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Johannes Malminen & Johan Tejpar

Guns and Butter

Customs in Security Sector Reform

Cover image: Customs clearance at the Afghan-Pakistani border. Photo by:
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Avdelningen för Försvarsanalys	Department of Defence Analysis
164 90 Stockholm	SE-164 90 Stockholm

Sammanfattning

Kopplingen mellan säkerhet och utveckling har blivit allt tydligare sedan kalla krigets slut. Konceptet säkerhetssektorreformer (SSR) har utvecklats som ett verktyg för att hantera återuppbyggnadsskedet efter en konflikt. SSR består av många delkomponenter. Tullen ingår i gränsövervakningskomponenten tillsammans med migrationsverk och gränspolis. Trots att tullen direkt hanterar både ekonomiska och säkerhetsfrågor har fokus inom gränsövervakningskomponenten hittills legat på migrations- och gränspolisuppgifter.

Syftet med denna rapport är att identifiera möjligheter och utmaningar med att stärka arbetet med tullverksamhet inom SSR. Resultaten visar att ökad tullkapacitet kan leda till många positiva effekter för både ekonomisk utveckling och säkerhet. Tullen är viktig eftersom den underlättar för internationell handel, bidrar till att bygga annan institutionell kapacitet och generar egenförvärvad statsinkomst som kan användas i statsbyggnadsprocessen. Genom att stärka tullprocesserna ökar också kontrollen av det internationella flödet av människor och varor, vilket ökar möjligheterna att hantera såväl traditionella som icke-traditionella hot. Exempelvis kan bättre kontroll av flödet av vapen och andra illegala varor minska möjligheterna att finansiera upprorsverksamhet.

För näringslivet har tullprocedurer länge varit en viktig faktor för att bedriva internationell handel, medan utvecklingssektorn är mer splittrad i frågan. Institutioner som arbetar med ekonomisk utveckling har ofta en policy för handelsprocedurer, men just tullen är en känslig fråga och betraktas i första hand som en nationell angelägenhet. En framgångsfaktor för att stärka tullens roll i SSR är ett koordinerat angreppssätt mellan utvecklings- och SSR-aktörer. Nationella tullmyndigheter behöver tydligare regeringsdirektiv för att verka för internationell kapacitetsuppbyggnad och SSR-aktörer behöver både mer kunskap om tullens betydelse i återuppbyggnadsarbetet och ett tydligt mandat att agera.

Nyckelord: säkerhetssektorreform, tull, ekonomisk utveckling, integrerad gränsövervakning, statsbyggnad, institutionell reform, internationell handel

Summary

After the end of the Cold War, the link between security and development became more obvious. The international community has developed the concept of Security Sector Reforms (SSR) as a tool for post-conflict reconstruction. SSR consists of several core areas. The Integrated Border Management (IBM) area consists of customs, migration services and border police. Although customs targets both the economic and security aspects of development, up until now IBM has focused primarily on border police and migration issues.

This report identifies opportunities to strengthen the role of customs in SSR. The study shows that increasing customs capacity in post-conflict countries could have positive implications for both security and economic development. Customs is an important institution because it facilitates international trade, contributes to capacity building and generates locally owned revenue that can be used in the state-building process. Strengthened customs procedures enable better control of cross-border flows of goods and people, which in turn have an impact on both traditional and non-traditional security. For example, better control of the smuggling of illegal goods limits the ability to finance insurgencies.

For private-sector companies, favorable customs procedures are critical to success in international trade. International development organizations have not prioritized this issue. Although they often have a trade facilitation agenda, customs is a sensitive topic and usually considered a national matter. A criterion for success in strengthening customs in SSR is a coordinated approach between SSR and development operators. National customs agencies need directives from their governments to engage in international capacity-building, while actors in SSR operations need more knowledge of the importance of customs in state building, as well as a clear mandate to take action in this area.

Keywords: security sector reform, customs, economic development, integrated border management, state building, institutional reform, international trade

Acknowledgements

While trade facilitation and customs reforms are established research areas in development economics, there is still only limited research on the role of customs in a post-conflict situation and as a component in Security Sector Reform (SSR). The Folke Bernadotte Academy recognized the importance of customs based on practical experiences in post-conflict situations, such as Kosovo, where self-generated customs revenue constitutes almost 90 percent of state income. Several of the stakeholders identified in this study find customs extremely important in doing international business and in order for a post-conflict economy to recover. However, their perception of customs is often that it is a technocratic field of primarily national concern. Simultaneously, it is difficult to get politicians and other institutions to devote sufficient resources to develop customs in the international arena.

Accordingly, the Folke Bernadotte Academy commissioned the Swedish Defence Research Agency (FOI) to study the role of customs in SSR and to write this report. This new field of study is interesting, timely and highly relevant. In Afghanistan, for example, the World Bank estimates that a \$32 million customs reform project increased cross-border trade from yearly \$2 to \$8 billion in six years, with customs revenue increasing from \$50 million to nearly \$400 million per year. At the same time, more weapons and illegal goods were captured and the competence of the staff increased.

This report has benefitted immensely from the insights and assistance of many people. First, we would like to thank Michaela Friberg Storey, Mikael Wilhelmsson and Monica Wulff of the Folke Bernadotte Academy for commissioning this study and sharing their practical experiences. We would also like to thank Johan Pontén, Anneli Wengelin, Mats Wicktor, Frank Svensson, Charlotte Svensson, Henrik Stiernblad, Sven-Åke Ström, Urban Sjöström, Christina Rahlén, Anders Liss, Lars Karlsson, Tell Hermanson, Richard Halltell, Paul Acda and our colleagues at FOI for their invaluable input and willingness to share their insights.

Abbreviations and Acronyms

AEO	Authorized Economic Operator
CBM	Co-ordinated Border Management
CPI	Corruption Perception Index
DAC	Development Assistance Committee
EU	European Union
GDP	Gross Domestic Product
IBM	Integrated Border Management
ICC	International Chamber of Commerce
ITP	International Training Program
LDC	Least Developed Countries
MDG	Millennium Development Goals
MFA	Ministry for Foreign Affairs
OECD	Organization for Economic Co-operation and Development
SALW	Small Arms and Light Weapons
Sida	Swedish International Development Cooperation Agency
SSR	Security Sector Reform
UN	United Nations
UNMIK	United Nations Interim Administration Mission in Kosovo
UNMIL	United Nations Mission in Liberia
VAT	Value Added Tax
WCO	World Customs Organization
WTO	World Trade Organization

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1 Introduction

Is customs a forgotten aspect of Security Sector Reform (SSR)?¹ The interconnection between security and development is now widely acknowledged both in policy and academic circles. More and more governments are looking at SSR as a mean of achieving both security and economic development in post-conflict countries. In the 2007 OECD “DAC handbook on security system reform – supporting security and justice”,² one of the nine core areas in SSR is Integrated Border Management (IBM).³

There are three elements in IBM – customs, border guards and immigration services.⁴ The core function of customs within IBM is providing fiscal services and enforcing restrictions of and registering goods crossing the border. Security is the primary purpose in building border management capacity in weak states; while the economic benefits of controlling cross border trade has been subordinate.

