

# **SARS RFI 02/2024**

## **BUSINESS REQUIREMENT SPECIFICATION**

### **A REQUEST FOR INFORMATION ON CUSTOMS DIGITAL VETTING FOR THE PURPOSE OF RISK ENGINE AUGMENTATION**

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## REFERENCES AND DEFINITIONS

### LIST OF ACRONYMS

ACRONYM	DESCRIPTION
SARS	South African Revenue Service
EDM	Enterprise Data Management
RFI	Request for information
VAT	Value added tax
CRE	Customs Risk Engine
WCO	World Customs Organisation
PCA	Post Clearance Audit
API	Application Programming Interface

### 1. PURPOSE OF DOCUMENT

This RFI document sets out the business requirements that SARS has for digital vetting risk engine augmentation, which must be considered by the Vendor/Supplier in compiling a response.

### 2. GENERAL INFORMATION

The South African Revenue Service (SARS) is the national tax collecting authority of South Africa. It was established on October 1, 1997, under the South African Revenue Service Act 34 of 1997. SARS is an autonomous agency responsible for administering the country's tax system and customs service.

### 3. KEY FUNCTIONS AND RESPONSIBILITIES

- **Tax Collection:** SARS collects various taxes, including personal income tax, corporate income tax, value-added tax (VAT), customs and excise duties, and more.
- **Customs Enforcement:** SARS enforces compliance with customs legislation and facilitates legitimate trade.
- **Compliance:** SARS ensures that taxpayers and traders comply with their obligations, making non-compliance difficult and costly.

SARS Customs is a division of the South African Revenue Service (SARS) responsible for managing and facilitating the movement of goods and people across South Africa's borders. Here are some key aspects of SARS Customs:

- **Customs Control:** Ensures compliance with customs legislation and regulations, preventing illegal trade and smuggling.

- Trade Facilitation: Simplifies and expedites legitimate trade, making it easier for businesses to import and export goods.
- Revenue Collection: Collects customs duties, excise duties, and other taxes on imported goods.
- Border Security: Works to secure South Africa's borders by monitoring and controlling the flow of goods and people.

#### 4. MODERNIZATION EFFORTS

SARS Customs is continually modernizing its systems to improve efficiency and service delivery. This includes enhancing digital platforms for traders and taxpayers and targeted projects to address the tax and duty gaps.

#### 5. CONTEXT AND BACKGROUND

The three pillars of Customs are Valuation, Tariff, and Rules of Origin to process a declaration successfully. If goods are not correctly classified, valued or origin-certified, customs administrations face the risk of revenue leakages.

As a result, an effective tariff structure is crucial to any customs organisation for purposes of revenue collection and protection of society from harmful goods that might enter the borders, resulting from incorrect classification.

According to the WCO, one of the biggest challenges facing Customs administrations is the control of declared Customs values and tackling suspected undervaluation.

Given that most duty rates worldwide are ad valorem (i.e. based on a percentage of the value of the goods), accurate determination of Customs value is critical for ensuring governments are collecting all revenues that are legally due.

Customs valuation fraud is not only damaging to tax collection, but it also contributes to local job losses in vulnerable economic sectors. According to trade sources, under-declaration of customs value in the clothing and textiles sector has increased dramatically, with the under-declared customs value representing a large percentage (between 30% to 50%) of the declared customs value. Employment in the clothing and textiles sector has been negatively impacted as a result.

Declaration processing requires advanced commercial (and other) information to secure our borders and minimize fiscal fraud. In our view the availability of, and access to a broad array of data sources linked to refined risk rules will assist in managing fiscal threats.

The fiscal threats are:

- Under valuation
  - Inaccurate or unclear invoices
  - Incorrect tariff heading (code)
- Misclassification

- Misdeclaration of origins

During the conceptualisation of the initiatives forming the SARS Customs Modernisation Programme (CMP), it was envisaged that SARS would either develop, purchase, or subscribe to, a customs valuation database of indicative product values based on trade data as a risk-assessment tool to identify cases for valuation audits.

This approach was also favoured and supported by the South African Minister of Trade Industry and Competition as an appropriate tool to combat customs undervaluation in high-risk areas such as clothing and textiles, as well as to protect vulnerable economic sectors from the effects of low-valued goods entering the South African thus circumventing, or largely negating, the effects of protective duty rates that have been put in place to strengthen the Republic's economic development.

As the most widely known tool employed by customs administrations globally to discover possible instances of customs valuation fraud, it was believed that SARS too should follow this model and hence the development of a customs valuation database was included as part of the Customs Modernisation Programme (CMP).

