



# Customs

58<sup>th</sup> International Customs Day Special Issue



26 January 2010



Customs-Business Partnership

Customs and Business : Improving Performance Through Partnership  
A Publication of The Department of Customs  
NEPAL



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# **Automation in Customs: Status and Prospects in National IT Arena**

*C.M. Dhungana \**

Exploitation of the opportunities in the field of computer based system has become the one and only one way to achieve rapid economic growth and development of any least developed as well as the developing countries. Those who miss it are definitely left behind and may lag hundreds of years with the developed countries.

Everyone is in the crossroad and must choose either the informatization for leading any sector of one's concern and attachment; or he should accept the continuation of tradition and procedures causing the lagging position. Our socio-cultural norms and trends prefer the second that is being the very cause of delaying the pace of development of an individual, family, society and the country as a whole.

## **e-Government Readiness Index**

UN conducts surveys on the e-government environment and services of each country and releases the *e-Government Readiness Index*. Based on this report, each country compares and analyzes the status of their e-government project and makes complements for any shortcomings, and ultimately tries to enhance their global competitiveness. E-Government Readiness Index in 2005 were USA (0.9062) 1<sup>st</sup>, Korea (0.8727) 5<sup>th</sup>, India (4001) 87<sup>th</sup>, Nepal 126<sup>th</sup> (0.3021). Nepal's index was improved in 2005 the position had improved from 132<sup>nd</sup> in 2004. Unfortunately, the position is worsened in later year and placed Nepal in 150<sup>th</sup> with 0.2725 and India in 113<sup>th</sup> with 0.3814 index value in 2008.

e-Government Survey 2008: From e-Government to Connected Governance presents an assessment of the new role of the government in enhancing public service delivery, while improving the efficiency and productivity of government processes and systems. In this year Sweden (0.9157) surpassed the United States as the leader. Three Scandinavian countries took the top three spots in the 2008 Survey, with Denmark (0.9134) and Norway (0.8921) in second and third place respectively. The United States (0.8644) came in fourth.

The United States scored the highest on the e-participation index. This was primarily due to its strength in e-information and e-consultation, which enabled its citizens to be more interactive with their government. It was closely followed by the Republic of Korea (0.9773), which performed extremely well in the e-consultation assessment. Denmark (0.9318) and France (0.9318) were tied for third place.

## **Nepal's Pace in ICT**

It is only two decades that Nepalese market got significant entry in the world IT map. The private sector seemed to be quite ahead in the use of IT facilities to automate the activities and information related to their organization. Computer supply and hardware maintenance as well as software development appeared as profession of business houses and IT geniuses. Education field abruptly enlightened with different computer and information management courses awarding university degrees. The field of IT globally changed its name as Information

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Communication Technology (ICT) due to its unbreakable attachment to communication field. With rapid development of ICT field both in private as well as government sector worldwide, Nepal could not remain as an exception.

Nepal Government introduced the IT Policy 2000 and Telecommunication Policy 2004 to develop and expand the national ICT infrastructure. With strong commitment to execute the e-government plan, the Nepali government has created a separate body High Level Commission on Information Technology (HLCIT) under the chairmanship of the Rt. Honorable Prime Minister to be in charge of the e-government projects. Enactment of Electronic Transaction Act 2006 (2063) and Electronic Transaction Regulation 2007 placed foundation stone for the use of electronic information and media with legal validity. Government established NITC (National Information Technology Center) under Ministry of Science and Technology (MOST) to coordinate the implementation of IT plans and polices in different government offices. Currently, it is operating in the GIDC (Government Integrated Data Center) building which has been constructed in assistance of Korean Government. GIDC is the setup which contains numerous data servers with strong data security and backup measures. It facilitates centralized data consolidation. The office of the Registrar under MOST is responsible to set standards, register the e-signature providers and monitor them ensuring secured use of e-signature.

#### **e-GMP (e-Government Master Plan)**

Build a more efficient, productive, transparent and responsible government through the use of ICT is main goal of e-Government. E-GMP project included activities: defining strategies and tasks to achieve the goal, drawing up the project roadmap, selecting the priority project, and preparing detailed action plan. e-GMP consulting report was prepared breaking the project into 4 phases: Preparation, As-Is Analysis, To-be Model, and Establishment of Action Plan.

e-GMP consulting report stated as follows regarding the infrastructure necessary for the e-government implementation in Nepal.

To promote national informatization efforts, issues that arise in the process of informatization should be solved systematically such as the gap between rural and urban district, leakage of personal information, invasion of telecommunication network, identification theft on the Internet. These kinds of issues could become a major roadblock for building an e-Government. Therefore, these problems should be solved systematically to secure safety and earn credibility for effective settlement of e-Government in Nepal. The following laws should be enacted to resolve such issues.

- Law to Narrow the Informatization Gap
  - Law to increase the living standards and achieve balanced development by providing ICT access to those with limited access for economic, regional, physical, or social reasons such as low income family, people living in fishery and farming regions, physically challenged, senior citizens and female
- Law on Protection of Personal Information
  - Since the promotion of sharing administrative information after the passage of e-Government Law, more and more personal information DB are being shared. This law prevents illegal usage and distribution of personal information, protects the right of information subject and encourages appropriate usage
- Law on e-Signature
  - Law that grants legal efficacy to online e-signature such as fingerprint scan and password equivalent to written signature or legal seal on paper document
- Law on Protection of Telecommunication Secrecy

- Law to protect telecommunication secrecy and promote freedom by allowing access for only certain people and after going through strict legal procedure
- Law on ICT Network Usage Promotion and Information Protection
  - Law to enhance living standards and improve public welfare by building the foundation for informatization society through promotion of ICT network usage and protection of telecommunication service users

Project	Phase 1: Improvement in Fundamentals		Phase 2: Enhancement of Realization		
	2007	2008	2009	2010	2011
e-Customs			BPR/ISP System development Data Migration Installing S/W and H/W		
e-Procurement				BPR/ISP System develop. Settlement of procedure Operation	
BRAMS				BPR/ISP System dev. Reform of process Operation	
e-Commerce				ISP System develop. Settlement of procedure Operation	

Project	Phase 1: Improvement in Fundamentals		Phase 2: Enhancement of Realization		
	2007	2008	2009	2010	2011
Government Representative Portal	BPR/ISP Development of Online administrative information providing System DB Build Development of Online Civil Petition Process System System Linkage				
National Identification System	BPR/ISP System development DB building Issuing ID card				
Vehicle Registration system		BPR/ISP System development Data Migration Installing S/W and HW			
e-Drivers License		BPR/ISP System development Data Migration Issuing New card			
Passport Management system		BPR/ISP System development Data Migration New passport			
e-Agriculture			ISP System dev. Contents dev. Community		
e-Health			ISP System dev. Contents dev. Providing Info		

Project	Phase 1: Improvement in Fundamentals		Phase 2: Enhancement of Realization		
	2007	2008	2009	2010	2011
Groupware	ISP System development Education Installing S/W and HW				
e-Education / Administration System		BPR/ISP System development Contents development System Operation			
e-Authentication			ISP System development Education Installing S/W and HW		
e-Tax			BPR/ISP System development Data Migration Installing S/W and HW		
e-Land Registration System			BPR/ISP System development Data Migration Installing S/W and HW		
Immigration Management System			BPR/ISP System dev. Data Migration Install		

eGMP consulting report prepared by KIPA (Korea IT Industry Promotion Agency) proposed the above G2B (Government to Business), G2G and G2C (Govt. to Citizen) roadmap. It includes e-Customs system design, data migration and implementation including business process reengineering (BPR). Although the feasibility study for e-Customs was completed in 2009, further development has been obstructed as the decade-long implementation of ASYCUDA system is undergoing upgrade and consolidation project during the same time (2007 July to 2010 June). The rationale of expending in two parallel projects could not be established that set the Korean proposal of e-Customs aside.

Some of the project activities like Passport Management System and National Identification System are near to completion, the implementation of which will start the real integration of information related to each citizen. E-Agriculture and e-Health practices through rural telecenters have been started in small scale and have proved helpful in reducing rural-urban gap.

### **ASYCUDA Revisited**

Automated System for Customs Data (ASYCUDA) is the computerized system designed to cater the need of customs worldwide. It is developed and distributed by UN agency UNCTAD (United Nations Conference on Trade and Development) is based on the international customs practices as recommended by World Customs Organization (WCO) and World Trade Organization (WTO).

ASYCUDA Implementation in Nepal has faced varieties of problems and obstacles. During its introduction in Nepal in 1998, the ICT infrastructure was very poor and there was scarcity of IT professionals within the country. The technical assistance of UNCTAD and financial assistance of ADB and WB were really encouraging for the automation of Nepal Customs. It was a major breakthrough in the computerization of government services in Nepal as there were very few automation moves in government offices.

The implementation of computerized system attempted to change the traditional mindset of staffs trained in manual operation system but it could not replace the existing manual system. As a result, in spite of delivering tremendous facilities in recording and maintaining data, the system was taken as additional burden by the major stakeholders. In one hand, the traditionally trained staffs did not become ready to own the system and they termed ASYCUDA as the system of technical staffs. On the other hand, the trading community, viz. exporters and importers, took the computer entry and processing as an additional burden that increased the customs clearance time and overhead.

In the recent years, the third project on ASYCUDA implementation is functioning. The major achievements aimed by the project are: i. Installation of wide area network (WAN) to connect major customs offices; ii. Data consolidation in department of customs centrally; iii. Deployment of additional ASYCUDA modules for risk management and direct trader's input (DTI); iv. Solving outstanding issues encountered during ASYCUDA implementation.

Installation of WAN equipments in major customs offices has been almost completed. The setting up of these equipments and testing of data transmission is still awaited. Data consolidation procedure are being tested in DOC. DTI has been introduced in TIA Customs and is being replicated in other customs including Birgunj, the largest entry point by transaction volume. Selectivity and risk management module (MODSEL) is also in operation partly in TIA Customs and is currently in introduction in Birgunj and other customs offices. In case of outstanding issues, some has been solved and others have shown mismatch between Nepalese practice and ASYCUDA provision. The implementation of automated system without proper BPR (Business Process Reengineering) has posed several problem during the implementation in operational level.

The platform of ASYCUDA implemented in Nepal is Sun Solaris 10 as operating system and Informix Online 5.0 as database management system (DBMS). Unavailability of experts in these software is also a problem frequently arisen during new setup and system crashes. Migration of Solaris based system to Linux-Oracle combination would be a better choice for which there are plenty experts in the market. The staffs can be trained in local market for the operation and management of these system software.

ASYCUDA World is the new web based version of ASYCUDA. It provides more controls on customization of the software to the user countries. It is aimed to operate in paperless environment incorporating picture and voice data as well. The official launch of this software has already been started. It was launched in August 2009 in the Palestine and the project has commenced in Sri Lanka as well.

### **The UNI-Pass**

Korea Customs UNI-Pass Information Association (CUPIA), in request of Ministry of Finance with financial assistance of the Korean government through KOICA (Korea International Cooperation Agency), carried out feasibility study for e-Customs and submitted the consulting report. CUPIA is the developer of UNI-Pass which is identified by UN as 100% automated system for customs.

UNI-Pass is integrated software that combines the cargo clearance process with intelligence as well as the passenger clearance. It guarantees the interagency collaboration and sharing of information with well managed internet application. It is based on the paperless e-governance system already in implementation in Republic of Korea and being internationalized by CUPIA in Kenya, Mongolia, Guatemala, Vietnam, Azerbaijan, Dominican Republic etc.

CUPIA's proposal of automating a pilot site could not be materialized immediately. However, it had included the interconnection of UNI-Pass customs automation system with the tax management system as well. The interconnection between two revenue collection key agencies would be proved as a major breakthrough in implementing e-Governance. The proposal also included the establishment of highly secured integrated data center equipped with data recovery subsystem to integrate the data of each customs office centrally managed in the department of customs (DOC). The implementation of passenger clearance system for air-passengers is under consideration.

