

## AFRITAC EAST REGIONAL WORKSHOP AGENDA

**Workshop title: Operationalizing Risk Management in Customs**

**Workshop dates: October 17 -21, 2016**

**Location: Lilongwe, Malawi**

**Venue: Umodzi Park Resorts**

**Number of participants: 29—Eritrea (4), Ethiopia (4), Kenya (4), Malawi (4), Rwanda (4), Tanzania (6: 4 TRA & 2 ZRB), and Uganda (4).**

**Resource persons: Muyangwa Muyangwa, Ernest Sigande and Kebede Lidetu.**

Day	Activity	Resource Persons
<b>Day 1: Monday, October 17, 2016</b>		
8:30-9:00	Registration and Housekeeping	<b>Diana Makiko</b>
9:00-09:30	Opening session	<b>IMF Res Rep</b>
09:30-10:00	Tea Break (and photo session)	<b>All participants</b>
10:00 – 10:30	Overview of workshop: <b>Setting the Context:</b> Why Risk Management? What are the objectives of our compliance risk management strategy?	<b>Muyangwa Muyangwa</b>
10:30-12:00	<b>Country Presentations:</b> State of the Risk Management Practice: Issues and challenges embedding Risk Management in Customs Operations – Tanzania & Malawi	<b>All Participants</b>
12:00 -13:30	Lunch Break	
13:30 -15:00	<b>Country Presentations:</b> State of the Risk Management Practice: Issues and challenges embedding Risk Management in Customs Operations –Eritrea &Zanzibar	<b>All Participants</b>
15:00-15:30	Tea Break	
15:30-17:00	<b>Country Presentations:</b> State of the Risk Management Practice: Issues and challenges embedding Risk Management in Customs Operations – Kenya and Uganda	<b>All Participants</b>
<b>Day 2: Tuesday, October 18, 2016</b>		
8:30-10:00	<b>Country Presentations</b> State of the Risk Management Practice: Issues and challenges embedding Risk Management in Customs Operations – Rwanda	<b>All Participants</b>
<b>10:00 – 10:30</b>	<b>Tea Break</b>	
10:30 – 13:00	<b>Discussion</b> – Issues and challenges embedding Risk Management in Customs Operations	<b>Facilitators</b>


13:00-14:00	<b>Lunch Break</b>	
14:00-15:00	Effective Approach to Risk Management in Customs: What is Required to Deliver an effective Risk Management Practice in Customs	<b>Ernest Sigande</b>
<b>15:00-15:30</b>	<b>Tea break</b>	
15:30-17:00	Effective Approach to Risk Management in Customs: What is Required to Deliver an effective Risk Management Practice in Customs	<b>Ernest Sigande</b>
<b>Day 3: Wednesday, October 19, 2016</b>		
8:30-10:00	The role of Customs Risk Engines in Operationalizing Risk Management	<b>Kebede Lidetu</b>
<b>10:00 – 10:30</b>	<b>Tea Break</b>	
10:30 – 13:00	The role of Customs Risk Engines in Operationalizing Risk Management	<b>Kebede Lidetu</b>
<b>13:00-14:00</b>	<b>Lunch Break</b>	
14:00-15:00	Sources and Uses of Risk Management Data	<b>Ernest Sigande</b>
<b>15:00-15:30</b>	<b>Tea break</b>	
15:30-17:00	Sources and Uses of Risk Management Data	<b>Ernest Sigande</b>
<b>Day 4: Thursday, October 20, 2016</b>		
8:30 -10:00	Understanding and Using the Selectivity Engines: Case of Asycuda: The key Terms and Components	<b>Muyangwa Muyangwa</b>
<b>10:00 – 10:30</b>	<b>Tea Break</b>	
10:30 – 13:00	Understanding and Using the Selectivity Engines: Case of Asycuda: Deciding, Building and Inputting Parameters	<b>Kebede Lidetu</b>
<b>13:00-14:00</b>	<b>Lunch Break</b>	
14:00-15:00	Understanding and Using the Selectivity Engines: Case of Asycuda: Reporting Channel Intervention Findings	<b>Kebede Lidetu</b>
<b>15:00-15:30</b>	<b>Tea break</b>	
15:30-16:30	Understanding and Using the Selectivity Engines: Case of Asycuda: Reviewing and Analyzing Findings and Updating Parameters	<b>Ernest Sigande</b>
16:30 – 17:00	Understanding and Using the Selectivity Engines: Case of Asycuda: Analyzing Impact of Interventions on Compliance Behaviors – Have we achieved what we Set out to Achieve	<b>Ernest Sigande</b>
<b>Day 5: Friday, October 21, 2016</b>		

9:00 – 10:00	Linking it up Together (Recap): From Compliance Strategies to Risk Engines	<b>Muyangwa Muyangwa</b>
10:30 – 12:30	Wrap up	<b>Facilitators</b>
12:30 – 13:00	Presentation of Certificates	
19:00	<b>Cocktail</b>	
	<b>End of Workshop</b>	



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 Building Macroeconomic Capacity in East Africa

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## Compliance Risk Management in Customs : Setting the Context

Muyangwa Muyangwa, AFE Revenue Administration Advisor  
 Lilongwe, Malawi  
 October 17 -21 2016

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## What is Risk

**risk**  
 /risk/ 

*noun*  
 noun: risk; plural noun: risks

1. a situation involving exposure to danger.  
 "flouting the law was too much of a risk"
- the possibility that something unpleasant or unwelcome will happen.  
 "reduce the risk of heart disease"  
*synonyms:* **chance**, **uncertainty**, unpredictability, precariousness, **instability**, **insecurity**,  
 perilousness, riskiness **More**  
*antonyms:* **safety**, **impossibility**
- a person or thing regarded as likely to turn out well or badly, as specified, in a particular context or respect.  
 "Western banks regarded Romania as a good risk"
- a person or thing regarded as a threat or likely source of danger.  
 "she's a security risk"
- a possibility of harm or damage against which something is insured.
- the possibility of financial loss.  
 "project finance is essentially an exercise in risk management"



## What is Risk Management



# risk management

Related Terms	Definition	See Examples	Cite Term	Add to Flashcards
Taguchi array	The identification, analysis, assessment, control, and avoidance, minimization, or elimination of unacceptable risks. An organization may use risk assumption, risk avoidance, risk retention, risk transfer, or any other strategy (or combination of strategies) in proper management of future events.			
mortgage-backed...				
self insurance				

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## Why do we need Risk Management



- *All entities need to manage risk, including individuals*
- *Customs administrations are no exception*
- *However risk always has to be in the context of nature of business, mandate of the entity and goals*

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## Why do we need Risk Management:

### *Mandate for revenue authorities .....*

*".....All revenue authorities are generally required to achieve as good a compliance outcome as possible (i.e., to maximize the overall level of compliance with the tax laws). For this purpose, they are appropriated a finite level of resources, meaning that careful decisions are required as to how and in what ways those resources are to be applied to achieve the best possible outcome in terms of improved compliance with the customs laws....."*



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## Risk Management and Customs

*".....We live in an extremely fast moving world where global trade is fundamental to economic growth and social development. A stable trading environment enables economies to reap many benefits which can impact positively on society and the way people live....."*

*.....Customs plays a significant role in ensuring that global trade meets regulatory requirements and conforms to national laws....."*

**Kunio Mikuriya**  
**Secretary General**  
**World Customs Organization**



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## What is the Customs context?

### Global customs -Facilitation and Control:

Customs authorities are required to achieve two primary objectives—

- ✓ provide the international trading community with an appropriate level of **facilitation** and
- ✓ ensure compliance with regulatory requirements - **control**.

### Customs- Our African Context

- ✓ Facilitation has high direct implications for customs and tax revenues
- ✓ From that perspective, facilitation and control will always have a revenue content from a customs and domestic taxes perspective.
- ✓ Therefore, facilitation and control will always be intertwined from a revenue authority perspective



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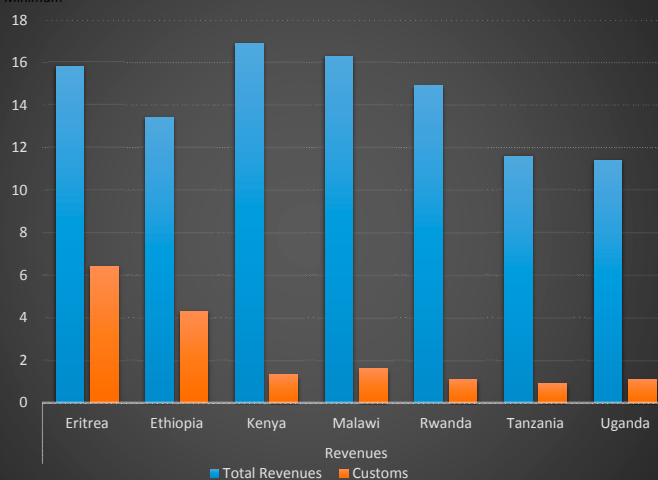
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## African Customs context - Customs contribution to tax revenues

Customs Contribution -Minimum



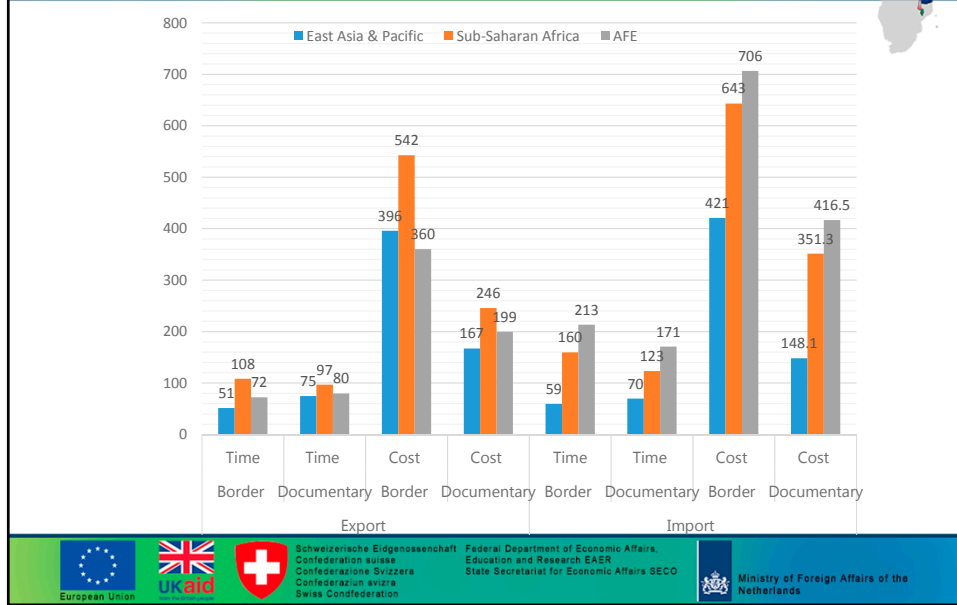
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However, there is potential for better contribution.... Trading Across Borders indicator



## The Indicators.....

### Documentary compliance

Obtaining, preparing and submitting documents during transport, clearance, inspections and port or border handling in origin economy

Obtaining, preparing and submitting documents required by destination economy and any transit economies

Covers all documents required by law and in practice, including electronic submissions of information as well as non-shipment-specific documents necessary to complete the trade

### Border compliance

Customs clearance and inspections by customs

Inspections by other agencies (if applied to more than 10% of shipments)

Port or border handling at most widely used port or border of economy

Obtaining, preparing and submitting documents during clearance, inspections and port or border handling

### Domestic transport

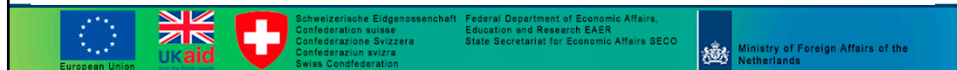
Loading and unloading of shipment at warehouse, dry port or border

Transport by most widely used mode between warehouse and terminal or dry port for clearance and inspections

Transport by most widely used mode between terminal or dry port and most widely used border or port of economy

Obtaining, preparing and submitting documents during domestic transport

Traffic delays and road police checks while shipment is en route





However , there is potential for better contribution—  
Improved Facilitation and appropriate control.....

*".....Recent research has made progress in quantifying the effect of changes in marginal costs on trade volumes and participation. One study finds that a 7 percent reduction in the median number of days spent in Albanian customs leads to a 7 percent increase in the value of imports. Another finds that a 10 percent increase in customs delays results in a 3.8 percent decline in exports in Uruguay....."*

Source : World Bank Doing Business Report 2016



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Facilitation and Control : demystified

*".....Note that the phrase "facilitation and control" has been used in this context, rather than the phrase "facilitation versus control." It is a commonly held belief that facilitation and control sit at opposite ends of a continuum, and it is not uncommon for commentators to refer to the apparent "paradox" of achieving both facilitation and control. It is often assumed that, as the level of facilitation increases, the level of control decreases. Similarly, where regulatory controls are tightened, it is commonly assumed that facilitation must suffer. This is an extremely simplistic view, as it assumes that the only way a process may be facilitated is by loosening the reins of control....."*

Source : David Widdowson: Managing Risk in the Customs Context



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## Facilitation and Control : demystified

***When control is applied appropriately, it actually facilitates trade – this here is the very link to risk management***



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## Risk Management helps ....

*".....Customs administrations to achieve a reasonable and equitable balance between ensuring compliance, and minimizing disruption and cost to legitimate trade and the public. Through the adoption of a holistic risk-based compliance management approach, optimal levels of both **facilitation** and **control** can be achieved. A key feature of this approach is to actively "steer" the client population towards voluntary compliance (**low risk**) leaving more scarce control resources to be deployed towards the **high-risk** end of the risk continuum....."*

*Source : Adapted from WCO Risk Management Compendium*



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## Because Risk Management.....

- RM helps guide decisions to apply finite resources to deliver the best business outcomes – in the case of customs- a balanced operating approach where facilitation is high and control is appropriate through

- ✓ a systematic and structured basis for strategic planning;
- ✓ that focuses on behaviors that threaten our mandate and creates an understand of the underlying drivers (**not symptoms**) of non-compliance;

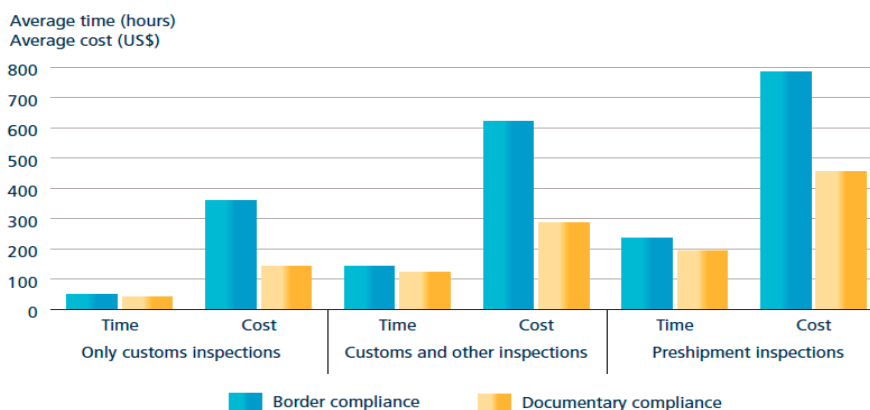
In addition:

- ✓ RM helps to build customs administrations that make decisions based on data, that thrive on evidence-based evaluation, continuous improvement and learning; and
- ✓ RM provides a transparent approach to making operations decisions that has the ability to withstand external scrutiny.



