Trade Facilitation and SMEs in Nepal

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for
Regional Policy Forum on Trade Facilitation and SMEs in Times of Crisis
20-22 May 2009, Beijing, China

Introduction

According to WTO definition, Trade Facilitation refers to the simplification and harmonization of international trade procedures, including activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade. This is considered as a narrow definition. OECD defines TF as “all the steps that can be taken to smooth and facilitate the flow of trade”. The business community favors the broad definition that includes procedures in the border, transport formalities, payments, insurance and other financial requirements.

The importance of TF in trade creation and expansion is paramount. It is more important in case of SMEs as costs associated to impediments fall disproportionately on them. Of late, TF has got due attention in Nepal. But the TF measures so far initiated are neutral to the size of business enterprise

Major TF Initiatives

Trade Policy

Nepal announced its first trade policy in 1981. In the area of TF, this policy aimed to remove octroi on exports and imports. It also aimed to simplify and expedite custom inspection procedure. This policy was replaced by a new trade policy in 1992 which, among others, had set objectives of launching container service for export cargoes in order to reduce hassles in the transit country India; expanding and improving existing bonded warehouse facility made available since 1985 for import of textiles to be used in manufacturing of readymade garments for exports and implementing Duty Drawback System introduced in 1983 effectively. Although export procedures were simplified and container service was initiated, bonded warehouse could not be expanded. Recently The Government of Nepal announced new Trade Policy 2009to, which also reinitiates to enhance TF status of the country.

ASYCUDA

In order to strengthen the ability of the Department of Customs to cope with increasing demand for speedier clearance of cargoes and to align the customs system to international standard, Government of Nepal introduced ASYCUDA (a software for customs designed and promoted by UNCTAD) in selected custom offices in 1996. ASYCUDA has now been extended to almost all major custom offices of the country.

Customs Reform Plan
A Three Year Customs Reform Action Plan (2003 – 2006) was implemented by the government. Extention of ASYCUDA was one of the major components of this plan. Besides the three year customs reform plan accorded high priority to institutionalizing scientific customs valuation procedures, simplifying checking procedures, reducing documentary requirements automating custom procedures, human resource development and modernization of customs infrastructures. A Trade Facilitation committee was also formed. The Department of Customs has brought out a number of publications under this plan.

**Inland Clearance Depot**

Inland Clearance Depot, which is also known as “Dry Port” is of vital importance for a land locked country like Nepal. The Government of Nepal launched The Nepal Multimodal Transport and Trade Facilitation Project in 1998 to construct rail based ICD in Birgunj and road based ICDs in Bhairahawa and Biratnagar. Construction of these ICDs have been completed and Birgunj ICD is already in operation. Another ICD is being constructed in Kakarbhitta.

**Trade Points**

In order to integrate Nepal into global trade point network, two domestic trade points have been developed. Himalayan Trade Point Kathmandu was created in coordination between Trade and Export Promotion Centre and Federation of Nepal Cottage and Small Industries while Trade Point Kathmandu was created in coordination between Federation of Nepalese Chamber of Commerce and Industries and Kathmandu College of Management. A WTO Reference Centre has also been established under the Department of Commerce to enhance flow of trade related information among the stakeholders.

**TF needs and priorities of SMEs**

According to a survey\(^1\), private sector has given highest priority to the elimination of bribery and corrupt practices of custom officials involved in the clearance and release of goods. In Nepal, there is significant time gap between publication of policies, rules and regulations and their implementation. As there are several consultative mechanisms with representation from trade associations like Federation of Nepalese Chamber of Commerce and Industries, Confederation of Nepalese Industries, Chamber of Commerce etc where big entrepreneurs dominate, generally big traders are aware of policy change even before publication, but small traders are often unaware. Thus access to information by SMEs is relatively limited. On the other hand there is also a gap between information supply and absorption capacity of SMEs. Therefore in recent times Federation of Nepalese Cottage and Small Industries has sought its space in different consultative mechanisms created by the government. But the capacity of SMEs to use available information need to be enhanced. The Himalayan Trade Point has been disseminating information on products of SMEs to the international market. However it is reported that SMEs themselves are not being able to supply adequate information. Creation of the Himalayan Trade point is a public – private sector cooperation for TF.

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\(^1\) Rajkarnikar et.al; The Need for and Cost of Selected TF Measures Relevant to the WTO TF Negotiation: A Case Study of Nepal; January 2006
Conclusion
SMEs play vital role in creation of employment opportunities, poverty reduction and economic growth of the country. According to Survey of Small Manufacturing Establishments 2000 there are altogether 43671 establishments in operation and total number of persons engaged is 121270. In fiscal year 2007/08 employment in SMEs sector reached to 299557. It shows that there is significant contribution of SME sector in Nepal. But the number of SMEs doing export-import business is not available Most of them are manufacturing enterprises. However TF helps greatly in developing the SME sector through its backward and forward linkages. The government of Nepal has recognized need of special policy provisions for SMEs. In the draft new industrial policy, special provisions have been proposed for SMEs. In the trade sector also the government need to give special attention to SMEs. Private sector is seriously concerned in TF issues. A SAARC level Regional Trade Facilitation Council has been formed in private sector. The issue is to develop and implement pro-SME TF measures

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