Border Management Modernization: A Practical Guide for Reformers

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Overview Chapter

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Introduction and Summary

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This book provides border management policymakers and reformers with a broad survey of key developments and principles for achieving trade facilitation improvement through better border management, including practical advice on particular issues. In contrast to the traditional border management reform agenda, with its focus specifically on improving customs operations, this book addresses both customs reform and areas well beyond customs—a significant broadening of scope. The book thus presents a new, more comprehensive approach to trade facilitation through border management reform: an approach that embraces a much wider ‘whole of government’ perspective.
Facilitating legitimate trade through better border management: the problem

In recent years, countries have realized the importance of trade to achieving sustainable economic growth. Accordingly, they have lowered tariffs, established regimes to encourage foreign investment, and pursued opportunities for greater regional integration. Yet progress in trade facilitation is still slow in many countries and progress is hampered by high costs and administrative difficulties at the border.

Outdated and overly bureaucratic border clearance processes imposed by customs and other agencies are now seen as posing greater barriers to trade than tariffs. Cumbersome systems, procedures, and poor infrastructure both increase transaction costs and lengthen delays to the clearance of imports, exports, and transit goods. Such costs and delays make a country less competitive—whether by imposing deadweight inefficiencies that effectively tax imports, or by adding costs that raise the price of exports. What is more, inefficient border management creates opportunities for administrative corruption.

While border clearance processes are among the most troublesome links in the global supply chain, they are especially so in poor countries, where it frequently takes three times as many days to import goods as it does in rich ones. Imports to poor countries require nearly twice as many documents and six times as many signatures (World Bank and International Finance Corporation 2006). In Africa, the difficulties are particularly great: excessive physical inspections are a major source of delays there, and the time between accepted customs declaration and customs clearance is four days, while in OECD countries it is one (Arvis and others 2007).
Governments and donors are responding to the problem of inefficient border management by investing in border management reform, with measures designed to make countries more competitive by removing unnecessary barriers to legitimate trade. Virtually all countries now agree that trade facilitation reform will bring benefits to all. Recent bilateral and regional trading agreements include many border management provisions to ease trade. And many countries desire enhanced multilateral rules for trade facilitation within the World Trade Organization—part of an overhaul of the trade facilitation provisions in the General Agreement on Tariffs and Trade, that are now over 50 years old. Trade facilitation reform is a key element of the global Aid for Trade initiative.

Even so, customs and other border management agencies in many countries pay no more than lip service to trade facilitation. Traditionally, the roles of these agencies have focused on the control of border crossing goods for revenue collection, industry assistance, and community protection. Over the last two decades these traditional roles have widened to include—in principle—the facilitation of legitimate trade. In practice, however, this new objective is honored only so far as it does not infringe on the agencies’ existing border control practices.

Border management agencies in many countries regard trade facilitation as a secondary function. A Director General of Customs, from a developing country in Africa, explains the problem:

“My job relies entirely on my capacity to reach revenue collection targets. When the minister calls he has never once asked about clearance times. He is interested only in revenue collection. That’s why I have a big board in my office detailing monthly, weekly
and daily collection results. I don’t even have reliable information on clearance times.

My job doesn’t depend on knowing those numbers."

In developed countries, by contrast, border control regimes may focus more on terrorism rather than revenue collection. Still, border management officials in all countries face similar tensions—and apparent contradictions—among the various objectives they are expected to meet.

How then can governments balance the need to facilitate legitimate commercial activities by compliant traders with the need for effective regulatory control—the main aim of traditional border management? This book explores the prospects for improvement, in part by shedding new light on the problems. With its 19 chapters and associated online tools, it can help development professionals and policymakers learn what works, what doesn’t, and why.

To help officials meet their traditional control responsibilities while facilitating legitimate trade, the contributors to this book discuss three broad themes: the need for more investment in border management reform, the development of a new approach to border management, and the implications of institutional and political-economic factors for border management reform. More specifically, the chapters in this book propose answers to the following questions:

- How can agencies develop and implement cost effective, trade friendly clearance processes and mechanisms while maintaining regulatory control?
- How can risk management and selective intervention techniques, increasingly employed by customs authorities, be extended to all agencies operating at the border?
• How can compliance improvement regimes that appropriately mix incentives with disincentives, and that progressively encourage higher levels of voluntary compliance, be established across border agencies?