## An example of control undermining intended objectives.....the case of Pre shipment Inspections.....

FIGURE 9.3 Importing auto parts requires greater time and cost in economies requiring preshipment inspections



Source: Doing Business database.



However, risk management requires an enabled environment ..... strong foundations

Remember risk management is just an approach to managing our business but requires an enabling environment ...

*".....The introduction of risk-based procedures includes activities such as those associated with the early and accurate lodgment of information for risk assessment, intervention as early as possible in the supply chain for high-risk transactions, self-assessment and post-entry verification for lower risk, and investigative capability where non-compliance or fraud is detected....."*

Source : David Widdowson: *Managing Risk in the Customs Context*

*".....Improving compliance requires long-term reform efforts, beginning with strengthening the organization and management of the customs agency, and building capacity in core customs administration functions (classification, valuation and origin, debt collection, post clearance audit, client services, and processing of appeals) and developing analytical skills....."*

Adapted from : OECD, *Managing and Improving Compliance: Recent Developments in Compliance Risk Treatment*



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## Status of Risk Management Practices

**Risk management is still not embed in operations**

- **Frameworks not well developed;**

- XX no compliance strategies in place

- XX where they exist- they are fragmented between Tax and customs and within customs;

- **Components developing but not organized and linkages still not clearly understood and interventions largely formulated on function by function basis - silo approach**

- ✓✓ roles of PCA

- ✓✓ use of AEO to encourage voluntary compliance and improve facilitation not clearly thought out

- ✓✓ role and use of scanners



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## Status of Risk Management Practices

- **Risk engines under utilized**
  - XX 100 percent inspections still used
  - XX under developed profiling skills
  - XX High reliance on "off system" decision to manage trade
- **Structures not supportive of good risk management practices**
- **Weak core customs skills** –valuation, classification, origin , audit etc.
- **No assessment of impact of intervention on compliance**



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## Why is there so little traction in developing effective risk management practices ....

Given that :

- ✓ So much TA has been delivered around risk management
- ✓ every one knows about the WCO and OECD model and framework but have not implemented it / implemented it well;
- ✓ We still have only pockets of good "intentions"



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## Could it be that ....

- ✓ we still do not appreciate the concept of promoting or improving compliance in customs?
- ✓ We still do not understand the interplay between facilitation and control
- ✓ the need for structured approaches to compliance management
- ✓ We have missed the point to risk management ?
- ✓ We lack the analytical tools
  - ✓ Are they beyond us to develop?
- ✓ our "success with meeting" revenue targets is pushing us into short term views to tax administration?



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## What do we need to move forwards and build effective risk management practices....

# management will?



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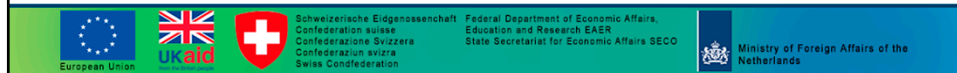

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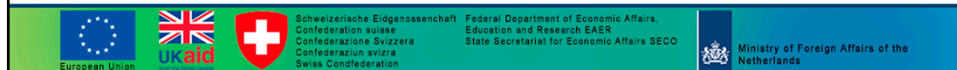
## Thoughts on the way forward

- ✓ Tax and customs administration is not about detecting tax evasion and applying sanctions, it is about ensuring compliance and in order to achieve this, a holistic and cooperative approach is necessary
- ✓ As much as Risk Management is based on universal and basic theoretical concepts it can be said that when applied to tax and customs administrations it is a way of working and thinking that develops continuously.



We have evidence from others .....

# IT CAN BE DONE.....





# Thank you

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## Regional Workshop in Operationalizing Risk Management in Customs, October 17 – 21, 2016


Presentation by the East AFRITAC Team  
Lilongwe, Malawi

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## Effective Approach to Risk Management in Customs: What is Required to Deliver an effective Risk Management Practice in Customs






## Customs Selectivity Framework




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## Risk Management

- *Risk management is a tool that facilitates continuous creation, sustenance, and delivery of stakeholder value*
- How is it done?
- Through sound corporate governance practices, including the application of modern risk management approaches

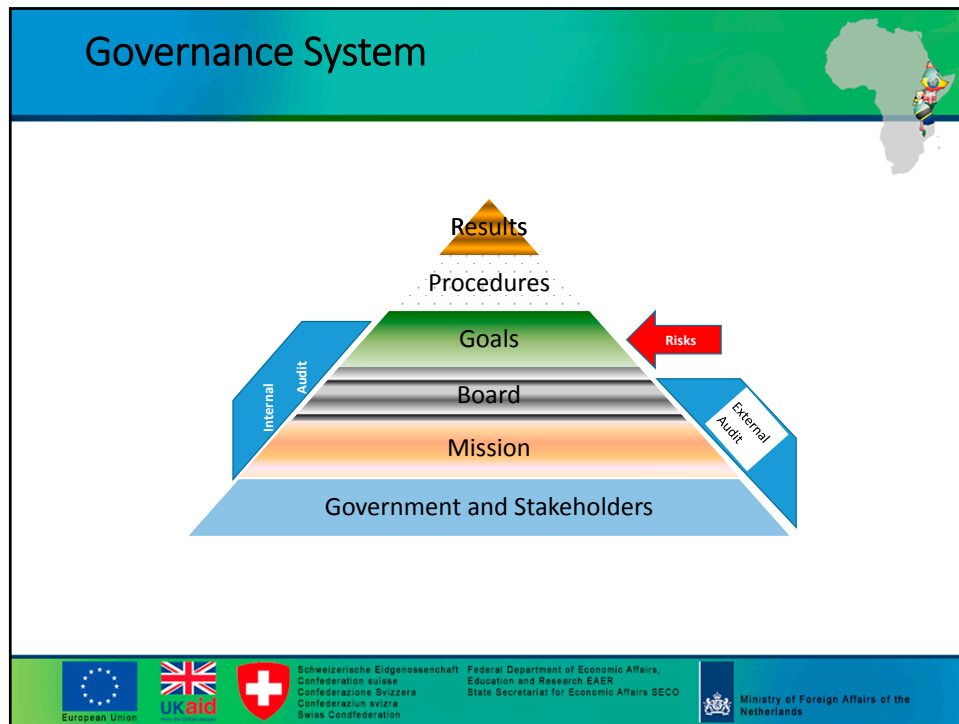


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## Compliance Strategy

### Key Features

- responsible and informed self-assessment by clients
- a co-operative approach to compliance;
- client education and service;
- clear legislative and administrative requirements;
- a risk managed, co-ordinated approach;
- client segmentation;
- appropriate risk treatment activity and
- a equitable penalty system



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## Client Segmentation

- Client segmentation is a tool borrowed from marketing to help an organisation to better understand its client base.
- It breaks down the client base into segments with similar characteristics and features.
- Differentiation in this way enables an organization to better understand the behaviours and demands of its clients.
- Facilitates more precise identification, understanding and categorisation of compliance risks.
- Ultimately assists in the specification and delivery of appropriate risk treatments.
- Efficient and effective resource allocation



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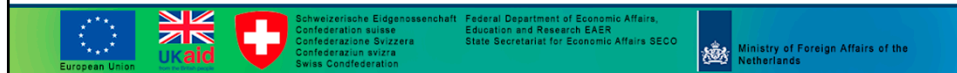
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## Segmentation Cont..

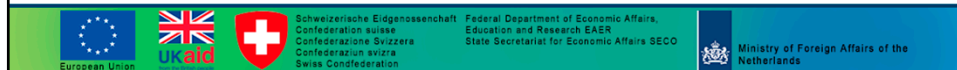
- Based on some criteria
  - Goods Value
  - Duties and taxes,
  - Volumes



## Client Segmentation Example

Based on pareto principle

XRA Customs Client Segmentation					
Importer Category	VDP Value Range X Billion	% VDP Contribution	No.	% of Total No.	Contribution By Volume
Large	> 2.5	60.8	78	0.5	42.6
Medium	> 0.5 < 2.5	20	190	1.1	13.0
Small	< 0.5	20	16,459	98.4	44.4
<b>Total</b>	<b>100</b>	<b>100</b>	<b>16,727</b>	<b>100</b>	<b>100</b>



## Treatment Strategy

- All revenue authorities are appropriated a finite level of resources, invariably well short of what is required to ensure full compliance from each and every taxpayer as trade volumes grow.
- Intertwined with resource allocation decisions are the issues of deciding the priorities for compliance action. What are the major risks? Which taxpayers do they relate to? How ought these risks be treated to achieve the best possible outcome?



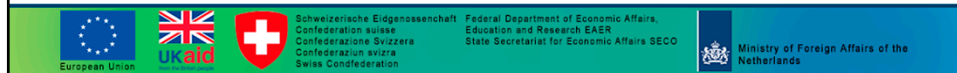
## Treatment Strategy Cont...

Importer Category	Risks	Treatment Strategy
Large	<ol style="list-style-type: none"> <li>1. Systemic errors</li> <li>2. Transfer pricing</li> <li>3. Valuation Adjustments</li> <li>4. Fair knowledge of customs obligations</li> </ol>	<ol style="list-style-type: none"> <li>1. Audit Based Control</li> <li>2. Customs-to-Business Partnership (AEO)</li> <li>3. Client Education on identified weaknesses (informed compliance)</li> <li>4. Compliance improvement program (CIP)</li> </ol>
Medium	<ol style="list-style-type: none"> <li>1. Limited/poor systems and internal controls</li> <li>2. Poor record keeping</li> <li>3. Limited knowledge of customs obligations</li> </ol>	<ol style="list-style-type: none"> <li>1. Audit Based Control</li> <li>2. Pre-Entry Risk Based Control</li> <li>3. Entry Control</li> <li>4. Client Education on identified weaknesses (informed compliance)</li> <li>5. Compliance improvement program</li> <li>6. Clearing Agent focus and control</li> </ol>
Small	<ol style="list-style-type: none"> <li>1. No fixed trading address/location</li> <li>2. No TIN</li> <li>3. Non existence of systems and internal controls</li> <li>4. Poor record keeping</li> <li>5. Poor knowledge of customs obligations</li> </ol>	<ol style="list-style-type: none"> <li>1. TIN Registration</li> <li>2. Pre-Entry Risk Based Control</li> <li>3. Entry Control</li> <li>4. Client Education (informed compliance)</li> <li>5. Clearing Agent focus and control</li> </ol>



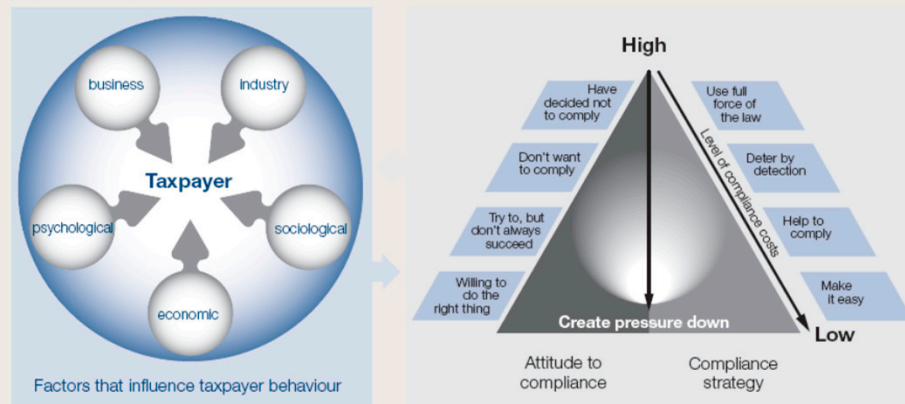
## Compliance Improvement Program

- Tailored to frequent infractions
- Tailored to each segment
  - Inward
    - Policy and procedural enhancement and simplification
    - Legal adequacy and simplification
    - Procedural justice
  - Outward
    - Client education
    - Clearing agent education



## Compliance Model

Compliance model



## Penalty System

- Revenue authorities must have at their disposal the tools to permit them to impose sanctions upon taxpayers for non-compliant behaviour.
- Research shows that taxpayers respond better to compliance efforts if they perceive that they have received procedural justice.
- If the model of compliance is consistently and appropriately applied, this in itself represents a significant step towards demonstrating procedural justice and, in turn, building community confidence.
- The term 'procedural justice' is used to describe the perceived fairness of the procedures involved in decision-making and the perceived treatment one receives from the decision-maker.
- While the overall strategy of a revenue authority should be to encourage voluntary compliance, it must have a range of tools, graduated in severity, to deal with non-compliance. These must be applied — and be seen to be applied — as appropriate, in relation to the level of risk.



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## Penalty System Cont...

### Basic Principles of the penalty regime:

- Transparency
- Fairness
- Equity
- Consistent
- Incremental/graduated
- Published



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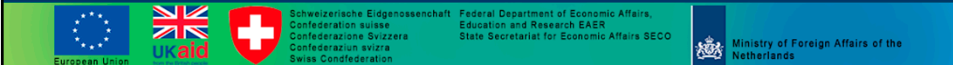




## Implementation (Operation)



## Selectivity Risk Management Structures and Responsibilities



## Selectivity Management Team (SMAT)

- Contact for Enterprise Risk Management
- Determine selection profiles and criteria based on clients segmentation
- Period
- Screen instructions to the examining officer
- Instruct ASYCUDA Technical Staff
- Extract selectivity activity data, analyze, Review and Update criteria
- Downgrade/Upgrade/Maintain client status
- Reporting



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## SMAT Reporting

This is a critical part of the process on which feedback and feedforward depends.

