Raising Revenue through Fighting Corruption in Customs

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Except where estimates have been derived using public information, for reasons for confidentiality, many estimates in this presentation represent aggregates or have been scaled to avoid identification of the country by trade size. To avoid misunderstandings, do not cite or reproduce this presentation.
Figure 4: $700 billion in customs corruption

Developing Country Sources
- Higher valuations: $600-$800m
- No fear to import: $35-$60m
- Recoveries: $20-$35m
- Shoe leather costs: $15-$20m

Developed Countries
- More trade at lower prices: $200m-$400m

Fighting corruption big revenue generator – but can be hugely regressive tax
Making Money on Anti-Corruption in Carpatistan

- Cases up by est. 42% through risk profiling – avoiding documents work
- Revenues were up by 33% even though imports down by 33%

Key: AC Implementing Regulation
Provides competencies for Intl Affairs, Admin Remedies
Procedures implementing Intl Anti-Corruption Law

Recession can create political will for fighting corruption
Finding the Pockets of Corruption....

The wage myth
“EU team” paid $3500 more than control, brought in about $7,000 each. Wage reflects, not determines, productivity.

At heart of fight against endemic corruption is $p^X$

- 18% prob of infract. with $6m at risk
- 32% prob of infract. with $3m at risk
- 7% prob of infract. with $600m at risk
Tracing Corruption Pockets to People

99.9% probability of engaging in Customs offences

62.7% probability of engaging in corruption

Can be done in minutes and help protect billions in revenue…
Anti-Corruption isn't only about Intel anymore... data from Carpatistan

The Scorecard

<table>
<thead>
<tr>
<th></th>
<th>Quants</th>
<th>Intel guys</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff</td>
<td>3</td>
<td>25</td>
</tr>
<tr>
<td>Cost per audit</td>
<td>$250</td>
<td>$4,000</td>
</tr>
<tr>
<td>Ave. value per per.</td>
<td>$70,000</td>
<td>$4,000</td>
</tr>
<tr>
<td>Time per hit</td>
<td>36 mins</td>
<td>24 days</td>
</tr>
<tr>
<td>Hit-to-audit ratio</td>
<td>67%</td>
<td>84%</td>
</tr>
</tbody>
</table>

Intel guys got tough cases, “quants” got the numbers...
Maximising Revenue with Statistical Control

- Border inspections
- Mobile team search patterns
- Post-clearance audit controls

9% ID suspicious channel changes of course price and class.

18% more detections per month from same procedure as taxies use.

65% more “catches” from hypothesis testing.

Easy: trained about 300 serving officers to do statistics with Excel and own laptop…

Risk profiling is better than 100% “control” done by most customs agencies…
The Asset Declaration and Conflict of Interest Statements

- Put 1000s of declarations into Excel
- Find “outliers” and randomly sample
- Estimated reduction in Col by **$22 million**

Too squeamish for Ass. Declar. hits, got Col because they underestimated impact
Statistics in Internal Audit Function

- Investigatory methods often unable to catch bad guy
- Statistics used in internal audit procedures
  - find “outliers”
  - used in “packet” of evidence in criminal cases
  - high value in establish non-criminal guilt!

![Benford's Law in Customs Declarations](image)

- n₁ = 2432, n₂ = 542
- p-value of same distribution < .0001

In real world, normal dist. and power dist often should be observed
Using Network Analysis to Find Hidden Transactions

- Network methods can find collusion between auditees
- Calculate the probability related transactions under/over reported
- Find "pockets" of under-declared taxes (using same methods as banks use to trade on stockmarket)

Great for carousel frauds and cross-border corruption cases
Linking Intelligence-based to Statistics Based RM

- Software such as i2 helps make order of investigations
- each component decomposable (quantifiable)
- plot for trends **ACROSS CASES**
  - advanced techniques such as network (graph) analysis better than using trained eye
- The standard for organised crime and corruption cases...

"fishing" for corrupt customs officers better than waiting around...

Source: i2 Ltd. webpage

finding probability of someone with criminal links
Support the AC Effort with Administrative Regulations

Trend is toward criminalisation…
UN Convention, OECD Convention and CoE (ETS 192)

…but admin law will win the battle
- disciplinary offences for 50% prob of engaging in corruption
- punitive and preventive rotation
- fines for damages
- respondeat superior
- qui tam (wow! skip this now)

identified 1000s of suspects at one go…

Admin law turns risk profiling into action…
Elements of AC Implementing Law for Customs

- anti-corruption law
- conflict of interest law
- pieces of criminal law
- intl recs on intl co-op

Chap 7: Electronic Processing

Chap 12: Dealing with co-operation requests

Legal fetishism in most countries makes “just another law” useful…

Regulatory Impact

- $500k savings from non-compliance fines from DoA and CoI schemes
- $70k increased denouncements
- $4m value of catches from corruption
Regulating on International Cases

- **Corruption cases in corruption by definition international**
  - Intl conventions (UN Convention and ETS 182) often for co-operation
  - but have national laws already in place
  - write regulations “around” those laws
- **And what about money?**

| Parties shall not claim from each other the refund of any costs resulting from the application of this Convention | = no co-operation |

**EU Parties:** Bring your own everything (translator, admin and logistics staff, expert staff, even sometimes paper and printers) *Indeed, if you can leave stuff behind, it will be appreciated.*

**A+ ENP:** Don’t be proud, tell the team coming they need to BYOB.

*art 34f “The Investigative Department is allowed to recruit on a contractual or on a pro-bono basis expert advice from a foreign country with the permission of the Director”*
How Can the WCO Help?

Time for a Model Regulation?

corpus of regulatory practice now adopted by most WCO states

Revised Arusha is abstract and not-binding

need procedures to implement effectively

Work of Inspectorate
Admin sanctions
Internal Audit
Rules on inl coop

Drafting committee and then monitoring committee

Should corruption be part of def of safe trade?