Improving Regional Trade Procedures and Processes:
A Business Process Analysis of the Export of Vegetable Ghee from Nepal to India and China and the Import of Textiles to Nepal from India

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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>ARTNeT</td>
<td>Asia-Pacific Research and Training Network on Trade</td>
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<tr>
<td>BPA</td>
<td>Business Process Analysis</td>
</tr>
<tr>
<td>COO</td>
<td>Certificate of Origin</td>
</tr>
<tr>
<td>DCO</td>
<td>District Chamber Office</td>
</tr>
<tr>
<td>DOC</td>
<td>Department of Customs</td>
</tr>
<tr>
<td>DOI</td>
<td>Department of Industry</td>
</tr>
<tr>
<td>FNCCI</td>
<td>Federation of Nepalese Chamber of Commerce and Industry</td>
</tr>
<tr>
<td>FY</td>
<td>Fiscal Year</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GON</td>
<td>Government of Nepal</td>
</tr>
<tr>
<td>HS</td>
<td>Harmonized System</td>
</tr>
<tr>
<td>L/C</td>
<td>Letter of Credit</td>
</tr>
<tr>
<td>MFN</td>
<td>Most Favoured Nation</td>
</tr>
<tr>
<td>MOCS</td>
<td>Ministry of Commerce and Supplies</td>
</tr>
<tr>
<td>NICCI</td>
<td>Nepal India Chamber of Commerce and Industry</td>
</tr>
<tr>
<td>NVGPA</td>
<td>Nepal Vegetable Ghee Producers Association</td>
</tr>
<tr>
<td>PAN</td>
<td>Permanent Account Number</td>
</tr>
<tr>
<td>TPC</td>
<td>Trade Promotion Centre</td>
</tr>
<tr>
<td>TQM</td>
<td>Total Quality Management</td>
</tr>
<tr>
<td>TT</td>
<td>Telegraphic Transfer</td>
</tr>
<tr>
<td>UML</td>
<td>Unified Modeling Language</td>
</tr>
<tr>
<td>UN/CEFACT</td>
<td>United Nations Centre for Trade Facilitation and E-business</td>
</tr>
<tr>
<td>UNESCAP</td>
<td>United Nations Economic and Social Commission for Asia and the Pacific</td>
</tr>
<tr>
<td>UNECE</td>
<td>United Nations Economic Commission for Europe</td>
</tr>
<tr>
<td>UNNExT</td>
<td>United Nations Network of Experts for Paperless Trade in Asia and the Pacific</td>
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<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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</tbody>
</table>
Executive summary

Recognizing the need for greater efficiency in procedures related to international trade, this study was undertaken to examine the processes involved in the export of vegetable ghee from Nepal to India and China and in the import of textiles from India. This research was conducted as part of a regional study by the Asia-Pacific Research and Training Network on Trade (ARTNet) on Improving Regional Import-Export Procedures and Processes.

Nepalese vegetable ghee is mainly exported to India and China and is exported by road transportation. India provides preferential entry of Nepalese vegetable ghee under the bilateral trade agreement, but there is quota on the quantity of vegetable ghee imported into India from Nepal. Most vegetable ghee exports to India are on an advance payment basis, while to China all vegetable ghee is exported on this basis.

For exports of vegetable ghee to India, the process consists of 15 steps and the exporter must visit 12 institutions and prepare 26 documents. The process takes an average of 41 days, and the cost per container is 1,067 USD. For exports of vegetable ghee to China, the process consists of 13 steps and the exporter must visit nine institutions and prepare 21 documents. The process takes 11 days on average and the cost per container is 834 USD.

Textiles are one of Nepal’s major import items. They are mostly imported by road transportation through specific custom points, on an advance payment basis. The import process involves 10 steps and the exporter must visit five institutions to complete the process and prepare 12 documents. The process of importing textiles into Nepal takes six days, on average, and costs 320 USD per truck.

From the study findings, it has been observed that trade can be facilitated by addressing five main problems:

1. The present system of requiring recommendation letters from three agencies to obtain a share of the export quota.

   As FNCCI is an umbrella organization, regulations should be revised so that a recommendation letter is only required from FNCCI.

2. Lack of recognized laboratories in Nepal, requiring vegetable ghee exporters to have their products tested in laboratories in India instead of in Nepal.

   It is recommended that emphasis be placed on developing in Nepal the capacity and facilities necessary to facilitate trade.

3. The problem of traffic congestion on the roads between Nepal and India.

   Nepal and India have agreed to establish integrated check points (customs) on major trade routes between these two countries. It is recommended that this project be expedited.

4. Shortage of trained human resources in customs.
To make customs clearance more efficient, human resources should be developed. Furthermore, the citizen charter should be followed to reduce clearance time.

5. Delays in payment settlement.

The study shows that payment settlement through banks is excessively time consuming. An in–depth study in this regard is needed.
Introduction

Trade facilitation is the simplification and harmonization of international trade procedures and documentation. These procedures include commercial, transportation, regulatory and financial procedures. Improvements in these procedures reduce transaction costs and the complexities of international trade, and improve trading efficiency and competitiveness.

Business Process Analysis (BPA) identifies problems in each step of business operations and helps in reducing time and costs involved in the business process. It also helps in eliminating unnecessary documentation and improving business efficiency. Thus, it is an instrument to design effective trade facilitation measures.

Nepal is a small, landlocked least developed country. It has a number of trade-related problems. Although the volume of Nepal's foreign trade grew over the past decade, Nepal’s export sector remains weak. The ratio of exports to Gross Domestic Product (GDP) declined from 13.5 per cent in Fiscal Year (FY) 2000/01 to 7.4 per cent in FY 2008/09. Furthermore, the volume of exports has remained far below that of imports, leading to a growing trade deficit, which stood at 23.82 per cent of GDP in FY 2008/09. In order to increase exports, it is important for Nepal to improve its trading procedures. Thus trade facilitation measures are increasingly necessary for Nepal.

This study aimed to identify whether there are any problems relating to documentation, cost and time in the import and export sectors in Nepal, and how these problems can be addressed. It analyzes the procedures involved in exporting vegetable ghee, examining the process all the way from the Nepalese exporters’ warehouses to the warehouses of importers in India and China. This study also analyzes the procedures involved in importing textiles from India, examining the process all the way from the exporters’ warehouses in India to the importers’ warehouses in Nepal.

I. Literature review

Davenport and Short (1990) defined a “business process” as a set of logically related tasks performed to achieve a defined business outcome. The types of processes and procedures used by businesses have a significant impact on performance and competitiveness; therefore improvement of processes and procedures can bring about significant improvements in a company’s bottom line. According to the Designing and Implementing Trade Facilitation in Asia and the Pacific (ADB and UNESCAP, 2009) publication, the simplification, harmonization and standardization of business processes and documents is an essential step in reducing the time and cost of importing and exporting and in making them more predictable. This publication introduces guiding principles and practices aimed to improve trade procedures and documentation.

Fulfilling export and import procedures in most developing economies of the Asia-Pacific region takes at least 50 per cent more time than required in developed economies (UNESCAP, 2009). Similarly, the average number of documents and time required for imports
and exports in less developed countries in the Asia-Pacific region is at least twice as high as in member countries of the Organisation for Economic Co-operation and Development (OECD) (UNESCAP, 2009).

The annual Doing Business report by the International Finance Corporation and the World Bank presents quantitative data on various components of business processes for a large number of countries of the world, and ranks these countries based on the ease of doing business and other factors. According to the 2011 data, Nepal was ranked at 107 out of 183 countries in ease of doing business and at 162 in trading across borders.

While there are many studies on trade facilitation at the international, regional and sub-regional levels, there are few studies on trade facilitation in Nepal. Publications have been written about the import and export procedures of Nepal (Gautam, et.al, 1985; Welling and Kaphley, 1999), and general information on import and export procedures and the required documentation is provided in the Nepal Export Trade Directory (TPC, 2006) and the Customs Manual (Department of Customs, 2003). Publications have also been written about the issues relating to delays in custom clearance, complications in customs valuation and other procedural complexities (Rajkarnikar et al., 2006, 2007 and 2010). Product-specific analytical literature in terms of the documentation, time and cost of import and export procedures is lacking, however. This study makes an important contribution in this regard.

II. Methodology

This study covers the procedures undertaken by Nepalese exporters of vegetable ghee and the procedures undertaken by Nepalese importers of textiles.