- Benefits measurement (ROI)
  - Additional Revenue
  - Volumes/Turnover/Throughput/Trade facilitation
- Recommend reprimand letters to Clearing Agents
- Feedback to Post Clearance Audit Team
- Recommend segment tailored Compliance Improvement Programs (Informed compliance)
- Recommend policy, procedural and legislative changes



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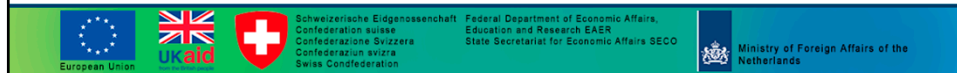
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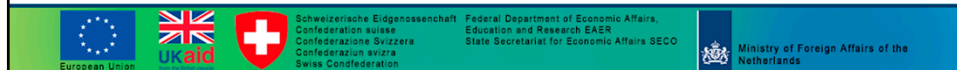
## ASYCUDA Technical Team

- Configure criteria
- Extract selectivity transaction data



## Intervention Team (Examiners)

- Following selection instructions
- Adjustments/Amendments
- Apply penalties
- Recording/Intelligence Database/Inspection Act



## Post Clearance Audit Team



- Focus on Large Client Segment (Blue Lane)
- Demand self-assessment from Large clients for randomly identified infractions in the inter audit periods
- Escalate intervention (self-assessment letters, audit etc.) significant infractions to other clients in the industry
- Recommend downgrading of persistently non-compliant Large Clients



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## Selectivity Configuration Structures by Client Segment



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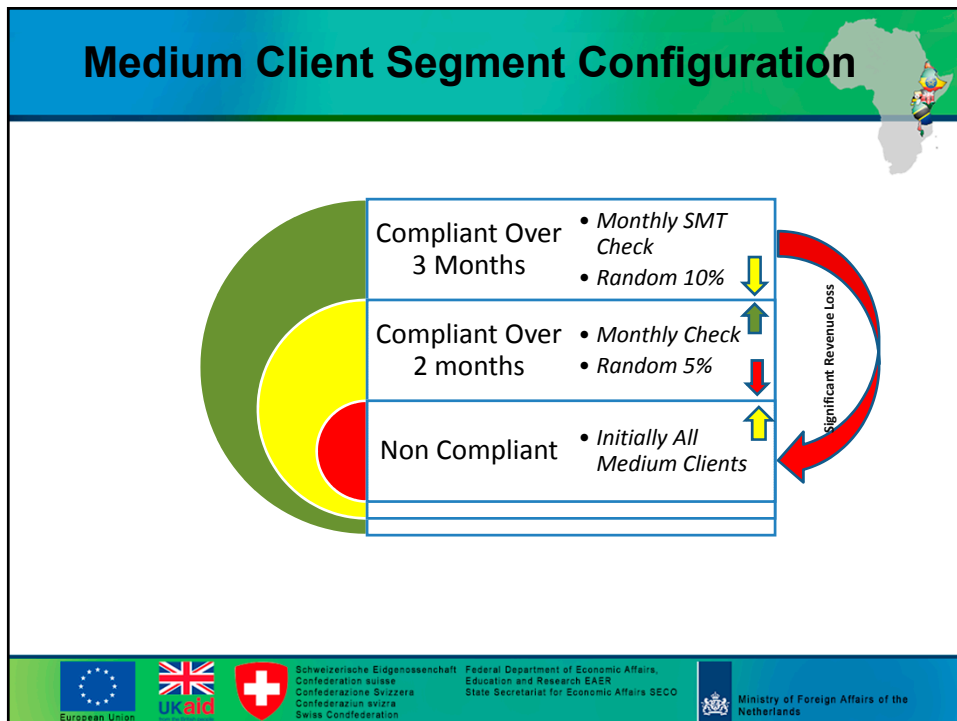
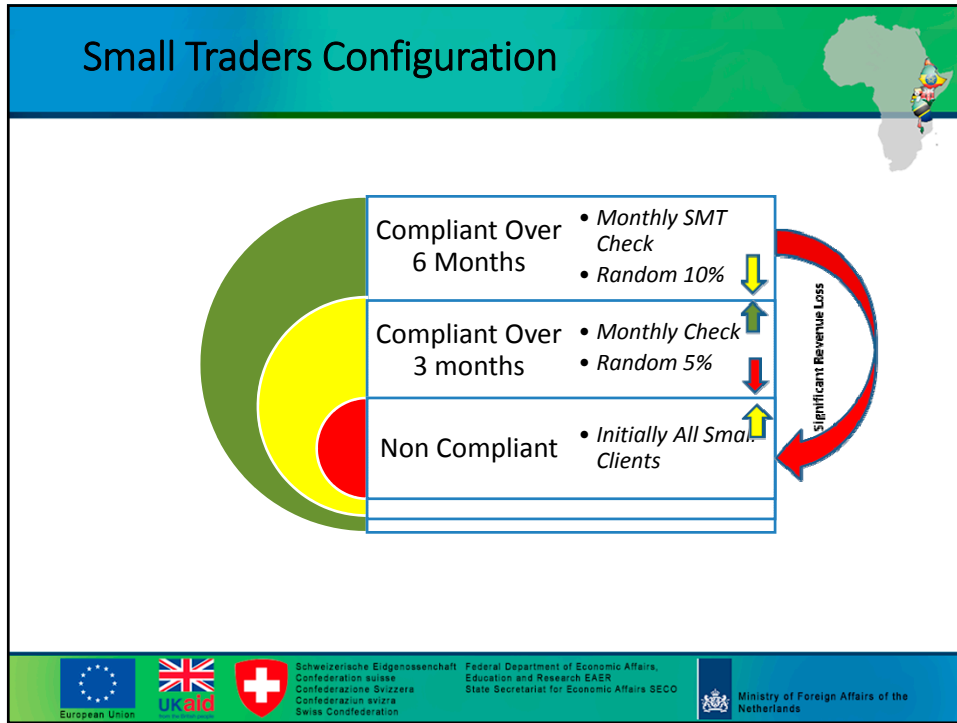


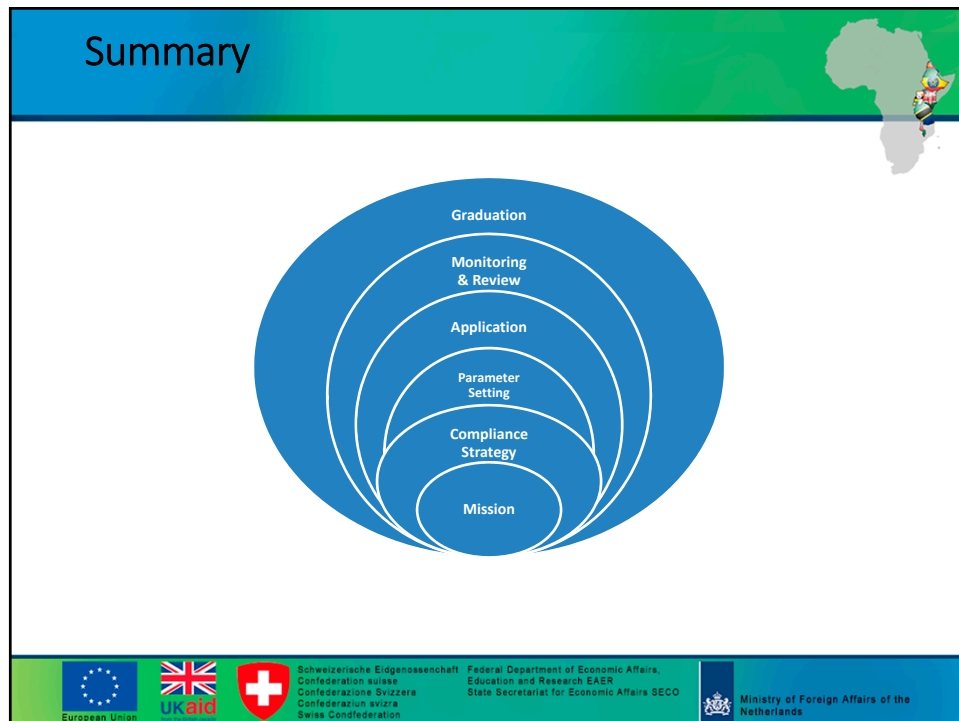
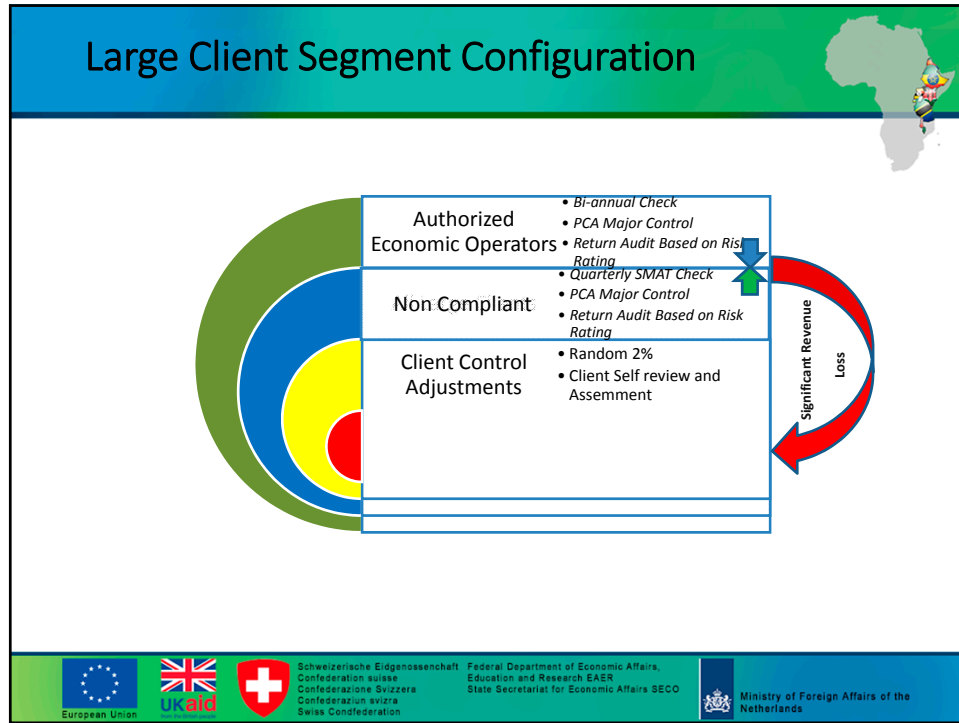
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## The Role of Selectivity / Risk Parameters in Operationalizing Customs Risk Management

WORKSHOP ON OPERATIONALIZING RISK MANAGEMENT IN CUSTOMS,  
 LILONGWE, MALAWI OCTOBER 17-21, 2016

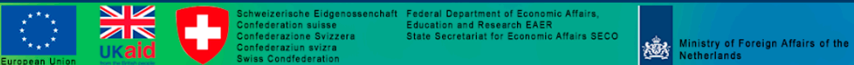
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## Outline

- ☐ Introduction
- ☐ Selectivity Principles
- ☐ Risk assessment system
- ☐ Risk Management Tools
- ☐ Key Terms in Selectivity
- ☐ Risk Profile
- ☐ Benefits of risk profile
- ☐ Steps in developing a risk profile
- ☐ Risk Profile Development Practical Issues
- ☐ The risk selectivity policy model
- ☐ Treatment of Risk





## Introduction

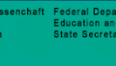
- ❑ Due to increased volume of transaction in cargo and passengers, and lack of resources (human, financial, time and material resources), customs administrations are facing challenges to select and control all cargo and passenger.
- ❑ To select a target (cargo or passenger), it is not only enough to have technology and material availability, there should be **risk indicator and trends**.



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## Introduction

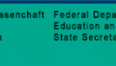
- ❑ Risk analysis and risk assessment are analytical processes that are used to determine which risks are the most serious and should have priority for being treated
- ❑ **Selectivity uses risk profiles**, which are results of risk analysis and assessment.
- ❑ Risk profiles encompass various indicators, such as; type of good, compliance records of traders, value of goods and applicable duties, destination and origin countries,



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## Introduction

- ❑ These **profiles then drive inspection selectivity**,
- ❑ Consignments and persons considered as 'low-risk' based on the risk profile attract minimal attention and intervention from Customs and can be processed quickly. Furthermore it enables Customs staff to concentrate their efforts and resources on fewer consignments.
- ❑ **In general Selectivity should base on Risk Profiles.**



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## Introduction

- ❑ Using these risk indicators and trends will help customs officers to make a right selection and make a right decision.
- ❑ We can get these risk indicators and trends from profiles.
- ❑ Risk indicators: Specific criteria which, when taken together, serve as a practical tool to select and target movements that pose a risk of potential non-Compliance with Customs laws.



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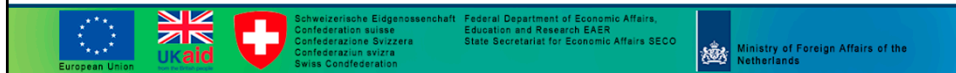
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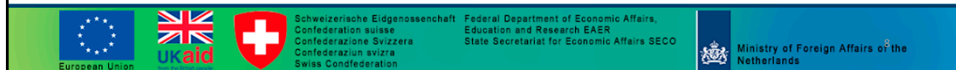
## Introduction

- ❑ Risk indicator is Specific criteria which, when combined, serve as a practical tool to select and target potentially high-risk consignments.
- ❑ **Trend** is a general direction in which something is developing or changing or when something happened repeatedly and when we are interested on it.



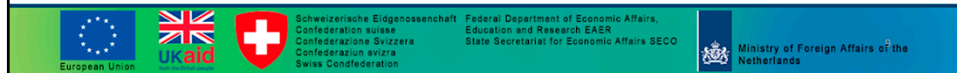
## Selectivity Principles

- ❑ **Green** risk channel should Be Default risk channel to the selectivity.
- ❑ Other risk channels (**Red**, **Yellow** or **Blue**) should be based on risk profiles
- ❑ Red and Yellow channels should be based on proper risk analysis and risk profile.
- ❑ Blue channel is for AEO
- ❑ PCA will follow declarations released under Blue risk channel
- ❑ PCA also should base on risk management



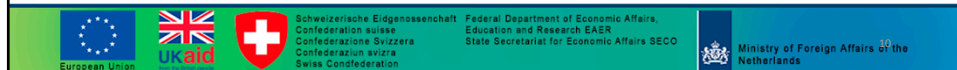
## Selectivity Principles

- ❑ Random selection – another way of applying Selectivity
  - ❑ Applicable on those declarations channeled to low risk level (it depends on the policy of the organization)
  - ❑ The percentage also depend on the policy
- ❑ Example Select 5% of declarations randomly from those of Green channel
  - ❑ Random selection is used for
    - ❑ *Creating deterrent effect / verify compliance*
    - ❑ *To identify unknown / unidentified risks*



## Selectivity Principles

- ❑ Using combination of risk criteria/ profiles or single profile for targeting and facilitation
- ❑ Using combination of risk criteria/ profiles is best for controlling
  - *Example: company profile, origin, HS,*
- ❑ Using single risk criteria/ profiles best for facilitation
  - *Example diplomat profile*
- ❑ Any unknown is high risk
  - *Example an importer newly imported goods or who has very few transaction*



## Selectivity Principles

- ❑ There should be a formal and continuous communication and exchange of information between RM and other departments
  - ❑ *Example: Examination, Assessment, PCA, Intelligence, etc..*
- ❑ Risk selectivity should be intelligence driven
  - ❑ known is high risk
  - ❑ Intelligence should feed RM and RM should lead Intelligence



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## Risk assessment system

Three core elements are at the heart of a robust risk assessment system.

