

KEY POINTS

- Maldives is an island nation that relies on imports and exports for essential goods, services, and economic growth. Improving the efficiency of its cross-border regulatory agencies can reduce the costs of international trade, drive economic growth, and reduce resource demands on both public and private sector institutions.
- Improving risk management processes and technology is a low-cost, high-yield approach to enhance trade efficiency. ADB is supporting the Maldives Customs Service (MCS) to improve risk management controls by (i) providing advice on institutional reforms, (ii) helping MCS to implement new technology and customs processes, and (iii) fostering a higher degree of communication between trade stakeholders and government agencies.
- MCS has begun implementing reforms in (i) information and communication technology to support collaboration, (ii) physical and non-physical interventions to strengthen inspections, and (iii) institutional reforms and human capacity development to drive more effective risk management operations. Outcomes include greater national security, reduced administrative costs, and a more competitive trade economy.

Risk Management in Maldives: Sharing Practical Experience and Lessons Learned

INTRODUCTION

Risk management is a systematic approach to determine which goods and passengers need to be examined in detail when entering a country. It involves (i) collecting, storing, and analyzing data to understand the risk profile of goods and passenger luggage; (ii) using risk profiles to assess the likelihood of illicit trade activity; and (iii) addressing risks by inspecting consignments and responding to illegal activity.

Measures to strengthen risk management technology, processes, and organizations improve national security and reduce costs associated with customs and border controls. Improving risk management facilitates trade by enabling cross-border regulatory agencies (CBRAs) to identify and inspect high-risk consignments, and to streamline the processing of low-risk items.

Risk management facilitates trade while safeguarding communities and nations against illicit activity. In the context of increasingly global markets, modernizing risk management procedures, organizations, and technology is essential for maintaining appropriate government controls while driving economic growth. Modern risk management translates to safer, more efficient trade.

Maldives is implementing reforms to improve risk management controls and to strengthen its trade environment. Recent activities to facilitate trade and safeguard its borders seek to deliver operational and economic gains in the public and private sectors. Government agencies are working to improve service delivery and, at the same time, to leverage limited human and financial resources more efficiently. Traders, in turn, will benefit from reduced time to import and export goods, increased predictability of services, and greater ease of doing business.

Improvements to risk management processes in Maldives are ongoing. The experience in implementing reforms to procedures and information and communication technology (ICT), particularly at the Maldives Customs Service (MCS), can be brought to scale in other domestic organizations and replicated in similar trade environments across South Asia. This publication shares practical experience in implementing risk management reforms in MCS and documents achievements to date.

RISK MANAGEMENT ACTIVITIES IN MALDIVES

The trade volume of imports into Maldives nearly tripled from 2006 to 2014, placing considerable strain on the limited resources of domestic CBRAs. As import and export volumes continue to grow, MCS and other CBRAs need to ensure they can meet international risk management standards while improving trade efficiency to drive economic growth.

In 2014, the World Customs Organization (WCO) carried out an analysis of risk management practices in Maldives. The corresponding mission report identified focal areas for MCS to address in the short, medium, and long term to improve risk management.¹ In 2016, the Asian Development Bank (ADB) assisted MCS in implementing selected reforms corresponding to the WCO recommendations.

ADB's Regional Technical Assistance for Trade Facilitation in South Asia supported MCS to (i) produce a risk management framework and action plan, (ii) draft standard operating procedures for risk management, (iii) initiate institutional reforms, (iv) build the capacity of MCS staff in risk management procedures, and (v) identify focal areas for ongoing reforms.²

Continuing to strengthen the risk management environment in Maldives involves a diverse range of interventions. MCS has begun improving risk management in three core areas: (i) institutional collaboration and ICT, (ii) infrastructural and procedural interventions to streamline inspections, and (iii) institutional reforms and human capacity development. This publication documents MCS' progress in each of these core areas and suggests continued improvements to risk management processes and controls.

The activities described in this publication are based on two reports prepared for ADB's Regional Technical Assistance for Trade Facilitation in South Asia.³ This publication is intended to complement dialogue between CBRAs in Maldives and across South Asia, and to disseminate knowledge surrounding barriers and accomplishments of risk management in South Asia.