The study was based on the guidelines presented in the Business Process Analysis Guide to Simplify Trade Procedures, published by the United Nations Network of Experts for Paperless Trade in Asia and the Pacific (UNNExT), the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the United Nations Economic Commission for Europe (UNECE). Following the guide and the United Nations Centre for Trade Facilitation and E-business (UN/CEFACT) "Buy-Ship-Pay" model, the processes of exporting and importing were divided into three sub-steps: Buy, Ship and Pay. All activities related to entering into sales or purchase contracts were included in "Buy", all activities related to manufacture and moving goods from the exporters’ factories to border customs or from border customs to the importers’ warehouses were categorized under "Ship", while "Pay" included all activities related to payment of goods.

The study was undertaken within a short period of time and with limited resources, so primary data and information on export and import procedures and the required documentation were collected from only one trader for each product and each destination or origin country. Information so collected was cross-checked and verified with another importer or exporter of the same products.

The preliminary working paper prepared on the basis of information collected from the exporters was sent to the relevant government agencies: the Ministry of Commerce and Supplies (MOCS) and the Department of Customs (DOC) and to the relevant trade associations: the
Federation of Nepalese Chambers of Commerce and Industry (FNCCI) and the Nepal Vegetable Ghee Producers Association (NVGPA), for their comment and verification.

Despite some improvement in recent years, trade facilitation stakeholders in Nepal, including government authorities, do not monitor or analyze business processes on a regular basis. They have no reliable systems in place to maintain records regarding the time, cost and required documents for exporting and importing. Therefore, stepwise time and cost data were not readily available for this study. Moreover, the private sector of Nepal was reluctant to provide detailed information, particularly on costs. Thus, the study possibly has limitations in terms of the accuracy of the data collected.

In the process of analysis, all actors involved in the activities were identified and their roles were explained. As per the Business Process Analysis guide, business processes are presented in Use Case Diagrams and Activity Diagrams.\(^1\)

### III. Trade procedure analysis of vegetable ghee exports to India from Nepal

#### 1. Introduction

Vegetable ghee (HS code 1515) is hydrogenated vegetable oil. It is used mainly to cook food and to light lamps. The vegetable ghee industry is one of the most important subsectors in Nepal’s manufacturing sector. As of 2010, 18 ghee businesses were in operation, providing employment opportunities for 2,605 workers in the country. Most of the ghee businesses are located in Terai, the southern region of the country. Although exports of vegetable ghee have declined since India liberalized imports from other countries, vegetable ghee remains one of Nepal’s major export items, with exports to India accounting for around 99 per cent. The total value of exports of vegetable ghee amounted to 33.08 million United States dollars (USD) in financial year 2007/08. It is exported by road transportation. Ghee can be exported to India under preferential entry or under Most Favoured Nation (MFN) treatment.

Preferential entry of Nepalese vegetable ghee into India is provided under the bilateral trade agreement between India and Nepal. India has a fixed quota of such imports, however. As of 2011, this facility was granted to a limit of 100 thousand Metric Tons (MT) per annum. The Government of Nepal allocates the export quota to exporting firms through the Ministry of Commerce and Supplies (MOCSS) on the basis of past export performance and capacity of production plant. Imports of Nepalese vegetable ghee into India are canalized. Hence, it can be exported through a specified agency or to an importer with a permit from such an agency.

Vegetable ghee is exported to India mostly on the basis of advance payment basis and sometimes on the basis of a Letter of Credit (L/C).

#### 2. Procedures for exporting vegetable ghee from Nepal to India

The process of exporting vegetable ghee to India starts with the receipt of a quota and is followed by finding a buyer, obtaining an order, and then activities of production, document

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\(^1\) A Use Case Diagram presents, stepwise, the broad activities required to be performed in completing a trade transaction. It is a frame of reference for further elaboration of business process works. An Activity Diagram describes in detail the activities, inputs and outputs associated with each activity listed in the Use Case Diagram.
preparation, transportation and customs clearance. Figure 1 illustrates the steps followed in the process of exporting vegetable ghee from Nepal to India.

Figure 1: Steps for the export of vegetable ghee to India

1. Receive Quota

2. Find buyer and fix trade terms

Prepare, sign and exchange contracts

Receive L/C or advance payment

Produce ghee

Receive value addition certificate

Get lab tests

Pack ghee

Obtain Certificate of Origin (COO)

Obtain cargo insurance

Transportation

Customs clearance

Preparation of bank documents

Claim and receive the payment (in case of export through L/C)

Source: Authors, based on data collected from stakeholder interviews, 2010
A Use Case Diagram of vegetable ghee exports from Nepal to India can be found in Annex 1A.

A. Buy (buying/selling process)

Receive quota

As per the bilateral trade agreement between India and Nepal, the Government of India sets an annual quota for the import of vegetable ghee from Nepal. The Ministry of Commerce and Supplies of Nepal allocates the quota among exporting firms on the recommendations of the Nepal Vegetable Ghee Producers’ Association (NVGPA), the FNCCI and the Nepal-India Chamber of Commerce and Industry (NICCI). Though the Government of India provides an overall quota to the Government of Nepal (GON), there is a system of state-wise quota distribution. Exporters have to consider this factor while planning for exports to different states of India. NICCI maintains records of state-wise export quotas and actual exports by the exporting firm. On that basis, it issues a passbook to the exporting firm. A passbook is a record of the state-wise export quota and the use of this quota by individual export firms. Exporting firms need to obtain a passbook from the NICCI in the process of getting a recommendation for an allocation of the export quota.

In the process of obtaining part of the quota, exporting firms first approach the NVGPA and after getting recommendation letter from them, they apply to the FNCCI and NICCI for recommendation letters, with their letter from the NVGPA, Industry Registration Certificate and Permanent Account Number (PAN) Registration Certificate, and documents showing the production capacity of their business and their export performance in the previous year. After examining the documents, the FNCCI and NICCI issue recommendation letters to the exporting firms. With these recommendation letters and documents showing their production capacity and their export performance in the previous year, the exporting firms then apply to the MOCS for an allocation of the export quota. After examining the documents, the MOCS issues a quota certificate to the exporting firm. The activity diagram of receiving an allocation of the quota is given in Annex 1B.

Find a buyer and fix trade terms

The exporter searches for a buyer or establishes contact with an existing buyer. Then the Nepalese exporter and the importer (in India) discuss and agree on trade terms.

Prepare, sign and exchange contract documents

Once trade terms are agreed upon, the exporter prepares and signs a contract, which is then sent to the importer for signing. When signed by the importer the contract document is exchanged between the importer and exporter. This activity formalizes the trade agreement. Then the importer sends a purchase order to the exporter and arranges the payment(s). The activity diagram for this buying/selling process is presented in Annex 1C.
**B. Ship**

**Produce ghee**

After getting a quota, the production unit of the exporting company starts production of goods for export as per the order. The production process consists of filtration, pre-neutralization, bleaching, hydrogenation, post-neutralization, post-bleaching, deodorization, etc. After completing the production process, samples of the product are tested in the factory lab. If the result of the test is satisfactory, the exporting firm makes preparations for exporting the goods. The activity diagram of this component of process is given in Annex 1D.

**Obtain a Value Added Certificate**

As India provides preferential entry to Nepali vegetable ghee, a Value Added Certificate is mandatory. To obtain this, the exporter submits an application to the FNCCI for recommendation to the Department of Industry (DOI) for issuing the Value Added Certificate. The application documents include a cost sheet, Industry Registration Certificate, PAN/VAT Certificate, Production Capacity Certificate, documents related to imports of raw materials and documents showing local and Indian material content. The FNCCI examines the document and sends the recommendation letter to DOI. The exporter also applies to the DOI with the same set of documents. After examining the submitted documents and receiving the recommendation letter from the FNCCI, the DOI issues the Value Added Certificate to the exporter. The detailed process is presented in the activity diagram in Annex 1E.

**Lab testing**

Quality testing is an important component of the process of exporting vegetable ghee to India. For this, the exporting firm sends a sample of the product to a laboratory in India, as Indian importers do not recognize the test results of laboratories in Nepal. On the basis of the test results, the laboratory issues a quality assurance certificate to exporter. The activity diagram for this is given in Annex 1F.

