

Services sector in terms of changing environment

## Risk management and Customs performance improvements: The case of the Republic of Macedonia

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### Abstract

The main dilemma in Customs management, especially during the last two decades, is balancing the needs for trade facilitation as a process of simplification, standardization and unification of documents and procedures in international supply chain, on the one, and the level of controls and interventions, on the other hand. Dealing with this dilemma, Customs significantly changed its role and position in the international supply chain. Mainly, Customs replaced its gatekeeper's role, with the new modernized, complex and very sophisticated risk management approach. The main characteristic of customs risk management approach is determining which persons, goods, and means of transport should be examined and to what extend. High-risk persons, goods and means of transport are subject of high-level controls and interventions; despite of low-risk ones that receive high-level trade facilitation.

The Customs Administration of the Republic of Macedonia, as an institution involved in all international modernization processes related to trade facilitation and efforts to ensure duty collection and social security and safety, implements contemporary improvements and developments in standardization and harmonisation of customs procedures and management systems.

The main goal of this paper is to analyze the importance of risk management approach for straightening Customs performance quality, with special emphasize on Macedonian Customs experience.

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## **1. Introduction**

International trade is condition *qua sine non* for economic growth and prosperity. There is long list of economists who theoretically argue close, strong and positive relations between international trade and economic growth (Nikolik, 2005). Having in mind that economic growth is the basic factor for welfare improvement, national economies and international organizations make large efforts to facilitate international trade. Customs administrations, along with other governmental agencies, in order to ensure law compliance, on one hand, and to facilitate legitimate trade, on the other hand, have faced great challenge to manage the achieved exponential trade growth. In such environment, Customs administrations and other governmental agencies were not able to manage law compliance as a gate-keeper that means 100 percent control of all transactions. The rapid increase in international trade value and especially, volume, on one hand, and the limited resources of Customs administrations, on the other hand, are the main limitations in application of the traditional customs control methods. Controlling every item upon arrival at customs border has become a barrier to trade (WCO, 2003). Therefore, modern customs control systems should be based on selectivity approach and risk management.

As risk-based management concept is applicable in almost every business and governmental area, there is a lot of experience that could be shared with Customs issue. From Customs point of view, risks include the potentials for non-compliance with Customs law such as licensing requirements, valuation provisions, rules of origin, duty exemptions regimes, trade restrictions, and security regulations, as well as the potential failure to facilitate international trade (The World Bank Group, 2005, p.91). Risk management as systematic identification and implementation of all measures necessary to limit exposure to customs risk, determines which persons, goods, and means of transport should be examined and to what extend (WCO, 1999, Standard 6.4.). The high-risk persons, goods and means of transport are subject of high-level controls and interventions; despite of low-risk ones that receive high-level trade facilitation. Only risk management approach can ensure compliance with Customs regulations in a way to ensure trade facilitation.

By identifying, analyzing, evaluating and treating risks, Customs manages everyday activities that significantly improve its performance. Through applying risk management, Customs aims to improve decision making and minimise impact of risk events on operational activities. Risk management does not ensure only economic benefits, by facilitating the movement of goods, ships, aircrafts and people – when rated low risk, but at the same time, it provides more effective use of existing skills and experience and improves the quality of Customs controls. Consequently, risk management improves overall performance, increases the transparency through widening the range of available information, as well as raises Customs administrations' social responsibility and accountability. The risk management process helps Customs administrations to focus on priorities and decisions on deploying limited resources to deal with the areas of highest risk.

The application of Customs risk management provides a wide range of benefits for Customs and traders, such as: better human resource allocation; increased revenues; improved compliance with laws and regulations; improved collaboration between traders and Customs; reduced release time and lower transaction costs (UNCTAD, 2008). But the implementation of risk-based approach in compliance management is determined by fulfilment of large list of requirements, such as: political will; historical records; benchmarks; adequate IT systems; cooperation with trade; goals and training and awareness (Stomski, 2007). In general, two main costs from risk management implementation in Customs could be emphasized. They are related with the appropriate level of technical equipment (ITC – computers, adequate software packages and network connections) and qualified personnel (trained customs officers at different levels of risk management: strategic, operational and tactical) that will be able to build up and develop the risk management process.