- ❑ **Data** -- Tax return information; Financial statement information , Cross-programme matching ,Industry classification coding; state-level data ; Internally developed databases, revenues and profits by industry sector,
- ❑ **Knowledge** -- economists, statisticians, data miners
- ❑ **Strategic information** -- compliance trends and patterns, economic conditions , business practices.



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## Risk Management Tools

- ☐ Addressing known Risks through - **Risk Rules**
- ☐ Intelligence based interdiction of consignments – **Targets**
- ☐ Compliance measurement tool - **Interventions**
- ☐ Addressing the unknown risks - **Random**
- ☐ Compulsory Compliance Requirements - **(CCRs)**
- ☐ Assured Facilitation - Accredited Clients Program **(ACP)**
- ☐ Post Clearance Compliance Verification by Post Clearance Audit **(PCA)**



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## Risk Management Tools ...

### INTERVENTIONS

- ☐ Primarily intended to focus on compliance monitoring and enforcement
- ☐ Can be aimed at seeking desired level of compliance with an assessment practice
- ☐ User has freedom to specify a percentage of random selection of transaction
- ☐ Similar features as that of the targeting functionality regarding validity period, proposers /approvers, flexibility etc.



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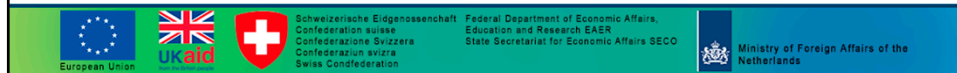


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## Risk Management Tools...

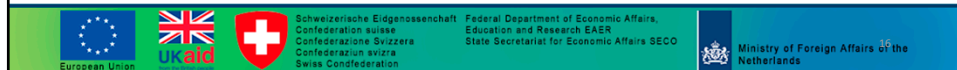
### Random selection of Declarations

- ☐ RMS subjects all categories of declarations to a random percentage of examination
- ☐ The percentage of random will be monitored by Risk Management
- ☐ Top Management can however fix the random percentages for 'Interventions'



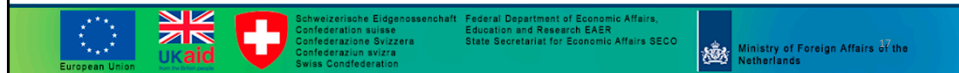
## Key Terms in Selectivity

- ☐ Risk Appetite/ threshold



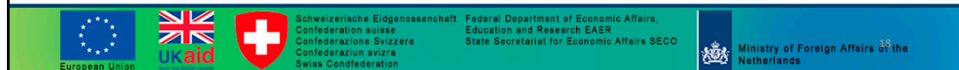
## Key Terms in Selectivity...

### ☐ Likelihood



## Key Terms in Selectivity...

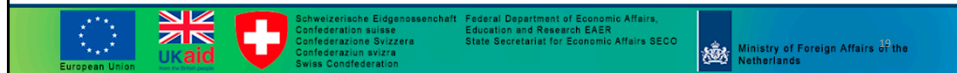
### ☐ Consequence / impact





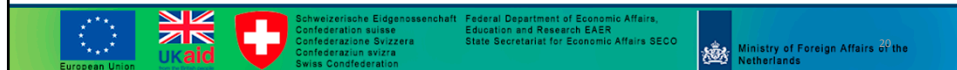
## Key Terms in Selectivity...

- ❑ Risk matrix/ Selectivity matrix



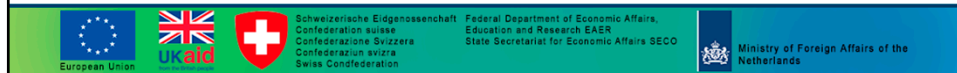
## Key Terms in Selectivity...

- ❑ Risk profile: A predetermined combination of risk indicators, based on information which has been gathered, analyzed and categorized.
- ❑ Profiles assist Customs Administrations in **making choices** since it is generally impossible (and not efficient or necessary) to check all consignments or passengers.
- ❑ A risk profile consists of one or a combination of indicators **aimed at selecting** certain consignments or passengers that require more Customs attention.



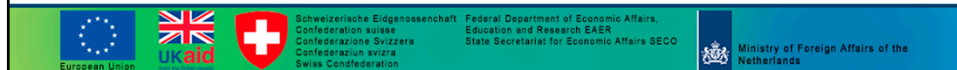
## Key Terms in Selectivity...

- ☐ Risk profile development is based on information gathering, systematic charting and analysis of the information.
- ☐ A risk profile contains a description of:
  - ☐ The risk area (e.g. drugs/ revenue, terrorism, undervaluation, tax evasion);
  - ☐ Assessment of the risk or possible risk that may be involved;(consequence and likelihood)



## Key Terms in Selectivity...

- ☐ Specific indicators like companies, passenger, origin, goods, etc.;
- ☐ The counter-measures to be taken (means of control); (release, documentary check or physical examination)and
- ☐ The period that the profile is active for.
- ☐ Required resources



## Benefits of risk profile

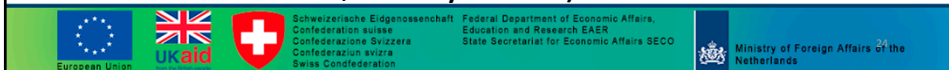
- ☐ Helps customs officers to focus on high risk areas / to be selective
- ☐ Enables to make better decision and examination of goods
- ☐ Helps to identify the high risk goods or passengers from the low risk
- ☐ Helps to predict risks may happen in the future
- ☐ It avoids delay and helps to provide effective service facilitate the legal trade



## Steps in developing a profile

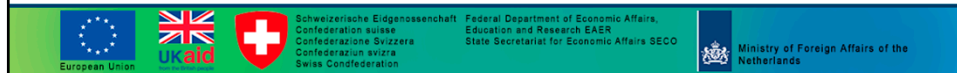
### A. Collect available data from sources such as:

- ☐ Seizure reports;
- ☐ Intelligence data
- ☐ Audit report
- ☐ Cooperation with other law enforcement officers;
- ☐ Information of trade and industry, shipping companies, custom brokers etc.;
- ☐ Database(Systems used within the organization like ASCUDA++, Tax systems)



## Steps ...

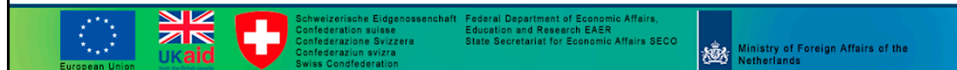
- ☐ Irregularities (misclassification, under valuation, miss description etc);
- ☐ Other signals of Customs officers (remark on the document by operational officers);
- ☐ Documents like Bills of Lading, Airway bills, invoices etc.; and
- ☐ Information available on Internet, websites of companies



## Steps ...

### **B. Evaluate, structure and chart the data**

- ☐ Check and verify the reliability and accuracy of the data,
- ☐ Select a format for the chart which allows you to compare the pertinent data,
- ☐ Itemize data elements on the chart (TIN, name, address, number of shipments, etc)



## Steps ...

### C. Risk Analysis and Scoring

- ☐ The analysis involves examining components of collected information to establish patterns and relationships. Considering the context and the aim of the analysis, identify the main issues
- ☐ Examining the available information/data, such as (if it is drug related): main routes, source countries, suspect ports, risk countries, out of season commodities, mode of transport, concealment methods, etc.



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## Steps ...

Calculate consequence and Likelihood

- **Likelihood= (no. of offence/no. of shipments)100**
- **Consequence= (top-up/total tax)100**



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## Steps ...

### Consequence Threshold

No	Consequence/ impact	Range/ percentage
1	Insignificant	$< 1$
2	Minor	$1 \leq X < 3$
3	Significant/ Moderate	$3 \leq X < 5$
4	High/ Major	$5 \leq X < 7$
5	Extreme / Critical	$\geq 7$



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## Steps ...

### Likelihood threshold

No.	Likelihood Risk	Range/ percentage
1	Rare	$< 1$
2	Unlikely	$1 \leq X < 3$
3	Moderate	$3 \leq X < 5$
4	Likely	$5 \leq X < 7$
5	Almost certain /Common	$\geq 7$



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## Steps ...

### Risk Matrix

- ❑ A 3X3 or 5X5 or 7X7 Risk Matrix can be used for risk rating- **for our discussion we use a 5 by 5 risk matrix.**
- ❑ A score of 16 or more will be deemed as a Extreme Risk, a score of 10 and more will be deemed as high risk, a score of 6 and more will be deemed as a Medium Risk, a score of 3 and more will be deemed as a Low Risk and a score of 2 and less will be deemed as an Insignificant Risk.**(this is not a standard and has to be decided by the RM committee)**



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## Steps ...

### Risk Matrix

Likelihood ↑	Almost certain (5)	5(L)	10(H)	15(H)	20(E)	25(E)
	Likely (4)	4(L)	8(M)	12(H)	16(E)	20(E)
	Moderate (3)	3(I)	6(M)	9(M)	12(H)	15(H)
	Unlikely (2)	2(I)	4(L)	6(M)	8(M)	10(H)
	Rare (1)	1(I)	2(I)	3(I)	4(L)	5(L)
		Insignificant (1)	Minor (2)	Significant (3)	High (4)	Extreme (5)
Consequence →						



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## Steps ...

**D. Establish, disseminate/activate the profile:**

- ☐ There are two approach of dissemination of profile:-




**I. Electronically**

- ☐ This is the most effective way of applying risk profiles
  - ☐ It is through RM risk Engines/ Modules
  - ☐ Such as ASYCUDA ++ MODSEL


*Note: The detail description of applying risk parameters will be discussed later*

**II. Manually**

- ☐ Hard copy /Manual Document, Telephone, Mail




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## Steps ...

**F. Obtain feedback :**


- ☐ Seizure reports, Other written reports, Intelligence, Oral reports, Audit findings, etc..

**G. Update / Modify profile:**

- ☐ Profiles need regular updating. After the risk profiles have been used for a period of time it is important to assess their value. The result of the analysis work is used to feed new information back into the risk assessment process and at the same time update the risk profiles, if required.




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## Risk Profile Development Practical Issues


*Risk Profile is a tool which enable us to make Risk Management Practical*




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## Risk Profile Development

- ☐ Profile can be developed for
  - ☐ Companies/ Importers/ Exporters
  - ☐ Customs Clearing agents /Declarants Profile
  - ☐ Commodities based on
    - Customs value
    - Customs classification/tariff
  - ☐ Country of origin
  - ☐ Country of Consignment
  - ☐ CPC (customs procedure code)




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## Risk Profile Development...

### 1. Company profile development

- ☐ Use different approaches to develop profiles of traders
- ☐ Start from top importers- who contribute more than 80% of the revenues or
- ☐ Start from those who are non compliant and have more record – you have to collect data from different sources
- ☐ To undertake the risk analysis on the companies data ( e.g. three years of data) from ASYCUDA and other sources is examined.



## Risk Profile Development...

- ☐ To determine the risk rating the following information is extracted
  - ☐ CIF Value of Imports
  - ☐ Total tax paid
  - ☐ Top up collection (additional payments from examination and assessment)
  - ☐ Number of shipments
  - ☐ Number of offences
  - ☐ Type of offences
  - ☐ Including basic transactional data about the trader like Name, TIN, Address, etc.



## Risk Profile Development...

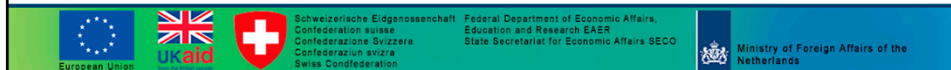
- ☐ Determine consequences and the likelihood
  - ☐ To determine consequence, We can use the amount of top up collection which is divided by the total tax paid
  - ☐ To determine likelihood, We can use the number of offence which is divided by the number of shipment
- ☐ Determine the final risk by using the risk matrix (by multiplying the consequences and the likelihood)



## Risk Profile Development...

- ☐ List of company profile

No.	TIN	Risk Level
1	000000000001	High
2	000000000002	Medium
3	000000000003	High
4	000000000004	Low
5	000000000005	medium
6	000000000006	High
7	000000000007	Low



## Risk Profile Development...

### Agents profile development

- ☐ We apply the same steps as company profile
- ☐ List of company profile

No.	Agent Code	Risk Level
1	00001	Low
2	00002	Medium
3	00003	High
4	00004	Low
5	00005	medium
6	00006	High
7	00007	High



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## Risk Profile Development...

### Commodities profile development

#### A. CUSTOMS VALUE BASED RISK ANALYSIS

- I. Value risk based on the duties and taxes aggregate
- II. Value risk based on Contribution to Revenue collection
- III. Value risk based on Minimum Value and Reference Value



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## Risk Profile Development...

### A. CUSTOMS VALUE BASED RISK ANALYSIS

HS.Code	Customs duty	Excise	VAT	Surtaxes	Withholding	aggregate computation	Contribution to collection Risk Level	MV_RV risk indicator	VALUE RISK LEVEL
01011000	0.05	0.00	0.15	0.10	0.03	0.36	0.00%	0.00	Green
01051900	0.05	0.00	0.15	0.10	0.03	0.36	2.00%	1.00	Yellow
01059910	0.00	0.00	0.15	0.00	0.03	0.18	8.00%	0.00	Green
02011000	0.30	0.00	0.15	0.10	0.03	0.67	0.00%	0.00	Green
03036000	0.10	0.00	0.15	0.10	0.03	0.42	9.00%	0.00	Green
03062300	0.20	0.00	0.15	0.10	0.03	0.55	5.00%	1.00	Yellow



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## Risk Profile Development...

