



**Asia-Pacific Research
and Training Network on Trade**

**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**

Pushpa Raj Rajkarnikar

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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

Pushpa Raj Rajkarnikar*

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Abbreviation

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

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.

1. 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 (MOCS) 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).

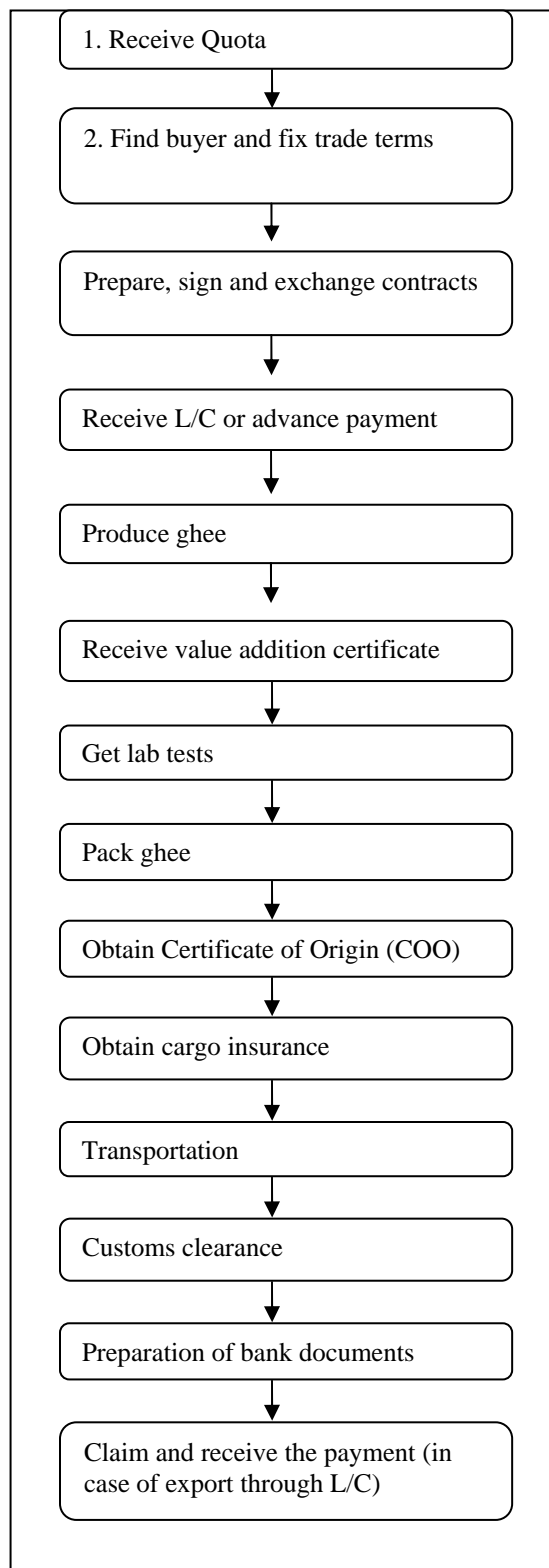
2. Procedures for exporting vegetable ghee from Nepal to India

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

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



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 1: Documents required for exporting vegetable ghee to India

1. Industry Registration Certificate (5 copies)	14. Document showing proportion of local material content
2. PAN/VAT Registration Certificate (6 copies)	15. Request letter to laboratory
3. Export Performance Report (3 copies)	16. Evidence of payment received (3 copies)
4. Recommendation letter of Nepal Vegetable Ghee Producers Association (3 copies)	17. Passbook
5. Certificate of Production Capacity (3 copies)	18. Insurance application form
6. Recommendation letter of Federation of Nepalese Chamber of Commerce and Industry (FNCCI)	19. Commercial invoice (3 copies)
7. Recommendation letter of Nepal India Chamber of Commerce and Industry (NICCI)	20. Transport contract document
8. Quota certificate (3 copies)	21. Packing list (3 copies)
9. Performa Invoice	22. Certificate of Origin
10. Contract document (5 copies)	23. Quality assurance certificate
11. Application for Value Added Certificate	24. Value Added Certificate (2 copies)
12. Cost sheet of the company	25. Export Customs Declaration Form
13. Import Declaration Form for import of raw materials	26. Foreign Currency Declaration Form

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 2: Institutions involved in the process of exporting vegetable ghee to India

	Institutions
1.	Department of Industry
2.	Inland Revenue Office
3.	FNCCI
4.	NICCI
5.	MOCS
6.	Nepal Vegetable Ghee Producers Association
7.	Laboratory
8.	Chamber of Commerce
9.	Insurance company
10.	Transport company
11.	Customs
12.	Bank

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

Activity	Time	Cost (per container) in USD
Obtaining the recommendations from the FNCCI and NVGPA for a share of the quota	1 day	-
Obtaining the recommendation from the NICCI for a share of the quota	5-7 days	2.97
Obtaining quota allocation	7-10 days	
Preparation of the trade contract	1 day	
Signing and exchange of contracts	3-4 days	27.76
Obtaining the L/C	2 days	
Lab Testing	10-15 days	99.93 (per batch)
Obtaining the Value Added Certificate	1 day	
Obtaining the COO	1 day	25.48 @ 0.12 per cent at valorem
Obtaining cargo insurance	1 day	42.47 @ 0.20 per cent at valorem
Customs clearance	1-2 days	9.41
Obtaining signed Customs Declaration Form		
Preparation of bank documents	1 day	-
Arranging transportation	1 day	858.84 ²
Total	35-47 days	1066.86

Source: Data collected from vegetable ghee exporters, 2010.

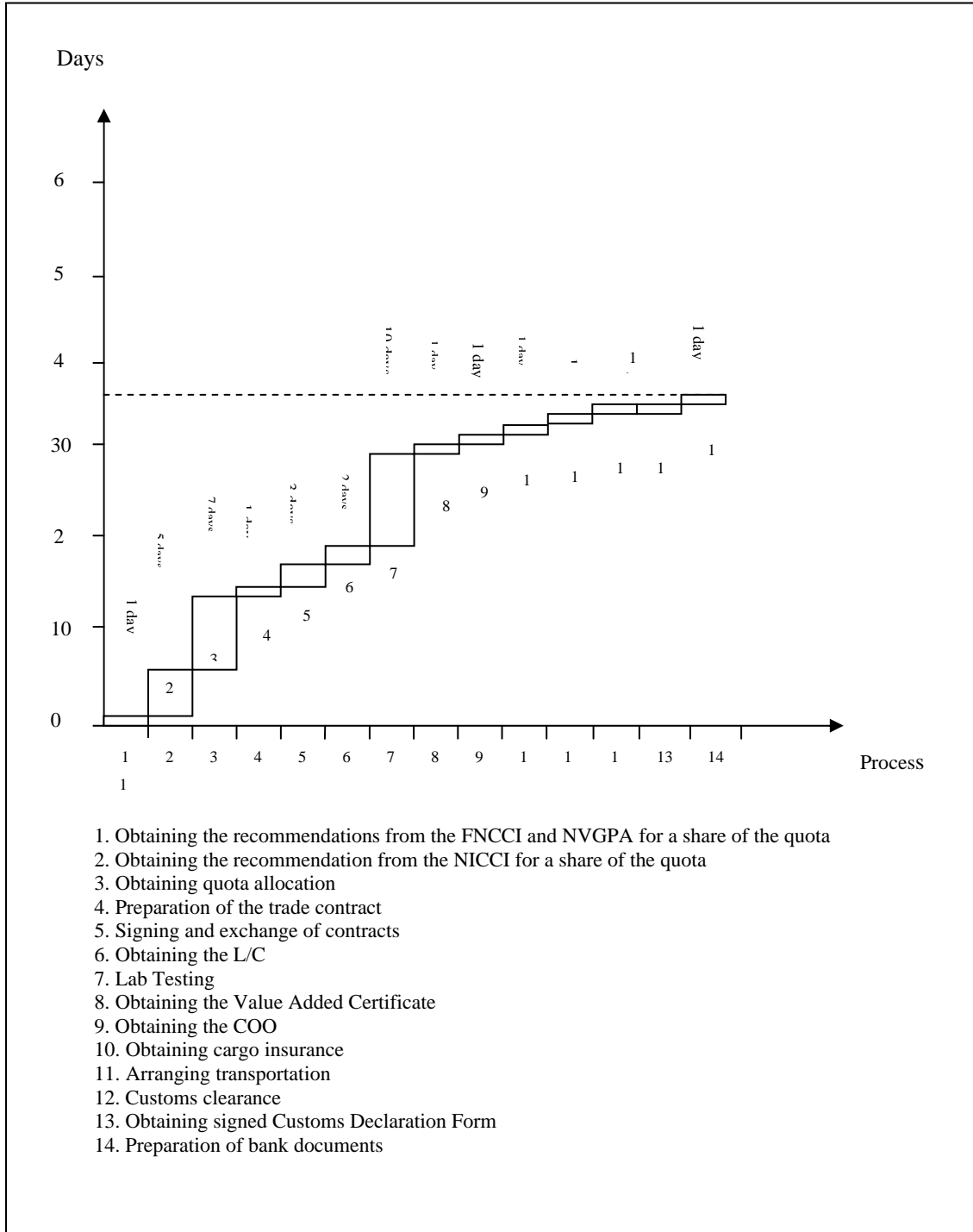
The time factor is also an important determinant of the volume of trade and of competitiveness. In the process of exporting vegetable ghee to India, the exporter must spend time in visiting several institutions.

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

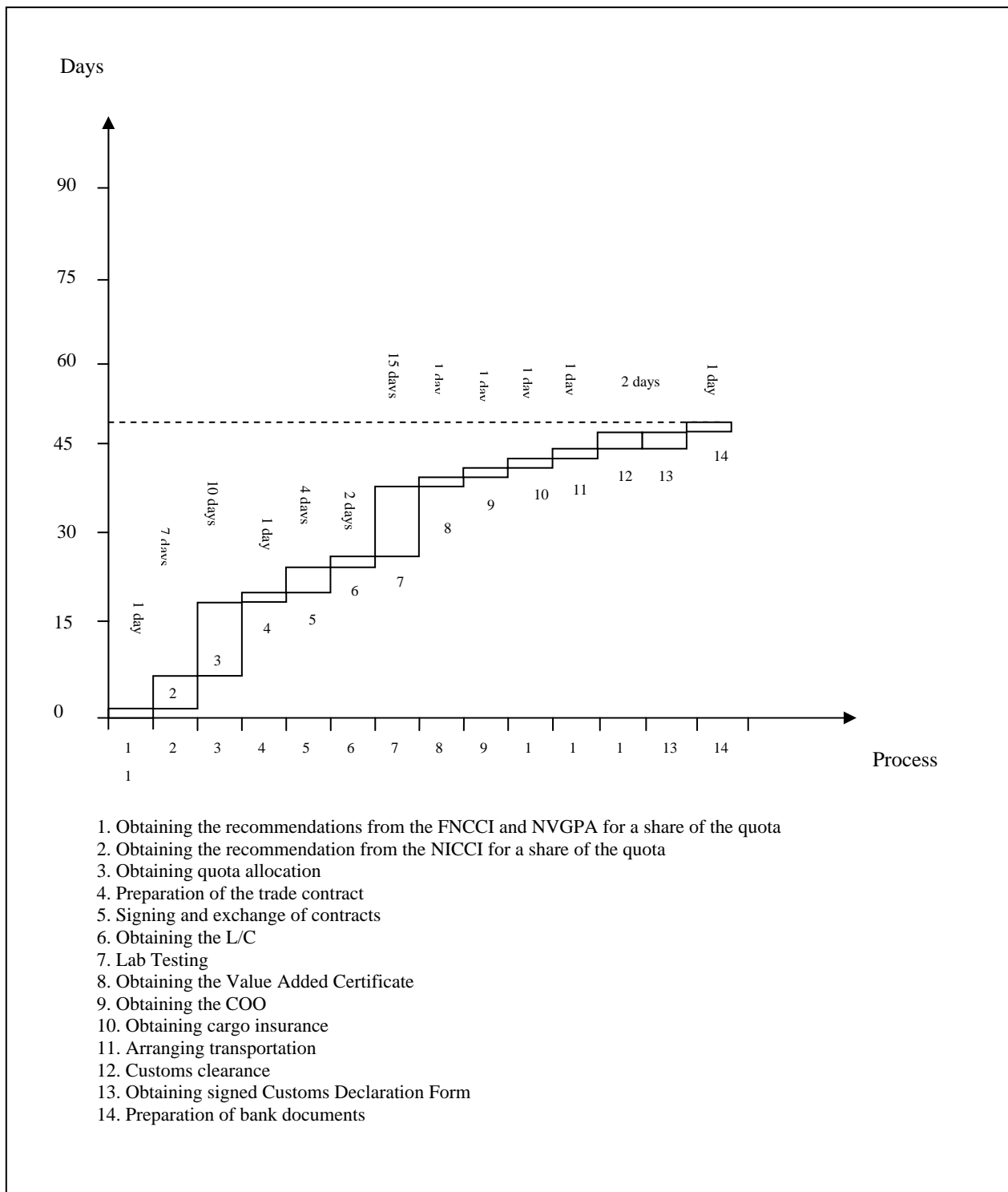
Figure 2: Time procedure chart of vegetable ghee exports to India- Minimum time: 35 days



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).

Figure 3: Time procedure chart of vegetable ghee exports to India - Maximum time: 47 days



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

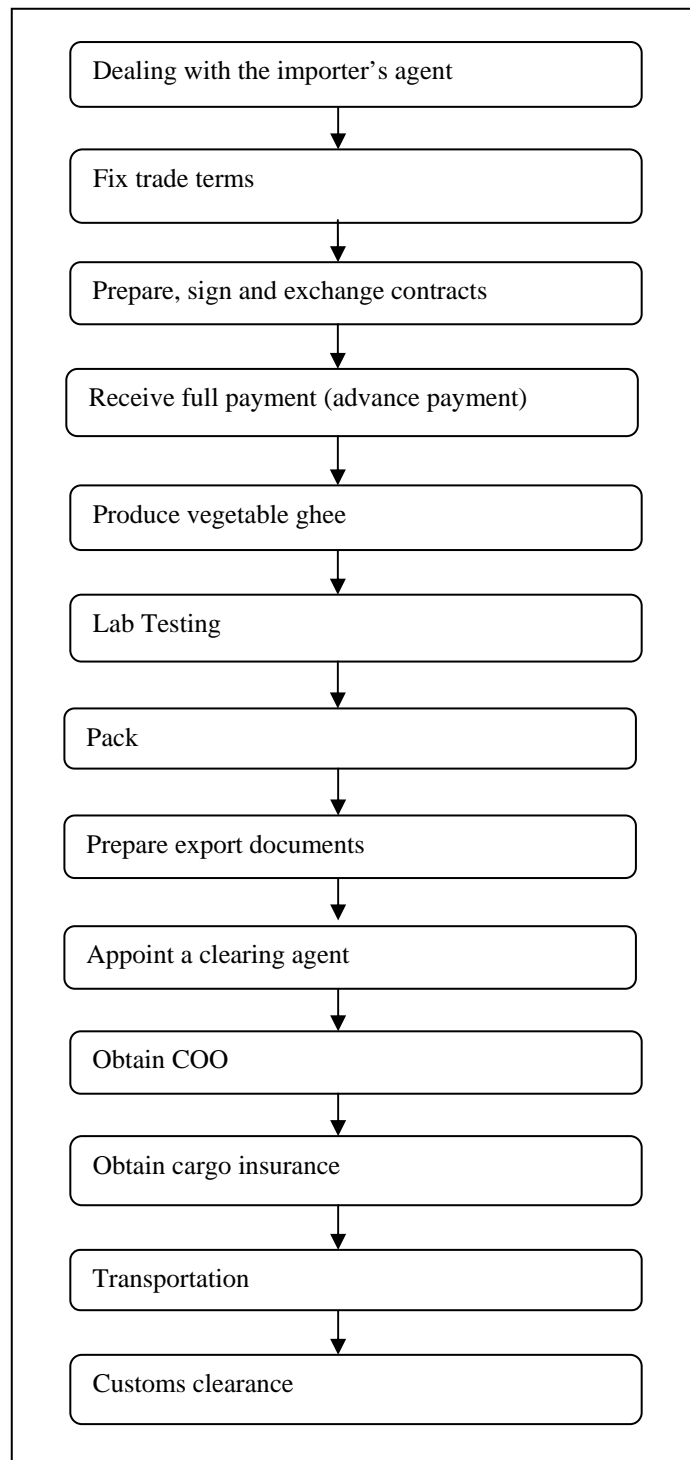
In China, vegetable ghee is used mainly to light lamps in monasteries. The export of vegetable ghee to China amounted to 0.29 million USD in 2007/08. It is exported by road transportation via the Arniko highway. Vegetable Ghee is exported to China under the Most Favoured Nation (MFN) agreement.

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 4: Documents required for exporting vegetable ghee to China

1. Performa Invoice	12. VAT Bill (3 copies)
2. Contract document (6 copies)	13. Evidence of payment received (3 copies)
3. Export Invoice (4 copies)	14. Packing list (4 copies)
4. Application for obtaining a COO	15. Cargo insurance application form
5. Certificate of Origin (3 copies)	16. Insurance policy document (2 copies)
6. Appointment letter of the Clearing Agent (2 copies)	17. Transport <i>Chalan</i> /Consignment Note
7. Letter to the laboratory requesting testing	18. Copy of PAN/VAT registration (2 copies)
8. Quality Assurance Certificate (2 copies)	19. Foreign Currency Declaration form
9. Flow chart of production (2 copies)	20. Export Customs Declaration Form
10. Copy of company registration	21. Product description document
11. Industry Registration Certificate	

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 5: Institutions involved in the process of exporting vegetable ghee to China

S.N.	Institutions
1.	Bank
2.	Laboratory
3.	Chamber of Commerce
4.	Insurance Company
5.	Transport Company
6.	Inland Tax Revenue Office
7.	Company Registration Office
8.	Department of Industry
9.	Customs Office