This paper deals with the Macedonian Customs experience on implementation of risk management system in regard to improve its overall performance. Despite of introduction, the paper is structures in

three sections. The first section is dedicated to implementation of risk management process in Macedonian Customs Administration. The effects of implemented risk management system on Macedonian Customs performance are analyzed in the second section. At the end, the concluded remarks are noted.

**2. Risk management process in the Macedonian customs administration**

The Macedonian Customs Administration (MCA) as a legal enforcement entity operating within the framework of the Ministry of Finance is involved in all international modernization processes related to trade facilitation and efforts to ensure duty collection and social security and safety. In the last ten-year period, it has implemented contemporary improvements and developments in standardization and harmonisation of customs procedures and management systems. The Republic of Macedonia acceded to the International Convention on the Simplification and Harmonization of Customs Procedures, known as Revised Kyoto Convention (MCA, 2010, p.64), and harmonizes its national customs system with the EU one, as a highly modernized customs system today. Furthermore, the Republic of Macedonia has built up a systematic network of national legal provisions for establishment and development of risk management system.

The risk management process, as the systematic identification and implementation of all measures necessary to limit exposure to risk, consists of several procedures that Customs administrations should put through: risks identification; risk assessment that is consisted of risk analyses and risk evaluation; risk treatment; monitoring and reviewing, and communication and consultation within national Customs administrations, C2C (Customs to Customs) and C2B (Customs to Business) (WCO, 2003) (fig. 1).

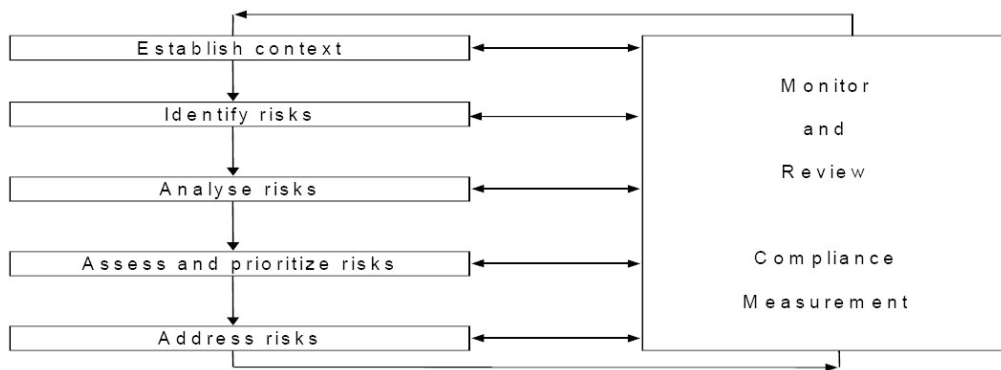


Fig. 1: Risk management process

The process of establishment of customs risk management starts with defining of the risk management context, which is treated on strategic, operational and tactical level:

- Strategic risk management identifies areas of risk, sifts out those of minor importance, and intervenes only where experienced and practical judgment indicates it is necessary;
- Operational risk management determines the level of control necessary to deal effectively with the assessed risk, and
- Tactical risk management is used by officers at their workplace in dealing with immediate situations to decide which movements require greater controls.

The risk management process is very complex and dynamic, and its activities are highly interdependent and mixed, as well. Also, it is a process under continually monitoring and controls which as a feedback, reveals necessities for permanent improvement and development.

In the MCA, as in all Customs administrations over the world, risk management practices had started as “risk analysis” applications. This modest start was focused primarily on improving customs inspection capabilities by moving the system from “randomly selected” or “assumption of everything controlled” approach to more “smart” and “selective” method using predetermined risk indicators and profiles (Bicimseven, 2010, p.1). The first step in implementation of risk management in the MCA was done in 2002 when the application of the selectivity control method, as pilot programme in some Customs offices, started (MCA, 2006). After that it was accepted as general policy in all Customs offices. Additionally, the Risk Analysis Department (RAD), as an organizational unit within the framework of the Sector of Controls and Investigation in the MCA, was established. The tasks of this unit are: to analyse, evaluate, identify and define customs risks, risk indicators and risk profiles; to purpose them for adoption; to monitor the risk management activities and to coordinate the activities on different levels; to control the fulfilment of measures and procedures in the field of risk management; to revise and update the defined customs risks, risk indicators and risk profiles.