### B. Customs Tariff based Risk

- I. Classification risk based on the possibilities of classification in a position to "Other"
- II. II. Classification/tariff risk based on Confusing description

HS.Code	HS.Description	Risk of classification in Other	Confusing description + risk level	tariff level
01011001	OTHER LIVE HORSES, ASSES, MULES AND HINNIES (EXCLUDING 0101.1000): NES			
01011003	LIVE BOVINE ANIMALS, OTHER THAN PURE-BRED BREEDING			
01011005	---OTHER Live bovine animals			
04021000	Milk and cream in solid forms of ≤ 1.5% fat			
04022100	Milk and cream in solid forms of > 1.5% fat, unsweetened			
04022900	Milk and cream in solid forms of > 1.5% fat, sweetened			
04022910	---When imported in bulk by food manufacturing industries			
55142200	Dyed 3 or 4-thread twill, <85% polyester fibres + cotton, >170g/m <sup>2</sup>			
55142300	Dyed woven fabrics, nes, <85% polyester fibres + cotton, >170g/m <sup>2</sup>			



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## Risk Profile Development...

### C. RISK BASED ON THE CUSTOMS PROCEDURES CODES (CPC)

- ☐ Some CPC offer the possibility of privileges and suspense application of the duties and taxes. Therefore some CPC are more likely to be used in order to avoid the full payment of due duties and taxes.
- ☐ A list of CPC which offer such potential advantages have been channelized in a medium risk level.
- ☐ Those CPC codes which do not offer any advantages have been canalized in the low risk level.



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## Risk Profile Development...

### C. RISK BASED ON THE CUSTOMS PROCEDURES CODES (CPC)

CPC Code	Description	Risk
1000	Direct permanent export	0
1040	Exportation After entry for home use	0
1071	Direct Export from Export warehouse	0
2100	Temporary Export for return in unaltered state.	0
2200	Temporary Export for outward processing.	0
3051	Re-export after temporary import	1
3052	Re-export after customs inward processing procedure	0
4000	Direct entry for home use	1
4051	Entry for home use after TI and return in unaltered state.	1
4052	Entry for home use after TI for inward processing	1
4071	Entry for home use after customs warehousing procedure	1



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## Risk Profile Development...

### D. ORIGIN BASED RISK

- There are two sub clusters used to analyze Country of origin risk:

#### I. Preferential and non-preferential trade agreement

- In This is case those countries having bilateral and preferential trade agreement have high risk level while, those do not have bilateral and preferential trade agreement have low risk level.



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## Risk Profile Development...

### II. Compliance History of COO

- Risk assignment is done by using past data /history about each country collected from different sources especially the enforcement data by which fraud is done during importation at the time of clearance like Undervaluation, Miss-classification, quantity difference (over shipment) and other type of frauds and calculating the likelihood and consequence of these countries and assign the risk level based on the accepted threshold and risk matrix.



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## Risk Profile Development...

### G. COUNTRY OF CONSIGNMENT BASED RISK

Country Code	Risk Level
Country 1	0
Country 2	0
Country 3	2
Country 4	2
Country 5	2
Country 6	2
Country 7	1
Country 8	1
Country 9	1



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## The risk selectivity policy model

### Coefficients given to each criteria

- ☐ Based on the priority, we have to give different weight for different profiles, for this we have to assign coefficient depending on the weight. For example more emphasis can be given to company profile, value risk and tariff risk.
- ☐ As an example the coefficient given to each criteria is shown below



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## The risk selectivity policy model

No.	Criteria	Coefficient
1	Company Profile	7
2	Customs Clearing Agent Profile	4
3	Value	5
4	Tariff	5
5	Origin	3
6	Consignment	3
7	CPC	2



## The risk selectivity policy model

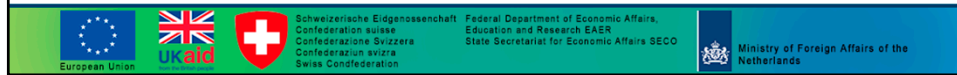
- Every combination of risk level between Tariff and Value, Origin, CPC, Company, Customs clearing Agent, and Country of consignment To gate the final selectivity matrix, we need to calculate the risk level of each criteria by their coefficient and sum up with other criteria. Then based on the threshold agreed and decided by the management the final risk of a declaration/consignment will be calculated.



## The risk selectivity policy model

**Final Risk level of a declaration/ consignment =**

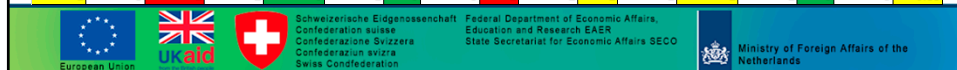
$$\left( \begin{aligned} &\text{COMPANY RISK} * \text{COEFFICIENT} + \text{TRANSITAIR RISK} * \\ &\text{COEFFICIENT} + \text{CONSIGNMENT RISK} * \text{COEFFICIENT} + \\ &\text{TARIFF RISK} * \text{COEFFICIENT} + \text{ORIGIN RISK} * \text{COEFFICIENT} \\ &+ \text{CPC RISK} * \text{COEFFICIENT} + \text{VALUE RISK} * \text{COEFFICIENT} \end{aligned} \right) / \text{THE SUM OF ALL COEFFICIENTS}$$

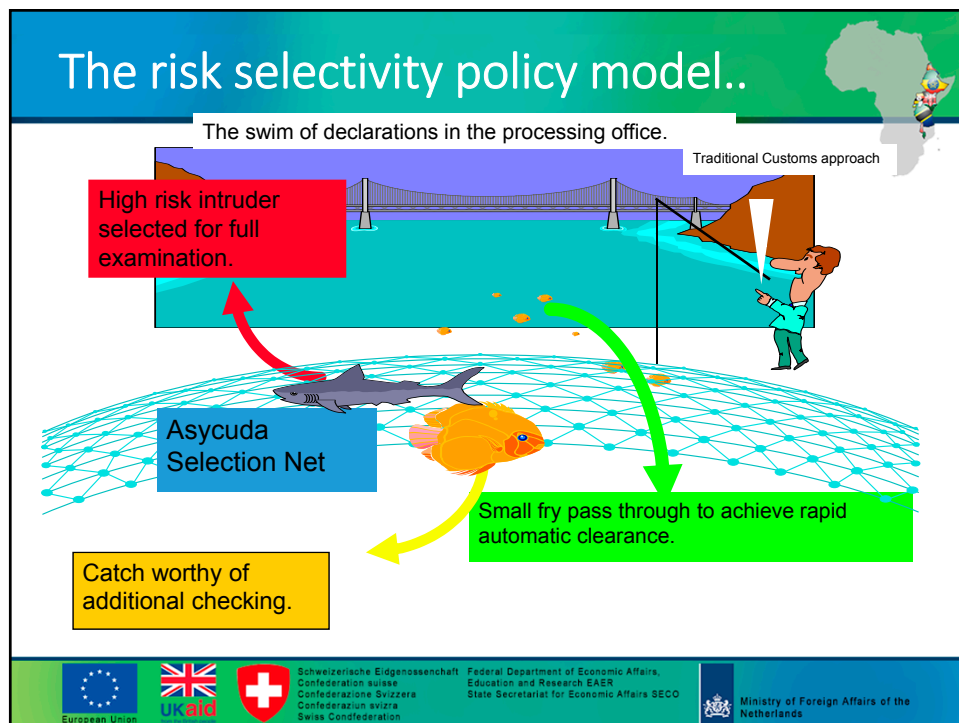
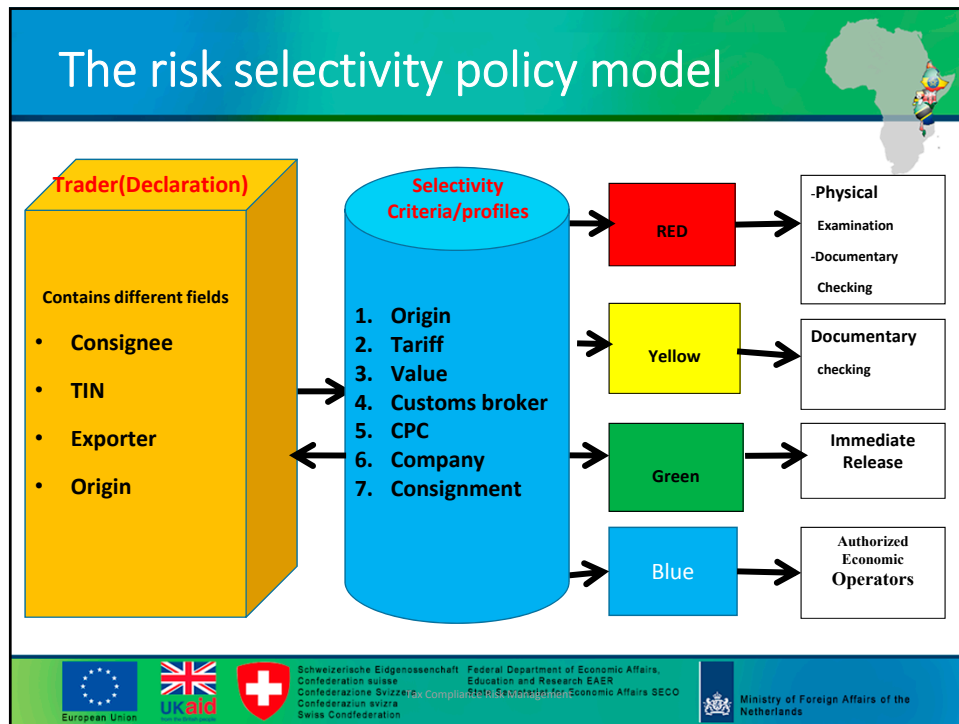


## The risk selectivity policy model

### The selectivity out put matrix

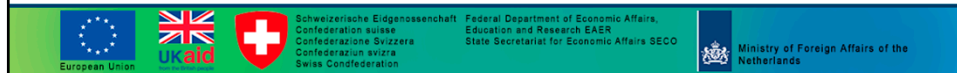
COMPANY	COEFFICIENT	TRANSIT	COEFFICIENT	CONSIGNMENT	COEFFICIENT	TAR	COEFFICIENT	ORIG	COEFFICIENT	CPC	COEFFICIENT	SPECIAL CERTIFICATE	COEFFICIENT	VAL	COEFFICIENT	RISK AVERAGE
1	5	2	2	0	1	0	3	0	2	0	1	0	1	0	3	0.56
1	5	2	2	0	1	0	3	0	2	0	1	0	1	1	3	0.67
1	5	2	2	0	1	0	3	0	2	0	1	1	1	0	3	0.56
1	5	2	2	0	1	0	3	0	2	0	1	1	1	1	3	0.72
1	5	2	2	0	1	0	3	0	2	1	1	0	1	0	3	0.56
1	5	2	2	0	1	0	3	0	2	1	1	0	1	1	3	0.72
1	5	2	2	0	1	0	3	0	2	1	1	1	1	0	3	0.61
1	5	2	2	0	1	0	3	0	2	1	1	1	1	1	3	0.78
1	5	2	2	0	1	0	3	1	2	0	1	0	1	0	3	0.61
1	5	2	2	0	1	0	3	1	2	0	1	0	1	1	3	0.78
1	5	2	2	0	1	0	3	1	2	0	1	1	1	0	3	0.67
1	5	2	2	0	1	0	3	1	2	0	1	1	1	1	3	0.83
1	5	2	2	0	1	0	3	1	2	1	1	0	1	0	3	0.67
1	5	2	2	0	1	0	3	1	2	1	1	0	1	1	3	0.83
1	5	2	2	0	1	0	3	1	2	1	1	1	1	0	3	0.72
1	5	2	2	0	1	0	3	1	2	1	1	1	1	1	3	0.89
1	5	2	2	0	1	0	3	2	2	0	1	0	1	0	3	0.72
1	5	2	2	0	1	0	3	2	2	0	1	0	1	1	3	0.89
1	5	2	2	0	1	0	3	2	2	0	1	1	1	0	3	0.78
1	5	2	2	0	1	0	3	2	2	0	1	1	1	1	3	0.94
1	5	2	2	0	1	0	3	2	2	1	1	0	1	0	3	0.78
1	5	2	2	0	1	0	3	2	2	1	1	0	1	1	3	0.94
1	5	2	2	0	1	0	3	2	2	1	1	1	1	0	3	0.83





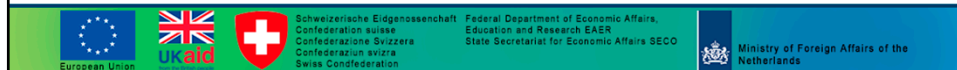
## TREATMENT OF RISK

- ☐ Pre-clearance
  - Targets
  - Interventions
  - Compulsory Compliance Requirements/ OGAs
  - Random selection
- ☐ Post-clearance
  - Interventions
  - Random



## TREATMENT OF RISK...

- ☐ Assessment and Examination-
- ☐ Assessment –
- ☐ Examination –
- ☐ No assessment and No Examination-
- ☐ Suspend Declaration-





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**International Monetary Fund - IMF**  
**Regional Technical Assistance Center**  
 Building Macroeconomic Capacity in East Africa


IMF East AFRITAC

## Regional Workshop in Operationalizing Risk Management in Customs, October 17 – 21, 2016




Presentation by the East AFRITAC Team  
 Lilongwe, Malawi

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## Sources and Uses of Risk Management Data




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## What Is Risk Management?

- *Risk management is a tool that facilitates continuous creation, sustenance, and delivery of stakeholder value*



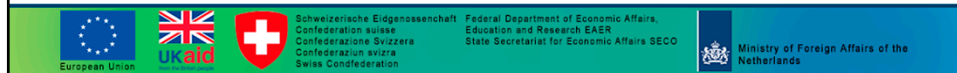

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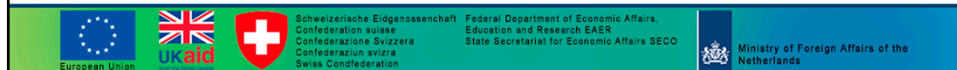
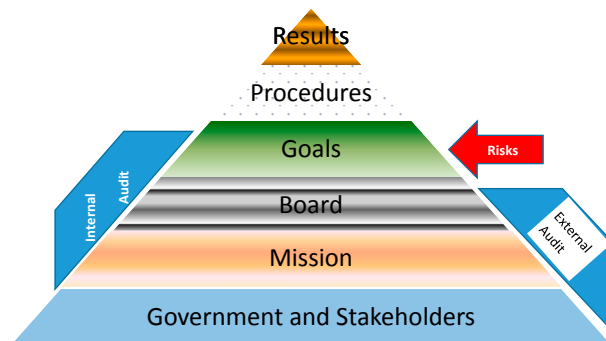

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## How Is It Done?

- Through sound corporate governance practices, including the application of modern risk management approaches



## Governance System



## Importance of Data

- Access to sufficient, accurate and timely data is the lifeblood of a revenue authority's ability to successfully administer the taxation system.
- The data (in its raw and processed forms i.e. intelligence) informs the risk identification, risk assessment and risk prioritisation processes.
- In identification, the data is aggregated to inform the strategic risk identification process.
- In assessment, it is used to determine the extent of the risk
- In prioritisation it is used to select cases.
- The management of this data and information therefore represents a critical component of the compliance risk management process and warrants specific on-going attention by the authority.



