

Trade Facilitation and Customs Modernization The Philippine Experience*

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Background

The 2002 World Economic Forum – Gartner Report

In July 2002, a team of experts from the World Economic Forum (WEF) and Gartner Inc. visited the Philippines to look into the current situation of the country's Customs Bureau particularly in trade facilitation as well as reform and modernization. The mission followed the launching in May that year of WEF's Trade Enhancement Initiative (TEI) the purpose of which is to improve trade processes in developing countries. WEF selected the Philippines as the initial pilot country to develop an analysis and planning framework for building an action plan and blueprint for customs modernization.

Prior to this WEF initiative, between 1992 to 1998, the Philippine Bureau of Customs undertook a reform and modernization program. WEF viewed the program as "perhaps one of the most significant and effective programs in recent years".

The report identified some of the key accomplishments during the period as follows:

- Implementation of a new Customs processing system ASYCUDA++
- Physical modernization and improvement of customs facilities

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- Introduction of risk analysis and threat assessment procedures in lieu of 100% inspection
- Introduction of paperless, cashless, and queueless clearance processes
- Partnerships with business associations to assist in customs processing (e.g. designation of Philippine Chamber of Commerce and Industry as managers of Community Trading Centers)
- Establishment of a Management Information System and Technology group

The WEF report also cited significant increase in customs revenue collections and the improved rating of the Bureau of Customs on transparency and integrity with the public and the international community as major accomplishments of the six-year reform and modernization program.

International Experts Views on Customs Modernization Gains

Five years before the WEF-Gartner experts (Team) visit, late in 1997 and early in 1998, a number of international trade and customs experts came to observe and evaluate the gains achieved by Philippine Customs. Their observations were even more positive than the WEF Report:

1. Douglas Tweedle, Director, Customs Technique of the World Customs Organization said "I was here in 1993, so I have already seen Philippine Customs. When I came back in 1997, I was expecting to see something similar. I was tremendously surprised to see huge changes that took place within the five-year period. Five years ago, it was very bureaucratic, no computerization. Clearance times were very long. There was no sense of motivation or commitment. There was no idea of customer service. When I visited the ports and the airports and the container depot, I was impressed that the environment was also being improved. It's not just being a computer project. New buildings have been refurbished. There is good working

environment. The staff are happy to work inside them. Within the Customs area, there's calm efficiency and professionalism, and I do think that the Philippine Customs Service can be proud of actually having such professional arrangements for the clearance of cargo which will be for the benefit of everybody within the Philippines."

2. David Garlick of the British Customs Service said "What surprised me is the fact that the Chamber of Commerce has created an organization that caters to all those entries. It gives me experience I hadn't had elsewhere. A lot of the problems in processing (in other administrations) arise from Customs being dilatory in the way that they actually key-in the declarations. Since (in the Philippines) the traders themselves actually key in the declarations, if there are any delays, they can only blame themselves and not Customs."
3. Bernadette Curry of the US Customs Service reported "While on the airplane coming here, I was imagining what customs was like in the Philippines. I was expecting to see something much more basic. Frankly, just a basic accounting system for customs duties and excise. So I'm really quite surprised and quite impressed from what I've seen. The system was much more robust than what I expected."
4. Mahmoud Wafa of Jordan Customs said "I was so impressed by what I saw and heard today. I congratulate the Commissioner and the Customs staff on the wonderful job they made that helped not only the Philippines to be world class, but also other countries like Jordan following the excellent example you set."
5. Peter Fohler of UNCTAD said "Among the developing countries, you rank number one in computerization, and none of these countries even come close to what you have accomplished in two years time."

Business Leaders Views

The country's business leaders had as much praise for the reforms as the foreign experts:

1. The President of the Customs Checkers and Representatives Organization said "There used to be 52 signatures to release a shipment. Now we can release a shipment with the signatures of only 3 or 4 Customs officers. This is one thing we could say is a miracle."
2. The President of the Federation of Customs Brokerage Companies in the Philippines reported "You have to be really blind not to see the impact of the reforms and computerization of the Bureau. We must acknowledge at least two things: first, you can see the great improvements in the physical structure. Second, we are seeing today the remarkable improvement in the rendition of basic service to insure the smooth flow of trade."
3. The President of the Philippine International Seafreight Forwarders said "... more developed countries like Hongkong and Singapore have been saying that there have been tremendous improvements as far as the Bureau of Customs is concerned."
4. The President of the Chamber of Customs Brokers Inc. reported that "Before, it took days to release cargoes from the pier zones. Now it takes only a few hours. With the operational reforms and modernization programs instituted by..., we are on our way towards achieving a world-class Philippine Customs Service."
5. The President, Association of Container Yards and Container Freight (CY/CFS) Operators of the Philippines commented that "With this system in place, (referring to the on-line release system for off-dock cy/cfs) two things are achieved: speed and accuracy."
6. The EVP and CEO of Asian Terminals, Inc., the arrastre operator for the Port of Manila related that "I've been coming here over the last 20 years. The achievements we have made in the last two years are absolutely amazing. The countries which have been ahead of us two years ago are no longer ahead of us."
7. The Chairman and CEO of International Container Terminals Services Inc., the arrastre operator of the Manila International Container Port which

manages several ports in other countries assessed that "In the last three or four years, we have seen the transformation of the Bureau into a more responsive and efficient government agency. The OLRs, I think, is one of the big improvements we have seen in the computerization of the Customs system. Customs in Manila is quite advanced especially with the Pre-Shipment Inspection Scheme and the OLRs, so much so that some Finance Ministries in other countries have asked us to bring some of our Customs personnel over to give them briefings and presentations."

8. Former Bankers Association of the Philippines President and now incumbent Central Bank Governor reported "It has been a pleasure working with the Bureau of Customs because we were able to get the job done with a minimum of delay and bureaucracy." "It has really tremendously reduced if not eliminated many of the red tape associated with the payment of Customs duties and the release of valuable documents." "Again I hope that it will serve as a role model for the government agencies (with whom) we are work (ing) with (them) to try and increase the productivity of government and the private sector; and will be successful in implementing."

Government Officials View

Similarly, top government officials expressed satisfaction with the improvements at Customs

1. Then Philippine President Fidel V. Ramos lauded the development of the Bureau of Customs into a world-class customs service which he reported as being "lauded even by the most critical foreign operators in the world economy". He also announced that the Bureau responded most well to his administration's call for reform and modernization in government.
2. Civil Service Commissioner Ramon Ereneta Jr. testifying before the Committee on Civil Service and Professional Regulation on bureaucratic red tape gave the top 10 offices where red tape is most pervasive. The Bureau of

Customs which years before was perceived to be among the most bureaucratic was no longer in the list.

3. Among those who have observed the changes in the Bureau were senior officials from other government agencies among which were:
 - a. Department of Education, Culture and Sports officials. - "My greatest admiration goes all to all the people responsible for this project. Thanks to making the cherished dream of the public being given the best public service in an era of materialism and greed. I hope all government institutions could have the same mission of being pro-people." "There's really a complete metamorphosis here at Manila International Container Port (MICP). The complete modernization is done at so amazingly a short time. But what is more appreciative is the very friendly atmosphere. I have witnessed the courtesy and politeness of the people. Thank you very much for elevating the Philippines Customs to World Class status."
 - b. Department of Health. - "Congratulations for having a computerized system that is working. We in our agency have a long way to go but using your experience, it is heartwarming to be assured that IT CAN BE DONE. Mabuhay kayo."
 - c. Department of Labor and Employment. - "Yours is a milestone in government service worth duplicating. Congratulations and thanks for leading the way."

Reform Momentum Not Sustained

Sadly for the Philippine experience, is the observation of late that the momentum of the 1992-1998 reform and modernization was not sustained. In fact, many of the gains were lost and the pre-reform disappointments with Customs performance were back. These too were the observations of the WEF-Gartner team in their December 2002 report.

Outline of Presentation: The Philippine Experience

This presentation is an accounting of the following facets of Philippine Trade Facilitation and Customs Modernization experience:

1. The things done that resulted in rapid gains in trade facilitation and customs modernization during the 1992-1998 period
2. The things done or were not done that brought about the erosion of much of the gains beginning in the second half of 1998
3. How government is now trying to recover lost ground and re-assume leadership position in trade facilitation and customs reform and modernization and
4. How the private sector stepped into the leadership left void by customs beginning in 1999 and their efforts to get the country back on the road of the trade facilitation and modernization

Reform Gains and Key Success Factors

Trade Facilitation and Automation Gains

On top of the gains cited by the WEF in its Dec 2002 report, by 1997, practically all segments of the Customs cargo clearance process have been fully automated. The various components of ACOS that have been fitted together into one seamless whole are the following:

Customs 1991-1998 ICT Projects:

- I. Automation of Segments of the Cargo Clearance Process
 - Beginning Segment: Manifest Clearance System
 - End Segment: On Line Release System
 - Payments Segment: Collection Systems and PAS
 - Middle Segment: ASYCUDA Declaration and Assessment Modules

II. Enhancements of the Application System

- Selectivity System
- Remote Lodgments: DTI and EDI vs. ECC; "somewhat paperless processing"
- Tax Exempt System
- Integration of the Segments into a Seamless System

III. Backend Systems

- Project Reconciles 1 and 2
- Data Warehousing and Customs Decision Support System
- Payments Verification System

IV. Public Information

- Customs Website

Likewise by end 1997, Philippine Customs Service made the claim that is a Leader in Electronic Governance in the country and presented itself in various fora, both local and international to demonstrate its electronic governance¹ capabilities.

By 1998 and before the passage of the enabling legislation (RA 8792),² Customs was able to migrate some of its business operations and to extend service to the trade community through E-Commerce. For a number of importers, clearance of shipments through the Ports in Manila were paperless, cashless and queueless, transacted through remote workstations located right at the offices of importers or of their agents. Service availability was practically 7x24.

¹ E-Governance is the creative application of information and communication technology for the more effective delivery of government service.

² In 1996, a bill was filed in Congress that would have allowed E-Commerce. It passed the lower house but was overtaken by the National elections of 1998 in the Senate.

View of WEF: Nine Success Factors

The Team listed nine (9) major factors responsible for the gains of the 1992-98 reform period:

- Political support at the presidential and Cabinet level
- Congressional support for required legislation and sufficient budget allocations
- Committed and courageous BOC leadership to drive the reform process through the entire BOC organization
- Engagement of local stakeholder community, including the businesses and non-governmental organization sector
- Harmonization with international best practices and standards by organizations such as the World Customs Organization, APEC, and ASEAN
- Engagement with international organizations such as the World Bank, which played a significant role in the overall modernization effort, and the IMF, which assisted in program monitoring
- Effective leveraging of enterprise software
- Strong monitoring and auditing of the reform and modernization program
- Effective and comprehensive change management program

Strong Government Support

Never in the history of the Bureau of Customs has so much resource been allotted by the government for ICT development. Funds were made available not just for hardware and software procurement but also for the improvement of Customs facilities, training and management of change. Roughly \$21 million was allocated for Philippine Tax Computerization Program (PTCP), about 40% of which was sourced from a World Bank soft loan.

Private Sector Involvement and Support

Knowing however that strong government backing was not enough, BOC also invited the private sector to lend a hand. The truth is, there were just too many things to be done compared to the available government resource. The abovementioned amount was meant just for the mainstream IT Program PTCP which did not cover other needed projects such as the collection system, the cargo release system, the exemption and tax credit systems and the reconciliation systems. Also the procurement for PTCP had to follow a legal process and schedule and therefore cannot readily respond to the pressing ICT needs. Thus emerged the BOC-Private sector ICT initiatives which provided immediate relief to urgent concerns and help trailblazed the work for the mainstream PTCP.

Strong Leadership for the Program

Customs leadership provided the vision for the Customs community and enlisted the support of all concerned towards it. Leadership was able to keep its head above the quagmire of day-to-day imperatives and to direct everyone to the vision. Management of ICT development was hands on with the leader himself at the forefront of designing, developing and implementing ICT projects as well as mobilizing support for these. National leadership for its part lent its full support to the program and backing for the leadership even as it warned all those who will not cooperate of the dire consequences for them.

Use of a Generic Customs Software

This major management decision to utilize a generic Customs software versus the alternative of self-building a system from scratch was strongly criticized by certain quarters for among others, not engaging the country's IT

professionals. But said decision cut the waiting time for the implementation of the core functionalities and allowed management and the organization to focus on implementation issues rather than on design and development matters. Customs officers participated in customizing the system to the business and process rules of Customs as well as in the development of other systems that were then attached to the core software.

Within six months from the start of work by the project team, the assessment module of ASYCUDA³ went on parallel run at the Port of Manila and then live six months thereafter in Jan 1996. Before the year's end, the selectivity and examination modules were implemented, as were the interfaces with the BOC-Private sector ICT initiatives On-Line Release System, Collection Systems and Project Abstract Secure. By June 1998, the system was already running in all the major ports (Port of Manila, MICT, NAIA, Cebu and Davao) with some ports already offering electronic lodgment technologies Direct Trader Input and Electronic Data Interchange. By comparison, the PTCP BIR component which started at the same time as the BOC program was still to operate any system by the middle of 1998.