• What hard infrastructure and information technology can be designed and deployed to appropriately achieve the most cost effective border clearance processes?

• Most important, how can policymakers build and maintain the political will and institutional commitment needed to undertake meaningful reform; to overcome strong vested interests; and to manage change?

Each chapter can be read on its own or, preferably, as part of the whole.

The book has several intended audiences. First, it should help development professionals not specializing in border management—especially Bank staff members engaged in customs and trade facilitation projects and doing diagnostic work—to have better discussions about policy choices with client governments, with private sector counterparts, and with public sector officials, notably by providing diagnostic tools and performance metrics. Second, it should help border management officials carry out reform and modernization initiatives by presenting sound guidance on designing, running, and monitoring programs, including good practice examples and reference tools. Third, it should nurture the political will and commitment to initiate and sustain meaningful border management reform, both among the high level government officials who often must assess and sponsor reform efforts and among participants engaged in the World Trade Organization negotiations on trade facilitation. Finally, it should help policymakers put into practice such regional integration activities as customs unions and regional trade agreements—agreements that invariably include provisions related to trade facilitation, or other measures
requiring changes at the border. The book aims especially to illuminate areas of the border management reform agenda that are not well addressed in other publications, or for which no practical resources already exist. It thus complements, without replacing, earlier reference guides such as the World Bank’s *Customs Modernization Handbook* (De Wulf and Sokol 2005). Other useful materials and tools are mentioned in the text (and are summarized more fully in chapter 11).

What the book does not do is present simple solutions. Managing borders is a complex task. Border management officials are presented with multiple, sometimes contradictory, objectives. Experience has shown that solutions must be tailored to national circumstances. But while there are no universal prescriptions for reform, many successful and promising initiatives are under way around the world. Many examples of good practice can be studied and replicated elsewhere.

For the international customs community there is the World Customs Organization, which helps to shape that community’s reform agenda. Yet in other areas of border management reform there have been few attempts to document changing needs and concerns, leaving policymakers and development professionals generally in the dark. They work to address similar problems, but they do so independently, without the benefit of guidelines or good practice examples. As a result, reformers’ efforts are duplicated, resources are wasted, and outcomes are less than ideal. The problem is acute in Sub-Saharan Africa, which lags badly behind other regions in trade facilitation. For example, in one African region several donors are financing separate one stop border programs for regional countries. Likewise, several countries are developing single
window systems, with little sharing of models and information and little attention to making the systems regionally uniform and integrated.

An opportunity has been created by initiatives to spur regional trade integration—but that opportunity is being missed. With the help of this book, Bank staff and others will be better equipped to recapture it.

**Border management reform: more than customs modernization**

The new agenda for better border management is about more than customs clearance. Driving the new agenda are seven key developments, none of them exclusively related to customs:

- A rise in global competition for foreign investment.
- A growing awareness of the costs created for traders by outdated, inefficient border formalities.
- An expectation of prompter, more predictable processing for imports and exports (the result of increased private sector investment in advanced logistics and just-in-time manufacturing regimes).
- A multiplication of policy and procedural requirements directly related to international commitments (for example, World Trade Organization accession).
- A proliferation of regional trading agreements, making customs work more complex.
- An increased respect for integrity and good governance.
- A heightened awareness of the need for customs and other border management agencies to play a more central national security role.
Customs agencies have typically led border management reform efforts, and improving customs remains a high priority for many countries. But customs is only one of the agencies involved in border processing, and evidence suggests it is often responsible for no more than a third of regulatory delays. In countries with high overall logistics performance, data from the World Bank’s Logistics Performance Indicators (Arvis and others 2009) suggest that traders are much more satisfied with the performance of customs than they are with other border management agencies. The statistic highlights the need to reform and modernize border management in areas other than customs, such as health, agriculture, quarantine, police, immigration, and standards. Similarly, in many developing countries, time release studies using the World Customs Organization’s methodology suggest that improvements meant to speed goods through customs are undermined by the comparative failure of other border management agencies to reform and modernize using similar modern approaches and risk based selective inspection techniques.

