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CUSTOMS COMMISSION



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An Assessment of Customs Risk Management Practices and Limitations in Ethiopian Customs commission

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1. INTRODUCTION

- Risk management is a technique for the scientific identification, analysis and implementation of necessary measures to limit the likelihood of risk occurring or reducing the consequences.
- Most of customs and financial organizations practice risk management to achieve their objective.
- Customs risk management helps to achieve facilitating international trade and control the flow of goods effectively by targeting the high risk shipments'/traders.
- The customs risk management has witnessed phenomenal growth through time.
- Customs risk management in Ethiopia is supported by legal document proclamation number 622/2009 under sub article 4(1) and proclamation 859/2014 article 6(1-4) and ERCA risk management policy document.

2. Statement of the Problem

- To deal with the significant growth in international trade and travel, Customs have to develop a control and facilitation mechanism based on risk assessment, profiling and selectivity as recommended by the Revised Kyoto Convention, “the Customs shall use risk analysis to determine which persons and which goods, including means of transport, should be examined and the extent of the examination” (WCO, 1999).
- Likewise to other customs administrations Ethiopian customs commission is exerting its unreserved effort in establishing effective custom administration that support trade facilitation and control; but from my experience and the reports of the commission shows that still it is an unable to provide efficient service that satisfy its customers in providing efficient and effective service especially in clearance process.
- And availability of scientific reaches is also limited on the area. So this research contribute to the improvement of ECC risk management practice.

3. Objectives of the Study

General Objective

- The main objective of this research are to assess the customs risk management practice and limitations in Ethiopian customs commission.

Specific Objectives

The specific objectives of this research are to:

- assess the risk management process and practice in Ethiopian customs commission
- identify the limitations in implementing risk management in Ethiopian customs commission
- analyze the risk selectivity criteria and its application in Ethiopian customs commission
- determine the level of facilitation and control clearance process in Ethiopian customs commission

4. Significance of the study

Show the problems in a better perspective through a better understanding of the existing customs risk management.

5. Scope of the Study

- The scope of the study focus on Ethiopian customs commission's customs risk management related with process and practice, challenges and specifically focuses on selectivity of Risk management and control and facilitation of risk management in Ethiopian Customs Commission.

6. Conceptual Framework

The Risk Management Process

According to WCO (2010) and EU (2007); the risk management process comprises the establishment of the risk management context, risk identification, risk analysis, risk assessment, addressing the risks and monitoring and reviewing the process and communication and consultation. The process is shown in the figure below which is adopted from Revised Kyoto Convention General Annex Guideline 6 and ISO Standard 31000:2009 Risk management – Principles and guidelines.