### **Change Management and Customs Automation**

The problems in customs automation in Nepal are not new over the problems of change management within whole nation. Its implementation started with compulsion imposed by the donor agencies to automate the manual tedious customs clearance process. As there was not clear cut strategy fixed to avail from the computerization project, it was levied as additional processes to be completed during the process of customs clearance of commodities.

Defenders of old system are plenty who don't want to contribute in new process. Rather they persuade and even take part actively in promoting anti-change rumor. Prospectors are very few and are surrounded by the defenders and are made handicapped by misusing their positive thoughts by providing false premises that leads to erroneous decision. Leadership of analyzer who can drive the change by combining the good-efforts of both the defenders as well as that of prospectors is rare and that is ultimately retarding the pace of modernization and informatization.

The change only in technology can not be accepted as significant change in reality. In addition there should be change in structure with proper distribution of power, clearly defined communication mechanism and efficient reporting scheme. Functional change need to define working procedure including the responsibility and role of each functional element. The major transition required to successful change management is the behavioural change that demands change in culture, value, attitude, willingness and interpersonal relationship.

### **Problems to be Handled**

Specifically, in customs administration there are some problems very resistive in the process of managing modernization moves aimed by top level management.

*Knowledge privatization* is a serious problem which restricts any knowledge from being spread to other staffs and refining it further with interaction to others. The intention of sustaining one's importance within the organization with superior knowledge of particular subject matter, its sharing is self-prevented. This does not permit the development of team of experts that can develop better knowledge-bank; rather it promotes individual experts and weakens the morale of other prospective experts. The knowledge dies with the outage of the expert throwing a set back to the whole organization.

*Deployment without orientation training* is another major problem each employee newly appointed in customs offices need to face. Even the very basic information they need to handle daily activities, they need to learn from their subordinate staffs which weaken their morale in early stage. This situation leads the senior staff to follow the tradition where he was supposed to lead the modernization activities.

Transfer of staffs is unable guarantee the *maximum utilization of personnel's skill* by deploying him in the sections where he can do much for the organization. It not only works as disincentive to that staff but also degrades the quality of services provided by other staffs inefficient in the area of his duty.

*Improper information management* and documentation of useful information both current as well as historical is making the administration always staggering. The required information is hard to get at the time of need that further decays the efficiency of the organization. If not properly managed and documented, the useful information is hard to be available and even impossible sometimes. The statistics section is supposed to be the most neglected section of the organization and employees never prefer to work there.

Reliability of top authority on the personnel with *vested interest* is misguiding the activities and decision that wounds those working with positive attitude and dedication within the organization. This reduces the organizational efficiency

### **To Sum up**

To accelerate the pace of modernization and automation some activities need to be started. Creating quality circle for documenting the important information and disseminating them to the needy staffs is urgent. The team in center as well as in individual customs offices should be given clearly defined responsibilities with sufficient authority to handle the necessary activities in automation and modernization of these offices. Information is the backbone of any development on the basis of which the change can be measured and status of improvement can be compared. The selection of team is to be made with the assessment of the individual's ability in the area of concern for driving the desired change. Internal transfer of skills and knowledge of the staff with expertise in particular area of service, to other staffs, should be facilitated by forming formal/informal teams so that the absence of one does not hamper the service severely.

Full automation is not possible without complete reengineering of the business processes. This should be carried out by a team of customs professionals and IT experts. If needed, DOC should employ consultant staffs forming a project team that revise all the processes in light of

prevailing international practices and recommend executable plan with timeline making best choice out of available alternatives.

The commitment of each individual for the betterment of oneself, the family, the organization and the whole nation is highly awaited. Let's push the automation and modernization process up from the place where we are and with the role that we are set to exercise. Due to the development of ICT facilities worldwide as well as the government's commitment and availability of experts in local market these days, the travel towards full automation is in transit through a favourable pathway.

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## ***Counting Economic Pulse with the Revenue Figures***

Durgesh Kumar Pradhan\*

Although foreign aid plays a pivotal role for the national development in some extent, it is not an absolute means of permanent solution. In fact, mobilization of internal resources has significant role in it. The histories show that there is inter linkage between state administration and revenue collection from the beginning of the civilization. The policy regarding the revenue collection guides the direction of economic development of the country and from the fund collected indicates the economic situation of the country. Therefore, a state should keep its attention consciously in formulating the revenue collection policies in order to comply with the envisaged economic direction. By a basic principle, revenue should be raised persistently with the pace of economic development perception. Of course, it is the appropriate time to see the reflection with the means of macro-economic impact from those policies what we have launched as we are striving in the preparation of second Three Year Interim Plan (TYIP) II, F.Y.2010/11- 2012/13. With this realization, the attempt has made for counting economic pulse with the revenue figures.

The average percentages of revenue collected during the two years of TYIP I (F.Y.2007/08 - 2009/10) were 13.15 and 14.94 percent of gross domestic product at current price respectively in the F.Y.2007/08 and 2008/09. The average revenue collection in the Tenth Plan was 11.61% whereas it was 14.05% in TYIP (I). It indicates that there is revenue increment by 2.44% in the TYIP (I), which is at present running for the last year. It is certainly a positive direction. It also indicates that there exists some bases for revenue in the economy and possibilities of economic prosperity and progress in the greater extent instead of dreadful and panic situation rumored in the outside.

The average percentages of revenue collection with the total expenditure of the respective period were 66.70 % and 65.69% respectively. With this scenario, it shows that a percentage of financing from the revenue source is slightly decreased. It urges for further attention either in the increment of revenue or controlling expenditure. Anyway, as the percentages of expenditure with compare to GDP were 19.71% and 22.74% in the F.Y 2007/08 and 2008/09 respectively, the percentages financed from revenue in the F.Y 2008/09 could not consider decrease rather increase in the expenditure. However, average percentage of revenue to government source expenditure was 84.29 in the tenth plan whereas it was only 79.89 percent in the first two years of TYIP (I). It shows that with compare to total expenditure percentage of financing from revenue is decreasing. It means in regard to financing for expenditure, the dependency beside revenue is heightening, which could not be considered good from the point of economic stabilization.

With compare to the average revenue collection to target, it was 96.72% in the tenth plan whereas it was 102.33% in the TYIP (I). As after the introduction of performance incentive from

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F.Y. 2006/07 to the staff directly attached with the revenue collection, targets of revenue have been continued to exceed. Therefore, it is proved that the incentive plan was effective. It also indicates that performance could be enhanced if such plan could be extended to other sectors.

It is basic to the poor country like Nepal to narrow down the increasing gap between poor and rich, which could be possible with the domination with the collection of revenue through the direct taxes rather than the indirect taxes. The ratio of average percentage of indirect to direct tax was 76.13 : 23.87 in the tenth plan have been brought down to 71.73 : 28.27 in TYIP (I). It is certainly remarkable progress in abridging the gap between haves and have not.

The country like Nepal where potentiality of electricity including natural resources are high, the percentages of revenue from non tax should be substantive but the percentages of non tax revenue to total revenue seem almost same both during tenth plan and TYIP (I) i.e. approximately 17%. It shows that consideration towards tapping natural resources is yet to be accelerated.

The average percentage of recurrent expenditure to total revenue was 89.54% in the last three years of tenth plan and 86.87% in the TYIP (I). As recurrent expenditure is considered basically a consumable expenditure, the balance remains after these expenses could be mobilized in the development activities. Considering to this fact portion of revenue could be increased in the development activities, which could be considered as going in the right direction. However, increment of these percentages from 84.97% to 86.97% in the F.Y. 2007/08 and 2008/09 gave some disappointment.

#### **Comparative Chart of Increase in Target but decrease in the Revenue Collection**

**(Rs. In Millions)**

Revenue Heading	2007/08		2008/09	
	Estimated Target	Collection	Estimated Target	Collection
Bidi	1.90	3.36	3.90	2.44
Capital Gain	0.10	803.49	1219.90	761.62
Contingencies Income	11.60	19.15	25.00	17.38
Examination Fee	22.60	83.92	45.00	75.69
Passport Fees	2322.50	2577.98	3100.00	2111.65
Drinking Water	2.80	3.55	3.50	3.48
Interest from Financial Institutions	60.00	78.68	90.00	66.77
Interest from Industrial Undertakings	121.20	76.30	650.00	17.90
Donations	0.20	89.45	1.00	0.16
Miscellaneous	1103.50	685.39	1900.00	630.75
Principal Repayment from Financial Institution	30.00	463.25	35.00	40.92
Principal Repayment from Industrial Undertakings	121.45	80.79	200.00	19.88

The total revenue collection in F.Y. 2008/09 was Rs.143.47 billion which represent the 101.24 percentage of preliminary estimation and 100.89 percentage of revised estimation. Whereas in

preceding fiscal year i.e. in F.Y.2007/08 the total revenue collection percentage to the estimation and revised estimation was 103.82 and 100.07 respectively. It seems from the figure that there were no studies and justifications in setting the target. Targets were set simply on the basis of revenue collection of previous fiscal year instead of certain policy, economic situation, development pattern so on. In this context, the table stated above clearly exhibits the fact that targets were increased but collections were reduced in compare to previous fiscal year.

The above table shows decrease in the revenue from Bidi heading whereas target was increased in F.Y.2008/09. It indicates from the above table that Bidi consumers are either switched over to cigarette or left the habit of smoking. In both the sense it could be considered good. Generally, Bidi is smoked by the poor people. Therefore, in case Bidi smoking is decreased due to dropping out of its habit, it is good from the aspect of health hazard and if Bidi smokers were converted to cigarette, it means their living standard, for which government is striving, has suppose been increased.

With the revenue collection from capital gain, contingencies income, examination fees passport fees, donation and miscellaneous headings; it seems the target being made *ad-hoc*. It shows from decrease collection of revenue from principal repayment that either the financial situation of financial institution and industrial undertakings were not progressing well as targeted or making default in the payment. So reform in its policy matters and managerial capability is needed in the greater acceleration.

#### **Comparative Chart of Decrease in Target but increase Revenue Collection**

**(Rs. In Millions)**

Revenue Heading	2007/08		2008/09	
	Estimated Target	Collection	Estimated Target	Collection
Income Tax from Govt. Corporations	776.50	204.58	326.50	959.05
Arms Registration	5.70	4.35	5.00	11.84
Road Improvement Fee	538.00	516.93	350.00	823.54
Administrative Penalty, Fines and Forfeiture	79.01	49.96	65.00	85.37
Other receipts from sales	242.90	165.01	240.00	295.10
Dividend from Financial Institutions	3505.50	3439.53	3500.00	3735.77
Dividend from Service oriented Ints.	2044.50	1506.09	2000.00	3434.94
Interest from Trading Concerns	0.00	0.00	0.00	496.97
Royalty related to Water Resources	1395.00	682.72	750.00	1268.20
Principal Refund from Trading Cons.	0.00	0.00	0.00	2119.51

The income tax and also dividend from government corporations was increase in the F.Y 2008/09 than the previous fiscal year whereas targets have been decreased. It leads that situation of governments were not in such worse position as was thought. Anyway, considering the amount invested on it, there is no room of satisfaction. Therefore, it would be a better to relate the career development of the personnel of concerned entity with the sound financial

condition and service delivery. Introduction of this provision might further improve the financial situation of the entity as well as the capability of the personnel with the development of feelings of ownership as in the private entities. It, ultimately, increases in the revenue of particular headings.

The revenue from arms registration was increased than from the previous fiscal year though the target was decreased. Perhaps target was set with the view that there was already held the peace in the country. But figure reveals that threat and insecurity is still in the reality and also in the mind of the people.

As some fees collected from petrol, diesel and road toll fall under Increment of Road Improvement Fee heading, traffic on those toll collected roads and consumptions of petrol, diesel were increased substantially. Therefore it will give insight to government in taking necessary policy and program.

The increment in the Administrative Penalty, Fines and Forfeiture heading shows the indication that either the rate of such penalties are very minimum in compare to inflation or people have not taken seriously in following rule of law. It could not be considered good from both the aspects for which necessary intervention is essential.

The revenue collection from Royalty related to Water Resources heading was increased substantially with compare to target and previous year collection in the F.Y.2008/09. It exhibits that national economic developments prospective remain in greater extent in hydro power.

