The Russian Federation Customs Development Project (CDP), launched in 2003, has been helping reform and modernize the country’s Federal Customs Service. Reforms under the CDP have resulted in improved performance: both customs clearance times and rent-seeking incidents have been reduced. However, despite major progress in critical areas, global rankings such as the World Economic Forum’s Enabling Trade Index and the World Bank’s Logistics Performance Index suggest there is still significant room for further improvement in customs administration.

Considerable progress has been achieved through the CDP and this was borne out by a recent comparison of internal project-related indicators with external customs and trade-related indicators conducted in late 2010. The analysis reflected positive trends and revealed congruence between the two sets of indicators - the examination of external indicators provided a more detailed picture of overall progress and validated the results seen in the internal project indicators.

The CDP helped improve the enforcement capacity and efficiency of the Federal Customs Service through activities targeted at improving business processes and procedures. The activities included implementation of new integrated IT processing systems and human resource management reforms; electronic declarations were also piloted in some areas. In the pilot regions including Central and Northwestern Customs locations, the project exceeded end of project targets in all but one area (enforced compliance).

Two surveys commissioned by the Russian Customs Service in 2006 and 2009, targeting both stakeholders (users) and Federal Customs Service employees, revealed the positive impact of reforms (Figures 1 and 2). In the 2009 survey, 61% of stakeholders stated that modernization had simplified procedures - a significant increase from 50% in the 2006 survey. In both surveys, 60% of the employee respondents stated that the modernization of information systems had simplified procedures.

1 The results are based on the aggregate values of the two pilot locations. The underlying data show some differences between the different project pilot sites. The data are provided by the Russian Federal Customs Service in accordance with the performance monitoring arrangements.

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The Russian Federation Customs Development Project

The Russian Federation’s Federal Customs Service, with the support of the World Bank, launched the Customs Development Project (CDP) in 2003. This project focused on improving the efficiency and effectiveness of customs operations in the central and northwestern regions of Russia, by:

- Simplifying border procedures and customs administration in accordance with international best practices;
- Increasing taxpayer compliance with the customs code and promoting the timely transfer of collected revenues to the Federal budget; and
- Increasing transparency and reducing opportunities for rent seeking.

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Key Messages

- The Russian Federation Customs Development Project (CDP), launched in 2003, has been helping reform and modernize the country’s Federal Customs Service.
- Reforms under the CDP have resulted in improved performance: both customs clearance times and rent-seeking incidents have been reduced.
- However, despite major progress in critical areas, global rankings such as the World Economic Forum’s Enabling Trade Index and the World Bank’s Logistics Performance Index suggest there is still significant room for further improvement in customs administration.

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CDP Activities and Results - Internal Project Indicators

The CDP helped improve the enforcement capacity and efficiency of the Federal Customs Service through activities targeted at improving business processes and procedures. The activities included implementation of new integrated IT processing systems and human resource management reforms; electronic declarations were also piloted in some areas. In the pilot regions including Central and Northwestern Customs locations, the project exceeded end of project targets in all but one area (enforced compliance).
Figure 1: Stakeholder and Employee Perceptions of Impact of Modernization on Customs’ Procedures (2006 and 2009)

The results provided evidence that the burden on users to comply with customs regulations and procedures has decreased over time, with no corresponding increase in the perception of difficulty of applying these new procedures by customs’ employees. The changes in regulations and procedures, such as the electronic submission of declarations and implementation of IT processing solutions, appear to have improved the customs’ experience for users. These results were confirmed by the stakeholder survey that showed increased satisfaction\(^2\) (compared to 2006) with the work of the Russian Customs Service, particularly in the assessments of exports (Figure 2).

The survey results also revealed a steep decline in requests for additional payments (bribes) during customs encounters: in 2009, 87% of users did not experience “direct or indirect hints about additional payment”, a near two-fold increase from the 2006 value of 44%. This reduction may be attributable to a decreased interaction with customs employees due to streamlined IT systems and the adoption of a “code of conduct” for customs’ employees that raised awareness about the contribution individual officials can have in establishing a climate of integrity.

Trends in External Customs Indicators

To validate the progress seen in internal project indicators, external customs-related indicators were consulted. Four primary data sources were examined: the Business Environment and Enterprise Performance Survey (BEEPS), the Logistics Performance Index (LPI)\(^3\), the Doing Business Trading Across Borders Index, and the World Economic Forum Enabling Trade Index (ETI). These sources measure customs efficiency and the burden of regulation using varying definitions and methodologies\(^4\). These data also revealed positive trends in the performance of Russian Customs Service and in customs regulations. The results of the comparative analysis in three areas - customs regulations, quality and efficiency, and transparency and corruption - are detailed below.

Customs Regulations

Both the BEEPS and the LPI for the Russian Federation showed improvements in firms’ perceptions of customs and trade regulations over the project period. The 2008 BEEPS showed that customs and trade regulations became less of a problem for Russian firms - on average, 59% of firms stated that customs and trade regulations were not an obstacle to doing business in 2008, an increase from 51% in 2005. For this indicator, the Russian Federation is on par with the average for the ECA region. The LPI showed that over 55% of respondents identified regulations related to logistics as “improved or much improved” over the 2005-2008 period. The results from both sources complement those of the stakeholder survey (Figure 2) which showed increased stakeholder satisfaction with customs.

Figure 2: Percentage of Stakeholders Viewing Customs Authorities Work Positively (2006 and 2009)

\(^2\) Satisfaction is defined as the percentage of respondents evaluating the work of the customs’ bodies positively.

\(^3\) The LPI includes two indices - an international ranking and a domestic index; the latter includes specific indicators on institutions and performance, including indicators on clearance times and percentage of physical inspections.

