Trade and Transport Facilitation Audit
Nepal Country Report

2017

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This Research Report has been published as a part of the collaborative project ‘Trade and Transport Facilitation in South Asia’, implemented by South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu, Nepal. The project was undertaken in partnership with Centre for Policy Dialogue (CPD), Dhaka, for Bangladesh country study; Consumer Unity & Trust Society (CUTS), Jaipur, for India country study; Sustainable Development Policy Institute (SDPI), Islamabad, for Pakistan and Afghanistan country studies; and Institute of Policy Studies of Sri Lanka (IPS), Colombo, for Sri Lanka and Maldives country studies.

This report ‘Trade and Transport Facilitation Audit: Nepal Country Report’ was prepared by a team of researchers at the South Asia Watch on Trade, Economics and Environment (SAWTEE).

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<th>Acronym</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>APoA</td>
<td>Almaty Programme of Action</td>
</tr>
<tr>
<td>ASYCUDA</td>
<td>Automated System for Custom Data</td>
</tr>
<tr>
<td>BIMSTEC</td>
<td>Bay of Bengal Initiative for Multi-Sectoral, Technical and Economic Cooperation</td>
</tr>
<tr>
<td>BBIN-MVA</td>
<td>Bangladesh-Bhutan-India-Nepal Motor Vehicle Agreement</td>
</tr>
<tr>
<td>BIS</td>
<td>Bureau of Indian Standards</td>
</tr>
<tr>
<td>CA</td>
<td>Clearing Agent/Customs Agent</td>
</tr>
<tr>
<td>CHA</td>
<td>Customs House Agent</td>
</tr>
<tr>
<td>COO</td>
<td>Country of Origin</td>
</tr>
<tr>
<td>CRM</td>
<td>Customs Reform and Modernization</td>
</tr>
<tr>
<td>CTD</td>
<td>Customs Transit Declaration</td>
</tr>
<tr>
<td>DoC</td>
<td>Department of Customs</td>
</tr>
<tr>
<td>DRP</td>
<td>Duty Refund Procedure</td>
</tr>
<tr>
<td>EIF</td>
<td>Enhanced Integrated Framework</td>
</tr>
<tr>
<td>EO</td>
<td>Examining Officer</td>
</tr>
<tr>
<td>ETI</td>
<td>Enabling Trade Index</td>
</tr>
<tr>
<td>GDP</td>
<td>Goss Domestic Product</td>
</tr>
<tr>
<td>GSP</td>
<td>Generalized System of Preferences</td>
</tr>
<tr>
<td>HAN</td>
<td>Handicraft Association of Nepal</td>
</tr>
<tr>
<td>ICD</td>
<td>Inland Container Depot</td>
</tr>
<tr>
<td>IGM</td>
<td>Import General Manifest</td>
</tr>
<tr>
<td>L/C</td>
<td>Letter of Credit</td>
</tr>
<tr>
<td>LDC</td>
<td>Least-developed country</td>
</tr>
<tr>
<td>LPI</td>
<td>Logistics Performance Index</td>
</tr>
<tr>
<td>MoCS</td>
<td>Ministry of Commerce and Supplies</td>
</tr>
<tr>
<td>HTPL</td>
<td>Himalayan Terminals Private Limited</td>
</tr>
<tr>
<td>NBR</td>
<td>Nepal Rastra Bank</td>
</tr>
<tr>
<td>NTB</td>
<td>Non-tariff barriers</td>
</tr>
<tr>
<td>NTM</td>
<td>Non-tariff measures</td>
</tr>
<tr>
<td>NTCM</td>
<td>Nepal Transit Cargo Manifest</td>
</tr>
<tr>
<td>NTIS</td>
<td>Nepal Trade Integration Strategy</td>
</tr>
<tr>
<td>NTTFC</td>
<td>National Trade and Transport Facilitation Committee</td>
</tr>
<tr>
<td>NTWCL</td>
<td>Nepal Transit and Warehousing Company Limited</td>
</tr>
<tr>
<td>OTL</td>
<td>One-time lock</td>
</tr>
<tr>
<td>PCA</td>
<td>Post Clearance Audit</td>
</tr>
<tr>
<td>PO</td>
<td>Preventive Officer</td>
</tr>
<tr>
<td>PSI</td>
<td>Pre-shipment Inspection</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>RR</td>
<td>Railway Receipt</td>
</tr>
<tr>
<td>SAARC</td>
<td>South Asian Association for Regional Cooperation</td>
</tr>
<tr>
<td>SAFTA</td>
<td>South Asia Free Trade Agreement</td>
</tr>
<tr>
<td>SEZ</td>
<td>Special Economic Zone</td>
</tr>
<tr>
<td>TDI</td>
<td>Transit Declaration Invoice</td>
</tr>
<tr>
<td>TEPC</td>
<td>Trade and Export Promotion Centre</td>
</tr>
<tr>
<td>TFA</td>
<td>Trade Facilitation Agreement</td>
</tr>
<tr>
<td>TFM</td>
<td>Trade Facilitation Measures</td>
</tr>
<tr>
<td>TIA</td>
<td>Tribhuvan International Airport</td>
</tr>
<tr>
<td>TMC</td>
<td>Terminal Management Company</td>
</tr>
<tr>
<td>TP</td>
<td>Transit Pass</td>
</tr>
<tr>
<td>WCO</td>
<td>World Customs Organization</td>
</tr>
</tbody>
</table>
1. Introduction

1.1 Brief insight on the project

This country paper is one of the eight background papers prepared for the above project which focuses on identifying major trade and transportation bottlenecks in South Asia. In this section, we will provide a brief insight into the project which is aimed at assessing the critical drivers of trade costs to prioritize and implement trade facilitation reforms at the national as well as regional level. While liberalization-induced progressive decline in tariffs globally have reduced tariff-related trade costs—tariff costs emanate from both tariff and non-tariff issues—the non-tariff transaction costs in trade (or trade costs) arising from factors like inefficient and poorly coordinated customs and border procedures, inability to comply with health and safety standards owing often to the lack of accredited testing capabilities, opaque and unpredictable transit trade regime, weak deployment of information communication technologies (ICT) and weak trade logistics and infrastructure, continue to inhibit export competitiveness and trade performance particularly in developing countries and regions (Arvis, Duval, Shepherd, & Utoktham 2013; Rahman 2015; World Bank 2016; WTO 2015; De 2014). Kowalski et al (2015) estimates that about two-thirds of the trade costs arise from non-tariff issues including those outlined above. The above constraints inhibit smooth functioning of supply chains, drive up unpredictability in conducting trade, raise overall trade costs and dent trade competitiveness via mechanisms like increased costs of exports as well as that of inputs which go into production (WTO 2015). Unlike tariff-related trade costs, the above mentioned non-tariff components are highly unpredictable for a host of reasons and are often deployed as non-tariff barriers. Hence, effective trade facilitation reforms have the potential to reduce trade costs, boost export performance and aid the process of industrial and economic development (WTO 2015; De 2014; Rahman 2015). A key mechanism via which reduced trade costs aid the economic development process is the greater possibility of developing countries entering the global value chains (GVC). Nearly half the global manufacturing exports are part of GVCs in which low-income countries are barely present (Banga 2014). Trade and transport facilitation initiatives, coming from the 2013 Trade Facilitation Agreement signed at WTO’s 9th Ministerial Conference (which, for instance, Nepal’s parliament ratified in January 2017), refer to the bundle of trade policy reforms such as:¹

1. Streamlining of customs and border procedures such as number of documents and signature required, valuation-related procedures, rules for inspection and turnaround time for clearance and release. Such streamlining includes not only simplification and harmonization but also computerization (Mohammad A. Razzaque and Basnett 2014). The above should result in, inter alia, transparent and easy-to-follow procedures and policy frameworks that are uniformly applied and are hence, predictable.

2. Timely publication and dissemination of easy-to-access trade-related procedures and regulations for traders. These should be understandable to the traders and hence, elements like the language in which these are published have a role. Furthermore, alterations in procedures need to be swiftly published in the established channels. These reforms are understood to make the trade regime more predictable for traders (WTO 2015).

3. Adoption of modern and efficient management practices at customs—for instance, electronic processing of documents which can cut paperwork and delays (in clearance, for example)—which invariably raise transaction costs and dent competitiveness. This, for instance, may involve coordination among customs and border agencies of countries involved in trade. The coordination among customs and border agencies requires, among other things, standardized and harmonized documentation requirements. “Electronic” implies, for example, sending scanned copies of documents via email, while “online” refers to electronic processing of the entire customs process, including filling out online application forms and/or customs documents.

4. Streamlined transit procedures wherein information on procedures as well as changes/alterations in such procedures is published in a timely manner.

5. Adoption of the Single Window System which are platforms that are government mandated and allow for the submission of information to fulfil regulatory requirements between economic operators and government authorities. A Single Window is a single-entry point for data, and data should only be submitted once.2

6. Functional national and regional mechanisms around appeals and dispute settlement.

7. Enabling improvements in trade-related logistics and infrastructure (in the latter, both hard such as road and warehousing and soft meaning the institutional arrangements and functioning which may be facilitated via adoption of ICT (information and communication technologies). ICT deployment in electronic/online submission and processing of documents by customs significantly cuts delays.

8. Devising regulations that can curb payment of bribes and informal payments.

Table 1: Respondents, respective countries, and custom points

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of respondents</th>
<th>Number of custom points/ports covered</th>
<th>Name of customs points and/or ports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>60</td>
<td>2</td>
<td>Torkhum, Spin Boldak</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>150</td>
<td>6</td>
<td>Akhaura, Benapole, Chittagong, Hilli, Mongla, Tamabil</td>
</tr>
<tr>
<td>Bhutan</td>
<td>40</td>
<td>1</td>
<td>Phuntsholing</td>
</tr>
<tr>
<td>India</td>
<td>432</td>
<td>11</td>
<td>Attari, Agartala, Kolkata, Changrabandha, Chennai, Cochin port, Mumbai port, Panitanki, Petrapole, Phulbari, Raxaul</td>
</tr>
<tr>
<td>Maldives</td>
<td>30</td>
<td>1</td>
<td>Male</td>
</tr>
<tr>
<td>Nepal</td>
<td>180</td>
<td>6</td>
<td>Bhairahawa, Biratnagar, Birgunj, Kakarbhitta, Nepalgunj, Tribhuvan International Airport</td>
</tr>
</tbody>
</table>

Across each of the above countries, respondents mainly include: Freight forwarder, Customs Agent, Broker, Multimodal Transporter, Exporter, Importer, Shipping Line Agent, Road Carrier, Airline Operator, Port Authority, Customs Authority, Ministry of Commerce, Chamber of Commerce (or Business Associations).

The exorbitant trade costs undermine South Asia’s export performance both within and outside the region—more so for some countries than others—and result in low intraregional trade which stands at about 5 percent of the region’s total trade—among the lowest when compared with other relatively developed regional blocs in East Asia where intraregional trade is over 40 percent of the region’s total trade (Rahman 2015).

The country papers feed a synthesized regional analysis which, for instance, builds a Trade Facilitation Index (TFI) of the region—using the Principal Component Analysis (PCA) method—based on the primary data generated via an in-depth in 2013 of 1161 of mainly private but also public trade-participants across the eight SAARC countries (Table 1).

The project, supported by Department of Foreign Affairs and Trade (DFAT), Government of Australia, was carried out in collaboration with SAWTEE’s member/partner organizations, namely Centre for Policy Dialogue (CPD; Bangladesh); Consumer Unity and Trust Society International (CUTS India); Sustainable Development Policy Institute (SDPI) in Pakistan; and Institute of Policy Studies of Sri Lanka (IPS) in Sri Lanka. In the synthesis which observes that high transportation costs raise trade costs in the region substantially, the TFI is deployed into generating econometric estimates such as that by addressing reduction in trade costs by between 16 and 35 percent, instead requiring effective trade facilitation reforms, will lead to enhanced export volumes by between 80 to 98 percent both within and outside the region. Apart from the econometric estimates, the regional synthesis, discusses issues concerning trade logistics in the region (quality of logistics, infrastructure), trade-related institutions and regulatory environment across the eight countries in the region, trade facilitation priorities identified by existing studies focused on the region and trade facilitation-related progress. In the country papers as well as the synthesis, the primary survey is supplemented with published material such as academic articles, policy documents as well as comparative assessments on the trading environment (such as procedures, logistics quality and infrastructure) like Logistics Performance Index (LPI) and Doing Business Assessment.

The perception survey probed respondents on their assessment of publication and dissemination of trade-related regulations, quality of trade-related logistics and infrastructure, border administration of trade, usage of ICT, transit-related difficulties and dispute settlement mechanisms in conducting trade. The primary survey was designed by SAWTEE based on the World Bank’s Trade and Transportation Facilitation Toolkit (World Bank 2010). The methodological study offers guidance into identifying the obstacles in conducting international trade and frictions in the supply chains of the same. The focus of the perception survey is the quality of services delivered to trade participants (indicative list in Table 1 above). The perception survey entails a series of interviews to understand the priority interventions in trade and transportation facilitation which instead guides plans and reforms to improve key components in trade logistics and infrastructure, services, procedures and processes. The structured questionnaire that was developed was piloted at the specified customs points in each of the eight countries (Table 1).

Trade facilitation reforms, hence, are a sum of efforts undertaken to reduce trade costs. However, prioritization is critical given the attendant resource issues—including that of technical capabilities—among
developing countries (Maur 2008). Hence, the project aims to assess the priority intervention areas. In each of the country papers, respondents were asked to rank the priority reform areas. The same is summarized in the table below.

Table 2: Priority trade facilitation areas in the region (Priority 1 refers to the most critical reform area as per survey)

<table>
<thead>
<tr>
<th>Country</th>
<th>Priority 1</th>
<th>Priority 2</th>
<th>Priority 3</th>
<th>Priority 4</th>
<th>Priority 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>Coordination between border agencies</td>
<td>Irregular payments/bribes</td>
<td>Transit</td>
<td>Export and import documentation</td>
<td>Time to clear inward/outward goods</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Quality and efficiency of ports/port operations</td>
<td>Quality of roads</td>
<td>Export and import documentation</td>
<td>Time to clear inbound goods</td>
<td>Quality of warehousing and transloading facilities</td>
</tr>
<tr>
<td>Bhutan</td>
<td>Single window</td>
<td>Pre-arrival processing</td>
<td>Quality of warehousing and transloading facilities</td>
<td>Quality of roads</td>
<td>Time to clear inbound goods</td>
</tr>
<tr>
<td>India</td>
<td>Single window</td>
<td>Time to clear inward and outward goods</td>
<td>Quality of roads</td>
<td>Cost of logistic services</td>
<td>Quality of warehousing and transloading facilities</td>
</tr>
<tr>
<td>Maldives</td>
<td>Quality and efficiency of ports/port operations</td>
<td>Cost of logistic services</td>
<td>Efficiency of standards/quality inspection agencies</td>
<td>Quality of warehouse and transloading facilities</td>
<td>Quality and efficiency of airport/airport operations</td>
</tr>
<tr>
<td>Nepal</td>
<td>Quality of roads</td>
<td>Single window</td>
<td>Quality of rail (in transit)</td>
<td>Quality and efficiency of airport/airport operations</td>
<td>Electronic submission of documents</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Efficiency of standards/quality inspection agencies</td>
<td>Single window</td>
<td>Quality of warehousing and transloading facilities</td>
<td>Quality and efficiency of port/port operations</td>
<td>Physical inspections by customs</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>Irregular payments/bribes</td>
<td>Single window</td>
<td>Electronic submission of documents</td>
<td>Time to clear inward and outward goods</td>
<td>Quality and efficiency of rail</td>
</tr>
</tbody>
</table>

While the above discussion is aimed at providing insights on the project and the analytical exercise accompanying it, the next sections focus on the audit of trade and transport facilitation in Nepal.
1.2 Organization of the study and select observations

Divided into eight chapters, the paper begins with a brief introduction of the project wherein light is shed upon, for instance, the rationale of the project as well as its methodological strategy (subsection 1.1). Subsequently, the paper delves into the Nepal-specific assessment of the trade and transport facilitation issues. To set the context for such an exercise, subsections 1.3 (next), 1.4 and 1.5 discuss the historical developments that underpin the trade and transport facilitation agenda, dynamics of trade costs in South Asia as well as Nepal and the major components of the trade and transport facilitation initiatives (the latter is aimed at broadening conceptual understanding of the trade and transportation facilitation initiatives). Nepal’s trade situation with countries in South Asia and the regions is discussed next followed by key methodological insights and rationale and objectives of the study. Guided by the trade and transportation facilitation reform framework, the principal objective of this audit is to identify the priority areas of interventions.

Section 2 begins with a discussion on the status of trade-related logistics, which instead is a broad term encapsulating transport logistics, physical infrastructure and quality and efficiency of customs and overall border administration of procedures pertaining to trade (including of the platforms like ASYCUDA or Automated System for Custom Data which handles manifests and customs declarations, accounting procedures, transit and suspense procedures), is based significantly on the cross-country comparative assessments like the Logistics Performance Index (LPI), Doing Business Project (both of the World Bank) and the Global Competitiveness Index.3

Section 3 documents trade procedures and documentation for Nepali traders.

In the next section (4), focus is on Nepal’s major trade corridors and routes, the road network and its quality as well as transit and port access-related issues. The widely published literature is drawn upon to document the key constraints that raise trade costs in, for instance, the Kathmandu-Birgunj corridor. Section 5 assesses the major trade and transport facilitation issues and concerns wherein the focus is on understanding issues pertaining to import and export procedures and their implementation, compliance with sanitary-phytosanitary (SPS) measures and standards and transit. Based on published material, the section observes, for instance, that completing export procedures across a number of commodities takes longer in Nepal compared to peers in South Asia. Furthermore, attention is drawn upon and the slow progress in adoption of ASYCUDA although the idea of paperless procedures was first floated in 1998. Along with these, the Nepali customs does not engage in, for instance, risk management practices which enable physical inspection of only select samples. Evidenced also are issues connected to across-the-border whether it is having to make informal payments, poorly coordinated work hours which delay clearance and release and low harmonization of procedures and documentation requirement. Section 5 delves into issues like standards that are faced routinely by Nepali exporters—primarily due to weak testing laboratories—as well as how inefficiencies in transit, for instance, at the Kolkata port, frequently result in exorbitant trade costs and unpredictable margins for traders.