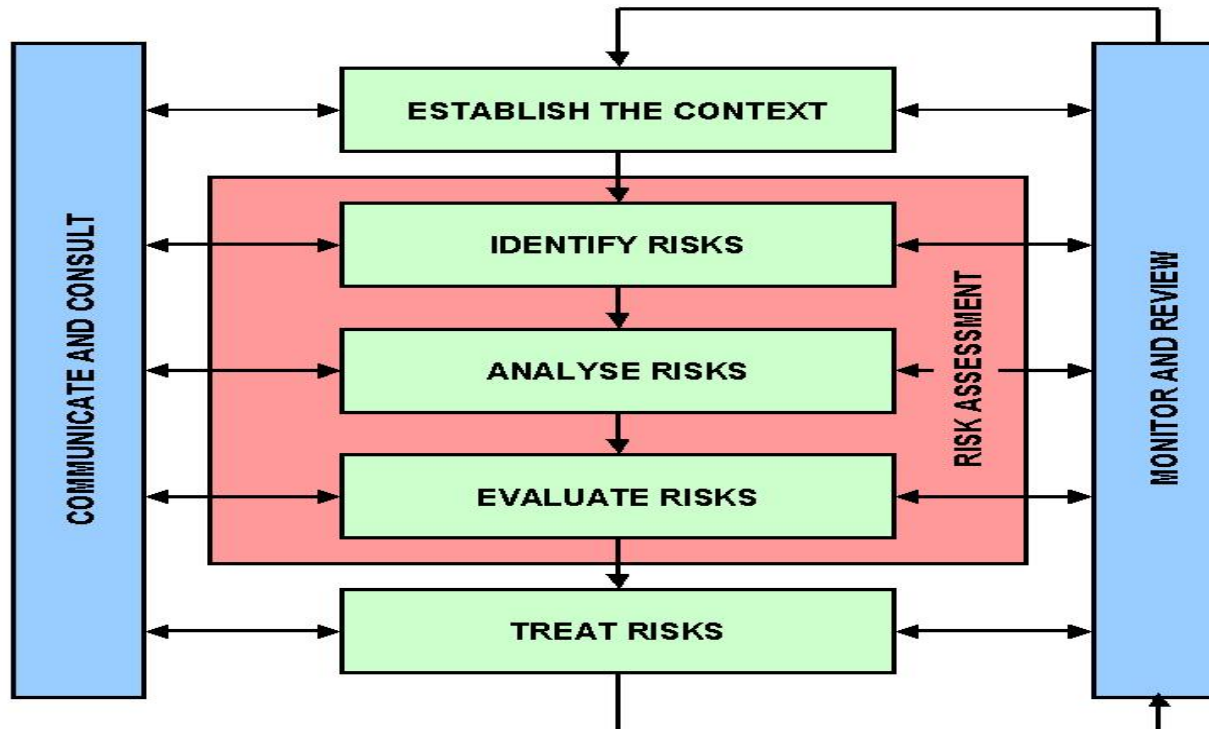


Figure 2.1. The Risk Management Cycle
Source: WCO risk management volume1

7. Research Methodology

Research Design	Descriptive
Research Approach	Both Quantitative and Qualitative approaches.
Research Method	Descriptive.
Research Technique	Surveys such as interview, questionnaire and observation.
Sampling Frame	200 Customs risk management and operation area staffs. Kothari (2004) , $n = \frac{Z^2pqN}{d^2(N-1) + Z^2pq}$ Where: $N = 400$, $Z = 1.96$, $p = 0.5$, $q = 1-p = 0.5$, $e = 0.05$
Sampling Unit	customs risk management and operation area staffs.
Sampling Technique	Probability and non-probability (purposive) sampling are used.
Sample Size	14 customs risk management staffs and 186 operation area staffs.
Sources of Data	Both primary and secondary sources.
Data Collection Tools	Questionnaires, Interviews, Observation.
Data Analysis	SPSS V .25, MS excel, Descriptive statistics, percentage and narrative explanation.
Data Presentation	Textual, Figure, Maps, Graphs, Tables.

8. Findings and Results

8.1. Customs Risk Management Process and practice in ECC

- The commission follows an international risk management model.
- According to the respondents view research result shows that; **with its limitations risk management process application is good**; in practice of establishment of the context (65%), risk identification (65.5%), risk analysis (50%), ranking and prioritizing (51.5%) and risk registration (51.5%) are done in a good manner accordingly to the stated processes.
- However as the respondents response indicate that there is limitation or gap on practice of the **planning to address high risks, monitoring and reviewing and communication and consultation practice** of the risk management process.
- In general the risk management process in Ethiopian customs commission **follows steps of risk management to address risks and it has also progress in practice**. But it is not effective as expected **it needs more improvement** for its effectiveness.

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8.2. The limitations in implementation of custom risk management in ECC

The customs commission are struggling with so many challenges to implementing consistent CRiM processes and procedures. According to the result from respondent's response agreed challenges of risk management implementations in Ethiopian customs commission is;

• Problem related of training in risk management (83%),
• Problem related of performance measurement for risk management (82%),
• Problem of communication and feedback (80%)
• Problem related of coordination in risk management between various customs units (80%),
• Problem related of the human, technical capacity (78%),
• Problem related of information technology (general) infrastructure and analysis tools(77%),
• Problem related of incentives or rewards for (successful) risk management outcomes (76%),
• Problem related of supportive technology and tools (74%)
• Problem related of strategic approach to risk management (74%),
• Problem related of risk management specific information (73%),
• Problem related of trust between trade and customs (74%).
• Problem related of consistency in risk management practices (73%),
• Problem related of leadership support for risk management (73%),
• Problem related of operational approach to risk management (69%),
• Problem related of risk management reporting system(s) and/or reporting processes (67%),
• Continuous advances in fraud activities (66%),
• Complexities of customs activities (63%),
• Problem related of clear responsibilities in risk management (59%),

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- Some of the reasons suggested by the respondents to the limitations of implementing good risk management are; problem of understanding risk management, non availability of required technologies and inefficient IT system or database and network, lack of coordination between head office and branch, lack of enough support from management, lack of skilled man power, problem of availability of sufficient data, organization structure of risk management(not functional at branch)
- Because of the above stated limitations and problems even though there were good progresses still the environment is not fully enough conducive as the risk management basically requires and infrastructures are insufficient or need more jobs to apply dynamic risk management practice in the customs commission.