Subsequent deeper analysis, driven by the SARS Strategic Objective of expanding the use of technology and data to derive better insights and improve outcomes, coupled with the risks and costs associated with developing and maintaining a dedicated customs valuation database, including the large range, volume and detail of commercial product data required to enable its effective use, has led the project team to the conclusion that the risks prevalent in all three risk areas (tariff, origin and valuation) could be better addressed through the use of Predicative Data Analytical tools, aided by Artificial Intelligence (AI).

This view was further informed and strengthened by the responses received on the initial Request for Information (RFI) that was sent out in relation to a possible customs valuation database. From these responses it became clear that the more effective and preferred modern approach is to use predicative data analytical tools, aided by artificial intelligence (AI), not only to identify valuation risk, but also the tariff and origin misdeclaration risks that are associated with import transactions.

Such data analytics tools can consume large sets of data across the entire SARS value chain in relation to entities, tax status, declarations (current and previous), previous inspection or audit outcomes, declaration dates, tariff codes, goods descriptions (vague, misleading, generic, etc.) declared values, routing, consignor, consignee, quantities, units of measure, weight, volume, year of manufacture, advance cargo reports (manifests), outturn reports, etc.

Data from international sources are becoming increasingly important in completing the bigger picture. Customs authorities are augmenting the internal data focus with external data sources and information.

This data can then be used to determine the correctness of tariff, origin, and value declarations, ranked on a scale of probability. When used in conjunction with machine learning or artificial intelligence, other probable applicable tariff classifications, origins or values can be suggested, and calculations can be made to determine the cost-effectiveness of raising an audit in relation to the goods and the transaction, thus assisting SARS to improve its outcomes and to reduce its operating and compliance costs.

Where the goods identified for audit are still under customs control, and the importer wishes to take release thereof against suitable security pending finalisation of the case (in accordance with international customs conventions), the AI can calculate the appropriate security amount required based on the probability of possible outcomes it has identified. This has the benefits of reducing delays and impediments in the supply chain, decreasing the administrative burden on SARS, and freeing up resources to perform more value-added tasks.

It is also important to note that the WCO theme for the 2022 International Customs Day was “Scaling up Customs Digital Transformation by Embracing a Data Culture and Building a Data Ecosystem” and that the RFI is aligned to this approach.

It was recommended that SARS investigate appropriate solutions to meet the required needs. This may be an off-the-shelf solution, alternatively a bespoke and scalable solution that matches the requirements of SARS and in line with the WCO Standards.

The objective to be borne in mind when providing information on this RFI is that SARS envisages augmentation of existing risk detection and case management capabilities, and not the replacement of systems.

The current case-based workflow and risk identification capability will remain with a view to improving effectiveness and efficiency of the whole end-to-end declaration process. A basic contextual diagram of where we believe the product / service will be positioned can be seen below.