One reason for immigration services and border guards receiving more attention within IBM is that customs is unable to control the smuggling of goods and people in remote locations, such as mountain passes or coast lines. However, in order to achieve border security, customs is equally important. Without customs controlling trade flows, the work of immigration services and border guards will be impaired. The fiscal contribution of a well managed customs administration should not be underrated in a post-conflict situation, when state revenue is small

¹ The United Nations Security Council believes that SSR is “critical to the consolidation of peace and stability, promoting poverty reduction, rule of law and good governance, extending legitimate State authority, and preventing countries from relapsing into conflict”. As such, the Security Council “emphasizes that security sector reform must be context-driven and that the needs will vary from situation to situation. The Security Council encourages States to formulate their security sector reform programmes in a holistic way that encompasses strategic planning, institutional structures, resource management, operational capacity, civilian oversight and good governance. The Security Council emphasizes the need for a balanced realisation of all aspects of security sector reform, including institutional capacity, affordability, and sustainability of its programmes. The Security Council recognizes the interlinkages between security sector reform and other important factors of stabilization and reconstruction, such as transitional justice, disarmament, demobilisation, repatriation, reintegration and rehabilitation of former combatants, small arms and light weapons control, as well as gender equality, children and armed conflict and human rights issues”. Source: UN Security Council, 20 February 2007. Retrieved on 18/3/2009: <http://www.un.org/News/Press/docs/2007/sc8958.doc.htm>

² SSR emerged as a concept in the 1990s. OECD uses the term Security System Reform after a decision taken in 2004. Here, Security Sector Reform will be used as referring to the same content as stated in the OECD framework. For a further discussion on the terminology see OECD (2007). *DAC Handbook on Security System Reform – Supporting Security and Justice*. Paris: OECD. p. 5

³ Integrated Border Management (IBM) is sometimes referred to as Co-ordinated Border Management (CBM). IBM will be used consequently in this report, also when referring to documents using the different terminology.

⁴ OECD (2007). Section 7.4, p. 151.

or non-existent.⁵ For example, in Mozambique, state revenue increased by 350 percent after the implementation of customs reform.⁶

Customs in particular, but also IBM as an area within SSR, has neither been the main focus in practical SSR operations nor received much academic attention. This study argues that increasing the focus on customs could improve border security, while simultaneously increasing state revenue and asserting sovereignty and local ownership. Consequently, there are both security and economic gains to be made from improving customs as part of IBM. While border guards and immigration services are important components as well, they have no direct fiscal impact. The customs administration can improve border security, increase the fiscal revenue of the state, and significantly contribute to performing the tasks of immigration services and border guards. In this respect, customs has the potential to be the linchpin in SSR in facilitating both economic development and security.

The purpose of this study is to identify possibilities and challenges in implementing customs in SSR. The study focuses on how Swedish stakeholders perceive and address the issue of customs in SSR.

1.1 Method and delimitations

While the SSR concept is well-established, the research on customs in SSR is limited to non-existent. There is no significant research on the national level in Sweden concerning customs in SSR. As a consequence, for this study we collected information from different stakeholders, mostly in Sweden but also internationally, for example at the World Customs Organization (WCO) in Brussels. The interviewees we identified as central for the study can be divided into two categories: stakeholders that work to develop customs capacity and stakeholders dependent on customs services.

The focus of this report is on the general level, rather than on specific details. We assess whether this is a fertile field for future studies and give suggestions on aspects that need to be addressed for more effective SSR implementation.

The report is structured as follows. In chapter two, we describe the contextual background of customs in SSR and link it to relevant research in the development and security fields. This chapter answers questions regarding the specific role of customs in SSR; what the implications of improving customs capacity would be. In chapter three, we map the relevant stakeholders and their responsibilities. In chapter four, we identify some challenges that can spoil the development and prospects of customs in SSR. The analysis focuses on a

⁵ Acda, Paul (2009), EULEX in Kosovo. Email exchange.

⁶ OECD (2007), section 7:4:1, p. 160.

stakeholder level and problematizes the issue of customs in SSR. In the final chapter, we summarize our findings, give some recommendations and elaborate on how to proceed.

2 Customs in SSR

This chapter analyzes the importance of customs in SSR. It is argued that customs have the potential to significantly contribute to both improved security and increased state revenue.

2.1 Contextualizing customs in SSR

The SSR concept emerged with the recognition that establishing security is a prerequisite in reducing poverty and to achieve both economic development and the Millennium Development Goals (MDG).⁷ In "Breaking the Conflict Trap", Collier et al. observe that more than 50 percent of all wars re-emerge within five years. The reason is that international assistance is often misdirected and fails to create economic development.⁸ In this context, it is noticeable that customs is the only element in SSR with a direct economic impact in terms of fiscal revenue.

Post-conflict countries are one of the major target groups for SSR. These countries are usually among the poorest and weakest countries in the world. They often share similar economic frameworks and challenges and are commonly found in the UN categorization Least Developed Countries (LDC).⁹ Common traits for these economies are, for example, that they to a large extent are informal and that barter trade is frequent as well as transactions outside the legal economy. They commonly lack sufficient physical and institutional infrastructures. There is often an administrative vacuum that undermines the capacity of established institutions. These conditions present great challenges for customs administrations in their dual role as security enforcers and fiscal revenue collectors.

Economists have for a long time studied why some societies accumulate and innovate more rapidly than others. In the recent literature a number of factors stand out on this matter; they are geographical location, economic integration and institutions. Economic integration relates to the way in which the national economy is connected to the global economy with the strongest link being international trade. Institutions refer to the level of property rights and the rule of

⁷ UN 2009, <http://www.un.org/millenniumgoals/>, retrieved on 22/09/2009.

⁸ Collier, Paul; Elliott, V. L.; Hegre, Håvard; Hoeffler, Anke; Reynal-Querol, Marta; Sambanis, Nicholas (2003): *Breaking the Conflict Trap – Civil War and Development Policy*. Washington: World Bank and Oxford University Press.

⁹ Rönnbäck, Ann-Sofi (2007): "EU trade policy in the future: Contributing to peace or war? A study on EU-African relations" in Edström, Håkan and Wiss, Åke (eds.) *International Trends Analysis – Yearbook 2007*. Stockholm: FOI-R--2361--SE.

law in a country.¹⁰ Rodrik et al. find that the quality of institutions trumps everything else, but also that increased trade can have a positive effect on the development of institutions.¹¹

Efficient institutions are central to develop international trade. This is a major obstacle for post-conflict countries' ability to connect to the global economy. Domestic markets of these economies rarely work well. They commonly suffer from limited property rights, poor capital markets, and lacking capacity to conform to international standards. Due to these supply side constraints and the lack of institutions, the efficiency and welfare gains from globalized trade will not necessarily take place or be too slow to maintain political legitimacy.

In development studies, many scholars analyze facilitated trade and customs procedures in order to increase trade flows and economic development.¹² Focus is on careful sequencing of policy implementation, supply side measures and complementary social adjustment policies.¹³ In this context, security has traditionally not been recognized as an important component for successful economic development. However, in the last few years, there has been a growing realization that the lack of security is a significant stumbling block for both economic development and efficient customs policies. Therefore, the interest in security issues as a prerequisite for economic development has grown.¹⁴

2.2 Strengthening security in post-conflict countries

After the September 11, 2001 attacks on World Trade Center, customs has been faced with considerable and at times contradictory demands arising from the continued globalization of trade and security concerns.¹⁵ On the one hand, there is a need for effective security and control of international supply chains while on the other hand, there are increasing demands for greater facilitation of

¹⁰ Rodrik, Dani; Subramian, Arvind and Trebbi, Francesco (2004). "Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development" in *Journal of Economic Growth* vol. 9, nr 2, pp. 131-165. Netherlands: Springer.

¹¹ Rodrik, Dani; Subramian, Arvind and Trebbi, Francesco (2004). "Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development" in *Journal of Economic Growth* vol. 9, nr 2, pp. 131-165. Netherlands: Springer.

¹² Compare with OECD (2007). Section 7.4: 4.2, p. 154.

¹³ Charlton, Andrew and Stiglitz, Joseph E. (2005). *A Fair Trade for All*. New York: Oxford University Press.

