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JORDAN FISCAL REFORM II

Component D: Midterm Review

July, 2011

This publication was produced for review by the United States Agency for International Development. It was prepared by Nathan Associates.

Jordan Fiscal Reform Project II (Component D)

Midterm Review

Program Title:	**Jordan Fiscal Reform II Project**
Sponsoring USAID Office:	**USAID/Jordan Economic Growth Office**
Contract Number:	**EEM-I-00-07-00009-00** **Order No. EEM-I-08-07-00009-00**
Contractor:	**Nathan Associates Inc**
Date of Publication:	**July 2011**
Prepared By:	**Luc De Wulf**

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Acknowledgments

The author, Luc De Wulf, would like to thank the resident experts of the Jordan Fiscal Reform Project II (FRP II) for their warm welcome and cooperation. He is especially grateful for the extensive information provided by Glenn Mackenzie-Frazer and Mohammad Al-Said and the opportunity to study reports produced by FRP II. He would also like to thank customs officers for their willingness to engage in lengthy discussions and very much appreciates discussions with Customs Director General Ghalib Qasem Al-Sarayreh and his adviser, Mr. Mahmoud Wafa, about Jordan Customs' recent achievements and its path to modernization.

Executive Summary

The mission of Jordan Customs is "To be amongst the pioneers of the world providing high quality Customs services to stakeholders." Customs management has demonstrated its commitment to modernizing and adjusting strategies to fulfill this mission. Its 2008-2010 strategic plan is in place and its strategic plan for 2011-2013 is being finalized. USAID has supported customs modernization in Jordan since 2003—through AMIR I, AMIR II, Customs Modernization Program, and through Component D of the Fiscal Reform Project II (FRP II). Given the importance of trade to Jordan's economic growth and development, FRP II and its customs component are apropos.

Component D interventions are in keeping with the original task description and technical assistance has generally advanced project objectives. Component staff, however, should strive to be more consistent, energetic, and persistent in following up with Jordan Customs and other counterparts on technical assistance so reports and recommendations are acted on to the fullest extent possible. Even the most well received report will only gather dust if not followed up on and component staff can do more to encourage Jordan Customs to take action.

While Jordan Customs has embarked, with USAID's support, on a well articulated reform and modernization strategy, related processes need regular review and adjustment. In some areas Jordan Customs has achieved major progress while in others progress has been slower than expected. On the basis of our findings we recommend that Jordan Customs take the following steps to accelerate progress in modernization and trade facilitation and that FRP II use these recommendations to better target customs assistance:

- Intensify work on risk management, postclearance audit, and customs valuation, core customs functions essential to trade facilitation and key to an effective single window.
- Coordinate with other agencies to reassess the single window concept and implementation strategy in light of best practices and recommendations, building on the work already done with FRP II and predecessor projects, focusing on integrating ***all*** government agencies that are responsible for facilitating trade.
- Strengthen private sector and public support for modernization by better communicating its necessity and benefits.

To build support for modernization, we recommend that Jordan Customs and FRP II capitalize on the fact that companies, analysts, and government officials increasingly turn to international comparisons to evaluate a country's business environment, trade logistics, and customs performance. Even though such indicators merely approximate performance, they are widely cited and figure in the decisions of firms and investors and in endorsement or criticism of

policies. The two most popular indicators of comparative performance suggest, for example, that Jordan is losing ground. Jordan's ranking in the World Bank's *Doing Business* report in the "trading across borders" category dropped from 74 in 2010 to 77 in 2011 . In the World Bank's "Connecting to Compete: Trade Logistics Indicators" Jordan's ranking for customs performance fell from 54 to 93 between 2007 and 2010.

Jordan Customs can cite these ratings to build support for trade regime improvement even as it works to meet its revenue targets, combat smuggling, and protect the environment. Better outreach to the private sector and general public on achievements in trade facilitation will garner support for more achievements. FRP II could provide important assistance to Jordan Customs in this area.

1. Introduction

From May 23, 2011 to June 6, 2011, we conducted a strategic review of the customs component (Component D) of the Jordan Fiscal Reform Project II (FRP II) to

- Evaluate activities and determine which could have high impact and lead to tangible results in the short- to medium-term;
- Propose strategies that the government could implement independently, with support from FRP II or the resources of other economic growth programs; and
- Recommend ways to take advantage of the flexible and responsive nature of FRP II in order to address Jordan's regional and international competitiveness from a customs perspective.

The following areas were reviewed: risk management, including risk management criteria and border inspections; Golden List and postclearance audit; customs valuation; single window development; use of information technology; transit; exemptions monitoring; and how a periodic management information system could aid decision making and customs procedures. In section 2 we present general observations, findings, and recommendations pertaining to the progress made with the Customs component of FRP II so far. Section 3 presents a detailed review of key elements of customs operations. These could be the focus of reform and modernization efforts of Jordan Customs in the coming years; the FRP II could be enlisted to sharpen its operations in support of these initiatives that would contribute to the realization of general development goals for Jordan. Persons interviewed during the review are listed in Appendix A.

2. General Observations and Findings

Trade is increasingly important to Jordan's economic growth and development, yet Jordan's trade facilitation regime appears to falling in the ranks of the World Bank's *Doing Business* report and faltering according to trade logistics indicators (see the World Bank's "Connecting to Compete: Trade Logistics Indicators"). Given this situation, FRP II and its customs component (Component D) should focus more on trade facilitation and trade logistics, for example, by supporting a more ambitious single window system.

USAID's scope of work for Component D refers to a number of areas in which the project should intervene to improve performance. The project's objectives and interventions, however, do not reflect (1) a careful diagnosis of the issues at the outset of the project or (2) full communication with and buy-in from the Ministry of Finance and Jordan Customs. The project was launched after a series of USAID projects that supported customs reform and which apparently served as the design basis for FRP II. Having more detailed quantitative benchmarks at the project outset would have made quantitative performance targets more specific and sharpened the monitoring and evaluation framework. Here, the main lesson is to engage Jordan Customs and other agencies more intensively and regularly to implement project assistance and recommendations, maximize results, and improve tracking and reporting of results to senior officials in Jordan Customs and other agencies.