INFORMATION AND COMMUNICATION TECHNOLOGY AND COLLABORATION BETWEEN AGENCIES

Trade processes involve a complex network of stakeholders. Increasing collaboration between agencies can reduce or eliminate duplication of efforts in collecting and processing trader and consignment data.

Maldives is developing a national single window (NSW) platform that will enable different CBRAs, including MCS, to input and access data seamlessly in an online portal. This will enable CBRAs to make well-informed decisions while reducing duplication of efforts through more efficient dissemination of data.

Coordinating Data Exchange and Strategy

Efforts to strengthen interagency collaboration should focus on efficient data exchange and improved risk management strategies across government agencies. Aligning information systems and risk management strategies enables CBRAs to conduct targeted interventions that demand fewer resources and deliver higher success rates.

Exchanging data between agencies ensures that CBRAs have the necessary information to assess risks and develop robust trader profiles. For example, traders that owe taxes have a greater incentive to evade taxation; however, customs agents can only identify this risk if they have access to tax information. Key steps for establishing efficient data exchange in Maldives include (i) identifying data fields for agencies to share with MCS and other CBRAs, (ii) designating reporting periods for sharing information, and (iii) interconnecting information systems to enable seamless data exchange between agencies.

Aligning risk management strategies between agencies reduces duplication of efforts and improves resource efficiency. Setting up working groups and assembling periodic meetings—typically on a quarterly basis—ensure that all trade and customs stakeholders can participate in identifying risk management priorities. Holding periodic meetings enables stakeholders to assess the impacts of specific risks and to prioritize measures for addressing them.

Maldives is working to establish appropriate liaison mechanisms for data harmonization and strategic planning by implementing an NSW platform and by creating working groups to improve risk management controls.

Developing a Risk Management Framework

In 2015, ADB assisted MCS in developing a risk management framework.⁴ The document is aligned with WCO's international best practices and country-specific recommendations for Maldives (footnote 1).

The framework comprises four sections: (i) an overview, which introduces terms, objectives, and benefits associated with risk management in Maldives; (ii) a context section, which presents MCS'

¹ WCO. Strengthening the Institutional Capacity of Maldives Customs Service Supported by Enhanced Integrated Framework: Diagnostic Report. Unpublished.

² ADB. 2013. *Technical Assistance for Trade Facilitation in South Asia*. Manila.

³ S. Duarte. Gap Analysis Report: Maldives Risk Management. Unpublished.; S. Duarte. Action Plan and Recommendations: Maldives Risk Management. Unpublished.

⁴ MCS. 2015. *Risk Management Framework*. Malé.

background, mission, and commitment to provide specific services; (iii) an explanation of MCS’ proposed risk management processes; and (iv) a reinforcement section, which discusses how to monitor and improve services over time.

The framework also proposes a governance and organizational structure for MCS. The governance structure establishes a management committee to oversee risk management activities within MCS, and the organizational structure categorizes departmental responsibilities to promote operational efficiency. MCS has improved collaboration between departments and with other CBRA’s by creating thematic working groups, including working groups to coordinate risk management activities with airport and seaport operators, as well as a national trade facilitation committee, which convenes CBRA’s to improve the domestic trade environment.