Operational inefficiencies in, for example, access to ports for transit, are significantly tied to treaties and agreements like the treaty of trade (with India and Bangladesh, for example). Section 6 focuses on trade treaties and agreements, not only bilateral but regional as well as multilateral, as well as the institutions and regulatory dynamics. In this, relevant aspects like mutually agreed upon routes of trade and transit and the challenges, for example, relating to infrastructure, are delved into. SAFTA (specifically Article 8), for instance, concerns trade facilitation measures like simplifying customs procedures, expediting clearance and release,

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3 Of the World Economic Forum [www.weforum.org](http://www.weforum.org)
harmonization of national customs classification in the region and greater cooperation on smooth transit for landlocked countries in the region. SAARC Customs Action Plan 1997 calls for simplifying customs procedures while the more recent BBIN Motor Vehicle Agreement is focused on smooth vehicular movement in select countries of the region. Subsection 6.2 focuses on the constitution and workings of key national trade facilitation institutions (such as the National Trade Facilitation Committee which is the nodal agency) in Nepal and also sheds light on the major legislations. Similarly, 6.3 documents the important trade facilitation efforts whether it is via measures embedded in the Trade Policy 2015, Customs Modernization Plan 2013-17 or donor-funded projects like Nepal-India Regional Trade and Transport Project 2013-19.

The study draws upon a host of published literature—specific to South Asia and Nepal—both quantitative and qualitative studies. Section 7 delves into the relevant literature including some of the predictive models that not only quantify trade costs but also predict the benefits, in the form of, for instance, enhanced export performance. Mel (2011), for example, surveys importers and exporters in Nepal to examine the trade facilitation bottlenecks and observes that absence of single window system, weak testing laboratories and corruption raise trade costs. Regmi (2010) suggests that trade facilitation reforms should focus on reducing inefficiencies in transit.

Section 8 presents the primary survey which aims to understand the current status of trade and transport facilitation in Nepal, initiatives and improvements, and the priority reform areas—such as facilitating transit and reducing clearance and release time—that can reduce trade costs. While the private sector trade participants such as traders and transporters are probed on their perception of the services, the public sector entities like customs are also surveyed. The section begins with an outline on the methodology. The survey focuses on the below components alongside which we present some of the key findings (please refer to the questionnaire in the appendix to see the areas covered in each of the five components):

1. **Publication of trade-related procedures and regulations**: Under 50 percent of the respondents are aware of the customs website. Less than half of those familiar with the customs website highlight that the platform regularly publishes average clearance and release time.

2. **Border procedures and regulations**: SPS-TBT issues such as compliance to required health standards were identified as the principal barrier in this component. Nearly 40 percent of the respondents suggest that since testing laboratories are far from the borders, the same raises costs via, for instance, delays.

3. **Documentation requirements**: Of the 119 respondents, over a fifth suggest that, on average, 5 documents are required to export to South Asia while the same for developed countries was 7 although there are significant commodity-specific variations. About 40 percent respondents suggest that between 3 and 4 documents are required during imports from South Asia. Over two-thirds suggest that no submission or processing happened electronically. While over 40 percent of the respondents suggested that unawareness on whether authorities practice risk management techniques in inspection, over two-thirds of respondents in the Bhairahawa border point state that they had knowledge of risk management practices. Unsurprisingly, 83 percent of the respondents suggest that customs have not adopted single window system. Majority of those surveyed are aware of the Post Clearance Audit but suggest that the same does not as such take place at traders’ premises.

4. **Quality of infrastructure, trade-logistics and associated services**: Whereas over 40 percent of the respondents’ rate efficiency of freight forwarders as high or very high, about 50 percent of the respondents’ rate road transporters are average. Similarly, 46 percent of respondents suggest that quality of services offered by bodies like quarantine were average.
While about 53 percent consider quality of banking services as average, 48 percent suggested that quality of insurance services are high. Crucially, over a fifth consider the cost of logistic services as high.

5. **Treatment of goods in transit:** Nearly 62 percent suggest unawareness about pre-arrival processing of transit trade. On the other hand, over 53 percent did not know whether traders were required to pay a transit fee although at the Kakarbhitta custom point, slightly under half of those surveyed, suggest that transit is not to be paid. Under 40 percent of the respondents’ report that information on transit formalities and documentation is widely. However, over half of these do not know if additional documents are required in transit.

The concluding section (8) presents key action points based on the above and taking into consideration the priority areas as suggested by the respondents. For instance, 155 out of 176 respondents suggest that road infrastructure needs to be the topmost priority when it comes to trade and transport facilitation reforms.

### 1.3 Background

Beginning largely in the 1980s, multilateral trade negotiations under the aegis of General Agreement on Tariffs and Trade (GATT) and later the World Trade Organization (WTO), as well as the rapidly growing number of Regional Trade Agreements (RTAs) and Preferential Trade Agreements (PTAs) have led to a progressive reduction in tariffs, both in developed and developing countries (Hoekman and Kostecki 2001). In South Asia, while there are still high tariff walls for many goods and the so called Sensitive List remains fairly elaborate, tariffs have, nevertheless, gone down owing to initiatives like the SAFTA (P De 2014). While tariffs have been largely reduced, non-tariff barriers (NTBs) continue to pose major obstacles in conducting trade and are a major driver of trade costs. NTBs are generally all measures other than tariffs.

NTBs are routinely discretionary aimed at intervening in trade flows and can take several forms such as price control measures (administered export prices and antidumping measures), finance measures (advance import deposit, cash margin requirements, advance duty payments, refundable deposit measures, multiple exchange rates), standards and quality related measures, licensing requirements (linked with local production, local content requirements) and seasonal temporary prohibitions.4 Relatedly and considerably less discretionary are non-tariff issues appearing in the form of cumbersome and poorly harmonized trade procedures (concerning documentation, valuation, inspection and clearance), unpredictable and improper information flows (on trade procedures; also when these are changed arbitrarily and not swiftly disseminated), unpredictable transit trade regime and poor infrastructure (WTO 2015). These largely avoidable obstacles translate into delays, uncertainty and unpredictability—particularly so in developing countries—and raise trade costs which dent competitiveness and trade performance since costs of inputs going into production as well as that of exports goes up (Basnett and Razzaque 2014). Kowalski et al (2015) estimates that over 60 percent of trade costs emanate from non-tariff issues such as cumbersome trade procedures, transit access, weak deployment of ICT technologies in administering trade procedures and currency fluctuations.

Basnett & Razzaque (2014) observes that trade costs among countries in South Asia are, on average, 20 percent greater than among country pairs within the Association of Southeast Asian Nations (ASEAN) countries and nearly three times higher than in the North American Free Trade Agreement (NAFTA) region.

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4 Understanding Non-tariff Barriers, WTO ([https://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm9_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm9_e.htm))
It evidences that key drivers of significantly greater trade costs in the region are high connectivity costs, poor information flows, opaque and discretionary para-tariffs on imports (practiced by several countries in the region), unpredictable and inconsistent application of customs and border procedures. Furthermore, the current level of trade costs in the region not only inhibit intraregional trade but also prevent formation of regional value chains. Smooth, efficient, predictable and timely cross border movement of goods is a key component for the development and expansion of regional value chains (Serieux 2014).

Discussing Bangladesh-India trade, Sattar (2014) documents major delays and costs as goods pass via several states in India due to inappropriate dissemination of SAFTA concessions to Indian states. De (2014) suggests that excessive trade costs are a result of not only weak infrastructure and minimally harmonized and cumbersome border procedures but also corrupt practices in the form of, for instance, informal payments. While geographical proximity and language-related similarities are linked to lower trade costs, South Asia’s cultural and geographical proximity, it seems does not help much.

While SPS-TBT measures are aimed at securing health, such measures are deployed arbitrarily in the region creating significant unpredictability of trade procedures. Sri Lanka, for instance, has an import ban on tea and spices on grounds of poor quality (Basnett and Razzaque 2014). Compliance to standards in the region which requires testing and certification is costly and potentially disincentivizes traders. Taneja et al (2014) evidences that not only are testing facilities not located at the respective customs point but the same are frequently poorly equipped which instead is a key factor in lack of mutual recognition of tests and certifications.

Para-tariffs or special duties imposed upon imports further raise transaction costs in trade in South Asia (Sattar 2014; Taneja et al 2014). In the case of Nepal, along with the structural challenges around infrastructure and institutional capabilities, constraints include NTBs such as unpredictable bans and delays in transit. Adhikari and Kharel (2014) suggests how instances of discretionary NTBs are far too common (such as ban on Nepali garlic exports in India) while transit-related delays in exports (pharmaceuticals) do not seem to be improving. In the case of the pharmaceuticals, delays occurred also since India did not recognize standards certifications and tests undertaken in Nepal. Similarly, a major transit-related issue that raises trade costs is poor port infrastructure at Kolkata port.

De (2014) finds that border procedures and documentation requirements in South Asia remain minimally harmonised and documents instances where goods are being inspected by different authorities at various points (on both sides of the border including in transit) instead of being inspected at loading and unloading points. De (2014) suggests that an effective national coordination agency overseeing trade facilitation reforms that can coordinate among important ministries such as revenue, customs and security, will be critical to lubricate trade and cut trade costs. While harmonization is a goal, some differences will nevertheless persist. Sattar (2014), hence, suggests that the information on trade procedures and policies needs to be published regularly and any changes in the rules need to be notified well in advance. Not doing so raises trade costs substantially. Such information should be frequently exchanged among border officials so that firms on both sides of the border are aware of the policies and measures. Often differences in language and currency raise trade costs. TFMs in this regard should ensure that information is available in a language that the other parties understand.

Landlocked least developed countries (LLDCs) in South Asia, which includes Nepal, have far greater trade costs stemming from weak infrastructure behind-the-borders as well as limited institutional capabilities for efficient policies and regulations (Basnett and Razzaque 2014). De (2014) evidences that behind-the-border obstacles as well as greater distance to the port, delays in transit and congested ports inflate trade costs by over 50 percent. Greater trade costs are also a result of damaged goods while in transit (Taneja et al 2014). In Nepal’s case, key drivers of significantly high trade costs can be grouped into behind as well as on-the-
border issues and those beyond. In the former, poor quality of roads, absence of multimodal transportation alternatives and high costs of transport logistics are prominent reforms areas (Basnett et al. 2014). Furthermore, only Birgunj in Nepal has an inland container handling yard (De 2014). On the latter or beyond border issues, Nepali traders grapple with several obstacles that have been widely documented. Congestion and procedural delays at the nearest (Kolkata) port adds to costs in shipping containers (Serieux 2014). In fact, it has been observed that reduction in trade costs for Nepali traders will hinge significantly upon reducing the transit time which emanates from delays in border crossings, weakly coordinated interstate movement of shipments in India and cumbersome procedures at port (Serieux 2014). De (2014) observes that only Petrapole in India has fast track cargo movement facility. Transport logistics costs in Nepal (as well as in Bangladesh argues Rahman 2015) are high due to low competition among transporters. Against this backdrop, South Asia remains one of the least integrated regions in the world with intraregional trade at around 5 percent of the region’s total trade which is comparable to the Maghreb region at 6 percent but far below East Asia where intraregional trade is over 45 percent of the region’s total trade (World Bank 2016b).

While there is no internationally agreed definition of trade facilitation reforms, the broad measures focus upon simplification and harmonization of customs procedures (valuation, inspection, testing, and documentation among others), improved border cooperation (coordination in procedures, information sharing and dissemination, infrastructure sharing, capacity building), infrastructure reforms (measures like constructing warehouses, deployment of ICT and single window solutions) and predictable and efficient transit mechanisms (WTO 2015). Maur (2008) refers to trade facilitation measures as sum of efforts undertaken at national, regional and multilateral levels to reduce transaction costs in trade. In the otherwise stalled Doha Development Agenda, the Trade Facilitation Agreement (TFA) came up in the 2013 Bali ministerial conference. The agreement emphasizes the need for not only greater research and analysis to prioritize reforms but also technical assistance to developing countries; that the latter should be provided Special and Differential treatment (S&D) in adoption of the TFA reforms. The paper has documented previously that pharmaceutical exports from Nepal had to be retested in India and obtain a standards clearance. Trade facilitation measures, in this, would include, for instance, mutual recognition of certifications and tests. A key mechanism in enabling mutual recognition and accreditation is upgrading of technical capabilities among personnel and physical infrastructure both of which remain weak. At the regional level, initiatives like the South Asian Regional Standards Organisation (SARSO) Dhaka is a step in the right direction. Rahman (2015), for instance, documents how trade facilitation reforms in Bangladesh in the form of improved management of ports, reduced number of documents and signatures required and deployment of computerization and deeper adoption of ASYCUDA has resulted in substantial gains in not only exports and export competitiveness but also FDI in Bangladesh.

In light of the challenges facing the country, it is necessary to assess the status of Nepal’s trade and facilitation, analyse the priority interventions which can result in reduction of trade costs and based on this, design and implement appropriate trade and transport facilitation measures. The next subsections discuss Nepal’s trade situation with the world as well as South Asia followed by a brief discussion of the rationale and objectives of the study.

1.4 Nepal’s trade situation

Between FY 1997/98 and FY 2014/15, merchandise exports have barely doubled. The figures in FY 2015/16, wherein exports have gone down significantly from the FY 2014/15 level, are reflective of the disruptions in trade due to the economic blockade (World Bank 2016a).\(^5\) As a percentage of GDP, while exports stood at

\(^5\) Beginning in September 2015, the blockade lasted till end of January 2016. At the peak of the disruptions in mid-November, monthly exports were reduced by half while imports went down by almost two-thirds. Though the disruption
over 11 percent in 2002/03, the same is under 5 percent in 2014/15. Imports, on the other hand, have steadily expanded growing over five-fold between 1997/98 and 2014/15 driven significantly by consistently rising remittance flows. Trade deficit in FY 2014-15 amounts to over US$ 6 billion which is almost a third of the GDP. Nepal currently levies five different duties and taxes on imports, namely, Customs, Value Added Tax (VAT), Excise, Agriculture Reform Fee and Road Construction Fee. There is 13 per cent VAT on most imported products while there is excise on 350 tariff lines. On over 200 agricultural imports, there is a 5 per cent agricultural reform fee. Applied MFN tariff rate is 16.8 percent and there are few quantitative restrictions thanks largely to progressive largely unfettered liberalization driven industrial and trade policies since the early 1990s.6

Table 3: Nepal’s trade situation and other related statistics

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Export (in million US$)</th>
<th>Import (in million US$)</th>
<th>Total Trade (in million US$)</th>
<th>Nominal GDP at basic price (in million US$)</th>
<th>Trade as % of GDP</th>
<th>Export as % of GDP</th>
<th>Import as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997/98</td>
<td>442.33</td>
<td>1434.94</td>
<td>1,877.27</td>
<td>4677.93</td>
<td>40.13</td>
<td>9.46</td>
<td>30.67</td>
</tr>
<tr>
<td>2002/03</td>
<td>650.51</td>
<td>1667.90</td>
<td>2,318.41</td>
<td>5691.29</td>
<td>40.74</td>
<td>11.43</td>
<td>29.31</td>
</tr>
<tr>
<td>2007/08</td>
<td>911.51</td>
<td>3413.37</td>
<td>4,324.88</td>
<td>11615.76</td>
<td>37.23</td>
<td>7.84</td>
<td>29.38</td>
</tr>
<tr>
<td>2012/13</td>
<td>874.45</td>
<td>6329.47</td>
<td>7,203.92</td>
<td>17339.92</td>
<td>41.54</td>
<td>5.04</td>
<td>36.50</td>
</tr>
<tr>
<td>2013/14</td>
<td>936.65</td>
<td>7273.69</td>
<td>8210.34</td>
<td>17676.19</td>
<td>46.44</td>
<td>5.29</td>
<td>41.14</td>
</tr>
<tr>
<td>2014/15</td>
<td>857.57</td>
<td>7786.61</td>
<td>8644.18</td>
<td>17677.66</td>
<td>48.90</td>
<td>4.85</td>
<td>44.05</td>
</tr>
<tr>
<td>2015/16</td>
<td>659.29</td>
<td>7273.96</td>
<td>7933.25</td>
<td>18873.90</td>
<td>42.03</td>
<td>3.49</td>
<td>38.54</td>
</tr>
</tbody>
</table>

Source: Trade and Export Promotion Centre (TEPC) and Nepal Rastra Bank (NRB)

Table 4: Nepal’s Trade with South Asian countries (in million US$)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Export</td>
<td>Import</td>
<td>Export</td>
<td>Import</td>
<td>Export</td>
<td>Import</td>
<td>Export</td>
</tr>
</tbody>
</table>

ended in January, non-oil imports reached the pre-disruption levels by April 2016 while the recovery in oil imports remained sluggish. Exports did not recover till at least June 2016. The trade disruption crippled economic activity – contraction is tourist arrivals was the highest in 13 years, lack of fuel meant that the manufacturing sector was operating at minimal capacity and food inflation doubled (From the May edition of the Nepal Development Update of the World Bank).