Legislation Risk Analysis and Selectivity

Republic Act 7650 dated 6 April 1993 removed the mandatory 100% inspection of all shipments by at least 10% of the total packages.⁴ In lieu of 100% inspection, Customs was allowed to selectively inspect cargo based on risk analysis and threat assessment. End to end automation of the cargo clearance system as well as full electronic service from remote sites was facilitated by a Risk Assessment and Selectivity engine that "thinks" and decides which consignments will be extended Greenlane Processing that does not require any Customs officer intervention.

³ The Automated System for Customs Data or ASYCUDA is a UNCTAD developed generic software in use in some 70 countries. The Philippines is the first to use the advance version ASYCUDA++

⁴ For some origin ports, 100% of all packages had to be opened for inspection

Much should be credited to RA7650. The benefits of ICT in terms of facilitating trade and reducing bureaucratic corruption would not have been realized without its passage. The dynamics of the successful change in the BOC is the happy result of the implementation of the modern concept of government service that utilizes Risk Assessment and Selectivity. These methods of work w/c were adopted but then lost again in Customs must be restored and implemented in other government agencies particularly those involved in Trade.

Reasons for the Erosion

The WEF Report cautiously commented on the current situation of the 1993-1998 trade facilitation and customs modernization program saying only that since 1998, subsequent reform and modernization efforts became challenging and that these challenges remains to date. The report pointed to the lack of many of the success factors operating during the 1992-1998 period as the reason for the difficulty beginning in the 2nd half of 1998.

Reform Sustainability Measures Failed to Work

As the BOC had many publics, it democratically listened to their clamor for the ensured sustainability of the ICT program, as they feared that said reforms may merely be trampled upon by the post-1998 leadership. Relevantly precise measures were introduced from 1996 to 1998 which assured the funding institutions (World Bank and IMF), business groups and the government that the ICT program will be strongly functional no matter who will be at the Customs helm. One measure undertaken was the establishment of a fifth Group in Customs charged with the continuance of the reform process the Management Information Systems and Technology Group or MISTG). Another was the establishment of a Change Management Group involving the identification and

training of ICT Champions among the officials of the Bureau. The continued active participation of PCCI and the BAP was also formalized with the privatization of the declaration lodgment and the payment systems to these private groups respectively.

Regrettably, these and other measures notwithstanding, the momentum was not sustained in the latter years. While the hardware contractor was able to extend the geographic reach of the network to more ports and customs stations, the coverage of the application system stagnated. Attempts to add new capabilities had at best questionable successes while in practically all fronts, ICT application systems suffered setbacks. Most heavily damaged were the Selectivity, Remote lodgment and the interface with other government agencies. The private sector tried to reach out to the new management to offer the same partnership they had with the previous leadership but these offers were ignored or even maliciously eyed with suspicion.

Financial Resource Ran Dry

Another cause of failure of the program was the absence of a steady source of funds for the maintenance and further development of the Program. With the high rate of technical obsolescence of ICT products, measures should have been taken from the project's birth to provide a steady source of funds. Efforts to obtain an Executive Order that would have set aside P500 from a P1000 import processing fee was not supported by Chamber of Commerce. As it is now, there is very little in the Customs budget for the replacement of hardware that had already or are about to conk out. Hardly is there money to fund missions to introduce new application system upgrade. There is a time bomb that could set off anytime and with it the entire ICT facility of Customs.

Other Trade Sectors Failed to Keep Pace

Customs readiness alone is not sufficient for the entire trade community to which Customs belongs to attain the meaningful benefits expected from the ICT and E-Commerce. The non-readiness of partner agencies is Customs' stumbling block. The inequality in readiness is like cruising a superhighway with many intersections and detours i.e., the gains in speed and efficiency in Customs will just be negated by the inefficiencies elsewhere. The processing of applications by other government agencies for all sorts of authorizations such as licenses, permits, clearances, quotas and certificates, unless E-Commerce-enabled will negate whatever improvements E-commerce can generate in the Customs area.

The Leadership Change "Killer Quake"

A major sustainability measure introduced in April 1998 was the appointment into Customs from the private sector of an ICT and management professional to head the specially-created Management Information System and Technology Group. Unfortunately, this manager was among the first to ship out following the government leadership change of July 1998. For the next two and a half years, there was an ICT leadership vacuum in Customs as the incumbent executives had neither the will nor drive to provide authentic leadership for reforms. Several key ICT team members eventually tendered their resignations from the Bureau, for lack of inspiration to carry on the work.

