



Towards a Single Window Environment in Nepal

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This report and related documents are available on the website of the United Nations Network of Experts for Paperless Trade in Asia and the Pacific (<http://www.unescap.org/unnext/>).

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The views expressed in this report are those of the author and do not necessarily reflect the views of UNESCAP. This document has been issued without formal editing.

¹ <http://www.unescap.org/tid/projects/tfsw.asp>

Contents

Acknowledgements	0
Acronyms	3
List of tables.....	5
Executive summary	6
A. Foreign trade	14
I. Economic scenario	14
II. Import and export trends	15
III. Major products and related industries, including the number of traders.....	18
IV. Major trading partner countries.....	27
B. Trade and transit facilitation situation	30
I. Nepal's trade competitiveness in the region and the world	30
II. Trade procedures and controls, including trade-related regulatory agencies.....	36
III. Main bottlenecks and impediments in the trade processes.....	66
IV. Major initiatives on trade and transit facilitation	69
V. Transit cooperation with neighbouring countries	76
C. Single Window readiness	77
I. Need and will.....	77
II. Political commitment and mandate.....	79
III. Institutional arrangements.....	79
IV. Legal framework.....	80
V. Technical competence	82
D. Recommendations.....	90
I. Need and will.....	91
II. Political commitment and mandate.....	92
III. Institutional arrangements.....	93
IV. Legal framework.....	95
V. Technical competence	95
VI. General trade facilitation measures	96
VII. Cooperation with neighbouring countries for transit facilitation	98
VIII. Phased implementation of a SW facility in Nepal	99
Annex 1. Officials and persons contacted or interviewed.....	105
Annex 2. Major export products.....	109
Annex 3. Imports of major commodities	110
Annex 4. Nepal's major export destinations	115
Annex 5. Major sources of imports into Nepal	117

Annex 6. List of prohibited, quantitatively restricted and freely tradable exports and imports.....	119
Annex 7. ADSL broadband Internet-tariff plans (NDCL).....	123
Annex 8: Customs transit declaration form (imports)	125
Annex 9: Customs transit declaration form (exports)	125
Annex 10. References.....	127
Annex 11. Websites.....	130

List of Acronyms

ABB	Any Branch Banking
AC	Assistant Commissioner (of Customs)
APP	Agriculture Prospective Plan
ASYCUDA	Automated System for Customs Data
BBN	Foreign Exchange Control Form
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
B/L	Bill of Lading
BOP	Balance of Payments
BOT	Board of Trade
BPA	Business Process Analysis
BS	Bikram Sambat (Nepali calendar year of 12 months from mid-April to mid-April)
CA	Clearing Agent
C/A	Customs Agent
CAD	Cash Against Documents
C&F	Cost and Freight
CIF	Cost, Insurance and Freight
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CNI	Confederation of Nepalese Industries
COO	Certificate of Origin
CONCOR	Container Corporation of India Limited
COP	Conformity of Production
CPP	Certificate of Pharmaceutical Product
CRO	Company Registrar Office
CSIDB	Cottage and Small Industry Development Board
CTD	Customs Transit Declaration Form
DAA	Documents Against Acceptance
DAP	Documents Against Payment
DDA	Department of Drug Administration
DFEM	Department of Foreign Exchange Management, Nepal Rastra Bank
DFID	Department for International Development (United Kingdom)
DFO	District Forest Office
DOA	Department of Archaeology
DOC	Department of Customs
DOCM	Department of Commerce
DOCSI	Department of Cottage and Small Industry
DOF	Department of Forests
DOI	Department of Industry
DOMG	Department of Mines and Geology
DRP	Duty Refund Process
ECCD	Export Containerized Cargo Declaration
EDI	Electronic Data Interchange
ENTRC	Enhancing Nepal's Trade Related Capacity Project
EO	Examining Officer
EPN	Economic Policy Network
ETA	Electronic Transaction Act
ETR	Electronic Transaction Rules
FCL	Full Container Load
FDI	Foreign Direct Investment
FEU	Forty Foot Equivalent Units
FHAN	Federation of Handicraft Association
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
GATT	General Agreement on Tariffs and Trade

GDP	Gross Domestic Product
GIDC	Government Integrated Data Centre
GMP	Good Manufacturing Practices
GOI	Government of India
GON	Government of Nepal
GSP	Generalized System of Preferences
HLCIT	High Level Commission for Information Technology
HS	Harmonized Commodity Description and Coding System
ICC	International Chamber of Commerce
ICCD	Import Containerized Cargo Declaration
ICD	Inland Clearance Depot
IEA	Initial Environmental Assessment
IGM	Import General Manifest
ICP	Integrated Customs Post
ICT	Information and Communication Technology
INR	Indian rupee
IPR	Intellectual Property Rights
ISP	Internet Service Provider
IT	Information Technology
ITTR	Information Technology Tribunal (Procedures) Rules
KPT	Kolkata Port Trust
L/C	Letter of Credit
LCL	Less than Container Load
MFN	Most Favoured Nation
MOAC	Ministry of Agriculture and Cooperatives
MOCS	Ministry of Commerce and Supplies
MOF	Ministry of Finance
MOHA	Ministry of Home Affairs
MOI	Ministry of Industry
MOST	Ministry of Science and Technology
MOU	Memorandum of Understanding
MT	Metric Ton (1,000 kilograms)
MW	Megawatt (1,000 kilowatts)
NBSM	Nepal Bureau of Standards and Metrology
NCG	Nepal Consulate General
NDCL	Nepal Doorsanchar Company Limited (Nepal Telecom)
NICL	National Insurance Company Limited
NITC	National Information Technology Centre
NITDB	Nepal Intermodal Transport Development Board
NPEDC	National Productivity and Economic Development Centre
NPR	Nepalese rupees
NRB	Nepal Rastra Bank
NTA	Nepal Telecommunication Authority
NTB	Non-Tariff Barriers
NTCS	Nepal Trade and Competitiveness Study
NTCM	Nepal Transit Cargo Manifest
NTIS	Nepal Trade Integrated Strategy
NTTFC	Nepal Trade and Transport Facilitation Committee
NTWCL	Nepal Transit and Warehousing Company Limited
OTL	One Time Lock
PAN	Permanent Account Number
PC	Phytosanitary Certificate
PC	Personal Computer
PO	Preventive Officer
PPP	Public Private Partnership

RMG	Ready-made garments
RR	Railway Receipt
RSA	Rail Services Agreement
RTA	Regional Trade Agreement
SAARC	South Asian Association of Regional Cooperation
SAD	Single Administrative Document
SAFTA	South Asia Free Trade Agreement
SAPTA	SAARC Preferential Trading Arrangement
SATIS	SAARC Agreement on Trade in Services
SAR	Special Administrative Region
SASEC	South Asia Subregional Economic Cooperation
SEZ	Special Economic Zone
SNPL	Spice Nepal Private Limited (Ncell)
SRMTS	SAARC Regional Multimodal Transport Study
SW	Single Window
TAR	Tibet Autonomous Region of China
TDI	Transit Declaration Invoice
TEPC	Trade and Export Promotion Centre
TEU	Twenty-foot Equivalent Unit
TIA	Tribhuvan International Airport (Kathmandu)
TMC	Terminal Management Company
TP	Transit Pass
TT	Telegraphic Transfer
UNCTAD	United Nations Conference on Trade and Development
UN/CEFACT	United Nations Centre for Trade Facilitation and E-business
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
VAN	Value Added Network
VAT	Value Added Tax
VOIP	Voice Over Internet Protocol
WAN	Wide Area Network
WB	World Bank
WCO	World Customs Organization
WTO	World Trade Organization

List of tables

1. Direction and composition of Nepal's foreign trade
2. Industries permitted for foreign investment as of mid-March 2010
3. Industries registered with DOCSI as of 2009/10
4. List of exporters
5. Estimated number of trading enterprises
6. Nepal's exports to SAARC countries
7. Nepal's imports from SAARC countries
8. Documentary requirements in foreign trade
9. Cost comparison of trading across the border
10. Priority export potential products and services
11. Import documentation
12. Export documentation
13. Trade related regulatory organizations
14. Data on Internet services
15. Imports of computers and accessories

Executive summary

Nepal's economic liberalization triggered rapid growth in foreign trade, which expanded to account for 50 per cent of the country's Gross Domestic Product (GDP). But in the 2000s this trend could not be sustained. Exports began to fluctuate and then took a downward turn as a result of the contraction of the external economy, troubled labour relations and dwindling performance of the industrial sector. The decline in exports and the rapid rise in imports widened the trade deficit, leading to a Balance of Payments (BOP) deficit of 19.6 billion Nepalese rupees (NPR) in 2009/10.² The export to import ratio came down from 37 per cent in 2005/06 to 16 per cent in 2009/10. The GDP growth rate decreased from 4 per cent in 2008/09 to 3.5 per cent in 2009/10, as against the planned growth of 5.5 per cent. The per capita GDP marginally increased, to 562 United States dollars (USD) in 2009/10, up from 467 USD in 2008/09. Agriculture remains the main economic base as it contributes 33 per cent of GDP and employs 76 per cent of the population.

India is Nepal's largest market, accounting for two thirds of total exports, and is the largest supplier providing about 60 per cent of total imports, followed by China at 11 per cent. In 2005/06, exports to India alone accounted for about 98 per cent of exports to the South Asian region countries. This dropped to 89 per cent in 2008/09 and 2009/10. Nepal's exports to South Asian Association for Regional Cooperation (SAARC) countries cover more than 70 per cent of the total exports, whereas imports from these countries account for around 60 per cent of imports. The estimated total number of trading enterprises is 200,000.

The share of manufactured products in total exports gradually rose from 15 per cent in the early 1980s to 85 per cent in the 2000s. But the share has gone down slightly in recent years, to below 80 per cent, due to the decline in exports of ready-made garments (RMG) and carpets. Apart from RMG and carpets, the other main exports of Nepal are iron and steel products, handicrafts, Nepali paper and products, jute goods, woollen and pashmina shawls, hides and skins, lentils, medicinal herbs and extracts, ginger and cardamom. Imports consist of a wide range of products, including vegetables, cattle, consumer goods, construction materials, industrial raw materials, petroleum products, vehicles, machinery and electronic goods.

The high cost of trade transactions has put Nepal behind in terms of competitiveness in comparison to its neighbouring countries. The problem is aggravated by Nepal's remoteness from the sea and, thus, high transport costs. A Nepal Trade and Competitiveness Study (NTCS) of 2004 indicated that Nepalese traders pay, on average, 50 per cent more for export freight costs than do other developing countries. A joint study by the Asian Development Bank (ADB) and the United Nations Economic and Social

² Note: The Nepalese fiscal year covers the 12 month period from mid-July to mid-July. Unless otherwise expressed, the fiscal year or year refers to the Nepalese fiscal year. As one fiscal year covers two Gregorian years, two Gregorian years are joined by a slash.

Commission for Asia and the Pacific (UNESCAP) concluded that the export and import costs of landlocked countries average between 2,600 and 3,000 USD per twenty-foot equivalent unit (TEU), while those costs in other developing countries in the Asia-Pacific region are only half the amount; and in landlocked countries the time taken to move goods from the factory to the nearest seaport is 60 days, nearly the twice the average time in other Asia-Pacific developing countries, and ten times more than in Singapore.

The World Bank (WB) and International Finance Corporation (IFC) “Doing Business” report of 2011 indicates that among the eight SAARC countries, Nepal ranks second after Afghanistan in terms of high export costs and duration in exporting goods. In Nepal it costs 1,960 USD and takes 41 days to export one TEU container, compared to 3,865 USD and 74 days for Afghanistan, 1,352 USD and 38 days for Bhutan, and 985 USD and 6 days for Bangladesh. However, Nepal’s position in importing one TEU is better than that of Bangladesh and Bhutan.

Nepal’s Trade Policy of 2009, that replaced the Trade Policy of 1992, has elaborated policy objectives, strategies and programmes along with focused priorities for the development of selected potential export products of comparative advantage. The Policy has emphasized trade and transit transport facilitation to reduce transaction costs.

Likewise, the Nepal Trade Integrated Strategy (NTIS) 2010 study has charted out action plans for the development of the export sector over the next three to five years on the basis of 12 products and seven services of comparative advantage. It emphasizes the importance of supportive domestic infrastructure in the areas of technical standards, sanitary and phytosanitary standards, trade facilitation, investment environment, intellectual property rights (IPR) and domestic service regulations.

Nepal’s foreign trade can be classified into three categories in terms of trade procedures and documentation: 1) third countries (or overseas), 2) India and 3) the Tibet Autonomous Region of China (TAR). Since trade with third countries involves payments in convertible foreign currency, procedures have been specified with the objective of ensuring that timely payments are received for the goods already exported and that goods are actually imported against the payments made.

Because of the long and porous border, together with free convertibility of the Indian rupee (INR), Nepal’s bilateral trade with India has traditionally been free and open. India allows duty free access of Nepalese manufactured products, as provisioned in the bilateral trade treaty. Imports from India are of three types: general, duty refund process (DRP) and in-bond. Under the “general” category, anybody with an enterprise and permanent account number (PAN) and value added tax (VAT) registration certificates can import freely from India. Under the DRP procedures the Government of India (GOI) refunds to the Government of Nepal (GON) the excise amount collected on manufactured goods exported to Nepal. Under in-bond imports, Nepal has allowed 137 selected products for import against payment in foreign currency since such purchases from India are free of excise and other duties.

Nepal's trade with the TAR is traditionally based on barter between inhabitants living within an area of 30 kilometres (km) on both sides of the border. The Central Bank of Nepal, the Nepal Rastra Bank (NRB), allows an exchange facility of up to 3,000 USD at a time to Nepalese importers to buy goods from the TAR, and this has lessened the volume of barter trade. Imports are also allowed against an advance payment of up to 25,000 USD or a Letter of Credit (L/C), as in third country trade. Bilateral agreements with China also allow for transportation of passengers and goods, as well as duty free entry into China for 4,721 products of Nepali origin with the 8 digit Harmonized Commodity Description and Coding System (HS) code.

In addition to the seven documents used for all types of imports, 15 other documents are also used, depending upon the sources of the imports, mode of transport, currency and the nature of the product. For exports, six documents are required for exporting to all destinations, in addition to 19 other specific documents that are required depending upon the nature of the exports (product), payment terms and transport mode.

For trading with third countries via the Kolkata Port, the bilateral transit treaty has laid down transit procedures and documentation, modes of transport, road routes and border customs posts. The duty insurance and processing of the Customs Transit Declaration Form (CTD) are the two main components of transit procedures. The duty insurance on public sector imports is waived provided an undertaking is issued by the Nepal Transit and Warehousing Company Limited (NTWCL) to Kolkata Customs.

To use Bangladesh ports, Nepalese traders must send their goods through both India and Bangladesh, so must comply with the transit procedures and documentation of both countries: the CTD with India Customs, and the Transit Declaration Invoice (TDI) with Bangladesh Customs. The key difference between the two documents is that the CTD confers total customs liability on the Nepalese traders whereas the TDI makes the carrier fully liable.

The metre gauge rail route to Bangladesh via Radhikapore-Biral became non-operational due to the conversion of the track to a broad gauge rail on the Indian side of the border in 2006. A 53 km road route that connects Nepal's eastern border post at Kakarvitta with Banglabandh in Bangladesh via the Indian border crossing at Phulbari has been in use since September 1997. For this road route, a separate operational modality is prescribed, including restrictions such as transit transport only during daylight, transport in a convoy of maximum 25 trucks at a time, and up to four convoys per day. Nepal and Bangladesh are in consultations to simplify the transit trade operation modality for road movement, in cooperation with India, in order to allow Nepalese freight vehicles to go to a terminal facility on the India-Bangladesh border.

The operation of the rail-based Birgunj Inland Clearance Depot (ICD) has facilitated rail movement of containers to and from Kolkata (Haldia) Port as well as bilateral trade traffic to and from various rail terminals in India. Separate export and import procedures for bilateral and third country trade traffic have been prescribed as a part of the Rail Services Agreement (RSA) between Nepal and India. The prescribed procedures do not conform to the standard dry port operations, but are simpler than the conventional procedures applicable to other routes.

Handicraft exporters have to obtain four documents: the Generalized System of Preferences (GSP) Form A, the Certificate of Origin (COO), the archaeological clearance certification and the valuation certification. Most other processed and manufactured products only require the GSP form and the COO. Handicrafts exporters must obtain the archaeological clearance certification from the Department of Archaeology (DOA) and must physically transport their goods to the office of the DOA and then take them back to their storeroom or to the customs office for export. They complain about the problems they face with this requirement and that the excessive documentation has unnecessarily complicated the export procedures for handicrafts. The compulsory requirement of COO is attributable to Section 21 of the Customs Rules 2007 and the Nepal-India treaty of transit.

Nepal's foreign trade suffers from the problem of high transaction costs, which have an effect on the country's competitiveness, especially when exports are no longer under the protection of preferential trading or quota regimes. The tariff preference available under the GSP facility has eroded due to the overall tariff reduction under the GATT and WTO. Time- and cost-effective trade and transport facilitation is greatly needed to enhance competitiveness in exports.

Customs operations are highly automated, thereby facilitating trade. The introduction of the selectivity module and brokers' module, under the Automated System for Customs Data (ASYCUDA), has resulted in fast clearance, with 40 per cent of imports passing through the green channel. Under its Action Plan 2009/10 to 2012/13 the Nepalese Customs Office is poised to introduce a Single Window (SW) facility for customs procedures by 2012/13. To further speed up cargo clearance times in all major customs it is necessary to expand the physical facilities.

With the day to day electronic system of reporting of L/C transactions by banks to the NRB, the use of Foreign Exchange Control Forms (BBN): BBN1, BBN3 and BBN4 needs reviewing, with a view to eliminating them. The creation of networks among the regulating agencies to facilitate reporting to each other will help maintain control over trade payments, without needing the BBN forms.

One of the main reasons for high transport costs is the heavily unbalanced nature of the two way traffic that deprives trade of the benefits of cheaper transport rates. Most imports originate in the east and the majority of exports are destined for the west. The import to export ratio is such that out of eight containers of incoming loads, seven return empty.

As shipments carrying Nepal's import cargo originating in East Asia and South-East Asia generally reach Kolkata before the associated documents, traders have to bear high demurrage charges at seaports as cargoes often cannot be cleared within the rent-free time of seven days. If electronic or duplicate copies become acceptable to shipping agents and transit customs, it would help to expedite timely cargo clearance.

The 76 km north-south road connecting Kathmandu with Nijgadh, currently under construction, is expected to reduce the transport costs. An ICD has been recently built at Kakarvitta, with the financial assistance of ADB, and this is under limited operation by the Nepal Intermodal Transport Development Board (NITDB). China has agreed to construct an ICD at Larcha, 7 km inside Nepal at the northern border of Tatopani.

The meeting on self assessment of trade facilitation needs and priorities in April 2009 deliberated on a SW facility for the first time. The meeting recognized the need for technical assistance (TA) and financial assistance (FA) to develop the information technology (IT) related infrastructure, equipment and trained human resources needed for the establishment of a SW facility. The Nepal Enhanced Capacities for Trade and Development (NECTRADE) project, under the GON and the United Nations Development Programme (UNDP), with its focal point at the Ministry of Commerce and Supplies (MOCS) is also working on trade facilitation.

Since 2004, the GON has supported the Economic Policy Network (EPN), with ADB assistance, as a support to its initiatives for policy reforms. With its focal point at the Ministry of Finance (MOF), the EPN has undertaken various studies, including a study on tax policy for export promotion, a study on sustaining the RMG industry after quota abolition, and a policy reorientation study on the transit trade of Nepal.

A SAARC Regional Multimodal Transport Study (SRMTS) to identify transport corridors for expansion of inter-regional trade in the SAARC region has been completed, with the financial and technical support of the ADB. The study identified four road and two rail corridors and pointed out physical and other problems, along with actions to address them. The ADB has assisted in undertaking country and sub-regional studies for facilitating cross border movement of goods within the four-country member sub-regional organization, the South Asia Subregional Economic Cooperation (SASEC). An organization titled the South Asian Regional Standard Organization will be established soon in Dhaka. The finalization of a SAARC Agreement on Trade in Services (SATIS) in April 2010 has been an added impetus to trade facilitation through gradual rationalization in non-tariff barriers (NTBs).

India is assisting to develop four Integrated Customs Posts (ICPs) at: Biratnagar, Birgunj, Bhairahawa and Nepalgunj, with the objective of creating all requisite physical facilities on both sides of the border for the expeditious movement of cross border trade. India is also

helping to construct a broad gauge rail extension at five border points: Jayanagar-Janakpur, Jogbani-Biratnagar, Nautanwa-Bhairahawa, Rupaidiya-Nepalgunj, and New Jalpaiguri-Kakarvitta. Bilateral consultation is also underway for using Visakhapatnam Port in India and the broad gauge rail to Bangladesh ports via the Rohanpur-Singhabad crossing at the Bangladesh/India border for the movement of Nepal's traffic-in-transit.

An overview of SW readiness reveals that Nepal is moving fast on IT development, but there are still some gaps. Public and private sector agencies are aware of the need for making trade easier, faster and less costly. But they do not have a clear perception of SW. In the aftermath of Nepal's accession to WTO, the problem of high transaction costs and the need to enhance competitiveness have been widely discussed. But there is a lack of a clear commitment for trade facilitation in both the public and private sectors.

Apart from the general provisions on trade facilitation and transport connectivity, there is no specific commitment to SW at the regional level. Since SW is a new concept, there is a need to create awareness among the stakeholders about its potential benefits for trade.

Experienced staff are not yet available for a paperless system. Nepal does not yet have the technical capacity to develop a master plan on implementing a SW facility. Furthermore, there is not yet any high level political commitment or action plan for trade facilitation or for paperless trade in Nepal. It is necessary to start the SW initiative from the very beginning: first identifying sources of funding, then finding technical assistance, then implementing it.

The Nepal Trade and Transport Facilitation Committee (NTTFC), created in 1998, had a few meetings, but then became non-operational. Both the NTIS and the trade facilitation self assessment have emphasized the need to reactivate the NTTFC. The MOCS should be the focal point for coordinating trade regulatory agencies in both the public and private sectors, as well as for programming the implementation of the SW facility. The work on SW also needs coordination with the MOF.

The Electronic Transaction Act (ETA) 2008, followed by the ETA Rules 2009 and the IT Tribunal Rules 2009, is the first cyber law in Nepal. The enactments provide the basis for recognition and authentication of electronically generated records and documents at par with the hard copies. The ETA provisioned for authentication of electronic documents through digital signatures, but the licensing of qualified certifying agencies for digital signatures only began in mid-2011.

The National Information Technology Centre (NITC) focuses on the implementation of e-government, which is the prime objective of the IT Policy 2000. The NITC also works for the promotion of e-commerce. As a depository of government data, it has started to function as

the government integrated data centre (GIDC), with optical fibre connection. The IT Policy 2010 aims at transferring the servers of all the ministries to the GIDC.

In 2003, the GON established a High Level Commission for Information Technology (HLCIT) under the chairpersonship of the Prime Minister, with its secretariat at the NITC. The HLCIT is the highest body to oversee the development of the IT sector. Through its initiatives, a total of 66 information centres (in the form of telecentres) have been established in villages to provide Internet access to rural communities. Private sector entities such as the Computer Association of Nepal (CAN), the IT Professional Forum and the Internet Service Provider (ISP) Association have played key role in laying the foundation for IT development. Voice over Internet Protocol (VoIP) is going to be made more easily accessible in villages where there is currently no access to the Internet.

Nepal does not have a formally declared master plan for information and communication technology (ICT) and e-government, although the latter appears as the main focus of the IT Policy. The IT Policy 2010, Telecommunications Policy 2004 and ETA provide the basis for Nepal's commitment to the development of the IT sector. Though no separate plan exists for e-commerce and paperless trade, the focused priority of e-government paves the way for promoting e-commerce. The World Bank, ADB and UNDP are involved at various stages of IT development in Nepal.

Broadband Internet is available in Nepal. Computer education at school together with the availability of asymmetric digital subscriber line (ADSL) Internet connection and the sharp reduction in market prices of personal computers (PCs), has led to the use of PCs becoming more common in urban areas, district capitals and market centres. This is reflected in the rapid rise in imports of computers and accessories in recent years. Imports of computers and accessories grew by 60 per cent in 2009/10 compared to a 32 per cent rise in 2008/09. The penetration rate of Internet services reached 5.8 per cent in December 2010. The availability of high speed Internet connection has caused a rapid decline in dial-up Internet connections.

Value-added network (VAN) services are not well developed in Nepal as only banks provide such services, in the form of Short Message Service (SMS) banking, payment of school fees, and payment of mobile, telephone and Internet service charges. Banks have developed their own data banks with networking for any branch banking (ABB) and electronic transfers of payment between accounts within their own banking network.

Electronic Data Interchange (EDI) standard data and formats are not prescribed at present. The IT Policy 2010 aims to promote the use of standard free and open sources for use in the public and private sectors. IT experts are available for business modelling, data harmonization and standardization.

All government offices, including trade regulatory agencies, are computerized and have their own websites to provide general information to the public. Nepal's Customs Department is highly automated, with wide area networking. In India, the Indian Railways is highly computerized in comparison to other transit agencies. The Kolkata Port and Customs have their own web portals and have developed networking between them to facilitate early processing of Import General Manifest (IGM) documents and to exchange related information. But networking with field offices, particularly with border customs, is yet to be established.

Based on this assessment of the existing environment in Nepal, it is recommended to introduce SW facilities in four phases. Under the first phase of preparatory works, the NTTFC is to be reactivated with a clear mandate to initiate trade and transit transport facilitation measures. The second phase covers the task of undertaking a comprehensive needs assessment with regard to the legal, institutional and policy requirements and in terms of a government commitment for paperless trade and a SW facility. The third phase involves the GON declaring a Master Plan for introducing the SW facility. The final phase is the implementation of the SW facility.

A. Foreign trade

I. Economic scenario

Situated on the southern slopes of the Himalayas, Nepal is a landlocked Least Developed Country (LDC) located between two large and fast growing economies, China in the north and India in the east, south and west. Rectangular in shape, the country has a total land area of 147,181 square kilometres (km), with a length of 885 kilometres, and a width of between 145 and 241 km. About 89 per cent of the land is mountainous, 4 per cent is river valley in the mid-hills and 19 per cent is the plain area in the south. Thus, only 21 per cent of the land is arable. Administratively, the country is divided into five development regions, 14 Zones and 75 Districts.

Geographically, the country is divided into three regions from north to south, with altitudes varying from 8,848 metres of the highest peak of the world, Mount Everest, down to the mid-hills and mountains, and the low plain areas of 70 metres above sea level. The mountainous terrain poses a major challenge to the construction and maintenance of physical infrastructure, movement of people and materials, and inclusive participation in development. The nearest seaport to Nepal is Kolkata in India, which is 1,000 km from Kathmandu, the capital of Nepal. The mountainous terrain and the distance from a seaport have resulted in a high cost of transportation, limited internal markets and distribution centres, and high dependency on India for external trade. The mountainous topography together with 6,000 rivers has, however, provided the country with great potential for hydropower development with a total generation capacity of 83,000 megawatts (MW) and an economically feasible capacity of 43,000 MW, the second largest in the world after Brazil. Despite this potential, in 2009/2010, total electricity generation reached 714 MW, including 53.41 MW of thermal and 100 MW of solar energy, and placed the country in a situation of regular load shedding, i.e. no electricity for up to 16 hours a day during peak demand in winter.

Nepal embarked upon a system of planned economic development in 1956, with the launching of the first Five-year Plan. The national economy was driven by a trade policy that emphasized export promotion, import substitution, semi-regulated trade and industrial activities along with involvement of public sector enterprises. Following the restoration of multiparty democracy in 1990, Nepal turned to liberalized economic policies, leading to a wide range of reforms. The reforms and structural adjustments, oriented towards an open and free economy, covered, inter alia, elimination of licensing in trade, relaxation in industrial licensing, simplification of procedures and documentation, rationalization of customs tariffs, full convertibility of the Nepalese rupee (NPR), broadening of the areas for foreign direct investment (FDI), privatization of state owned enterprises, and placing the private sector in the lead role for economic development. The role of the government was limited to monitoring, regulating and facilitating the efforts of the private sector. These reforms succeeded in transforming the nation into a more investment friendly, transparent, competitive and market oriented economy, as evidenced by the remarkable growth in trade,

industry, FDI, finance and banking. The establishment of foreign joint venture commercial banks, private financial institutions and insurance companies are examples of the growing role of the private sector in economic development in Nepal.

II. Import and export trends

During the 2000s, Nepal's foreign trade underwent substantial changes. Against a backdrop of a decade-old Maoist insurgency, and due to a contraction in the external economy, troubled labour relations and the dwindling performance of the industrial sector, the economy gradually started to slide, particularly during the second half of the 2000s. With declining exports and rapid growth in imports, the trade to Gross Domestic Product (GDP) ratio came down to around 40 per cent. The fast rising trade deficit started to generate negative impacts on the Balance of Payments (BOP). The budget for 2010/11 provisioned for a direct export incentive in the form of a cash incentive of 2 per cent on exports of products with value addition of less than 50 per cent, 3 per cent on products with more than 50 per cent value addition and 4 per cent on products with more than 80 per cent value addition. The cash incentive is to be given on the equivalent amount of foreign exchange payment received by the exporters from the banks.

In 2009/10 the per capita GDP recorded a modest increase, reaching 562 United States dollars (USD), up from 467 USD in 2008/09 and 350 USD in 2005/06. Agriculture is the mainstay of the national economy as it contributes about one third of GDP and provides livelihoods to about 76 per cent of the population. Though a gradual shift of population is taking place on account of the rising number of Nepalese going abroad in search of jobs and the widening services sector, the agricultural sector still holds the key to economic development and poverty alleviation. If the 20-year Agriculture Prospective Plan (APP) of the Nepali calendar year 2057 Bikram Sambat (BS) (1999) is implemented as projected, the agricultural sector is expected to yield surplus grains and vegetables for exports. In 2004 (2061 BS), the Ministry of Agriculture and Cooperatives (MOAC) introduced a new "National Agriculture Policy", with the objective of raising the contribution of this sector by making it more commercialized and competitive, so as to achieve food security and poverty alleviation, as well as high and sustained economic growth. Currently, however, the agricultural sector is still at subsistence level and is highly dependent on weather conditions due to insufficient irrigation facilities and lack of modern technology. About 30 per cent of the population lives under the poverty line. Between 2005 and 2010, the GDP growth rate remained below 4 per cent, on average, except in 2007/08 when it was 5.8 per cent. In 2009/10 the GDP growth rate fell to 3.5 per cent from 4 per cent in 2008/09, against the planned rate of 5.5 per cent envisaged by the Three-year Interim Plan (2007/08-2009/10). In 2009/10 the agriculture sector increased only by 1.2 per cent, contributing 33 per cent to GDP, whereas the non-agricultural sector grew by 5.1 per cent, contributing the rest of the share of GDP. The non-agricultural sector is divided into the industrial and service sectors. In 2009/10 the industrial sector grew by 3.9 per cent and the services sector by 5.5 per cent.

The trade policy of 1992 succeeded in enhancing trade, investment (including FDI) and economic growth during the 1990s. But due to political instability, increased labour

problems and supply side constraints, the growth could not be sustained. Nepal's drive towards global and regional economic integration through its joining of the World Trade Organization (WTO) in September 2004, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) in February 2004, and the South Asian Free Trade Agreement (SAFTA) in January 2006 necessitated a comprehensive new policy that would not only address the weaknesses of the earlier policy but also reorient economic policies in line with multilateral trading rules and reap the maximum benefits from the global and regional integration processes. This led to the declaration of a new trade policy in 2009 that takes into account all the emerging needs together with the identification and prioritization of potential products and services for exports. The new trade policy has specified export and import policies and strategies, internal trade policies, the constitution of a Board of Trade (BOT), formation of foreign trade policy, and support of research institutions and trade promotion institutes.

