



USAID
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USAID ASSISTANCE IN FISCAL REFORM

COMPREHENSIVE CUSTOMS REFORM IN EGYPT

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EGYPT

USAID ASSISTANCE IN TRADE FACILITATION: COMPREHENSIVE CUSTOMS REFORM IN EGYPT

I. PROJECT DATA

Level of Funding: \$30 million

Period of Assistance: 2002 to 2007

Types of Assistance:

1. Technical Assistance
2. Equipment
3. Training

Areas of Assistance:

1. Customs Procedures
2. Re-organization of the Egyptian Customs Authority
3. Human Resource Development
4. Automation
5. Regulatory Framework

Main Counterparts:

1. Ministry of Finance, Minister's Office
2. Customs Authority
3. Customs Reform Unit
4. Modern Customs Centers

II. THE PROJECT: BACKGROUND, PRINCIPAL RESULTS AND IMPACT

Introduction

Since 2002, customs reform has been high on the agenda of the Government of Egypt (GOE) as well as international organizations and donors. In July 2002, the Ministry of Finance finalized a framework plan with the IMF for tariff and customs reform to complement ongoing tax reform and other GOE trade facilitation efforts. In September 2002, USAID launched a five-year, \$30 million project—Assistance for Customs and Trade Facilitation (ACTF)—which is expected to reduce import clearance time and cost, the number of clearance steps, and the number of disputes, while increasing the percentage of goods declarations transmitted electronically. Then, in October 2002, the GOE Ministry of Finance created a Customs Reform Unit

(CRU) to plan, implement, monitor the reform program, and coordinate the activities of the various donors, namely USAID and the European Union.

With USAID assistance, the GOE has undertaken a variety of reforms to transform the Egyptian Customs Authority (ECA) into a trade facilitation agency and away from its traditional role of controlling trade and collecting revenues. Specifically, the main reform areas include: a) simplifying customs procedures, b) adopting a new organizational structure based on international standards, c) establishing Model Customs Centers acting as “one-stop shops,” d) reducing tariff rates and tariff bands (in collaboration with the Ministry of Foreign Trade and Industry), e) working with other control agencies in designing consistent risk management techniques, and f) designing and implementing a software solution that meets the requirements of a modern customs organization and links electronically to all stakeholders and other border agencies.

USAID assistance has been provided through a combination of long-term and short-term advisors, training, and international observational study tours. Procurement of a new customs software and related hardware is one component.

A. Background and Economic Context of the Project

When USAID assistance began, the import process in Egypt’s ports was cumbersome and lengthy, taking weeks rather than days and resulting in high costs and risks to businesses. Combined with complex tariffs, onerous inspections, and a lack of transparency in customs procedures, this situation created an environment of mistrust between Customs and businesses. ECA’s main goal was revenue collection, with little or no attention given to trade facilitation. In contrast, by 2006 ECA was identifying itself as a trade facilitation agency, reaching out to its stakeholders, engaging its employees in decision making, and overhauling its regulatory, personnel and IT systems.

B. Outcomes and Impacts in the Project’s Principle Areas of Assistance

The achievements in the customs area can best be summarized by the World Bank Doing Business Report 2005, which ranked Egypt as “the most prominent country in customs reforms.” As noted in the World Bank report, Egypt had established a single window for trade documents and merged 26 approvals into 5. Tariff bands had been reduced from 27 to 6, and average weighted tariff rates had been cut from 14.6 to 9.1 percent.

Following is a detailed description of reforms in the different customs areas:

1. Customs Procedures

In January 2006, the Ministry of Finance issued Executive Regulations to the Customs Law (dated 1963), incorporating new procedural manuals developed with

USAID assistance. The Executive Regulations consolidate all existing decrees and regulations into a single source. Previously, traders and customs employees alike had to sift through thousands of old and often contradictory decrees. The new Regulations make the system more transparent and predictable, standardizing the application of procedures from port to port.

In addition to streamlined regulations, USAID has supported the introduction of new techniques such as risk management and post-clearance audit. The ultimate objective is to bring green channel releases to at least 50 percent of total declarations. USAID also succeeded, through its Customs (ACTF) and Assistance for Trade (ATR) projects to advance risk management practices for both the ECA and the General Organization for Export and Import Control (GOEIC), the agency responsible for inspection and quality control.

Assistance provided by USAID has helped the ECA conform to the standards set by the World Customs Organization in its Kyoto Convention. Egypt is expected to formally sign the Kyoto Convention in September 2006, thereby signaling to the international business community Egypt's compliance with international standards in customs procedures.

2. Establishment of Model Customs Centers

USAID assistance from 2002 to 2004 was instrumental in the creation of the Model Customs and Tax Centre (MCTC), which was established to help ensure efficient handling of large taxpayers in Egypt. The MCTC, which first opened its doors in June 2003, provided a "one-stop shop" for large taxpayers who opted to participate in the new system, allowing them to handle all their tax and customs affairs through one office. Early results were very positive. For MCTC importers, customs clearance was reduced to about a day compared to the seven days or more that was required for most other importers.

At the recommendation of the International Monetary Fund, the MCTC was phased out in September 2005, replaced on the tax side by a fully integrated Large Taxpayers Center (LTC) and on the customs side by a series of Modern Customs Centers (MCCs), similar to Customs Houses in the US. Besides providing a "one-stop-shop" for large traders, the MCCs serve as a testing ground for the newly developed, streamlined customs procedures discussed above. Currently, there are four MCCs in operation: in Alexandria, Suez, Cairo, and Port Said. Customs release times at the Alexandria MCC in May 2006 were less than a day, and green channel releases accounted for 55 percent of total declarations—already exceeding the 50-percent target for green channel releases mentioned above.