6 2014 Market Access Map (www.macmap.org)
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>0.18</td>
<td>0.09</td>
<td>0.01</td>
<td>0.10</td>
<td>6.93</td>
<td>0.10</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>7.40</td>
<td>4.06</td>
<td>47.70</td>
<td>9.98</td>
<td>0.006</td>
<td>14.59</td>
</tr>
<tr>
<td>Bhutan</td>
<td>4.41</td>
<td>1.70</td>
<td>20.9</td>
<td>1.83</td>
<td>4.40</td>
<td>3.18</td>
</tr>
<tr>
<td>India</td>
<td>592.0</td>
<td>1643.8</td>
<td>532.00</td>
<td>2777.0</td>
<td>0.006</td>
<td>16.95</td>
</tr>
<tr>
<td>Maldives</td>
<td>0.02</td>
<td>0.00</td>
<td>0.00</td>
<td>0.24</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1.80</td>
<td>2.43</td>
<td>1.06</td>
<td>3.45</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>0.04</td>
<td>1.35</td>
<td>1.47</td>
<td>0.72</td>
<td>0.10</td>
<td>0.18</td>
</tr>
<tr>
<td>SAARC</td>
<td>605.8</td>
<td>1652.7</td>
<td>603.1</td>
<td>2793.1</td>
<td>0.006</td>
<td>16.95</td>
</tr>
<tr>
<td>World</td>
<td>836.0</td>
<td>2777.8</td>
<td>818.87</td>
<td>4883.0</td>
<td>0.006</td>
<td>16.95</td>
</tr>
<tr>
<td>SAARC as a % of World</td>
<td>72.5</td>
<td>59.5</td>
<td>73.6</td>
<td>57.2</td>
<td>728</td>
<td>66.4</td>
</tr>
</tbody>
</table>

Source: TEPC and NRB

Table 5: Direction and concentration of Nepal’s trade

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>0.01%</td>
<td>0.00%</td>
<td>0.09%</td>
<td>0.17%</td>
<td>0.19%</td>
<td>0.25%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>0.31%</td>
<td>1.01%</td>
<td>0.74%</td>
<td>0.46%</td>
<td>0.44%</td>
<td>0.62%</td>
</tr>
<tr>
<td>Bhutan</td>
<td>0.16%</td>
<td>0.39%</td>
<td>0.09%</td>
<td>0.05%</td>
<td>0.06%</td>
<td>0.08%</td>
</tr>
<tr>
<td>India</td>
<td>61.86%</td>
<td>58.03%</td>
<td>66.08%</td>
<td>66.51%</td>
<td>63.91%</td>
<td>61.86%</td>
</tr>
<tr>
<td>Maldives</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.11%</td>
<td>0.07%</td>
<td>0.07%</td>
<td>0.05%</td>
<td>0.05%</td>
<td>0.04%</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.02%</td>
<td>0.07%</td>
<td>0.04%</td>
<td>0.02%</td>
</tr>
<tr>
<td>SAARC</td>
<td>62.51%</td>
<td>59.56%</td>
<td>67.11%</td>
<td>67.33%</td>
<td>64.70%</td>
<td>62.88%</td>
</tr>
<tr>
<td>Rest of the World</td>
<td>37.49%</td>
<td>40.44%</td>
<td>32.89%</td>
<td>32.67%</td>
<td>35.30%</td>
<td>37.12%</td>
</tr>
</tbody>
</table>

Source: TEPC and NRB

In 2014/15, the SAARC region accounts for 68 percent and 64 percent of Nepal exports and imports respectively (Table 4). However, India is by far the most important trading partner in the region. Over 99 percent of imports from within SAARC come from India. Similarly, US$ 565 million out of the US$ 597 million exports in 2014/15 went to India (Table 4).
## Table 6: Nepal's top exports and imports in 2015/16

<table>
<thead>
<tr>
<th>Product Code</th>
<th>Product Name</th>
<th>Export to the World (US$ million)</th>
<th>Product share in Nepal's exports (in %)</th>
<th>Export to SAARC Countries (US$ million)</th>
<th>SAARC's share in Product Exports (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>57011000</td>
<td>Carpet, knotted of wool or fine animal hair</td>
<td>75.79</td>
<td>11.2</td>
<td>0.05</td>
<td>0.99</td>
</tr>
<tr>
<td>09083110</td>
<td>Large Cardamom (Alaichi), neither crushed nor grounded</td>
<td>43.35</td>
<td>6.40</td>
<td>43.35</td>
<td>100.00</td>
</tr>
<tr>
<td>54072000</td>
<td>Woven fabric obtained from strip or the like</td>
<td>32.50</td>
<td>4.80</td>
<td>32.50</td>
<td>100.00</td>
</tr>
<tr>
<td>62142000</td>
<td>Woollen shawls, scarves, mufflers, mantillas, veils and the like</td>
<td>27.45</td>
<td>4.11</td>
<td>2.58</td>
<td>97.41</td>
</tr>
<tr>
<td>55095100</td>
<td>Yarn of polyester staple fibres mixed mainly with artificial staple fibres</td>
<td>23.75</td>
<td>3.53</td>
<td>7.98</td>
<td>33.60</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Product Code</th>
<th>Product Name</th>
<th>Import from the World (US$ million)</th>
<th>Product share in Nepal's imports (in %)</th>
<th>Import from SAARC Countries (US$ million)</th>
<th>SAARC's share in Product Imports (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>27101930</td>
<td>High Speed Diesel</td>
<td>389.34</td>
<td>5.88</td>
<td>389.34</td>
<td>99.99</td>
</tr>
<tr>
<td>72071900</td>
<td>M.S Billet</td>
<td>213.64</td>
<td>3.22</td>
<td>206.31</td>
<td>96.57</td>
</tr>
<tr>
<td>71081300</td>
<td>Gold, semi-manufactured forms</td>
<td>157.97</td>
<td>2.38</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>27111900</td>
<td>Liquefied petroleum gases</td>
<td>148.42</td>
<td>2.24</td>
<td>148.42</td>
<td>99.99</td>
</tr>
<tr>
<td>85171200</td>
<td>Telephone used for cellular or cordless networking</td>
<td>146.61</td>
<td>2.21</td>
<td>1.63</td>
<td>1.11</td>
</tr>
</tbody>
</table>

Source: Calculations based on TEPC data.
1.5 Key objectives of the audit

Guided by the Trade and Transportation Facilitation Toolkit, this national assessment aims to assess the trade and transportation facilitation situation in Nepal. In so doing, an attempt has been made to understand the key drivers of trade costs. Via analysis of the secondary literature as well as a comprehensive primary survey, the study identifies the critical reform areas in trade and transportation facilitation aimed at providing policy recommendations to address trade barriers that raise trade costs. We anticipate that the exercise will guide quantification of required investments to implement trade facilitation reforms and raise Nepal’s trade facilitation standards at par with the regional benchmark. The specific objectives of the study are to:

- Provide a background on the trade facilitation agreement and the agenda and how trade facilitation impacts trade led development;
- Document the key drivers of trade costs and trade facilitation reforms carried out in the recent past;
- Analyze the present status of trade and transportation facilitation reforms in Nepal for which relevant areas like trade-related regulations, institutions and documentation requirements and procedures are assessed;
- Identify trade and transportation related bottlenecks in Nepal;
- Conduct advocacy at the regional as well as national levels to ensure buy-in of the recommendations from the governments of South Asian countries as well as the SAARC Secretariat.

1.6 Methodology

To assess the status of trade and transport facilitation reforms in Nepal, The Trade and Transport Facilitation Toolkit of the World Bank has been drawn upon and based on which the methodology was developed by South Asia Watch of Trade, Economics and Environment (SAWTEE). Since the study entails a comprehensive survey of trade participants including public sector actors and institutions, the survey questionnaire was designed, and pilot tested. The questionnaire was subsequently revised for enhanced effectiveness and was then administered at six major customs points in Nepal. To perform the assessment, the Trade and Transport Facilitation Audit focuses on various agriculture and non-agriculture products exported to and imported from South Asian countries, mainly via India. All the available survey data was analysed using SPSS 16.0 to identify the major trade facilitation bottlenecks and the priority areas for intervention. National trade data was obtained from the Trade and Export Promotion Centre (TEPC) and Nepal Rastra Bank while macroeconomic data mainly comes from the Nepal Rastra Bank (NRB).

The assessment uses a host of secondary data to analyse Nepal’s trade and transport facilitation status. This includes cross-country comparison of quality of trade logistics and trading environment (via the Logistics Performance Index or the LPI and the Doing Business Indicators; both from the World Bank). The former ranks countries on dimensions of trade logistics such as customs procedures and timeliness of shipments and in this, it surveys logistics professionals where they are asked questions about their perception of logistics in the countries they operate. The latter, the Doing Business project of the World Bank, broadly measures the business environment where it collects data from firms on topics such as time and cost in starting a business and the ease at which trading can be done across borders.
2. State of Trade Logistics

Quality of transport logistics, physical infrastructure, customs and border administration are some of the key components of overall trade logistics and given their role in determining trade costs, are key reform area in the trade facilitation agenda. Technology, in this, is a vital enabler. Platforms like ACSYUDA facilitate customs declarations and handle accounting procedures among other things. It enables real time data sharing among traders and customs. This chapter documents Nepal’s performance in trade logistics as well as the trading environment in general by looking at key cross-country comparisons followed by a detailed and updated assessment of trade procedures.

2.1. Trade Logistics Performance

Access to global freight and logistics networks, presence of efficient freight forwarders and distributors, competitive logistics market, efficient customs and reasonable physical infrastructure among other things determine the quality of supply chains. These factors influence significantly the cross-border movement of goods and specifically the timeliness of delivery of the shipment. Indeed, participation in production networks and export competitiveness, both hinge on, *inter alia*, whether supply chains are smooth, predictable and efficient. The Logistics Performance Index (LPI) ranks nations on the efficiency of logistics and towards this, surveys the logistics professionals and their experiences and perception. The LPI provides an overview of trade logistics and associated metrics like delivery timeliness and ranks countries based on it.

<table>
<thead>
<tr>
<th>Country</th>
<th>Germany</th>
<th>India</th>
<th>Uganda</th>
<th>Bangladesh</th>
<th>Nepal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall LPI Score</td>
<td>4.23 (1)</td>
<td>3.42 (35)</td>
<td>3.04 (58)</td>
<td>2.66 (87)</td>
<td>2.38 (124)</td>
</tr>
<tr>
<td>Customs</td>
<td>4.12 (2)</td>
<td>3.17 (38)</td>
<td>2.97 (51)</td>
<td>2.57 (82)</td>
<td>1.93 (149)</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>4.44 (1)</td>
<td>3.34 (36)</td>
<td>2.74 (67)</td>
<td>2.48 (87)</td>
<td>2.27 (112)</td>
</tr>
<tr>
<td>International shipments</td>
<td>3.86 (8)</td>
<td>3.36 (39)</td>
<td>2.88 (74)</td>
<td>2.73 (84)</td>
<td>2.50 (109)</td>
</tr>
<tr>
<td>Logistics quality and competence</td>
<td>4.28 (1)</td>
<td>3.39 (32)</td>
<td>2.93 (57)</td>
<td>2.67 (80)</td>
<td>2.13 (140)</td>
</tr>
<tr>
<td>Tracking &amp; tracing</td>
<td>4.27 (3)</td>
<td>3.52 (33)</td>
<td>3.01 (59)</td>
<td>2.59 (92)</td>
<td>2.47 (109)</td>
</tr>
<tr>
<td>Timeliness</td>
<td>4.45 (2)</td>
<td>3.74 (42)</td>
<td>3.70 (45)</td>
<td>2.90 (109)</td>
<td>2.93 (104)</td>
</tr>
</tbody>
</table>


Nepal’s performance compared to regional peers like Bangladesh is poor across metrics like customs efficiency, infrastructure logistics quality and competence. Unsurprisingly rather and given structural reasons, Nepal lags significantly when compared to India in the region. For a comparison, included is another landlocked LDC, Uganda which fares comparatively better across all metrics.
The other measure that helps us assess the ease at which goods can be traded across borders is the Doing Business Project of the World Bank. The trading across border measure is based on firm inputs relating to, *inter alia*, time and cost in exports and imports. Table 8 lists the average time and cost involved in completing export and import procedures in Nepal and India as well as that in the South Asian region these indicators capture time and cost of behind and at-the-border trade procedures, but do not include tariffs or trade taxes.

**Table 8: Nepal’s Performance in Trading Across Borders (of the Doing Business Report 2015)**

<table>
<thead>
<tr>
<th></th>
<th>Nepal</th>
<th>Bangladesh</th>
<th>India</th>
<th>South Asia</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doing Business Rank</td>
<td>108</td>
<td>173</td>
<td>142</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Trading Across Borders (Rank)</td>
<td>171</td>
<td>140</td>
<td>126</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Documents to export (number)</td>
<td>11</td>
<td>6</td>
<td>7</td>
<td>8.1</td>
<td>6.2</td>
</tr>
<tr>
<td>Time to export (days)</td>
<td>40</td>
<td>28.3</td>
<td>17.1</td>
<td>33.4</td>
<td>21.1</td>
</tr>
<tr>
<td>Cost to export (US$ per container)</td>
<td>2,545</td>
<td>1,281.0</td>
<td>1,332</td>
<td>1,922.9</td>
<td>1,537.4</td>
</tr>
<tr>
<td>Documents to import (number)</td>
<td>11</td>
<td>9</td>
<td>10</td>
<td>9.4</td>
<td>7.3</td>
</tr>
<tr>
<td>Time to import (days)</td>
<td>39</td>
<td>33.6</td>
<td>21.1</td>
<td>34.4</td>
<td>24</td>
</tr>
<tr>
<td>Cost to import (US$ per container)</td>
<td>2,650</td>
<td>1,515.0</td>
<td>1,462</td>
<td>2,117.8</td>
<td>1,840.7</td>
</tr>
</tbody>
</table>

Source: Doing Business Report 2015

Exporting a standard 20 feet container requires 11 documents, takes 40 days and costs US$ 2,545 in Nepal in 2015. Importing the same container requires 11 documents, takes 39 days and costs US$ 2,650 (Table 7). While the overall rank of doing business has improved, Nepal ranks 171 out of 189 economies on the ease of trading across borders. Nepal’s performance in trading across borders has deteriorated as the number of documents and days required in exports as well as imports have mostly gone up from the 2010 level. On an average, it takes at least 50 percent greater duration to complete an export transaction in Nepal than in countries like Bangladesh and twice as greater time than in India. The time and cost of export and import in Nepal is higher than the South Asian average. The performance gaps (reducing number of documents and procedures) identified by Doing Business suggests that there is significant scope for trade facilitation reforms to match the regional performance.

**Table 9: Global Competitiveness Index 2014-2015**

<table>
<thead>
<tr>
<th>Competitiveness Index</th>
<th>Nepal</th>
<th>India</th>
<th>Sri Lanka</th>
<th>Bangladesh</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rank</td>
<td>Score</td>
<td>Rank</td>
<td>Score</td>
</tr>
<tr>
<td>Global Competitiveness Index</td>
<td>102</td>
<td>3.81</td>
<td>71</td>
<td>4.21</td>
</tr>
<tr>
<td>Basic requirement</td>
<td>100</td>
<td>4.11</td>
<td>92</td>
<td>4.25</td>
</tr>
<tr>
<td>Institutions</td>
<td>120</td>
<td>3.22</td>
<td>70</td>
<td>3.84</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>132</td>
<td>2.15</td>
<td>87</td>
<td>3.58</td>
</tr>
<tr>
<td>Macroeconomic environment</td>
<td>37</td>
<td>5.40</td>
<td>101</td>
<td>4.22</td>
</tr>
<tr>
<td>Health and primary education</td>
<td>75</td>
<td>5.66</td>
<td>98</td>
<td>5.35</td>
</tr>
</tbody>
</table>
In the Global Competitiveness Index 2014/15 which looks at relevant dimensions like infrastructure, institutions and financial market development, Nepal’s overall rank is 102 among 144 economies assessed (Table 9). It underperforms in comparison to other South Asian countries in pillars such as institutions, infrastructure, goods market efficiency, technological readiness and market size among other things. The other analysis that assesses elements like infrastructure and border administration across countries is the Enabling Trade Index (ETI), also of the World Economic Forum like the Global Competitiveness assessment above. The rankings, based on opinion surveys and expert views, informs upon Nepal’s performance in border procedures and infrastructure among other things. With the overall ETI score of 3.3, Nepal ranks 115 out of 138 countries and is the worst performer in South Asia (Table 10).

### Table 10: Enabling Trade Index of South Asian Countries (2014)

<table>
<thead>
<tr>
<th>Country</th>
<th>OVERALL INDEX</th>
<th>Market Access</th>
<th>Border Administration</th>
<th>Infrastructure</th>
<th>Operating Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rank</td>
<td>Score</td>
<td>Rank</td>
<td>Score</td>
<td>Rank</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>115</td>
<td>3.4</td>
<td>57</td>
<td>3.8</td>
<td>123</td>
</tr>
<tr>
<td>Bhutan</td>
<td>107</td>
<td>3.5</td>
<td>102</td>
<td>3.4</td>
<td>102</td>
</tr>
<tr>
<td>India</td>
<td>96</td>
<td>3.6</td>
<td>136</td>
<td>2.4</td>
<td>74</td>
</tr>
<tr>
<td>Nepal</td>
<td>116</td>
<td>3.3</td>
<td>61</td>
<td>3.7</td>
<td>125</td>
</tr>
<tr>
<td>Pakistan</td>
<td>114</td>
<td>3.5</td>
<td>133</td>
<td>2.7</td>
<td>72</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>84</td>
<td>3.8</td>
<td>104</td>
<td>3.3</td>
<td>87</td>
</tr>
</tbody>
</table>

Source: Drzeniek et al. 2014 (Global Enabling Trade Report 2014; World Economic Forum)
3. Trade Procedures and Documents

Under the Foreign Exchange Act (1962) and Rules (1963), exports are permitted only against advance payment or Letter of credit (L/C) so that the payment for the goods is received in Nepal. At the time of exports (and in case of transactions under L/C), the exporter has to declare on the Foreign Exchange Control Form (BBN1 of Nepal Rastra Bank) that the export earnings will be repatriated within six months. For the exporters, there is no limit as such on receiving advance payments, but the importer has to remit the foreign exchange through a bank. The bank issues a certificate regarding the advance payment to the exporter and this has to be produced to Customs at the time of export.

3.1 Primary documents required to export from Nepal

1. Business registration certificate (one-time submission)
   - Firm Registration Certificate issued by Department of Commerce
   - Registration Certificate from Department of Industry
2. Permanent Account Number (PAN) with VAT registration.
3. Single Administration Document (SAD)—Pragypan Patra or The Yellow Form
4. Certificate of Origin (COO) and Generalized System of Preferences (GSP) Form A wherever applicable. The COO can be obtained from Federation of Nepalese Chambers of Commerce and Industry (FNCCI). GSP is required instead of COO for overseas exports where the provision of GSP is available. For GSP, the exporter has to fill in a separate standard document, GSP Form A which is to be stamped and certified by the Nepali Customs at the time of export. So, provided the product is eligible for tariff preferences under the GSP scheme in the destination country. It is the TEPC that issues the GSP Form A to exporters.
5. Packaging list
6. Commercial Invoice
7. Payment Certificate—Letter of Credit (L/C), Telegraphic Transfer (TT) or certificate of advance payment

3.1.1 Exporting to third country via land through India

a) Clearance at Nepal Customs (via road)

- The exporter/CHA submits SAD to the Customs Server (via the broker terminal) located in the Customs Office. A unique registration number is then generated for the export transaction. In addition to the documents needed for an export transaction in India, the following documents are attached along with the registration number generated:
  (i) Customs Transit Declaration (CTD)
  (ii) Authority letter of CHA (if applicable – one-time annual submission)
  (iii) Foreign exchange declaration - Form No.1 (BBN 1) of Nepal Rastra Bank (NRB) (optional)
  (iv) Sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) related certificates (if applicable)
(v) Other product specific documents—export license, clearance certificate for export of plants and forest products, etc. (if applicable)

- The Customs Officer verifies all related documents.
- Based on risk assessment techniques, the Customs Officer conducts physical verification of the consignment if needed.
- The CTD is endorsed by the Customs.
- After Customs valuation, the exporter/CHA makes the payment of applicable customs charges/duties.
- Customs office issues the gate pass and gives clearance to move the cargo to the Indian border.
- Under special condition, exporters based in Kathmandu can submit all export documents and clear export procedures at the TIA customs. Consequently, TIA customs endorses all export documents (except the CTD) and seals the consignment container. The consignment can then be moved to Birgunj customs, where the CTD is endorsed and the consignment is given the green light to move on to its destination in India.

b) **ICD export process and customs clearance (via rail)**

- Exporter/CHA obtains container number from the list of empty containers at the ICD and submits a holding request for the said container to the Himalayan Terminals Private Limited (HTPL).
- Exporter/CHA applies for and receives No Objection Certificate (NOC) from shipping line for the container.
- Containers are taken for factory stuffing or stuffed with goods at ICD Birgunj.
- After collecting applicable export duty, the Customs Office provides transhipment permit, Inland Container Cargo Declaration (ICCD) and other customs clearance documents to the exporter/CHA.
- Exporter/CHA submits transhipment permit and ICCD to HTPL, and HTPL subsequently issues a demand draft letter mentioning the container number and export freight amount.
- Exporter/CHA obtains the INR Demand Draft and submits it to HTPL, which then issues the Container Corporation of India (CONCOR) bill and CONCOR money receipt.
- Containers are then loaded on outward rake, and after customs clearance at Raxaul station for customs clearance with Raxaul Customs, the export containers move towards Kolkata Port.