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

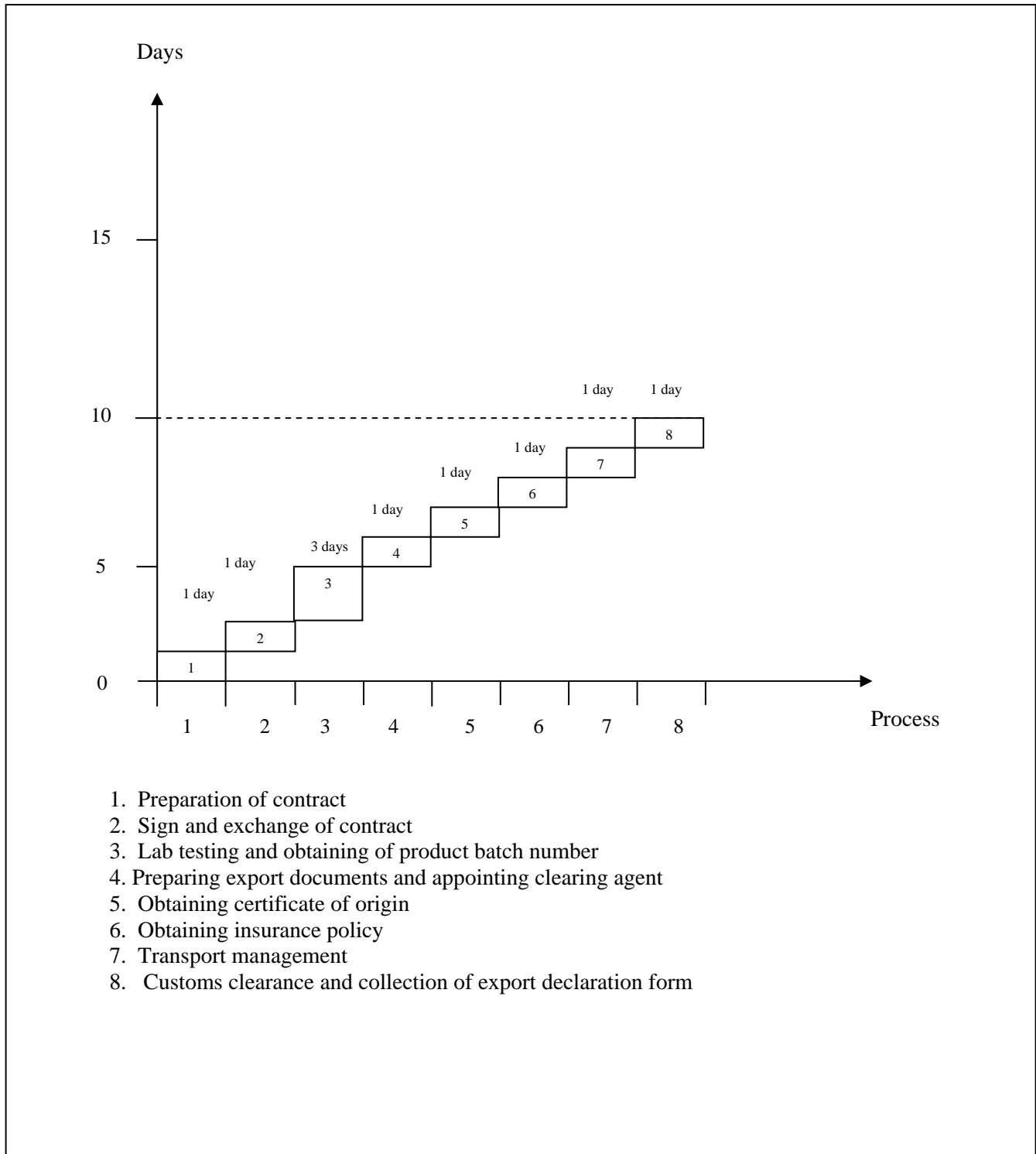
S.N	Activity	Time	Cost (per container) (USD)
1.	Preparation, signing and exchange of the contract	2-3 days	2.77
2.	Lab testing and obtaining of Product Batch Number	3 days	9.71
3.	Preparing export documents and appointing clearing agent	1 day	138.79 (fee for agent)
4.	Obtaining Certificate of Origin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

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

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

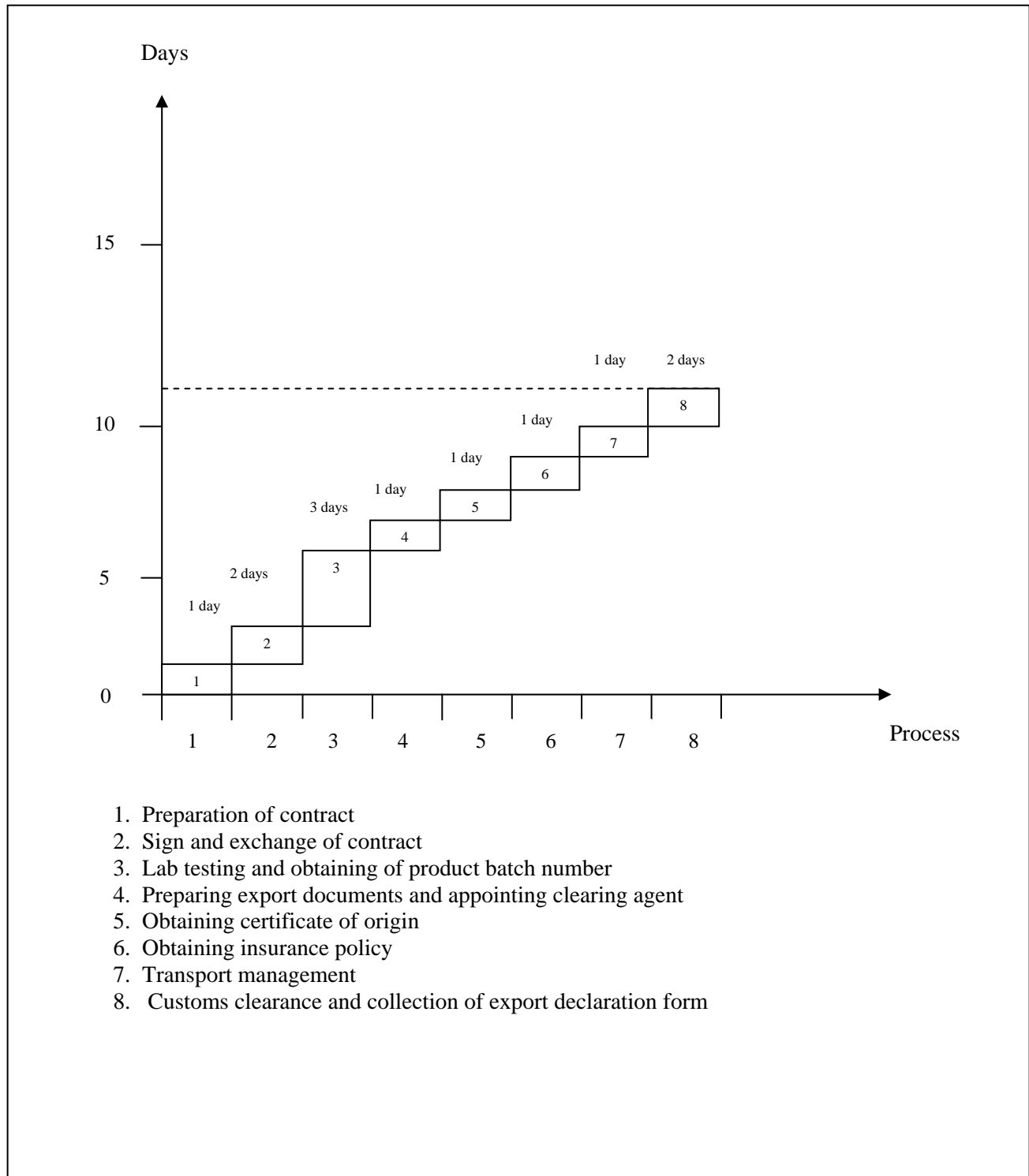
⁴ The times shown in Table 6 do not include the time required for dealing with the importer's agent for finalization of trade terms (7 days), production and packing of goods (8 days) and payment settlement (2 days).

Figure 5: Time procedure chart of vegetable ghee exports to China - Minimum time: 10 days



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



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

V. Trade procedure analysis of textile imports to Nepal from India

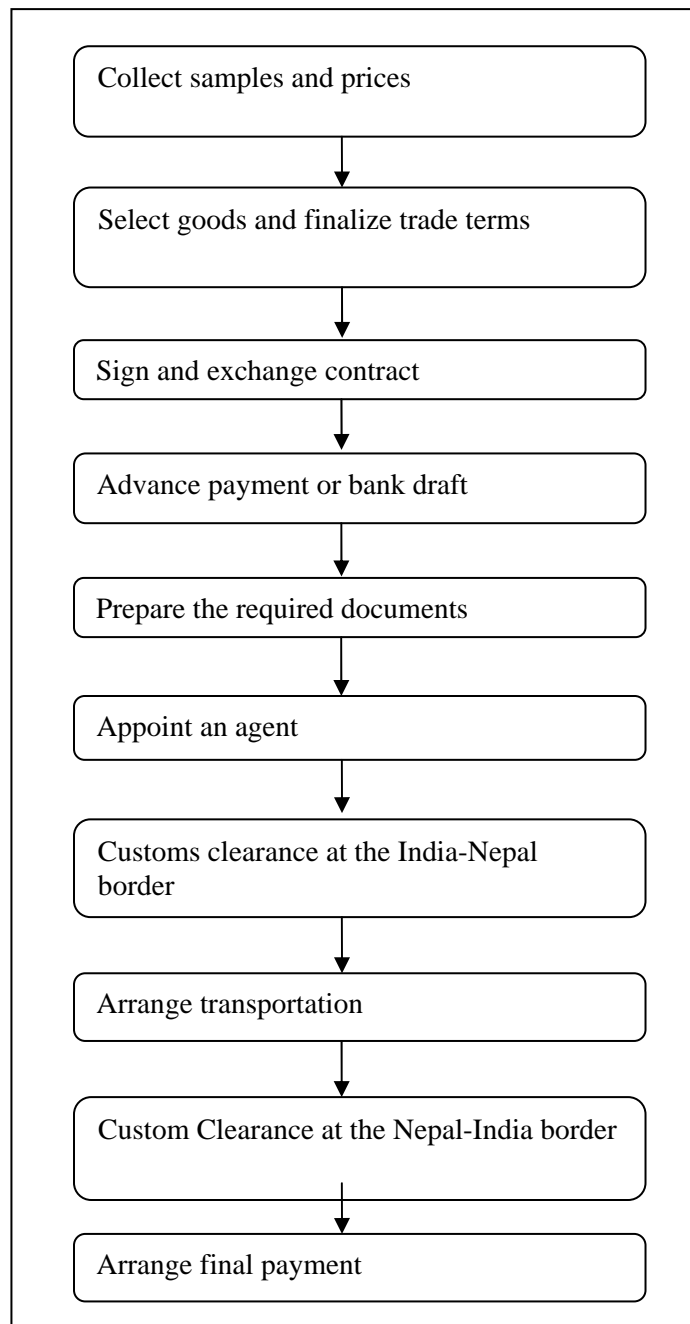
1. Introduction

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.

Figure7: Steps for the import of textiles from India into Nepal



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

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

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

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

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

S.N.	Institutions
1.	Bank
2.	Inland Revenue Office
3.	Department of Commerce
4.	Customs Office
5.	Transport Company

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).

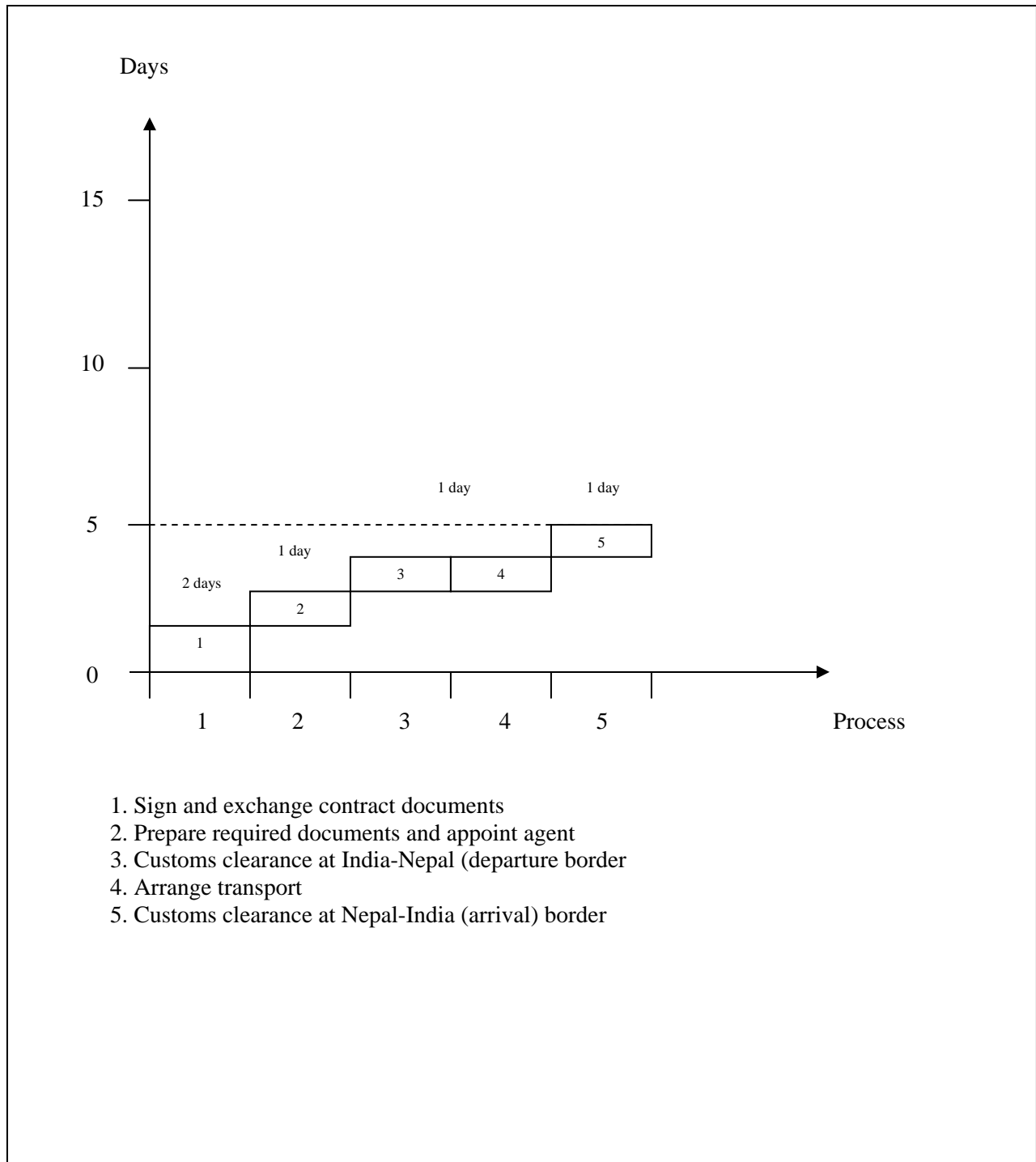
Table 9: Time and costs of importing textiles into Nepal from India

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

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

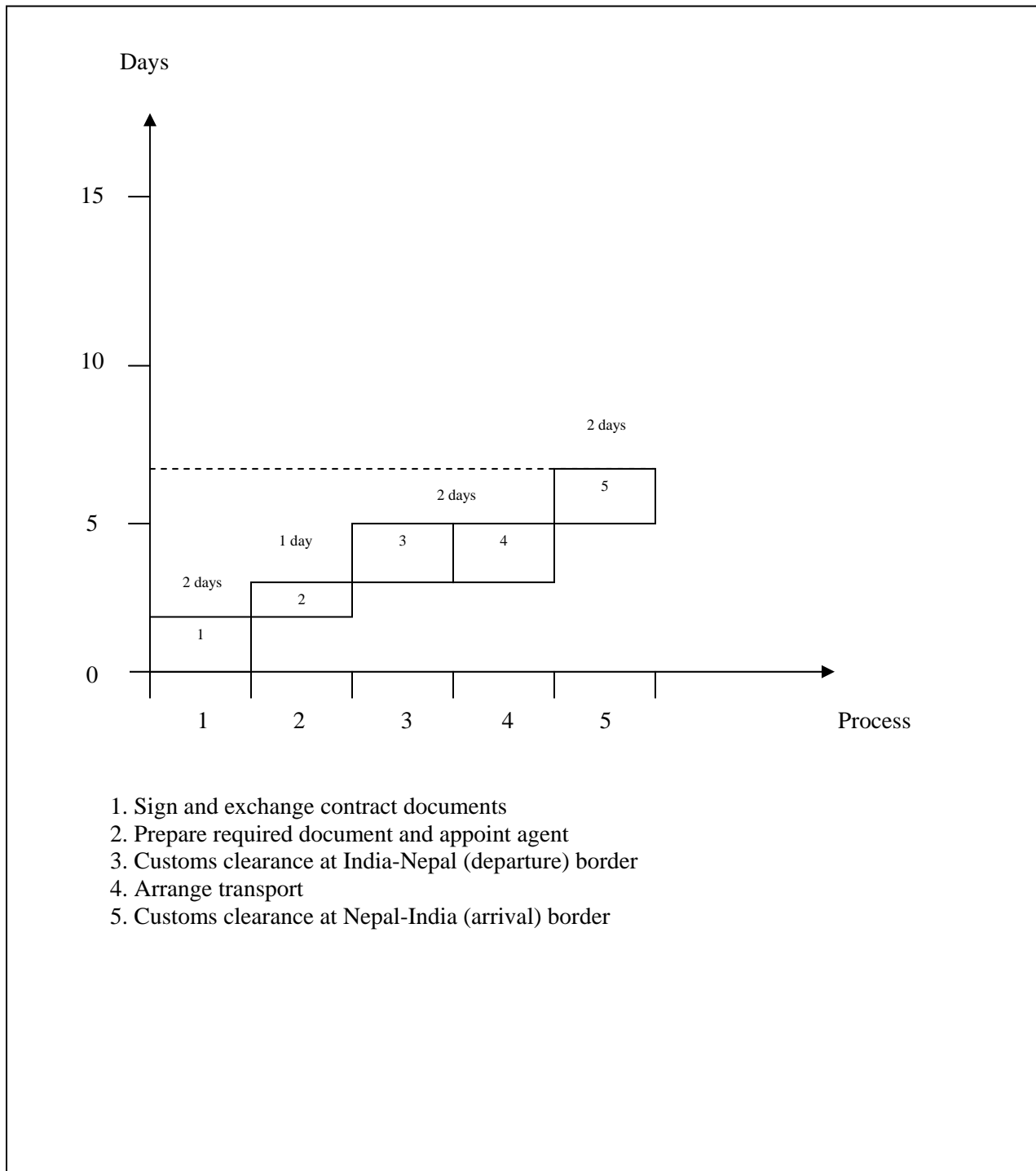
The time required for customs clearance at the India-Nepal (departure) border varies depending on the level of traffic congestion. Sometimes there is a long queue of cargo waiting for clearance. At the Nepal-India (arrival) border, the amount of time required varies depending on the efficiency and attitude 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



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



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).⁵ 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\$ 845⁵. 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 10: Documents required for completing trading procedures

Particulars	Survey findings		
	Vegetable ghee exports to India	Vegetable ghee exports to China	Textile imports from India
Required number of documents	26	21	12

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

Table 11: Time and costs of trading procedures

Particulars	Time			Cost (USD)		
	Vegetable ghee exports to India	Vegetable ghee exports to China	Textile imports from India	Vegetable ghee exports to India	Vegetable ghee exports to China	Textile imports from India
Document Preparation	26	5.5	3	99	85	6
Customs Clearance and Technical control	14	4.5	2	109	158	127
Inland Transportation	1	1	1	858	590	187
Total	41	11	6	1067	834	320

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.