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## Data Sources

- Internal
- External



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## Internal Sources

- Planning (SWOT, PESTEL, etc)
- Benchmarking
- Examining
- Investigations
- Internal Audits
- Post Clearance Audits



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## Internal Sources Cont...

- Observation
- Analytical Reviews/trend/ratio analysis
- Workshops
- Meetings
- Policies
- Procedures



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## Internal Sources Cont...

- Appeals
- Administrative Rulings
- Suggestion Boxes
- Inspections
- Interviews
- Training



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## Internal Sources Cont...

- Mission
- Disciplinary action
- Performance appraisal/reviews
- Officers
- Management/The Board (tone, culture)
- Diagnostic Exercises



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## Internal Sources Cont...

- Business Process Reengineering (BPR)
- Time Release studies
- Strategic Plans
- Research
- ASYCUDA Data
- Monthly/Annual Reports



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## Internal Sources Cont...

- Performance indicators (Vs target, GDP, ROI)
- Conversations with colleagues
- Call Centers
- Customer Service Centers
- Internal memos
- Domestic Taxes



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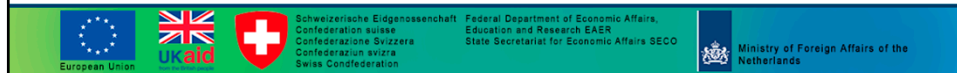
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## External Sources

- Benchmarking
- External Audit
- Observation
- Analytical Reviews
- Workshops
- Legislation



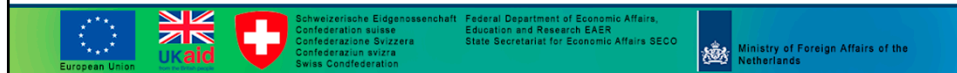
## External Sources Cont...

- Court Rulings
- Surveys (e.g. client satisfaction surveys)
- Re-performance
- Internet
- Stakeholder meetings
- Training



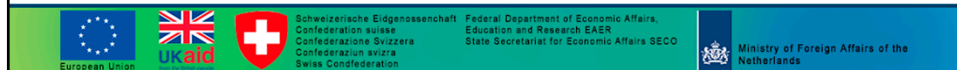
## External Sources Cont...

- Informers
- International Instruments/Conventions
- Consultants
- Newspapers
- Diagnostic Exercises
- Time Release studies



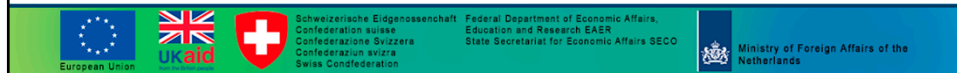
## External Sources Cont...

- Business Process Reengineering (BPR)
- National Budgets
- National Development Programs
- Research
- Annual Reports
- Monthly Reports



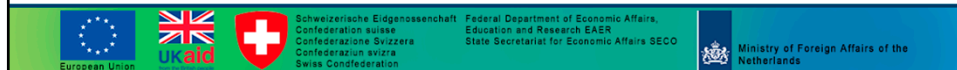
## External Sources Cont...

- Professional Journals
- Banks
- Correspondence
- Company register data
- Frequently Asked Questions (FAQs)



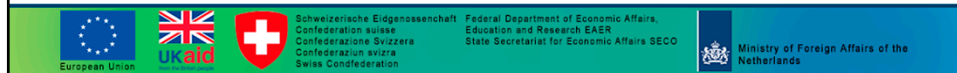
## Uses

- Strategic planning
- Tactical planning
- Operational planning



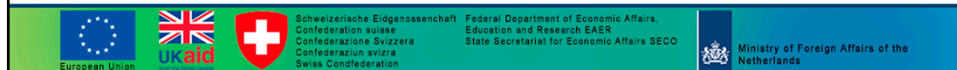
## Uses Cont...

- Profiles and criteria setting
- Internal systems improvement
- Efficient and effective use of resources
- Determine ROI
- Monitoring



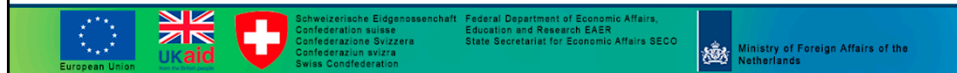
## Uses Cont...

- Staff motivation
- Asset preservation (incl. staff)
- Value enhancement
- Continuous improvement
- Best practice creation



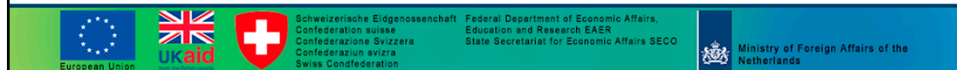
## Uses Cont...

- Leverage
- Post Clearance audit
- Investigations
- Internal control adjustment
- Compliance Improvement Programs



## Uses Cont...

- Client Education
- Service Improvement
- Performance evaluation
- Risk assessment
- Information/Knowledge generation







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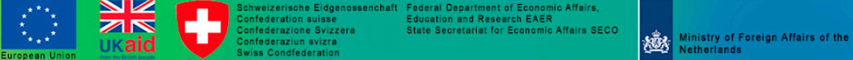


## Understanding and Using the Selectivity Parameters : Case of ASYCUDA: The key Terms and Components

WORKSHOP ON OPERATIONALIZING RISK MANAGEMENT IN CUSTOMS,  
LILONGWE, MALAWI OCTOBER 17-21, 2016

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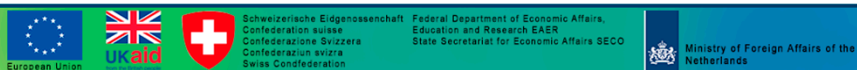


## Introduction

### Why Risk Management ?

The introduction of RM was necessitated because of

- ☐ Increasing mismatch between ever expanding volume of trade & limited resources available with Customs.
- ☐ To reduce dwell time & transaction cost.
- ☐ To make the country business internationally competitive.
- ☐ To meet the challenges of complex international trade & deteriorating global security scenario.

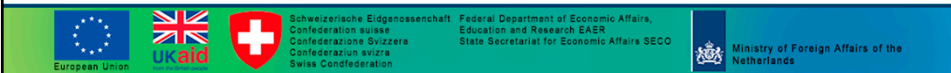


## Introduction...

### Why Risk Management ?

Before introduction of RM

- ☐ Assessment and examination of all the cargo imported
- ☐ Time consuming, more Dwell Time and Transaction cost for the trade
- ☐ Tedious Monitoring
- ☐ Lesser transparency
- ☐ Lesser accountability

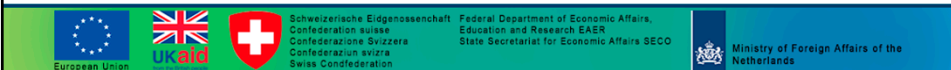


## Introduction...

### Why Risk Management ?

Before introduction of RM

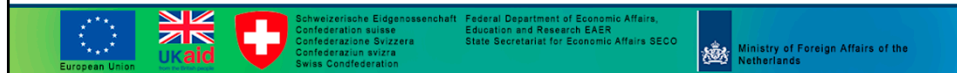
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## Introduction...

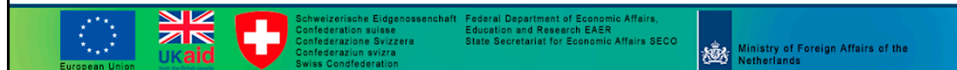
### Need for Introduction of RM

- ☐ Growing complexity and volumes of international trade
- ☐ Workload Vs Resource mismatch
- ☐ Heightened expectations from stakeholders
- ☐ Global harmonization of Customs Procedures
- ☐ Kyoto Convention



## Introduction

- ☐ Risk assessment is becoming an effective means of facilitating cargo.
- ☐ Risk assessment helps in:-
  - ☐ matching customs priorities to resources,
  - ☐ making more effective use of existing skills and experience, and
  - ☐ thus giving better results.
- ☐ It brings economic benefits, by easing the movement of goods, ships, aircraft and people.



## Introduction...

- ❑ Today's Customs administrations are faced with challenges:
  - ❑ An increase in demand from customers to have consignments cleared quickly and
  - ❑ Resources limitation to effectively examine all consignments.
- ❑ Therefore Customs' focus is on **a selective approach** assessing the risk potential of each importation in order to target higher risk consignments.
- ❑ The application of risk-based selectivity allows Customs to allocate its scarce resources to the high-risk areas while increasing the efficiency of the clearance process for low-risk shipments.



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## Introduction...

- ❑ **Selectivity** is the process of using **declaration data**, together with **information from profiles**, to identify goods or transactions of particular interest to Customs .
- ❑ It is used to identify those goods or transactions that may present a risk to national objectives, such as a risk to collection of duty of taxes, or to the enforcement of controls.
- ❑ Selectivity is the **selective inspection** of transactions - either by physical examination or check of documents



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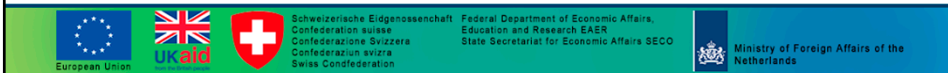


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## ASYCUDA++ Selectivity Module

### MODSEL - Selectivity Controls Module

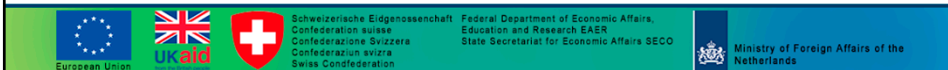
- ☐ ASYCUDA allows the channeling of declarations to four processing lanes, nominated by color: -
  - ☐ **Red** lane for physical check;
  - ☐ **Yellow** lane for documentary check;
  - ☐ **Blue** lane for the option of post import/export audit;
  - ☐ **Green** lane for release



## ASYCUDA++ Selectivity Module...

### MODSEL - Selectivity Controls Module

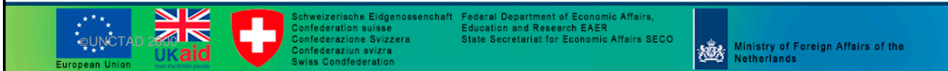
- ☐ Any data captured through declaration or manifest input can be used as a basis for selection.
- ☐ The effectiveness of selection relies on: -
  - ☐ The development of the analytical skills of staff
  - ☐ The accurate feed back of results into the selection process.
  - ☐ Monitoring for quality control



## ASYCUDA++ Selectivity Module...

### MODSEL - Selectivity Controls Module

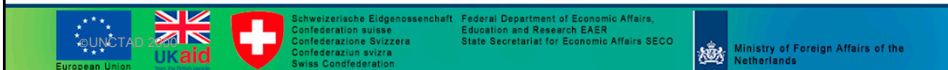
- ☐ When using '**Selectivity Management**', data from the submitted SAD declarations can be used by Customs to select particular declarations for special treatment.
- ☐ It is possible to decide on processing channels,
  - ☐ 'Red', 'Yellow', 'Blue' and 'Green'
  - ☐ Control over the rates of random selections



## ASYCUDA++ Selectivity Module...

### MODSEL - Selectivity Controls Module

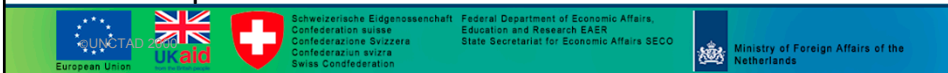
- ☐ The Selectivity module allows for the automatic allocation of selected declarations to officers (to Examiner and Chief Examiner.)
- ☐ The allocation process can also measure workload and reallocate jobs as necessary.



## ASYCUDA++ Selectivity Module...

### MODSEL - Selectivity Controls Module

- ☐ Minimum Random Rate Declaration selection is either by matching against declaration data to specific 'Criteria', or by random selection by the System.
  - ☐ Example from Green and Yellow
- ☐ Random selection is a means of checking transactions that may not otherwise come to Customs attention.
  - ☐ Helps to address the unknown risk
  - ☐ Helps to Create deterrent effect

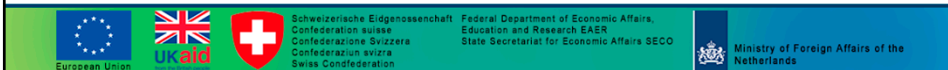


## Basic Requirements of selectivity

Many things are required for the effective implementation of Selectivity.

### 1. Top Management ownership and Sponsorship

- ☐ RM should be principle of the organization
  - ☐ Way of doing
  - ☐ Imbed as a culture
- ☐ Own and lead
- ☐ Support the process
  - ☐ Allocating resources

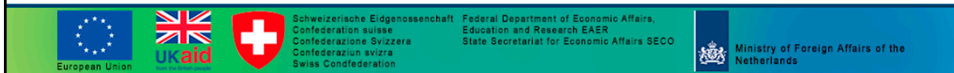




## Basic Requirements of selectivity

### 2. Risk Management working structure which includes

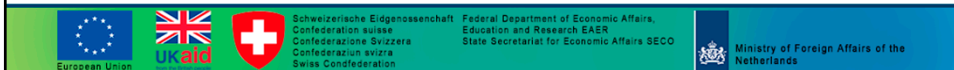
- ☐ RM Unit
- ☐ RM Champion
  - ☐ Executive leader
  - ☐ Process monitor
- ☐ RM Strategic and Operational Committee
  - ☐ Broad executive involvement
  - ☐ Direction, monitoring, control



## Basic Requirements of selectivity

### 3. Risk management working documents:

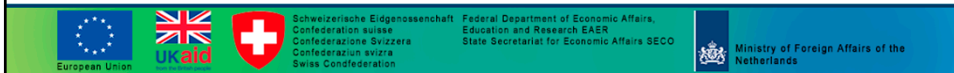
- ☐ RM Policy-:
  - ☐ Public document
  - ☐ Guide the RM process
  - ☐ Provides the corporate commitment and basic direction.
  - ☐ Provides Legal authority for RM
- ☐ RM Framework/ strategy
  - ☐ Framework provides the operational “how” RM is to function
  - ☐ The process and specific roles in the process
  - ☐ Roles of RM Committee, RM Unit
  - ☐ Key point is to document who is to do what