Thus far the main interventions of Component D are in line with the original task areas of risk management, Golden List reform and expansion, customs-led single window development, customs valuation, and support for legal reform necessary to comply with international conventions. Other aspects of customs modernization are to be addressed in the next two years of the project. As the project develops and implements its work plan, the customs component team should verify the position of Jordan Customs on project interventions and whether modifications are desired, and keep priorities in accord with the resources of the project and Jordan Customs.

DELIVERY OF SERVICES

The customs component team provides technical assistance by directly engaging Jordanian counterparts and through short-term Jordanian and expatriate technical assistance. Hands-on interaction of resident staff with Jordan Customs is organized by task force (e.g. single window data set, Customs Code modifications). Progress has been continuously monitored. Jordan Customs greatly values the assistance and advice of resident staff on a number of issues and the

mutual trust between staff and customs management favors communication and allows staff to influence decisions.

Short-term technical assistance has been provided on the basis of approved SOWs and documented in end-of mission reports, which include recommendations, and has included training for customs and partner agencies. The resident staff has urged Jordan Customs to implement recommendations and they and customs both note that recommendations have been positively received. Customs, however, does not have always have action plans necessary for carrying out recommendations. FRP II does discuss and develop its work plan and activities in cooperation with Jordan Customs, but sometimes there is a lack of follow through. Customs component staff should continue to diligently engage counterparts in developing and implementing activities/recommendations, and by judiciously prodding Jordan Customs and other agencies to intensify action on their reform agendas.

CUSTOMS COMPONENT ACTIVITIES

Customs Valuation

Training provided by FRP II has built on earlier valuation training. Inspection staff knows the principles and details of the WTO Valuation Agreement and earnestly try to implement it. The chief problem is data quality. Fred Levitan's well-received project report on customs valuation details the U.S. approach and notes that in Jordan penalties are often reduced after being challenged. The report was being finalized at the time of this assessment, so Jordan Customs has not yet developed a plan to implement the report's recommendations. We strongly recommend that FRP II follow up with customs to ensure that the report's findings are acted on.

Project staff and Jordan Customs could follow up this activity by better documenting the incidence and significance of penalty appeals. In addition, FRP II could offer assistance to improve Jordan's valuation database and the support provided by headquarters valuation staff to frontline inspectors, a best practice in customs operations.

Single Window

FRP II should continue to support the implementation and roll out of Jordan's single window program. Primarily through the work of consultant Bill Nolle, FRP II has identified what needs to be done to align the program with WCO standards. In Year 1, Nolle assessed the single window program and recommended actions to fully implement it. FRP II staff is following up on these recommendations and have designed activities to act on them (e.g., data harmonization, legal framework analysis). If a single window is implemented effectively, Jordan will have a strategic advantage in the region. FRP II has worked hard to engage participating government agencies (PGAs) in improving Jordan's risk management, a key component of single windows and trade facilitation. Results have been modest, which is not surprising given that risk management is one of the most difficult aspects of single window development. In addition, FRP II worked closely with Jordan Customs and PGAs to develop a single window data set that aligns with the WCO data model. The customs component has supported Jordan's single window program as follows:

- ***Supported establishment of single window steering committee with directors from Jordan Customs and PGAs.*** FRP II prepared guidelines for the steering committee and subcommittees (to be established) that will develop technical and operational details to improve the functioning of the single window. The project also prepared MOUs between Jordan Customs and PGAs that address personnel requirements, the entry of risk assessment profiles into ASYCUDA, and data sharing.
- ***Provided technical assistance to help PGAs develop and implement a risk assessment strategy that facilitates trade.*** FRP II has provided training that should lead to the creation of risk assessment units in the PGAs. The significant effort required to persuade PGAs to be involved in single window development suggests a lack of senior-level political support and reluctance to devote effort and resources or adjust roles in goods clearance to accommodate a single window. PGAs may also be concerned that having Jordan Customs oversee the single window will give it a too-dominant role. We recommend that the customs component work with Jordan Customs to increase and sustain efforts to build political support in the MOF and, more importantly, in the Prime Minister's Office.
- ***Developed a single declaration document to meet PGA requirements***. This activity produced a revised data set endorsed by the WCO but could result in a complex single declaration form. FRP II and Jordan Customs constructed the data set before mapping and simplifying PGAs' business processes. The experience of Singapore, Mauritius, and Ghana suggests that process simplification conducted at the outset of single window development has major advantages. We recommend that FRP II work with Jordan Customs and border control agencies that are part of the single window initiative to map and simplify business processes. Admittedly, compiling the data set for the single window declaration did reduce the number of data fields required by PGAs. Further work is needed, however, as the number of fields (178) are still excessively high. For the balance of the project, a key challenge for FRP II and Jordan Customs will be to cooperate in promoting and implementing an ambitious vision for the single window. The current co-location of border control agencies at Jordan Customs falls far short of single window best practice.[1] Single window best practices call for an equal emphasis on trade facilitation and border control, an IT-based single window platform, and the extension of single window membership to all trade-related government agencies and private sector stakeholders. We note that FRP II started after the launch of the current model for Jordan's single window. The project now could focus on (1) proposing and fostering a more ambitious single window concept, (2) specifying the IT requirements to run the single window and to provide IT at PGAs so they can interact with the single window, and (3) analyzing alternative business plans, some of which could include a public-private partnership to run the single window.

[1] Co-location, however, has reduced the need for brokers to process declarations by visiting multiple PGAs at multiple locations.

Risk Assessment

Jordan Customs and the PGAs at the border conduct too many physical and documentary inspections. Jordan Customs' inspection rates have increased in recent years, not fallen as envisaged by FRP II. The following statistics suggest the impact of inspections on trade facilitation:

- In early 2011, 53 percent of imports were accorded red lane inspection, 41 percent yellow lane, and only 7 percent green lane.
- The PGA import inspection rate is 100 percent, divided equally between yellow and red lanes.
- The Jordan Customs inspection rate for transit goods is 35 percent.

