

NEED FOR BUSINESS PROCESS RE-ENGINEERING IN INDIAN CUSTOMS FOR SUBSTANTIALLY IMPROVING EASE OF DOING BUSINESS IN INDIA



Team Members

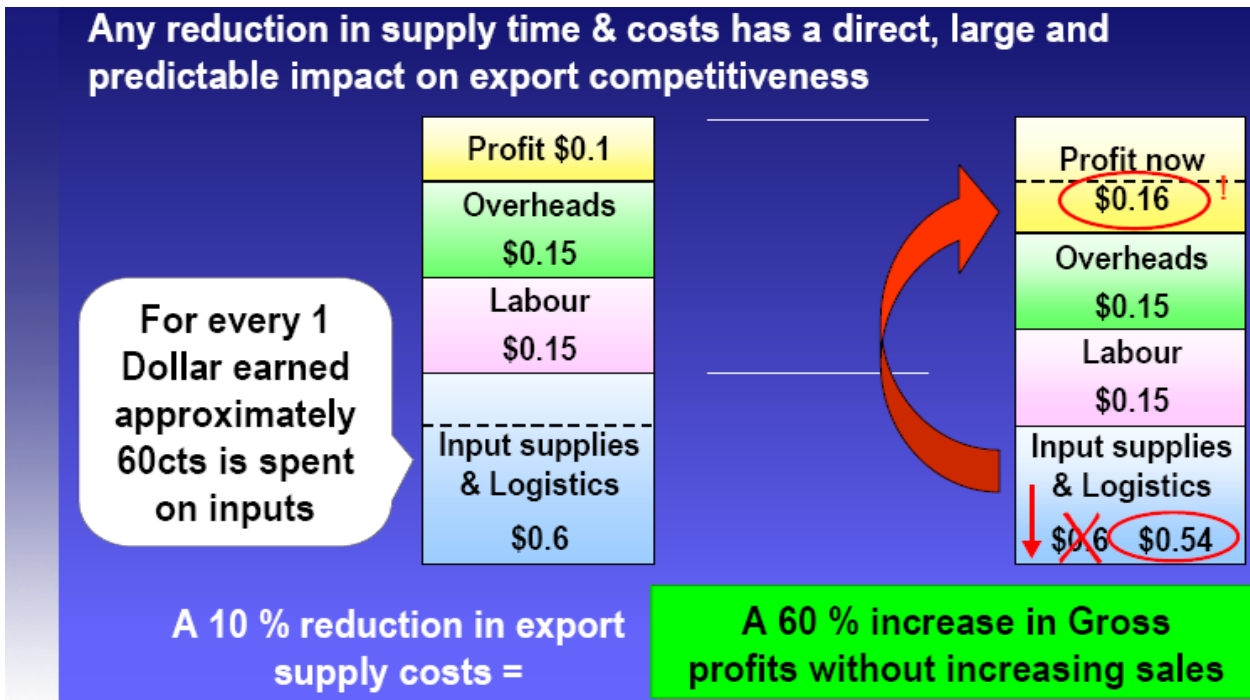
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Introduction:

In modern time we are witnessing a worldwide movement towards economic, financial, trade, communication and cultural integration which is commonly known as globalization. In today's economically globalized world one of the most important factor to attract investment to push up the economic activities in a country is the "level of ease of doing business". In World Bank's latest "Ease of Doing Business Index" India stands 142nd ,with Distance to Frontier (DTF) score of 53.97, which is two ranks lower than it's rank in the previous year.

Rationale for reform – firm level
Improvement in Trade Facilitation + Logistics = Profits →
Competitiveness



This case study which was conducted in OECD country indicates that expenses under the heads 'over heads' and 'labour' being of almost fixed nature only "input supplies& logistics' cost can be reduced. Since input cost also is more or less fixed logistics cost alone can be varied. And if logistics cost is reduced from \$ 0.6 to \$0.54 (i.e by 10%) the gross profit goes up by 60%. Thus it shows that any reduction in supply time and cost has a direct , large and predictable impact on gross profit and export competitiveness.

"Since assuming office, our government has laid a very solid foundation for the ease of doing business in the country," said Coal and Power Minister Piyush Goyal at a meeting with businessmen in Washington organised by US India Business Council on 22nd May 2015

The Goods and Services Tax (GST) in operation in Canada since 1 January 1991 may, arguably, qualify as one the most important fiscal innovations in the country's history. It was the first time a broad-based federal consumption tax had been put in place in Canada. The GST replaced the manufacturers' sales tax, an economically damaging sales tax that did not extend directly to the retail stage.

