

Cross-border trading reforms in post-war Serbia

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Reforms can change everything

Traders initially faced a gloomy situation in Serbia's post-conflict era. The collapse of communism, the 1990s war, and devastating political fallout left Serbia in a heavily damaged state. The financial and economic situation by 2000 was grim: 100% inflation, poverty levels that had doubled since 1990, and a GDP that had fallen by 50%.¹ In early 2001, the new Prime Minister, Zoran Đjindžić, took over the reins and committed the country to implement political, economic and institutional reforms, while integrating European laws and practices. He appointed new experts to lead Serbia's various ministries. These experts, like himself, were reformers.

As a trading partner, Serbia had become smaller than it used to be. For several years after the conflict, the country was Serbia and Montenegro, but in 2006, Montenegro separated and Serbia became a state by itself. Once part of a coastal country, Serbia is now landlocked, which has added to its trading challenges.

Cross-border trade reform in Serbia consisted of updating risk management practices, enabling electronic submissions, and increasing agencies' cooperation. In 2006, the results of recent reforms became apparent. It took traders in Serbia much less time to obtain all required documentation for import and export and to have their cargo cleared by customs. Total time to export dropped by 21 days and import time was reduced by 32 days in 2006, according to the *Doing Business* database.

Outdated organizations

Prior to the early 21st-century reforms, Serbia had an inadequate and limited road system which discouraged traders from entering or expanding in Serbia's market. However, Serbia set up highway projects to expand on its existing highway network. In addition, customs lacked an up-to-date computer system. Because of its outdated computer system, the customs administration could not implement an electronic customs-clearance system. Entrepreneurs had to hand-deliver customs declaration forms to the customs office. Selective screening of cargo or post-clearance checks were nonexistent. Instead, officers physically inspected every single cargo that passed the border. Backlogs and delays in inspections and processing declarations were common.

Furthermore, customs procedures and customs agencies lacked transparency. There were also serious gaps in communication between customs, tax administration, the inspection agency, and the private sector. Traders regularly faced problems at the border, where they might be told that the documentation they submitted was insufficient or incorrect. Excessive waiting times at the border patrols caused frustration. Trade-related agencies carried out their work out separately, which led to long waits and even corruption. There were no clear ethics guidelines for these agencies' personnel—nor was there an anti-corruption agency or an enforcement unit.

Detrimental delays

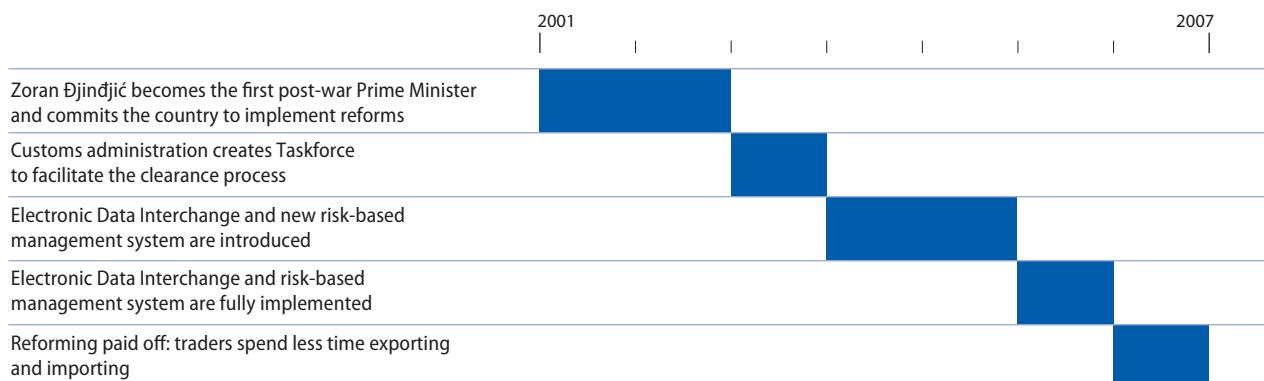
Annual maintenance costs for customs' outdated computer system ran to US\$ 1 million. Besides the high cost, delays caused by the antiquated system were also costly for both traders and the government; it undermined Serbia's competitive edge and reduced revenue income. One global study on trading time reports: "Each additional day that a product is delayed prior to being shipped reduces trade by more than one percent. Put differently, each day is equivalent to a country distancing itself from its trade partners by about 70 km on average."²

Serbia lost the trust of the private sector due to the lack of transparent and coherent government agencies. Traders who contacted government agencies with specific questions may never receive their answers. According to a survey held in 2002, customs was one of the most corrupt agencies in Serbia at the time. In fact, about 75% of all survey respondents indicated they had to pay bribes to customs officers.³ As one trader sums up about the time, "The government thinks citizens are there to serve them, not the other way around."

FIGURE 1

Timeline of trade reforms in Serbia

Source: Doing Business database.



Promising progress

Problems with tradingtriggered reforms and Serbia's customs administration worked jointly with the World Bank, specifically the "Trade & Transport Facilitation in South East Europe" team, and with the European Union (EU) Customs and Fiscal Assistance Office. Both partners were indispensable for the reforms. Customs took on the task, in close cooperation with the EU and the World Bank, to revise Serbia's Customs Code. New procedures were included such as: selectivity and risk analysis, fewer document requirements to declare customs, direct trader input, and electronic submission of customs declarations. These procedures were streamlined with EU standards to bring Serbia in line with EU practices.⁴

CUSTOMS

In 2001, the first year of the pro-reform Prime Minister Đjindžić, the federal government rose to their challenge. The Director General of the Customs Administration, his taskforce team and IT department worked on changes to facilitate the clearance process for traders and customs agents. This customs taskforce set the bar high: it wanted to streamline the customs procedures to be in line with EU practices and decided that Serbia needed, among other things, an electronic customs clearance system.

