Role of Capacity Building

and Knowledge Management

for improving efficiency

of human resources

in Indirect Tax Administration

MCTP Phase IV, Group – 1

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1. Executive summary

Any efforts to build capacity needs resources, with no certainty whether the organization achieves the desired outcomes. So how it improves the efficiency of the organization with more resources getting consumed with no proportional increase in output. This is the way, ordinary organizations look to capacity building.

However this may hold true in case the external environment remains static, with no need of new outcomes. But once the winds of change blow with new outcomes needed, good organizations shift from delivery by trial and error to organized capacity building. To build capacity keeping pace with changed environment is not an option, but a necessity.

And each capacity building exercise is a local effort within a group of people and this needs to percolate to all concerned people for an organizational capacity. This is achieved with the knowledge management with expertise flowing through seminars, courses, workshops, computerization and IT development, design new systems, reform existing systems, improved governance, and mentoring.
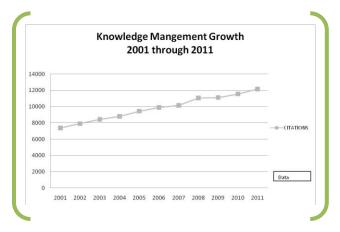
Our department has already taken steps to build capacity and manage knowledge. This paper makes specific recommendations that would help the department in meeting the new challenges.

2. Introduction

Capacity building is to develop institutional capacity to meet a defined goal. A lack of capability would result in inability to meet the goals. The capacity building has two components – explicit which is clearly expressed like number of human resources needed to complete a task, and another is implicit which is implied like the capability of resources to complete a task. The capability building consists of improving human resource capability, improving technology, providing finances to provide needed resource, and administrative and management capacity – range of skills needed in current staff or new staff, attitudes and motivation, statistical capability to monitor trend, periodic assessment relational skills (cooperate with others). The capacity building may be required at two levels like institutional to meet organization goals and local to meet local goals.

Knowledge management is a discipline that promotes an integrated approach to

Knowledge Mangement Growth
2001 through 2011

identifying, capturing, evaluating, retrieving, and sharing all of an enterprise's information assets. These assets may include databases, documents, policies, procedures, and previously un-captured expertise and experience in individual workers[1]. The chart indicates the articles on knowledge management are continuously increasing

[1]*Gartner Group definition of KM, which is perhaps the most frequently cited one (Duhon, 1998).*

Knowledge management efforts overlap with organizational learning and may be distinguished from that by a greater focus on the management of knowledge as a strategic asset and a focus on encouraging the sharing of knowledge. It is an enabler of organizational learning. The knowledge spiral with a dialogue of individuals leading to team building is given as **Exhibit 1**.

3. **India and International perspective in capacity building and knowledge management**

The indirect tax reforms of 1990s, India becoming a member of WTO and impending GST indicate that the environment for indirect tax administration is continuously changing. A robust capacity building and knowledge management is necessary to meet the new challenges. The capacity building and knowledge management allows everyone a chance to play a meaning role, thus improving the efficiency of the organization. A hand holding allows better outcome.

The current scenario in Indian indirect tax administration is challenging and needs suitable capacity building actions and incentivizing knowledge acquisition to meet new requirements. The new tax law in form of GST, post cadre restructuring how to empower the proper officer with many promotions needing adoption of new skill sets, balancing trade facilitation with guarding the economic frontier (risk management), emerging role of Customs with single window and lead agency towards coordinated border management.

CBEC's Mission statement and Strategy, enunciated in Citizens Charter, focuses on knowledge management and capacity building for the organization to meet its goals. (Refer **Exhibit 2**). With emphasis on pragmatic approach, streamlining and simplifying processes, providing information and guidance, and evasion understanding, developing knowledge base and capacity to handle specialized activities is necessary.

International practices also lay emphasis on knowledge management and capacity building.

World Customs Organization (WCO) has a Directorate of Capacity Building for the development of Customs Services globally through the implementation of WCO Conventions, guidelines and tools. WCO has Mercator Programmeto increase global

interconnectivity, expand trade volumes and enhance economic competitiveness by providing tailor-made assistance for implementing trade facilitation measures. WCO PICARD programme focuses on partnerships in Customs Academic Research and Development.