In the late 2000s, Nepal's foreign trade faced serious difficulties due to the rising trade deficit, which was a result of rapid growth in imports and slackness in exports. The direction of Nepal's foreign trade, with export and import trends, is presented in Table 1 below.

Table 1: Direction and composition of Nepal's foreign trade (in NPR millions)

Direction	FY 2005/06		FY 2006/07		FY 2007/08		FY 2008/09		FY 2009/10	
	Value	% (+ -)	Value	% (+ -)	Value	% (+ -)	Value	% (+ -)	Value	% (+ -)
Exports	59,777 (100)	+2.2	58,927 (100)	-1.4	58,474 (100)	-0.8	68,597 (100)	+17.3	60,950 (100)	-11.1
India	40,715 (68.1)	+4.6	41,729 (70.8)	+2.5	38,556 (65.9)	-7.6	43,574 (63.5)	+13.0	39,903 (65.5)	-8.4
China #	1,004 (1.7)	-50.2	1,203 (2.0)	+19.8	944 (1.6)	-22.5	2,152 (3.1)	+128	1,380 (2.2)	-35.9
Others	18,058 (30.2)	+3.1	15,995 (27.2)	-11.4	18,974 (32.5)	+18.6	22,871 (33.4)	+20.5	19,667 (32.3)	-14.0
Imports	160,677 (100)	+8.3	195,808 (100)	+21.9	237,030 (100)	+21.1	291,001 (100)	+22.8	375,606 (100)	+29.1
India	107,143 (66.7)	+20.8	115,872 (59.2)	+8.1	142,376 (60.1)	+22.9	165,119 (56.7)	+16.0	214,261 (57.0)	+29.8
China #	13,014 (8.1)	-8.0	17,718 (9.0)	+36.1	23,433 (9.9)	+32.3	34,466 (11.9)	+47.1	43,446 (11.6)	+26.1
Others	40,520 (25.2)	-10.9	62,218 (31.8)	+53.5	71,221 (30.0)	+14.5	91,416 (31.4)	+28.4	117,899 (31.4)	+29.0
Trade Deficit	100,900 (100)	+12.3	136,881 (100)	+35.7	178,556 (100)	+30.4	222,404 (100)	+24.6	314,656 (100)	+41.5
India	66,428 (65.8)	+33.5	74,144 (54.2)	+11.6	103,821 (58.1)	+40.0	121,544 (54.7)	+17.1	174,358 (55.4)	+43.5
China #	12,010 (11.9)	-1.0	16,515 (12.1)	+37.5	22,489 (12.6)	+36.2	32,314 (14.5)	+43.7	42,065 (13.4)	+30.2
Others	22,462 (22.3)	-19.7	46,222 (33.7)	+105.8	52,246 (29.3)	+13.0	68,546 (30.8)	+31.2	98,233 (31.2)	+43.3
1 US Dollar*	NPR 72.32		NPR 70.49		NPR 65.02		NPR 76.88		NPR 74.54	

Figures in parenthesis () indicate the percentage share.

The # symbol denotes that "China" includes trade with Hong Kong Special Administrative Region (SAR) and Macau (SAR).

* Average annual exchange rate with NPR. (+ -)

% change indicates the change over the previous year.

Source: Trade and Export Promotion Centre (2011a), Economic Survey 2009/10; Ministry of Finance (2010), Current Macroeconomic Situation.

Between 2005 and 2010, Nepal's total exports showed a declining trend, with some fluctuations. Although the total export value increased slightly in 2005/06, it then declined in the two successive years. In 2008/09, it suddenly jumped by 17.3 per cent before sliding down by over 11 per cent in 2009/10. The sharp fall in total exports in 2009/10 was due to a sudden fall in exports to China. Of total exports, India alone accounted for about two thirds, with other countries accounting for over 30 per cent, and China accounting for the rest.

Import trends over the period between 2005 and 2010 showed a different picture, one of fast growth, reaching nearly 375 billion NPR in 2009/10, an increase of 2.3 times the 2005/06 level. Persistent growth can be seen in imports, which increased by over 20 per cent on a year to year basis, reaching 29 per cent in 2009/10. The nominal growth of 8 per cent in 2005/06 was due to a decline in imports from both China and other countries. Of the total imports, India accounted for the largest share, above 60 per cent in 2005/06 and 57 per cent in 2009/10. The share of imports from China went up from about 9 per cent in 2005/06 to nearly 12 per cent in 2009/09 and 2009/10. Imports from China have gradually picked up in recent years, whereas exports remained almost static during the five-year period between 2005 and 2010. The share of other countries in total imports remained above 30 per cent between 2008 and 2010. As a result of adverse trends in exports and imports, the trade balance has remained highly unfavourable to Nepal. The trade deficit swelled from 101 billion NPR in 2005/06 to 315 billion NPR in 2009/10. India accounted for the largest share, of about 60 per cent, followed by other countries with 30 per cent, and by China with around 10 per cent.

Reflecting the declining export to import ratio, which fell, in percentage terms, from 37.2 in 2005/06 to 16.2 in 2009/10, the percentage share of exports to GDP also declined, from 9.2 in 2005/06 to 6.8 in 2008/09 and then to 5.3 in 2009/10, whereas the share of imports went up steadily from 26.6 in 2005/06 to 28.7 and 31.0 in the last two years of the 2000s. The BOP that was in surplus in 2005/06 (25.6 billion NPR) was in deficit by 2009/10 (19.6 billion NPR). The remittances income from Nepalese abroad increased from 65.5 billion NPR in 2005/06 to 224.3 billion NPR in 2009/10, an increase of 3.4 times. With the current slowdown in the global economy, growing competition in international trade and labour problems in the country, the Nepal's foreign trade situation remains precarious.

III. Major products and related industries, including the number of traders

The industrial policy of 2010 that replaced the policy of 1992 aims to promote industrial development, expand employment opportunities and raise the income levels of the population, and thereby enhance the role of the industrial sector in national economic development. The Foreign Investment and Technology Transfer Act 1949 (1992) encourages foreign investment in Nepal by making the environment more welcoming and transparent. Foreign investment in the form of joint ventures with Nepalese investors or in the form of 100 per cent ownership is permitted in Nepal. FDI is open in all but a few sectors that are either reserved for national entrepreneurs to protect indigenous skills and expertise, or are restricted for national security reasons. However, FDI in the form of technology transfer is permitted in all sectors. The Industrial Enterprises Act 1949 (1992) has classified industries in terms of their production nature including: manufacturing, energy-based, agro- and forest-based, mining, tourism, services and construction. The Act lists eight categories, including agro- and forest-based industries, as national priority industries together with three classifications of areas: undeveloped, underdeveloped, and remote areas. The Act has also classified industries on the basis of fixed capital scale and, accordingly, prescribed their registration and licensing procedures as well as facilities and incentives by scale and location. An industry with fixed capital of up to 30 million NPR is defined as a small industry requiring registration with the Department of Cottage and Small

Industries (DOCSI). An industry with fixed capital of 30 to 100 million NPR is termed as a medium industry, and one with fixed capital of more than 100 million NPR is categorized as a large industry. Both the medium and large industries are registered with the Department of Industries (DOI).

Cottage industries cover traditional industries utilizing specific skills or local raw materials and resources, and are labour intensive. They are also related to national traditions, art and culture and include handloom weaving, tailoring (other than ready-made garments (RMG)), hand-knitted woollen items, woollen carpets, and handmade paper. This category of industries does not require prior registration and in most cases it is only necessary to submit an application with the concerned department within six months of establishment, giving information relating to the type of manufacturing, location and the name of the owner. Some traditional businesses are exceptions, however, such as the woollen carpet and pashmina shawl businesses, which are required to be registered with the DOI irrespective of the size of their capital. According to an estimate by DOI officials, 75 per cent of the total registered industries are proprietorships, 15 per cent are companies and the remaining 10 per cent are partnerships.

There are 11 industrial estates across the country where altogether 432 industries are in operation, providing employment to 11,365 people. Of these businesses, 61 are under-construction and 59 closed. However, industrial establishments are not limited to industrial estates, as they can be established in other places too. Nepal has launched a project to establish a Special Economic Zone (SEZ) with a view to reducing the costs of exports by facilitating their production through tax free incentives. The SEZ is intended to attract FDI and domestic investment, with the latest technologies, for the production of exportable products. The project to establish the SEZ is currently in its initial stages. As of 2011, the construction of physical infrastructure at the first SEZ site of Bhairahawa is near completion, and land acquisition and construction of an office complex, a fence and an access road are underway in Birgunj, near the dry port. Feasibility studies are being conducted in another four sites: Dhangadhi, Jhapa, Nuwakot and Panchkhal.

Nepal has signed bilateral agreements with several countries, including Austria, China, India, Mauritius, Norway, Pakistan, Qatar, Republic of Korea, Sri Lanka and Thailand, with the aim of fostering trade and avoiding double taxation on the incomes of foreign investors.

The performance of the manufacturing industry has not been very encouraging. It was estimated to grow by only 2.6 per cent in 2009/10 (though up from a negative growth of 1 per cent in 2008/09). Despite its contribution of 7.1 per cent to GDP since 2005, its average growth rate has remained low, at only 1.1 per cent.

Most processed and manufactured products, such as Nepali paper, woollen carpets, ready-made garments, woollen and pashmina shawls, and hides and skins are produced and traded by small and medium-sized enterprises (SME). SMEs have always played a key role

in both production and trading activities in Nepal. The trade liberalization that occurred under the World Trade Organization (WTO), including the termination of the textile quota system, marking the end of the Multi Fibre Arrangement, and extensive bilateral and regional trade liberalization, demanded increased quality and cost-effectiveness in Nepalese exports in general, and in ready-made garments in particular. At the same time, domestic political changes following a decade of internal conflict, together with troubled labour relations and energy shortages, badly affected domestic industries and the competitiveness of Nepal's export products.

RMG was Nepal's top export until 2004, accounting for more than one quarter of total exports. Starting with the textile quota abolition, phased out between 2001 and 2005, RMG exports declined from about 14 billion NPR in 1999/2000 to 3.7 billion NPR in 2009/10, and accounting for only 6.2 per cent of total exports that year. During the 1990s there were 250 RMG manufacturing exporters, employing around 80,000 people.

Similarly, hand knotted woollen carpets used to be the second largest export of Nepal, providing direct and indirect employment to about half a million people because of the labour intensive nature of the work and the wide distribution of its subsidiary production units, providing backward linkages. Carpet exports reached a peak of 9.6 billion NPR and over 3 million square metres of carpet sales in 1992/93, then gradually declined to 4.2 billion NPR and around 805,531 square metres of carpet sales in 2009/10.

The share of primary products in total exports declined from 70 per cent in the early 1980s to around 15 per cent in the second half of the 2000s, in favour of exports of manufactured and processed products. The share of primary products recently rose to about 20 per cent due to the sharp decline of major manufactured products such as carpets and RMG. Iron and steel products, comprising mainly corrugated sheets, wires, tubes and pipes accounted for the highest share of exports, reaching 13.4 per cent in 2008/09 and 16.4 per cent in 2009/10 (see Annex 2). Six products: iron and steel products, yarns, woollen carpets, textiles, RMG and lentils accounted for more than half of total goods exports in both years. Other principal exports in these years included jute products, woollen products (including pashmina shawls), noodles, silver jewellery, cardamom and medicinal herbs. Primary products such as lentils, cardamom, tea, vegetable products, medicinal herbs, ginger and betel nuts accounted for about 17 per cent of exports in 2008/09 and 15 per cent in 2009/10, though their performance remained highly erratic during the period. Primary products such as wheat flour, medicinal herbs, melted butter (ghee), ginger, cardamom, kutch and lentils are mostly exported to India.

Imports consist of a large number of products, ranging from vegetables, fruit, cattle, consumer goods, construction materials and industrial raw materials to fossil fuel, transport equipment, machinery and electronic goods. Since most of the processed and manufactured export products, such as RGM, carpets, iron and steel products, yarns, and textiles contain imported raw materials, auxiliary materials and capital goods, the size of imports is not only large but also rising fast, with effects on the trade deficit. In 2008/09 and

2009/10, imports of petroleum products (POL) accounted for 15.4 and 14.5 per cent, gold 4 and 11.1 per cent, motor vehicles and parts (including tractors and motorcycles) 5.6 and 7.1 per cent, MS billet 2.9 and 3.6 per cent, and telephone and transmission equipment and parts 2.0 and 3.2 per cent. The imports of POL have increased by 21.4 per cent, motor vehicles and parts by 64.4 per cent and telephone and transmission equipment by 105 per cent, pushing up the total imports by over 29 per cent to 376 billion NPR in 2009/10 (see Annex 3).

India, as the closest market, has always remained a key market for manufactured exports. This is partly due to the provision of preferential market access for Nepalese manufactured products in India as part of the bilateral trade treaty. After the remarkable 1996 bilateral treaty of trade with India, with provisions for non-requirement of value added percentage and preferential market access, several Nepalese industries started to grow. The result was a surge in exports to India of several Nepalese manufactured products, with the result that when the treaty was renewed in 2002 the liberal provisions of the treaty were rolled back to the previous requirements of value addition mark-ups and process criteria, together with quota restrictions on four products. The most recent bilateral trade treaty signed between Nepal and India, on 27 October 2009, is valid for a seven-year period with provisions for automatic renewal for further periods of seven years. This treaty has provided for fixed annual quantitative limits on four items: 100,000 metric tons (MT) of vegetable fats (Vanaspati); 10,000 MT of acrylic yarn; 10,000 MT of copper products under Chapters 74.00 and Heading 85.44 of the HS Code; and 2,500 MT of zinc oxide. The preferential market access is based on the rules of origin prescribed by the treaty, on articles that are manufactured in Nepal wholly from Nepalese and/or Indian raw material, or for articles containing third country origin materials in the manufacturing process, not being limited to insufficient working or processing, changes in the classification at four digit level of HS Code. The total value of material parts or produce originating from non-contracting parties or of undetermined origin used must not exceed 70 per cent of the Free On Board (FOB) price.

Number of enterprises involved in foreign trade

The Department of Commerce (DOC) under the Ministry of Commerce and Supplies (MOCS) is one of the authorized agencies for enterprise registration under the Private Firm Registration Act 2014 BS (1958), Private Firm Registration Rules 2034 BS (1977), Nepal Agency Act 2014 BS (1958), Nepal Agency (Amendments and Integrated) Rules 2019 BS (1963), and the Partnership Act 2020 BS (1964). In addition, the DOC is also the implementing agency of the Export and Import (control) Act 2013 BS (1957), Export Import Rules 2034 BS (1977), Multimodal Transportation of Goods Act 2063 BS (2006), Competition Promotion and Market Protection Act BS 2063 (2007) and the Multimodal Transportation of Goods Regulation 2066 BS (2009). The Export and Import Acts and Rules provide the DOC with the right to issue export-import licenses and permit letters wherever required. The DOC has five offices outside Kathmandu at: Biratnagar, Birgunj, Bhairahawa, Nepalgunj and Dhangadhi. The procedural manual of the DOC provides details of the procedures and documentation required for an enterprise registration. For

registration, an enterprise is required to have minimum capital of 50,000 NPR for domestic trade, 100,000 NPR for trade with India and 200,000 NPR for trade with third countries.

The DOC does not have consolidated and updated records of the number of registered firms under the Agency Act, Partnership Act and Private Firm Act (Proprietorship). As of 2011, the official estimate of the number of firms engaged in external trade registered by DOC is around 100,000, and it is estimated that there are another 100,000 firms registered with other agencies. This makes the total estimated number of enterprises involved in foreign trade 200,000, the majority of which are trading with India.

DOCSI and DOI, both under the Ministry of Industry (MOI), register an enterprise as a cottage or small, medium or large scale industry as per the provisions of two Acts: the Private Firm Act and the Partnerships Act. In the case of companies, the registration is made with the Company Registrar Office (CRO), which is also under the MOI. For a company to be registered as an industry it must first be registered as a company with the CRO and then must apply to DOCSI or DOI (according to its scale) for registration.

DOCSI has district offices in only 27 districts, including Kathmandu, so it has delegated authority for registering enterprises in the other districts to the Cottage and Small Industry Development Board (CSIDB), which has offices in 48 districts. The CSIDB, created to conduct training activities such as women's entrepreneurship, product development and skills development, registers cottage and small industries in the districts not covered by DOICS.

For the registration of specific (sensitive) industries, such as cigarettes, alcohol and ammunition, the enterprise must obtain a license or approval from the concerned ministry before applying for registration as an industry. For products and services such as food, water, medicines, restaurants and bricks, an opinion or permission of the concerned ministry must be sought, and sometimes local surveys and/or notification in daily papers must be performed to inform local inhabitants before registration is granted to the industry. Both the DOCSI and DOI constitute separate committees, headed by the departmental heads, on Initial Environmental Assessments (IEA) to examine the environmental impacts of an industry before granting it registration. Some industries are also required to submit a detailed report on environmental impacts, depending on the nature of the pollution. As specified by the Industrial Enterprises Act, the registration of an industry is generally granted within 21 days of submission of an application.

Companies registered as an industry do not require any renewal as detailed procedures, including transparency through regular publications and annual general meetings, together with monitoring by the CRO, are laid down in the related Act. On the other hand, registration of a private or partnership firm with DOC, DOI or DOCSI requires renewal every fiscal year for partnerships and once in every three fiscal years for proprietorship

enterprises. An enterprise registered as an agent with DOC must be renewed by the end of each Nepali calendar year, which end in Chaitra (mid-April).

In the case of FDI capital and technology transfer in all types of small to large industries, permission is required from the DOI. As per the decision of the Industrial Promotion Board (IPB), the DOI is authorized to grant permission to register an industry with fixed capital of up to 2 billion NPR. For an industry with excess of 2 billion NPR fixed capital, the decision rests with the IPB, which is chaired by the Minister of Industry. A decision is made within 30 days.

In accordance with the provisions of the Company Act 2063 BS (2006) and the Company Regulation 2007, the CRO issues registration certificates to an applicant within 15 days of application. Documents such as Memoranda and Articles are to be submitted along with the application for registration. The Act requires between one and (maximum) 50 shareholders for a private company, and a minimum 7 for a public limited company. Public limited companies are required to have a minimum paid up capital of 10 million NPR unless otherwise specified, in accordance with the prevailing laws and Gazette notifications for a particular type of company.

The number of industries registered with DOI in the first eight months of 2008/09 was 3,958 of which the majority (1,977) were in manufacturing, followed by 1,036 in services, 661 in tourism, 178 in the agro-based sector, 46 in the energy-based sector, 33 in construction and 27 in mining. In terms of scale, 2,622 were small (only foreign investments), 988 medium and 348 large. The total number of industries permitted for foreign investment up to mid-March 2010 (the first eight months of 2009/10) reached 1,820 (see Table 2).

Table 2. Industries permitted for foreign investment in the first eight months of 2009/10 (amount in NPR millions)

Industry Type	Number	Project cost	Fixed capital	Foreign investment	Employment creation target
1 Manufacturing	655	45,969	32,965	17,153	73,922
2. Services	528	24,425	20,037	11,570	27,156
3. Tourism	492	19,062	17,927	7,094	22,699
4. Construction	41	3,455	2,563	2,613	2,926
5. Energy	39	36,841	34,968	10,872	7,142
6. Agro-based	35	1,191	694	516	2,091
7 Mining	30	5,209	4,105	2,817	5,057
Total	1,820	135,972*	113,259	52,635	140,993

Source: Trade and Export Promotion Centre (2011a)

*Actual total 135,152.

The data provided by DOCSI on the number of industries registered as of 2009/10 are given in Table 3 below.

Table 3. Industries registered with DOCSI as of 2009/10

Cottage Industries				Small Industries				Total for both Cottage & Small Industries
Private Firm	Partnership	Pvt. Ltd	Total	Private Firm	Partnership	Pvt. Ltd	Total	
8,731	685	296	9,712	88,884	4,201	7,964	101,049	110,761

Source: Department of Cottage and Small Industry (2010)

The total number of companies registered with the Company Registrar Office (CRO) by the end of 2006/07 (2063/64 BS) was 55,497, including 54,101 private limited companies, 1,305 public limited companies, 74 non-profit companies, and 17 branches and contact offices of foreign companies.

The Department of Drugs Administration (DDA) has registered 80 drug importers, most of which are private companies, with a few public limited companies. The DDA has also registered 45 pharmaceutical industries producing modern medicines and eight industries producing veterinary medicines. These industries import raw materials and chemicals from India and other countries. Though some pharmaceutical companies have submitted some medicines as samples, as of 2010 they had not yet exported any medicines.

The Nepal Export Trade Directory, published by the Trade and Export Promotion Centre (TEPC) in June 2006, lists traders and manufacturers by product as potential exporters. See the summary in Table 4.

Table 4. Number of exporters

S. No.	Product groups	No. of Exporters
1	Live animals and animal products	5
2	Plants (medicinal herbs), vegetables, cut flowers and fruit and fruit products	86
3	Tea, coffee & spices	31
4	Cereal & cereal preparations	14
5	Vegetable fats, oils and seeds	21
6	Honey, sugar, and sugar confectionary products	24
7	Beverages and mineral water	14
8	Foodstuff, cake and meals	7
9	Tobacco and tobacco manufacturers	5
10	Construction materials and crude minerals	2
11	Pharmaceutical, medicinal and chemical products	9
12	Essential oil and perfumery products	21
13	PVC and Plastic products	13
14	Footwear, leather, rubber and foam products	29
15	Furniture, household articles and wooden products	8
16	Paper and paper products	14
17	Fibres, yarns, silk and textiles	31
18	Floor coverings (including carpets)*	286
19	Apparels, clothing and textile articles	197
20	Gold and silver jewellery, precious and semi-precious stones	59
21	Iron, steel and metal products	17
22	Electric electronic, machinery and mechanical products	16
23	Handicraft (decorative) items, works of art and antiques	91
24	Miscellaneous manufactured articles	17
	Total	1,017

* Trade and Export Promotion Centre (2008), *Roster of Nepalese Hand-knotted Woollen Carpets Exporters* The Trade and Export Promotion Centre listed 321 enterprises as exporters and manufacturers.

The above list of 1,017 exporters plus 35 additional carpet exporters, as per the roster (adjusted to 1,042), includes carpet and RMG manufacturing exporters whose numbers are expected to go down in view of the declining exports of these products in recent years.

In the absence of detailed records categorizing enterprises involved in domestic trade, production and external trade it is difficult to estimate the exact number of traders among those registered with DOC, DOI, DOCSI and CRO. Some assumptions are required to be made considering the nature of registration and related activities. The estimated number of trading enterprises is presented in Table 5.

Table 5. Estimated number of trading enterprises

Department	No. of registered enterprises	Excluded number	Total Number of estimated traders
DOC	100,000	-	100,000
DOI	3,958	1,036 services	2,922
DOCSI	101,049	50,616 -services	50,433
CRO	55,497	27,748#	27,749
Total			181,104

deducting 50% of the total number for duplication, as some industries are involved in non-trading activities.

Most of the industries registered with DOI and DOCSI, except services, are to some extent involved in trade or, on occasion, are involved in importing machinery and parts or raw materials, or are involved in packaging raw materials or exporting some of their products. Companies registered with the CRO are expected to be involved in a wide range of activities, including banking and insurance, besides being manufacturing industries. Since the enterprises registered in the services industry may also need to import machinery and equipment either casually or regularly, the estimates of the number of traders based on the number and type of registration as above (column 2 of Table 5) may not be correct. But the manipulated figure arrived as per the fourth column of Table 5 is 181,104, which is lower by 18,896 than the DOC estimates of 200,000. It can be estimated that the total number of enterprises involved in trading is somewhere between 178,231 and 200,000 though there should be no hesitation in accepting the figure of 200,000 as estimated by the DOC.

IV. Major trading partner countries

Over the past two decades the foreign trade sector has undergone structural changes, especially after the country adopted economic liberalization policies and became affected by globalization. Because foreign trade was formerly highly concentrated on a single country, India, the prime focus became trade diversification by country and product. As a result, India's share in Nepal's exports came down from 90 per cent in the 1960s to 16.6 per cent during the 8th Five-year Plan 1992/93-1996/97. Likewise, imports from India declined, falling from over 95 per cent in the 1960s to 30.5 per cent during the 8th Five-year Plan period. The 8th Plan emphasized trade expansion with neighbouring countries. The bilateral trade treaty with India in 1996 allowed duty free and free market access to India for Nepalese manufactured goods with the elimination of previous provisions of value addition percentage criteria. Consequently, foreign trade gradually started to take a turn in favour of India, which has accounted for a leading share in Nepal's foreign trade in recent years.

Between 2005 and 2010, India accounted for the largest share in Nepal's trade with the member countries of the South Asian Association of Regional Cooperation (SAARC), as seen in Tables 6 and 7 below.

Table 6. Nepal's exports to SAARC countries (NPR millions)

Country	2005/06	2006/07	2007/08	2008/09	2009/10
India	40,714 (98.4)	41,729 (97.9)	38,556 (88.7)	43,574 (89.4)	39,903 (88.6)
Bangladesh	234 (0.6)	521 (1.2)	4,664 (10.7)	4,710 (9.7)	3,374 (7.5)
Bhutan	238 (0.6)	311 (0.7)	143 (0.3)	195 (0.4)	1,555 (3.5)
Maldives	NA	1	NA	4 (0)	NA
Pakistan	186 (0.5)	127 (0.3)	81 (0.2)	86 (0.2)	79 (0.2)
Sri Lanka	2 (0)	3 (0)	35 (0.1)	162 (0.3)	100 (0.2)
Afghanistan	NA	12 (0)	1 (0)	2 (0)	1 (0)
Sub-total- SAARC	41,376 (100.0)	42,705 (100.0)	43,480 (100.0)	48,734 (100.0)	45,012 (100.0)
Total Exports	59,777	58,927	58,474	68,597	60,950
% of SAARC in total exports	69.2	72.5	74.4	71.0	73.9

NA: Negligible/no value.

Figures in parenthesis () indicate percentage share.

Source: Trade and Export Promotion Centre (2011)

Table 7. Nepal's imports from SAARC countries (NPR millions)

Country	2005/06	2006/07	2007/08	2008/09	2009/10
India	107,143 (99.6)	115,872 (99.5)	142,376 (99.4)	165,119 (99.3)	214,261 (99.4)
Bangladesh	105 (0.1)	286 (0.2)	491 (0.4)	418 (0.3)	765 (0.4)
Bhutan	127 (0.1)	119 (0.1)	136 (0.1)	352 (0.2)	133 (0.1)
Maldives	NA	NA	NA	NA	NA
Pakistan	191 (0.2)	171 (0.2)	180 (0.1)	249 (0.2)	281 (0.1)
Sri Lanka	52 (0)	46 (0)	25 (0)	58 (0)	55 (0)
Afghanistan	NA	6 (0)	25 (0)	6 (0)	7 (0)
Sub-total-SAARC	107,619 (100.0)	116,502 (100.0)	143,234 (100.0)	166,203 (100.0)	215,502 (100.0)
Total Imports	160,678	195,808	237,030	291,001	375,606
% of SAARC in total Imports	67.0	59.5	60.4	57.1	57.4

NA: Negligible/no value.

Figures in parenthesis () indicate percentage share.

Source: Trade and Export Promotion Centre (2011a) (2011)

Among its trade with the SAARC countries, Nepal's trade with the Maldives and Afghanistan is almost nonexistent. Similarly, Nepal's trade with Pakistan and Sri Lanka is minimal, with exports accounting for less than a 0.5 per cent of the total. Of the total exports, India accounted more than 98 per cent in 2005/06, though there was a gradual decline over the following five year period, with the percentage dropping to nearly 89 per cent in 2009/10. Exports to Bangladesh and Bhutan rose, with some fluctuations, during the same period. Exports to Bangladesh accounted for nearly 6 per cent of total exports in 2009/10.

Imports from India showed persistent growth, accounting for more than 99 per cent of the total imports from the SAARC region. Imports from Bangladesh, Pakistan and Bhutan also showed a rising trend, with some fluctuations, but represented a very small share of the total.

With regard to Nepal's trade relations with countries other than SAARC members, the United States of America (USA) is an important overseas market for Nepal. Nepal's exports to the USA include a wide range of products, such as tea, woollen carpets, RMG and textile products, lentils and Nepalese paper and paper products. But exports have declined over the years, primarily due to gradual fall in RMG shipments, for which the USA was the largest market. Over 90 per cent of total RMG exports were concentrated in the single market of the USA, making it the largest destination until 2005. Nepal's exports to the USA declined from 6,993 million NPR in 2005/06 (12 per cent of total exports) to 3,867 million NPR in 2009/10 (6 per cent of total exports). Germany stands as the next most important market for Nepalese products outside the SAARC region, although there has been a declining trend due to the reduction in carpet exports since 2000. Nepal's exports to Germany fell from 2,844 million NPR in 2005/06, (about 5 per cent of total exports) to 2,391 million NPR in 2009/10 (4 per cent of total exports). In 2009/10, the vast majority of exports (81 per cent) went to four countries: India, USA, Bangladesh and Germany. The

remainder of the exports are distributed to over 100 countries of which the United Kingdom (UK), France, China, Canada, Italy, Japan and Switzerland are the main markets (see Annex 4).

In terms of imports, in 2009/10 India stood as Nepal's main supplier, accounting for about 57 per cent of total imports, followed by China with 10 per cent, United Arab Emirates (UAE) with 9 per cent, Indonesia with 2 per cent and Thailand with 2 per cent. These five countries account for 80 per cent of Nepal's total imports. The remainder comes from 17 other countries, each representing more than 1 to 7 billion NPR in imports. (See Annex 5).

Nepal has entered into bilateral trade agreements with 17 countries: Bangladesh, Bulgaria, China, Czech Republic, Egypt, India, the Democratic Republic of Korea, the Republic of Korea, Mongolia, Pakistan, Poland, Romania, the Russian Federation, Sri Lanka, UK, USA and Yugoslavia. Nepal has also signed with India a separate treaty of transit and an "Agreement of Cooperation to Control Unauthorized Trade", and has signed a bilateral transit agreement with Bangladesh. The bilateral trade treaty with India provides for, among other things, preferential market access on a non-reciprocal basis for Nepalese manufactured products. Apart from the transit arrangements with Bangladesh and India, other bilateral trade agreements are based on Most Favoured Nation (MFN) treatment. However, the bilateral agreement with China is focused on border trade facilitation and duty free arrangements for a number of Nepalese products. With the exception of the Democratic People's Republic of Korea and the Russian Federation, all of the other countries with which Nepal has signed bilateral trade agreements are now members of the WTO, under which MFN treatment is accorded by all member countries. Therefore, since Nepal became a WTO member in September 2004, the MFN based agreements do not hold much significance. Among the SAARC members, only two countries, Afghanistan and Bhutan, are not members of the WTO.

