



# CUSTOMS ADMINISTRATION REFORM STRATEGY

REPORT

FINAL

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FINAL

USAID ECONOMIC PROSPERITY INITIATIVE (EPI)

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# DATA

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# ABSTRACT

The following report serve as customs reform strategy for the Georgian Revenue Service (RS), laying down recommendations according to priorities and the possible outcomes of each recommendation. The roles and responsibilities of RS and donor organizations are defined regarding to each recommended action. EPI will plan its activities in the area of customs according to the recommendations provided in this report.

# ABBREVIATIONS

ASYCUDA	Automated System for Customs Data
BPR	Business Process Review
EU	European Union
FIU	Ministry of Finance's Financial Investigations Unit
HR	Human Resources
IFC	International Finance Corporation
IMF	International Monetary Fund
IT	Information Technology
KPI	Key Performance Indicators
NTTFC	National Trade and Transport Facilitation Committee
MoF	Ministry of Finance
PCO	Project Control Office
RKC	Revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures
RS	Georgia Revenue Service
SOP	Standard Operating Procedures
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
WB	World Bank
WCO	World Customs Organization
WTO	World Trade Organization

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# I. EXECUTIVE SUMMARY

This report provides a customs administration reform strategy for Georgia's Revenue Service (RS). It addresses the need for the RS to create an enabling environment necessary to allow reforms to be undertaken and remain sustainable.

Some of the actions required for such an environment include:

- **A strategic planning process** including the establishment of key performance indicators to ensure management accountability;
- **A change management process** including a project control office to coordinate technical assistance inputs from all donors and to implement mechanisms for stakeholder consultation and participation in reforms.
- **Human institutional capacity development (HICD)** to correct fundamental weaknesses in human resource management and development. An HICD project would:
  - Develop a new **organizational structure** serving the strategic needs and objectives of Georgian Customs consistent with international best practices;
  - Draft clear **job descriptions** for all positions;
  - Undertake a **pay survey** and ensure staff receive adequate remuneration;
  - Ensure **incentive/bonus schemes** that actually motivate staff;
  - Implement a staff **performance appraisal/measurement** scheme with links to staff promotion, rotation and career path;
  - Ensure **merit-based staff recruitment promotion**; and,
  - Develop a comprehensive **training strategy** for both staff and stakeholders.
- **An anti-corruption strategy** for both RS staff and stakeholders.

The report proposes detailed strategies for undertaking the following two major reform programs outlined below.

## NATIONAL TRADE FACILITATION PROGRAM

It is recommended that the USAID Economic Prosperity Initiative (EPI) support hosting a regional WTO Trade Facilitation Seminar in Georgia. The outcomes of this seminar would be a national trade facilitation agenda and national implementing committee. This report provides a comprehensive list of trade facilitation measures, which would further enhance Georgia's existing initiatives.

## CUSTOMS REFORM AND MODERNIZATION PROGRAM

It is also recommended that technical assistance be provided to the following priority areas:

- Documenting and benchmarking customs legislation, regulations and procedures against and acceding to the Revised Kyoto Convention
- Preparing Standard Operating Procedures (SOP) manuals for staff and stakeholders
- Strengthening post-clearance audit

- Strengthening customs valuation and dispute resolution mechanisms
- Introducing an authorized economic operator (AEO) regime to strengthen supply chain security and export value chains
- Strengthening risk management
- Supporting decision making related to remaining with ASYCUDA or implementing another commercially available customs software suite which supports a single window platform
- Strengthening customs enforcement and investigations capabilities
- Improving the functionality of customs infrastructure

Various matrices describe and justify each proposed area of reform, as well as the specific deliverables and the estimated type, duration and timing of technical assistance.

## **II. APPENDICES**

- A. FINDINGS & RECOMMENDATIONS**
- B. ADDITIONAL INFORMATION**

# A. FINDINGS & RECOMMENDATIONS

## GEORGIA CUSTOMS ADMINISTRATION STRATEGY DEVELOPMENT

Trade is widely considered as the most important engine to growth, development, prosperity and poverty alleviation. Some of the best ways to increase trade is by:

- Improving trade related infrastructure, e.g. upgrading air/port infrastructure, roads, customs border offices and inland clearance offices;
- Eliminating bureaucratic and other unnecessary bottlenecks that increase trade transaction costs and cargo dwell times;
- Ensuring that all trade and customs related requirements and formalities:
  - Are as simple as possible;
  - Conform to international best practice; and
  - Are as readily accessible and transparent as possible so that traders can voluntarily comply.
- Reforming and modernizing the customs administration so that it operates to the highest level of efficiency, effectiveness, customer service and ethics/integrity.

Customs plays a critically important role in:

- Collecting revenue;
- Identifying and interdicting contraband and fraudsters;
- Protecting society from restricted and prohibited goods;
- Facilitating legitimate trade;
- Maintaining a level playing field for businesses;
- Gathering data for production of national trade statistics used for economic policy making; and
- Creating a fair and transparent trading climate that encourages trade and direct foreign investment.

If a customs service 1) does not operate in an efficient, effective and transparent manner; 2) does not provide a proper level of service to traders; or 3) allows fraudulent or corrupt practices to become the norm, then trade and related economic development will be seriously constrained.

Georgia recognized the importance of trade as well as its customs administration to its economic development by making the decision to create the RS in 2005. The RS merged the customs and tax administrations into a semi-autonomous public entity. Various

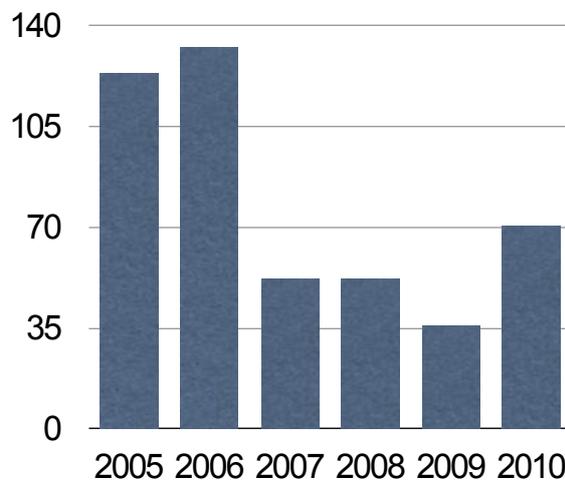
specialized departments/divisions were created within the RS to better service the needs of these two operational line departments.

While Georgia has seen an overall increase in revenue collection since the creation of the RS, there has been a significant decline in customs duties. The decline was principally due to abolishment of customs duty on the import of various commodities. See Tables 1 and 2 below:

**TABLE 1 – REVENUE COLLECTIONS 2005-2010 (GEL MILLIONS)**

<i>Tax Type</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>
Total collections: Including	2,411.50	3,149.40	4,391.70	4,752.70	4,388.90	4,867.6
<a href="#">Indirect taxes [1]</a>	<b>1,273.8</b>	<b>1,668.3</b>	<b>2,402.3</b>	<b>2,587.5</b>	<b>2,494.9</b>	<b>2,763.9</b>
VAT	987.4	1,332.7	1,973.7	2,069.0	2,051.7	2,203.1
Excises	286.4	335.6	428.6	518.5	443.2	560.8
<a href="#">Direct taxes</a>	<b>501</b>	<b>727</b>	<b>1,081.6</b>	<b>1,888.6</b>	<b>1,637.3</b>	<b>1,778.1</b>

**Table 2 - CUSTOMS DUTY COLLECTIONS - 2005-2010  
(gel millions)**



## INTRODUCTION

Georgia has made significant progress in facilitating trade. From 2006 to 2010, Georgia's overall ranking in the World Bank's annual "Doing Business Report" improved from 112th to 9th place. Georgia's specific ranking related to "Trading Across Borders" improved from 149th to 26th place. It has been reported that 85% of cargo released by Georgian Customs in 2009 was within 2 hours of the customs declaration being presented<sup>1</sup>.

There is also a widely held view that the level of corruption at customs has reduced significantly since the creation of the RS. This has been accomplished through the retrenchment of over 95% of customs officers, and recruitment of new staff. Streamlined clearance procedures were introduced in early 2011 that significantly reduce the role of customs brokers and other logistics service providers involved in the customs clearance process, and thereby further reduced opportunities for corruption.

The RS has also invested very heavily in improving customs infrastructure. A new RS headquarters building has been built beside the Ministry of Finance (MoF) headquarters in Tbilisi. Most frontier checkpoint offices have been upgraded. A completely new checkpoint office is due to open soon at Sarpi on the Turkish border. With the assistance of the U.S. Government, radiation detectors have been installed at most points of entry and a new Customs/Tax Training Facility built/equipped at the Police Academy in Tbilisi. A relocatable Nutech X-Ray scanner has been installed near Batumi. Three massive new customs clearance offices (known as Gezi) have been recently opened at Batumi, Poti and Tbilisi. [Attachment 1](#) provides pictures and observations related to this infrastructure.

All of these achievements demonstrate the high priority that the Government of Georgia has placed on customs and tax administration reform. These reforms have been accomplished in a relatively short period of time and under adverse conditions. Consequently, it has been inevitable that in the interests of expediency, many shortcuts have been taken, with some reforms remaining weak or non-comprehensive.

In light of the above, this assessment should not be viewed in any way as a criticism of the MoF, the RS or its management. Its purpose is to provide an objective and constructive assessment of where the RS and its customs administration are at this point in time, and what, if any, technical assistance from EPI or other donors would help Georgian customs and/or support Georgia's trade and economic development agenda.

## FUNDAMENTAL UNDERLYING WEAKNESSES IN THE GEORGIA REVENUE SERVICE

Experience in the many countries that have implemented a revenue service (or more commonly referred to as a revenue authority or revenue agency) has shown that the creation of such an institution/public entity in and by itself is by no means a panacea. Indeed, merging customs and tax administrations has proven to be a very challenging endeavor in many countries, given significant differences that exist in institutional culture, responsibilities and methods of operations of customs and tax administrations.

The rationale for creating a semi-autonomous revenue service can differ significantly between countries. In some countries, it has been to increase effectiveness of revenue

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<sup>1</sup> „Georgia Opened for Business: Georgia Business Climate Review Final Report, August 2009, page 42

collection through greater integration and sharing of taxpayer/trader information to allow more effective and efficient taxpayer/trader auditing. While there is a significant potential under a revenue service for more effective risk management and auditing of high-risk traders/taxpayers, most revenue services are not yet doing combined customs and tax audits given the completely different technical knowledge required by a customs and tax auditor.

In some countries, the main purpose of creating the revenue service has been to increase efficiency and decrease the cost of collecting tax. By merging tax and customs, there are opportunities for efficiencies from eliminating duplication in support services. However, the reality is that few revenue services have achieved significant reductions in the cost of collecting tax. Generally, the revenue services results in a more efficient and effective deployment of staff, i.e. a deployment from clerical or administrative functions to higher value added positions/tasks.

In some countries, the motive for creation of a revenue service has been to tackle endemic corruption. Retrenchment of a significant number of staff has occurred in many countries, with new staff having higher qualifications and skills needed to carry out modern customs/tax controls more effectively and effectively.

Implementation of a revenue service may also be done in order to create an enabling environment that allows implementation of major reform and modernization programs. This may occur when attempts to reform and modernize customs or tax have been slow or failed to take root because of vested interests or resistance to change.

Most Georgian RS managers that were interviewed were uncertain which, if any, of these objectives were behind the decision to create the Georgian RS. Most thought that the main objectives were to root out corruption and to implement reforms that would facilitate trade and promote rapid economic development.

Most revenue services experience significant revenue gains and improvements in customer service levels during the initial years following their creation. These gains accrue because networks needed for corruption to occur have been severed. The newly recruited staff are motivated by good pay and a new work environment. They are more likely to carry out their assignments efficiently and with integrity.

While revenue collection and customer service level gains are frequently very impressive at first, it is important to temper this success by the fact that such gains are frequently measured starting from a very low base. Far too often, international experience has shown that the “performance” of many revenue services level off, or even may gradually decline with time.

Declining performance may include:

- Reductions in revenues collected;
- Poor enforcement effectiveness (e.g. fewer commercial fraud cases and fewer interdictions of narcotics, contraband and counterfeit goods);
- Declining voluntary compliance by traders/taxpayers;
- Un-level playing fields for business to operate in (e.g. certain traders are protected or given monopolistic positions in the marketplace through discretionary customs valuation, which prevents new entrants to the market);
- Declining direct foreign investment;

- An imbalance between the customs objectives of enforcement and facilitation;
- Increasing costs of tax collection;
- Inability to effectively or efficiently undertake required reforms and modernization;
- Increasing corruption;
- Declining staff motivation;
- On-going organizational instability;
- Autocratic/non-participatory decision-making; and,
- Taxpayer/trader complaints;

It is very important for senior management in the MoF and the RS to recognize that while significant progress has been made, they must not become overly confident regarding the gains achieved or complacent on the need for further reforms.

Many serious deficiencies currently exist and much remains to be done if the RS is to become a truly world class revenue service. Indeed, it could be argued that many of the reforms tackled to date have been some of the more straightforward ones to implement. In fact, most of the difficult and time-consuming tasks related to institution and capacity building remain to be done.

As one RS customs manager interviewed candidly summed up his opinion of the prevailing situation in Georgian Customs...

***“We should be grateful to be working in brand new and well equipped offices and have a lot of new, young staff that are currently motivated and have integrity. Traders are very happy that corruption and the time/cost to import goods have been reduced.***

***But we do not do much more!***

***The whole customs process is geared to customer service and facilitating trade. Customs controls are extremely weak. There has been no attempt to maintain an effective balance between facilitation and enforcement. No one knows how risks are being determined or managed. How can you detect frauds when 95% of consignments are being automatically channeled Green by the computer system and not being inspected? There is very little back-office verification. Post-clearance auditors are simply checking customs documents at HQ and do not go to a traders’ premises to audit their books and records.***

***To root out corruption, we have been forced to institute procedures, which have largely eliminated the principle of trader self-assessment of their customs declarations and the role of customs brokers in preparing/submitting customs declarations on behalf of traders. Most of our new recruits are simply preparing and keying customs declarations for traders.”***

## CREATION OF AN ENABLING ENVIRONMENT TO ALLOW TECHNICAL REFORMS TO PROCEED

These candid remarks contain many truths. It is critically important that the RS take the time necessary to step back and seriously reflect on where the RS currently is and agree on the direction in which the institution needs to go in the short, medium and long-term. The cycle of *ad hoc* decision-making and constant changes to organizational structure and personnel needs to end in the best interests of the RS.

It is important that fundamental and underlying management related weaknesses in the RS be corrected to create the enabling environment required for sustainability of these reforms.

The enabling environment consists of:

- A strategic planning process including establishing key performance indicators to ensure management accountability;
- A change management process including a project control office to coordinate technical assistance inputs from all donors, and implement mechanisms for stakeholder consultation and participation in reforms.
- Human institutional capacity development (HICD) to correct fundamental weaknesses in human resource management and development. An HICD project would:
  - Develop a new organizational structure in-line with international best practice;
  - Draft clear job descriptions for all positions;
  - Undertake a pay survey and ensure staff receive adequate remuneration;
  - Ensure that incentive/bonus schemes actually motivate staff;
  - Implement a staff performance appraisal/measurement scheme with links to staff promotion, rotation and career path;
  - Ensure staff recruitment and promotion is based on meritocracy; and,
  - Develop a training strategy and comprehensive training program that ensures both staff and stakeholders receive comprehensive training;
- An anti-corruption strategy for both RS staff and stakeholders.

## STRATEGIC PLANNING PROCESS

Probably the most urgent constraint facing the RS is the absence of strategic planning and related management accountability. Most RS managers interviewed eluded to the fact that the continuous changes in senior RS leadership and resulting changes in decision-making and direction have been having a detrimental impact on the effectiveness of the organization and its ability to reform and modernize.

Each time a major change in leadership occurs<sup>2</sup>, on-going institutional reforms inevitably stall while waiting for the direction of the organization to change again. Decision-making and reforms are rarely based on strategic plans, but rather can be characterized as knee-jerk, *ad hoc*, reactionary implementation of quick fixes to immediate problems. Frequently, decisions are subsequently overturned or significantly modified. With the priorities and direction of the organization constantly changing, it is almost impossible for substantive institutional reforms and modernization to be achieved.

The absence of any strategic, operational or detailed work plans to guide the direction of the organization and to hold management accountable, is a serious on-going weakness in the RS. While a very basic strategic plan does exist, it does not enunciate clear mandates, objectives, directions and reform plans for the organization. There is no customs reform and modernization strategy or plan setting out key areas requiring reform, as well as specific deliverables and tasks to bring Georgian customs procedures, controls, requirements, and IT systems fully in-line with international best practices.

This report, along with those prepared during 2010 by the World Bank and EU<sup>3</sup>, make numerous strategic recommendations that the RS would be well-advised to invest some effort in reconsidering when developing its strategic plans.

Once there is a consensus on the RS's strategic plan for the next three to five years, the sequencing of supporting technical assistance in human institutional capacity development of the RS as a whole, the reform and modernization of its tax/customs administration, the implementation of a national trade facilitation program, and the strengthening of enforcement effectiveness can then be agreed with EPI and other potential donors.

Clearly, there is much to be done if the RS is to become a truly "world class revenue service." Given the scale of the work remaining to be done, it is unlikely that USAID and EPI would be able to meet all of the technical assistance requirements. For that reason, it is important that a comprehensive strategic plan be prepared and a project control office be created, so that technical assistance or other support available from donors is utilized in an efficient and effective manner.

If the RS embarked on a strategic planning process (including a customs reform and modernization plan), provision of technical assistance to support customs reforms would yield significantly more quantifiable and sustainable results. In the absence of a strategic planning process, technical assistance on *ad hoc* reforms risks outcomes that are not sustainable.

If the RS believes that further technical assistance is required to support the preparation of RS strategic business plan, a customs reform work plan and key performance indicators, it is recommended that EPI positively consider such a request.

## **CHANGE MANAGEMENT PROCESS**

To effectively manage major institutional reforms, it is critical that the RS institutes a change management process. It is highly recommended that the Head of the RS create a Change Management/Reform Project Coordination Office. The PCO would, on his behalf, manage

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<sup>3</sup> EU Customs Blueprint Report – Support to the Revenue Service of the MoF in the area of Customs, Oct 8, 2010.

<sup>3</sup> EU Customs Blueprint Report – Support to the Revenue Service of the MoF in the area of Customs, Oct 8, 2010.

World Bank – Georgia: Diagnostic and Needs Assessment of the Revenue Administration, January 29, 2010

and monitor all reform activities as well as coordinate all technical assistance. In the absence of a PCO, it is highly unlikely that institutional reforms and capacity building can be implemented efficiently and effectively.

In many countries undertaking such important customs reforms, a long-term customs advisor is assigned as the head of the PCO and provides technical advice to the Head of the RS. This approach is often taken by the IMF or bilateral donors executing major reform and capacity building projects.