STREAMLINING INSPECTIONS

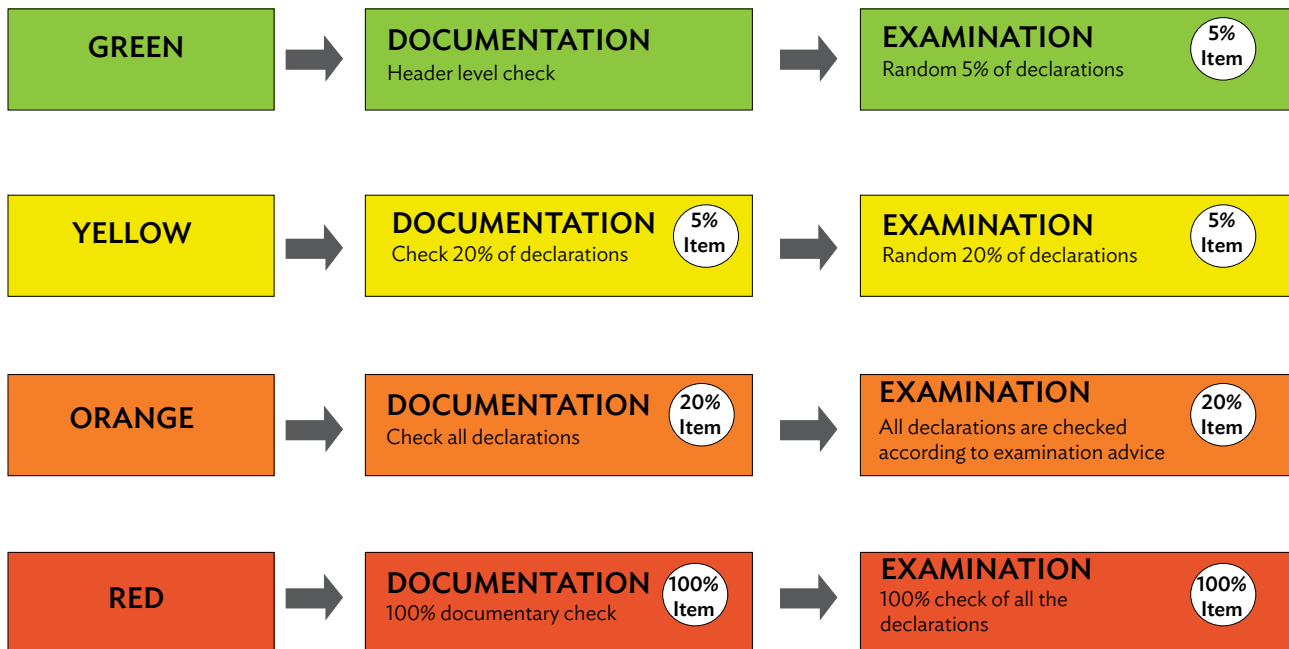
Improving the efficiency and efficacy of risk management controls requires reforms to profiling and inspection techniques. MCS is working with the Maldives Police Service to coordinate sniffer dog inspections at seaports and at the Malé International Airport, and has begun using X-ray machines to improve screening efficiency. CBRA’s are collaborating to establish robust trader profiles and an electronic database of seizures. These activities are supporting MCS to streamline customs clearance for low-risk traders while increasing controls on high-risk consignments.

Leveraging Trader Profiles for Targeted Inspections

Trader profiles are collections of data and narrative descriptions of a given trader that are accumulated over time and stored by a given CBRA. Trader profiles enable CBRA’s to assess the level of risk associated with a particular trader, and to apply different levels of controls based on the trader’s calculated level of risk. MCS has developed an intranet platform that contains an advanced profiling information system. The profiling tool enables MCS to store, analyze, and share trader profiles with other CBRA’s, and automatically updates trader data with information from MCS’ customs administration software—the Automated System for Customs Data (ASYCUDA). The profiling tool interfaces with counterpart platforms in different government agencies and is designed to be compatible with Maldives’ NSW platform.

MCS has established a tool to facilitate customs clearance for importers and exporters who comply with the law and regulations while imposing additional controls on those who don’t. The tool classifies traders as low, medium, high, and very high risk based on their volume of trade, the kinds of items they import and export, their record of compliance in the past, and other factors. Profiling personnel evaluate these factors using a point system, and corresponding ratings allow traders to pass through one of the four color-coded customs channels (Figure 1). Using different customs channels streamlines clearance for compliant and low-risk traders, and ensures that noncompliant or high-risk traders are inspected thoroughly. This model reduces the need to check all consignments, which saves time and resources for cross-border control agents and traders.

Figure 1: Customs Channels and Trader Profiles for Targeted Risk Management



Source: S. Duart. Gap Analysis Report: Maldives Risk Management. Unpublished.

Systematizing Field Audits

Field audits are the process of auditing consignments after they have cleared custom. Systematizing the process for these inspections can significantly improve intelligence reports on traders while reducing human resource demands on CBRAs. The gap analysis and recommendations note that using standardized language, automating the reports, and integrating their outcomes into other databases can streamline audits and support more robust data on traders and consignments.