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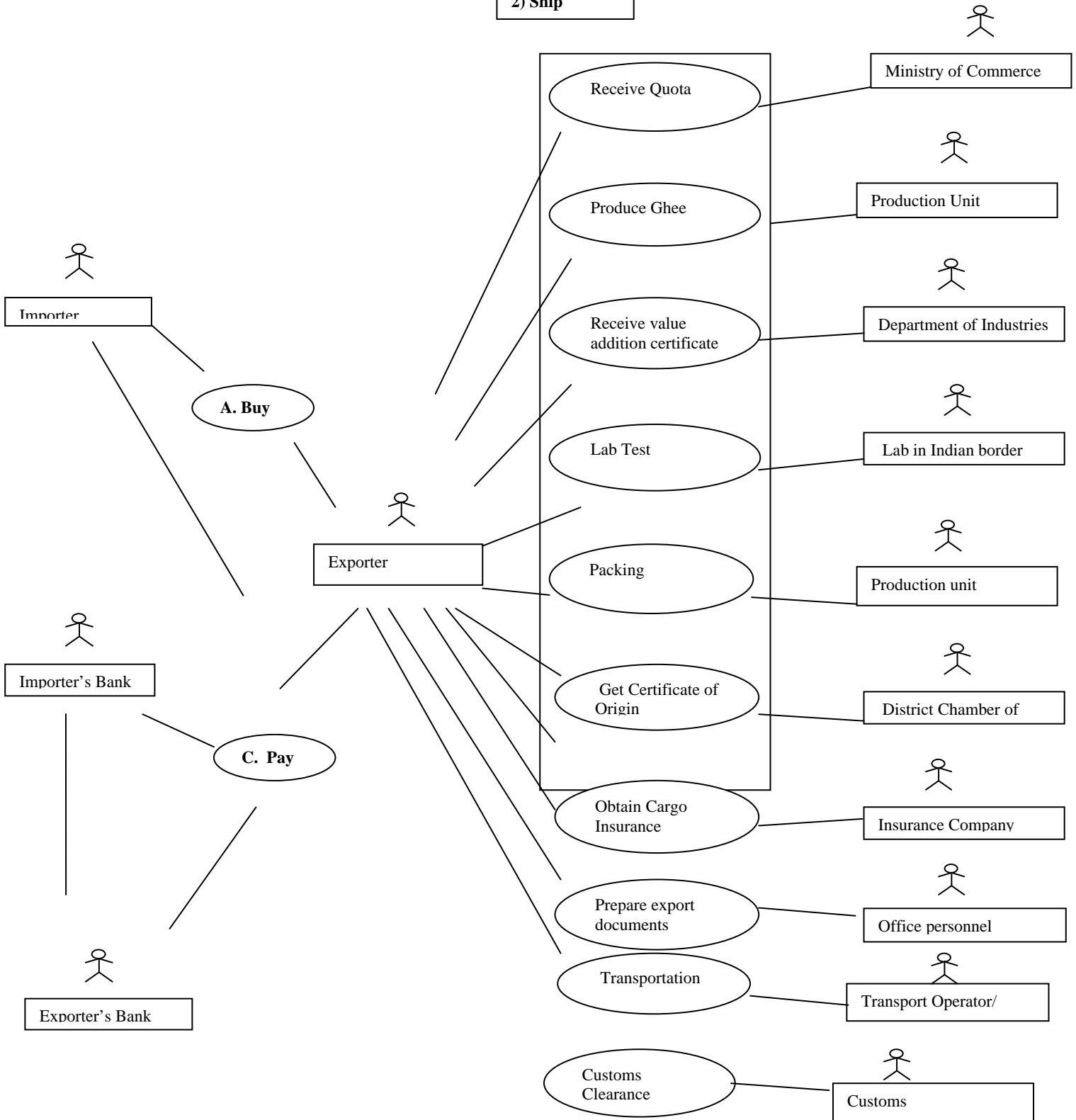
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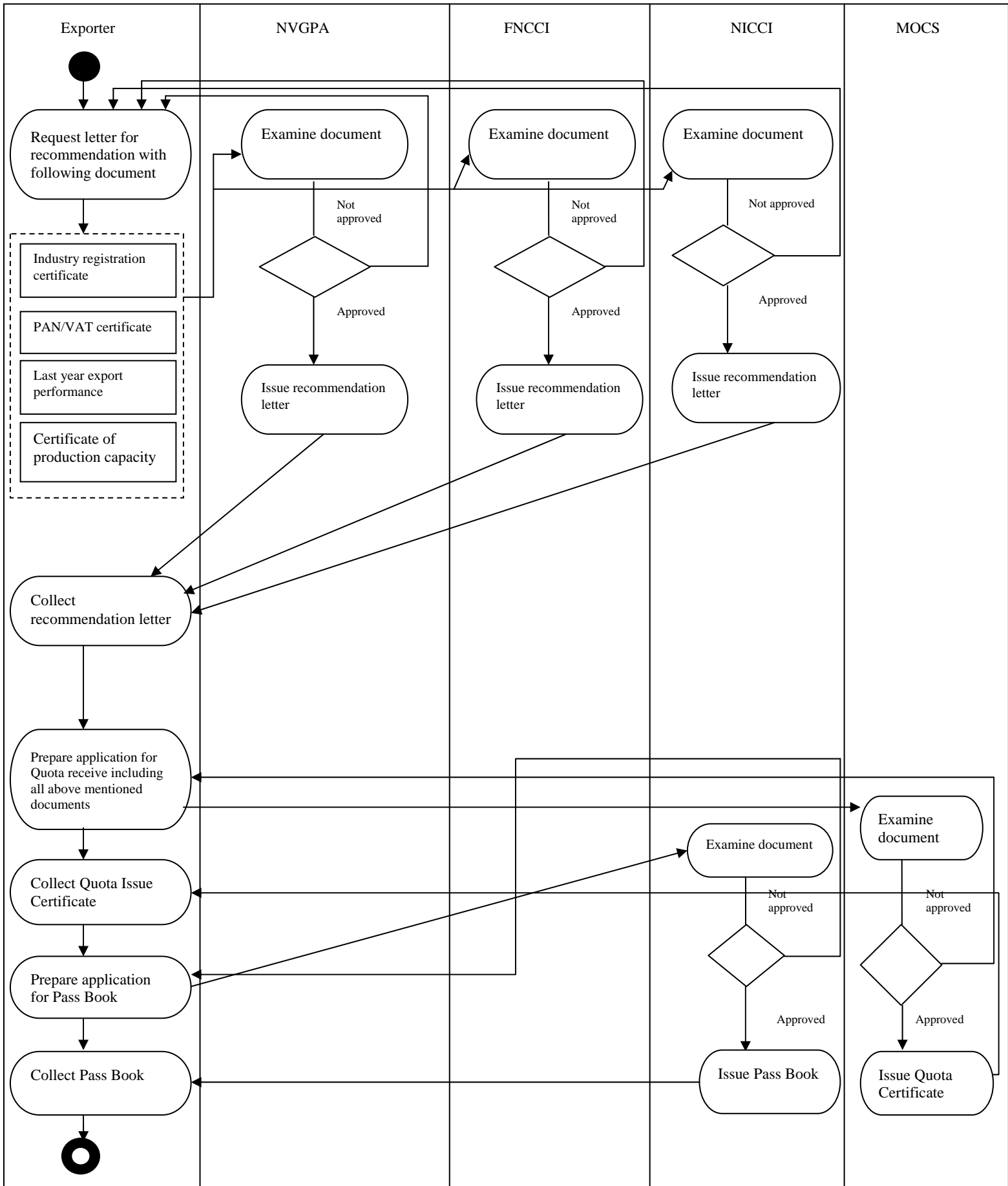
Annexes