If EPI or another donor cannot fund such a long-term advisor, another (though less effective option) is to assign a short-term customs expert to this coordination task. The expert could work part-time from his home office with regular missions to Georgia to:

- Oversee and manage customs reform activities;
- Meet and coordinate other donors regarding their technical assistance inputs;
- Monitor the quality of all outputs produced by the various short-term specialized experts; and
- Provide advice and guidance to the Head of the RS on an as-required basis.

Another key element of effective change management is ensuring that both RS staff and stakeholders are adequately consulted and have an opportunity to participate fully in the reform process. To date, there has been inadequate consultation with staff and stakeholders, leaving both parties feeling frustrated and disenfranchised. Communication is the best way to minimize resistance to change and to ensure that there is acceptance and ownership of reforms and the manner in which reforms are implemented. Giving staff and stakeholders an opportunity to provide their inputs and suggestions can often be the difference between a successful and failed implementation. If stakeholders have not established trade associations to represent their sectors' interests, assistance in organizing the private sector is very important. It is equally important for the RS to establish stakeholder consultative committees to facilitate the dialogue. Again, technical assistance can be very useful to establish such committees and, where necessary, help mediate resolution of policy and operational issues.

## **HUMAN INSTITUTIONAL CAPACITY DEVELOPMENT (HICD)**

Most revenue services around the world are semi-autonomous and operate at an arms-length from the MoF. Indeed, the success of a revenue service is often directly related to the degree of autonomy it has been granted from the MoF and the civil service as a whole. Those revenue services with greater autonomy are less likely to experience political pressures/influences in their customs/tax operations. They generally operate more efficiently/effectively and provide a higher level of service to their clients. Those with more autonomy also generally have greater stability in organizational structures, management retention and strategic planning.

To increase autonomy, in many countries, the Head of the revenue service reports to a Board of Management, instead of directly to the Minister of Finance. This Board of Management has a Chairman, along with other representatives appointed from both the public sector (including the MoF) and private sector (including representatives from major trade and business associations). The Board of Management buffers the institution from political influences/interference and allows impartial decision-making that is more likely in the

best interests of the country and its revenue service. That being said, the MoF must maintain its sole responsibility for fiscal policy-making.

## HUMAN RESOURCE MANAGEMENT AND DEVELOPMENT

The most successful revenue services around the world have been granted administrative freedom and flexibility similar that found in the private sector in order to achieve levels of efficiency, effectiveness and service to taxpayers/traders that would be difficult to achieve within the cumbersome bureaucratic constraints prevailing in most public sectors. They are able to apply modern human resource development and management policies utilized by the best private sector firms. They are able to hire, fire, remunerate, motivate, discipline and train its staff as any private sector firm does. To be successful, a revenue service must be able to compete effectively in the labor market in order to recruit and retain the highest quality management and staff.

The RS in Georgia has yet to undertake much of the difficult human resource development work, which is normally undertaken just before or immediately after creation of a revenue service. The RS needs to:

- Prepare employee job descriptions;
- Review recruitment policies and gender equity policies (e.g. the vast majority of new recruits are women);
- Undertake a comprehensive staff complement and deployment analysis;
  - Some units appear to overstaffed, (e.g. operators at Gezi's) while others are understaffed (e.g. declaration verification, expertise unit, cargo inspection, post-clearance audit, and X-ray scanning).
  - Some staff are forced to work 24-hour shifts (e.g. X-Ray image interpreters and officers at some checkpoints).
- Deliver a comprehensive induction training program to new recruits;
  - The purpose of the six-week induction training course provided at the Police Academy is to assess the suitability of candidate recruits/interns for employment, not to provide induction technical training. The only technical training provided to recruits has been through on-the-job training from the few experienced and knowledgeable customs managers who remain in operations. This is not an efficient, effective or consistent method to deliver technical customs training to new officers, and there is no mechanism to ensure that interns have retained the required technical knowledge.
- Develop and deliver a comprehensive customs technical training strategy;
- Undertake a remuneration survey to ensure staff are sufficiently paid;
  - New recruits are not paid during the induction assessment/training, and during their probation period, are paid barely a minimum livable wage.
- Review the current bonus/incentive system to ensure it is transparent, not discretionary and based on merit;
- Implement a staff performance appraisal system; and,
- Implement a staff promotion system with career paths based on meritocracy.

Georgia should consider whether the RS's customs administration should more closely follow international norms. For example, the recent splitting of the Customs Department into two separate departments (i.e. Economic Border Protection and Customs Clearance Offices) is unusual and does not appear to serve any meaningful purpose. It is unusual that there is no single senior manager responsible for customs administration/operations. The splitting of customs administration between two operational departments is likely to undermine required operational cooperation and collaboration.

## **ANTI-CORRUPTION STRATEGY**

The creation of a revenue service in Georgia in itself, the retrenchment of over 95% of Customs staff, the raising of salaries, the implementation of simplified customs clearance procedures that minimize the role of customs brokers and other logistics providers, and the implementation of CCTV systems to monitor customs operations, are all positive actions designed to curb corruption at Customs. These measures have led to a reduction in the perceived level of corruption at Customs.

Based on experience of other revenue services, it is important that a more comprehensive anti-corruption strategy be designed and implemented in accordance with the WCO Integrity Guidelines. Failure to implement a more comprehensive anti-corruption strategy will create opportunities for corruption to return to the RS and undermine the sustainability of its reform programs.

The RS must:

- Ensure all customs requirements and formalities are transparent and easily understood, with minimum administrative discretion;
- Introduce customs formalities that minimize fact-to-face contact between customs officers and traders, and where interface must occur, that mechanisms are in place to ensure corruption does not occur;
- Ensure staff remuneration is adequate/consistent with the private sector;
- Strengthen the staff Code of Ethics so it contains clear and progressive sanctions for each type of malfeasance or corruption;
- Encourage Codes of Ethics for stakeholders;
- Ensure a fair and transparent staff disciplinary process exists;
- Have a more effective and professionally trained Internal Affairs Department capable of investigating allegations of corruption;
- Ensure more effective checks and balances are built into systems and procedures in order to detect corruption;
- Introduce mechanisms for staff and stakeholders to report alleged corruption to authorities in confidence; and,
- Implement an effective education campaign to continually encourage staff and stakeholders to say "no" to corruption.

## **BUDGET**

It is important that a revenue service have sufficient financial budgetary provisions to adequately finance not only its daily on-going line operations, but also its reforms and modernization efforts. Some revenue services are authorized to retain a percentage of

revenues collected and/or charge user fees for services delivered to ensure there are adequate funds available to deliver services efficiently and effectively, as well as make necessary long-term investments in infrastructure and replacement of equipment.

Clearly, the Government of Georgia has recently made significant investments in infrastructure to support customs operations. In parallel with these investments, the RS has introduced clearance formalities that significantly reduce the role of customs brokers and logistics service providers. The procedures introduced at the new Gezi's require traders to pay additional fees to RS for services that were previously provided by the private sector.

It is important that a critical review be undertaken of:

- All the RS Customs-related fees and charges (pre and post-Gezi implementation); and
- Whether RS should be given greater autonomy over its financial budget, including the feasibility of revenue retention.

## **SUPPORT SERVICES**

A revenue service should be able to provide its customs and tax administrations with excellent support services, including:

- Information Technology; Internal Operational Audit;
- Internal Audit/Affairs; Administration;
- Human Resource Management;
- Legal Services; and
- Taxpayer Services.

By pooling support services resources that previously operated independently in each customs and tax department, the provision of such support services should improve within a revenue service. While this has occurred in some revenue services, frequently support services have not improved significantly and in some countries, services have actually declined.

It is important that a critical assessment be undertaken of the RS support services to determine whether in fact support services are able to provide the level of service needed to meet the requirements and needs of its customs and tax administrations. There is a need to rationalize the support services and bring them in line with international best practice.

## **BENCHMARK THE RS AGAINST OTHER REVENUE SERVICES**

Georgia's RS would be well advised to benchmark itself against other revenue services/authorities, as well as against international best practice. A place to start would be to examine recent assessments of revenue authorities undertaken by the World Bank, IMF and UK DFID<sup>4</sup>. The RS needs to learn from both the successes and mistakes of other

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<sup>4</sup> 'Revenue Authorities: Issues and Problems in Evaluating their Success', IMF Working Paper WP 06/240, Maureen Kidd and William Crandall, October 2006.

revenue services. In doing so, the Georgian RS would expedite its professionalization while avoiding needless pitfalls along the way. Visiting some of the more successful revenue services around the world would be extremely useful for a senior representative from the MoF, the new Head of the RS, and a limited number of RS senior managers responsible for implementing the HICD project.

## **NATIONAL TRADE FACILITATION PROGRAM**

Georgia's RS has made significant progress to eliminate bottlenecks, reduce trade transaction costs and, shorten cargo dwell times. Most traders who were interviewed appear pleased with the trade facilitation efforts to date and the level of customer service found in the new customs clearance centers (Gezi's).

It is important for Georgia to proceed with a more comprehensive national trade facilitation agenda that is consistent with the numerous trader facilitation measures currently being negotiated under the WTO's Doha Development Round. It is important to note that these measures will become binding on all WTO members, including Georgia.

It is recommended that Georgia become fully engaged in these WTO Trade Facilitation Negotiations and offer to host a regional WTO Trade Facilitation Seminar, possibly with EPI support/technical assistance. The WTO Secretariat has informally stated that it would welcome a request since it has yet to hold such a seminar in the Caucasus. The purpose of the seminar would be for the WTO to brief participants on each trade facilitation measure under negotiation, such that each country could assess their compliance with the measure and if there is currently non-compliance learn how to go about implementing the measure.

One of the objectives of the seminar is to encourage each member state to create a National Trade Facilitation Committee to coordinate implementation of the trade facilitation agenda. This committee needs representatives of all the border agencies that will need to be involved in implementing the agenda.

Some of the trade facilitation initiatives include:

- Publication of all trade and customs requirements, e.g. ensuring all trade and customs information is available on a RS/Customs website in Georgian and English;
- Establishing enquiry points for traders to seek answers to customs related questions;
- Requiring prior notification of changes in customs requirements before they enter into force;
- Requiring prior consultation and publication of changes, with a 60 day minimum time interval between publication and entry into force of changes, and an opportunity for stakeholders to comment on proposed new rules;

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*"Designing Performance: The Semi-Autonomous Revenue Authority Model in Africa and Latin America,"* Taliercio, Robert, Jr., 2004, World Bank Policy Research Working Paper 3423 (Washington: World Bank).

*'Revenue Administration: Autonomy in Tax Administration and the Revenue Authority Model',* William Crandall, June 2010.

- Implementing an advance binding rulings system to allow traders to know how their goods will be classified, valued and origin preferences given (a rulings system currently exists but needs to be improved);
- Providing an efficient and effective mechanism for traders to appeal customs classification, valuation, origin or enforcement decisions;
- Implementing an impartial, non-discriminatory and transparent system of rapid alerts, detention and testing of goods not meeting phyto standards;
- Reviewing/minimizing of all fees and charges connected with the import/export of goods to ensure that the cost of fees charged do not exceed the cost of the services provided (i.e. fees/charges cannot be for profit/revenue);
- Reviewing all customs offenses and penalties;
- Introducing pre-arrival processing (Note: some pre-arrival mechanisms currently exist, but need to be further streamlined and improved);
- Ensuring there is a clear and effective separation of release of goods from final determination and payment of duty/tax/fees (especially important where goods are subject to a dispute);
- Designing a specialized clearance stream for express/expedited consignments;
- Strengthening risk assessment/analysis so that compliant traders do not undergo excessive levels of inspection and incur needless cargo dwell times and costs;
- Implementing improved post-clearance audit controls/techniques to allow quick release of consignments by compliant traders;
- Undertaking a cargo release/dwell time study to measure average times to clear cargo and identify bottlenecks and solutions;
- Designing an AEO scheme, which would allow Georgian exporters to receive expedited clearance of their exports entering the EU and U.S. markets;
- Signing MOU's with all other border agencies in order to better coordinate activities (Those MOU's in existence would be reviewed, their effectiveness evaluated and where necessary, further improvements or strengthened cooperation made);
- Simplifying procedures for transhipped, transit warehoused goods to create regional logistics hub;
- Implementing a "single window," which ensures traders a one-time submission of data/documents for Customs clearance, and links all border agencies through e-messaging;
- Reviewing/simplifying all customs forms and documentary requirements to ensure they comply with international data elements, codes and formats/structures;
- Simplifying procedures for such duty deferral regimes for export-oriented firms using free zones, temporary admission, inward and outward processing;
- Simplifying transit systems to ensure they are not discriminatory nor require the payment of excessive fees/charges; and
- Improving coordination and cooperation with other customs administrations involved in the transit movements.

Significant technical assistance will be required to support the RS and other border agencies in implementing this national trade facilitation agenda. The WTO Secretariat will outline

different sources of technical assistance, assuming that EPI will be unable to finance all that is required. One opportunity in this direction would be for EPI to support the WTO Seminar and creation of the National Trade Facilitation agenda and Committee. In the matrices of this report, estimates of the technical assistance, relative priorities, and timing of the various initiatives are provided.

## **CUSTOMS REFORM AND MODERNIZATION PROGRAM**

Since the creation of Georgia's RS, the priority has been on reducing corruption, facilitating trade and creating a business friendly trade environment. While some results have been achieved in this regard<sup>5</sup>, much reform and modernization needs to be completed to allow Georgian Customs to become world-class and in full compliance with international best practices as set out in the WCO's Revised Kyoto Convention and the WCO Framework of Standards.

The technically challenging and time consuming reforms associated with modernizing customs legislation, procedures, controls and IT systems have effectively yet to start. In fact, it could be argued that some of the reforms recently implemented, including the undermining of the fundamental concept of "self-assessment" and reduction in the role of customs brokers, are retro-grade reforms which are not consistent with international best practice. It also needs to be said that many of the reforms undertaken to date have not been designed or implemented with adequate consultation with staff and stakeholders.

The huge Gezi complexes that have been designed around the concept of customs officers preparing and keying customs declarations for traders is not consistent with international best practice, which recommends e-filing of customs declarations. In most countries, traders are currently required to self-assess and e-file their own customs declarations. In fact, most customs administrations have moved in the opposite direction to Georgia, where they no longer need such large front office service centers to deal with traders.

The RS needs to develop a strategy to professionalize customs brokers and traders in order to re-introduce the self-assessment concept and encourage more e-Filing of declarations. This would allow the RS to redeploy many of its new customs officers to more meaningful and productive tasks than the largely clerical ones that consume a large percentage of its scarce human resources.

Recent decisions by the RS to provide logistics services between Batumi and Poti ports and its Gezi's is also very unusual and should be reconsidered, since the provision of logistics services is certainly not a normal mandate or core responsibility of a revenue service. The premise that the RS has to assume responsibility for logistics and clearance processes to facilitate the clearance of goods, and then charge traders monopolistic fees/charges for these services, is contrary to international best practice. While gains may be achieved in the short term, this approach is not recommended as a long-term solution. The private sector needs to be allowed to operate freely and provide such services in a professional manner and in a competitive environment. Most customs services would not entertain assuming such responsibilities and deploying its scarce customs officer manpower on largely clerical activities.

Technical assistance will be required to guide the RS back to international best practice over the next three to five years. This can only be done by professionalizing the customs brokers and logistics providers, encouraging e-filing, as well as building capacity within the customs

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<sup>5</sup> World Bank Doing Business Report 2010

administration. Mechanisms need to be established for stakeholder consultation and participation in such fundamental reforms. There needs to be a major shift in the mindset of RS senior management and its approach to change management for this to occur.

The significant investments in infrastructure particularly at the new Gezi's, as well as the need for the RS to charge fees and charges to recoup the sunk costs already incurred may result in significant resistance to rethinking the strategy that has just been implemented in early 2011. This will make it easier to implement many of the legislative, procedural, control and IT reforms required to bring Georgian Customs in line with the Revised Kyoto Convention/international best practices.

This is a fundamental challenge, which the RS, and any donors assisting it, must face in the coming months and years. How the RS will migrate away from some recently implemented reforms to international best practice must be clearly set out in the RS business strategy and the customs reform and modernization plan.

In the following matrices, a customs reform and modernization strategy is proposed. The objective will be for Georgia to accede to the Revised Kyoto Convention by modernizing its customs tax code and supporting regulations, and preparing a comprehensive set of SOP manuals for use by staff and stakeholders. Documenting current procedures and benchmarking them against the Revised Kyoto Convention will be a very time-consuming and labor-intensive task; however, it is critically important to undertake as a matter of priority.

Some of the other priority areas for customs reform and modernization, include:

- Customs Post-Clearance Audit - While a small post-clearance audit unit currently exists at RS HQ, it is only performing the same declaration verifications as currently performed selectively at customs clearance offices. Such desk audits of individual trade transactions must be replaced by risk-based audits of high-risk traders' systems, books and records. Compliance audits of "Gold List" traders that have been granted significant clearance benefits without having to first undergo compliance audits needs to be conducted in order to verify the compliance of these large traders.
- Customs Valuation and Dispute Resolution – The current valuation system, which utilizes minimum values, does not comply with the WTO Customs valuation agreement. Technical assistance is required to assist RS Customs in strengthening its valuation controls, including its use of a price reference database, as well as dispute settlement processes.
- Supply Chain Security – AEO Regime - Such compliance audits would be the first step towards introducing an AEO regime in Georgia. Introduction of an AEO regime is recommended under the WCO's Framework of Standards to secure the international supply chain. The framework require RS Customs to undertake security audits on those firms that have passed the compliance audits and now wish to obtain AEO status, such that their exports to the EU or U.S. receive facilitated clearance upon arrival in these markets. EPI should consider supporting the implementation of an AEO program for those firms that have value chains with export potential.
- Risk Management – While rudimentary risk management criteria is currently applied in the ASYCUDA system when processing customs import declarations in order to select high risk consignments for physical examination, the effectiveness of the current declaration channeling streams and risk management process is very questionable. No automated risk management criteria are currently being applied on other important customs declarations, including manifests and transit declarations. A critical review of risk management is needed to ensure that the RS strikes a more appropriate balance between facilitation and enforcement. Consideration of

supplementing the ASYCUDA risk management application with other commercially available risk management software suites should be seriously considered by the RS.

- ASYCUDA vs. Other Commercially Available Customs Software Suites – Given the limitations of the ASYCUDA system, many customs services are currently evaluating other commercially available suites to support their customs operation. This evaluation is normally undertaken in parallel with plans to introduce a “Single Window” platform to support e-Filing and trade facilitation initiatives.
- Customs Enforcement – RS Customs needs to strengthen its intelligence gathering and analysis, commercial fraud investigative capacity, as well as narcotics interdiction, transit fraud surveillance and IPR enforcement capabilities. In-line with international best practice, Customs has a major responsibility for detecting customs-related offenses. Technical assistance is required to build the necessary capacity in the RS in order to assume these enforcement responsibilities from the Police in the medium term.