Providing auditors with canned responses for filling out documents enables them to complete report in less time, and produces standardized language that can be integrated into databases and easily assessed by data analysis tools. Figure 2 indicates a proposed series of standardized language for auditors in Maldives.

Figure 2: Sample Post-Arrival Inspection Checklist

GOODS	
<input type="checkbox"/> Poor or low quality	<input type="checkbox"/> Untidily loaded
<input type="checkbox"/> Close to expiry date	<input type="checkbox"/> Loaded in unusual manner for type of goods
<input type="checkbox"/> Poor packaging (unprofessional)	<input type="checkbox"/> Not consistent with documents
<input type="checkbox"/> Unusual smell	<input type="checkbox"/> Same goods in different (marked) packages
MARKS AND NUMBERS	
<input type="checkbox"/> Lack of marks and numbers	<input type="checkbox"/> Inconsistent with country of origin
<input type="checkbox"/> Poor description of contents	<input type="checkbox"/> Inconsistent with seller and/or importer
WEIGHT	
<input type="checkbox"/> Not consistent with documents	<input type="checkbox"/> Defects
Declared weight Real weight	Details
SEALS	
<input type="checkbox"/> Broken	<input type="checkbox"/> Padlock
<input type="checkbox"/> Forged (manipulated)	<input type="checkbox"/> Numbers not sequential
<input type="checkbox"/> Not consistent with documents	<input type="checkbox"/> Compromised or tampered
<input type="checkbox"/> No seal	<input type="checkbox"/> Inferior to industry standard
CONTAINER	
<input type="checkbox"/> False additions (floors, roof, and walls)	<input type="checkbox"/> Not consistent with documentation
<input type="checkbox"/> Bad conditions of interior	<input type="checkbox"/> Incomplete container number
<input type="checkbox"/> Traces of fresh paints or new welds	<input type="checkbox"/> Manipulated container number
<input type="checkbox"/> New moldings, sheeting, rivets, screws, and bolts	<input type="checkbox"/> Shippers owned
	<input type="checkbox"/> Modus operandi smuggling
GATE CONTROL - DELIVERY	
<input type="checkbox"/> Delivery address not the same as address of importer	<input type="checkbox"/> Unusual routing for vehicle in terms of plate number or nationality
<input type="checkbox"/> Foreign driver for national delivery address	<input type="checkbox"/> Driver - suspicious behavior while driving or while being checked

Source: S. Duarte. Action Plan and Recommendations: Maldives Risk Management. Unpublished.

Using Electronic Database of Seizures

MCS uses a digital platform to record drug seizure information. The database follows WCO’s recommendations and allows MCS to track, record, and analyze drug seizure information. MCS issues periodic updates to the platform and is developing software that will support greater alignment with international best practices for trader profiling and risk management. Some of the updates include automated trend analysis and improved interoperability with other domestic trade and risk management platforms. Ongoing software improvements will enable MCS to identify and respond to patterns more effectively, and to strengthen coordinated risk management activities with other CBRAs.

Making Arrangements to Receive Pre-Arrival Information

Receiving pre-arrival information—such as manifest information and declarations—enables CBRAs to begin analyzing risk patterns before cargo reaches seaports and airports. It also allows CBRAs to improve business environment efficiency by reducing wait times for traders and to strengthen border controls for high-risk consignments.

MCS receives pre-arrival information for cargo entering seaports, but it does not receive declarations and manifests for air cargo and does not evaluate all pre-arrival information against risk indicators. In 2017, MCS upgraded its customs record system from ASYCUDA++ to ASYCUDA World. The system upgrade (i) supports a higher degree of automation for data entry, (ii) streamlines data exchange within MCS departments and with other CBRAs, (iii) updates trader compliance mechanisms, and (iv) adds features to support navigation and selectivity within the tool.

Although MCS has successfully updated its electronic data collection and storage software, it would benefit from additional software tools that identify risk patterns and check them against pre-arrival manifests and declarations. MCS is working with stakeholders to secure pre-arrival information for air cargo.

