

Project Report

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Overview and Critical Assessment of the Customs System

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1. Background, Goal, and Objectives

Afghanistan is highly dependent on imports and exports. The Customs system plays an instrumental role in both facilitating and curtailing transfer of goods between Afghan traders and their customers or suppliers in adjacent countries. In addition, a functional Customs system with minimal or no leakage in revenue collection can be a reliable and sustainable source of funds for the Government of Afghanistan. Recognizing the importance of a fully functional Customs system as a source of government revenue and a means to enforce security and rule of law, efforts have been made by a long list of international donors to modernize and systematize the Customs systems in Afghanistan.¹

The most recent major effort by the Government and the international donors in streamlining the Customs system is articulated in the Five Year Strategic Plan (2007-2012).² The key areas of intervention include (re-)organization of the Customs system's workforce, protection of Customs system's users, i.e., traders, improvement in infrastructure and equipment, and rationalization of laws, procedures, and automated processes to minimize contact between Customs and other government officers and traders so as to minimize rent seeking opportunities and corruption. The added advantage of a functioning Customs system is minimization and control of smuggling goods including narcotics and hazardous materials.

This research was carried out in early to mid-2011, around 3.5 years after the inception of the Five Year Strategic Plan. The main goal for this research was to assess the impact of the changes made since the Plan came into effect and to identify pathways for future planning and programming in attempts to institute a fully functioning Customs system. The rationale for this research was that informed decision making on further improvements to the system needs to be based on a close examination of what has been accomplished to date and the identification of the barriers and bottlenecks that Afghan traders continue to face in moving merchandise to and from the border entry points. To this end this research sought to meet the following objectives:

1. Identify and document system changes introduced since 2001
2. Identify and document the current gaps and loopholes in the Customs system that undermine smooth cross border trade – including mechanisms adopted by the Customs system to counteract or circumvent already implemented reforms
3. Identify the available resources to address the most pressing needs for more efficient and transparent cross border trade
4. Identify and document the roles that can be played by private and public sectors to facilitate the transition to a modernized and transparent Customs system, and
5. Compile a report that contains detailed process descriptions and recommendations for future interventions aimed at improving the Customs system.

Ongoing work by APPRO has examined the interface between formal / governmental actors and

¹ The list includes Asian Development Bank, DfID, EU Commission, German Government, Italian Government, Iranian Government, Japanese Government, USAID, and the World Bank.

² Government of Afghanistan (2007). *Afghanistan Customs Department (ACD): A Five Year Strategic Plan (2007-2012)*, (Kabul: Ministry of Finance, Government of Afghanistan).

local Customs personnel charged with operating the Customs system at various key border locations. This study adds to this body of knowledge through highlighting some of the key issues that need to be addressed and possible actions that may be taken by private and public sectors to address them so as to facilitate and increase trade by Afghan traders and entrepreneurs in the markets of adjacent countries.

This study focused on three entry points for the movement of goods into and out of Afghanistan: Torkham (Nangarhar), Hairatan (Balkh), and Islam Qala (Herat). These points account for the bulk of ground traffic in goods and have been at the forefront of Government and donor efforts to reform the Customs system.

2. Methodology

The research aimed to undertake the following activities:

- A review of the existing reports on Customs reform since 2001 to highlight the key reform milestones
- Interviews with key actors from relevant governmental bodies and international donors involved in Customs reform to collect data on the perceived needs for system reform and future plans
- Interviews with at least 10 random individual traders at each location who cross border entry points on a regular basis, and
- Embedding an APPRO researcher to travel with a consignment from outside of Afghanistan into Afghanistan so as to document the actual process of goods importation.

Three teams of two researchers were located in Torkham, Hairatan, and Islam Qala for a period of two weeks to observe the process of goods shipment and carry out data collection through interviewing truck drivers, traders, and Customs and other border officials. In the course of research it was deemed inappropriate and unsafe to embed researchers to travel with goods consignments into Afghanistan and thus the last activity in the above list was not fulfilled. The remaining activities provided sufficient information for generating this report, however.

This remainder of this report is structured as follows. The next section provides an overview of the reforms in the Customs system to identify some of the key remaining challenges according to the information available from secondary sources. Section 4 reports on the findings from the field visits to Hairatan (bordering Uzbekistan), Islam Qala (bordering Iran), and Torkham (bordering Pakistan). Section 5 concludes with a list of recommendations for policy, future plans, and further monitoring and research.

