

REPORT

on Mechanism of the Risk Management System Introduction in Customs Authorities of the Republic of Uzbekistan

Risk management system is the main basic principle of modern custom control methods. These methods allow for **optimal utilization of customs authorities' resources**, such as human, financial and technical resources, while not lowering the customs control efficiency, and on its turn release most of foreign economic activity participants from excessive bureaucratic control. Risk management based procedures allow to control customs clearance process at the facilities with highest risks, and through this improve the results with same, or sometimes lower amount of resources.

Basics and principles of customs control envisaging the application of a risk management system are fixed in the International Convention on Simplification and Harmonization of Customs Procedures of the World Customs Organization (Kyoto Convention):

- customs control is limited to a minimum required to ensure compliance with customs legislation;
- risk management system is applied in selecting the forms of customs control;
- customs service applies risk analysis methods to identify persons and goods, and vehicles subject for inspection, and the degree of this inspection;
- customs service applies the strategy which is based on the system of measures to evaluate the probability of legislation infringement.

Positive results of risk management system's application in the operation of customs service are proved by the experience of foreign customs services.

Purpose of the risk management system is to create modern customs administration system that ensures efficient customs control based on selectiveness principles and optimal distribution of resources of customs service of the Republic of Uzbekistan at most important and priority directions in the work of customs authorities to prevent violations of customs legislation.

Main objectives of the risk management system are to:

1. Create common information space enabling risk management system's operation.
2. Develop risk detection methods (programs).
3. Determine potential risks and fix detected risks.
4. Identify reasons and conditions facilitating customs violations.
5. Evaluate possible damage in case of potential risks and damage from detected risks.
6. Determine the possibility to prevent or minimize risks, and also identify required resources and develop proposals on their optimal distribution.
7. Develop and apply methods to evaluate the efficiency of measures applied.
8. Develop and practically implement measures to prevent or minimize risks.
9. Control practical implementation of measures to prevent or minimize risks.
10. Evaluate the efficiency of applied risk management measures and adjust managerial decisions.
11. Accumulate and analyze information of the results of certain forms of customs control or their totality, and also reasons and conditions facilitating customs violations, for the purposes to develop proposals on modernizing customs control strategy.

Introduction of a risk management system assumes the following phases:

1. Develop appropriate regulatory framework regulating the application of risk management system in the operation of customs authorities.

Introduction of risk management system in the operation of customs services requires certain legislative basis to determine the authorities of customs bodies and in appropriate cases – for the purpose of legal protection of customs officers themselves.

Legislative basis for the operation of customs services of such countries as Russian Federation and Kazakhstan are fixed in Customs Codes (Attachments 1, 2) that provide customs services with authority to implement customs control in a selective manner based on the risk management system.

While Customs Code of the Republic of Uzbekistan envisages the selectiveness principle for forms of customs control, it does not stipulate grounds for the selection (except the general phrase – *in customs control customs authorities as a rule apply those forms that are sufficient to ensure compliance with legislation*).

Draft new edition of Customs Code of the Republic of Uzbekistan already stipulates grounds for implementation of the risk management system.

“In selection of forms of customs control a risk management system is applied, which is based on the principle of efficient utilization of customs services’ resources to prevent violations of customs and other legislation that are of a permanent nature, related to major evasions from customs payments, undermine the competitiveness of local producers and affect other important interests of the state, and ensuring the compliance with them is imposed on customs authorities.

Customs authorities apply risk analysis method to determine goods and vehicles, documents and persons subject to inspection and the degree of such inspection.

Customs authorities determine customs control strategy based on the system of risk evaluation measures.”

2. introduction of modern information technologies, including modern data transfer channels, international data transfer standards, corresponding software, and computer hardware and technical means of customs control.

Creation of a unified automated information system of the State Customs Committee of the Republic of Uzbekistan establishes conditions for building an efficient risk management system. Main principle in risk management system’s establishment is the principle of information unanimity, which is the compatibility of information sources and unified approaches to data processing and analysis, and also interrelation of the information, both vertically and horizontally, at all levels of customs administration.

Main objectives in creation of a Unified Automated Electronic System (UAES) of customs authorities of the Republic of Uzbekistan are to:

1. Develop customs information infrastructure to coordinate, plan and manage operations.
2. Collect, analyze, store, search and disseminate information within the whole customs system.

First of all UAES should serve as the information tank (information system).
Information system is the instrument to detect and target suspected infringers and

goods. Information system is ALL and ANY information collected and packed in contansive manner.