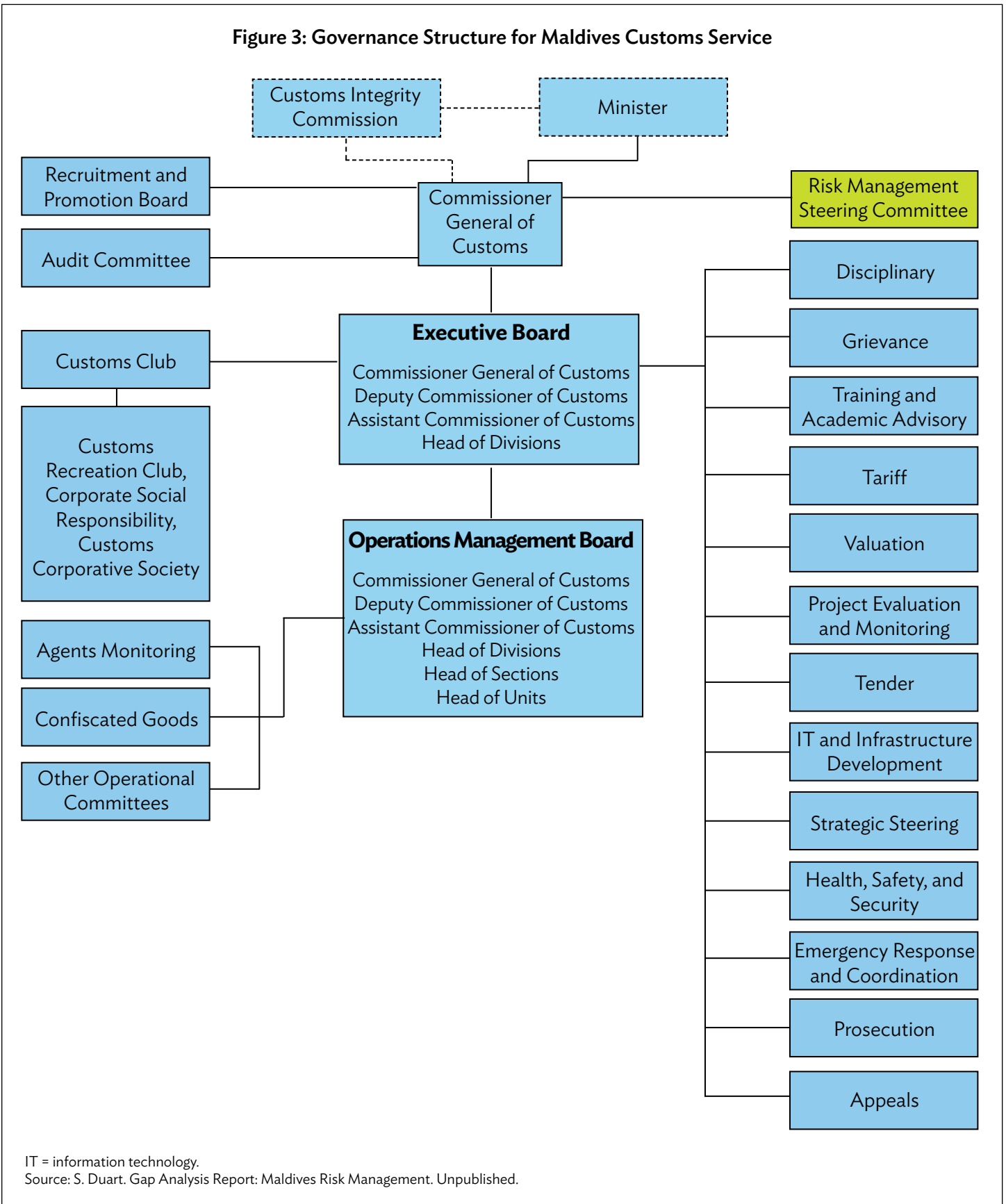
INSTITUTIONAL REFORMS AND CAPACITY DEVELOPMENT

Ongoing capacity building and institutional reforms are essential for ensuring that MCS and other CBRAs remain up to date with international best practices and compliant with WCO requirements. Activities to strengthen institutions and human capacity are improving trade processes and will help attain sustainable efficiency gains.