UK HMRC has a National Academy for capacity building. It has programme of 5 days minimum training each year for each officer. One needs to pass exam on promotion; else the officer is reverted back. The staff is permanent, but can be removed if exam is not cleared. There are digital modules for training, with focus on specialized courses. The specializations for officers are defined with a University degree supported by specialization in Finance, Accountancy, Statistician, or Data analysis. Now UK HMRC is developing new capacity for offshore tax evasion. Further UK HMRC works with the London School of Economics for effective policy interventions at political level.

The Organization for Economic Cooperation and Development (OECD) does periodic GAP analysis for capacity building. In a recent study, it has recommended that United Kingdom would see increased trade volumes and reduced trade costs from continued improvements in:

- Introduce a full-time hotline (24/7) for addressing enquiries to Customs.
- Publish more detailed information concerning the agreements with trading partners.
- Introduce user friendly guidance on key issues, etc.

Netherland Government is making efforts on capacity building through different programmes, like Dutch Government Programme, EU Programme, and Bilateral programmes. Further Dutch Customs is developing capacity beyond human resources through a 60 dogs squad specializing in narcotics, cash, explosives, Wildlife etc. The use of last mile technology beyond risk interventions in form of Scans (stationary and mobile), nuclear alarm response, Camera supervision, and access control at Rotterdam Port allows better capacity utilization with limited resources.

4. **Research – CBEC internal efforts on CB and KM – lessons learnt**

4.1) CBEC is using a Results Framework Document (RFD) framework since 2012-13 to achieve the organizational objectives and to set the success indicators to measure the progress.The RFD establishes four objectives i.e. (i) Collection of indirect tax revenue; (ii) Improve tax-payer services; (iii) Improve compliance for fair trade & enforcement of border control; and (iv) Human resource development for efficiency and transparency. These objectives are in line with the CBEC Vision and Mission articulated in the Citizens' Charter. For each objective, specific priority actions were identified that would lead to fulfilment of the objective. Further for each

action, success indicator was set. Numerical value for each success indicator was set for an objective assessment of the success. A range of values was given to rate performance from 'Excellent' to Poor'.

With the performance indicators, CBEC officers are able to plan to develop the capacity to meet the desired targets. The requisite core capabilities are more defined with specific targets. In addition, emphasis is laid on development of human resource with specific indicators like developing IT capability, or developing deterrence capability etc. The performance evaluation allows the organization to do a gap analysis, re-prioritize the goals and infuse capacity where needed.

A brief on the framework is covered in **exhibit 3**.

4.2) In Amritsar Customs Commissionerate it was found that the processes related to DDO were carried out manually involving large manpower, and were prone to errors and deficiencies of a manual system. This was replaced by an IT driven process handled by DDO, reducing the time requirement, and doing away with the deficiencies of a manual system. The officers were trained to handle the system and thus they improved not only their efficiency but of the organization as well. Besides, the IT skills necessary skills for the current age were also learnt.

Thus, the organization's capacity was enhanced through introduction of a new capacity building system.

4.3) At CESTAT efforts have been madeto publish cases in favour of department on the CBEC website as 'ECS case laws'.Litigation Conferences (Intra office and Inter office) are organized at CESTAT on quarterly basis; Each officer presents a case to others to gain insight and share knowledge. Department accepted cases available on CBEC website to minimize litigation.

Departmental HELP CENTERS at regional chamber of Commerce faltered due to lack of expertise provided by officers.

4.4) CBECs' Taxpayer services (Sevottam) programme: Government of India initiated SEVOTTAM in CBEC to improve quality of public services. CBEC is one of the ten organizations with a large public interface where a time bound SEVOTTAM implementation programme has been rolled out. CBEC took concrete steps towards SEVOTTAM by assessing ourselves, identifying gaps and making improvements. Accordingly CBEC has revised Citizens' Charteras per input from key stakeholders to make it 'Citizen Aligned'. CBEC has adopted CPGRAMS (Centralized Public Grievance Redress and Monitoring System) at all India level. This is monitored at Chief Commissioner/Director General level at field formation. This is also monitored at Board level. Public Grievance Officers have been nominated at field formations. Norms of acknowledging complaints within 48 hours of receipt and attempting to provide final replies within 30 working days have been

set in Citizens' Charter to handle public grievance. Further, CBEC has developed service delivery capability at Commissionerate through creation of delivery infrastructure to meet Citizens' Charter promises.