Main requirements to UAES:

1. communication – unified communication of all levels in the customs system;
2. inputs – timely input of information;
3. accuracy – complete and precise input of information;
4. security;
5. evaluation – analysis of all information;
6. distribution – certain access of customs officers to data base.

Before creating UAES it is necessary to understand the following:

1. Whet types of information are necessary?
2. What information exists?
3. Who possesses it/has access to it?
4. Where, when and what to record/collect?
5. Who consolidates?
6. What is used to sort the information?
7. Which created base will be disseminated?

UAES will create a national data base of information and the system of timely intervention. The results will show trends, risk goods and will identify the multitude of infringers.

Analysis of the operation of customs authorities of the Republic of Uzbekistan shows that currently they operate different software that function separately and locally:

1. Data base of customs cargo declarations – operated by Customs Statistics and Analysis Center;
2. Data base of export-import contracts – operated by Currency Control Department;
3. Data base of customs violations – operated by Customs Investigation Department;
4. Data base of delivery of goods control – operated by Customs Control Department;
5. Data base of goods stored at customs warehouses – being developed (Customs Control Department);
6. Data base of customs brokers and customs clearance specialists – operated by Legal Department.
7. Data base of T-6 form declarations. Old version (contains only the date, name of person crossing the customs border of the country of entry or exit) operated by Customs Statistics and Analysis Center. New version of this software is already developed, but is currently pilot tested.
8. Data base of customs officers of the Republic of Uzbekistan – operated by Human Resources Department.

At the same time it is considered practical to additionally create:

- together with banks, the data base of record keeping and verification of customs payments (through deposit accounts of SCC, will be operated by Customs-tariff Regulation and Payments Record Keeping Department);
- date base of conclusions of expertise conducted by customs authorities (will be operated by Customs Expertise Center);
- data base of operational activity of customs authorities (will be operated by Smuggling Control and CRV Department);
- data base of information received from alternative sources, such as Internet, other law enforcement authorities, customs services of foreign countries and etc. (will be operated by Risk Management Subdivision).

Information contained in the abovementioned data bases will be sufficient to efficiently implement risk management methods.

3. Creating information support for risk management system, including different data bases and software to process them.

Creation of a unified automated electronic system of customs authorities of the Republic of Uzbekistan will be impossible without operation of different data bases and software to process them.

In creation of a unified data base it is necessary to draw special attention to the following main points:

1. Information should be **correctly** and **fully** input into the data base. Software should control the correctness and completeness of keyed in information.
2. Additional program should link all data bases with a possibility to process them, analyze and distribute them among corresponding levels of customs authorities both vertically and horizontally.

Since data base of customs declarations will be the main source of information, a program for filling CCD should automatically control the correctness and completeness of filling thereof, and through this minimize wrong input of information by declarers.

4. Analysis of available customs legislation violations to detect the existing risks.

The most efficient way to determine risk criteria and indicators it to analyze all violations of customs legislation that occurred before (or in 2004). Through analysis it is possible to determine the following;

- persons who committed violations in area of customs;
- their characteristics and indications (soap bubble firms created to implement a foreign trade operation only once, persons who have violated customs legislation multiple times and etc.);
- goods to be included in risk group and characteristics thereof;
- countries to be included in risk group and characteristics thereof;
- routes of movement of goods to be included in risk group;
- main methods of committed customs violations.

5. Analysis of legislation of consignor/consignee countries with respect to Uzbekistan.

Systematic studying of customs legislation of counteragent countries provides additional source of information to build an efficient risk management system for the purpose to identify any risks for customs authorities at the phase of clearance of import-export cargos.

For example if high customs payments are levied on goods imported from Uzbekistan, an exporter can understate customs value for the purpose to evade from customs payments in the country of import.

6. Interaction with business community.

Partnership with business community ensures higher efficiency and more effective mechanisms of control that are based on commercial enterprises' knowledge. For customs administrations interaction between customs and entrepreneurs provides an opportunity to strengthen their knowledge of trade practices. Deeper knowledge of international trade conditions means more efficient risk management. For customs authorities this is an additional source of information.

7. Systematization of measures applied to minimize risks.

At the recommendation of World Customs Organization customs administrations (head offices) in all countries undertake general responsibility for risk management process in a compulsory manner.

Size and structure of central risk management subdivision may vary in different countries depending on national requirements and degree of centralization, but at all times it should be staffed with various qualifications (for instance, inspector, auditor, investigator, program analyst and etc.). These specialists should periodically return to their corresponding local subdivisions to acquire recent information on latest changes that could be brought to the attention of central management.