B. Trade and transit facilitation situation

I. Nepal's trade competitiveness in the region and the world

After Nepal embarked upon sweeping economic reforms and liberalization measures, with a view to integrate into the global economy, particularly from the beginning of the 1990s, Nepal became one of the most liberal open economies in South Asia. In the drive towards regional and global integration, Nepal joined two regional trade agreements (RTA): SAARC and BIMSTEC as well as a multilateral trade agreement: WTO. As the agreements are only a basis for trade and economic development, the gains Nepal can derive from economic integration depend primarily on the competitiveness of its products. Cost-effectiveness and time efficiency both in production and transport are important factors for Nepal to work on as this is where Nepal has a weaker position in comparison to other countries in the region. Nepal faces two key issues: it does not have a product of international market dominance or high value products, and Nepal's remoteness from the sea, aggravated by its mountainous topography, has increased the costs of Nepal's trade transactions. Though Nepal has a competitive advantage for some products, most of its export products face competition in the international market with products from neighbouring countries. Another problem Nepal faces is that the commodity composition and market distribution of Nepalese exports remains limited to a few products and markets.

Labour rigidities and low productivity in Nepal have made the labour costs high and thus makes Nepal less attractive to the both foreign and domestic investors. Furthermore, the Nepal Trade and Competitiveness Study (NTCS) of 2004 stated that the cost of infrastructure in Nepal is high in comparison to other countries in the SAARC region. Electricity and transport costs are higher. The level of transport costs is a consequence of the need for long haulage to and from ports. Furthermore, multiple handlings at interface points and the seaport add to the high transaction costs. In addition, Nepal has cumbersome procedures and documentation requirements. The NTCS has also noted that Nepalese enterprises pay, on average, 50 per cent more for export freight costs than do other developing countries. Traders, transporters and clearing agents surveyed for this study expressed that they face difficulties due to the lack of cold storage to facilitate export of time sensitive cargo such as food, cut flowers and vegetables, as well as the lack of vault lockers for highly valuable cargo such as gold and silver articles.

The high transport costs together with inadequate services have added to uncertainties in delivery schedules, affecting inventory management and costs. Maintaining large inventories and long turnaround time in production and sales are now out of practice, which is attributable to changes in supply chain management and transport technologies. Consequently, the share of transport is going up, with the share of inventory going down. For instance, in the USA the expenditure on inventory holding accounted for a larger share of the total than that of transportation in 1982 whereas in 2002 transportation expenditure

was 90 per cent higher than inventory holding. This clearly indicates the high sensitiveness of cost in trade to changes in production, transport and trade. The cost of time goes beyond the cost of inventory as it includes not only capital costs but also costs associated with maintenance, deterioration in quality, or total loss if goods are perishable or if consignments reach the destination too late for specific date or purposes. Consequent upon the delays, transport costs will also rise if transport means, including containers and drivers, must be covered for longer periods. A study in 2002 titled “Time as a trade barrier” by David Hummels of Purdue University concluded that the cost of each day of delay is, on average, equivalent to roughly 0.5 per cent of the goods value.³ High costs of trade transactions undoubtedly discourage FDI and constrain the ability of domestic traders to integrate into global supply chains.

A study by the World Bank concluded that improving ports, customs, trade-related institutions and usage of information and communication technology (ICT) by service sectors and the government could generate substantial benefits in terms of improved international trade figures. If the countries now below the world average in trade facilitation capacity could be raised halfway, to average levels, trade among 75 countries would increase by 377 billion USD annually.⁴

The Economic and Social Commission for Asia and the Pacific (UNESCAP) indicated in its study report on “Alignment of Trade Documents and Procedures of India, Nepal and Pakistan” in January 2000 that the overhead costs of trade procedures and documents is around 10 per cent of the consignment value, and that between 15 and 83 different types of documents are required in imports and exports. These findings are presented in Table 8 below.

Table 8. Documentary requirements in foreign trade

Details	India	Nepal	Pakistan
Types of documents	29	83	15
Number of copies	118	102	108
Number of signatures	256	113	56
Staff required	7	22	11

In terms of the number of staff required for preparing documents, Nepal is the highest, with 22 staff, compared to 7 in India and 11 in Pakistan, and Nepal also has the associated costs.

³ United Nations Conference on Trade and Development (2005), “Trade Facilitation as an Engine of Development”. Note by the UNCTAD Secretariat, TD/B/COM.3/ EM.24/2. Geneva: UNCTAD. 29 June.

⁴ Wilson, John S., Catherine L. Mann and Tsunehiro Otsuki (2003), “Trade Facilitation and Economic Development: Measuring the Impact”, Working Paper 2933. Washington, D.C.: World Bank.

On account of the additional burden of transit transport procedures and documentation and the associated costs, the need for prioritizing time and cost effective trade facilitation measures is even greater for Nepal than for its neighbouring coastal countries. A study by the United Nations Conference on Trade and Development (UNCTAD) indicated that the costs of logistics and transit transportation for landlocked countries are 15 per cent higher than for their competing coastal countries. Nepal's comparative position in terms of cost indicators in the SAARC region is given in Table 9 below.

Table 9 Cost comparison between SAARC members

Indicators	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Ease of doing business (rank), out of 183	167	107	142	134	85	116	83	102
Trading across borders (rank), out of 183	183	112	161	100	138	164	81	72
Number of export documents	12	6	8	8	8	9	9	8
Time to export (days)	74	25	38	17	21	41	21	21
Cost to export: USD per 20' container	3,865	985	1,352	1,055	1,550	1,960	611	715
Number of import documents	11	8	11	9	9	10	8	6
Time to import (days)	77	31	38	20	22	35	18	19
Cost to import: USD per 20' container	3,830	1,390	2,665	1,025	1,526	2,095	680	745

Note: The lower the ranking number, the higher the efficiency.

Source: International Finance Corporation and World Bank (2011)

Among the eight SAARC members, three countries: Afghanistan, Bhutan and Nepal, are landlocked. The time required to export and import and the cost per container is extremely high in Afghanistan compared to the other SAARC countries. Nepal's export costs are 50 per cent lower than those of Afghanistan, but are nearly 45 per cent higher than those of Bhutan. Among the coastal countries there is also a wide variation. The total cost of exports and imports is the highest in the Maldives and is the lowest in Pakistan. This is reflected in the high ranking of Pakistan as No. 81, just behind Sri Lanka. Nepal occupies the 116th position in terms of the ease of doing business, representing a middle position among the eight SAARC countries, but is in the 164th position in terms of the trading across border ranking, the lowest of all the SAARC countries, except for Afghanistan.

The high cost of trade transactions as a result of cumbersome procedures is directly affecting Nepal's export competitiveness. The amount of time taken for Nepal's exports to reach their destination is also a factor in reducing the competitiveness of Nepalese products. It is estimated that each day of delay in delivering a product prior to shipment

reduces a country's exports by one per cent, on average.⁵ So, for example, if Nepalese exports could reach the South Asia ports in 33 days, on average, rather than in 41 days, the saving of eight days would enable exports to grow by 8 per cent.

A joint study by the Asian Development Bank (ADB) and UNESCAP found that export and import costs in landlocked countries average at between 2,600 and 3,000 USD per TEU, compared to only between 1,300 and 1,500 USD in other Asia-Pacific developing countries.⁶ The study also found that in landlocked countries the time taken to move goods from a factory to the nearest seaport is 60 days, nearly twice the average time in other developing countries in the Asia-Pacific region, and ten times more than Singapore. Referring to a study by Khan and Chaturvedi, the report noted that a 10 per cent reduction in transaction costs at the border would have the effect of increasing a country's exports by 3 per cent. Transaction costs vary from country to country depending upon factors such as the distance to the nearest seaport, the level of administrative control, the size of shipments, cross border procedures and documentation, physical infrastructure and the development of ICT. It is unequivocally clear from this study that a reduction in transaction costs would boost export competitiveness, FDI and trade.

Nepal's trade policy for 2009 aims to create a favourable environment for trade and for improving trade competitiveness at the global level. To achieve the objectives, the main strategies adopted by the policy include the simplification and facilitation of trade procedures, along with institutional strengthening to reduce transaction costs and the promotion of selected export products of comparative advantage. For this purpose, its working policy aims to standardize Nepalese customs, transit- and quality-related certification procedures, policies and rules in order to make them compatible with those of the other SAARC members and other trade partnering countries. The services of the dry ports are to be made more effective through more efficient and less costly transport. Moreover, with a view to reducing trade transaction costs, alternative transit routes, physical infrastructure of sea ports, and multimodal transport facilities are to be studied with regard to their facilities and the cost implications, to provide a basis for improving treaties and agreements with transit and neighbouring countries. The policy also emphasizes the establishment of SEZ, along with flexible labour laws applicable to industries established in the zones for export promotion. In addition to the creation of a Board of Trade (BOT), chaired by the Commerce Minister with representation from relevant private and public sector organizations, the policy emphasizes the need for the transformation of the existing TEPC into the Trade Promotion Institute. The policy envisages a "Trade Policy Analytical Wing" for reviewing existing policies and suggesting new directions for the promotion of bilateral, regional and multilateral trade, and a "Service Trade Promotion Council" for promoting trade in services.

⁵ Djankov, S., C. Freund and Cong S. Pham (2008), "Trading on Time", Policy Research Working Paper Series 3909. Washington D.C.: World Bank.

⁶ Asian Development Bank and United Nations Economic and Social Commission for Asia and the Pacific (2009), *Designing and Implementing Trade Facilitation in Asia and the Pacific*. November 2009. Manila: Asian Development Bank.

The trade policy of 2009 marks a new beginning for launching product development programmes for some potential export products. Four products have been selected under the special focus area: RMG, carpets and woollen products, handicrafts and pashmina and silk products. These products are already established in international markets. Under another category of area development, several craft and agro-based products with high export potential and comparative advantage have been selected. These include: tea, vegetable seeds, large cardamom, dhal, floriculture, precious and semi-precious stones, gold and silver jewellery, processed hides and skins, fresh and dry ginger, medicinal herbs and essential oils, handmade paper and their products, wooden crafts, coffee, honey, oranges (Junar) and vegetables.

With regard to Nepal's competitiveness and its vision for trade development, it is worth mentioning the report titled "Nepal Trade Integration Strategy 2010" (NTIS), undertaken by the MOCS as a follow up of to the earlier NTIS 2004, with the financial and technical support of the United Nations Development Programme (UNDP), the Government of Finland, the UK's Department for International Development (DFID), the International Finance Corporation (IFC) and the International Trade Centre (UNCTAD/WTO). The study spelled out courses of action for the development of Nepal's export sector over a period of three to five years on the basis of selected products of comparative advantage, with medium-term priorities. The selection of the export products was guided by their potential impact in terms of national economic growth. The products are listed in Table 10 below.

Table 10. Priority export potential products and services

Agro-based food	Craft and Industrial goods	Services
1. Large Cardamom	1. Handmade Paper	1. Tourism
2. Ginger	2. Silver Jewellery	2. Labour services
3. Honey	3. Iron and steel products	3. IT and BPO services
4. Lentils	4. Pashmina	4. Health services
5. Tea	5. Wool products	5. Education
6. Noodles		6. Engineering
7. Medicinal herbs & essential oils		7. Hydro-power

In addition to the 19 selected products and services listed in Table 10, the NTIS has identified five potential export sectors to focus on. These are: transit trade services, sugar, cement, dairy products and transformers.

The NTIS has identified four major capacity development challenges to be addressed for building a successful and competitive export sector. The first is ensuring proper market access, requiring Nepalese negotiators to address issues related to non-tariff barriers (NTB) and other regulatory and business environment issues in importing countries. The second is building domestic support institutions for creating a more friendly business environment and helping exporters in addressing the challenges of NTBs. Under the third challenge come steps to be taken for strengthening the supply capacity of exporters, especially in sectors such as production costs, product quality and productivity. The fourth

is the mobilization of Overseas Development Assistance (ODA) to assist in developing pertinent capacity.

In responding to these challenges, the NTIS has identified four capacity development objectives that focus on: strengthening trade negotiations (especially bilateral), raising the technical capacity of business environment supportive institutions, building the export capacity of “inclusive” export potential goods and services, and increasing the GON’s capacity to coordinate and manage trade-related technical assistance and aid for trade and to implement the NTIS. Under the second capacity development objective, the NTIS emphasizes supportive domestic infrastructure in the areas of technical standards, sanitary and phytosanitary standards, trade facilitation, investment environment, intellectual property rights (IPRs) and domestic service regulations.

The NTIS notes that trade facilitation in Nepal has improved in recent years but still remains at a comparative disadvantage compared to neighbouring countries, particularly India and Bangladesh. Suggested improvements relating to customs are as follows:

- Pursuing the recently launched Customs Modernization Programme 2009-13.

- Improving customs valuation.

- Developing post-clearance audit capability.

- Developing a risk management plan, including Third Party Recognition, instead of batch testing of agro-food consignments.

- Establishing and strengthening food testing laboratories.

- Strengthening of the National Trade Facilitation Committee to improve inter-agency cooperation and coordination of border inspection.

- Harmonizing computerized systems with India.

- Reviewing, with India, improvements in movement of rail wagons at Raxaul and improving access to Indian ports (under the Rail Services Agreement).

- Increasing transparency and allowing new entrants through review of the customs broker licensing process.

In addition to the nine trade facilitation areas listed above, the Action Matrix of the NTIS includes another area: formulation of a Master Plan and improving of physical facilities at border points (warehousing and cold storage). Trade facilitation under the NTIS has focused its attention on the improvement of customs management.

II. Trade procedures and controls, including trade-related regulatory agencies

Nepal's foreign trade is divided into three categories from the point of view of foreign exchange control and facilitation of traditional trade for the border inhabitants: 1) trade with third countries or overseas, 2) trade with India and 3) trade with the Tibet Autonomous Region (TAR) of China. Though in recent years Nepal's trade with the TAR has been included in the total trade with China.

Trade with third countries or overseas: This part of foreign trade deals with countries other than India and the TAR, and involves payment in convertible foreign currency. Thus, this trade is subject to procedural restrictions to ensure that payments are received in time for goods exported, and goods are actually imported for the payments made for their purchases. Third country exports are allowed only against advance payment with a Letter of Credit (L/C) or Cash against Documents (CAD) up to the value of 500,000 USD. Exporters are required to submit the bank invoice, sales contract or purchase order justifying CAD sales. These documents provide the basis on which the bank can issue a permission letter to the concerned customs for allowing exports against the CAD. Under a CAD, an exporter is required to maintain a security of 1 per cent of the value with the concerned bank, in the form of cash, saving certificates, development bonds or any other form of other security acceptable to the bank. Nepalese Customs releases export shipments only after verifying the bank certificate of advance payment, the certified copy of the L/C or the bank's letter authorizing exports under the CAD. Thereafter, the exporter completes shipments, and approaches the bank with the documents to be sent to the corresponding bank that receives payment from the foreign buyer against the shipment documents. The amount is then remitted to the bank, to be released to the exporter. If payment is not received within six months or such extended time as authorized by the Nepal Rasta Bank (NRB), the central bank of Nepal, the exporter's bank is required to inform the NRB to conduct an enquiry into the matter. In certain cases, exports under CAD are allowed under bank guarantee, with prior permission of the NRB, without requiring the 1 per cent security. In case of shortfall payments in exports, the shortfall should not be more than 2 per cent of the total value, and not exceeding 1,000 USD or 2 per cent of the L/C amount, whichever is higher. If the discrepancy in payment is more than the ceiling, the bank has to obtain prior permission of NRB for accepting the payment. Partial shipments and partial payments are permitted only in accordance with the L/C terms. Most exports are based on Free-on-Board (FOB) Kathmandu Airport for air or FOB Kolkata for shipping. Separate payments for freight are allowed subject to the submission of documentary evidence, including quotations for freight.

Third country imports are allowed against an L/C, advance payments up to 25,000 USD or Documents against Payment (DAP). There is also another system for allowing imports called Documents against Acceptance (DAA), under which the foreign suppliers allow credit to Nepalese importers only under bank guarantee. Both DAP and DAA were introduced by the NRB in 2009/10. Since then, imports from third countries have been

allowed on any terms, including FOB or Ex-Works (EXW).⁷ Therefore, Nepalese importers can now freely negotiate with shipping agents for competitive freight rates. Prior to this change, third country imports were permitted only on a freight paid basis, Cost, Insurance and Freight (CIF) or Cost and Freight (C&F) Kathmandu or Kolkata Port basis. As in exports, separate payments for freight for imports are allowed on the basis of the submission of documentary evidence, including quotations for freight rates. An amendment in an L/C amount up to 10 per cent value, but not exceeding a limit of 1,000 USD can be made by the head office of the concerned banks. The NRB has stipulated that for an import L/C of more than 50,000 USD, the head offices of banks are required to monitor the transactions. Banks are required to follow the Uniform Customs and Practice in Documentary Credit (UCP) 500 of ICC in dealing with L/Cs.

Trade with India: As Nepal shares a long and porous border with India, and there is full convertibility of the INR, bilateral trade with India is generally free and is subject to less strict regulations than trade with other countries. Nepal has a bilateral trade treaty with India that allows duty free access for Nepalese manufactured products on the basis of stipulated value addition criteria and rules of origin. The most recent bilateral trade treaty was signed on 27 October 2009 for a seven year period, with a provision for automatic renewal for further periods of seven years at a time with mutual consent. The trade treaty has provided 27 entry and exit border customs points for the passage of bilateral trade. A separate bilateral “Agreement of Cooperation to Control Unauthorized Trade” was also signed on 27 October 2009 for a seven year period with similar provision for automatic renewal. Nepal and India signed a separate bilateral transit treaty on 5 January 1999 for a seven year period until 5 January 2006. Letters of exchange between the GON and the GOI on 30 March 2006 renewed the bilateral transit treaty until 5 January 2013, and added a new clause in the Protocol to the treaty allowing movement of sensitive goods only from the seven border customs points of: Kakarvitta, Biratnagar, Birgunj, Birgunj ICD, Bhairahawa, Nepalgunj and Mahendranagar. The renewal also included the Nepal-India bilateral Rail Services Agreement (RSA), which was signed separately before the renewal.

Imports from India are of three kinds: general, duty refund process (DRP) and in-bond. The general imports cover purchases from India against payment or on credit by anybody having an enterprise registration and Value added Tax (VAT) and/or Permanent Account Number (PAN) registration. The transaction may not necessarily be channelled through banks, though sizable exports and imports are based on the banking system. Banks are authorized to draw drafts or telegraphic transfers (TTs) for settlement of payment in credit imports, provided that the Nepalese importers approach banks with documentary evidence, including invoices, customs declaration forms and customs receipts of revenue payment. Another category of imports from India is purchases from manufacturing exporters who include the applicable excise duty in the sale price or export price. In this case, the amount of excise included in the export price by the supplier is refunded to the GON by the GOI as provisioned in the treaty of trade. But such payment by the GOI to the GON does not exceed the import duties and like charges levied by the GON on similar goods imported from any other country, provided that the GON will not collect from the

⁷ Ex-Works (EXW) means that a seller has the goods ready to be collected at his premises (e.g. warehouse, factory, etc). EXW is one of the international commercial terms of the International Chamber of Commerce.

importers the equivalent amount in the form of import duty. This is called imports under DRP. The imports under DRP from India require the use of a separate document, the DRP Form (or Nepal Form), as evidence to request the duty refund from the GOI. The third category of imports from India against payment in convertible currency is called in-bond imports, under which 137 specified products are currently allowed to be purchased against payment in convertible currency. Such imports are excluded from excise duty in India. As the listed products are raw materials, this has helped Nepalese manufacturers to purchase raw materials at lower prices for producing value added goods for export to India under the preferential market access arrangements. This category of imports is subject to certain conditions, such as transactions through an L/C, purchase only from Indian producer firms or companies, and imports permitted only to Nepal registered industries and energy-industries with up to 5 megawatt (MW) capacity. The Circular No. 382 dated 27 March 2007 of the Department of Foreign Exchange Management (DFEM) of the NRB also allows imports from India against payment in convertible currency to another three categories of importers: donor agencies, diplomatic missions and foreign nationals and institutions having foreign exchange accounts with Nepalese banks. Imports from India against payment in hard currency are also permitted to Nepalese and foreign contractors who obtain contracts under global tenders. However, the payment of insurance and transportation is permitted only in Indian currency for such imports.

Trade with TAR: Trade between Nepal and the TAR is traditionally barter-based with free access across the border for the inhabitants living within 30 kilometres (km) of the border, though payment-based trade has gradually risen in recent years. There is no limit on the size of barter trade that is conducted between local inhabitants of the border areas. Banks have provided a foreign exchange facility of up to 3,000 USD at a time, on the basis of documentary evidence, to Nepalese traders to import goods, and this has gradually reduced the burden of buying on a goods for goods basis. Moreover, imports are also allowed against an advance payment of up to 25,000 USD, and an L/C, as in third country trade. These facilities and regulations are applicable only to one border customs point: Tatopani, through which the majority of trade with TAR is handled, due to the road connectivity with Kathmandu and Lhasa. Nepal's trade with TAR and China is gathering momentum, as seen from the size and diverse product range of the bilateral trade as well as from various bilateral agreements executed for the promotion and facilitation of mutual trade.

A trade and payments agreement between the GON and the Government of the People's Republic of China was signed on 22 November 1981 for three years, replacing the earlier bilateral agreement of 31 May 1974. The agreement provides for, among other things, promotion and facilitation of barter trade between the inhabitants living within the area of 30 km of the border, and autonomic renewal every three years. In addition, Nepal and China signed an agreement on bilateral road transportation on 6 May 1994 for a five year period, with the aim of developing transportation of passengers, goods and mail between the two countries. Nepal and China also signed another agreement on trade and other related matters on 10 July 2002 for a ten year period, with a view to facilitating the movement of local inhabitants, issuance of identity cards and passports, promotion of pilgrimage exchanges and movement of transport means. The agreements are automatically renewable for further periods of five and ten years with mutual consent.

Moreover, the Nepal Bureau of Standards and Metrology (NBSM) of the GON and the General Administration of Quality Supervision, Inspection and Quarantine of China entered into an agreement of cooperation on 6 October 2005 for two years, with provision for automatic renewal for further periods of two years, for industrial product inspection and management. This agreement will help to establish mutual recognition of quality certification of industrial products in the due course of time.

The MOCS and the Government of TAR, China, signed a Memorandum of Understanding (MOU) on 2 September 2009 for a five year period, with provision for automatic renewal for the same period, for the creation of an Inter-governmental Trade Facilitation Committee led by the Joint Secretary of MOCS and the Secretary General of Economic Affairs of the Government of TAR, China, the members of which will include the concerned senior officials and border authorities of the two countries. The MOU has provision for regular meetings each year. In addition, a separate Working Group was constituted to address local problems. The Working Group is composed of representatives of relevant government departments and border authorities and is coordinated by the Chief Customs Officer of Nepalese Border Land Customs and the Chief Officer of the Port Office of the Government of TAR, China. The meetings of the Working Group will be held on either side of the border post as and when required.

Given the fast growing trade deficit in bilateral trade between Nepal and China, Nepal requested that China allow duty free treatment for 497 products exported to China.⁸ In 2010, China announced duty free tariff preferences for 4,721 product lines at the eight digit HS classification level imported from all Least Developed Countries (LDCs), including Nepal, for which letters of exchange were signed between the GON and China on 14 May 2010 in Kathmandu. Accordingly, duty free treatment will be available to 360 products exported from Nepal, including 95 partially covered products at the six digit HS level. About 60 per cent of the products exported from Nepal were classified under the zero-tariff agreement in 2010. The letters of exchange also prescribed separate rules of origin (ROO) that included 40 per cent value addition to goods not wholly obtained or produced in Nepal, as well as operational procedures for ROO along with a specified format for the certificate of origin (COO). As nominated by the MOCS, the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) is making necessary preparations for issuing secured COOs for exports to China.

In Nepal very few exports and imports are restricted, and only a small number are banned (under international conventions as per the Gazette Notification dated BS 2066.07.16 - 2 November 2009 - of the MOCS (Annex 6). As the licensing system for exports and imports has been eliminated and other procedural simplifications have been made, trade procedures now are mainly to do with banks and customs. Banks function in accordance with the documentary requirements set out by an L/C in the settlement of payments in trade. While adhering to the directives of the NRB, banks operate independently to earn, hold and dispose of foreign currencies. The trade payments in convertible currency are

⁸ Ojha, P. (2010), "Nepal-China Trade: Opportunities for Growth" Journal of Trade and Development, June-July, Kathmandu: Ministry of Commerce and Supplies.

subject to control measures that are based on specified documentary procedures laid down by the NRB for compliance by banks and traders. Section 12 of the Foreign Exchange (Regulation) Act BS 2019 (1962) has empowered the NRB to issue directives, frame regulations or issue orders or notifications for the purpose of effective implementation of the provisions of the Act. Accordingly, the NRB issues general directives, with modifications from time to time, to commercial banks on the operation of documentary credit and the release of payments in trade.

Before reaching the final stage of cargo clearance at customs posts, there are certain procedures and documents, particularly on exports, that traders are required to comply with. The documents that importers are required to submit to Nepalese Customs are presented in Table 11.

Table 11. Import documentation

S. No.	Documents	*Imports from Third Countries	Imports from India		
			DRP	In-bond	General
	General Requirements for all imports				
1	Enterprise Registration Certificate	Y	Y	Y	Y
2	PAN/VAT Registration Certificate	Y	Y	Y	Y
3	Invoice	Y	Y	Y	Y
4	Packing List	Y	Y	Y	Y
5	Customs Declaration-SAD	Y	Y	Y	Y
6	Letter of appointment of Clearing Agent (C/A) or Customs Agent (CA)	Y	Y	Y	Y
7	Bill of Lading (B/L) or Air Waybill/Delivery order of Airlines or Transport Document	Y	Y	Y	N
	Specific Requirements				
1	Certified copy of L/C or Advance Payment or DDA	Y	N	Y	N
2	Certificate of Origin (COO)	Y	N	N	N
3	Customs Transit Declaration Form (CTD)-Original	Y	N	N	N
4	Insurance Policy	Y	N	N	N
5	BBN 3 of NRB while opening L/C	Y	N	Y	N
6	BBN 4 of NRB while clearing goods	Y	N	Y	N
7	Delivery order of TMC in the case of ICDs at Biratnagar, Birgunj & Bhairahawa	Y	Y	Y	Y
8	Nepal Invoice-DRP Form	N	Y	N	N
	Product Specific				
1	Wool Specification Test Report	Y	N	N	N
2	Plant Quarantine /Health Certificate for plant and plant products, and Animals	Y	Y	Y	Y
3	Lab Test report for food products	Y	Y	Y	Y
4	Analysis report for chemicals	Y	Y	Y	Y
5	Type approval and COP for vehicles	Y	Y	Y	Y
6	GMP certificate & CPP for medicines	Y	Y	Y	Y
7	Recommendation/License/Clearance Letter of the concerned agency where applicable				

*: Similar procedures to imports from TAR.

Y: Required. N: Not required.

The GON has authorized the TEPC to regulate and monitor raw wool imported from outside by carpet manufacturing exporters in order to ensure its quality. It has specified the quality as being of type 128 quality standard. The specifications are as follows:

Mean fibre length:	not less than 4 inches
Fibre diameter:	not less than 39 micron
Vegetable matter content:	not more than 0.5%
Grease/Fat & wax content:	not more than 1% (DCM extraction) not more than 1.8% (Ethanol extraction)
Yellowness (Y-Z) value:	not more than 4.5
Brightness (Y) value:	not less than 59

Modulations:

not more than 20%

These specifications are applicable for imports from third countries other than TAR. A recommendation letter of TEPC is required for importing wool from TAR, but no specifications apply. Tibetan wool is not subject to specifications as it is traditionally used for making Nepalese hand knotted woollen carpets. When purchasing wool from third countries other than the TAR, carpet manufacturing exporters must lodge an application, accompanied by a pro-forma invoice and the wool specifications, to the TEPC to apply for a recommendation letter to a bank for opening an L/C for importing wool. Apart from importing from the TAR, carpet manufacturers currently import wool from New Zealand and Australia.

To monitor foreign exchange transactions relating to imports, banks use two Foreign Exchange Control Forms (BBN): BBN3 and BBN4, as per NRB directions. The importer fills in BBN3 (in three copies), which contains details of an L/C, and submits it to the bank requesting to open, amend or cancel an L/C. BBN3 also contains a separate column at the bottom for entries by the bank after submission by the importer. The bank certifies the BBN3 and inserts details including the L/C number, the date of opening and the validity of the L/C, the foreign exchange amount, the exchange rate, the name of the Nepalese customs entry point and the name of the corresponding bank in the foreign country. The bank sends one copy of the BBN3 to the NRB, one to the concerned customs office and retains one copy for their records.

When shipment documents are received from the corresponding bank and the importer pays the entire amount owing, the bank issues a BBN4 form in the name of the customs office at the time of releasing the documents to the importer. The BBN4 is made in four copies: the first two are for the concerned customs office, the third copy is for the NRB, and the fourth copy is retained by the bank. The two copies for the customs office are put in a sealed envelope, which is handed to the importer. The importer gives the documents to the customs office to ensure the goods are cleared. Apart from checking the L/C and other documents relating to the consignment, the customs office also has to cross-check the BBN4 with the previously received BBN3. The BBN3 covers whole L/C amount whereas the BBN4 may only cover a particular consignment. Therefore, if a shipment is divided into separate consignments, there may be more than one BBN4 for a single BBN3.

The BBN4 contains a separate column at the bottom of the form for certification by the customs office as to the entry of a particular consignment into Nepal. After clearance of the goods, the customs office retains a copy and, after endorsement, sends the second copy by post to the issuing bank. If the bank is located in the same area, the second copy is put in a sealed envelope and is given to the importer for delivery to the bank. Thus, the BBN4 becomes the final document to close the L/C transaction by the bank for a particular consignment. The banks located in Kathmandu are required to send their BBN3 and BBN4 forms to the NRB daily, while banks located outside the capital must send their forms weekly, every Sunday. After obtaining cargo clearance from customs, importers are required to submit copies of the customs declaration form and the customs receipt of

payment for the purpose of closing the L/C account. Various formats of the BBN3 and BBN4 (a, b, c, d) are prescribed for imports from third countries, imports from India against hard currency, imports against draft or TT, imports from the TAR and imports under credit facility or L/C.

Banks are required to transmit to the DFEM daily, via computer, the details of L/C openings and payments in convertible transactions for each consignment relating to BBN3 and BBN4 forms. For this purpose, the NRB has provided them with a database structure containing columns for entering the bank code, customs code, unit code and others. In view of this daily electronic transmission of L/C transactions by banks to the NRB, the need for the BBN3 and BBN4 should be reviewed to assess whether procedures should be simplified.

It is interesting to note that Section 20 of the Customs Rules of 2007 has made submission of a COO compulsory for imports from a third country and for exports to all destinations. The Rules further require that the necessity of enterprise registration and tax registration certificates applies to only the first instance of exports and imports. Section 13 of Customs Act 2007 has established that import valuation will be based on the General Agreement on Tariffs and Trade (GATT) Article VII, and that this will be valued at CIF by adding transport and insurance costs, whereas exports are to be valued at FOB. Traders also make a declaration prior to the arrival of goods for the determination of the duty and fast clearance. As per the Customs Act, traders are required to maintain records of customs clearance for four years for the purpose of post clearance audits, under which the customs office may demand that the traders submit these documents. The documents that an exporter is required to submit to Nepalese customs are presented in Table 12 below.