### 3.1.3 Exporting to India

a) **Clearance at Nepali Customs**

- The exporter or Customs Agent (CA) submits CTD along with the primary export documents to the Nepal’s Border Customs. Note that GSP is not applicable when exporting to India.
- Upon submission of the documents, the procedures that go into effect are the same as those followed when exporting to third country via India.
3.1.4 Exporting to third country through Bangladesh

- Nepali exporters have to complete all the documentation formalities as applicable to third country exports through India, except the declaration to be made on relevant documents including CTD. The documentation and procedures are governed by the transit agreements of both India and Bangladesh.
- The CTD in India and the Transit Declaration Invoice (TDI) in Bangladesh are processed separately without any link between them. Importantly, the cargo has to cross through Panitanki (India) and Phulbari (India) Customs before entering Bangladesh.
- All documents are carried by the Transport Drivers and handed over to the CHA in Bangladesh. Note that the Government of Nepal has appointed the Nepal Transit and Warehousing Company Limited (NTWCL) as an authorized CHA at Panitanki/Phulbari and represents Nepali exporters and importers for the purpose of liaison with concerned Indian authorities.
- On arrival of goods at Bangladesh border (Banglabandha), CHA has to produce to Customs, six copies of TDI with invoice and packing list. After completing necessary checking, the Border Customs endorses all copies of TDI, which are also subsequently endorsed by the carrier. The original copy is retained at the Border Customs, 2nd and 3rd copies are handed over in a sealed cover to the railway guard or truck driver to be delivered to the exit Customs and remaining three copies to the CHA.
- On arrival of the cargo at the Port of exit, the Port Customs will compare the 2nd and 3rd copies of TDI received from the rail guard or truck driver with the three copies along with Railway Receipt (RR) produced by CA and also check the seals on the rail wagon or truck. After necessary verification by the Customs, the goods are cleared for shipment and entries are made on all TDI copies. The quadruplicate copy is retained by the Port Customs for ultimate submission to the Customs House and 3rd copy is send back by registered post to the border entry Customs Office. The remaining three copies including 2nd are handed back to CA.
- After necessary clearance by the Port Customs, the CHA pays port dues and obtains port clearance before handing over the cargo to the Ship's agent inside the port.

3.1.5 Exporting to Bangladesh

- According to the Protocol to the Trade and Payments Agreements between Nepal and Bangladesh, with regard to the points of entry, exit procedures, storage and other related facilities for bilateral trade between Nepal and Bangladesh, the points of entry, exit, procedure and facilities stipulated in the Protocol to the Transit Agreement signed between Nepal and Bangladesh for Nepal’s trade with third countries shall apply mutatis mutandis.
- For the movement of goods to Bangladesh, documentation requirements of the Indian Customs as well as of the Bangladesh Customs in regard to the processing of both the CTD and TDI have to be met by the Nepali traders.
- Nepali exporters have to complete all the documentation formalities as applicable to third country exports through India, except the declaration to be made on relevant documents including CTD.
3.1.6 Exporting by air

- An exporter or CA has to bring cargo with complete documents for customs examination and clearance. The following documents (in addition to primary export documents) are required for submission to Tribhuvan International Airport (TIA) Customs:
  
  (i) Authority letter of CA (if applicable – one-time annual submission)
  (ii) BBN 1 of NRB
  (iii) Sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) related certificates (if applicable)
  (iv) Other product specific documents—export license, clearance certificate for export of plants and forest products, etc. (if applicable)

- After the export cargo has been examined against documents, the checked packages are sealed and cleared for storage by Customs. NTWCL accepts cargo into container truck only after the export produces the airway bill for the cargo confirming space booking with the concerned airline.

- After checking and sealing of the container truck by the Customs, the cargo is transported to the apron area. After the seals of the container truck have been opened by the Customs, the cargo is unloaded at the apron area.

- NTWCL allows 7 days free time on rental charges but goods are still liable to the handling charges, which is based on weight of the cargo.

- A separate form as prescribed by NTWCL is to be submitted by an exporter or CA to obtain permission for the storage of cargo.

3.2 Import Procedures and Documents

Imports from India are normally paid in Indian Rupees. However, there are some specified goods whose payment is made in convertible foreign currency. NRB issues the list of such products, which are entitled for import under convertible foreign currency. Currently, 161 products have been listed by NRB.

For imports from third country, the government does not allow advance payments for goods and separate payments for freight. In addition, with the exception of prohibited and quantitatively restricted goods, there is no restriction on the release of foreign currency for importing any type and quantity of goods. But to obtain foreign currency from the commercial bank the importer has to open a L/C by fulfilling the requirements of the bank. Irrevocable L/C is the commonly used documentary credit for the settlement of payment in imports from third countries.

An importer fills in a foreign exchange control form BBN 3 requesting the bank to open a L/C in the name of a nominated overseas exporter, and submits it along with an undertaking of the importer indemnifying the bank against any liability, and other supporting documents. Note here that, depending upon the credit limit sanctioned by the bank for L/C purpose and the relation with the bank, the importer is generally required to
deposit an amount ranging from 10 to 100 percent of the L/C value at the bank. Note that the transaction may not necessarily be channelled through banks. Banks are authorized to draw drafts or telegraphic transfers (TTs) for settlement of payment in credit imports, provided that the Nepali importers approach banks with documentary evidence. Much of the imports from India are under this scheme due to extra cost attached to payment through L/C.

For importing raw wool, TEPC issues a recommendation letter (wool specification test report) specifying the quantity and standard of wool to be imported by an applicant/importer in the name of the concerned bank.

Under the widely used “Sight L/C”, full payment is made to the exporter by the correspondent bank at the time of submission of shipment documents as specified in L/C. Similarly, the Nepali importer is also required to make full payment to his bank at the time of release of shipment documents.

Except for prohibited and quantitatively restricted items, no licence is required for imports. Nepal Customs does not require any pre-shipment inspection (PSI) and there is no generalized system of PSI. A few commodities like wool, pharmaceuticals and industrial chemicals may need pre-shipment quality inspection certificates to maintain certain standards in Nepal.

3.2.1 Primary document required to import into Nepal

1. Business registration certificate (one-time submission)
2. Permanent Account Number with VAT registration (one-time annual submission)
3. Single Administration Document (SAD)–Pragyapan Patra (light blue form)
4. Commercial invoice
5. Packaging list
6. L/C or advance payment or TT (mandatory for third country imports)

3.2.2 Importing from third country through India over land

a) Clearance at Nepal Customs (via road)

- The Customs valuation provides a basis for declaration of value by an importer in the Nepal Customs Declaration Form for the calculation of applicable duties and taxes.
- The customs duty on imported goods is assessed on the basis of their transaction price. The owner of the goods is required to submit to the Customs bills and invoices showing their price, as well as such other necessary documents relating to imports as demanded by the Customs for the purpose of verifying their transaction price.
- Importers are allowed 7 days demurrage free time. Additionally, no demurrage shall be charged in the case of those goods, which could not be cleared by the Customs Officer because of confusion about the valuation, classification of goods or for other reason.
• After the cargo reaches Nepal border Customs Officer, importer/CA submits SAD to the Customs Server through the broker terminal located in the Customs Office and submits the following documents (in addition to the primary import documents) to the Customs Officer:

1. Letter of authority of CA (if applicable – one-time annual submission)
2. BBN 4 form
3. Certificate of insurance (not mandatory)
4. COO
5. CTD
6. Delivery order of Terminal Management Company (TMC) in case of ICDs at Biratnagar, Birgunj, Bhairahawa and Mechi.
7. Sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) related certificates (if applicable)
8. Other product specific documents—export license, clearance certificate for export of plants and forest products, etc. (if applicable)

• Customs officer identifies the consignment verification channel/lane access (red, green, blue and yellow) based on Customs Selectivity Module.\(^\text{7}\) If the consignment goes through the green channel, Customs Officer directs the importer/CA to pay necessary customs duties. But if the consignment goes through the red channel, Customs Officer designates Customs Inspector to conduct the detailed verification of the consignment. In case of blue channel, the documents are sent for Post Clearance Audit (PCA) and if the consignment goes through yellow channel, only documents are rechecked.

• Based on the physical examination of the consignment/product, the Customs Officer directs the importer/CA to make necessary payment.

• When the goods are cleared after the payment of customs duties, the Customs Officer endorses the original and 3rd copy of CTD, and the original is returned to the importer and sends back the 3rd copy with a covering letter for delivery to the corresponding Indian Border Customs. To ensure that the consignment reaches the destination, Customs Officer seals the vehicle transporting the consignment with the seal of the relevant Customs Office.

• The importer is required to submit the original CTD to the corresponding Indian Border Customs within 15 days of the date on which the goods were released at the Indian port of entry or such extended time as the concerned Assistant Commissioner of Customs House may allow.

• Customs office issues the gate pass and gives clearance to move the cargo into Nepal.

• The Customs verifies BBN 4 document issued by a commercial bank with the BBN 3 received previously from the same bank at the time of opening L/C. After the goods are cleared, the Customs certifies BBN 4 and hands over to the importer for delivering to the issuing bank.

b) Clearance at Nepal Customs (via rail)

• After receiving all the documents of the import consignment, importer/CA hands over the following documents to the Customs Officer:
  1. Commercial Invoice

\(^\text{7}\) The “blue” channel will be implemented in FY2072/73.
2. COO
3. Premium Receipt of Insurance policy (optional)
4. Bill of lading
5. Delivery at place (DAP)
6. Proforma invoice

- Customs Officer designates Customs Inspector to examine the goods.
- The Customs Officer verifies the documents, examines the goods and forwards it to Customs Officer for valuation.
- After the valuation of the consignment, CA or importer collects the Job Order Form from Commercial Counter of HTPL and fill it as required, and submit it along with Railway Receipt (R.R) to HTPL Executive.
- After verification, HTPL Executive signs the job application form after proper entry in the computer and forwards the document to warehouse in-charge who forwards one copy of to Reachstaker operator, who loads the container in the vehicle in case factory destuffing, unloads the containers in ICD ground in case of ICD destuffing, and in case of Warehouse destuffing/stuffing, the container is placed at the gate of warehouse.
- Subsequently, CA/importer hands in all the documents along with primary import document to Customs officer and makes necessary payment of Custom duty.
- The consignment then goes through the selectivity process.
- After payment of HTPL bill at the HTPL Commercial Counter, HTPL executive issues gate pass and the cargo/container is cleared for transport.

3.2.3 Importing from India

a) Importing from India (In-bond process)
- Under the in-bond process, the payment for imported goods is made through a bank in convertible foreign currency. Under this process, Indian exporters are required to enter into a bond contract with Indian Customs authority. The contracted bond is released only after the excise issued by Nepali Customs Officer is submitted back to the Indian customs Authority.
- Under the in-bond process, CA must submit the following documents (in addition to the primary import documents) on arrival at the Nepali customs.
  1. BBN Form 4
  2. Bill of export
  3. Excise invoice (Application for the Removal of Excise Duty - ARE1 form)
  4. Sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) related certificates (if applicable)
  5. Other product specific documents—export license, clearance certificate for export of plants and forest products, etc. (if applicable)
- Upon submission of the documents, the procedures adhered to are the same as when importing from third country via India.

b) Importing from India through local purchase process
• The importer/CA must submit the following documents (in addition to the primary import documents):
  1. Authority letter of CA (if applicable – one time annual submission)
  2. Commercial Invoice
  3. Sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) related certificates (if applicable)
  4. Other product specific documents—export license, clearance certificate for export of plants and forest products, etc. (if applicable)
• Upon submission of the documents, the procedures that go into effect are not different from those followed when importing from third country via India.

3.2.4 Importing from third country through Bangladesh

All the procedures prescribed for third country trade have to be followed (at the border) at both Indian and Nepali Customs.

3.2.5 Importing from Bangladesh

The Protocol to the Transit Agreement signed between Nepal and Bangladesh for Nepal’s trade with third countries applies to bilateral trade between Nepal and Bangladesh. Thus, the procedures and documentation for importing from Bangladesh are same as those applied on imports through Bangladesh.

3.2.6 Importing by air

After the arrival of the cargo, the importer or CA approaches the TIA Customs with the following documents:
  1. SAD
  2. Authority letter of CA (if applicable – one-time annual submission)
  3. Airway bill
  4. BBN 4 form
  5. Certificate of insurance (optional)
  6. Certified copy of L/C/ TT/ Draft
  7. COO (this is not a strict requirement except where imported goods are subject to a special tariff concession on account of their place of origin)
  8. Enterprise registration certificate (one-time submission)
  9. Invoice
  10. Packing list
  11. PAN with VAT registration certificate (one-time submission)
  12. Additional documents for specific cargo such as plants and food items - quarantine/health/phytosanitary certificates for plants, lab test report for food products, analysis of chemicals, health certificate for raw wool and veterinary certificate for animals among others to be submitted as applicable.
  13. Wool specification test report if applicable
• Customs use the transaction value as the basis for customs valuation and thus require the certificate of insurance for valuation purposes.

• The importer or CA pays the duties and taxes and approaches NTWCL with the customs declaration and payment receipt to obtain the release of the cargo. The importer arranges for loading and transportation of cargo from airport storage to her warehouse.
4. Major Trade Corridors

4.1 Road Routes

Transportation via roads remains predominantly the only mode of transportation in Nepal, a least developed landlocked country nestled between China and India. While nearly two-thirds of the geography is mountainous, the absence of multimodal transportation can perhaps be linked to the overall structure of the economy and minimal and extremely volatile patterns of economic growth. Being the only mode, road transport is vital in the functioning of the society. Though the quality of road transportation and associated infrastructure is poor, Nepal has made efforts in increasing the road network in the country. The road density more than doubled in the years between 2000 and 2010 and reached 7.91 km/100 sq. km in 2011-12. Presently the road density stands at around 14km/100 sq.km while the total length of the road has reached 27,990 km, an increase of over 10 percent from the 2013 level (GoN 2016). Of the 27,990 km, 11,890 Km is black topped, 6,419 Km gravelled, and 9,681 is earthen fair-weather road. There are local level operational roads spanning over 50,000 km. Despite policy priority (around 8 percent of the national budget FY 2014-15 was allocated to road construction) and progress, connectivity remains poor and costly, raising behind the border trade costs significantly.

Nepal is almost entirely dependent on road transport for trade with its regional neighbours, mainly India and Bangladesh. Importantly, there is a near-complete dependence on India for transit routes for access the regional and international markets. Consequently, Nepal-India Treaty of Transit has specified 26 land routes/points for transit trade between the two countries, while the Nepal-India Treaty of Trade allows bilateral trade flow through 27 land routes. However, only 15 land routes are currently in use for both bilateral and transit trade with major concentration in seven corridors - Birgunj, Biratnagar, Bhairahawa, Krishnanagar, Nepalgunj, Mahendranagar and Kakarbhitta (Rajkarnikar 2010a). Among the seven major corridors, Kathmandu–Birgunj–Raxaul–Kolkata–Haldia route is the main route used for Nepal’s third country trade. The distance between Birgunj and the ports of Kolkata and Haldia are approximately 927 km and 1,030 km respectively. This roadway route starts at Kathmandu and reaches the border point at Birgunj. From Birgunj on the Nepal side, the Raxaul (Haldia bound shipment) journey passes through Mugling, Narayanghat and Hetauda. From Raxaul, the corridor reaches Kolkata/Haldia via Muzaffarpur. Unfortunately, this route is not without problems; the 276 km stretch between Kathmandu and Birgunj consist of a 33 km section which is prone to landslide (Mugling to Narayanghat) while the 50 km Hetauda-Ratomate-Pathlaiya-Birgunj bypass, a 50 km stretch is narrow and mostly congested.

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9 Major perhaps strategic sections in the East-West Highway such as the Narayangarh-Mugling section remains heavily obstructed thereby increasing trade costs substantially (see http://www.myrepublica.com/news/22639/ accessed on 07.08.2017)
10 SAARC Multimodal Transport Study 2006
These factors make the 276 km trip onerous and often unpredictable in terms of a probable transportation time. Furthermore, congestion at Birgunj is a frequent phenomenon since customs yard for road-based cargo is inadequate. Moreover, truck transit between Birgunj, Nepal and Kolkata, India takes on average 5 days. While excessive loading is part of the problem, poor road conditions result in, inter alia, inadequate capacity to handle traffic.

Nepal and Bangladesh are parties to a bilateral agreement on transit which has 6 designated entry/exit points - Chittagong port, Khulna–Chalna (Mongla) port, Birol, Banglabandha, Chilahati and Benapole - for transit through Bangladesh. While Chittagong and Khulna–Chalna are Bangladeshi sea ports, the rest are land border points at India-Bangladesh border. For Nepal’s bilateral and transit trade with Bangladesh, the Nepal-India Transit Treaty provides Kakarbhitta (Nepal)–Banglabandha (Bangladesh) via Phulbari (India) transit route. This transit route connects Nepal with Banglabandha and the ports of Chittagong and Mongla. However, under the Nepal-India Transit Treaty, the use of Kakarbhitta–Phulbari–Banglabandha–Mongla/Chittagong transit route (1,394 km) is subject to numerous modalities and conditions that negatively impact the overall efficiency and feasibility of transit via Bangladesh. To cite some of the conditions, the trucks carrying Nepali cargo for transit in Bangladesh are required to move in convoys and that too only in daylight. The convoys must be escorted from Kakarbhitta (Indo-Nepal border) up to Banglabandha (Bangladesh) by Indian Security Forces. Bangladeshi goods to Nepal also come with similar arrangements.
4.2 Ports and Shipping

Nepal is handicapped by its lack of access to and the distance from the sea. Nepal depends on India and Bangladesh for transit access i.e. ports to access international markets. Given such geographical constraint, the ICDs play an important role in facilitating trade. Currently, Nepal has one rail based ICD at Birgunj, and three road based ICDs at Biratnagar, Bhairahawa and Kakarbhitta. Unfortunately, only Birgunj ICD has a railway connection for freight movement to Raxaul. But and rather unfortunately, none of the dry ports in Nepal have been recognized by the World Maritime Organization (WMO) to conduct dry port operations in a full-fledged manner. Thus, Nepal cannot issue the bill of lading at the ports (Regmi 2010).

Currently, the transit treaty between Nepal and India has designated the ports of Kolkata and Haldia to Nepal for its third country trade, while Bangladesh allows Nepal to use Khulna-Chalna (Mongla) Port and Chittagong Port for transit trade. However, all of the above ports are regional seaports and only handle feeder services to/from major transhipment hubs at Singapore, Malaysia or Sri Lanka. The complicated and onerous often uncertain transit regime, owing to a host of factors past the border, translate into high trade costs.