A challenge to roll out SEVOTTAM was to develop internal capacity to deliver quality in services. The challenge has been to bring a change in CBEC officers' attitude towards taxpayer services. By nature of our job of tax collection, we carry a non-cozy relationship with our taxpayers. In order to bring the change in the officers' attitude, CBEC formed a team of senior officers who visited our different field offices all across India and sensitized them about what the department wants to accomplish through the citizens' charter. Further, a standardized training module has been developed through NACEN, to train field officers about specific action steps they need to take. In addition, to bridge the gap between the citizens' charter requirements and field level implementation, CBEC developed a Service Quality Manual through a pilot roll out of taxpayer services. Training on Sevottam have been organized by BIS / NACEN at NITS Noida, Bhopal, Jaipur, Mumbai, Kanpur, Nagpur, Bangalore & Chennai etc. for sensitizing the officers of Customs & Central Excise. Specific training at Commissionerate have been organized at Chandigarh, Delhi, Mumbai, Hyderabad, Bangalore, Kolkata, Bhubaneswar, Guwahati, Shillong, Vadodara, Jaipur, Chennai and Mysore.

A brief on the programme is covered in **Exhibit 4**.

4.5) Indian Customs Authorized Economic Operator programme:

A test, learn and expand approach has been used to roll out the Indian AEO programme. A pilot programme was launched giving certification criteria and defined benefits. Based on the pilot experience and business entities feedback, a fully operational AEO programme has been put in place. Currently more than 18 entities are AEO certified under Indian AEO program. In addition around 20 AEO applications have been rejected as the entities are not meeting the set norms.

A mutual recognition arrangement (MRA) has been signed between Indian Customs and Hong Kong Customs. A 3 year action plan for effective and successful implementation of AEO has been formulated. This includes approval of AEO pamphlet, AEO poster and advertisement; regular interactive sessions with industry through AEO presentations and discussions with trade; and capacity building through training of Officers, regional AEO Centres and AEO units in each zone.

A brief on the programme is covered in **Exhibit 5**.

4.6) In addition, CBEC has Center of Excellence (under NACEN) to refine business processes, adapt as per best practices and share knowledge. The Tax Research Unit (TRU), Risk Management Division (RMD) and intelligence agency like DRI have developed local expertise to help CBEC meet its objectives. A DRISHTI project has

been launched to envision the requirements of IT capability in future. A cadre restructuring exercise has been undertaken recently to motivate officers who have faced career stagnation and to reorient the department organizational structure with more capacity at decision making stage to meet new challenges.

5. **Possible opportunities to further develop capacity and manage knowledge**

   a. APAR format captures training needs of individual officers. Thus, it reflects the area in which the officer himself has indicated his training requirement. Besides training the officers in areas as per the needs of the organization, it would be useful and build capacity of the officers if they are also trained in the areas indicated by them in the APAR. DGHRD may develop a database of such training needs of the officers which can be shared with NACEN. NACEN may select officers' for various training programmes using such data and conduct training periodically. This would create sync between the needs for the training as felt by the officers and as felt by the organization.

   b. CBEC needs to enter into partnership with other agencies like indirect tax administrations of foreign countries to develop capacity and exchange knowledge on a reciprocal basis at periodic intervals. This partnership could be extended to trade bodies like CII, FICCI, FIEO etc.

   c. The current HR practice of induction training be made more structured and repeated after each promotion. A defined job rotation plan, defining the functional areas to work, be prepared for each level to improve learning by doing.

   d. IT capability be developed to automate procedures where resources availability is way below needed capacity. The areas outside the core competence of organization mission be outsourced.

   e. Time study be done to assess to quantify time spent on unproductive actions like report preparation.

   f. 1% scheme resources be used through a strategic plan to improve HR assets.

   g. Capacity building be extended to all type of officers, beyond group A.

   h. Based on HoP, reputation and willingness a group of resource persons be developed in identified areas to develop capacity, link knowledge capacity in those areas and flow the knowledge. An intranet be used as a tool to pool in the flow of knowledge. These persons be attached to NACEN which could seek their services on priority.

i. A dedicated spokesperson with support team is needed to disseminate efforts on capacity building, to ensure organization wide acceptance and positive reciprocation from other stake holders.

j. The present MCTP of Gr. A officers is a very important step in direction of capacity building. Interaction with other revenue / customs organizations is an eye opener for all the officers and must continue.