The following matrices provide further details regarding the customs reform and modernization program including specific deliverables and required technical assistance.

**Table 3. Summary of Recommended Technical Assistance**

Reforms	Priority	Estimated Duration (months)	Timing
<b>Strategic Business Planning and KPI's</b>	Very High	4	Immediate
<b>Professionalize Customs Brokers and Logistics Providers</b>			
- Strategy development	Very High	3	14-17
- Implementation	Very High	3	18-20
<b>Improve Change Management</b>	Very High	36	Immediate
<b>Modernize Customs Legal Framework</b>			
- Benchmark against RKC	High	3	3-6
- Discuss findings and reach consensus	High	2	7-8
- Draft amendment to Code and Regulations	Medium	2	8-11
<b>Prepare Standard Operating Procedure manuals for staff and stakeholders</b>			
- Document current procedures	Very High	4	3-6
- Benchmark against RKC	Very High	4	6-11
- Draft SOP manuals for staff	Very High	3	12-15
- Draft SOP manuals for stakeholders	High	2	16-18
<b>Implement National Trade Facilitation Program</b>			
- Develop program/host WTO TF Seminar	Very High	3	9-12
- Implement	Very High	17	12-29

- <i>Publicize trade customs requirements</i>	High	1	
- <i>Establish query points for traders</i>	High	1	
- <i>Prior notification prior to entry into force</i>	High	1	
- <i>Prior consultation and publication of changes before entry into force of changes</i>	High	1	
- <i>Implement rapid alert system for detention and testing of phyto goods</i>	High	2	

**Table 3. Summary of Recommended Technical Assistance (cont'd)**

<b>Reforms</b>	<b>Priority</b>	<b>Estimated Duration (months)</b>	<b>Timing</b>
- Review of fees and charges	Very High	2	
- Review customs offenses and penalties	Very High	2	
- Improve pre-arrival processing	High	1	
- Clear separation of release from final determination and payment of duty/tax	High	1	
- Carry-out a cargo dwell time study	High	3	
- Improve duty deferral regimes to promote exports e.g. free zones, temporary admission, inward processing	Very High	2	
<b>Strengthen RS Human Resource Management and Development</b>	Very High	3	4-7
- Rationalize RS organization structure	Very High	2	4-6
- Prepare RS staff job descriptions	Very High	3	7-10
- Undertake a RS staff complement & deployment analysis	Very High	3	10-13
- Strengthen recruitment and gender equity	High	1	14
- Ensure adequate staff remuneration	High	3	15-18
- Evaluate staff incentive/bonus scheme	High	1	20-22
- Formalize meritocracy into staff promotion	High	1	23
- Strengthen training and capacity building	Very High	3	10-13
- Induction training & refresher basic	Medium	1	10-13
- Basic customs technical training	High	2	10-13
- Advanced customs technical training	Very High	4	10-13
- Specialized customs training	High	2	10-13
- Middle and senior management training	High	2	20
- Introduce staff performance appraisals	High	2	12
- Implement staff health & safety policy	Medium	1	12

**Table 3. Summary of Recommended Technical Assistance (cont'd)**

<b>Reforms</b>	<b>Priority</b>	<b>Estimated Duration (months)</b>	<b>Timing</b>
<b>Strengthen Customs Ethics/Anti-corruption Strategy</b>	<b>Very High</b>	<b>2</b>	<b>6-7</b>
- <i>Strengthen internal audit</i>	<b>Very High</b>	<b>1</b>	<b>6</b>
- <i>Strengthen staff Code of Ethics</i>	<b>Very High</b>	<b>2</b>	<b>6-8</b>
- <i>Implement staff disciplinary process</i>	<b>Very High</b>	<b>1</b>	<b>6</b>
<b>Strengthen Intelligence Gathering &amp; Risk Management</b>	<b>Very High</b>	<b>3</b>	<b>8-11</b>
<b>Improve Customs Post Clearance Audit</b>			
- <i>Development</i>	<b>Very High</b>	<b>1.5</b>	<b>4-6</b>
- <i>Implementation/Training</i>	<b>Very High</b>	<b>2</b>	<b>7-8</b>
<b>Strengthen Customs Valuation &amp; Dispute Resolution</b>			
- <i>Development</i>	<b>Very High</b>	<b>3</b>	<b>7-9</b>
- <i>Implementation</i>	<b>Very High</b>	<b>1.5</b>	<b>6-8</b>
<b>Strengthen Supply Chain Security: Implement Authorized Economic Operator Regime</b>	<b>High</b>	<b>4</b>	<b>10-14</b>
<b>Prepare IT Strategic Plan</b>	<b>High</b>	<b>2</b>	<b>10-12</b>
- <i>ASYCUDA vs. commercially available software suite</i>	<b>High</b>	<b>3</b>	<b>12-15</b>
- <i>Risk management software suite</i>			
- <i>Single window</i>			
<b>Implement Procedures for Groupage Cargo and Transit Warehousing to support Regional Logistics Hub</b>	<b>High</b>	<b>2</b>	<b>12-14</b>
<b>Strengthen Transit Control</b>	<b>High</b>	<b>2</b>	<b>12-14</b>
<b>Improve Tbilisi Airport Traveler Clearance Procedures</b>	<b>High</b>	<b>3</b>	<b>10-13</b>

**Table 3. Summary of Recommended Technical Assistance**

<b>Reforms</b>	<b>Priority</b>	<b>Estimated Duration (months)</b>	<b>Timing</b>
<b>Improve Sarpi Check Point Traveler Clearance Procedures</b>			
- <i>Development</i>	Medium	1.5	18-20
- <i>Implementation</i>	Medium	3	20-23
<b>Strengthen Customs Investigation &amp; Enforcement</b>	High	4	20-24
<b>Narcotics Interdiction (Money Laundering)</b>			
- <i>Development</i>	Medium	6	18-20
- <i>Implementation</i>	Medium	3	20-23
<b>IPR Enforcement</b>	High	3	18-21

**Table 4: ANTICIPATED BENEFITS OF REFORMS**

REFORMS	Improved Revenue	Reduce Transaction	Reduced Cargo Dwell Time	Transparency	Fairness	Conciseness	Administration Efficiency	Enforcement Effectiveness	Protection of Society (Health, Safety, Security)	Service to Public Stakeholders	Level Playing Field	Anti-Corruption
Strategic Business Planning and KPI's	X	X	X	X	X	X	X	X	X	X	X	X
Professionalize Customs Brokers and Logistics Providers	X	X	X		X	X	X		X	X		X
Improve Change Management	X	X	X	X	X	X	X	X	X	X	X	X
Modernize Customs Legal Framework				X	X	X	X	X				
Prepare Standard Operating Procedure manuals for staff and stakeholders	X			X	X	X	X	X	X	X		X
Implement National Trade Facilitation Program		X	X	X	X	X	X			X		
Strengthen RS Human Resource Management and Development	X				X	X	X	X				X
Strengthen Customs Ethics/Anti-corruption Strategy	X	X	X	X	X	X		X		X	X	X
Strengthen Intelligence Gathering & Risk Management		X	X					X	X	X	X	X
Improve Customs Post Clearance Audit	X	X	X			X		X			X	
Strengthen Customs Valuation & Dispute Resolution	X	X	X	X	X	X					X	

REFORMS	Improved Revenue	Reduce Transaction	Reduced Cargo Dwell Time	Transparency	Fairness	Conciseness	Administration Efficiency	Enforcement Effectiveness	Protection of Society (Health, Safety, Security)	Service to Public Stakeholders	Level Playing Field	Anti-Corruption
Strengthen Supply Chain Security: Implement Authorized Economic Operator Regime	X	X	X						X			
Prepare IT Strategic Plan												
Implement Advance, Binding Ruling System	X	X	X	X	X	X	X		X	X	X	
Implement Procedures for Groupage Cargo and Transit Warehousing to support Regional Logistics Hub	X	X							X			
Strengthen Transit Control	X	X		X	X					X	X	
Improve Tbilisi Airport Traveler Clearance Procedures							X		X			
Strengthen Customs Investigation & Enforcement	X						X	X	X	X	X	
Narcotics Interdiction (Money Laundering)							X		X	X	X	
IPR Enforcement				X			X	X	X	X	X	

## **MATRICES DETAILING PROPOSED REFORMS**

- Impact/justification
- Tasks/deliverables
- Technical assistance (Duration, timing and priority)

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
<p><b>INTRODUCE STRATEGIC BUSINESS PLANNING AND KEY PERFORMANCE INDICATORS</b></p>	<p>The RS business strategy for 2009-11 lacks:</p> <ul style="list-style-type: none"> <li>- Purpose, aims/objectives, and values of the organization;</li> <li>- Management/operational plans;</li> <li>- Revenue, operational and service targets;</li> <li>- Customs reform and modernization strategies, including specific reform deliverables;</li> <li>- IT strategic plan;</li> <li>- Plans how to achieve targets and deliverables;</li> <li>- Key performance targets for each HQ Department/Division and each field office to hold management and staff accountable.</li> </ul> <p>Without an efficient and effective strategic planning process in place, with KPI's defined, it is</p>	<p>Support RS in preparing a:</p> <ul style="list-style-type: none"> <li>- Strategic Business Plan;</li> <li>- Annual Report;</li> <li>- Operational/Work Plans for each Dept and Division and Regional Office;</li> <li>- Customs Revenue Targets (by tax type and national target broken down to each customs office);</li> <li>- Customs Operational and/or Service Targets;</li> <li>- Customs Reform and Modernization Strategy and Work plans;</li> <li>- Post-Clearance Audit targets and work plans; and,</li> <li>- Enforcement/investigations targets and work plans.</li> </ul> <p>Support RS in developing Key Performance Measurement Indicators (KPIs), data gathering and reporting mechanisms including:</p> <ul style="list-style-type: none"> <li>- Revenue Targets (voluntary compliance);</li> </ul>	<p>ST Technical Assistance is recommended to support the Head of the RS in putting in place an effective:</p> <ul style="list-style-type: none"> <li>- Strategic business plan for the RS, including a Customs Reform and Modernization Plan; and,</li> <li>- Key Performance Indicator measurement system.</li> </ul> <p>Estimated duration: 4 months</p> <p>Timing: Immediate</p> <p>Priority: Very high</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>impossible for senior management to hold operational line management accountable for service levels, delivery of reforms or to engage line operational staff and stakeholders in the reform process.</p> <p>The impact of reforms will not be measurable, and are unlikely to be sustainable, if this is not completed.</p>	<ul style="list-style-type: none"> <li>- Audit Targets (forced compliance);</li> <li>- Enforcement Targets (forced compliance);</li> <li>- Trader Complaints (Customer Satisfaction Targets);</li> <li>- Cargo Release Time Targets (trade facilitation targets);</li> <li>- Expenditure Budgeting and Reporting (administrative efficiency); and,</li> <li>- Human Resource Budgeting and Reporting (administrative efficiency)</li> </ul>	
<p><b>IMPROVE CHANGEMANAGEMENT</b></p>	<p>The RS lacks:</p> <ul style="list-style-type: none"> <li>- A change management strategy;</li> <li>- A Reform/Modernization Project Office to support planning, implementation coordination and monitoring of reforms; and,</li> <li>- Effective consultation and communication with staff and stakeholders regarding reforms.</li> </ul> <p>Inadequate planning and consultation with both RS staff and stakeholders is resulting in</p>	<p>Create/staff a Reform and Modernization Project Control Office (PCO), headed by a senior manager reporting directly to the Head of the RS.</p> <p>The PCO would be responsible for coordinating:</p> <ul style="list-style-type: none"> <li>- All technical assistance and all reform and modernization activities for both the customs administration and tax administration departments;</li> <li>- Development and implementation of a change management strategy; and,</li> <li>- All staff and stakeholder consultation and communication.</li> </ul>	<p>A LT Technical Advisor is required to:</p> <ul style="list-style-type: none"> <li>- Support the RS Reform and Modernization Project Control Office;</li> <li>- Coordinate all donor inputs and technical assistance; and,</li> <li>- Undertake specific tasks and deliverables to build capacity in the RS, including correcting underlying management and structural</li> </ul>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>widespread criticisms relating the frequency of changes and ad-hoc decision-making.</p> <p>Many RS staff and stakeholders interviewed expressed feelings of:</p> <ul style="list-style-type: none"> <li>- Being disenfranchised i.e. not given an opportunity to participate in the reform process;</li> <li>- Ill-informed of the rationale and expected impacts of recent reforms;</li> <li>- Uncertainty about job security and career paths given the number staff retrenched in the past and the manner this has occurred; and,</li> <li>- Lacking motivation. The highly discretionary financial bonus system is perceived to lack transparency, consistency and fairness.</li> </ul> <p>There is a perception that many reforms have occurred in a very autocratic and authoritarian manner. The RS has justified this approach by the urgent need to</p>	<p>The PCO must ensure that a more appropriate balance is achieved between the twin objectives of:</p> <ul style="list-style-type: none"> <li>- Trade facilitation; and</li> <li>- Enforcement/control/revenue collection.</li> </ul>	<p>deficiencies in the RS.</p> <p>Estimated duration: 3 years i.e. remaining duration of project</p> <p>Timing: Immediate</p> <p>Priority: Very high</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>eliminate high levels of fraud and corruption and to also facilitate trade to encourage direct foreign investment/create a competitive business climate.</p> <p>The primary objectives of reforms to date have been to facilitate trade and provide a high level of customer service. Little priority has been given to customs (other border agencies') controls and enforcement activities, or to maximizing revenue collections.</p> <p>While there have been positive results achieved in reducing corruption and facilitating trade, clearly a more appropriate balance needs to be found in achieving the equally important objectives of targeted enforcement/control and revenue collection. To achieve this balance and ensure reforms are sustainable, it is important that customs procedures and controls conform to international best practices as set out in the RKC.</p>		

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
<p><b>PROFESSIONALIZE CUSTOMS BROKERS AND LOGISTICS PROVIDERS</b></p>	<p>In response to high levels of corruption, high trade /transport costs and long cargo delays at the customs frontier, the RS has recently implemented the concept of customs clearance centers (Gezi) wherein the RS provides a „one-stop-shop’ clearance process for traders.</p> <p>While this is an important trade facilitation initiative, the role of customs brokers has been largely eliminated. Serious concern must be expressed that the internationally accepted, fundamental principle of „self-assessment’ (i.e. traders or their agents preparing and submitting a declaration to Customs), has been undermined as RS Customs has largely assumed full responsibility for preparing the customs declaration on behalf of traders. RS staff at Customs clearance offices now accept trade and transport documents from truck drivers or from the importer. Some traders still use a customs broker to collect these documents, convey</p>	<p>Customs brokers and logistics providers (including freight forwarders) need to be trained and professionalized so they can provide services that will make the trade and transport environment in Georgia internationally competitive and operate in-line with international best practices.</p> <p>Prepare a strategy to:</p> <ul style="list-style-type: none"> <li>- Professionalize customs brokers through strengthening education and experience requirements; technical training; examination and certification process; code of ethics and disciplinary committee;</li> <li>- Launch a program to encourage more e-filing of customs declarations by traders/brokers, so RS does not have to utilize such a large percentage of its scarce RS customs resources as operators/clerical data entry;</li> <li>- Re-introduce the fundamental concept of self-assessment of customs declarations in the medium term;</li> <li>- Professionalize the freight forwarding and logistics sector through training and accreditation in-line with international best practices.</li> </ul>	<p>ST Technical Assistance is recommended to:</p> <ul style="list-style-type: none"> <li>- Prepare a strategy for professionalizing and introducing certification of customs brokers;</li> <li>- Implement the broker certification process, including training, examinations, signing of code of ethics, etc.</li> <li>- Undertake a review of all RS customs related fees and charges with the view that such fees/charges cannot be higher than the cost of providing these services;</li> <li>- Develop a strategy to reintroduce the concept of self-assessment;</li> <li>- Prepare and provide fundamental materials to raise the knowledge of firms interested in trading e.g. basic import procedures; SOP manual on filling</li> </ul>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>them to the clearance office, then represent the trader when the declaration is being prepared. For a fee, RS Customs prepares the declaration (which includes assessing the customs value, tariff classification and origin of the goods) and keying the customs declaration data into the ASYCUDA++ computer system. It is understood that approximately 65% of the national customs import declaration volume is currently being keyed by Customs officers at the various inland clearance offices, with the remaining 35% e-filed by Gold List firms or by their customs brokers.</p> <p>RS has also recently entered into providing logistics services by negotiating contracts with transport firms at major seaports such as Batumi and Poti to transport vehicles and sea containers directly from these ports to the customs clearance centers as part of the customs clearance formality. RS also collects fees from importers for</p>	<p>Undertake a thorough review of RS customs-related charges and fees at customs clearance offices, as compared to the fees charged previously by brokers and logistics providers. It is important to note that the WTO trade facilitation recommendations will require member states to minimize such fees and charges, and must ensure that no fee charged is higher than the cost of providing the service (i.e. fees and charges cannot be profit-making for a revenue service).</p> <p>Consideration should be given to formation of a Customs Brokers Association;</p> <ul style="list-style-type: none"> <li>- Sign an MOU between RS and the Customs Brokers Association setting out the partnership which needs to exist in order to effectively implement the customs reform program; secure the supply chain; exchange information; tackle corruption</li> </ul>	<p>in declaration; Incoterms; and,</p> <ul style="list-style-type: none"> <li>- Develop a strategy to encourage more e-Filing of customs declarations.</li> </ul> <p>Estimated duration: 6 months</p> <ul style="list-style-type: none"> <li>- 3 months to develop strategy;</li> <li>- 3 months to support implementation</li> </ul> <p>Timing: months 14-20</p> <p>Priority: Very High</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>this logistics service.</p> <p>It is important to emphasize that the following recent initiatives by the RS are not consistent with international best practice:</p> <ul style="list-style-type: none"> <li>- Removal of, or at least not encouraging/promoting the principle of 'self-assessment and self-declaration' by traders (i.e. not requiring traders/or their agent to prepare and submit a fully complete declaration to Customs. It is viewed as retrograde reform to have front line customs officers undertaking tasks that are normally the responsibility of the trader (or his agent), i.e. preparing the customs declaration; establishing the tariff classification, customs value for duty, and origin of goods; keying declaration data into the ASYCUDA system; printing the hardcopy declaration for signing by the trader; and collecting a fee for this service.</li> <li>- Not encouraging e-filing by non-Gold List importers (or their customs brokers) into the</li> </ul>		

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>ASYCUDA WORLD customs computer system via the web, or at a minimum providing traders with a Direct Trader Input facility (i.e. computer terminals linked to ASYCUDA at Customs clearance offices to allow traders to prepare their own declarations and key declaration data directly into ASYCUDA).</p> <p>- Providing logistics/transport services to traders in exchange for fees. Provision of logistics services is not normally the core business or responsibility of a Revenue Service.</p> <p>While the trade facilitation intentions of RS may be well intended, assuming responsibilities from the private sector should be viewed a short term, stop-gap, solution until the underlying problems are dealt with.</p> <p>Inefficient and corrupt logistics chains need to be dealt with, as opposed to the state assuming responsibility for private sector services. Assuming these</p>		