¹⁴ Sjöström, Urban (2009).

¹⁵ National Board of Trade, (2008) *Säkerhet i leveranskedjan: Hur påverkas handeln av det ökade antalet säkerhetsinitiativ?* Stockholm: National Board of Trade, p.7.

legitimate trade.¹⁶ It is clear that customs has an important contribution to make in improving security in the global trading system.¹⁷

In the SSR context, it has not been sufficiently recognized that customs have two important tasks. First, promoting trade facilitation increases trade flows while separating legitimate and illegitimate flows of goods. The second task concerns state revenue collection. It is not possible to separate customs' fiscal tasks from its security tasks. They are interconnected. Hence, there are multiple benefits from building customs capacity. For example, security improves, while trade flows and state revenue increase. The same customs procedure will enhance both security and economic development. As Lars Karlsson, Director of Capacity Building at the World Customs Organization (WCO) puts it, "a good customs procedure is a good customs procedure regardless of whether the objectives are improving security or increasing revenue".¹⁸ Concerning customs' direct impact on security, it can be divided into traditional and non-traditional security issues.

2.2.1 Traditional security

Traditional security issues focus on the military aspects of security. Customs has an important role to fill in controlling the flow of military goods in ports and other border stations. It allows the state to better regulate the trade in, and thus the existence of, weapons, ammunitions, drugs and other goods that are directly used in or financing conflicts. Control of logistics is an important step in maintaining stability and peace after an armed conflict.

Building customs capacity and strengthening the customs check points will make it harder for smugglers to hide in the legitimate flow of goods and people across borders. Thus, when illegal flows are separated from legal flows, it becomes easier to locate and address the illegal flows. An added benefit is a slowdown and decreased quantities in the flow of illegal goods, when smugglers are forced to use remote and inaccessible transportation routes.¹⁹ Low customs capacity also makes customs officers susceptible to bribes and particularly organized

¹⁶ WCO (2008). *Customs in the 21st Century - Enhancing Growth and Development through Trade Facilitation and Border Security*. Published by WCO in June 2008:

<http://www.wcoomd.org/files/1.%20Public%20files/PDFandDocuments/Annex%20II%20-%20Customs%20in%20the%2021st%20Century.pdf>

¹⁷ Mikuriya, Kunio (2008). "Supply chain Security: The Customs Community's response" in *World Customs Journal* Vol. 1 Nr. 2, pp. 51-59. Brussels: WCO, p. 51. Retrieved on 09/09/09:

http://www.customscentre.canberra.edu.au/librarymanager/libs/17/supply_chain_security_the_customs_communitys_response.pdf

¹⁸ Karlsson, Lars (2009). Deputy Director Capacity Building at WCO (15/5 2009).

¹⁹ Aning Kwesi (2009), *Arms proliferation and regional security in Africa: transnational risks*. Paper prepared for a 08/09/2009 seminar at the Nordic Africa Institute in Uppsala.

crime will likely exploit opportunities to traffic both goods and people across borders.²⁰

Customs capacity is not only valuable for controlling goods that are being brought into a country. Customs is also a key actor in regulating the outflow of goods and people. Flows of goods and people that are used to finance conflicts and that contribute to the instability of countries are particularly important to address.²¹

Building customs capacity also has an impact on regional security. Customs plays a significant role in combating transnational criminal networks, smuggling and trafficking of people. Controlling cross-border flows renders it more difficult for criminal actors in neighboring countries to continue their activities.²² Enhanced customs capacity increases the prospects of capturing and prosecuting opportunity seekers (in the illegal economy), mercenaries and other actors endangering stability and peace. Another positive effect is that the prevalence of small arms and light weapons (SALW) decreases. These are commonly imported to a country with low enforcement capacity, and then re-sold and transported to regional neighbors. In this respect, strengthening customs improves both national and regional security by decreasing friction and tension among neighboring countries.

From a traditional security point of view, building customs capacity also has the effect of improving intelligence. Registering and monitoring cross-border flows enables collection of intelligence and contributes to early warning. In addition, customs capacity is essential to enforce international sanctions.²³ This increases the prospects of stopping spoilers before they cross the border. In this sense, customs is crucial in maintaining stability and preventing new conflicts.

2.2.2 Non-traditional security

In the last decade, security has taken on a wider meaning beyond the specifically military aspects. It is now common to include other aspects, such as

²⁰ Transparency International (2009): *Working Paper No. 4/2008 Corruption and (In) security*. Retrieved 13/8 2009:

http://www.transparency.org/publications/publications/working_papers/wp_2008_10_01_corrupti_on_security

²¹ For further elaboration of these financing patterns, see e.g. Tejpar, Johan (2009). *How do Peace Support Operations Impact on Conflict Regions' Economies?* Stockholm: FOI and Ballentine, Karen and Sherman, Jake (eds.), (2003). *The Political Economy of Armed Conflict: Beyond Greed and Grievance*. Boulder: Lynne Rienner Publisher.

²² Karlsson, Lars (2009). Deputy Director Capacity Building at WCO (15/5 2009)

²³ Wallensteen, Peter; Staibano, Carina and Eriksson, Mikael (2003): *Making Targeted Sanctions Effective - Guidelines for the Implementation of UN Policy Options*. Uppsala: Uppsala University, Department of Peace and Conflict Research.

environmental, economic, societal and human security.²⁴ Customs as an institution plays an important role in addressing all these aspects of security.

Customs is the first line of defense at the border and thus an important actor in controlling flows with harmful or unwanted effects. For example, customs capacity is important to stop the cross-border spread of disease and certain micro-organisms, and to ensure that phytosanitary measures have been taken.²⁵

In post-conflict countries with limited customs capacity, the spread of disease will stress an already highly strained health sector and problems in the local ecosystem will provide a serious challenge. In many post-conflict countries, large populations are occupied in and dependent on the agricultural sector for their livelihood. With only limited agricultural diversification and scarce resources, they are particularly vulnerable to external shocks in the form of crop failures or harmful micro-organisms, animals or toxins entering the local ecosystem. Building customs capacity will improve the resilience of post-conflict countries to such threats.

Furthermore, customs capacity is a precondition for agricultural development and, therefore, improves the prospects for human, economic, and environmental security. For example, customs capacity ensures that fertilizers, seeds, and other new technologies can be imported, while agricultural export products can reach their end markets.

Vulnerability and lack of resilience in many post-conflict countries are major threats to stability and peace. Customs is a central institution in increasing resilience and protecting post-conflict countries from both traditional and non-traditional security threats.

2.3 The economic impact of customs in SSR

Besides strengthening security, enhanced customs capacity has a significant economic impact. The following sub-sections will focus on how improved customs capacity will increase state revenue, facilitate institution building, fight corruption and contribute in the transformation from a grey/black into a white economy. It will be argued that all these aspects have a significant impact on the success of SSR and establishing stability and peace.

²⁴ See, for example, Buzan, Barry, Ole Wæver, and Jaap de Wilde (1998): *Security: A New Framework for Analysis*. Boulder, CO: Lynne Rienner Publishers.

²⁵ Transparency International (2009): *Working Paper No. 4/2008 Corruption and (In) security*.