## Basic Requirements of selectivity

### Risk management working documents..

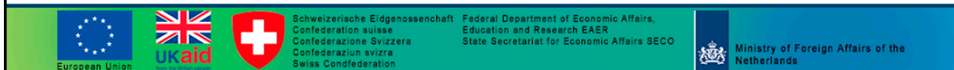
- ☐ RM Framework/ strategy...
  - ☐ Set up risk appetite / tolerance level
  - ☐ Threshold(which will be amended periodically) for:
    - ☐ Likelihood (high, Medium, Low)
    - ☐ Consequence (high, Medium, Low)
  - ☐ Set the risk matrix (the final result)
  - ☐ Overall Risk and selectivity matrix threshold
  - ☐ Coefficients for each criteria based on the given weight
  - ☐ Random selection rate – set the percentage
    - ☐ Example a 5% random selection from the yellow and green declarations



## Basic Requirements of selectivity

### Risk management working documents...

- ☐ RM Manual
  - ☐ Inform staff on what is expected and the steps they are to perform
  - ☐ Responsibility
    - ☐ Day to day guide for staff
    - ☐ Benchmark for establishing performance contracts and work plans



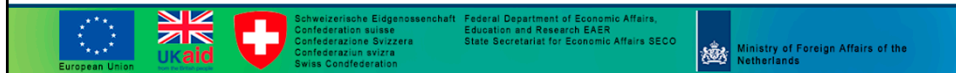
## Basic Requirements of selectivity

### Risk management working documents...

#### ☐ Risk Register

##### ☐ Key tool you should use to:

- ☐ List the key risks your administration observes
- ☐ Record the areas these risks impact (values, revenue, smuggling, etc.)
- ☐ Detail what can occur and how it can occur
- ☐ State how you propose to deal with the risk (% examinations, documentary, etc.)
- ☐ State resource implications, if applicable
- ☐ Set performance indicators
- ☐ Customize to your own needs



## Basic Requirements of selectivity

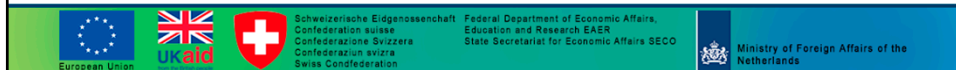
### 4. Skilled Manpower

#### ☐ Experienced staff

- ☐ With Skills on data and risk analysis,
- ☐ Have experience on other customs areas- assessment-valuation and tariff, examination, intelligence, PCA, etc

### 5. Capacity building

- ☐ Continuous training and awareness creation for RM staffs and all staffs including the senior management



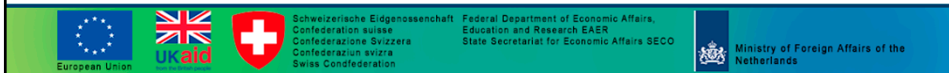
## Basic Requirements of selectivity

### 6. Tools

- ☐ Data collection and retrieval application
  - ☐ Enforcement Database
- ☐ Data analysis software or application
  - ☐ Excel, SPSS,
- ☐ Profile development, storage and retrieval application, ...

### 7. Automated Risk Management System

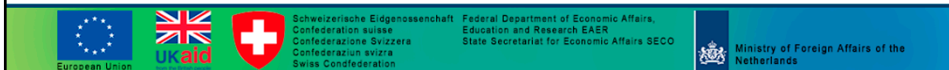
- ☐ Automation makes RM easy and effective
  - ☐ ASYCUDA++ RM module or any RM module- **MODSEL**
  - ☐ Development of Enforcement database



## Basic Requirements of selectivity

### 8. Identified Sets of selectivity criteria-

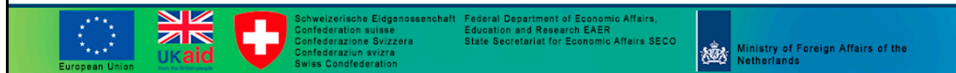
- ☐ The bases of Selectivity Management /module
- ☐ list of criteria and sub criteria for risk analysis and
- ☐ Selectivity Criteria can be
  - ☐ Importer profile,
  - ☐ Agents profile,
  - ☐ Commodity profile ,
  - ☐ Country of origin profile,
  - ☐ Country of Consignment profile,...
- ☐ Sets of sub-criteria



## Basic Requirements of selectivity

### 9. Identified Sets of other selectivity criteria

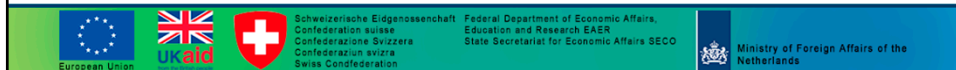
- ☐ In most cases they will not be part of the analysis
  - ☐ Diplomatic
  - ☐ Government
  - ☐ AEO
  - ☐ Gold Card
  - ☐ International Organizations,
  - ☐ Etc.



## Next Steps

### 1. Data Gathering-

- ☐ The most and critical part of risk analysis
- ☐ Identify all sources of data
- ☐ We have to work on
  - ☐ Data capturing
  - ☐ Data Quality
  - ☐ Data Accessibility
- ☐ Collect data from all available sources



## Next Steps

### Data Gathering...

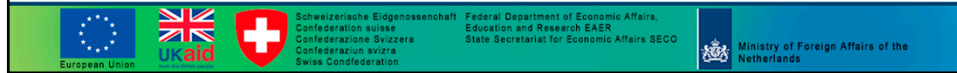
#### ☐ Internal and external sources

##### ☐ Internal sources

- ☐ Examination
- ☐ PCA
- ☐ Assessment
- ☐ Intelligence
- ☐ Investigation

##### ☐ External sources

- ☐ Insurance
- ☐ Tax
- ☐ Bank



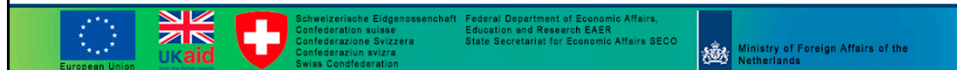
## Next Steps....

### Data Gathering...

#### Sample Format

Verification Section Data Collection Format

Station Code	Importer name	TPIN	Agent Name/Code	Declaration NO.	Declaration Date	CPC	Country of Origin	Country of Consignment	H.S. Code	Goods Description	CI/FOB value	Duty/Tax Paid	Additional Payment/Top-Ups	Penalty Paid	Type of offence	Case status	Officer Name	Remark



## Next Steps...

### 2. Perform analysis /Develop Profiles

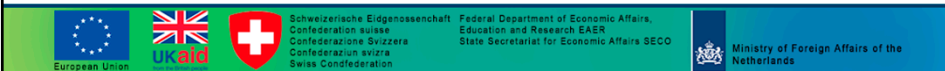
- ☐ **Separate presentation**

### 3. Write up simple selectivity code

- ☐ ASYCUDA ++ experts

### 4. Upload the Profiles in to the selectivity module of ASYCUDA++

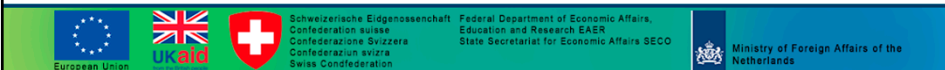
- ☐ MODSEL



## Next Steps...

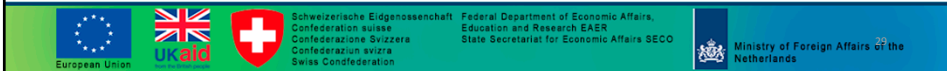
### 5. Review results and performance

- ☐ Hit rate of each profile/ selection criteria
- ☐ Findings of each control
  - ☐ Red
  - ☐ Yellow
  - ☐ Random selection
- ☐ Type of offences
- ☐ Success rate
- ☐ Unsuccessful rate



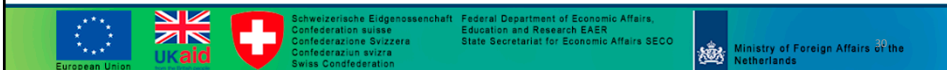
## Selectivity Performance Measurement

- ☐ Risk management drives customs operations
- ☐ Monitoring performance of program is a key responsibility
- ☐ Key Activities to monitor include:
  - ☐ Lane performance--% of transactions processed in RED, YELLOW, GREEN and AEO lanes
  - ☐ Alerts--% of targets met
    - ☐ Number of alerts with hits
    - ☐ Top-up per hit



## Selectivity Performance Measurement

Channel	Number of Transaction	Percentage	Number of Transaction with Top-Up	Percentage of Transaction with Top-Up	Hit Rate
	number of declarations passed under each risk level during clearance	for each risk channel percentage out of all	for each risk channel percentage out of all	for each risk channel percentage out of all (out of 100)	Number of Transaction with Top-Up / Number of Transaction
Red					
Yellow					
Green (if any)					
Blue (if any)					
Total		100%		100%	
				Over all Hit Rate	







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## Regional Workshop in Operationalizing Risk Management in Customs, October 17 – 21, 2016

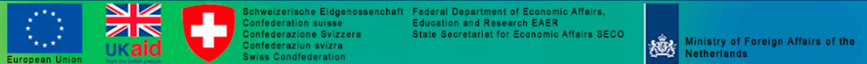

Presentation by the East AFRITAC Team  
 Lilongwe, Malawi

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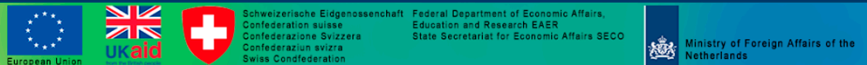


## Understanding and Using the Selectivity Engines: Case of Asycuda: Reviewing and Analyzing Findings and Updating Parameters

## Measurement Framework

- There is need for a common and standard mechanism for objectively assessing the relative size of compliance risks in the context of organisational business priorities.
- Central to the process of assessing and prioritising risks is the need for a sound framework within which compliance risks of all types can be comparatively assessed in a repeatable manner.



## Measurement Framework Cont...

- Assessing and prioritising compliance risks are thus principally about quantifying the risks identified.
- The purpose of this step is to separate the major risks (that need to be treated specifically) from the more minor ones. This requires consideration of the sources of specific risk identified an assessment of its potential consequences in terms of achieving corporate objectives, and judgment as to the likelihood that the consequences will occur (in the absence of any specific treatment).
- It relies upon the use of data and information to substantiate the consequences that are likely to be incurred if the risk occurs and/or remains unaddressed.



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## The Consequence

- Consequence is measured in terms of the impact that a risk would have on the achievement of organisational objectives.



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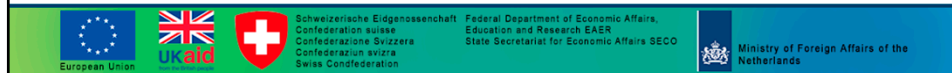
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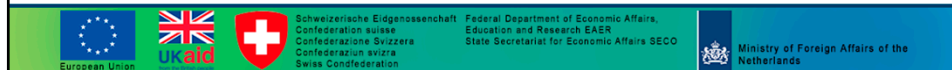
## The Likelihood

- Likelihood is measured in terms of the probability of the risk occurring at all.



## Prioritizing Risks

- This step entails a comparison of the assessed compliance risks against the business objectives of the revenue authority. The end-product should be a summary of prioritized compliance risks that are to be subject to specific risk treatment consideration.
- Prioritization requires the consequences and likelihood assessments to be brought together to determine a relative rating of the risks.

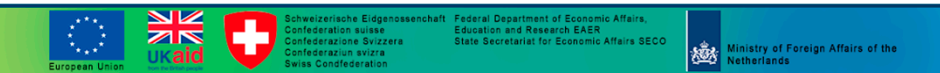


## Measurement Framework Example

### Compliance Risk Rating Matrix

- Likelihood
- Consequences

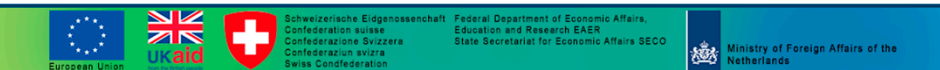
	Almost Certain	Likely	Possible	Unlikely	Rare
Fundamental	High	High	High	High	Significant
Major	High	High	High	Significant	Significant
Moderate	High	Significant	Significant	Moderate	Moderate
Minor	Significant	Significant	Moderate	Low	Low
Insignificant	Significant	Moderate	Low	Low	Low



## Measurement Framework Example Cont...

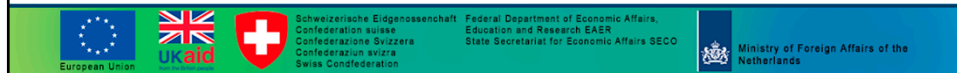
Estimated Revenue Loss	Impact	Severity	Multiplier					
Above 100,000,000	Fundamental	5	5	10	15	20	25	
50,000,000-100,000,000	Major	4	4	8	12	16	20	
10,000,000 - 50,000,000	Moderate	3	3	6	9	12	15	
1,500,000 -10,000,000	Minor	2	2	4	6	8	10	
Below 1,500,000	Insignificant	1	1	2	3	4	5	
			Multiplier	1	2	3	4	5
			Likelihood	Rare	Unlikely	Possible	Likely	Almost Certain
			% Occurance	Below 20%	20% to 40%	40% to 60%	60% to 80%	80% to 100%

GREEN	LOW	Rating < 6
AMBER	MODERATE	Rating ≥6<12
RED	HIGH	Rating ≥12



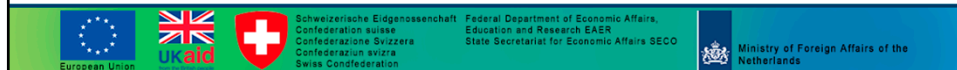
## Customs Risks

- Valuation
- Classification
- Origin
- Quantity under-declaration
- Exemptions



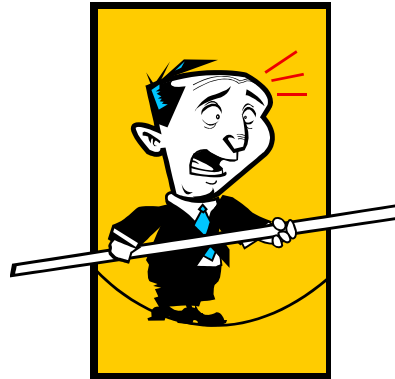
## Main Data Source

- ASYCUDA Inspection Act



## Analyze Data

- Likelihood
- Consequences



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## Analyze the Risk

By:

- Volume
- Value
- Additional Revenue
- Frequency
- Risk Area
- Client



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## Methods which may be used to analyse risk

- quantitative
- semi-quantitative
- qualitative



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## Quantitative

- generally require an **established database** (e.g., Inspection Act, Incidence Register, etc.) containing reliable, validated information. A quantitative approach would generally involve someone with expertise in statistics and probability



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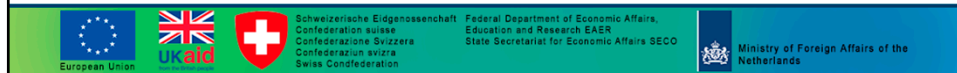


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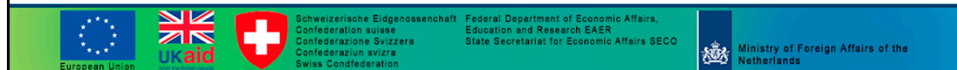
## Qualitative

- In the event no such reliable data is available, a qualitative approach is used
- Judgements are made about likelihood and consequence by those who are experienced in the area. As more data is available to us, we can make a gradual transition to a semi-quantitative approach.