**Packing**

Once the quality assurance certificate has been issued, the exporting firm instructs the production unit to pack the vegetable ghee in the specified quantity and type as per the contract. Packing also includes cooling and weighing activities. The activity diagram of packing is presented in Annex 1G.

**Obtain a Certificate of Origin**

A Certificate of Origin (COO) is required by customs for the export of vegetable ghee from Nepal to India. COOs are issued by the district Chamber Offices. The exporter submits an application with the required documents (contract document, evidence of payment, Quota Certificate and passbook, Value Added Certificate, PAN/VAT Certificate and Industry Registration Certificate) and, after verifying the submitted documents, the District Chamber Office personnel informs the exporter to pay the fee for the COO. Upon receipt of the fee, the District Chamber Office issues the COO. The process is presented in the activity diagram in Annex 1H.
Obtain cargo insurance

There are various risks in moving vegetable ghee from the exporter's warehouse in Nepal to the warehouse of the importer in India. In most cases, the exporter buys an insurance policy to cover such risks, unless it is specified in the contract between the exporter and importer that the responsibility for insurance lies with the importer. To buy a cargo insurance policy, the exporter submits an application to an insurance company along with the commercial invoice, transport contract, evidence of payment and packing list. The insurance company examines the documents and, if satisfied, requests the exporter to pay the insurance premium. After receiving the premium the insurance company issues an insurance policy to the exporter. The process is shown in the activity diagram in Annex 1I.

Transportation

Only road transportation is used for vegetable ghee exports to India. In the transportation process, the exporter contacts a transport company and negotiates transport of the goods. Following this, the goods are loaded in truck or container and the relevant documents, including the packing list, contract document and commercial invoice are given to the transport operator. The process is shown in the diagram in Annex 1J.

Customs clearance

In the process of custom clearance, the exporter completes the export Customs Declaration Form and submits it to the customs office along with the required documents. These documents include: evidence of payment, commercial invoice, quota certificate and passbook, COO, quality assurance certificate, Value Added Certificate, contract, packing list and Foreign Currency Declaration Form. The customs official examines the documents and inspects the cargo. After completion of the inspection, the customs official signs the Customs Declaration Form, records the quantity and value of the goods and then permits onward transport of the cargo. The transport operator then moves the truck or container to the destination. The copies of the Customs Declaration Form and Foreign Currency Declaration Form signed by the customs official are given to the exporter. The process is presented in the activity diagram in Annex 1K.

C. Pay

Receive L/C or advance payment

Both the L/C and the advance payment system are used in vegetable ghee exports to India. But the advance payment system is most common. In this system, the importer sends a bank draft to the exporter. After receiving the draft, the exporter presents it to the bank and receives the payment.

If the export is done on an L/C basis, the exporter first has to obtain an L/C from the importer. An L/C is opened in the importing bank and transferred to the exporter through the exporter's bank. The L/C guarantees payment for the goods under specific conditions to be followed by the exporter. Upon receipt of the L/C, the exporter dispatches the cargo in accordance with the conditions stipulated in the L/C. After dispatching the cargo, the exporter prepares the documents as required by the L/C and submits them to the bank for payment. If all documents are correct as per instructions from the importer's bank, the exporter's bank makes the
payment to exporter by honouring the L/C. The activity diagram of the payment arrangements is presented in Annex 1L.

3. Documentation, costs and time

**Documentation**

Altogether, 26 documents are required to complete the export of vegetable ghee from Nepal to India. Some of the documents are required in multiple copies. The required documents are listed in Table 1.

<table>
<thead>
<tr>
<th>Table 1: Documents required for exporting vegetable ghee to India</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Industry Registration Certificate (5 copies)</td>
</tr>
<tr>
<td>2. PAN/VAT Registration Certificate (6 copies)</td>
</tr>
<tr>
<td>3. Export Performance Report (3 copies)</td>
</tr>
<tr>
<td>4. Recommendation letter of Nepal Vegetable Ghee Producers Association (3 copies)</td>
</tr>
<tr>
<td>5. Certificate of Production Capacity (3 copies)</td>
</tr>
<tr>
<td>6. Recommendation letter of Federation of Nepalese Chamber of Commerce and Industry (FNCCI)</td>
</tr>
<tr>
<td>8. Quota certificate (3 copies)</td>
</tr>
<tr>
<td>12. Cost sheet of the company</td>
</tr>
<tr>
<td>13. Import Declaration Form for import of raw materials</td>
</tr>
</tbody>
</table>

*Source: Data collected from vegetable ghee exporters, 2010.*

In order to export vegetable ghee to India, an exporter usually needs to visit 12 institutions to obtain the necessary documentation and ensure the passage of the goods to their destination. These institutions are listed in Table 2.

<table>
<thead>
<tr>
<th>Table 2: Institutions involved in the process of exporting vegetable ghee to India</th>
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<tbody>
<tr>
<td><strong>Institutions</strong></td>
</tr>
<tr>
<td>1. Department of Industry</td>
</tr>
<tr>
<td>2. Inland Revenue Office</td>
</tr>
<tr>
<td>3. FNCCI</td>
</tr>
<tr>
<td>4. NICCI</td>
</tr>
<tr>
<td>5. MOCS</td>
</tr>
<tr>
<td>6. Nepal Vegetable Ghee Producers Association</td>
</tr>
<tr>
<td>7. Laboratory</td>
</tr>
<tr>
<td>8. Chamber of Commerce</td>
</tr>
<tr>
<td>9. Insurance company</td>
</tr>
<tr>
<td>10. Transport company</td>
</tr>
<tr>
<td>11. Customs</td>
</tr>
<tr>
<td>12. Bank</td>
</tr>
</tbody>
</table>

*Source: Data collected from vegetable ghee exporters, 2010.*
Costs and time

The cost of trade is an important determinant of the volume of trade. Trade costs include all costs incurred in moving a product from the producer to the final user. Such costs include transportation cost, policy barrier costs, information costs, contract enforcement costs and legal and regulatory costs. In general, an exporter incurs costs in all phases of the export process, starting from obtaining information about the market conditions in a foreign market and ending with receipt of final payment.

The costs involved in obtaining the required documentation and moving the export goods from the exporter's warehouse to the destination are borne by the exporter. As of 2010, the cost of the documentation and transport involved in exporting vegetable ghee to India is 1066.86 USD per container. These costs are listed in Table 3.

Table 3: Time and costs of exporting vegetable ghee to India from Nepal

<table>
<thead>
<tr>
<th>Activity</th>
<th>Time</th>
<th>Cost (per container) in USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obtaining the recommendations from the FNCCI and NVGPA for a share of the quota</td>
<td>1 day</td>
<td>-</td>
</tr>
<tr>
<td>Obtaining the recommendation from the NICCI for a share of the quota</td>
<td>5-7 days</td>
<td>2.97</td>
</tr>
<tr>
<td>Obtaining quota allocation</td>
<td>7-10 days</td>
<td>25.48 @ 0.12 per cent at valorem</td>
</tr>
<tr>
<td>Preparation of the trade contract</td>
<td>1 day</td>
<td>42.47 @ 0.20 per cent at valorem</td>
</tr>
<tr>
<td>Signing and exchange of contracts</td>
<td>3-4 days</td>
<td>99.93 (per batch)</td>
</tr>
<tr>
<td>Obtaining the L/C</td>
<td>2 days</td>
<td></td>
</tr>
<tr>
<td>Lab Testing</td>
<td>10-15 days</td>
<td></td>
</tr>
<tr>
<td>Obtaining the Value Added Certificate</td>
<td>1 day</td>
<td>9.41</td>
</tr>
<tr>
<td>Obtaining the COO</td>
<td>25.48 @ 0.12 per cent at valorem</td>
<td></td>
</tr>
<tr>
<td>Obtaining cargo insurance</td>
<td>1 day</td>
<td>858.84²</td>
</tr>
<tr>
<td>Customs clearance</td>
<td>1-2 days</td>
<td></td>
</tr>
<tr>
<td>Obtaining signed Customs Declaration Form</td>
<td>1 day</td>
<td></td>
</tr>
<tr>
<td>Preparation of bank documents</td>
<td>1 day</td>
<td></td>
</tr>
<tr>
<td>Arranging transportation</td>
<td>1 day</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>35-47 days</td>
<td>1066.86</td>
</tr>
</tbody>
</table>

Source: Data collected from vegetable ghee exporters, 2010.