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>responsibilities diverts scarce customs resources away from its core responsibilities, including enforcement of border related laws and revenue collection.</p> <p>One of the objectives of EPI is to encourage and support Georgia's private sector competitiveness. Professionalizing customs brokers and ensuring there is an efficient logistics chain driven by the private sector, would support achieving this objective.</p>		
<p><b>MODERNIZE CUSTOMS LEGAL FRAMEWORK</b></p>	<p>Customs provisions of RS Tax Code were recently translated into English by the EPI project. Only the titles of the supporting regulations were recently translated into English by the EPI project. .</p> <p>The customs provisions of the Tax Code and the supporting regulations appear very annotated. The structure, content and level of detail/precision of the regulations are not in full conformity with international best practice as set out in the WCO's</p>	<ul style="list-style-type: none"> <li>- Translate Customs Regulations into English;</li> <li>- Benchmark each article of the current customs provisions of the Tax Code and Customs regulations against WCO Revised Kyoto Convention in order to identify areas of non-conformity or missing entirely.</li> <li>- Discuss each area of non-conformity/missing with RS management and stakeholders to reach consensus on deficiencies and all required amendments.</li> <li>- Draft required amendments to Tax Code and existing regulations; Draft new/additional regulations where required.</li> </ul>	<p>ST Technical Assistance to benchmark Code and customs regulations against Revised Kyoto Convention to identify areas of non-compliance.</p> <p>Estimated duration: 3 months</p> <p>Timing: month 3-6</p> <p>Priority: High</p> <p>ST Technical Assistance to</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>Revised Kyoto Convention. While a detailed analysis of supporting legislation has not been undertaken, areas of particular concern include: customs offenses, penalties and appeal mechanisms; customs valuation, including provisions for release of goods under dispute; transit control; post-clearance audit; investigative powers; and IPR enforcement.</p> <p>The Tax Code and customs regulations have not been adequately distributed to and understood by line staff or stakeholders. This situation needs must be corrected in order to increase staff competency and to promote trader voluntary compliance with customs obligations and requirements.</p>	<ul style="list-style-type: none"> <li>- Support Head of RS when amendment of Tax Codes are being scrutinized and enacted by Parliament and during the period of coming into force.</li> <li>- Prepare necessary train-the-trainer staff training materials, and public education materials, to explain amendments in the tax code and regulations;</li> <li>- Update RS website with revised Tax Code and regulations, along with public education materials;</li> <li>- Support Georgia to become a signatory to the WCO Revised Kyoto Convention; arrange formal signature ceremony at WCO HQ in Brussels.</li> </ul>	<p>discuss findings and reach consensus on required amendments to Code and regulations.</p> <p>Estimated duration: 2 months</p> <p>Timing: month 7 and 8</p> <p>Priority: High</p> <p>ST Technical Assistance to draft amendments to Code and Regulations (supported by local legislative drafting expert/lawyer)</p> <p>Estimated duration: 2 months for customs expert and 2 months for legislative draftsman)</p> <p>Timing: months 8-11</p> <p>Priority: Medium</p>
	<p>There is no comprehensive set of SOP manuals detailing how each</p>	<p>Translate any existing SOP manuals into English, then review and take decision whether they form</p>	<p>ST Technical Assistance to</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
<p><b>PREPARE STANDARD OPERATING PROCEDURE MANUALS</b></p>	<p>customs regime, procedure and control is to operate. Absence of SOPs do not:</p> <ul style="list-style-type: none"> <li>- Promote consistent application of customs procedures/requirements at all Customs offices;</li> <li>- Allow effective operational auditing to ensure customs procedures and procedures are being followed and that managers and staff are held accountable If not followed;</li> <li>- Support effective staff training; and,</li> <li>- Allow traders/stakeholders to understand Customs requirements, hindering voluntary compliance.</li> </ul> <p>It is understood that the mgt at Tbilisi Customs Clearance Center has recognized the importance of such manuals and has started to prepare some SOP's. Copies of these SOP drafts were requested but not received at time of finalizing this report.</p>	<p>a basis for development of a comprehensive set of manuals.</p> <p>Prepare a schedule of all SOP manuals to be prepared, along with a table of contents for each structured in a manner consistent with the various annexes of the Revised Kyoto Convention. .</p> <p>It is important that SOP manuals: be prepared using standardized templates and formats; use clear and consistent terminology in-line with the internationally accepted glossary of customs terms; have a numbering system that allows ease of reference and replacement of individual pages; are stored in a series of ring binders which allow amended pages to be replaced over time when customs procedures/requirements inevitably change.</p> <p>Assign teams to:</p> <ul style="list-style-type: none"> <li>- Document each current regime/procedure, control, system, work and paper-flow, taking samples of all data/documentation requirements, highlighting decision points for each customs regime;</li> <li>- Benchmark current procedures against RKC in order to highlight areas of non-conformity;</li> <li>- Once each procedure is documented, it is critically important to streamline procedures and controls so they are consistent with the</li> </ul>	<p>Document the current Customs procedures and controls. Customs expert would need to be supported by RS Customs counterparts to assist with documenting workflows/info flows.</p> <p>Estimated duration: 4 months</p> <p>Timing: month 3-6</p> <p>Priority: Very High</p> <p>ST Technical Assistance to Benchmark documented Customs procedures and controls against the WCO Revised Kyoto Convention and identify areas of non-conformity; prepare detailed recommendations to become compliant.</p> <p>Estimated duration: 4 months</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>Any draft SOP manuals in existence will need to be translated, reviewed and if possible incorporated into the development of a complete set of manuals.</p>	<p>recommended best practices found in the RKC;</p> <ul style="list-style-type: none"> <li>- Draft each SOP manual according to agreed priority. Each draft manual should have a version number, author, date, and approval signature; and,</li> </ul> <p>Each SOP manual should be processed through a mgt review committee. Any disagreements need to be discussed and revisions made until a consensus is obtained and final sign-off obtained.</p> <p>Once each staff SOP manual has been signed-off, an edited-version of each SOP manual should be drafted for use by stakeholders. Stakeholder SOP manuals should be written from the perspective of the stakeholder and would only contain information needed to help the stakeholder understand and comply with the requirements of that particular customs procedure/regime. All sensitive, restricted or information related to internal processing would be removed from stakeholder SOP manuals.</p> <p>Establish a stakeholder SOP working committee to assist in preparation and to review drafts of each procedure manual. Such a working committee would offer a forum to reach consensus with stakeholders on the new procedures.</p>	<p>Timing: month 6-11</p> <p>Priority: Very High</p> <p>ST Technical Assistance to</p> <p>Discuss proposed changes in procedures and controls with RS management and stakeholders in order to reach consensus; finalize SOP manuals</p> <p>Estimated duration: 3 months</p> <p>Timing: month 12-15</p> <p>Priority: Very High</p> <p>ST Technical Assistance to</p> <p>Prepare an edited version of SOP manuals for use by</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
			stakeholders; publish same on RS website  Estimated duration: 2 months  Timing: month 16-18  Priority: High
<b>ACCEDE TO THE WCO'S REVISED KYOTO CONVENTION</b>	<p>Once the Tax Code, regulations and procedures have been brought into full compliance with international best practices set out in the RKC, Georgia should become a contracting member to the main body of the RKC and then to each of the convention's annexes by giving necessary legal commitments through national legislation and by signing the international convention.</p> <p>Acceding to the RKC would send a clear message to the world that Georgia offers a modern customs/trade environment with customs requirements, procedures and controls in line</p>	<p>In parallel with modernizing customs procedures, prepare the necessary legal instruments to accede to the RKC convention.</p> <p>Sign instruments at WCO HQ in Brussels.</p> <p>Prepare public education/media materials to announce the benefits of accession to traders/public.</p>	<p>ST Technical Assistance</p> <p>Estimated duration: 1 month</p> <p>Timing: month 19 (depending on WCO availability).</p> <p>Priority: Medium</p>

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	<p>with international best practices.</p> <p>Offering traders best international customs practices and acceding to the RKC are essential in order to create an environment that encourages an economic climate to attract direct foreign investment and growth.</p>		
<p><b>IMPLEMENT A NATIONAL TRADE FACILITATION PROGRAM</b></p>	<p>In parallel with bringing customs procedures/controls/requirements in line with the WCO’s RKC, it is important that RS initiate a national trade facilitation program whose objective is to implement the recommended practices currently under negotiation at the WTO Doha Development Round.</p> <p>Implementation of a national trade facilitation program would further reduce trade and transport transaction costs, as well as increase transparency, certainty and consistency in trade transactions.</p> <p>Implementing such trade facilitation initiatives would significantly improve Georgia’s</p>	<p>RS host a WTO regional Trade Facilitation seminar in Tbilisi. WTO Secretariat officials would brief officials on each of the recommended trade facilitation measures. During the seminar, Georgia could assess its compliance with the WTO’s TF agenda.</p> <p>Georgia would create a National Trade and Transport Facilitation Committee responsible for overseeing the implementation of the TF agenda in Georgia. This national committee, made up of officials from all impacted Ministries/Departments and Border Agencies, should be chaired by a senior official e.g. ideally someone from the PMs office given the crosscutting nature of the issues to be tackled.</p> <p>The NTTFC would be responsible for benchmarking the current TF situation in Georgia against each WTO TF recommendations, then prepare a report highlighting deficiencies along</p>	<p>ST Technical Assistance to support RS in:</p> <ul style="list-style-type: none"> <li>- Organizing a regional WTO Trade Facilitation seminar;</li> <li>- Benchmarking WTO TF recommendations against current practices; and,</li> <li>- Developing a national TF strategy and plan.</li> </ul> <p>Estimated duration: 3 months</p> <p>Timing: month 9-12</p> <p>Priority: Very High</p> <p>ST Technical Assistance to</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>overall economic competitiveness and business climate.</p>	<p>with strategy and work plan for implementing TF reforms.</p> <p>National Committee approves the strategy and detailed work plan for implementing TF reforms;</p> <p>Form teams with participation from all impacted Ministries/Agencies, in order to implement the national Trade Facilitation strategy and work-plan.</p> <p>Some of the likely trade facilitation initiatives include:</p> <ul style="list-style-type: none"> <li>- Publication of all trade and customs requirements e.g. ensuring all trade and customs information is available on a RS/customs web-site in Georgian and English;</li> <li>- Establishing Enquiry Points for traders to seek answers to customs related questions;</li> <li>- Requiring prior notification of changes in customs requirements before they enter into force;</li> <li>- Requiring prior consultation and publication of changes, with a 60 day minimum time interval between publication and entry into force of changes, and an opportunity for stakeholders to comment on proposed new rules;</li> <li>- Strengthening an advance binding rulings</li> </ul>	<p>implement TF agenda.</p> <p>Estimated duration: 12 - 30 months (Amount of assistance and time required will depend on scope of trade facilitation plan agreed upon, and involvement of other donors).</p> <p>Timing: months 12 - 24</p> <p>Priority: Very High</p> <p>Estimated breakdown of key ST TA to design and implement TF initiatives:</p> <p>1 month</p> <p>1 month</p> <p>1 month</p> <p>1 month</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
		<p>system to allow traders to know how their goods will be classified, valued and origin preferences given (a rulings system currently exists but needs to be improved);</p> <ul style="list-style-type: none"> <li>- Providing an efficient and effective mechanism for traders to appeal Customs classification, valuation, origin or enforcement decisions;</li> <li>- Implementing an impartial, non-discriminatory and transparent system of Rapid Alerts, detention and testing of goods not meeting phyto standards;</li> <li>- Reviewing/minimizing of all fees and charges connected with the import/export of goods to ensure that the cost of fees charged do not exceed the cost of the services provided (i.e. fees/charges cannot be for profit/revenue);</li> <li>- Reviewing all customs offenses and penalties;</li> <li>- Introducing pre-arrival processing (Note: some pre-arrival mechanisms currently exist however they need to be further streamlined and improved);</li> <li>- Ensuring there is a clear and effective separation of release of goods from final determination and payment of duty/tax/fees (especially important where goods are subject to a dispute);</li> </ul>	<p>2 months</p> <p>2 months</p> <p>2 months</p> <p>2 months</p> <p>2 months</p> <p>1 month</p> <p>1 month</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
		<ul style="list-style-type: none"> <li>- Designing a specialized clearance stream for express/expedited consignments;</li> <li>- Strengthening Risk Assessment/Analysis so that compliant traders do not undergo excessive levels of inspection and incur needless cargo dwell times and costs;</li> <li>- Implementing improved post-clearance audit controls/techniques to allow quick release of consignments by compliant traders;</li> <li>- Undertaking a cargo release/dwell time study to measure average times to clear cargo and identify bottlenecks and solutions;</li> <li>- Designing an Authorized Economic Operator scheme which would allow Georgia exporters to receive expedited clearance of their exports entering the EU and US markets;</li> <li>- Signing MOU's with all other border agencies in order to better coordinate activities (Those MOU's in existence would be reviewed, their effectiveness evaluated and where necessary further improvements or strengthened cooperation made;</li> <li>- Simplifying procedures for transhipped, transit warehoused goods to create regional logistics hub;</li> <li>- Implementing a „Single Window' i.e. which</li> </ul>	<ul style="list-style-type: none"> <li>2 months</li> <li>3 months</li> <li>In-progress, 2 months additional</li> <li>3 months</li> <li>3 months</li> <li>2 months</li> <li>3 months</li> </ul>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
		<p>ensures that traders a one-time submission of data/documents for Customs clearance, and links all border agencies through e-messaging;</p> <ul style="list-style-type: none"> <li>- Reviewing/simplifying all customs forms and documentary requirements to ensure they comply with international data elements, codes and formats/structures;</li> <li>- Simplifying procedures for such duty deferral regimes for export-oriented firms using: free zones, temporary admission, inward and outward processing;</li> <li>- Simplifying transit systems to ensure they are not discriminatory nor require the payment of excessive fees/charges. Improve coordination and cooperation with other customs administrations involved in the transit movements.</li> </ul>	<p>2 months to define user requirements and prepare a tender for a single window IT solution only.</p> <p>6-9 months to implement Single Window as previously defined under Prepare SOP manuals</p> <p>2 months</p> <p>2 months</p> <p>2 months</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
<p><b>STRENGTHEN RS HUMAN RESOURCE MANAGEMENT AND DEVELOPMENT</b></p>	<p>RS lacks a comprehensive HR Strategy, including a well-designed training program , precise job descriptions, and a modern performance appraisal system.<sup>6</sup></p> <p>The decisions to create the semi-autonomous RS that merged customs and tax administrations, and retrench over 90% of</p>	<p>Benchmark the autonomy, organizational structure and HR polices of the RS against international best practice. This benchmarking should take into consideration studies undertaken by the IMF and World Bank, including:</p> <p><i>‘Revenue Authorities: Issues and Problems in Evaluating their Success’, IMF Working Paper WP 06/240, Maureen Kidd and William Crandall, October 2006.</i></p>	<p>ST Technical Assistance to evaluate and develop a strategy for strengthening the current RS’s organization structure and HRM policies, including organizing and participating in a study tour of 2-3 Revenue Authorities.</p>

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<sup>6</sup> See Georgia: Diagnostics and Needs Assessment of the Revenue Administration, World Bank, January 29, 2010, pg. vii.

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>Customs staff in at least 3 major purges since 2005, illustrates strong political will and commitment by the Government of Georgia to deal with corruption and to reform its tax and Customs administrations.</p> <p>There has been significant investment made in infrastructure, trade facilitation and cleaning the RS of corrupt officers. RS now needs to focus on its most important asset, i.e. its human resources. In this regard, RS would be well advised to take stock of the best practices found in other revenue authorities to avoid needless pitfalls.</p> <p>The RS autonomy from the Ministry of Finance and other agencies; the organizational structure of the RS; and the current human resource management policies; need to be critically reviewed as a matter of urgency.</p> <p>A significant portion of previous external capacity building technical assistance for Georgian</p>	<p><i>“Designing Performance: The Semi-Autonomous Revenue Authority Model in Africa and Latin America,”</i> Taliercio, Robert, Jr., 2004, World Bank Policy Research Working Paper 3423 (Washington: World Bank).</p> <p><i>„Revenue Administration: Autonomy in Tax Administration and the Revenue Authority Model’,</i> William Crandall, June 2010.</p> <p>Undertake a study tour of 2 or 3 of the most successful Revenue Authorities.</p> <p>Develop a comprehensive HR Management strategy for the RS in-line with lessons learned, international best practices for Revenue Authorities.</p>	<p>Estimated duration: 3 months</p> <p>Timing: month 4-7</p> <p>Priority: Very High</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>Customs has not been retained. Staff retrenchments, frequent organizational restructuring and underlying HR Mgt. weaknesses have all contributed to undermining sustainability of reforms.</p> <p>During the past decade, there has been at least a dozen changes in Heads of Customs. Indeed, the Head of the RS has just been changed. There must be greater stability at the RS senior management level in order to implement modern HR management policies and to ensure customs reforms can be implemented efficiently, effectively and in a sustainable manner.</p> <p>The recent decision to create a HR Mgt Dept in the RS (separate from the Administration Division) and recruit its Head from the private sector, would indicate that HR is finally being given the priority it deserves.</p>		

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
<p><b>RATIONALIZE RS ORGANIZATION STRUCTURE</b></p>	<p>The organizational structure needs to be reviewed to ensure that all functions required to administer a self-assessment system are effectively handled at headquarters, including the development of strategic planning and implementation of revenue administration reforms<sup>7</sup>.</p> <p>The current organizational structure of the RS has changed so often that most staff is unsure what the present structure is and who is responsible for what.</p> <p>While there is a Tax Administration Dept, there is no longer a single Customs Department. Customs was recently split into two separate 'special structural units'. i.e. the Economic Border Protection Department (which is responsible for Customs at the frontier checkpoints and airport); and the Customs Clearance Department</p>	<p>Undertake a detailed analysis of the organization structure of the RS with the objective of rationalizing and bringing it in-line with international best practice and able to maintain a better balance between enforcement and trade facilitation objectives. This analysis would consider:</p> <ul style="list-style-type: none"> <li>- How to give the RS greater autonomy from the MoF, including whether or not there should be a Mgt Board with private sector membership;</li> <li>- Clearly separating HQ staff/policy functions and field operations functions;</li> <li>- Creating a Change Management/PCO Unit/reporting directly to the Head of RS;</li> <li>- Creating an Internal Affairs Division, reporting directly to the Head of RS (also to any Board) to more effectively investigate allegations of staff malfeasance/corruption;</li> <li>- Creating an Operational Audit Division reporting directly to the Head of the RS (also to any Board) responsible for conducting operational audits of customs/tax procedures, systems and controls;</li> </ul>	<p>ST Technical Assistance (Customs Expert, supported by an HR expert) to bring the organizational structure of the RS in line with international best practice.</p> <p>Estimated duration: 2 months</p> <p>Timing: month 4-6</p> <p>Priority: Very High</p>

<sup>7</sup> See Georgia: Diagnostics and Needs Assessment of the Revenue Administration, World Bank, January 29, 2010, pg. vii.