Table 12. Export documentation

S. No.	Documents	*Exports to Third Country	Exports to India
	General Requirements for all exports		
1	Enterprise Registration Certificate	Y	Y
2	PAN/VAT Registration Certificate	Y	Y
3	Invoice	Y	Y
4	Packing List	Y	Y
5	Customs Declaration-SAD	Y	Y
6	Letter of appointment of Clearing Agent (CA) or Customs Agent (C/A)	Y	Y
	Specific Requirements		
1	Certified copy of L/C or Advance Payment or CAD Permit of Bank	Y	N
2	Bill of Lading (B/L) or Air Waybill/Delivery order of Airlines	Y	N
3	Certificate of Origin (COO)	Y	Y
4	Customs Transit Declaration Form (CTD)-Original	Y	N
5	Insurance Policy	Y	N
6	BBN 1 of NRB	Y	N
7	Delivery order of TMC in the case of ICDs at Biratnagar, Birgunj & Bhairahawa	Y	
8	GSP Form A++	Y	N
	Product Specific		
1	FHAN Valuation Certificate for handicrafts	Y	Y
2	Clearance Letter of DOA for handicrafts	Y	Y
3	FHAN No-objection certificate for articles made of domestic animals	Y	Y
4	FHAN Value Added Certificate for silverwares	Y	Y
5	Passbook issued by FHAN to gold jewellery	Y	Y
6	Recommendation letter of Visa Cell, NPDEC for RMG exports to USA	Y	N
7	DOMG Clearance letter for export of mineral products	Y	Y
8	Excise Certificate for exports of beer, spirits and cigarettes		
9	Phytosanitary /Health Certificate for plants and animals	Y	Y
10	DOF/DFO Permit for export of forest products incl. herbs	Y	Y
11	Recommendation or License or Clearance Letter of the concerned agency where applicable		

*: Similar procedures to imports from TAR.

Y: Required. N: Not required.

++ GSP is required by overseas buyers to obtain tariff concessions under GSP scheme in the GSP facility providing country.

Foreign exchange control in exports is undertaken by banks to confirm that payments for the goods shipped from Nepal have been or will be received in time. There is no limit on advance payments for third country exports, but the buyer is required to remit the foreign exchange amount through a bank or to exchange with a bank while visiting Nepal. The bank receiving such payment issues a certificate of advance payment in a specified format to the seller or to the exporter nominated by the foreign buyer. This certificate must be produced for customs at the time of export. It is the responsibility of the bank to ensure that the L/C terms and conditions are fully met before accepting shipment documents and releasing

payments to the exporter. The banks are required to submit BBN1 forms to the NRB weekly. The BBN1 includes the L/C amount, number, date, exporter's name and address, description of the goods and the name of the corresponding bank. Similarly, banks must also submit BBN2 forms to the NRB weekly. The BBN2 contains details of the incomes of foreign exchange from exports under the L/C, advance payments or CAD. Banks are required to submit the BBN2 containing details of cases in which payments in exports have not been received within the stipulated time of six months.

A Phytosanitary Certificate (PC) is required in both the export and import of plants and plant products. The PC is issued by an authorized agency at the place of origin, but it is subject to examination by the importing country and the importing country also issues a PC. This requirement is stated in the Plant Protection Act 2007 and in the Plant Protection Regulation 2010. For imports into Nepal of materials that are subject to quarantine examination, the importer must apply in advance, with supporting documents, to Plant Quarantine (PQ) check posts and a fee of 200 NPR per PC. If a PC is not obtained in advance, on-the-spot examination and certification of the imported plants and plant products is required and the PQ Offices charge a fee of 1,000 NPR per PC. In case of exports, the fee is 100 NPR per PC.

Transit transport procedures in Nepal's third country trade

The Nepal-India bilateral transit treaty, together with the protocol and memorandum attached to it, lays down detailed documentation procedures, modes and routes of road transport, gateway ports, border entry and exit points and transit insurance requirements. Most imports transported by sea arrive at the ports under the administrative control of the Kolkata Port Trust (KPT), Kolkata and Halida, and these are the only ports permitted for the passage of Nepal's third country trade traffic. Bilateral consultations are underway to use other seaports for the movement of traffic-in-transit. But this has not yet been finalized. The Haldia Port, located 120km southwest of Kolkata, is a modern containerized port that came to operation in the second half of the 1970s. For cargo clearance from Haldia Port, the customs processing of documents that used to be completed and cleared at Kolkata Customs can now be processed with the separate customs cell at Haldia Port. The protocol to the bilateral treaty of transit has specified 15 border entry and exit points for the passage of third country trade. These are Indian border customs posts at: Sukhia Pokhari, Naxalbari (Panitanki), Galgalia, Jogbani, Bhimnagar, Jayanagar, Bhitamore (Sitamarhi), Raxaul, Nautanwa (Sonauli), Barhni, Jarwa, Nepalgunj Road, Tikonja, Gauri Phanta and Banbasa.

a. Imports

Duty Insurance

The system of insuring goods against the loss of import duty in India accruing from the loss and pilferage of goods in transit is called duty insurance.

After the amendments made to the 1999 treaty of transit, the duty insurance is required only on those goods that are specified by the GOI from time to time as sensitive, with prior intimation to the GON, and the importer is given the option of giving a bank guarantee in lieu of such insurance. For goods other than the specified sensitive ones, the importer is required to submit to the Kolkata Customs Commissioner a legally binding undertaking that the amount equal to the difference between the market value (MV) of the goods in India and their CIF value shall be paid, on demand, to the Kolkata Customs Commissioner in the event of the goods not reaching Nepal. Currently only the Kolkata based office of the Indian National Insurance Company Limited (NICL) issues the duty insurance policy.

As per paragraph 9 of the import procedures in the memorandum attached to the transit treaty, there are three types of duty insurance policy. The one chosen depends upon the means and ownership of transport. The three types are listed below:

Mode of transport	Insured value
i. Rail	Customs duty
ii. Road-vehicles belonging to Nepal Transit and Warehousing Company Limited (NTWCL) or Nepal Transport Corporation (NTC)	Customs duty plus an undertaking by NTWCL to the difference of Market Value (MV) minus (Cost Insurance and Freight + Customs Duty).
iii. Goods moving by vehicles other than ii	MV minus Cost Insurance and Freight

Currently, the market value of non-sensitive goods, including cement and fertilizer, is fixed at 175 per cent of the CIF value, and that of sensitive goods is fixed at 200 to 250 per cent. The rate of the duty insurance premium is 0.3 per cent (30 paisa) on all types of cargo, with an additional charge of 10.3 per cent tax (i.e. 10 per cent service tax, 0.2 per cent education cess and 0.1 per cent higher education cess) and plus 1/- INR as stamp duty. For carrying containerized cargo to Nepal, an additional 274 INR for one TEU and 546 INR for one FEU container are to be paid to the insurance company.

The duty insurance is waived on goods imported by Nepalese public agencies, provided an undertaking is given by NTWCL to the Kolkata Customs. But this does not waive the liability to pay the customs duty to the Indian customs in case of loss and pilferage of goods in transit. NTWCL levies a fee of 0.07 per cent on cement and fertilizers, and 0.15 per cent on other goods of CIF value, against the issuance of the letter of undertaking to the Kolkata Customs. For rail carriage there is a separate provision to make Indian Railways, where liable as carriers under the Indian Railways Act, liable to pay the CIF price to the importer in the event of loss of goods.

Processing of documents at Kolkata Customs can start only after the filing of an "Import General Manifest" (IGM) by the Shipping Line or Ship's Agent as the rotation number and ship's manifest line number need to be shown on the Customs Transit Declaration Form

(CTD). The IGM is generally filed before the arrival of a vessel. But in most cases this is filed only after the arrival of the vessel as the vessels operate as feeders shuttling between Kolkata, Singapore, Colombo and sometimes Bangkok, requiring changing the Bill of Lading (B/L) from the mother vessel's name to its feeder vessel's name. Sometimes considerable time is lost in locating the cargo and obtaining a correct B/L or delivery order in place of the original B/L.

The importer has to send all original shipment documents, along with a letter of authority, to the Clearing Agent (CA) who is licensed as Customs Sarkar by the Kolkata Customs for customs clearance and also licensed as Jetty Sarkar by the KPT for cargo clearance at Kolkata Port. The importer also has to endorse the B/L in the name of the nominated CA. The requirement of original documents applies to clearance of transit cargo at Kolkata (Haldia) Ports since the bilateral Rail Services Agreement between Nepal and India allows for submission of copy documents for the cargo destined to Birgunj ICD.

The CA obtains the delivery order against the B/L from the concerned shipping line after paying necessary dues, if any. The CA also obtains the duty insurance policy document from the NICL for private sector imports or a letter of undertaking from the NTWCL for public sector imports. After completing these, the CA prepares the CTD (in six copies). The documents the CA must file with the Nepal Section in the Kolkata Customs House are listed below (no copies or electronic copies are accepted):

CTD (Red colour for private imports and green colour for government imports)

Duty insurance document for sensitive goods or legally binding undertaking for other goods, or an undertaking letter from the NTWCL for public sector imports

Duty Insurance or the NTWCL's undertaking letter for taking a container to Nepal

Delivery order of the Shipping Line or original B/L

Authority letter to act as CA

Original Invoice

Original Packing list

Copy of L/C certified by the L/C issuing bank or by the Nepal Consulate General (NCG)

Original Certificate of Origin

Original Import License, if applicable

Additional documents for specific cargo such as a Health Certificate for raw wool or a Phytosanitary Certificate for plants and animals when these are imported as Less than Container Load (LCL) cargo.

One of the important changes brought by the 1999 treaty of transit was that it clearly specified, for the first time, that Nepalese importers must only submit four documents: the B/L, invoice, packing list and a copy of the license (authenticated by the NCG in Kolkata) or a copy of the L/C (certified by the L/C issuing bank), and that no other additional documents may be asked for, except where necessary for the clearance of specific goods. But the Kolkata Customs continues to require a COO and all the other documents.

For moving containerized cargo, the CA has to submit a cash deposit or bank guarantee, or a bond covering the equivalent amount of the value of container, to the shipping line to obtain permission to take container to Nepal and bring it back. The value of a container differs from one shipping line to the next. Some shipping lines also require separate insurance of the container against any damage or loss. Permission from customs must be obtained by submitting a permit of the shipping line as well as duty insurance. For containerized government cargo, a letter of undertaking from the NTWCL for the value of 30,000 INR per TEU and 60,000 INR per FEU must be submitted to the Kolkata Customs.

As provisioned in the transit treaty, the CTD must contain information such as the name of the ship, rotation and line numbers, name and address of the importer, number, description, marks and serial number of packages, country of consignment and country of origin (if different), description of the goods, quantity of the goods, value of the goods, import license number and date (if applicable), L/C number, date and name and address of the issuing bank, and routes of transit (one of the mutually agreed road routes as mentioned in the transit treaty), with a declaration at the end in the following words:

"I/We declare that the goods entered herein are for Nepal in transit through India and shall not be diverted en-route to India or retained in India.

I/We declare that all the entries made herein above are true and correct to the best of my/our knowledge and belief."

Signature

After the documents, along with the CTD, are filed at Kolkata Customs, an Assistant Commissioner (AC) who deals with Nepal and Bhutan transit cargo gives clearance, generally within two to four days. The appraiser and AC sign the originals and return the documents to the CA after retaining three copies of the invoice, the 5th and 6th copies of the CTD and one copy each of the other documents. The CTD is stamped (on the reverse side) with a rubber stamp instruction, depending upon the request made in the CTD, in the name of Shed Appraiser/Preventive Officer to check the one-time-lock (OTL) for taking containers to Nepal, or to allow loading of the cargo into an open truck or container trucks.

Thereafter, the CA approaches the Customs Shed Appraiser and Examining Officer (EO) at the concerned shed at the port with the documents cleared by the Kolkata Customs.

Meanwhile, the CA obtains a bill for port dues from the port shed, and makes payment at the payment counter. The CA then takes the payment receipt back to the concerned shed to obtain clearance from the staff or stevedore of the shipping line.

Both the appraiser and the EO normally examine the seal number and conditions of the OTL of containers at the port shed. If the goods are to be de-stuffed, about 5 per cent of all the packages are checked to ensure that the contents are in accordance with the CTD declaration. If the OTL is found damaged or tampered with, the customs will allow the CA or shipping line to prepare a fresh OTL by endorsing the OTL number in the CTD. Then the appraiser and EO issue "Pass Out" orders on the back of the CTD. After booking the port workers and the mobile crane of the port or private operator, and also the lock and key from the customs for non-containerized goods, the container is allowed to be loaded onto a flat truck or trailer or loaded on a break bulk from the shed or containers to trucks, as the case may be, in the presence of the EO or Preventive Officer (PO). After the loading is completed, the PO makes the necessary endorsements on the back of the CTD, noting down the seal number of the OTL and, in the case of break bulk, the lock and key numbers. The fourth copy, also called the "queen" copy of the CTD, and the Delivery Order and one copy each of the invoice and the packing list are retained by the port shed for their records.

After completion of the loading at the shed, the PO issues a temporary permit called the "Transit Pass" (TP) to the CA or the driver of the vehicle. The TP permits clearance at the border pending the issuance of the sealed cover containing the second and third copies of the CTD, especially in those cases where the full consignment could not be cleared in one day. After the Raxaul Border raised objections to the frequent issues of TPs in 1999, the TP system was almost abandoned, except for bulk cargo that requires a number of days to complete deliveries from the port. After the final endorsement on the CTD by the port customs, a photocopy is made and signed by the PO for carriage along with the cargo by the driver. This is used as a replacement for the TP and is accepted by Raxaul Customs for clearance and onward transportation of cargo.

After the delivery of cargo and endorsement of documents by the port customs, which normally takes one full day, the CA generally goes to the Kolkata Customs on the following working day to obtain a sealed cover (an envelope closed with the customs seal). Another section of the Kolkata Customs records the details of the cargo delivery and the CTD number and then hands over the original CTD to the CA and makes a sealed cover containing a key of the customs lock on the transport, the duplicate and triplicate copies of the CTD, and the railway receipt (for cargo dispatched by rail). The sealed cover is supposed to be sent by post to the concerned border customs. But as an option to avoid delay in postal transmission, the sealed cover can be handed over to the CA. As spelled out in the treaty, this facility is not allowed to an importer or authorized representative who defaults in the production of these documents, within a reasonable period, to the Indian border customs.

The CA generally sends the sealed cover, together with the other documents, by courier to his authorized agent or to the importer's nominated agent stationed at the border, or sometimes to the importer in Nepal.

Procedures at the Indian border: When the goods arrive at the India border customs, an importer or his authorized CA presents the original CTD along with the sealed cover to the border customs. In cases where the original CTD or the sealed cover is not available or where partial shipments are made by breaking the CTD into different delivery lots, the TP or the photocopy of the CTD, endorsed by the port customs, is provided to the border customs. The customs officer at the border customs compares the original CTD with the duplicate and triplicate copies received in the sealed cover. The customs officer examines the OTL of containerized cargo or the lock and seal of the conventional transport, as the case may be. If the seals and/or locks on the wagons, trucks or containers and on packages are intact, the customs officer identifies the consignment with the CTD, and if satisfied, endorses all copies of the CTD (normally without examining the goods). The customs officer then allows onward transportation or unloading or breaking the bulk, as the case may be, under the customs supervision. If the seals and locks on wagons, trucks or containers or on packages are not intact, or if there is anything suspicious, the customs officer examines the goods to ensure that they correspond with the information contained on the CTD before endorsing it.

After customs checking at the border and endorsement of the CTD, the goods are allowed to move to Nepal by road. The customs officer will provide necessary escorts or supervision to ensure that the goods cross the border and reach Nepal, and will certify on the copies of the CTD that the goods have crossed into Nepal. Then the original CTD is returned to the importer, the duplicate is sent to the Kolkata Customs and the triplicate CTD to the corresponding Nepalese border customs, which is then retained at the Indian border customs after it is received back duly endorsed by the corresponding Nepalese customs officer.

If a consignment in transit, particularly bulk cargo, is received at the border in more than one lot, the Indian border customs office releases the goods in lots, after necessary examination, and endorses the relevant documents only after the release of the entire consignment as covered by the CTD, and sends the third copy (triplicate) of the CTD to the Nepalese border customs.

If the duplicate and triplicate of the CTD are not received at the time of the arrival of the goods at the Indian border, the border customs will contact, by telephone or other rapid means of communication, the Kolkata Customs to seek confirmation so as to prevent delay and, on the basis of confirmation so received, allow dispatch of goods.

The Indian border customs is required to send daily telexes or faxes to the Kolkata Customs giving details of the original CTDs received from the importers that day. This must

be followed by a postal confirmation. The Indian border customs is also required to forward the triplicate copies by speed post to the Kolkata Customs daily, after they are received back from the corresponding Nepal border customs.

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 (Kolkata) or such extended time as the concerned AC may allow. A penalty of 1 INR per week for every 1,000 INR of the Indian market price of the goods is payable by the importer for any delay in presenting the original CTD.

The 1999 transit treaty made a new provision requiring Nepalese customs to send a telex or fax communication on a daily basis to the Kolkata Customs giving the number and date of the CTDs received that day, confirming that the goods have been received in Nepal. These particulars also have to be sent by post within a week.

b. Exports

An exporter or CA must submit the CTD (yellow) in quadruplicate, providing the following information: name and address of exporter; number, description, marks and serial number of packages; country to which consigned; description of the goods; quantity of the goods; value of the goods; export license number and date (if any); country of origin of goods; L/C number; date, name and address of the issuing bank; route of transit (one of the mutually agreed routes); and the Indian customs office of entry from Nepal, with a declaration at the end in the following words:

"I/We declare that the goods entered herein are of Nepalese origin, are for export from Nepal to countries other than India and shall not be diverted en-route to India or retained in India."

"I/We declare that all the entries made herein above are true and correct to the best of my/our knowledge and belief."

Signature

The exporter or CA submits the CTD along with the documents listed in Table 12. The consignment is checked against the documents, and the Nepalese customs officer the endorses CTD with the following certification:

"I have verified that the goods specified in this declaration and of quantity and value specified herein have been permitted to be exported under license numberdated..... (wherever issued) and under letter of credit number.... Dated... issued by..... (name and address of the issuing bank)."

Signature and seal

After payment of customs dues, the Nepalese customs gives clearance to move the cargo to India. If a container was booked with a shipping line, the cargo is loaded into a container at the customs premises. Containers can also be brought to Kathmandu and other factory sites for the loading of export shipments. Sometimes containers carrying import cargo are then utilized for exports after they are emptied.

The CA takes the export consignment to the Indian border customs and submits the following documents:

- CTD, duly endorsed by the Nepalese Customs

- Original Invoice

- Original packing list

- Certified copy of L/C or Certificate of advance payment

- COO

- Duty insurance policy or legally binding undertaking in the name of the concerned Commissioner of Customs

- Authority letter of the CA

The Indian Customs at the border checks the OTL of the containerized cargo and, if found intact, allows onward transportation without physical examination of cargo unless there are valid reasons to do otherwise. If the OTL is found broken, then the goods are checked to ensure that they are in accordance with the CTD. Then a fresh OTL is put on the container, with its serial number endorsed on the CTD, before permitting onward transportation to Kolkata. The Indian customs make a selective percentage examination of non-containerized goods to check that they are as per the CTD. As in imports, sensitive goods must be transported in closed railway wagons or pilfer-proof containers that can be securely locked. Containers or wagons, as the case may be, are locked and duly sealed after examination by customs.

After examining the cargo, documents and seals, the Indian customs endorses all four copies of the CTD, hands the original to the CA and retains the fourth copy for its records. The duplicate and triplicate are sent in sealed cover by post to the Kolkata Customs or the sealed envelope is handed to the CA (to avoid delay). The Indian customs officer marks the invoice, packing list and L/C copy as a point of message to the exit port customs for their verification.

The CA sends the documents, including the original CTD and seal cover, either through the driver of the vehicle, by courier service or by a personal carrier for delivery to the authorized CA in Kolkata. It takes two to four days for containers to reach Kolkata Port.

Procedures at the gateway seaport: Kolkata (Haldia): After goods reach Kolkata, the CA files the documents at the Nepal section of Customs House, which compares the original CTD with the duplicate and triplicate copies received separately in a sealed envelope. The Kolkata Customs generally clears the documents within 24 hours of filing. The CA clears the documents from Kolkata Customs and then obtains approval from the KPT for taking the cargo inside the port. Thereafter, the cargo is taken inside the port where the customs EO or PO checks the seals and locks on wagons or containers and vehicles, and compares them with the declaration made in the CTD. If seals and locks are found intact, the EO endorses all the copies of the CTD. If the seals and locks are not intact or there is anything suspicious, the goods are checked on a percentage basis to ensure that they correspond with the CTD before all copies are endorsed. Then the cargo is loaded into a vessel or handed over to the ship's agent at the port. After necessary endorsements, the EO returns the original, duplicate and triplicate of the CTD to the CA who takes them to Kolkata Customs. After making the necessary entries, the Kolkata Customs gives back the original CTD to the CA for submission to the Indian border customs, and sends the third copy to the border customs while retaining the second copy for their records.

Bangladesh transit routes

On 2 April 1976, Nepal and Bangladesh signed two separate bilateral agreements: a transit agreement and a trade and payment agreement. The transit agreement and its protocols specify ports and entry points along with the procedural and documentation requirements for the movement of Nepalese trade to third countries via Bangladesh. One of the notable features of this bilateral agreement is that it stipulates the carriers' liability, whereby the Bangladesh customs are authorized to recover customs duty and sales tax from the carrier, and take penal measures against the carrier where negligence or *mala fide* intention is proved for the loss or pilferage of goods in transit.

Two sea ports: Khulna-Chalna Port and Chittagong Port, and four Bangladesh-India border points: Biral, Banglabandh, Chilhati and Benapole, have been allowed for the movement of traffic-in-transit through the ports and other territory by all means of transportation. Nepal is currently using two border crossings: Biral and Banglabandh. Biral, a meter gauge rail point at the Bangladesh border, was brought under regular use for moving Nepal's trade traffic to and through Bangladesh after the GOI allowed the rail connection from its border metre gauge station at Radhikapore, from 1978, through letters of exchange between the GON and the GOI during the signing of a bilateral treaty of transit in 1978. Though this route is longer than the Kolkata route, the chief advantage of this route is the through movement of railway wagons between Chittagong Port of Bangladesh and the rail terminals at the India-Nepal border without any trans-shipment en route. The metre gauge route faces a number of problems, however, including the need to fulfil the procedural and documentation requirements of two transit countries, a shortage of wagons, disputes between Indian Railways and Bangladesh Railways in balancing the numbers of in-and-out wagons,

different brake systems of the two railways and the limited capacity of Radhikapore Railway Station (it can handle only one full rake wagon at a time). This route was made non-operational in 2006 due to the conversion of the India part of the metre gauge rail track (between Jogbani and Katihar) to broad gauge.

On 1 September 1997, Nepal and India exchanged letters allowing a new road connection of 53 km to be built from the India border point of Phulbari to the Bangladesh border point of Banglabandh. The road distance from Banglabandh to Dhaka is 532 km, 900 km to Chittagong and 690 km road/rail to Khulna. The road route of Phulbari-Banglabandh is allowed only for one Nepal-India border crossing point: Kakarvitta-Panitanki, with the application of a separate set of transit procedures as follows:

Transit transport permitted on all days (initially only on Saturdays and Sundays).

Convoys of not more than 25 trucks at a time.

Maximum convoy of four each way per day.

Transportation only in pilfer-proof containers/trucks, which can be locked.

Permission only to Nepal registered vehicles.

Cargo transportation only during broad daylight with security escorts.

Gross vehicle weight of trucks not to exceed 16.2 MT for conventional vehicles and 19 MT for three or multi-axle vehicles.

Drivers/assistant/cleaners travelling with the truck are required to hold identity cards issued by the GON.

Goods are not subject to usual customs examination and other checks as long as the seals are not tampered with or unless there are valid reasons.

Transit not permitted to carry (negative list) fire arms and ammunition, hazardous cargo, gold and silver bullion, goods prohibited for protecting human, animal and plant life, antiques and similar other objects, and narcotics and psychotropic substances..

The GON appointed the NTWCL as an authorized CA to clear imports and exports at Kakarvitta and Phulbari on behalf of Nepalese exporters and importers. The NTWCL must issue an undertaking letter to the Indian customs in lieu of duty insurance for all types of cargo.

The transit procedures and documentation contained in the Nepal-India bilateral transit treaty for the movement of third country trade apply equally to the movement of Nepal's trade with and through Bangladesh. Since the Kolkata Customs has authorized the border

customs at Radhikapore and Phulbari to process CTDs and other documents, as required by the transit treaty, Nepalese traders do not have to go to Kolkata for the purpose.

NTWCL's branch offices at Kakarvitta and Raigunj, near Radhikapore, are involved in the movement of Nepal's trade with and through Bangladesh. These offices issue letters of undertakings to Indian customs and also provide clearing services from the Kakarvitta office for the goods moving through the Phulbari-Banglabandh route, in accordance with the agreed operational modality.

Transit Procedures in Bangladesh: The Nepal-Bangladesh transit agreement prescribes transit procedures that include using a specified document called the Transit Declaration Invoice (TDI) for imports and exports transiting through Bangladesh routes. For the movement of goods to and through Bangladesh via the Radhikapore-Biral rail route or the Phulbari-Banglabandh road route, Nepalese traders have to meet the procedures and documentation requirements set by the transit agreements (treaties) of both India and Bangladesh; and the CTD in India and the TDI in Bangladesh are processed separately without any link between them.

Imports through Bangladesh: After the shipping line's or ship's agent files the IGM containing the separate sheet called the Nepal Transit Cargo Manifest (NTCM), giving details of Nepal's import cargo, at the import section of the Chittagong Customs House, the NTCM is transferred to the principal appraiser in-charge of the transit group. Then the CA files six copies of the TDI for each consignment, along with the B/L, invoice, packing list and authority letter to act as CA, to the clerk of the transit group. The clerk then makes entries in a separate "Nepal Transit Trade Register" (imports), and affixes a rubber stamp on all copies of the TDI, indicating the receiving number, date and Customs House of entry, and certifies the entries with a signature. After completing the verification of the documents with the contents of the NTCM, the transit clerk forwards the documents in a separate file to the principal appraiser who marks the file to an appraiser of the group. After examination of the documents, the appraiser endorses all copies of the TDI with an order of inspection and then forwards the same to the principal appraiser for confirmation. After confirming the endorsement of the documents, the transit clerk returns to the CA all six copies of TDI for presenting to the Superintendent of Preventive Service, Jetties, and retains all the other documents in the file.

The CA approaches the Customs Superintendent (CS) of the concerned jetty in the port with all copies of the TDI, and the CS then assigns a PO to inspect the consignment, marks and number of packages. If these are found intact, the PO allows loading of the cargo onto the rail wagons or tarpaulin covered trucks. After completion of the loading, the PO seals the wagons or trucks with a customs lead seal and endorses all copies of the TDI, indicating the wagon-wise or truck-wise number of points sealed. After completion of the loading and sealing of the railway wagons, the PO obtains, on all copies of the TDI, endorsement of a railway official as a receipt of goods by the carrier. The PO then puts a confidential note on the duplicate and triplicate copies of the TDI, which are addressed to

the officer in-charge of the exit customs station, indicating therein particulars of the seal used in sealing the wagons, and hands them, in a sealed cover, to the railway official who acknowledges the receipt on the reverse of the original TDI and gives the sealed cover to the railway guard. Then the original TDI is sent to the Transit Group in the Customs House, and the remaining three copies are returned to the CA. If the transit traffic is carried by road, a similar process is followed for the processing and endorsement of the TDI. But so far no information on the use of road transport of transit goods from Chittagong port to Nepal has been received because of the long haulage and the need for trans-shipment between trucks and train or between Bangladesh trucks and Indian or Nepalese trucks at the Bangladesh-India border.

If the PO finds any package damaged or broken, the contents are surveyed in the presence of the importer or the CA and representatives of the Chittagong Port Authority and the ship's agent. After sealing of the packages, they are loaded onto railway wagons or trucks. The damages or short landings are noted on all copies (certified copies) of the TDI, which is then countersigned by all the representatives present.

On arrival of the goods at the exit border point, the border customs receives the sealed cover containing the duplicate and triplicate of the TDI from the railway guard or the truck driver and also three copies of the TDI, along with the Railway Receipt (RR), from the CA. The border customs officer examines the seal on the wagons and, if found intact, gives clearance to the CA for onward transportation. When the transit procedures are completed, with necessary entries on all five copies of TDI, the border customs officer retains the fourth copy for their records and sends the third copy by registered post to the principal appraiser in-charge of the transit group, Chittagong Customs House. Then the second and the other two copies are returned to the CA to facilitate onward movement of the traffic-in-transit.

If the transit goods reach border customs without seals or with broken seals, the border customs physically examines the goods in the presence of the importer's representative or the CA and the railway guard or driver. In such cases, if goods are found missing or short, the missing quantity is recorded on all five copies of the TDI, which is then countersigned by the representatives present. After resealing of the wagons, the goods can be moved onwards.

After the third copy of the TDI is received from the exit customs at the transit group, Chittagong Customs House, it is tallied with the original TDI. Then the Nepal Transit Trade Register (imports) will be completed with necessary entries for the good crossing in full from the Bangladesh border. In case of missing goods, this is indicated on the third copy of the TDI and the appraiser will immediately assess applicable customs duty and sales tax on the missing portion of the goods, and raise a demand under the order of the concerned assistant collector of customs against the carrier, Bangladesh Railways, or the truck owner.

On arrival of the imported goods at the Indian border customs, the CA has to complete all the transit formalities by submitting all of the original documents, including the RR of the Indian Railways, but excepting the B/L. After the processing and endorsement of the CTD

by the Indian customs, the transit cargo is allowed to move to the destined Nepal-India border.

All the procedures and documentation applicable to the clearance of third country imports are followed and completed by the CA at both the Indian and Nepalese border customs.

Exports through Bangladesh: All the transit formalities applicable to Nepal's exports to third countries through Kolkata have to be completed at both the Nepal and India border customs, except that a declaration must be made on the relevant documents, including on the CTD, that the cargo is going to be routed to and through Bangladesh.

On arrival of the export cargo at the Bangladesh border customs, the CA must provide six copies of the TDI, along with the invoice and packing list. After checking, the border customs endorses all the copies of the TDI, which are then also endorsed by the carrier, Bangladesh Railways. The original copy is retained at the border customs, the duplicate and triplicate are given in a sealed cover to the railway guard or truck driver for delivering to the exit Customs, and the remaining three copies are given to the CA. Then the goods are released for onward transportation.

On arrival of the goods at Chittagong Port, the port customs compares the two copies of the TDI received from the railway guard or truck driver with the three copies (along with the RR) provided by the CA, and then checks the seals on the rail wagons or trucks. After verification by the customs at the port, the goods are cleared for shipment, with entries on all TDI copies. The fourth copy is retained by the port customs for ultimate transmission to the Chittagong Customs House, and the third copy is sent back, by registered post, to the border entry customs office. The remaining three copies, including the second copy of the TDI, are handed back to the CA.

After obtaining clearance from the port customs, the CA pays the port dues and obtains port clearance before handing over the cargo to the ship's agent inside the port.

Operation of the Birgunj ICD (dry port)

The rail based ICD of Birgunj has the advantage of being linked with the Indian railway system, after a rail link of 5.2 km from the Raxaul rail terminal was constructed by the GON (under bilateral assistance to Nepal). Though the Birgunj ICD does not function as a real dry port, based on standard practices, the railway movement of containerized cargo at this ICD has facilitated Nepalese trade.