6. Specific Challenges

The emergence of GST and Customs single window require multi-disciplinary skill set, communication and dispute resolution with new stake holders. CBEC needs domain experts to take correct decisions in the emerging scenarios. Further, the image building of the department is a challenge within general parlance as CBEC actions are perceived to carry different motives.

7. Recommendations and Way forward

Human resources are assets that appreciate exponentially through capacity building and knowledge management. The self-motivated performers in an incentivized atmosphere improve organizational effectiveness by providing new outcomes to meet new challenges. With sustained efforts when the organization taps the efforts of majority of employees, the synergy creates efficiency in delivery.

So our department needs to strengthen capacity building and knowledge management to be more effective in meeting emerging scenario and to be more efficient in using its resources. The possible opportunities mentioned above need to be given serious thought.

8. Bibliography

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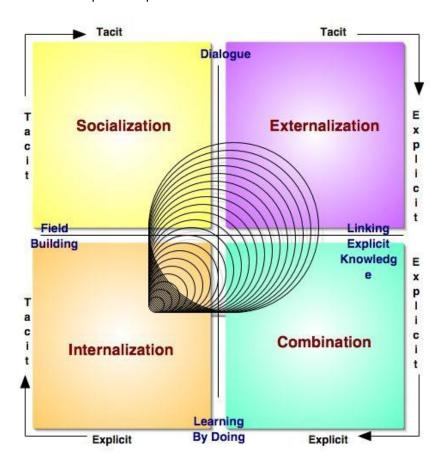e. CBEC Results Framework Document (RFD)

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g. The knowledge spiral 1995 – Nonaka& Takeuchi (http://www.nwlink.com/~donclark/history_knowledge/nonaka.html)

Exhibit 1

The Knowledge Spiral - Nonaka& Takeuchi

Nonaka and Takeuk theorized that the creation of knowledge is the result of a continuous cycle of four integrated processes: externalization, internalization, combination, and socialization. These four knowledge conversion mechanisms are mutually complementary and interdependent that change according to the demands of context and sequence:

- Externalization - from Tacit to Explicit : Articulate "conceptual" tacit knowledge explicitly through the use of such techniques as metaphors and models.

- Combination - from Explicit to Explicit: Manipulating explicit "systemic" knowledge through such techniques as sorting and combining. For this to occur, the knowledge elements must "fit together."

- Internalization - from Explicit to Tacit: This is "learning by doing" (operational knowledge) and sharing mental models and technical know-how.

- Socialization - from Tacit to Tacit: Sharing experiences with others (sympathized knowledge). Example: It is quite resistant to codification.

Exhibit 2

MISSION

Our Mission is to achieve excellence in the formulation and implementation of Customs, Central Excise and Service Tax laws and procedures aimed at:

- realizing the revenues in a fair, equitable, transparent and efficient manner

- administering the Government's economic, taxation and trade policies in a pragmatic manner

- facilitating trade and industry by streamlining and simplifying Customs, Central Excise and Service Tax processes and helping Indian business to enhance its competitiveness

- ensuring control on cross border movement of goods, services and intellectual property

- creating a climate for voluntary compliance by providing information and guidance

- combating revenue evasion, commercial frauds and social menace

- supplementing the efforts to ensure national security.

OUR STRATEGY

The strategy for achieving our mission shall comprise the following:

- **Benchmarking of operations and adopting best practices**
- **Enhancing the use of information technology**
- **Streamlining Customs, Central Excise and Service Tax procedures by employing modern techniques like risk management, non-intrusive inspections and accredited clients facilitation**
- **Evolving cooperative initiatives with other government and private agencies and building partnerships with trade, industry and other stakeholders**
- **Measuring conformance to service delivery standards**
- **Developing professionalism through capacity building.**

Exhibit 3

Results Framework Document

Results Framework Document (RFD) is a programme by Performance Management Division (PMD) of the Cabinet Secretariat. The RFD is an understanding between the Minister and the Secretary to the Department as to what are its key objectives for the next year, the actions that are proposed to achieve the objectives and the success indicators that are set to measure the progress.