8.3. Risk selectivity criteria and its application in ECC

- For targeting of high risk and facilitate low risk shipments of the international trade in the commission the RM implementation has its own model of functioning. The summery of the overall policy model is stated in the figure 4.5 below.

The risk selectivity policy model of customs commission

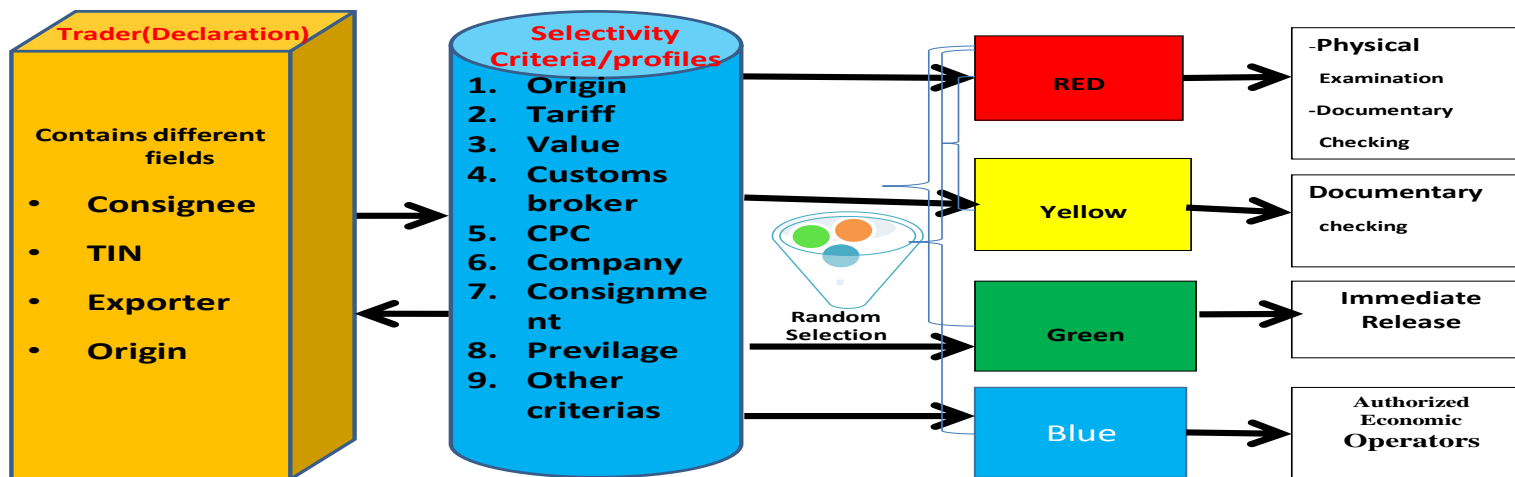


Figure4.4. Risk selectivity policy model

Source:-Risk Management Strategic Policy of ERCA, 2010

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- Weighting score of risk level based on likelihood and consequences of risks and matrix based risk decision and direct assignment is applied in the analysis process.
- By using given criteria's the clearance system automatically allocates declarations to one of the four channels, (**Red**: Physical examination and documentary checking and; **Yellow**: Documentary checking; **Green**: Immediate release; **Blue**: Authorized Economic Operators) based on the risk level of shipments.
- The existing selectivity criteria is **supported by information technology** and which can better give a good support for targeting in some areas than arbitrary control or facilitation but which needs more job to improve its modernity and dynamism with new customs environment and the criteria updating also has a gap in its frequency and speed.

8.4. The Level of Facilitation and Control in ECC

In principle the risk management approach of Ethiopian customs is high control and high facilitation. Even though there is high progress on it; practically existing approach which is reflected by the respondents and the risk channels shown below in the graph incline to **high control and low facilitation**.