Border management agencies other than customs have not received much attention from the development community—so progress has been patchy at best. There is little knowledge of diagnostic tools, reform and modernization guidelines, or international best practices. Where such tools are available, they generally are confined to customs; other border agencies lack the internationally agreed instruments and blueprints that have guided much of the customs reform agenda (in part because they have nothing equivalent to the World Customs Organization). Few practical mechanisms have been developed to help these agencies cooperate and share information. And little work has been done to analyze the political-economy factors and dynamics that affect their ability to cooperate meaningfully.
Because clearance times are largely determined by the weakest link in a border processing chain, meaningful trade facilitation presupposes comprehensive reform initiatives across the whole of border management. There must be cooperation and information sharing among all agencies involved. The keen interest of many developing countries in harmonizing, streamlining, and simplifying border management systems and procedures has led to such initiatives as:

- **Coordinated border management.** This can include information sharing, co-located facilities, close interagency cooperation, the delegation of administrative authority, and the cross-designation of officials.

- **One stop border posts.** Neighboring countries coordinate import, export, and transit processes, so that traders need not duplicate regulatory formalities on both sides of a border.

- **Single window systems.** Traders can submit all import, export and transit information required by regulatory agencies at one time—through a single electronic gateway—rather than submit essentially the same information repeatedly to various government entities.

These initiatives, which have some common themes, promise significant improvement in border management and clearance. Yet they face political, technical, institutional and procedural problems that so far have proved extremely difficult to overcome. As a result, the conceptual and technological leaps made elsewhere in the business world have not yet transformed border management. Even where progress has been made, most strategies and results have not been distilled, documented, or shared with the wider trade facilitation and development community. And the information that has been shared typically focuses on narrow technical issues. It does
not address a much greater challenge: that of securing the political and institutional will and commitment needed to design and carry out cost effective border management reform.

**The need for a clear vision and strong political commitment**

Comprehensive border management reform requires both a very clear vision and strong political will and commitment. If either the clear vision or the political commitment is lacking, reformers will be unlikely to prevail against the strong influence of domestic constituencies that benefit from existing business process inefficiencies, interdependencies, and relationships. In addition, reformers often need knowhow and financial resources that can be hard to access—especially in developing countries, where governments face many pressing challenges and competing development priorities.

**Chapter summaries**

The preceding discussion has framed this book’s approach to modern border management reform by surveying the complex activities, operations and interdependencies that occur at borders, and that can be improved through careful reform. The remaining 18 chapters of the book, addressing specific reform topics in detail, are summarized below.

**Chapter 2** articulates a new strategic vision for modern border management and offers a rationale for the new paradigm. Modern initiatives—such as coordinated border management, one stop border posts and single window regimes—are explored, and their common themes and
advantages are expressed in a unified vision of collaborative border management. Tom Doyle presents this new model as based on a fundamental shift from the physical control of goods to the control of information, and as relying on accurate customer analysis and segmentation along with intelligence driven risk management. In this emerging model, imports, exports, and transit shipments can be processed well before their physical arrival at the border, with much of the time consuming processing conducted during transportation. An appropriate mix of incentives and disincentives can encourage high trader compliance.

Collaborative border management challenges traditional thinking, suggesting that officials need not see a tradeoff between securing regulatory compliance and facilitating legitimate trade. A new, more transparent and industry friendly regulatory framework promotes competitiveness and growth, even as it ensures regulatory compliance and protects the community. But the model presented here does not require radical change in existing institutional structures. Government agencies have their own aims and objectives, and typically they devote much time and attention to ensuring their own survival. Under the model outlined in chapter 4, collaboration to meet shared objectives does not presuppose organizational amalgamation, rationalization, or elimination. Finally, chapter 2 describes how to develop and implement a phased transition or transformation plan calibrated to the needs, capabilities, and political realities reformers face.