Bureaucratic Corruption: Root Cause of Erosion

The Philippine experience clearly illustrates that it takes more than software, hardware, robust communication infrastructure, IT skills and a legal framework to bring about lasting reforms. By 1998 Philippine Customs had all these yet it did not take very long for the deterioration to seep in and erode the gains.

The roots of the erosion are bureaucratic corruption and, beginning in the second half of 1998, the absence of a dedicated and strong leadership or champion for the program.

Bureaucratic Corruption is the systematic exploitation by public servants of their “power to intervene and to exercise discretion” for the purpose of exacting illicit income, advantage or favor in the guise of performing mandated responsibilities. This strong counterforce to e-commerce and to fully automated processes can nip e-commerce initiatives at the bud if perceived to remove or even just diminish the face-to-face interactions that provide the opportunities for illicit exactions. Should the organization be able to establish an e-commerce foothold, the bureaucratic counterforce can build system appendages designed to restore the opportunities for corruption and effectively to bring the whole system to the ground.

Bureaucratic corruption although rearing its ugly head every so often during the reform period was put in check by a strong leadership and was not allowed to subvert the program. This was not the case later. A succession of agency heads came with very short tenures and they either had no skills for driving the reform or were so preoccupied with revenue generation at the expense of trade facilitation and modernization.

If another round of reform and modernization will have better success, this counterforce must be addressed and strong authentic leadership provided. A separate leadership for the trade facilitation and customs modernization must be considered in order that the regular leadership can concentrate on the day to day imperatives of revenue generation.

Recent Government Efforts to Restart the Reform Process

The decision to participate and to be the pilot country in the WEF-TEI reflects the government's commitment to shape the country's Customs service⁵ into a center of excellence in public service. Following completion of the diagnostics of the bureau's current situation, a blueprint containing 28 recommendations for continuing with trade facilitation and customs modernization was recommended. WEF committed to help the customs service touch base with possible donors and sponsors for the implementation of the plan but it is only the Philippine government that has committed resources of over P500M (\$9 million) to finance a new program.

To date, however, the Customs Bureau has still to make clear how it intends to proceed notwithstanding two (2) blueprints (WEF and Customs internal development plan) are available as basis for action. The Bureau is currently arranging with a consulting firm on the drafting of a terms of reference for the selection of an Application Service Provider that will operate the existing IT facility of the Bureau as well as manage the rehabilitation and further development of the same.

Philippine Customs in the nineties similarly did what other Customs Services in Europe did, particularly among the European Economic Community. Philippine Customs assumed the role of the dominant player in the trade community, a move that was largely responsible for the vibrant development of ICT in the trade sector in those years. The shipping and airline companies, the cargo handlers, the freight forwarding and brokerage companies, the commercial banks and the importers all had to adjust and catch up with Customs ICT developments. Even now, these Customs trade partners are just waiting for direction and leadership.

⁵ Incumbent President Gloria Arroyo in her 2001 state of the nation address pledge to make the Bureau of Customs and the Bureau of Internal Revenue as centers of excellence in government service

In the meantime, threats to the continued deterioration of the 1993-1998 system remain while new trade facilitation and customs modernization initiatives by Customs have to wait.

Private Sector Leadership for Reform

In 1996 when the reform program was in full swing, the private sector in jest complained that their new difficulty was keeping pace with government at the rate it has been driving the reform. Previous to the reform period, their difficulty was getting government to support private sector initiatives. It was therefore with much wonder and amazement for them to see government seizing the initiative and more so dragging the private sector along during the 1992-1998 reform and modernization years.

What resulted was a golden period in customs- private sector partnership for trade facilitation and modernization.

Customs- Private Sector Initiatives Blazed the Trail on Reform and Modernization in 1993

The Customs 1992 budget, did have not a single line item for Customs computerization. The negotiations for the World Bank loan to fund the Computerization program was still hanging in the air as the Philippine Government itself was still to formalize its request for the loan. It was much later in the year that the Development Budget Coordinating Committee finally sent its recommendations to the National Economic Development Authority for the loan to be entered into.

But the sources of revenue leakages had to be plugged, efficiency of collections improved, enforcement intensified, business, investment and trade facilitated and graft and corruption addressed. The leadership drew from its

internal strength, experience and resources even as it leaned hard on the organization to produce results but these were not enough.