2.3.1 Increasing state revenue

The preconditions for customs administrations to perform their tasks differ substantially between developed and developing countries. In developed countries the fiscal income from customs is quite small²⁶ and the principle tasks of the customs relate to crime prevention.²⁷ In Sweden, state revenue from customs constituted approximately 2 percent of GDP and 5 percent of the total state revenue in 2008.²⁸ In developing countries, especially post-conflict societies, it is a different story. In Uganda, revenues from international trade constituted 39 percent of GDP in June 2009²⁹ and in Kosovo customs revenues constitute 80 percent of the budget.³⁰ In these countries, the authorities have limited opportunities to raise fiscal income due to inadequate infrastructure. For example, they have difficulties raising state revenue through income tax, VAT, corporate tax, etc. Therefore, customs is often a prominent contributor of fiscal income. The primary reason is that customs is both a traditional and an easily established system of collecting indirect taxes such as VAT, goods and sales tax and customs tax.³¹

The amount of investment to establish and/or improve basic customs capacity is relatively small, especially compared to building the infrastructure needed to collect income tax. For example, in building customs capacity, the number of check points are relatively few and fixed, and reforms can be implemented quickly. Consequently, customs will generate fiscal revenue much faster than a new income tax or corporate tax system.

In post-conflict countries, the bulk of trade flows consist of commodities such as raw materials, unprocessed agricultural products and other unrefined products. Hence, customs has the potential to collect taxes from a significant portion of the economy. The experience in Afghanistan provides a good example. A World Bank project of computerizing customs procedures led to an increase in customs revenues from US\$ 50 million in 2004 to reach over US\$ 399 million in 2008 – an increase of over 700 percent in just five years. The waiting time for trucks at the major border crossings also decreased. For example, at the eastern border

²⁶ Halltell, Richard (2009). Swedish Ministry of Finance (telephone interview 17/9/2009).

²⁷ Wengelin, Anneli and Wicktor, Mats (2009). Swedish Customs (5/5 2009).

²⁸ In Sweden, customs constituted approximately 2 percent of GDP and 5 percent of total state revenue in 2008. Source: *Statistics Sweden* (2008). Retrieved in April, 2009: www.scb.se; and Swedish Customs (2009). *Tullverket: 2008 i siffror*. Retrieved in April, 2009: http://www.tullverket.se/download/18.16ca6de0120cf835feb8000830/2008_i_siffror.pdf

²⁹ Uganda Revenue Authority (2009). *Uganda final revenue collection report for June 2009*. Retrieved on August 20, 2009: http://www.ugrevenue.com/revenue_reports/Final%20Revenue%20Collection%20Report%20For%20June%202009.xls

³⁰ UNMIK (2009): *Government Revenues Aids Stability*. Retrieved on August 21: <http://www.unmikonline.org/pub/focuskos/june03/focuskeco6.htm>

³¹ Interview with Lars Karlsson, Deputy Director Capacity Building at WCO (15/5 2009).

with Pakistan at Torkham, over 90 percent of trucks are now cleared in less than one and a half hours, down from 18 hours in 2003.³²

Building customs capacity will not only increase state revenue, but it is also a precondition for businesses to grow and customs is therefore a crucial component in facilitating long-term economic development.

2.3.2 Institution building

IBM is central for state building, because it establishes and asserts state sovereignty at the border. However, unlike border guards and immigration services, customs specifically contributes to state building by strengthening other government institutions by increasing state revenue.³³ As stated in *the Stockholm Process on the Implementation of Targeted Sanctions*: “[customs and excise that function effectively] may also result in increased effectiveness in the State administration, improved transparency and more rational uses of State revenue”.³⁴ Furthermore, the 2005 Paris Declaration on Aid Effectiveness points out that increasing the country’s autonomous share of its budget is a goal in itself.³⁵ The reason is that self-generated state revenue gives the country independent means to shape its future and ultimately end dependence on development cooperation assistance.

Improving customs capacities could trigger a positive development in building and strengthening other institutions in the post-conflict country. The reason is that customs generates state revenues and facilitates international trade flows, while improving security at the border.

³² World Bank (2009). Retrieved on August 20, 2009:

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/0,,contentMDK:22191254~menuPK:158937~pagePK:2865106~piPK:2865128~theSitePK:223547,00.html>

³³ Many economists argue that malfunctioning government institutions constitute a severe obstacle to investment, entrepreneurship, and innovation. North emphasizes the importance of an efficient judicial system to enforce contracts as a crucial determinant of economic performance. Low security of property rights over physical capital, profits, and patents may reduce incentives and opportunities to invest, innovate, and obtain foreign technology. Cumbersome and dishonest bureaucracies may delay the distribution of permits and licenses, thereby slowing down the process by which technological advances become embodied in new equipment or new productive processes. See North, Douglas C. (1990). *Institutions, Institutional Change and Economic Performance*. New York, NY: Cambridge University Press, 1990 and Mauro, Paolo (1995). “The Cost of Corruption” in *The Quarterly Journal of Economics*, Vol. 110, No. 3 (Aug., 1995), pp. 681-712. Cambridge, MA: MIT Press.

³⁴ Wallensteen, Peter; Staibano, Carina and Eriksson, Mikael (2003): *Making Targeted Sanctions Effective - Guidelines for the Implementation of UN Policy Options*. Uppsala: Uppsala University, Department of Peace and Conflict Research. p. 60

³⁵ OECD (2005). *Paris Declaration on Aid Effectiveness - Ownership, Harmonisation, Alignment, Results and Mutual Accountability*. Paris: OECD High Level Forum, February 28-Mars 2, 2005. www.oecd.org

Customs is the sole institution in SSR that directly engages with economic activities. Customs is also a vital link in international supply chains. If customs fail, it will have repercussions throughout the rest of the supply chain and thus the entire economy. Without independent state revenue and a sense of ownership of the development process, the outlook for state building is bleak. In this respect, customs is a stepping-stone in the state-building process and it is therefore particularly important to establish a firm foundation as soon as the conflict abates.

2.3.3 Fight corruption

Corruption is widespread in many conflict and post-conflict countries. For example, according to Transparency International's Corruption Perception Index (CPI), the most corrupt countries in the world in 2008 were Somalia, Myanmar, Iraq, Haiti, Afghanistan, Sudan and Guinea.³⁶ Corruption is a problem because it impedes progress in financial, economic and institutional development and, therefore, in establishing security.³⁷ Corruption contributes to and prolongs state weakness.³⁸

Corruption and conflict are interdependent phenomena. Rampant corruption is often a driver in the conflict dynamic. If a conflict is settled, several participants in corruption lose their livelihood. Hence, they have incentives and are prone to be spoilers in the peace process. Consequently, fighting corruption is a key factor in ending a conflict and developing the country.³⁹ In that respect, fighting corruption is a major goal in SSR.⁴⁰ However, breaking the negative state of affairs is difficult and demands a targeted effort.

A conflict provides ample opportunities to engage in corruption. Weak law enforcement and instability give incentives for rent-seeking⁴¹ and there is low risk of getting caught. The profits can be used to bribe officials. Fighting corruption in the customs administration is necessary. Customs is particularly

³⁶ Transparency International (2008). *2008 Corruption Perception Index*. Retrieved on August 20 2009: http://www.transparency.org/news_room/in_focus/2008/cpi2008/cpi_2008_table

³⁷ World Bank Institute figures estimates the sum of bribes paid each year to over a trillion USD. www.worldbank.org

³⁸ Few researchers lead by Philippe Le Billion argue that disrupting existing corruption patterns could be even more destabilizing than leaving them be. See e.g. Le Billion, Philippe (2003): "Buying Peace or Fueling War: The Role of Corruption in Armed Conflicts". *Journal of International Development* No. 15, pp. 413-426. Malden, MA: John Wiley and Sons Ltd

³⁹ Tejpar, Johan (2009). How do Peace Support Operations Impact on Conflict Regions' Economies? Stockholm: FOI.

⁴⁰ OECD (2007). *DAC Handbook on Security System Reform – Supporting Security and Justice*. Paris: OECD.