3. Customs Reform Since 2001

A functional Customs system is a reliable source for government revenue generation. Recognizing this, international donor programming on the reconstruction of Afghanistan since 2002 has placed particular emphasis on improving and expanding Customs facilities and practices at major border crossing points. In 2003 the Customs Department of the Ministry of Finance introduced a *Single Administrative Document* system pilot programme, based on the

European Union's Customs system, in the five key provinces of Kabul, Herat, Kandahar, Mazar-e-Sharif, and Nangarhar.³ In 2005 work began to implement the Automated System for Customs Data (ASYCUDA), which is currently ongoing. The Five Year Master Plan of the Afghan Customs Department (of the Ministry of Finance) reports an estimated total project expenditure of 202 million USD for strengthening and expanding the Customs system.⁴ Key areas of intervention and reform according to this Plan are minimizing leakage in revenue collection through rationalization of laws, procedures, and automated processes to facilitate clearance of goods and minimize corruption among system users and operators.⁵

Two key elements in this reform process are the expressed intent to form partnerships with traders through which to encourage voluntary compliance to laws and, secondly, to improve the internal organization of the Customs system focusing on effective and efficient structures, logical definition of roles, fair recruitment system, service conditions, accountability, conduct and disciplinary rules, training support, and built-in mechanisms for the promotion of ethics among the staff.⁶ Other areas of focus highlighted in the Plan include protection of customers, interdiction of dangerous goods, collaboration with fiscal audits, collection of taxes at source, and expansion of physical structures for Customs operation.

According to the Five Year Strategic Plan, some of the key achievements since 2003 in reforming the Customs system include the construction of infrastructure facilities at major border points, enactment of a modern Customs legislation, harmonized system for the classification and coding of goods, development of a single Customs Form for Customs declarations, ASYCUDA adopted from UNCTAD, computerization of transit procedure through the phased implementation of ASYCUDA commencing in 2005, import-related exemptions policy and procedures, automated data collection and production of customs statistics, Customs brokers programme, and acquisition of IT and other equipment and uniforms.

There remain major basic challenges, however, at Customs facilities even at important border points such as Torkham, Islam Qala, and Hairatan. These include lack of electricity and/or generators or lack of fuel for generators, lack of adequate running water and sanitary facilities, low salaries of Customs staff, and deteriorating security (and the emergence of a parallel, "shadow" Customs system). The use of the new physical infrastructure and buildings being built to serve Customs purposes are sometimes contested by other governmental bodies such as the border police who also have needs for better functioning physical structures. In addition to Customs officials, present at major border entry points are the border police, Ministry of Commerce and Industry (MoCI) which owns much of the land around important Customs points and collects duty of selected goods entering the country, Ministry of Interior (MoI) whose function is to sequester intelligence equipment, Ministry of Culture which vets contents of written materials entering the country, Ministry of Public Health which checks the standard of

³ Altai Consulting (2007). *Challenges Presented by the Legal and Regulatory Framework Governing Private Sector, For-profit Activity* – Background paper prepared for the "Enabling Environment Conference", organized by Aga Khan Development Network in August 2007, Kabul, Afghanistan. Also, Department of State (2009). *Doing Business in Afghanistan: 2009 Country Commercial Guide for U.S. Companies*. (Washington DC: United States Government).

⁴ ACD (2007). *Afghan Customs Department: A Five Year Strategic Plan (2007-12)*. (Kabul: Government of Afghanistan).

⁵ (ACD 2007:4).

⁶ (ACD 2007).

imported medical goods, provincial governor's representatives – particularly in Jalalabad where the Governor has stationed around 20 people who impose a “development” levy on goods entering from Pakistan, Afghanistan National Standard Association which checks quality of various goods to ensure compliance with international standards and Ministry of Agriculture, Irrigation and Livestock (MAIL) which checks all imports of flora.