As revenue collection from the heading of interest as well as principal refund from trading concern was not anticipated but revenue was collected from both the headings in F.Y.2008/09. It shows that there is potentiality of trading and government should have to give the concentration.

It is a matter of paradox and ambiguity that dividend collected from financial and industrial entities exceeded to previous fiscal year collection whereas interests from them were not.

In fact, an effort towards raising revenue collection by increasing rate of taxes would create habit of making more consumption to the people. The more consumption means less saving and less saving is less investment. It is known to all that lower the investment is the lower the productivity. This situation paralyzed the whole economic environment and ultimately it affects in the revenue collection too. Therefore, this phenomenon is to be kept in consideration while raising the rate of taxes. In the same way, it would also be applied while widening the scope of taxes. Moreover, while widening the scope of taxes, it requires the additional manpower, administrative skill and efficiency, which affects and increases the administrative cost. So focus should be given on how to bring more people in the present tax network with necessary administrative reform in the present tax system rather to raise the tax rate. Target of revenue collection be set on the basis of study and fact rather than guessing. As the economy develops it will mobilize revenue. So, in connection of formulating TYIP (II) it would be more practical and a wiser step in concentrating to make the economy prosperous while planning the policies on revenue mobilization.



# **Customs and Business: Improving Performance through Partnership**

**Ramchandra Man Singh\***

## **Introduction**

Customs, whose role in implementing government policy has a horizontal dimension, is a key player when it comes to the protection of borders and society and the fight against commercial fraud. Traditionally, Customs tasks can be presented in three clusters: the protection and collection of revenue, the implementation of commercial policy measures, and the protection of people and society.

Customs administrations throughout the world are currently experiencing dramatic technological, economic and legal changes which require new approaches to be taken within the customs administrations. Traditional functions of customs administrations are highly challenged by a rapid liberalization and globalization of trade. Customs administrations therefore need to prepare for the new tasks they have to fulfil partners.

At the same time, business partners need to further contribute to the formulation of policy and to continue to influence the adoption of new measures that will adequately reflect business needs. Together we face a rapidly changing landscape where managing the international supply chain has become a major feature in company strategy. It seems opportune for us to jointly consider the emerging scenario for both customs and business partners.

## **New Challenges of Customs**

The challenges of the new global environment are such that solutions can only be developed by engaging with all payers who have an interest in effective and efficient customs procedures. The changed international security situation has also seen an extraordinary shift in the political expectations of custom administrations. Customs administrations stand astride the international trade supply chain and there is now a realization that they are critical national strategic institutions in assuring safe and secure borders. This vital role has been well recognized at the international level by the United Nations also.

During the extensive multi-lateral and bi-lateral supply chain security consultations, the concept of partnership between Customs and business has underpinned the search for solutions. It has resulted in healthy and constructive dialogue-but more importantly it has positively contributed toward the development of quality international customs standards.

There are also other dynamic influences which are shaping the new role of Customs. Global trade is conducted within a rules based framework which seeks to reduce tariffs on goods being traded internationally. As the world moves away from highly protective tariffs, the traditional role of customs as a revenue collector is being subsumed by a new mandate. The need for Customs to protect society, enforce trade rules and contribute to a fair and equitable international marketplace is being added to our responsibilities.

The effect of this is that Customs administrations, situated as they are at land, sea and air crossings, with their unique knowledge and understanding of international trade and the dialogue and partnership they enjoy with the private sector are increasingly seen as the natural Government agency to protect external national frontiers and borders.

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\* Secretary, Government of Nepal.

A broad range of contravention's confront the customs officials of today. Such offences include the trafficking of, illicit drugs, endangered species, nuclear and hazardous goods and also goods that are being imported, transited, or exported, whilst contravening Intellectual Property Rights (IPR) legislation.

### **Importance of Customs/Business Partnership**

Although customs plays an important role in ensuring trade facilitation and in enhancing a business-friendly environment, much of this work can only be effectively implemented through a partnership with the business community. In order for modern and service oriented customs techniques and methods to be in place, business must play important role to ensure continued compliance as well as cooperation through the provision of relevant information for customs control. It is evident that through such partnerships can the twin goals of customs control in the collection of government revenue and trade facilitation be adequately achieved. Such mutuality has to be borne in mind when envisioning the further relationship between customs and the business community.

The importance of Customs/Business partnership for improving overall performance has been well addressed in the Revised Kyoto Convention of the WCO. It clearly spells that there should be continuous collaboration at all levels: at local/regional /national level between - customs and business. For the customs administrations, such collaboration has the advantage of improving its knowledge of trading practices. Greater familiarity with the condition of international trade means more effective risk management.

Cooperation is particularly valuable to a customs administration in drug interdiction, CITES, intellectual property rights, dangerous goods and hazardous waste control. It is increasingly encouraged and sustained through a range of Memoranda of understanding in which trade organizations, nationally and intentionally, sign general undertakings with the WCO and national Customs administrations, backed by detailed guidelines, specifying the practical improvements in information exchange, training and communications arrangements appropriate to each other sector.

The benefits to both customs administration and the trade organization can be many; for customs administrations they provide a further valuable source of information. In return, traders with a good record of cooperation may expect less customs intervention.

### **Partnership Efforts**

#### **Revised Kyoto Convention:**

The WCO has been taking the lead role in Custom/Business relationship over the years. One of the most significant changes that could be observed clearly is the dynamic new relationship between the WCO and business at the international level. This is also mirrored at the national level in many customs administrations. In order to fulfil its mission to enhance Customs cooperation and the effectiveness and efficiency of Customs administrations, the WCO has developed and circulated instruments that provide international standards for simple, effective, and modern procedures. The "International Convention on the Simplification and Harmonization of Customs Procedures" or the Kyoto Convention- adopted in 1973 is the first of such instruments designed to assist trade facilitation in a comprehensive way. After lengthy and detailed examination by customs and private sector partners, taking account of the huge changes in the international trade environment since 1973, the Revised Kyoto Convention- adopted in 1999- contains international standards that will deliver to international commerce the predictability and efficiency that modern trade requires.

One of the guiding principles and key concepts in the Revised Kyoto Convention is risk management. This Convention offers a set of useful tools for identifying high-risk consignments, enabling Customs to deploy an appropriate level of resources to greater areas of risk, while allowing little interference in the flow of legitimate trade. Another important concept based on risk management is the introduction of "authorized persons", by which Customs gives 'fast-track' procedures to compliant traders. We cannot emphasize enough of the importance of the partnership with the trade sector in successful implementation of risk management procedures. Without the compliance of traders, the guidelines and concepts contained in the Convention cannot be effective. Therefore, a Memoranda of Understanding, or an MoUs, with those in trade and transport are also an integral part of the WCO strategy. In a similar vein, there have been voluntary initiatives from the private sector to self regulate the behaviour of its own players. One such example is the Business Anti-Smuggling Coalition, or BASC, a private sector coalition of companies that has developed standards to minimize the risk of narcotics or other illicit goods being smuggled in legitimate commercial shipments. It has been expanded to the Business Anti-Smuggling & Security Coalition, adding "Security" as an objective in response to the events on September 11. While there have been encouraging responses, corporate integrity raises challenging issues for Customs and the business community.

The Convention also lays down numerous standards relating among others, to minimum data requirements for goods declarations, simplified release of goods, post-clearance audit and application of information technology. It is indeed a blueprint for a modern Customs administration, including the aspect of integrity that paves the way for good governance. To meet the stated objectives, it is quite obvious that close partnership between customs and business is essential.

#### **Framework of Standards and other Initiatives:**

In addition to the Revised Kyoto Convention, the WCO has developed number of supporting initiatives to meet the changing demands. The evolution of the customs function has led the international customs community to develop a new set of standards, namely the Framework of Standards to Secure and Facilitate Global Trade (the Framework), which encompasses existing WCO instruments and initiatives. The Framework was developed with the participation of WCO member administrations and the private sector, in consultation with various international and regional border control organizations. The framework covers all areas of customs control, from the point of packing in the country of export to clearance in the country of import.

Indeed, the Framework is designed to secure the movement of global trade in a way that does not impede, but on the contrary, facilitates legitimate trade and improves customs operations. This will, in turn, improve revenue collection and the proper application of national laws and regulations through which customs contribute to economic development and the protection of society. The Framework also helps customs and related industry to address the growing problems of counterfeiting by giving them an insight to the trade supply chain, the vulnerability of which organized criminal groups exploit to gain illegal profits. Customs and service providers from the trade will need to carry out their respective roles in combating this emerging economic epidemic, which damages legitimate trade and investment, as well as the interest of consumers. Therefore the Framework draws on modern customs principles developed by the WCO and contained in the revised Kyoto Convention and other supportive initiatives. These modern principles include the application of risk assessment techniques based on information provided electronically in advance of the arrival of the goods in order to identify high risk consignments, the use of modern technology, and a partnership with the trade. Most of them were originally developed as part of the trade facilitation efforts by customs in close

consultation with the trade, and further improved to address security concerns while assuring the smooth flow of legitimate trade. Another important function of the Framework is to avoid imposing an unnecessary burden on the international trade community with different sets of requirements to secure and facilitate commerce. This function requires one set of international customs standards that do not duplicate or contradict other intergovernmental requirements. In this way, the Framework can be used to modernize and strengthen customs in preparation for its further progress.

One of the main thrusts of the Framework is enhanced risk assessment and risk management based on advance electronic information provided by economic operators involved in the international supply chain, as well as through information exchange between customs administrations. The international customs community has been making efforts in this direction too. The revised Kyoto Convention strongly advocated the adoption of risk management which entails the shift from the unrealistic and inefficient 100% inspection of cargo to the intelligence-based selective approach. The use of advance data allows customs to assess the risk of the cargo before its arrival, and thus results in the reduction of time needed for clearance. Moreover, the Customs Data Model has been developed to facilitate the electronic transfer of data required by customs. Drawing on these trade facilitation principles and tools developed by the WCO, the Framework urges customs to establish a consistent risk management system, which is supported by the guidelines contained in the WCO Global Information and Intelligence Strategy. It also harmonizes the advance electronic cargo information that will enable customs to carry out risk assessment for security purposes, and promotes the Customs Data Model that contains these data elements.

The WCO Customs Data Model provides a maximum framework of standards, harmonized sets of data, and standard electronic message formats to accomplish border procedures. This tool allows for the effective and efficient Business to Business, Business to Government and Government to Government exchange of information, which will facilitate international trade, reduce costs for businesses and governments, and promote economic growth. Naturally, the Data Model takes into account UN/EDIFACT and other international standards, and is therefore interoperable with the data models used in the trade and transport sectors. This is a significant improvement towards the "whole-of-government" data requirements for international trade and allows the implementation of the "Single Window" concept. The WCO's Unique Consignment Reference (UCR), a reference number for cargo, is another important initiative that allows customs to bring together information from various parties in the supply chain to monitor and thus facilitate the movement of goods. The Framework strongly recommends the use of the Data Model, the Single Window concept and the UCR because they all play an important role in securing and facilitating global trade in the e-commerce and e-customs environment.

It is noteworthy to mention that these efforts should be undertaken by customs in close operations with business. In fact, the Framework consists of two pillars: customs-to-customs network arrangements and customs-to-business partnership. The central tenet of the customs-to-business pillar is the Authorized Economic Operator (AEO) who is involved in the trade supply chain and approved by customs as complying with security standards. AEO's include, *inter alia*, manufacturers, importers exporters, brokers, carriers consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses, and distributors. They operate as security partners to evaluate and address threats to their own supply chain. They therefore help customs in the performance of its security function by minimizing risk, and facilitating legitimate trade. As a result, AEO's will reap benefits, including faster processing of goods by customs through reduced examination rates, and uniform and predictable customs procedures with reduced reporting requirements.

**BASC:**

The World BASC (Business Alliance for Secure Commerce) Organization (WBO) is a private sector/customs partnership that was established to promote the security of international trade in cooperation with governments and international organizations. The purpose of this private sector led organization is to secure and facilitate global trade by developing and administering security standards and procedures applied to the international supply chain, in partnership with governments, customs administrations, enforcement agencies and bodies representing international business.

