

Reforming African Customs: The Results of the Cameroonian Performance Contract Pilot¹

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January, 2011

Introduction

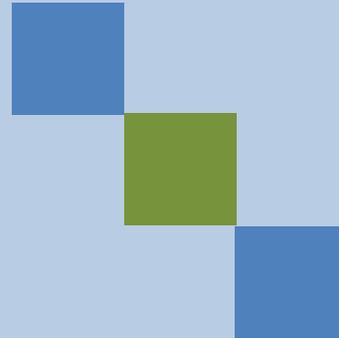
A fundamental problem facing attempts to facilitate international trade in Sub-Saharan Africa is the inefficient and sometimes corrupt state of customs agencies. Fraud, corruption, and other bad practices in customs agencies create disincentives and barriers to trade, and can result in negative spillovers throughout the rest of the economy. Even where bad practices are not present, there is a perception among the population in many countries that government officials are corrupt, which further damages trade facilitation efforts.

This policy note presents the results of an innovative pilot program of performance contracts implemented in Cameroonian customs agencies over a six-month period in 2010. The pilot program was the first of its kind and no similar project has been carried

¹ This policy note is based on a longer report by Thomas Cantens, Gael Raballand, and Tchapa Tchouawou, "A revised approach to customs reforms in Sub-Saharan Africa based on lessons from a performance contracts pilot in Cameroon?" The World Bank, 2010.



Africa Trade Policy Notes Note #13



out in fiscal administrations anywhere in the world. As a result of the program, in less than two months the behavior of participating customs inspectors changed significantly for the better, leading to reduced clearance time, increased revenues for the Cameroonian Treasury, and a reduction in harmful corruption-related practices. The outcomes of the project undermine the assertion of many customs officials that there is a tradeoff between trade facilitation and customs revenues. The main policy conclusion that can be drawn from this finding is that a mixture of performance incentives for good work and sanctions on bad practices can lead to both trade facilitation as well as increased government revenue, both factors that would help economic growth and development in African countries.

Problems in Cameroonian customs agencies

Cameroonian customs, as with many African customs, have been perceived to be

often inefficient and occasionally corrupt. The pilot program enacted in Cameroon was an effort to use concrete incentives and disincentives that could quickly and effectively change the behavior of customs officers.

The pilot program was aimed at improvements in three inter-related areas: reducing clearance time, increasing customs revenues, and decreasing bad practices and corruption.

Opportunities for corruption are numerous: undervaluation, smuggling, incomplete imports/exports documents and transit. Moreover, corruption is an impediment to customs and trade reforms. New administrative procedures may be decided by the head of the administration but not applied on the field. Computerization and other IT solutions have brought efficiency gains to customs processes, so that further benefits from this kind of reform are limited. Increasing the efficiency of customs officials at the individual level can play a vital role in decreasing corruption, minimizing transaction costs and increasing trade flows.

The performance contracts pilot program

In early 2010, a pilot program was launched in the two largest customs offices in the port of Douala (the two offices together account for more than $\frac{3}{4}$ of customs revenues collected in the country) in an attempt to overcome the inefficiencies and bad practices observed. Customs inspectors, as well as the Director General of Customs, signed performance contracts that focused on trade facilitation—especially regarding the speed of processing declarations—as well as reducing fraud, corruption, and other bad practices. The overall goal of the contract program was to develop a culture in

customs agencies based on positive performance.

The performance contracts program formalized an agreement between the customs managers and the customs officers, and had at its core a system of non financial incentives and sanctions to be applied to officers' performance. The contracts were agreed with the individual customs officials, and set out in detail specific results for eight indicators that must be met. Importantly, they went beyond the revenue targets fixed by the government to include organizational and best practices issues. The program defined that customs agents that were successful in meeting their performance goals would receive mainly non-financial incentives. Non-financial incentives included congratulatory letters that were put in the official's permanent file and disseminated publicly to provide wider recognition as one of the best inspectors in the customs service, options to participate in training courses, and other similar measures. The performance contracts required that participating customs agents take steps to achieve the quantitative goals defined in the contracts.

With regards to sanctions for bad behavior, the program introduced a process of interviews with the program team about how the performance contracts were being broken, and warnings as to possible disciplinary action that could be taken if performance did not improve. The main sanction was removal from the customs offices where the possibility of earning money legally through disputed claims was high (since Cameroonian customs agents receive a share of any revenue obtained from fines levied on claims). The concrete sanction of being transferred to an office with lower earning potential was a financial disincentive that was considered to have a

greater impact on personal behavior than a positive financial incentive, based on evidence that financial incentives are less effective at changing actors' behaviors than financial disincentives (Crawford, 2003).² The contract program therefore rests more on contractual governance of deviant behavior and minimizes the role of financial incentives.

