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## **Economic Commission for Europe**

### **Administrative Committee for the International Convention on the Harmonization of Frontier Controls of Goods, 1982**

#### **Tenth session**

Geneva, 9 October 2014

Item 5 (c) of the provisional agenda

#### **Application of the Convention:**

**Implementation of the Harmonization Convention  
and the use of best practices in this context**

## **Incorporation of performance measuring and benchmarking into the Harmonization Convention**

### **Note by the secretariat**

#### **I. Introduction**

1. The International Convention on the Harmonization of Frontier Controls of Goods, 1982 (Harmonization Convention) constitutes an internationally recognized legal instrument aiming at facilitation of transport and trade procedures. The current discussions on benchmarking for the implementation of HC are aimed at making this Convention more efficient.
2. The better implementation of the HC provisions can directly contribute to the expansion of international trade. At present the competitiveness of companies depends not only on their ability to produce a required product at a right price but also on their capacity to deliver it to the required place at the required time. Hence, growing attention of governments and business to how eliminate institutional and other bottlenecks in international trade.
3. The debate at UNECE and at other international/regional fora clearly shows that in order to ensure an uninterrupted and quick flows of goods and information it is necessary to have a good administrative and technical infrastructure, based on international standards and approaches and that Harmonization Convention can be considered as an example of such best practice.
4. This issue has recently received an additional attention in the light of the new commitments undertaken by WTO member states under the Agreement on trade facilitation

signed in December 2013. It means that in the forthcoming years countries will be obliged to show how they implement the new WTO commitments.

5. The Informal document WP.30(2014) No. 7 (prepared by the secretariat) compares the texts of the Harmonization Convention and of the WTO agreement on trade facilitation and shows that trade facilitation provisions are spread all over the two legal instruments and that countries which implement HC also implement relevant WTO requirements.

6. The experience with managing and monitoring previous WTO agreements shows that usually WTO tends to identify and agree on relevant best practices which are then recommended to countries as a means to show compliance with and/or for implementation of specific commitments.

7. Thus, the current UNECE work on benchmarking at HC could eventually contribute not only to making this Convention more efficient but also to future discussions on performance assessment of national trade facilitation measures at WTO.

## **II. Current status of discussions on benchmarking at HC**

8. During last years the Working Party 30 has been regularly discussing ways to ensure proper implementation of the provisions of the International Convention on the Harmonization of Frontier Controls of Goods, 1982 (Harmonization Convention). These discussions were based primarily on the "UNECE-OSCE Handbook on Best Practices at Border-Crossings: a Trade and Transport facilitation perspective" (published in early 2012). This Handbook was discussed in-depth, for example, at the Round table on the role of best practices at border crossings in implementing the International Convention on the Harmonization of Frontier Controls of Goods, 1982 (Harmonization Convention). This Round table (14 June 2012), was held in the framework of the 131st session of the UNECE Working Party on Customs Questions affecting Transport (WP.30) (12–15 June 2012).

9. It could be noted that implementation issues were discussed at UNECE earlier as well, and intensified during last years as delegations got more interested into introducing systematic benchmarking and performance indicators into the Harmonization Convention.

10. From the point of including the benchmarking provisions into the text of HC the following options were suggested:

- an addition to Annex 8 (to cover benchmarking specifically for road transport);
- new annex on recommended best practice ;
- non-binding resolution/recommendation on best practices;
- supplementary protocol to the Convention (binding for states that accede to it);
- giving the Administrative Committee the mandate to decide on means and methods of monitoring performance.

11. No formal decision has been yet made on these options but the general tendency of the discussions seem to be towards voluntary and flexible mechanisms.

## **III. Benefits of benchmarking**

12. Why Governments are interested in benchmarking and what benefits they expect to receive from it?

13. First of all, from a global perspective, benchmarking allows to position a particular national agency in a comparative framework and thus to see how this agency is performing

in comparison with others; to find what best practices exist in a particular area; to agree on which issues shall be focused improvements.