The WBO has been promoting the implementation of the Framework of Standards since its inception because the BASC and the WCO share a common goal, both striving to support global economic growth using supply chain security standards as a tool.

Various business sectors have identified BASC as a ready platform from which the Framework of Standards can be quickly launched in many countries. BASC has more than 12 years of experience managing supply chain security standards and a comprehensive certification process requiring audits by certified third party auditors. In addition, BASC has a strong organizational infrastructure in place, including experienced leadership, technical know how and professional staff support. Its legacy of successful business customs partnership in 16 countries and solid working relationship with international business organizations uniquely qualifies it to serve as the platform for the global Framework of Standards- Authorized Economic operator (FOS-AEO) effort.

**Key Examples of Partnership**

**The WCO IPR Programme:**

The WCO Intellectual Property Rights programme has been developed as a joint venture with international business to help assist and support Customs Administrations with respect to their compliance activities relating to IPR.

The programme, which is built upon a number of Memoranda of Understanding (MoUs) between the WCO and key trade bodies, has benefited by a true partnership spirit between Customs and business. Customs administrations are therefore able to improve their effectiveness through access to real-time commercial data and sensitive trade information that are needed for the identification of counterfeit goods.

For its part, the legitimate trade benefits enormously by having a partner Customs administration with a better understanding of business needs and the enhanced capacity to identify illegal consignments and facilitate normal trade better opportunities to facilitate legitimate trade. It is very encouraging to see the work being done at the international level being translated into similar actions at the national level.

Combating counterfeiting and piracy has remained a priority for the WCO and its members- a fact confirmed at the WCO council session in June 2007. To assist its members to combat counterfeiting and piracy more effectively, the council adopted a number of new initiatives, both legislative and operational, in the shape of two important instruments; the SECURE (Standards Employed by Customs for Uniform Rights Enforcement) Programme and an Action Plan. The purpose is to promote better compliance with intellectual property rights at borders by building customs capacity and strengthening cooperation with its international partners and rights holders.

SECURE will give WCO members a set of standards built around 3 key activities; IPR Legislative and Enforcement regime development, Risk analysis and Intelligence sharing, and Capacity building for IPR enforcement and international cooperation. Targets and objectives have been set for each of these 3 areas. The standards rest on three pillars:

- Customs to Customs cooperation,
- Customs-rights holders partnership, and
- Customs interface with other public and private entities engaged in the fight against counterfeiting and piracy.

**Partnership in Drug Enforcement:**

It has been demonstrated that Customs have a major contribution to make to meeting the threat of transnational crime and in particular to combating the international movement of illicit narcotics and related criminal activities. It is essential that customs be fully involved in the development of national drugs strategies. Customs will be more effective if they are able to adopt a partnership approach with:

- (a) other customs administration,
- (b) law enforcement counterparts, and
- (c) commercial organizations.

Customs can only be fully effective if they adopt a partnership approach with their allies to curb the supply of illicit drugs. At the international level, there must be the best possible relationship between the WCO and the UNDCP, ICPO/INTERPOL and the INCB. At the national level, Customs must work with confidence and trust with the Police and other law enforcement counterparts. A further vital partnership is the relationship with the private sector organizations responsible for the international movement of goods and people. There are many cases where the information that has destroyed drug trafficking groups has been provided to customs following suspicion reported by commercial organizations about specific cross border movements. It is essential to provide arrangements for this type of information to be passed to Customs in full security and confidence and the WCO has developed a Memorandum of Understanding programme which has led to nearly 5000 individual co-operation agreements between Customs and trade bodies<sup>1</sup>.

**E-Commerce environment:**

The use of information technology (IT) and e-commerce, in particular, has significantly changed the Customs-Business relationship. IT and e-commerce, together with the globalization of world trade, have provided the international business community with the capacity to access new markets and suppliers, and to conclude business transactions more quickly and efficiently than ever before. Such developments have not, however, always been matched by similar improvements in Customs effectiveness. The digital divide has widened, in particular between the developed and developing nations. In the light of these developments, in 2001 the WCO Council adopted a Declaration on e-commercial-known as the "Baku Declaration"- which recognized the potential impact of e-commerce on the Customs and the challenges it proses for Customs.

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<sup>1</sup> Shaver, J. - Address to the special session of the UN General Assembly New York, June 1998.

### **Commercial Fraud:**

The WTO Doha Declaration identified, among others, Customs areas such as Customs Valuation and Rules of Origin within its work programme. Unfortunately, most of the developing countries claim that the number one problem they face is commercial fraud. The trade facilitation measures contained in the Revised Kyoto convention are based on the presumption of a compliant trade population. If traders do not play their part in fulfilling their lawful obligations, then Customs never succeed in introducing risk management based regimes in implementing the WTO Customs Valuation Agreement, involving low levels of physical inspection.

Hence, to fight against commercial fraud, a genuine "two way" partnership from trade community is necessary. For this, proper attention should be given in exploring opportunities for cooperation with business, and actively encouraging the Customs-to-Business partnership approach on the detection and suppression of customs commercial fraud.

### **Conclusion**

Customs are bound by twin roles as both trade facilitator and guardian of the community. We have to find the proper balance between these parameters, and in the new globalized economy, we have to find new ways to discharge our duties. Electronic commerce, efficient procedures, cybercrimes, fraud, and transnational crimes are but a few of the new challenges that impact on our work today. To function effectively, Customs administrations can no longer remain isolated entities, away from the societal context. We need to build bridges with other agencies and business partners.

We need to form strategic business partnerships. Customs cannot work effectively alone or just among ourselves. We need to work in partnership with the business community. Through dialogues and cooperative arrangements, Customs and business can seek to enhance mutual understanding and cooperation. As a result, the business sector will enjoy greater predictability of Customs procedures, while Customs will be reciprocated with timely cargo information. We will learn to better meet each other's needs and expectations. With such partnership between Customs and Business, the performance will be inevitably improved resulting in a win-win solution for us all.

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# **Do Informal Economic Activities Matter for Loss of Customs Revenue in Nepal?**

Damaru Ballabha Paudel\*

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## **Abstract**

*Informal economy and informal trade are present in almost every countries of the world. Irrespective of their stages of development, OECD, transition and developing countries are facing the positive or negative impact coming from informal economy. Nepal is a landlocked country with open border to India and dependent on India for transit to the sea coast. The major objective of this article is to estimate the size of the informal economy and thereby customs revenue loss due to the presence of informal economic activities and informal trade. The size of the informal economy in Nepal is found to be about 40 percent of the official economy in an average during the period of 2001/02-2009/10. Further, it is observed that the informal trade and activities have significant impact on total revenue loss for Nepalese customs.*

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## **1. What are Informal Economic Activities?**

Informal economic activities are those activities which are either illegal or legal but do not come under GDP count. An unreported as well as an illegal activity both consists of informal sector. In broad sense, informal household activities such as: household works done by housewife, teaching of own children, watering own garden etc. also include in informal economic activities but in narrow sense, the economic activities performed to evade tax are called informal economic activities. Here, by referring the word informal activities we have to understand it in the narrow sense. Therefore, informal economic activities, here constitute activities such as: smuggling, corruption, black marketing, narcotics, illegal trade and the informal legal jobs hiding from tax net.

## **2. Types of Informal Activities**

Most of the informal economic activities are performed in cash basis. Some of the examples of such activities are: cash payments to the shopkeepers who do not provide valid cash invoice, payments to the contractual workers, transactions involved in smuggling, transactions involved in drug trafficking, transactions in illegal sales. Self-employed persons are also involved in tax evasion and informal economic activities because these activities are not recorded. According to Lippert and Walker (1997, p. 5), the informal economic activities can be categorized as follows:

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**Table 1: Taxonomy of Types of Informal Activities**

Type of Activity	Monetary Transactions		Non Monetary Transactions	
Illegal Activities	Trade with stolen goods; drug dealing and manufacturing; prostitution; gambling; fraud; etc.		Barter of drugs, stolen goods, smuggling etc. Produce or growing drugs for own use. Theft for own use.	
	Tax Evasion	Tax Avoidance	Tax Evasion	Tax Avoidance
Legal Activities	Unreported income from self-employment; wages, salaries and assets from unreported work related to legal services and goods.	Employee discounts, fringe benefits.	Barter of legal services and goods.	All do-it-yourself work and neighbor help.

### **3. Formation of Informal Economy**

The informal economic activities constitute informal economy which is always parallel to the formal one and the rise in the size of the informal economy is the concern of the policy-makers. Tax and social security contribution burdens, low quality of public goods and services, tedious administrative procedures, complexity in laws and regulations etc. are the factors those help to form informal economy. Informal economic activities exist in each and every countries either they are developed or transition or developing. In this context, Friedrich Schneider (2007) studied about informal economy and estimated the size of informal economy for 145 countries. According to him, the average size of informal economy (as percent of official GDP) in 2004/05 in 96 developing countries is 36.7%, in 25 transition countries is 38.8% and in 21 OECD countries is 14.8%. His estimations suggest that in 2004/05, the size of informal economy in Nepal is 39.3% of official GDP.

In most of the cases, activities in informal economy have significant negative impact on social welfare of the country. According to M. Ali Kemal (2007), contrary to the above, sometimes, increase in the informal economy affects positively to the formal economy. Empirical findings of Schneider (2007) show that tax losses may be moderate, as at least two-third of the income earned in the informal economy is immediately spent in the official economy and increases the standard of living of at least one third of the working population.

### **4. Estimation of Size of Informal Economy in Nepal**

There are only few literatures about the estimation of size of informal economy in Nepal. Among them, the most authentic one is the study of Friedrich Schneider who is a Prof. of Johannes Kepler University of Linz, Australia. He has studied about the shadow economy of most of the countries of the world in 2004, 2005 and 2007. According to the Dynamic Multiple-Indicators Multiple Causes (DYMIMIC) and Currency Demand Model, the informal economy is the product of illegal money in circulation and the velocity of money. The velocity of money is the ratio of GNP to legal money and legal money is the narrow money ( $M_1$ ) less illegal money. Using DYMIMIC and Currency Demand Model, Prof. Schneider has estimated the size of informal economy in Nepal for 2001/02-2004/05. The rest estimation for 2005/06-2009/10 is done on the basis of same model. The detailed data, equations and econometric specification methods are not presented here, in stead, only the results of estimation are given in the following table.

**Table 2: Size of Informal Economy in Nepal**

Title	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Official GDP <sup>2</sup> (Rs. in Billions)	459.44	492.23	536.75	589.94	654.08	728.18	818.4	960.01	1126.1 <sup>0<sup>3</sup></sup>
Informal Economy (% of official GDP)	39.7	40.8	40.2	39.3	40.0	40.1	39.9	39.8	39.6
Informal Economy (Rs. in Billions)	182.40	200.83	215.77	231.64	261.63	292.00	326.54	382.08	445.93

The above table suggests that the shadow economy seems to be in a pick point in 2002/03 as 40.8% of the official GDP and gradually decreasing in succeeding years till 2004/05. Again reached to another pick in 2006/07 as 40.1% and again decreased.

##### **5. Estimation of Revenue Loss for Nepalese Customs**

To estimate the revenue loss for Nepalese customs we have to find the types of taxes that Nepalese customs collect in customs points. Customs points collect customs duty (import duty, export duty, agricultural reform fee etc. in customs points and Indian excise refund by custom department), import VAT and import excise duty. Then we have to find the share of customs duty in official GDP. We have already estimated the size of informal economy in table 2. Assuming that due to the reason of informal trade out of customs point, Nepalese customs are loosing the same proportion of customs duty in informal economy too, we can estimate the customs duty loss in customs. The estimated figures are presented in table 3.