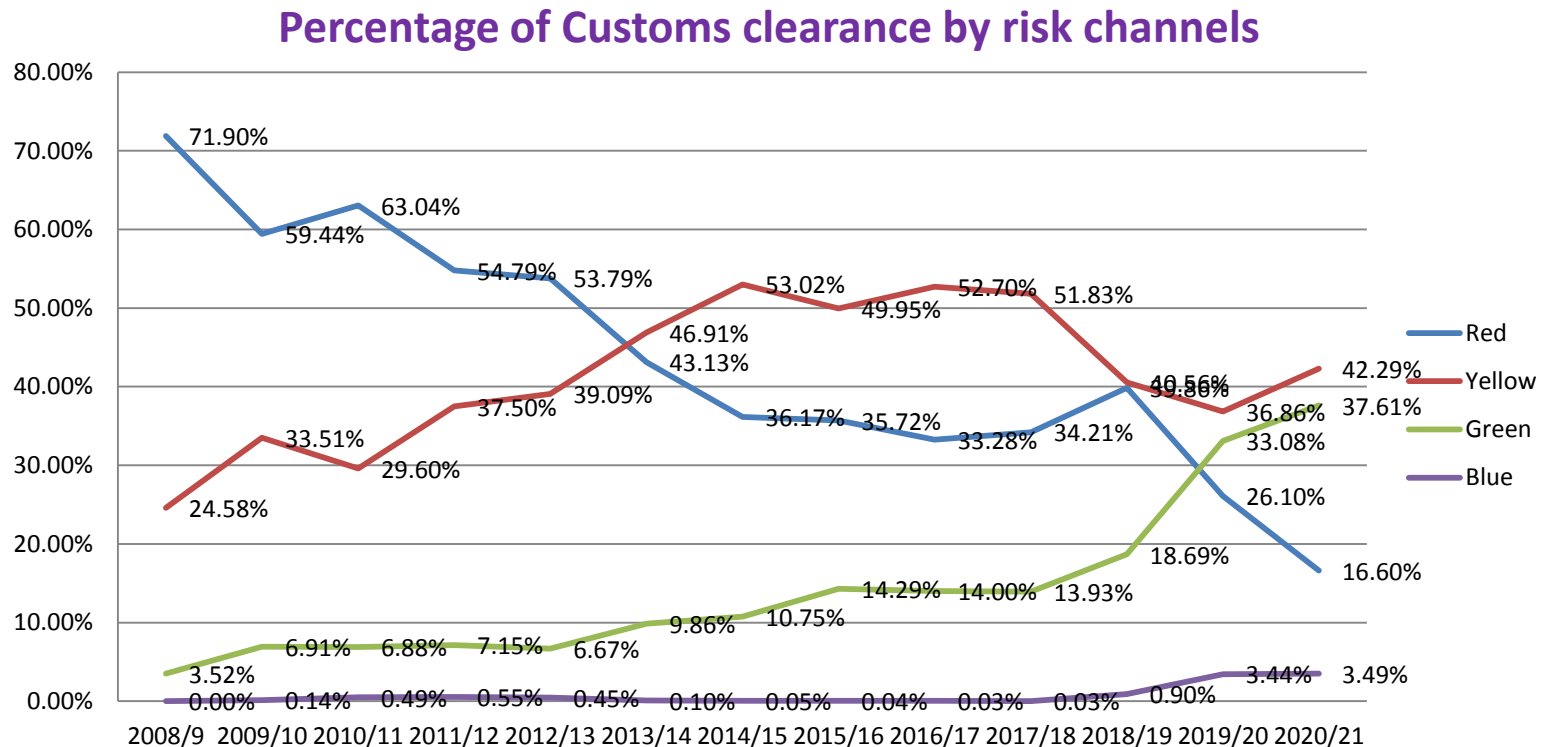


Figure4.8. Percentage of Customs clearance by risk channels of declarations

Source: Customs ASYCUDA++, ECMS data, 2008/9-2020/21

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- The performance of different channels of clearance of declarations shows positive continuous progress; In reducing **red** channel from its 71% in 2008/9 to **16.6%** 2020/21; **Yellow** of declaration in 200/21 around **42.29%**; And **green** and **blue** channels are still below **40%**. **But still** shows it is more of document and physical control(60%) focus and low facilitation.
- The result from customs control, in terms of number of declarations with difference and amount of money becomes increase year to year with exceptional decline in 2018/19.

8.5. The effectiveness of customs RM targeting and control

As shown in below figure; the percentage of number of declarations with discrepancy (fraud) become increase year to year, this might show two things; the first thing might be the increase of capacity of targeting of criteria's and capacity of verification control of document and physical inspection and the second probability might be the decreasing of compliance level.

