

**Access to Microfinance & Improved Implementation of Policy
Reform
AMIR Program)**

Funded By U.S. Agency for International Development

*Customs Risk Assessment and Selective Inspections
Phase 1*

Final Report

**Deliverable for Policy Component, Task No. 4.2.9
Contract No. 278-C-00-98-00029-00**

November 2000

This report was prepared by Irina Swift and The Services Group, in collaboration with Chemonics International Inc., prime contractor to the U.S. Agency for International Development for the AMIR Program in Jordan.

TABLE OF CONTENTS

1.0 EXECUTIVE SUMMARY.....	1
2.0 EVALUATION OF JORDAN CUSTOMS CURRENT RISK ASSESSMENT AND SELECTIVITY SYSTEM	2
2.1 BACKGROUND.....	2
2.2 CURRENT METHODOLOGY FOR DETERMINING CRITERIA	3
2.3 CURRENT PROCEDURES FOR SELECTIVE PROCESSING.....	3
THE GREEN LANE IS THE PROCESS WHEN NO FURTHER REVIEW IS INDICATED AND THE	4
2.4 ASSESSMENT OF CURRENT PROCEDURES	5
3.0 RECOMMENDATIONS FOR INITIAL PHASE FOR IMPROVED INTERNAL PROCEDURES	6
3.1 THE FIRST STEP	6
3.2 THE SECOND STEP	6
3.3. THE FINAL STEP	8
4.0 CONCLUSION.....	9
ANNEX A: ASYCUDA PROCESSING AND SELECTIVITY.....	1
ANNEX B: COMMENTS ON ASYCUDA SELECTIVITY BY ASYCUDA NATIONAL PROJECT DIRECTOR "MAHMOUD T. Wafa"	2
ANNEX C: RISK ASSESSMENT QUESTIONNAIRE AND RESPONSES OF RISK ANALYSIS MANAGER "ENG. DAMEN AL-FAWAZ"	3

1.0 EXECUTIVE SUMMARY

Customs administrations are increasingly turning to risk management as an effective means of meeting their goals and objectives. A well-designed Risk Management System promotes trade facilitation and at the same time provides for control over the movement of goods. This process helps to match Customs priorities to its resources and is both encouraged and supported by international organizations as a modern Customs control technique.

The Risk Management process makes more effective use of existing skills and experience and provides, through focus on specific high-risk areas, for greater results. It improves the quality of Customs controls, information, and accountability and promotes the concept that low risk cargo and compliant importers benefit by expedited Customs release procedures.

Jordan Customs has implemented the current release of ASYCUDA automated declaration processing with a selectivity component. ASYCUDA has been operational at two major processing sites for over one year and has sufficient electronic on-line declaration data available for analysis. The current selectivity system has some components of risk assessment already in place. There is great interest on the part of Customs authorities to further refine their selective system and employ the techniques of risk management. However, there are certain steps that need to be considered in the development of a strategic risk management concept.

The first step for a Customs administration is to look at the Customs context and define the role of Customs, the national priorities and the expectations of the public and private sector. This step will also require the creation of a multi-disciplined risk group, determining operating procedures, and cataloguing existing sources of data or information that can help in identifying risks and determining priorities.

The second step is to analyze the information and identify industry sectors, commodity areas, or control risks such as high duty, valuation, goods subject to trade agreements, sensitive goods, etc. and to research existing databases and records on commodity and trader histories.

The final step is for management to initiate an action plan and work with the risk management group to develop processes that can be best applied in the national environment.

2.0 Evaluation of Jordan Customs Current Risk Assessment and Selectivity System

2.1 Background

In the current environment selectivity and risk assessment are available for cargo processing through ASYCUDA at Amman Customhouse and Queen Alia International Airport cargo facility. Aqaba will install ASYCUDA before the end of the current year and Zarqa Free Zone will have it in early 2001. Once ASYCUDA is available in Aqaba, and Zarqa over 85% of all cargo declarations, import and export, will be automated and will benefit from selective review. The data collected will provide all the necessary information to implement national risk assessment. Besides the cargo declaration system, there is a plan to develop a violator database for review of passengers and other entities both within and outside the cargo process.

Currently there has been no overall analysis on the transmitted declaration data. Now, that there is over one full year of available data at the two operational sites, there are plans to begin identification of major importers, commodities, and sort the information by country of origin, importer, discrepant findings, and by sensitive commodities to determine which areas represent the greatest risk and where to concentrate resources.

Customs has established a Risk Analysis Unit at the Headquarters office. This Unit has oversight for all criteria review, analysis, and input. Field offices and other Customs units analyze information and forward it to the Risk Analysis Unit for input into the criteria file. There is a national shared criteria file where criteria records that concern all shipments are stored. There are also local criteria files developed for specific port concerns by the individual ports. The Risk Analysis unit receives daily reports and reviews the declarations and the performance of criteria on a bi-weekly basis. The national file has approximately 10-20 records, and the two local files each contain 20-25 records which are reviewed bi-weekly and archived if found to be ineffective. The overall criteria file size is very manageable and easy to review.