Rumours run rife at various border points about the widespread corruption running through the operations of these various entities and little or no opportunity for registering complaints or having complaints addressed in a timely and just manner. There is little faith in the ability of Customs system to fulfill its mandate of managing and overseeing the day to day working of the Customs' and related workforce, ensuring that corruption is checked, and that the Customs charges are applied consistently, fairly, transparently, and diligently. The implementation of ASYCUDA since 2005 has streamlined the Customs procedures to four steps taking an average time of around 90 minutes to complete. Part of the ASYCUDA system is a comprehensive list of 6,000 codes for all manner of goods so as to enter them into the computerized system and apply the relevant fee. This, together with X-ray facilities at Torkham and Islam Qala (but not yet at Hairatan) should make for an efficient system of checking cargo and registration while applying standardized fees. However, as the findings from this study show, the implementation of the ASYCUDA and other projects to structure and modernize the Customs system, and the adoption of legislation in accordance with international practices must be viewed as the start of a longer process of physical and human capacity development to ensure that the new physical structures and work procedures, technologies, and legislation are appropriately allocated, learned, and applied consistently and with effective oversight mechanisms.

Other deficiencies include lack of adequately trained personnel to collect and analyze Customs data and to generate reports to inform further reform and improvements in the system. Conflicting mandates and/or jurisdictions of the Ministry of Interior, Ministry of Commerce and Industry and other governmental (and sometimes local and non-governmental) entities also continue to undermine the speed and effectiveness of the reform process while increasing transaction costs formally and informally (through various forms of extortion) for traders. In some cases the ACD border staff does not even have sufficient capacity and authority to maintain the use of infrastructure designated for use by Customs personnel.

Regardless of these and other monumental challenges, the Customs system has seen a marked improvement in its overall functionality and ability to collect and transfer revenues to the Government. Customs revenues increased from 50 million USD in 2004 to more than 399 million USD in 2008, for example, an increase of more than 700 percent in five years.⁷ For 2011 the estimated revenue from Customs operations is around one billion USD.⁸ At their current rates, Customs revenues constitute well over half of all Government revenues while the waiting time for trucks at major border crossings has decreased significantly.⁹ For example, over 90 percent of trucks at Torkham are cleared in less than 1.5 hours, compared to 18 hours in 2003.¹⁰ The

⁷ IDA (2011). International Development Association of the World Bank, available at: <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:22311336~menuPK:4752068~pagePK:51236175~piPK:437394~theSitePK:73154,00.html>

⁸ Customs key informant, Kabul, May 2011.

⁹ ACD (2007), page 9.

¹⁰ IDA (2011).

broad goals of the Customs reform programme are to increase revenue, standardize report generation, increase speed in cargo processing, and generate complete documentation. The details of specific programmes and projects to meet these objectives are summarized in Table 1, below.

Table 1. Customs Reform Programmes and Objectives

Program	Projects
Program 1 – Automation	Project 1: Implementation of Transit and Declaration Processing at Major Customs Stations Project 2: Full Implementation of all ASYCUDA Modules Project 3: Training for Operations Project 4: MIS and other Revenue Reporting Systems of ASYCUDA Project 5: Full Internationalization Project 6: Procurement of Necessary ASYCUDA IT Equipment Project 7: Cross-border Data Exchange Project 8: ACD’s ICT Master Plan Project 9: Establishment of Risk Management Unit
Program 2 – Legalization and Procedures	Project 1: Legislative Reform Project 2: Finalizing Sub-legislation Project 3: Procedures for Supporting Automation Project 4: Checking Revenue Leakages and Tax Fraud Project 5: Reform of Internal Audit Directorate Project 6: Formulation of Effective Valuation Database Project 7: Implementation of Valuation Best Practices Project 8: Transit Corridors Improvement Project 9: Development of Warehousing Procedures and System Project 10: Customs Brokers Program Project 11: Reform Policy and Coordination
Program 3 – Enforcement and Voluntary Compliance	Project 1: Preventive and Enforcement Wing Reforms Project 2: Anti-smuggling Reforms with a Focus on Contrabands Project 3: Investigations and Prosecution Wing Project 4: Borderline Surveillance Project 5: Establishment of a Modern Intelligence Unit
Program 4 – Human Resource and Organization Development	Project 1: Salary System Reform Project 2: Incentives/Bonuses/Rewards Reform Project 3: Human Resources Policy Reform Project 4: Internal Affairs and Integrity Project 5: Establishment of New Support Units Project 6: Training Policy and Training Schedule Project 7: Modern Customs Training Institute Project 8: Train the Trainers Project 9: Refresher and Specialized Training Courses Project 10: Foreign Training Program Project 11: Human Resources Funding Project 12: Human Capital Development Management Capacity Building
Program 5 – Infrastructure and Equipment	Project 1: Construction or Development of ICDs and Regional Headquarters Project 2: Construction or Development of Border Stations and Customs Training Institute Project 3: Establishment of Inventory Management and Maintenance Unit Project 4: Establishment of Infrastructure Management Unit Project 5: Establishment of Structure for Cargo Handling Project 6: Surveillance Equipment
Program 6 – Legal Reform	Project 1: Establishment of Legal / Litigation Support Office Project 2: Establishment of Support Appeals and Arbitration Unit
Program 7 – Business Partnership	Project 1: Help Line and Media Coordination Unit at ACD Headquarters Project 2: Website Development Project 3: Establishment of an Ombudsman Program and Increased Capacity of Consultative Council (with Trade) Project 4: Establishment of a Hot Line at ACD Headquarters