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

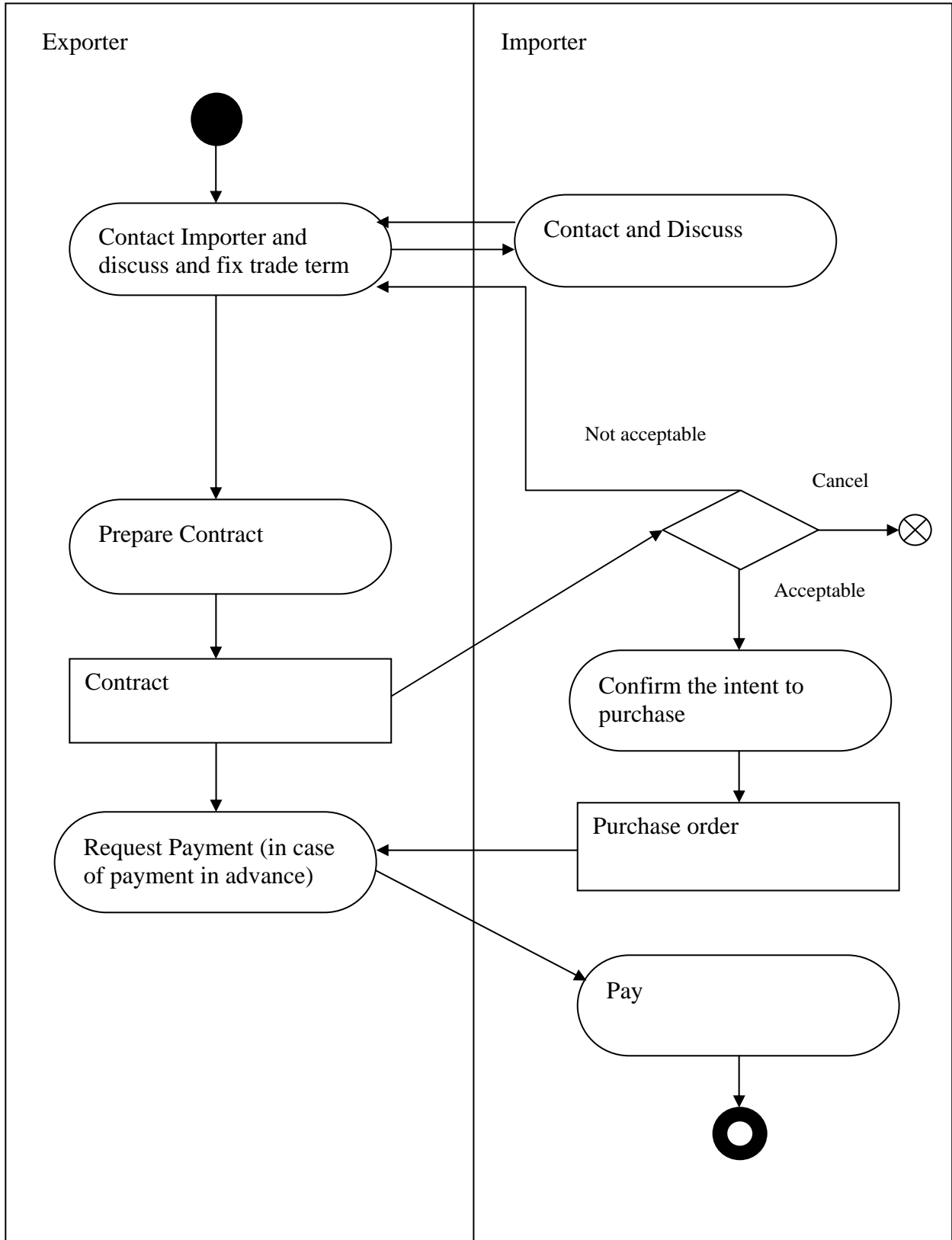
2) Ship



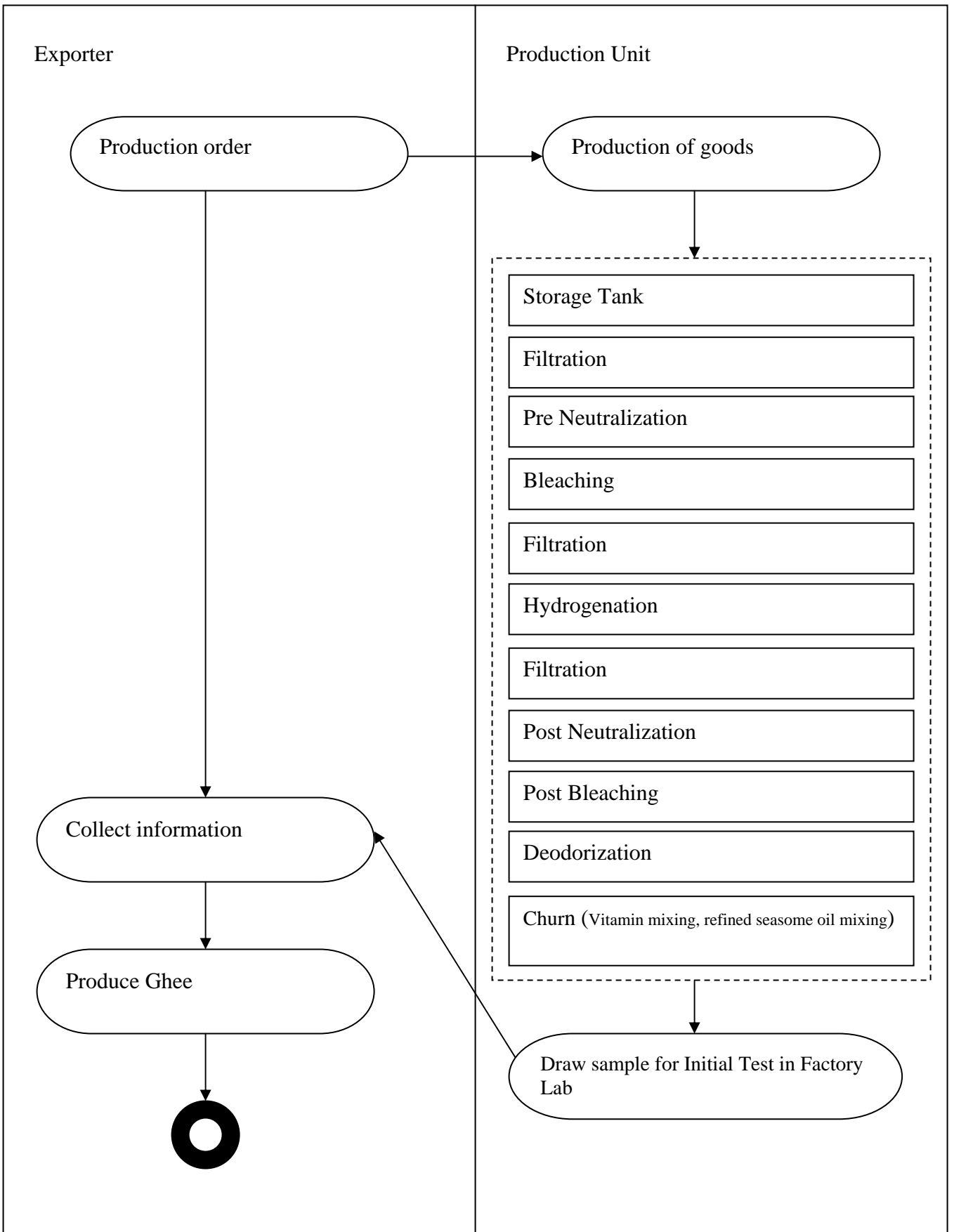
Annex 1B: Receive Quota



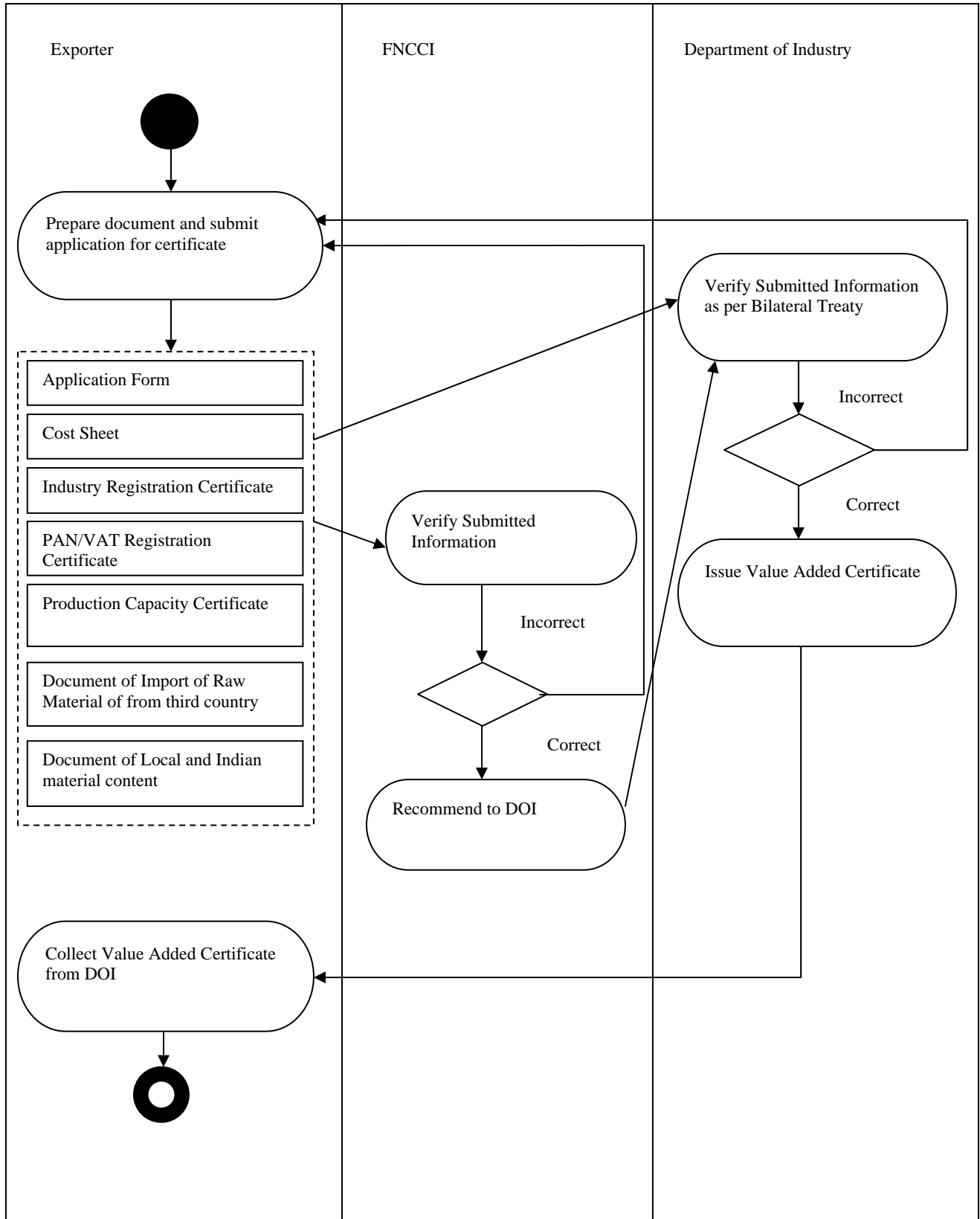
Annex 1C: Buy



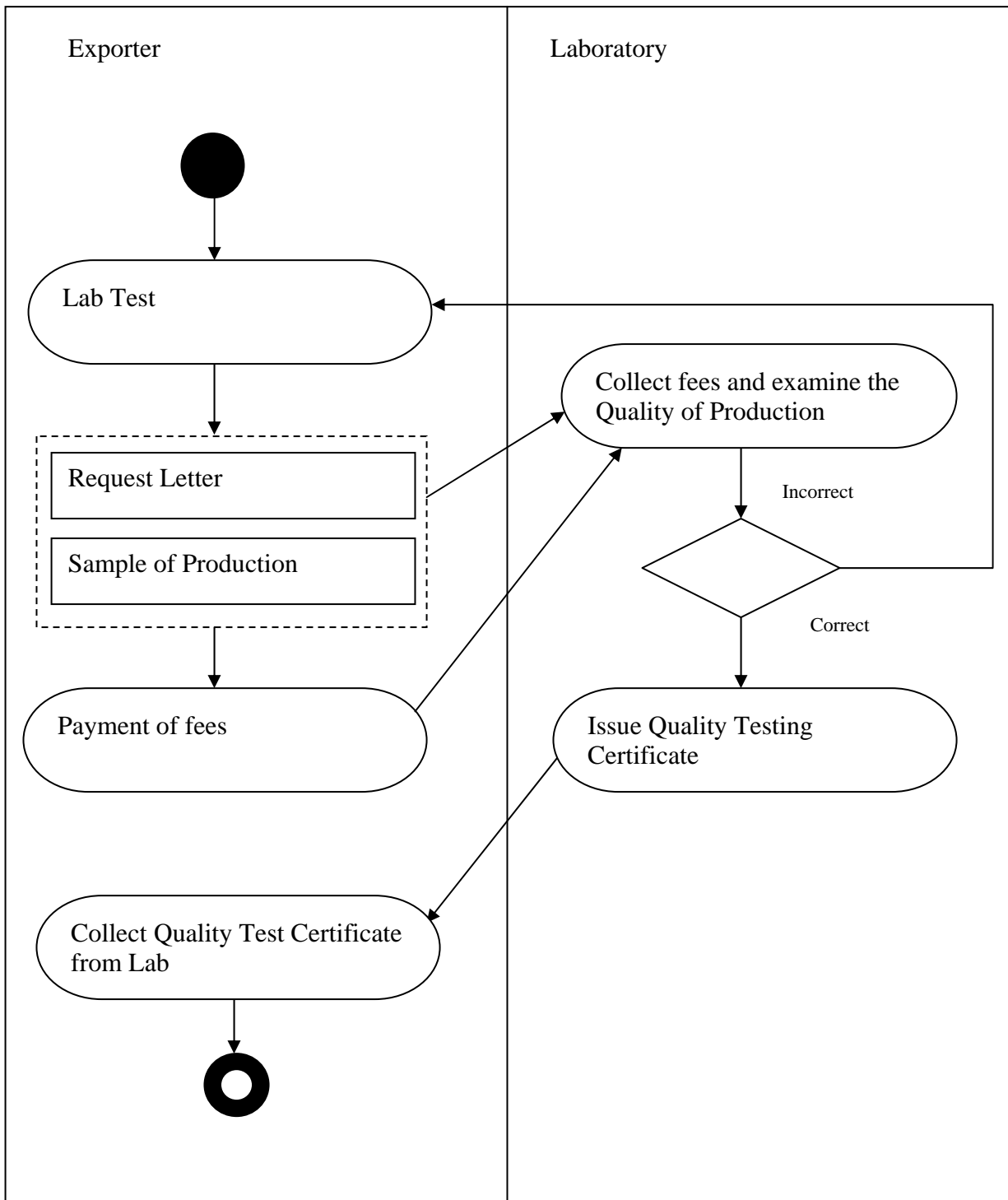
Annex 1D: Produce Ghee



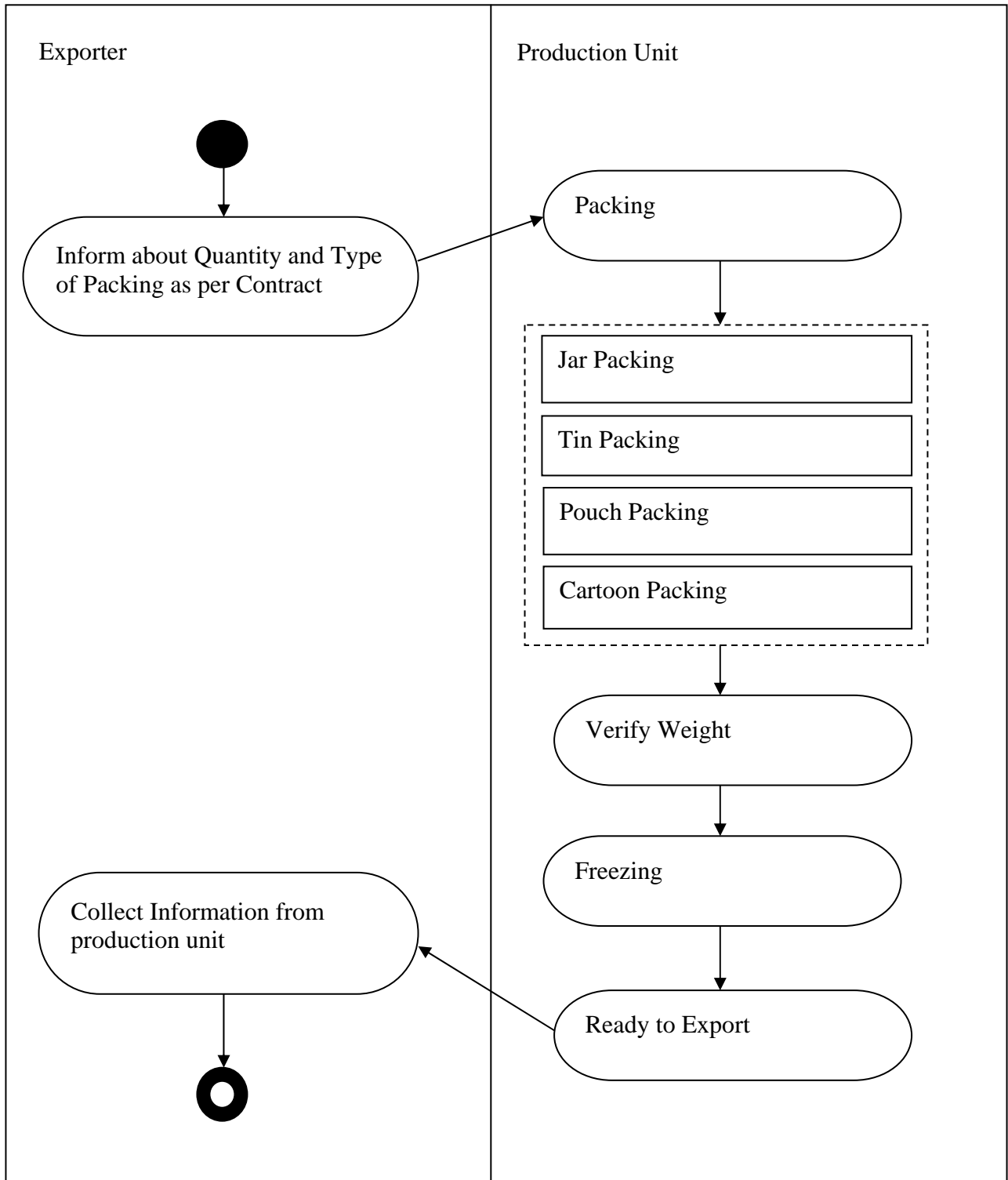
Annex 1E: Obtain Value Added Certificate