The performance contracts were set up to provide a degree of flexibility during the course of the program while at the same time still encouraging high standards for the participating customs agents. Before the launch of the program, stakeholders were brought together in a contract design workshop in order to discuss the structure and expectations of the contracts. For each objective, a comprehensive review was carried out to determine which parameters were to be taken into account and, once these parameters had been defined, the contract set a maximum or minimum threshold for performance expectations. Specifically, the contract program attempted to reconcile and integrate two objectives: trade facilitation mainly measured by releasing goods more quickly, and better enforcement of customs laws and best practices.

- *Trade facilitation indicators:* The first objective of trade facilitation was to reduce the time it took to process a customs declaration, as measured by the time between a declaration's entry by the customs agent and its assessment by the customs inspector. The key problem being addressed was the non-assessment of declarations where

declarations were left on hold in the system, making determining the actual length of time needed to process the declarations difficult. The contract therefore set a maximum threshold for non-assessed declarations. The second objective was to address the problem of customs agents modifying the declarations after assessment rather than amending the declaration at the time of assessment. This affected 80% of the declarations and artificially reduced the assessment time, which thus no longer showed the time actually taken by agents to carry out their inspections. This trade facilitation indicator therefore aimed to expose when agents' behavior deviated from expected boundaries, which was important from the perspective of limiting bad practices.

- *Enforcement indicators:* The second objective was to strengthen the fight against fraud and a reduction of bad practices. An important indicator for inspectors was the amount of duties and taxes collected when declarations rerouted. This indicator was adjusted for the size of claims (since disputed claims tend to be small) and the routing of declarations (since persistent rerouting through the red channel could represent a means of putting pressure on the shipper). If corruption decreased, the amount of collected revenues should have increased since there would be more revenue flowing to the agency rather than to the individual agent.

During the preparation stage, the contracts did not give rise to much debate given their newness and some degree of distrust among the participating customs agents. While this

² A financial incentive scheme has been in place for years without any evidence of its positive impact on bad practices.

facilitated the signing of the contracts, the first of the regular meetings that were held every ten days were sometimes tense, since many of the inspectors had not completely understood the possible consequences of how the contracts would be enforced. This led the project team to re-explain and adapt some indicators rather than rewrite them completely, which some parties to the contracts wished to do. Eventually though, the project team detected signs of gradual acceptance in the program.

Results of the program

The six month program produced results that exceeded expectations. Performance by customs agents improved in all areas: trade facilitation increased, revenue increased, and bad practices were reduced.

Specifically, the project team identified the following positive outcomes:

- *Impact on revenues:* The increase in the volume of declarations processed generated an additional \$16.5 million in revenue over the six month period.³ Cameroonian customs officials collected significantly more revenues while the program was in operation, with revenues from disputed claims—an area where corruption had been widespread—increasing by 17% in the larger customs office and by 322% in the smaller customs office.
- *Impact on trade facilitation:* The effect of the contracts program on trade facilitation was positive. Prior to the implementation of the program, less than 80% of

³ Authors' calculations estimated the revenue gain from the program at \$2,757,365 per month.

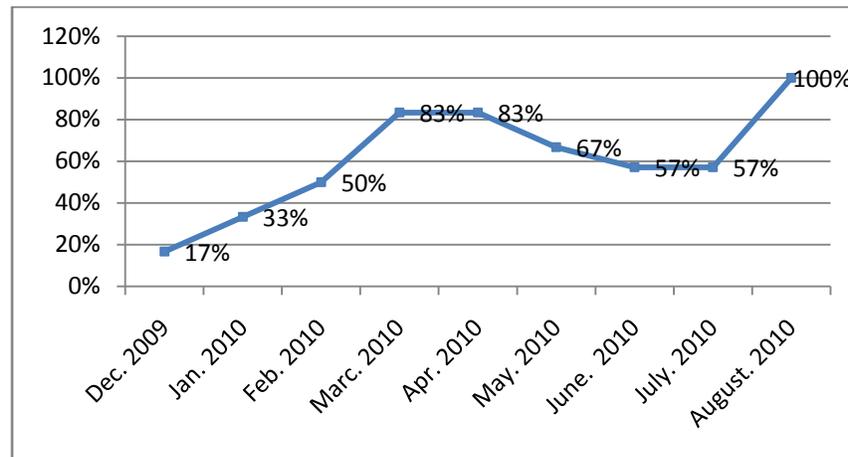
declarations were assessed on the day they were registered, compared with almost 90% during the program.

