



Best practices in customs reform— lessons from Morocco

Morocco offers useful guidance for other countries contemplating customs reform.

Trade can be a powerful tool for creating wealth and jobs, and governments try to develop it by reforming trade policies. But the benefits of new trade policies often fail to materialize because weaknesses in customs administration keep transaction costs high and because tariff barriers and commercial legislation hinder the growth of exports.

In recent years many countries have tried to reform their customs services. Although some reforms have been successful—such as those in Argentina, Namibia, the Philippines, and Turkey—many need reinforcement if new trade policies are to bear fruit. The most common obstacles are insufficient government commitment, inadequate initial diagnosis, and poor use of information technology. Morocco's success in overcoming these obstacles offers useful lessons for other countries interested in reforming their customs services.

Crafting Morocco's reforms

Customs duties are an important source of revenue for Morocco's national budget. They accounted for 4.2 percent of GDP in 1995—just before tariffs started being dismantled under an agreement with the European Union, Morocco's main trading partner, to abolish customs duties by 2010. In 1996–2000 annual revenue from customs duties fell to 3.6 percent of GDP, while revenue from the value added tax (VAT) on imports rose to 3.3 percent of GDP. Most of the decline in import tariffs was offset by a nearly 25 percent increase in imports—so,

despite trade liberalization, customs services continued to generate a substantial share of budget resources.

In the 1990s Morocco's trade policies were strongly influenced by its agreement with the European Union, its agreement with the World Trade Organization, and the Multifiber Agreement. These agreements, and their effects on industry and on budget resources, led the Customs and Indirect Taxes Administration to carefully examine its procedures. In addition, the private sector—having been called on to become Morocco's engine of economic growth—became vocal in requesting that customs services facilitate rather than hamper trade. Better customs services were increasingly considered crucial to enhancing the international competitiveness of Moroccan producers, particularly given the increased competition resulting from trade liberalization.

Morocco's customs reforms were based on the principles of the World Customs Organization. A code of conduct for customs workers established new rules for professional ethics. In addition, the International Monetary Fund and bilateral partners provided technical assistance.

The reforms had high-level political support, enabling the director of the Customs Administration to make the changes needed to facilitate trade while safeguarding budget revenue. A small but effective reform unit was instrumental in achieving both objectives and in motivating staff. For example, new performance bonuses for customs officers—based on objective evaluations—

Successful trade
policy reform often
requires customs
reform

Moroccan traders are pleased with the outcomes of the reforms

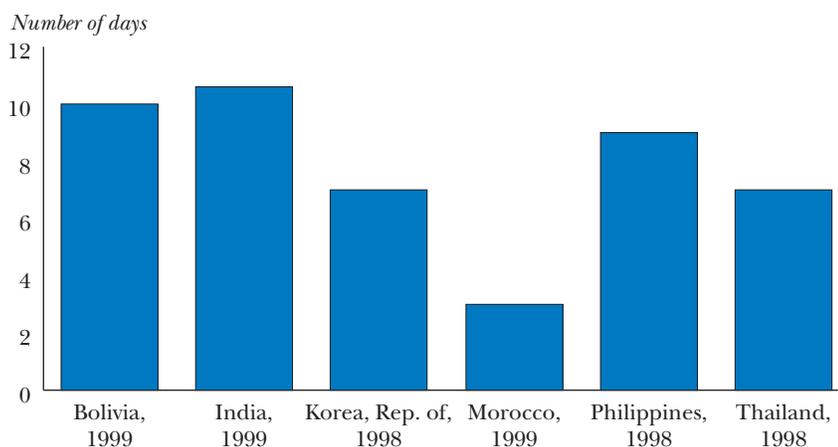
appear to have helped stem corruption.