Source: ACD (2007).

Despite the numerous programmes (Table 1) and widely publicized successes by international donors and the Government in building the Customs system in Afghanistan, the view from outside the country and the advice to those wishing to do business in Afghanistan is rather

skeptical, cautionary, and contradictory to the stated accomplishments:

Although there is a focused Afghan and donor country effort to improve facilities and practices at the major border crossing points, the customs regulations and procedures in Afghanistan are neither transparent nor consistent. Coordination between customs and other government authorities is minimal, customs officials receive minimal training, and infrastructure is still 2 to 3 years from being fully upgraded. Traders face unclear procedures at the borders as well as significant delays, extra-legal duties, and bureaucratic obstructions. Corruption is a significant problem.¹¹

A clear and practical implication of this view is a general weakening and unpredictability in flows of desperately needed foreign direct investment in Afghanistan.

4. Key Findings from Hairatan, Islam Qala, and Torkham

For this study a total of 27 individual traders, brokers (commissioners), and Customs officials at the three border points and Kabul were interviewed while a focus group discussion was held in Kabul with 14 traders to verify the findings from the field visits and interviews. The remainder of this section reports and elaborates on the key findings from these interviews generally and then specifically and in relation to each of the three cites of this study.

The group of traders who participated in the Kabul focus group discussion made a number of complaints about inconsistencies and the high level of corruption in the Customs system. For example,

Depending on the point of entry, different rates of duty are applied to the same imports. It is as if the head of Customs is the self-appointed Minister of Finance. In Herat the duty for one ton of goods could be 560 Afghani whereas in Mazar it could be 760. If this is one country with one Ministry of Finance, then the rates should be the same at all entry points.¹²

The sentiment shared by many of the traders interviewed at the three border points was that they did not mind paying fees on the condition that there was consistency in the system and the levels charged and that the proceeds would go to the Government as verified through properly prepared documentation:

We don't mind paying fees, but we prefer it to go through official channels to the Government and not to anyone who has the power to take it from us.¹³

At the same time, there appears to be resentment and even anger among the traders about being made the victims of success by the Ministry of Finance which, the traders argue, has prioritized raising revenue over the wellbeing of the traders and their contributions to the economy of the country and reconstruction.

The traders interviewed in Kabul and at the three border entry points cited numerous examples

¹¹ Department of State (2009: Chapter 5).

¹² Kabul Focus Group Discussion, April 2011.

¹³ Focus Group Discussion, Kabul, April 2011.

of extortion by senior and other Customs officials who allegedly demand a fee depending on the size and type of imported goods.¹⁴ If the trader is willing and able to pay, the consignment passes through the system without delay. If not, the goods are impounded, sometimes for up to a month, at the border to wait their turn to be processed. Inspection of the goods consists of offloading everything from the container truck, inspecting it with the risk of loss and damage, uploading it (also with the risk of loss and damage), and then allowing the goods to pass through.¹⁵ Smaller bribes are requested throughout the process of inspection. According to one trader,

This whole system is unfair. When duty rates are decided there is no consultation with the traders or their representatives.... No one can solve this problem because a lot of these Customs officers have purchased their jobs and are obliged to act in a corrupt manner to recoup their investment.¹⁶