**Table 3: Customs Duty Loss due to Informal Trade in Nepal**

Year	Official GDP (Rs. in Billions)	Informal Economy (Rs. in Billions)	Customs Duty <sup>4</sup> (Rs. in Billions)	Custom Duty (% of official GDP)	Customs Duty Loss due to Informal Trade (Rs. in Billions)
2001/02	459.44	182.40	12.66	2.76	5.03
2002/03	492.23	200.83	14.24	2.89	5.81
2003/04	536.75	215.77	15.55	2.90	6.25
2004/05	589.41	231.64	15.7	2.66	6.17
2005/06	654.08	261.63	15.34	2.35	6.14
2006/07	728.18	292.00	16.71	2.29	6.70
2007/08	818.4	326.54	21.06	2.57	8.40
2008/09	960.01	382.08	26.64	2.77	10.60
2009/10	1126.1	445.93	33.13 <sup>5</sup>	2.94	13.12

The above table shows that the share of customs duty in official GDP in an average is 2.68% in these nine years. The customs duty loss due to informal trade in 2001/02 is estimated as Rs. 5.03 billions. In succeeding years it is increasing as the amount of informal economy is also

<sup>2</sup> Official GDP is taken from Central Bureau of Statistics

<sup>3</sup> Estimated by the author

<sup>4</sup> Customs duty, import VAT and import excise data are taken from Budget Speeches of different years

<sup>5</sup> 2009/10 figures are targets for revenue collection

increasing. For 2008/09, it is estimated that the figure of customs duty loss reaches more than double than it in 2001/02 and in 2009/10 we will be losing Rs. 13.12 billions in customs duty.

In the similar way like customs duty we can estimate the import VAT loss. The figures of loss are presented in table 4.

**Table 4: Import VAT Loss due to Informal Trade in Nepal**

Year	Official GDP (Rs. in Billions)	Informal Economy (Rs. in Billions)	Import VAT (Rs. in Billions)	Import VAT (% of official GDP)	Import VAT Loss due to Informal Trade (Rs. in Billions)
2001/02	459.44	182.40	7.35	1.60	2.92
2002/03	492.23	200.83	8.63	1.75	3.52
2003/04	536.75	215.77	8.87	1.65	3.57
2004/05	589.41	231.64	12.27	2.08	4.82
2005/06	654.08	261.63	13.46	2.06	5.38
2006/07	728.18	292.00	16.46	2.26	6.60
2007/08	818.4	326.54	19.07	2.33	7.61
2008/09	960.01	382.08	25.92	2.70	10.32
2009/10	1126.1	445.93	34.25	3.04	13.56

The share of import VAT in official GDP in an average is 2.16% in these nine years but in the recent years the share seems in increasing trend. The import VAT loss due to informal economic activities in 2001/02 is estimated as Rs. 2.92 billions. In succeeding years, it is increasing as the amount of informal economy is also increasing. For 2008/09, it is estimated that the figure of import VAT loss reaches more than three fold than it in 2001/02 and in 2009/10 it is estimated that we will be losing Rs. 13.56 billions in import VAT.

Let's see what happens in case of import excise loss in table 5.

**Table 5: Import Excise Loss due to Informal Trade in Nepal**

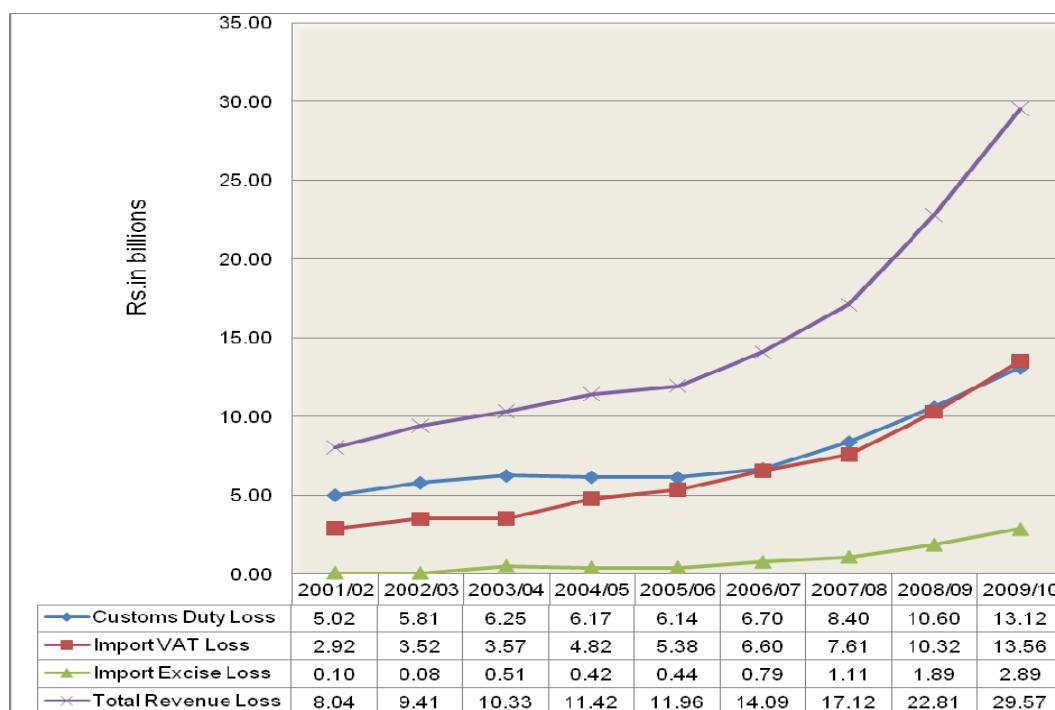
Year	Official GDP (Rs. in Billions)	Informal Economy (Rs. in Billions)	Import Excise (Rs. in Billions)	Import Excise (% of official GDP)	Import Excise Loss due to Informal Trade (Rs. in Billions)
2001/02	459.44	182.40	0.25	0.05	0.10
2002/03	492.23	200.83	0.19	0.04	0.08
2003/04	536.75	215.77	1.28	0.24	0.51
2004/05	589.41	231.64	1.08	0.18	0.42
2005/06	654.08	261.63	1.09	0.17	0.44
2006/07	728.18	292.00	1.97	0.27	0.79
2007/08	818.40	326.54	2.78	0.34	1.11
2008/09	960.01	382.08	4.76	0.50	1.89
2009/10	1126.10	445.93	7.29	0.65	2.89

The share of import excise in official GDP in an average is 0.27% in these nine years but in the recent years the share seems in increasing trend. The import excise loss due to informal economic activities in 2001/02 is estimated as Rs. 0.10 billions. In succeeding years, it is increasing as the amount of informal economy is also increasing. For 2008/09, it is estimated that the figure of import excise loss reaches about 19 fold than it in 2001/02 and in 2009/10 it is estimated that we will be losing Rs. 2.89 billions in import excise.

Total revenue loss for Nepalese customs is the sum total of the customs duty loss, import VAT loss and import excise loss. The figure 1 represents the estimated trend of total revenue loss for Nepalese customs.

Here we are trying to estimate how much revenue is going to be missing every year from FY 2001/02 to FY 2009/10 in Nepal due to the presence of huge informal economic activities that was supposed to be collected in customs points if there was the absence of informal trading. In 2001/02, it is estimated as Rs. 8.04 billions and gradually increasing to Rs. 29.57 billions in 2009/10 which is more than 3 fold.

**Figure 1: Estimated Trend of Total Revenue Loss for Nepalese Customs**



The total revenue loss line is sharply going in upward direction indicating that every year Nepalese customs are losing a significantly huge amount of revenue because of the cause of presence of strong informal trade in Nepalese Economy.

## **6. How to Reduce Revenue Loss for Nepalese Customs?**

There is always debate among Nepalese policy makers about the size of informal trade in Nepal. Due to the open border to India, the informal trading is always a crucial issue of concern for Nepalese politicians and bureaucrats. They talk much about the measures to adopt for reducing informal trade and thereby reduce revenue loss for customs. Once a month there is always a high level meeting fixed to be held in the office of the revenue secretary of Ministry of Finance including the high level representation of Ministry of Home Affairs, Nepal Police, Armed Police Force, Customs Department, Department of Revenue Investigation, and Inland Revenue Department. The Central Monitoring Committee and District Level Monitoring Committee to control the revenue leakage are also in actions but the issue of informal trade is still in the same place.

To reduce the volume of informal trade, we need to adopt some measures such as: (1) proper co-ordination among different agencies of Nepal government like Nepalese Customs, Nepal Police, Armed Police, Local Administration, (2) effective information channels, (3) some type of regulating mechanism for people entering to and from India (4) review of the location of customs points, (5) simplification of customs procedures, (6) effective co-ordination between Nepalese and Indian customs offices, (7) effective post clearance audit.

## **7. Conclusion**

Estimation shows that informal economic activities have significant impact on loss of customs revenue. Therefore, informal economic activities definitely matter for loss of customs revenue in Nepal. Absolutely controlling informal trade in case of Nepal-India trade is almost impossible but we can reduce it in relative term. Simplification of custom procedures, co-ordination and enforcement by all the concerned government agencies help to reduce the volume of informal trade and thereby customs revenue loss in Nepal.

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# **Green Customs a New Dimension in Customs Administration**

Hari Prasad Pandey \*

Customs administrations these days have to oversee many facets of national life. Unlike in the past days its roles are not confined to revenue collection and trade promotion but extended to security, human health, and even environment protection. Ministry of Health cancels import license of some medicine importer and customs has to enforce it. Milk products imported from China found contained melamine and many countries including Nepal banned import of such products and Nepal customs enforced it immediately. Boarder customs are blamed if fake currencies were found in the markets. Sony and Nike continuously raise questions of piracy of their product trade marks and WCO asks international customs authorities to take care of intellectual properties rights. Terrorists explode bombs in public place and the same evening authorities opine on the media of the weak enforcement at border point. News of seizure of elephant tusks and tiger skin were made public and border customs of neighboring nations sit face to face and agree once again on re-enforcement mechanism. These are some examples of customs increasing roles and responsibilities at present.

To cope with such diversified problems countries have restructured their organization and made well equipped their offices and staff with modern equipment, technology and facilities. In addition to it, countries have established mechanism to share information on cross border illegal trade and seizure cases and methods applied to detect such crimes. WCO ENVIRONET, WCO CEN, RILO, VROM are some examples of information sharing mechanism. Many countries have set up separate bilateral arrangements as well in this aspect.

## **Green Customs Initiative (GCI) Partners**

Considering customs people the main frontline of a country's defense against smuggling of environmentally sensitive items the GCI partners have been initiating and launching different awareness and capacity building workshops in different parts of the world. The initiative is a partnership of international organizations cooperating to prevent illegal trade of ozone depleting substances (ODS), toxic chemicals, hazardous wastes, endangered species of flora and fauna, etc. The green customs initiative partners include several UN agencies and secretariats of the multilateral environmental agreements. The following are the GCI partners:

1. Basel Convention
2. Cartagena Protocol on Biodiversity (CBD)
3. Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)
4. Montreal Protocol
5. Rotterdam Convention
6. Stockholm Convention
7. Interpol
8. Organization for the Prohibition of Chemical Weapons - (OPCW)
9. United Nations Environmental Programme (UNEP)
10. United Nations Office on Drugs and Crime (UNODC)
11. World Customs Organizations (WCO)

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### **Green Customs / Environmental Issues:**

The partnership of Green customs initiative clearly hints the basic agenda or issues of green customs and or environment since each of the party pay special attention on a particular environmentally sensitive issue. The initiative especially focuses on cross border trafficking of environmentally sensitive items and ways and means of curbing environmental crimes. Conventions and protocols that deal with major environmentally sensitive issues to which customs administration have to play important roles in combating cross border illegal movement of such items are briefly described below.

*Basel convention* is regarded as a most comprehensive global treaty for the protection of people and environment from hazardous wastes. The convention came into force in 1992 and has 172 parties as of March 2009. The convention deals with production, transportation, use and disposal of the hazardous wastes. The following wastes are covered by the treaty: a) biomedical and healthcare wastes b) used oils c) used lead and acid batteries d) persistent organic pollutants, chemicals and pesticides e) polychlorinated biphenyls (PCBs) used in industry as heat exchange fluids, electric transformers f) electronic and electrical wastes (e-wastes) g) materials containing mercury and asbestos.