## Analysis of Risk

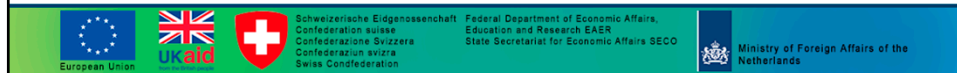
- Risk is analysed by combining estimates of likelihood (frequency) and consequences (impact or magnitude of the effect) in the context of existing control measures.
- Using the risk matrix, determine a Risk Rating for each of the risks; and
- Separate the minor (low) and possibly acceptable risks from the major (high) risks.



## Review Point

We should now have available:

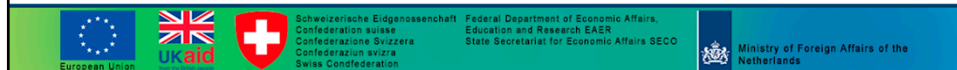
- A rating of the likelihood and consequence of each identified risk
- A rating for the level of risk for each identified risk
- The likelihood, consequence and level of risk entered into the risk register.



## Risk Treatments

Risk treatments may include:

- Avoiding the risk
- Accepting the risk
- Reducing the risk
- Transferring the risk



## Accepting a Risk

Reasons for accepting a risk may include:

- It is rated low
- The threat posed by the risk is so low that its treatment is not warranted in the context of available resources.
- The cost of treatment is so high that there is no real option but to accept it – this is of particular relevance to lower level risks.
- The potential opportunities available if the risk is accepted significantly outweigh the threats posed by the risk.



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## Rank the Unacceptable Risks

- **Having culled acceptable risks, the next task is to prioritize unacceptable risks.**



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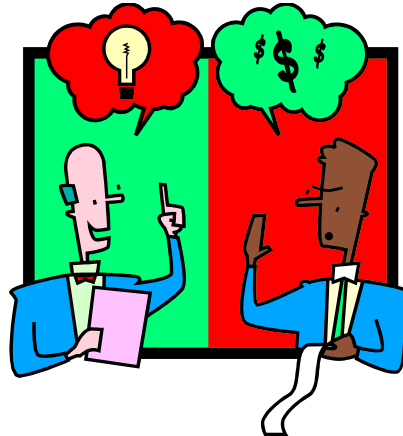
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## Treat the Risks

- identify potential risk treatment options
- assess in terms of their cost effectiveness
- add to the risk management plan



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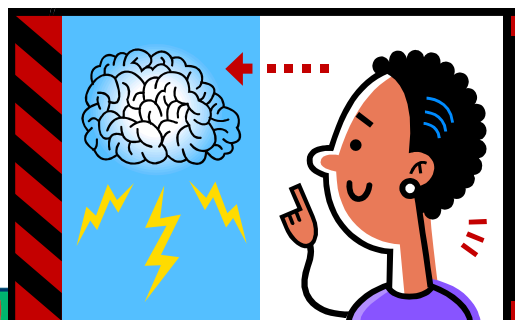
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## Exercise

- What Risk Treatments do we have available to us?  
Let's brainstorm them...



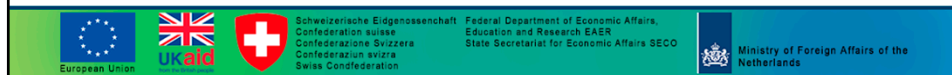
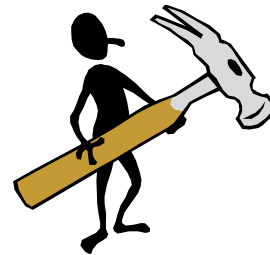
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## Treatments

- Physical examination of cargo
- Examination of documents
- Post Clearance Audit
- Review or focused audit
- Client education
- Advice (rulings)
- Legislation
- Acceptance or transfer of the risk
- Policy and Procedure review
- Penalty
- Prosecution



## Matching the Treatment to the Risk

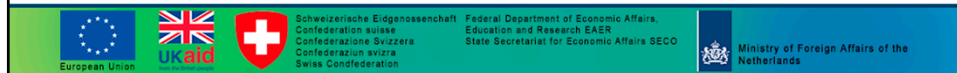
- Valuation
- Classification
- Origin
- Quantity under-declaration
- Exemptions



## Exercise

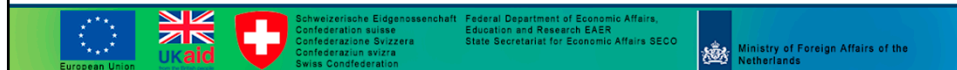
Returning to the previous slide

- Which risks can be treated by
- A) Physical examination of cargo?
- B) Post clearance audit?



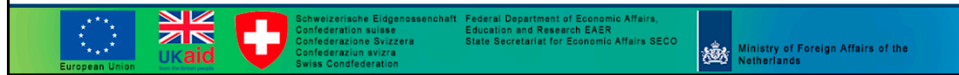
## Answer

- It depends



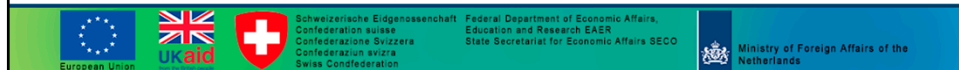
## Treatment Strategy

- Depends on what?



## Treatment Strategy Cont...

- Client Segment



## Evaluate the Risk Treatment

- Is short or long term?
- Is it appropriate for the target?
- Will the proposed options reduce the risk? If so, how?
- Will there be any flow on effects (to Customs or others)?
- What is the effect or impact on other stakeholders?
- What is the extent of the benefits or opportunities which may be created?
- Do the costs outweigh the benefits?



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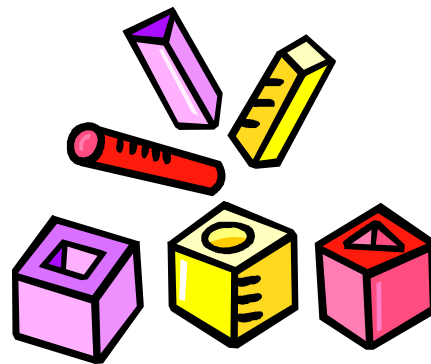
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## Exercise

- Identify risk treatments to treat the unacceptable risks.
- Note: more than one treatment can be applied to a risk!



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# Updating Parameters




Updating Parameters

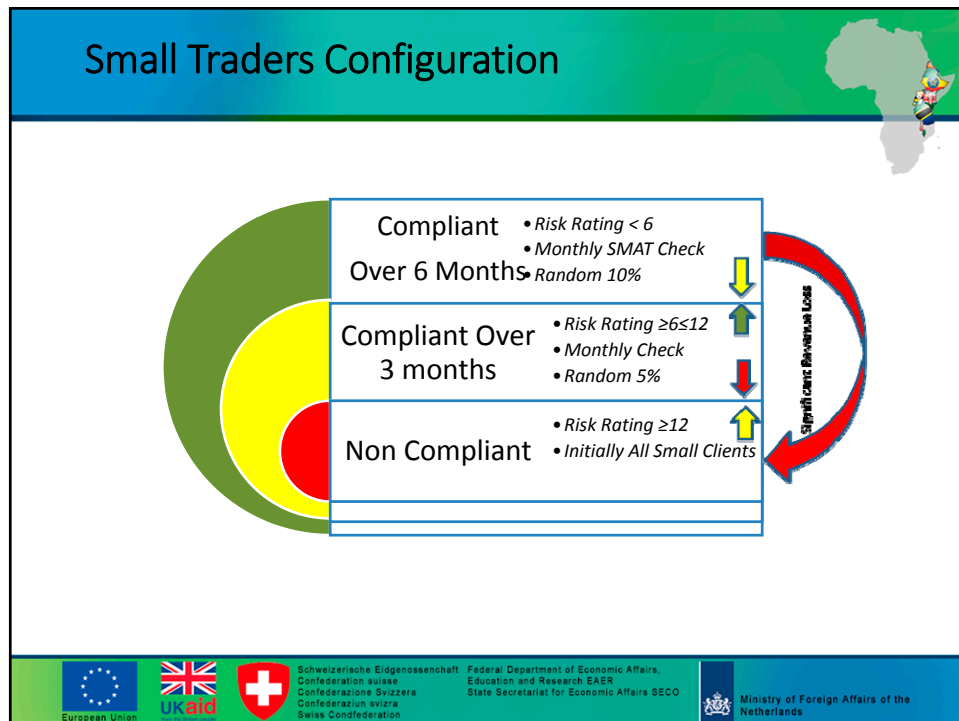




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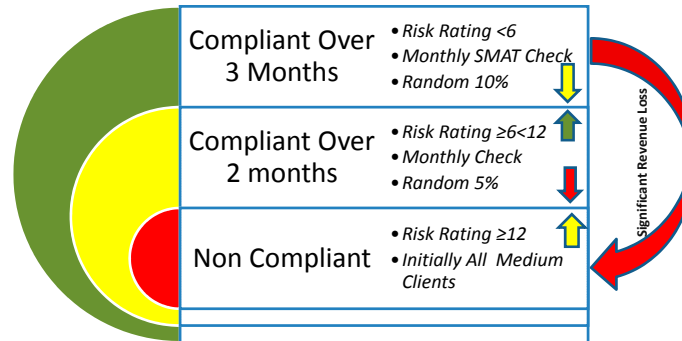
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## Medium Client Segment Configuration



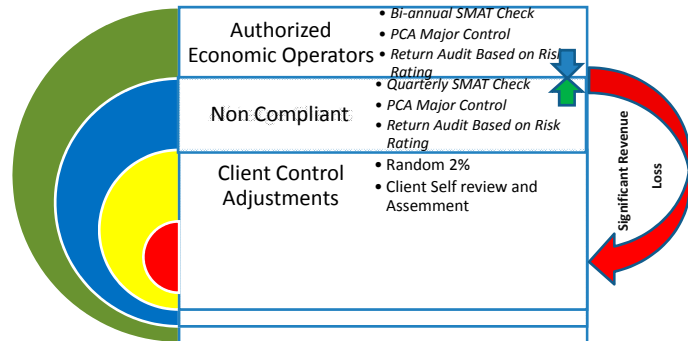
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## Large Client Segment Configuration



GREEN	LOW	Rating < 6	Return Audit - 3 Years
AMBER	MODERATE	Rating ≥6<12	Return Audit - 2 Years
RED	HIGH	Rating ≥12	Return Audit - 1 Year



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## Documenting the Decision

The objectives of keeping such a record are to:

- **Demonstrate that the process has been applied correctly and introduce some form of accountability in decision making;**
- **Provide a record of risks, their identification, analysis, assessment, prioritisation, treatment and review, and provide audit trails for the same;**
- **Facilitate risk monitoring and review processes; and provide assurance that to management that risks are being properly managed**



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## Monitoring

- During the life of the plan monitoring is required as few risks are static, and changing circumstances can invalidate assumptions or priorities.
- Do high risks need to be downgraded?
- Are low risks still “low”?
- Do importers need upgrading/down grading?
- Are our assumptions supported by available data, such as performance indicators?
- Do the risk treatments seem to be having the intended result?



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## Analyzing Impact of Interventions on Compliance Behaviors – Have we achieved what we Set out to Achieve




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## Compliance Measurement Framework

- Success criteria and measurement indicators should be considered when choosing treatment strategies.
- Treatment objectives must look beyond immediate outputs (e.g. audit results) to changing behavior over time.
- No single measure is sufficient, but seeing the trend of different indicators is instructive.
- For an evaluation to be worthwhile, compliance strategies (whether of an enforcement, legislative, litigation or service nature) must have clearly defined objectives that are measurable.



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## Compliance Measurement Framework

- If an administration is to improve the effectiveness of its compliance program, it needs to be able to state the compliance benefits that have been achieved through the application of its compliance strategies. Revenue authorities that fail to measure the effectiveness of their compliance strategies run the risk of continuing to sub-optimize their strategy selection.
- An evaluation framework provides the proper foundation for the continuous improvement of compliance strategies.



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## Target Indicators

- Percentage of revenue to GDP
- Revenue per capita(officers)
- Revenue per volume of declarations
- Penalties
- Number of adjustments(valuation, Classification, origin, exemptions, quantity, etc.)
- Unpaid revenue as percentage of total collections
- Volume/throughput/turnover
- Post clearance audit results
- Lane distribution
- Revenue to administration cost ratio

The analysis of these indicators, pre and post compliance intervention, provides for a basis for evaluating the direct influence of the intervention on the compliance behavior of the target group



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## Objectives

What are intending to achieve?

- **Direct impacts.** These are the immediate impacts on the target population in relation to the specific risk identified.
- **Related impacts.** These are the impacts beyond the immediate risk being addressed by the compliance strategy.
- **Impacts over time.** The evaluation should not be limited to the direct impact or outputs of the compliance strategy, such as the amount of revenue raised from audits, but extended to measuring its ongoing impacts on taxpayer behavior. For example, did the compliance strategy result not only in a correct valuation on one occasion, but in a sustainable *motivation* to declare correctly in the future and the *capability* to do so — through improved record keeping?



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## Review

- How efficiently and effectively did we achieve our objectives?
- Were our strategies effective? Were risks reduced?
- Did our risk treatments have the expected results?
- How valid were our assumptions?
- The appropriateness and adequacy of performance indicators;
- How accurate was our estimate of costs?
- Have there been any flow on implications of the risk treatment? Impact on industry or wider political implications?
- What has been the reaction to the project? Internal and external?



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## Evaluating Interventions

- Did the intervention influence the behavior of the wider segment of which the selected taxpayers are a part? And what of compliance in the broader population and the community as a whole?
- To provide a balanced evaluation, an authority needs to look at impacts beyond the immediate target group. While there will inevitably be a progressive decrease in the validity of measures associated with broader impacts, if the trends of all indicators are the same, confidence in the effectiveness of the program is increased.



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## Evaluating Interventions Cont...

- Improvements in the indicators would serve to indicate improvements in compliance levels at the relative level of measurement.
- There is no one method that will unequivocally measure perfectly the impact of strategies on taxpayer behavior. To get most meaning and value from analysis, indicators of compliance must be interpreted systematically and in conjunction with one another. This allows for reasonable judgements to be made on whether a particular compliance strategy has influenced behavior.



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# Thank you



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