The traditional approach of risk management could be related only to operational and tactical level, but it had very little to do with overall strategic objectives of customs administrations. In the process of implementation of modern risk management approach which includes strategic dimension, MCA along with the imposition of risk management approach in the national Customs legislation, has adopted appropriate strategic documents, as well as has developed and amended several operational and tactical documents. In this context, the MCA has adopted the risk management strategies for 2006-2010 and 2011-2014 periods (MCA, 2011).

The Risk Management Strategy 2011-2014, which is based on the provisions of the EU Risk Management Standards Framework, the EU Customs Blueprints – Pathways to modern Customs and the Macedonian Strategic Plan of Customs Administration 2009-2011, sets out strategic goals and commitments in relation to managing and points out the key activities for efficiency improvements. The Strategy defines the range of activities for accomplishment of long-run and strategic goals, which should be fulfilled until the end of 2014 through annual action plans. That will be the main task of the Risk Management Committee, as a coordination body which will be established in the MCA. Facing the necessity of internal cooperation and coordination within MCA, the members of this Committee will be appointed from all internal organisational units included in the risk management system, as the Sector for Control and Investigation; the Sector for Professional Responsibilities; the ICT Sector; Sector for Customs System, as well as representatives from Customs houses and the Cabinet of Director General. The Committee will not undertake work that is currently held by the RAD, but will be responsible for ensuring that the information and instructions provided by the Department will be appropriately applied at the level of MCA.

Two main risk areas are defined in the documents on selectivity controls in customs operations adopted by the MCA (MCA, 2008, p.2). They are customs frauds and threats on social safety and security.

Customs frauds, as evading payment of tariffs and other duties, are treated through: declaring and accepting improper customs value; declaring and accepting misclassification; declaring and accepting improper origin of goods; discharging of import for processing; discharging of outward processing; illicit removal of goods from customs supervision; and undeclared import goods for customs clearance, are one of the most important and highly recognized risks in Customs management strategies worldwide.

Threats on social safety and security in terms of public health, environment and consumers, including proper implementation of measures related to import and export of goods to and from Macedonia, as a risk area is regarded to: smuggling of weapons; smuggling of drugs and precursors; money laundering and terrorist financing; smuggling endangered animal and plant species; smuggling of nuclear and

radioactive material; smuggling of high technology and weapons; illicit trade in dual-use goods; smuggling of cultural heritage; trafficking in counterfeit / pirated goods; ecological crime, and human traffics.

Determined risk areas, along with the information from different sources (IT system for processing declaration; internal detailed records from different related units within Customs Administration; information from external governmental institutions; international customs cooperation), are the main basis for *identification of risks*. Based on the obtained information, the RAD *analyzes* each identified risk in terms of probability of risk occurrence and consequences of the risk occurrence. The level of risk is determined as high, medium or low in the following combinations:

Likelihood	Consequences				
	Extreme	Big	Medium	Small	Insignificant
Almost certainly	high	high	high	middle	middle
Likely	high	high	middle	middle	low
Middle	high	middle	middle	low	low
Small	middle	middle	low	low	low
Rare	middle	middle	low	low	low

Source: WCO: Risk Management Guide, World Customs Organization, 2003

After the *risk evaluation*, which determines whether identified and analysed risk is acceptable, the next step is the *risk treatment*. Risk treatment is an activity for determination of different risk indicators and risk profiles. A long list of risk indicators is determined in MCA. For example, they are different kinds of goods; traders; tariff lines; prices; currencies; values, country of origin; country of destination, etc.

After that, the RAD prepares risk profiles in documentary or electronic form containing following data: risk area; risk indicators; risk assessment and sources of information; parameters of selectivity; treatment - information that requires action to be taken to deal with the identified risks, as well as feedback information from the organizational units that treat certain risk to the RAD, which include: the date when action is taken, results of the action taken and assessment of the action taken.

The risk profile information is used as the basis for selection criteria. Consequently, declarations and supported documents processed by Customs are compared against the risk profile information. The decision on control channels' routing is made according to the matched information. In MCA, the comparison and routing of consignments, vehicles, goods and persons on different control channel are automatically performed by the ASYCUDA (Automated System for Customs Data) system. Also, rerouting of the control channel could be done by the Customs officers.

Risk management is not a static process, but it is a dynamic one and it is a subject of updating and improvements. Once a year, the RAD is obliged to revise, amend and purpose changes in defined risk indicators and risk profiles, as well as to analyse the achieved results from *monitoring and reviewing* and if it is necessary, to initiate changes of risk levels.