For traders who wish to minimize their discomfort and to go through the Customs procedures expeditiously, there are komishenkars (brokers or middlemen) who are, allegedly, appointed by the senior officials at Customs points. Typically, the komishenkars charge between 1,400 – 1,800 Afghanis per truck, not counting all other gratuity or bribe monies that the traders are expected to pay the various officials while the komishenkar is going through the process. Traders who go through the process are expected to pay a formal charge of 1,800 Afghanis for the T1 Form and between 200-300 Afghanis for the “Tashrihnameh” (description document). Many traders pay closer to around 6,000 Afghanis and complain that they can only show receipt for part of the costs they incur in coming through the Customs system.¹⁷ All allegations about extortion and bribe expectancy by Customs and other officials are vehemently denied, however.¹⁸

Getting through the Customs is the first in a series of challenges faced by traders who then have to move the goods to Kabul. From all three border points to Kabul there are “layers” of police checkpoints who, reportedly, demand a fee to allow the trucks to continue on to Kabul. There is no insurance system for protecting cargo in Afghanistan. The losses incurred by the traders when their perishables are spoiled during retaliatory inspections by Customs officers are not covered while many traders are risk averse and shy away from trading in large volumes for fear of paying higher bribes or having their goods stolen and various points of the journey from the border to Kabul.

None of the traders reported facing problems with transit and Customs procedures beyond Islam Qala or Hairatan. Numerous problems were reported with shipments through Pakistan to

¹⁴ Reportedly, the “normal” bribe for trucks is 250 USD for carrying cement, 110 USD for timber, 100 USD for potatoes, and 90 USD for petroleum gas. See ADB (2008), “Afghanistan’s Trade with CAREC Neighbours: Evidence from Surveys of Border Crossing Points in Hairatan and Sher Khan Bandar”. (Kabul: Asian Development Bank). Conceivably, high value electric and electronic products would incur higher bribes.

¹⁵ Interview with traders at Islam Qala, February 2011.

¹⁶ Focus Group Discussion, Kabul, April 2011

¹⁷ One trader at Islam Qala claimed that he paid anything ranging from 100 to 20,000 Afghanis depending on the type and size of his cargo.

¹⁸ ADB (2008). The interviews held with officials in the course of this study also confirm this.

Torkham from Karachi, however.

4.1 Hairatan

The traders and other key informants interviewed at Hairatan and in Mazar-e Sharif reported paying informal fees (or bribes) of up to 5,000 Afghanis per container truck to get through the first inspection point so that the contents can be valued and fees payable calculated. Passage through Mazar-e Sharif also involves the payment of haqul ubor of between 1,800 to 2,000 Afghanis, charged by the municipality. If a trader wishes to pay less in Customs charges, it is at this point where negotiations begin about the value of the cargo. High value cargos are routinely undervalued at traders' request so as to minimize payable Customs fees. The officer(s) who assist the traders by undervaluing the contents are given a share of the savings made through contents being undervalued.

When asked for the reasons for high level of corruption in the Afghan Customs system, the response was that Customs officials become corrupted because they are poorly paid and because the system so corrupt that it is difficult for honest personnel to last when surrounded by corrupt peers and a deeply rooted culture of extortion. According one trader,

One this side of the border [in Afghanistan] we are requested to pay bribes by the Customs people and the [border] police, who are just looking for an excuse. Even when we have no problems with our paperwork, we are told that since we are importing so much we should give them a little as their share.¹⁹

Bribes are also willingly paid by traders who want their cargo moved quickly through the Custom procedures:

Once I am in Afghanistan, I offer to pay bribes because I know that I can speed up the process, and get my goods to their destination within one or two days.²⁰

In contrast, there are very few problems with bribery and loss of goods while goods transit through Uzbekistan and Tajikistan on their way to Hairatan. All traders were adamant that problems for shipments begin from the point of entry into Afghanistan. The only situation where there is a possibility of bribe payment outside of Afghanistan is when transit paperwork is incomplete or inadequately administered.

The route from Hairatan to Mazar-e Sharif and then on to Kabul remains relatively safe and free of harassment. The various key informants interviewed for this study reported no concerns regarding extortion or the security of their shipments en route to Kabul from Mazar-e Sharif. There are, however, fees of payable for the right of passage through Mazar-e Sharif (300 Afghanis) and when arriving in Kabul (250 Afghanis).

¹⁹ Interview with a trader in Mazar-e Sharif, February 2011.