**Chapter 3** puts border management modernization in the context of the larger trade supply chain. Alina Mustra highlights the need to identify bottlenecks by carefully analyzing the entire trade and transport logistics network. Drawing on recently available data sources such as the World Bank’s Logistics Performance Indicators (Arvis and others 2007 and 2009) and on new
insights into global supply chains and their operations around the world, the authors identify factors affecting countries’ ability to connect to regional and global markets and identify the possible locations of binding constraints facing countries and regions. The chapter will help reformers and policymakers identify key reform opportunities and set clear priorities for change based on national circumstances.

Chapter 3 also surveys the data sources that can help reformers compare their countries’ border management performance with that of neighbors and key competitors. Officials in many developing countries often cite inadequate infrastructure—ports, roads, border stations, and the like—as a major cause of trade bottlenecks and delays in the clearance of goods. Although some such complaints are accurate, recent data suggest that in many cases governments would have done much better to invest in less costly forms of border management reform and modernization. For example, a new port or container handling terminal might not be needed if containers can be kept in port for just 1 or 2 days, rather than for 13 or 14.

In chapter 4 Michel Zarnowiecki shows how the modern concept of the border has evolved and describes present approaches to border control throughout the world, focusing on the design, management, and operation of border facilities and related infrastructure. Partly because of new security imperatives, and partly because of new approaches to managing border compliance, the concept of a border has changed in recent years. The resulting new challenges and opportunities have major implications for border management professionals.
Unfortunately, in many countries—despite the advent of global supply chains, advanced logistics systems, and affordable new technological solutions—the border crossing experience remains largely as it has been for centuries. Nevertheless, there are good practice models that can guide meaningful reform. Chapter 4 explores their advantages and disadvantages, identifying key issues for reformers. Zarnowiecki highlights how well designed border posts, related infrastructure, and effective operating modalities can support reform across the whole of the border and, at the same time, promote facilitation and security objectives. Modern tools—X-ray equipment, cargo tracking systems, information technology—can ease trade while boosting regulatory compliance.

**Chapter 5** begins with a summary of the extensive research that has been done to put reform investments into an economic development context. Authors Yue Li, John Wilson and Gerard McLinden first highlight the trade and economic gains that can be achieved through sensible, well targeted investments. They then describe how to present key decisionmakers with a robust business case. How can a cost-benefit analysis demonstrate that border management reform is a sound business investment—not merely a cost?

Competition for resources is intense. To obtain the political support and commitment needed to initiate and sustain meaningful reform, reformers need a strong business case. Chapter 5 will help them do the needed analysis and present it convincingly.

**Chapter 6** analyzes core border management disciplines and competencies that should underpin all modernization efforts. In particular, risk management principles should be applied to improve
inspection-detection ratios and to let border management agencies more effectively target suspect or high risk shipments while speeding the release of low risk ones. Steven Holloway provides practical guidance on establishing a sound compliance management and improvement regime, with an appropriate mix of incentives and disincentives to boost voluntary compliance by traders. Among customs officials such disciplines are in many cases well understood, even if they are not always consistently practiced. But experience suggests that among many non-customs border management officials such disciplines are poorly understood and practiced. Part of chapter 6 accordingly focuses on describing the application of these disciplines in a wider context, one extending across the whole of border management.

**Chapter 7** reviews the critical supporting role of information technology. Tom Doyle offers an overview of recent developments, not as an information technology manual, but as a nontechnical introduction to the issues that border management officials and policymakers must consider and the major decisions they must make. Information technology can play an important part in meeting business objectives and achieving world class performance. New tools make it much easier to do things that, only a decade ago, were impossible or out of the reach of developing countries.

In outlining some of these developments, chapter 7 describes close interdependencies among policies, processes, implementation strategies, governance models, organizational structures, development frameworks, and supporting infrastructures. At present these technological developments and interdependencies are not sufficiently understood by most policymakers. As a result, information technology is not selected or deployed as effectively as it should be.
In chapter 8 (closely related to chapter 7), Ramesh Siva outlines critical issues facing single window systems for trade. Over the past few decades some countries have undertaken serious, systematic efforts to make trade more efficient by implementing national systems of this kind. Where the systems have succeeded, they have greatly improved countries’ processing of import, export, and transit consignments and have drastically lowered trade transaction and compliance costs. Other countries, especially in the developing world, have noted this correlation and sought to create their own single windows for better border management. And regional initiatives—such as the Association of Southeast Asian Nations (ASEAN) Single Window—have encouraged the development of national single windows as a prerequisite to joining the regional systems.