But customs faced internal obstacles. Some personnel at headquarters expressed doubts and concerns about the changes the government had decided to implement. "Initially, no one wanted change," says the project manager, Dragan DragovićDragović. He continues:

Officers were afraid to lose their jobs when more efficient computer systems were installed. Anxious to make a mistake with the data entry in the new computer system and being held responsible, staff resisted the upcoming change. They were also fearful that they would be fined if they didn't inspect all the cargo.

Dragović adds that the taskforce had assured the officers that no one was going to lose their job—and that making mistakes was considered a natural part of the learning process. During frequent staff meetings, customs management explained that the new system would be better for customs, clients, and the country. All meetings were open for the entire customs staff and this transparency help build trust. In addition, all customs officers were carefully trained to use the new computer software. The private sector was included in the reform process, so that customers' input regarding major obstacles and their desired solutions were heard.

To prepare for implementation, the Director General delivered a speech in 2003 to each customs office and border-crossing in order to explain the new regulations. The message was made clear: customs officers could only accept gifts worth a maximum of €30, new software was going to be implemented for better service, and the risk management system was to be updated. In addition, the reforms were also publically announced in the print media and on television. The well-publicized, new rule on accepting or soliciting gifts over €30 was part of the broader effort in Serbia to combat corruption and bribery of federal officials. The Serbian Criminal Code rules that the penalties can range from 6 months to 10 years in prison.

EDI

In 2002–2003, the proposal for an Electronic Data Interchange (EDI) system was introduced. The electronic declaration system was developed and piloted; meanwhile customs officers and private sector users were trained on the new system. However, not everything went smooth. In 2003, the government changed, in 2004 customs' management changed and there was a six month suspension of the US-funded Customs Advisors. After the implementation of the electronic system was completed in 2005, traders were able to submit their documents electronically to customs instead of physically handing them to the agent in a customs office.

RISK MANAGEMENT

At the same time as the implementation of EDI, customs simultaneously implemented a new risk management system. Initially, 100% of cargo was physically inspected in Serbia. Customs officers examined each container and truck and considered this to be an important part of their job. Traders spent excessive time waiting in queue to have their goods inspected. But a customs officer commented on the old, time-consuming inspections: “the more you examine, the less you find.” Losing time was not only frustrating, it also meant losing earnings. After the introduction of the risk management system, only 15% of the cargo was inspected—trucks were randomly chosen by computer.

INTERAGENCY BORDER COOPERATION

One of the many issues that Serbia faced in its post-conflict period was the unclear demarcation of its borders with other Western Balkan states. The borders had changed and had not been defined completely, or were treated as approximates. Serbia had to establish an estimated 30 additional border posts with its new neighboring countries—posts that had not previously existed. In addition to navigating these new borders, traders lost valuable time waiting in

line for cargo inspections and for other border procedures. Serbian officers were carrying out their tasks independently from one another, taking more time than was necessary. Customs reformed its practices so that they would work more easily with other agencies' requirements. After the reforms, 4 officers worked together at any border crossing: one police officer, one customs officer, and 2 officers from the inspection agencies on agricultural products and meat. "The customs officers started to like the cooperation because they saw the positive changes," comments the project manager.

Results of the reform

Prior to the electronic data interchange (EDI), it took a trader an entire day to clear goods at customs. Documents were typed and physically taken to customs. Now that same trader submits the required documents electronically and customs clearance takes less than an hour. "My company has a good reputation with customs and that helps greatly in reducing the time it takes more time than if the company is not well-known" says a trader in Belgrade. A company has a good reputation if it meets pre-determined criteria, such as being an established trader, has a proven record of compliance, handles a minimum volume of business, and has a reliable system of internal control and accountability.

The implementation of the electronic submission of documents went relatively smoothly, according to Dragović. "All that needed to change was the mindset of the customs officers," he says. "They needed education and explanation. Now they can't imagine doing their work in any other way."

In 2006, Serbian customs did a second survey with the U.S.-based polling company Gallup. The survey was conducted with Serbia's traders and most of its transport and logistics sector. The goal was to compare the outcome with the earlier 2002 survey, mentioned above. In all 5 categories—namely, "fair treatment," "standard processing," "clear requirements," "efficiency" and "unofficial payments"—the customs administration scored much better in 2006. For instance, the overwhelming majority of respondents indicated that the processing and requirements had greatly improved over the 4 year period.⁵

The results of the reforms are apparent. In 2006, 3 years after implementation, traders in Serbia took much less time to gather the necessary documents to import and export and have their goods cleared by customs. The customs task-force's visions, its steadfast approach, and its willingness to work closely with the international community helped make the reforms a success.

Total time to export dropped from 32 to 11 days and import time was reduced from 44 to 12 in 2006, according to the *Doing Business* database. Reforming paid off: both the government and the private sector are the winners.

Notes

1. World Bank: Serbia and Montenegro -Serbia: an Agenda for Economic Growth and Employment. 2004.
2. UNICEF: Republic of Serbia, “National Progress Report on the Objectives of the Special Session of UN General Assembly on Children,” 2002.
3. Simeon Djankov, Caroline Freund, Cong S. Pham, “Trading on Time” (World Bank). 2006.
4. World Bank, Trade & Transport Facilitation in South East Europe.
5. World Bank, Trade & Transport Facilitation in South East Europe.
6. World Bank, Trade & Transport Facilitation in South East Europe.