14. Then the use of performance management indicators and best practice can help an agency to improve specifically the way it is functioning. It can be achieved through the following means:

- identification of specific problem areas and collection of reliable data to demonstrate it;
- teaching to use latest best practices and how they influence the performance;
- helping to prioritize steps for improvement ;
- serving as an excellent baseline "score card";
- making it easier to raise performance expectations;
- creating a sense of competitiveness and a real desire for improvement;
- encouraging people to "work smarter" instead of "working harder";
- accelerating understanding and agreeing on those areas that are really problematic;
- shifting internal thinking and agency's performance assessment from "inputs" to "outputs";
- motivating a team to work collaboratively to surpass external benchmarks;
- building confidence by validating "gut" assumptions;
- removing perception and emotion from the discussion.

15. Regarding potential concrete benefits for the major player at border crossings facilitation- customs, they may include:

- giving a national customs administration the opportunity to study, absorb and implement good practices that have already been tried and tested by customs administrations in other countries;
- providing the means for better regulation and control;
- creating greater efficiency and cooperation within regulatory agencies;
- improving trade performance;
- improving economic competitiveness;
- enabling different national customs administrations to work together as partners;
- increasing efficiency of international legal instruments through a better cooperation and the common interpretation and application of Customs laws, conventions, treaties and agreements.

16. From the point of business, collection of reliable data to document trade impediments will contribute to a dialogue between governments and private sector which is a significant challenge in many countries where a mutual distrust between companies and public agencies still exist. One of the deliverables of the on-going discussions on HC shall be an understanding that without such dialogue no actions on a national level can succeed.

## IV. Benchmarking methodologies

17. The UNECE–OSCE Handbook contains a chapter (chapter 9) specifically devoted to benchmarking issues.

18. Briefly, the Handbook presents several methodologies including<sup>1</sup>:

- The World Bank’s TTFSE programme, applied in the Balkans and in Central Asia;
- UNESCAP’s<sup>2</sup> time-cost study based on corridors in Central and Eastern Asia;
- The WCO’s<sup>3</sup> Time-for-Release Study (TRS) on the analysis of Customs procedures in several WCO countries;
- The IRU’s<sup>4</sup> Border Waiting Times Observatory;
- The World Bank’s Logistics Performance Index;
- The EU’s<sup>5</sup> Laufzettel survey for the Baltic States.

19. The latest methodology on which UN/ESCAP is currently working is called: Trade and Transport Facilitation Performance system (TTFRM). This approach combines three existing methodologies: of business process analysis (BPA) and of WCO methodologies on time release (Time Release Study; TRS) and on of time-cost –distance (TCD). The combination of these three approaches is expected to allow capturing information related not only to trade process (through BPA means) but also along the whole supply chain (through TCD and TRS)

20. It can be noted that besides above mentioned specialized methodologies, the importance of measuring performance is also recognized in the context of practically all projects relating to transport and trade. For example, it is an important component of the World Bank’s Corridor approach and of the mechanism for its implementation - Trade Corridor Management Toolkit (TCMT) which is currently in pilot stage.

21. A corridor is usually multi-modal and includes multiple border crossings. Almost by definition, this requires joint efforts of private operators, public operators, and government agencies. The performance of a corridor can be evaluated from three perspectives: cost, time and reliability, which in turn relate to infrastructure, institutional capacity-building and regulatory reforms.

22. The TCMT is based on establishing a mechanism through which task managers and policymakers can access in a single place, an array of instruments to assess, improve and manage corridor performance. In addition, a computerized system with a single access point such as the TCMT may be equally beneficial for data collection and the effective implementation of the methodology at all border crossing points and corridor entry and exit points.