There has been some progress towards reducing inspection rates and levels at some border control agencies. The Ministry of Agriculture (MOA) is ready to reduce the number of goods it subjects to red lane inspection, due largely to FRP II support, advice, and aggressive advocacy. FRP II is also further analyzing risk assessment results to help assist Jordan Customs refine assessment criteria and, hopefully, reduce inspection levels. At various levels of Jordan Customs, however, enthusiasm for reducing the high rate of inspection is lacking. "Special" security and trader compliance requirements are used to justify high rates. FRP II should consider doing more to help traders advocate for reduced inspection levels, and to inform public decisions makers of World Bank indicators suggesting that Jordan is losing competitiveness, a loss due in large measure to excessive inspections and controls on imports and transit goods.

IT Strategic Plan 2011–2013 (February 2011)

The report and plan produced for FRP II is too general and lacks diagnostic details. While the report was well received by Jordan Customs, a more detailed and comprehensive plan is needed to support IT modernization. We recommend that the customs component propose an additional quantitative assessment of issues raised in the report (e.g. staff retention, training needs, compensation gap between IT staff in Jordan Customs and other agencies and the private sector).

Project Study and Surveys

Time Release Study

One of the project's first activities, the time release survey was undertaken to establish an information baseline for issues affecting customs administration and trade facilitation. The survey was successful, cost effective, and well received, and is frequently cited. The survey documented the extent of clearance delays attributable to PGAs, helped prompt their participation in customs modernization and single window development, and built the capacity of Jordan Customs to administer such studies using the same methodology. FRP II has urged Jordan Customs to further develop capacity to conduct similar studies. While much attention was devoted to the details of the sample selection, more could have been devoted to providing statistical details on findings (e.g., distribution of clearance times around the mean, median). Providing averages hides the impact of distribution around the averages, which for traders can be very costly and unpredictable.

Golden List and Trade Facilitation Opinion Surveys

The Golden List (GL) survey was informative and provides a solid guide for expanding and improving the GL program. The survey would have been even more useful if the resulting report included suggestions on how to implement the recommendations (e.g., easing entry conditions and clarifying and better disseminating benefits to traders). The report's author and GL staff are revising the program.

The trade facilitation survey had interesting results. It distilled private sector complaints about the lack of information and clearance delays and confirmed time release findings that most delays originate with PGAs, underscoring the need for interagency participation in single window and customs reform. The report on survey findings proved useful in meetings between Jordan Customs and the private sector, and findings can also be reference points for the planned Trade Facilitation Committee.

3. Customs Reforms Supported by FRP II

RISK MANAGEMENT AT THE BORDER

Jordan Customs uses ASYCUDA to help manage risk. Recent data show excessive use of the red and yellow lanes, a situation that undermines trade facilitation. For example, since January 1, 2011, 52 percent of import declarations were classified red, 40.6 percent were classified yellow and the rest green. In addition, PGAs with border responsibilities—such as Jordan Standards and Metrology (JSMO), the Ministry of Agriculture (MOA), and the Jordan Food and Drug Administration (JFDA)—inspect commodities. These agencies lack experience and confidence in risk assessment and operate on the basis of 100 percent (physical or document) inspections. Such inspections are not coordinated with Jordan Customs. Data in the World Bank's "Connecting to Compete," suggest that 4 percent of imports are inspected at least twice—and this is likely to be a serious underestimates. Physical inspection frequently involves taking multiple samples, a practice that costs traders time and money.

Jordan's risk assessment criteria are derived from a number of factors including tariff rates, country of origin, the record of the trader/broker, and systematic analysis of past inspections. Imports from Syria, the UAE, and China are considered very risky and thus classified as red, which creates an upward bias in the national inspection rate averages.

Jordan's approach to risk management generates inspection rates that are among the world's highest. In explaining its approach to risk and inspection, custom staff notes that Jordan is in a geographical area that presents unique security challenges. Jordan's approach also reflects a general suspicion that traders cannot be relied on to comply voluntarily with customs requirements. Two other factors tend to push up the inspection rate:

- Inadequate penalties for customs fraud
- A nearly complete absence of postclearance audits (PCAs).

In addition, some officials may view "face to face" meetings with traders during inspections as an opportunity to obtain unauthorized gratuities. The FRP II-supported time release study documents that Jordan's high inspection rate seriously delays the release of goods and creates uncertainty about the timing of cargo release. These delays constitute a cost to the trader, a cost that is ultimately reflected in the prices of imports and passed onto business, industry, and consumers, thereby undermining Jordan's overall competitiveness.

Inspections by PGAs, each meeting its own responsibilities and following its own procedures, are a major factor in clearance delays. FRP II is working with PGAs to assist them in adopting and applying risk management techniques. In the context of FRP II's support for Jordan's single window, consultant Linda Wilcox has improved risk management by providing these agencies with training and assisting them in establishing risk management units. Progress is slow but steady. For example, the MOA has identified a large number of commodities that it plans to take off the red lane. Putting this decision into effect requires first entering the commodities into the ASYCUDA risk management module. Another positive development is the preparation of MOUs between Jordan Customs and PGAs to enhance coordination on risk management. FRP II is assisting this exercise. These MOUs should be signed in the next few months (see single window discussion below).

Recommendations

- Start using PCAs to ease the burden on frontline customs clearance and signal to traders that goods not inspected at the border (green lane) could be thoroughly inspected at a later date.
- Impose higher penalties for fraudulent transactions.
- Continually review risk criteria to increase the share of imports that are granted green channel treatment. Inspection efficiency should be rigorously evaluated using such criteria as country of origin and HS codes. The increased security provided through the use of container scanners at the border should be reflected in risk criteria and inspection levels. Technology used to ensure the integrity of transit trade should permit customs to adopt international best practices that call for minimal or no inspection of such trade.
- Continue assisting PGAs in adopting risk management practices.
- Set ambitious but realistic targets for the reduction of red and yellow lane inspections to bring these inspections to acceptable trade facilitating standards.