*Stockholm Convention* is a global treaty designed to eliminate and restrict the production and use of persistent organic pollutants (POPs). The POPs are the causes of certain cancers, birth defects and reproductive system. The convention entered into force from 2004 and has 155 members as of May 2009. At the initial phase it covered 12 chemicals including pesticides and industrial chemicals. The twelve POPs are: i) Aldrin, ii) chlordane, iii) dieldrin, iv) Endrin, v) Heptachlor, vi) Hexachlorobenzene, vii) Mirex, viii) Toxaphene, ix) PCBs, x) DDT, xi) Dioxin and xii) Furan.

*Rotterdam convention* is also an international agreement aimed at protecting human health and environment from harmful effects of certain hazardous chemicals including some pesticides and industrial chemicals. The convention came into force in 17 May 2004 and has 130 parties. Taking into account of the increasing number of chemicals in the world market the convention provides with information and tools to manage hazardous chemicals and to prevent illegal international trafficking of toxic and dangerous products.

*Montréal Protocol* aims to control some specific chemicals that destroy ozone layer. The Protocol came into force in 1989 and has 196 parties as of September 2009. Most developing countries including Nepal do not produce ODS but depend on ODS producing nations for household and industrial needs. The international body is trying to phase out production and consumption of ODS through tight regulation. Nepal has completely stopped the import of the ODS for the last several years and has been meeting the basic requirements from the stock as per authorized quota.

*Cartagena Protocol* was signed with a view to conserving biological diversity and sustainable use of such resources in the world. The Protocol came into force in September 2003 and has 193 parties as of December 2009. Considering the living modified organism (LMOs) through modern bio-technology a great threat to biological diversity the protocol has established procedures for trans-boundary movements.

*Chemical Weapons Convention* came into force in 1997 with the objective of prohibiting the development, production and stockpiling and use of chemical weapons. The convention, as of December 2009 has 188 parties. The parties of the convention have to make legal framework for non-proliferation of toxic chemical and precursors. They also have to identify and inform about declarable chemical industry and such trade activities.

*Convention on International Trade in endangered Species of World Fauna and Flora (CITES)* restricts international trade of wild animals and plants. The convention has given protection to

more than 33,000 species of flora and fauna. CITES came into force in 1975. It has 175 parties as of April 2009. The Convention has categorized the endangered species in annexes in order to issue licenses or give authorities for cross border import and export procedures of certain species of plants and animals.

Nepal is a member of all the above mentioned protocol and conventions and has been implementing them. The followings are the major subject matters that the Nepalese customs administration has to take into account in regard to the green customs initiative:

1. Controlling trans-boundary movements of hazardous wastes and their safe disposal
2. Protection of biological diversity through checking cross border movement of LMOs.
3. Enforcement of laws relating to conservation and trade of endangered species of wild flora and fauna
4. Controlling trade of ozone layer depleting substances (ODS)
5. Implementation of rules of non- proliferation and trade of chemical weapons
6. Controlling international trade of certain hazardous chemicals and pesticides
7. Trade restriction of persistent organic pollutants (POPs)
8. Checking of trafficking of Drugs (Drugs and Crime)

#### **Need of better understanding of green Customs:**

The illegal trade of environmentally sensitive items is not a new issue in Nepalese Customs Administration. But, it is true that there is a need of better understanding and greater awareness of environmental crimes in Nepalese administration. There are scores of stories of seizures of hide, skins and products of endangered species. The stories of seizures of red sanders, one of the endangered species of flora that attracts CITES convention, has been widely discussed between the customs authorities of Nepal and India. Similarly, Nepalese customs had seized CFC, one of the ozone layer depleting substances, in accordance to the commitment of the government of Nepal to Montreal protocol, few years ago. Since the subject matter of green customs is purely technical and/ or scientific a new dimension in coping with such environmental crimes is urgently required. Besides, the environmental crimes have its repercussion on human health and environment without limiting to the national boundary. Hence, it is one of the customs responsibilities to safeguard human health and environment and comply with the multilateral environment agreements (MEAs). Customs administration unlike in the past has to be vigil on import of obsolete electronic and electrical equipment, industrial wastes and chemicals. Such environmental sensitive items are likely to be imported mostly from industrial nations as the raw materials for industries. Likewise, customs must also be more alert on the modes of cross border illegal movements of products of endangered wildlife and plants, which ultimately help preserve globally endangered species and clean environment.

#### **Need of External Support**

Customs administrations in developing countries are facing problems of security and trade facilitation issues. The compulsion to mobilize resources towards detecting and controlling of environmental crimes has kept them in a difficult position. Though Nepalese customs administration, is in dire need of capacity building it is still supporting the green customs initiative and checking environmental crimes effectively. It needs technical and financial support for enventorization and environmentally friendly disposal of hazardous wastes, chemicals and PoPs. The secretariats of MEAs can and should play role in building capacities of law enforcement agencies in LDCs. They can also help customs people to enable them to better acquaint them with the hazardous chemicals and POPs and documentation of such

consignments. Similarly provisions of laboratory facilities for analysis of toxic chemicals and wastes and institutional capacity building are some areas that the developed countries must support to developing countries like Nepal.

**Commitment:**

Nepalese customs administration is committed towards fulfilling pledges of its government towards detecting and controlling illegal cross-border movements of hazardous wastes and toxic chemicals, POPs, and products underlined by CITES . The gazette notification dated 2066/7/16 (November 2, 2009) has incorporated the detail list of import banned chemicals, narcotic drugs, and psychotropic substances, explosives and products covered by CITES. The authorities of Nepal and India held discussions on issues of green customs and environmental crimes during the Green Customs Workshop held in Srawasti India during November 30 - December 2, 2009. Many of the GCI partners have also participated in the workshop. The workshop was very helpful to acquire knowledge and information about environmental issues and to enhance skill to enforce national environmental policies of the government from customs perspective. The workshop has come up with some important conclusions and recommendations. Since Nepal is a party of the MEAs the recommendations and conclusions of the workshop are expected to be very useful to Nepalese customs administration, too. The followings are the important conclusions and recommendations of the workshop:

1. WCO ENVIRONET, a real time communication tool for environmental border protection, is a useful platform for experience sharing and information exchange; therefore, participating agencies are encouraged to get access to ENVIRONET for future communication.
2. Customs Enforcement Network should be more widely used by Customs officers to ensure “one seizure, one report” policy. UNEP should coordinate with WCO CEN (central enforcement network) management team to facilitate the input of environmental crime. RILO will explore possibility to provide technical assistance and training to border Customs officers on CEN.
3. It was suggested to explore possibilities to introduce WEN (Women's Environmental Network) for South Asia in future dialogues between India and Nepal. Considering the route for illegal trade between ASEAN countries and South Asia, Nepal and India customs may link with efforts in the ASEAN region on wild life trade and other aspects of environmental crime.
4. It is suggested that Nepal and India inform European Commission and VROM (Organization) of seized hazardous wastes exported from EU countries. UNEP will provide list of focal points in IMPEL-TFS (international organization) and VROM and facilitate the flow of information between EU and Nepal and India
5. Green Customs Initiative partners should assist Nepal and India in addressing bottleneck in implementation of MEAs, such as short of testing facilities for gases and chemicals and lack of technology and fund in storage and disposal of chemicals. .
6. UNEP will provide information on the world's main traders and manufactures of ODS to Nepal and India in order to meet the need for ODS control and monitoring.
7. Border dialogues between Nepal and India should be included in HCFC Phase-out Management Plan (HPMP) of India and Nepal.

**Useful Links:**

- i. The Ozone Secretariat  
[www.unep.org/ozone/index.asp](http://www.unep.org/ozone/index.asp)
- ii. UNEP Green Customs  
[www.unepie.org/ozonaction/customs](http://www.unepie.org/ozonaction/customs)
- iii. Convention on International Trade in Endangered species of Wild Fauna and Flora  
[www.cites.org](http://www.cites.org)
- iv. World Customs Organization  
[www.wcoomd.org](http://www.wcoomd.org)
- v. Training manuals of Customs Officers  
[www.uneptie.org/ozonaction/library/mmc/list.asp?x=t](http://www.uneptie.org/ozonaction/library/mmc/list.asp?x=t)
- vi. Stockholm Convention on Persistent Organic Pollutants (POPs)  
[www.pops.int](http://www.pops.int)
- vii. RILO Asia pacific  
[www.wcoasiapacific.org/index.jsp](http://www.wcoasiapacific.org/index.jsp)



# Supply Chain Management and Entrepreneur's competitiveness

Rajan Sharma\*

The management philosophy and operational approaches have undergone tremendous changes over the time. In the context of Nepalese Export, the management of purchasing and supply has not been recognized as the key contributor to enterprises competitiveness and profitability. The management operations needs to be activated in a way to obtain goods as well and services in the most cost effective manner.

The primary value adding activities are the management of logistics, production process, marketing and sales service, the IT system, human resource development and training,

R&D, purchasing and contracting with firms, planning, and etc. They all need to be managed appropriately.

The upstream stage of **material flow**, **information flow** and **financial flow** and the downstream flow of meeting the end customer's requirement need to be monitored in order to be competitive.

***One fails with the mission of customer's satisfaction if the twelve rights are not accomplished:***

***The Right Product/s, of the Right Quality, at the Right Price, from the Right Supplier/s, in the Right Quantity, delivered to the Right Place, at the Right Time, using the Right Supply Chain ,with the Right mode ,delivered in the Right Condition ,with the Right Documentation ,at the Right Cost.***

Every enterprise needs to improve its own individual competitiveness like the quality, cost, delivery, lead time, but at the same time it must be able to improve the performance and competitiveness of all the parties with whom it is relying with by making correct strategic partnership. This is possible only by sharing information; working together to reduce cost, lead time and to undertake appropriate management of inventory.

The role of customs in making import and export procedures easier and smooth flow needs more attention in the case of Nepal. Reforms in modernizing the Nepalese customs are going on in full swing. The physical facilities can be easily changed but the mental awareness and the openness' is still a big challenge.

Material management and transportation management has been the focus of most of the exporters in our country. The marketing, engineering and designing, quality management, research and development all needs to be coordinated with in close collaboration with all parties of the supply chain. Learning from the customer, producing and delivering to customer as per their feedback are the key to success for an efficient and effective enterprise.

The need of IT and communication facilities, selection of right people suited to its role and responsibility is another factor that needs to be considered for enterprises to be competitive. That means the enterprise must logically group the required activities in function. The process of production and link in-between must be defined well. The structure of the entrepreneurs should be such that it allows control over its function and procedures.

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The practice of confining to particular function or department should be immediately given up. Highly innovative and effective management generates competitive advantage to an enterprise. The structure of organization should be aligned with the culture and nature of the work.

There are very few firms in Nepal who are competitive. Some business houses like Dabur Nepal, Sipradi,Surya tabaco, ICT are using the worlds latest reform technologies and also managing the flow of information quite well but the flow of goods and proper flow of finance and economization at each transaction is still missing. The Nepalese government must look into the cost factor of the products imported or produced in Nepal and check if the appropriate pricing is done and than find out if the ultimate consumer is getting the product in the right cost. Such mechanism is missing in the Nepalese bureaucracy.

The enterprises must develop specification of their requirement and invest in market research. For a good management of supplier relationship the negotiation skill must be improved. The demand to become better each day can only be fulfilled if enterprises agree to learning and receiving and continuing to receive specialized training. At the end of the day appraisals and evaluation of performance should be carried out by private firms and government.



# **Trade Facilitation from Customs prospective**

**Dilli Prakash Ghimire**

## **1. Introduction:**

The increase in the volume of workload of customs is the direct impact of trade liberalization. The workload involved in processing the consignment is independent of tariff rate or the steps that must be followed to impose 1% tariff are the same as those required for 80% or more tariff rate.. Customs has traditionally been responsible for collecting revenue and implementing a wide range of border management policies, often on behalf of Ministry of finance and other agencies. In recent years the role of Customs has, however, changed significantly. In this context trade facilitation, customs control and security chain management are major issues. This is the sign of the changing environment in which customs authorities are operating, and corresponding changes in government priorities. W T O, W C O and other international agencies are responding through the development of global standards that recognize the changing role of Customs. The challenges posed by global trade facilitation initiatives are subject of major concern to Nepalese Customs. The modern markets are widening rapidly and goods are becoming tradable which previously were not. The business community desires the simplest, quickest, cheapest and the most reliable way of doing border trade. There are various service providers in private and government sectors involved in international trade. The international trade has to pass through numerous steps and procedures including customs procedures. Simplification in Customs procedures alone cannot reduce the cost of doing international business, but it is an important component to reduce the transaction cost of the business. In these contexts, trade facilitation effort is gaining momentum to improve overall performance of concerning sectors.