Nearly all of Nepal’s third country trade is channelled through the ports of Kolkata or Haldia. Much of this passes through Biratnagar, Birgunj, Bhairahawa and Kakarbhitta (Rajkarnikar 2010a). The port of Kolkata is used mainly for transshipment of containerised cargo to/from Nepal while Haldia port handles the transshipment of bulk cargo and serves chartered vessels. But both ports are currently operating beyond their capacity and this results in inefficiencies, delays and uncertainties. On the other hand, though ports of Chittagong and Mongla are the two major sea ports in Bangladesh and Mongla operates below capacity, Mongla port does not have railway connectivity. Mongla is only feasible for chartered vessels and thus the port is unfeasible for use by Nepali exporters/importers. Consequently, all third country trade through Bangladesh is channelled through the Chittagong port, which is severely congested, inefficient and only entertains containerised cargo. However, Bangladesh has established rail link from Chittagong to ICD in Dhaka to facilitate third country trade through Chittagong port. Nonetheless, owing to extremely poor transport infrastructure (especially in Bangladesh) and transit issues in both India and Bangladesh Nepal’s third country trade through Bangladeshi ports is near absent.

4.3 Rail Transport

Railway infrastructure in Nepal is near non-existent as the total railway line adds up to a meagre 57 km. Nepal Railways Company (NRC), the sole operator of railways, owns and operates a 53 km narrow-gauge rail line in two sections—a 32 km section between Jaynagar (India) to Janakpur (Nepal), and a 21 km non-operational
section from Janakpur to Bijalpura. Meanwhile, the Indian Railways manages 6 km railway line that connects ICD at Birgunj to Raxaul, India.11

Existing broad-gauge railway line connecting Kolkata port and other destinations in India with Birgunj ICD came into operation in July 2004 and is governed by the bilateral Rail Services Agreement (RSA) between India and Nepal in May 2004. The Agreement is applicable to all dry ports in Nepal and allows Nepali transit traffic to access Indian railway services between dry ports in Nepal and India, mainly to the Kolkata port. Currently, in the Birgunj–Kolkata railway corridor, there is a double track, electric freight train operational between Barauni-Kolkata, while a single track passenger train operates between Barauni–Birgunj. Due to the absence of double track between Barauni–Birgunj and the lack of freight corridor (Birgunj–Kolkata), movement of cargo is costly and not efficient. This can be a major reform area. The distance between Birgunj–Kolkata, and Birgunj–Haldia port is about 704 km and 832 km respectively (Rajkarnikar 2010a). However, India’s refusal to allow open wagons to cross the border has also negatively affected the use of the railway line. The refusal for open wagons stands against the provisions in the Treaty of Transit between Nepal and India.

4.4 Airways

With 54 domestic and a one international airport, air transportation plays a vital role in connecting Nepal with the rest of world and even domestically as many of her mountainous areas remain unconnected via roads.12 Currently, five domestic airports in Kalikot, Masinechaur (Dolpa), Shitalleshwara (Lamjung), Resunga (Gulmi), and Falgunananda (Ilam) are under construction.13 However, most domestic airports are ill equipped, have poor infrastructure and not so smooth service delivery. Most domestic airports lack modern navigation systems while Tribhuvan International Airport (TIA), the only international airport, is not up to international standards. The Nepali government has signed Bilateral Air Service Agreements and Memorandums of Understanding with 36 different countries since 1963, but only 14 of them have direct flights to or from Nepal.14

For the export of high value and niche products like pashmina, handicrafts, jewellery and carpets among others, their markets being countries in Europe, North America and Asia, the Nepali exporters tend to use air transport. The exports/imports are handed over to freight forwarders in Nepal, who handle the entire export/import process. Since there are limited international cargo flights from Kathmandu, the shipments are often carried by passenger airlines to other countries, where the shipment is transferred to chartered cargo flights towards their destination countries (Kumar and Mukherjee 2009). Nepal’s air transport moves about six million ton-km of air freight annually (Kumar and Mukherjee 2009). However, traders have often complained of losses due to the lack of proper storage and warehouse facilities for perishable and fragile commodities at TIA. Exorbitantly high air freight charges are another challenge in using air transport for trade. Relative high fuel surcharges in Nepal contribute to high air transportation costs (Kumar and Mukherjee 2009).

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11 Drawn from World Bank Data (2014)
14 Civil Aviation Authority of Nepal. National Transport Plan 2012.
5. Major Trade Facilitation Issues and Concerns

Trade facilitation issues and concerns in Nepal, while numerous, can be classified under categories: a) export/import and customs procedures b) SPS and technical standards c) ICDs and international ports; and d) transit trade.

5.1 Export/Import and Customs Procedures

The Customs Act and Rules 2007 have specified a minimum of six documents for imports and four documents for export. But in practice, many more documents are required. Mel (2011) evidences that Nepali exporters and importers had to visit at least 6 agencies and a minimum of 12 documents were asked for exports while 10 were required in import. Moreover, the time and costs incurred to prepare and submit trade documents were among the highest in the region. The Nepal-India Treaty of Transit stipulates that Nepali exporters are only required to present four documents for export and six documents for import at the Indian port of entry.\(^{15}\)

A mandatory requirement under Section 21 of the Customs Rules 2007 is to submit COO for third country imports as well as for exports to all destinations. This coupled with having to submit multiple documents burdens traders and raises trade costs eventually denting firm competitiveness. International organizations such as the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) and the World Customs Organization (WCO), perhaps sensing the tediousness, recommend that the COO may well be issued only when foreign buyers need it for obtaining tariff concessions and other facilitations on the basis of place of origin of goods (as in case of specific provisions within bilateral or regional or multilateral trade agreements; UNESCAP 2011). For example, in the case for Nepal’s export to India, COO documentation prevents detention and delays at the India customs border check posts and other place en route.\(^ {16}\)

In addition to the documentation needs, a Nepali exporter/importer needs to visit minimum of 6 agencies to complete the export/import process (Mel 2011). Additional documents and visits to other agencies may also be required depending on the product and on the destination country. The process of acquiring, preparing and submitting all necessary documents consume time and significant costs time intensive and highly costly. In fact, the time required for completing export procedures in Nepal is at least 141 percent and 64 percent greater than that in India and Bangladesh respectively (Rajkarnikar 2010a). The example of vegetable ghee can be illustrated for a better understanding here. For vegetable ghee exports to India, the process broadly entails of 15 procedures where the exporter must visit 12 institutions and prepare 26 documents. The process takes an average of 41 days, and the cost per container is US$1,067 (Rajkarnikar 2010a). On the other hand, for exports of vegetable ghee to China, the process consists of 13 steps and the exporter must visit nine institutions and prepare 21 documents. The process takes 11 days on average and the cost per container is US$834 (Rajkarnikar 2010a).
The Single Window system to facilitate E-Customs is a major trade facilitation initiative. The Customs Reforms and Modernization Plan (2009-2013) included the establishment of Single Window System and envisaged its operation within four years. The subsequent Customs Reform and Modernization Strategies and Action Plan (2013-2017) also aims to develop and operationalize a Single Window System to facilitate E-Customs. However, the government has only been able to implement a partial Single Window System in the Birgunj customs office. Such slow progress is largely due to the lack of technical capacity to develop a master plan in implementing a Single Window facility. Furthermore, there is no high-level political commitment or action plan for trade facilitation or for paperless trade in Nepal. Nonetheless, in an effort to go paperless, the Automated System for Custom Data (ASYCUDA) was introduced in 1998 and has been implemented in many major customs points. However, of the 17 modules under ASYCUDA, the system is only being used for goods declaration (broker module), processing (selective module) and accounting for payments (accounting module). The adoption of selective processes means ACSYUDA’s full potential in facilitating trade is yet to be realised. Thus, ASYCUDA is not fully utilized at all Customs points and its connectivity—connecting all customs points to headquarter in Kathmandu is limited. Moreover, Nepal lacks adequate technological and physical infrastructure to support the ASYCUDA system.

With regard to the Nepal-India trade, both countries use different systems or application platforms and this results in incompatibility of customs data storage, retrieval and management system (SAWTEE 2012). While Nepal uses ASYCUDA, India follows its sui generis system called Indian Customs Electronic Commerce/Electronic Data interchange Gateway (ICEGATE; SAWTEE 2012). Additionally, processing of customs documents on the Indian side of the border is also equally challenging. The customs office in Raxaul (the Indian side of Birgunj land port) is not fully automated and the entire process is manual. Indian customs inspect 100 percent of the open cargo. According to customs agents in Birgunj, Indian officials often harass Nepali traders with a view to extract bribes (SAWTEE 2012). For instance, new exporters have to get their account opened at the Raxaul customs office before they can start exporting goods to India. Opening a new account, evidence suggests require informal payments of up to a million Indian Rupees (around US$ 16,000.00; SAWTEE 2012). Additionally, for the processing of CTD by Indian customs, the current requirements stipulate presentation of original documents, particularly the bill of lading and this causes major delays in cargo clearance. Because most vessels carrying import cargo originates in East Asia and Southeast Asia, the vessel often reaches Kolkata Port before the original documents, which are routed via Kathmandu. With the rapid development of IT sector and the commitment to paperless trade, trade regulatory agencies in South Asia should look to gradually modify the current transit clearance system to enable documents to be transmitted through Electronic Data Interchange (UNESCAP 2011). So far, it can be observed that minimal progress appears to have been made in utilising technology to make efficient the procedures and reduce hassles.

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15 Required export documents are CTD (should contain 12 specific particulars), invoice, packing list and a L/C authenticated by concerned Nepali Bank. Required import documents are CTD (should contain 11 specific particulars), import license issued by the GoN, L/C from Nepali commercial bank, bill of lading, invoice and packing list.
16 Provision in the Treaty of Trade between Nepal and India
17 From UNESCAP (2014; http://unnext.unescap.org/tfforum10_nep1.pdf)
18 Ibid.
19 Ibid.
For border officials to expedite procedures, they need to coordinate and a major requirement is harmonization in working hours. The operational office hours in Bangladesh, India and Nepal are not harmonized and cause additional delays in completing customs procedures. For example, customs offices in India are closed on Saturday and Sundays while on the Bangladesh side, offices remain closed on Fridays. In Bangladesh, the customs offices are open for only limited hours on Saturdays. Meanwhile customs offices in Nepal are closed only on Saturdays.

Though the Nepali customs administration have adopted the transaction value method, the Customs Valuation database cannot be disseminated horizontally and vertically, mainly due to the lack of automation and the limited use of information technology (DoC 2013). Moreover, the Department of Customs (DoC) has difficulty in determining transaction value based on the invoice provided because importers often tend to undervalue their products and the customs offices do not have proper up-to-dated database/information system for the effective implementation of the transaction value method. Additionally, the procedures for determining value are not fully developed or understood and the customs officials are not well trained to follow the six steps of GATT valuation system (MoCS 2004; Pandey 2014).

Effective post-clearance audit (PCA) can often cross-examine the accuracy of the declared value. PCA can assess fraud and can also combat the risk of revenue leakages. However, there is inadequate manpower for audit and investigation purpose in the Customs (DoC 2013). Moreover, the PCA is highly limited to periodic transaction-based controls at the border with little to no periodic audits conducted at the premises of the importers and/or traders concerned.

Given the significance of the revenues collected by DoC which accounts for approximately 40 percent of the Nepal's total tax revenue, DoC sets revenue collection targets to each customs office (DoC 2013; Kumar and Mukherjee 2009). Such a practice is counter-productive and even downright detrimental in the overall trade facilitation agenda. Furthermore, time and again, it has been argued that border officials are corrupt (MoCS 2004). To tackle this, sizable resources have been spent in drafting model codes of conduct and disciplinary action measures within the Civil Service Rules but such rules and codes are poorly if at all enforced (MoCS 2004). The existence of speed money and bribe payments to customs staff for “facilitating and greasing” clearance could be a significant cost to firms thereby making exports and imports both costly (Kumar and Mukherjee 2009). Section 71 of the existing Customs Act and its regulations provides for “commissions” up to 30 percent of goods seized to any person, including customs officers who arrest or give clues that lead to the arrest of smugglers. This provision does not support Customs fairness and integrity, provides opportunities for corruption and more importantly, undermines the performance of DoC. More importantly, such provision is not in line with WCO's Arusha Declaration on Customs Integrity (MoCS 2004). Additionally, there exist many gaps in Nepal’s legislation against the standards of Revised Kyoto Convention.

5.2 SPS and Technical Standards

Application of SPS measures and technical standards are a critical impediment to Nepali exports and most poor developing country exports in general. In the case of Nepal's export to India, quarantine and food safety-related barriers are imposed on almost all unprocessed and processed agricultural and forest products. Thus, it is
mandatory to test each India bound export consignment of Nepal. Due to the minimal harmonization and absence of mutual recognition of quality and technical standards between Nepal and India, many agriculture products such as vegetable ghee, cardamom, tea and ginger exported to India are often rejected on the ground of SPS and technical standards.

Many importers do not recognize Nepal's domestic test standards. Nepal Bureau of Standards and Metrology (NBSM), for example, has not yet received accreditation from the Bureau of Indian Standards (BIS). Therefore, Nepali exporters have to either get products tested from one of the laboratories located in India or proceed to obtain BIS certification. Meanwhile, the Central Food Laboratory has only obtained international accreditation for testing of 27 chemical parameters and this it appears is inadequate for meeting needs of Nepali exporters. Importantly, even when an accredited testing facility is available domestically, the cost is very high. For instance, in the case of honey, it costs around NPR 15,000-20,000 (approx. US$ 150-200) per sample for testing all parameters required to meet international standards. Meanwhile, many small and medium enterprises (SMEs) are unaware of SPS and technical requirements of importing countries (Rajkarnikar, Maskay, and Adhikari 2006).

Additionally, relevant departments like the Department of Food Technology and Quality Control (DFTQC), Department of Livestock Services, and the Department of Agriculture, all maintain separate laboratories and this increases the burden on traders as they need to access different laboratories for testing and certification. Proper quarantine and testing facilities are lacking and are not present in close proximity to main trade ports and customs (Rajkarnikar, Maskay, and Adhikari 2006). For instance, the DFTQC regional laboratory in the Central Region is located in Hetauda, which is 50 km from the Birgunj border post, while the Department of Agriculture laboratory is located only a few kilometres from the Birgunj customs point. Also, there are only 6 testing centres in Nepal—Biratnagar, Birgunj, Kakarbhitta, Mahendranagar, Nepalgunj and Tatopani. Meanwhile, food quarantine laboratories exist only at Birgunj, Kakarbhitta, Mahendranagar and Tatopani. However, the existing plant and animal quarantine facilities lack proper labs and testing equipment and the staff it appears are poor in terms of technical and managerial competencies. Owing to a lack of equipment and labs, quarantine officers can only conduct physical examination before issuing quarantine certificates. In some cases, samples are sent for testing at the quarantine check post/regional lab, which is often located several kilometres away from the customs point. In Biratnagar, the plant and animal quarantine office has to send samples for testing to food laboratory, which is located 2 km from the border point. For sanitary and phytosanitary testing and certification, samples have to be sent to laboratory in Kolkata and thus exporters end up paying additional fees for vehicle detention often for weeks while waiting for test results (Kumar and Mukherjee 2009).

**5.3 ICDs and International Ports**

For Nepal, full functional dry ports and easy efficient access to international ports is vital for the functioning of the society and the economic activities within it. The inefficiencies in the transit mechanism as well as poor trade logistic are understood to inflate transportation costs by almost 50 percent compared to other regional peers (Basnett et al, 2014). Currently, Nepal has one rail based ICD at Birgunj, three road based ICDs at Biratnagar, Bhairahawa and Kakarbhitta, and an ICD is under construction at Tatopani on the Asian Highway
AH42 (Rana, n.d.). Unfortunately, only Birgunj ICD has a railway connection for freight movement to Raxaul, and accounts for nearly 70 percent of Nepal international trade (Kumar and Mukherjee 2009; Regmi 2010). But regrettably, none of the dry ports in Nepal have been recognized by the WMO to conduct the dry port operation in a full-fledged manner and thus cannot issue the bill of lading at the ports (Regmi 2010). Importantly, none of the four ICDs in Nepal have cold chain storage facility and fumigation chamber.

There is lack of proper infrastructure facility and technically capable officials at TIA. The airport does not have proper warehousing facilities and this makes the consignments susceptible to weather induced damage (Kumar and Mukherjee 2009). Despite the existence of cold chain storage facility at the airport for storing perishable goods (off season vegetables, organic tea, floricultural products etc.) and medicines, the service remains non-operational due to erratic supply of electricity.

Despite being congested and a host of inefficiencies resulting into sizable trade costs nearly all of Nepal’s third country trade is channelized through the Kolkata port. The clearances are onerous and time taking which results in greater waiting time (Regmi 2010). The Kolkata Port is a river port and thus only used by small feeder ships. At the moment, the feeder ships from Kolkata usually transfer the shipments to bigger vessels either at Mumbai, Colombo or Singapore; such arrangements raise the export/import costs and add to the already complex transit regime (MoCS 2004; Kumar and Mukherjee 2009). It has been evidenced that the Kolkata Port Authority is reluctant to provide port demurrage free space for seven days (up to 20 days for containerized cargo) as stated in the 1999 Nepal–India Treaty of Transit (Regmi 2010). Additionally, shipping lines provide free space for no more than three days.

Once at the Kolkata port, Nepali traders face a number of difficulties in the transportation and clearance of goods from Kolkata. Ships carrying Nepal’s imports originating mostly East Asia and South-East Asia generally reach Kolkata before the associated documents. Thus, Nepali traders bear high demurrage charges at the ports as clearance duration is greater than the allowed time of 7 or 20 days when demurrage isn’t charged (Kumar and Mukherjee 2009). Considering the difficulties and inherent inefficiencies at the Kolkata port, Nepal would gain if the country was allowed to use of the Jawaharlal Nehru Port at Mumbai, which is a deep sea port where feeder vessels need not transfer to mother vessels and mother vessels can directly sail to the west. Almost US$2,000 per container could be saved if Nepali traders were allowed to use this port (Kumar and Mukherjee 2009).

Besides Kolkata and Haldia port, Mongla and Chittagong ports in Bangladesh are also available for Nepal’s third country trade. However, the use of these ports is severely limited due to a number of critical constraints, such as relatively longer distance, complexity documentation entailing adherence to two transit protocols, relatively poorer physical infrastructure and requirement of trans-shipment (due to difference in track gauge of railways between India and Bangladesh; Ojha 2006). The metre gauge rail route to Bangladesh via Radhikapur–Birol became non-operational due to the conversion of the track to a broad gauge rail on the Indian side of the border in 2006 (UNESCAP 2011).
5.4 Transit Trade

To use Bangladesh ports, Nepali goods pass through both India and Bangladesh which requires compliance with the transit procedures and documentation of both the countries. The already complex and costly trade procedure become further tedious translating into even greater trade costs. For instance, the CTD required for Indian Customs confers total customs liability on the Nepali traders, while TDI required by Bangladesh Customs makes the carrier fully liable (UNESCAP 2011).