There is also a black list file that contains company names and the names of individuals that have proven to be violators. Several commodities have value parameters indicated in the harmonized tariff number to generate reviews for those shipments that fall outside the parameters. Additionally, a random factor can be set to generate a specific percentage of declarations for further scrutiny. This factor can be adjusted based on workload.

Jordan Customs processes all their declarations through ASYCUDA. This includes exports, temporary admissions, re-export, special duty free regimes, and commercial imports. Overall, about 33 % of all declarations are processed without

any Customs review. Another 32% are reviewed due to some document requirement such as those needed for duty free entry or a document that indicates other agency review. The final 35% of the declarations are reviewed and examined. However, of the approximate 100 commercial import declarations filed at the Airport on a specific day about 50% were processed without review, another 30% received a document review and 20% were examined. Of the document review and exam entries about 8% were found to have some deficiency.

Discrepant findings are input into the declaration database for review. At this time there is only a correction made to the declaration and a notification sent to the importer, but there is no methodology to review compliance or discuss the deficiencies with the importer. There is intent to develop such a methodology in the future.

2.2 Current Methodology for Determining Criteria

The basics of criteria development are based on research, data analysis and review. There are certain specific factors Customs uses to develop and target shipments for additional scrutiny. Those factors are:

- The importer's record and performance.
- The past performance of the clearing agent.
- The type and nature of the imported goods when patterns of violations have been identified.
- Commodities with either high Customs duties and taxes or those that benefit from lower duties.
- The value of the goods based on types of transactions.
- Countries of origin or export from which there have been frequent transactions that were found to be in violation related to value, quantity, or mis-description.
- The type and nature of the declaration whether import, export, temporary admission, or temporary export that involve specific risk commodities associated with those transactions.
- Risk commodities that are subject to trade agreements, special exemptions or benefit from decreased duties.

2.3 Current Procedures for Selective Processing

As the electronically transmitted declarations are edited and processed through ASYCUDA, they are assigned, based on risk, a specific clearance lane or identified as having failed an edit and designated for correction. If they have passed the edits the lane designation is transmitted to the clearance agent and can indicate one of the following:

The Green Lane is the process when no further review is indicated and the declaration is set for payment and release of goods. Green lane procedures are for:

- for specific lists of commercial importers that have been found to be compliant and benefit from expedited release;
- for unconditionally duty free goods;
- for goods that have been determined to be risk free such as goods imported by the Royal Court, Embassies, Ministries, Public Security agencies;
- and for goods entered by major industrial corporations and institutions concerned with the Jordanian national economy that encourage investment and promote economic welfare.

The Yellow Lane is for those transactions that constitute a medium risk and require a certain degree of document review.

- Certain medium risk commodities that may be exempt from duties and taxes and require Customs review of certain documents to make that determination either based on origin or other evidence.
- Those declarations that have deductions or amendments to the declared value and that may have an assigned risk concerning currency conversion and declarations that are subject to guarantees or deposits are also considered to be medium risk and require some level of scrutiny.

The Red Lane is intended for high-risk declarations that require scrutiny and physical examination.

- This may involve companies or persons who have been placed on the black list for gross Customs violations.
- Goods, that by their nature may require physical examination to determine value such as used or refurbished goods
- Red lane review may also be generated for goods that may require additional analysis to determine tariff classification
- For goods that are subject to high customs duties and taxes
- For goods from specific countries for which a pattern of violation has been previously determined
- Sensitive goods that may have security concerns
- Goods on which there is information about potential for unlawful import or commercial fraud
- Temporary import, export or re-import goods may be designated for this additional scrutiny

- And for declarations selected at random for further scrutiny. This is a safeguard to identify potential concerns or violations that were not previously documented

2.4 Assessment of Current Procedures

Jordan Customs has initiated some risk assessment techniques by identifying non-compliant importers, and risk commodities for further scrutiny. The Headquarters Risk Analysis Unit reviews criteria for performance, reviews data on deficiencies identified in declarations, and receives new criteria for input. However, there has not been any overall analysis on the data resident in ASYCUDA. The two sites that currently allow for electronic declaration processing have been operational for over one year. There is now sufficient trade data to allow for analysis, and to plan a transition from tactical selective processing to an effective and systemic approach of risk management. It is recommended that Customs begin working on improved internal procedures and a systemic risk management plan.

3.0 Recommendations for Initial Phase for Improved Internal Procedures

3.1 The First Step

The first step for a Customs administration is to look at the Customs context and define the role of Customs, the national priorities, and the expectations of the public and private sector. This step will also require the creation of a multi disciplined risk group, determining operating procedures, and cataloguing existing sources of data or information that can help in identifying risks and determining priorities.

The trade data resident in ASYCUDA can be analyzed to determine current trade patterns. This level of information will provide a clearer picture of who does what in the export/import environment of Jordan.