## **2. Definition:**

There is no clear definition of trade facilitation. In narrowest sense it can be defined as the simplification of procedures in international trade, in wider sense it covers all activities that affect the movement of merchandise from seller to buyers in international supply chain. Many international organizations have defined it in different way some of these definitions are given below:-

WTO in its one line training package has defined-Trade facilitation as " simplification and harmonization of international trade procedures 'where procedures are" activities" practices and formalities involved in collecting, presenting communicating and processing data require for the movement of goods in international trade"

WCO has defined it as the avoidance of unnecessary trade restrictiveness. This can be achieved by applying modern technique and technologies while improving the quality of controls in an internationally harmonized manner.

UN Center for Trade facilitation and E-Business has defined it as the simplification and harmonization of procedures and associated information flows require to move goods from seller to buyer and to make payments.

The central focus of all these definitions is simplification, standardization, and harmonization of procedures of international trade. To count trade procedures in any of the country is very easy. In reality these procedures include regulations specific to revenue collection, safety and security, environment and health, consumer protection and trade policy. After the crash of world trade centers (Twin tower) traders have suffered from the burden of security focused control.

In this security focused control a regulatory formalities can be seen. The importance of security focused control has been understood by policy makers and implementing agencies. Within the circumstances multilateral trade negotiations on trade facilitation among the WTO members are beginning to take place. The term trade facilitation is also getting priority within target of many aid-for-trade donors, where huge amount are being invested as the part of their on going activities.

## **2. Trading cost:**

From trade facilitation prospective a distinction is always made between cost of domestic business and international trade but in practice it is very difficult. Trading cost depends on the activities involved in doing business of particular products. It also depends on the cost of the services of shipping lines, airlines, express curriers intermediaries including postal services, trucking and haulage companies' railway companies' freight forwarders, customs brokers banks or finance companies, insurance companies, seaport and airport operators, international rail-terminal operators, inland container port operators, cargo handlers and handling agents, warehouse operators, transit-shed operators, independent testing and inspection companies, sanitary and Phytosanitary measures port community system providers and specialist IT service providers.

In these days trade procedures also depend on the submission of multiple documents or their electronic equivalents (in developed countries and in some developing countries). Such kind of documents provide information to customs authorities and many other executive agencies operating independently or under the customs umbrella. Many trade operators or those involved in doing foreign trade require compliance for information. On this traders have transaction costs. These costs can be direct (e.g. compliance costs, charges and fees) or indirect cost (e.g. delay at the border, additional storage charges, and missed business opportunities).

There is involvement of different stakeholders with conflicting interest. Such interest group are government and business stakeholders; local, national and international interest groups; government Departments (e.g. customs and iii. veterinary inspectors); industries (e.g. freight forwarders and transport operators); countries (e.g. who have different legacy arrangements or IT system suppliers); and liberal and protectionist trade policy tendencies. The international trade takes place in the midst of conflict of interest of different stake holders. Nepal's export trade is not an exception. We can compare the procedural duration and cost of doing business of Nepal with other neighboring countries.

The transit and transport costs have affected the trade competitiveness of Nepalese merchandise in international markets. The figures in the following table show that the time and cost of doing export business in Nepal is round about 40% more than Bangladesh and India. The time taken in the trading process of Nepalese export business is 60% more than India and 40% more than Bangladesh. Similarly import time taken is 45% more than India and 26% more than Bangladesh. The cost involved is near about 50% more than India and 30% more than Bangladesh. It means Nepal is bearing extra cost due to her land lock position.

## Bench marking of Nepal's Trade procedures

Trade Accross the Border-

Nature of export procedures	Nepal		India		Bangladesh	
	Duration Days	Cost Us\$	Duration days	Cost US\$	Duration days	Cost US\$
Documents preparation	14	289	8	250	14	290
Customs clearance& Tech control	4	300	2	120	3	120
Ports & Terminal handling	4	275	3	175	5	420
Inland Transport & handling	19	900	4	300	3	140
<b>Total</b>	<b>41</b>	<b>1764</b>	<b>17</b>	<b>945</b>	<b>25</b>	<b>970</b>
Nature of Import Procedures						
Documents preparations	14	300	8	390	20	455
Customs clearance & Tech Control	5	300	4	120	3	135
Ports & Terminal handling	4	275	6	200	4	585
Inland Transport & Handling	12	980	3	250	2	200
<b>Total</b>	<b>35</b>	<b>1825</b>	<b>20</b>	<b>960</b>	<b>29</b>	<b>1375</b>

Source: Doing Business 2010 IFC/WORLD BANK

### 3. WTO/GATT and Trade facilitation:

**WTO** agreement has made provision of trade facilitation in different articles. Article V of the WTO/GATT agreement has made the provisions of Freedom of Transit. According to the provisions goods, vessels and other means of transport shall be deemed to be in transit across the territory of the contracting party when it passage across such territory with or without transshipment warehousing breaking bulk, or change in the mode of transport is only a portion of a complete journey and it is termed" traffic in transit" There shall be freedom of transit through the territory of each contracting party using the most convenient route for international trade. There will be no discrimination on the basis of flag of vessel, ownership, place of origin entry exit and destination

No charges other than fees for service rendered shall be charged for the goods in transit. Such charges shall be reasonable having regard to condition of the traffic.

Such charges, formalities, and treatment shall no less be favorable than the treatment accorded to or from other third country. Such traffic in transit should be direct consignment. This does not apply to aircraft but it applies to air transit of goods.

Anti- dumping measures have been described in article VI of WTO agreement.

Article VIII has made the provisions of fees and formalities for import and export. Border fee and charges should be limited to the services rendered there and should not be indirect protection to domestic products. The agreement recognizes the need for reducing complexity of import and export formalities and decreasing and simplifying the documentation requirements. The provisions of the article specify the following documents:-Consular invoice, quantitative restriction, Licensing, Exchange control, Statical services, documentation, certification. Inspection Sanitation quarantines.

### WTO/GATT on Information:

Article X of the agreement has made provision of publication and administration of trade regulation. Laws, regulations, judicial decisions, rulings made effective by any contracting party affecting international trade, should be published promptly to enable government and traders to

be acquainted with them. Agreement affecting international trade policy which is in force should also be published.

This provision shall not force any contracting party to disclose confidential information which would impede law enforcement or otherwise be contrary to the public interest or prejudice to legitimate commercial interest of particular enterprise. No new measures taken by contracting party to change the prevailing one are applicable before publication. Each contracting party administer in uniform and impartial manner.

This article has made provisions of Independent tribunal for prompt review of the administrative decisions unless the appeal is lodged with a court or tribunal of superior jurisdiction. Any contracting party enforcing laws and procedures shall, upon the request, furnish the contracting party with full information's in order to enable whether such procedures fulfill the requirements or not.

#### **4. Logistic services and Trade facilitation:**

Logistic services are counted in the process of trade facilitation. Such services are some time known as infrastructures of trade. Transport infrastructure and services, port operation and freight forwarding are major logistic.

Transport infrastructure includes Road, Rail, Seaport and air transport facilities. Being a land lock country Nepal has no her own sea port. Nepal, being a mountainous country, road transport has been of significant importance to link hinterland with national highways.

There is no rail ways network in the country. There are only two short rail links namely Jayanagar (India) to Janakpur (Nepal) 42km for goods and passengers. It is oldest one and need restructured. Another one is 5.4km from Raxual (India) to Birgunj ICD for goods traffic only. The second one is broad-gauge line has made possible to link with major cities and sea port in India without requiring the transshipment of cargo in the port.

Under Kolkota Port trust, Kolkota and Haldia are the two permitted entry/exit or gateway ports to Nepal. These ports handle the containerized cargo which mostly passes through Birgunj, Biratnagar, and Bhairahawa. Mongla and Chittagong ports in Bangladesh are also available for Nepalese transit transports, however the use of this port is severely limited due to longer distance, complexity of documentation and need of tripartite agreement and arrangement.

Birgunj -Mumbai is another authorized route mostly for west bond cargo but the use of it is also limited. Vizagapattam is being projected another alternate transit route for Nepal's transit traffic how ever, the modalities and other arrangement are yet to be worked out. Rail Service agreement was signed between India and Nepal in 2004 for specifying the modality of train service operation between gateway port India and Birgunj ICD Nepal and has identified the type of wagon to be used and all other necessary provisions and liabilities of carriers. It has specified detailed procedures on movement of cargo between ICD Birgunj Nepal and Kolkota/ Holdia India.

Another important mode of transport is Air transport which is serving in international trade. There is only one international airport in Nepal. The high value goods are traded through air route.

There are three inland clearance deport Birgunj, Biratnagar, Bhairahwa which were developed with the assistance of World bank/IDA. Birgunj is only one ICD linked with rail way of India. Here rails and locomotives, wagons of Indian rail ways move inside. It is a rail connected ICD 5.4km away from Indian rail head. It has all facilities of handling all types of traffics including containers bulk and break and dirty cargo. It covers 38 hectares of land and there are six full length railway lines, covered good shed, and warehouses. There are ground slots for 1568TEUs parking place for 250 trucks and 50 tailors, secured boundary and light systems.

Fork lift and cranes are also available there. The terminal provides space for efficient customs clearance through automation with the application of ASYCUDA. So ICD Birgunj reflects many aspects of modern multimodal terminal.

- Other two road terminals are also in operation in Biratnagar and Bhairawa both of these are border customs points and important entry and exit point.
- Mechi ICD is under construction and expected to be completed within this year. Another ICDs at Tatopani and Krishnagar are under feasibility study.

Another logistic support is Freight forwarding service. Freight forwarding services are essential to promote the international trade. For the first time freight forwarders were organized under the banner of Freight Forwarders Association of Nepal (FAN) in 1990. Cargo Agent Association Nepal (CAAN) was created as the apparel organization. Both organizations were reunited under the name tag of Nepal Freight Forwarder Association (NEFFA) in 1998 at the effort of Multimodal transit and trade facilitation project. In these days Customs Agent Association and Nepal courier Associations is also the actor in logistic services to business. The freight forwarders are actively taking responsibilities of international cargo movement. They are the principal actor for door to door delivery of goods. They take charge of goods from exporter to importer and issues Bill of lading on behalf of shipping company prepare all necessary documents for the movement of cargo. There are more than 88 such freight forwarders working in this field. The objective of Nepal freight Forwarders Association is to facilitate international trade by making delivery of goods in the destination in efficient manner. NAFFA has represented in National transport and trade facilitation committee and Nepal Inter modal transport development board. The organization is also the member of regional and international Freight forwarders association.

#### **Government efforts to expand logistics:**

In 1993 government initiated a multimodal transit and trade facilitation project for expanding logistic services in major land customs. The project finalized the design of ICDs and the program of trade facilitation along with customs reform and modernization. Various legal and institutional reforms took place through the project. Formation of National Transport and trade facilitation committee, Inter modal Transport development Board for the development and promotion and facilitation of Nepalese foreign trade is another milestone in this area. Formulation of new Customs Act and rules are other initiatives to make the legal system compatible with WTO system. Recently introduced Customs modernization action plan is another effort to facilitate the foreign trade of Nepal.

#### **5. Transit treaty and Trade facilitation:**

Nepal has no free access to high sea so she has to depend on the transit facilities provided by her neighbor as per international convention and practices. The present transit treaty between Nepal and India was signed in 1991 and renewed in June 2006. This treaty provides for modality of operation of transit traffic between gateway port and Nepal border customs point. In Kolkota and Haldia port warehouse and open space has been provided and 15 entry points were designated for export and import or access to the gateway. The treaty has specified documents to be submitted along with Customs transit Declaration (CTD) for clearance of transit cargo. The duty insurance requirement is applicable to sensitive cargo only. The treaty has given the details of export and import procedures.