²⁰ Interview with a trader in Hairatan, February 2011.

4.2 Islam Qala

Traders are charged 1,800 Afghanis for obtaining the T1 Form and 2-300 Afghanis for obtaining the Tashrih. However, with various types of other unofficial charges and the use of komishenkars, the traders typically pay around 6,000 Afghanis to have their importation paperwork completed. Unofficial right of passage fees are charged on cargo coming from Islam Qala to Herat. As one trader put it,

If you travel 5 kilometers away from Islam Qala toward Kabul, you see all these people standing on the road with their shalwar chemise clothing and asking for money. They have no right to do this only power to extort money.

According to traders interviewed in Islam Qala there are various excuses used by officials to extort bribes from the traders for amounts ranging from 100 to 20,000 or more Afghanis.²¹ The traders who import vehicles and decide to drive them to Kabul for registration are harassed by officials for not having plates despite the fact that the documentation for the vehicles is in order. This situation is often resolved through the payment of bribes.

The route from Herat to Kabul is particularly unsafe and, reportedly, there are official and unofficial checkpoints to collect illegal right of way fees from the trucks. Some of these checkpoints even issue their own receipts to the drivers while many drivers insist on paying and obtaining the receipts so as to insure themselves the right of passage through further checkpoints or for when they return on the same route. Goods entering to Afghanistan through Zaranj also pay a fee at the Delaram T-junction where the Taliban have a checkpoint and charge a duty based on the number of tires on the trucks. The usual price is 1,000 Afghanis per tire.²² A number of the traders interviewed expressed a wish for insurance cover for their goods while en route from Islam Qala to Kabul.

4.3 Torkham

A number of the focus group participants objected to being charged multiple times and for different reasons, arguing that if a Customs fee is applied at the point of entry, then there is no rationale for paying an extra “development” charge in Torkham, imposed by the Governor’s office, or for “haq ulobur” charged by the municipality, or at the various entry points to Kabul. Traders pay 16,500 Afghanis, which includes a fee for the komishenkar, to obtain a T1 Form to import the goods and 1,000 Afghanis by the provincial government as development fee. On completion of the paperwork the traders are expected to give about 100 Afghanis to the processing officer as “bakhshish”.

The main objection by the traders using Torkham as entry point was not receiving receipts or being given inadequate documentation explaining the charge and the reasons for it. Despite the various facilities provided by the ASYCUDA system for applying the correct duty and generating receipts, there are complaints that the pricing departments at border points impose arbitrary

²¹ Interviews with traders in Islam Qala (February 2011).

²² Interview with traders in Islam Qala (February 2011) and with a Customs official in Kabul (June 2011).

codes and prices to the goods entering the country.

En route to Kabul, trucks are often stopped by the police and asked to pay an unofficial passage fee. The fee ranges from 30 to 200 Afghanis for “cigarette and snuff” money. When entering Kabul, an informal fee is paid to the traffic police so as to gain permission for transiting heavy loads. If fines are imposed on truck drivers while in Kabul, receipts are not always provided.²³ When in Kabul, the trucks are impounded in designated storage areas so as to lessen the level of traffic in the city. For each night of impoundment, the trucks have to pay around 250 Afghanis each, which amounts to a small fortune considering that around 3,000 – 5,000 trucks enter Kabul every day.²⁴ The traders who have their own storage facilities are legally not allowed to use them instead of the designated storage areas.

The amount of imported goods into Afghanistan, particularly of electrical and electronic goods, far exceeds the domestic demand. The reason for this is the lucrative and informal re-exportation system in operation around Torkham, which takes advantage of the high duties charged on imported goods in Pakistan. Significant Volume of electrical and electronic goods, clothes, DVDs, CDs, tea, and drugs imported into Afghanistan through Torkham are re-exported back to Pakistan through border villages such as Garoko, Durbaba, and Shalman and sold at premium prices.²⁵ The amount of illegally imported goods into Afghanistan is estimated at 20% of the total. The entry ports for illegal importation are Lalpoora, Gowshta, Garoky, Kama, Chachobi, and Achin.²⁶