The transit facility accessed by Nepal via Bangladesh through India is relatively much more inefficient, complex and hence costly. Currently, 54 km road section that connects Nepal’s eastern border post of Kakarbhitta/Panitanki with Banglabandha (Bangladesh) via the Indian border crossing at Phulbari is in use. There is a separate operational modality for the transit under this arrangement and has restrictions such as transit transport only during daylight and movement of trucks in convoys, each convoy comprising a maximum 25 trucks at a time among others (UNESCAP 2011). However, the road stretching from Panitanki to Banglabandha via Phulbari is in extremely dire conditions. The 54 km journey takes 1.5 hours or more largely due to poor road condition especially in the 6 km Ghoshpukur-Phansidewa bypass section. Product samples are required to be sent to Kolkata for testing which takes about seven days adding to export costs.
6. Institutions and Regulation

The discussion so far suggests how trade facilitation reforms are significantly more urgent compared to other countries in the region. There has been a realization of this at the policy level and this has led to several trade and transport facilitation efforts in the past. This section will provide an overview of major trade and transport facilitation policies and initiatives recently undertaken by the Government of Nepal.

6.1 Trade and Transport Agreements

a) Bilateral

Considering the concentration of Nepal’s trade in South Asia specially India and to a lesser extent, Bangladesh and the fact that Nepal relies on these countries for transit to access the ports, it has predictably signed trade and transportation agreements with India and Bangladesh.

The Treaty to Trade with India (last renewed in 2016) stipulates, *inter alia*, mutually agreed routes for bilateral trade, rules of origin criteria and mutual recognition of SPS certificates. Nepal-India Treaty of Transit (last renewed in 2013 and the most recent amendment pertaining to movement of third country vehicle through India done in 2015), along with its protocol and memorandum lists specific import and export procedures applicable for traffic-in-transit through India. The treaty allows use of Kolkata and Haldia port and both parties have identified and agreed upon 26 land routes for transit trade. The treaty exempts from customs duties and other transit duties all the traffic-in-transit.

Recently, the Indian government has permitted Nepal-bound cargo to use Visakhapatnam Port as an additional trade gateway. The Letters of Exchange (LoE) on ‘Operationalisation of Visakhapatnam Port’ and ‘Rail Transport To-and-From Visakhapatnam to Nepal’ have formalised the new transit corridor. The distance between Visakhapatnam Port and the Inland Clearance Depot (ICD) Birgunj is 1,453 km. Vishakhapatnam Port is a deep seaport that can handle mother ships. Compared to Kolkata which cannot handle mother ships and is congested, Vishakhapatnam is better managed and has relatively better infrastructure. Usage of Vishakhapatnam port eliminates the usage of feeder vessels and transhipment to Colombo or Singapore allowing Nepali traders to move bulk cargo. Traders can also move Nepal-bound cargo via road from the newly provided gateway or to the railway head at Jogbani (India) bordering Biratnagar (Nepal).

India has agreed to ensure seamless and smooth vehicular movement between Kakarbhitta (Nepal) to Bangladesh port (Bangladesh). The LoE ‘Transit Between Nepal and Bangladesh Through Kakarbhitta-Banglabandha Corridor’ signed between India and Nepal would perhaps result in simplified modalities for goods traffic between Nepal and Bangladesh while transiting through India. India is a major party in Nepal being able to use Bangladesh as a transit country as Indian territory of over 52 km is to be used in reaching Banglabandha (inland port in northern Bangladesh). Currently, Indian government allows only a limited number of cargo carriers through this route citing security concerns.
Nepal has a Rail Service Agreement with India (2004), and it permits rail traffic between the two countries to/from ICD Birgunj in tank wagons. The agreement allows bilateral break-bulk cargo on flat wagons and provides for efficient procedures in customs examination and clearance.

The Transit Agreement between Nepal and Bangladesh (1976) designates entry and exit points on the Bangladesh side for traffic-in-transit and lists the import/export procedures for traffic-in-transit. Furthermore, Trade and Payments Agreement between the two countries notably the provisions extending most favoured nation (MFN) treatment with respect to issuing licenses, customs formalities, customs duties and other taxes. The agreement also mentions the list of goods to be traded between Nepal and Bangladesh.

Besides treaties with India and Bangladesh, Nepal has also signed bilateral trade agreement with Pakistan (1982) and Sri Lanka (1979) to encourage countries to develop and expand trade among each other. Recent figures suggest that there is almost no trade with Sri Lanka and a miniscule amount with Pakistan. With the WTO memberships and the agreements like SAFTA, such bilateral agreements have become somewhat obsolete.

b) Regional

Nepal has signed three major regional agreements: (i) SAFTA in 2004; (ii) Bay of Bengal Initiative for Multi-Sectoral, Technical and Economic Cooperation (BIMSTEC) Free Trade Area in 2004; and (iii) SAARC Preferential Trading Arrangement (SAPTA) in 1993.20

With respect to trade facilitation, SAFTA provides for the adoption of some notable trade facilitation measures such as under Article 8 - simplification and harmonization of customs clearance procedures; harmonization of national customs classification based on HS coding system; customs cooperation to resolve disputes at customs entry points; transit facilities for efficient intra-SAARC trade (especially for the landlocked countries) and development of communication systems and transport infrastructure. Unfortunately and largely to the disadvantage of LLDCs such as Nepal, there has been little progress in most of the areas. Perhaps minimal progress has been made due to the weak formulation of Article 8 wherein member states “agree to consider” such measures. Meanwhile, negotiations are underway among the BIMSTEC free trade agreement (FTA) members in areas such as tariff concessions, customs cooperation, services and investment facilitation albeit with slow progress (GoN 2012).

Nepal is also a signatory to the SAARC Customs Action Plan 1997 which aims to harmonise and simplify customs procedures and practices and implement WTO Agreement on Valuation application. The SAARC Agreement on Mutual Administrative Assistance in Customs Matters 2005 envisions addressing the need for regional co-operation in matters related to the application and enforcement of respective Customs laws.

At the sub-national level in SAARC, the future of the motor vehicle agreement among Bangladesh, Bhutan, India and Nepal or BBIN, which was to establish seamless movement of passengers and cargo vehicles across the

20 Following the SAFTA in 2004, SAPTA is now obsolete.
party territories remains uncertain. Bhutan, a party to the agreement has not ratified the BBIN agreement though Bhutan has suggested that the move is temporary. BBIN was drafted for multimodal connectivity among the four South Asian nations. Under the deal, any member nation of BBIN will be allowed to use the road network of other members to transport goods and passengers by paying fees and charges which are to be fixed later. The deal, it has been argued, will potentially reduce trade costs via, for instance, greater containerization, and increase significantly South Asia's intraregional trade and its trade with the rest of the world (Pal 2016).

c) **Multilateral**

Since Nepal’s accession into the WTO in April 2004, it has been active in WTO negotiations across several aspects - non-agricultural market access (NAMA), trade facilitation, agriculture, services, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), SPS issues, special & differential (S&D) treatment, and other issues of relevance to the LDCs. Currently, the WTO (guided by Articles V, VIII and X of the GATT 1994) aims to clarify the articles to further facilitate the movement, release and clearance of goods including goods in transit all WTO member countries through negotiations on trade facilitation. Importantly, as a coordinator in the LDC Group, Nepal voiced trade facilitation concerns of LDCs at WTO’s Ninth Ministerial Conference in Bali (2013) where WTO members signed the Trade Facilitation Agreement. The Trade Facilitation Agreement contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues, along with the provisions for technical assistance and capacity building for trade facilitation.

### 6.2 Trade Facilitation Institutions

Nepal has a number of mechanisms and institutions to devise and implement policies and actions towards trade and transport facilitation. Established in 1998 in the context of the Multimodal Transit and Trade Facilitation Project, the National Trade and Transport Facilitation Committee (NTTFC) came up as the nodal body in overseeing trade facilitation reforms in the country (UNCTAD 2006). Composed of representatives from the public and private sector and quasi-State organizations, the main function of the committee were: (i) monitoring and regulation of international trade and transport in general; (ii) provision of policy advice for international transport facilitation; (iii) monitoring of actions of border authorities at individual border checkpoints; (iv) monitoring of the operation of specific bilateral and multilateral agreements relating to international trade and transport; and (v) monitoring and regulation of the implementation of specific projects (UNESCAP 2007). Notably, the committee was instrumental in drafting four significant transport legislations by the government - mainly the Multimodal Transport Act (2006), Railway Act (2013), Goods Carriage by Road Act and Marine Insurance Act (the latter two are yet to be enacted). The committee also suggested recommendations on the simplification, standardization and harmonization of transit and trade documents (UNCTAD 2006).

Unfortunately, the NTTFC, it may well be argued that it did not figure as a key institution at the political level. Thus, NTTFC only sustained as long as the project lasted (UNCTAD 2006). However, in 2012, the government revived the NTTFC under the chairmanship of Secretary of Ministry of Commerce and Supplies (MoCS). It
comprises of high-level representatives from the public and private institutions. The new NTTFC has been made responsible for advising on reforms aimed at facilitating trade. At present, the committee consist of approximately 40 varied stakeholders who meet every month for discussions and reviewing trade facilitation issues.

Recently, Board of Investment has been constituted under the chairmanship of Rt. Honourable Prime Minister to increase the inflow of foreign investment especially in infrastructure building which has the potential to reduce trade costs. Board of Trade (BoT) and Industrial Promotion Board (IPB) have also been set up under the chairs of MoCS and the Minister for Industries respectively, to gear up trade and industry and provide policy prescriptions towards expanding the industrial sector. Importantly, Nepal Inter-Modal Transport Development Board has also been setup in order to oversee management of ICDs in the country, monitor and eliminate inefficiencies and facilitate trade.

The high-level Nepal Business Forum has been mandated towards regular interaction among the public and private sector to identify and resolve issues that affect trade and investment in the country. The Trade and Export Promotion Centre undertakes trade promotion and marketing activities. Trade Policy 2015, one of its major goals has been to promote exports through interventions such as duty refunds on raw materials used in producing export merchandise. The Trade Policy 2009 envisaged setting up a trade promotion institute, an autonomous institution for research, advocacy and advisory among other things, but so far the institute has not come up. Meanwhile, Nepal Inter-Modal Transport Development Board is the responsible agency to oversee the operation of ICDs (Dry-ports) in four major customs points of the country (GoN 2012).

In order to boost exports, processes towards establishing Special Economic Zone (SEZ) have been initiated. Notable is the fact that creating SEZs have been under discussion in Nepal for over two decades now but without much progress. The first SEZ in Bhairahawa was inaugurated in 2014 but had few takers. Even in early-2017, no industries had actually been set up in it (Xu and Hager 2017). With a view to providing research-based policy feedback and technical support to the MoCS, and particularly to facilitate bilateral, regional and multilateral trade negotiations, the government has set up a Trade Policy Analysis Wing (TPAW). It is comprised of trade experts and professionals and is under the umbrella of MoCS. Similarly, a Trade Advisory Committee has been formed consisting of former Commerce Secretaries, private sector leaders and trade experts to provide policy feedback on concurrent trade and transit related issues (GoN 2012).

Ministry of Commerce and Supplies (http://www.mocs.gov.np/)
   a) Export Promotion, Trade and Transit Division
   b) Planning and International Trade Cooperation Division
   c) Nepal Intermodal Transport Development Board (http://www.nitdb.org/)

Ministry of Physical Infrastructure and Transport (http://www.mopit.gov.np/)
   d) Department of Roads (http://www.dor.gov.np/)
   e) Department of Railways (http://dorw.gov.np/)
   f) Department of Transportation Management (http://dotm.gov.np/)

Ministry of Finance (http://www.mof.gov.np/en/)
6.3 Major Trade Facilitation Efforts

By joining the WTO, Nepal has had to implement several commitments. In order to analyze and oversee the implementation of WTO commitments, MoCS has formed a committee of focal points representing concerned agencies and other stakeholders to support and oversee implementation of all WTO commitments (GoN 2012). Moreover, the government also introduced a new Trade Policy in 2015. Note that the government is not fully capable of effectively implementing Nepal’s WTO commitments without international assistance. Thus, implementation will require reasonable timeframe, along with sufficient technical and financial support from the international community.

The donors—multilateral agencies and other international organisations—aware of Nepal’s technical and financial constraints, have provided support to Nepal. After Nepal’s accession to the WTO, the United Nations Development Programme (UNDP) provided support to a project titled “Multilateral Trade Integration and Human Development” to help Nepal comply with the WTO commitments. Meanwhile in 2002, Nepal joined the Integrated Framework (IF) Initiative and as part of the program, carried out a Diagnostic Trade Integration Study (DTIS)—“Nepal: Trade and Competitiveness Study”, which was later updated to produce a fresh document titled “Nepal Trade Integration Strategy (NTIS)” in 2010. The NTIS 2010 analyses, inter alia, the constraints, future prospects and priorities in trade. More importantly, it identifies 19 products/sectors, comprising of 7 agricultural products, 5 industrial products and 7 service sectors having export potential. Furthermore, under EIF, Nepal is implementing a Tier 1 and two tier 2 projects since April 2010, June 2012 and May 2013 respectively on trade related capacity building.

To address the trade and transit related challenges faced by LLDCs, the Almaty Programme of Action (APoA) was adopted in 2003 at the International Ministerial Conference of Landlocked and Transit Developing Countries. Nepal has since been a part of APoA and has undertaken the implementation of APoA agenda which is based on the roadmap prepared by UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing State (UN-OHRLLS). Some of the activities proposed in roadmap of APA have already been internalized, incorporated and endorsed in national development plans, Trade Policy 2015 and NTIS 2010. The government has established a number of dry ports on the border to facilitate trade. The government, it can be argued, remains committed to develop trade related infrastructures such as ICDs, customs modernization, freight corridors etc. Importantly, Nepal and India have signed a Memorandum of Understanding (2005) covering the construction of four ICPs along the Nepal-India border in an effort to upgrade and integrate border controls and customs services. Towards this, the construction of the ICP on the Nepali side of the Raxaul-Birgunj border began in 2011 with US$25 million contribution from India and was set to be complete in 2016. However, till June of 2017, the ICP was yet to be completed and become operational.

Another of Nepal’s initiatives in enhancing Nepal’s transport connectivity with its neighbours and the rest of the world has been her decision to become part of the Asian Highway Network and Trans-Asian Railways Network.

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21 Enhanced Integrated Framework (www.enhancedif.org)
Recently, the government has undertaken "Nepal-India Regional Trade and Transport Project (June 2013-June 2019)" with support from the World Bank. The US$101 million project is expected to decrease transport time and logistics costs for bilateral trade between Nepal and India. Post completion, the project is expected to cut costs associated with transit trade along the Kathmandu-Kolkata corridor by reducing key infrastructure bottlenecks in Nepal as well as by supporting the adoption of modern approaches to border management. Under the project, Nepal government is working to modernize transport and transit arrangements between Nepal and India by, *inter alia*, introducing an effective and predictable transit regime, simplifying and harmonizing customs and other on the procedures, and strengthening the regulation of national and international trucking services. The project aims to strengthen trade-related institutional capacity in Nepal through the development of Nepal Trade Information Portal (NTIP) and national single window system (NSW) and improvement of trade-related standards laboratories for Customs and SPS testing including food, plant and animal quarantine. Importantly, the project will expand and upgrade the landslide prone 33 km section of the Narayanghat–Mugling road section and implement measures for the improvement of entire Birgunj–Kathmandu Corridor. The project aims to build a container freight station (CFS) or ICD in Kathmandu and improve the infrastructure at Birgunj and Bhairahawa ICDs.\(^2\)

The Government of Nepal has embarked on a SASEC Road Connectivity Project to expand the road network in Nepal. The US$97 million project will build 73 km of alternate roads as well the border roads along the East-West Highway. The project aims to repair 114 km of feeder roads in the hill areas. Similarly, under the SASEC Trade Facilitation Program, the government has issued a directive to implement National Single Window program and establish client services centres at customs border posts in Birgunj, Biratnagar and Bhairahawa. The overall objective of the SASEC Trade Facilitation Program is to increase trade, including intraregional trade, of SASEC countries by reducing or removing non-tariff barriers, specifically institutional, administrative, and technical barriers to trade in Bangladesh, Bhutan, and Nepal.

With regards to customs reform and modernization, DoC has been implementing a four-year Action plans since 2003. It is currently implementing the Customs Reform and Modernization Strategies and Action Plan (CRMSAP) 2013-2017. The ongoing CRMSAP aims to transform Nepal Customs to a world standard by implementing trade facilitation initiatives and reducing transaction costs in trade and developing capabilities among officials. The CRMSAP reform program, under its capability development program, highlights the trade facilitation dimension and not just revenue maximisation goals or border security aspects (DoC 2013). Below is the list of some notable customs reforms initiated and completed by the Nepal government through the CRMSAP actions plan:

- Implementation of Brokers Module in 10 Customs Offices.
- Cargo clearance using risk management (Selectivity Module) in 6 Customs Offices.
- Deployment of a Wide Area Network (WAN) in 10 Customs Offices.
- Duties collected and receipt issued through bank at 5 Customs.

\(^2\) Based on the project appraisal document available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDS/IB/2013/06/12/000356161_20130612124953/Rendered/PDF/781990PAD0P144010Box377322B00OUO090.pdf
- Enactment and implementation of a new Customs Act 2007 and Customs Regulations 2007.
- Establishment of a Customs Reform and Modernization Section under the DOC.
- Establishment of a separate Information and Technology section under DoC.
- Establishment of an Intelligence Section in the Department and Risk Management Units in main Customs Offices.
- Establishment of Client Service Centers; centers have been established in Biratnagar, Bhairahawa, Birgunj, Department of Customs, Mechi and TIA.
- Establishment of Customs Laboratory in the Department.
- Establishment of Inland Container Depots at Dry port at Bhairahawa, Biratnagar and Mechi.
- Establishment of Post Clearance Audit Office.
- Strengthening the operation of Post Clearance Audit. 
- IP Cameras installed in 4 main Customs Offices.
- Management and technical training programs conducted.
- Rollout of Automated Customs Clearance System (ASYCUDA) in 19 Customs Offices.
- Formation of Trade Facilitation Committee at DoC.

In line with the ultimate objective of the CRMSAP, which is to establish "Responsive" Customs administration by initiating paperless Customs services and Web Based Clearance System, the DoC will undertake the following activities in the coming four years under the CRMSAP 2013-2017:

- Prepare for all the necessary procedures and modalities to enable Nepal accede to the Revised Kyoto Convention
- Actions will be taken to bring the number of trade documents required to the level of South Asian best performer.
- Promote greater coordination, communication and cooperation among stakeholders including Customs to other Government departments and ministries Customs to Customs and Customs to Businesses through, among other things, formulation of standard operating procedures for Customs processes, operationalization of interactive Web Portal for stakeholders, establishment of client Service Desk at DoC and 10 major Customs offices.
- Equip main Customs offices with non-intrusive equipment, modernize testing laboratories and strengthen controls to check border smuggling to curb informality and environment. The informality dimension, the conventional understanding calls for its reduction and eventual elimination. Informal finance, trade and all other informal activities outside the purview of taxes and the organised usually large sectors have been generally understood to be a burden. Recent research indicates that informal sector contribute significantly to the functioning of the society. Is this to suggest that the informal sector – such as informal sector workers whose wages may not even be subsistence – do not need growth and development enhancing interventions? Surely not but the policies should be driven by more thorough research. In the informal trade, while statistics are barely there and less so the credible ones, it could be the case that it may well be the source of livelihood for millions.
- Ensure compliance with the law by enhancing efficiency and effectiveness of Customs management system and encourage voluntary compliance by providing web-based declaration submission to the clients including access to all information on Customs procedures. It appears that by reducing the paperwork, leakages may well be controlled and the customs may become more compliant with the law.
but introduction of IT platforms, possibilities are that it may not lead to a more compliant and efficient customs department.