Background

Based on the recommendation of the Second Administrative Reform Commission, the Prime Minister approved the outline of a "Performance Monitoring and Evaluation System (PMES) for Government Departments" in September 2009. Under PMES, each department is required to prepare a Results-Framework Document (RFD). The programme has been rolled out in phases with 30 Ministries/Departments of Government of India chosen in phase I roll out in 2009-10. This has been extended to 74 Ministries/Departments in Government of India and 6 ResponsibilityCenters in phase III in 2011 – 12.

With this, CBEC performance in 2012- 13 is externally evaluated.

The RFD template:

The RFD document consists of 6 sections:

Section 1: Ministry/Department Vision, Mission, Objectives and Functions

Section 2: Inter-se priorities among key objectives, success indicators and targets

Section 3: Trend value of success indicators

Section 4: Description and definition of success indicators and proposed measurement methodology

Section 5: Specific performance requirements from other departments that are critical for delivering agreed results

Section 6: Outcome/Impact of activities of department/ministry

Exhibit 4

SEVOTTAM – CBEC platform for quality in tax payer services

SEVOTTAM is a combination of two words, SEVA and UTTAM. It means Service Excellence. It symbolizes the change in mindset, from administration & control to service & enablement, within the Government. This change of mindset along with transformed delivery in day to day public interface, leads to a responsive administration. This is the key to good governance.

Key features of SEVOTTAM:

SEVOTTAM is a Service Delivery Excellence Model which provides an assessment-improvement framework to bring about excellence in public service delivery. The model works as an evaluation mechanism to assess the quality of internal processes and their impact on the quality of service delivery.

The SEVOTTAM model seeks to assess an organization on (i) implementation of the Citizens' Charter, (ii) implementation of grievances redress system and (iii) service delivery capability. This assessment is made through three modules.

The first module requires effective Charter implementation thereby opening up a channel for receiving citizens' inputs into the way in which organizations determine service delivery requirements. Citizens' Charters publicly declare the information on citizens' entitlements thereby making citizens better informed and hence empowering them to demand better services.

The second module requires a good grievance redress system operating in a manner that leaves the citizen more satisfied with how the organization responds to complaints/grievances, irrespective of the final decision.

The third module postulates that an organization can have an excellent performance in service delivery only if it is efficiently managing well the key ingredients for good service delivery and building its own capacity to continuously improve service delivery.

Exhibit 5

Indian AEO – Customs &business partnership for secured and facilitated international trade

The Indian Authorized Economic Operator (AEO) programme has been developed pursuant to guidelines of the World Customs Organization (WCO) adoption of SAFE Framework of Standards in 2005.The SAFE Framework is aimed to secure and facilitate global trade acting as a deterrent to international terrorism, promote trade facilitation worldwide and secure revenue collections. The framework is based on four core principles: advance electronic information exchange, risk management system, on request inspection of outbound high risk cargo and benefits to business that meet norms.

After a pilot run in 2011, the Indian AEO programme has been operationalized in 2012. The programme aims to provide business entities with an internationally recognized certification, to recognize business entities as "secure and reliable" trading partners and to incentivize business entities through defined benefits that translate into savings in time and cost.

The current SAFE FoS has identified two pillars to achieve the SAFE objectives. These are Customs-to-Customs partnership and Customs-to-Business partnership. The Customs-to-Customs pillar is to strengthen co-operation between Customs administrations through a mutual recognition arrangement (MRA) to improve their capability to detect high-risk consignments and provide facilitation to certified AEO exporting entities at the port of import. The Customs-to-Business pillar is to strengthen cooperation between Customs and private entities to reduce risk in supply chain.

WCO has established 17 standards to provide supply chain security and facilitation at a global level to promote certainty and predictability.There are 11 standards for Customs & Customs network arrangements and 6 standards for Customs & Business partnership.

Current international landscape of AEO programmes:

Operational AEO programmes: Presently 26 countries have operational AEO programmes. This includes large economies like India, USA, European Union, Japan, China, Canada, South Korea, Switzerland, Mexico, Argentina and Norway. In addition 23 Mutual recognition arrangements are in place.