⁴¹ In the economic literature, rent-seeking refers to when an individual, organization or firm seeks to earn benefits or compensation by capturing economic rent through manipulation or exploitation of the economic environment.

subjected to corruption as customs officers have both incentives and the opportunity to hold consignments of great economic value. They can take a bribe in exchange for looking the other way and ignoring smuggling activities.

Fighting corruption in the customs administration is important for two reasons. First, customs sets the tone of the entire economic climate in the country, because it is often the first encounter in external affairs. If the customs is corrupt, businesses have to seek compensation for resulting increased costs in the proceeding steps of the supply chain. Corruption at border controls also creates logistical uncertainties. When businesses operate on just-in-time principles, a reliable supply chain is crucial. It can be devastating for businesses if release-times are unpredictable at the border.⁴² Second, customs is a key factor in improving security by cracking down on illegal flows of weapons, money, people, etc. By fighting corruption in the customs, it is possible to interrupt the supply chain of the warring parties. Hence, customs is vital in counteracting the spoilers to the peace process.

2.3.4 Transforming grey/black economy into white

In targeting customs in SSR, a major benefit is the formalization of the economy. Informal economic activities commonly constitute a substantial part of post-conflict countries' total GDP. Informal trade is mainly conducted by individuals (a large proportion of which are women) and small companies.⁴³ Many of these businesses operate on the fringes or entirely outside the formal economy and manage to fully or partially evade trade regulations and duties.

Informal cross-border trade creates "unfair competition" vis-à-vis formal traders. It lowers the efficiency of policy measures implemented to ensure health, safety and environmental protection and it curbs government revenues. The loss of revenue is particularly detrimental to poor countries, where a large share of both customs revenues and VAT is collected at the border.⁴⁴ Unregistered trade flows also lead to unreliable external trade statistics, which might hinder the formulation of appropriate trade and macro policies.

Reliable customs, on the other hand, give businesses the incentive to formalize their transactions and adhere to rules and regulations. By being able to use legitimate trade routes, businesses can increase their external trade volumes and grow their operations. This development would increase the government revenue as a higher share of the trade flow is subjected to taxes and fees at the border.

⁴² Hermanson, Tell (2009). International Chamber of Commerce Sweden (5/5/2009)

⁴³ Lesser, Caroline and Moisé-Leeman, Evdokia (2009): *Informal Cross-Border Trade and Trade Facilitation in Sub-Saharan Africa*. OECD trade policy working paper no. 86. Paris: OECD

⁴⁴ Lesser, Caroline and Moisé-Leeman, Evdokia (2009): *Informal Cross-Border Trade and Trade Facilitation in Sub-Saharan Africa*. OECD trade policy working paper no. 86. Paris: OECD

2.4 Customs and gender

There is little experience in the area of customs and gender, something which *Gender and SSR Toolkit on Border Management* confirms.⁴⁵ The toolkit repeatedly refers to the police for practical examples and with a focus on human trafficking. Gender is declared important in terms of human rights and representation in border management.⁴⁶ Obviously, the customs plays a crucial role in preventing human trafficking and similar activities. However, gender is an important aspect in SSR beyond compliance with international laws and regulations and the promotion of human rights.

Civilian women in post-conflict countries are often exposed differently to violence than men.⁴⁷ For example, widows are very common in post-conflict situations. In those circumstances, women have to provide for themselves and their families. An economic climate that allows female participation is the key for economic growth and sustainability. When assessing gender issues in post-conflict environments, it is important to consider both gender mainstreaming and gender representation.⁴⁸

With regard to gender mainstreaming in customs, it is important to make sure that there is a level playing field, that women engaged in cross-border trade are not being discriminated against. Transparent procedures and rules can counteract arbitrariness and ensure that women have the possibility to trade on equal terms as men. Gender mainstreaming promotes the rule of law and thus economic security for both men and women. Pushing the economic argument further, research shows that women often spend their income in a more sustainable manner than men; e.g. on education, nutrition and reinvestments.⁴⁹

Considering gender representation in customs administrations, it is important to have women employees. Among the reasons are that the institution becomes better rooted in civil society and women in skilled positions provide positive examples for women working with non-skilled labor.⁵⁰ Hence, women in skilled positions promote education. Gender representation also increases security. For example, several studies show that women are less involved in corruption

⁴⁵ Mackay, Angela (2008). "Border Management and Gender" in Bastick, Megan and Valasek, Kristin (eds.) *Gender and SSR Toolkit*. Geneva: DCAF, OSCE/ODIHR, UN-INSTRAW

⁴⁶ Ibid.

⁴⁷ Compare with Olsson, Louise (2007). *Equal Peace – United Nations Peace Operations and the Power Relations between men and women in Timor-Leste*. Uppsala: Uppsala University

⁴⁸ See Olsson, Louise and Tejpar, Johan (eds), (2009). *Operational Effectiveness and UN Resolution 1325 - Practices and Lessons from Afghanistan*. Stockholm: FOI-publication FOI-R--2760--SE.

⁴⁹ World Bank (2001). *Engendering Development – Through Gender Equality in Rights, Resources and Voice*. World Bank Policy Research Report. New York: Oxford University Press.

⁵⁰ Mackay, Angela (2008).

activities.⁵¹ One reason is that women are often less involved in political and commercial life. However, there are also indications that when the share of women in corruption-inclined administrations increases, the level of corruption falls.⁵²

In sum, ensuring that gender issues are included when assessing and building customs capacity in a post-conflict situation will have a positive effect both on security and economic development.

⁵¹ Transparency International (2009): *Working Paper No 03/2007 Gender and Corruption*. Retrieved on August 13 2009: http://www.transparency.org/publications/publications/working_papers/working_paper_no_03_2007_gender_and_corruption

⁵² Transparency International (2009): *Working Paper No 03/2007 Gender and Corruption*. Retrieved on August 13 2009: http://www.transparency.org/publications/publications/working_papers/working_paper_no_03_2007_gender_and_corruption

3 Stakeholders

SSR has recently emerged as an important issue on the Swedish international policy agenda. For example, in 2007 an explicit Swedish policy for SSR was published.⁵³ SSR is identified as a central element both in Sweden's policy for global development⁵⁴ and in the Swedish strategy for participation in international Peace Support Operations.⁵⁵ On the government level, there is a SSR Steering Group and there is also a SSR Contact Group coordinated by the Folke Bernadotte Academy.

Several stakeholders in Sweden or with Swedish participation have an interest in customs in SSR. Below, we identify central stakeholders and divide them into two sub-categories: stakeholders engaged in developing customs capacity and stakeholders dependent on customs capacity for their economic activities.

3.1 Stakeholders engaged in developing customs capacities

Swedish Government

Several Government Ministries work directly with SSR-issues while others are affected by the Swedish SSR agenda.⁵⁶ Customs in SSR directly involves the Ministry of Finance and the Ministry for Foreign Affairs (MFA). At the MFA, the Department for Security Policy coordinates the work on SSR. The Division for Development Policy is responsible for coordinating a coherent governmental policy for global development. Central features in this policy are conflict prevention and SSR, as well as economic development and trade. The MFA-division for Development Policy is also responsible for the Swedish International Development Cooperation Agency (Sida).