All this highlights the need for business process re-engineering in various governmental organizations so as to improve the India's ranking in " Ease Of Doing Business Index". It will provide a conducive atmosphere for making " Make In India" campaign a success, attracting FDI and state of the art technology from abroad, triggering domestic investment and R&D and ultimately exponential growth of Indian Economy.

Business Process Re-Engineering is defined as a business management strategy which focuses on the analysis and design of workflows and business processes within an organization with an aim to help the organization in rethinking how they do their work in order to dramatically improve customer service, cut transaction cost and become world – class organization. Re-engineering assumes that the factor that limits an organization's performance is the ineffectiveness of its processes. Adequate IT infrastructure and proper information system integration are must for BPR. BPR is a successive, ongoing and continuous process which an organization pursues for innovative improvements in its processes, products and services.

BPR IN INDIAN CUSTOMS

Indian Customs has always been a pioneer as far as BPR is concerned. Directorate General of System and Risk Management Division have been consistently engaged in BPR so as to substantially improve the ease of doing business in India as far as Customs is concerned. The BPR steps undertaken by the Indian Customs have substantially reduced the dwell time taken for Customs clearance as well as transaction cost of the EXIM community.

Some of the major BPR measures implemented by the Indian Customs which helped considerably in ease of doing business in India are as follows:

1. **ICEGATE:** ICEGATE provides an electronic platform for stakeholders in EXIM business to file their statutory documents like Bs/E, S/Bs, IGM, EGM, etc. electronically and track their movement and status.
2. **RMS :** The implementation of the RISK MANAGEMENT SYSTEM is one of the most significant steps in the ongoing BPR initiatives of the Indian Customs. The ever increasing volumes and complexity of international trade present formidable challenges to customs. The exponential growth in trade volumes means that the traditional approach of scrutinizing every document and examining every consignment will simply not work. With RMS the present practice of routine assessment, concurrent audit and examination of all Bills of Entry has been discontinued and the focus is on quality assessment, examination and Post Clearance Audit of Bills OF Entry selected by RMS. Bills of Entry filed electronically through Service Centre or ICEGATE are transmitted through RMS which process the date through a series of steps and produce one of the 4 Ts electronic output for the ICES: only assessment, only examination, both assessment and examination, no assessment and no examination. As per the norms prescribed 80% Bills of Entry at Air Cagos, 70% at Sea Ports and 60% at ICDs are to be RMS facilitated meaning thereby without assessment and examination which has substantially reduced the dwell time and transaction cost .
Similarly RMS implementation in export has substantially reduced the dwell time and most of the S/Bs are being RMS facilitated without assessment and examination.
3. **Electronic Payment of duty:** Now the customs duty can be paid electronically from the nominated banks and the B/E moves to the next level (examination or out of charge electronically as the case may be).
4. **Accredited Clients Programme (ACP):** Accredited Client's Programm (ACP) is a major component of Risk Management System (RMS). The objective of the programme is to grant assured facilitation to importers who have demonstrated capacity and willingness to comply with the laws Customs department is required to implement. Importers registered by the department as "**Accredited Clients**" under the Accredited Clients Programme forms a separate category to which assured facilitation would be provided. Except for a small percentage of consignments selected on a random basis by the RMS, or cases where specific intelligence is available or where a specifically observed pattern of non-compliance is required to be addressed, the Accredited Clients will be allowed clearance on the basis of self assessment i.e. as a matter of course, clearance would be allowed on the basis of their declarations, and without examination of goods.

5. **Authorised Economic Operator (AEO) Scheme:**

In view of growing concern amongst Customs administrations about the threat posed through misuse of channels of import and export, there is a need to ensure security in global supply chain in international movement of goods. Keeping this in view, CBEC has finalized the 'Authorized Economic Operators' (AEO) programme for implementation to secure supply chain of imported and export goods. This programme has been developed pursuant to guidelines of WCO adopted in SAFE FoS (Framework of Standard) in 2005. One of the salient features of the AEO programme is that any economic operator such as importer, exporter, logistics provider, Customs House Agent, custodian/ terminal operator, warehouse operator can apply for authorization subject to the criteria that the applicant is:

(i) able to establish a record of compliance in respect of Customs and other legal provisions.

(ii) able to demonstrate satisfactory systems of managing commercial and, where appropriate, transport records.