The MCA in continuation builds up effective systems for *communication and consultation* among involved internal units, C2C and C2B relations. The effectiveness of this system depends on developing and implementation of clean channels within management information systems as the determinant for accurate, relevant and quick information flows (Iordace E, et.al, 2007, p.6). The MCA, itself and along with other institutions, has developed and implemented several IT solutions as a risk management support tools: National Customs Valuation Data Base; South-East European Messaging System – SEMS; Systematic Electronic Exchange of Data – SEES; Transit of Foreign Currency, securities and Precious Metals; Dual Use Goods Reporting – TRACKER. The main activity in risk management undertook by Western Balkans and the EU is developing and implementation of IT network called Risk Assessment for

Customs in Western Balkans – RACWeB. RACWeB is designed to enhance the identification of risk profiles through the utilisation of data mining techniques and to develop an advanced web-based risk assessment service in customs declarations. Its implementation will improve customs efficiency, as well as transparency in everyday activities.

### 3. Risk management and customs performance in the MCA

Performance measurement as control mechanism in Customs management is a tool for assessing outputs and outcomes of the effects from applied practices. Customs performance measurement ensures feed-back information that is solid basis in decision-making process directed on improvement of established strategic goals, strengthening the positive effects and minimizing the negative ones. As the importance of Customs performance measurement is crucial for decision-making process, there are strong national, regional and international efforts, academic as well as governmental ones, which are directed towards development of standardized and harmonized approach with respect to methodology, including definitions and baselines. Special attention is given by the international institutions, especially by the WCO. The WCO defines four broad approaches on Customs performance measurement (WCO, 2011):

- Customs Data Mining – collection and analyses of quantitative data;
- Service Charters – treating economic operators as clients, rather than regulated;
- Perception Indexes aggregation of subjective survey responses submitted by stakeholders on the quality of service delivered by Customs or other governmental agencies; and
- Monitoring Mechanisms – regular processes which aim to institutionalise performance measurement at national and/or international levels.

Along with those attempts, national Customs administrations and academia put hard efforts on determination of performance areas that should be measured. Having in mind the overall Customs workload, several areas are proposed: risk management, simplified procedures, trade facilitation and time release.

According to established performance measurement of risk management, the MCA has established a long list of indicators, such as monthly imports (value and volume) per customs branches for selected goods; collected customs duties; collected VAT and like. Also, MCA has imposed an obligation for submission of annual and quarterly plans, as well as monthly, quarterly and annual reports on realization for each customs post targeted on customs clearance (undeclared goods, undervaluation, origin, classification, IRP, physical inspection) and border crossing (seized goods, customs offences, foreign exchange offences).

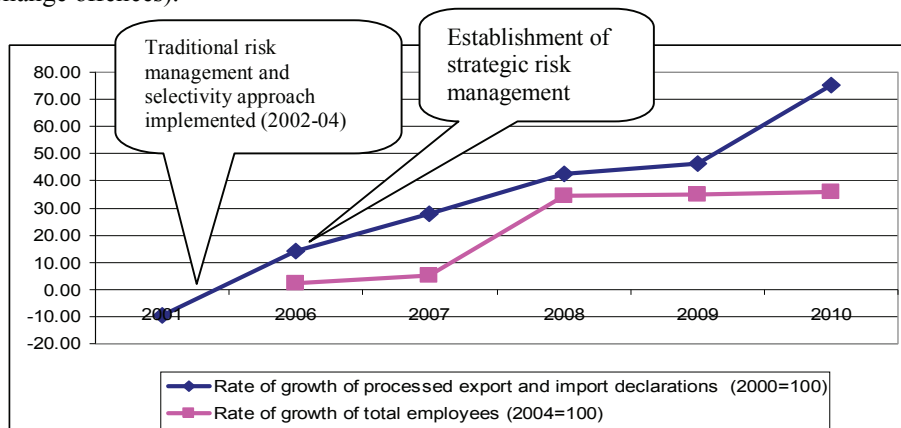


Fig. 2: Dynamics of processed declarations (2000=100) and total employees in MCA (2004=100)

Source: MCA, own calculations



Basic indicators in Customs performance measurement are related with the workload scope, employees and collected duties. The Customs workload mainly, is measured by the number of processed declarations. During the analysed period, the MCA has processed an increased number of processed export and import declarations (fig.2).