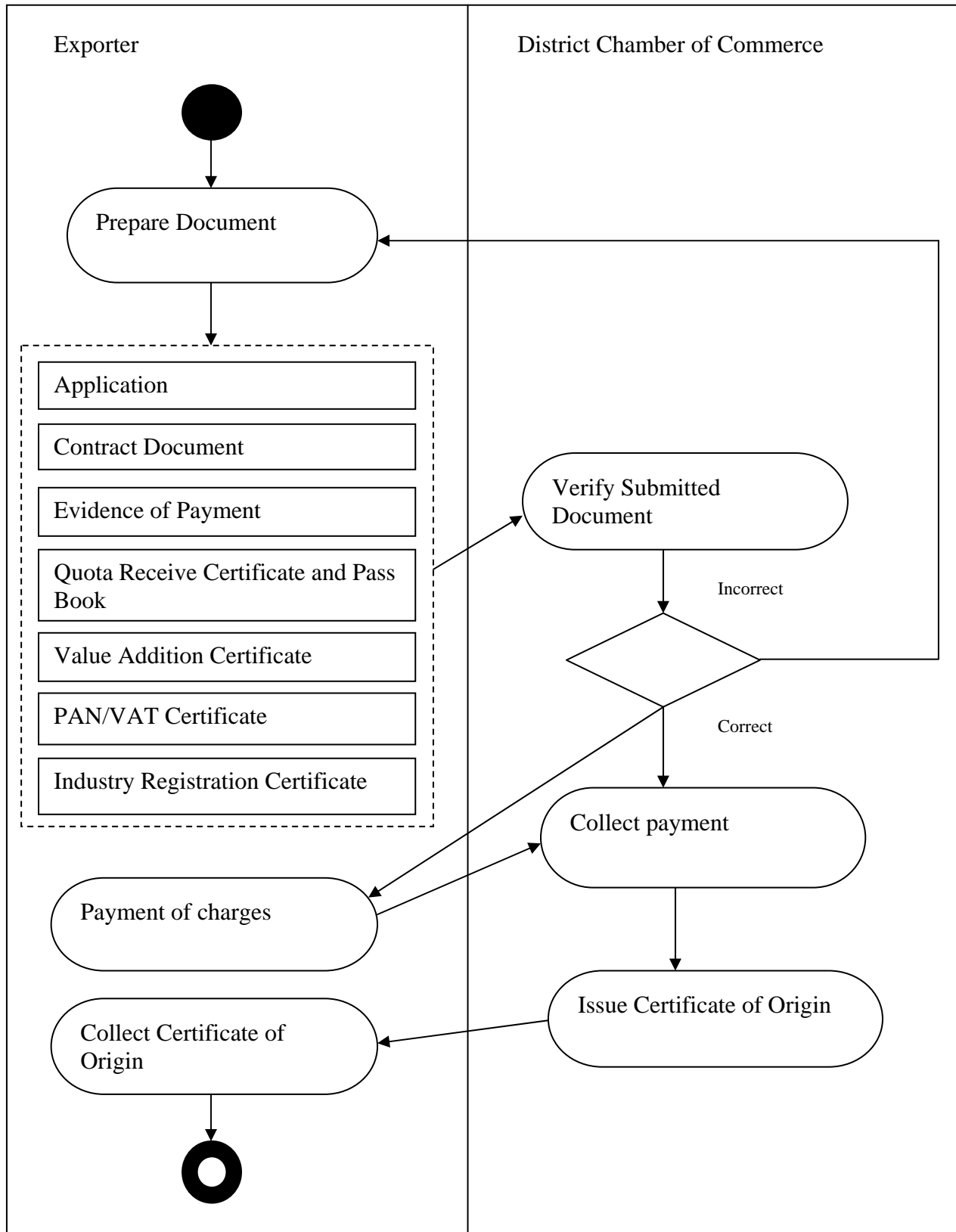
Annex 1F: Lab Test



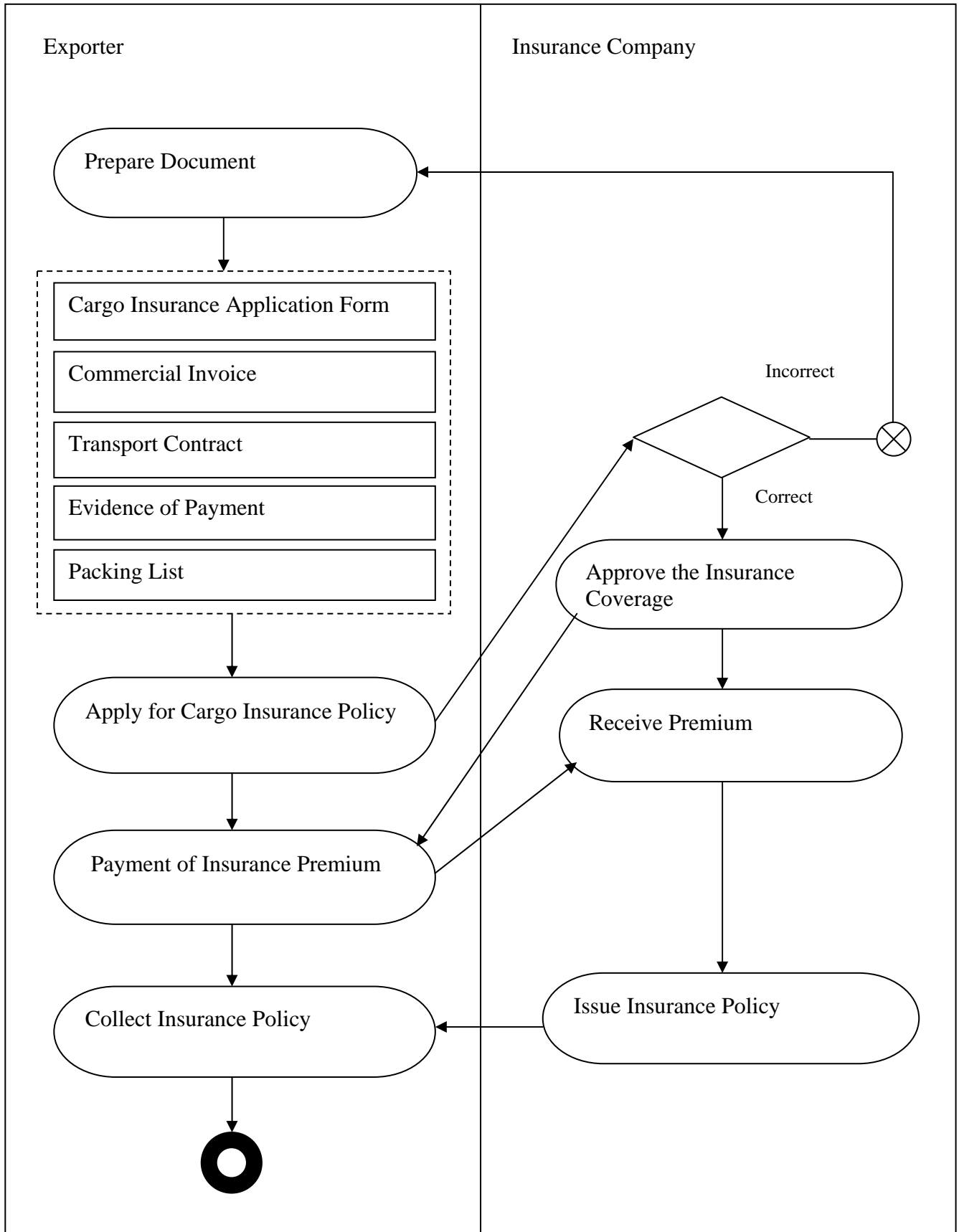
Annex 1G: Packing



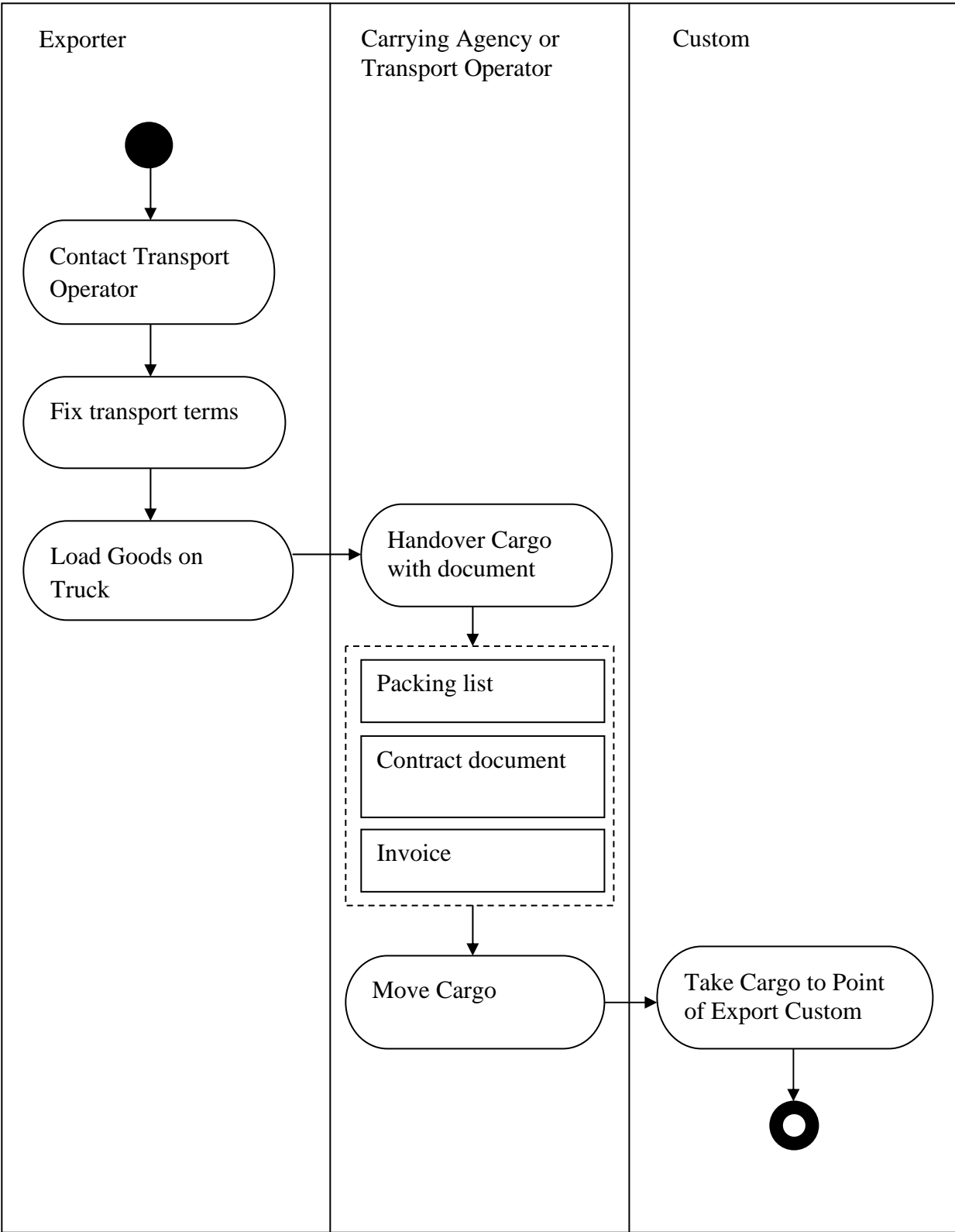
Annex 1H: Certificate of Origin



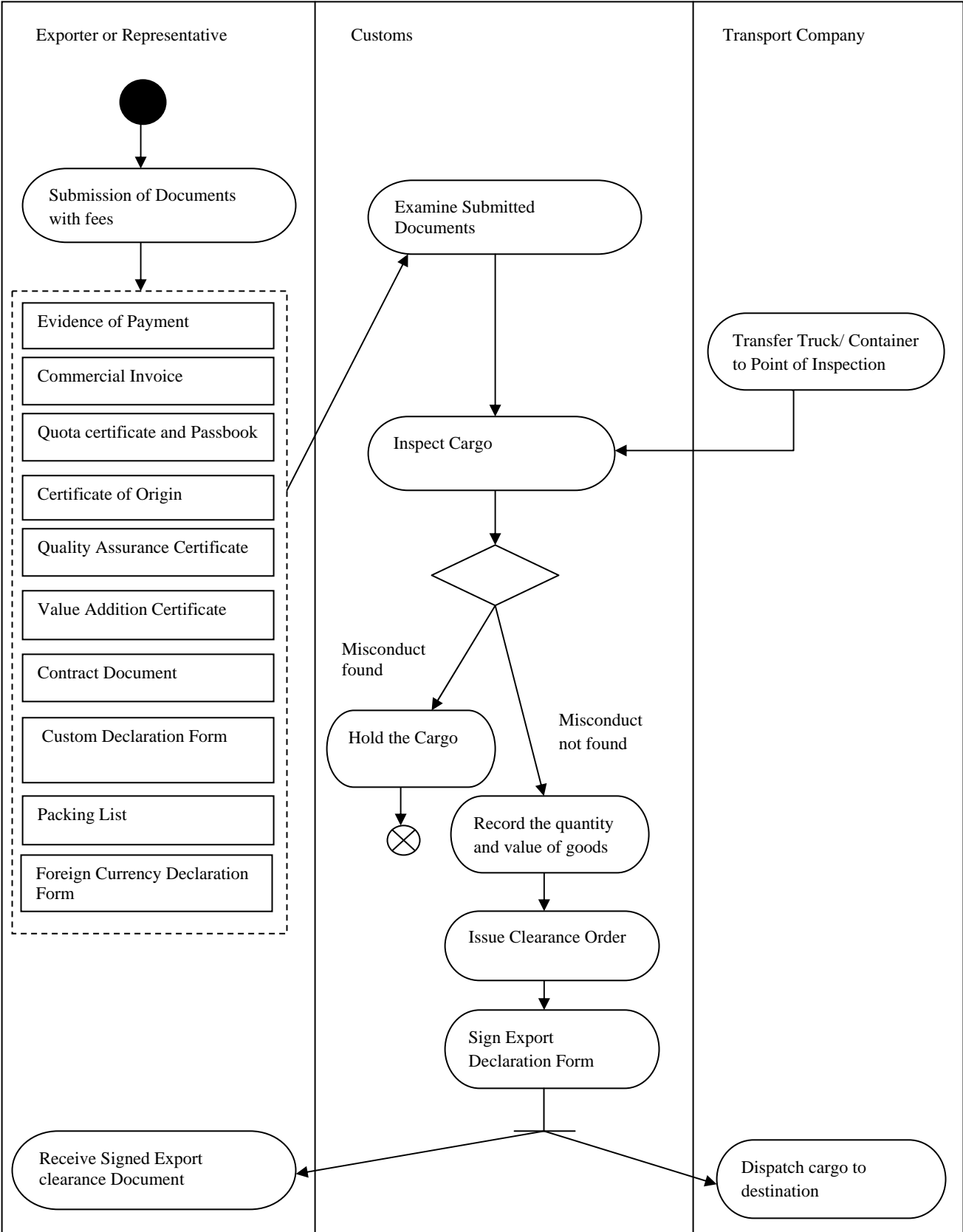
Annex II: Obtain Cargo Insurance



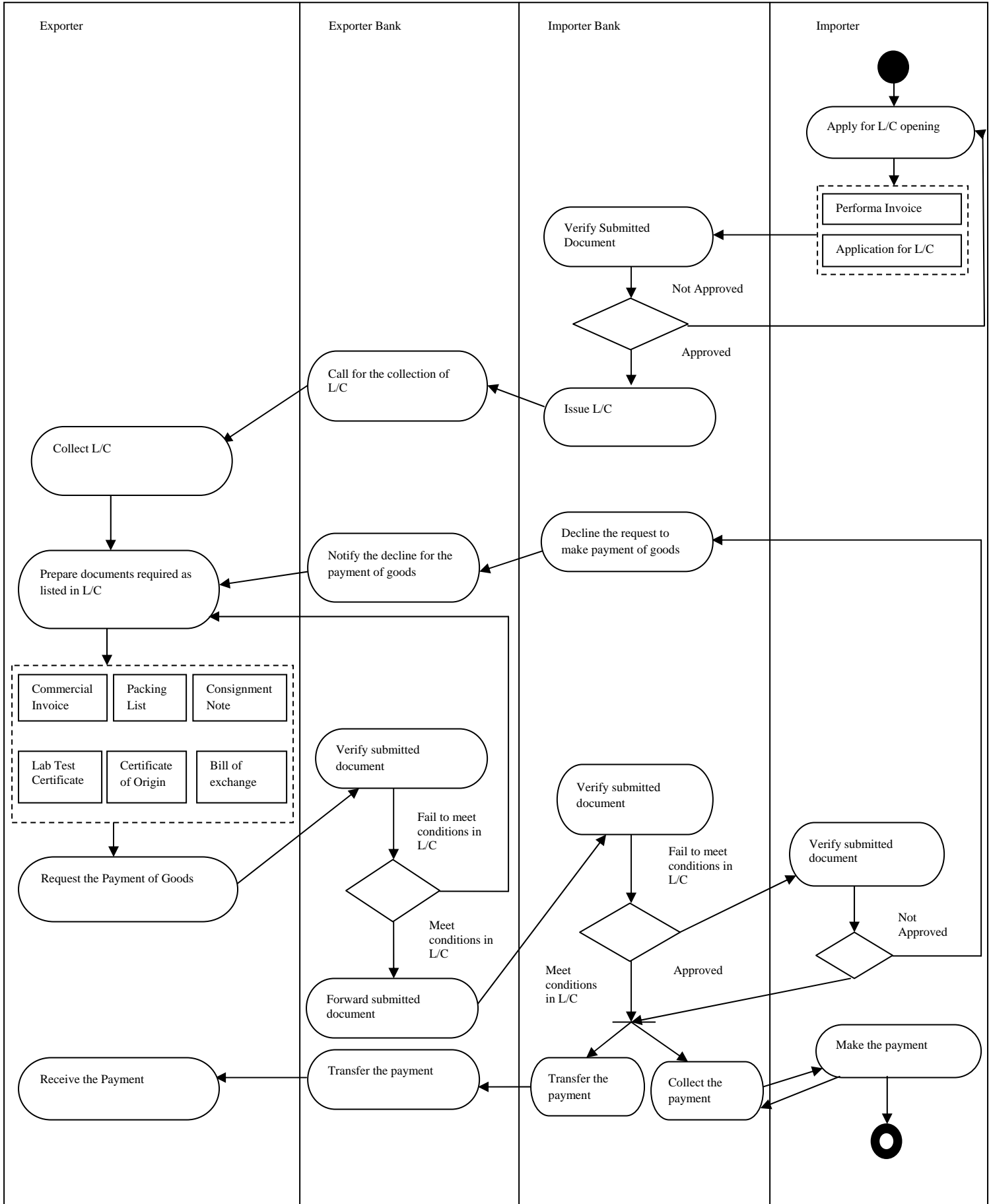
Annex 1J: Transportation



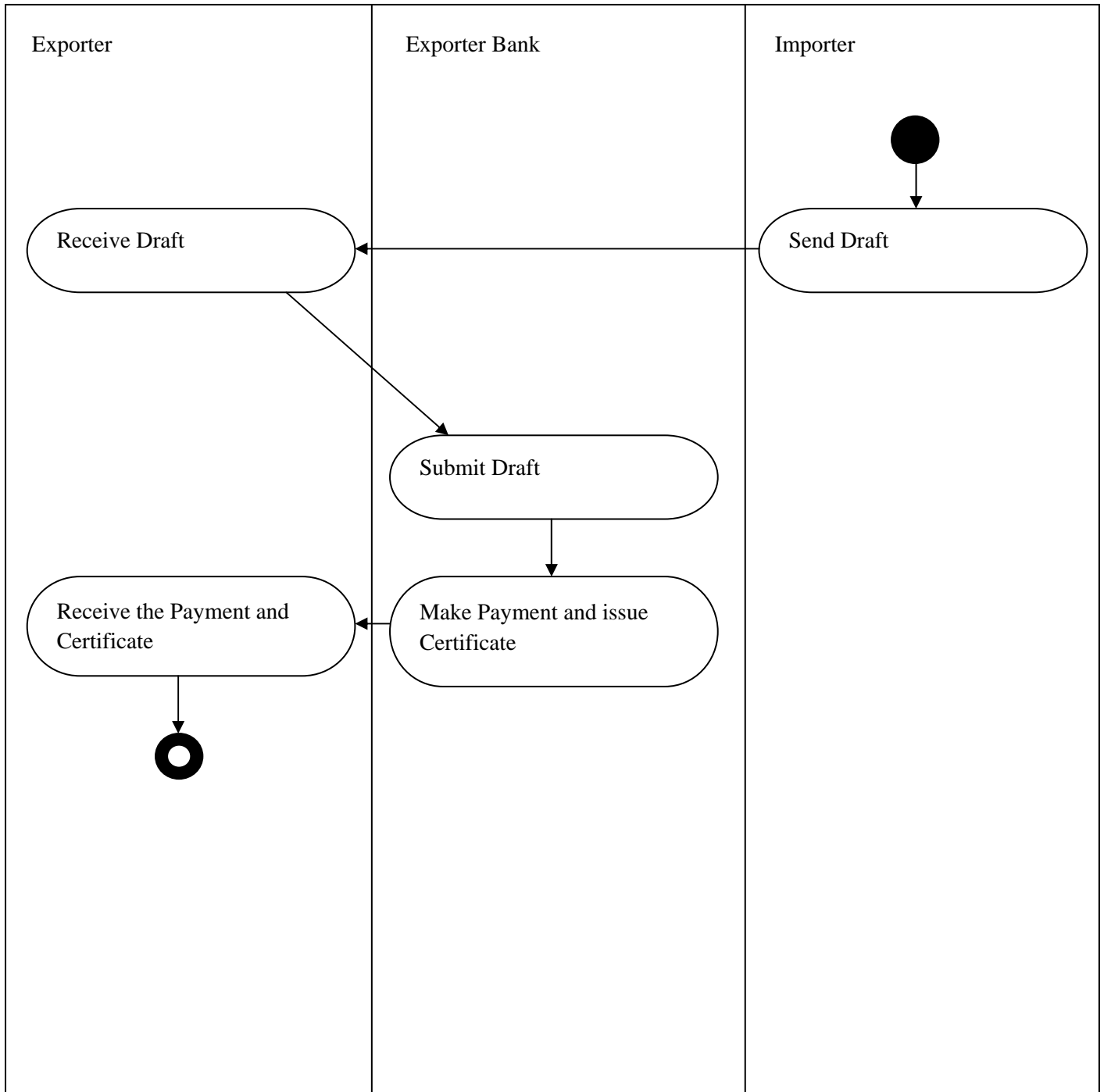
Annex 1K: Customs Clearance



Annex 1L: a. Pay by L/C

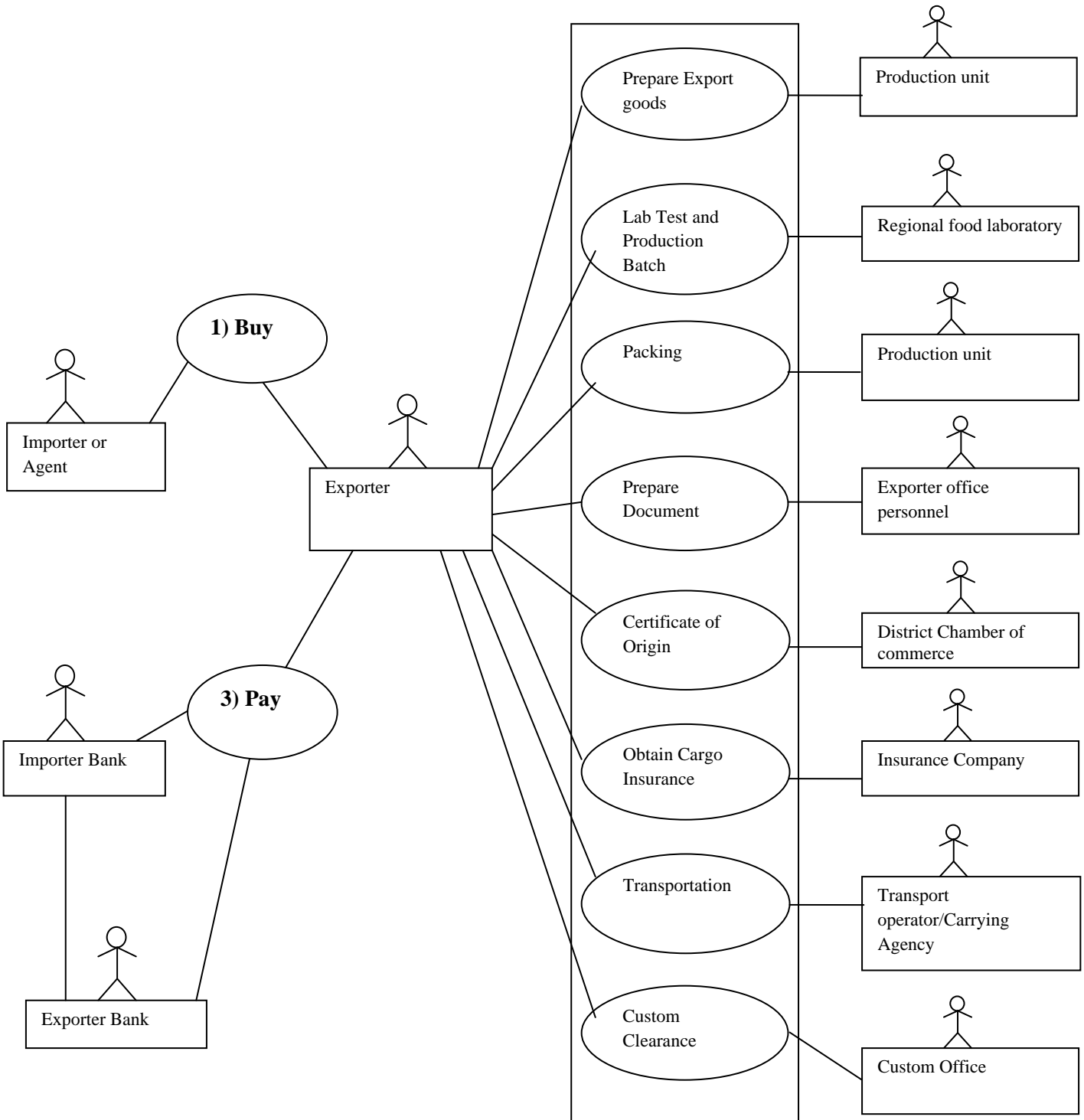