The Himalayan Terminal Private Company Limited, a joint venture between Container Corporation of India Limited (CONCOR), NTVCL and a private sector Nepalese freight forwarding enterprise, is a terminal operator for the management of the Birgunj ICD under a long-term lease contract with the Nepal Intermodal Transport Development Board (NITDB). The ICD came into operation on 16 July 2004 when it received its first rail rake of containerized third country imports from Kolkata Port. The import and export procedures, both for transit trade and bilateral trade, as agreed between Nepal and India, are attached to the Rail Services Agreement (RSA) for the movement of containerized traffic-in-transit between Kolkata (Haldia) Port, Indian rail terminals and the Birgunj ICD. The procedures are improved and advanced compared to conventional practices but fail to reach to the requirements of a dry port operation. The basic difference between the procedures applicable to the traditional movement of transit traffic to or from other border points and the ICD procedures is that Nepalese traders are entirely responsible for any shortages or losses of goods. The traders pay the customs dues to the transit customs under the traditional system but they are responsible for filing documents at the entry transit customs as a part of their commitment to the true and factual declaration of goods, after which the carrier and ship's agents are made jointly responsible for any loss and damage of goods. It becomes clear from the prescribed procedures for Nepal's third country trade as summarized below.

a. Procedures for Third Country imports through Birgunj ICD

Nepalese importers or their CAs must file a document called the Import Containerized Cargo Declaration (ICCD) in quadruplicate, providing similar details and declarations as per the CTD at Kolkata Customs, and submitted along with the other documents submitted at Kolkata Customs. But no duty insurance or NTVCL's undertaking is required since the responsibility for any shortage or loss shifts to the carrier.

The shipping agents need to apply to customs for the issue of a Trans-shipment Permit (TMP) along with an IGM. A TMP is the general requirement as a permit to trans-ship imported goods destined for the ICD.

Nepalese imports are covered by a bond and/or a bank guarantee, as may be acceptable to the Kolkata Customs, to be furnished by the carrier, i.e. CONCOR (a government undertaking) or by Indian Railways, for an amount equal to the Indian customs duties on such goods. If the goods do not reach Nepal, the carrier has to pay the duty amount to the Kolkata Customs.

The shipping agents must also submit to Kolkata Customs another bond as a guarantee against re-export of containers within six months of their import into India. Furthermore, the shipping agents must also submit an authorization from the carriers appointed for transportation of goods so as to issue the TMP and debit carrier's bond.

The details furnished by the shipping agent in the trans-shipment forms are scrutinized by the customs officer and compared with the ICCD declaration. If these are found in order,

the officer debits the bond of the carrier on the basis of the value of the goods indicated in the ICCD. Then the number and date of the ICCD are recorded on the TMP, after which the officer signs and seals all of the copies of the TMP.

On arrival of Nepalese containerized imports, the customs officer at the seaport merely checks the OTL put on the container by the shipping agent or the authorized carrier. If it is found intact, the customs officer allows transportation of the containerized cargo, without examination of its contents. If the OTL is found broken or defective, the port customs checks the goods to verify whether they are in accordance with the ICCD then applies a fresh OTL and allows the container to move to the destination. The serial number of the new OTL is endorsed on the ICCD and the TP.

On completion of the checking, the port customs endorses the loading and dispatch particulars of the goods on all copies of the TP.

If there is any suspicion of pilferage, the traffic-in-transit is subject to checks by the Indian customs during the period that they are in transit.

On arrival of the containerized cargo by rail at Raxaul, the customs officer merely checks the OTL of the container and, if found intact, endorses the TMP and allows onward transportation of the containerized cargo, without examination of the cargo unless there are valid reasons to do otherwise.

If the OTL is found broken or defective, the Raxaul Customs at the railway station gets the container grounded to check whether the goods are in accordance with the ICCD and conform to the import license and/or L/C. The verification process involves representatives of the concerned carrier, shipping agents and importer.

If, on verification, the goods are found to be in accordance with the ICCD and import license and/or L/C, the Raxaul Customs applies a fresh OTL and approves the onward transmission of the container. The serial number of the new OTL is endorsed on the TMP.

On arrival of containerized cargo by rail at Raxaul Customs, the carrier must present the original TMP, duly endorsed by the Kolkata Customs, which is compared by the Raxaul Customs with the duplicate received in a sealed cover. After these checks, customs endorses all the copies of the TMP. The goods in transit are then cleared and allowed onward movement by rail. Thereafter, the carrier, through measures as may be necessary, ensures that the goods cross the border and reach Nepal.

The Raxaul Customs officer certifies on the copies of the TMP that the goods have been allowed transit into Nepal, and then hands over the original TMP to the carrier and sends the duplicate to the Kolkata Customs. After the original TMP is received back, duly endorsed by the Nepalese Customs officer, the Raxaul Customs forwards the same to the Kolkata Customs.

The copy of the TMP endorsed by the Nepalese customs is sent to Kolkata Customs for closure of the manifest with regard to containers transported to the Birgunj ICD. If the carrier is not able to produce evidence of the export of goods to Nepal, and/or the endorsed TMP is not produced within the stipulated time, the carrier's and the shipping agent's bond may be enforced.

b. Procedures for Third Country exports through Birgunj ICD

At the entry customs, Raxaul, Nepalese exporters or their CA have to file four copies of a document called the Export Containerized Cargo Declaration (ECCD), providing details and a declaration similar to in the CTD, along with most of the other documents. But no duty insurance or NTWCL undertaking is required as the responsibility shifts to the carrier.

The shipping agents must apply to customs for the issue of a TMP along with a copy of the ECCD.

The carrier and the shipping agent must furnish a bank guarantee or bond, as described under the import procedures for Raxaul Customs.

All the procedures regarding checking of the OTL, ECCD details and the endorsements on the TMP as described under the import procedure apply to containerized exports after Raxaul Customs allows onward transportation of goods by rail to Kolkata Port.

In case of any suspicion of pilferage, the traffic-in-transit is subject to checks by the Indian customs during the period that they are in transit.

On arrival of the cargo by rail in Kolkata, the Kolkata Customs checks the OTL of containers, as put on by the shipping agent in Birgunj ICD or by the authorized carrier or during transit and so endorsed on the TMP and, if found intact, will approve onward shipment of the sealed export container, without examination of the cargo unless there are valid reasons to do otherwise.

If the OTL is found broken or defective, the port customs checks the goods to verify whether the goods are in accordance with the ECCD and conform to the export license and/or the L/C. The verification process involves representatives of the concerned carrier, shipping agents and the exporter. If, upon verification, the goods are found to be in accordance with the ECCD and export license and/or L/C, the port customs puts a fresh OTL on the container and approves it for shipment. The serial number of the new OTL is endorsed on the TMP.

On arrival of the containerized cargo by rail at Kolkata Port, the carrier must present the original TMP, duly endorsed by the Raxaul Customs, which is then compared with the duplicate received in a sealed cover. After making the required checks, the customs officer endorses all the copies of the TMP. Onward transit of the goods in transit is permitted only after clearance by the port customs officer. The port customs officer certifies, on the copies of the TMP, that onward shipment of the goods has been permitted and then hands the original TMP to the carrier and sends the duplicate to Raxaul for reconciliation of bonds.

A copy of the TMP, endorsed by Kolkata Customs, is sent to the Raxaul Customs for closure of bonds with regard to containers trans-shipped from Birgunj ICD. If the endorsed TMP is not produced within the stipulated time, the carrier's and shipping agent's bonds may be enforced.

Trade-related regulatory agencies

The COOs issued in Nepal are of two types: one type is for general use and the other type is issued in a particular format for the purpose of preferential market access in destination markets. Under the specific type of COO are the Generalized System of Preferences (GSP) form and another COO in a specified form used for preferential market access in India, as provisioned in the bilateral trade treaty.

GSP Form A is issued by the TEPC and is certified by customs at the time of export to the GSP giving countries. The TEPC issues the GSP form to an exporter after obtaining an application along with copies of the invoice, enterprise registration certificate and PAN registration certificate.

For the specific type of COO required for exports under preferential market access in India, the FNCCI is authorized to issue a COO in a seven-copy set as follows:

The original (first) copy is given to the exporter for transmission to the buyer.

Copy to the Nepalese Customs.

Copy to the exporter.

Copy to the Indian border customs.

Copy retained by the issuing office.

Copy to be sent by the issuing district chamber to the FNCCI.

Copy to the DOI.

The exporter submits an application for the COO, along with a copy of the invoice, then receives the first four copies of the COO.

The FNCCI does not issue COOs, and instead has them printed in the name of each district chamber by allocating a separate code to each of them. The FNCCI has delegated authority to issue COOs to 32 district chambers, including the Kathmandu based Nepal Chamber of Commerce. The FNCCI has also made similar arrangements to issue COOs for exports to SAARC countries. The format, as specified by the agreement on SAFTA, is very similar to GSP Form A.

The export of Nepalese manufactured products is given duty free preferential access in India in accordance with the provisions of the bilateral treaty of trade. Such products have to be manufactured in Nepal and accompanied by a COO issued by the authorized district chamber, in the format prescribed by the treaty. A technical committee, headed by the Director General of the DOI and consisting of public and private sector representatives, examines the application and supporting documents submitted by a manufacturing exporter to confirm the manufacturing process of a product intended for export to India. Such examination is generally only done for a new product, when it is exported for the first time to India. In some cases, the FNCCI collects such applications, along with other relevant information, and submits them to the DOI for examination of their eligibility for preferential market access. After the technical committee approves the product, the FNCCI sends instructions to its district chambers for the issuance of the COO for the export of the particular product. The FNCCI has also created a follow-up committee, led by the chamber in each district, to monitor the manufacturing process in line with the treaty provisions.

The FNCCI also issues the general type of COO through its 20 district chambers. Both the specific COO for exports to India and the general COO for exports to third countries are issued in sets of seven copies. The district chambers levy a fee of 17 NPR per set at the time of the application by the exporter, then levies a fee of 12 paisa per 100 NPR (or 0.12 per cent) of the export value at the time of signing and affixing the official stamp. The district chambers remit to the FNCCI 12 NPR out of the 17 NPR they collect, and 6.5 paisa out of 12 paisa they collect. Out of the 6.5 paisa they receive, the FNCCI retains 2.5 paisa and distributes the rest to related organizations, such as product associations, bi-national chambers, trade associations and the TEPC.

Apart from authorizing the FNCCI to issue COOs, the GON has also authorized the Confederation of Nepalese Industries (CNI) to issue the general type of COO used in exports to third countries. The CNI does not levy charges per set but charges a fee at the rate of 12 paisa per 100 NPR of the export value. No application is needed when an exporter provides the invoice, PAN registration certificate and enterprise registration certificate. The COO is immediately filled in and issued with an official stamp and signature in a six-copy set. Out of the six copies, the CNI retains one copy for their official records and hands the remaining five copies to the exporter. The CNI offers a two paisa discount on the 12 paisa fee if the exporter approaches it through well-established industrial exporters, and a 25 per cent discount if the COO is issued by its affiliated district chambers.

For certain handicraft exports, four separate COOs are used for the same consignment: the GSP Form A issued by the TEPC and certified by customs, the COO issued and certified by the FNCCI, an archaeological clearance certificate issued and certified by Department of Archaeology (DOA), and a valuation certificate issued by the FHAN, each being an authenticated documentary proof of origin. For most of the semi-processed and manufactured exports that are accorded tariff concessions by most GSP-giving countries, both the GSP Form A and the COO are used. This has burdened exporters with additional paperwork, costing them time and money.

The use of the COO has unnecessarily complicated export procedures. The COO is needed only when foreign importers ask for it. Therefore, if it is not needed by the buyer, its requirement should not be made compulsory. Moreover, in accordance with Recommendation No. 18 of the United Nations Centre for Trade Facilitation and E-business (UN/CEFACT), an exporter's declaration of origin on the commercial invoice is acceptable. Furthermore, Recommendation No. 18 clearly states that the exporter should be permitted to produce a COO on plain paper in a one-run system, using a photocopier, and that printing of forms on security paper is not required. The textile agreement signed between Nepal and the European Union (EU) on 26 March 1999 allowed derogation on rules of origin under the GSP scheme and recognizes a declaration by the exporter on the invoice or other commercial documents stating that the products in question originate in Nepal for exports of certain categories of RMG exports to the EU market.

It is understandable that the business associations are interested in generating funds from the issuance of COO for financing their activities. These associations may look to alternative sources of incomes, however, rather than issuing unnecessary COOs. The business associations should only issue COOs required under bilateral, regional or multilateral agreements (in which case it is a need of the foreign buyer).

The regulatory and controlling agencies, along with the documents they issue are presented in Table13 below.

Table 13. Trade-related regulatory agencies and their functions

Regulatory agency	Functions	Documents & Fees	Comments
Department of Customs	Revenue collection, trade facilitation and clearance of import-export cargoes.	Specified documents for cargo clearance, and duty (tax) collection at a scheduled rate	
Department of Commerce	1. Enterprise registration	Fees as per a capital scale	
	2. Issuance of licenses and approval letters on exports and imports where required.	Fees as per the value	
	3. Recommendation letter to bank to change entry customs in L/C.	Free of cost	
Commercial Banks	1. Operation of documentary credit.	30 banks, with differing charges	
	2. Trade financing.	Different interest rates	
	3. Reporting electronically to the NRB.		
Plant Quarantine of Department of Agriculture	1. Issue export permits: Phytosanitary Certificate on plants/ plant products/ seeds.	100 NPR per permit	
	2. Issue import permits: Phytosanitary Certificate on plants/ plant products/ seeds.	200 NPR per permit	
	3. Quarantine and fumigation treatment.	Traders themselves arrange required chemicals for on-the-spot treatment	
Department of Archaeology	Examination, sealing and certification of handicrafts for export.	8 NPR, as postage charge, per consignment	
DOF/DFO	Differing royalty charges as per Gazette Notification on forest products.		
Department of Drug Administration	Issuance of GMP certificate with two years validity for production, and CPP issued three months at the time of export/import of medicines.	Free of cost for exports and imports	GMP issued every two years. Both are in conformity with WHO Guidelines
Department of Mines and Geology	1. Licensing of mines.		
	2. Export permit to export mineral products.		

TEPC	1. Issuance of GSP Form A.	a. 10 NPR per set b. 10 NPR per set plus 3 NPR per square metre for carpets of under 80 knots, and 5 NPR per sq. m. for carpets of over 80 knots.	
	2. Recommendation letter to the bank to open an L/C for wool imports of specified quality.	Free of cost	
FNCCI-District Chambers	Issuance of COOs, both for third countries and India exports.	17 NPR per COO and 12 paisa per 100 NPR of the export value.	
Federation of Nepal Handicrafts Association	1. Valuation certificates for handicraft exports for customs valuation.	Fee at 0.25 per cent of the export value.	
	2. No-objection letters for exports of articles made from domesticated animals.	Fixed fee 50 NPR up to export value of 10,000 NPR, and 100 NPR for more than 10,000 NPR value.	
	3. Valuation certifications for exports of articles made of silver to confirm 35 per cent value addition for silver purchases from the NRB.	Fee at 0.25 per cent of the export value.	The GON had decided to waive this but customs needed the valuation.
	4. Issue of Passbooks for exports of articles made of gold to confirm 10 per cent value addition for gold purchases from the NRB.		The GON had decided to waive this; no export due to security system.
Confederation of Nepalese Industries	Issuance of COOs for third country exports.	0.12 per cent or 12 paisa per 100 NPR export value.	
Visa Cell of NPEDC	Recommendation letters for RMG exports to the USA.	250 to 3,000 NPR depending on the volume in dozens.*	The GAN levies the charges.

* 250 NPR for between 1 and 250 dozen, 500 NPR for between 251 and 500 dozen, 750 NPR for 501 to 1,000 dozen, 1,500 NPR for 1,001 to 2,000 dozen, and 3,000 NPR for quantities exceeding 2,000 dozen.

As presented in Table 13 above, there are 9 government sector and 4 private sector controlling agencies involved in Nepal's trade. In the government sector, some of the agencies get involved only when products under their authority are traded.

There are 16 pharmaceutical businesses in Nepal. They have not yet exported their products, though they are trying to find export markets by sending samples in India and some other countries in Asia.

III. Main bottlenecks and impediments in the trade processes

Nepalese traders frequently complain of the high cost of trade transactions as a major factor weakening their competitive strength, especially in cases where Nepalese exports are no longer protected under a quota regime or preferential market access. The margin of tariff preferences that used to be available to most Nepalese products under the GSP scheme have eroded due to tariff reductions under multilateral trading arrangements under the WTO/GATT.

The trade transit procedures and documentation, along with the associated costs, have added to the high cost of transactions, making Nepalese exports costlier than in other developing countries. Depending on the value of a product and the volume of exports, the cost of trade processing and of transportation from production and supply centres in Nepal to the Port of Kolkata is almost the same as the cost of the ocean freight to ship them from Kolkata Port to the main European ports.

Another impediment to trade, among exporters of handicrafts, is that they are required to transport their exportable handicraft products to the premises of the DOA, which is located in highly congested area of the city, for physical verification and sealing by the DOA. This has created problems. Members of the trading community interviewed during the study have expressed that the best way to facilitate trade is to allow the exporters to approach customs only with the invoice and packing list, and that whatever examination or verification is to be done it should take place by the relevant authorities at customs. Handicraft exporters expressed particular concerns, pointing out that exporters of other products are not required to go to the time-consuming process of extra checking of their products before taking them to customs. The DOA examination is only required for old handicrafts of historical and religious importance, and the DOA has published a list of products waived from such examination, but without DOA clearance of all handicrafts, they cannot be processed by customs. Exporters of handicrafts feel that customs should take on the responsibility to verify whether a particular product is exportable as they do for other export products, and, in case of any doubt, refer to the DOA.

With regard to COOs, there are two problems: one is the use of multiple documents for same purpose, and the other is the mandatory use of the COO. At a time when the concept of borderless trade is gaining momentum under the multilateral trading system, the need for a COO for all exports seems quite an out-dated practice. International organizations such

as UN/CEFACT and the World Customs Organization (WCO) have recommended using the COO only when it is required by a buyer in the importing country. But exporters in Nepal are required to go to as many as four different agencies to obtain four types of documents, each of which are of full COO qualification.

The compulsory requirement of a COO derives from Section 21 of the Customs Rules of 2007, which lists the COO as one of the documentary requirements for the clearance of third country exports and imports. Paragraph 2 of the import procedures of the memorandum to the protocol to the treaty of transit states that the “country of consignment and country of origin, if different” must be listed in the CTD, along with other specified details in the CTD. This is interpreted to mean that a COO form is required. Paragraph 3 of the same document, lists only four documents to be completed for the filing of the CTD for the Indian customs, however, these are: the invoice, packing list, certified copy of the L/C and, copy of the import license, whenever issued. The COO is not listed as a necessary document. Similarly, paragraph 2 of the export procedures of the memorandum notes that the country of origin of the goods must be provided, along with the other details, in the CTD form. Under paragraph 3, however only three documents are required: the invoice, packing list and certified copy of L/C. Accordingly, the CTD form for imports contains a separate column for declaring the country of origin, and the CTD form for exports contains Nepal as the country of origin along with a declaration at the end of CTD form: “I/we declare that the goods entered herein are of Nepalese origin, are for export from Nepal to countries other than India, and shall not be diverted en-route to India or retained in India”, and “I/we declare that all the entries made herein above are true and correct to the best of my/our knowledge and belief”.

Although the Nepalese customs has improved its operations and clearance processes, particularly with the recent application of selectivity and brokers modules under the Automated System for Customs Data (ASYCUDA), customs clearance is not as fast as it should be. Traders or their authorized CA have to spend considerable time queuing for cargo clearance at major customs offices. The slow clearance is partly due to the lack of adequate physical facilities, handling equipment, x-ray machines, weighing bridges and platforms for cargo checking.

As the focus should be on minimizing the quantity of documentary requirements, banking procedures also need to be simplified. Since all banks are linked with the NRB for daily data transfers, for reporting of the daily L/C transactions, among other things, the need for using foreign exchange control forms such as the BBN1, 3 and 4 should be reconsidered. The daily electronic transmission of L/C transactions by banks to the NRB fully justifies the elimination of the BBN1 for exports and BBN3 for imports. The BBN4 (required at the time of import cargo clearance) could be eliminated by establishing electronic networking between customs, banks and the NRB.

The present system of requiring a recommendation letter from the DOCM to amend the customs entry point in an import L/C by banks should be eliminated. The DOCM receives

an application from an importer requesting issuance of a letter to the L/C opening bank authorizing the change in the entry customs point; the DOCM does not ask for justification or investigate the reason for changing the customs entry point. DOC officials have reported that most such requests are received for changing the customs entry point from Birgunj and Birgunj ICD due to delays or congestion in a particular route and mode of transport. As such, the requirement for a letter from the DOC is just an additional hurdle imposed on importers, without any necessity. The banks need to be enabled to change the customs entry point in the L/C, as for other agreed amendments for that document.

Traders are required to comply with documentary procedures of the two transit countries of Bangladesh and India when using Bangladesh transit routes, and in particular, must undergo separate processing of the CTD in India and the TDI in Bangladesh. This causes delays and is therefore costly to Nepalese traders.

Nepalese traders had imagined, during the construction period, that the rail-based Birgunj ICD would really operate as a dry port whereby export shipments could be handed to the shipping lines at the ICD against a "Through B/L", and, similarly, import cargo could be received from the shipping line against the production of a "Through B/L", and that they would not have to go to the gateway port or appoint a clearing agent to process any documents, as the shipping lines would be responsible for the end-to-end movement of cargo. But the RSA signed between Nepal and India came up with a set of procedural formalities that, while an advance on the traditional transit procedures, fell far short of standard dry port procedures. Consequently, the operation of the dry port has not resulted in substantial cost and time savings in transit trade as had been expected.

Transport economics is the main factor for high transit transport costs in Nepal's foreign trade. Nepal's foreign trade is highly unbalanced, with far more imports than exports. Furthermore, the majority of imports originate in the east (mainly India), whereas most exports are destined for the west, and this has a great impact on shipping freight rates as well as on the transit transport costs between Nepal and gateway ports. When calculating the volume of containerized movement of rail traffic between Kolkata (Haldia) Port and Birgunj ICD, if we consider only third country trade, the total exports to third countries accounted for 13 per cent of imports in 2009/10 compared to 36 per cent in 2005/06. Assuming the same percentage ratio as volume ratio, we can see that for every 100 containers arriving with imports from Kolkata Port to the Birgunj ICD, the return load is only 13 containers. The rail movement is rake-based, carrying 60 to 80 TEUs at a time. The resultant effect of this imbalance is a high dwell time for export containers, as they must wait for the formation of rail-rake loads. Therefore, most export containers move by road to Kolkata whereas import containers move by rail to the Birgunj ICD and save costs by about 20 to 30 per cent in freight in comparison to higher road transport charges.

The requirement of original documents, and particularly the B/L, for the processing of the CTD with Indian customs has also been a cause of delays in cargo clearance and adds to traders' costs, due to high demurrage charges. Most shipping vessels carrying import cargo

originating in East Asia and South-East Asia reach Kolkata Port before the original documents, which are routed via Kathmandu. With the current rapid development of the IT sector, together with the networking development among the trade regulatory agencies in Bangladesh, India and Nepal, clearance of transit cargo should be gradually modified to be based on electronic copies of documents transmitted through Electronic Data Interchange (EDI).

IV. Major initiatives on trade and transit facilitation

National initiatives

When moving from the southern plain areas to the north, freight vehicles need to negotiate steep hills and hair-pin curves and this difficult route increases the unit cost of transportation. The transport cost is further increased by the imbalance between exports and imports, with the return loads lower than in-coming ones. In addressing this issue, one of the notable developments has been the initiation of the construction of a fast track road linking Kathmandu with Nijgadh in the southern plain area. The construction process has been very slow, however, with only 21.5 km completed out of a total of 76 km, after 14 months of work.⁹ It is expected that it will take at least another five years to finalize the construction and complete a road on which vehicles will be able to drive at a speed of over 80 km per hour (on the plain part of the road). This road is expected to substantially lower transport costs for Nepali traders.

There has been a significant change in applicable foreign exchange control over third country imports. Until 2009, the NRB had imposed restrictions on separate payments for freight in third country imports, with imports allowed only on a CIF or C&F basis. The previous system had deprived importers of buying products at competitive prices (through negotiating with shipping agents for cheaper freight rates). NRB now allows Nepalese importers to buy on any terms, including ex-warehouse or FOB, as contained in the international commercial terms (Incoterms®) 2000 of the International Chamber of Commerce (ICC).

The comprehensive trade policy of 2009 covers recognition of the need and importance of trade and transport facilitation, especially for reducing the transaction costs. The NITS also recognizes trade facilitation as a key component of export promotion programmes in the medium term. However, the responsibilities have yet to be assigned to a lead agency that will work on a committed time schedule.

The three ICDs at Biratnagar, Birgunj and Bhairahawa have facilitated trade through safe storage, expanded parking and handling space, office amenities and fast customs clearance of goods. These advantages of ICDs have led to the construction of another ICD at Kakarvitta, with the financial assistance of the ADB. Following completion of the

⁹ Gorakhapatra, Nepali daily dated BS 2067/09/27 (11 Jan 2011).

construction in July 2010, the NITDB became responsible for managing the ICD pending the finalization of the selection of a terminal operator.

Another ICD will be created with assistance from China. The new ICD will be located at Larcha in Nepal, 7 km from the northern border of Tatopani, the main trading point with TAR, and 110 km from Kathmandu. The NITDB, which was created as a regulatory and custodian agency of the GON, will undertake feasibility studies for establishing ICDs at other posts, such as Krishnanagar, Malangwa, Mahendranagar and Rajbiraj.

The GON has established a SEZ project with the aim of developing economic processing zones with a view to reducing the cost of exportable goods by enhancing the competitive capacity of industries established in the zone. This is designed to encourage production practices based on labour value competition and the latest production technology. But the project is still in the initial stages due to a lack of sufficient funding for creating the physical facilities and the absence of the enactment of a law that could attract investors, including FDI. As of 2011, no industries have been established in SEZ in Nepal.

At the Bhairahawa SEZ, the fencing wall has been completed, infrastructure such as administrative and service buildings have been built and basic services (electricity, water supply and sewerage) are under construction. In Birgunj, land has been acquired from the Birgunj Sugar Mill and work has begun on constructing the compound wall. Feasibilities studies are underway for creating SEZ at places such as Dhangadhi, Panchkhal, Jhapa and Nuwakot.

Another significant national initiative is the ongoing modernization of customs management and operations in Nepal. After the removal of the licensing system in trade, along with other facilitation measures, customs has become the key player in trade facilitation. In the meantime, however, customs has become over burdened with responsibilities relating to compliance, including processing of transit documentation, foreign exchange control documentation and other procedural formalities with a view to facilitating legitimate trade.

Under ASYCUDA, the DOC has so far introduced the customs branch module, the agent module (broker's module), the accounting module, the selectivity module and the system module. With the aim of facilitating trade through simplified customs procedures, the number of steps for cargo clearance has been reduced in five customs posts: Biratnagar, Birgunj, Birgunj ICD, Bhairahawa and Tribhuvan International Airport (TIA), through the introduction of the selectivity module and the brokers' module. Five additional customs posts: Tatopani, Mechi, Krishnanagar, Nepalgunj and Kailali have also operated the brokers' module. Altogether, 10 customs posts use the brokers' module (out of which only five have the selectivity module). Therefore, ASYCUDA is now in operation at 10 customs posts.

As result of the implementation of the selectivity module, about 40 per cent of consignments are cleared per day through the green channel, i.e. customs clearance without physical verification. Moreover, the introduction of the brokers' module has made it easier to electronically file customs declarations. Clearing agents are given access to a room with computers in it, in which they can enter data in the formatted declaration form (SAD), which is entered automatically into the customs server, and then the electronically generated SAD form is ready for further processing. The electronically generated SAD is yellow for exports and blue for imports. The brokers' module has eliminated the need for a manuscript copy of the customs declaration form, and allows clearing agents to key in the information then print out the form. The traders cannot use their own personal computers (PCs) for completing the declaration but customs agents can now enter customs declaration data in their home computers and transfer the information to the computers at customs premises.

In 2011, the DOC established a Wide Area Network (WAN) connecting seven customs offices with the DOC. This connection has helped in immediately introducing new customs tariffs through electronic means, as the installation of the WAN required sending IT experts to each customs office .

Since 2003, the DOC has adopted its own three-year periodic programmes and action plans for the modernization and reform of customs management and operations. As of 2011, the DOC is implementing the 2009-13 Action Plan, which has the aims of promoting and facilitating legitimate trade, protecting society and collecting revenue. The stated activities included, among others, study of international conventions and use of relevant standards as the basis for imports and exports, and reengineering all customs clearance procedures in line with the revised Kyoto Convention by 2009/10. It is expected that the implementation of the planned actions will result in more cost- and time-effective customs procedures that will facilitate trade. Furthermore, the action plan aims to introduce the Single Window (SW) system, in three stages. Under the first stage the DOC will select an appropriate expert. The second stage will involve improvement of other stakeholders' systems for linking with custom's Single Window system, (which was scheduled for completion in 2009/10). The third stage will involve establishing the actual operation of the SW system. The DOC has created a separate Customs Reform and Modernization Section to oversee the implementation of the Action Plan.

In April 2009, Nepal conducted an assessment of its trade facilitation needs and priorities in the context of WTO negotiations on trade facilitation related provisions of GATT Article V (Freedom of Transit), Article VIII (Fees and Formalities connected with Importation and Exportation) and Article X (Publication and Administration of Trade Regulations). A meeting was held to consider 59 proposed measures of which 3 appeared to be complied with, 40 partially complied with, 13 not complied with and 3 not applicable to Nepal. The meeting brought together 50 representatives from the public and private sectors and was facilitated by officials from the WTO and the World Bank. This meeting was the first time in Nepal that the Single Window facility was discussed on a formal level. The Single Window was accorded high national priority, though it was noted that Nepal needed time to adopt the system fully. Several barriers to adopting the system were recognized: lack of comprehensive legal and institutional arrangements; inadequacy of physical facilities and infrastructure; lack of efficient coordination mechanisms between agencies; and the

absence of state of the art technology, software and networking. Consequently, it was noted that there is need for technical assistance in three areas: infrastructure development, training on specific subject matter, and the provision of relevant IT equipment and facilities.

The Nepal Enhanced Capacities for Trade and Development (NECTRADE) project being implemented in partnership by the GON and UNDP has the MOCS as its focal point. In 2003, the GON collaborated with UNDP to implement a project titled “Nepal’s Accession to WTO”, which aimed to identify and assist in strengthening institutional capabilities, including facilitation of trade and transport. In the post era of NTCS identification of priority areas for trade development coinciding with Nepal’s accession to WTO in September 2004, the project was given continuity to carry out focused activities relating to, inter alia, capacity building in both the public and private sectors in areas of membership obligations, awareness building, trade and transit transport facilitation and training.

Another national initiative implemented by the GON is the Economic Policy Network (EPN), initiated with ADB support. The EPN was established in 2004 with the creation of its focal unit at the Economic Affairs division and Policy Analysis division of the MOF, which is the executive agency. The EPN is guided by a Steering Committee chaired by the Member of the National Planning Commission (NPC). In addition, four advisory committees, chaired by the respective secretaries of the implementing ministries, work under their related thematic issues. Representatives from both the public and private sectors participate in the workings of the EPN. Three policy studies relating to trade and transport facilitation have been completed so far under the EPN: the “Tax policy for export promotion” study, the “Sustaining the Nepalese garment industry after quota abolition” study, and the “Policy reorientation study on transit trade of Nepal”. Under EPN II, which began in 2008, studies began on two policy areas: the services sector and the bilateral and multilateral trade regime.