GOLDEN LIST

The GL program started in 2006 was intended to facilitate trade flows across Jordan's borders and to assist Jordanian firms in obtaining preferential customs clearance treatment from other countries for their exports. This program is consistent with WCO recommendations regarding "authorized traders." Success has been modest; by mid-2011 only 31 enterprises had joined the program. Jordan Customs is reviewing the program, with some assistance by FRP II.

FRP II consultant Dr. Mohammed Tarawneh surveyed GL participants. Interviewees noted that the program is very useful in securing preferential treatment for exports to the United States but that preferences granted for imports into Jordan fall short of expectations. They also noted that PGAs do not take GL membership into account when inspecting imports, and that the process of qualifying for the program is burdensome, with very demanding annual audits necessary to remain in the program. Some members say that annual audits are acceptable, but are puzzled that GL members are the only traders subjected to thorough PCAs. With the assistance of Dr. Tarawneh FRP II is helping Jordan Customs review GL qualifying criteria and member benefits.

Recommendations

To strengthen its GL program Jordan Customs should undertake the following steps with, to the extent possible, FRP II assistance:

- Revise GL membership criteria and ease auditing requirements needed for qualification.
- Clarify the benefits of the GL program for members, document and disseminate these benefits to the professional organizations.
- Expand and improve outreach to the trading community, stressing the benefits of membership (e.g., as illustrated by data on improved clearance times).
- Work with PGAs to have GL membership be a risk assessment criterion.
- Increase the number of participants added annually to the GL program. Increase the target in the draft Jordan Customs Strategic Plan for 2011-2013 from 5 new participants each year to at least 20.

POSTCLEARANCE AUDIT

PCA is a key function of customs. By enhancing trader compliance it allows controls and procedures on goods clearance to be eased at points of entry. PCA provides the opportunity for customs to speed processing at the border while retaining the option to later investigate a trade transaction to ensure that it followed regulations and to confirm a pattern of compliant behavior by a trader.

A variety of Jordan Custom's directorates conduct PCAs:

- The Compliance Unit of the Risk Management Directorate systematically audits GL members on overall compliance and internal accounting procedures. These are thorough and competent audits.
- The various customs houses are supposed to conduct PCAs of all processed documents. This practice is not strictly followed and yields few results. For example, in the Amman Customs House two staff members are assigned to this task, which entails reviewing about 100 out of the daily 500 declarations. No information is available on review results.
- The PCA Unit in the Control and Inspection Directorate has a staff of three. This unit is authorized to audit past declarations obtained from the ASYCUDA system. Their principal function is to pursue leads from various segments of the Jordan Customs or elsewhere.
- The Control and Inspection Unit of the Risk Management Directorate does intelligence-based inspections. This is an enforcement function and should not be confused with customs audit.
- The Exemption Directorate is responsible for PCAs of imports that enter the country under special regimes without paying duties and taxes. The Directorate has a staff of 17 for this function. Their primary role is to support the declaration process by providing ex-ante permissions to traders who want to use special regime duty and tax exemptions. Despite its PCA role, the Directorate conducts no audits. It bears noting that in 2009 28 percent of imports entered Jordan under special regimes (e.g. diplomats, NGOs, mega

projects, investment promotion, exempt parties such as the Army, and special needs imports such as cars for handicapped persons). These imports represent significant value and the special regimes are often at risk of being exploited, underscoring the need for PCAs.

Recommendations

- Review the various postclearance activities of Jordan Customs.
- Create a single, full-fledged PCA unit that operates on the basis of customs audit best practices. This unit should be separate from the Enforcement Unit that pursues leads obtained from various sources and that suggest fraudulent activity..
- Staff the new PCA Unit with qualified officers and provide targeted training.

MONITORING OF DUTY-FREE IMPORTS

Jordan exempts a high percentage of imports from customs duties and sales taxes. The 2009 Jordan Customs Annual Report notes that 42 percent of imports enter the country duty free because the applicable tariff is zero or the importer qualifies for an ”end use” exemption. Another 28 percent benefit from trade agreements that provide zero tariff treatment for some (all) goods originating from the partner country; these agreements include the U.S.-Jordan Free Trade Agreement, EU Trade Agreement, and GAFTA. And yet another 28 percent enter duty free under special programs such as diplomatic exemptions, industrial promotion, and NGO exemptions. In all, no duty is paid on 84 percent of imports. Consumption taxes and duties on some imports are at zero or are deferred. Other goods are covered by duty drawback and temporary admission schemes that provide zero tariff treatment or that temporarily exempt from sales taxes imported inputs used to produce exports.

Importers that benefit from end use exemption must document that they are legitimate producers in Jordan. Most countries that have used end use exemptions have abandoned them. Such exemptions in the tariff code are not viewed as effective trade policy, pose serious enforcement challenges for customs, provide extra effective protection for domestic producers, can lead to an anti-export bias in the economy, and give traders an opportunity to abuse the system by claiming exemptions for more imports than they are legitimately entitled and avoiding paying the full amount of sales taxes.[2] Abuse of such zero tariff/sales tax provisions can be costly to the Treasury if unchecked.

Responsibility for the surveillance of these and other exemptions rests with the Jordan Customs departments noted in the PCA section. The Exemptions Directorate monitors the end use exemptions. Our visit to this directorate suggested that its operations were exclusively in support of the clearance process and that it conducts no PCAs.

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[2] To the extent that the sales taxes on the final sale of the final product is paid, avoidance of sales taxes at the point of entry does not affect the full sales tax charge as the producer cannot claim a refund for the sales taxes paid at the import stage.

Recommendations

Review the activities of the Exemptions Directorate and streamline activities that support clearance of cargo while strengthening the PCA function. This review could benefit from recommendations in a 2005 IMF report provided to FRP II and Jordan Customs. The project and Jordan Customs can use the report as a guide for organizing audits of customs exemptions and preparing an audit plan/strategy.