23. The in-depth analysis of these methodologies provided in the UNECE-OSCE Handbook shows strong and weak points of their utilization and problems of using them to establish reliable international comparisons. In practice, some national administrations

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<sup>1</sup> For detailed information see: UNECE-OSCE Handbook of Best Practices at Border Crossings – a Trade and Transport Facilitation Perspective, Chapter 9

<sup>2</sup> United Nations Economic and Social Commission for Asia and the Pacific

<sup>3</sup> World Customs Organization

<sup>4</sup> International Road Transport Union

<sup>5</sup> European Union

challenge the results achieved under certain methodologies, in particular of those that are based on surveys of private operators.

24. All the methodologies depend on credible performance data and in this context the UNECE-OCSE Handbook provides also information on the performance indicators and targeting, on their setting and on collection of performance data, its standardization and harmonization.

25. In general terms the existing performance indicators (see a table in annex to this paper) can be divided into the following four categories: indicators of time, of facilitation, of procedures and of effectiveness.

26. The indicators of time are aimed at showing the duration of the selected processes (specific for each procedural step or combined, for example, whole waiting time at a border crossing). They are easy to collect but require reliable sampling methodology and good in-depth understanding of the data. For example, surveys organized in some countries showed that the waiting time at border crossings included also time spent by truck drivers at their decision (for instance, when a driver decide to spend a night at a border crossing and not at an unsecured parking lot at the road).

27. The indicators of facilitation focus on formalities and on associated transaction cost. They concentrate on “pre-border” procedures (permits, licences) and on post clearance events. These indicators require reliable data and in the absence of relevant indicators in a national administration, the data is collected through surveys of importers which may occasionally lead to distorted results.

28. The indicators of procedures are centered on customs procedures and how specific administrative steps work separately and when combined. The data for this analysis usually comes from customs data processing systems.

29. The indicators of effectiveness are based on the targets set for national administration (revenue performance, staff/collection revenue ratios, etc.).

30. As different indicators serve different purposes they shall be used in a combination to provide credible and wide enough data to assess the performance of a specific agency or of a border crossing. Ideally indicators shall be a part of a comprehensive performance management system.

31. The creation of a comprehensive performance indicator system is a complicated process. Recommendations and steps towards establishing it (as provided in the UNECE-OSCE Handbook) include:

- -conducting of a baseline study (identification of locations for measurement and training of a team);
- -national efficiency survey (establishing a task force, getting data from other agencies);
- -conducting local baseline surveys (three such surveys are recommended);
- -organization of regular surveys;
- -conducting a user facilitation survey;
- -organization of a procedures survey;
- -analysis of the results with sub-indicators;
- -comparison of surveys done in adjacent countries;
- - corridor performance measurement;

- -similar surveys for specific types of transports (rail and seaports).

32. It means that national agencies that create such comprehensive systems and which require additional resources (in financial and human terms) shall be confident that such work/investments will bring direct benefits, first of all to them.

33. From the point of the use of performance indicators by national administration, we see various attitudes in different countries. On the one side, at EU there is a tendency to the wider use of performance indicators as a management tool, in particular at customs. The EC is currently running a project on the use of harmonized performance indicators at EU customs administrations.

34. At the same time, at CIS region performance indicators' approach has only started to gain ground (thus, Russian customs few years ago introduced time limits for clearance of goods at border crossings).

35. As a direct benefit to customs, it shall be noted that the use of performance indicators leads almost everywhere to removing the perception that border delays are caused primarily by the non efficient work of customs (and that other regulatory agencies often are to blame) and shows with reliable data the importance of cross-agency cooperation and comparisons. It testifies also that the best results from benchmarking can be achieved through elaboration of harmonized performance indicators that can be used through various agencies in a national administration.

36. So what is the reason for a rather cautious attitude of certain policy makers to the benchmarking?

37. In our opinion, certain reluctance towards performance indicators from customs authorities might be explained by the fact that they do not see a direct value for their activities from introduction of indicators. For example, in many countries the results of customs' work are assessed by the volume of collected duties/taxes and not by the time spent by truckers at border crossings. Very often customs officers sincerely believe that long inspections testify to the quality of inspections and controls.