Only in 2001 the negative rate of growth is achieved, and that is result of the decrease of overall economic activity due to war conflict that occurred in the country. But, after the implementation of risk management approach and selectivity control in 2002 and 2004, the number of processed declarations in the following period has grown significantly. The rate of growth of the number of processed import and export declarations in 2010 according to 2000, reached 75 percent.

The main indicators as import declarations per employee and export and import declarations per employee show that the customs performance in MCA has been modestly improved (fig.3). In 2010, there are 502.62 export and import declarations processed by an employee that is only 15.5 percent increase according to 2006. The main reason of this modest growth is the large number of new employments in 2008.

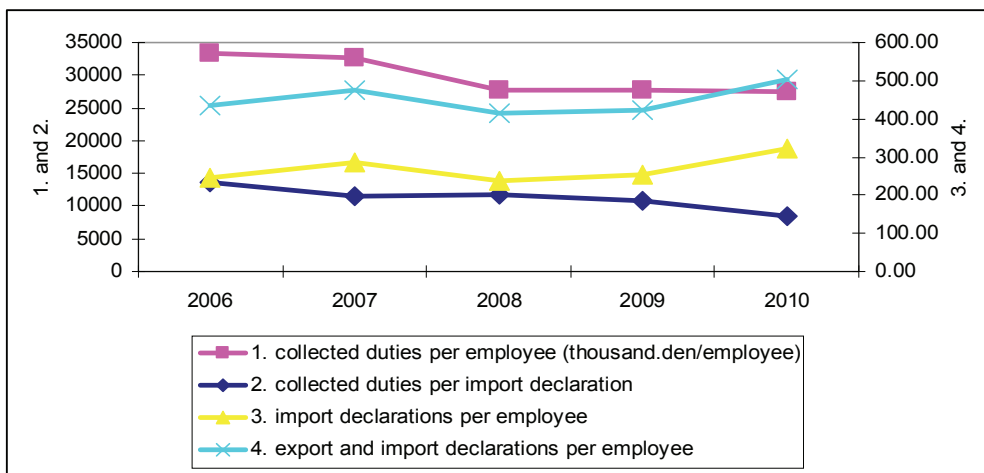


Fig.3: Basic Customs performance indicators for Macedonia

Source: MCA, own calculations

According to the trade liberalization process that took part in Macedonian economy, the amount of collected duties per employee and the amount of collected duties per import declaration have decreased. From 13592.42 MKD collected duties (tariffs, VAT, excise) per import declaration in MCA in 2006, the amount decreased for about 37 percent and reached 8570.65 MKD in 2010. The amount of collected duties per employee decreased slightly less, only 17 percent in 2010 related to 2006.

### 3.1. Risk management and customs control channels

The implemented and developed risk management system and the successful application of selectivity method are closely interdependent and highly interconnected processes. One of the most applied selectivity techniques is the establishment of Customs control channels:

- Green channel: no control (immediate release without examination);
- Yellow channel: documentary control;
- Red channel: documentary and physical control, and

- Blue channel: control at a later stage (post-clearance audit).

According to the previously established risk indicators and risk profiles, goods, vehicles and persons are routed to one of the channels. Automatically, the IT system determines whether they will be declared on green, red, yellow or blue channel. Customs officer will reroute customs declaration within pre-established channel, if he/she has a reasonable doubt that the goods, vehicles and persons must be examined.

The Macedonian Customs started to apply selectivity method based on control channels in 2002. The automated selectivity system of control channels was established in 2004.

The most frequently used IT software package for implementation of Customs control channels using risk management is known as ASYCUDA. After long time of application in the Macedonian Customs, ASYCUDA should be replaced by new Customs declaration processing software - CDPS, which will be compatible for interconnection with the EU customs systems. This software package will introduce: electronic processing of declarations for import, export and transit, additional sub-systems and revenue collection functionalities, guarantees, risk-analysis, authorizations, customs tariff, as well as sub-systems for management of laboratory, excise, intellectual property, knowledge base and e-learning.