The time factor is also an important determinant of the volume of trade and of competitiveness. In the process of exporting vegetable ghee to India, the exporter must spend time in visiting several institutions.

In obtaining an allocation of the export quota, recommendations are needed from three institutions: the FNCCI, the NICCI and the NVGPA, even though the recommendations all serve the same purpose. As shown in Table 3, significant time is required to obtain all the recommendations. Similarly, a Value Added Certificate and a COO are both compulsory, even though The Value Added Certificate shows the origin of product (making a COO unnecessary).

² Note: According to Rajkarnikar et al (2010), the cost of transit transport and port handling costs is 845 USD.
At least 35 days are required to complete the process of exporting vegetable ghee from Nepal to India (minimum 35 days and maximum 47 days). Refer to Figure 2 and Figure 3.3

**Figure 2: Time procedure chart of vegetable ghee exports to India - Minimum time: 35 days**

1. Obtaining the recommendations from the FNCCI and NVGPA for a share of the quota
2. Obtaining the recommendation from the NICCI for a share of the quota
3. Obtaining quota allocation
4. Preparation of the trade contract
5. Signing and exchange of contracts
6. Obtaining the L/C
7. Lab Testing
8. Obtaining the Value Added Certificate
9. Obtaining the COO
10. Obtaining cargo insurance
11. Arranging transportation
12. Customs clearance
13. Obtaining signed Customs Declaration Form
14. Preparation of bank documents

*Source: Authors, based on data collected from stakeholder interviews, 2010.*

---

3 These times do not include the time required for finding a buyer (7 to 10 days), production and packing of goods (8 days) and payment settlement (9 to 15 days).
1. Obtaining the recommendations from the FNCCI and NVGPA for a share of the quota  
2. Obtaining the recommendation from the NICCI for a share of the quota  
3. Obtaining quota allocation  
4. Preparation of the trade contract  
5. Signing and exchange of contracts  
6. Obtaining the L/C  
7. Lab Testing  
8. Obtaining the Value Added Certificate  
9. Obtaining the COO  
10. Obtaining cargo insurance  
11. Arranging transportation  
12. Customs clearance  
13. Obtaining signed Customs Declaration Form  
14. Preparation of bank documents

Source: Authors, based on data collected from stakeholder interviews, 2010.

These times are estimates, as there is usually no standard time for performing a specific activity and the time required for each activity depends on the efficiency of the person.
performing the job. Even in cases where a standard time is fixed, it is not strictly followed. For example, according to the Citizens Charter prepared by the Customs Department, customs clearance should be completed within two hours of submission of the necessary documents. But sometimes this is not the case.

IV. Trade procedure analysis of vegetable ghee exports to China from Nepal

1. Introduction

In China, vegetable ghee is used mainly to light lamps in monasteries. The export of vegetable ghee to China amounted to 0.29 million USD in 2007/08. It is exported by road transportation via the Arniko highway. Vegetable Ghee is exported to China under the Most Favoured Nation (MFN) agreement.

Nepal and China have entered into an agreement whereby about 361 Nepalese products can enter into China with zero tariffs. But vegetable ghee is not one of these products.

2. Procedures for exporting vegetable ghee from Nepal to China

Importer agents play an important role in Nepal's export of vegetable ghee to China. Vegetable ghee is exported to China on a full advance payment basis. The procedure for exporting vegetable ghee to China includes the following steps: establishing contact and negotiating with the importer's agent, obtaining an order, advance payment, production, lab testing, document preparation, transportation and customs clearance. The activities involved in the export of vegetable ghee to China are displayed in Figure 4.
Figure 4: Steps for the export of vegetable ghee to China

Source: Authors, based on data collected from stakeholder interviews, 2010.
As in the case of exports of vegetable ghee to India, a Use Case Diagram has been prepared (Annex 2A) that shows, stepwise, the broad activities performed in completing the process of exporting vegetable ghee from Nepal to China.

**A. Buy (buying / selling process)**

**Establish contact with the importer’s agent**

For most exports to China, the exporter contacts the importer's agent (in China), but in the case of exports of vegetable ghee to China, importers’ agents from China visit exporting firms and establish the contact.

**Fix trade terms**

Then the exporter and the importer's agent discuss the trade terms. Sometimes the importer's agent visits the factory before entering into trade contract in order to be assured of the production capacity of the exporter.

**Prepare, sign and exchange contracts**

When the trade terms have been finalized, the exporter prepares and signs the contract and usually sends it to the importer, through the importer's agent, for signing. In some cases, the importer's agent signs the contract on behalf of the importer. After the contract has been signed, the documents are exchanged between the exporter and importer. The activity diagram of the buying/selling process is presented in Annex 2B.

**B. Ship**

**Produce vegetable ghee**

After receiving payment, the exporting company instructs the production unit to start production of the goods for export, as per the contract. Following the completion of the production process, samples of the product are sent to the factory lab for testing. If the result is satisfactory, the company goes prepares the goods for export. The activity diagram of the production process is presented in Annex 2C.

**Lab testing**

The exporting company sends a sample of the product to a laboratory established by the Government of Nepal. After completing the quality test, the laboratory issues a quality assurance certificate to the exporter. The activity diagram of the lab testing process is presented in Annex 2D.

**Pack**

After receiving the quality assurance certificate from the laboratory, the exporter instructs its production unit to pack the specified type and quantity of vegetable ghee, as per the contract. Cooling and weighing activities are also included in the packing process. The activity diagram of this process is presented in Annex 2E.
Prepare export documents

The exporting company collects and compiles all the required documents from the concerned agencies. After this, the exporting firm informs the importer's agent about the status of the cargo. The activity diagram of this process is presented in Annex 2F.

Appoint a clearing agent

The exporting firm appoints a clearing agent for clearing of goods at the Tatopani customs border. The exporting firm provides the agent with an appointment letter and hands over the required documents.

Obtain a Certificate of Origin

A Certificate of Origin is required for the export of vegetable ghee from Nepal to China. The procedure for obtaining a COO for exports to China is as described in the previous section about exports to India. The process is presented in the activity diagram in Annex 2G.

Obtain cargo insurance

As with the case of exports to India, there are various risks involved in transporting vegetable ghee from Nepal to China. The procedure for purchasing an insurance policy is as explained in the previous section about exports to India. The process is shown in the activity diagram in Annex 2H.

Arrange transportation

Only road transport is used in the process of exporting vegetable ghee to China. For this, the exporter contacts a transport company/operator and negotiates the cost of the freight. The process for transporting the goods to the customs point in Kodari is similar to the process described in the previous section about transporting goods to the Nepal-India border. The process is shown in the diagram in Annex 2I.

Customs clearance

To clear customs, the exporter's agent completes the export declaration form and submits it to the customs office along with the required documents. These documents include a copy of Company Registration Certificate, a copy of the VAT/PAN Registration Certificate, a Foreign Currency Declaration Form, a Flow Chart of Production, the sales contract, the COO, the VAT/Bill, the export invoice, the appointment letter of the agent, evidence of payment, the quality assurance certificate, the packing list and the product description document. The customs office personnel examine the documents and, if satisfied, issue an order to park the truck at a designated area for inspection. After inspection of the cargo, if there is no problem with the goods, the customs official signs the Customs Declaration Form and records the quantity and value of goods. The signed copies of the Customs Declaration Form and the Foreign Currency Declaration Form are collected by the exporter's agent. The process is presented in an activity diagram in Annex 2J.

C. Pay

Receive advance payment
The advance payment system is used in exports of vegetable ghee to China. Payments are made either by Telegraphic Transfer (TT) or by bank draft. In the case of TT, the Chinese bank sends a TT to the Nepalese bank, which then transfers the payment to the exporter and the exporter collects the money from the Nepalese bank. In the case of payments by bank draft, the importer sends the bank draft to the exporter. When the exporter receives the draft, it is presented to the exporter's bank and the exporter is given the payment. The activity diagrams of both payment through TT and bank draft are presented in Annex 2K.

3. Documentation, costs and time

Documentation

Altogether, 21 types of documents are required to complete the process of exporting vegetable ghee to China. Some of the documents are required in multiple copies. Table 4 shows the list of required documents.