3.2 The Second Step

The second step is to analyze the information and identify industry sectors, commodity areas, or control risks such as high duty, valuation, goods subject to trade agreements, sensitive goods, etc. and to research existing databases and records on commodity and trader histories.

It would be more efficient to download ASYCUDA trade data into a structured database and sort information based on various factors. The Risk Management Unit can work closely with the ASYCUDA unit to learn how to use the data analysis tools and how to generate reports. It should be understood that data is a managed corporate asset and needs to be on call and immediately available. Long cycle times from request to delivery of data should be considered a mismanagement of the asset.

Each processing site can be separately and jointly analyzed to determine trade patterns.

- The first step is to segregate the trade by sectors; commercial imports, exports, temporary admissions, re-exports, special duty free regimes, etc.
- Each sector should be analyzed based on major importers, commodities and countries of export/origin.
- Each specific area can be sorted in descending order as to value, revenue produced, and identified violations.
- Once the major importers are determined by value or by revenue produced there can be a finer level of detail sort to identify commodities imported and commodity/country relationships.
- The same additional review can be performed on the major commodities to identify the importers and countries of origin of those commodities.

- Importers and commodity violations can be included in the sorts.
- Once each trade sector and each site is separately analyzed, they can be combined to analyze certain aspects of the trade. Do the major importers also export and if so, what do they export? Is there any link between commodities entered as temporary admission and imports or exports? This could provide interesting insight into the activities of the trade.
- Any off-line information or reports should be made available for inclusion in the analysis process.

Once the information is sorted and initially analyzed for trade patterns it can now be used to evaluate other aspects of the trade.

- Top importers/exporters – there is normally a logical break in the sort. It may be that the top 25 or 50 companies represent a major percent of the value or revenue produced. Certain information can now be determine such as that the 50 top importers out of a total of (x) importers represent a certain percentage of the trade and the next 100 represent another percentage to provide management with a view of current trade environment.
 - ✓ For each top importer provide a report of what specific commodities and from what countries and add any history of discrepancies or other information to that report.
 - ✓ Analyze the type of trade conducted and determine a potential risk
- Sort top commodities identified by harmonized number by value and by revenue produced. There also will be a logical break within this sort. It may be that the top 100 commodities would represent 50% of the value or revenue.
 - ✓ For each top commodity identify the importer and country of origin and add any information about deficient findings or violations.
 - ✓ Analyze each commodity as to trade complexity and assign a risk

- Identify any deficiencies or violations and link to importer and commodities to determine if risk is related to either the importer or the commodity.
- Consider sorting the trade by major industry sectors to determine value, revenue level, and previous violations by those sectors.
- Review lower level importers and commodities to determine if any require the above level of detail.
- Review the information and determine whether there is sufficient data to assess potential risk.
- Analyze the potential risk associated with the information and provide to management for evaluation.

3.3. The Final Step

The final step is for management to initiate an action plan and work with the risk management group to develop processes that can be best applied in the national environment.

- Based on the information provided, management will now be in a better position to determine a course of action and create a strategic risk management plan.
- Areas or industry sectors could be determined as of major interest or of greater potential risk. Certain sectors such as agriculture, telecommunications, textiles or machinery could be determined as areas of national concern.
- Import compliance or specialist teams could be created around each priority sector.
- Priority trade sectors would identify areas of concern and deal directly with importers to correct the issues.
- Additional measurement plans can be put into place to determine level of compliance in those or other industries.
- A general compliance measurement plan based on a statistical review of each subheading in the tariff could be initiated to determine level of compliance throughout the trade.

- A training plan to familiarize both Customs officers and the trade with the risk management concept would need to be developed.
- A review and monitoring plan would need to be in place. Risk changes as the trade environment changes. There is a need to continue to review and analyze data and ascertain that the current process is still working as planned and that improvements are continually implemented.

4.0 Conclusion

Jordan Customs already has many of the components of a risk management system in place. The majority of all declarations will be automated by early 2001. A Risk Analysis Unit with oversight of criteria and declaration review is already in place. There is an interest in expanding the current selectivity system to a strategic risk management environment. It is recommended that the first steps described above be considered in the context of the Jordanian Customs Service. It is also recommended that the steps be taken to review and analyze data and available information to begin formulating a Jordanian Customs Risk Management System based on the needs of Jordan and the resources available in Jordanian Customs.

Phase 2 of this task will concentrate on the development of improved internal procedures for establishment and use of a risk-management based system. Included in this task is a workshop on risk management procedures directed at the representatives of the Risk Assessment Unit of the Customs Valuation Directorate as well as the heads of the Customs Clearance and Inquiry Units.

ANNEX A

ASYCUDA PROCESSING
And
SELECTIVITY

ANNEX B

**COMMENTS ON ASYCUDA SELECTIVITY BY
ASYCUDA NATIONAL PROJECT DIRECTOR
MAHMOUD T. Wafa**

ANNEX C

**RISK ASSESSMENT QUESTIONNAIRE
And
RESPONSES OF RISK ANALYSIS MANAGER
ENG. DAMEN AL-FAWAZ**