Experience is beginning to identify interlinked areas that ultimately determine success or failure. National single windows can help realize the collaborative border management model outlined in chapter 2.

Chapter 9 explores the often difficult process of information technology procurement. Tom Doyle stresses how such technology has been proven to make business processes more effective and, at the same time, increase control and transparency in border management. Yet its procurement can be complex, time consuming, and fraught with dangers.

Three types of factors—external, technological, and institutional—affect information procurement in ways that can be critical to the success or failure of border management reform. To make the procurement process more efficient and effective, some of its features, including its
present limitations, must be taken into account. Doyle outlines some emerging best practices in information technology procurement, and he proposes a new procurement approach for wider use in border management modernization.

In chapter 10 Andrew Grainger focuses on the important, but often overlooked, role of the private sector—as a key stakeholder—in supporting sustainable border management reform. After outlining some consultation mechanisms available for identifying appropriate reform initiatives, Grainger then considers the private sector as a partner in ensuring that regulatory control objectives are met, discussing management tools and instruments for encouraging compliant behavior by people involved in legitimate trade. What private sector services can be contracted to underpin the government’s activities, augmenting its resources and capabilities? Areas addressed include regulation, outsourcing (preshipment inspection, destination inspection, and management contracts), and the assessment of intermediaries and logistics providers (such as customs brokers and transporters and freight forwarders) for competency and compliance.

Chapter 10 also considers models for securing genuine business-government cooperation, including so-called pro-committees and private-public partnerships. Various private sector communities have different interests, and those interests may not be aligned. Yet dedicated local, national, regional, and international trade facilitation committees can convene private sector representatives to explore a shared vision for reform. Such committees can also be effective vehicles for soliciting political patronage and for assigning priorities to reform requirements.
Chapter 11 surveys best practice approaches and internationally agreed instruments and implementation tools for trade facilitation and coordinated border management. While highlighting important work by many organizations, Robert Ireland and Toni Matsudaira give special attention to the World Customs Organization’s suite of tools, arguing that these tools can be used outside the narrow context of customs. On the one hand, in many cases the tools are equally adapted to the operating environments of other border management agencies. On the other, the tools represent good practice for all such agencies.

Chapter 12 explores key issues for border management reformers, including how to build and sustain political will and commitment; the importance of managing stakeholder relationships and expectations; the role of institutions (with the advantages and disadvantages of various institutional models and organizational structures); and the critical need for human resource management policies that create incentives for sustained reform. Discussing the core components of effective human resource management, Darryn Jenkins and Gerard McLinden identify key strategic principles for managing change within border management. They highlight the importance of developing a robust communication strategy for internal and external stakeholders—to provide a balanced and comprehensive consultation and education program—and examine border management arrangements recently put in place around the world, with some of the strategies and philosophies that have guided organizations through transformation. What were the key challenges? How were they overcome? Focusing on several approaches that have proven successful in practices and the reasons why they have worked.
**Chapter 13** focuses on the proliferation of nontariff barriers affecting trade. Such barriers can significantly increase trader transaction costs and make countries less competitive. Often they are seen as more burdensome and less transparent than traditional trade barriers applied at the border (such as tariffs, quotas, licensing, and prohibitions). As a result, international trade negotiations have developed new and complex rules for the adoption of nontariff barriers by countries. Authors Olivier Cadot, Maryla Maliszewska, and Sebastian Saez define the problem of nontariff barriers, explain the international regulations governing them, and propose policy measures for managing NTBs more effectively to ensure that they restrict trade as little as possible.

**Chapter 14** maps the key border management provisions typically included in regional integration agreements and customs unions. Analytically comparing the key features of customs unions—whose member states share a goal of promoting economic integration—Erich Keick and Jean Christophe Muar show how such unions present an ideal springboard for coordinated border management. On the one hand, the authors recognize that trade facilitation reform efforts within customs unions so far have adopted a narrow customs perspective. On the other hand, common reform has occurred in some areas, while challenges remain.