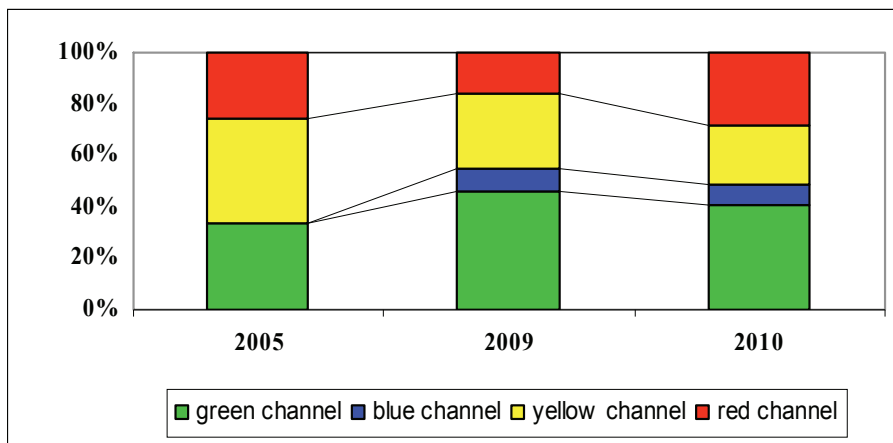


Fig. 4: Distribution of import customs declarations by different control channels (%)

Source: Source: MCA, own calculations

According to the presented data (fig. 4), the distribution of the import declaration on different control channels is improved in 2010 related to 2005:

- The distribution of import declarations to green channel, as channel with no controls has been significantly increased, from 34 percent in 2005 to 46 percent and 41 percent in 2009 and 2010, respectively;
- The distribution of import declarations to blue channel that supposes post-clearance audit has been increased, from 0 percent in 2005 to 9 percent and 8 percent in 2009 and 2010, respectively;
- The percentage of import declaration directed to yellow channel that means that consignments are subject of only documentary control decreased almost doubly from 40 percent in 2005 to 29 percent and 23 percent in 2009 and 2010, respectively, and
- The distribution to the red channel, where consignments are subject of document verification and physical control, decreased from 26 percent in 2005 to 16 percent in 2009, but it increased to 28 percent in 2010.

Presented data on distribution of import declarations to different channels indicates that Macedonian Customs has permanently improved its risk management system as a facilitation tool for legal trade, on one hand, and as a control mechanism towards law compliance, on the other hand.



The distribution of import declarations to different control channels in 2009 shows better structure that in 2010. The main reason for such structure is the mounting import of used cars in 2010. According to the new regulations the import of used cars is highly liberalized, but they must be complied with the determined technical standards. Therefore used cars are directed to red channel.

### 3.2. Risk management and Customs frauds

One of the oldest tasks of Customs administrations is the fiscal one and it is generally related with the revenue collection from import and export duties. As mentioned above, customs fraud is identified and defined as a risk area in the Macedonian Customs risk management system.

The number of customs frauds as criminal actions that are committed by different offenders and detected by the MCA in the analyzed period has increased from 19 in 2006 to 62 in 2010 (fig. 5).

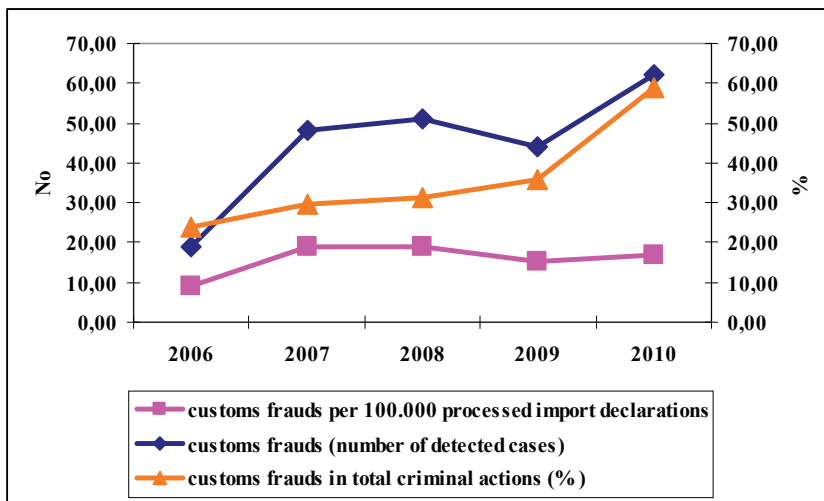


Fig. 5: Detected customs frauds in the MCA (2006-2010)

Source: MCA, own calculations

In the analyzed period, the participation of customs frauds in total number of customs criminal actions detected by the MCA significantly rose from 24 percent in 2006 to 59 percent in 2010. Additionally, on every one hundred thousand processed import declarations, 9 were subject of customs frauds in 2006, and in the following years, the number rose on nearly 19. This might be a result from incurrence of different conditions, but the most significant one is the successful risk managing of the customs procedures. The MCA has strongly reinforced its capacities in order to fight against fraudulent activities in means to not let them remain concealed and unpunished.