CUSTOMS VALUATION

Customs valuation is a core function complicated by asymmetric access to information. The trader has full information on the value of the goods being imported, while the customs officer must rely on the import declaration and other information to decide whether the declared value corresponds to the transaction value and can be used for duty and tax calculation in accordance with the WTO Valuation Agreement. By virtue of its WTO membership Jordan is committed to this agreement.

Jordan's frontline inspectors are familiar with the WTO Valuation Agreement which has been explained to them in repeated training sessions, including some by FRP II. Jordanian customs officers appear to do their best to follow valuation procedures. Whenever they doubt that a declared value is the transaction value—which is the first method to determine customs valuation according to the WTO Valuation Agreement—they consult the valuation database. When they suspect that the declared value is lower than that suggested by the database, they verbally inform the trader of their findings and "propose" an uplift. This proposal is often negotiated with the trader, who is present in the verification room and in direct contact with the verification officer. According to ASYCUDA data, the value of 25 percent of declarations processed in the Amman Customs House on May 29, 2011 (728 out of 3051), were adjusted. (We assume that the adjustments were all upwards, but did not gather data on the extra revenue these uplifts may have generated). Some valuations were adjusted several times. Traders are said to usually agree to adjustments, either because uplifts are not so significant as to be detrimental to business, the adjusted value remains lower than the true transaction value (a fact known only know to the trader and broker), or to secure quick release of cargo. Disagreements over proposed uplifts can be appealed to the Head of the Clearance Unit and then to a committee established in the customs house where the declaration was submitted and finally to Jordan Customs Headquarters. If disagreement persists the case may be brought to court. This procedure is in accord with international best practice and with proposals made during recent WTO negotiations on trade facilitation. However this review did gather details regarding the frequency, time involved and results of these appeals.

Jordan's valuation database is detailed and reflects the import values accepted in customs declarations during a specific past period of time, usually six months. The database permits the inspector to search for the values accepted for previously declared identical and similar goods (two methods included in the WTO Valuation Agreement). In addition to maintaining the database, the Central Valuation Unit researches the values of commodities that constitute significant shares of overall imports, are subject to high tariffs, and present particular challenges for inspection officers based on previous violations. The database is not being used to its full

potential, however, as the information generated by the Central Valuation Unit is not adequately brought to the attention of inspectors when they access the valuation database.

Recommendations

The following recommendations some of which are drawn from reports by FRP II consultant Fred Levitan and were well received by the Director of the Valuation Unit:

- Improve support for the valuation decisions of frontline inspectors by "flagging" in the database all goods for which additional valuation information is available and for which previous imports have been penalized for undervaluation.
- Impose stiffer penalties for valuation fraud to promote trader compliance.
- Expand the database of previously accepted values by adding the findings of the research section of the Risk Assessment Directorate. This section should receive additional training in as well as resources for obtaining documentary proof of transaction values.
- Risk assessment criteria should flag the imports of importers who recently registered to counter the practice of traders acquiring new registration numbers when they are repeatedly fined for valuation infractions and thus hope to avoid special attention from customs officers.
- Continually update risk criteria to target traders previously penalized for undervaluing imports and to track the revenue gains generated by these inspections/adjustments.
- Consider using the services of fee-based preshipment and destination inspection companies that can investigate the validity of invoices for import cases that present special and important revenue risks. (Mexico has such a program and appears to greatly benefit from it.)
- Increase trade compliance through systematic cooperation between Jordan Customs and private sector professional associations that can inform their members of the necessity and value of playing by the rules.

SINGLE WINDOW

The single window project started in 2008 with the opening of single windows at selected points of entry, exit, and inland clearance. In early 2011 there were eight single window posts in operation. A single window in Jordan consists of several co-located border control agencies. The trader submits one hard copy clearance document that is then routed to all concerned border agencies, which each carries out their required checks without coordination with the other border agencies involved. The chief benefit of the present configuration is that traders save time by having to go to only one location instead of several. Efforts are underway to further streamline operations and a single window steering committee made up of the directors general of customs and selected PGAs is now operational.

The co-location of border control agencies falls far short of single window best practice but is consistent with the definition of single window in the 2005 UN/CEDFACT recommendation #33: "A facility states that allows partners involved in trade and transport to lodge standardized information and documentation with a single entry point to fulfill all import, export, and transit-

related regulatory requirements." This document does not require that the submission of documents be in electronic format. (The present system could be called a "single door" rather than a single window.)

The document used in the single window operation at the Amman Custom House is the Customs Single Administrative Document (SAD). The SAD is pure customs declaration document completed by the customs broker at his/her premises. When it is submitted, the ASYCUDA system applies the risk criteria of Jordan Customs and PGAs.[3] Each agency operates its own risk management system and the broker must deal with each agency separately to obtain clearance. The PGA field officers have no authority to issue clearances and must refer applications to their headquarters.

At present only Jordan Customs uses a risk management system that permits the channeling of cargo to different lanes with different levels of inspection requirements (green, yellow, red). Other agencies operate with a 100 percent physical/documentary inspection. This process is not coordinated and multiple examinations –including samplings –are common. The FRP II-sponsored time release study found that PGA intervention is responsible for most of the time needed to process clearances. For example, in the Amman Custom House the *average* processing time for the Ministry of Agriculture is more than 5 hours, the Ministry of Health 8 hours, the JSMO 6 hours, and other agencies 8.5 hours. Given that these are averages one can conclude that many transactions take even longer. Persuading PGAs to move away from 100 percent inspection and adopt risk assessment methodology has been difficult. This is not unusual in reform aiming at trade facilitation. Further progress depends on strong political support from the most senior levels of government to motivate PGAs to implement selective and less intrusive risk assessment strategies.