The International Trade Policy Division at the same ministry does not have an explicit SSR agenda. However, as trade facilitation and customs procedures are considered very important in building trade capacity, this MFA-division works with related policy development, primarily in the EU and at the World Trade

⁵³ Swedish Government (2007). *Svensk inriktning avseende säkerhetssektorreform (SSR)*. Retrieved on 10/09/2009: <http://www.sweden.gov.se/content/1/c6/10/19/38/985eeddf.pdf>

⁵⁴ Swedish Government (2008:1). Regeringens skrivelse 2007/08:89, *Sveriges politik för global utveckling*. Retrieved on 13/8/2009: <http://www.regeringen.se/content/1/c6/10/10/82/03480187.pdf>

⁵⁵ Swedish Government (2008:2). Regeringens skrivelse 2007/08:51, *Nationell strategi för svenskt deltagande i internationell freds- och säkerhetsfrämjande verksamhet*. Retrieved on 10/09/2009: <http://www.riksdagen.se/Webbnav/index.aspx?nid=37&rm=2007/08&bet=51&typ=prop>

⁵⁶ The Ministries represented in the SSR Steering Group and working directly with SSR are the Ministries of Defense, Justice and for Foreign Affairs.

Organization (WTO).⁵⁷ It is also active in the World Customs Organization (WCO) and responsible for the Swedish Board Trade.

The Ministry of Finance is responsible for the Swedish Customs. As part of the Custom's core task is related to crime fighting, there has been a debate on whether the customs is better located under the Ministry of Justice but nothing has come of this debate yet.⁵⁸ The Ministry of Finance regulates the direction and level of international activities at the Swedish Customs. However, in the Ministry's appropriation direction to the Customs, there are no instructions about SSR.

A former Police Commander in United Nations Mission in Liberia (UNMIL) and Special Adviser at the Ministry of Justice acknowledged that customs is an important feature in comprehensive SSR and that Customs is an important partner for the police in fighting organized crime.⁵⁹ It was underlined that there had to be a will to engage in customs strengthening both by the post-conflict country and, in this case, by the leadership of the Swedish Customs.

The Folke Bernadotte Academy

The Folke Bernadotte Academy's (FBA's) mission is to improve the quality and effectiveness of international conflict and crisis management, with a particular focus on peace operations. The Academy functions as a platform for cooperation between Swedish agencies and organizations and their international partners. FBA coordinates the Swedish SSR Contact Group, has an implementing role and seconds civilian staff for international missions. The organization commissioned this report to investigate the possibilities of working further with customs in SSR.

World Customs Organization

The WCO has 174 members and is the world's leading international organization working with customs issues. WCO works with security issues, for example in the framework of its Standards to Secure and Facilitate Global Trade (SAFE), the Authorized Economic Operator (AEO) program and the Columbus program of capacity building. Although the WCO does not have a specific SSR agenda, it conducts work related to SSR. For example, in a capacity-building program WCO supports the Canadian customs agency in its work to educate Afghan customs officers.⁶⁰

⁵⁷ Rahlén, Christina (2009). Swedish Ministry for Foreign Affairs, Division for International Trade Policy (1/4/2009)

⁵⁸ Halltell, Richard (2009). Swedish Ministry of Finance, Customs Division (telephone interview 17/9/2009)

⁵⁹ Stiernblad, Henrik (2009). Swedish Ministry of Justice. (30/9 2009)

⁶⁰ Karlsson, Lars (2009). Deputy Director Capacity Building at WCO (15/5 2009)

Swedish Customs

The Swedish Customs is internationally acknowledged for applying sophisticated new technologies and methods. It is located under the Ministry of Finance and its core duties are revenue collection and crime prevention.⁶¹ The Swedish Customs has to comply with EU-regulation, both nationally and internationally. The Customs mainly works domestically but takes part in certain international capacity-building and training programs, although with no specific SSR agenda. The Customs second staff to the WCO.

National Board of Trade

The National Board of Trade is the Swedish governmental agency dealing with foreign trade and trade policy. The Board provides the Government with analyses and recommendations on trade policy matters. The Board does not have a specific SSR agenda but works intensively with trade facilitation and customs issues. It is currently conducting an International Training Program (ITP) on trade facilitation.⁶² This training program is financed by Sida.

Swedish International Development Cooperation Agency

Sida works with SSR as well as with trade-related development cooperation assistance.⁶³ Both areas are considered priorities in the Government's policy for global development. In trade-related development cooperation assistance, customs is an important feature of trade facilitation. Therefore, resources are channeled by Sida to the WCO and the Swedish Board of Trade.

SSR, on the other hand, is a relatively new issue to Sida and the organization is currently sorting out its role in this area. Sida recently took part in a pilot study analyzing a future Swedish SSR-operation in Liberia. Customs was recognized as a weak institution but was not prioritized in this study.⁶⁴

Private capacity providers

An important actor in reforming customs administrations is private operators, such as COTECNA, Crown Agents and other consultants. Especially in situations with weak security and limited presence of the international community, outsourcing to private agents has been a feasible and fast way to establish some form of capacity. These operators are flexible and can often start their operation quicker, partly because they provide their own security. One

⁶¹ Wengelin, Anneli and Wicktor, Mats (2009). The Swedish Customs (5/5 2009)

⁶² Pontén, Johan (2009). National Board of Trade (18/3 2009)

⁶³ SSR is part of Sida's development cooperation assistance but Urban Sjöström acknowledged that SSR also could be part of humanitarian aid, which is financed with different means.

⁶⁴ Nationella kontaktgruppen för säkerhetssektorreformer (2009). *Rapport till den nationella styrgruppen för säkerhetssektorreform – Innehållande analys och förslag på möjliga kommande svenska SSR-insatser i Liberia*. Pilot Study, March 2009

problem with private operators, however, is that the transfer of knowledge to local authorities is scarce and the post-conflict country therefore becomes dependant on the private operators. This problem is recognized by the WCO. Its policy is to not write contracts with operators replacing local authorities.⁶⁵ Private operators are used as consultants only.

3.2 Stakeholders economically dependent on customs services

Swedish International Chamber of Commerce (ICC)

The ICC-Sweden recognizes the importance of customs in doing business with both industrialized and developing countries. However, there is no particular agenda on customs issues in general and ICC-Sweden was not aware of the ICC having any specific policy on post-conflict countries. The Swedish Secretary General acknowledged the need of improved coordination among ICC's members in this field in order to raise the issue.⁶⁶ Companies already operating in a post-conflict situation will be reluctant to risk their operations by criticizing customs. According to Hermanson, companies can give customs building tacit support, but the SSR community has to be the driver of the issue.⁶⁷

Swedish Trade Council

The Swedish Trade Council's mission is to assist Swedish businesses who want to establish or expand their operations abroad. It is co-owned by the state and the private sector and has representation in almost 60 markets worldwide. It cooperates with embassies, consulates and chambers of commerce. The Council's customers are present in several post-conflict markets, but there is no specific policy for these markets.⁶⁸

Exporting and Importing Companies

All companies that trade internationally are dependent on customs services. If customs administrations are unreliable, the entry cost to a post-conflict market will be higher than with reliable customs.⁶⁹ When customs is unreliable, only businesses that can and are willing to operate under these circumstances will survive. Those who can afford such uncertainties and high entry costs will often enjoy market conditions similar to a monopoly or oligopoly.⁷⁰ Consequently, the post-conflict country will lose potential investments and there will be a lack of competition. This will drive prices higher and hamper economic development.

⁶⁵ Karlsson, Lars (2009). Deputy Director Capacity Building at WCO (15/5 2009)

⁶⁶ Hermansson, Tell (2009). International Chamber of Commerce Sweden (5/5 2009)

⁶⁷ Hermansson, Tell (2009). International Chamber of Commerce Sweden (5/5 2009)

⁶⁸ Ström, Sven-Åke (2009). Swedish Trade Council (5/5 2009)

⁶⁹ Liss, Anders (2007). Vice President for Scania Tanzania (interviewed on 13/4 2007)

⁷⁰ Ibid.