(iii) financially solvent.

(iv) able to demonstrate satisfactory systems in respect of security and safety standards.

The approved AEOs get several benefits like requirement of reduced bank guarantee/ waiver of bank guarantee, extended validity period of licences, no fee for renewal of licence, no need to take permission on case to case basis in case of transit of goods etc.

6. **24x7 Customs Clearance Facility:**

The facility of 24x7 Customs clearance for specified imports viz. goods covered by 'facilitated' Bills of Entry and specified exports viz. factory stuffed containers and goods exported under free Shipping Bills are made available at the following 18 sea ports:

<u>S. No.</u>	<u>Sea Port</u>	<u>S. No.</u>	<u>Sea Port</u>	<u>S. No.</u>	<u>Sea Port</u>
1.	Chennai	7.	Cochin	13.	Ennore
2.	Gopalpur	8.	JNPT	14.	Kakinada
3.	Kandla	9.	Kolkata	15.	Mumbai
4.	New Mangalore	10.	Marmagoa	16.	Mundra
5.	Okha	11.	Paradeep	17.	Pipavav
6.	Sikka	12.	Tuticorin	18.	Vishakapatnam

Besides, the facility of **24x7 Customs clearance for specified imports viz. goods covered by facilitated Bills of Entry and all exports viz. goods covered by all Shipping Bills are made available**, at the following 17 Air Cargo Complexes:

<u>S. No.</u>	<u>Air Cargo Complex</u>	<u>S. No.</u>	<u>Air Cargo Complex</u>	<u>S. No.</u>	<u>Air Cargo Complex</u>
1.	Ahmedabad	7.	Amritsar	13.	Bangalore
2.	Chennai	8.	Coimbatore	14.	Cochin
3.	Calicut	9.	Delhi	15.	Goa
4.	Hyderabad	10.	Indore	16.	Jaipur
5.	Kolkata	11.	Mumbai	17.	Nashik
6.	Thiruanantapuram	12.	Vishakhapatnam		

This 24x7 Customs clearance facility is aimed at reducing significantly the dwell time taken in clearance of the imported and export goods to reduce the transaction cost, improving ease of doing business and increase the global competitiveness of the EXIM Community.

7. Direct Port Delivery Facility: The facility of Direct Port Delivery (DPD) for imported cargo is being provided to the reputed importers having Accredited Client Programme (ACP) status and 100% EOUs at many ports. In order to avail of the DPD facility the importer will have to file advance Bill ofEntry, pay the Customs duty and other charges, and be in readiness to take delivery immediately on arrival of the vessel without getting the container being transferred to designated CFS(container Freight Station) from the port.

8. Authority for Advance Ruling: The scheme of Advance Rulings allows a non-resident investor setting up a joint venture in India in collaboration with a non-resident or a resident; or a resident setting up a joint venture in India in collaboration with a non-resident; or a wholly owned subsidiary Indian company, of which the holding company is a foreign company; or a joint venture in India; or a resident falling within any such class or category of persons as notified by the Government of India in this behalf , to seek in advance, a ruling from the Authority for Advance Rulings. The ruling can be sought in respect of:

- (a) Classification of goods under the Customs Tariff Act, 1975;
- (b) Principles of valuation under the Customs Act, 1962;
- (c) Applicability, of notifications issued in respect of duties under the Customs Act, 1962, Customs Tariff Act, 1975 and any duty chargeable under any other law for the time being in force in the same manner as duty of customs leviable under the Customs Act. having a bearing on the rate of duty;

(d) determination of origin of the goods in terms of the rules notified under the Customs Tariff Act, 1975 and matters relating thereto.

9. **ARTS (Automated recordation and targeting System):** IPR protection is a major issue in the debate of ease of doing business. For IPR protection Indian Customs has implemented ARTS (Automated recordation and targeting System). Different kinds of IPRs can be registered electronically. Once registered these IPRs get integrated with the Customs clearance procedure through RMS and ICES.

10. **Self-sealing and Factory Stuffing facility:** For ease of doing business in export self-sealing and factory stuffing facility has been provided by the Indian customs. Except in exceptional cases self sealed and factory stuffed containers are not opened at the port for examination.

11. **Post Clearance Audit (PCA):** As a measure of reducing dwell time and transaction cost as well as increasing ease of doing business instead of concurrent audit of all Bs/E post clearance audit is being done for the RMS selected Bs/E.