Chapter 14 discusses how reform provisions can be made effective and how regional groupings can be used to mobilize support for effective border management reform. It explores unionwide approaches toward risk management, mutual recognition, joint or one stop controls, trusted traveler and trader schemes, and the real time exchange of information within and between countries. All create opportunities for a more meaningful approach to regional integration and coordinated border management.
Chapter 15 addresses the role of information technology in supporting regional integration. Tom Doyle and Frank Janssens offer a case study of how the European Union has applied such technology in customs, providing other customs unions with guidance for economic integration. How has the union achieved its present technical and functional integration? What issues must be considered by reformers seeking information technology solutions to facilitate other regional integration initiatives?

Chapter 16 focuses on the effective management of sanitary and phytosanitary (SPS) controls at the border, with special attention to the World Trade Organization’s SPS agreement. All food and agricultural and products face SPS controls as part of the border release process. Such products are often comparatively important for developing countries, while the shipments are fairly small. For both reasons, a considerable part of trade for developing countries faces SPS handling.

How SPS controls are managed can significantly affect trade facilitation. As authors Kees van der Meer and Laura Ignacio explain, the segmentation of food and agricultural markets poses special challenges for safety management and trade promotion. SPS clearance differs in two major respects from customs clearance. First, export promotion (market access) is a major aim of SPS services, and it can receive more resources than import control receives. Second, efforts made away from the border can be much larger than efforts on the border.
Noting the lack of cooperation between SPS services and customs at present, they conclude that SPS agencies should be actively engaged in initiatives designed to rationalize and improve the coordination of border management modernization efforts.

**Chapter 17** examines transit cargo management. Such management is often problematic. But it has a special relevance for landlocked countries, which generally suffer a large disadvantage compared with countries possessing coastlines and deep sea ports (countries that tend to be linked by the world’s most active trade corridors, whether in Europe, in North America, or in developing regions). Moreover, landlocked developing countries—many of them in Sub-Saharan Africa—depend on comparatively inefficient trade corridors.

Author Jean-François Arvis focuses on transit regimes: the sets of provisions enabling goods not yet cleared by customs for consumption to reach their international or inland destinations, or, more narrowly, the customs regulations and procedures for goods in transit. Transit regimes are essential to international trade corridors, since goods are cleared at the country of destination where duties and value added tax are collected. Transit regimes are also increasingly important for domestic trade corridors—which may have features very similar to those of international corridors—since the regimes allow traders more flexible clearance options.

**Chapter 18** addresses the ramifications of radical changes in the national security environment since the September 11, 2001 attacks on the United States, discussing how the newer security requirements affect border operations. In the chapter, David Widdowson and Stephen Holloway consider how added security can be seamlessly incorporated into border operations without
sacrificing trade facilitation. Focusing on recent regulatory supply chain security initiatives, the authors examine the possible impact of such initiatives on regulatory activities at the border and assess the consistency of various regulatory responses with the objectives of risk management and commercial practicality. The authors then identify key elements of a modern compliance management strategy, describing how each can be applied to mitigate risk. Based on an analysis of several specific risks to the security of the international supply chain—and of the compliance management strategies intended to address them—Widdowson and Holloway recommend policy responses and operational strategies to guide policymakers and administrators in formulating regulatory responses to identified risks.

Chapter 19 examines issues facing fragile states and postconflict countries—places where traditional approaches may be inappropriate for addressing border management problems. Outlining a typology of fragile states, and describing lessons learned over the past decade of donor support, Luc De Wulf discusses experiences with carrying out various types of border management improvement, and he suggests broad strategies and approaches as most appropriate for each type. The chapter focuses on the responsibilities of customs, particularly in raising revenues: a priority for both governments and donors, for which several well documented initiatives have already been put into practice. Nontraditional approaches to customs support include management contracts, foreign technical experts, preshipment inspection and destination inspection services, and reforms driven by information technology.
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