Regional Initiatives

The SAARC Preferential Trade Arrangement (SAPTA) came into existence on 11 April 1993 with the aim of enhancing trade and economic relations among the SAARC member countries. On 6 January 2004, as a succession to SAPTA and in recognition of the need for further liberalization of intra-regional trade, the agreement on a South Asian Free Trade Area (SAFTA) was finalized. The SAFTA, like its predecessor the SAPTA, has made general provisions for facilitation of cross border movement of goods, elimination of tariffs, para-tariffs and non-tariff restrictions, as well as adoption of trade facilitation and other measures together with progressive liberalization of relevant legislation. The agreement also contains some specific provisions such as harmonization of standards, reciprocal recognition of tests and accreditation of testing laboratories and certification of products, simplification and harmonization of customs clearance procedures, transit facilities for efficient intra-SAARC trade (especially for landlocked countries), and development of communications systems and transport infrastructure.

The 12th SAARC Summit, held in Islamabad between 4 and 6 January 2004 emphasized the need to strengthen transportation, transit and communication links across the region. Accordingly, the SAARC Regional Multimodal Transport Study (SRMTS) was undertaken, in two phases, with the technical and financial assistance of ADB. Under the first phase, national experts prepared country reports identifying existing and potential transport corridors or gateways, with the main focus on movement of trade traffic. The country reports also indentified major physical and non-physical barriers that need to be addressed to make the corridors suitable for carrying intra-regional trade traffic. Under the second phase, the country reports were studied and analysed in detail by regional consultants, leading to the selection of corridors or gateways for all modes of transport from the perspective of intra-regional trade for further development and enhanced connectivity in the region. The corridors (gateways) identified by the SRMTS relating to Nepal's connectivity in the region are listed below.

Road Corridors:

Kathmandu- Birgunj- Kolkata/Haldia (1,323km)
Kathmandu-Kakarvitta-Phulbari-Banglabandh-Mongla/Chittagong
(1,314/1,394km)
Kathmandu-Nepalgunj-New Delhi-Lahore-Karachi (2,643km)
Kathmandu-Bhairahawa-Sunauli-Lucknow (663km)

Rail Corridors:

Birgunj-Raxaul-Kolkata Port/Haldia (704/832km)
Birgunj-Katihar- Chittagong Port (1,146km)

Since the study was undertaken, a broad gauge rail link, then under construction, has been established at Jogbani, the Indian border point across from Nepal's border town of Biratnagar in the south-east. After the Birgunj-Raxaul border point, Biratnagar-Jogbani is the next most important border for Nepal, with the second largest trade volume. Moreover, this point provides the nearest broad gauge rail linkages to the Kolkata (Haldia) Port in India and the Mongla (Chittagong) Port in Bangladesh.

The SRMTS also specified physical and non-physical problems, along with their remedies, for all of the identified routes and transport modes, including gateway seaports, inland waterways and air routes. One of the main physical problems identified by the SMRTS is the long haulage distance of 276 km between Kathmandu and Birgunj, which could be reduced to only 120 km by building a fast track road. On the road between Kathmandu and Birgunj, the 36 km section between Mugling and Narayanghat is subject to frequent landslides and the bridges on the Hetauda to Pathalैया section are only single lane bridges, which could become major problem as traffic increases. Congestion on both sides of the Nepal-India border, at Birgunj and at Raxaul Customs is also a problem, delaying the expeditious movement of road traffic.

Within India, the road in Bihar State is in a poor condition, forcing freight vehicles to travel at only 20 km per hour over a 180 km stretch of the highway. It takes 9 hours to complete this small section.

Among the non-physical problems in Nepal is the lack of a “Through B/L”, which should be issued by shipping lines. Accordingly, importers must arrange each segment of transport separately, which raises the overall door-to-door delivery costs. The present conditions encourage unloading of containers at the seaport rather than bringing them directly to Nepal. Another problem stems from the inflexibility of customs regarding the timing of the arrival of goods, with freight vehicles arriving after 15.00 hours not being processed for clearance as the customs office closes at 17.00 hours. Similarly, the imposition of bonds also discourages free access of freight vehicles. Although Nepalese manufactured goods have free access to the Indian markets, Indian quarantine regulations have put a bar on the entry of foodstuffs. Other problems include the high duty insurance premium charged on sensitive goods and the monopoly enjoyed by NICL of India.

The measures to address these problems include the construction of a fast track road between Kathmandu and Birgunj, which is now under construction, and the renovation of the 180 km road section in Bihar, India. In addition, the construction of the ICP will address congestion problems at the border. The SRMTS also suggests bilateral consultations between Nepal and India to address the non-physical problems, including formalization of road transportation. With regard to the Bangladesh routes, the SRMTS suggests the establishment of permanent offices on the Indian side of the border at Phulbari and relaxation of the restrictive transit procedures, including permitting truck movement in a convoy, with security escorts, in daylight.

Regarding the rail movement of trade traffic in the region, there are more physical problems in Bangladesh than in India. Many problems arise from the limited infrastructure, such as short loop length, yard lines and terminals. Other problems include the inability of locomotives to haul full train loads, and restrictions on the movement of broad gauge loaded trains and containers over Jamuna Bridge. In India, the main problem is obtaining permission for inter-country movement of rolling stock of BCX type wagons (vacuum braked covered eight wheeler wagons). This problem restricts movement of containerized cargo, petroleum products and other break bulk cargo in open wagons. The decision to allow only BCX wagons is attributable to the inability of Bangladesh locomotives to haul air-braked freight wagons. Another physical problem affecting transit traffic is that the interchange of freight trains at the India-Bangladesh border and the India-Pakistan border is permitted only during daylight. Other problems are time-consuming manual checking and sealing of wagons at the border, pilferage and poor condition of wagons. The non-physical problems for the intra-regional movement of rail freight are insignificant compared to the physical barriers. The primary non-physical problem is related to the fact that rail traffic is unbalanced, with most wagons returning to India empty.

In order to speed up economic and trade integration at the sub-regional level, the South Asia Sub-regional Economic Cooperation (SASEC) was established, consisting of four countries: Bangladesh, Bhutan, India and Nepal. The ADB has undertaken regional and country studies, especially regarding the trade and transport sectors among these four countries, including a study on trade facilitation of cross border movement. Under its grant

assistance programme, the ADB has extended technical and financial assistance for the promotion of regional economic integration in the SAARC.

Under the SAARC, a separate inter-governmental group on transport has been created in recognition of the importance of transport connectivity for realizing potential regional trade and economic integration. Through this group, regional transport connectivity and infrastructure needs have been identified, but progress towards addressing the problems has been slow.

Regional cooperation under the SAARC is moving towards the establishment of common standards, commodity classification, statistical records and coding. With these needs in mind, a budgetary allocation was made to establish the South Asian Regional Standards Organization in Bangladesh.

The SAFTA only covers trade in goods, so on 29 April 2010 the SAARC concluded the “SAARC Agreement on Trade in Services” (SATIS) to add services trade within the purview of regional cooperation. The provisions relating to national treatment and market access, along with liberalization of domestic measures, is expected to facilitate regional trade in services.

At a meeting held in Dhaka on 2 December 2010 under the SASEC initiatives, it was agreed to prioritize some regional projects. The prioritized projects relating to Nepal, which will be completed with ADB assistance, include, among others, a feasibility study of the Kakarvitta-Panitanki-Banglabandh (53 km) route, with a target to complete the physical construction work and associated trade facilitation measures by mid-2011. Another project prioritized by the meeting was the feasibility study and detailed design for the Kathmandu-Narayanghat and Pathalaiya-Dhalkebar corridors, with a target for completion of the physical work by 2015.

Nepal is also a member of BIMSTEC, but an agreement on goods trade that was near finalization in 2009 is still pending. On the other hand, the two sectors of services and investments covered by this regional trade association (RTA) are in the initial stages of negotiation. Under BIMSTEC, the ADB conducted a Transport Infrastructure Logistics Study.

International initiatives

Nepal is still engaged in ongoing negotiation on three GATT Articles: V, VIII and X in the WTO. The WTO negotiation group on trade facilitation has the mandate to aim for the enhanced delivery of technical assistance to strengthen the capacity of developing countries to implement trade facilitation proposals. Since the agreement on trade facilitation is part of the Doha Round, the finalization of this agreement is pending the conclusion of

the Round. However, the process has offered an external impetus to move forward on trade facilitation reforms, and seek technical and financial assistance for capacity building. In this regard, the assessment of trade facilitation needs and priorities conducted by Nepal will assist Nepal in positioning itself in the negotiations as well as in pursuing domestic measures.

V. Transit cooperation with neighbouring countries

Nepal has signed separate bilateral transit agreements with India and Bangladesh. Though China is also an immediate neighbour, transit transport to and from Chinese sea ports is potentially very costly due to the long distances to the seaports and the mountainous topography.

Nepal's trade with and through Bangladesh must pass through Indian territory, which has made transit transport facilitation in India crucial to the development of Nepal's trade with third countries, including with SAARC countries. India has extended its cooperation not only in trade and transit but also in other key economic sectors, including transport. For example, in 1955 India extended its financial and technical assistance for the construction of Nepal's first highway, linking Kathmandu with the international border at Raxaul in India.

India has also provided transit facilities to Nepal for the conduct of trade with overseas countries in accordance with operation modalities laid down by the bilateral transit treaty. Of late, India's economic liberalization, which began in the mid-1990s, has gradually eased the movement of traffic-in-transit, involving removing the very restrictive practices that had previously existed. But there is still scope for further facilitation of Nepal's transit trade.

Under its bilateral grant assistance, India has agreed to develop four border customs posts at the Nepal-India border as Integrated Customs Posts (ICPs). These ICPs will be at Biratnagar, Birgunj, Bhairahawa and Nepalgunj, which handle the majority of Nepal's bilateral and transit trade. The ICPs were conceptualized with a view to creating the necessary infrastructure and physical facilities for the expeditious movement of goods across the border. Infrastructure and facilities include warehouses, customs appraisal sheds, immigration offices, security facilities, banks and insurances offices. The ICPs at Biratnagar, Bhairahawa and Nepalgunj will also have the infrastructure necessary for handling of rail cargo and these border posts will provide direct rail connectivity to gateway ports.

India is also assisting in constructing five broad gauge rail linkages: Jayanagar to Bardibas (68 km) - located in the interior at the cross section of the East-West Highway of Nepal;

Jogbani-Biratnagar (17.65 km); Nautanwa-Bhairahawa (15.3 km); Rupaidiya-Nepalgunj (12.11 km); and New Jalpaiguri-Kakarvitta (39.92 km).¹⁰

Nepal and Bangladesh are in consultation for simplifying the operational modality, being applied since 1 September 1997, for road movement of transit cargo via Phulbari-Banglabandh. A bilateral understanding between India and Bangladesh has been finalized to allow Nepalese trucks or containers to enter the India-Bangladesh border and travel to the inland terminal about 400 metres from the border at Banglabandh in Bangladesh. Currently the cargo is unloaded and reloaded from one truck to another at the international border between Bangladesh and India; this new arrangement will facilitate the movement of Nepal's trade with and through Bangladesh.

Nepal and India are in consultation regarding opening another sea port in Visakhapatnam, which is about 1,400 km from Birgunj. This is in response to the problems of growing congestion and delayed clearance and movement of transit trade via Kolkata Port. Similarly, consultation with India is taking place regarding the opening of a broad gauge rail connection via Rohanpur/Singhabad at the Bangladesh-India border for connection with Chittagong Port and Mongla Port in Bangladesh. The existing metre gauge rail route of Radhikapore-Biral became non-operational for the movement of Nepal's trade with and through Bangladesh after the conversion to broad gauge on the Indian portion of the track in 2005.

C. Single Window readiness

Based on the findings and analysis of the existing situation as discussed in this document, Nepal's readiness for introducing Single Window facilities for trade facilitation is presented below, under five separate headings: need and will, political commitment and mandate, institutional arrangements, legal framework and technical competence.

I. Need and will

The public and private sector agencies involved in trade have a general understanding of the problems stemming from complicated trade procedures and documentation, and the need to simplify them through rationalization of their processes, and that trade facilitation results in reduced transaction costs. Private traders have expressed that the submission of an invoice and packing list to customs should be sufficient documentation for all purposes of cargo clearance. If any checking and verification is required, it should be the responsibility of customs and other agencies concerned. On the other hand, private sector associations are interested in being involved in certifying functions in trade documentation, with a view to generating incomes. This became clear from the compulsory use of COO in

¹⁰ Gorakhapatra, 26 January 2011.

exports. This has made the private sector less assertive in pressuring the government to move forward with trade facilitation measures. As such, while the private sector would benefit from trade facilitation there are also incentives to delay the simplification of trade procedures and documentation.

The trading community, in general, is aware of the need for trade facilitation but not of paperless trade and SW. They are pleased with the current arrangements as compared to the cumbersome procedures that existed before the economic liberalization of the 1990s. Stakeholders have expressed the need for making trade more cost- and time-effective. The private traders interviewed expressed that filing of hard copies of trade documents under SW could create an impression that SW is an additional procedural hurdle, rather than a means of simplification of documentation, and therefore electronic transmission based SW is needed.

Labour rigidities, as enshrined in the labour laws, together with the high cost of trade transactions are the prime disincentives to FDI in trade creating industries in Nepal. As the domestic market is relatively small, increased flow of FDI in the form of both equity and technology is crucial for expansion, diversification and modernization of export-oriented industries, towards creating a sustainable export base.

Until Nepal joined the WTO in 2004, the issue of trade competitiveness was widely discussed in trade related meetings and seminars without being specific about the consequences and the required steps to improve competitiveness. Nepalese traders are required to comply with a range of rules and regulations relating to domestic as well as transit laws. Manufacturing exporters of principal export products such as woollen carpets and RMG have to bear double transit transport costs, i.e. once for bringing in the raw materials, and a second time for exporting the finished products. With the exception of general provisions for trade and transport facilitation for the promotion of intra trade in the RTAs, there is no specific commitment on the subject, save for paperless trade or SW.

The trade related government agencies are not fully aware of the potential benefits of trade facilitation measures, particularly paperless trade and SW. This is partly due to the general understanding of SW as one stop clearance, and partly because of the slow progress towards e-governance as envisioned by the National IT Policy.

The stakeholders are not aware of the investments needed for paperless trade or SW. Their general feeling is that the government, with support from donor agencies, should create such a facility and that this will have benefits for trade development, FDI and employment. As most key stakeholders have a computer with internet connection, they are prepared to use their own PCs to facilitate networking with relevant organizations.

It is advisable to demonstrate the business value of paperless trade to the stakeholders, including to the government sector, emphasizing the cost effectiveness. Sources of funding should be identified for introducing SW in Nepal. Given the limited resources of the government, donors should be approached with a detailed plan and cost-benefit analysis. However, no feasibility study or cost-benefit analysis has been prepared so far for establishing paperless trade or SW.

The DOC's Action Plan 2009-2013, endorsed by the Ministry of Finance, includes operation of the SW in customs. This is a notable development in Nepal as it is the first official document that discusses introducing SW as part of its strategic vision for customs reform and modernization.

II. Political commitment and mandate

Nepal's trade policy of 2009 has set out a national export promotion strategy, with working policies for procedural simplification and institutional strengthening, for achieving an efficient and less-expensive transit transport system. A specific action plan or road map for trade and transport facilitation has not yet been established, however. This reflects the fact that the government has not identified trade facilitation as a policy objective.

Though some experienced human resources are available to work on paper based facilitation areas, there is currently no technical capacity to develop a master plan on paperless or SW facilitation programmes.

There is currently no cabinet-level support or commitment to trade facilitation, except for general recognition of the need for facilitating trade. The reason for this seems to be the lack of clear perception of the potential benefits of trade facilitation in general, and paperless trade in particular, in both the private and public sectors. Given the prolonged transitional form of the current government, together with political uncertainties, there is little hope for strong political and government support for paperless trade measures in the immediate future.

Since paperless trade is a new concept, no lead agency has been identified and the role is not clearly defined. Though the TEPC is mandated to look after trade facilitation and the NTWCL is responsible for transit transport facilitation, they are currently not very effective. The financial requirements, along with possible sources of funding, are yet to be established.

III. Institutional arrangements

During the implementation of the World Bank funded "Multimodal transport and trade facilitation" project between 1998 and 2004, a body was created titled the National Trade and Transport Facilitation Committee (NTTFC), chaired by the Commerce Secretary with representatives from both private and public sector organizations. But after a couple of meetings, held with the support of the project staff, the Committee became inactive. The primary reason for this was the absence of a dedicated secretariat to organize regular meetings and arrange study proposals and agendas. Both the NTIS study and the WTO assessment of Nepal's trade facilitation needs have recommended reactivation of the NTTFC.

The new Trade Policy of 2009 visualised the creation of a new body, which would be the highest in the hierarchy, called the Board of Trade (BOT), chaired by the Commerce Minister and with representatives from the concerned government organizations and private

sector trade associations. But this Board has not been very effective as its meetings are held infrequently, as a result of the lack of a dedicated and resourceful secretariat as seen in the case of the NTTFC.

The MOCS may be the platform for the implementation of SW as it can put the matter into discussions of the BOT. The NTTFC and MOCS could together coordinate trade and transport facilitation measures, including paperless trade. Considering the pivotal role of customs in trade facilitation, together with its advancements in automation and the planned introduction of a SW system in customs operation, the Ministry of Finance (MOF), through the Department of Customs, could be given the lead role for SW. Both the MOCS and the MOF will have to jointly coordinate the introduction of SW facility in Nepal, with an effective mechanism in place. SW has to be initiated from the very beginning of the process, including a cost-benefit analysis, identification of technical and financial needs, manpower development, networking, software, and phases of programming, up to its final implementation. This may require the development of a SW master plan.

The operation model of SW has yet to be selected. As the GON has been providing cost free export promotion services, there is a tendency to look for free services. Depending upon the size of the investment, a nominal fee may be prescribed for SW services. If SW becomes effective for the fast processing of documents and clearance of goods, the private sector will be ready to bear such fees. In this regard, the possibility of funding options for the implementation of SW may include Public Private Partnerships (PPP). It depends on the size of investment, ownership and maintenance of the operation, however.

IV. Legal framework

In 2008 Nepal introduced its first cyber law, in the form of the Electronic Transaction Act BS 2063 (ETA), which was followed by the Electronic Transaction Rules BS 2064 (2009) (ETR) and the Information Technology Tribunal (Procedures) Rules BS 2064 (2009) (ITTR). The rapid introduction of the ETR and ITTR following the ETA is strong evidence of commitment on the part of government towards IT development in Nepal. These acts mark very important beginning for electronic transactions, though their implementation has been slow. The procedures for licensing digital signature certifying agencies was scheduled to begin only from mid-2011, i.e. three years after the enactment of the ETA. Since the concept of SW is fairly new, the existing laws and rules pertaining to electronic transactions do not mention of paperless trade, though they definitely provide a basis for it.

As e-government has been the basic objective of the national IT Policy for the past decade, both the ETA and ETR aim at facilitating its implementation. The ETA contains detailed provisions for the initiation and management of digital signatures, through creation of the office of Controller of Certification in the MOST for licensing the certifying authorities of digital signatures. The ETA provides recognition of digital signatures and a basis for e-government. Section 3 of the ETA provides that any subscriber may authenticate any electronic record by his/her personal signature, and that any person may verify the electronic record by using the public key of the subscriber. Section 4 establishes the legal recognition of electronic records and Section 5 establishes the legal recognition of digital signature. The ETA has guaranteed the functional equivalency of electronic documents with

paper documents. Therefore, the ETA makes provisions for authentication and regularization of the recognition, validity, integrity and reliability of electronically generated, stored and transmitted records. In January 2011, the Gorakhpatra, a Nepali daily newspaper, quoted the Office of Controller of Certification saying that necessary infrastructure, including equipment and technical staff, are being prepared to begin issuance of licenses to the certifying agencies by mid-2011, as provisioned in the ETA.¹¹ This will begin the legal recognition of electronic records to be on par with paper documents, after certification of authentication by a licensed authority. There is no separate electronic signature act, as the related provisions are included in the ETA. The ETA has also encouraged government agencies to use digital signatures where appropriate. The GON recently launched the National Identity Project, under the office of Prime Minister, with a view to issuing a digital identity for every Nepali citizen.

The ETA provides procedures and technologies for identification, authorization and authentication of users, as a measure to ensure the quality, accuracy and integrity of data. As of 2011, the digital signature is the only procedure and technology to ensure the security, privacy and confidentiality of personal and business information. There is not yet separate provision for a proper data protection mechanism to protect such information. Bilateral cooperation agreements with neighbouring countries do not cover cross border electronic communication, except the normal email contacts. The ETA has also provisioned for the performance audit of certifying authorities of digital signatures. The recently established Government Integrated Data Centre (GIDC) in Singh Durbar has begun storage of data through a cable network of government offices located within the Singh Durbar complex. Other standard procedures for electronic archiving of information have not yet been framed. Being a regulatory agency of the GON in the IT sector, the Nepal Telecommunication Authority (NTA) is the agency for EDI standardization.

Though SW and e-commerce are not specifically covered under the ETA, the ETA's legal recognition of electronically generated paper and records, together with the IT policy 2010, which prioritizes e-government, has created grounds for developing paperless trade. It is worth mentioning that Section 19 of the customs rules of 2007 has recognized the electronic transmission of customs declaration forms by traders, subject to procedures laid down by the DOC. The English version of the Customs Declaration Form, generated electronically, is currently being processed under ASYCUDA by customs for cargo clearance. In other words, formulation of laws necessary to address the requirements of e-commerce or any amendments to the existing laws may not contradict the spirit and objectives of the planned development of the IT sector in Nepal.

The Arbitration Act BS 2055 (1999) sets out detailed procedures and mechanisms for dispute settlement in trade and other sectors. Regarding data ownership and Intellectual Property Rights (IPR) over trade data, the IT policy 2010 has prioritized the effective protection of IPRs as one of the policy objectives in the IT sector. Moreover, the Patent, Design and Trade Mark Act BS 2022 (1965) lays down detailed procedures for registration of patents, designs and trademarks. Section 11 of the Competition Promotion and Market Promotion Act BS 2063 (2007) has identified the "collaboration made for organization and procedural improvements intended to enhance trade capacity" as one of the eight areas that come outside the purview of the Act. In other words, the Competition Act does not prevail upon the introduction of the SW facility.

¹¹The Gorakhpatra, 15 January 2011

V. Technical competence

The IT policy of 2000 and that of 2010, both carry e-government and positioning of Nepal on the IT global map as their overarching objectives. The IT policy 2010 has encouraged e-commerce with e-payments, gateways and developments. The current three year interim development plan also visualises IT development from the view of inclusive participation of, and increased access by, all Nepalese people, and for making IT contribute to economic development, increase employment and reduce poverty, and build a knowledge based society. The plan also prioritizes the implementation of e-government. With the technical and financial assistance of the ADB, the e-government master plan is under detailed study.

In line with the first IT policy 2000, the National Information Technology Centre (NITC) was established in 2002, under the MOST, in Singh Durbar. The NITC carries the vision to develop the IT sector to place Nepal on the global IT map. It works as government's Internet service provider (ISP) and focuses primarily on the implementation of e-government for creating transparent interaction between government and citizens, government and business organizations and the various government organizations. Under the strategies pursued by NITC comes the high priority accorded to private sector participation together with legalization and promotion of e-commerce with the government playing the role of a facilitator, promoter and regulator of the IT sector. Its services include rendering assistance in all kinds of computer related services of the GON, serving as a data depository by collecting all types of data at the national level, and acting as a data bank of information and assisting in computerization of records in government offices. The GIDC has been created within the NITC, which is in the initial stage of development as an Internet Data Centre.

The IT policy 2010 prioritized making the GIDC more effective, with an arrangement for the compulsory transfer of the servers of all ministries to it. The policy framework aims at strengthening laws and organizational set-ups to minimize IT related crimes, software piracy and internet hacking. It also aims to develop healthy competition among ISPs for improving their service quality and aims to frame and implement the "government enterprise architecture", with the active participation of the government and the private sector. It focuses on improving the ETA and ETR and on effective implementation of the e-government master plan.

In 2003 the GON created a High Level Commission for Information Technology (HLCIT) under the chairpersonship of the Prime Minister of Nepal, with its secretariat at the NITC in Singh Durbar where it has maintained a separate office and staff of its own. The HLCIT is the apex body responsible for overall IT development. The website of HLCIT recognizes the important role of the private sector in the development of the IT sector. Private sector participation in the fields of internet services, cyber cafes, training institutions, hardware and related equipment assembly, software development, web design and export of IT enabled services have increased in recent years. The services have covered all development regions and major commercial and tourist cities in the country. The active role played by the Computer Association of Nepal (CAN), the IT Professional Forum, the ISP Association and other business associations have driven the country towards greater use of IT in economic development. Under its initiatives, basic village information centres (in the form of

telecentres), though still in the initial stages of development, have been established in 66 villages mainly providing internet access. As an implementing agency of the GON, the NITC manages these telecentres. The GON constituted a task force, in accordance with the MOU signed between the HLCIT and IBM, with the primary objective of looking into the priorities and challenges in the development of the IT sector and to recommend actionable strategies aimed at aligning IT with the priorities and challenges.

In 2004, the GON announced a new telecommunication policy that replaced the policy of 2000. The main objective of the telecommunication policy 2004 is to create a favourable environment for making the IT sector reliable and accessible to all people, at reasonable cost. The policy carries 12 strategies and 12 action plans.

Another important government agency is the Nepal Telecommunication Authority (NTA) created by the GON on 4 March 1998 with the aim of making telecommunication services reliable and easily accessible to the public, making arrangements for availing basic telecommunication services and facilities in all rural and urban areas and ensuring good quality services and facilities for the consumers. The NTA is authorized to prescribe, fix and approve the standard and quality of equipment, as well as to regulate telecommunication related services. It provides licenses to operate telecommunication services in Nepal.

As of 2011, there is no formally declared master plan for IT and e-government. The Korea IT Industry Promotion Agency (KIPA) has undertaken a comprehensive study of Nepal's IT sector with a view to developing master plan. The IT policy 2010, the telecommunication policy 2004 and the ETA 2007 provide the foundation for Nepal's commitment to the development of the IT sector, with a focus on e-government. All these developments pave the way for promoting e-commerce and paperless trade, although there is no separate plan or policy on this. Considering the gradual development in the IT sector and the possible involvement of IBM through the recently constituted task force, Nepal looks ready to adopt data standards from external sources. This is partly because existing laws and regulations do not put a bar on such outsourcing of data standards.

The World Bank, ADB and UNDP are involved in the development of the IT sector and infrastructure in Nepal. The World Bank has assisted in the establishment of an earth satellite centre for Nepal Telecom in Kathmandu and a multimodal transport system, including the development of three ICDs in Biratnagar, Birgunj and Bhairahawa. In addition to the assistance in conducting the NTCS study for MOCS in 2004, the World Bank will assist the DOC in the modernization and reform of customs management including the installation and operation of the latest version of ASYCUDA. Likewise, the ADB has assisted in infrastructure development, policy reform initiatives for the GON, a study on an IT master plan, and country and regional studies for transport connectivity and cross border trade facilitation in the SAARC region. UNDP in Nepal has been assisting in a number of social development activities, including capacity building for attaining the Millennium Development Goals; contributing to the peace building process – including the rehabilitation of minors and other recruits of Maoists; preparation of an approach paper for the three-year interim plan (2010-12); and local governance and community development programmes under joint programmes with other UN agencies.

The IT policy 2010 has encouraged the private sector to operate Internet Exchanges in institutional or group forms at the national and regional levels. In addition, the policy will make the use of Voice Over Internet Protocol (VOIP) easily accessible in villages where

there is currently no access to information technology. A Public Packet Switching network has been installed for Internet and data communication.

Internet connectivity, especially broadband, is easily available in both the public and private sectors. Starting with dial-up connections about in the 1990s, high speed Internet connectivity can now be found all over the country. The Nepal Doorsanchar Company Limited (NDCL), also known as Nepal Telecom, launched its broadband services with the introduction of ADSL 2 (Asynchrony's Digital Subscriber Line) and technology on Baisakh 17, BS 2065 (mid-April 2008). Initially available only in Kathmandu, ADSL is now available in almost all 75 districts of Nepal. The Gorakhapatra newspaper reported on 4 January 2011 that with the recent installation of the ADSL fast internet connection in Jajarkot district, a remote mountainous area in far-western Nepal, the service is available in 72 out of 75 districts. It was expected that ADSL connection would be available throughout Nepal by mid-2011.

The penetration rate of Internet users is presented in Table 14 below.

Table 14. Internet services in Nepal

Services	Subscribers				Total
	NDCL	UTL	SNPL	IPSS	
1. Dialup (PSTN+ISDN)	7,082	-	-	19,500	26,582
2. Wireless Modem, Optical Fibre Ethernet	-	-	-	13,000	13,000
3. Cable Modem, Cable etc	-	-	-	32,500	32,500
4. ADSL	55,080	-	-	-	55,080
5. GPRS	353,522	-	1,033,265	-	1,386,787
6. CDMA IX	76,712	32,440	-	-	109,152
Total	492,396	32,440	1,033,265	65,000	1,623,101
Internet Penetration Rate % *					5.8

* Based on the projected population for 2010 of 28,043,744. Central Bureau of

Statistics. (www.cbs.gov.np)

NDCL: Nepal Doorsanchar Company Limited; UTL: United Telephone Company Limited;

SNPL: Spice Nepal Pvt. Limited. Recently branded as Ncell; IPSS: Internet Service Providers.

Source: Nepal Telecommunication Authority (2010).

Approximately 6 per cent of the total population of Nepal has access to the Internet. If the number of dialup internet connections is taken out the total, the penetration rate in 2010 was 5.7 per cent, up from 4.8 per cent the year before. After the introduction of fast Internet services, the number of dialup connections declined fast. The total number of dialup Internet connection dropped from 27,686 in July 2010 to 26,582 6 months later. The NTA has provided licenses to 47 ISPs who provide Internet connections to subscribers, including to the trading community.

The NTA has rationalized the NDCL tariffs making broadband connection more affordable. The price structure prescribed by NDCL on the basis of both unlimited access and by volume is given in Annex 7.

Following the substantial price reductions over the past decade, PCs are now becoming more affordable and accessible in Nepal. With the expansion of ADSL Internet connectivity to remote areas, as well as to district capitals and market centres, the use of PCs is rising fast. In the absence of cumulative figures of computer imports, it is difficult to estimate the

penetration rate, however. The import figures for computers and accessories over the past five years shows PC use is rising rapidly, as presented in Table 15 below.

Table 15. Imports of computers and accessories (value in NPR millions)

	2005/06*	2006/07*	2007/08*	2008/09	2009/10
Computer and parts	1,311	1,680	2,355	3,098	4,970
% change	-	+28	+40	+32	+60

* Imports from third countries only.

Source: Trade and Export Promotion Centre (2011a).

The TEPC started collecting and publishing statistics for trade with India in 2008/09. Prior to this, data were available only for trade with countries other than India. Imports of computer and parts falling under different HS codes included portable digital automatic data processing machines, digital processing units, input or output units, storage units, automatic data processing machines, and parts and accessories for word processing units and automatic data processing units.

As of 2011, the NITC is currently in the process of building an Internet data centre. The Value Added Network (VAN) is not yet fully developed but some banks are providing VAN services to their customers for SMS banking and for payment of NDCL telecommunication charges and school fees. There are 30 commercial banks that have their own data bank for networking with their branches and head office. Based on their own connectivity, banks provide “Any Branch Banking” (ABB) services to their customers, and also make electronic transfers from one branch to another and from one account to another. Banks are fully computerized and run standard software programmes for day to day operations and networking between branches.

In 2010, the Office of the Controller of Certification under the MOST announced a plan to start licensing certifying agencies for digital signatures and announced that it was preparing the necessary infrastructure to start the operation, including that for Public Key verification as provisioned in the ETA.