<table>
<thead>
<tr>
<th>Table 4: Documents required for exporting vegetable ghee to China</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Performa Invoice</td>
</tr>
<tr>
<td>2. Contract document (6 copies)</td>
</tr>
<tr>
<td>3. Export Invoice (4 copies)</td>
</tr>
<tr>
<td>4. Application for obtaining a COO (2 copies)</td>
</tr>
<tr>
<td>6. Letter to the laboratory requesting testing (2 copies)</td>
</tr>
<tr>
<td>7. Quality Assurance Certificate (2 copies)</td>
</tr>
<tr>
<td>8. Flow chart of production (2 copies)</td>
</tr>
<tr>
<td>9. Appointment letter of the Clearing Agent (2 copies)</td>
</tr>
<tr>
<td>11. Industry Registration Certificate</td>
</tr>
</tbody>
</table>

Source: Authors, based on data collected from stakeholder interviews, 2010.

In order to export vegetable ghee to China, an exporter needs to visit nine institutions to obtain the relevant documents and complete the export procedures. The institutions are listed in Table 5.

<table>
<thead>
<tr>
<th>Table 5: Institutions involved in the process of exporting vegetable ghee to China</th>
</tr>
</thead>
<tbody>
<tr>
<td>S.N.</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>1.</td>
</tr>
<tr>
<td>2.</td>
</tr>
<tr>
<td>3.</td>
</tr>
<tr>
<td>4.</td>
</tr>
<tr>
<td>5.</td>
</tr>
<tr>
<td>6.</td>
</tr>
<tr>
<td>7.</td>
</tr>
<tr>
<td>8.</td>
</tr>
<tr>
<td>9.</td>
</tr>
</tbody>
</table>

Source: Authors, based on data collected from stakeholder interviews, 2010.
Costs and time

In the process of obtaining the required documentation and exporting the goods various costs are borne by the exporter. In exporting vegetable ghee to China, the costs for the exporter amount to 833.39 USD per container. (Refer to Table 6).

It takes at least 10 days to complete the procedures for exporting vegetable ghee to China (minimum 10 days and maximum 12 days), as shown in Table 6.4

Table 6: Time and costs of exporting vegetable ghee to China from Nepal

<table>
<thead>
<tr>
<th>S.N</th>
<th>Activity</th>
<th>Time</th>
<th>Cost (per container) (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Preparation, signing and exchange of the contract</td>
<td>2-3 days</td>
<td>2.77</td>
</tr>
<tr>
<td>2.</td>
<td>Lab testing and obtaining of Product Batch Number</td>
<td>3 days</td>
<td>9.71</td>
</tr>
<tr>
<td>3.</td>
<td>Preparing export documents and appointing clearing agent</td>
<td>1 day</td>
<td>138.79 (fee for agent)</td>
</tr>
<tr>
<td>4.</td>
<td>Obtaining Certificate of Origin</td>
<td>1 day</td>
<td>25.48 @ 0.12 percent at valorem</td>
</tr>
<tr>
<td>5.</td>
<td>Obtaining insurance policy</td>
<td>1 day</td>
<td>57.33 @0.27 percent at valorem</td>
</tr>
<tr>
<td>6.</td>
<td>Transport management</td>
<td>1 day</td>
<td>589.9</td>
</tr>
<tr>
<td>7.</td>
<td>Customs Clearance And collection of the Export Declaration Form</td>
<td>1-2 days</td>
<td>9.41</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>10-12 days</strong></td>
<td><strong>833.39</strong></td>
</tr>
</tbody>
</table>

Source: Authors, based on data collected from stakeholder interviews, 2010..

Figure 5 and Figure 6 illustrate the minimum and maximum times of the activities.

---

4 The times shown in Table 6 do not include the time required for dealing with the importer’s agent for finalization of trade terms (7 days), production and packing of goods (8 days) and payment settlement (2 days).
1. Preparation of contract
2. Sign and exchange of contract
3. Lab testing and obtaining of product batch number
4. Preparing export documents and appointing clearing agent
5. Obtaining certificate of origin
6. Obtaining insurance policy
7. Transport management
8. Customs clearance and collection of export declaration form

Source: Authors, based on data collected from stakeholder interviews, 2010.
Figure 6: Time Procedure chart of vegetable ghee exports to China - Maximum time: 12 days

1. Preparation of contract
2. Sign and exchange of contract
3. Lab testing and obtaining of product batch number
4. Preparing export documents and appointing clearing agent
5. Obtaining certificate of origin
6. Obtaining insurance policy
7. Transport management
8. Customs clearance and collection of export declaration form

Source: Authors, based on data collected from stakeholder interviews, 2010.
V. Trade procedure analysis of textile imports to Nepal from India

1. Introduction

Textiles are one of the major import items of Nepal and are imported under MFN agreements. In 2008, the total value of textile imports amounted to 55.83 million USD and in 2009 they amounted to 70.09 million USD. Imports from India accounted for 45.8 per cent of all textile imports in 2008 and 54.32 per cent in 2009. Textiles are generally imported to Nepal on a 50 per cent advance payment basis. They are mostly imported by road transportation through specified custom points. Normally, financial transactions between Nepal and India take place in the Indian rupee, which is freely convertible in Nepal without any limit.

2. Procedures for importing textiles from India to Nepal

The process of importing textiles into Nepal starts with contacting an exporter or an exporter's agent and ends with settlement of payment. Figure 7 illustrates the steps that are followed by the importer when importing textiles into Nepal from India.
Figure 7: Steps for the import of textiles from India into Nepal

As per the BPA guide, a Use Case Diagram has been prepared to present, stepwise, the main activities involved in the process of importing textiles from India into Nepal. The diagram is presented in Annex 3A.
A. Buy (buying/selling process)

**Collection of samples and prices**

The importer contacts exporters or exporters’ agents in India to collect samples. Business contracts for importing textiles from India are normally arranged through agents. Exporter's agents visit Nepalese importers with samples of their textiles and price quotations.

**Selection of goods and negotiation of trade terms**

Nepalese importers enter into negotiation with the exporter's agents then fix the terms of trade and finalize a deal.

**Sign and exchange contract documents**

Once the trade terms are finalized, the exporter prepares and signs the contract and sends it to the importer (through a courier or the exporter's agent) for signing. After signing by the importer the contract documents are exchanged and the importer arranges the 50 per cent advance payment. The activity diagram of the buying/selling process is presented in Annex 3B.

B. Ship

**Prepare the required documents**

The importing firm collects the Firm Registration Certificate and PAN/VAT Certificate from the concerned government offices and the commercial invoice from the Indian exporter or agent. The process is presented in Annex 3C.

**Appoint agent**

When importing textiles to Nepal from India, the importing firm appoints a clearing agent who takes responsibility for clearing the goods in both the Indian (departure) and Nepalese (arrival) customs. The importing firm provides the agent with an appointment letter and gives the agent the required documents. Then the clearing agent collects information about the cargo and later gets it cleared at the customs of the exporting and importing countries. The activity diagram is presented in Annex 3D.

**Customs clearance at the India-Nepal border**

For customs clearance at the India-Nepal (departure) border, the importer's agent submits the required documents, including the commercial invoice, packing list, truck chalan and export licence number (with the exporter’s stamp). Customs personnel examine the documents and inspect the cargo. After completion of the inspection, customs records the quantity and value of the goods exported and permission is given to move or unload goods at the designated area. The process is presented in the activity diagram in Annex 3E.

**Arrange transportation**

The importer’s agent contacts a transport operator and negotiates the transport of the goods. The goods are moved first from the Indian exporter’s warehouse to the exporter's customs point (India-Nepal border). After this, the goods are loaded into a different truck or container. The required documents are handed over to the transport operator, who moves the cargo to the
The importer's (Nepal-India border) custom point. The same transport operator may then carry the goods to the importer's warehouse. The process is shown in the diagram in Annex 3F.

**Customs clearance at the Nepal-India border**

The importer's agent completes the import declaration form and submits it to the customs office along with the required documents. These include the Firm Registration Certificate, the PAN/VAT Certificate, the commercial invoice, the contract documents, the documents showing the advance payment and the truck *chalan*. The customs official examines the documents and inspects the cargo. If satisfied, the quantity and value of the imports are recorded in the customs records. Then the importer's agent is asked to pay the charges. Once the charges have been paid, permission is given to move the goods. The transport operator then moves the cargo to the destination and the importer's agent collects the custom clearance form. The process is presented in the activity diagram in Annex 3G.