Restructuring the Risk Management Division

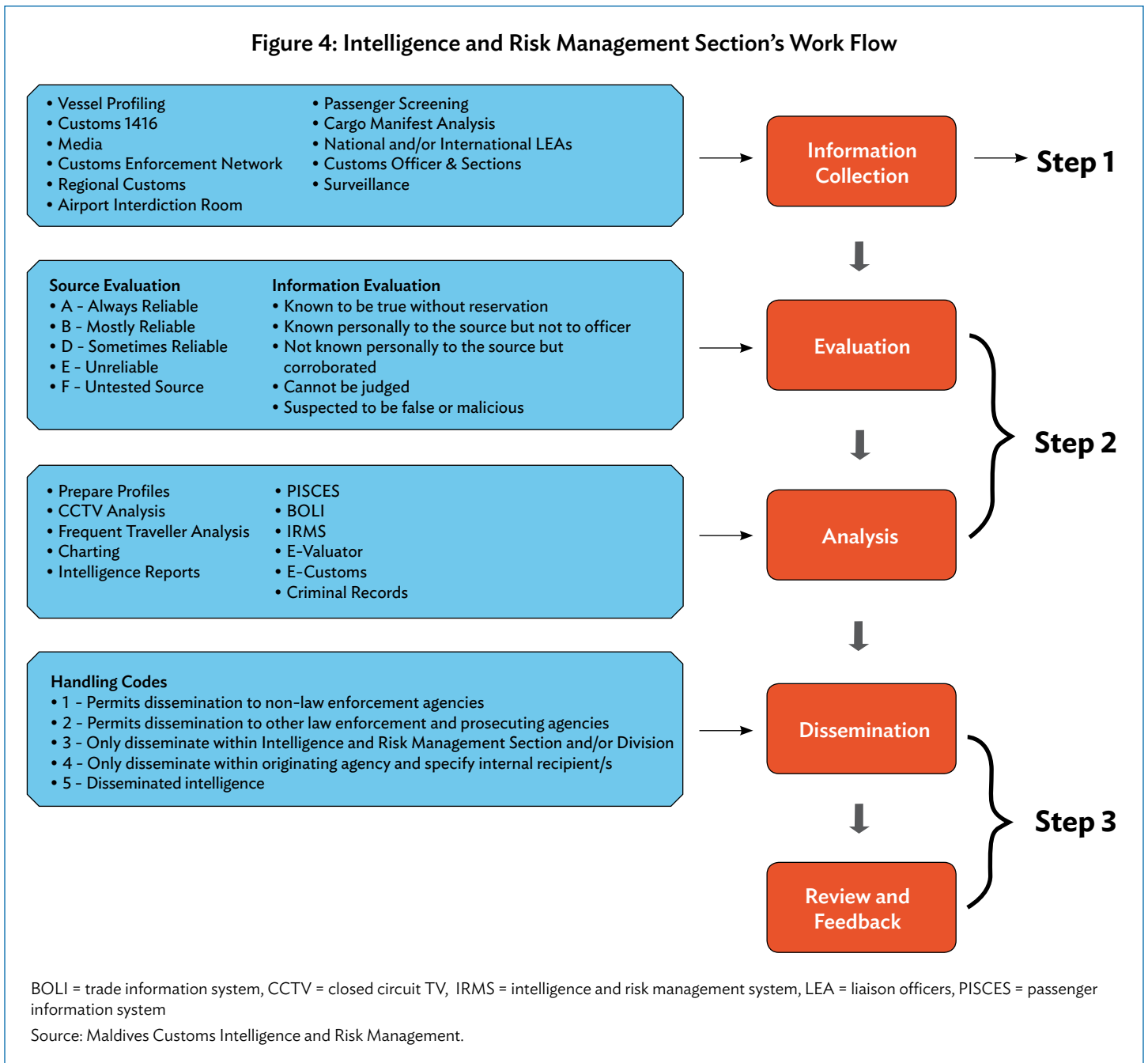
The MCS risk management framework proposes specific restructuring activities for MCS based on WCO recommendations. Figure 3 indicates the proposed departmental structure.

Figure 3: Governance Structure for Maldives Customs Service



IT = information technology.
 Source: S. Duart. Gap Analysis Report: Maldives Risk Management. Unpublished.