Leadership had to call upon the private sector, not quite for the first time, but in a degree never before employed. Customs presented the problem to the concerned private sector(s) and a solution is agreed upon which is implemented at no cost to government. The On-Line Release System is the customs-port and cy/cfs operator solution to the illegal withdrawal of shipments with the use of spurious documents as well as to the lengthy and time consuming release process. Project Abstract Secure which utilizes encryption technology for the electronic transmission of payment data for the banks to customs was the Customs-Banker Association of the Philippines response to the massive revenue leakage due to the introduction of spurious or tampered payment documents into the payments system. The advance submission of manifest information through the facilities of SITA, the computer systems of port operators as well as through the Consolidator's Data Exchange Center were all at no cost to government solutions. A summary of these private sector initiatives as described in Annex "A".

Private Sector Took Control when Customs Stalled

After the change of government following the elections in 1998, the leadership for reforms swung back to the pre-reform years as the new Customs management not only failed to provide leadership for the reform, in many ways even contributed to the erosion of the reform gains. Focusing almost exclusively on revenue generation, many in Customs even viewed trade facilitation as abetting smuggling and other customs fraud.

The private sector, although very much disappointed with the turn of events assumed leadership for continuance of reforms. They sought the support of other government agencies in getting needed reforms in place. The

Department of Trade and Industry, the Philippine Ecozone Authority, the Subic Bay Freeport and Special Economic Zone and even the Export Development Council all supported the private sector initiatives. In these projects, the private sector provided the vision and the solutions, handled the systems reengineering both for the automated and manual components and in some projects even put up the Information and Communication (ICT) Infrastructure. For some projects, warm bodies for the operations of the system were provided. What did Customs provide? Approval of the implementing regulations and use of the system.

The following video presentations are three recent private sector initiatives implemented when customs failed to drive the reform and modernization process. While Customs has recently shown its intention to re-assume leadership, clearly it will not be able to do so some more time. In the meantime, the private sector will have to continue filling the void.

Conclusion

In sum the Philippine experience in trade facilitation and customs modernization is the story of a Customs Service that set its mind at reforming itself and somewhat succeeded it doing so. However, the program gains were not sustained and efforts by the government to restart the process is proving more difficult than expected. In the meantime, facilitation and modernization is alive and well in the Philippines, albeit, driven not by the government this time but by the business community itself.

PRIVATIZATION OF CUSTOMS OPERATIONS

Activities in the cargo clearance process that are logically the concerns of the private sector and can be more efficiently performed by them were privatized. Among these activities are the following:

Data Entry. – Composing an entry declaration and then lodging it with Customs is the logical responsibility of the importer. Two electronic procedures were introduced to allow him to directly perform this activity- Direct Trader Input and Electronic Data Interchange. Those who do not have any of these remote lodgement capabilities were required to avail of the services of a privately run entry encoding center. Manifest build up is also handled by these centers.

Collections. – Practically all collection activities are now mandatorily performed by authorized agent banks. The public can either pay at a bank closest to his office or he can pay in a bank located at the customshouse. Customs collecting officers have been redeployed from accepting payments to auditing collections. The great temptation to run away with the daily collection has been removed. The use of Special Accounts from where payments are automatically deducted by automated processes achieves the same objective of removing the opportunity of collection officers to help themselves with their collections and or asking importers payment for their services.

Management of Seized and Abandoned Goods. – This was one of the most severely criticized customs activity both in the media and in the halls of congress because of its attendant anomalies and irregularities. Hundreds of million pesos are lost thru pilferages and illegal withdrawals. Millions more are lost due to spoilage, deterioration and obsolescence. Goods that would have otherwise generated revenues for the government had to be condemned and destroyed instead.

The reform undertaken involved the turnover of the warehousing, custody, safekeeping and marketing of the seized and abandoned goods to a private contractor and the retention by the concerned customs office just for inventory taking, cargo receipt and releases as well as of audits. To insure that the goods are properly secured against pilferage as well as fire and other accidents, the contractor was required to put up insurance for the goods.

The professional warehousing firm was able to provide better management for the custody and safekeeping of the goods resulting in a dramatic reduction in the amount of losses from all sources. It immediately extinguished the sentiment of concerned customs officers that they have vested interest over the goods. The revenue generated from the sale of the goods also significantly improved because the compensation package was tied up to the amount realized. Most important of all, the reform took concerned officials away from the temptation and removed much of their opportunity to commit corrupt acts with these goods.