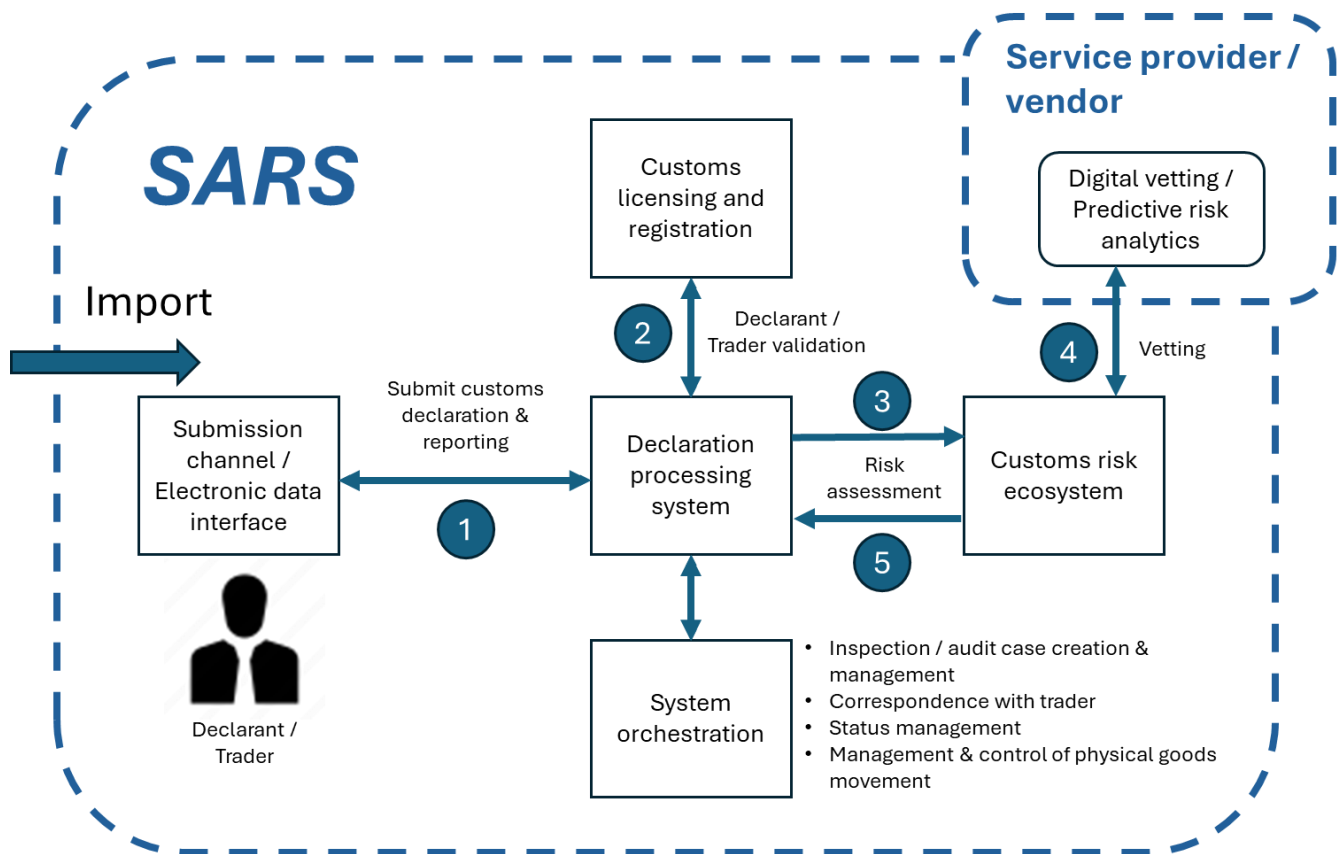


Diagram 1 – Contextual depiction.

- |        |  |
|--------|--|
| Step 1 | Submission of Customs declaration.   |
| Step 2 | Validation of entities involved in transaction.  |
| Step 3 | Sending of declaration data to risk capability.  |
| Step 4 | Complete or partial sending of selected data to service provider or vendor for vetting / screening and sending back of actionable information. |
| Step 5 | After incorporation of actionable information, proceed to issue risk assessment information.   |

The following section details the required information to assist SARS in forming a picture of the available products and services in the market and if these are in line with our initial objectives.

## 6. REQUIRED INFORMATION

The following information will assist SARS in refining the requirement to address existing gaps and decide on potential next steps. It is understood that answers could be dependent on budget availability and user preferences and the answers to questions will be viewed in this light.

## 7. CURRENT CUSTOMS KNOWLEDGE AND EXPERIENCE

The Customs environment is a highly specialised and requires knowledge about the end-to-end Customs value chain, focus areas and associated risks. The questions aim to determine the knowledge and experience of potential vendors

in the market and the nature of their services.

## **8. SERVICE, TOOLS AND SOFTWARE OFFERINGS**

### **8.1 WHAT SERVICES DO YOU HAVE TO ADDRESS CHALLENGES EXPERIENCED WITH CUSTOMS DECLARATION OF GOODS REGARDING THE:**

- Incorrect valuation of goods?
- Incorrect classification of goods?
- Incorrect rules of origin applied?

Please provide enough information for a thorough understanding of the product or service and the potential benefit that will be derived.

### **8.2 CAN YOU INDICATE HOW THE SERVICE IS TECHNICALLY EMBEDDED WITHIN THE EXISTING INFRASTRUCTURE OF A TYPICAL CUSTOMS AUTHORITY?**

This information is needed to understand how the service is typically accessed and used as part of a bigger ecosystem as depicted in diagram 1.

### **8.3 SARS HAS EXISTING CUSTOMS RISK IDENTIFICATION FUNCTIONALITY. HOW WOULD YOU PROPOSE THE AUGMENTATIONS OF THE EXISTING RISK IDENTIFICATION CAPABILITY.**

SARS has existing risk rules in place to generate cases for intervention. How does your service typically work in conjunction with an existing case-based workflow management tool?

### **8.4 WHAT OTHER SERVICES DO YOU OFFER THAT CAN BE ADDED TO INCREASE THE COLLECTION OF CUSTOMS DUTIES?**

If there are other services that dovetail and support the 3 main challenges, please describe them.

### **8.5 HOW CAN YOUR SERVICE MODEL BE ADAPTED TO THE CURRENT SOUTH AFRICAN ENVIRONMENT?**

The South African environment poses specific challenges. How can products / services be adjusted and configured to cater for the local environment?