b. Pay by Bank Draft

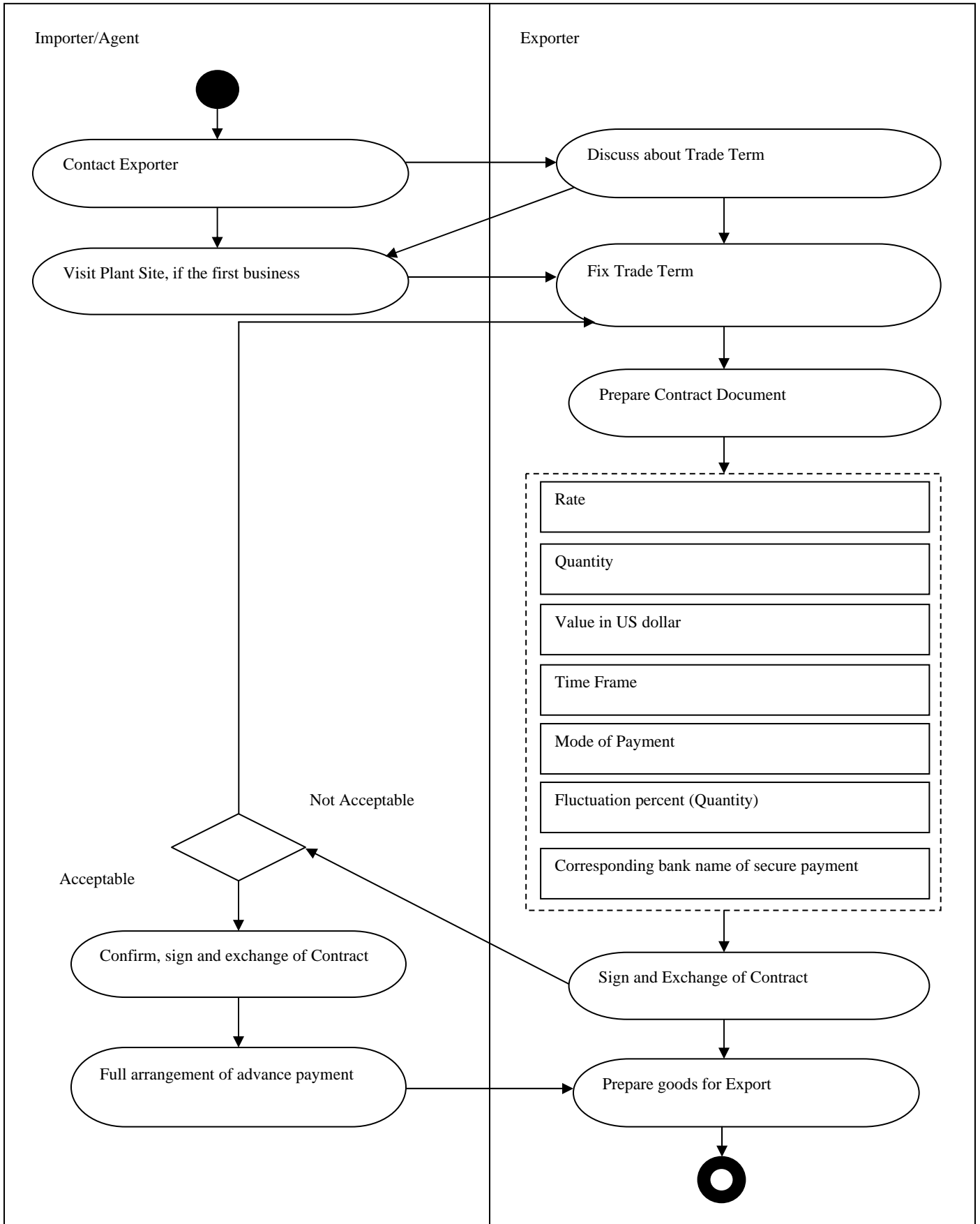


Vegetable Ghee Exports to China from Nepal
Annex 2A: Use Case Diagram

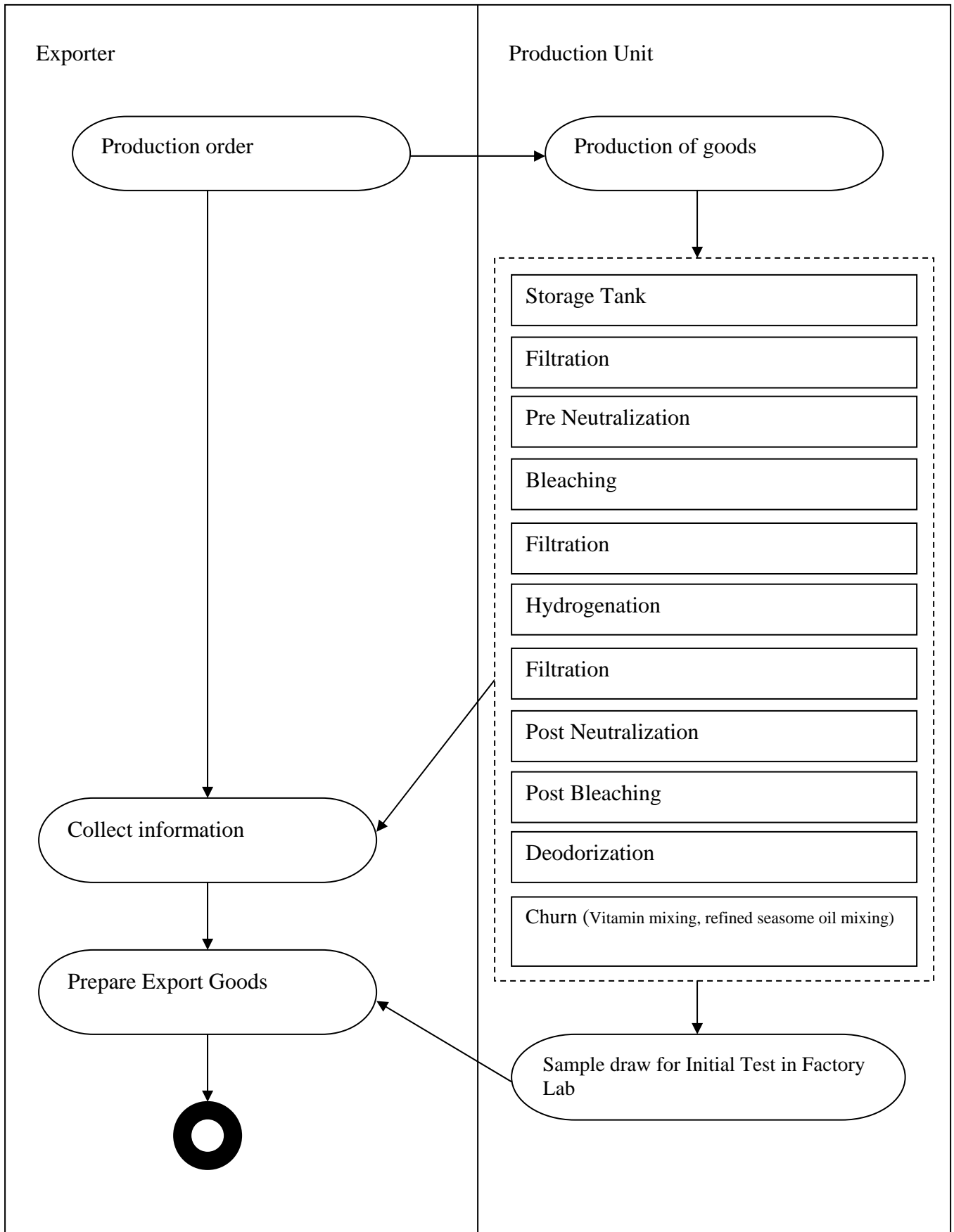
2) Ship



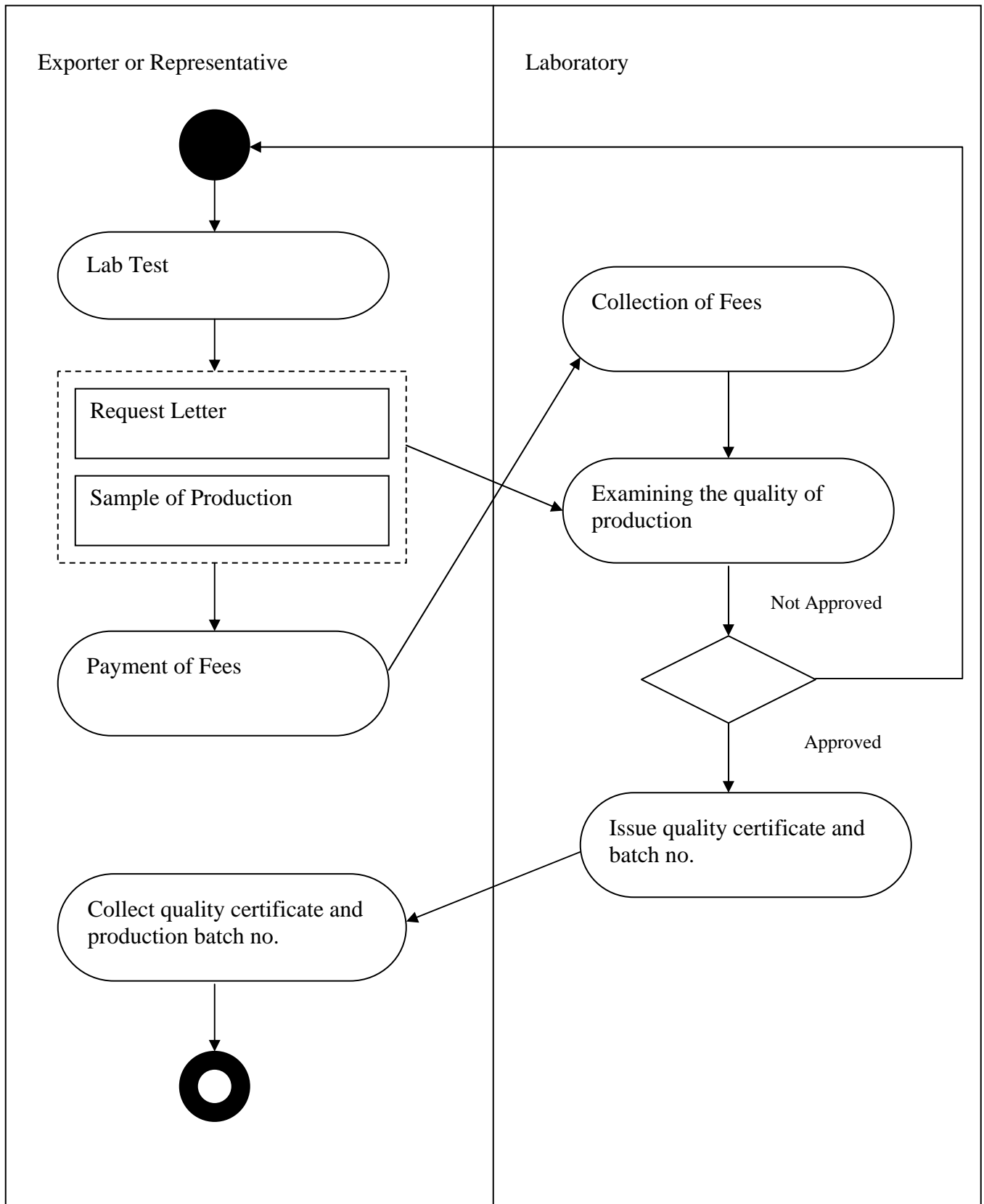
Annex 22B: Buy



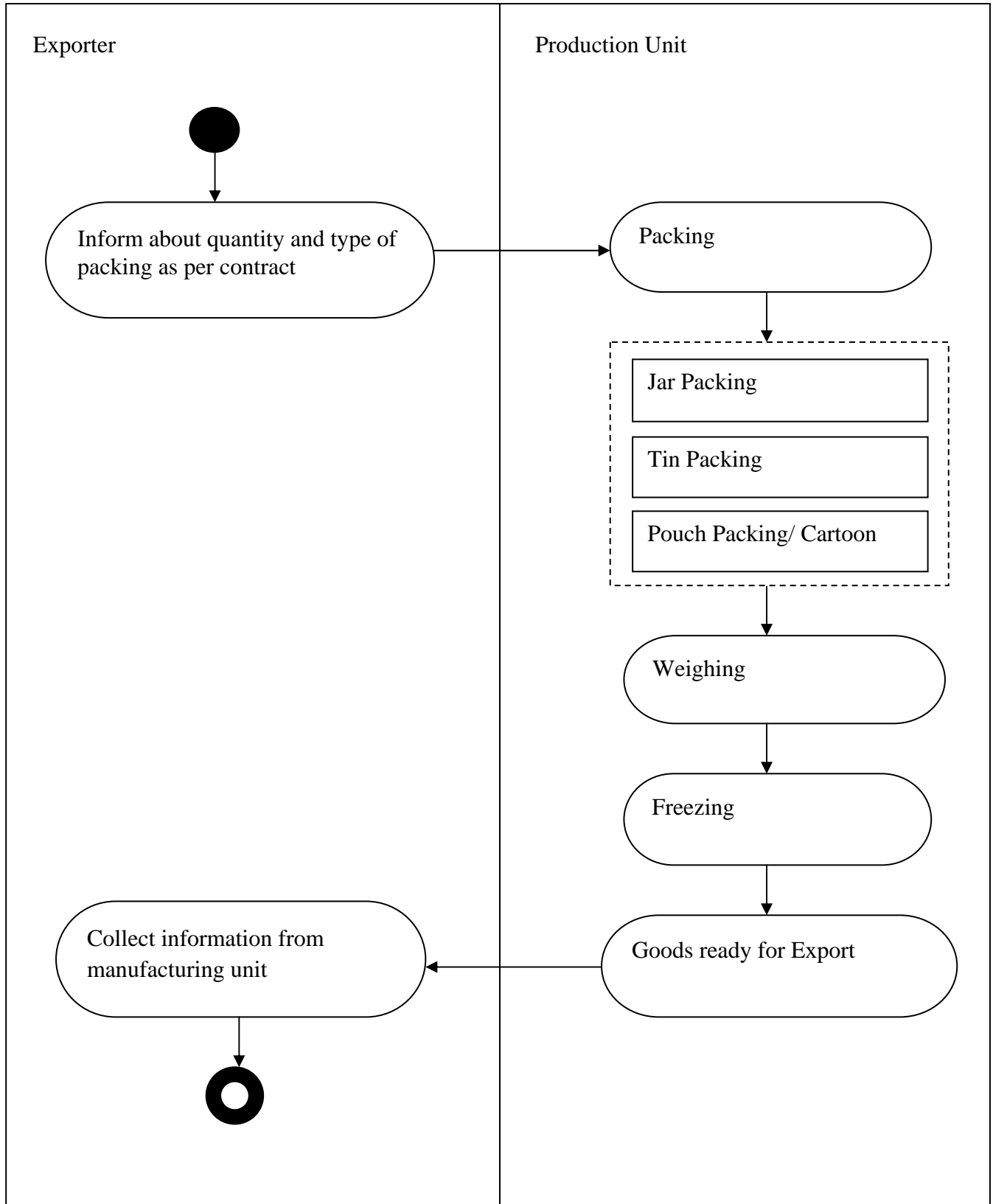
Annex 2C: Prepare Export Goods/Material



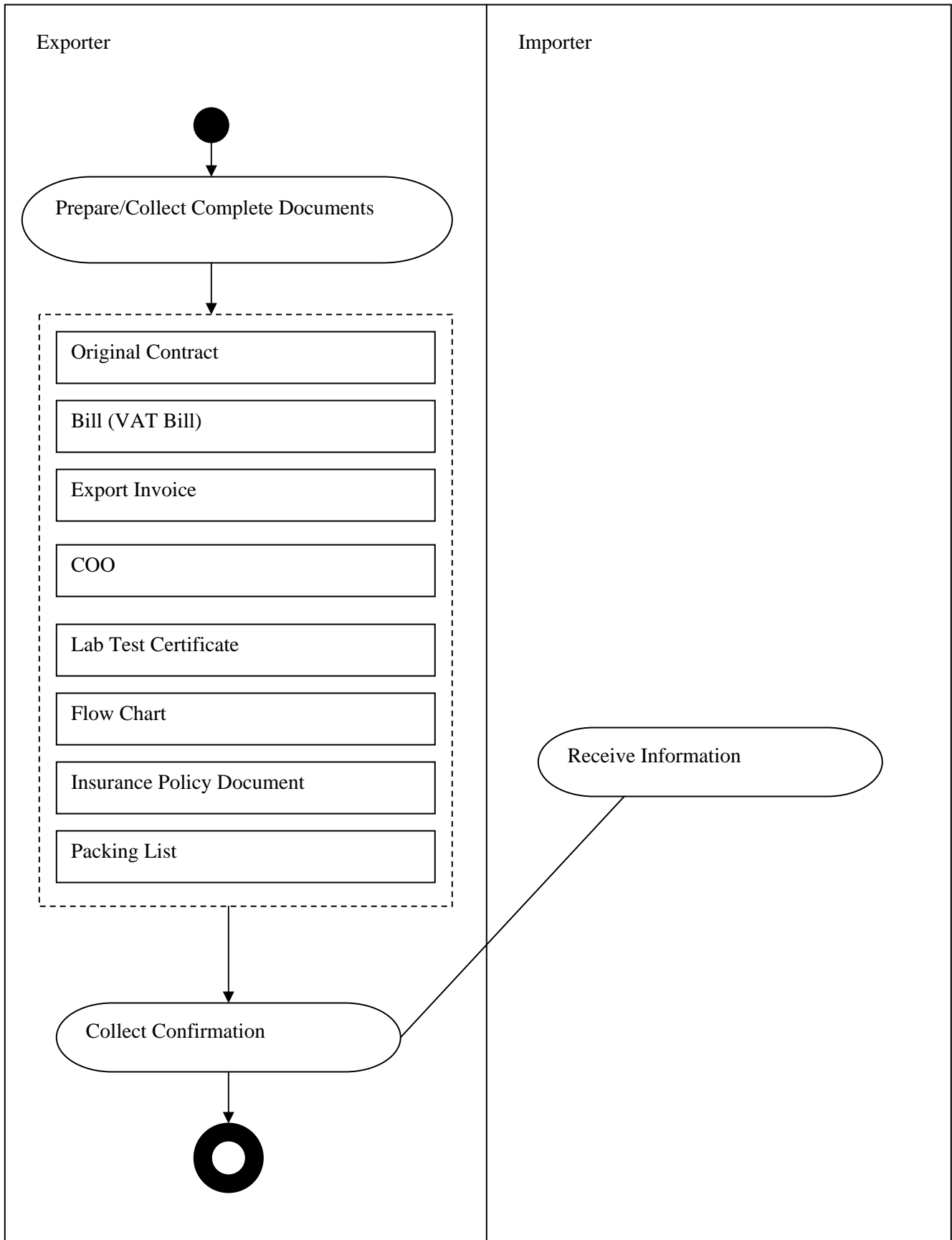
Annex 2D: Lab Test and Production Batch



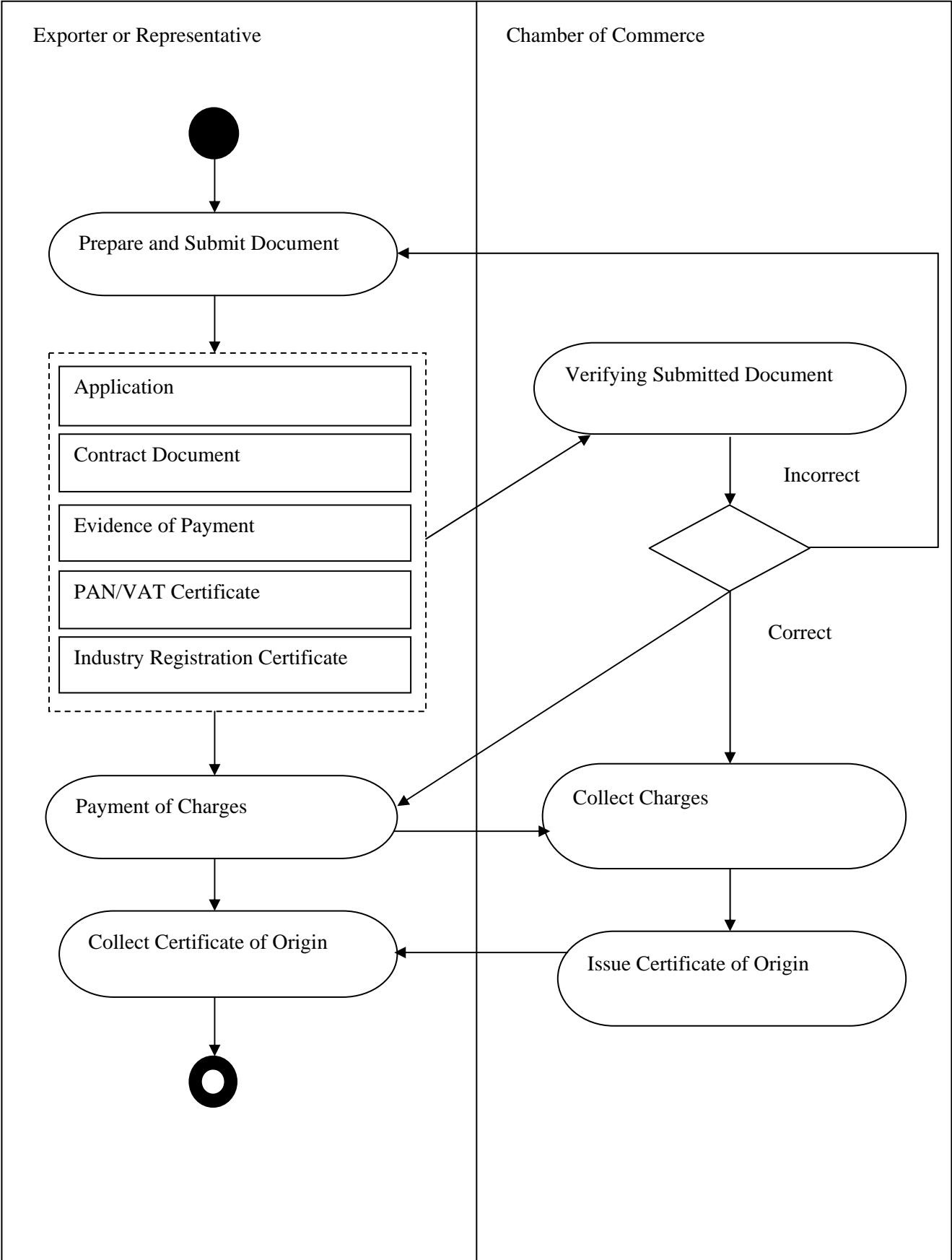
Annex 2E: Packing