Hit rate and additional tax from risk targeting

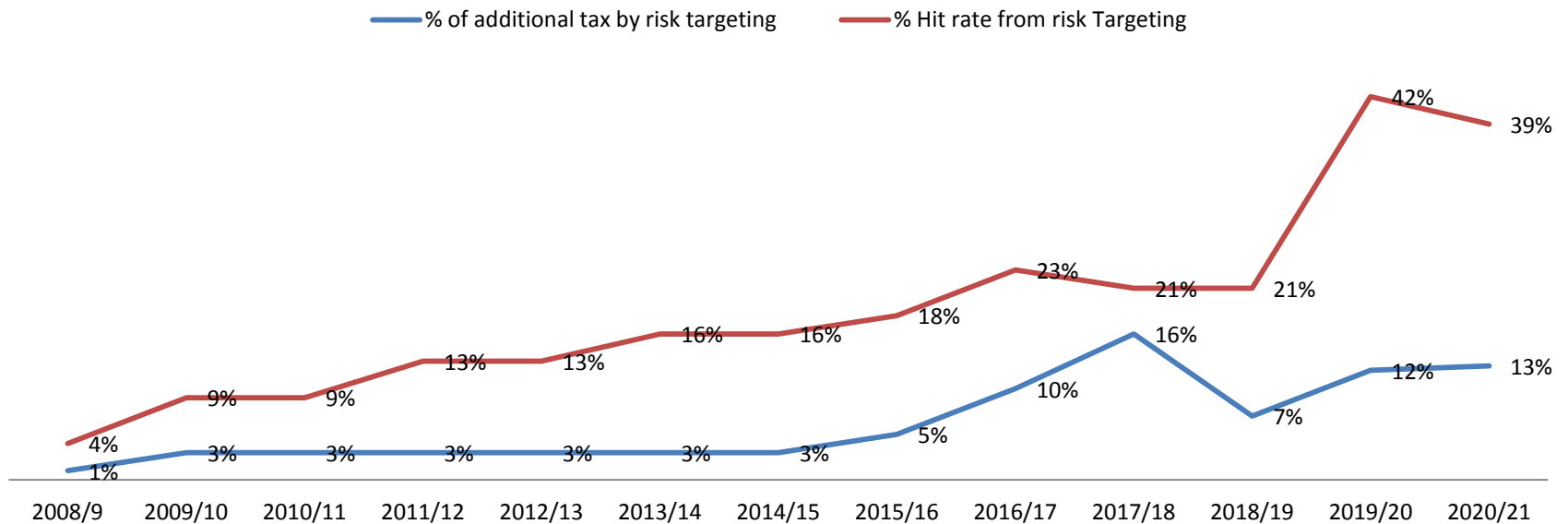


Figure4.9. Hit rate and additional tax from control

Source: Customs ASYCUDA++ and ECMS report

9. Conclusion

- The risk management process and practice in Ethiopian customs **commission is done by following the process and steps of risk management** and it is good in terms of its progress, but it is not effective and efficient as expected which **needs more improvement**. Especially because of different limitations and necessity of advanced technology and human capital the customs commission miss having dynamic risk management
- Regarding the availability of the supporting conducive environment and infrastructure **has god progress** but there are still many **limitations** and problems related with **infrastructure, system and technology** to achieve advanced and good risk management practice.

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- In its risk **selectivity criteria** of Ethiopian customs commission has also **good progress and its effectiveness increases** through time but it needs more improvement to target and achieve more; its profiling is not dynamic and the targeting is not effective as expected
- Even though the customs commission has shown **progress year to year on decreasing its control and increasing its facilitation with good achievement in targeting and hit rate** in the previous years the current practice is **still needs to continue its job to achieve balanced approach**.
- In general accordingly to the findings; the customs risk management in Ethiopian customs commission has **good progress but still need more effort to be effective and efficient** to achieve its stated objectives in the policy document.

10. Recommendation

In order to improve the effectiveness and efficiency of customs risk management in Ethiopian customs ; the researcher recommends the following points:

- Ethiopian customs commission should aggressively work to in place to improve system supported and dynamic risk management practice by having good technology capable human resource, committed management and staffs in all customs jobs at all levels (Import, Export, transit and Warehouse).
- Continuous review and revise its risk management structure at head office and branch level to create to have good communication and consultation; monitoring and review.
- To have conducive environment necessarily human capital, structure and system, infrastructures like IT for data management with other modern technologies which are used by other modern customs world and analysis and other tools to enhance the practice should be fulfilled.

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- The view about the benefit of RM should be enhanced and **control mentality of should change**.
- To increase targeting of risk selectivity criteria the commission should work to **build dynamic profiling and analysis and targeting system in general**.
- To have a balanced risk management system Ethiopian customs commission should; **improve more the effectiveness of the risk management process**, build a dynamic risk management to better improve its service delivery and control the non compliant traders effectively.

Thank you!

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