The single windows of Singapore, Mauritius, and Ghana provide some of the best models for single window development, particularly for a country and economy of Jordan's size. It is useful to compare Jordan's single window concept with the single windows of these countries to highlight progress achieved thus far and what else must be done to achieve Jordan's goal of having a world-class system. The features that distinguish the single windows of Singapore, Mauritius, and Ghana from Jordan's can be summarized as follows:

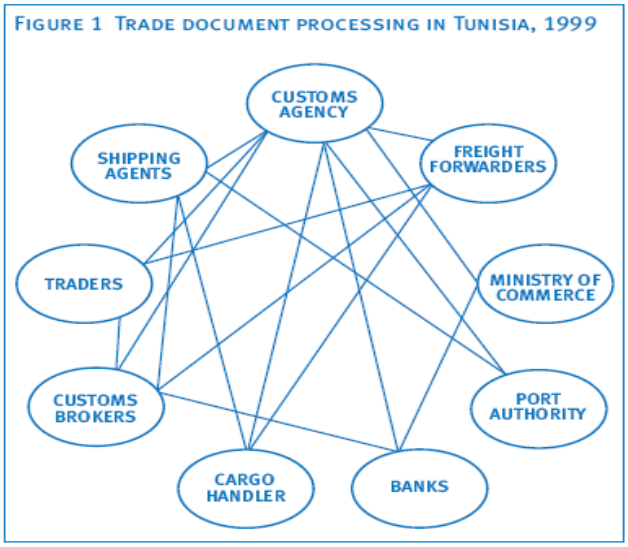
- The objective is as much trade facilitation as the streamlining of the activities of border control agencies.
- They bring together all private and public trade-related agencies, including the agencies responsible for border control, private banks, the Central Bank, the Department of Commerce, Statistics Department, Internal Tax Revenue Department, Department of Motor Vehicles, freight forwarding agents, customs brokers, shipping companies, and insurance companies.
- Their electronic platforms permit submission of a single document that satisfies the regulatory requirements of all border control agencies. This platform was designed and

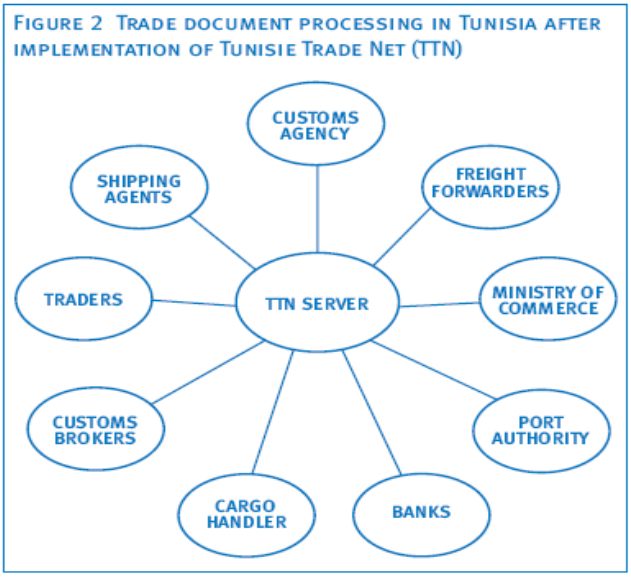
[3] Current PGAs are JSMO, JFDA, and the Ministry of Agriculture. The Ministry of Environment, Jordan Telecom, and the Nuclear Regulatory Agency are scheduled to join in the near future.

implemented after all PGAs' processes were simplified, something which in itself takes months of challenging work, political support, and private sector involvement.

- Their business models rely on a public-private partnership with payment of fees to recover the cost of operating the single window and generate a profit for investors in the single window.
- Their single window IT platforms are "stand alone," meaning they are separate from the IT systems of customs and PGAs. When a declaration is filed the IT system distributes to each PGA the information it requires. The dedicated IT systems of customs and PGAs then interface through the common single window IT platform to process data and generate clearances by individual agencies. When all required clearances are processed the single window platform issues an electronic release permit so owners can remove cargo from customs' custody. Figure 1 shows this process.

Figure 1
Processing Trade Documents in Tunisia, Pre- and Post-Single Window





Recommendations

To better implement the current single window model, Jordan should

- Obtain stronger and more active senior-level political support to ensure that PGAs endorse and implement the trade facilitating approach to risk assessment.
- Map and simplify the processes of all PGAs and only then continue developing the data set or the single entry single window clearance document. Ghana's single window connects many more agencies than does Jordan's, yet the data set consists of 134 fields as opposed to Jordan's 178 data fields. Mapping and simplification may delay implementation of the single window, but will be justified by improvements in Jordan's trade regime. Consistent and strong support from top agency leadership, as well as from the Prime Minister's office, will be needed to overcome PGAs' resistance to process simplification.
- Raise ambitions. At present, Jordan's single window focuses only on border control agencies. While in line with the abovementioned Resolution of the UN/CEFACT it is much less ambitious than the single windows that win praise for trade facilitation and border control. Among developed countries, the single windows of Singapore and Korea stand out; among developing countries the single windows of Ghana and Mauritius stand out (along with the initiative that has been operational for several years now in Senegal). The examples of Ghana, Mauritius, and Senegal show that an ambitious project is feasible in developing countries.

To implement a more ambitious single window concept based on best practices Jordan should

- Look to proven single window models such as Ghana, Senegal, and others.
- Reach a senior-level policy decision regarding the vision for a more ambitious single window and obtain top-level political support for its implementation.
- Map and simplify PGA processes and implement risk assessment in all border control agencies.
- Determine which IT platform will best serve an electronic single window. Avoid creating a Jordan-specific platform and look to the soon-to-be-released ASYCUDA platform and other operational systems.
- Vigorously engage the private sector in developing an effective business model for the new single window.
- Identify and address legal and regulatory issues to allow implementation of a more ambitious single window concept.