Figure 4: Intelligence and Risk Management Section’s Work Flow



In line with the proposed structure, MCS has formed a risk management committee, which is chaired by the deputy commissioner of customs. It has also integrated risk management and intelligence functions to improve the collection and use of risk management data.

Coordinating Intelligence and Risk Management Functions

The WCO recommendations proposed that MCS establish a separate intelligence department. However, since intelligence and risk

management functions are closely related, MCS has integrated these two functions into a single unit—the Intelligence and Risk Management Section. This arrangement supports a higher degree of coordination between MCS departments when targeting and performing inspections.

Key intelligence functions include collecting, evaluating, analyzing, disseminating, and reviewing customs data. These activities provide a few physical inspections with a higher success rate of identifying illicit trade activity. Figure 4 indicates the workflow that the Intelligence and Risk Management Section uses to collect, analyze, and disseminate risk management data. MCS is improving the workflow by building software

to streamline information-sharing across its departments and with other CBRAs.

Establishing a Profiling Team

MCS has established a profiling team that is responsible for developing risk indicators, and for creating, monitoring, and revising trader profiles. The profiling team would benefit from an advanced data mining tool for analyzing risk management information.

Bespoke software tools are the most effective ways to process high volumes of trade data and to uncover subtle risk patterns. Data mining tools use complex algorithms to identify risk patterns and can support CBRAs to define domestically relevant risk indicators. A central recommendation of the 2016 review and gap analysis is for MCS to procure appropriate software and hardware to enable the profiling team to detect complex risk patterns.⁵

MCS can take the following steps to procure and implement the appropriate software: (i) engage a specialist to build a data mining application, (ii) identify objectives and tasks for the data mining tool, (iii) define report parameters for the tool, and (iv) ensure knowledge transfer from the specialist to the profiling team. Implementing these steps can assist the profiling team in identifying several risk patterns and, in turn, increase the efficiency and efficacy of MCS' risk management activities.

Providing Ongoing Training on Risk Management

Human capacity and appropriate skills are essential to support an effective and up-to-date risk management program. Developments in risk management technology and best practices are advancing. Continued training and capacity building are critical for MCS and other CBRAs to keep abreast of new developments.

MCS is committed to providing training opportunities and has made commendable progress in training staff. In 2015 and 2016, ADB financed consultants to provide onsite training for the MCS risk management staff. Activities focused on inspection and audit training and produced detailed seminars on using risk management against drug trafficking and tax evasion.

Developing a Risk Management Implementation Plan

In 2016, ADB assisted MCS in developing a risk management action plan. The plan provides time-bound, sequenced instructions for implementing reforms to risk management processes and organizations, and identifies necessary resources and potential benefits associated with each step of implementation. MCS has used the plan to initiate institutional reforms and will continue to implement procedural and technological improvements in line with resource availability.

DEVELOPMENTS AND NEXT STEPS FOR RISK MANAGEMENT IN MALDIVES

MCS has made considerable progress in implementing technological and institutional reforms, and in strengthening risk management controls in Maldives. From 2016 to 2018, MCS successfully migrated its customs system from ASYCUDA++ to ASYCUDA World and began processing all import and export declarations online. MCS now processes all manifest documents for sea cargo online and uses its customs portal to communicate electronically with traders. By modernizing its software platforms, undertaking institutional reforms, and engaging with traders online, MCS has improved operational efficiency and increased the efficacy of risk management controls.

The next steps include technological improvements and capacity development. As MCS continues to modernize risk management processes, it is focusing on ICT resources to improve operational efficiency and to analyze data more effectively. In particular, MCS plans to (i) implement a comprehensive automated risk management system, (ii) upgrade the software platform for the Intelligence and Risk Management Section to support interoperability with other CBRAs, and (iii) procure data mining software to identify complex risk patterns in line with the growing volume of customs data.

MCS will complement technological improvements by providing ongoing training to ensure that staff have the appropriate capacity to leverage new ICT resources. MCS is committed to sharing knowledge and experience with other CBRAs, and will continue to participate in the regional dialogue on risk management and trade facilitation. Developments in Maldives' risk management ecosystem are intended to improve ease of doing business while contributing to greater resource efficiency and national security.

⁵ S. Duarte. Gap Analysis Report: Maldives Risk Management. Unpublished.

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