Afghan traders operating through Pakistan face a number of obstacles en route from the port of Karachi to Torkham. Goods that remain in Karachi because of insufficient documentation or because of high bribes sought by Pakistani Customs officials, have to pay storage fees, “demerge”, which sometimes can be as high as one to 1.5 million Kaldars. Also, recently the Government of Pakistan set up a government owned and operated transportation company, NLC, tasked for the transportation for in-transit goods destined for Afghanistan from Karachi. The Afghan traders are no longer allowed to arrange their own in-transit operations and are compelled to use NLC. Reportedly NLC does not have sufficient trucks to accommodate the high volume of in-transit goods. Also, the trains used for transporting the in-transit goods cannot accommodate heavy goods such as cars and other heavy vehicles. Along the way, the heavy goods are offloaded by NLC and transported by NLC trucks. The result for Afghan traders is increased delay in movement of imports from Karachi to Torkham and incurring multiple storage fees.²⁷

4.4 Summary

Reportedly, the new and very modern Customs system established by the Government of Afghanistan with significant support from the international donors is the source of envy for all

²³ Interview with traders in Torkham, February 2011.

²⁴ Focus Group Discussion participant, Kabul, April 2011.

²⁵ Interview with traders and Customs officials in Torkham (February 2011) and interview with Customs official in Kabul (June 2011)

²⁶ Interview with Customs officials in Torkham (February 2011).

²⁷ Interviews with traders in Torkham (February 2011).

the neighbouring countries. Despite the various facilities provided by the ASYCUDA system for applying the correct duty and generating receipts, there are complaints that the pricing departments at border points impose arbitrary codes and prices to the goods entering the country. The problems of the Customs system are mostly to do with widespread corruption, lack of clarity among the system's users in relation to the fees charged, and little recourse for the users to express maltreatment.

None of the key informants, largely traders, interviewed for this assessment alluded to problems with transiting their goods through Uzbekistan or Iran. There a number of significant issues faced by the traders who transit through Pakistan, however, as described above in relation to Torkham port of entry. Afghan traders face most their main challenges within Afghanistan. In addition to endemic bribes payable by the traders, the other main challenges for Afghan traders are best summed up by an official from Afghanistan Chamber of Commerce and Industry, who stated that

There is no insurance system in our country. This is a serious problem for us [given the security risks]. Afghan traders are not realizing their full potential for a number of very important reasons. Outside Afghanistan they have visa problems and difficulty in negotiating with foreign traders because we [Afghan traders] have very little experience of working in international markets and we don't have appropriate knowledge and education about trade. Another issue is the inadequacy in how the Government charges its various fees. For example, there are multiple charges imposed on many imported goods. First, there is a charge at the port of entry and then at the end of the year there is another charge imposed by the Ministry of Finance [as tax]. Our traders are not clear as to why they are paying these charges.

Similarly, a few traders stated that these challenges were compounded by the negative attitude and approach prevalent among many Afghan traders who, out of desperation, opt for sub-quality imports to minimize risks.

A large factor to be considered in understanding the high level of corruption in the Customs system is the very low salaries of the Customs system employees. Rumours are rife about Customs jobs being sold and excessive corruption taking hold as the means to extort money and pay for the debt incurred to buy a Customs job. Even when all paperwork is in order, the traders are asked to pay something since they are carrying significant amounts of cargo and, presumably, have access to lots of money.

5. Conclusion and Recommendations

Afghanistan has currently one of the best systems (ASYCUDA) for managing exports and imports, mostly adequate buildings, and good procedures. The main weaknesses of the system are low human capital, endemic corruption, and bad management. Reportedly, most managers opt for training trips in various countries but do not appear to benefit from the training in terms carrying out their duties.

The heavily funded project to build Afghanistan's Customs system is likely to be a slow process. The duty system has to be priced reasonably so as to encourage importers to go through the system rather than outside it. Serious attempts, through ongoing reform and increased

oversight for example, need to be made to minimize and manage bribery. It is widely recognized that the high rate of bribery is for the most part a function of the poor level of salaries for Customs employees. Without adequate and sufficient remuneration, “it is hard to be honest”.²⁸ Customs employees are reportedly afraid of acting against corruption because of threats of retaliation by corrupted fellow workers.²⁹

If it is not possible to increase salaries immediately, other innovative incentives need to be deployed to bring bribery under control. For example, a Customs official suggested that when contraband goods are caught, up to 20% of the value of the seized goods should be given as reward to the Customs employee who has discovered the contraband goods.