ICT AND ICT BEST PRACTICES

Jordan Customs has made great strides in making use of ICT to enhance service delivery, make operations more efficient, and provide information to the trading community. ASYCUDA is rolled out to all customs posts and nearly all modules are operative. CITS provides traders with

an integrated customs tariff and a compilation of trade regulations that traders must follow. Many other e-services have been made available to inform traders, respond to queries, and otherwise speed up communication between customs and the trading community. An Internet and intranet customs site provides valuable services. A tracking system is being used for about 80 percent of transit trucks and most customs houses have an ED-Gate system that permits prompt release of cargo when formalities are completed and that provides better security against unlawful release of cargo. Electronic payment through ASYCUDA's payment module will be launched once details with selected banks are ironed out.

Recommendations

- The FRP II report "Information Technology Strategic Plan 2011-2013" provides recommendations on (1) formalizing training and better allocating staff, (2) providing standard technical platforms, and (3) establishing a governance framework for IT management at Jordan Customs. Not repeated here, these recommendations were well received by the Director of Information Technology and deserve careful analysis for implementation.
- Showing signs of old age, CITS often fails to respond to requests and would benefit from a platform upgrade. CITS programmers are being trained in the Oracle database language and this should do much to provide an in-house upgrade. Procedures to ensure that tariff updates are uploaded promptly on the CITS system and synchronized with ASYCUDA need to be reviewed and adjusted.
- The external Internet could be better used as certain features are not functioning (e.g., auctions) and others simply don't exist. *Guidelines to the Use of Internet in Customs Services* (2005) was left with the DG Customs, the IT Director, and FRP II staff as part of this strategic review. Based on a careful search of Internet services in customs across a large number of countries this document could be used as a guide to prepare a gradual buildup of these services at Jordan Customs.

TRANSIT

Transit trade is very important in Jordan; the number of declarations exceeds import declarations by about 20 percent. A major reform to reduce the number of transit trucks that are "escorted" was made possible by the introduction of a (geographic Global) positioning system (GPS) that permits Jordan Customs to monitor the journey of the transit truck from beginning to end. Combined with the transit module in ASYCUDA, the GPS permits the quick release of guarantee bonds. But as of 2010, one-third of transit trucks were still escorted, either because only 9 out of the 25 customs houses could issue the GPS or because Jordan Customs considers particular transit cargo too risky to travel without escort.

Jordan Customs routinely inspects transit trucks, channels them to the red or yellow lanes and during physical inspection often takes samples. In the first quarter of 2010 only 43 percent of transit trucks were provided with green lane treatment, while 50 percent were channeled through the red lane. It will be instructive to determine how many of these inspections pertain to internal versus international transit as it might shed light on the reasons for these inspections. Bank guarantees are issued for transit journey, but according to Jordan Customs are rarely called on.

The system of releasing the bank guarantees was mentioned as working smoothly, but appears not to provide adequate assurance to customs that revenue at risk during the transit is adequately protected. A review of the procedures that guide the release of bank guarantees may shed light on this apparent contradiction.

Fines for violations are limited and don't appear to deter violators, who are said to be willing to risk a small fine if caught breaking transit rules. No data on the incidence of such violations was made available.

All transit trucks as well as trucks that transport cargo for domestic consumption are scanned at the point of entry.

Recommendations

- Align the practices of Jordan Customs with WTO and WCO Kyoto agreement guidelines that instruct customs to facilitate transit trade and inspect transit trucks and containers only under exceptional circumstances. Most entry points to the Kingdom have scanning equipment and this should have alleviated security concerns.
- Now that a GPS is applied to 70 percent of transit trucks, give truck owners an opportunity to monitor the movement of their own trucks, charging a fee to cover part of the cost of the GPS.
- Review procedures for drawing on bank guarantees in case of transit violations so that this traditional feature for safeguarding fiscal revenue during transit operations can be used to its full extent.
- Expand other transit safety procedures (bank guarantees, electronic seals, GPSP) to eliminate the escorting of transit trucks and thereby follow the transit practices of the great majority of countries.

MANAGEMENT INFORMATION SYSTEM

"If you can't measure it, you can't manage it." Mr. Bloomberg, Mayor of New York

Monitoring and evaluating performance is critical to the realization of any organization's objectives and especially customs, which is entrusted with collecting revenue, implementing tariff policy, and ensuring safety while managing itself well and minimizing interference with legitimate trade (i.e., facilitating trade).

Now that Jordan Customs has ASYCUDA it can obtain indicators to keep management aware of performance and to inform discussions with PGAs and the private sector. At present, however, Jordan Customs is not making sufficient use of ASYCUDA as a management tool. The ASYCUDA team and others in Jordan Customs should be directed to provide the Director General with a monthly management information data sheet (MIDS). The MIDS should present data over time to permit management to track performance trends, be distributed to all participants in the Jordan Customs management team, and be discussed during the team's periodic meetings. On the basis of the MIDS, management will be able to identify and correct

problems. Selected entrees of the MIDS could be posted on the public portion of the customs website to enhance dialogue with the private sector.

Elements presented in the MIDS could include the following:

- Trade statistics (exports, imports) by large categories (origin, broad HS categories).
- How risk assessment practices work. FRP II consultant Linda Wilcox-Daugherty suggested that such reporting include, at a minimum, the (1) share of imports categorized as green, yellow and red; (2) revenue impact of the inspection under each of these regimes; (3) results/findings of various inspections (uplifts, reclassification, infractions related to the Certificates of Origin, etc.). It would be instructive to isolate the risk classification by identifying imports from Syria, China, and the UAE that are classified as red. Isolating the risk classification of imports from the EU and the United States would also be instructive and could be used in discussions with representatives of these countries. Details on the inspection interventions of Jordan Customs and the various others could be reported separately.
- Monthly time release data. ASYCUDA can extract from its database the time required for each transaction to pass from one step of the clearance process to the next. Grouped by broad categories of goods and by custom house, such data would complement the FRP II time release study.[4]
- Imports exempt from customs duties and benefiting from deferred payment of sales taxes. Categories of goods that enter the country under one exemption scheme or the other (e.g., end use exemption, investment code, diplomatic).
- Violations reported by type of violation and revenue obtained.
- Appeals procedures at the various levels of appeal and results.