Moroccan traders are pleased with the outcomes of the reforms. A survey in the first half of 2001, conducted with World Bank support, found that 93 percent of exporters and 66 percent of importers had few or no problems with trade procedures. In addition, these companies indicated that the average processing time for customs and port services had dropped from 5.5 days in 1997 to 2.0 days at the end of 1999—making processing times in Morocco faster than in countries such as Bolivia, India, and the Philippines, and even the Republic of Korea and Thailand (figure 1). Moreover, a recent survey by the Customs Administration indicates that processing times have since fallen even more: in October 2001, 85 percent of declarations filed with customs offices were processed in just under an hour and a half.

Key elements of the reforms

Morocco's reforms were the result of a shared vision between public and private actors determined to work together to tackle corruption and improve customs procedures. The reforms also benefited from trade facilitation initiatives that began in the mid-1980s. Four main areas were addressed—areas crucial for all countries committed to customs reform.

FIGURE 1 AVERAGE PROCESSING TIME FOR CUSTOMS CLEARANCE, VARIOUS COUNTRIES



Source: Morocco, Ministry of Industry and World Bank 2002.

Simplified procedures and selective controls
Customs procedures were simplified and computerized. A simplified declaration replaced the former sheaf of forms, and a summary declaration was designed for imports and exports of goods falling under several tariff headings. In addition, a document delivered directly by the Chamber of Commerce, Industry, and Services expedites the transit of goods.

To simplify procedures for importers, the Customs Administration set up clearing centers in approved companies and established clearing areas and warehouses outside the customs perimeter to decongest ports and airports and smooth the flow of commercial operations. The Customs Administration also introduced a national clearing credit system for traders that deal with several customs bureaus and empowered local customs offices to clear goods at the premises of approved importers.

Selective customs controls—essential for timely and transparent clearance—were introduced for passengers and freight in the form of “green” (clearance without inspection) and “red” (inspection required) channels in international airports. These risk-based controls are fully computer-controlled. In the first half of 2001, 85 percent of operations were processed through the green channel, and the Customs Administration sought to raise this to 90 percent by the end of 2001. In line with this selectivity and with the new definition of dutiable value—established in 2000 as the transaction value, based on agreements with the World Trade Organization—post-clearance verification was instituted and penalties were increased.

In addition, the Customs Administration restructured its operations to give greater importance to its central tasks of policy design and management, and has set up regional centers for day-to-day management and customs activities in the field.

Increased use of information technology

By the end of 2000 the Customs Administration's computer system performed all routine functions in customs departments and extended selective services to approved com-

panies and companies with whom it had agreements. The system is based on SOFIX, the software developed by the French customs service as an alternative to SYDONIA, developed by the United Nations Conference on Trade and Development and used by many customs administrations.

The computer system has an open architecture, which allows information managers to modify it without having to rely on outside experts. The system allows information to be exchanged with users, so traders can obtain free estimates of duties and taxes payable when goods are imported and enter data on releases for their customs-related accounts as soon as the accounts are settled. Customs departments immediately authenticate these documents. Traders can also find out in real time, as soon as a declaration is filed, the progress of their customs operations and the status of their imports under special import regimes. Thus traders can ascertain which accounts have not cleared, enter data in-house on statements for uncleared accounts, monitor payments of duties and taxes, and even monitor clearing times. A telephone hotline is available for traders who need help with the system.

The Customs Administration, Port Operations Office, Association of Shipping Agents, and a service company have agreed to exchange data on imports arriving at the port of Casablanca, through which 80 percent of Moroccan imports pass. The agreement covers communications and document exchanges on manifests, data entered at shipping agencies, and transmission of data to the customs computer system.

Improved management of special customs procedures

The management of special import regimes, particularly for goods admitted on a temporary basis, used to be problematic. New procedures are more flexible, secure, and transparent. A computer-assisted facility allows for better monitoring of the temporary admission system, and a new regulation has been adopted on settling customs operations with responsible ministries and professional associations. The amount of

inputs wasted in the production process is validated immediately, and even when additional wastage levels are requested, these issues are settled within two months. Exporters are authorized to sell 15 percent of their total production domestically upon payment of duties and taxes. Finally, the Customs Administration automatically discharges low-value balances to expedite the settlement of disputed operations.