- *Non-quantifiable results:* Broadly speaking, three non-quantifiable results have been observed. First, performance contracts made it easier to conduct inspection procedures with the operator of the container terminal. Second, customs agents became more “diligent.” The performance contracts induced agents to stay longer in the office—time at work increased by between 3% and 10% in the two offices, whereas other Cameroonian offices that were not part of the program had time at work decrease by -4%. Third, customs officials became more aware of their responsibilities, improving the relationship between customs agents and their managers.

The improvements in customs processes have also been noted by private sector actors. At the start of the program only 17% of respondents from a survey⁴ of brokers had a positive perception of the customs agents participating in the program; these same companies had a 100% positive perception of the customs agents at the conclusion of the program (figure 1—a higher percentage means a better appreciation of customs). According to the survey, the most important impact of the program has been the speeding of the clearance process and the better attitude of customs inspectors.

⁴The survey of seven private sector customs brokers was conducted every month for the duration of the study. Three types of questions were asked: 1) the firms' perception of corruption in customs, 2) how many declarations were subject to “facilitation” payments (and the amount of those payments), and 3) how often firms made payments (and the amount of those payments) to avoid duties and taxes.

**Figure 1: Perception on Corruption in Customs among the Surveyed Companies
(compared to the previous month)**



Source: Brokers' surveys

Lessons learned and the way forward

Based on these results, several key findings were derived from the pilot program. First, there is not a tradeoff between increased trade and increased customs revenues. The program tried to inculcate a culture based on performance and good practices, and was successful in doing so. Customs officers taking part in the program increased their accountability and efficiency, showing that the program made a real operational change in the pilot customs offices. As a result of the success of the program, similar performance contracts are being extended to officials in two other offices in Douala. In addition, several foreign customs administrations have expressed interest and a similar project will be replicated in Togo.

However, despite the success of the contracts program, there are certain technical and political challenges that arose as a result of the program and should be addressed in future programs. The fundamental lesson to draw from the contracts program is that the behavior of frontline officials can be changed rapidly if individual incentives and the incentives for

senior managers are better aligned. Such a program is a useful approach for senior management to improve personnel behavior. More specifically, the following lessons were learned from the contracts program and should be considered in future efforts to reform governmental agencies.

- *Non-financial incentives can be as, or more, efficient than financial incentives in customs.* This does not mean that non-financial incentives on their own are sufficient to change actors' behavior. However, as customs agents told the designers of the contract program, there is likely no financial incentive for good behavior that can compensate for the personal financial gains from corruption. In addition, government officials are often assumed to be corrupt by the public in Cameroon, whether or not there is evidence of wrongdoing. Given this context, non-financial incentives can help to demonstrate the positive work that customs agents perform.

- *Performance contracts can be most effective when an information asymmetry exists between customs agents and managers on the ground.* In many cases, managers are removed from the day-to-day operations of customs agents, and so the presence of such an asymmetry can help to support the political will from senior management necessary to implement such a contract program. In the case of Cameroon, the head of customs was enthusiastic about the experiment because it has probably also enabled her to know better what happens on the ground.
- *Successfully implementing performance contract programs require knowing preliminary details about how the organization actually works.* From the perspective of customs managers, such knowledge provides a framework for self-evaluation. From the perspective of donors, experts need to have a clear understanding of how the hierarchical chain works and how it is affected by corruption. Before replicating the contracts program in another country, obtaining detailed knowledge of incentives and practices on the ground will be critical.
- *Performance contract programs require a strong level of trust between customs officers and the experts implementing the program.* Customs agents take the risk that the program will expose their bad practices, so it is essential that the “designers” are neutral parties.
- *The leadership of the organization’s senior managers is often found to be an essential factor in the success and implementation of a new professional culture.* Likewise, a

desire from senior managers to implement the contract program is crucial to the program’s success. A similar performance contracts program could feasibly be implemented in any country where there is a strong desire by senior management to reform an agency’s culture, improve performance, and reduce the level of corruption in the system.

Concluding remarks

There are no easy solutions to increase integrity and reduce corruption in customs agencies. Building integrity requires long term commitment and leadership and is a shared responsibility for both the public and private sectors.

African customs agencies should begin their reform by collecting indicators (among other measures on reducing misuse of discretionary power for customs frontline officials). Customs officers in Africa have a strong knowledge of what good policies and procedures should look like; the main problem lies in implementing them. For this reason, the collection of indicators can pave the way for beginning this implementation. The pilot program in Cameroonian customs demonstrates that focusing on behavioral changes at the individual level and incorporates locally-designed solutions can be one of the most efficient ways of implementing needed reform.

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Consultant in the Cameroon country office of the World Bank. This work is funded by the Multi-Donor Trust Fund for Trade and Development supported by the governments of the United Kingdom, Finland, Sweden and Norway. The views expressed in this paper reflect solely those of the authors and not necessarily the views of the funders, the World Bank Group or its Executive Directors.