SOUTHERN AFRICA GLOBAL COMPETITIVENESS HUB

Technical Report:

Building Risk Management Capacity of MMTZ and SACU Customs Administrations

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INTRODUCTION
Risk Management in Customs

Despite progress in globalization, the role of Customs as a "revenue collector" will remain crucial over the next decade. As well, there will be an increasing need to monitor the movement of both people and goods in order to provide protection to both the economy and the public. However, these roles will have to be balanced with the need to facilitate the outward movement of domestically produced goods and the inward movement of foreign investment. The latter may eventually prove to be as stimulating to the individual countries' economies as revenue collection is at the moment. Similarly, the movement of people will need to be streamlined as the traveling public becomes accustomed to moving through Customs with minimal interference. Countries that develop a reputation for impeding the free movement of goods and travelers face the danger of isolating themselves from both the business world and the traveling public.

To meet the many challenges facing the Customs Services in this rapidly-changing environment, new and better ways of doing business must be adopted. There will be a need to maximize the use of technology; to streamline and improve operations; to focus protection and enforcement activities in areas of highest risk and to speed up the processing of low risk goods and travelers.

The adoption of a Risk Management regime and use of Intelligence provide a foundation for enhancing the movement of goods while at the same time maintaining or increasing the collections of duties and the interception of controlled goods. While the use of these control tools is a common practice in the more industrialized, it is a novelty in the less industrialized countries

HUB TRAINING IN RISK MANAGEMENT

It is in the light of the foregoing background that the Hub decided to include training in Risk Management in the Custom Reform component of the work plan. The building of the risk management capacity of the Customs administrations of the region is an important element of the effort to enable the countries to join the global economy.

The training started with short introductory courses for a few Customs officers who were selected by their Customs administrations to champion the introduction of risk management in their Custom services. In South Africa, the Hub risk management consultant worked with the officer responsible for Customs enforcement to prepare a risk management policy and training package.

Malawi, Namibia, Tanzania and Zambia each had several officers given the introductory course. In Botswana, the administration decided that the whole senior management team should be exposed to risk management. Fifteen senior managers benefited from the introductory course.

After an interval of six months, a more comprehensive Risk Management and Intelligence course was conducted in six countries respectively; viz. Botswana, Malawi, Mozambique, Namibia, Tanzania and Zambia. This time the course lasted between four and five days and, as the table below shows, a minimum number of 19 officials were trained in each country.

Customs Officials Trained in Risk Management

Total officials trained - 190	
Botswana	43
Malawi	30
Mozambique	29
Namibia	21
South Africa - (Policy and Training Policy Package) Tanzania	1 46
Zambia	20

Recommendations to Progress Risk Management

MMTZ and SACU Customs administrations have made great strides in the acceptance of risk management over the past two years. The concept is generally accepted in all of the countries and some steps have been put in place to move the concept forward. Malawi and Zambia have created Intelligence Units to identify their high-risk traders and ports of entry. The idea has been widely accepted by staff in Tanzania, Mozambique, Namibia and Botswana and it is highly likely that these countries will create such units within the Revenue Authorities or as strict Customs and Excise units.

Having said this, however; there are still some steps that need to be taken. As will be seen in the introductory note in the appendix hereto, Risk Management is quite complex, and having a number of officials with a basic theoretical knowledge of the subject is not enough. Intelligence analysis units have to be established on a strong professional footing. National plans for implementing risk management have to be prepared, the Customs administration must organize and staff appropriately, and the analysis units that are integral to risk management must be trained to perform their roles.

There is also need to provide training in analysis to those countries that have already implemented or are contemplating implementing an intelligence role. This would likely be best achieved by holding a train-the-trainer course for trainers for all MTZ and SACU countries. Once trained, the trainers would be tasked to combine their newly-learned skills and conduct courses for the intelligence practitioners in each of their own countries. This would eliminate the need for external consultants and would give the countries a sense of ownership. The training should be conducted fairly soon since the existing intelligence units will cease to exist if they do not quickly provide some benefit to the Customs/Revenue organizations.

APPENDIX - **RISK MANAGEMENT IN CUSTOMS**

An Introductory Note

The most common definition of the verb *risk* is **"to expose to the chance of loss".** In simple terms this means that Customs can diminish its effectiveness if an ill-considered risk is taken. By using the concepts embodied in Risk Management; by managing the risks that are inherent in Customs operations; Customs will be able to minimize the risk. In fact, when properly applied, Risk Management can increase the effectiveness of a Custom operation.

There are three dimensions of risk; *probability*, the chance that a loss will occur; *consequence*, the magnitude of the risk; and *perception*, the significance of the loss as it relates to the basic objectives of the organization.

Risk Management principles are used to identify, evaluate, analyze and control potential adverse effects and consequence. As well, risk management is as much about identifying potential opportunities as it is about avoiding or mitigating losses. In the Customs context, it involves developing concrete information about existing and emerging threats, and developing compliance and enforcement strategies so efforts can be focused in probable areas of high risk. In the past, Customs dealt with risk on a one-dimensional plane – the potential existence of non-compliance. However, risk management decisions must also reflect a **balance between the level of risk in terms of adverse social and economic effects, and must show the benefits versus the costs associated with control activities.**

Risk Management requires a combination of compliance research and intelligence to provide an objective and comprehensive picture of the risk posed to the Customs mandate by internal and external threats. Neither compliance research nor intelligence, on their own, gives a truly complete view of a problem. The two must be considered together to fully appreciate the magnitude of the risk. It must be noted that use of the term "intelligence" is not limited to criminal intelligence. Rather, it includes the whole spectrum of economic and political intelligence.

In the Customs context a risk management regime must take four factors into account; these are:

- The known or potential existence of non-compliance
- The known or suspected magnitude of the problem
- The damage that non-compliance may cause; and
- The ability of the Customs to deal with non-compliance.

A risk management regime requires a structured decision making process. There are eight essential principles that must be observed.

1) Senior management must support the risk management program.

2) Risk management must be unbiased and objective. It must identify where the risk actually is rather than where we have been conditioned to think it is.

3) Risk management must take into account political, legislative and fiscal realities.

4) A risk management regime must be dynamic and consider geographical, regional and inter-departmental priorities.

5) Risk management requires automated systems that support risk management initiatives. This includes a structured performance management process.

6) Risk management solutions must be practical and realistic; they cannot suggest measures that are outside the current or long-term capabilities of the organization.

7) Risk management requires a structured communication network for the exchange of information within the Department and with stakeholders and clients.

8) A formal process for monitoring and evaluating the risk management solutions must be in place.