SYSTEMATIC REVIEW OF STANDARD OPERATIONAL PROCEDURES (SOP)

With the introduction of ASYCUDA the clearance process has been simplified and procedures adjusted to conform to the processing software. This has improved transaction transparency and speed. Still, Jordan Customs would benefit from an assessment of procedures, one that identifies processes that can and should be automated in order to reduce paperwork, red tape, and face to face meetings of traders and customs officers. Some SOPs can be improved with a simple decision by top management. Others may require redesigned procedures. Previous redesign has already reduced direct contact between brokers/traders and customs officers in the Amman Customs House by installing a physical barrier between the two. However, continued access by brokers/traders to the verification room is not conducive to organizational integrity. FRP II's planned assistance in these areas, included in its work plan for Year 2, is needed and should proceed as soon as possible.

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[4] In 2005, the ASYCUDA team at Colombia Customs was able to produce these data two weeks after the author's request to do so as input for his Customs Modernization Handbook.

4. Conclusion

Jordan Customs has undertaken a series of reforms and made progress in several areas—instituting a successful ASYCUDA system and other ICT systems, establishing an online information system for traders, opening channels of communication with the trading community, and eliminating the escort system for 70 percent of transit goods. Despite these gains, the business community and Jordan's trading partners believe that Jordan's customs regime is not improving as fast as that of other countries and may even be slipping.

FRP II is providing critical support in a number of well specified and agreed on areas. We have highlighted project achievements and suggested how Jordan Customs could improve its performance and facilitate trade. Issues that deserve immediate attention include (1) revising overly strict risk inspection procedures and (2) introducing a single PCA strategy.

The project should continue persuading PGAs to adopt the risk management procedures necessary for the single window program and should continue assisting them in implementing them. In addition, Jordan should also explore the feasibility and potential benefits of pursuing a more ambitious single window design with full attention to trade facilitation and economic competitiveness. If the government decides to institute a world class single window, the implementation strategy should

- Have a realistic timetable
- Have a new business plan, one that could involve public-private partnerships
- Identify IT platforms
- Recruit additional trade-related agencies to partake of the single window
- Simplify single window business procedures and PGAs' procedures
- Describe the legal and regulatory actions necessary to secure authority for single window operations.

Active support at the most senior political levels will be necessary for so ambitious an agenda. FRP II can assist with financial and technical resources, but the full support and commitment of Jordan Customs, other agencies, and senior leaders is necessary to realize the fullest measure of success from project activities.

Appendix A. Consultations

Tuesday, May 24

Glenn Mackenzie-Frazer and Mohammad Al-Said, Senior Customs Advisor

Jordan Customs Director General

Dr. Ruba Jaradat, USAID COTR

Mark Gallagher, FRP II Chief of Party

Thursday, May 26

FRP II Customs team and Customs Steering Committee:

- Mr. Mahmoud Wafa, Head of the committee
- Mr. Ahmad Al- alem, Director of Jordan Customs IT Directorate
- Mr. Zakaria Al-Hamore, Director of Jordan Customs Planning and Organization Directorate
- Dr. Aref Al-Fitiane, Director of Communications Directorate
- Dr. Mohammed Al-Anaswa, Director of Financial Affairs Directorate
- Mr. Thamir Al-Shurman, Director of Risk Management Directorate
- Mr. Emad Nsair, Director of Public Relations and International Cooperation Directorate
- Mr. Ahmad Al-Rawajfa, Secretary of the Committee

Jehad Sawaked, Head of Jordan Customs Post Clearance Audit

Linda Dougherty, Nathan Associates consultant and risk management specialist

Sunday, May 29

Jalal Al-Quday, Head of Amman Customs House

Monday, May 30

Ahmad Al-Alem, Head of Jordan Customs IT Directorate

Ms. Eman Al-Bawaya, Jordan Customs Head of Human Resources

Mrs. Wafaa Abu Ghazzi Head of Selectivity and Analysis

Mr. Amer Abu-Hmeidan, Head of Jordan Customs Compliance Assessment

Tuesday, May 31

Mr. Amer Abu-Hmeidan, Head of Jordan Customs Compliance Assessment

Mr. Ghassan Al Damrawi, Head of CITS Directorate

Mahmoud Wafa, Jordan Customs Advisor to the Director General of Customs

Mr. Jamal Mdanat, Head of Valuation Affairs Directorate

Dr. Mohammad Tarawneh, Nathan Associates consultant

Wednesday, June 1

Ramy Al Naber, General Manager Kuehne & Nagel (freight forwarding and customs brokerage firm)

Omar Ali, member of AmCham Jordan and Head of Petra Engineering Services, and other AmCham members

Thursday, June 2

Mr. Ameen Al-Tarawneh, Assistant Director of Exemption Directorate

Mr. Yazan Al-Adayleh, Head of Control and Audit Section in Risk Management Directorate

Mr. Thamir Al-Shurman, Director of Risk Management Directorate

Sunday, June 5

Director General of Jordan Customs (presentation of findings)

Members of the FRP II team and USAID (presentation of findings)

Appendix B. Documents at FRP II for Selected Customs Staff

Customs Modernization Handbook. 2005. Edited by Luc De Wulf and Jose Sokol. Washington DC: World Bank. (Arabic version given to the DG and Mohammad Al-Said)

Customs Modernization Initiatives. 2004. Edited by Luc De Wulf and Jose Sokol. Washington DC: World Bank (Chapter 3 describes Ghana's single window.).

Hamid Alavi. Smart Lessons: Tunisia Single Window and Trade Facilitation (delivered via email of May 19, 2011 to Glenn Mackenzie-Frazer and Mohammad Al-Said).

Societe Generale de Surveilance, Flyer on Ghana's single window (delivered via email of May 19, 2011 to Glenn Mackenzie-Frazer and Mohammad Al-Said.)

Luc De Wulf. 2005. Best Practice Use of Internet in Customs.

World Bank public document on risk management.

IMF paper on monitoring and control of exemption.