38. In this context it shall be noted that many studies on release time demonstrate that there is no direct correlation between clearance time and revenues collected. Paradoxically, some studies even show that the reduction in clearance time was accompanied by an increase in revenue collection.

39. Other reason why customs might be not enthusiastic about indicators is that proper performance management requires additional resources (including for training of staff) which are not sufficiently allocated by finance ministries as indicators are not currently seen as a means of bringing additional revenues to state budget.

40. There is also a resentment because indicators might be used to criticize the work of customs and, thus, may have implications for disbursement of resources and/or that results from a particular pilot site/project might have wide-ranging consequences for a whole national agency.

41. Hence, there is a need to promote awareness that indicators shall be seen as performance improvement tool and not as a formal statistical data.

## **V. Way forward (suggestions)**

42. The current discussions on benchmarking at HC should strengthen the capacity of policy makers and of representatives of national administrations to formulate transport and

trade facilitation policies and tasks and implement facilitation related tools and approaches, including performance indicators.

43. The secretariat believes that the constructive character of discussions can be strengthened through a wider sharing of national and regional experiences on benchmarking and on using performance indicators in national administrations.

44. With this in view it is suggested to Administrative Committee to consider the feasibility of organizing:

- a survey on what performance indicators are currently used by customs administration (using the table in annex as a reference list of potential indicators) and on related implementation experiences;
- a workshop to share best practice and to show a value for customs authorities in introducing performance indicators.

**Annex**

**Customs key performance indicators**

<p>Internal processes</p>	<p>Cycle times (customs clearance for export/import)</p> <p>Border wait times for passengers/cargo (before customs clearance begins)</p> <p>Number of shipments targeted as high risk</p> <p>Percentage (%) of shipments examined</p> <p>Percentage (%) of goods interdicted</p> <p>Percentage (%) of delays beyond x hrs caused by valuation issues</p> <p>Value of seizures and monetary penalties</p> <p>Quality of intelligence with regard to high risk containers</p> <p>Number of annual declarations</p> <p>Types of goods seized</p> <p>Revenue collected from post clearance audits</p> <p>Number of formal evaluation challenges/number changed</p> <p>Number of formal classification challenges/number changed</p> <p>Number of investigations for violations of border legislation</p> <p>Number of convictions for violations of border legislation</p> <p>Number of intellectual property rights cases</p> <p>Volume/type of prohibited goods seized</p> <p>Number of travellers</p> <p>Number of temporary entries</p> <p>Border wait times (people/goods)</p> <p>Examination rates and discrepancies found (daily/weekly/monthly)</p> <p>Trade volume</p> <p>Number of export inspections</p> <p>Number of declarations compared to number of declarations with errors</p>
<p><b>Learning and growth</b></p>	<p>Employee capacity/competency</p> <p>Number of training courses</p> <p>Employee satisfaction</p> <p>Number of internal (administration/management) IT projects</p> <p>External (client oriented) IT projects</p> <p>Number of IT systems implemented/operational</p> <p>Employee turnover</p>

<p><b>Client</b></p>	<p>Client satisfaction surveys            Client perception of integrity            Client awareness of law changes, new programs            Number and types of complaints            Number client charters/agreements            Cost of compliance for each client</p>
<p><b>Stakeholders</b></p>	<p>Agreements/MOUs with other customs administrations, government departments or international organizations            Satisfaction of partners            Satisfaction of Minister of Finance, parliament, public            Compliance with WCO, WTO agreements            Security of the supply chain            Media reports</p>
<p><b>Corporate governance</b></p>	<p>Value for money/efficiency/productivity            Revenue collected per Customs staff member            Revenue collected compared to total Customs operating costs            Annual number of declarations per Customs staff member            Salaries compared to revenue collected            Customs legislation changes            Organizational climate            Progress on Customs reform and modernization            Number of integrity complaints            Number of integrity violations            Accountability structure/framework</p>