

Chapter - VII : Epilogue

Despite proven complicity of the PSI agencies in customs evasion, the National Board of Revenue (NBR), the apex body of revenue administrations in Bangladesh, re-inforced the PSI system in 2000⁴⁵ on a mandatory basis. Though no documentary evidence could be located, it is widely believed that PSI agencies staged a reinforced come back with blessing from international organizations like the International Monetary Fund (IMF) and World Bank.

Importantly, the system was different this time from the previous one. First, it was introduced as a mandatory system where all importers were required to utilize the services of the PSI agencies instituted by the government.

Secondly, in the previous system the market was left competitive and the importer could approach any of the PSI agencies for service. The new one was essentially a monopoly regime in which only one PSI agency operated for a certain global region, and the importer was obliged to appoint the same for his consignment. The world was divided into three blocks and three international PSI agencies were appointed for these three group of import sources. For example three major import sources for Bangladesh namely China, India and the USA belonged to blocks A, B and C respectively.

Thirdly, a better regulatory framework was created to hold the

⁴⁵ To be precise, the re-inforced pre-shipment inspection (PSI) system came into effect on 15 February 2000.

PSI agencies accountable for complicity in tax evasion. The Customs Act was further amended to create appropriate legal basis for assessment of customs duty on the basis of the mandatory pre-shipment inspection report given by the authorized PSI agencies. A statutory regulatory order (SRO) was enacted in this regard on 19 October 1999 that came to be known as The Pre-Shipment Inspection Order 1999. Under the new rules the PSI agencies were required to make a security deposit to cover any liability arising out of pre-shipment inspection of import cargo. The PSI agencies were also required to submit an ‘undertaking’ to the government that they would abide by the relevant laws and regulations in conducting the activities relating to the inspection of goods, verification of prices, issuance of CRF certificates, as the case may be, failing which they would be liable to penal action.

Last but not the least, necessary legal provision was made for appointing firms for auditing performance of the PSI agencies. Unfortunately, the National Board of Revenue could never appoint an audit firm for the purpose.

Despite all, the PSI agencies essentially failed to discharge their responsibilities. It is gathered from reliable sources including importers, customs officials and trade bodies that the re-introduction of the PSI system failed on the following counts :

- a. The PSI agencies have not been able to enhance revenue collection by stopping leakage through underinvoicing and misdeclaration of goods;
- b. The PSI agencies have not been able to facilitate trade by reducing the total importation time⁴⁶;
- c. Tax evasion has not been controlled; and
- d. The PSI agencies have kept no significant role in improving the revenue administration at the customs stations.

⁴⁶ In reality, it has been frequently alleged by the traders that shipment has been delayed since the concerned PSI agency did not perform pre-shipment inspection in due time.

It is interesting to note that the re-introduction of the PSI system met with minimal protest from the customs officials. According to knowledgeable quarters, the vested interests of the corrupt officials was not affected by the role played by the PSI agencies. It is feared that a huge amount of revenue was lost since assessment was carried out unquestionably on the basis of the reports of the PSI agencies (i.e., CRF) and the authority simply failed to take appropriate action against the PSI agencies in most of the doubtful instances.

The National Board of Revenue was aware of the fact that the PSI agencies failed to perform the role expected of them. Although no systematic audit mechanism could be instituted for scrutinizing the performance of the PSI agencies, the customs officials themselves detected and reported gross anomalies done by the PSI agencies. Between year 2000 and 2005, out of 4,18,988 CRFs issued by different PSI agencies, as many as 8,695 (i.e. more than 2 percent) were rejected by the customs authority for severe underinvoicing and obvious misdeclaration as to the quantity and description of the import items. The amount of fine imposed by the customs authorities on the concerned PSI agencies was over Taka 310 million. It is estimated that additional revenue collected on account of these cases were in the tune of Taka 4,570 million. However, expert customs sources maintain that most of the cases went un-reported. In effect, the PSI system allowed ‘certified’ corruption and evasion protected by CRF.

On the other hand, financial implication for re-introduction of the system has been substantial. During the four years since February 2000, service charge realized for pre-shipment inspection has been in the tune of Taka 8,140 million. This is more than ten times the cost of collection incurred by the entire Customs department. The additional burden of the service charge collected by the Customs and bagged by the PSI agencies have been borne by the helpless consumers and investors of the country.

In conclusion, it can be said that the re-inforcement of the PSI system in 2000 under the pressure of international organizations like IMF and World Bank after gradual phasing-out since 1995 has proved to be ill-conceived. It has added huge financial burden for the nation that is to be paid in foreign currency. Not only that the PSI agencies failed to improve the revenue collection system of the country and facilitate trade, they once again proved to be inefficient and corruptible. There are reasons to argue that modernization of the customs department could have been a less costly and more productive way towards improving revenue administration of Bangladesh. Unfortunately, creation of business for PSI companies turned out to be the hidden agenda behind the noble objective of trade facilitation.