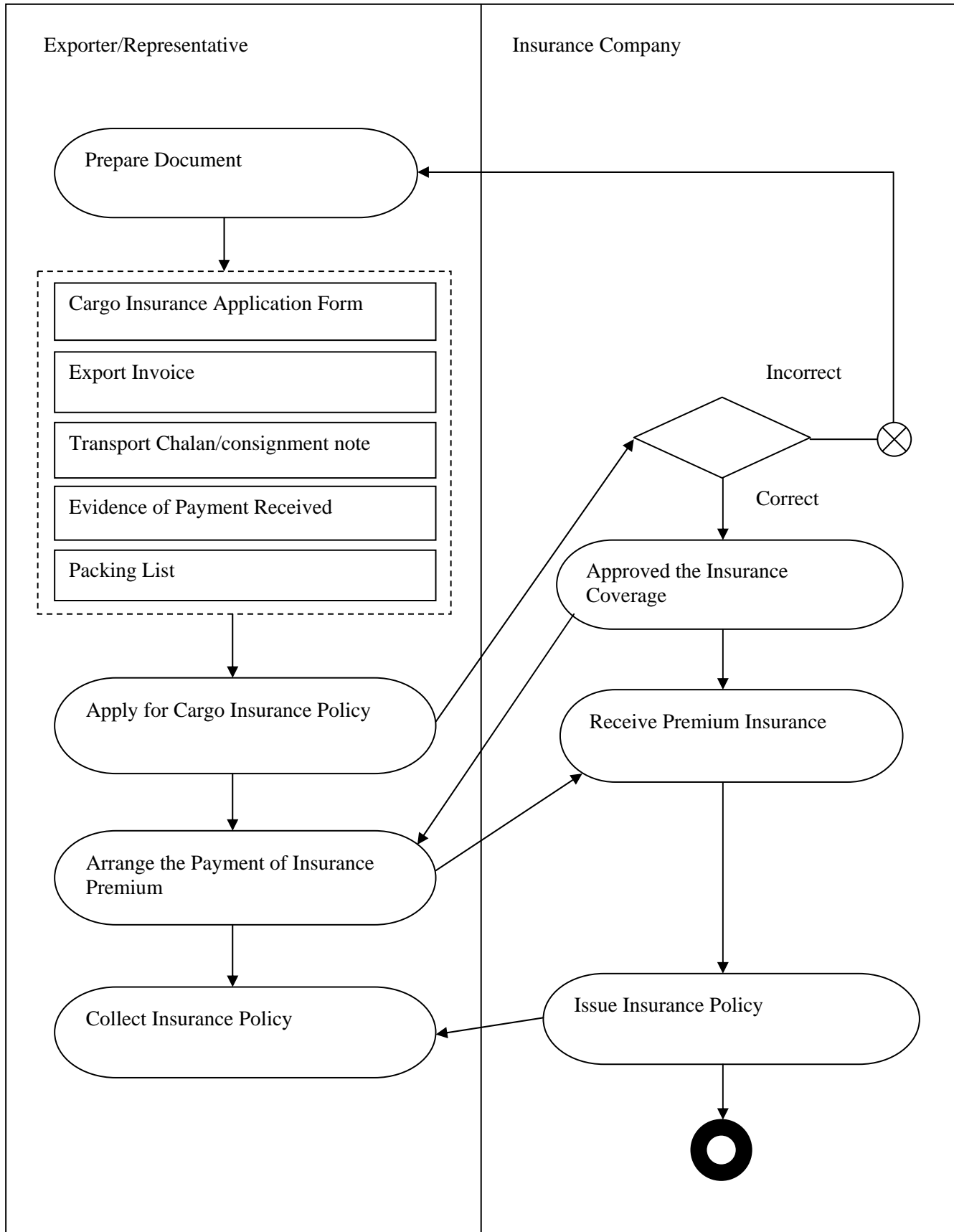
Annex 2F: Prepare Export Documents



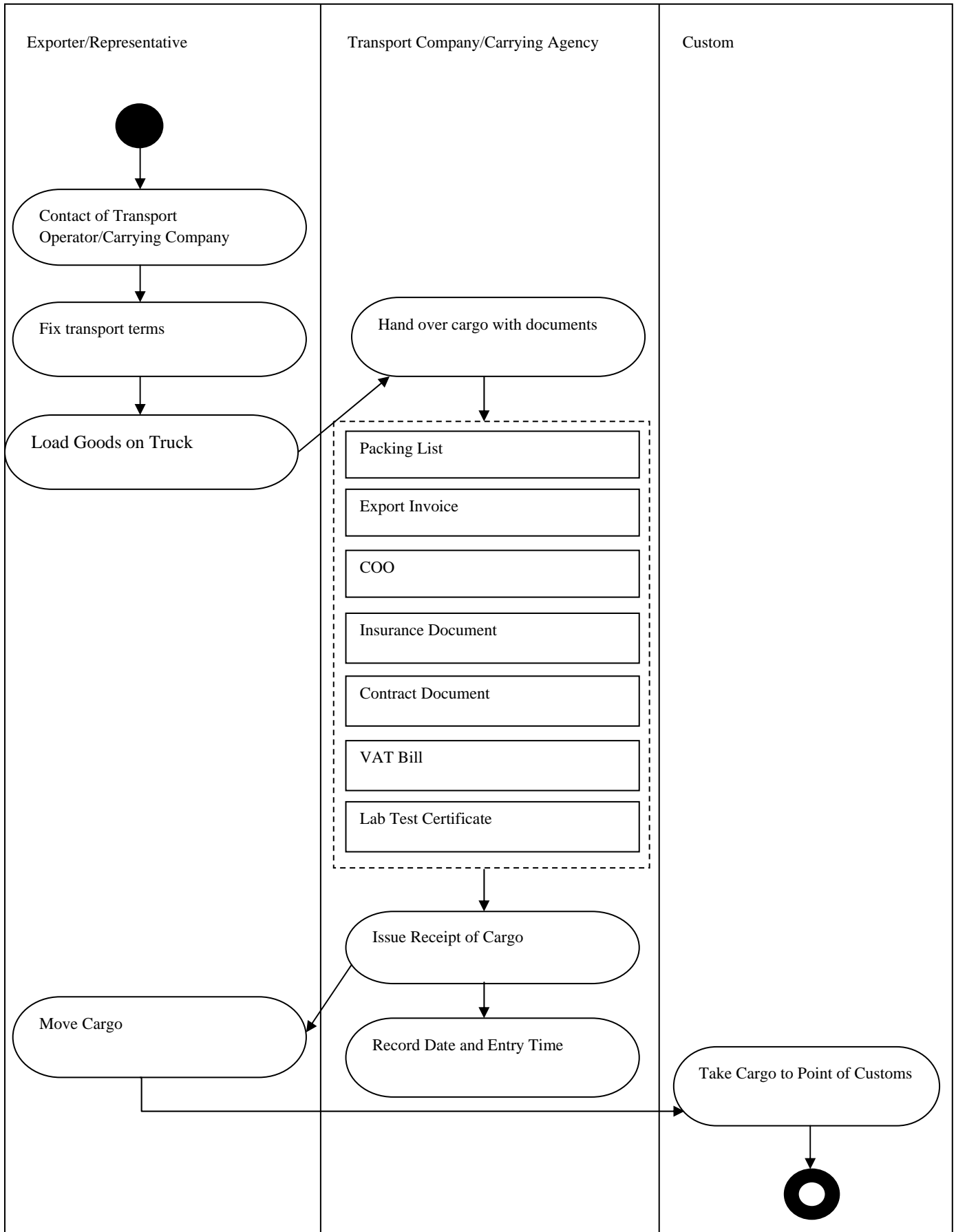
Annex 2G: Certificate of Origin



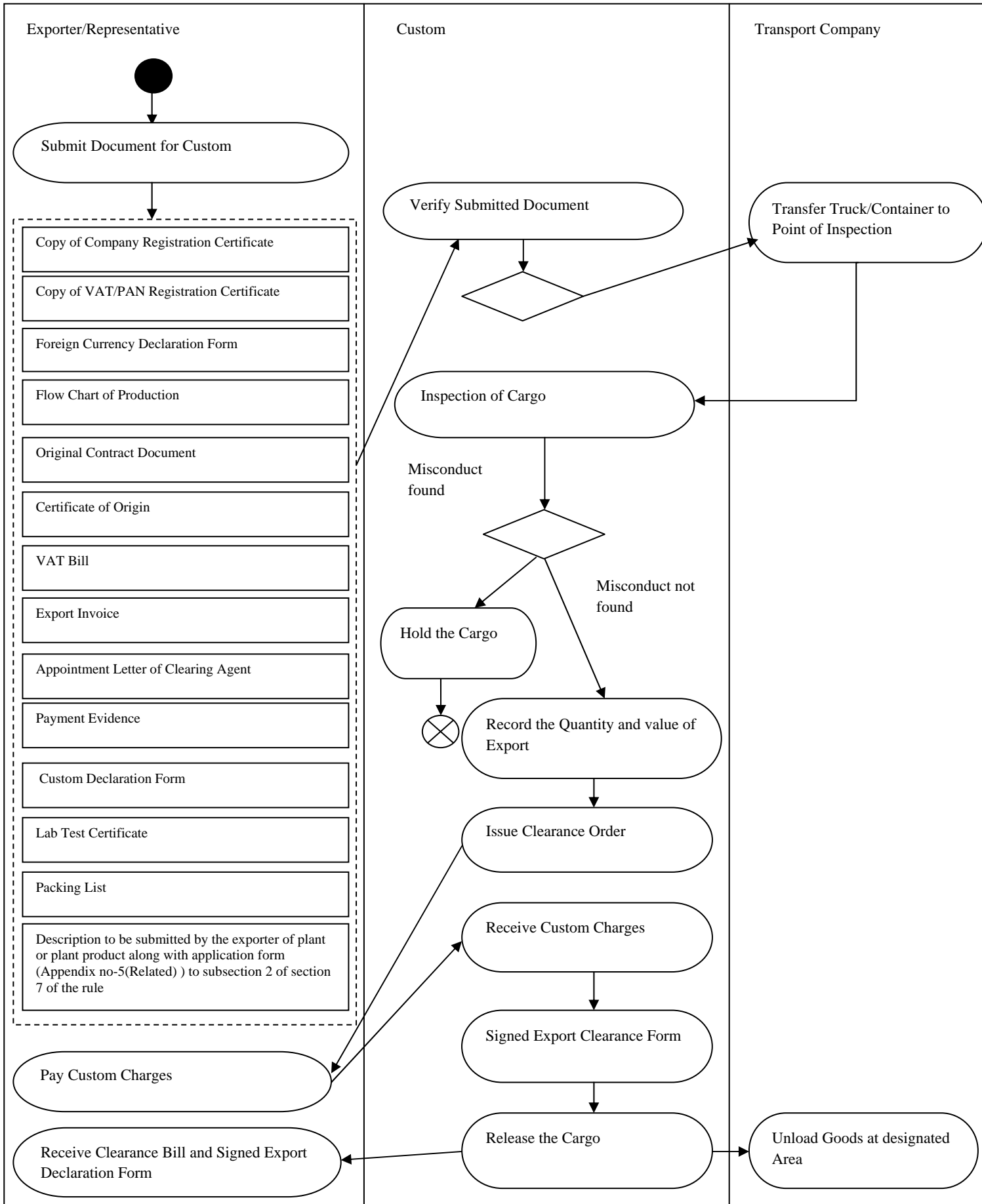
Annex 2H: Obtain Cargo Insurance



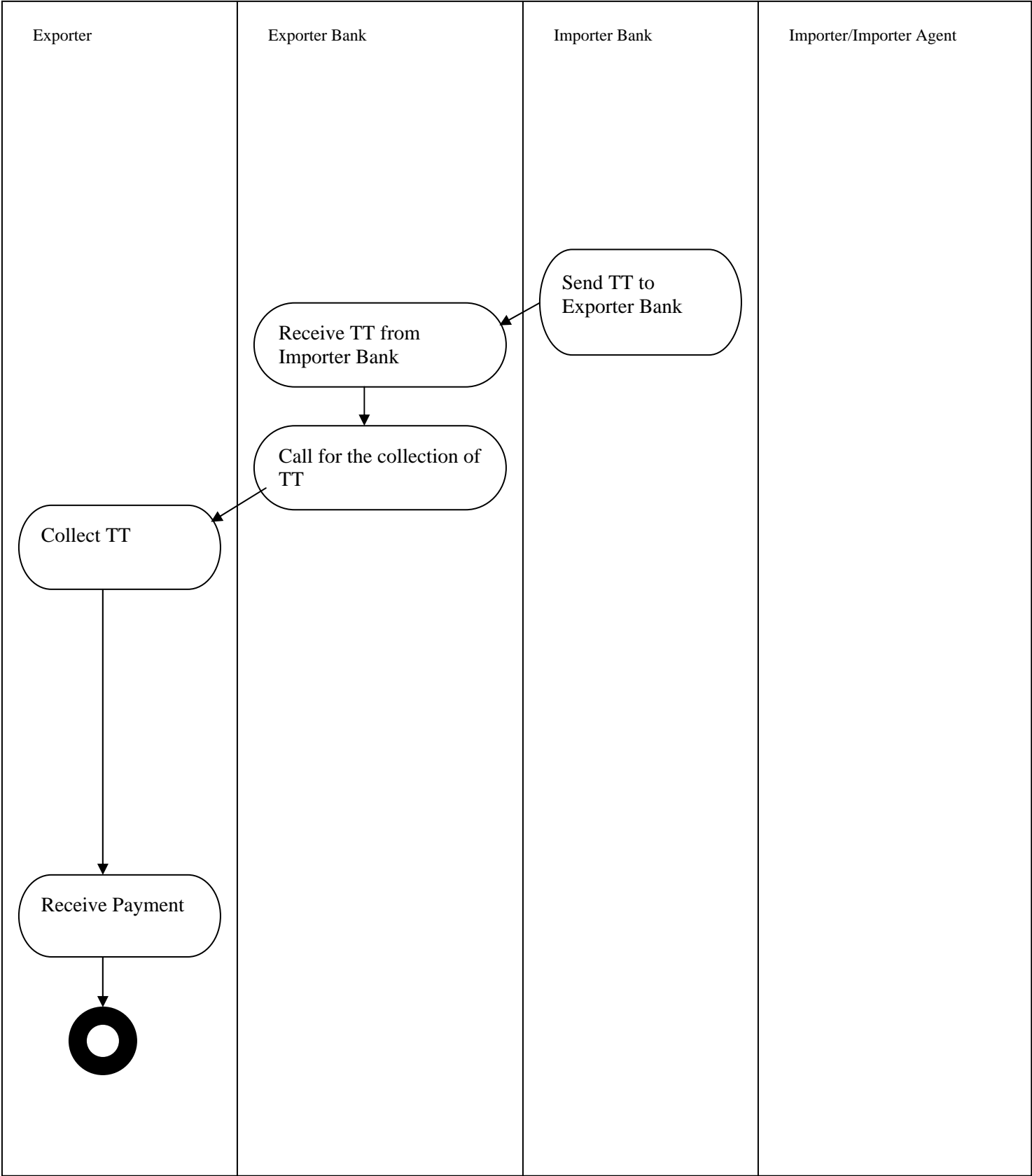
Annex2I: Transportation



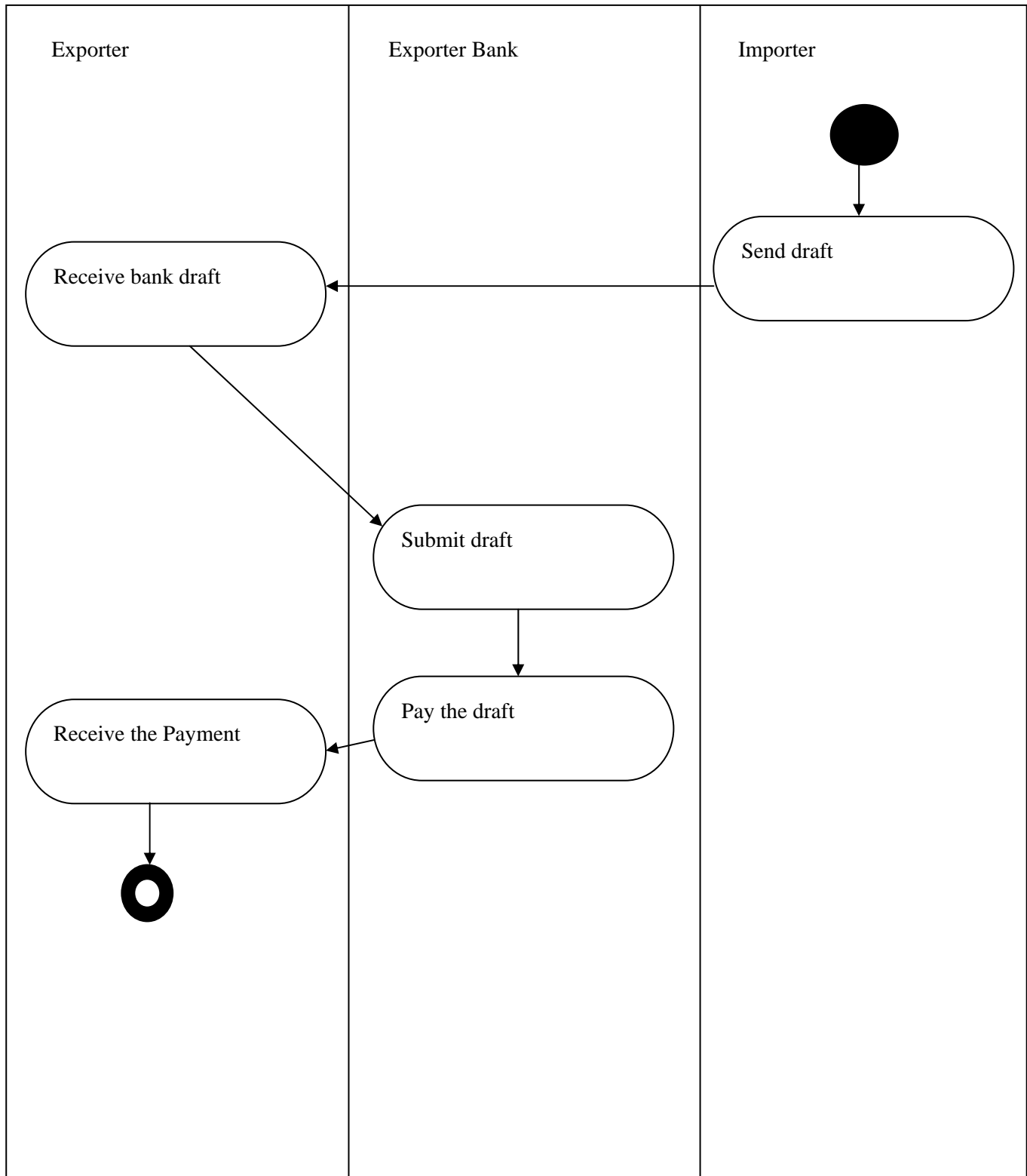
Annex 2J: Customs Clearance



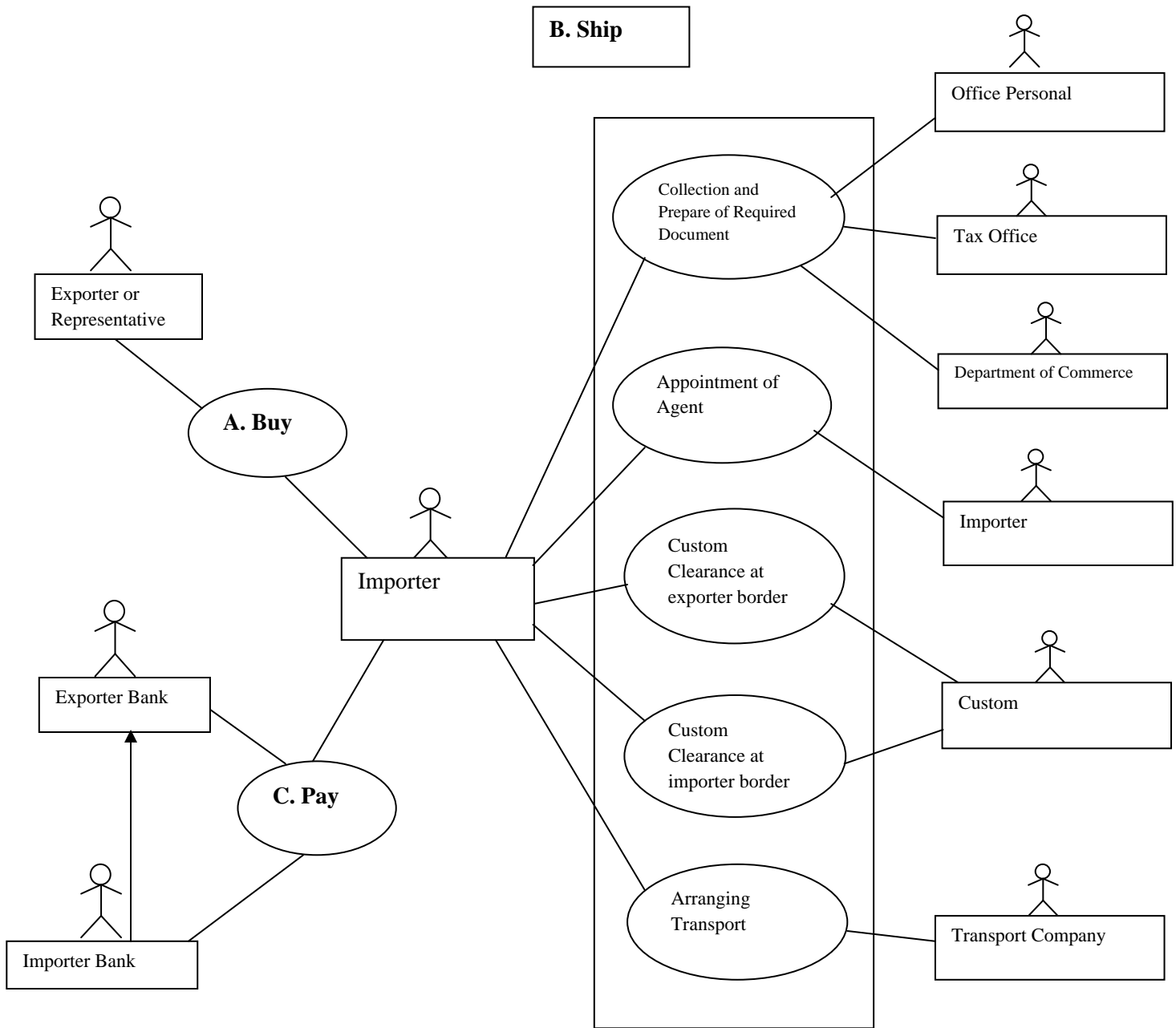
Annex 2K: a. Pay (TT)



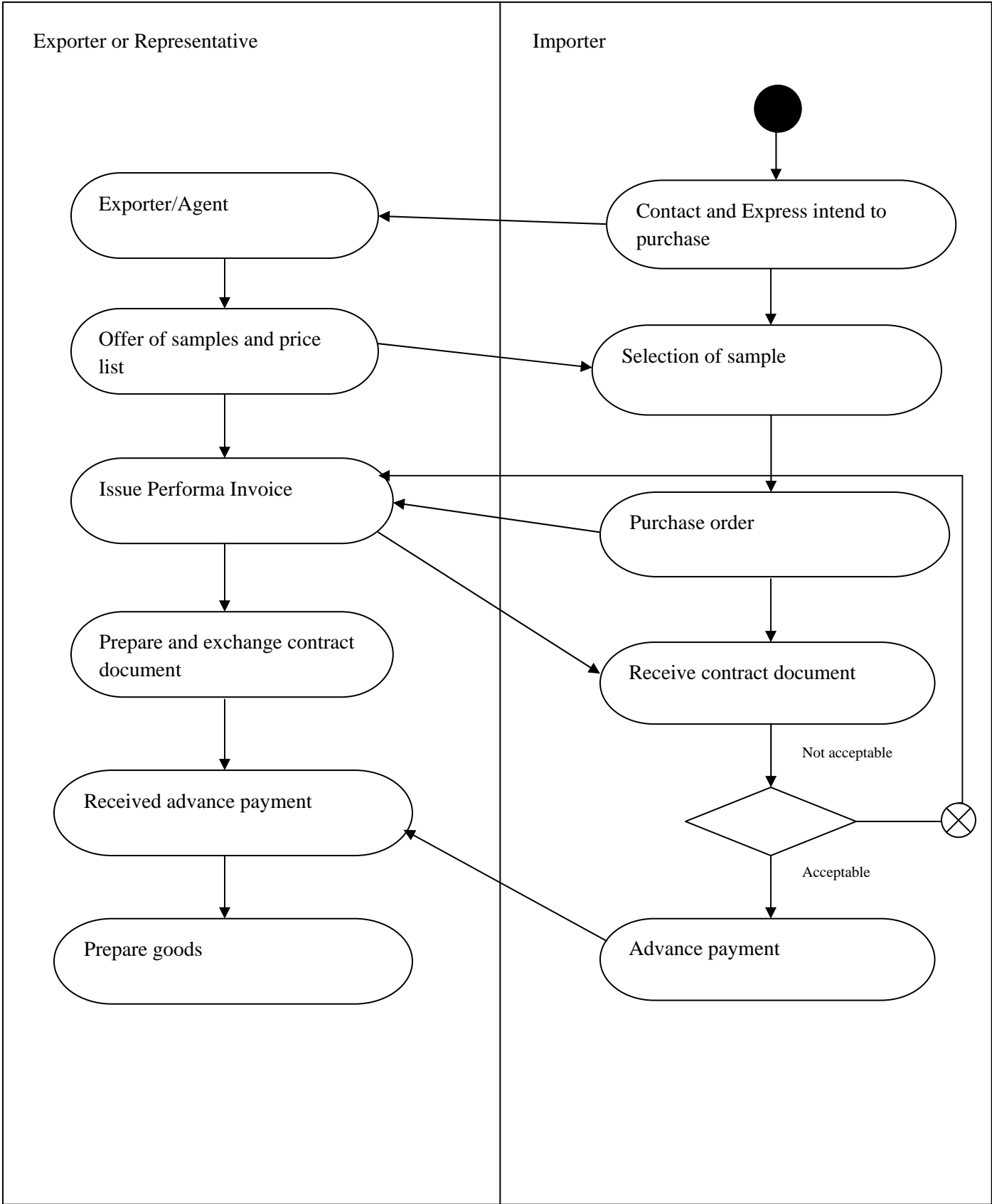
b. Pay (Bank Draft)