**C. Pay**

**Advance payment**

For imports of textiles into Nepal from India, 50 per cent of the payment is made in advance (after signing the contract) and the remaining 50 per cent is paid after receiving the cargo. These payments are made through bank drafts. To issue a bank draft in favour of an exporter, the Nepali importer approaches a Nepali bank with a performa invoice, the original contract and an application form. After checking the documents, the importer’s bank issues a draft in favour of the exporter. The importer then sends the bank draft to the exporter, who presents the bank draft to his/her bank in India and collects the money. The activity diagram of payment arrangements is presented in Annex 3H.

**3. Documentation, costs and time**

**Documentation**

Altogether 12 types of documents are required when importing textiles into Nepal from India. Some of the documents are required in multiple copies (see Table 7).
Table 7: Documents required for importing textiles into Nepal from India

<table>
<thead>
<tr>
<th>Documents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Performa invoice</td>
</tr>
<tr>
<td>2. Purchase order</td>
</tr>
<tr>
<td>3. Contract document (3 copies)</td>
</tr>
<tr>
<td>4. Firm registration certificate</td>
</tr>
<tr>
<td>5. PAN/VAT Certificate</td>
</tr>
<tr>
<td>6. Truck chalan (2 copies)</td>
</tr>
<tr>
<td>7. Packing list (3 copies)</td>
</tr>
<tr>
<td>8. Commercial invoice (3 copies)</td>
</tr>
<tr>
<td>9. Import Customs Declaration Form</td>
</tr>
<tr>
<td>10. Advance payment document</td>
</tr>
<tr>
<td>11. Appointment letter (2 copies)</td>
</tr>
<tr>
<td>12. Export /Import license number with stamp</td>
</tr>
</tbody>
</table>

Source: Authors, based on data collected from stakeholder interviews, 2010.

An importer must visit five institutions to complete the process of importing textiles from India to Nepal (see Table 8).

Table 8: Institutions involved in the process of importing textiles into Nepal from India

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Bank</td>
</tr>
<tr>
<td>2.</td>
<td>Inland Revenue Office</td>
</tr>
<tr>
<td>3.</td>
<td>Department of Commerce</td>
</tr>
<tr>
<td>4.</td>
<td>Customs Office</td>
</tr>
<tr>
<td>5.</td>
<td>Transport Company</td>
</tr>
</tbody>
</table>

Source: Authors, based on data collected from stakeholder interviews, 2010.

Costs and time

Several types of costs are incurred in the process of importing textiles from India into Nepal. These include: the cost of obtaining information about the market and collecting samples of products, transportation costs, costs associated with payment arrangements (e.g. fees charged by the bank for the bank draft) and costs associated with customs clearance. Altogether, the cost to importers of importing textiles into Nepal from India is 320.29 USD per truck (see Table 9).
Table 9: Time and costs of importing textiles into Nepal from India

<table>
<thead>
<tr>
<th>Steps</th>
<th>Time</th>
<th>Cost (per truck)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sign and Exchange Contract</td>
<td>2 days</td>
<td>US$ 2.77</td>
</tr>
<tr>
<td>Prepare Required Document and Appointment of Agent</td>
<td>1 day</td>
<td>US$2.77</td>
</tr>
<tr>
<td>Custom Clearance at India-Nepal (departure) border</td>
<td>1-2 days</td>
<td></td>
</tr>
<tr>
<td>Arrange Transport</td>
<td></td>
<td>US$ 187.37</td>
</tr>
<tr>
<td>Custom Clearance at Nepal-India (arrival) border</td>
<td>1-2 days</td>
<td>US$ 9.41</td>
</tr>
<tr>
<td>Agent Fee</td>
<td></td>
<td>US$ 117.97</td>
</tr>
<tr>
<td>Total</td>
<td>5-7 days</td>
<td>US$ 320.29</td>
</tr>
</tbody>
</table>

Source: Authors, based on data collected from stakeholder interviews, 2010.

The time required for customs clearance at the India-Nepal (departure) border varies depending on the level of traffic congestion. Sometimes there is a long queue of cargo waiting for clearance. At the Nepal-India (arrival) border, the amount of time required varies depending on the efficiency and attitude of the officials employed at customs clearance. To complete the import process, importers need a minimum of 5 days and a maximum of 7 days. These are illustrated in Figure 8 and Figure 9. The calculations for the amount of time required do not include the time required for collecting and selecting samples, finalization of trade terms and arrangement of payment. It takes between 18 and 20 days for the collection and selection of samples and finalization of trade terms, and between two and four days for the settlement of payment.
Figure 8: Time procedure chart of textile imports to Nepal from India - Minimum time: 5 days

1. Sign and exchange contract documents
2. Prepare required documents and appoint agent
3. Customs clearance at India-Nepal (departure border)
4. Arrange transport
5. Customs clearance at Nepal-India (arrival) border

Source: Authors, based on data collected from stakeholder interviews, 2010.
Figure 9: Time procedure chart of textile imports to Nepal from India - Maximum time: 7 days

1. Sign and exchange contract documents
2. Prepare required document and appoint agent
3. Customs clearance at India-Nepal (departure) border
4. Arrange transport
5. Customs clearance at Nepal-India (arrival) border

Source: Authors, based on data collected from stakeholder interviews, 2010.
Conclusions and Recommendations

According to the study findings, the number of documents required for the export of vegetable ghee to India is 26 (see Table 1). According to the Doing Business report of 2010, nine documents are required for the export of goods from Nepal to other countries, on average. The study also found that the cost of exporting vegetable ghee to India is 1,067 USD per container, including the costs of transporting the goods from Nepal to India. This figure does not include port handling costs as the product remains in India and is not transported further (through the ports). The study also found that it takes between 35 and 47 days (41 days on average) to complete the process of exporting vegetable ghee from Nepal to (see Table 3), not including the time required for port handling and inland transport. According to the Doing Business report, it takes 41 days, on average, (including port handling and inland transport) to complete an export transaction from Nepal.

Thus, both this study of the export of vegetable ghee to India and the Doing Business report indicate that there is much paperwork required, the cost of the process is high and the time required for completing an export process is very long. The differences between the findings of this study and the Doing Business report can perhaps be explained by the fact that the export of vegetable ghee requires exporters to apply for an allocation of the quota set by the Indian Government as well as comply with all the normal regulations and paperwork requirements. This increases the amount of documentation, costs and time. A factor that complicates the process even more is that, according to current regulations, exporters have to obtain recommendation letters from three agencies before they can apply for the export quota. Furthermore, exporters of vegetable ghee must have their product tested in a laboratory before it is sold (unlike non-food exports), which adds to the documentation, costs and time required for completing the export process. For exports to India, laboratory testing must take place in laboratories in India, as importers in India do not recognize quality assurance certificates issued by laboratories in Nepal. This requirement to send samples of the product to laboratories across the border takes a substantial amount of time and adds to the already lengthy export process.

For exports of vegetable ghee to China, the study found that the required number of documents is 21; it costs 833 USD per container; and takes between 10 and 12 days (11 days on average). For textile imports from India, the study results indicate that the process of importing textiles from India takes 6 days, on average, and costs 320 USD per container. Table 10 and Table 11 summarize the figures for the export of vegetable ghee and import of textiles.

---

5 According to the Doing Business report, the per container export cost is 1,764 USD, including transit transport and port handling costs. Of that amount, the cost of port handling and transit transport in and through India is estimated to be US$ 845. When this cost is deducted from total cost to export as per DB, the total cost of exports at Nepal border stands at US$ 919. Deducting transport cost from Nepal border to destination in India (US$ 859) from the total export cost found in our study, we get US$ 208. Thus, while in-terms of time and documentation, as compared to DB Report, our survey presents a worse picture in case of vegetable ghee export to India, cost of export (document preparation, customs and technical control) is much less than the DB benchmark.
<table>
<thead>
<tr>
<th>Particulars</th>
<th>Vegetable ghee exports to India</th>
<th>Vegetable ghee exports to China</th>
<th>Textile imports from India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required number of documents</td>
<td>26</td>
<td>21</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: Authors, based on data collected from stakeholder interviews, 2010.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Vegetable ghee exports to India</th>
<th>Vegetable ghee exports to China</th>
<th>Textile imports from India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time</td>
<td>26</td>
<td>5.5</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>14</td>
<td>109</td>
<td>158</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>858</td>
<td>187</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>11</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Authors, based on data collected from stakeholder interviews, 2010.