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	<p>(responsible for Customs at inland clearance offices). The only rationale heard for this fragmentation of Customs was that it is an anti-corruption measure.</p> <p>Other operational aspects of Customs have been dispersed throughout the organizational structure e.g. Commodity Expertise Department (responsible for tariff, valuation and origin) rests in a separate Dept; Customs Post-Clearance Audit rests in the (Tax) Audit Dept.; Risk Management and ASYCUDA/IT are dispersed among various other RS Depts/Divisions.</p> <p>HQ staff functions and field operations functions are also being mixed e.g. Customs Post-Clearance Audit (normally a field operation) has been recently moved from Tbilisi regional customs office into the headquarters Audit Department; the Expertise Division which is responsible for the HQ policy related to tariff, valuation, origin</p>	<ul style="list-style-type: none"> <li>- Creating an Enforcement/Fiscal Investigations Dept in the RS by transferring a significant portion of responsibility for customs/tax investigations from the MoF Fiscal Investigations Unit to the RS;</li> <li>- Giving Customs a clearer mandate related to contraband interdiction (e.g. narcotics, weapons); surveillance and interdiction of transit fraud and related smuggling; and, IPR enforcement at time of goods clearance. It is important that there be a clearer delineation of enforcement mandates between RS, and the Ministry of Interior/Police;</li> <li>- Consolidating Customs Operations into one Dept (i.e. remerging of Economic Border Protection and Customs Clearance Centers) into a single Customs Dept;</li> <li>- Creating a central Intelligence Gathering/Analysis and Risk Management Division reporting to the Head of RS;</li> <li>- Creating an HR Mgt/Development Division (which is separate from Finance and Admin) responsible for all HR policy/practices including Training;</li> <li>-Transferring responsibility for Customs and Tax Training from the MoF Training Academy to a RS Training Academy;</li> <li>- Consolidating and rationalizing Legal Services</li> </ul>	

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	<p>rulings/assessment has been recently moved to Tbilisi Clearance Office. Such mixing of HQ and field operations responsibilities is not conducive to effective customs administration.</p> <p>Most enforcement responsibilities have never been assigned to the RS e.g. commercial fraud investigations rests with the MoF's Fiscal Investigation Unit; the Ministry of the Interior/Police has primary responsibility for contraband, narcotics interdiction, IPR enforcement, transit fraud. This situation contributes to the current imbalance between facilitation and enforcement within the RS.</p> <p>Redressing weaknesses in the RS organization structure is considered a prerequisite for ensuring reforms can be undertaken in an efficient and effective manner, and that they are sustainable.</p>	<p>into one Division, including handling of RS related disputes and prosecutions; and,</p> <p>- Rationalizing Taxpayer Services/Trader Education into one Division.</p> <p>Discuss proposals with RS management, MoF, Ministry of Interior, and reach a consensus.</p> <p>Develop a strategy for migrating to this new organization structure.</p>	

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
<p><b>PREPARE RS STAFF JOB DESCRIPTIONS</b></p>	<p>Currently, no job descriptions exist for RS staff. Having clear and concise job descriptions is critically important for:</p> <ul style="list-style-type: none"> <li>-Ensuring that RS staff are aware of their respective roles, responsibilities and accountabilities;</li> <li>-Having an efficient and effective recruitment/promotion process;</li> <li>-Undertaking staff pay surveys;</li> <li>-Implementing a staff performance appraisal system, including setting staff level performance targets.</li> </ul>	<p>Once a consensus has been reached on the new organization structure, job descriptions reflecting the new structure will need to be drafted for all grade levels and positions.</p> <p>Undertake management and staff interviews to define employee qualifications, lines of reporting, key roles, responsibilities, accountabilities and key activities/ deliverables.</p> <p>Circulate draft job descriptions for comment; Discuss and revise as required in order to obtain final approval and sign off by a senior management committee (e.g. RS Board).</p>	<p>ST Technical Assistance (HR Expert supported by a Customs Expert) to support Head of HR Division to prepare senior and middle management, operational staff and support/admin staff job descriptions.</p> <p>Estimated duration: 3 months</p> <p>Timing: month 7-10</p> <p>Priority: Very High</p>
<p><b>UNDERTAKE RS STAFF COMPLEMENT &amp; DEPLOYMENT ANALYSIS</b></p>	<p>Of the RS total staff complement of approximately 3200, around 300 work at HQ and 2900 work in various field offices, with approximately 900 assigned to Customs and 2000 to tax operations.</p> <p>Just as it is very important to deploy a sufficient number of qualified staff to undertake the</p>	<p>Once the new RS organization structure has been agreed, it will be important to undertake a comprehensive „zero base’ review of the RS staff complement and deployment.</p> <p>This review will need to take into account hours of service, workload and the need to find a better balance between facilitation and enforcement.</p> <p>The analysis would also identify gaps in staff knowledge, skill and training which need to be</p>	<p>ST Technical Assistance (HR Expert supported by a Customs Expert) is recommended to support the newly appointed Head of the HR Management Division to undertake a comprehensive „zero-base’ review of RS staff complement and deployment.</p>

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	<p>work assigned in an efficient and effective manner. Clearly, certain customs units are currently undermanned e.g. officers working X-Ray scanner at Batumi and working the Turkish border crossing are often forced to work 24 hour shifts.</p> <p>As Customs starts to strengthen its enforcement capabilities (e.g. intelligence/investigations, transit surveillance, IPR enforcement and post-clearance audit), additional customs officers will need to be redeployed accordingly. Some of this redeployment could come from RS reintroducing the self-assessment principle with more traders e-filing their declarations. This would allow customs to redeploy some of its Gazi „operator’ staff currently consumed performing the largely clerical task of data keying. With training and capacity building, these new recruits could be redeployed to more productive customs work, such as post-clearance auditing, AEO security audits; risk management; cargo</p>	<p>rectified to allow effective staff re-deployment.</p> <p>Several managers interviewed stated that with the recent large scale retrenchments of customs officers, there are probably fewer than 30 technically competent and experienced customs officers/middle managers remain in the entire RS.</p> <p>Building management and technical capacity in customs administration is critical if RS is to operate efficiently and effectively to support Georgia’s economic development agenda.</p>	<p>This review would need to take into consideration gaps in staff technical knowledge and skills, and develop a strategy how a staff redeployment can be phased-in, and if additional recruitment is needed, how staff will need to be further trained and deployed.</p> <p>Estimated duration: 3 months</p> <p>Timing: month 10-13</p> <p>Priority: Very High</p>

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	<p>inspections.</p> <p>It is also clear that certain RS staff units appear are understaffed (e.g. internal audit) , while other units currently not in existence will need to be staffed (e.g. PCO/Change Management; Operational Audit).</p> <p>Undertaking a thorough analysis of staff deployment is critical to both support reforms and allow RS to maintain an appropriate balance between trade facilitation and enforcement/revenue collection objectives.</p>		
<p><b>STRENGTHEN RECRUITMENT AND GENDER EQUITY</b></p>	<p>The recent change in legislation gives most RS staff „non-civil service employment status’, with the exception of senior level managers. RS management now has greater autonomy over recruitment and policy-making in order to retain the best possible staff. While there is greater autonomy over recruitment at the lower ranks, the senior management levels of the RS continue to be appointed by the</p>	<p>Based on the staff complement and deployment analysis, RS needs to review is recruitment strategy and supporting polices to ensure that it is able to hire, motivate and retain the best staff. Many new recruits remain motivated. However, as has so often happened in other revenue authorities, such motivation can quickly evaporate if fundamental HR policies and practices are not put in place.</p> <p>A recruitment strategy and supporting polices needs to be developed in parallel with the staff complement requirements, and deployment</p>	<p>ST Technical Assistance (HR Expert) to support Head of HR Division to develop a recruitment strategy and supporting polices.</p> <p>Estimated duration: 1 months</p> <p>Timing: month 14</p> <p>Priority: High</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>Minister of Finance (i.e. Head of RS, Deputy Head of RS, Special Dept. Heads)</p> <p>With the creation of the RS, over 90% of the customs complement was retrenched/not offered employment in the new organization. RS has since recruited a significant number of new recruits to replace those retrenched. The vast majority of these new recruits are female university graduates (apparently an anti-corruption strategy).</p> <p>RS has a window of opportunity to ensure that these recruits are properly trained and motivated.</p>	<p>analysis. Clearly recruitment policy should not have biases, including gender biases. That being said, there is a widely held view in many countries that females are less susceptible to corruption in tax/customs administration. For this reason it is important that female officers be assigned to those areas prone to corruption, including front line checkpoints and cargo inspection. They should not be just assigned to clerical data entry operator tasks.</p> <p>It would appear that females are not yet proportionately represented in senior management cadre. It is important that middle and senior management training be offered to aspiring female officers.</p>	
<p><b>ENSURE ADEQUATE STAFF REMUNERATION</b></p>	<p>Remunerating RS staff with a competitive salary equivalent to what they could earn in the private sector is essential both to be able to recruit the best qualified staff, but more</p>	<p>Review staff remuneration including:</p> <ul style="list-style-type: none"> <li>- Pay bands; salary increments; cost-of-living/inflation adjustment factors; gender biases; pension regime; whether some form of remuneration should be paid to candidate officers</li> </ul>	<p>ST Technical Assistance (HR Remuneration Expert)</p> <p>Develop a methodology for undertaking a comprehensive pay survey</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>importantly to retain them after they are trained. Remuneration below a „livable wage’ can be interpreted as a justifiable excuse for accepting speed money, bribes and getting involved in other rent seeking activity.</p> <p>Candidate officers should receive basic compensation while they are undergoing the 3-4 months of induction training. Remuneration should not be gender biased.</p> <p>It is understood that those officers not retrenched when RS was created had their salaries increased by 3 fold that of their civil service salary. While this action removes the excuse that low pay justifies corruption, experience in other revenue authorities show that if pay surveys are not performed regularly so salaries increase to reflect cost of living, remuneration of revenue staff too often falls below that in the private sector. This can have a detrimental effect on staff motivation and corruption so critical to sustainability of</p>	<p>during induction training; linkage of remuneration with the proposed performance appraisal scheme; etc.</p> <p>Assist RS HR Division in developing a pay survey methodology to ensure that RS remuneration for each pay band is competitive with the private sector. Special attention will need to be given to those job classifications requiring a MBA, accounting certification, law degree, IT certification; engineering degree, where there is high demand in the private sector.</p> <p>Assist RS HR Division in undertaking the pay survey and applying the results to existing job classifications and pay scales. It is important that RS HR Division sustain the capacity to undertake periodically surveys (e.g. every 2-3 years maximum) to ensure that RS remuneration remains competitive.</p> <p>Prepare proposals for a staff pension and a disability/health insurance scheme. Such schemes are important elements of any staff remuneration package.</p>	<p>for each pay band. Support RS HR Division in undertaking the pay survey.</p> <p>Estimated duration: 3 months</p> <p>Timing: month 15-18</p> <p>Priority: High</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>reforms.</p> <p>Candidate officers were not paid during the 4 months they attended the RS induction training. Even once induction training was over, new female RS customs officers assigned as operators at clearance offices, earn only approximately 450 gel/month. It is understood that male officers recently recruited, given induction training and currently working at checkpoints earn significantly more than their female counterparts at 650 gel/month.</p> <p>There is no system of job classification with graduated pay scales, whereby officers receive incremental pay rises for each year of satisfactory service.</p> <p>There is no RS pension or disability and health insurance scheme for employees.</p> <p>Clearly, RS staff remuneration and related pension/insurance policies need to be reviewed and corrected where necessary. If left</p>		

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	<p>unchecked, there is a likelihood that the best RS staff will become unmotivated and leave, or worse other disgruntled staff may be enticed to consider corrupt practices.</p>		
<p><b>EVALUATE STAFF INCENTIVE/ BONUS SCHEME</b></p>	<p>A bonus system exists whereby supervisors have discretion to grant a monthly incentive to subordinates. Bonuses are given to RS employees and MoF Fiscal Investigators. This bonus system has the following weaknesses:</p> <ul style="list-style-type: none"> <li>-Lacks transparency (i.e. there are no written guidelines for managers, and there is no visible accounting of what bonuses were paid to which employees);</li> <li>-Highly discretionary (i.e. many employees lamented that bonuses are not based on actual/quantifiable performance, but on individual’s personal relationship with their superior and that often bonuses demotivate those staff not receiving bonuses);</li> </ul>	<p>Analyze the current bonus/incentive system and prepare a report to senior management detailing:</p> <ul style="list-style-type: none"> <li>- Employees receiving incentives, amount granted and reason(s);</li> <li>- How to make the scheme more transparent and less discretionary;</li> <li>- An assessment of the scheme’s effectiveness in motivating staff (conduct staff interviews; survey);</li> <li>- Factors mitigating scheme’s effectiveness;</li> <li>- Whether such a bonus scheme should continue, and if so, under what conditions;</li> <li>- Tie recommendations with performance standards and staff appraisal regime;</li> <li>- How to remove gender biases;</li> <li>- Make recommendations on other ways of motivating staff e.g. recognition awards; training and study tours; assignments, rotations and career paths.</li> </ul> <p>Advise and assist RS HR Division in</p>	<p>ST Technical Assistance (HR Remuneration Expert)</p> <p>Support RS HR Division in examining the current bonus scheme and making recommendations regarding whether such incentives should continue and if so in what form.</p> <p>Estimated duration: 1 month</p> <p>Timing: month 19</p> <p>Priority: High</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>-Bonuses sometimes used to 'top-up' base wages for employees working in remote locations/working long or odd hours);</p> <p>-Amount of bonus can vary significantly (e.g. while many front line customs operators generally receive little or no bonus, Fiscal investors can receive a bonus of 2-3 times their base salary if handling major fraud cases. Rarely are bonuses to be given to an entire Dept, team or unit for reaching major performance or collection targets);</p> <p>-Bonuses linked to enforcement or compliance action may cause aggressive behavior by officers (i.e. a criticism frequently leveled at Fiscal Investigators and RS auditors);</p> <p>-Source of funds for such bonuses is unclear (e.g. it remains unclear whether fees collected by RS for services are diverted to bonuses?)</p>	<p>implementing recommendations.</p>	

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<p><b>FORMALIZE MERITOCRACY INTO STAFF PROMOTION AND CAREER PATHS</b></p>	<p>There is currently no formalized process whereby staff are promoted based on a competitive merit basis i.e. based on measurement against their job description and performance assessment criteria.</p> <p>The current system for promotion lacks transparency and is highly discretionary. Many staff interviewed stated that staff are often promoted based on their personal relationship with their supervisor.</p> <p>There are no formal career paths for employees, linked to job rotation, which officers can follow for purposes of promotion or obtaining specialized training.</p> <p>There is no mechanism for staff members to formally submit their career aspirations to management for consideration during job rotation, training, performance appraisal, etc.</p>	<p>Assist the Head of the HR Division to:</p> <ul style="list-style-type: none"> <li>- Design and implement a promotion system based on meritocracy;</li> <li>- Design a network of career paths for staff (linked to staff rotation scheme through which employees are assigned to work in different customs regimes so they developed a well-rounded understanding of all aspects of customs work so they may advance to higher responsibilities and ranks; and,</li> <li>- Identify officers with the potential to assume supervisory and management responsibilities.</li> </ul>	<p>ST Technical Assistance (HR Expert)</p> <p>Develop and implement a competitive staff promotion regime based on meritocracy and competence.</p> <p>Estimated duration: 1 month</p> <p>Timing: month 23</p> <p>Priority: High</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
<p><b>STRENGTHEN TRAINING AND CAPACITY BUILDING</b></p>	<p>There is no RS training strategy or current training needs assessment for RS Customs. The EU has recently agreed to a Twinning project with the Academy and will send experts from another EU country in the next 1-2 years to help build capacity.</p> <p>Training across the RS has been very limited for a number of years and the level of technical customs competency at all ranks is very low. With the recent retrenchment of the vast majority of customs officers, a large number of new officers have been recruited and received only a basic 4 months of induction training course. RS Customs is currently facing a severe lack of technically competent and experienced customs officers/managers at all ranks. Indeed, a number of senior managers interviewed estimated that less than 20 experienced middle managers suitable for providing training to officers (including on-the-job training)</p>	<p>Assist the Head of RS HR Division to develop a training strategy for the RS. This strategy should consider the pros and cons of creating a dedicated RS Training Institute (i.e. not rely on the MoF Training Academy for provision of technical customs and tax training). It is important to note that most autonomous Revenue Authorities assume full control and responsibility for training their employees. This strategy should include:</p> <ul style="list-style-type: none"> <li>- Whether or not to reassume and upgrading the Customs Training facility in Tbilisi. This facility was originally built and equipped with donor funds a few years ago as a dedicated customs training facility, and includes a number of class rooms, break-off rooms, kitchen, leisure room and dormitory type residents to accommodate approximately 50 officers at a time. A plan would need to be prepared regarding:</li> <li>- How the facility could be transferred to the RS;</li> <li>- How the facility would be best managed and used;</li> <li>- What maintenance or upgrades are required;</li> <li>- Estimated costs to operate;</li> <li>- Whether or not full time management and trainer staff are required.</li> </ul>	<p>ST Technical Assistance (Customs Training Expert)</p> <p>Develop and implement a Training Strategy and Training Needs Assessment</p> <p>Estimated duration: 3 months</p> <p>Timing: month 10-13</p> <p>Priority: Very High</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>remain in RS Customs.</p> <p>In the absence of additional formal classroom training on customs techniques, most new recruits are only receiving „on-the-job training’. Since there are no SOP manuals describing procedures/controls, such an ad hoc approach to training is not efficient, can lead to significant discrepancies in what information is conveyed to officers on how they should carry out their responsibilities, and can foster an environment of favoritism (i.e. a perception that knowledge conveyed to favored employees only, who then receive bonuses).</p> <p>RS does not have its own training institute, instead it must rely on the MoF’s Training Academy (has 6 classrooms at MoF along with 2 classrooms/40 person dormitory at former Customs Training Center in Tbilisi) to provide all RS training courses. (Note: The MoF Training Academy was moved under RS for 2 months then recently returned to MoF). The MoF</p>	<p>Assist the Head of RS HR Division to undertake a Training Needs Assessment for RS Customs.</p>	

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>Academy has no full time, dedicated customs trainers, instead it must second trainers to the Academy on an as required basis when the RS makes a request for a training course. The Academy operates as a profit centre, charging for Given staff retrenchments, there is a severe shortage of knowledgeable and experienced trainers to develop course curriculum and deliver customs training to staff.</p> <p>Training courses taken, and how well an officer performs on a course, is not linked to the officer’s prospects of promotion.</p> <p>Technical training provided previously by USAID funded consultants to customs officers appears to have not been retained/sustainable due to the fact that many officers were since retrenched and there was no system to keep course materials, let alone roll-out courses to new recruits.</p>		