Central risk management subdivision will evaluate high risks for all customs territory, prepare reports with strategic information for customs posts and local audit subdivisions, serve as a link with other government structures and international organizations, and interact with risk management groups and audit subdivisions at sites.

Presence of centralized subdivision to work with operational data will help to ensure collection and analysis of the information that could be used for development of risk evaluations by goods, importers, sectors, sources and etc. This will allow more efficient targeted detection of goods for inspection at import. This subdivision will also be responsible for development of information exchange networks with other customs authorities and with the whole community of law enforcement authorities.

Establishment of properly trained audit subdivisions allows customs officers to visit premises of the inspected structures to verify compliance of declarations with customs legislation.

Main functions of territorial departments are to ensure the efficient process of risk management through evaluation of risks at local level, and prepare operational information for regional customs officers responsible for customs clearance of imports/exports, audit subdivisions and investigation subdivision, while interacting with central risk management subdivisions.

Group of customs officers at territorial departments/post that specialize in the analysis of cargo declarations and commercial documents, such as invoices, can determine goods with high level of risk for which physical inspection is required.

8. Determining criteria for including analysis objects into risk areas.

Determining criteria for inclusion of analysis objects into risk areas is the main step in introduction of the risk management system.

Through studying comprehensive information customs authorities should determine risk areas, segregate less important ones and intervene only in those areas where experience and practice based conclusions show that such an intervention is required.

Currently operation of customs authorities shows that main risk areas are as following:

1. ensure complete collection of customs payments;
2. combat illegal movement of goods through customs border of the Republic of Uzbekistan;
3. organize efficient customs control;
4. ensure currency control over timely and full receipt of foreign exchange incomes proportional to payment for imported goods.

After identification of most risky areas in customs authorities' operation it is necessary to concretize these areas and specify risk objects in each of them.

General objects of risk analysis should include:

- goods under customs control or released for free circulation on customs territory of the Republic of Uzbekistan.
- means of transport used in international transportations for paid transportation of persons or free of charge industrial or commercial transportation of goods.
- data contained in transport (traffic), commercial and customs documents.

- data contained in foreign trade buy-and-sell contracts and other types of contracts signed in foreign economic transactions, and in case of unilateral foreign economic transactions – in other documents reflecting the content of such transactions.

- activity of persons that act sufficiently according to civil and customs legislation of the Republic of Uzbekistan to conduct on their own behalf legally significant actions with goods under customs control.

- activity of customs brokers, owners of customs warehouses and also carriers, including customs carriers.

- results of application of form of customs control.

- customs authorities.

As the basis for further analysis it is necessary to determine what risks, why and how they can emerge. This phase requires thorough description of the existing control process, including:

- participants – parties concerned;

- strong and weak points;

- where, when and how the risk will be most likely borne and by whom.

- what dangers can appear and what is their negative implication if they do.

- why possibility for certain violation appears.

Nest measure is the further analysis through determination of a control mechanism and analysis of risks with respect to their probability and implications. The analysis should cover the following:

- what is the probability of appearance of an event;

- what are the potential implications and significance thereof.

If risk evaluation levels are low, then such risks can fall in the category of “acceptable”, and no actions will be required for them.

Next step is the evaluation and identification of priorities by risks.

Evaluated risk levels need to be compared with previously set criteria, and risks should be classified to determine management priorities. There are different classification systems. Widespread is the evaluation by HIGH, MEDIUM and LOW level of risk. In complex environment a more detailed system might be required, such as classification by levels from 1 to 100. Last option also requires to determine high and low levels of risks, but will allow to be more precise.

Risks should be constantly monitored for changes in their nature, level and significance. Low-priority risks should also be under constant monitoring. For other risks it is necessary to develop and implement a concrete management plan that accounts for resources (human, financial and technical).

The last step in this direction is documentation.

It is necessary to keep the registry of risks that provides justifications for selection of risks, and also fixes assumptions on the basis of which evaluations were made to carry out control follow-up in order to eliminate losses of important information.

9. Expansion of the selectiveness practice in application of forms of customs control by customs authorities.

For targeted detection of concrete goods transactions the selection of cargos, means of transport or documents for inspection should be based on profile characteristics of risks. These selectiveness based procedures should also leave the opportunity for random selection based on statistical selection or the opportunity for customs officer to make a decision based on his/her experience or intuition. A transaction can be an object for targeted detection on the basis of any risk profiles. Selection of enterprises for audit should also be based on profile characteristics of risks.