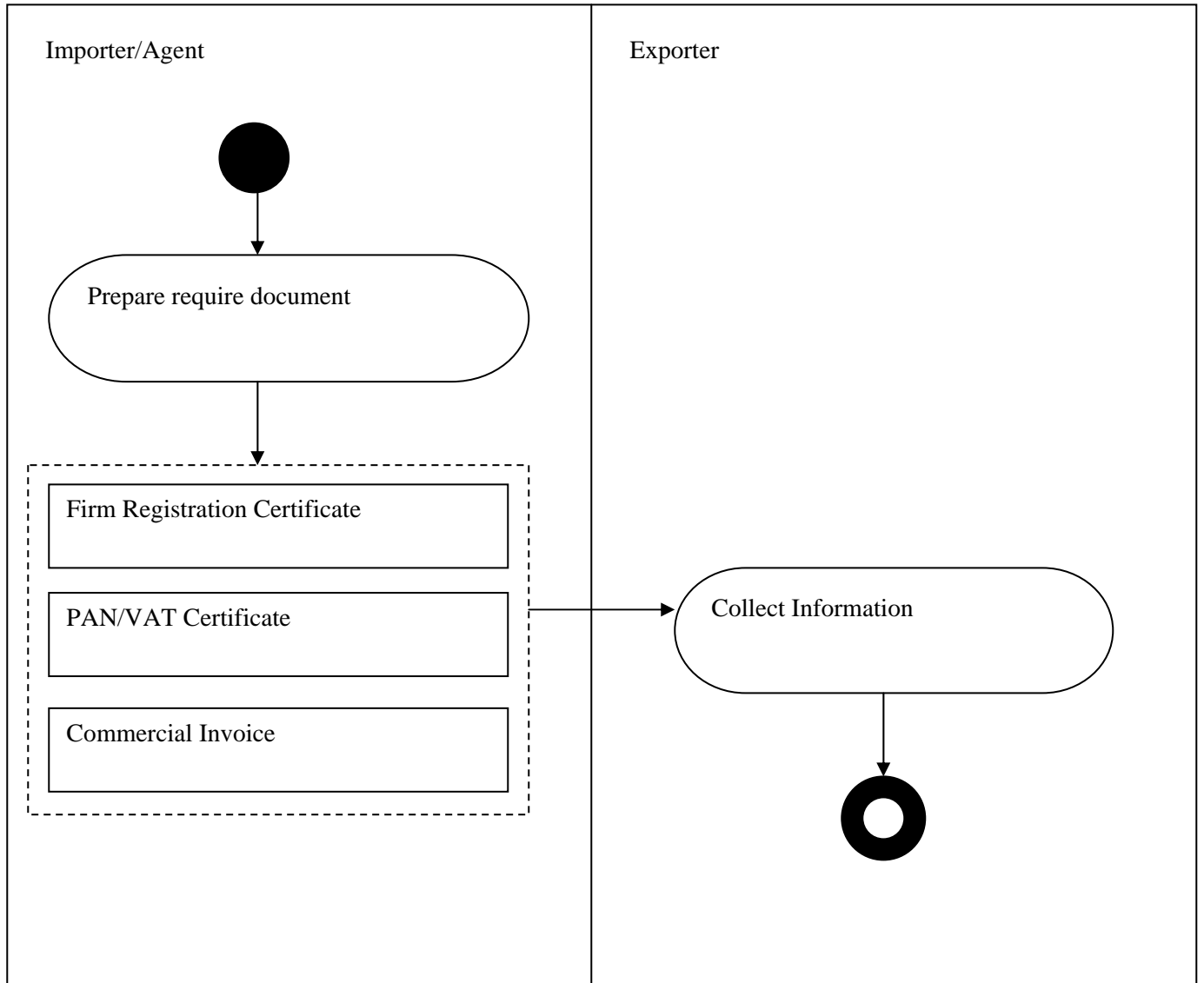
**Textile Imports to Nepal from India
Annex 3A: Use Case Diagram**



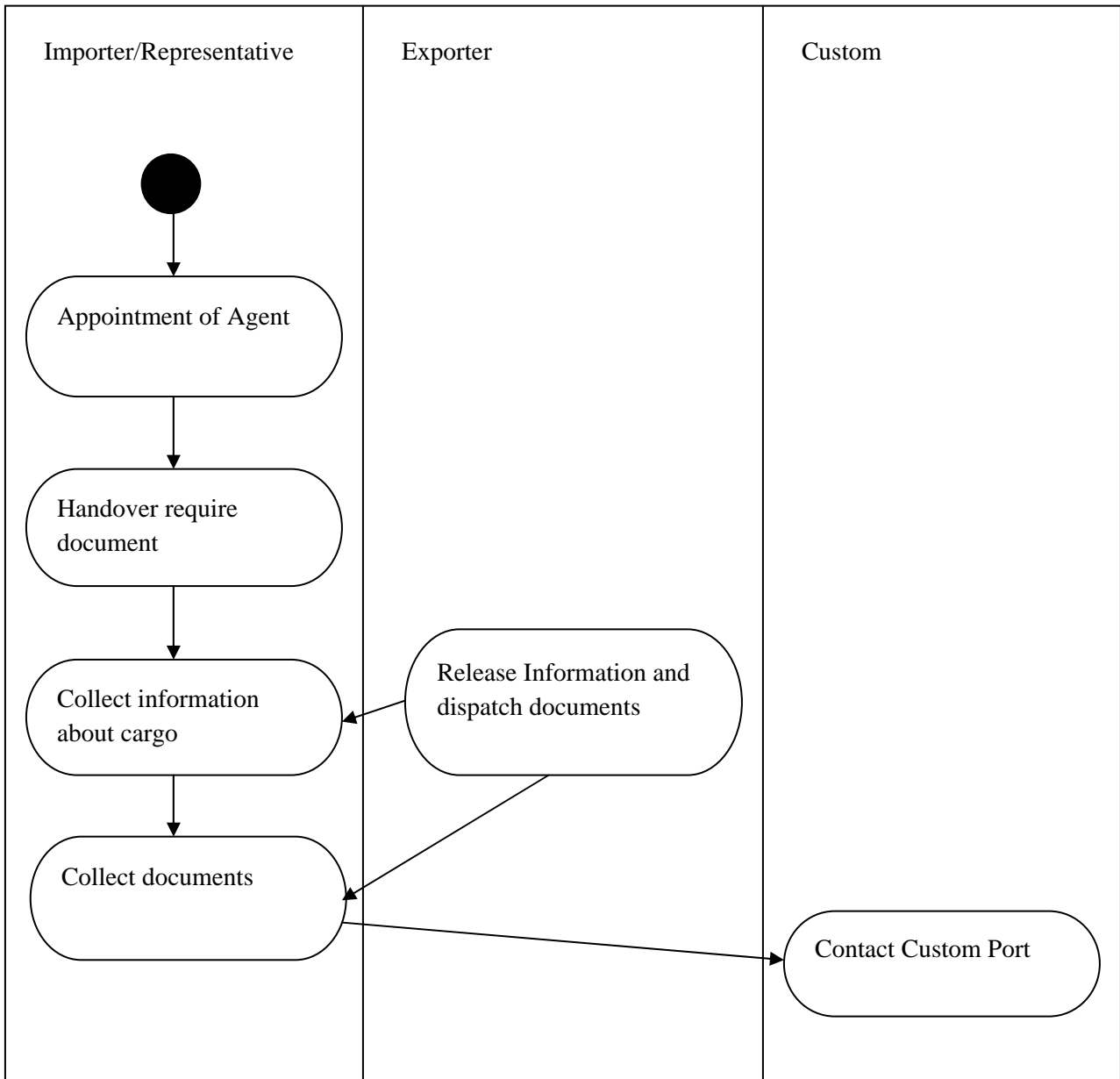
Annex 3B: Buy



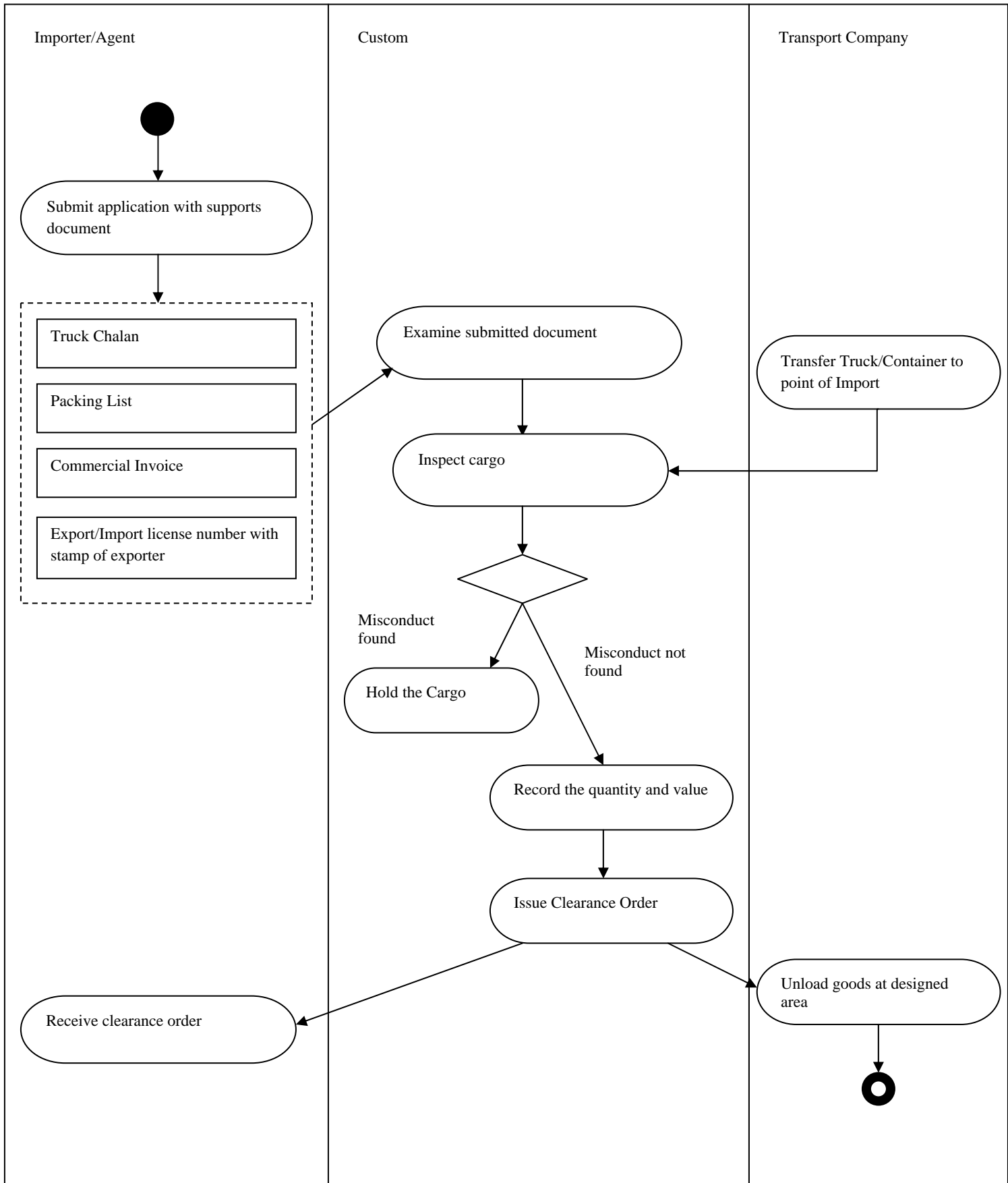
Annex 3C: Prepare Documents



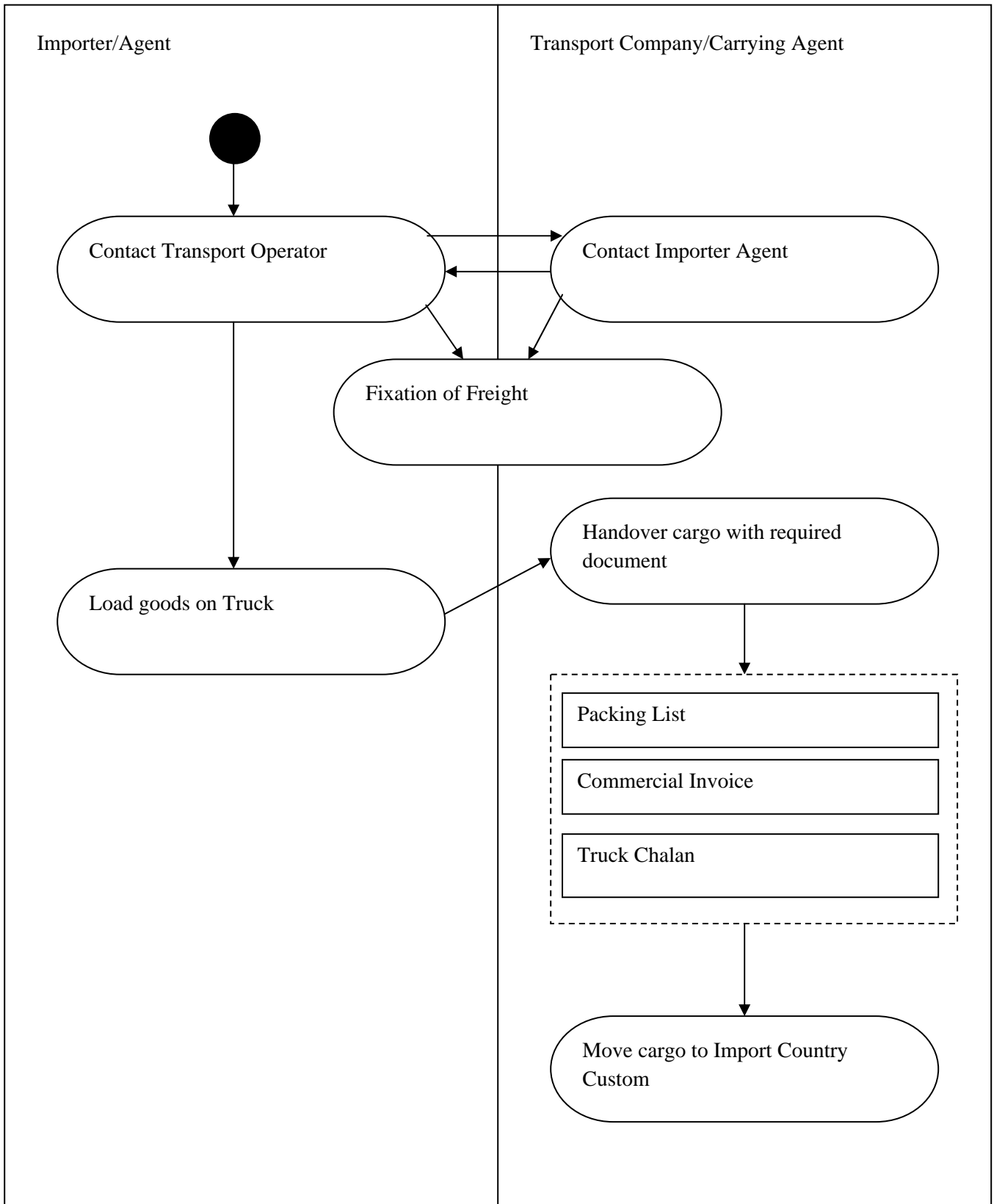
Annex 3D: Appoint Clearing Agent



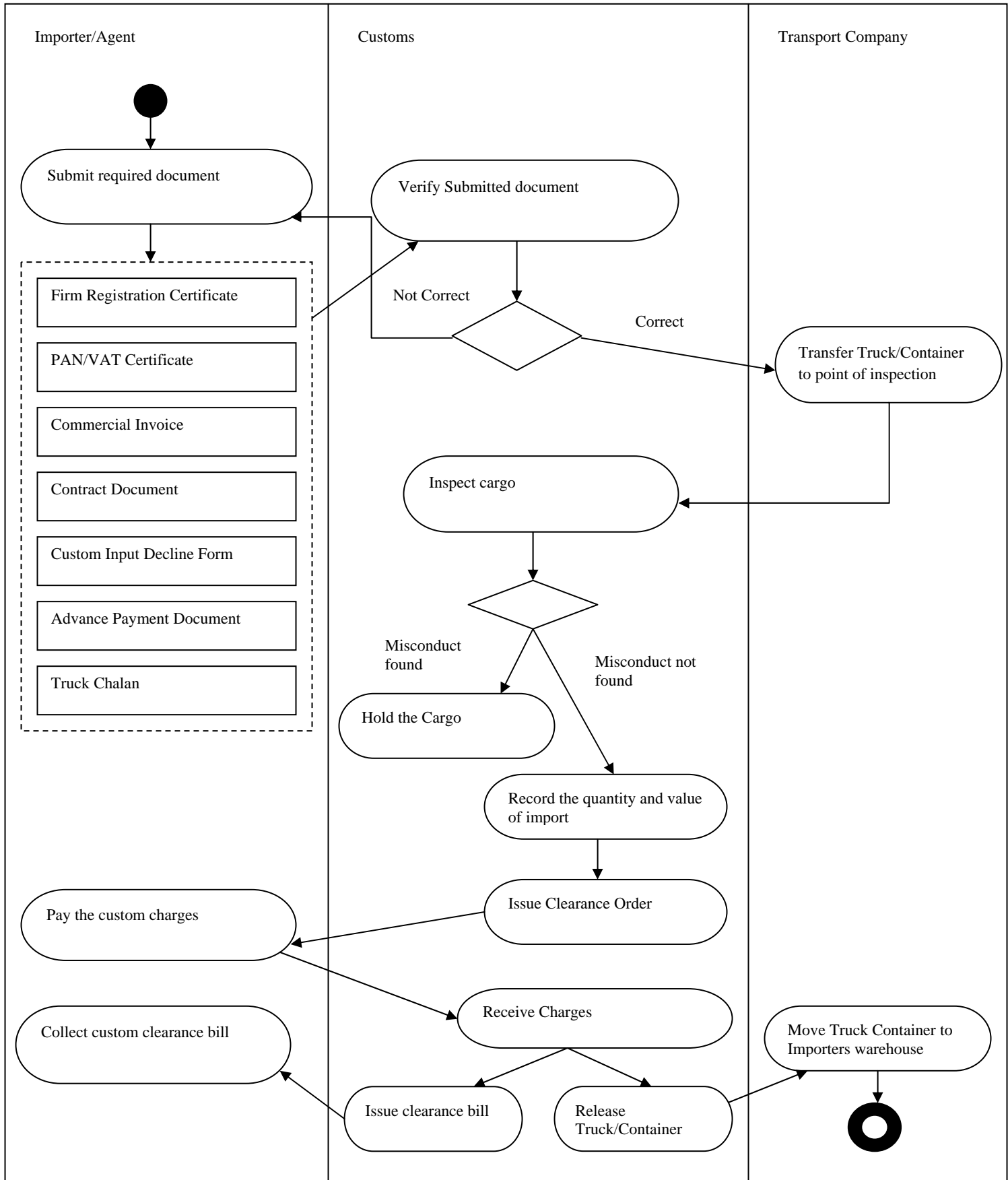
Annex 3E: Customs Clearance at exporter customs point



Annex 3F: Transportation



Annex 3G: Customs Clearance at importer customs point



Annex 3H: Pay by Bank Draft