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<p><b>IMPROVE INDUCTION AND REFRESHER TRAINING</b></p>	<p>Following a major retrenchment of staff, RS recruited a significant number of new recruits (mostly university graduates; vast majority female). There was no in-depth background security check performed on new recruits before they entered induction training, or before being assigned to post (only medical and basic psychological check).</p> <p>New customs recruits were given a basic 4 month induction training course at the Police Training Academy. While there was apparently some informal tests/quiz, no formal examinations were used to assess candidate officers and no pass/fail system was utilized. Recruits were not paid during this training period. Once assigned to post, recruits have been receiving „on-the-job’ training from supervisors.</p>	<p>Evaluate and strengthen the entire induction process, including:</p> <ul style="list-style-type: none"> <li>- Qualification requirements;</li> <li>- Screening/selection process;</li> <li>- Induction course content;</li> <li>- Candidate officer evaluation of trainers;</li> <li>- Candidate officer interviews/surveys/suggestions;</li> <li>- Candidate officer testing and evaluation methodologies;</li> <li>- Whether „pass/fail examinations should be introduced, and if so, prepare policies and procedures;</li> <li>- Revised induction course; and,</li> <li>- Nature of any follow-on refresher course.</li> </ul>	<p>ST Technical Assistance (Customs Training Expert)</p> <p>Advise on strengthening Induction Recruitment and Training program.</p> <p>Estimated duration: 1 month</p> <p>Timing: month 10</p> <p>Priority: Medium</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
<p><b>OFFER BASIC CUSTOMS TECHNICAL TRAINING</b></p> <p><b>(IMPLEMENT WCO E-LEARNING PROGRAM)</b></p>	<p>There is an urgent need to provide new customs recruits with basic customs technical training. RS management has recognized this need and plans to pilot test the WCO's e-Learning program. This program allows customs officers from member WCO customs administrations to sign-onto the WCO e-Learning web-site and take various interactive customs training courses on-line.</p> <p>E-Learning modules allow officers to study course content at their own convenience and speed, then when they are ready to take an on-line test. Students passing the test can then print out a certificate of course completion. 15-20 E-Learning modules are currently available, with additional modules being added each year. They include, classification, valuation, cargo and passenger inspection, risk management, IPR enforcement, Authorized Economic Operator/Framework of</p>	<p>Assist RS in quickly implementing the WCO e-learning program and offering all the training modules to the maximum number of Georgian Customs officers. This will include:</p> <ul style="list-style-type: none"> <li>- Assisting RS in signing a formal agreement with the WCO to implement the full e-Learning program. There will be costs related to system set-up, training and licenses, etc. which will need to be paid to the WCO (by RS or the EPI project);</li> <li>- RS will be required to provide a dedicated server for course modules to be loaded for national training purposes (it is understood that a used server may be available for this purpose);</li> <li>- Equipping and setting up dedicated e-Learning training rooms at RS HQ and field offices (i.e. PCs, monitors, printers, chairs and tables). Space is readily available in the new customs clearance offices;</li> <li>- Translating modules into the Georgian language (Possibly done by EPI, if deemed necessary);</li> <li>- Adding any unique national requirements and situations into the course content;</li> <li>- Linking officer course results into the performance appraisal system.</li> </ul>	<p>ST Technical Assistance (Customs Training Expert)</p> <p>Assist in implementing WCO e-learning program</p> <p>Estimated duration: 2 months</p> <p>Timing: month 10-12</p> <p>Priority: High</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	Standards, etc.		
<p><b>CONDUCT ADVANCED CUSTOMS TECHNICAL TRAINING</b></p>	<p>No advanced technical training courses are currently prepared or given to customs officers.</p> <p>Based on the training needs analysis, it will be important to design and develop a comprehensive list of technical customs training courses.</p> <p>Each course should consist of an objective and outline, curriculum, trainer lesson plans/notes; ppt slides and hand-outs; review materials and test questions.</p> <p>Train-the-Trainer courses should be held to select the most appropriate officers to become certified trainers in each course.</p> <p>It is important that all Customs courses be prepared and delivered in a consistent and comprehensive manner, using standardized templates, structure and terminology.</p>	<p>Advise and assist in obtaining/preparing course curriculum for the following courses (i.e. build upon e-Learning base):</p> <ul style="list-style-type: none"> <li>- Harmonized System of Classification</li> <li>- WTO Valuation</li> <li>- Origin, Trade Agreements and other Preferential Treatments</li> <li>- Motor Vehicle and Truck Inspection Techniques</li> <li>- Vessel, Rail Wagon and Aircraft Inspection Techniques</li> <li>- Containerized Cargo Inspection Techniques</li> <li>- Traveler and Baggage Inspection Techniques (including false passport detection; profiling, interviewing techniques)</li> <li>- Transit Controls and Surveillance Techniques</li> <li>- Customs Declaration Processing</li> <li>- Duty Deferral regimes (warehousing, free zones, inward processing)</li> <li>- Narcotics Interdiction and money laundering</li> <li>- IPR Enforcement</li> <li>- Commercial Fraud Investigation (basic and advanced techniques)</li> <li>- Intelligence and Risk Management</li> <li>- Postal and Express Courier Controls</li> <li>- ASYCUDA ++ training</li> </ul>	<p>ST Technical Assistance (Customs Training Expert)</p> <p>Assist RS setting up a Customs Training Academy, including a comprehensive program of customs technical training courses. Set up a study tour to visit 2-3 customs training institutes in developed countries.</p> <p>Estimated duration: 4 months</p> <p>Timing: month 10-14</p> <p>Priority: Very High</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
		<ul style="list-style-type: none"> <li>- MS Office training</li> <li>- Customer service training and conflict resolution</li> <li>- Language Training</li> </ul> <p>Undertake a study tour to one or two developed countries customs training institutes so RS can appreciate first hand how courses are designed and delivered as well as how the training institute is managed. It may be possible to obtain course materials to assist RS in their course and curriculum design.</p>	
<p><b>OFFER SPECIALIZED CUSTOMS TRAINING</b></p>	<p>Though RS Customs has procured sophisticated X-Ray scanners, customs officers responsible for image interpretation have never been given sufficient training and consequently are unable to generate positive results.</p> <p>Similarly, Customs narcotic detector dog handlers lack the required specialized training to be effective.</p>	<p>Assist RS in obtaining specialized training in specialized training areas including: X-Ray scanner image interpretation and narcotic dog handling.</p>	<p>ST Technical Assistance (Customs Expert)</p> <p>Assist RS in obtaining specialized training courses in X-Ray image interpretation and drug detector dog handling.</p> <p>Estimated duration: 2 months</p> <p>Timing: month 20 - 22</p> <p>Priority: High</p>
	<p>Currently there is no middle or senior management training</p>	<p>Design a comprehensive set of management courses designed specifically for management,</p>	<p>ST Technical Assistance</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
<p><b>CONDUCT MIDDLE AND SENIOR MANAGEMENT TRAINING</b></p>	<p>courses specifically designed to strengthen RS management.</p> <p>The lack of management training is impacting negatively on the organization’s ability to undertake reforms efficiently and effectively, to manage change, and to redress underlying human resource weaknesses.</p>	<p>including a:</p> <ul style="list-style-type: none"> <li>- Middle manager preparation training;</li> <li>- Senior manager preparation training;</li> <li>- Management refresher;</li> <li>- Time management;</li> <li>- Conducting effective meetings;</li> <li>- Staff performance appraisal;</li> <li>- Key performance indicators;</li> <li>- Writing job descriptions;</li> <li>- Ethics and discipline;</li> <li>- Strategic and business planning;</li> <li>- Risk management;</li> <li>- Management reporting; and,</li> <li>- Operation auditing for managers.</li> </ul>	<p>(Customs Training Expert)</p> <p>Assist RS in obtaining specialized management training courses</p> <p>Estimated duration: 3 months</p> <p>Timing: month 12</p> <p>Priority: High</p>
<p><b>INTRODUCE STAFF PERFORMANCE APPRAISAL SYSTEM</b></p>	<p>There is currently no formal staff performance appraisal system operating in the RS. Without such a system, it is difficult to: introduce meritocracy into HR recruitment and promotion policies; identify staff with potential for promotion or staff requiring remedial training in order to perform more effectively; hold staff accountable for achieving required standards of performance; etc.</p>	<p>Advise Head of HR Division during design and implementation of an efficient and effective staff performance appraisal system. Evaluate alternative appraisal systems; agree on how the chosen system will be used; designing forms; train managers; educate staff; etc.</p>	<p>ST Technical Assistance (Customs Training Expert)</p> <p>Assist RS in obtaining specialized management training courses</p> <p>Estimated duration: 2 months</p> <p>Timing: months12-14</p> <p>Priority: High</p>

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<p><b>IMPLEMENT STAFF HEALTH AND SAFETY POLICY</b></p>	<p>RS does not currently have a health and safety policy. It is important that all work environments are safe and that procedures be put in place for monitoring and reporting of unsafe environments and practices. This includes dangers faced by officers during the conduct of their duties whether it is exposure to disease during inspection of persons or baggage; the dangers of long term radiation exposure from operating X-Ray scanners; the hazards when inspecting vehicles; the hazards of officers having to work 24 hour shifts.</p> <p>Clear guidelines for staff are needed to minimize risks, and to ensure that when injury occurs the matter is reported to management and corrective action is taken.</p>	<p>Develop a RS Health and Safety Strategy and clear implementing guidelines for staff to minimize risks.</p>	<p>ST Technical Assistance (Local HR Health and Safety Expert)</p> <p>Assist RS in developing a Health and Safety Strategy and implementing guidelines</p> <p>Estimated duration: 1 month</p> <p>Timing: month 12</p> <p>Priority: Medium</p>
<p><b>STRENGTHEN RS ETHICS –ANTI-</b></p>	<p>In recent years, RS has taken significant actions to tackle rampant corruption in Customs,</p>	<p>Prepare and implement a comprehensive Customs Anti-Corruption Strategy for RS in line with the WCO’s Integrity Guidelines. This will</p>	<p>ST Technical Assistance (Integrity Expert)</p> <p>Prepare Customs Integrity</p>

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<p><b>CORRUPTION STRATEGY</b></p>	<p>including:</p> <ul style="list-style-type: none"> <li>-Large scale retrenchment of staff;</li> <li>-Increasing basic pay for those officers retained;</li> <li>-Recruiting a large number of female customs officers (perceived to be less corruptible);</li> <li>-Installing CCTV cameras to monitor operations; and,</li> <li>-Requiring RS staff to sign a code of ethics.</li> </ul> <p>While such actions are laudable, many more actions need to be taken in order to have a comprehensive anti-corruption strategy in place. As has been witnessed in so many newly created Revenue Authorities around the world, unless a comprehensive approach to anti-corruption is implemented, corruption will return. This will have serious ramifications on RS's ability to achieve its mandate and undermine efforts to create a business climate that</p>	<p>include:</p> <ul style="list-style-type: none"> <li>- Ensuring customs requirements and procedures are simple and transparent;</li> <li>- Removing unnecessary officer administrative discretion;</li> <li>- Ensuring remuneration and bonuses are adequate;</li> <li>- Ensuring that the code of ethics is strengthened so for each specific malpractice the penalty is known;</li> <li>- Putting in place a system whereby informants can provide information confidentially;</li> <li>- Training staff assigned to the internal affairs division to identify and correct weaknesses in systems and procedures which may allow corruption, and to professionally investigate allegations of corruption;</li> <li>- Introducing background checks on staff;</li> <li>- Putting in place checks and balances in IT systems and procedures to allow management to quickly check on possible corruption;</li> <li>- Introducing a staff awareness and public education campaign against corruption;</li> </ul>	<p>Action Plan/Anti-Corruption Strategy; Organize an Integrity Workshop for Senior Management</p> <p>Estimated duration: 2 months</p> <p>Timing: months 6-7</p> <p>Priority: Very High</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>will attract direct foreign investment.</p>	<ul style="list-style-type: none"> <li>- Improving the use of the CCTV system</li> <li>- Putting in place a formal staff rotation system;</li> <li>- Preparing and sign anti-corruption MOUs with major stakeholders; and</li> <li>- Organizing an Integrity Workshop for RS management.</li> </ul>	
<p><b>STRENGTHEN INTERNAL AUDIT (INTERNAL AFFAIRS) CAPACITY TO INVESTIGATE ALLEGATIONS OF MALFEASANCE AND CORRUPTION</b></p>	<p>The Internal Audit Division of RS is understaffed and lacks training in internal auditing techniques.</p> <p>Most investigations into staff corruption result from MoF Fiscal Investigations Unit cases into commercial fraud. If evidence of corruption is uncovered during these investigations, the customs/tax officer(s) concerned are charged under the criminal code.</p> <p>Effective mechanisms are not in place to assist RS management or auditors to efficiently and effectively investigate into allegations of staff or stakeholder malfeasance. There is no formal</p>	<p>Assist the Head of the RS in:</p> <ul style="list-style-type: none"> <li>- Developing an integrity action plan;</li> <li>- Recruiting additional internal auditors; and,</li> <li>- Providing specialized technical training to all internal auditors.</li> </ul>	<p>ST Technical Assistance (Internal Audit Expert)</p> <p>Support RS Internal Audit in preparing an action plan, recruiting additional auditors, and in providing officers with specialized internal auditor training.</p> <p>Estimated duration: 2 months</p> <p>Timing: months 6-7</p> <p>Priority: Very High</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>disciplinary committee in the RS to hear cases of malfeasance/corruption and no progressive administrative sanctions to be applied.</p> <p>In the absence of an effective Internal Affairs Division, malfeasance and corrupt practices will once again take root in the RS. This will have a significant negative impact on the business and investment climate in Georgia.</p>		
<p><b>STRENGTHEN CODE OF ETHICS FOR STAFF AND STAKEHOLDERS</b></p>	<p>While a RS staff code of ethics exists, it needs to be reviewed and strengthened so there are clear and progressive administrative sanctions identified for specific acts of malfeasance/corruption.</p> <p>Stakeholder codes of ethics need to be prepared and supporting MOUs signed.</p> <p>Having Codes of Ethics would crystallizes the RS’s stance that corruption will not be tolerated,</p>	<ul style="list-style-type: none"> <li>- Draft new RS Customs Code of Ethics and Stakeholder Code of Ethics in-line with WCO Integrity Guidelines;</li> <li>- Post Codes of Ethics on RS website;</li> <li>- Require staff to re-sign strengthened Code of Ethics.</li> <li>- Prepare staff integrity training and stakeholder education materials, as well as public information releases.</li> </ul>	<p>ST Technical Assistance (Customs Integrity Expert)</p> <p>Strengthen Code of Ethics and provide staff and stakeholder integrity training</p> <p>Estimated duration: 1 months</p> <p>Timing: month 6</p> <p>Priority: High</p>

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	<p>and that when it is uncovered how precisely the offender(s) will be dealt with. Such Codes can act as a significant deterrent/anti-corruption measure to those staff or stakeholders contemplating involvement in corruption.</p>		
<p><b>IMPLEMENT STAFF DISCIPLINARY PROCESS</b></p>	<p>There is currently no formal disciplinary process in RS to deal with cases of staff malfeasance or corruption. There are no progressive administrative sanctions which the RS can apply to various offences of malfeasance or corruption.</p> <p>Most corruption cases are investigated and dealt with by the MoF Fiscal Investigations Unit and Police under the criminal code. Consequently, minor disciplinary cases are often dealt with under the criminal code which can take a long time to be heard and the outcome uncertain.</p> <p>It is important that RS can deal with minor disciplinary cases, and cases of minor</p>	<p>Assist the RS putting in place an administrative disciplinary process to hear cases of malfeasance/corruption. There should be with clear sanctions applied for each malfeasance or disciplinary offense. Progressive administrative sanctions should be applied on less serious cases of malfeasance, with only major cases of malfeasance referred for criminal action.</p> <p>Disciplinary action taken should be linked to:</p> <ul style="list-style-type: none"> <li>- Staff rotations (i.e. high risk officers should not be rotated into areas where the potential of corruption is relatively high); and,</li> <li>- Performance appraisals (i.e. officers proven to be involved in malfeasance should not be eligible for salary increments or promotion for a specified period of time)</li> </ul> <p>The Disciplinary Committee proceedings should be less formal than a court of law, yet have clear rules of evidence.</p>	<p>ST Technical Assistance (Customs Integrity Expert)</p> <p>Implement Disciplinary Process</p> <p>Estimated duration: 1 months</p> <p>Timing: month 8</p> <p>Priority: High</p>

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	<p>malfeasance/corruption quickly and consistently. Staff needs to know with certainty what sanctions they will face if they are found guilty of committing various acts of malfeasance/corruption. Having a fair and efficient staff disciplinary process is an excellent deterrent to corruption insofar as justice is administered quickly, effectively and consistently.</p>	<p>Either party should have an avenue to appeal the decision of the Disciplinary Committee to the appropriate court in the judicial system.</p>	
<p><b>STRENGTHEN INTELLIGENCE GATHERING AND RISK MANAGEMENT</b></p>	<p>RS Customs currently has no comprehensive approach to Risk Management. There is currently no automated risk management applied on manifest or transit data. Inspections of cargo at checkpoints is largely at the customs officer's discretion. Given the lack of space for inspection facilities at some checkpoints, inspections are frequently very cursory. Rates of referral of trucks for X-Ray scanning is very low, with X-Ray scanning of transit trucks rare.</p> <p>Only rudimentary automated selectivity techniques are applied</p>	<p>Undertake a critical review of the approach to risk management applied by the RS and develop a more effective strategy based on international best practices, including:</p> <ul style="list-style-type: none"> <li>- Applying automated selectivity on manifest and transit data processed by ASYCUDA World;</li> <li>- Improving the operation of the Risk Management Committee, and how it examines results achieved and updates risk criteria;</li> <li>- Examine if and how risk criteria related to narcotics interdiction, money-laundering, transit fraud, phyto-sanitary and other border agency requirements are applied in ASYCUDA selectivity;</li> <li>- Rationalizing the channeling of Customs</li> </ul>	<p>ST Technical Assistance (Customs Risk Management Expert)</p> <p>Undertake a critical review of RS current approach to risk management; prepare a strategic plan that includes: manifests and transits; post-clearance audits; narcotics interdiction; phyto-sanitary and other border agency requirements; intelligence gathering and analysis; data mining; intelligence linkages with the Police and stakeholders; preparation of tender for RM software suite</p>