### **8.6 DO YOUR SERVICES INCLUDE ENTITY-CHECKING FOR PAST CONTRAVENTIONS / INFRACTIONS DATABASES AT A GLOBAL LEVEL TO PROVIDE COMPLIANCE HISTORY INFORMATION?**

This information would be beneficial input when compiling a risk profile of entities involved in the transaction.

### **8.7 CAN YOU INDICATE THE POTENTIAL VALUE OR IMPROVEMENT THAT CAN BE EXPECTED FROM THE SERVICE/S MENTIONED TO ADDRESS THE CHALLENGES ABOVE?**

This information will be beneficial to form an opinion on the potential value, benefits and improvement a product or service can offer. High-level dependencies to achieve benefits can be listed if relevant.



## **9. TECHNICAL INFORMATION & SYSTEM CAPABILITIES**

### **9.1 WHAT ARE THE DECLARATION VOLUMES YOUR SERVICE CAN ACCOMMODATE?**

The products / services will be utilised in a high-volume environment, and it is therefore important to understand the capabilities of products / services from a volume perspective.

### **9.2 WHAT IS THE RESPONSE TIME OF THE SERVICE AND GUARANTEED SERVICE AVAILABILITY?**

Service responsiveness and availability are important considerations in providing a seamless customer experience, and an indication in this regard would be beneficial.

### **9.3 DOES YOUR SERVICE REQUIRE DECLARATION DATA TO BE SENT ACROSS NATIONAL BOUNDARIES?**

Hosting, locality of data, and transmission of taxpayer / trader information across national boundaries may be subject to restrictions from a South African legislation perspective. Information in this regard will be beneficial in understanding how products and services will function.

### **9.4 HOW DO YOU TYPICALLY PROTECT PRIVATE ENTITY INFORMATION?**

Data security and privacy are important considerations for any solution.

### **9.5 DO YOU HAVE A LOCAL (SOUTH AFRICAN) PRESENCE? IF NOT, WHERE ARE YOU LOCATED, AND HOW WILL YOU BE RESPONSIVE TO SARS' NEEDS?**

Question asked to determine where vendors and service providers reside.

#### **9.5.1 CAN THE SYSTEM BE CALIBRATED AND CONFIGURED TO ALIGN TO AVAILABLE OPERATIONAL CAPACITY?**

SARS may prefer to scale the use of the system in line with operational capacity, to avoid creating backlogs. Is there a way to adjust the sensitivity of the system to align to possible capacity constraints?

## **10. DEPLOYMENT INFORMATION**

### **10.1 WHAT WOULD YOUR RECOMMENDED FUNCTIONALITY IMPLEMENTATION SEQUENCE BE?**

This information will assist SARS in understanding the sequential rollout and the potential dependencies of a typical deployment.

### **10.2 WHAT WOULD A TYPICAL DEPLOYMENT ROADMAP AND TIMELINES LOOK LIKE?**

Feedback on this point describes the journey as well as the duration of a typical deployment.

### **10.3 WILL YOUR PRODUCT / SERVICE USE MACHINE LEARNING TO IDENTIFY THREAT VECTORS AND WHAT WOULD BE REQUIRED FROM A DATA PERSPECTIVE?**

This point tries to ascertain the machine learning capability of products / services.

## **11. IMPLEMENTATION REFERENCES**

### **11.1 WHERE DO YOU HAVE CURRENT IMPLEMENTATIONS COMPARABLE TO THE SCALE AND COMPLEXITY OF THE SOUTH AFRICAN ENVIRONMENT?**

This information will establish the relevant experience and track record within the industry.

### **11.2 IS IT POSSIBLE TO ENGAGE WITH REFERENCES (WITH PRIOR NOTIFICATION AND APPROVAL) TO DETERMINE THE VALUE REALISED FROM USING DESCRIBED SERVICES?**

Beneficial use is best determined by talking to users of products and services. Understanding how clients use products / services will assist in formulating our approach.

## **12. CONTRACTING MODELS**

### **12.1 IS IT POSSIBLE TO DESCRIBE THE TYPE OF CONTRACTING MODELS THAT YOU TYPICALLY USE?**

High level description of cost structure and contracting model information will assist in building a business case.

### **12.2 HOW WILL COSTING WILL BE DETERMINED AND WHAT WOULD THE TYPICAL COST BE?**

High level description of cost structure will assist in building a business case.

## **13. RESPONSE FORMAT**

Responses to this RFI should be concise and straightforward. Written responses should follow the layout and numbering as used within the required information section of the RFI.

No elaborate presentations and marketing material is required at this stage.