The process of providing customs guarantees has been simplified, reducing financing charges for importers. In addition, companies that export at least 85 percent of their sales and combine storage, transformation, and utilization functions can now benefit from a free system of bonded warehouses. This system, under customs control, suspends duties and taxes on materials, equipment, and goods intended for export.

To facilitate and ensure the security of transactions, field office directors now play a greater role in managing clearing operations for nongovernmental organizations benefiting from tax- and duty-exempt imported donations.

Enhanced transparency and partnerships with the private sector

The Customs Administration has become more responsive to the needs of the private sector, as indicated by more widely available customs information and documents, newly created consultative committees with the private sector, and streamlined customs procedures for certified companies.

An easy-to-use, regularly updated Web site (www.douane.gov.ma) has made customs operations more transparent and eliminated nonstandard applications of the customs code. Users can download customs forms, track clearing operations, and access detailed customs data. The Customs Administration has also created a hotline for reporting attempted or actual corruption by public officials.

In addition, the Customs Administration has set up a consultation process (Comités Consultatifs) that works with the private sector to resolve potential problems. At the national level this process is overseen by the

New procedures
are more flexible,
secure, and
transparent

Morocco's reforms must continue

director of customs, who also functions as arbitrator for issues not resolved at lower levels. To ensure that this process remains fully attuned to private sector concerns, the private sector should be allowed to initiate such consultations, something that currently can be done only by government representatives.

Companies that furnish the required guarantees can receive personalized customs guarantees; these companies are selected based on criteria such as their structure, size of investment, annual sales, and number of employees. By March 2001, 15 companies had entered agreements defining how their customs guarantees would be processed and discharged, simplifying clearance procedures and lowering the cost of doing business.

The Customs Administration conducts periodic surveys to learn about traders' concerns, gather their suggestions, and evaluate the reforms. The results of the surveys, which have high response rates, are then published. As noted, recent surveys show that the reforms are greatly appreciated.

Continuing the reform process

The plan to eliminate, by 2010, customs duties on imports from the European Union implies that Morocco's reforms must continue. The Customs Administration will have to carefully manage rules of origin to ensure that the correct customs duties are paid on goods originating from third countries. It will retain responsibility for levying the value added tax—nearly 60 percent of which

comes from imports—a task that requires procedures similar to those used to manage customs duties. Finally, the Customs Administration will have to be an active advocate for easing port procedures, without which goods will not flow fluidly across Moroccan borders.

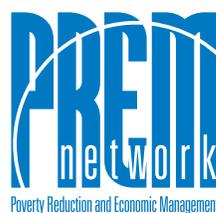
Further reading

Barbone, Luca, Arindam Das-Gupta, Luc De Wulf, and Anna Hansson. 1999. "Reforming Tax Systems: The World Bank Record in the 1990s." Policy Research Working Paper 2237. World Bank, Washington, D.C.

Morocco, Ministry of Industry, Commerce, Energy, and Mines and World Bank, Middle East and North Africa Region and Private Sector Development and Infrastructure Vice Presidency, Investment Climate Unit. 2002. "Morocco Manufacturing at the Turn of the Century: Results of the Firm Analysis and Competitiveness Survey." Casablanca and Washington, D.C.

This note was written by Luc De Wulf (former Lead Economist, Middle East and North Africa Region) and Emile Finateau (Public Sector Management Specialist, Middle East and North Africa Region).

If you are interested in similar topics, consider joining the Tax Policy and Tax Administration Thematic Group. Contact Michael Engelschalk (x87764) or click on Thematic Groups on PREMnet.



This note series is intended to summarize good practice and key policy findings on PREM-related topics. The views expressed in these notes are those of the authors and do not necessarily reflect the views of the World Bank. PREMnotes are distributed widely to Bank staff and are also available on the PREM website (<http://prem>). If you are interested in writing a PREMnote, email your idea to Sarah Nedolast. For additional copies of this PREMnote please contact the PREM Advisory Service at x87736.

Prepared for World Bank staff