From the study findings, it has been observed that trade can be facilitated by addressing five main problems. Those problems and recommendations for addressing them are listed below:

1. The present system of requiring recommendation letters from three agencies, to obtain a share of the export quota.

   As FNCCI is an umbrella organization, regulations should be revised so that a recommendation letter is only required from FNCCI.

2. Lack of recognized laboratories in Nepal, requiring vegetable ghee exporters to have their products tested in laboratories in India instead of in Nepal.

   It is recommended that emphasis be placed on developing in Nepal the capacity and facilities necessary to facilitate trade.
3. The problem of traffic congestion on the roads between Nepal and India. Nepal and India have agreed to establish integrated check points (customs) on major trade routes between these two countries. It is recommended that this project be expedited.

4. Shortage of trained human resources in customs.

   To make customs clearance more efficient, human resources should be developed. Furthermore, the citizens charter should be followed to reduce clearance time.

5. Delays in payment settlement.

   The study shows that payment settlement through banks is excessively time consuming. An in–depth study in this regard is needed.


Vegetable Ghee Exports to India from Nepal
Annex 1A: Use Case Diagram

1) Receive Quota
2) Produce Ghee
3) Receive value addition certificate
4) Lab Test
5) Packing
6) Get Certificate of Origin
7) Obtain Cargo Insurance
8) Prepare export documents
9) Transportation
10) Customs Clearance

A. Buy

C. Pay

Ministry of Commerce
Production Unit
Department of Industries
Lab in Indian border
Production unit
District Chamber of Commerce
Insurance Company
Office personnel
Transport Operator/Customs

Importer
Importer’s Bank
Exporter
Exporter’s Bank
Importers Bank

2) Ship

A. Buy

C. Pay

Ministry of Commerce
Production Unit
Department of Industries
Lab in Indian border
Production unit
District Chamber of Commerce
Insurance Company
Office personnel
Transport Operator/Customs

Importer
Importer’s Bank
Exporter
Exporter’s Bank
Importers Bank

2) Ship

A. Buy

C. Pay

Ministry of Commerce
Production Unit
Department of Industries
Lab in Indian border
Production unit
District Chamber of Commerce
Insurance Company
Office personnel
Transport Operator/Customs

Importer
Importer’s Bank
Exporter
Exporter’s Bank
Importers Bank
Annex 1B: Receive Quota

Exporter

- Request letter for recommendation with following document
  - Industry registration certificate
  - PAN/VAT certificate
  - Last year export performance
  - Certificate of production capacity

- Collect recommendation letter

- Prepare application for Quota receive including all above mentioned documents

- Collect Quota Issue Certificate

- Prepare application for Pass Book

- Collect Pass Book

NVGPA

- Examine document
  - Not approved
  - Approved

- Issue recommendation letter

FNCCI

- Examine document
  - Not approved
  - Approved

- Issue recommendation letter

NICCI

- Examine document
  - Not approved
  - Approved

- Issue recommendation letter

MOCS

- Examine document
  - Not approved
  - Approved

- Issue Quota Certificate
Annex 1C: Buy

1. Exporter
   - Contact Importer and discuss and fix trade term
   - Prepare Contract
   - Request Payment (in case of payment in advance)

2. Importer
   - Contact and Discuss
   - Confirm the intent to purchase
   - Purchase order
   - Pay

- If not acceptable, Cancel
Annex 1D: Produce Ghee

Exporter

Production order

Collect information

Produce Ghee

Production Unit

Production of goods

Storage Tank

Pre Neutralization

Filtration

Bleaching

Hydrogenation

Filtration

Post Neutralization

Post Bleaching

Deodorization

Churn (Vitamin mixing, refined seasome oil mixing)

Draw sample for Initial Test in Factory Lab
Annex 1E: Obtain Value Added Certificate

Exporters

- Prepare document and submit application for certificate
- Application Form
- Cost Sheet
- Industry Registration Certificate
- PAN/VAT Registration Certificate
- Production Capacity Certificate
- Document of Import of Raw Material of from third country
- Document of Local and Indian material content

Collect Value Added Certificate from DOI

FNCCI

- Verify Submitted Information
- Correct
- Recommend to DOI

Department of Industry

- Verify Submitted Information as per Bilateral Treaty
- Incorrect
- Correct
- Issue Value Added Certificate

FNCCI Exporter Department of Industry
Annex 1F: Lab Test

Exporter

Lab Test

Request Letter

Sample of Production

Payment of fees

Collect Quality Test Certificate from Lab

Laboratory

Collect fees and examine the Quality of Production

Issue Quality Testing Certificate

Incorrect

Correct
Annex 1G: Packing

Export

Inform about Quantity and Type of Packing as per Contract

Collect Information from production unit

Production Unit

Packing

Jar Packing
Tin Packing
Cartoon Packing

Verify Weight

Freezing

Ready to Export

Inform about Quantity and Type of Packing as per Contract
Annex 1H: Certificate of Origin

Exporter

Prepare Document

Application
Contract Document
Evidence of Payment
Quota Receive Certificate and Pass Book
Value Addition Certificate
PAN/VAT Certificate
Industry Registration Certificate

Payment of charges

Collect Certificate of Origin

District Chamber of Commerce

Verify Submitted Document

Incorrect

Correct

Collect payment

Issue Certificate of Origin

Collect payment

Payment of charges
Annex 11: Obtain Cargo Insurance

Exporters

- Prepare Document
- Cargo Insurance Application Form
- Commercial Invoice
- Transport Contract
- Evidence of Payment
- Packing List
- Apply for Cargo Insurance Policy
- Payment of Insurance Premium
- Collect Insurance Policy

Insurance Company

- Correct
- Approve the Insurance Coverage
- Receive Premium
- Issue Insurance Policy
Annex 1J: Transportation

Exporter

Contact Transport Operator

Fix transport terms

Load Goods on Truck

Carrying Agency or Transport Operator

Handover Cargo with document

- Packing list
- Contract document
- Invoice

Move Cargo

Custom

Take Cargo to Point of Export Custom
Annex 1K: Customs Clearance

Examiner or Representative

Submission of Documents with fees

- Evidence of Payment
- Commercial Invoice
- Quota certificate and Passbook
- Certificate of Origin
- Quality Assurance Certificate
- Value Addition Certificate
- Contract Document
- Custom Declaration Form
- Packing List
- Foreign Currency Declaration Form

Receive Signed Export clearance Document

Customs

Examine Submitted Documents

- Inspect Cargo

- Misconduct found
  - Hold the Cargo
  - Examine Submitted Documents

- Misconduct not found
  - Record the quantity and value of goods
  - Issue Clearance Order
  - Sign Export Declaration Form

Transport Company

Transfer Truck/ Container to Point of Inspection

Dispatch cargo to destination
Annex 1L: a. Pay by L/C

- Exporter
  - Collect L/C
  - Prepare documents required as listed in L/C
  - Request the Payment of Goods
  - Receive the Payment
  - Commercial Invoice
  - Packing List
  - Consignment Note
  - Lab Test Certificate
  - Certificate of Origin
  - Bill of exchange

- Exporter Bank
  - Call for the collection of L/C
  - Notify the decline for the payment of goods
  - Verify submitted document
  - Forward submitted document
  - Transfer the payment

- Importer Bank
  - Verify submitted document
  - Issue L/C
  - Decline the request to make payment of goods
  - Transfer the payment

- Importer
  - Apply for L/C opening
  - Performa Invoice
  - Application for L/C
  - Verify submitted document
  - Make the payment
  - Not Approved
  - Approved

- Conditions in L/C
  - Fail to meet conditions in L/C
  - Meet conditions in L/C
b. Pay by Bank Draft

- **Exporter**: Receive Draft → Receive the Payment and Certificate
- **Exporter Bank**: Submit Draft → Make Payment and issue Certificate
- **Importer**: Send Draft
2) Ship

Prepare Export goods
Lab Test and Production Batch
Packing
Prepare Document
Certificate of Origin
Obtain Cargo Insurance
Transportation
Custom Clearance

Production unit
Regional food laboratory
Export office personnel
District Chamber of commerce
Insurance Company
Transport operator/Carrying Agency
Custom Office

1) Buy
Importer or Agent
Exporter

3) Pay
Importer Bank
Exporter Bank
Annex 22B: Buy

Importer/Agent

Contact Exporter

Visit Plant Site, if the first business

Not Acceptable

Acceptable

Confirm, sign and exchange of Contract

Full arrangement of advance payment

Exporter

Discuss about Trade Term

Fix Trade Term

Prepare Contract Document

Rate

Quantity

Value in US dollar

Time Frame

Mode of Payment

Fluctuation percent (Quantity)

Corresponding bank name of secure payment

Sign and Exchange of Contract

Prepare goods for Export

Confirm, sign and exchange of Contract

Full arrangement of advance payment

Acceptable

Not Acceptable
Annex 2C: Prepare Export Goods/Material

Production order → Collect information → Prepare Export Goods

Production of goods → Storage Tank → Filtration → Pre Neutralization → Bleaching
Filtration → Hydrogenation → Filtration → Post Neutralization → Post Bleaching
Deodorization → Churn (Vitamin mixing, refined seasome oil mixing)
Sample draw for Initial Test in Factory Lab
Annex 2D: Lab Test and Production Batch

Exporters or Representatives:
- Lab Test
- Request Letter
- Sample of Production
- Payment of Fees
- Collect quality certificate and production batch no.