\(^4\) One caveat is that external indicators are measured at the country level, whereas the internal project indicators only reflect the performance of the customs posts in the pilot regions.
Quality and Efficiency

Similar to the results of the stakeholder survey, the LPI reveals differences in satisfaction with imports and exports. In 2010, 70% of respondents stated that clearance and delivery of exports was “often or nearly always” efficient, compared to 27% of respondents who said the same for imports\(^5\). These values correspond to the internal project data: export clearance times are shorter than import clearance times due to additional controls placed on imported goods associated principally with revenue collection and community protection.

The internal project indicators showed a temporary increase in physical inspections in 2009 (returning to lower levels in 2010), a fact which was also captured by ETI. The values for the efficiency of customs administration as measured by the ETI fell in 2009, but partially recovered in 2010. Another positive trend was seen in the efficiency of import-export procedures\(^6\) (Figure 3).

**Figure 3: Trends in ETI Border Administration Indicators for the Russian Federation (2008-2010)**

![Graph showing trends in ETI Border Administration Indicators](image)

Transparency and Corruption

Corruption is one area where results vary across the external indicators. The BEEPS results showed a 45% reduction in bribe frequency from 2005-2008 - the percentage of Russian firms stating that informal payments were frequent\(^7\) when dealing with customs decreased from 11% in 2005 to 6% in 2008. The BEEPS results complement the results of the internal stakeholder survey which also revealed fewer negative experiences, such as having to make additional payments to customs officials. On the other hand, the LPI showed that 73% of respondents were asked for informal payments by customs “often or nearly always” in 2010. Only the ETI “transparency of Border Administration”\(^8\) indicator showed a negative trend from 2008-2010 (Figure 3) in this respect. These differences among external indicators may be due to the different methodologies used to measure the indicators.

Global Rankings versus Individual Indicators

Three of the four external sources used ranking systems to compare customs performance across countries. These rankings often conceal important differences in the values of the underlying indicators on which the rankings are based. For example, while the ETI global rank for the Russian Federation was 103 among 118 countries in 2008 and fell to 114 among 125 countries in 2010, the overall ETI score for the Russian Federation improved from 3.25 to 3.37 (on a scale of 1-7, with 7 being the highest score) over the same period. One issue with the ETI results was that the number of countries in the index changed over time so it was difficult to measure the change for a particular country by rank alone\(^9\). While the overall rank is important for comparing a country to the rest of the world, it may not be the best indicator to measure progress made by a country’s customs service over time.

**Figure 4: Trends in Overall ETI and Border Administration Index for the Russian Federation (2008-2010)**

![Graph showing trends in Overall ETI and Border Administration Index](image)

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\(^6\) This score is a composite of seven indicators, including the “efficiency of the clearance process” from the LPI and six indicators from Doing Business: time to import goods, documents to import goods, cost to import goods, time to export goods, documents to export goods, and cost to export goods.

\(^7\) This value includes the percentage of firms making payments/gifts “frequently”, “usually” or “always” to deal with customs/imports.

\(^8\) This score is a composite of two indicators: the World Economic Forum (WEF) “irregular payments in exports and imports” value from the WEF’s Executive Opinion Survey and the Corruption Perceptions Index from Transparency International. The Corruption Perceptions Index captures administrative corruption, not corruption specifically in customs and trade.

\(^9\) In the ETI, five countries were added in 2010 (Iceland, Georgia, Botswana, Serbia, and Montenegro) that were not included in previous rounds. Similarly, certain countries in the 2008 index (such as Moldova and Uzbekistan) were not ranked in 2010.
Conclusion

The overall results are encouraging. Despite the fact that the values of the internal project indicators and external measures are derived using different methodologies, they tell a similar story. Both the CDP internal indicators and the external indicators show that the Russian Federation has made strides in customs reform and modernization, specifically with respect to increasing efficiency and reducing opportunities for rent-seeking, over the similar period (Table 1).

The external indicators provide a different view of the reforms and details on aspects of customs and trade not measured by the internal CDP indicators. They help shed light on other areas where there is ample opportunity to continue and expand efforts to increase the efficiency and effectiveness of the Russian Federal Customs Service.

Table 1: Summary of Indicators and Trends over Time

| Indicator                                                      | Baseline Value (year) | Most Recent Value (year) | Trend |
|                                                              |                      |                         |       |
| Customs Development Project Indicators                        |                      |                         |       |
| Percentage of Import Declarations Selected for Physical Inspection | 30% (2003)           | 6.6% (2010)             | ↑      |
| Percentage of Non-Energy Export Declarations Selected for Physical Inspection | 15% (2003)           | 1.6% (2010)             | ↑      |
| Average Customs Clearance Times at Vehicle Customs Checkpoints | 45 min (2003)        | 16.6 min (2010)         | ↑      |
| Average Customs Clearance Times in Lodging                   | 40 hours (2003)      | 7 hours (2010)          | ↑      |
| Rate of Enforced Compliance in Tax and Duty Collectionb       | 1% (2003)            | 1.97% (2009)            | ↑      |
| Selected Indicators from External Sources                     |                      |                         |       |
| BEEPS: Customs and Trade Regulations are Not a Problem in Doing Business | 51% (2005)           | 59% (2008)              | ↑      |

- Measured by the use of mirror statistics with the EU.
- Measured by the ratio of additional revenues to total revenue collected by the Federal Customs Service.
- Although the overall trend from 2008-2010 is negative, the trend from 2009-2010 is positive.
- Although the overall trend from 2008-2010 is negative, the trend from 2009-2010 is positive.

Note: Upward arrows in the trend column reflect positive changes, while red downward arrows reflect negative changes.


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