Since no data standards and formats have been specified for EDI, the IT policy 2010 promotes free and open source standards for use in the public and private sectors. There is no national EDI standard specified for processing data, as the whole concept is new, particularly in trade. In general, IT experts are available for business process modelling, data harmonization and standardization.

Almost all trade-related government agencies and private sector organizations have computerized their office operations. Most of the office computers have Internet connection for checking email, visiting relevant websites and transmission of information. All GON ministries and departments, and most of the public and private sector regulatory organizations maintain their own individual websites with email addresses. But most agencies do not run formatted software programmes for office operations, as in banks. In this regard, the DOC is the most advanced department in computerizing office operation as it has a WAN.

Kolkata Port and Customs are now computerized. Port users can pay port charges online and make an online check of the balances in their respective deposit accounts with the port. The Port Authorities provide port related information and statistics through their web portal, and Kolkata Customs and Kolkata Port have created an electronic link to facilitate fast retrieval of information relating to IGM processing. However, Kolkata Customs have not yet developed a network with the field and border offices. The Indian border customs located across from Nepal's main trading points are now gradually computerizing their office operations.

Table 16 summarizes Nepal's SW readiness based on the findings above.

Table 16. Single Window readiness of Nepal

I. Need and will			
Sub-categories	Subject/questions	Status	Comments/Observations
Need	Are there identified and commonly understood problems in trade processes and documentation?	Yes	
	Are there major trade-related barriers to attracting or promoting FDI?	Yes	High trade transaction costs.
	Is national competitiveness at stake due to trade-related barriers?	Yes	
	Does Nepal have regional level commitment to Single Window (SW) or paperless trade initiatives?	No	SW is a new concept in SAARC region.
Awareness, willingness, desire and resolve	Are trade related government agencies aware of the benefits of trade facilitation measures such as paperless trade and SW?	Yes	General awareness of the benefits of trade facilitation, but not of the benefits of SW.
	Is the trading community aware of the benefits of trade facilitation measures such as paperless trade and SW?	Yes	General awareness of the benefits of trade facilitation, but not of the benefits of SW.
	Do major stakeholders have proper understanding on what trade facilitation can bring about and what it cannot?	Yes	General understanding only.
	Is there a government mandate for trade facilitation?	No	No clear mandate as it is limited to policy issues.
	Is there a public commitment to trade facilitation from top political or government figures?	No	
	Is there any initiative or commitment from the private sector on trade facilitation?	No	
Business care	Is Nepal's trade volume big enough to justify the expenses for major SW or paperless trade initiatives?	Yes	SW's impacts on trade expansion may justify the expenses.
	Can the business value of SW implementation be demonstrated to major stakeholders?	Yes	Need to make them aware of the potential benefits of SW.
	Are there potential sources of funding to be secured for SW implementation?	Yes	Not yet identified.
	Has a feasibility study (including a cost-benefit analysis) been prepared for any paperless trade or SW initiatives in Nepal?	No	
II. Political commitment and mandate			
Vision	Is there a national export (or export promotion) strategy?	Yes	As contained in the trade policy 2009
	Is there a national trade (and transport) facilitation strategy such as a Trade Facilitation Action Plan?	Yes	Only in the form of general programmes and not a part of the national strategy
	Has the GON identified trade facilitation as a policy objective?	Yes	
	Is there any master plan or roadmap for trade	No	

	facilitation, especially in the area of paperless trade and/or SW?		
	Does Nepal have the technical capacity to develop a master plan on trade facilitation?	No	
Sponsorship and leadership	Is there a cabinet-level support for trade facilitation?	Yes	In general terms for export promotion.
	Is there an existing or potential political champion to support paperless trade initiatives?	No	
	Has a lead agency been identified for paperless trade or SW initiatives?	No	
	Has the role of a lead agency been defined?	No	
Funding	Has assessment on funding requirements been done for SW implementation?	No	
	Have financing sources for SW implementation been identified?	No	
III. Institutional arrangements			
Coordination mechanism	Is there a national mechanism to coordinate trade-related regulatory agencies?	Yes	MOCS in the government sector and FNCCI in the private sector.
	Is there a platform for coordinating the trading community?	Yes	National Chambers.
	Has a National Trade (and Transport) Facilitation Committee (NTTFC) been established?	Yes	NTTFC established in 1998
	Has the NTTFC included implementation of paperless trade or SW initiatives in its work programme?	No	
	Has a communication strategy been established for SW implementation?	No	
	Has a management strategy been established for SW implementation?	No	
	Does Nepal have national capacity to arrange an appropriate coordination mechanism?	Yes	
Business operation model	Is there consensus on a feasible operation model of a SW?	No	
	Has a potential operator of a SW been indentified?	No	
	Has there been a consideration of a business model of a SW?	No	
	Has there been a consideration of various options for funding the implementation of a SW, such as a Public Private Partnership (PPP)?	No	PPP may be a favoured option as discussed in the Workshop on 8 and 9 February 2011.
	Has a consideration been given to long-term sustainability in selecting the best operational model?	No	
	Does Nepal have the capacity to decide on the best operation/business model?	Yes	
IV. Legal framework			
Legal basis for SW implementation & operation	Has a review been done on the legal basis or gaps in national laws for the implementation and operation of a SW?	No	
	Does Nepal have laws governing e-business/e-commerce?	Yes	Electronic Transaction Act (ETA).
	Does Nepal have laws governing e-Government?	Yes	ETA

	Does Nepal have laws governing electronic signatures, such as an electronic signature act?	Yes	ETA and ETR provisioned for digital signature, but no separate act.
Data protection, exchange and archiving	Is the functional equivalency of electronic documents to paper documents guaranteed in legal provisions?	Yes	ETA
	Is there a national law covering procedures and technologies for identification, authorization and authentication of users, as a measure to ensure the quality, accuracy and integrity of data?	Yes	Digital signature as provisioned in ETA and ETR.
	Are proper data protection mechanisms available to ensure the security, privacy and confidentiality of personal and business information?	No	GIDC is working on this.
	Is there a legal provision to facilitate secure cross border data exchange?	No	
	Is there a standard procedure for electronic archiving of information in place?	No	GIDC has begun this for GON data
	Is a standard measure for an audit trail?	No	ETA and ETR covered audit of digital signature certifying authorities.
Arbitration, dispute resolution, IPR & competition	Is there an arbitration and dispute resolution mechanism that can be applied to the implementation of a SW?	Yes	Arbitration Act BS 2055 (1999)
	Is there a common understanding or legal provision on who has data ownership and Intellectual Property Rights over trade data?	Yes	IT policy 2010 has clearly prioritized the protection of IPRs. The Patent, Design and Trade Mark Act 1965 provide for registration.
	Is there any possible domestic situation that competition issues (antitrust, protectionism, etc.) may arise with a SW operation?	No	Section 11 of Competition Promotion and Market Promotion Act 2007 excluded SW and like activities from its purview.
V. Technical competence			
IT policy	Is there a national ICT master plan?	No	
	Is there a national e-government master plan?	Yes	Referred to in the IT policy.
	Is there a national e-business/e-commerce master plan?	No	Only prioritized by the IT policy.
	Does Nepal's national IT, e-government, e-Commerce master plan include paperless trade or the SW initiative?	No	
	Has Nepal's technological readiness in IT been assessed?	Yes	Not exact assessment but IT sector highly prioritized.
	Is data available for national IT readiness from outer sources such as EIU, ITU, etc.?	No	
	Have sources been sought and secured to address any IT gaps?	Yes	
IT capacity (basic infrastructure security, privacy, and	Is communication infrastructure, such as Public Packet Switching network installed?	Yes	
	Is Internet connectivity, especially broadband, available for both the public and private sectors? What is the penetration ratio?	Yes	Penetration ratio 5.8%

network connectivity)	Is Internet connectivity available at an affordable price?	Yes	
	Are computers (PCs) available for the trading community? What is the penetration ratio?	Yes	PC becoming household use in cities. No penetration ratio available.
	Is an Internet Data Centre (IDC) available for safe maintenance of Internet-based services?	No	
	Are Internet Service Providers (ISPs) in place to provide accessibility of Internet to the trading community?	Yes	47 ISPs
	Is Value Added Network (VAN) service provider available for data interchange service?	Yes	ISPs have not yet started VAN.
	Is VAN service available, is it affordably priced?	Yes	Limited services by banks.
	Is Public Key Infrastructure in place to authenticate electronic certificates?	No	Projected to be available soon.
	Is a privacy policy on electronic data in place?	No	
	Is an electronic trade document introduced and used, using either Electronic Data Interchange (EDI) or Internet technology?	No	
	Is a safe retention/storage mechanism for electronic trade data in place?	No	Recently started with GIDC.
Process and data standardization	Is a national EDI standard for trade defined in areas such as data element, data format and data exchange protocol?	No	
	Is national EDI standard for trade aligned with international EDI standards?	No	
	Is there a standard agency for EDI standardization?	Yes	NTA. IT policy for open on standard.
	Are IT experts available for business process modelling, data harmonization and standardization?	Yes	
Process automation of relevant institutions	Is process automation in place for trade-related agencies?	Yes	Most agencies in Nepal are computerized with their own websites. Nepal customs is highly automated with networking. Transit ports and customs have websites but limited networking.

D. Recommendations

Relevant UN bodies and international organizations have provided guidelines and tools along with country examples on the implementation of paperless trade and SW facilities. One of them is UN/CEFACT Recommendation No. 33, which provides comprehensive guidelines on the SW concept, models and implementation processes. It has defined SW as a facility that allows parties involved in trade and transport to lodge standardized information and documents at a single entry point to fulfil all import, export and transit-related regulatory requirements. If information is electronic, then individual data elements should only be submitted once.

UNESCAP has been assisting its member countries, inter alia, in trade facilitation so as to improve efficiency in trade. Under a project titled “Facilitating intra- and inter-sub regional trade in the SAARC sub region” UNESCAP has assisted countries in the region through a study on trade procedures and documentation in India, Nepal and Pakistan; in developing software for Sri Lanka and Maldives; and in alignment of documents in Bangladesh. It has also assisted member countries in introducing the SW facility. In cooperation with the United Nations Economic Commission for Europe (UNECE), UNESCAP has also established the “United Nations Network of Experts for Paperless Trade in Asia and the Pacific” (UNNEXT), which is a community of knowledge and practice for experts from developing countries and transition economies from Asia and the Pacific involved in the implementation of electronic trade systems and trade facilitation. UNNEXT aims to support national, sub-regional and transcontinental SW and paperless trade initiatives and emphasizes training, knowledge sharing, and application of international standards developed by UN/CEFACT, WCO and other organizations. As UNESCAP has played an important role in trade facilitation in the region, particularly in paperless trade and the SW facility, it could be instrumental in coordinating Nepal’s SW initiatives.

The operation of the SW facility is an inter-disciplinary issue involving various ministries, departments and trade regulatory agencies. Coordination among the various agencies involved in trade facilitation must be ensured for the operation of a SW facility.

In consideration of these aspects, recommendations are made under eight headings: need and will, political commitment and mandate, institutional arrangements, legal framework, technical competence, general trade facilitation measures, cooperation with neighbouring countries for transit facilitation, and phased implementation of a SW facility in Nepal, as presented below.

I. Need and will

Though the SW system also allows submission of hard copies of trade documents, traders interviewed during the study expressed their apprehension that the hard copy based SW may become another hurdle in trade processes. Therefore, it is recommended that the SW facility in Nepal is an electronic or paperless system.

The SW facility offers a win-win situation to both the government and the private sector. The GON can benefit from SW induced better risk management, improved levels of security and increased revenue yields, with enhanced trader compliance. Benefits to trade also stem from transparent and predictable interpretation and application of rules, and better uses of human and financial resources, resulting in appreciable gains in productivity and competitiveness. Since the SW generates rapid trade transactions, it will result in higher revenue, increased production and greater employment. The MOCS, in coordination with the MOF and other agencies may take the lead in creating the infrastructure necessary for its operation. Trade facilitation can also attract FDI into trade sectors. The meeting on Nepal's self assessment of trade facilitation needs and priorities in April 2009 accorded top priority to SW and recognized the need for technical and financial assistance for its operation.

Since trade facilitation, and particularly the SW facility, can bring substantial benefits to the trading community, private sector organizations have also accorded top priority to trade facilitation through minimizing their involvement in recommending and certifying activities and looking into alternative sources of incomes.

The geographical position of Nepal makes SW based trade and transport facilitation challenging as traders are required to comply with numerous procedural and documentary obligations imposed by regulations of both the domestic authorities and neighbouring countries. Most of the current users of the SW facility are coastal states and hence their trade procedures and documentation are confined to domestic territories. In the SW Workshop, jointly sponsored by MOCS and UNESCAP and held in Kathmandu on 8 and 9 February 2011, the representative of CrimsonLogic Pte. Ltd. of Singapore mentioned in his presentation that the company had recently conducted a feasibility study in Rwanda, a small landlocked country in central Africa, for introducing SW. It is quite encouraging to note that another landlocked country is also poised to start a SW facility. Trade and transit transport facilitation activities in Nepal need to be institutionalized and prioritized as this will provide the groundwork for stepping into paperless trade.

The adoption of a SW facility needs sizable funding as it requires the creation of IT infrastructure, acquisition of hardware and software, networking among a large number of relevant organizations and human resource development. The GON is required to commit to provide funds either itself or through donor agencies to operate SW. In the SW Workshop the Secretary of the MOF expressed strong support for introducing a SW facility in Nepal. There is a possibility of getting back the investment over time after SW goes into full operation and generates income in the form of service charges. In this regard, the experience of UNESCAP could be useful in institutionalizing paperless trade and SW in Nepal, based on an appropriate operation model.

II. Political commitment and mandate

In consideration of the potential benefits of trade facilitation for the national economy, it is recommended that the GON accords high priority to the need and importance of trade facilitation, which is also a key agenda of the DDA in WTO. A high level steering committee should be created to look into trade facilitation measures with an eye on paperless trade and SW. The experience of countries such as Korea, Malaysia and Singapore in successful implementation of SW shows that a key factor is strong political commitment and leadership by the government. In these countries, committees were formed at the ministerial level for coordination in introducing SW facilities.

The trade policy of 2009 demonstrates the general commitment of the government to trade and transport facilitation, with a view to lowering transaction costs in Nepal's international trade. Though the TEPC is authorized to look after trade facilitation and NTWC for transit facilitation, they have not been very effective in the past. It is recommended that TEPC be nominated as the lead agency, with the necessary support to carry out the facilitation activities mentioned in the trade policy. A separate cell should be created within TEPC for the purpose.

The introduction of SW in Nepal needs to be planned and introduced in stages. These stages or phases are: 1) preparation, 2) needs assessment, 3) master plan and 4) implementation. Based on a comprehensive need assessment study, the GON could declare a separate master plan for implementing SW in phased manner. Since trade and transport facilitation measures have not been very encouraging in the past, the declaration of a master plan will demonstrate the GON's commitment to trade facilitation and also help to gather support from donor agencies. Since UNESCAP has a regional expert network and experience in supporting the development of SW master plans for countries in the region, the GON should seek support from UNESCAP in the process.

III. Institutional arrangements

It is recommended that the number of documentary requirements and the involvement of trade regulatory agencies should be kept to a minimum so as to achieve the most effective, fast and least costly operation of SW. The trade regulating agencies have to be clear about the need for a particular document, its data elements and processing with a view to establishing only purposeful procedures and documentation. It is recommended that the trade procedures and documentation should be simplified, standardized and harmonized to create the necessary groundwork for smooth and efficient operation of a SW facility.

The physical verification of export and import cargoes other than by customs needs to be kept at minimum, if not eliminated. In the customs environment, it is advisable to strengthen the risk based clearance procedures in order to minimize physical verification of cargo.

It is recommended that the physical inspection and certification of handicraft products by the DOA be removed by making alternative arrangements. Such arrangements could include delegation of authority to customs to examine the archaeological importance and export eligibility of handicraft products. In such cases, customs officers could refer to, and consult with, the DOC in doubtful cases. The FHAN is in a relatively good position to verify and give online clearance for the valuation and other requirements relating to handicrafts, provided they receive a detailed description of the products. Another possible arrangement could be the deputation of DOC staff to TIA and Birgunj Customs to examine the products at the time of export, as most handicraft products are exported by air via TIA, and some products of a bulky nature are exported from Birgunj Customs.

The NTTFC needs to be reactivated to include representations from the IT sector with a view to give continuity to trade and transport facilitation. The NTTFC should be reorganized and activated with a clear mandate to work effectively for the simplification, harmonization and standardization of trade procedures and documentation. As the new trade policy of 2009 has prioritized trade and transport facilitation for reducing transaction costs, the NTTFC should be mandated to undertake the associated actions and should avail itself of a dedicated and resourceful secretariat. The NTTFC also needs to look into possible transit facilitation measures and recommend proposals to the GON for bilateral negotiation with transit countries. The effective functioning of the NTTFC will not only lay the groundwork for a SW facility but will also send a positive message to donor agencies of Nepal's strong commitment to trade facilitation measures. In the SW Workshop held in Kathmandu, the Secretary of MOCS expressed strong willingness to reactivate NTTFC with an eye on operating a paperless SW facility in Nepal.

Since third country trade is relatively organized and regulated, the SW facility may make a start with third country exports and gradually pick up third country imports, issuance of COOs, payment of customs duty, trade with India and banking procedures. The transit procedures and documentation may be included later as and when they become feasible, together with EDI compatibility in cooperation with transit countries.

As there are currently three types of COO: GSP Form A, the general COO and the specific COO, it is necessary to consider the standards recommended by international organizations. The main problem associated with COO issuance (the one-time fee and the income distribution to relevant organizations) should be addressed by MOCS and MOF in consultation with the relevant private sector organizations.

Since automation and inter-connectivity of trade regulatory agencies form a key component of SW operation, it is essential to assess the hardware and other needs of these institutions. This is to be covered under the detailed needs assessment study forming a basis for the master plan. The detailed study should also include a Business Process Analysis (BPA) of exports, imports and transit procedures, with a view to prioritizing trade facilitation measures for SW operation. Nepalese Customs is planning to reengineer its

operation and cargo clearance procedures through automation in order to facilitate web-based clearance before introducing SW.

It is recommended to adopt PPP based SW operation in Nepal as the experience of other countries that have implemented SW clearly demonstrates that cooperation between the public and private sectors is the very foundation for SW operation.

IV. Legal framework

Examples of successful implementation of SW facility in other countries also point to the need for a strong legal framework. Since legal recognition of electronically generated paper and records is important for paperless trade, ETA provisions on licensing of a digital signature certifying authority need implementation as early as possible.

A detailed assessment study is needed to identify gaps in the existing legal framework and suggest necessary reforms, with support from UNESCAP, using the UNNExT platform. The assessment study may include simpler and easier ways of obtaining legal recognition of electronically generated paper and records for operation of a SW facility, in consideration to practices followed in other SW operating countries. VAN is also used to verify and authenticate electronically generated and transmitted records and documentation in some other countries.

E-government is the highly prioritized objective of IT policy 2010, and the introduction of a paperless SW facility will not contradict this objective. However, in the absence of a clear priority for e-commerce, there is a need to create sound legal base necessary for a SW facility. The needs assessment study will also have to take this into account.

V. Technical competence

Implementing a SW facility demands technical capacity in data analysis, processing and maintenance. If an electronic SW is implemented, capacity in IT is required. It is recommended that the GON takes action to improve IT technical competence in Nepal.

The unavailability of electric power for up to 16 hours a day in the winter season in Nepal is a serious hurdle for the efficient operation and maintenance of automated trade documentation. As this problem cannot be addressed in the near future, SW operation may require additional investments to create power back-ups in all the networked places.

Although the SW proposed by the DOC does not cover other procedures and documentation that a trader has to comply with prior to customs clearance, the automation, networking and expertise of customs provides a strong basis for SW operations. Moreover, the customs declaration form created with standard data elements under ASYCUDA may be used for electronic transmission. It is recommended to allow DOC to take a lead role in the proposed SW operating agency, which should be created on a PPP basis.

It is recommended that the GON seeks comprehensive advisory and capacity building support from regional and international agencies, especially UNESCAP, in coordinating trade and transport facilitation measures as well as in the introduction of a SW facility, including building up necessary technical competence. UNESCAP's long experience in trade and transport facilitation and with SW can be used in training staff, running awareness programmes, conducting assessment studies, and developing an implementation master plan for a SW facility in Nepal.

VI. General trade facilitation measures

The compulsory requirement of the COO together with the use of multiple documents is problematic and should be discontinued. It is recommended that the COO be issued only when foreign buyers need it for obtaining tariff concessions and facilitation on the basis of place of origin of goods, and in case of specific provisions in bilateral or regional or multilateral trade agreements. To discontinue the compulsory need of COO for customs clearance may require amendment to the customs rules.

The compulsory production of the B/L by Nepalese importers for cargo clearance with Nepalese customs should be reviewed with a view to simplifying the documentation procedures. The B/L was required to verify the date of shipment under the previous licensing regime, but no longer seems to be necessary. The B/L is now only useful as a means to provide information on the weight and measurement of the cargo, but customs can obtain this information from other documents, including the CTD, invoice and packing list. Discontinuing the use of the B/L may require amending Section 21 of the customs rules 2007, which currently specifies the B/L as one of the documentary requirements for clearance of third country imports.

For the export of handicraft products, it is recommended to eliminate the necessity of issuing a separate covering letter in addition to the valuation certification with official seals and signature on the invoice of by the FHAN. This also applies to the issuance of a no-objection letter by FHAN for products made using domestic animals.

The trade policy 2009 covers key areas, including trade and transport facilitation especially with regard to reducing transaction costs. The NITS also recognizes trade facilitation as a

key component of medium term export promotion programmes. There is a need to nominate a lead agency to carry out the trade and transport facilitation measures, including those mentioned in the trade policy. The lead agency could also work as a secretariat to NTTFC.

It is recommended that the current system of physical verification, sealing and certification of handicraft products by the DOA be changed. As mentioned earlier, the physical verification of cargo prior to customs clearance must be eliminated or minimized. Two alternatives are suggested in this regard: i) delegation of authority by the DOA to the DOC to examine handicraft products at the time of export, and refer to DOA in any doubtful cases; and ii) deputation of DOA staff at main customs posts.

As both customs and banks are computerized, the requirement of enterprise registration and PAN/VAT registration certificates could be simplified by making them only a one-time requirement either at the beginning of a fiscal year or in the clearance and transaction of the first consignment.

The need by banks for a recommendation letter from the DOCM to amend a customs entry point in an import L/C should be eliminated. Since the DOCM issues such letters to the banks simply on the basis of an application from the importer, without any investigation of a reason for the change, it is unnecessary to request these letters and it is recommended that banks be authorized to make any agreed changes in the import L/C, including the customs point.

For wool importers, a recommendation letter from the TEPC, containing specifications of the wool, is currently required to open L/C with banks. This is unnecessary. The Nepalese Customs checks the wool specification quality report issued at the place of origin, in addition to physical verification. It is recommended that the requirement of the letter be eliminated. Instead, the banks should compulsorily mention the required specification of wool in the L/C whenever an L/C is opened for wool imports.

Nepalese exporters are required to complete form BBN1, which includes an undertaking to repatriate the foreign exchange earnings within six months, and then submit it to Nepalese customs at the time of export. Customs do not allow exports without seeing an advance payment certificate, L/C copy or bank letter for CAD exports. Therefore, the system provides for all export earnings that are not paid in advance to be remitted. Furthermore, banks have to inform the NRB if export earnings are not received within six months of the goods shipment. If any investigation is required for such cases, it can be based on the other documents relating to the transaction. Therefore, the BBN1 is not required and should be eliminated.

Importers need to fill in BBN3 for opening an L/C with banks. The bank forwards a copy of the BBN3 to the NRB to inform them of opening a L/C, and sends another copy to the

customs entry point for retention until the time the goods are imported. After receiving documents later from the corresponding bank, the bank recovers full payment from the importer and endorses the documents to the importer. The bank completes the BBN4 and sends one copy to the NRB as payment information, and another copy to the importer to give to customs for goods clearance. Then after certification by the customs, the importer takes the BBN4 back to the bank, along with a copy of the customs declaration to show that the goods arrived and were cleared by customs. As verified with the TIA customs, in practice the BBN3 is not available in a particular shipment when the goods are cleared, and it is not necessary for customs to have it for clearance since they have the BBN4. The case of partial shipments of imports, where the amount on the BBN4 is different from the amount on the BBN3 and more than one BBN4 is used is an exception rather than the rule. Furthermore, as the banks send an electronic report to the NRB on daily basis about L/C transactions, the BBN3 is not necessary for that purpose. The BBN4 may also become unnecessary if networking is established between customs and banks. As the BBN3 and BBN4 are not necessary, it is recommended that these forms be eliminated.

As very few documents are aligned to the United Nations Layout Key (UNLK), most documents need to be standardized through preparation of a master document and a one-run system for reproduction. This will facilitate EDI transmission.

VII. Cooperation with neighbouring countries for transit facilitation

As recommended above, the requirement of a COO by transit customs should be eliminated. . Generally speaking, the COO is not generally required for transit purposes. Moreover, the COO is not the one of the four documentary requirements in treaties.

The need for the Nepalese traders to comply with double transit procedures while using Bangladesh routes, i.e. processing of the CTD in India and the TDI in Bangladesh, should be simplified through the use of a single transit document. If a common transit document is accepted for use by both transit countries, it will facilitate the movement of Nepal's traffic-in-transit through Bangladesh. A common transit document (prescribed separately for imports and exports) is presented in Annexes 8 and 9. This document could also be used for the movement of traffic-in-transit in other landlocked countries in the region. The facilitation of transit trade through the use of such a single document will help to promote regional trade integration.

Since shipments carrying Nepal's imports from South East Asia generally reach Kolkata Port earlier than the documents that are routed via Kathmandu, transit cargo often cannot be cleared within the rent free time of seven days, resulting in payment by importers of demurrage charges at the port. It is recommended that negotiations be made with India for Indian customs to accept an electronic copy of the documents, a non-negotiable B/L, sea waybill or another transport document so as to enable importers to clear the goods within

the rent free time. Moreover, measures should be taken to protect the interests of the Nepalese banks that maintain lien over the documents until full payments are recovered from the importers.

With the enactment of the Multimodal Transport Act and Rules that facilitated registration of the Multimodal Transport Operator (MTO) in Nepal, the operation of the Birgunj ICD envisages issuance of a Multimodal Transport Document (MTD). Since the transit procedures as provisioned in the transit treaty with India recognize the B/L as the only transport document, the provisions of the treaty need amendments to include other transport documents, such as the MTD, in order to promote multimodal transport in Nepal.

The Birgunj ICD is not currently following standard operation procedure and Nepalese traders are therefore not able to complete their export and import shipments based on the “Through B/L” issued by shipping lines. As India has long experience in operating over 20 ICDs or dry ports, it is recommended that Nepal reach an understanding with India for operating the Birgunj ICD as a real dry port.

VIII. Phased implementation of a SW facility in Nepal

The proposed strategy for implementation of a SW facility in Nepal is summarized in the matrix (table) below.

