

Developing a Risk-based Compliance Improvement Plan for Customs Administrations

What is customs compliance?

Customs administrations play an important role in tax collection, national security, and the facilitation of legitimate trade. To fulfill their mandates, customs administrations must seek to increase compliance levels, meaning that international trade operators will voluntarily fulfill all applicable legal provisions and customs formalities.

What is a compliance improvement plan (CIP) based on Integrated Risk Management (IRM)?

The purpose of a CIP is to identify the main causes contributing to non-compliance, as well as the associated corrective measures. Typical non-compliance risks may involve (1) under valuation; (2) misclassification of goods; (3) falsification of origin; (4) trafficking counterfeit and prohibited products; and (5) smuggling. A CIP helps mitigate compliance risks by specifying: (1) what risk mitigating measures should be implemented; (2) how and when such measures must be implemented; and (3) who should be responsible for their implementation and monitoring. To this end, the CIP allows to break-down or segment the total population of operators based on their relative importance in terms of the value of their operations and their associated risk level. This information can then be used to determine the most appropriate risk treatment for each segment.

Why is it important to have a CIP based on IRM?

Generally, customs administrations apply a *transactional risk management approach*, which is fundamental to facilitate legitimate trade, deter customs fraud, and expedite supply chain trade flows. They analyze the main variables such as value, type of goods, origin, and the compliance records of the parties involved in each transaction. The output from this process is used to define a risk profile which is in turn used to determine if a shipment should be subject to a physical, document, or non-intrusive examination at the port of entry (known as red, yellow, and green channels). A CIP takes a more holistic approach, identifying the root causes of risks or potential risks arising not only during the clearance process at the port of entry, but also prior or after the goods are released. This means implementing preventive and mitigation measures such as updating customs regulations, enhancing the identification and authentication of operators, reducing staff discretionary decisions, improving data cross-checking, adopting new technologies, strengthening end-to-end cargo traceability, and conducting effective post-clearance audits. Despite the differences between them, these two approaches complement each other, and both are vital for customs administrations in their efforts to fulfill their strategic goals.

What are the main elements in the development of a CIP based on IRM?

A strategic vision, clearly linked to IRM, is necessary to allow ...

- Alignment to the Strategic Plan
- Strengthening governance and accountability
- Adoption of a preventive approach
- Automation of all processes and procedures
- Optimization of the use of data and information

...supported by specific projects to mitigate the weaknesses within each process, analyzed under each of the following elements...

- Legal framework and procedures
- Quantity, quality, and timeliness of data
- Capacity of their IT systems
- Customs infrastructure and equipment
- Human resources

For additional information, see the IMF's 2022 publication "Customs Matters: Strengthening Customs Administration in a Changing World" (chapter 5), which discusses how introducing an IRM approach is the foundation to improved decision-making and compliance.