4 Challenges with Customs in SSR

There are several positive effects of building customs capacity in post-conflict countries. Increased customs capacity will improve the prospects for both security and economic development. However, there are also a number of challenges to overcome with regard to customs in SSR. This chapter briefly discusses some of the most substantial challenges that we have encountered during the course of this study. This is obviously not a comprehensive list, but these challenges are all important to factor into the equation when assessing the importance of customs in a post-conflict situation.

4.1 Aligning the international community

There are numerous national and international stakeholders involved in issues regarding customs in SSR. The problem is that they are primarily promoting their own interests and agendas, while there are few or no supporters for the collective interest of the post-conflict country.⁷¹

In a post-conflict country, external actors with diverse agendas ranging from the altruistic to the geopolitical are trying to shape the development in their preferred direction. Without the necessary coordination, their work will be less efficient and produce negative externalities. In order to allocate more resources to building customs capacity in post-conflict countries, a primary challenge is to raise the issue and coordinate the international community. In customs management, the WCO could be an important institution in providing capacities and coordination of the international SSR-community. Engaging WCO is an important step to gain external recognition of customs reforms, but also to allow participation and speed up integration of the post-conflict country in the international trading community.

As mentioned above, SSR-operations in IBM have primarily focused on border guards and migration, rather than customs. This has not necessarily served the interests of the post-conflict country, but rather the interests of neighboring countries and other stakeholders. Containing the conflict is obviously very important for its resolution, but focusing first and foremost on the negative effects of cross-border interaction (forced migration, smuggling, etc.) risks undermining economic development and growth.

The argument could be made that a strong customs organization will increase national income and promote economic growth, but also improve the operations of both border protection and migration services. The problem is that there is no driving force promoting customs in SSR. There is a need for both internal and

⁷¹ This is similar to the push towards comprehensive approach in Peace Support Operations.

external pressures on customs agencies and the SSR-community in the developed world to raise the issue on the SSR agenda. For example, the WCO and the EU could promote customs in SSR, but they will need member countries to endorse increased focus on customs in SSR-programs.⁷² Another challenge for the international community is to either provide sufficient capacity themselves or assist in procurement procedures to assure proper capacity build-up within the local authorities.

4.2 Elevating customs on the Swedish SSR agenda?

The different Swedish stakeholders that we interviewed for this study acknowledged the important role of customs in SSR.⁷³ However, they also recognized that Swedish SSR-efforts have limited resources and that prioritization is necessary. Among the Swedish stakeholders, no one has actively been working with customs as part of SSR.⁷⁴ As the concept of security has been widened to include more than military security in the post-Cold War world, new security issues do neither obviously nor explicitly fall within the established scope of affairs of traditional agencies. When every organization focuses on its core mission, there is a risk that interagency issues fall on the wayside.

Security and SSR are central features in the key guiding documents of Sweden's development cooperation. The Swedish SSR-policy stipulates that SSR-operations should emanate from the national poverty reduction policy and be coordinated with other development cooperation assistance operations.⁷⁵ Recognizing that trade-related development cooperation assistance is another Swedish priority, building customs capacity as part of SSR could be a fruitful way to reach both these goals.

FBA coordinates the Swedish SSR agenda and also has an implementing role in different operations. The dialogue between e.g. Sida, the MFA, the Ministry of Finance and the Customs – coordinated by FBA – is vital in order to assess customs in future SSR operations. The Swedish Customs would have a key role in providing capacity for such operations. Post-conflict countries are often points of origin for smugglers. Therefore, it could be more effective to build customs capacity in post-conflict countries than waiting to address the problem at the

⁷² The EULEX in Kosovo is a good example of a successful post-conflict implementation of customs capacity.

⁷³ This is particularly true among the organizations representing businesses' point of view.

⁷⁴ FBA commissioned this study to explore the importance of customs in SSR. Hopefully, the study also serves as a basis for discussing Swedish priorities in SSR.

⁷⁵ Swedish Government (2007). *Svensk inriktning avseende säkerhetssektorreform (SSR)*. Retrieved on 10/09/2009: <http://www.sweden.gov.se/content/1/c6/10/19/38/985eeddf.pdf>. The same direction is given in other national policies concerning SSR.

Swedish/ EU borders. This corresponds with the Customs' appropriation direction in which countering drug trafficking and organized crime are prioritized.⁷⁶ However, strained by recent cutbacks, the Swedish Customs refers to the WCO as the preferred organization concerning international operations.⁷⁷

Apart from FBA and the Swedish Customs, Sida has an important role in SSR. Regarding trade facilitation, Sida channels means through other organizations, particularly the WCO and the Swedish Board of Trade.⁷⁸ Customs capacity-building projects have not been regarded as part of SSR but would this be the case, Sida would be an important financier. Other knowledge providers are MFA's Division for International Trade Policy and the Swedish Board of Trade but neither of them have an SSR agenda.

It seems as if customs in SSR has fallen between the cracks both nationally in Sweden and on an international level. When neither the Ministry of Finance, nor the Swedish Customs are driving forces in elevating customs' role in SSR, there is limited hope that customs will have a significant role in future Swedish SSR operations. In order to enhance customs' role in SSR, the Ministry of Finance has to be included earlier and actively in the SSR-operation assessment process. The Swedish Customs leadership also has to be engaged in the issue. SSR could be a new market for the Customs and a way to keep developing its staff in the international arena.

If the international SSR community fails to address customs issues, the consequence will be that private operators will take the opportunity to fill the void with implications for both security and economic development in post-conflict countries. The unclear ownership of building customs capacity as part of international development cooperation assistance is an obstacle to both efficient trade-related development cooperation assistance and SSR.

4.3 Customs alone will not do the job

There is a serious challenge in sequencing reforms in a post-conflict situation. For the customs in SSR, this challenge is multileveled as it has both security and economic missions. Obviously the best situation would be if reforms in all institutions could be implemented simultaneously but that is rarely possible. Therefore, it is important to have a template or idea of how to build security as well as a sustainable economic environment. From an SSR perspective, awareness that strengthening one SSR activity does not automatically lead to

⁷⁶ The Customs appropriation letter for the fiscal year 2009. Retrieved on 4/9 2009:
<http://www.esv.se/StatsliggarenApp/OpenFile?regleringsbrevId=11728&visningTyp=1&mediaTyp=0&period=2009>

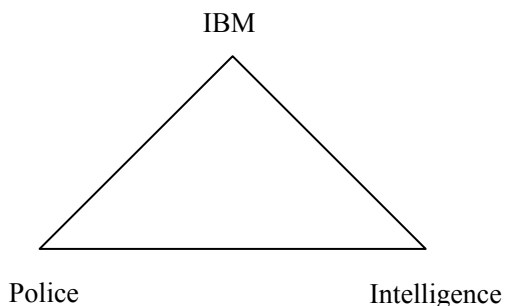
⁷⁷ Wengelin, Anneli and Wicktor, Mats (2009). The Swedish Customs (5/5 2009)

⁷⁸ Sida (2009). Sida 2008 Annual Report. Stockholm: Sida

others being strengthened is important. To reap the benefits of SSR, it is central to have a cross-cutting SSR agenda and elevate interagency communication.