Customs frauds as concealment of duties, generally on imports, are deceits directed to the determinants of customs debt, such as customs valuation, classification and product origin. According to the MCA internal reports on criminal actions, the major part of the customs frauds are related to customs undervaluation, known as “double invoicing”. Having in mind that customs frauds count almost 50-60 percent of total number of detected criminal actions, on one hand, and that more than 90 percent of customs frauds are related to “double invoicing”, on the other hand, the MCA should deploy its resources towards development of stronger customs valuation and control system. In this respect, the MCA has created a national data base on Customs value. Also, there are several internal detailed instructions

adopted for practical application of the provisions of the Customs Law referring the customs value, including explications and comments of the World Customs Organization (Biljanoska, 2011).

The undertook activities in the framework of the risk management system related to prevention and detection of customs frauds have produced positive changes especially in the increased number of detected customs frauds.

### 3.3. Risk management and Customs performance measured by perception indexes

The positive effects of Customs modernization and implementation of risk management system also could be seen through the perception indexes published by the international organizations. The main perception indexes that are related to Customs performance measurement of risk management are published by the World Bank: Trading across Borders (Doing Business Report) and Logistics Performance Index - LPI and its indicators related to Customs (Connecting to Compete, Trade Logistics in the Global Economy Report).

Risk-based inspections are widely used all over the world. According to the Doing Business 2011, risk-based inspections are used by 112 economies among 149 economies that were surveyed. In Eastern Europe and Central Asia 86 percent of surveyed economies have adopted risk-based inspections (The World Bank Group, 2011, p.66-7).



Fig. 6: LPI, Customs effectiveness and Timeliness indicators for the Republic of Macedonia (2007, 2010)  
 Source: The World Bank: Connecting to Compete: Trade Logistics in the Global Economy 2007, The World Bank 2007; The World Bank: Connecting to Compete: Trade Logistics in the Global Economy 2010, The World Bank 2010  
 Note: Connecting to Compete 2007 Report and Connecting to Compete 2010 Report show results of the surveys conducted in 2005 and 2009, respectively.

Macedonian logistics industry has improved its performance effectiveness. The results from 2010 LPI show that Macedonian overall score is 2.77 related to 2.43 in 2007 LPI (fig.6). The achieved 2010 LPI is 67 percent from the best performer in the world (Germany), and 80 percent of the highest performer in the upper-middle income group (South Africa). Having in mind that, Macedonia is land locked country, on one hand, and that landlocked countries are at a disadvantage in logistics sector, on the other hand, the improvement of rank position to 73 in 2010 LPI related to 90 in 2007 LPI, it is a great success for Macedonian economy (The World Bank Group, 2007; The World Bank Group, 2010). Also, Macedonia is in the top 5 best performers in the group of land-locked countries.

Modernization processes according to the contemporary trends in international customs environment that have been implemented in MCA, have strong positive implication on its effectiveness in the previous

4-year period. Macedonian Customs effectiveness score has risen from 2.00 in 2007 Report to 2.55 in 2010 Report that implied almost double rank jump.

The customs effectiveness and timeliness are closely related performance indicators. Macedonian timeliness score increased from 2.83 in 2007 to 3.1 in 2010, but it was not enough to reserve the same rank position from 2007 Report. According to timeliness indicator, Macedonia in 2010 Report was ranked at 105, related to 99 in 2007 Report. Macedonia, as landlocked developing country, is at a disadvantage because it cannot control shipping conditions outside its borders. Generally, importing into a landlocked developing country typically takes a week longer than for its coastal neighbors (The World Bank Group, 2010).

