.
- Identification of the support available from the WCO.
- A briefing on WCO integrity approach to the Senior Managers within ECuA.
- A verification of the technical assistance and training needs.

2. OBJECTIVES PURSUED

The overall objective is to improve the efficiency and effectiveness of Ethiopian Revenue and Customs to meet Government expectations, the national economic and trade needs, and international standards and rules. The specific objectives are:

Strategic Planning: Accession to the Revised Kyoto Convention and other International Conventions and reinforce regional and international integration

HR & Capacity Building: Rise ERCA Staff professionalism

Technological Enhancements: Improve ICT to move to the Electronic Single Window Concept

Communication: Develop the Tax Payers Awareness and Customer Care Attitude of the Staff

Compliance: Further develop the Authorized Economic Operator (AEO) and other Compliance based programs

Enforcement and Prosecution: Strengthen the compliance based Risk Management Strategy in balance with Facilitation

Revenue Collection: Secure the Economic Development along with the Facilitation Climate translated by an Increased Revenue/GDP ratio

3. DESIGN AND IMPLEMENTATION

The WCO provided support to ERCA in two phases, in the First Phase using the Diagnostic Framework tool¹, which covers the following areas: Strategic Management, Resource Management (Human, Financial and Physical), Legal Framework, Customs Systems and procedures, Information and Communication Technology. The WCO undertook a comprehensive needs analysis in Ethiopia to assess the overall development capacity of the administration as well as its compliance with international standards.

Subsequently, in the Second Phase (Implementation phase) the WCO in collaboration with other Development Agencies conducted a series of action that supported the development of Ethiopia's Customs Reform Programme. The implementation of the Customs Reform Programme was based on a comprehensive Business Case.

¹ The WCO Diagnostic Framework tool was developed in 2005 to jointly identify with Member countries their development needs in Customs administrations. Until today, it has been used in more than 110 out of the 177 WCO Member administrations.

Based on the Business Case, Ethiopian Customs submitted a proposal to the WCO concerning their priority areas which were as follows:

- Establishment of a program management structure to support the implementation of reforms
- Upgrade the intelligence function and develop effective intelligence system (Management (strategic), tactical and operational)
- Create and implement internal training system
- Design and implement a policy for staff retention
- Develop and implement a Compliance Management Strategy
- Introduce Risk Management as a basic decision making tool for all administrative and operational purposes
- Develop an Enforcement Strategy
- Upgrade the investigation function
- Introduce mobile/flexible anti smuggling teams (FAST) to exercise controls throughout the country based on risk analysis and intelligence
- Upgrade the Valuation database system so as to make it in line with WCO Guidelines
- Implement a solution for transit operations and management
- Management development and implementation of E learning Programme were identified by Ethiopia Customs as urgent needs.

Based on the priorities identified, the WCO provided targeted capacity building assistance by conducting a series of Management Development Programme² actions for Senior Management Team within ERCA. The events included sessions on international standards and developments, managing reform, introducing facilitation and risk management.

The WCO also continues to support ERCA by identifying subject experts from the WCO membership who can assist them with the development of their risk management, post clearance audit, anti-smuggling, and training functions. Through the WCO Tripartite arrangement³ Ethiopia was provided with a platform to engage with countries like Israel, Kenya, Tanzania and Uganda in various areas that covered Customs matters and Internal Tax administration

4. PROBLEMS ENCOUNTERED

- Change Management: by the time the WCO conducted the diagnostic mission, there were a number of project and initiatives in course without a proper coordination and prioritization. The administration was facing difficulties to cope with all changes being implemented and to meet the human resources and financial requirements to sustain the development process
- Human Resources Management: Skills, Knowledge, Attitude
- Data management: Lack of proper collection, process efficiently to ensure quality

² The WCO Management Development Programme is a modular series of management training events and development activities, designed to be run as stand alone events or as an integrated programme, tailored to the needs of the individual administration. Topics covered include: Leadership and motivation; Communication; Strategy Management; Change Management; Influence and Negotiation; Personal Organization; Time Management; Operational Management; Personal effectiveness ;Team working. The Programme bases on the so-called "PICARD Professional Standards", professional standards for Customs officers, developed in close co-operation with the International Network of Customs Universities (INCUI) and is recognized already by some universities as pre-learning to their master programmes.

³ The WCO Tripartite arrangement approach consists of an agreement between the beneficiary WCO Member administration, a donor Member administration and the WCO Secretariat, to supply specific resources or services related to Capacity Building delivery. Another form of this approach is the multipartite arrangement which are similar in nature but may bring together various partners to assist one or more beneficiary Members.