Other forms of assistance provided to increase the capacity and capability of Customs employees, such as appointing international advisors at ports of entry, should be done more carefully. To illustrate, a Customs official stated that there was not much point in appointing a female Customs officer from a far away country with no similarities to the Afghan context at one of the ports in Afghanistan since the likelihood of skills transfer is minimal.

There is an appeal system at the main Customs ports. If the complainants are not satisfied with duty assessment, they can go to the Customs Appeal Board in Kabul. Ultimately, complainants can take their cases to the court. Few traders are willing to make an appeal and opt, instead, in resolving their problems through the payment of bribes.

The actual procedures used in the Customs system are different than regulations. For example, the ASYCUDA system does not require signature for its online forms but Customs inspectors often ask for signatures on forms, a practice prevalent through all official bodies in Afghanistan.

Duty charges need to be enticing enough to keep the importers coming through legal channels so that the Government continues to collect Customs revenue. Once the acceptable threshold for duty levels is passed and the duty is deemed too high, the licit importer is tempted to go through informal / illegal channels.

Recommendations

- Continue the building and modernization of Customs infrastructure
- Continue efforts to implement / enforce Customs law and related regulations and procedures and devise ways of minimizing arbitrariness in the practices of Customs personnel
- Continue efforts to increase the integrity, independence, and authority of the Customs system in relation to other governmental agencies active in border areas
- Raise salary and/or other forms of remuneration for Customs staff to retain experienced staff and minimize willingness to extract bribes
- Work toward instituting a fully functioning oversight mechanism to include monitoring, evaluation, and periodic audits
- Continue to build cooperation and harmonization with neighbouring countries as a necessary component in preparing Afghanistan to obtain membership of free trade agreements regionally and internationally

²⁸ Customs official, Kabul, June 2011.

²⁹ *Ibid.*

Key Informants

#	Name	Location	Position	Interview Date
1	XXXX	Hairatan	Representative of trader	February 2011
2	XXXX	Hairatan	Commissioner (fixer)	February 2011
3	XXXX	Hairatan	Customs Warehouse Mgr.	February 2011
4	XXXX	Hairatan	Representative of trader	February 2011
5	XXXX	Hairatan	Representative of Trader	February 2011
6	XXXX	Hairatan	Trader	February 2011
7	XXXX	Hairatan	Representative of Trader	February 2011
8	XXXX	Mazar-e Sharif	Trader	February 2011
9	XXXX	Mazar-e Sharif	Representative of Trader	February 2011
10	XXXX	Mazar-e Sharif	Representative of Trader	February 2011
11	XXXX	Islam Qala	Trader	February 2011
12	XXXX	Islam Qala	Representative of Trader	February 2011
13	XXXX	Islam Qala	Representative of Trader	February 2011
14	XXXX	Islam Qala	Representative of Trader	February 2011
15	XXXX	Islam Qala	Trader	February 2011
16	XXXX	Herat	Trader	February 2011
17	XXXX	Herat	Trader	February 2011
18	XXXX	Herat	Representative of Trader	February 2011
19	XXXX	Herat	Trader	February 2011
20	XXXX	Torkham	Trader	May 2011
21	XXXX	Kabul	Trader	April 2011
22	XXXX	Kabul	Trader	April 2011
23	XXXX	Kabul	Trader	April 2011
24	XXXX	Kabul	Trader	April 2011
25	XXXX	Kabul	Trader	April 2011
26	XXXX	Kabul	Trader	April 2011
27	XXXX	Kabul	Trader	April 2011
28	XXXX	Kabul	Trader	April 2011
29	XXXX	Kabul	Trader	April 2011
30	XXXX	Kabul	Trader	April 2011
31	XXXX	Kabul	Trader	April 2011
32	XXXX	Kabul	Trader	April 2011
33	XXXX	Kabul	Trader	April 2011
34	XXXX	Kabul	Trader	April 2011
35	XXXX	Torkham	Trader	May 2011
36	XXXX	Torkham	Trader	May 2011
37	XXXX	Torkham	Representative of Trader	May 2011
38	XXXX	Torkham	Trader	May 2011
39	XXXX	Torkham	Representative of Trader	May 2011
40	XXXX	Jalalabad	Trader	May 2011
41	XXXX	Kabul	Customs Expert	June 2011