The strong efforts that Macedonian government has put on trade facilitation and Customs modernisation, especially risk management and selectivity approach, have lowered the time of export and import in Macedonian economy (The World Bank Group, 2011). The time for exporting and importing, recorded in calendar days, starts from the moment the procedure is initiated and runs until it is completed. In the analysed period, the time of export was lowered from 17 in 2006 to 12 days in 2010 (29.4 percent delay reduction), and what is more important, the time of import was lowered from 15 in 2006 to 11 days in 2010 (26.6 percent delay reduction). According to the results of one of the most popular research in this sphere trading on time, a 10 percent reduction in delays increases exports by about 4 percent, all else equal (Djankov S. et.al., 2008, p.11).

The USAID report, according to data published in the World Bank Group, *Doing Business 2007*, find out that the tariff equivalents for import time delays exceed tariffs in every region. For example, for Europe and Central Asia, the tariff equivalents are more than twice the average applied tariff. In the Republic of Macedonia the tariff equivalents for import delays is 12.9 and the applied import tariff is 7.8. Estimated per-day tariff equivalent on the import side for the Republic of Macedonia is 0.9 percent (one day reduction of import delay is equivalent of 0.9 percent ad-valorem tariff). Multiplying the per-day tariff equivalent by the total number of days for import, we arrive at a total tariff equivalent of 13.5 percent (0.9 percent \* 15 days). Of this 13.5 percent, 26 percent comes from inland transport, 33 percent from Customs and 41 percent from port delays. If we suppose that everything else despite of time to import is equal, total tariff equivalent for Macedonia in 2010 is 9.9 percent (0.9 percent \* 11 days). That means that the reduction of import time from 15 to 11 days implied tariff equivalent reduction from 13.5 percent to 9.9 percent. For exports, the tariff equivalents exceed tariffs faced by exporters significantly in all regions: in Europe and Central Asia, the tariff equivalents are three times the tariffs faced by exporters. In the Republic of Macedonia the tariff equivalents for export delays is 9.2 and the applied tariffs by the exporters is 6.8. Estimated per-day tariff equivalent on the export side for the Republic of Macedonia is 0.7 percent (one day reduction of export delay is equivalent of 0.7 percent ad-valorem tariff) (Hummels D., 2007).

Having in mind that risk management system has strong impact on Customs performance, as well as on international supply chain performance, Customs administrations are pushed forward to renew their professional approach to be qualified to meet the new challenges in the risk-management oriented Customs environment. That means that customs professionals, according to the provisions of the Revised Kyoto Convention and national policy as a risk management tool, should be trained on several aspects, such as: (1) the relationship between intervention and facilitation; (2) the strategic use of risk management to control trade, protect society and combat cross-border crime; (3) the tactical use of risk management to detect smuggling and terrorism, and to provide assurance, and (4) the importance of approval, audit and anti-smuggling in the risk management process (WCO, 2008, p.16). In this context, the Customs professionals employed at the MCA permanently participate on training courses organized in different areas, at home and abroad.

#### 4. Conclusion

Risk management as systematic identification and implementation of all measures necessary to limit exposure to customs risk, can ensure compliance with Customs regulations in a way to ensure trade facilitation. By identifying, analyzing, evaluating and treating risks, Customs significantly improve its performance.

The new Macedonian Customs Law imposed in 2005 and amended in 2008-2010, have significant positive effects on the development of risk management system in the MCA. According to the law provisions, MCA has developed a modern risk management system on strategic, tactical and operational level. Through determination of customs frauds and threats on social security and safety as risk areas, a large number of risks are identified. After that, identified risks have been analysed, evaluated and treated, and only a part of them are incorporated in risk profiles and indicators. The defined risk profiles and appropriate indicators are used as selectivity criteria in Macedonian Customs control system.

Customs performance measurement is a mechanism that provides feedback information of the effects of applied practises. The implemented risk management system and selectivity approach, in general, has caused positive trends toward greater facilitation of legal trade, as well as stronger basis for Customs law compliance in Macedonian economy. In the analyzed period, MCA achieved positive trends, particularly in: rise in the number of processed customs declarations, the number of processed declarations by employee and the number of detected customs frauds, as well as reduction in time delays.

Macedonian Customs performance improvement is result of the overall Customs and institutional reforms undertook in the trade facilitation process. But, the implementation of risk management approach on strategic, tactical and operational level, has the greatest impact on the achieved results, especially because in the conditions of exponential trade growth, on one hand, and the strong international pressure on trade facilitation, on the other hand, it makes the Customs business possible. However, there are a lot of activities that has to be done in MCA, especially practical implementation of the Authorized Economic Operators' Concept.

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