Laboratory:
- Collection of Fees
- Examining the quality of production
  - Not Approved
  - Approved
    - Issue quality certificate and batch no.
Annex 2E: Packing

Inform about quantity and type of packing as per contract

Collect information from manufacturing unit

Packing

Jar Packing
Tin Packing
Pouch Packing/Cartoon

Weighing

Freezing

Goods ready for Export
Annex 2F: Prepare Export Documents

Prepare/Collect Complete Documents

Original Contract
Bill (VAT Bill)
Export Invoice
COO
Lab Test Certificate
Flow Chart
Insurance Policy Document
Packing List

Collect Confirmation

Receive Information
Annex 2G: Certificate of Origin

Exporter or Representative

Prepare and Submit Document

Application
Contract Document
Evidence of Payment
PAN/VAT Certificate
Industry Registration Certificate

Payment of Charges

Collect Certificate of Origin

Chamber of Commerce

Verifying Submitted Document

Incorrect

Correct

Collect Charges

Issue Certificate of Origin
Annex 2H: Obtain Cargo Insurance

Exporter/Representative

- Prepare Document
- Cargo Insurance Application Form
- Export Invoice
- Transport Chalan/consignment note
- Evidence of Payment Received
- Packing List

Apply for Cargo Insurance Policy

Arrange the Payment of Insurance Premium

Collect Insurance Policy

Insurance Company

- Approved the Insurance Coverage
- Receive Premium Insurance
- Issue Insurance Policy

Correct

Incorrect

Exporter/Representative

Insurance Company
Annex 2I: Transportation

Exporter/Representative

- Contact of Transport Operator/Carrying Company
- Fix transport terms
- Load Goods on Truck
- Move Cargo

Transport Company/Carrying Agency

- Hand over cargo with documents
- Packing List
- Export Invoice
- COO
- Insurance Document
- Contract Document
- VAT Bill
- Lab Test Certificate
- Issue Receipt of Cargo
- Record Date and Entry Time

Custom

- Take Cargo to Point of Customs
Annex 2J: Customs Clearance

Export/Representative

- Submit Document for Custom
- Copy of Company Registration Certificate
- Copy of VAT/PAN Registration Certificate
- Foreign Currency Declaration Form
- Original Contract Document
- Certificate of Origin
- VAT Bill
- Export Invoice
- Appointment Letter of Clearing Agent
- Payment Evidence
- Custom Declaration Form
- Lab Test Certificate
- Packing List

Pay Custom Charges

Receive Clearance Bill and Signed Export Declaration Form

Custom

- Verify Submitted Document
- Inspect Cargo
- Hold the Cargo
- Record the Quantity and Value of Export
- Issue Clearance Order
- Receive Custom Charges
- Signed Export Clearance Form
- Release the Cargo
- Misconduct not found

Transport Company

- Transfer Truck/Container to Point of Inspection

Unload Goods at designated Area

Description to be submitted by the exporter of plant or plant product along with application form (Appendix no-5(Related)) to subsection 2 of section 7 of the rule.

Exporters → Exporter Bank

Receive TT from Importer Bank

Call for the collection of TT

Send TT to Exporter Bank

Receive Payment

Importer Bank

Importer/Importer Agent

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b. Pay (Bank Draft)

- Exporter
  - Receive bank draft
  - Receive the Payment

- Exporter Bank
  - Submit draft
  - Pay the draft

- Importer
  - Send draft

- Pay (Bank Draft)
Textile Imports to Nepal from India
Annex 3A: Use Case Diagram

A. Buy
- Exporter or Representative
- Importer
- Exporter Bank

B. Ship
- Collection and Prepare of Required Document
- Appointment of Agent
- Custom Clearance at exporter border
- Custom Clearance at importer border
- Arranging Transport

C. Pay
- Importer Bank
- Importer
- Office Personal
- Tax Office
- Department of Commerce
- Custom
- Transport Company

Textile Imports to Nepal from India
Annex 3A: Use Case Diagram

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Annex 3B: Buy

Exporter or Representative

1. Offer of samples and price list
2. Issue Performa Invoice
3. Received advance payment
4. Prepare goods

Importer

1. Contact and Express intend to purchase
2. Selection of sample
3. Purchase order
4. Receive contract document
5. Advance payment

- Not acceptable
- Acceptable
Annex 3C: Prepare Documents

- Firm Registration Certificate
- PAN/VAT Certificate
- Commercial Invoice

Import/Importer Agent → Prepare require document → Exporter

Collect Information

Exporter
Annex 3D: Appoint Clearing Agent

Importer/Representative

- Appointment of Agent
- Handover require document
- Collect information about cargo
- Collect documents

Exporter

- Release Information and dispatch documents

Custom

- Contact Custom Port
Annex 3E: Customs Clearance at exporter customs point

- Importer/Agent
  - Submit application with supports document
  - Truck Chalan
  - Packing List
  - Commercial Invoice
  - Export/Import license number with stamp of exporter
  - Receive clearance order

- Custom
  - Examine submitted document
  - Inspect cargo
  - Misconduct found
    - Hold the Cargo
  - Misconduct not found
  - Record the quantity and value
  - Issue Clearance Order

- Transport Company
  - Transfer Truck/Container to point of Import
  - Unload goods at designed area

Flowchart:
- Importer/Agent
  - Submit application with supports document
  - Truck Chalan
  - Packing List
  - Commercial Invoice
  - Export/Import license number with stamp of exporter
  - Receive clearance order
  - Examine submitted document
  - Inspect cargo
  - Misconduct found
    - Hold the Cargo
  - Misconduct not found
    - Record the quantity and value
    - Issue Clearance Order
  - Transfer Truck/Container to point of Import
  - Unload goods at designed area
Annex 3F: Transportation

Importer/Agent

Contact Transport Operator

Load goods on Truck

Fixation of Freight

Handover cargo with required document

- Packing List
- Commercial Invoice
- Truck Chalan

Move cargo to Import Country Custom

Transport Company/Carrying Agent
Annex 3G: Customs Clearance at importer customs point

**Importer/Agent**
- Submit required document
- Pay the custom charges
- Collect custom clearance bill
- Firm Registration Certificate
- PAN/VAT Certificate
- Commercial Invoice
- Contract Document
- Custom Input Decline Form
- Advance Payment Document
- Truck Chalan

**Customs**
- Verify Submitted document
  - Not Correct
    - Hold the Cargo
  - Correct
    - Inspect cargo
    - Record the quantity and value of import
    - Issue Clearance Order
    - Receive Charges
    - Issue clearance bill
    - Release Truck/Container

**Transport Company**
- Transfer Truck/Container to point of inspection
- Move Truck Container to Importers warehouse
Annex 3H: Pay by Bank Draft

**Importer/Agent**
- Payment arrangement
- Partial payment
- Submission of document with draft fees
- Performa Invoice
- Original contract document
- Application
- Receive draft
- Send draft
- Final payment arrangement
- Submission of document with draft fees
- Advance payment document
- Custom bill
- Receive draft
- Send draft

**Importer Bank**
- Verify submitted document
  - Not acceptable
  - Acceptable
  - Issue draft as per request
- Verifying submitted document
  - Not acceptable
  - Acceptable
  - Issue draft

**Exporter Bank**
- Collect draft
- Submitted draft
- Make payment

**Exporter**
- Collect draft
- Received the payment