USAID is assisting the ECA in reducing the number of customs complexes located at each port of entry and consolidating them into full-service MCCs. The objective is to have 10 to 15 MCCs to replace the complexes which now carry out commodity-

specific customs procedures. These complexes will be then used for examinations and compliance activities only.

USAID has also been supporting further enhancements at the MCCs to allow clients to deal with ECA and other GOE inspection agencies, particularly GOEIC, in a single location. In Alexandria, co-location has led to more joint examinations between ECA and GOEIC, departing from the previous practice of separate examinations of containers.

3. Egyptian Customs Reorganization:

In mid-2005, the Minister of Finance requested USAID and its technical assistance experts to design a comprehensive reorganization for the ECA focused on organizational structure, human capital, technology, customs processes and performance measures. A new comprehensive organizational structure was subsequently developed and approved by the Minister in April 2006. This structure reduces the reporting levels in the organization, significantly decreases the ratio of direct reports at senior management levels, eliminates the high levels of redundancy and is set to benefit from a matrix management approach that will provide newly established regional customs offices with necessary staff from the various support department (e.g., administration, IT, trade compliance). The transition to this new organizational structure will include reducing staff levels from the current 17,000 to 9,000 in four phases, with the first to be rolled out through a cost-effective and targeted early retirement offering.

4. Capacity Building

Capacity building and human resource development is an essential component of reform. Both USAID and the EU are providing significant amounts of technical, middle management, and general training in this regard.

Between June 2003 and 2006, USAID-funded study tours for customs officers emphasized the importance of risk management systems, performance monitoring, and modern customs management practices. USAID also provided computer and English-language training to mid-level management to upgrade their skills. Currently, the focus is on technical training in valuation, risk management, and post-audit. With the approval of the new organizational structure, around 50 middle and upper management customs officials have recently enrolled in an MBA program. Such training will help them better execute their responsibilities within the new organization.

5. Tariff Reforms

Following recommendations from the International Monetary Fund, as well as critical analytical work done by the Customs Reform Unit with the assistance of USAID consultants, the Egyptian tariff code was revised, reducing the number of tariff bands

from 27 to six and lowering the weighted average tariff from 14.6 percent to 9 percent. In addition, tariff surcharges ranging from one to three percent were eliminated. Of particular note, the tariff reform eliminated the significant specific tariffs on garments and replaced them with ad valorem rates that are within Egypt's bound rates from the Uruguay Round.

III. FACTORS OF SUCCESS

1. Egyptian Government Leadership. The commitment of the Minister of Finance (part of an ambitious economic-reform cabinet appointed in 2004) and the Customs Commissioner were essential factors in the success of USAID assistance. Under their leadership and with USAID assistance, the ECA has been undergoing a corporate culture shift. The emphasis was increasingly on facilitating trade as opposed to regulating or taxing it. In addition, the middle and top management levels of the ECA have been engaged in the reorganization planning process through a series of workshops, which fostered a sense of ownership of the reform process. This was essential for the smooth transition to the new organizational structure.
2. Flexibility of USAID Approach to Assistance. When the USAID assistance project started in 2003, there were political sensitivities on the part of the MOF to engage foreign experts in some areas such as the review of the Customs Law. In addition, the CRU had just been established and its capacity to work with a large team of consultants was not yet developed. Due to these reasons, USAID had decided to adopt a flexible approach, offering the full range of relevant technical support activities and choosing specific interventions as the demand for them evolved within the GOE. To help motivate the demand, the project conducted a series of assessments. In 2004, the new Minister of Finance made accelerated customs reform a priority, which led to the development of a comprehensive plan for customs reform in the summer of 2004. A new energetic and reform-oriented Customs Commissioner was also appointed, giving USAID the opportunity to expand its assistance in support of a comprehensive customs reform.
3. Comprehensive Approach to Reform. USAID assistance was based on a comprehensive rather than a piecemeal approach to customs reform. Considerable efforts and analyses were undertaken by USAID assistance to convince customs officials that automation alone would not solve the problems faced by ECA, and that reforms related to procedures, regulations and human resources were as important as securing a modern IT system. These efforts were very successful and the customs reform plan developed by the CRU with USAID assistance was a reflection of the new vision that ECA started to develop. In addition, ECA counterparts also realized that they must work and coordinate with a diverse spectrum of parties involved in trade transactions, including: importers, exporters, customs brokers, freight forwarders, shipping agents, carriers, banks, air/port authorities and other government departments and control agencies.

USAID assistance has played a major role in helping ECA reach out and coordinate with these stakeholders.

4. Engaging the Trade Community. Through a series of workshops, USAID assisted the ECA in reaching out to and learning from its customers. As an outcome of frequent workshops, Advisory Committees on Trade Facilitation were created in Alexandria and Port Said and have since been used as a forum for ECA to truly consult, rather than inform, representative groups from among the trade community on proposed policies and procedures and for the trade community to advise customs and GOEIC on their issues, experiences and concerns. This has created an atmosphere of mutual trust and cooperation between ECA and its stakeholders.
5. Donor Coordination. As the largest donor, USAID has been engaged in bringing together the IMF, the EU, Euro-Customs, and other interested donors and entities. USAID has taken the lead in helping the GOE develop strategic management capacity and streamlined procedures. The EU has been supporting customs reform with a cash transfer program and with € 6 million of project assistance that complements USAID efforts. Its assistance has been focusing heavily on training related to the new procedures and IT related to risk management. Meanwhile, the IMF has been providing independent reviews to the GOE and donors on the process and content of technical assistance. Donor activities have been closely coordinated to ensure consistency and complementarity through monthly joint meetings between donors, the Customs Commissioner, and the CRU.