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	<p>using the ASYCUDA++ Selectivity Module when goods declaration data is processed. Selectivity criteria are managed through a national risk management committee that meets regularly at HQ. Customs personnel at checkpoints and clearance offices state that there is no mechanism for them to recommend changes in ASYCUDA++ selection criteria, and consequently they simply inspect what the automated system selects.</p> <p>While the current 5% rate of RED Channel selection (i.e. cargo must be physically inspected) is within the norm targeted by customs services in most developed countries, the results achieved (i.e. enforcement effectiveness) from such a low rate of cargo inspection in Georgia is doubtful (i.e. results achieved in terms of detection of contraband and/or forced payment appear low). Customs reports that 95% of customs declarations are Green Channeled by the ASYCUDA++</p>	<p>declarations in line with international norms;</p> <ul style="list-style-type: none"> <li>- Improving how risk management is applied to X-Ray scanners;</li> <li>- Applying effective techniques to data mining;</li> <li>- Applying risk management to select firms and consignments for post-clearance auditing;</li> <li>- Examine the feasibility of extending the PIRS and Interpol intelligence databases to Customs;</li> <li>- Implement an informant program, including a public hotline;</li> <li>- Sign MOUs with all major stakeholders to obtain intelligence information.</li> <li>- Implement the WCO N-CEN (i.e. National Customs Enforcement Network intelligence database)</li> <li>- Examine the feasibility of procuring a commercially available suite of risk management software. Obtain information on different packages available and prepare tender documents.</li> </ul>	<p>and an Agreement with the WCO to implement the N-CEN intelligence database.</p> <p>Estimated duration: 3 months</p> <p>Timing: month 8-11</p> <p>Priority: Very High</p>

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	<p>system (i.e. no physical inspection). There is no Yellow Channel (i.e. detailed document verification of the goods declaration) because the Customs Operator prepares and keys the customs declarations for most traders. Of the 95% Green, roughly 50% of declarations are manually selected by the Monitoring Unit for detailed document review before clearance (i.e. this amounts to a management audit of the quality of work of operators), and the other 50% are assigned Blue Channel and sent to the PCA Unit at HQ.</p> <p>There is no data gathered on the enforcement effectiveness of operators who for the most part are simply accepting the documents provided by traders. Operators rarely refer declarations to Red Channel, and can only do so with their supervisor's approval.</p> <p>Clearly, the channeling of customs declarations needs to be rationalized as it does not</p>		

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	<p>currently conform to international best practice.</p> <p>The Police use the PIRS database (system was US Embassy funded) to assist Immigration officers to identify high risk travelers using black lists. RS Customs officers do not have direct access to the PIRS system. RS Customs has no national intelligence database of its own for tracing customs/tax fraudsters.</p> <p>As with tax audits, the customs post-clearance audit unit simply re-checks Yellow Channel declarations where the consignment has already been released, and does not selectively target traders or their consignments through mining the ASYCUDA customs declaration database.</p> <p>RS Customs appears to rely heavily on the Ministry of Interior/Police to gather intelligence information and act upon it (apparently much most is collected through telephone and</p>		

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	<p>internet tapping). Thou an MOU has been signed between RS and the Police, exchange of intelligence information among the Police, Customs and other Border Agencies needs to be improved.</p> <p>Unlike the Police, RS Customs lacks an effective system for soliciting and rewarding informants.</p>		
<p><b>STRENGTHEN CUSTOMS POST CLEARANCE AUDIT</b></p>	<p>A PCA unit consists of only 9 customs officers which have been recently relocated from Tbilisi customs clearance office into RS HQ Audit Dept. The PCA re-verifies approximately 200/day Blue Channel declarations i.e. declarations where goods have already been released without any detailed document verification being performed by the Monitoring Unit at the clearance office. PCA auditors are not currently authorized to travel to traders' premises to examine books/records. Instead PCA auditors perform desk audits from their office at HQ by</p>	<p>Undertake a comprehensive analysis the current Post-Clearance Audit regime and prepare a strategic work plan for strengthening it. This plan should:</p> <ul style="list-style-type: none"> <li>- Assess the adequacy of legislation supporting post-clearance audits;</li> <li>- Analyze the effectiveness of the Blue Channel process, including risk selection criteria used;</li> <li>- Document and analyze the current desk audit procedures, and analyze whether and how to move to field audits of traders' books and records;</li> <li>- Identify procedural/control/system reforms necessary to support PCA;</li> </ul>	<p>ST Technical Assistance (Customs Expert)</p> <p>Analyze the current PCA regime and prepare a strategic work plan for strengthening.</p> <p>Estimated duration: 1.5 months (in-progress)</p> <p>Timing: month 4-5</p> <p>Priority: Very High</p>

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	<p>requesting traders to send in their supporting documents for a particular customs declaration/trade transaction.</p> <p>PCA auditors may selectively request the customs service in the exporting country to send copies of export declarations to compare the export declaration against import declaration. The PCA unit does not currently audit a trader’s compliance as a whole, but merely focuses on individual declarations or transactions. This is not in conformity with international best practice.</p> <p>PCA does not undertake data mining or maintain any specific selectivity criteria in ASYCUDA to target particular high risk traders or consignments.</p> <p>Approximately 100 „Gold List’ firms receive significant trade facilitation benefits including E-filing; expedited clearance/low rate of cargo inspections, and periodic payment. What criteria firms had to meet before being given Gold List privileges</p>	<ul style="list-style-type: none"> <li>- Detail how to strengthen and expand the Gold List regime;</li> <li>- Prepare an outline for a SOP manual for post-clearance audits;</li> <li>- Analyze how the PCA unit should be organized and staffed; and,</li> <li>- Provide an outline for providing additional PCA technical training to auditors.</li> </ul>	<p>ST Technical Assistance (Customs Expert)</p> <p>Implement PCA strategic work plan including:</p> <ul style="list-style-type: none"> <li>- Draft a PCA SOP manual;</li> <li>- Prepare/deliver PCA ToT training course supporting</li> </ul>

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	<p>remains unclear. It is understood that at least 50% of the original Gold List firms have been removed from the List. Firms granted Gold List benefits did not undergo a compliance audit before being granted the privileges, and it is understood that none have undergone any comprehensive post-clearance audits since. Verifying that the remaining Gold List firms are indeed compliant should be a priority for RS Customs, as should be increasing the number of firms on the Gold List, once they have successfully passed a compliance audit.</p> <p>The effectiveness of the current PCA „desk audits’ is highly questionable. A complete strengthening of the PCA regime is urgently needed.</p>		<p>both desk audits and field audits;</p> <ul style="list-style-type: none"> <li>- Strengthen PCA risk management;</li> <li>- Support PCA auditors in undertaking field audits;</li> <li>- Prepare recommendations for compliance auditing of Gold List firms.</li> </ul> <p>Estimated duration: 3 months</p> <p>Timing: month 7-9</p> <p>Priority: Very High</p>
<p><b>STRENGTHEN CUSTOMS VALUATION AND IMPROVE MECHANISMS FOR</b></p>	<p>Georgia is a member of the WTO and has acceded to the Agreement on Customs Valuation. This Agreement prohibits arbitrary uplifting of declared values to a minimum</p>	<p>Undertake a thorough analysis of the customs valuation legislation, procedures/controls, and how the reference database operates/is maintained, then prepare a work plan to bring Georgia’s customs valuation methods into full</p>	<p>ST Technical Assistance (Customs WTO Valuation Expert)</p> <p>Analyze the current customs valuation regime and</p>

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<b>DISPUTE RESOLUTION</b>	<p>price. Current legislation mandating RS to apply minimum values on approximately 60 categories of goods contravenes the WTO Customs Valuation Agreement<sup>8</sup>. Reference prices may be used only as a risk indicator i.e. to assist officers in identifying a declared value above/below an accepted price range. In such cases, customs may suspend release and request additional supporting information from the trader (e.g. pricelists, contract of sale, bank transfer) to support the declared value. If the trader needs time to produce the requested supporting documents, and does not want to delay release of the goods, Customs may allow provisional release of the goods once the trader has posted security or pays the duty/tax under protest as calculated by Customs based on the reference price or other method. The trader</p>	<p>conformity with the WTO agreement.</p> <p>Analyze appeals/dispute resolution process and bring into conformity with international best practice.</p> <p>Prepare proposals for restructuring the Expertise Unit e.g. organize unit by commodity specialization.</p> <p>Draft an SOP manual(s) for the Expertise Unit and Appeals/Dispute Resolution Process.</p> <p>Prepare WTO valuation course and train trainers to deliver course.</p>	<p>prepare a work plan for bringing it into conformity with the WTO Agreement.</p> <p>Analyze appeals/dispute resolution process and bring into conformity with international best practice</p> <p>Estimated duration: 6 weeks</p> <p>Timing: month 6-8</p> <p>Priority: Very High</p> <p>ST Technical Assistance (Customs Valuation Expert)</p> <p>Restructure Expertise Unit;</p> <p>Prepare SOP manuals and</p> <p>Prepare/deliver valuation training course.</p> <p>Estimated duration: 3</p>

<sup>8</sup> It is understood that RS is currently revoking legislation which requires minimum values to be used for specific lists of commodities.

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	<p>is given a period of time to substantiate the declared value, otherwise the security or duty/tax posted is retained by Customs.</p> <p>The Expertise Unit at customs clearance offices deal with instances where a customs officer/ operator questions a traders' declared customs value. The Expertise Unit has access to the valuation reference database and decides whether or not to uplift the value. Traders may also request the decision of the operator to be reviewed by Expertise Unit. In such cases the trader is charged a fee for this service.</p> <p>The trader may dispute the Expertise Unit's (i.e. on value, tariff and origin) to the RS HQ Appeal Resolution Committee. Most disputes are „negotiated' at the level of the Expertise Unit. Few customs related appeals were made to the Appeals Committee in the past couple of years (only 3). This is likely due to the high costs and delays in release of goods while the appeal</p>		<p>months</p> <p>Timing: month 10-12</p> <p>Priority: Very High</p>

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	<p>is being heard.</p> <p>Having a fair, consistent and transparent customs valuation regime is critically important both for RS revenue collection, and to create a level playing field for traders.</p>		
<p><b>STRENGTHEN SUPPLY CHAIN SECURITY: IMPLEMENT AUTHORIZED ECONOMIC OPERATOR REGIME</b></p>	<p>Georgia currently has approximately 100 firms granted „Gold List’ status receiving various privileges including expedited clearance; E-filing and periodic payment. Gold List firms have not undergone a compliance audit, either prior to being granted these privileges or since. It is important that these firms pass compliance audits as a first step towards introducing an AEO regime in Georgia.</p> <p>Those Gold List firms or export oriented firm which EPI is working on value chains in order to export in to either the EU or US should have priority to become AEO certified i.e. pass a security audit of their supply chain. Once certified their exports</p>	<p>Critically examine the existing Gold List program and prepare a work plan for introducing compliance audits as a first step towards introducing an AEO program in Georgia. Support Georgia customs in undertaking compliance audits of Gold List firms.</p> <p>Evaluate results of audits and prepare plan for undertaking AEO security audits of select Gold List firms or export oriented firms for which EPI is working on improving value chains. Work plan would need to be consistent with the WCO Framework of Standards, including the US CBP and EU AEO regimes.</p> <p>Support Georgia Customs introducing an AEO program, including preparation of SOP manual, training materials and public information campaign. Support during negotiation of mutual recognition AEO agreements with US CBP and EU Customs.</p>	<p>ST Technical Assistance (AEO Customs Expert)</p> <p>Support RS Customs in undertaking compliance audits and AEO security audits of Gold List firms.</p> <p>Prepare SOP manual, training and stakeholder education materials.</p> <p>Estimated duration: 4 months</p> <p>Timing: month 20-24</p> <p>Priority: High</p>

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	<p>to the EU and US would be given expedited clearance. It is important that any AEO program introduced by Georgia be consistent with the requirements of the EU and US, and that a mutual recognition agreement be signed with the EU and US.</p> <p>Introducing an AEO program for large complaint exporters would facilitate Georgian exports into the US and EU markets.</p>		
<p><b>PREPARE INFORMATION TECHNOLOGY STRATEGIC PLAN</b></p>	<p>RS needs to prepare a comprehensive IT strategy that provides a clear road map regarding:</p> <ul style="list-style-type: none"> <li>- Upgrading ASYCUDA World or tendering for a system other than ASYCUDA;</li> <li>-Tendering for a Single Window system;</li> <li>- Tendering for a comprehensive suite of Risk Management software;</li> <li>- Implementing WCO e-Learning;</li> </ul>	<p>Support RS in preparing a comprehensive customs IT strategy.</p> <p>IT Strategic Plan should ideally be done for the entire RS, including tax department and other depts./divisions.</p>	<p>ST Technical Assistance (IT Expert with Revenue Administration background)</p> <p>Estimated duration: 2 months</p> <p>Timing: month 10-12</p> <p>Priority: High</p>

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	<ul style="list-style-type: none"> <li>- Implementing WCO n-CEN or another national intelligence database;</li> <li>- Linking to the Police PIRS and Interpol Intelligence system;</li> <li>- Tendering for an Advance Passenger Information System;</li> <li>- Integrating Customs and Tax systems databases to allow efficient data mining and report generation;</li> <li>- Setting up an IT training center;</li> <li>- Upgrading telecommunications and hardware;</li> <li>- Putting in place standards for project management, system documentation, technical system specifications (i.e. hardware, o/s; database, communication protocols, message standards)</li> </ul>		

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<p><b>ANALYZE WHETHER TO STAY WITH ASYCUDA OR MIGRATE TO ANOTHER COMMERCIALY AVAILABLE CUSTOMS SOFTWARE SUITE</b></p>	<p>The ASYCUDA World has been implemented, however many key applications have never been implemented fully including: Cargo Control and E-Manifest; E-Payment; Warehousing; Transit. In preparing an IT strategy, RS needs to decide whether or not it wishes to implementing these additional applications. If so, UNCTAD needs to be requested to prepare a project plan and cost estimate for each of these alternatives to allow the RS to take a decision.</p> <p>In taking a decision regarding the future of ASYCUDA, RS should also weigh the option of migrating away from ASYCUDA in the medium term, and tendering for a new commercially available customs IT system, that would offer a Single Window platform to link electronically all border agency requirements.</p> <p>RS should also take a decision upon implementing a commercially available Risk</p>	<p>Assist RS in taking the decision whether to stay with ASYCUDA World or tender for a new commercially available customs software solution. Liaise with UNCTAD experts invited to Georgia to prepare upgrade plan and cost estimate.</p> <p>If a decision is taken to tender for a new commercially available customs software suite, Arrange study tours to customs services using:</p> <ul style="list-style-type: none"> <li>- Commercially available software solutions and Single Window solutions (e.g. Micro-Clear implemented in Pakistan/Egypt);</li> <li>- Single Window (e.g. Crimson-logic's Tradexchange operating in Singapore).</li> <li>- Risk Management Suite (US CBP; Canada BSA; Greenline systems used by Barbados Customs)</li> </ul> <p>Support RS in preparing tender documents following study tours.</p>	<p>ST Technical Assistance (IT/Customs Expert)</p> <p>Estimated duration: 2 months</p> <p>Timing: month 12-14</p> <p>Priority: High</p>

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	<p>Management software suite.</p>		
<p><b>TENDER/PROCURE A COMPREHENSIVE RISK MANAGEMENT SOFTWARE SUITE</b></p>	<p>The ASYCUDA system does not offer a comprehensive risk management suite of software to support a modern customs administration. It is important that customs is able to process advance trade and transport information to identify the small percentage of high risk consignments, vehicles or travelers which require verification and/or physical inspection.</p> <p>A number of very comprehensive risk management software suites are currently available to support customs operations. These software suites can dramatically improve customs enforcement effectiveness while also reducing rates of needless declaration verification and/or physical</p>	<ul style="list-style-type: none"> <li>- Develop user requirements for a risk management software suite;</li> <li>- Visit/analyze various risk management software suppliers;</li> <li>- Prepare tender and evaluate</li> <li>- Implement software suite.</li> </ul>	<p>ST Technical Assistance (IT/Customs Risk Management Expert)</p> <p>Estimated duration: 2 months</p> <p>Timing: month 16-18</p> <p>Priority: High</p>

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	<p>inspection.</p> <p>Risk Management software should allow:</p> <ul style="list-style-type: none"> <li>-advance processing of manifest data;</li> <li>-advance processing of transit and transshipment data;</li> <li>-advance processing of import and export declaration data;</li> <li>-advance processing of warehouse, inward processing and free zone data;</li> <li>- advance passenger information data;</li> </ul> <p>Risk management software should support customs in identifying all customs risks including: commercial fraud, narcotics/money-laundering, transit fraud, valuation fraud, other government agency phyto requirements, terrorists and illegal aliens; etc.</p>		

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<p><b>IMPLEMENT A 'SINGLE WINDOW'</b></p>	<p>The „Single Window’ is a trade facilitation initiative. It enables international (cross-border) traders to submit regulatory documents at a single location and/or single entity. Such documents are typically customs declarations, applications for import/export permits, and other supporting documents such as certificates of origin and trading invoices.</p> <p>The main value proposition for having a Single Window for a country or economy is to increase the efficiency through time and cost savings for traders in their dealings with various government authorities for obtaining the relevant clearance and permit(s) for moving cargoes across national or economic borders. In a traditional pre-Single Window environment, traders may have had to contend with visits and dealings with multiple government agencies in multiple locations in order to obtain the necessary papers, permits and clearance in order to</p>	<ul style="list-style-type: none"> <li>- Define user requirements for a Single Window in Georgia.-Undertake a study tour to 2-3 countries which have successfully implemented a Single Window e.g. Singapore, Mauritius, Sweden.</li> <li>- Prepare tender and evaluate</li> <li>- Implement Single Window.</li> </ul>	<p>ST Technical Assistance (IT/Customs Single Window Expert)</p> <p>BPR assessment and feasibility study</p> <p>to support preparation of user requirements, study tour and tender preparation</p> <p>Estimated duration: 3 months</p> <p>Timing: month 22-25</p> <p>Priority: High</p> <p>ST Technical Assistance (IT/Customs Single Window Expert) to support tender evaluation and implementation of Single Window</p> <p>Estimated duration: 6 months</p> <p>Timing: months 26-32</p>

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	<p>complete their import or export processes.</p> <p>There is no single definitive viewpoint of what a single window system should be. A common definition of the term "Single Window" is:</p> <p><i>"A facility that allows parties involved in trade and transport to lodge standardized information and documents with a single entry point to fulfill all import, export, and transit-related regulatory requirements. If information is electronic then individual data elements should only be submitted once."</i></p>		<p>Priority: High</p>
<p><b>IMPLEMENT GROUPAGE AND TRANSIT WAREHOUSING PROCEDURES AND CONTROLS TO ENCOURAGE REGIONAL LOGISTICS</b></p>	<p>Efficient and effective Customs procedures and controls do not currently exist to support Georgia becoming a regional warehousing and logistics hub. A number of traders and logistics providers expressed concern that Gazi/Customs clearance centers were only geared to clearance of</p>	<p>Analyze current warehousing regime and develop a strategy to bring it in line with international best practices to support Georgia becoming a regional transit and warehousing hub.</p> <p>This will involve undertaking a review of supporting legislation, procedures, controls and IT system applications and recommending improvements. For example, the current procedures pertain only to full truckloads with one</p>	<p>ST Technical Assistance (Customs Expert)</p> <p>Prepare proposals to modernize customs procedures and controls related to groupage cargo and transit warehousing to support Georgia becoming a regional transit and</p>