With respect to establishing security, border guards and migration services play a vital role in border security. However, their efficiency is dependent on a well-functioning customs administration. Border security is dependent on all three agencies in the IBM concept – customs, border guards and immigration services. The border security is only as strong as its weakest link (agency). Therefore, it is important to have a comprehensive approach to IBM. Furthermore, the police and intelligence services are important to the customs but also receive information from it. This interdependent relationship reiterates the holistic approach needed for SSR to be effective. Hence, for the customs to be as effective as possible, a security triangle of needed institutions is identified (see figure 1):⁷⁹

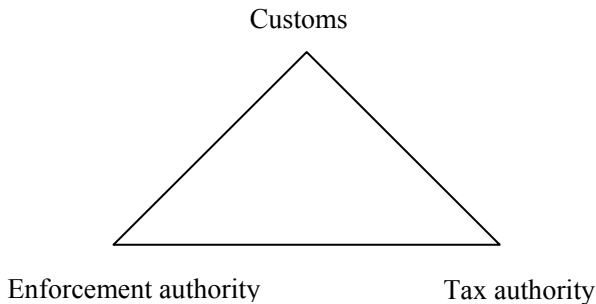
Figure 1: Interdependent security institutions



Similar to the security triangle, three actors can be singled out as crucial in creating a stable economic system based on the rule of law. Beside customs, a national revenue authority and a national enforcement authority [kronofogdemyndigheten] are needed. We refer to these three actors as the “Iron Triangle” (see figure 2).⁸⁰ The national revenue authority creates a transparent and legitimate system to collect state revenue. Customs provides registration and control of cross-border flows and contributes revenue by collecting taxes, fees and excises at the national borders. Finally, there is a need for a national enforcement authority to supervise and enforce re-payments of debts and other economic obligations. The goal of these actors is more long-term development compared to the immediate post-conflict management of the security triangle. However, customs could be the linchpin to start the creation of these three institutions necessary to achieve long-term and stable economic development.

⁷⁹ Based on discussions with Lars Karlsson and Henrik Stiernblad

⁸⁰ Based on a discussion with: Pontén, Johan (2009). National Board of Trade (18/3/2009)

Figure 2: Interdependent economic institutions: Iron Triangle?

Management of the economy is particularly difficult in a post-conflict situation when governmental and other administrative capacity is limited and a lot of infrastructure has been destroyed. The iron triangle institutions give companies the confidence of being paid for goods and services which makes investments more attractive. Successful implementation will help transforming the black and grey economy into a white economy and thus provide more reliable data on economic activities. This data is a foundation to improve management of the economy. The normalization of economic affairs is a prerequisite to participate fully in the global economy. A development in this direction will improve the prospects for both economic development and security.

4.4 Fighting corruption

Fighting corruption is a major challenge, especially in the customs administrations of post-conflict countries. When security is weak, corruption adds another negative incentive for companies to do business. A problem in many post-conflict countries is that customs officials have no or too low salaries. In order to eke out a living, they resort to skimming activities. Equally problematic is the instability of post-conflict government institutions. Instability creates employment insecurity which provides incentives to engage in rent-seeking.

Customs can make a positive contribution to the credibility of the post-conflict country's economic capacity and stability. A corrupt customs administration will deter companies from doing business in the country. Furthermore, while corruption at the border impedes honest businesses, it creates opportunities for illegitimate flows across the border. Hence, a precondition for building a legitimate and sustainable economy is that corruption is kept at bay in the customs.

There are several methods to address corruption in the customs. The most obvious one is to pay higher salaries. This increases the relative cost of being

caught and losing the job. However, increasing salaries is difficult because of demands from other governmental institutions as well. A better way could be to create a sense of pride or *esprit de corps*. An alternative method is to create a system of awards based on services, clearance times and e.g. the number of companies who voluntarily join programs like AEO.⁸¹

In many post-conflict countries, the state is an important employer. Therefore, it is politically and socially sensitive to lay off people in this sector. When reforming the customs administration, corruption can increase as a result of the employees' uncertainty about the future. Employees running the risk to lose their jobs are likely spoilers of any reforms. This must be taken into consideration or reforms run the risk of failure.

⁸¹ There is a problem with connecting rewards to revenue as the result tends to be that consignments are overvalued.

5 Conclusion

Post-conflict countries face serious challenges, both regarding security and economic development. The international community has come to the conclusion that security and economic development are interdependent and therefore prerequisites for stability and peace. You cannot have security without economic development and vice versa. The SSR concept was developed to address this problem.

In SSR, customs is, together with immigration and border guards, a part of IBM. So far, most resources devoted to IBM have been on strengthening immigration and border guards, while customs has played a subordinate role. This study questions this approach and argues that customs should have an equal standing within IBM. The purpose of this study is to identify possibilities and challenges in implementing customs in SSR with a focus on how Swedish stakeholders perceive and address the issue of customs in SSR.

The analysis shows that increasing customs capacity in a post-conflict country could have positive implications for both security and economic development. When performing the regular tasks of customs administration, i.e. facilitating the flow of goods and people across the border and collecting state revenue, customs will have a positive impact on both traditional and non-traditional security threats. For example, customs contributes to detecting and hindering the flow of weapons across the border and limits the opportunity for the warring parties to finance their operations. Customs is also a key actor in protecting society from the spread of disease and the local ecosystem's exposure to alien species. Consequently, customs has an important role to play in increasing human, environmental and economic security. Hence, customs is a key function in asserting state sovereignty.

There are at least four economic benefits of improving customs administrations in post-conflict situations. First, raising independent state revenue is a serious challenge in most post-conflict countries. Increasing capacity enables customs to collect proper duties, fees and excises at the border, thus increasing state revenue. Improving customs procedures will also facilitate trade and increase cross-border flows. This will raise revenues even more. Second, improving customs can have a positive impact on strengthening other institutions necessary for a stable and prosperous economic environment. The accumulated capital will give the government resources to reform and re-establish institutions and societal infrastructure. Third, post-conflict countries often suffer from corruption. Customs is no exception. However, there are well established methods to fight corruption in customs and, if successfully implemented, such reforms could help fight corruption in other governmental sectors and in society as a whole. Finally, building customs capacity will help formalizing the economy. An efficient

customs administration will give incentives to transform grey or black market operations into legal ones.

Our interviews show that there is a broad interest in customs in SSR among the identified stakeholders. However, as both the Ministry of Finance and the Swedish Customs have had other priorities, there has been no main force driving the advancement of customs in SSR. Coordination is the key in developing a coherent Swedish policy but also in influencing international institutions, such as the EU and the WCO, to pay more attention to customs in SSR. This was the reason for FBA to commission this study and explore the possibilities and benefits to work with customs in SSR. Doing so would be supported by Swedish guiding documents such as the Swedish policy for SSR.

5.1 The way forward

The overarching aim of SSR is to build up a stable institutional framework in a post-conflict situation. This is a precondition for economic development. However, the economic impact of SSR is indirect and it takes time before the consequences filter through to society at large. In the SSR context, customs development is therefore unique. Customs is the only element in SSR with a direct economic impact in that it immediately generates state revenue.

The effort needed to build up customs capacity is relatively small and easily implemented. For example, with aid from off-the-shelf IT solutions, customs administrations can take advantage of sophisticated risk analysis methods. Automating customs procedures limits the number of staff needed, both in the central administration and at border posts. Investing in customs capacity will have a lasting effect, because the location of check-points is stable over time and the bulk of trade passes through a limited number of border posts. This means that the investment is cost efficient and that large gains can be made from a relatively small contribution to customs.

An observation in this study is that there has been little research conducted on customs in SSR. In order to address the challenges identified in this report, further studies are needed. In the short term, it would be fruitful to do field studies to gain better empirical understanding of the issue and identify best practices and lessons learned. Such a study could analyze feasible ways to pursue customs in SSR. Another study could focus on the coordination challenges on the local, national and international level. A third study could focus on the economic impact of building customs capacity in post-conflict countries.

In conclusion, this study shows that customs operates in the economic and security nexus. Customs is a forgotten element in SSR and focusing on customs will likely improve the prospects for successful SSR operations.

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