Improving Risk Management in Customs
(Success case of Customs Administration in Phase II)

CAPTAC-DR helped develop the first strategy on integrated risk management for the region. It entails a customs framework to conduct tactical and operational actions against fraud, security threats, and trade facilitation, in coordination with other governmental agencies.

A. Initial situation

At the outset of Phase II (July 2014), customs administrations across the region sought to build capacity to manage operating risks, with a view of fostering transparency and streamlining processes. A regional diagnostic conducted by CAPTAC-DR identified key shortcomings:

- Customs processes were largely outdated and lacked reliable controls for traceability, leading to unpredictability and corruption at borders. The legal framework lacked key powers and penalties that limited capacity to prevent and mitigate risks of fraud at borders;

- Customs controls were mostly applied at point of entry, generating long waiting lines of trucks at borders, while risk-based audits for effective inspection were absent, obstructing legitimate trade. Overall, customs controls were undermined by weak physical infrastructure, outdated information technology, low technical skills in human resources, and poor risk management, which inhibited the capacity to fight fraud and contraband; and

- Exchange of information and collaboration at national and regional levels were weak, not only within customs administrations, but also between customs and other government agencies.

The region joined the WTO Trade Facilitation Agreement in 2013, while Honduras, Guatemala, and El Salvador began to establish a customs union in 2017. These policies created opportunities for deeper regional integration and stronger competitiveness, through the removal of trade barriers. However, challenges arose regarding tax revenue risks, national security, and social protection, that resulted from threats of contraband and terrorism. These challenges called for the modernization of customs administrations and greater collaboration with other government agencies.

B. Progress achieved

Against this background, the Center assisted countries build capacity on risk management to mitigate fraud, while facilitating legal trade. Main achievements included:

Country level

- Customs revised processes to improve traceability control, predictability, and transparency (Costa Rica, Honduras, Guatemala, and Panama). They began implementing a model of integrated cargo control in main ports to improve traceability of goods, resulting in stronger customs revenue and faster entry of goods (El Salvador, Honduras, and Guatemala);

- Countries elaborated a methodology for the segmentation of traders based on risk profiles, with the objective to enhance customs control at borders and improve post-clearance audits (Costa Rica, El Salvador, Honduras, Guatemala, and the Dominican Republic). Panama has already applied this methodology. Some countries began adopting a new post-clearance model focused on sensitive goods (El Salvador, Honduras, and the Dominican Republic);

- A few countries developed a strategy on risk management and collaboration with other agencies to combat fraud and contraband (Costa Rica and Panama); others conducted for the first time a coordinated operation over the transit of goods and identified fraud resulted in the arrest of private traders and customs officers (El Salvador and Guatemala); and

- Some countries installed technology (radio frequency identification) at borders and launched a pilot plan (covering 6,000 trucks) to improve traceability of goods and increase data register to facilitate trade and reduce operational risks including corruption and customs fraud (El Salvador, Honduras and Guatemala).

Regional level

- The Center and the World Bank Group developed a gap analysis on the uniform customs code and its regulation (the so-called CAUCA and RECAUCA) against the WTO Trade Facilitation Agreement. The analysis now guides the modernization of the legal framework in the region;

- The Center elaborated a strategy for integrated risk management to mitigate common risks faced by the region. There was a strong collaboration from USAID, WCO, SIECA, as well as from experts of Argentina, Mexico, Uruguay, the United States, and the IADB. A regional working group, with risk managers from each country, was created to oversee the implementation of the risk management strategy. Since 2018, the strategy has provided the steps to build standardized risk management in the region over the medium-term, as follows:

    - **Traceability of goods.** The objective is to establish an end-to-end control over the movement of goods through the region, which would mitigate risks of fraud and contraband at the point of entry, during transit, and point of exit through each country;

- **Risk analysis.** Allow the identification of low, medium, and high-level risks, and the elaboration of responses to foster customs compliance, in coordination with other customs posts and government agencies;
- **Post-clearance audit.** Conduct effective audits to improve the assessment of risk and facilitate trade at the point of entry; and
- **Collaboration.** Strengthen coordination among customs, government agencies, and the private sector to enhance capacity to prevent and mitigate operational risks associated with security, society protection, and tax revenue.

C. Next steps

During Phase III, member countries seek to strengthen core customs capacities to facilitate trade and reduce evasion, guided by regional initiatives on integrated risk management and regulations. The focus will be on the following strategic goals:

- Close operational gaps with the WTO agreement, improve the traceability of goods, modernize information technologies in the context of coordinated border management, and close opportunities for corruption and tax evasion; upgrade the customs legal framework, drawing on the gap analysis, update practices for customs management and trade operations;
- Introduce intelligent risk analysis based on better technology and quality of data for control prior to arrival of goods and at point of entry; shift to risk-based post-clearance audits to discontinue excessive controls at point of entry; and
- Improve coordination with the tax administration and engage in joint initiatives to mitigate risks to tax revenue, particularly those arising from the customs union.

Additional outcomes are planned, with the support of other CD providers:

- Reach so called "*Mutual Recognition Agreement of Authorized Economic Operators*" in at least three countries to greatly facilitate entry and exit of goods through signatory countries;
- Implement a regional IT platform for information exchange and collaboration to mitigate risks; intensify the use of technology to improve traceability of goods, lower physical intervention at borders, and record relevant data for risk management; and
- Undertake coordinated actions across the region to enhance control over the transit of goods, in close cooperation with other government agencies; mitigate risks at borders in application of a coordinated border management approach.