- Collect appropriate and fair revenue by developing mechanism for access to online valuation database at Customs offices.
- Strengthen the Central Monitoring Section for regular and on-line monitoring of main Customs Offices.
- Modernize and enhance customs management system.
- Develop infrastructure and physical facilities.
- Promote a culture of integrity to expedite Customs processing and clearance. Again the issue of corruption at the officials’ end requires credible well thought out thoroughly researched policy initiatives. Mere replication of developed country laws and adoption of the formal procedures or model laws on the lines of good governance framework does not appear to be curbing corruption. Instead, minimal utilisation of development budget in Nepal may well be linked to anti-corruption codes and complex audit procedures.
- Enhance passenger clearance system

Develop information database to enhance the dissemination of information through LAN/WAN and internet

Transform customs processes to E-customs.

With regards to technical trade facilitation measures agreed at the WTO’s Ninth Ministerial Conference in December 2013 with the signing of the Trade Facilitation Agreement, the Government of Nepal working to identify each of the approximately 36 technical measures of the Agreement to one of three categories (Category A: measures that Nepal will implement within one year of the date that the agreement enters into force; Category B: measures that Nepal will implement within a period of delay following entry into force of the agreement; Category C: measures that Nepal cannot implement without additional time and technical assistance and capacity building support). The agreement requires that Nepal notify its categories to a WTO trade facilitation committee. According to a recent study conducted by the World Bank, Nepal has fully implemented 2 measures, substantially implemented 12 measures, partially implemented 11 measures while 11 measures have not yet been implemented (World Bank 2014).
7. Select studies on trade facilitation in Nepal and in the region

In the previous sections, a number of studies on trade facilitation, specific to the region as well as Nepal, has been drawn upon. In this section, relevant insights from the previously referred as well as additional studies are briefly discussed.

Though there have been macro-level studies analysing the regional impact of trade facilitation reforms, Nepal-specific studies are limited. The Nepal Trade and Competitiveness Study (2003) is one of the early studies (MoCS 2004). The study is a survey of manufacturing firms that examines the competitiveness dynamics of the Nepali firms. The research suggests that exorbitant trade costs seriously dent firm competitiveness. The study observes that the Nepali exporters on average pay 50 percent more on freight costs compared to the other countries in other developing countries. Inadequately trained officials, poorly harmonized working hours at customs offices in India and Nepal), poor physical infrastructure (roads, ICDs and customs offices) and minimal utilisation of ICT platforms are the factors identified that raise trade costs.

Hertel and Mirza (2009) shows that trade facilitation reforms can have a sizable impact on intra-regional trade in South Asia, increasing intra-regional trade by US$5.8 billion or by 75 percent. It also estimates that inter-regional trade will increase by US$30.8 billion or by 22 percent. Similarly, Weerahewa (2009), deploying the fixed effect gravity, assesses the extent to which trade facilitation in South Asian countries would improve its exports. The study estimates that if all South Asian countries improved their trade facilitation up to South Asian best performer, agricultural and manufactured exports would increase by 18.01 percent and 29.15 percent respectively (Weerahewa 2009). Furthermore, if South Asian countries would decrease trade costs and match the level of the regional best performer, agricultural and manufactured exports would increase by 27.14 percent and 23.53 percent (Weerahewa 2009).

In an empirical investigation, De (2009) estimates transportation costs for five South Asian countries, including Nepal. The paper finds that cost of transportation in the region varies significantly across countries and that the transportation costs are greater if the country is landlocked. Crucially, the study evidences that the inland journey (behind the border) is of greater significance (with respect to trade costs) than the beyond the border journey in South Asian regional trade transportation. In the case of Nepal, the study finds that that international freight rate for Nepal is lower than the South Asian average of US$193 per TEU but the inland freight rate is greater than the regional average of US$1328 per container. De (2009) observes that the land borders in South Asia are crowded which perhaps can be linked to extremely small size custom office operations.

Mel (2011) carried out a survey in five South Asian countries including Nepal. The research surveys 10 importers and 10 exporters in Nepal and examines the trade facilitation issues facing Nepali exporters and importers while trading with other South Asian countries. The study finds that Nepal requires the highest number of export and import documents in South Asia which obviously means greater costs in acquisition and preparation of such documents. The study evidences that acquiring necessary export/import documents, minimal harmonisation of standards between countries; corruption among officials; non-availability of proper
testing facilities and facilities in close proximity to ports and customs; lack of sufficient port facilities; and poor transit facilities translate into the exorbitant trade costs that deteriorate terms of trade for Nepali traders.

UNESCAP (2011) provides a fairly comprehensive overview of trade facilitation issues in Nepal. In particular, emphasis is on the need for Single Window mechanism and the analysis of the adoption readiness in Nepal. According to the study, there is a need to create awareness among the stakeholders about the potential benefits of Single Window. The work contends that while high level political commitment is necessary in implementing trade facilitation measures such as paperless customs, there isn’t the political commitment for such reform initiatives. One probable explanation for this is that switching to paperless customs potentially eliminates the opportunities for rent seeking, corruption and perhaps downright extortion. Thus, the study recommends that clearance of transit cargo in Bangladesh, Nepal and India be gradually be done electronically where electronic copies of documents can be transmitted through Electronic Data Interchange (EDI). Another major recommendation is for regional commitment for Single Window implementation.

Considering the significance of dry ports in the facilitation of international trade for landlocked countries like Nepal, many studies have focused on the issues of transportation infrastructure and dry ports. Regmi (2010) provides an overview of transport infrastructure and dry ports in Nepal. The paper identifies major issues in use of dry ports for Nepal’s trade. The paper highlights that despite Kolkata not being the most efficient port, nearly all of Nepal’s international trade is channelized through it. Till the recent past, there were few alternatives to Kolkata and it is indeed the case negotiating for other transit routes required dedicated negotiations. Ojha (2006) notes that besides Kolkata and Haldia port in India, Mongla and Chittagong ports in Bangladesh are available for Nepal’s transit traffic but their use is severely limited mainly due to inadequacy and poor quality of physical infrastructure on the Bangladeshi front. To move the goods for transit in Bangladesh, the shipment reaches to Bangladesh via Indian territory. Hence, for Nepali goods to transit in Bangladesh, the task involves adherence to two transit agreements. In absence of credible reforms to facilitate trade, the idea of Bangladesh transit for Nepal involves significant transaction costs. We have already noted that the railway gauge is different in India and Bangladesh which then requires the goods to be unloaded only to be loaded again on to Bangladeshi railway.

Singh (2006) notes that though the port of Kolkata and Haldia account 98 percent of Nepal’s third country trade in volume, the Treaty of Transit between Nepal and India requires for clearance of cargo at Kolkata as well as Nepal-India border station. Moreover, according to Singh (2006), customs and transhipment delays account for as much as 55 percent of the logistics costs of moving goods from Kathmandu to Kolkata. The author argues that using alternative ports usage such as Mumbai will not only provide direct sailing to Europe and America but also reduce transit cost by about US$ 400 per standard container. In the same study, policy inconsistency, poor governance, inadequate testing labs and tools, and communication and coordination gap between government and traders are identified as some of the major trade facilitation issues faced by the private sector. Singh (2006) presents a cost estimation, NPR 878 million, for implementing specific trade facilitation reforms. Surprisingly, a study by Rajkarnikar et al (2006) finds that implementing trade facilitation measures, in the spirit of the WTO negotiations would cost around US$34 million which is significantly less than the estimation by Singh (2006). The differences in estimation arise for a host of reasons such as the kind of reforms outlined as a part of the trade facilitation initiatives. However, specific trade facilitation reforms such as costs in implementing for example the Single Window System or building freight corridors can be assessed. One of the
methods, though the approach may have serious limitations, can be costs incurred in trade facilitation interventions elsewhere in comparable societies.

Rajkarnikar et al (2006) in their survey of exporters, importers and government official, identify the following obstacles as being the most significant conducting trade. Though the study is slightly dated and progress perhaps has been made in the last decade or so, the identified factors, many hold even in the present (i) delay in inspection and release of goods, mainly the practice of 100 percent cargo inspection; (ii) custom valuation procedure (despite the adoption of transaction value method, DoC, owing to technical and managerial difficulties, remains poorly equipped to determine transaction value based on the invoice provided by traders); (iii) tariff classification; and (iv) SPS and technical requirement.

Since the early 2000s, several studies have pointed out that there is an almost extreme revenue orientation among customs officials (MoCS 2004). Among the explanations forwards for such an approach has been that the DoC sets incentive linked revenue targets to each customs office (Kumar et al, 2009). Kumar et al (2009) contend that the customs officials do not focus on facilitating movement of goods largely because of the extreme revenue orientation. Since the revenue maximisation targets are incentive linked and perhaps the customs officials also can engage in rent seeking and corruption (elements like speed money and schedule payments) that also borders on extortion, the revenue maximisation orientation, largely a welcome notion, becomes problematic. In the previous sections, this paper highlights that GVC participation as well as firm competitiveness hinges significantly on the ease (and hence costs) at which goods can move across jurisdictions. If Nepal is to embark upon economic growth enhancing policies, manufacturing occupies a major place in being a driver of such transformation. But for firms to produce competitively, the trade costs need to be curbed.

Unlike aforementioned studies that conduct a macro-analysis of trade facilitation issue, Rajkarnikar (2010a, 2010b) conduct product specific surveys to identify the cost, time and the process of importing and exporting certain products. Rajkarnikar (2010a) considers three major export products, mainly ready-made garments, carpet and ghee while Rajkarnikar (2010b) focuses on the export of vegetable ghee to India and the import of textiles from India.

The results of the survey conducted in Rajkarnikar (2010a) indicate low efficiency of logistics in Nepal. Specifically, compared to India and Bangladesh, the cost of inland transport and handling is remarkably high in Nepal due to the additional cost involved in transit transportation to the ports. The other study, Rajkarnikar (2010b) identifies five major issues: (i) recommendation letters from three difference agencies are required to access export quota imposed on vegetable ghee; (ii) lack of recognized laboratories in Nepal; (iii) poor transportation infrastructure within the country; (iv) shortage of trained human resources in customs; and (v) delays in payment settlement through banks.
8. Trade and Transport Facilitation Audit

8.1 Objectives and Methodology

Analytical and methodological guidance being the Trade and Transport Facilitation Toolkit of the World Bank, the study attempts to understand the major bottlenecks in supply chains that drive up trade costs and dent competitiveness (World Bank 2010). The exercise, aimed at prioritizing trade and transport facilitation interventions, relies heavily on primary data captured via interviews with relevant private as well as public participants in trade (World Bank 2010). Private sectors actors include exporters, importers, freight-forwarders, transport operators, business associations, customs agents and brokers. Key public participants include customs, border agencies, officials from ministries like commerce and finance and regulators in the transport sector among others. A key focus of the survey is to assess the quality of trade-related services delivered to traders who are also asked of their perception and experience of trade logistics and infrastructure (World Bank 2010). The survey begins with identification of key customs points (at ports, land borders and airports) and major products traded in such customs points (both imports and exports; both, for instance, agricultural and non-agricultural products) both of which guide the process of selection of respondents to interview.

For this study, a survey was conducted at six major customs point – Bhairahawa, Biratnagar, Birgunj, Kakarbhitta, Nepalgunj and Tribhuvan International Airport (TIA). At each customs point, the survey focused on an export as well as import product and in this, both agriculture and non-agriculture products were included. Below is the list of products at the respective customs point. The table can read as follows: At the Bhairahawa customs point, for instance, respondents were surveyed for the export product yarn (4-digit HS 5509) and the import product rice (1006).

Table 11: Selected export and import products per customs point

<table>
<thead>
<tr>
<th>Customs Points</th>
<th>Export Product</th>
<th>Import Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bhairahawa</td>
<td>Yarn (other than sewing thread) of synthetic staple fibres, not put up for retail sale (5509)</td>
<td>Rice (1006)</td>
</tr>
<tr>
<td>Biratnagar</td>
<td>Woven fabric of jute or of other textile fibres (5310)</td>
<td>Semi-finished products of iron or non-alloy steel (7207)</td>
</tr>
<tr>
<td>Birgunj</td>
<td>Pipe (7304; tubes, pipes and seamless iron &amp; steel)</td>
<td>Medicaments (excluding goods of heading 3002, 3005 or 3006) consisting of two or more constituents which have been mixed together for therapeutic or prophylactic uses (3003)</td>
</tr>
</tbody>
</table>
The total number of respondents in the survey was initially determined at 180 or 30 respondents per customs point. Though 180 respondents were surveyed in total, some respondents did not meet the criteria set at Bhairahawa and Birgunj Customs points. This was mainly due to the limited number of exporters for the selected products (Table 12).

<table>
<thead>
<tr>
<th>Customs point</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bhairahawa</td>
<td>27</td>
<td>15.00</td>
</tr>
<tr>
<td>Biratnagar</td>
<td>32</td>
<td>17.78</td>
</tr>
<tr>
<td>Birgunj</td>
<td>29</td>
<td>16.11</td>
</tr>
<tr>
<td>Kakarbhitta</td>
<td>32</td>
<td>17.78</td>
</tr>
<tr>
<td>Nepalgunj</td>
<td>30</td>
<td>16.67</td>
</tr>
<tr>
<td>Tribhuvan International Airport (TIA)</td>
<td>30</td>
<td>16.67</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>180</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

The survey focused on key trade facilitation areas: (a) publication of trade related rules and regulations; (b) rules and procedures for exports and imports; (c) quality and efficiency of trade-related infrastructure and services; (d) treatment of goods in transit; and (d) use of Information and Communications Technology (ICT) to facilitate exports and imports. The set of respondents include all relevant stakeholders involved in trade – freight forwarders, customs agents, brokers, multimodal transport operators, exporters, importers, road carriers, airline operators, and officials from Customs Authority, Chamber of Commerce, Ministry/Department of Commerce and Ministry/Department of Finance. The questionnaire used for the survey is attached in Appendix A.
8.2 Empirical Results

The data from the survey was analysed using SPSS statistics.

8.2.1 Publication of trade-related rules and regulation

Regular and timely publication of trade-related regulations and procedures—for instance, information on documents required, fees charged on procedures and customs clearance procedures—as well as timely updates of regulatory changes if any, both electronically and in trade-related publications, is critical to reduce transaction costs in trade. Crucially, the published information should not only be understandable but readily accessible. Of the 154 respondents, 48.05 percent were aware that the National Customs website provides information related to customs duties, applicable fees, and export/import procedures, among others. Majority of those aware of the website mentioned that the national website does provide information on export/import procedures (89.19 percent), customs clearance procedures (86.49 percent), applicable customs duties (87.84 percent), applicable fees and charges (72.87 percent), and changes in regulations (85.11 percent). Close to 50 percent of the respondents rated the effectiveness of the information available on the website as high or very high. Specifically, around the 50 percent respondents on average opined that information regarding import/export procedures (48.49 percent), customs clearance procedures (46.88 percent), applicable customs duties (56.92 percent), applicable fees and charges (61.11 percent) and changes in regulation (46.03 percent) was fairly effective (responses being high or very high degree of effectiveness).

Delays in clearance and release of cargo result in high trade costs through multiple mechanisms. Moreover, firms, if are unsure and cannot map average delivery schedules, need to keep high levels of inventory which means eroding margins. Of the 74 respondents who responded to the queries pertaining to delivery schedules, 44.59 said the customs website did not release information on time while 43.24 percent responded that the customs website had no information on the average clearance time. Majority of those (55 percent) that mentioned that the customs website had information on the average release time but rated the effectiveness of such information as low. Under half of those who responded of being aware of information on clearance time on customs website suggested that such information was effective.

Inquiry hubs/kiosks play a major role in not just making the information available but also help clarify information. We asked the respondents whether they knew of inquiry points regarding export/import procedures and formalities. 55.84 percent of the 154 surveyed responded positively while 15.58 percent said they were unaware of such a facility.

8.2.2 Border procedures and regulations for exports and imports including documentation

Our respondents in the survey comprised of border management agencies such as customs and revenue, quarantine inspection service, plant health inspectorate, food standards agency, immigration department
offices and security agencies operating at the border points in Bhairahawa, Biratnagar, Birgunj, Kakarbhitta, Nepalgunj and TIA. Immigration service is available at all border points except Kakarbhitta.

Standards (or the SPS-TBT) are among the most significant non-tariff barriers and are a major source of trade costs. Most poor developing countries do not have well-equipped and accredited labs and hence the 2013 trade facilitation agenda aims at upgrading such facilities in developing countries. We found out in the survey that the required testing facilities routinely did not exist in many of the border points meaning that the testing may take greater time. This almost often means greater costs (in the form of wastage, for instance, in case of perishables like vegetables). Nearly 40 percent of the respondents opined that health authority is not present at border points with the exception of Kakarbhitta. About 63 percent of those surveyed voted that archaeological agencies are not operating at the border points.

Functional coordination mechanisms among border agencies is critical in seamless and efficient conduct of trade. Our survey suggests that absence of coordination mechanisms translate into greater time taken and unpredictability in the movement of goods. Over 40 percent of the respondents suggest that the coordination among agencies and officials needs to be improved.

When asked about the number of documents required to export, 21.85 percent of the 119 respondents stated that 5 documents were required to export to South Asian countries. Close to half the respondents responded did not know the number of documents required to developed countries – possibly because they do not export to developed countries. Around a fifth of Nepal’s exports end up in developed countries and a similar proportion, about 14 percent respondents identified that 7 documents were required to export to developed countries. Significant variation was observed in the responses ranging from 1-25 in some cases depending on the product.

Similarly, the survey indicated that a minimum of three to four signatures and a maximum of five signatures were required to export to South Asian countries. A near identical result was obtained for exports to developed countries. Surprisingly, almost half, 47 percent of respondents, were unaware of the number of signatures required. Note that the response to the number of signatures required ranged from 1-58 with considerable spread. Importantly, over 40 percent of the respondents mentioned that it took only one day to prepare all the documents required to export to South Asian countries. But more than 50 percent of the respondents did not know the time required to prepare export documents for developed countries while many stated that it took no more than 1 day to prepare all necessary documents.