12. **Customs On-Site Post Clearance Audit (OSPCA):** Customs On-Site Post Clearance Audit (OSPCA) is an initiative based on global best practices and is aimed at creating an environment of increased compliance while allowing the Department the flexibility to increase the facilitation for importers and exporters. OSPCA marks a fundamental shift in the functioning of the Indian Customs since legal compliance and correct assessment of Customs duties are verified by the Customs at the premises of importers and exporters. OSPCA requires considerable coordination between Commissionerates of Central Excise when multi-locational importers / exporters are to be audited simultaneously. Furthermore, short levies can be demanded only by the Customs Commissionerates of import and this would require coordination between the auditing Commissionerate and the Customs House.

13. **Number of statutory documents required for import-export has been restricted to three:** IEC (importer-exporter code), invoice cum packing list, bill of lading/airway bill.

14. **Digital Signature for filing Customs Documents:** Now the Indian Customs is implementing the scheme of filing digitally signed customs documents through ICEGATE. For ACP clients it has been made mandatory from 1st May 2015. For others also it will be made mandatory soon. This will result in paperless customs

clearance/digital customs clearance procedure. This will further reduce dwell time, transaction cost as delay in customs clearance due to non-availability of physical documents will not occur any more. The importer-exporter can submit required digitally signed documents electronically.

15. Setting Up Of ‘Customs Clearance Facilitation Committee’ (CCFC)

The Government has in recent times taken a number of measures to create an environment for ease of doing business and trade facilitation. The measures include the simplification of Customs procedures, reduction of documents, message exchange between Government agencies engaged in Customs clearance, and use of digital signature for electronic submission of Customs process documents. Continuing in this direction, it has now been decided with the approval of the Cabinet Secretary to establish a high-level administrative body at each seaport and airport with the responsibility of ensuring expeditious Customs clearance of imported and export goods.

The Committee is headed by the Chief Commissioner at each sea port and air port and has as its members – Commissioner of customs and the major Departments/agencies that are involved in Customs clearance process are as follows:

- (i) Food Safety and Standards Authority of India (FSSAI)/Port Health Officer (PHO)
- (ii) Plant Quarantine Authorities
- (iii) Animal Quarantine Authorities
- (iv) Drug Controller of India (CDSO)
- (v) Textile Commissioner
- (vi) Wild Life Authorities

16. Disbursal of drawback electronically: Drawback is being processed and disbursed to the exporter’s bank account electronically after filing of EGM.

CHALLENGES

Challenges being faced by Indian Customs can be summarized as follows-

- a) **MULTIPLICITY OF STAKEHOLDERS:-** There are many stakeholders involved in import-export customs clearance procedure e.g. custodian/terminal operator, logistics provider, shipping lines, airlines, console agents, CHAs, Banks, test laboratories, plant quarantine, animal quarantine, drugs controller office etc. All these agencies require to work in sync with common goal of trade facilitation and ease of doing business. Due to non-availability of sufficiently staffed and well equipped test labs, ADC office, office of plant quarantine & animal quarantine e at each port delay occurs in clearance of exim cargo.

- b) **SPACE CONSTRAINTS:-** Many a times due to space constraints at port delay occurs in clearance of exim cargo.
- c) **LACK OF RAILWAY INFRASTRUCTURE:-** Due to non-availability of sufficient railway racks and low frequency of railway racks from ICD to gateway ports and vice versa delay occurs in clearance of exim cargo.
- d) **LACK OF ROAD INFRASTRUCTURE:-** Due to non-availability of sufficient number of trailers and poor quality of road infrastructure delay occurs in transportation of exim cargo racks from ICD to gateway ports and vice versa.
- e) **LESS TIME FOR DUTY PAYMENT:-** Online payment of duty cannot be made after 8:00 P.M. As a result of this customs clearance cannot be done even at ports with 24x7 facility if duty is not paid before 8:00 p.m.
- f) **LACK OF DEDICATED CUSTOMS CADRE:-** Unlike major ports like Mumbai, Chennai, Kolkata etc. at many customs locations there is no dedicated customs cadre at appraising level and inspector level. Officers from central excise and service tax are posted to customs for time being and they go back to central excise and service tax after expiry of their customs tenure. This hampers the development of expertise in customs staff which badly hampers the smooth functioning of customs in such locations.
- g) **LACK OF 24X7WORKING OF AIRLINES:-** Many airlines do not give delivery orders/take delivery orders to/from importers/exporters round the clock. This increases the dwell time and transaction cost.