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<p><b>HUB</b></p>	<p>full container/truck loads.</p> <p>Management of DHL express courier expressed desire to up logistics hub in Georgia for region, but absence of efficient customs procedures related to consolidated cargo is delaying investment plans (i.e. bureaucracy associated with CMR truck manifest required for each consignment in a truck).</p> <p>AMCHAM expressed need to improve procedures related to the customs warehousing regime (i.e. current procedures require goods to be cleared through the Gazi and pay associated fees, even if large firms have their own warehouses and could be licensed to operate customs bonded warehouses.</p>	<p>receiver/consignee. The rate charged at Gezi by customs is 300 GEL for each declaration is very reasonable (i.e. for a full truckload with one consignee). However, if there are 15 consignees/receivers in a single container, the fees climb significantly to 4500 or more. This deters consolidation of cargo, and important ingredient for setting up a logistics hub.</p> <p>Similarly, if goods are entering a warehouse in Georgia for transit elsewhere, all the goods need to be declared to customs and all consignee details. A system needs to be created which allows goods to enter a warehouse or free zone area, where goods can be temporarily stored, repackaged, etc. then exported from Georgia without payment of duty/tax or other major fees.</p> <p>Once procedures are agreed, develop a SOP manual and stakeholder education campaign.</p>	<p>warehousing hub.</p> <p>Estimated duration: 3 months</p> <p>Timing: month 12-15</p> <p>Priority: Very High</p>

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<p><b>IMPLEMENT A MORE EFFICIENT AND EFFECTIVE TRANSIT CONTROL SYSTEM</b></p>	<p>The customs transit control system needs to be made more efficient and effective if Georgia is to become a regional transit and logistics hub. During the visit to Sarpi checkpoint, long queues of trucks were witnessed parked on the Turkish border waiting to enter Georgia. While no data was available on how long the average dwell time is for trucks exiting Turkey, AMCHAM representatives stated that in the past winter there were instances when trucks waited 3 days before crossing the border into Georgia. Truck drivers complain of the bureaucratic Turkish customs transit procedures at exit, and stated that some drivers are able to jump the queue if „speed bribes’ are paid to Turkish customs officers. At Sarpi, there are only 4 lanes at the Turkish checkpoint for both incoming and out-going traffic. One of these lanes appeared to be permanently closed at time of the visit. There are no designated lanes for buses, passenger vehicles or trucks. During the</p>	<p>Undertake a comprehensive and critical review of the current transit control system; It is understood that UNCTAD is sending a team to Tbilisi to implement the TIR transit module in ASYCUDA in May 2011.</p> <p>Prepare recommendations to dress weaknesses previously mentioned to bring transit system in line with international best practices so as to minimize costs and delays associated with transit control.</p> <p>Support RS Customs in strengthening risk management applied to transit data, including how to make more effective use of existing X-Ray scanners to support transit controls;</p> <p>Organize a study tour of GPS based transit track and trace systems currently in use and assist RS in preparing a tender to procure a transit track and trace system. This study tour could include Turkey that has been operating a GPS based transit monitoring system for several years. If working effectively, consideration could be given to extending this system regionally to minimize queuing at border crossings and possibly introduce a regional transit bond or guarantee approach.</p> <p>Support Georgian RS during negotiations to strengthening transit related sections of existing</p>	<p>ST Technical Assistance (Customs Expert)</p> <p>Analyze transit system and prepare detailed recommendations to strengthen system and bring in line with international best practices. Lead study tour to examine GPS track and trace transit systems. Prepare tender for GPS system. Strengthen the application of risk management to transit data, including the use of existing X-Ray scanners to support transit controls.</p> <p>Estimated duration: 3 months</p> <p>Timing: month 12-15</p> <p>Priority:</p>

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	<p>almost 3 hours spent at the checkpoint only 5 vehicles entered Georgia from the Turkish checkpoint. At least 3 buses entering Georgia immediately stopped and discharged their passengers and luggage effectively blocking the entire Georgian checkpoint from receiving further traffic.</p> <p>Approximately 85% of trucks passing Sarpi are through country transit, with the remaining 10-15% transiting inland to a Gezi where clearance will occur.</p> <p>RS Customs currently uses the ASYCUDA Transit module to control both inland transit movements from checkpoints to inland clearance centers; and through country transits. Data is entered into the ASYCUDA system and a copy of the transit document is given the driver.</p> <p>The transit system is not in line with internationally accepted best practices, i.e.:</p>	<p>MOUs with neighboring countries (e.g. to include exchange of advance transit data; regional transit security bond; cooperation on transit fraud investigations).</p>	

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	<p>-Transit routes are not designated. i.e. For control purposes normally transit trucks must remain on a designated route and are not allowed to deviate off this route.</p> <p>-Maximum timeframes to complete the transit are not set for each transit route. Georgia customs allows transit trucks 1 day for every 80 kms, therefore up to 10 days is permitted to complete a through country transit even though it should normally be completed within one day. Even though the customs clearance office/Gazi is only a few kms from the Sarpi checkpoint, a full one full day is permitted to complete this transit. The ASYCUDA transit module is capable of controlling transit duration in days or hours. Such generous timeframes to complete a transit affords fraudsters ample time to remove or substitute contraband from transit trucks;</p> <p>-Transit trucks are rarely X-Ray scanned. Comparing the X-Ray image of cargo at the office of</p>		

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	<p>transit commencement against that taken at the office of transit termination is a highly effective mechanism to detect transit fraud;</p> <ul style="list-style-type: none"> <li>- There are no transit checkpoints along the transit route and no covert surveillance of transit trucks by either RS Customs or the Police;</li> <li>- There is no GPS based track and trace system in place to monitor transit movements;</li> <li>- Seals affixed by Georgian Customs to transit trucks do not appear to be internationally accepted high quality standard i.e. ISO/PAS 17712;</li> <li>- There is no transit bond or guarantee posted to cover the duty/tax on goods should the truck not complete the transit movement. Removing the requirement to post transit security is not consistent with internationally accepted norms;</li> <li>- Traders complained of high</li> </ul>		

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	transit and customs processing fees, especially when applied to low value air cargo and express consignments.		
<b>REFORM TBILISI AIRPORT TRAVELER CLERANCE PROCEDURES</b>	RS Customs Traveler clearance procedures at Tbilisi Int'l Airport do not conform to international best practices i.e. there is no: <ul style="list-style-type: none"> <li>- Red/Green Channel system;</li> <li>- Passenger allowance signs (Curiously, passenger allowances at the airport are 10X the amount allowed at other checkpoints)</li> <li>- Properly located traveler inspection office in arrivals hall;</li> <li>- Inspection tables of a proper size to inspect luggage;</li> <li>- Proper traveler search rooms;</li> <li>- Proper training of officers in interviewing and search techniques;</li> <li>- Effective, risk based use of X-Ray scanners of checked</li> </ul>	Prepare an action plan to reform and modernize airport arrivals procedures including: <ul style="list-style-type: none"> <li>- Design of RED/GREEN Channel system;</li> <li>- Design a new secondary inspection area, including inspection tables, traveler search room, cashier, detained goods storage;</li> <li>- Design new passenger allowance notices;</li> <li>- Provide customs officers with technical training on traveler profiling, interviewing techniques, baggage and personal search techniques, conflict resolution, drug testing;</li> <li>- Support RS in preparing user requirements/tender an Advance Passenger Information system that would meet the requirements of both RS Customs and the Police; and,</li> <li>- Prepare SOP manual for staff.</li> </ul> Arrange a study tour of a customs service using	ST Technical Assistance (Customs Expert)  Reform and modernize the Tbilisi Airport Customs arrival hall procedures; prepare SOP manual and training course; support implementation of a Advance Passenger Information System  Estimated duration: 3 months  Timing: month 10-13  Priority: High

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>luggage prior to it arriving on the conveyor belt. It is understood that all checked bags are scanned and if found suspicious a 'red' sticker is placed on the bag. A small sign appears at the conveyor belt requesting travelers to report to customs if a red sticker is on their bag. Apparently, RS Customs applies a fine of 5000 gel for failing to report to Customs if a sticker is on the bag;</p> <ul style="list-style-type: none"> <li>- Advance passenger information system;</li> <li>- Effective exchange of information with the Police operating the Immigration/PIRS system.</li> </ul> <p>The current airport arrivals process is not in line with international norms and is unlikely to detect a traveler carrying drugs, other contraband, involved in money-laundering, etc. By implementing procedures in line with international best</p>	<p>API PNR technology to assist with the decision-making and preparation of a tender.</p>	

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>practices, a better balance could be achieved between facilitation and control objectives.</p>		
<p><b>IMPROVE CHECKPOINT TRAVELER CLERANCE PROCEDURES</b></p>	<p>The new checkpoint facility under construction and due to open by mid-2011 includes a bus passenger clearance hall. Bus travelers will be required to present their passport to the Police for immigration formalities a PIRS check. The traveler’s luggage will be placed on a conveyor and scanned. Any bag considered suspicious will be tagged and sent by conveyor to a secondary inspection area. A message will be displayed on a monitor in the arrivals hall informing the traveler that a bag has been selected and that the traveler needs to proceed to the secondary inspection area for the inspection of the bag.</p> <p>The decision on whether the traveler will be inspected will be based almost entirely on the PIRS results and X-Ray image of the traveler’s bag. It is unclear how Customs will detect high risk</p>	<p>Undertake a critical review of traveler clearance operations at the new checkpoints and prepare recommendations how to improve customs efficiency, effectiveness or service levels.</p> <p>Provide Customs officers with technical customs training in traveler profiling, interviewing and search techniques for vehicles, buses, and trucks.</p> <p>Provide Customs officers with specialized training in X-Ray image interpretation.</p>	<p>ST Technical Assistance (Customs Expert)</p> <p>Undertake a critical review of checkpoints traveler clearance procedures and prepare recommendations how to bring them in-line with international best practice; prepare SOP manual and train officers in risk profiling, interviewing and search techniques as well as X-Ray image interpretation.</p> <p>Estimated duration: 3 months</p> <p>Timing: months 10-13</p> <p>Priority: High</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>passengers carrying contraband on their body or carry-ons.</p> <p>Customs officers need additional training on how to inspect motor vehicles, buses and truck cabs for contraband.</p>		
<p><b>STRENGTHEN CUSTOMS COMMERCIAL FRAUD INVESTIGATIONS AND ENFORCEMENT</b></p>	<p>Responsibility for customs commercial fraud investigations currently rests with the MoF Fiscal Investigations Unit (prior to that it was in the Ministry of Interior/Ministry of Security). This unit has a total of 600 staff, with 130 investigators and 130 inspectors. Of the 20 staff assigned to customs investigations, there are only 5-6 Customs investigators (with 4 vacant positions). Last year 85 cases were successfully investigated, with 122 prosecutions. RS Customs is required to refer evidence of fraud (and/or corruption) to the Fiscal Investigations Unit for follow-up investigation and prosecution. The results achieved by the Fiscal Investigations Unit can be found</p>	<p>Undertake a comprehensive and critical analysis of the FIU’s customs investigations undertaken results achieved assess its effectiveness.</p> <p>Based on findings, make recommendations on transfer of investigation responsibilities to a new Intelligence and Investigations Department inside the RS, which is international best practice.</p> <p>Develop an Customs Enforcement Strategy which clearly defines areas of responsibility for RS Customs investigations, including drugs, money laundering, IPR, as well as traditional customs commercial fraud offenses.</p> <p>Develop a comprehensive approach to intelligence gathering and risk management.</p> <p>Recruit and train officers in customs intelligence gathering and investigations.</p>	<p>ST Technical Assistance (Customs Enforcement Expert)</p> <p>Undertake a critical review of the FIU customs investigations capabilities and results achieved, in recommending whether or not responsibility should be transferred to the RS.</p> <p>Prepare detailed Customs Enforcement Strategy</p> <p>Recruit and train customs officers in intelligence and customs fraud investigations techniques.</p> <p>Estimated duration: 4</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>in Annex 5 - FIU ppt.</p> <p>The FIU is responsible for all customs related investigations, and also investigates cases of corruption. Any customs case involving goods valued at \$10,000 or more is considered criminal and if the defendant is found guilty faces a prison term. It is understood that RS sends 2-3 cases each month to the FIU, most are related to smuggling/non-declaration, and, fraudulent documents related to undervaluation. Smuggling of gold, cell phones and whiskey are the main goods smuggled. Smuggling used to be a problem however the excise bandrolls now applied have reduced cigarette smuggling significantly. The FIU does not investigate IPR cases. Sr. FIU Mgt confided that transit fraud is a serious problem, though they have successfully investigated several smuggling cases through intelligence gathering. The FIU does not have direct access to ASYCUDA and is not using or involved in RS Risk Management. The FIU uses</p>		<p>months</p> <p>Timing: months 20-24</p> <p>Priority: High</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>primarily telephone bugging, secret service and observation. A hotline exists for the public to provide tips, but doesn't work well.</p>		
<p><b>NARCOTICS INTERDICTION and MONEY LAUNDERING</b></p>	<p>Georgia's geographical location near major drug producing countries, its porous borders, minimal inspections on transit trucks, ineffective use of X-Ray scanners, few and ineffective narcotics detector dogs, and corruption at checkpoints, indicates there is a high risk that significant quantities of narcotics are passing into/through Georgia unnoticed. Customs officers take the position that the Police have the primary responsibility for narcotics interdiction and consequently give it low priority. While some training on inspection and concealment techniques was given by the previous USAID funded project, with fiber-scopes and other testing equipment left behind by trainers, it is clear that few if any of the customs officers that received this training and</p>	<p>Undertake a thorough review of narcotics and money laundering laws, procedures and controls and develop a comprehensive strategy to combat it. This strategy would include:</p> <ul style="list-style-type: none"> <li>- An assessment of all risks at each border crossing (informed that RS Customs has no effective inspection strategy for drugs carried on rail wagons viewed as a high risk);</li> <li>- Profiling techniques;</li> <li>- Inspection techniques for trucks, buses, baggage, parcels, persons;</li> <li>- X-rays;</li> <li>- Drug detector dogs;</li> <li>- How to use drug testing kits;</li> <li>- MOUs with other border agencies;</li> <li>- MOUs with other customs services;</li> <li>- Drug related intelligence gathering and analysis;</li> <li>- Setting up of dedicated unit for narcotics and money laundering;</li> <li>- Preparation of SOP manuals for staff;</li> <li>- Implementation of money laundering laws including, cash courier</li> </ul>	<p>ST Technical Assistance (Customs Narcotics and Money Laundering Expert)</p> <p>Prepare Narcotics and Money Laundering Strategy</p> <p>Strategy</p> <p>Estimated duration: 1.5 months</p> <p>Timing: month 18-20</p> <p>Priority: Medium</p> <p>ST Technical Assistance (Customs Narcotics and Money Laundering Expert)</p> <p>Implement Narcotics and Money Laundering Strategy</p> <p>Estimated duration: 2.5</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>equipment remain employed in RS Customs or know how to use this equipment. The equipment appears like it has never been used. Most senior managers interviewed stated that narcotics and money laundering are not a problem or priority. However during interviews with middle management and Internal Audit, it was revealed that major drug busts have occurred but receive little publicity. Indeed there was a major seizure of 125 kgs of heroin found in 3 trucks in January 2010. There was also 35kgs of gold at Tbilisi airport in hand carried luggage from Armenia the day after my visit there when I commented that there appeared to be no control being exercised by officers over hand-carried luggage.</p> <p>There are only 3 drug detector dogs available to RS Customs. It is understood that none of the border crossings have facilities built to accommodate these dogs and their effectiveness after long travel is very limited. Customs has no training facility for keeping</p>	<p>procedures/controls (i.e. declaration or disclosure systems).</p>	<p>months</p> <p>Timing: month 20-23</p> <p>Priority: Medium</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>dogs and Customs must rely on the Ministry of Interior in Tbilisi for support.</p>		
<p><b>IPR ENFORCEMENT</b></p>	<p>Georgia is flooded with counterfeit goods. Few rights holders (approximately 100) have registered their products with RS Customs has the authority to detain at the border goods suspected counterfeit which have been registered by the rights holder. If goods are suspected to be counterfeit and they have been registered, RS Customs is to notify the rights holder and temporarily suspend release to afford the rights holder time to obtain an injunction from the court and start civil proceedings. With only 5% of goods RED Channeled and inspected by customs, and risk selection criteria not focused on importers of counterfeit goods, customs IPR enforcement efforts are currently ineffective. Once counterfeit goods are on the market, the responsibility for IPR enforcement switches to the Police, however clearly the Police</p>	<p>There must be strong and visible political will to tackle counterfeit goods. If this doesn't exist neither Customs nor the Police will effectively enforce IPR. The EPI Project needs to have a commitment regarding political will before undertaking further work in this area.</p> <p>If will and commitment exists, it is important to support RS Customs in developing an IPR enforcement strategy. Such a strategy could consist of:</p> <ul style="list-style-type: none"> <li>-Strengthening the supporting legal and procedural framework for IPR enforcement;</li> <li>-Streamlining procedures for IPR registration;</li> <li>-Implementing a database to hold all rights holder info on goods registered;</li> <li>-Setting up an on-line registration process for rights holders;</li> <li>-Drafting and SOP manual for IPR enforcement for customs staff;</li> </ul>	<p>ST Technical Assistance (Customs IPR Expert)</p> <p>Prepare and implement IPR enforcement strategy for RS Customs</p> <p>Estimated duration: 3 months</p> <p>Timing: month 18-21</p> <p>Priority: High</p>

REFORM	IMPACT AND JUSTIFICATION	TASKS/DELIVERABLES	TECHNICAL ASSISTANCE
	<p>treat IPR enforcement as a low priority.</p> <p>Honest traders of legitimate goods are no doubt losing market share to counterfeit goods. Customs revenue collections are impacted because they are based on a highly depreciated value of these counterfeit goods. Counterfeits undermine the foreign investment climate with traders less likely set up shops selling high-end goods if the market is flooded with counterfeits. Some counterfeits also represent a public health and safety risks e.g. auto parts or pharmaceuticals.</p>	<p>-Preparing IPR enforcement training for RS Customs staff;</p> <p>-Preparing training and public education material for rights holders.</p>	

## **B. ADDITIONAL INFORMATION**

### **REFERENCE DOCUMENTS:**

World Bank – Georgia Doing Business Report 2010

World Bank – Diagnostic and Needs Assessment of the

Revenue Administration Jan. 29, 2010

EU Support to Revenue Service of Ministry of Finance in Area of Customs (Blueprint Report) October 5, 2010

RS Tax Code

RS Customs Regulations

RS Organization Chart

RS Structure and Functions

MoF Training Academy - Courses Given/Proposed

Georgia ASYCUDA project document

Ministry of Finance, Fiscal Investigations Unit ppt.

GAO Report - Georgia IPR

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