Matrix for the phased implementation of a SW facility in Nepal

A. Preparatory Phase				
Task	Objective/Input	Time Frame	Responsible Agency	TA/FA
<p>1. Reconstitution of NTTFC to include MOF and IT related public and private sector agencies like MOST, MOIC, NTA, NITC, & CAN, with an eye on paperless trade and carry out functions mandated to it and supported by a resourceful and dedicated secretariat.</p> <p>1.a The secretariat may be placed at a Lead Agency to be nominated to work on trade and transport facilitation.</p>	<p>Terms of reference of the NTTFC should include the following:</p> <ol style="list-style-type: none"> 1. Simplify, standardize and harmonize trade, transport and transit procedures and documents. 2. Prioritize and promote inter-agency contacts and reporting among the trade regulatory agencies, with a view to minimizing procedural and documentary burdens on traders. 3. Suggest to the GON possible areas of facilitation of transit procedures and documentation, including acceptance of electronic or copies in place of originals, particularly with regard to the B/L. 4. Suggest to the GON to remove the general application of the COO through changes in the Customs Rules and Transit Treaty or CTD. 5. Suggest to the GON to use a single transit document for Bangladesh routes, in cooperation with transit countries. 6. Suggest to the GON and private sector that they increase preparedness for paperless trade through strengthening IT related institutions and the policy framework. 7. Create general awareness of the potential benefits of SW through central-to-district level trade associations. 8. Coordinate with UNESCAP to rationalize trade procedures and documentation, and to share experiences on developments on SW. 9. Suggest to the GON to nominate a lead agency to manage trade and transport facilitation, including those mentioned in the trade policy, and work as secretariat to the NTTFC. 10. Undertake trade and transit transport related facilitation measures, including SW, through forming sub-committees. 11. Recommend to the GON to take trade and transit facilitation measures where required. 	Jan/Feb 2012	MOCS/ MOF	
2. Analysis of Trade Process	1. Conduct a comprehensive Business Process Analysis on 2 or 3 key products.	Feb-July 2012	MOCS/ MOF	TA/FA from UNESCAP
3. Awareness on paperless trade and SW facility	1. Organize a short visit (8 to 10 days) by high level representatives from the public and private sectors to Singapore, Malaysia	July-Sep 2012	MOCS/ MOF	TA/FA from UNESCAP

	and Korea to learn more about their experiences in SW.			AP
	2. Organize a 1-day seminar on the importance and benefits of SW in Kathmandu.	Sep-Oct 2012	MOCS/NTTFC/FNCCI	
	3. Organize four 1-day seminars on the importance and benefits of SW in Biratnagar, Birgunj, Bhairahawa and Nepalgunj.	Oct-Nov 2012	MOCS/NTTFC/FNCCI	TA for 10 days
	4. Initiate the simplification, standardization and harmonization of trade procedures and documents by public and private sector agencies.	Sep-Dec 2012	MOCS/NTTFC	TA for 10 days
B. Comprehensive needs assessment				
1. Assessment of existing legal framework, their implementation status and gaps for SW facility	1. Suggest necessary amendments to existing laws and/or introduction of new laws to create a firm legal basis for SW.	May-Jul 2012	MOCS/MOF	TA for 10 days
2. Assessment of Nepal's readiness for SW trade incl. networking, software, & hardware requirements & capabilities available in the trade regulatory & IT related agencies	1. Suggest the necessary additional hardware, software and networking needed by regulatory agencies, including banks, insurance, and the time frame for their acquisition, installation and operation as well as their cost estimates. 2. Suggest external sources for data availability and EDI standards, including data elements, format and data exchange protocol, by prioritizing the SAD currently used by customs under ASYCUDA. 3. Suggest software developments and modalities for use as VAN by ISPs. 4. Suggest the modalities for membership charges, service fees and distribution of COO charges among different agencies .	May-Jul 2012	MOCS/MOF	TA for 15 days
3. To assess training needs both in public and private sectors	1. Assess training needs for the public and private sector regulatory agencies and ISPs, with a focus on creating trainers in Nepal.	May-Jul 2012	MOCS/MOF	TA for 7 days
4. To draft a SW Master Plan for formal approval and declaration by GON	1. Suggest a PPP based SW Operation Agency (OA) to be created for processing of electronically filed documents and for interfacing with regulatory agencies. 2. Suggest creating a high level Steering Committee (SC) responsible for overseeing the implementation of a SW facility. 3. Suggest potential sources of funding, including partnership with SW operating agencies in other countries. 4. Develop a Master Plan for phased implementation of SW.	Aug-Oct 2012	MOCS/MOF	TA for 15 days
C. Declaration of Master Plan by GON for Phased Implementation of SW facility				

1. To enact new laws and reform existing laws	1. Get new laws and amendments in existing laws passed by Parliament, as recommended by the Master Plan.	Jan-Dec 2013	MOCS	
2. To create SW Operating Agency and Steering Committee	1. Create a SW-OA based on PPP with its own board/management committee as contained in the Master Plan. 2. Create a high level SC to oversee the successful implementation of a SW facility as contained in the Master Plan. 3. Coordinate with donors for funding and with UNESCAP for TA & SW operation.	Jan 2013	MOCS/MOF	
3. To procure, install and operate hardware, software and network and other infrastructures	1. Start and complete acquisition, installation, testing and operation of software, hardware and connectivity of equipment and other infrastructure by the OA in coordination with the SC.	Jul-Dec 2013	MOCS/MOF/SC/OA	TA for periodic short term visits
4. To declare Master Plan for phased implementation of SW facility	1. The GON declares the Master Plan for phased implementation of the SW facility. This will demonstrate the GON's commitment to SW.	Jul 2013	MOCS/MOF/SC/OA	
5. To provide training for trainers	1. Provide short term training to trainers to create trained staff needed for a SW facility and for VAN by ISPs.	Jul-Dec 2013	MOCS/MOF/SC	TA/FA for 10 days
6. To provide training to the staff of the nominated LA & OA	1. Provide short term training to personnel of the Lead Agency and the OA.	Jan-Mar 2013	SC	TA

D. Phased Implementation of SW facility

I. Third Country Exports and Imports

1. To allow traders to electronically file single data entries to OA for export to third country	1. Register exporters as members free of costs until mid-July 2014 on condition of renewing it with payment. 2. Get Nepalese enterprises to start the electronic filing of a single document for exports to third country for obtaining immediate clearance. 3. Issue/obtain online clearance from the FHAN for valuation and clearance certification of handicraft products, 4. Levy a consolidated fee for a valuation and clearance certification of handicrafts from the FHAN and sharing the incomes.	Dec 2013	SC/OA	TA for 7 days
2. To allow traders to electronically file single data entries to OA for imports from third country	1. Register importers as first time members free of cost until mid-July 2014 on condition of renewing it with payment. 2. Facilitate Nepalese traders while importing from third countries to electronically file a single document for giving immediate clearance.	1Jun 2014	SC/OA	
3. To start issuing	1. Arrange issuing electronic COOs.	1Jun	SC/OA/	TA for

electronic copy of general COO.	2. Levy a consolidated fee for the electronic issuance of COOs, and distribute the income to the relevant organizations in the agreed proportion as decided prior to starting the service. 3. Allow the payment through either electronic transfer from clients' bank accounts or maintaining a separate deposit account with OA by clients with provisions for online A/C checking.	2014	FNCCI/CNI	7 days
II. Payment of Customs dues through electronic transfers				
1. To facilitate payment of customs dues at the time of filing data entries	1. Allow the payment of customs dues to the customs' account through either electronic transfers from clients' bank accounts or a separate deposit account with OA with provisions for online account checking.	Sep 2014	MOF/SC/OA/DOC	TA for 7 days
III. Exports and Imports with India				
1. To facilitate traders to electronically file single data entries for exports to India	1. Register traders as members against payment of fees. 2. Facilitate enterprises to electronically file single document for obtaining immediate clearance. 3. Allow the payment of customs dues to the customs account(s) through either electronic transfer from clients' bank accounts or maintaining a separate deposit account with OA by clients with online account checking.	Jan 2015	MOF/SC/OA/DOC	
2. To facilitate traders to electronically file single data entries for imports from India	1. Register traders as members against payment of fees. 2. Facilitate enterprises to electronically file single documents for obtaining immediate clearance. 3. Allow the payment of customs dues to the customs account(s) through either electronic transfer from clients' bank accounts or maintaining a separate deposit account with OA by clients with provisions for online account checking.	Jan 2015	MOF/SC/OA/DOC	
IV. Electronic Issuance of Specific COO required in terms of bilateral Trade Agreements				
To issue electronic copy of COO including GSP.	1. Arrange issuing electronic COOs in the format prescribed by bilateral treaties with India and China. 2. Issue electronically generated GSPs in the prescribed format and colour. 2. Levy a consolidated fee for the electronic issuance of COO/GSP, and distribute the income to relevant organizations in the agreed proportion to be decided prior to starting the service. 3. Allow payment through either electronic transfers from clients' bank accounts or maintaining a separate deposit account with OA by clients with online account checking.	1Jun 2015	MOCS/MOF/DOI/TEPC/FNCCI/CNI/SC	TA for 7 days

V. Opening of L/C through electronic filing and bank account transfer				
1. To facilitate L/C opening and operation through electronic transfer	1. Generate opening and operation of L/Cs with banks nominated by the traders after filing of data entries for imports. 2. Obtain endorsement of the banks for L/C opening or get a electronic copies of the L/C from the banks for transmission to the concerned importers, depending upon the demand of import procedures, both in domestic and transit. 3. Allow payment to the bank through either electronic transfers from clients' bank accounts or maintaining a separate deposit account by clients with OA with provisions for online checking of account status.	Dec 2015	MOCS/MOF/ NRB/OA/SC	TA for 7 days

TA/FA: Technical Assistance/Financial Assistance. OP: SW Operating Agency.SC: Steering Committee.

Note: 1. TA man/days is only indicative. 2. The need of TA is visualized for short periods at every stage of additional function till SW facility becomes fully operational in addition to the possibility of its need on as-and-when-required basis during the period. 3. The assessment study may include an option for Nepal's collaboration with other similar SW operating agencies in other countries like Singapore's CrimsonLogic Pte. Ltd.

Annex 1. Officials and persons contacted or interviewed

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Annex 2. Major export products

Major export products by value and percentage shares (value in NPR thousands)

S. No.	Export Products	2008/09		2009/10	
		Value	% share	Value	% share
1	Iron and steel articles	9,227,928	13.45	10,016,265	16.43
2	Lentils	5,660,781	8.25	3,744,922	6.14
3	Woollen carpets	5,350,579	7.80	4,256,171	6.98
4	Yarns (polyester, cotton and others)	5,317,254	7.75	4,680,822	7.68
5	Ready Made Garments	4,350,915	6.34	3,758,161	6.17
6	Textiles	4,257,742	6.21	4,156,767	6.82
7	Juices	2,239,762	3.27	1,071,517	1.76
8	Woollen and Pashmina shawls	1,818,891	2.65	1,317,065	2.16
9	Copper and articles thereof	1,578,624	2.30	1,620,720	2.66
10	Jute bags and sacks	1,532,198	2.23	2,011,386	3.30
11	Pebbles, gravel, broken or crushed	1,431,509	2.09	619,472	1.02
12	Cardamom	1,343,571	1.96	1,171,597	1.92
13	Tea	1,240,864	1.81	1,195,318	1.96
14	Handicrafts	1,237,731	1.80	560,991	0.92
15	Dentifrices (toothpaste)	1,023,656	1.49	721,373	1.18
16	Vegetable products	905,715	1.32	1,351,957	2.22
17	Noodles, pasta and like	835,314	1.22	675,005	1.11
18	Medicinal Herbs	758,307	1.11	440,463	0.72
19	Cotton sacks and bags	710,709	1.04	638,505	1.05
20	Nepalese paper and paper products	560,806	0.82	404,977	0.66
21	Hides and Skins	549,791	0.80	627,434	1.03
22	Vegetable fats and oil	492,261	0.72	224,870	0.37
23	Soaps	479,751	0.70	384,808	0.63
24	Ginger	403,468	0.59	456,014	0.75
25	Articles of silver jewellery	337,735	0.49	177,852	0.29
26	Betel nuts	332,093	0.48	479,108	0.79
27	Others	14,618,897	21.31	14,186,063	23.28
	Total	68,596,852	100.00	60,949,603	100.00

Source: Trade and Export Promotion Centre (2011b).

Annex 3. Imports of major commodities

Imports of major commodities (2008/09 & 2009/10) (In millions of NPR)

S. No.	Commodities	2008/09	2009/10	% change
1	Milk & cream in powered and granules of a fat content by weight exceeding 1.5% containing sugar or added sweetening matter	461	549	19.1
2	Potatoes, fresh or chilled	356	875	145.8
3	Onions & shallots	499	661	32.4
4	Betel nuts	4,399	3,352	-23.8
5	Apples, fresh	305	700	129.1
6	Maize corn	245	1,310	435.1
7	Semi milled or wholly milled rice, whether or not polished or glazed	1,781	2,280	28.0
8	Soya beans, whether or not broken	39	922	2273.5
9	Low erucic acid rape or colza seeds	3,206	1,537	-52.0
10	Crude soya bean oil	7,354	5,963	-18.9
11	Crude palm oil	2,722	3,756	38.0
12	Crude sunflower oil	483	1,473	205.1
13	Sugar, raw not containing added flavouring or colouring matter	789	688	-12.7
14	Malt extracts	544	701	28.9
15	Concentrate of non-alcoholic soft drink	1,260	673	-46.6
16	Oil cakes	1,035	2,233	115.8
17	Tobacco, partly or wholly stemmed/stripped	1,328	1,983	49.3
18	Cement clinkers	3,902	8,039	106
19	Portland cement	4,040	4,312	6.7
20	Granulated slag (slag sand) from the manufactures of iron or steel	163	730	348.3
21	Slag & ash, including seaweed ash	401	638	59.2
22	Coal	780	1,524	95.4
23	Coke & semi coke of coal	967	676	-30.1
24	Spirits including Petrol	5,205	7,240	39.1
25	Kerosene type jet fuel	3,337	3,488	4.5

26	Kerosene oil	4,207	2,552	-39.3
27	High speed diesel oil & vapouring oil	21,897	28,242	29.0
28	Fuel oil (Furnish oil)	1,405	1,414	0.6
29	Lubricating oil	703	960	36.6
30	Liquefied petroleum gases	7,596	9,532	25.5
31	Petroleum bitumen	549	1,019	85.5
32	Organic compound	721	699	-3.1
33	Homeopathic medicaments not put in measured doses or in forms or packing for retail sale	5,921	6,575	11.0
34	Medicaments containing antibiotic for therapy or prophylactic uses	480	1,219	
35	Homeopathic medicaments put up in measured doses or in forms or packing for retail sale	1,038	1,331	28.2
36	Chemical contraceptive preparations based on hormones or spermicides	184	1,232	570.6
37	Fertilizer, urea	170	540	217
38	Mineral or chemical fertilizers containing the three fertilizing elements nitrogen, phosphorous and potassium	75	651	769.4
39	Cream & like preparations	519	720	38.8
40	Industrial mono-carboxylic fatty acid	1,592	1,566	-1.6
41	Polyethylene having a specified gravity of less than 0.94	1,113	1,176	5.7
42	Polyethylene having a specified gravity of 0.94 or more	1,966	1,892	-3.7
43	Polypropylene	2,631	970	-63.1
44	Plates, sheets, film, foil and strip of polymers of propylene	819	520	-36.5
45	Newsprint, in rolls or sheets	1,057	964	-8.7
46	Unused postage, stamps, banknotes, cheque forms	666	714	7.2
47	Jute & other textile bast fibres raw or retted	1,273	2,012	58.1
48	Synthetic staple fibre of polyester not carded, combed or otherwise processed for spinning	1,230	549	-55.4
49	M&B Cotton ensembles, not knitted	487	628	28.9
50	W&G cotton Dhoti & Lungi, not knitted	480	602	25.4
S. No.	Commodities	2008/09	2009/10	% change
51	Footwear with outer soles and upper of rubber or plastics	473	507	7.1
52	Carboys, bottles, flasks, jars, pots and phials of glass	670	792	18.3

53	Diamonds, whether or not worked, but not mounted or set unsorted	148	603	307.9
54	Gold, semi-manufactured forms	11,723	41,458	253.6
55	Ferrous products obtained by direct reduction of iron ore	1,514	1,909	26.0
56	M. S. Billet	8,506	13,504	58.8
57	Flat rolled product of iron or non alloy steel, in coils, not further worked than hot rolled, pickled, of a thickness of less than 3mm	1,657	1,090	-34.2
58	Flat rolled product of iron or non alloy steel, in coils, of a thickness exceeding 10mm	616	792	28.6
59	Flat rolled product of iron or non alloy steel of a width of 600mm or more, hot rolled, not clad, plated or coated of a thickness of 3mm or more but less than 4.75 mm	373	1,158	210.4
60	Flat rolled product of iron of a thickness less than 3mm	1,522	3,114	104.6
61	Flat rolled product of iron or non alloy steel of a width of 600mm or more, in coils, not further worked than cold-rolled of a thickness of less than 0.5 mm	4,410	1,566	-64.5
62	Bar & rods, hot rolled, in irregularly wound coils, of iron or non alloy steel, of circular cross section measuring more than 8mm in diameter	4,120	3,845	-6.7
63	Refined copper wire of which maximum cross-sectional dimension exceeds 6mm	836	1,107	32.5
64	Aluminium wire of which maximum cross-sectional dimension exceeds 7mm	654	522	-20.1
65	Unwrought zinc, not alloyed containing by weight 99.99% or more of zinc	760	706	-7.0
66	Aircraft engines	553	529	-4.5
67	Pump for liquids not fitted with measuring device	405	688	69.9
68	Refrigerators	279	507	81.6
69	Front end shovel loader	2,875	2,753	-4.2
70	Machinery with 360 degree revolving super structure	451	525	16.5
71	Machinery shovels, excavators & shovel loaders	631	1,987	214.8
72	Portable digital automatic data processing machines, weighing not more than 10kg	1,110	2,254	103.1
73	Input or output units, whether or not containing storage units in the same housing	512	876	71.1
74	Parts & accessories of automatic data processing machines	1,228	1,211	-1.4
75	Crushing or grinding machine	836	624	-25.3
76	Generating sets with compression ignition internal combustion piston engines	1,094	986	-9.9

77	Generating sets	308	518	68.3
78	Static converters	485	608	25.3
79	Lead acid accumulators	1,191	1,467	23.2
80	Telephone used for cellular or cordless networking	2,265	6,011	165.4
81	Machines for the reception, conversion and transmission or regeneration of voice, images or other data, including switching and routing apparatus	1,312	1,070	-18.4
82	Apparatus for transmission/ reception of voice, images or other data	1,770	3,778	113.4
83	Parts of apparatus for transmission or reception of voice, images or other data	450	1,036	130.2
84	Discs, tapes, slid-state non-volatile storage devices, "smart cards" & other media for the recording of sound or of other phenomena, whether or not recorded, including matrices and masters for the production of discs	542	2,062	280.4
85	Television cameras, digital cameras & video camera recorders	264	534	102.2
86	Cathode ray tubes monitors for automatic data processing machine	276	520	88.5
87	Colour radio broadcast receivers	497	584	17.5
88	Aerial & aerial reflectors, parts	138	880	537.7
89	Television receiver parts	357	515	44.0
90	Colour cathode ray television picture tube	302	506	67.5
91	Photosensitive semi conductor devices	587	592	0.9
92	Tractors	3,088	4,525	46.5
93	Motor car, vehicle of a cylinder capacity not exceeding 1000cc, with spark-ignition internal combustion reciprocating piston engine	536	582	8.4
94	Motor car, vehicle of a cylinder capacity exceeding 1000cc but not exceeding 1500cc, with spark-ignition internal combustion reciprocating piston engine	1,427	3,782	165.1
S. No.	Commodities	2008/09	2009/10	% change
95	Motor car, vehicle of a cylinder capacity exceeding 1500cc but not exceeding 3000cc, with spark-ignition internal combustion reciprocating piston engine	409	931	127.5
96	Double-cab pickup principally designed for the transport of goods and having more than 2 seats including driver's for the transportation of persons, not exceeding 5 tons	404	866	114.2
97	Single-cab pickup principally designed for the transport of goods and having more than 2 seats including driver's, not exceeding 5 tons	331	572	72.5
98	Motor vehicles with compression-ignition internal combustion piston engine, gvw exceeding 20 tons	995	1,409	41.6

99	Motor vehicles with spark ignition internal combustion piston engine gvw exceeding 5 tons	649	605	-6.8
100	Chassis fitted with engine of bus & trucks	2,889	3,621	25.3
101	Parts & accessories of motor vehicle	863	1,210	40.3
102	Motorcycle with reciprocating internal combustion piston engine of a cylinder capacity exceeding 50cc but not exceeding 250cc	4,891	8,500	73.8
103	Aero plane of an un-laden weight exceeding 15000kg	1,735	995	-42.6
104	Parts of aero plane & helicopters	1,341	982	-26.8
105	Electro-medical instruments and appliances	1,130	870	-23.0
106	Others	107,233	115,279	7.5
	Total	291, 001	375,606	29.1

Source: Trade and Export Promotion Centre (2011b).

Annex 4. Nepal's major export destinations

Major export destinations (in NPR millions)

S. No.	Export Markets	2005/06	2006/07	2007/08	2008/09	2009/10
1	India	40,715	41,728	38,556	43,574	39,903
2	USA	6,993	5,571	4,599	4,879	3,867
3	Bangladesh	234	521	4,664	4,710	3,374
4	Germany	2,844	2,574	2,332	2,785	2,391
5	Bhutan	238	311	143	195	1,555
6	UK	1,184	999	1,066	1,430	1,228
7	France	1,297	904	1,001	1,145	1,153
8	China PR	893	378	736	1,848	1,009
9	Canada	645	594	714	795	768
10	Italy	712	684	584	852	716
11	Japan	572	559	488	573	554
12	Switzerland	318	317	391	252	371
13	Hong Kong SAR	112	825	208	303	369
14	Australia	154	209	176	433	333
15	Singapore	323	180	230	509	306
16	Turkey	278	175	108	472	277
17	Belgium	309	191	250	313	266
18	Netherlands	229	246	288	249	258
19	United Arab Emirates	165	147	176	576	255
20	Spain	283	383	358	214	181
21	Denmark	81	94	111	215	176
22	Malaysia	36	48	79	81	110
23	Austria	100	162	88	78	101
24	Sri Lanka	2	3	35	162	100
25	Pakistan	186	127	81	86	79
26	Brazil	20	26	41	73	74
27	Taiwan	70	57	70	55	71

28	New Zealand	28	30	32	27	71
29	Sweden	98	63	55	59	63
30	South Africa	16	18	32	72	62
	Sub Total of 30 countries	59,135	58,124	57,692	67,015	60,041
	Other Countries	642	803	782	1,582	909
	Total	59,777	58,927	58,474	68,597	60,950

Source: Trade and Export Promotion Centre (2011b).

Annex 5. Major sources of imports into Nepal

Major sources of imports (in NPR millions)

S. No.	Import Sources	2005/06	2006/07	2007/08	2008/09	2009/10
1	India	107,143	115,872	142,376	165,119	214,261
2	China PR	12,083	16,679	22,256	32,853	39,218
3	United Arab Emirates	1,096	3,918	5,595	3,448	33,399
4	Indonesia	5,648	11,172	9,914	8,307	8,094
5	Thailand	2,602	3,459	4,983	6,638	7,505
6	UK	961	1,727	1,643	6,500	7,299
7	Japan	1,935	3,229	6,148	6,111	6,268
8	Korea Republic	1,789	2,380	2,077	2,955	5,885
9	USA	1,677	4,260	3,718	3,809	5,385
10	Argentina	1,005	2,256	3,919	6,478	5,037
11	Singapore	3,375	5,497	5,269	7,047	5,007
12	Australia	1,415	1,855	1,751	2,283	4,950
13	Hong Kong SAR	931	1,029	1,177	1,613	4,227
14	Malaysia	2,475	2,795	3,834	4,889	4,207
15	Switzerland	491	479	593	2,014	2,744
16	Ukraine	611	124	645	2,029	2,499
17	Germany	2,762	2,433	3,430	2,244	2,322
18	Saudi Arabia	2,330	2,593	2,678	8,684	1,833
19	France	910	586	834	2,417	1,663
20	Taiwan	568	796	1,232	1,753	1,520
21	Finland	69	61	21	77	1,214
22	New Zealand	1,019	841	818	888	1,092
23	Italy	395	923	593	458	949
24	Bangladesh	105	286	491	418	765
25	Brazil	1,166	1,267	468	77	621
26	Qatar	482	683	645	856	563
27	Canada	715	1,098	2,631	927	551

28	Netherlands	304	643	696	758	512
29	Denmark	306	765	502	358	439
30	Russia	901	812	1,132	1,087	436
	Sub Total of 30 countries	157,269	190,518	232,069	283,095	370,465
	Other countries	3,409	5,290	4,961	7,906	5,141
	Total	160,678	195,808	237,030	291,001	375,606

Source: Trade and Export Promotion Centre (2011b).

Annex 6. List of prohibited, quantitatively restricted and freely tradable exports and imports

(Unofficial translation)

Fully prohibited for export:

Articles of archaeological, historical and religious importance:

Foreign and national coins;

Idols of god and goddesses, Palm leaves inscription (Tad Patra), and plant leaves inscription (Bhoj Patra);

Scroll (Thanka paintings) (Pauwa).

Protected wildlife and related articles (Okhatopahar), and endangered wild species that include: 26 animals, 13 birds, 3 species of reptiles and others, as listed in Annex-1 of the Convention on International Trade in Endangered Species of Wild Fauna and Flora, 1973 (CITES).

Marijuana, opium and hashish: Narcotics and psychotropic substances as defined by the UN Convention against Traffic in Narcotic Drugs and Psychotropic Substances, 1988, and Single Convention on Narcotics Drugs, 1961.

Articles relating to Explosives and Arms and Ammunition:

Explosive materials and their fuses or fuse materials,
Materials used in the production of arms and ammunition.

Industrial machinery, parts and raw materials:

Raw hides and skins (including dry salted),
Raw wool and hairs of wild animals,
Industrial mills machineries and their parts, but

If the mill machinery is not being used by an importing industry and it wants to sell them abroad or if the industry is closed, their exports will be permitted on the recommendation of the DOI provided it does not affect a bilateral treaty.

If raw materials are not being used by the importing industry and it wants to sell them abroad, their exports will be permitted on the recommendation of the concerned department provided it does not affect a bilateral treaty.

If the mill, machinery, raw materials and parts are not being used by an importing industry or they are unsuitable due to the quality and it wants to return them to the exporter, their exports will be permitted for allowing imports of similar items, on the recommendation of the concerned department.

Biodiversity and Environment Protection related forest and other products:

A. *Dactylorhiza hatagirea* and *Juglans regia*

B. Without the permission of the concerned sector and without processing the following herbs:

Nardostachys grandiflora
Rauwolfia serpentina
Valeriana jatamansi
Lichen spp
Abies spectabilis
Taxus spp

Cinnamomum glaucescens

C. Logs and sawn wood as followings:

Shorea robusta
Dalbergia latifolia
Pterocarpus marsupium
Juglans regia
Wild Sisau

But logs and sawn woods of sisau (except wild sisau), tik, and eucalyptus produced from own private land may be exported with the permission of the District Forest Offices (DFO).

D. Unprocessed Rock Exudat.

E. Exports of Cordyceps sinensis and Picrorhiza scrophulariifolia may be allowed with the permission of the Department of Forests (DOF).

F. Products like orchids, red sandal woods (Rakta chandan) and others as listed in CITES as per the provisions of the CITES Convention.

For ensuring the supply and distribution management of petroleum related products as follows:

Petrol
Diesel
Kerosene oil
LP gas
Aviation fuel (except the fuel used by air lines in international flights)

Products subject to quantitative restrictions:

Paddy, Rice, Wheat, Sugar (Except those received under quota from European Union) and Aharar (Rahar).

Note: The MOCS reviews the above list from time to time in consideration of the supply situation in the country.

C. Export related special rules:

Goods of value up to 5,000 USD with payment to be channelled through the approved banking system, and goods up to 500 USD without payment may be exported through parcel post. Permission of the DOC is required for exporting goods of value in excess of the limits.

If a reputed international goods producing company has appointed a Nepali agency for distribution of its products on regional basis; the product may be exported to the nominated country without requiring a license.

Goods other than those prohibited for export may be freely exported.

If prevalent laws prescribe the need for a recommendation of an institution for export, exports may be done accordingly.

D. Fully prohibited products for importation:

Health hazardous narcotic products such as opium and morphine

Beef

Harmful Azo dyes as notified by the GON from time to time in the Nepal Gazette

Plastic waste, and plastic bags and sheets of less than 20 micron thickness.

Incandescent light bulbs emitting excessive carbon.,

Other products prohibited under prevailing laws

E. Products to be imported only on the basis of License or Approval letter:

252 medicines and 23 chemicals and auxiliary chemicals as enlisted in the Annex 2 (on the recommendation of Ministry of Home Affairs).

Arms and ammunition and explosives (on the recommendation MOHA): 210 explosives and materials used in the production of explosives as per the Annex 2, guns and cartridges, capes except of papers and other explosive materials and arms and ammunition.

With the exception of the following radio equipment, wireless, walkie-talkie, audio communication receiver, link radio equipment etc., related radio equipment and other similar sound communicating, visual communicating, data communicating, radio equipment (on the recommendation of Ministry of Information and Communication):

- GSM Mobile set

- WLL Telephone set

- Satellite Telephone set for the satellite network connection by those service operators who are being licensed by the Nepal Telecommunication Authority.

d. Quantitatively restricted product: Poppy seeds.

F. Import related special rules:

If any order has been issued on imports of environmentally harmful products, it will be forbidden accordingly.

The following goods may be imported from overseas countries without an import license and L/C or without payment:

- Goods imported by GON offices, public corporations, social organizations or institutions, and imported in the name of projects in operation in Nepal on recommendation of the concerned Ministry in accordance with the Bill of Quantity mentioned in the agreement.

- Emergency medicines sent as gifts for the treatment of a serious patient in Nepal by an individual or organization.

- Printed materials such as posters and calendars sent for publicity purpose.

- Goods up to a value of 1,000 USD received by a person as a gift/prize for participation in conferences, seminars and meetings at the invitation of foreign governments or international organizations.

- Gifts, donation and contribution given to the non-profit organizations and institutions with the approval of the concerned Ministry by a friendly country or international or regional organizations and Institutions or social organization or an individual.

- Machinery and parts and raw materials imported by an industry established with FDI capital investment/joint venture in accordance with the agreement (on the recommendation of DOI).

- Goods imported for personal uses by the foreign investor or foreign personnel employed in accordance with the agreement in the project operational under Joint Investment/FDI in Nepal (on the recommendation of concerned Ministry).

- Samples, stickers, labels, and advertisement with logo markings of a firm or a company up to 1,000 USD.

- Goods of official uses up to 5,000 USD sent to the locally registered representative office, branch office or general sales agent (GSA) in Nepal by Foreign company, Joint Investment company or Foreign Airlines Head Offices,

- Goods that are granted duty free and VAT free by Ministry of Finance, and imported for their own uses by a friendly country or International or Regional Organization.

G. Goods of value up to 5,000 USD with payment channelled through the approved banking system, and goods up to 200 USD without payment may be imported through parcel posts. A permission of the DOC will be required in case the imports with payments through banking system exceed the specified value limits. In the case of imports without payment in excess of the specified value limits, DOC may give permission to clear the goods by charging 100 per cent import permit fee equivalent to the amount in excess of the specified limit.

H. Unless otherwise mentioned in this Notification, a product cannot be exported and imported without the permission of GON, License or documentation of the NRB approved banking system.

I. Imports of goods by the mountaineering or study or research expedition will be permitted only on the recommendation of the concerned Ministry.

J. For the goods re-exported to other country and the goods to be returned back to their origin country via Nepal, DOC will avail the transit facilities on the recommendation of the concerned Ministry, and such facility will be granted only to the mountaineering expedition.

K. In the case of confusion in matters not covered by this Notification the matter will be dealt with on merit basis in accordance with the decision of this Ministry.

L. In the case of restrictions and controls imposed by prevailing Nepal laws, rules or order of GON, the exports and imports will have to be performed accordingly. And, in the case of orders issued and notified in accordance with the monetary policy by NRB not contravening the prevailing laws, rules and this Notification, exports and imports will have to be performed accordingly.

Source: Nepal Gazette Notification of MOCS dated BS 2066.07.16 (02.11.2009)

Annex 7. ADSL broadband Internet-tariff plans (NDCL)

1. Registration fee: NRs 500.00 only (one time charge) (Excluding taxes)

2. Unlimited Packages - Speed/Rate in NPR:

ADSL Speed(Kbps)	Monthly rate for Internet	3 Month Package	6 Month Package	1 year
128 Kbps	900.00	2,700.00	5,400.00	10,800.00
256 Kbps	1,500.00	4,500.00	9,000.00	18,000.00

3. Volume Based Package - Speed/Rate:

S No.	Volume Based Plans	Rate-NPR
1	Volume Based - ADSL - 6GB - 3 Months - 512K	1,980.00
2	Volume Based- ADSL -12GB -6 Months -512K	3,762.00
3	Volume Based -ADSL -24GB-12 Months-512K	7,128.00
4	Volume Based- ADSL - 12GB -3 Months - 512K	3,180.00
5	Volume Based- ADSL -24 GB-6 Months- 512K	6,042.00
6	Volume Based- ADSL -48 GB-12 Months- 512K	11,448.00
7	Volume Based - ADSL - 18GB - 3 Months - 512K	3,960.00
8	Volume Based - ADSL - 36GB - 6 Months - 512K	7,524.00
9	Volume Based - ADSL - 72GB - 12 Months - 512K	14,256.00
10	Volume Based - ADSL -24GB - 3 Months - 512K	4,950.00
11	Volume Based - ADSL - 48GB - 6 Months - 512K	9,405.00
12	Volume Based - ADSL - 96GB - 12 Months - 512K	17,820.00
13	Volume Based - ADSL - 30GB - 3 Months - 512K	5,940.00
14	Volume Based - ADSL- 60 GB- 6 Months- 512K	11,286.00
15	Volume Based - ADSL - 120GB - 12 Months - 512K	21,384.00

Above rates are exclusive of all applicable taxes.

Note:

1. Port charge is included in the above rate. No addition of 100 rupees in the phone bill.
2. For existing unlimited plans, charges will be revised to include port charge. That is, NPR

100.00 shall be added to the current rates (exclusive of VAT).
3. ADSL Customers are requested to timely recharge their adsl account at the nearest NT Sales Counters. One can recharge the account according to our monthly or quarterly price package.

Source: Nepal Doorsanchar Company Limited, www.ntc.net.np

Annex 8: Customs transit declaration form (imports)

Annex-8

Customs Transit Declaration Form (Import)

1. Importer's Agent (Name and address)		Customs Transit Declaration Form Import of Nepal		
		5. See note in Annex-16		
2. Importer (Name and address)		6. Country of consignment		
		7. Country of origin		
3. Notify or Delivery Address		8. a. Port of entry		
		b. Ship's Name		
4. Mode and Route of Transports		c. Rotation No.	d. Line No.	e. B/L Number & Date
		9. Import License/Letter of credit Number & date		
10. a. Marks & Serial No. of packages	b. No. & description of packages	c. Description of goods		d. Quantity
e. Value				
11. Endorsement by Bangladesh Customs at entry point		16. Declaration: "I/We declare that the goods entered herein are for Nepal in transit through Bangladesh and India, and shall not be diverted en-route in transit." "I/We declare that all the entries made herein above are true and correct to the best of my/our knowledge and belief."		
12. Endorsement by the carrier				
13. Endorsement by Bangladesh Customs at exit point				
14. Endorsement by Indian Customs at entry point				

Annex 9: Customs transit declaration form (exports)

Annex-9

Customs Transit Declaration Form (Export)

1. Exporter's Agent (Name and address)		Customs Transit Declaration Form Export of Nepal		
		5. See note in Annex-16		
2. Exporter (Name and address)		6. Country to which consigned		
		7. Country of origin		

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