With regard to import documentation, 21 of 123 respondents opined that a minimum of 3 documents are required to import from South Asian countries while 19 respondents stated that a maximum of 4 documents were required for the same purpose. However, there are notable discrepancies among respondents from various border points surveyed with respect to the number of necessary documents. Specifically, the spread regarding the minimum and maximum number of documents required for imports was high in Bhairahawa, Biratnagar, Kakarbhitta and TIA. Meanwhile, more than 50 percent of the respondents were unable to state the minimum and maximum number of documents required for imports to developed countries, while the responses from the remaining were highly inconsistent.
Over 17 percent mentioned that 2-4 signatures are required to import from the regional market. The majority of respondents stated that it only took a single day to prepare all the necessary import documents. However, the respondents did not know the number of signatures required for imports from developed countries. Many, however, stated that all necessary documents to import to developed countries can also be prepared in 1 working day.

A key aspect in trade documentation is preparation of documents which requires, for instance, signatures for authentication. 134 out of the 180 (74.44 percent) respondents surveyed mentioned that the customs and other border agencies do not accept unauthenticated copies of export/import documents. Importantly, over 70 percent of 154 respondents stated that customs declarations and other supporting documents cannot be submitted and processed electronically and/or online. Electronically here implies, for instance, sending scanned copies of documents via email, while online refers to electronic processing of the entire customs process, including filling out online application forms and/or customs documents. While deploying ICT to process trade documentation is minimal in Nepal, India, which is considered a formidable player in ICT sector has not been utilising ICT in facilitating trade. The Raxaul land border is a case to cite.

With regards to advance rulings, 60 out of 154 respondents did not know whether the customs authority/department issues advance ruling. Advance rulings are binding decisions by Customs at the request of the party concerned on specific particulars in relation to the intended importation or exportation of goods. Advance rulings can be requested for classification, the origin or the Customs valuation of the goods in preparation for importation or exportation and hence facilitate the declaration and consequently the release and clearance process. However, 34.42 percent did report that such a facility was available, mainly in Birgunj and Kakarbhitta, and majority of those mentioned that all requests for advance ruling gets a positive response and that the advance ruling is valid for a year.

When questioned about pre-arrival processing of import shipments, nearly 60 percent of 154 respondents stated that customs did not allow pre-arrival processing. Furthermore, 13 out of 25 respondents at Biratnagar border point did mention that pre-arrival processing of import shipments was allowed. Furthermore, 42.21 percent of respondents reported that Nepali customs do not use any risk/threat assessment technique, but majority of the respondents at Bhairahawa (66.67 percent) and Kakarbhitta (50 percent) argue otherwise. 99 of 149 or nearly two-thirds of the respondents reported that more than 50 percent of inward consignments are subject to physical verification by customs meaning delays and costs.

Though 60.16 percent of 123 respondents reported that transaction value is the basis for valuation of customs duties, considerable number of respondents mention that more than one system of customs valuation is applied, mainly reference value. The respondents argued that though the primary basis for the customs valuation is transaction value, the customs often adopt the reference value method unless the transaction value is greater than the reference value.

According to the majority of the respondents, goods cannot be released pending final clearance against accepted guarantee, with the exception of Bhairahawa where 14 out of 25 respondents reported otherwise.

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24 From Trade Facilitation Implementation Guide (TFIG, United Nations; [http://tfi.unece.org/index.html](http://tfi.unece.org/index.html))
Additionally, an overwhelming majority mentioned that the country does not implement authorized traders scheme.

Though the importance of single window system for trade facilitation is now widely acknowledged, the system is yet to be implemented in Nepal; the view was clearly expressed by 83.33 percent of 180 respondents who reported that the customs agencies have not adopted the system of single window. Additionally, many respondents voiced their demand for the full implementation of a single window system in the near future.

Out of 123 respondents, 78.86 percent reported that there exists a system of Post-Clearance Audit (PCA) or a control measure deployed in customs entailing systematic examination of relevant books, records and commercial data kept by person and companies to ensure the accuracy and authenticity of customs declarations. About 34 percent of who reported existence of PCA mentioned that under 5 percent of consignment was liable for such audit. However, PCAs were only limited to borders and no audits occurred at the traders’ premises. Majority of the respondents, 117 of 180, reported that there exists a non-judicial review/appeal procedure if one is not satisfied with the decision made by the customs or any other border management authority.

57.22 percent of 180 respondents reported that traders do not need to make informal payments and bribes to clear consignments. However, 17 out of 30 respondents at Nepalgunj reported that they made irregular payments and bribes. More importantly, majority of exporters (17 out of 31) and officials from the Chamber of Commerce (13 out of 22) stated the same. Over 60 percent of those who made informal payments reported that such payments had to be made on more than 50 percent of their export transactions.

There is significant variation when it comes to responses with respect to the average time taken to clear outward goods at various places. Out of the 19 respondents surveyed at the airport, 5 reported that it takes an average of 2 hours to clear outward goods while 3 reported that it takes a day. Similarly, 27.47 percent of 91 respondents mentioned that it takes 1 day to clear outward goods at the road frontiers, against 19.78 percent who argue that it only takes 1 hour for the same. However, more than half the road carriers surveyed and many of the forwarders/agents stated that it takes 1 day to clear goods at road frontiers. With regards to rail frontiers, only 2 respondents were surveyed; the official from the Chamber of Commerce said that it takes 1 day while the exporter reported that it takes 1 hour to clear outward goods at rail frontier. Out of the 10 respondents from the ICDs (Bhairahawa, Biratnagar, Birgunj and Kakarbhitta) 60 percent stated that it takes 1 day to clear outward goods at the ICDs, mainly at Birgunj and Kakarbhitta. When asked about the average time to clear outward goods, 32 out of 105 respondents reported that it takes 2 hours whereas 19 respondents stated that it takes 1 day. Specifically, majority of the forwarders/agents, and officials from the customs and the Chamber of Commerce reported that it takes 2 hours to clear outward goods at the customs points.

When asked about the average time taken to clear inward goods, two out of five respondents stated that it takes a day at the ports. Additionally, 7 out of 20 respondents reported that it takes two hours to clear import goods at the airport, followed by 6 respondents who argue that it takes a day for the same. Forty-five out of 100 respondents, mainly importers, forwarders/agents and road carriers, stated that it takes one to three days clear import consignments at road frontiers. But when it comes to rail frontiers, two out of nine respondents stated that it takes four days, while the response from the remaining ranged from half an hour to six days.
Similarly, out of eight respondents, two respondents stated that it takes two days to clear inward goods at the ICD, whereas two others reported that it takes four hours to do the same; other responses ranged from one hour to four days. Out of 137 respondents, 31.39 percent including the majority of forwarders/agents and customs officials, reported that it takes two hours to clear import goods at the customs points, while 26 respondents stated that it takes one day to clear import consignment, many of whom are importers. With regards to quarantine, more than 60 percent of respondents mentioned that it takes 1-2 hours to clear import goods at quarantine posts, against 15 out of 99 respondents who reported that it takes one day for the same.

Besides the customs operation efficiency at the rail frontiers which was rated as “good” by the majority of the respondents (10 out of 13), the customs operation efficiency at airport (12 out of 26), road frontiers (76 out of 138), inland container deports (14 out of 24), customs points (78 out of 178) and quarantine check posts (48 out of 121) were all rated as “average” by the majority.

### 8.2.3 Quality and efficiency of trade related infrastructure and services

Exactly 50.00 percent of respondents rated the quality of airports, a key trade-related infrastructure, as average. About 47 percent rated the quality of roads as very low or low versus only 25.52 percent of respondents who rated such quality as high or very high. On warehouses, 34.87 percent rated their quality and linked facilities as low or very low while 34.9 percent rated the quality as average. Under a third of respondents rated the quality of telecommunications and IT services as good (53 percent respondents stated such quality as average).

**Table 13: Perception on infrastructure**

<table>
<thead>
<tr>
<th>Quality of infrastructure</th>
<th>Very low</th>
<th>Low</th>
<th>Average</th>
<th>Good</th>
<th>Very good</th>
<th>Total number of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airports</td>
<td>3.85</td>
<td>15.38</td>
<td>50.00</td>
<td>30.77</td>
<td>0.00</td>
<td>26</td>
</tr>
<tr>
<td>Roads</td>
<td>20.00</td>
<td>26.90</td>
<td>27.59</td>
<td>21.38</td>
<td>4.14</td>
<td>145</td>
</tr>
<tr>
<td>Warehouse/trans-loading facilities</td>
<td>13.16</td>
<td>21.71</td>
<td>34.87</td>
<td>22.37</td>
<td>7.89</td>
<td>152</td>
</tr>
<tr>
<td>Telecommunications and IT services</td>
<td>10.73</td>
<td>14.12</td>
<td>29.94</td>
<td>32.20</td>
<td>12.99</td>
<td>177</td>
</tr>
</tbody>
</table>

With regard to the efficiency of various service providers, 50.00 percent of respondents rated the efficiency of road transport services as average. 4 out of 8 respondents rated the efficiency of rail transport services as average while the remaining 4 rated the efficiency as high or very high. Furthermore, 3 out of 4 respondents rated the efficiency of maritime transport services as high or very high. Over 42 percent of respondents rated the efficiency of freight forwarders as average, followed by 33.88 percent who rated the efficiency as high.
38.64 percent of respondents rated the efficiency of customs agents as average, followed by 38.07 percent who rated the efficiency as high. Over 49 percent of 134 respondents rated the efficiency of standards inspection agency as average. Similarly, about 46 percent of 122 respondents rated the efficiency of health/SPS agencies/quarantine as average.

Quality of financial services such as banking and insurance as well as immigration-related services such as visa are key facilitators in the trade process. Nearly 53 percent of 167 respondents rated the efficiency of banking services as average while 48 percent of 127 respondents rated the efficiency of insurance services as high. Over 41 percent of 34 respondents rated the efficiency of visa services as average.

Table 14: Perception on services received

<table>
<thead>
<tr>
<th>Efficiency of service provider</th>
<th>Very low</th>
<th>Low</th>
<th>Average</th>
<th>High</th>
<th>Very high</th>
<th>Total number of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road transport service</td>
<td>2.84 percent</td>
<td>14.20 percent</td>
<td>50.00 percent</td>
<td>27.84 percent</td>
<td>5.11 percent</td>
<td>176</td>
</tr>
<tr>
<td>Rail transport services</td>
<td>0.00 percent</td>
<td>0.00 percent</td>
<td>50.00 percent</td>
<td>12.50 percent</td>
<td>37.50 percent</td>
<td>8</td>
</tr>
<tr>
<td>Maritime transport services</td>
<td>0.00 percent</td>
<td>0.00 percent</td>
<td>25.00 percent</td>
<td>50.00 percent</td>
<td>25.00 percent</td>
<td>4</td>
</tr>
<tr>
<td>Freight Forwarders</td>
<td>0.83 percent</td>
<td>10.74 percent</td>
<td>42.15 percent</td>
<td>33.88 percent</td>
<td>12.40 percent</td>
<td>121</td>
</tr>
<tr>
<td>Customs agent</td>
<td>0.57 percent</td>
<td>2.84 percent</td>
<td>38.64 percent</td>
<td>38.07 percent</td>
<td>19.89 percent</td>
<td>176</td>
</tr>
<tr>
<td>Quality/standards inspection agencies/quarantine</td>
<td>2.24 percent</td>
<td>8.21 percent</td>
<td>49.25 percent</td>
<td>29.10 percent</td>
<td>11.19 percent</td>
<td>134</td>
</tr>
<tr>
<td>Banking services</td>
<td>2.46 percent</td>
<td>11.48 percent</td>
<td>45.90 percent</td>
<td>28.69 percent</td>
<td>11.48 percent</td>
<td>122</td>
</tr>
<tr>
<td>Insurance services</td>
<td>1.20 percent</td>
<td>2.99 percent</td>
<td>14.37 percent</td>
<td>52.69 percent</td>
<td>28.74 percent</td>
<td>167</td>
</tr>
<tr>
<td>Visa services</td>
<td>2.36 percent</td>
<td>7.09 percent</td>
<td>27.56 percent</td>
<td>48.03 percent</td>
<td>14.96 percent</td>
<td>127</td>
</tr>
</tbody>
</table>

On the cost of logistics services between 50 to 75 percent of the respondents rated the cost of logistics services in road, rail, air, port charges, freight forwarders charges and custom agents’ charges as average.
When asked about the loss and damage of cargo, 63.23 percent of 155 respondents mentioned that they have not incurred such loss and damage during the five years, while others mentioned that they incurred less than 5 percentage of loss and damage.

### 8.2.4 Treatment of goods in transit: Documentation, fees and other issues

Despite the importance of transit for Nepal’s trade, out of the 158 respondents surveyed, 53.16 percent did not know whether exporters and importers were required to pay any fees for transit passage. But importantly, 13 out of 28 respondents at Kakarbhitta – the main trade corridor to Bangladesh - reported that traders are not required to pay transit fees, whereas 38 out of 154 respondents surveyed at all customs points stated that transit fees were applicable.

While 65 out of 158 respondents reported that the information on transit formalities and documentations are freely available, 118 were unaware of the additional documents required to use transit passage. Interestingly, 52.31 percent of the 65 respondents did not know the number of additional documents required to use transit passage despite the availability of information on transit documentations.
Additionally, 61.69 percent of 154 respondents did not know whether customs allows pre-arrival processing of transit trade. However, majority of the respondents at Kakarbhitta reported that pre-arrival processing is allowed for transit trade. With regard to ICT usage in processing transit trade, only 12 out of 154 respondents reported that transit document can be submitted and processed electronically/online. The majority did not know whether electronic/online submission is allowed. Similarly, majority of the respondents (73 out of 158) did not know whether goods in transit are subject to physical verification. However, 13 out of 28 respondents at Kakarbhitta did mention that transit goods are subject to physical verification, many of whom responded that less than 5 percent of transit consignment in subject to physical verification. Furthermore, majority of the respondents at Bhairahawa and Nepalgunj mentioned that more than 25 percent of transit consignment is liable for physical verification.

With regard to guarantee for transit goods, 31 of 72 respondents mentioned that guarantee for transit goods is required, mainly in Kakarbhitta, while 12 respondents reported otherwise. Of those 31 respondents, 13 mentioned that bank guarantee is required whereas 14 respondents reported that guarantee in any form (cash, bonds, bank guarantee or insurance) suffices. When asked whether the transit guarantee is limited to the values of duties and charges, only 30 out of 135 respondents responded “yes” while majority of the respondents (72.59 percent) “did not know”. Furthermore, overwhelming majority of respondents were unaware of the number of days needed to release the transit guarantee; the responses ranged from 1 day to 1 year.

20 out of 50 respondents reported that customs escorts are not required to transport good in transit. Not surprising, 15 out 28 respondents at Kakarbhitta reported that customs escorts are indeed required, which is in line with the prescribed modality if Nepal-India Transit Treaty which subjects transit trade through the Kakarbhitta - Phulbari – Banglabandha to escorts by Indian Security Forces. Out of the 154 respondents, nearly 50 percent did not know whether Nepal has any transit agreement with neighbouring countries but 44.81 percent were aware of such transit agreements. Similarly, majority of the respondents did not know whether Nepal is signatory of any international conventions related to transit, followed by 62 respondents who reported that Nepal is indeed signatory to some international conventions.

### 8.3 Priority areas for trade facilitation

Since the ultimate objective of the survey is to identify the priority areas related to trade facilitation in Nepal, all 180 respondents were asked to rate the level of priority to be accorded to specific trade facilitation areas. The top 10 trade facilitation areas identified by the respondents are listed below.
Considering the poor quality of road infrastructure in the country, overwhelming majority of the respondents (155 out of 176), identified the need to improve the quality/efficiency of roads as the most critical intervention in trade and transport facilitation.

Subsequently, 149 out of 172 respondents reported that the adoption and the implementation of single window system is also of utmost priority, followed by the need to improve the quality/efficiency of railways and airports by 14 and 23 respondents respectively. In addition, 138 out of 169 respondents identified the need to enable electronic/online submission of customs documents to facilitate trade. Surprisingly, despite the existence of a national customs website which is reported to contain all necessary information on customs documentation and procedures, along with other trade related document, 141 out of 175 respondents voiced their support for the publication of trade related rules and regulations.
8.4 Way forward

From the above discussion and our findings, the following action points can be suggested:

• Policy interventions to improve road infrastructure has been considered the top trade facilitation reform area. To nearly 90 percent of the respondents, among all other interventions such as single window (which comes second), quality of roads needs major upgrading as the cost of road transport is high. While nearly half of the respondents' rate quality of roads as low, over a third suggest, unsurprisingly rather, that the cost of road transportation is high or very high. Indeed, we have evidenced from the published literature, that behind-the-border infrastructure in Nepal is a key driver of trade costs. 50 percent respondents rate airports are average while two-thirds consider warehouses of being of unsatisfactory quality.

• On the publication of trade-related procedures and rules, the national customs website needs to be made further effective as up to 55 percent of the respondents do not consider the information on procedures, fees and changes in regulation as effective. Nearly 45 percent respondents suggest that there was no information on average clearance as well as release time. This is a major driver of unpredictability and requires action. Furthermore, about half the respondents do not know about number of documents required while slightly under half are unaware of the number of signatures required. When asked about the average time taken to prepare documents, over 50 percent of the respondents were not aware of it. Proper publication and, more crucially, its dissemination are important reform areas. Effective and well-equipped information/inquiry kiosks may be useful in disseminating information better. Despite the significance of the issue, the published literature, based on our analysis here, has not paid much attention to it.

• Unlike the issue of publication and dissemination of information, the inability to comply with SPS-TBT and standards-related requirements has been widely discussed. Our observations, drawing also on the primary survey, are in line with the suggestions that major policy interventions whether it is setting up testing centres at border points, upgrading our testing laboratories or improving the quality of services delivered by agencies like quarantine, are critical. Consider this: between 45 to 50 percent respondents consider the quality of services delivered by health and standards as well as quarantine agencies as average. Some of these interventions are key if mutual recognition is to be brought about.

• There is major scope for ICT deployment as nearly half the respondents say they cannot submit documents online while electronic processing remains non-existent. Furthermore, additional modules of ASYCUDA may require adoption for efficiency.

• While practices like advance ruling lubricate trade significantly, 66 percent of respondents say they are not aware if such practice exists.

• Absence of effective risk assessment techniques mean a large proportion of consignments are subject to physical checks and verification. Reforms in customs is also required in practices like post-clearance audit which most respondents suggest does not occur at traders’ premises. Furthermore, the quality of customs services needs to be upgraded are slightly over a third consider customs services as effective.

• Treatment of goods in transit has been an issue that sits upon rich analysis and discussion. Yet, policy initiatives appear only modestly effective in reducing trade costs and obstacles associated with transit.
Information publication and dissemination appears to be an area where interventions may be useful as over half the respondents did not know whether transit fee was payable while slightly less than half suggest formalities inform documentation was freely available. Furthermore, over 60 percent do not know whether pre-arrival processing of goods in transit was allowed although respondents at one customs point suggested they were aware of such practice.

Reference