- Technological Enhancements: Lack of resources to access to latest Technology and maximise application
- Public Attitude: low level of positive and compliant attitude

5. FACTORS FOR SUCCESS

- Political will
- Leadership
- Focus on Capacity building: “3 T’s – Training, Training, Training” (Ethiopian slogan)
- Internal and External Communication : “3 C’s – Communication, Communication, Communication“
- Systematic automation, computerization and advanced technologies
- Partnership and Cooperation
 - National : Educate and advise each other, accountability between ERCA and the Public
 - External: WCO, donors, regional and international level

6. RESULTS ACHIEVED

In September 2010, ERCA participated in the first WCO Capacity Building Committee in Brussels and were able to demonstrate the following results that had been achieved during the development process.

A. Efficiency

Volume (capacity)

	<u>2005/2006</u>	<u>2009/2010</u>	<u>%</u>
Import transactions serviced	37.24 B. Birr	107.92 B. Birr	187.92
Export transactions serviced	8.83 B. Birr	26.43 B. Birr	199.14

*Time

	<u>As IS(2007/8)</u>	<u>TO BE</u>	<u>Actual</u>
Transit	3.47hr	40mn	14mn
Customs clearance	7days	Green 10 mn Yellow 2:30 hr Red 6 hr	10 mn 2-3hr 6-8hr
Import			
Export	5 – 8 Hr	20mn	15mn
Personal effects	4 Hr	45mn	30mn
Investigation	397 days	4 to 20 days	5 days

B. Effectiveness

- Improved quality of data
- Improved level of compliance
 - ✓ LTO-90% VAT compliance
- Improved productivity of labor
 - ✓ 1 employee – 9.96 million Birr of Revenue Collection
 - ✓ 100 birr of Revenue Collection – 0.94 Birr of cost (< 1% ratio)
- Improved Conviction rate
 - ✓ $\geq 95\%$

- Revenues
 - ✓ Increased by 51.38% (from 23 to 35.78 Billion Birr)
 - ✓ Domestic Vs Federal (from 49.19 Vs 50.67%)
- Increased Supporters of Change
 - ✓ Internal – Tax becomes a topic of discussion for the Public – ERCA Reform is a benchmark for other Agencies
 - ✓ External – Increased interest for providing support to ERCA Reform

- 5 year Overall Strategic Plan
 - ✓ Effective and Efficient Facilitation /Maximised Compliance rate / Increased revenue Collection (shift from foreign tax to Domestic tax / increased ratio Tax/GDP)

- Human Resources Strategy
 - ✓ Staffing: > 1500 new employees in 2 years
 - ✓ Capacity Building
 - top managers registered at On-Line masters in Tax and Customs Administration (Canberra Univ./CCES) – 25
 - Middle management staff at the WCO Workshops on Management Development Program – 120
 - Operational performers trained in face-to-face by specialized trainers – 2500
 - WCO E-learning program
 - Civil Service College including the Institute of Tax and Customs Administration
 - Diploma
 - Degree
 - Masters

- Information and Communication Technology
 - ✓ Biometric TIN Registration system ($\geq 1.1m$ tax payers biometric data)
 - ✓ Cash register machines
 - ✓ SIGTAS and ASYCUDA implemented
 - ✓ X-ray Vehicles and Cargo Scanning Machines
 - ✓ Electronic Cargo Tracking System and Customs Valuation Data base (on Going starting projects)

Major Outputs:

- Consensus and awareness of the change established
- Clear direction and change plan designed
- Commitment and capacity improvement

7. LESSONS LEARNED

Capacity Building must be at the center of the Change. The initiative for it came from Ethiopia who have been the owner of the development process over the whole time period.

One lesson learned is that for successful and sustainable capacity building it is fundamental to prioritize and sequence actions and continuously assess the Customs Administration and Trade capacity to cope with the changes implemented. The development of respective management skills within administrations is of utmost importance.

Secondly, Cooperation and Partnership are equally important. Without them, no progress would have been possible in Ethiopia.

- Technical and Financial support
- Best practices
- Bench Marking

The success of the Ethiopian development triggered other administrations to engage in WCO Tripartite Arrangements to even further support the development. In addition, the first neighbouring country has meanwhile approached ERCA to ask for assistance - ERCA will now themselves become a "donor" and support administration to the Customs administration in this neighbouring country.

Ethiopia is a very successful example of a mid- to long-term commitment towards development. It proved fundamental to identify priorities and plan the development process to be able to streamline the international assistance and capacity building support.

8. CONCLUSIONS

The WCO continues to provide assistance to ERCA, as described above, in using the WCO Capacity Building approach and its tools, but also including monitoring and evaluation services. WCO experience has demonstrated that those administrations that take responsibility and take advantage of our tools and experts have a high potential in achieving best results for Customs administrations, not only, but especially in the trade facilitation area – and thus remarkably contribute to the development of their respective countries.