Global BEST PRACTICES

The WCO Council adopted the revised Kyoto Convention in June 1999 as the blueprint for modern and efficient Customs procedures in the 21st century. The revised Kyoto Convention elaborates several key governing principles- chief among these are the principles of:

- transparency and predictability of Customs actions;
- standardization and simplification of the goods declaration and supporting documents;
- simplified procedures for authorized persons;
- maximum use of information technology;
- minimum necessary Customs control to ensure compliance with regulations;
- use of risk management and audit based controls;
- coordinated interventions with other border agencies;
- partnership with the trade.

The important measures adopted by other countries include

- a) Red, Yellow & Green channels are functional
 - Green channel → no assessment
 - Yellow channel → normal RMS to follow

- Red channel → compulsory assessment
- b) AEOs scheme is implemented at a larger scale
- c) Current approach is customer focused
- d) Physical constraints provide both incentive and opportunity to find smarter ways of doing the people's business

SUGGESTIONS

- a) EXIM infrastructure like airports, sea ports, ICDs., CFS, LCSs etc should be state of the art with latest technological facilities available to deal with the exim cargo.
- b) Road and rail network connecting the customs formations should be state of the art.
- c) Sufficient number of rail racks and trailers should be there with sufficient frequency of the same with the custodian/transporter.
- d) 24x7 online payment facility should be implemented.
- e) Dedicated customs cadre should be created at all customs locations.
- f) Taking over/ handing over cargo by airlines/shipping lines should be on 24x7 basis.
- g) All the stakeholders like test laboratories (like CRCL, FDL), plant quarantine, animal quarantine, drugs controller office etc. should be situated at each port. – This has been partly implemented vide Cir.13/2015-Cus dt.13.04.2015
- h) Like in export, 24x7 facility should be fully implemented in the case of import also.
- i) Practice of manual signing of Bill of Entry by Out Of Charge Officer should be done away with as bill of entry is electronically generated with mention of SSOID of OOC officer.
- j) EDI, Custodian's e-portal should be integrated in a way that once the OOC is given, instruction to release the cargo to importer is transmitted to the Custodian's e-portal electronically.
- k) Similarly there should be a mechanism for electronic exchange of information between EDI and Banks so that banks can check the genuineness of the Bs/E and S/Bs and customs can check the inward and outward remittance for the purpose of drawback etc.
- l) Most importantly there should be a common e-platform for all stakeholders so that information exchange becomes easier and customs clearance becomes faster.
- m) BPR initiative for e-processing of refund claim should be taken on the line of e-processing of drawback.
- n) EDI and DGFT portal should be integrated in a manner that issues like Licence, Scripts, EODC can be electronically shared and viewed on EDI itself.
- o) AEO programme wherein only 19 operators have been authorized so far may be implemented in a big way.
- p) Restructuring by IRS in USA in 1998 resulted in all round drastic improvement to all stake holders therefore we must go for a complete transformation of Customs in India.

- q) The problems which nations face are growing increasingly complex and cannot be solved by any individual agency. Most challenges today therefore, require the collective action of several agencies and, in many instances, the engagement of local, state and international partners in public and private sectors. The Government must therefore, take more coordinated, multiagency, whole of the government approach- in other words, an enterprises approach-to the nation's most difficult and enduring challenges.

CONCLUSION

Any modern government system should rest its management agenda on the following four pillars:-

- Improved service delivery,
- reducing waste and saving money,
- increasing the transparency of government data ,and
- collective action of several agencies and, in many instances, the engagement of local, state and international partners in public and private sectors.

It is therefore proposed that the existing customs organization may be transformed into an organization having mission, goals and guiding principles as under:-

MISSION

“Provide India’s taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.”

GOALS

Service to Each Taxpayer

- Make filing easier
- Provide first quality service to each taxpayer needing help with his or her return or account
- Provide prompt, professional, helpful treatment to taxpayers in cases where additional taxes may be due

Service to All Taxpayers

- Increase fairness of compliance
- Increase overall compliance

Productivity Through a Quality Work Environment

- Increase employee job satisfaction
- Hold agency employment stable while economy grows and service improves

GUIDING PRINCIPLES

- Understand and solve problems from taxpayer's point of view
- Enable managers to be accountable – *knowledge, responsibility, authority, action*
- Use balanced measures of performance
- Foster open, honest communication
- Insist on total integrity

This can be achieved by making full use of these tools



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