In 1997 another agreement was signed to allow the transit route of Kakarvita- Fulbari-Bangladesh for movement of third country cargo. This corridor is not in use due to many infrastructural deficiencies. Nepal and Bangladesh has signed an agreement on trade payment and transit on 1976. This agreement has allowed Nepal to use Chittagoun and Chalna/Khulna sea port and border crossing at Birol, Banglabandha,Chilhati and Benapole. The Border crossing Birol and Banglabandha are used after India agreed to allow it Chihati is still unused.

Similarly Nepal and China signed agreement on Trade and payment in 1982 in addition to traditional border trade with Tibet the autonomous Region of PR China.Tatopani Lasha trade is increasing in these days. The railway link of Lasha with main land china is opening new opportunity to expand the trade with China and this point can be the transit point to India and China.

#### **6. TBT, SPS and trade facilitation:**

In recent year's notification of technical regulations relating to TBT and SPS are increasing rapidly. TBT notification shows that the numbers of technical standards are accelerating. The growing number of technical standard and cost involved in conformation, complexity of certification alarms that there is the need of development of product standard infrastructure in line with international practices and agreements. It is necessary to review national quality infrastructures. WTO agreements and TBT, SPS agreement has set out the rules in the areas of standard of conformation. Other countries are using different standards in the ground of public health and sanitation and using quarantine measures to ensure the compliance. The tariff rates are decreasing in each year and are no barriers in real sense. The notification of technical regulations are increasing and posing challenges to developing countries where the Laboratories and testing facilities are not developed. Recently British importers of Nepalese Silver ornaments complained that a similar material that is Cadmium has been mixed in silver ornaments and the Nepalese exporters are trying to test it in laboratory. It is necessary to develop quality infrastructure and institutional framework to formulate policies and implement such standards and to monitor the compliance. Through well equipped testing facilities we should attempt to identify the trade distortion aspects of the technical regulation and notifications and compel to clarify such notifications of concerning country. Such services are provided in the following name heads:-

- a. SPS measures:**-These measures are formal documentations that contains requirement of products, process services that should comply with National Standard published in line with TBT code of WTO and directives of ISO. SPS measures can be developed by National Standard Body in cooperation with ministry of commerce.
- b. Measurement Standard:**-Metrology standard is necessary for conformation of accuracy of measurement which has impact on transparency of transaction, health, safety, and warrant perfect functioning of measuring and testing instruments.
- c. Testing:** - It is the conformation of product characteristics as per the required standard. For this purpose governments as well as private laboratories are used.
- d. Certification:** - It is the documentation of conformation of standards which provides authenticity of meeting of the required standard. This is known as commercial activities and private as well as public agencies provide these services.
- e. Accreditation:** - It is the activity of providing attestation about the competency of an individual organization to provide services such as testing and certification.

TBT agreement has set out international rules on technical regulation, voluntary standards conformity procedures in both agricultural and industrial products SPS measures regulations imposed on some agricultural products to conform food safety, protect human life from communicable disease protect from pesticide. Regulation that meets these objects expected to comply with the provision of SPS.TBT and SPS agreement try to balance a country's need to impose standards and country's use of standards to limit trade. The contracting party attempt to identify the trade distorting aspect of these standards and compel to clarify. The following principles are developed and suggested to implement in adopting and applying technical regulation and SPS measures

- Nondiscrimination
- Avoidance of unnecessary obstacle to trade
- Harmonization
- transparency
- mutual recognition

### **7. Customs procedures and Trade facilitation:**

One of the areas of trade facilitation is simplification in Customs procedures. The simplification is directed to relieve traders from unnecessary customs formalities, to minimize Customs interventions and allow the traders to get released goods without delay and extra cost. Modern Customs administration can have a positive impact in economic competitiveness of the country. In the Buy-Ship- Pay model Customs procedures fall before shipment for export and after shipment for import consignment.

New Customs Act 2007 and Rules 2007 have included many provisions in line with the Revised Kyoto Conventions and other agreements. The main features of the Act and rules are that they prescribe the number of documents required for the clearance. The Act has made provision for release of goods pending after submission of certain documents in special circumstances. Goods can be cleared out side of the customs territory for facilitation. Duty can be paid before the arrival of cargo and there is also the provision of advance ruling in the Act. The Act and Rules are much clearer than previous one. However, recent reports suggest that the procedural hassles have not lessened for long and there is an urgent need of improvement in customs procedures. Although the Customs Rules specified at least 9 documents for Import and at least 4 documents for export. But in practice the documentary requirement is much higher than specified in the Customs Rules. The World Bank publication "Doing Business 2010" ranked Nepal at 161 of 181 countries/economies in Trading across the Border procedures. Similarly, WEF's ranking of Nepal in Enabling Trade Index is 117 of 118 countries in efficiency of Customs administration. This means there are certain shortcomings in customs procedures. Keeping these all in consideration The approved Action Plan (2009-13) has given due attention to Facilitate Legitimate Trade and Industry in the country. The objective of the Action Plan is to facilitate import and export cargo and thereby encourage voluntary compliance. The action plan has set activities inline with international conventions and international standards as the basis of reengineering all of the Customs clearance procedures including documentation, data requirement, procedures and use of risk management.

### **Customs Automation:**

In Nepal Customs Automation was started from 1996 with the introduction of ASYCUDA project. At present 11 customs offices are operating this system. For this purpose a single administrative document was introduced to facilitate the declaration. There are some short comings in the operation of the project. There is parallel run of manual customs process,

because of the lack of compatible Nepali font with the version of ASYCUDA. Customs has used limited functions of ASYCUDA such as Customs Branch Module at the client side. It has limited the benefit of the system. The system was implemented in a semi automated environment and used for duty calculation purposes only. This led ineffective system operation. As a result the parallel run of manual system has added time to the traders. To address the problem a separate project was started from 2007 for 3 years with the assistance of Asian Development Bank and technical assistance of UNCTAD. The objective of the project was to implements other model and develop connectivity through WAN. Thus attempts are being made to facilitate the trade through customs Automations.

#### **Risk Management in Customs:**

Risk management is related with selectivity. New Customs Act 2007 has made provisions of using selective method under clause 20. The Act defines "selective method" as a system so determined by the Department that any goods can be cleared, with or without examining such goods, or by examining documents only, taking into account the risks of revenue, trade, goods or other activities." During the time of physical verification of goods, the Act has made provisions to open and examine the goods randomly or examines only a certain percentage of the same under clause 28(1). Thus the risk management in Customs clearance has been a top agenda since last few years. In the international convention it is well documented. According to these documents the customs should conduct documentary and physical examination based on the risk assessment for facilitating the trade. The prevailing practice is to go on for the full verification of all consignment. Recently broker model and risk based selectivity model have been tested in few customs offices. It is too early to speak about the result.

#### **Valuation:**

New Customs Act, 2007 has fully incorporated the WTO valuation rules. There is also provision of Valuation Review Committee in line with the WTO Rules. The importer can challenge the valuation decision made by the customs offices. This has shown positive impact on the valuation. However, valuation decision has always been an area of dispute between traders and government. Traders blame the Customs manner of dealing with the transaction value of goods, which delay clearance process. The customs official blame that the traders do not quote real transaction value. At present there is frequent intervention at the clearance level from the aspect of valuation. The customs data is not specific to particular goods and their brands. Despite of International and national rules the valuation procedures have not been applied exactly in words and spirit. The Post Clearance Audit should be strong to examination fair valuation of goods. Post Clearance audit will ensure less intervention at clearance and investigate the right valuation through audit process. It is an instrument of trade facilitation too. But it is in early stage in Nepalese Customs Administration.

#### **Single Window:**

A Single Window is defined as a facility that allows parties involved in trade and transport to lodge standardized documentation and/or data with a single entry point to fulfill all import, export, and transit-related regulatory requirements. (UN/CEFACT recommendation No.33)The concept of single window is in very early stage in Nepalese Custom. Once a study was conducted in the Birgunj Customs processing steps, it was found that the clearance process has to be passed through more than 19 steps. This has suggested operating 'single Customs Window'. It was implemented in Birgunj Customs Office in 2006 on a trial basis for overseas cargo. Processing steps were redesigned and reduced. But, these changes were not fully

complying with the ideal Single Window in Customs). Customs Action Plan (2009-13) in its objectives has included the 'Development of Single Window System and operate it.

### **9. Benefit of Trade Facilitation:**

The benefit can be seen in the form of business transaction cost. Such cost can be direct and indirect. Indirect cost include the cost of documents preparation and complying with regulations, cost of moving goods from production centre to port, handling at port finance, insurance and international transport cost. In indirect cost we can include all opportunity associated with time delays in moving goods from buyer to seller. Trade facilitation initiatives try to reduce direct and indirect cost of doing international business. The benefit can be summarized as below:-

#### **a. Benefit to Government:** - Government can achieve following benefits

- Increased effectiveness of control methods
- More efficient deployment of resources
- Correct revenue yields Improve compliance
- Encourage foreign Investment
- Accelerate economic development.

#### **b. Benefit to Traders:**-Trader can achieve following benefit

- Lower cost and reduced delays
- Faster Customs Clearance through predictable intervention
- Simple commercial framework for doing business
- Trade competitiveness

### **10. Institutional arrangement:**

Trade facilitation is a multidisciplinary function. It depends on the activities of different actors. Ministry of commerce and supply is leading agency of trade facilitation. However, other ministries and department and other nongovernmental agencies are also equally involved in facilitating the border trade. An effective WTO Reference centre can provide in formations and reference materials to the trade community and researchers as well. The composition of such centre should be based on the principle of Private and public partnership. A well established Centre can help enhance the foreign trade of a country. In the same manner there is need of trade facilitation central body for the assessment and monitor trade facilitation activities. This body will activate all concerned agencies to implement the trade facilitation related activities and help trade facilitation assessment, GAP analysis and trade facilitation mapping. There is the need of effective export trade promotion centre to promote export trade of Nepal. The Capacity of Department of Customs should be enhanced. A well equipped customs laboratory is essential to look after the technical barriers imposed by the notification of other countries.

## **11. Conclusions:**

In recent years trade facilitation is recognized as the key factor to remove the trade barriers. In these days tariffs are no longer remain the obstacles because of reduction in each year. Still there are many Technical and non technical barriers in international trade, such barriers involve the extra cost in doing business. Trade facilitations measures cover these remaining costs associated with unnecessary customs procedures at the border such as steps in customs clearance, transit and logistic procedures. Trade documents and procedures are necessary to do international trade. However such documents and procedures if not reviewed can be some time major impediments to trade. The main objective of trade facilitation measures is to simplify trade procedures and reduce transaction cost while maintaining the effective customs control.

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# WCO Data Model and Single Window-Nepal's Perspective

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## Introduction

Customs in 21<sup>st</sup> Century is the slogan of World Customs Organization which pushes each member country to intervene in different sector of customs reforms in order to materialize the above ambitious slogan. Among others, trade facilitation and preventing society from odds are some of the major responsibility of Customs Administration. Nepal Customs Administration is working to facilitate authorized trade and preventing revenue and society in the same line by employing electronic customs procedure. Nine major customs offices which cover more than 90% of the Nepal's total foreign trade are operating electronic procedure with ASYCUDA ++ software since last couple of years. In this juncture, it is much imperative to be familiar and adopt the best practices on data harmonization which is sound to better implement in a Single Window environment. This enables us to work with minimum set of standard data element which is of international standard and opens the door as a strong tool to implement Single Window establishing a better cooperation between government and trade. In the meantime, it is noteworthy here to remember that WCO has recommended the Data Model Version 3.0 on June 2009 and Nepal Customs has received the letter from Secretary General, WCO requesting to adopt the model. Hence, we should prepare strategically ourselves, being not only as a member country but also for the mutual benefits of government and traders.

A Single Window concept is not a totally a new concept in our country too even though it is less acted than what is talked more in connection to the service delivery of public sector. Many government authorities has expressed this term in a different name but with the similar objectives in order to increase transparency, efficiency and cost effectiveness. Nepal has enough room to introduce and implement this facility for the improvements of its foreign trades.

## WHAT IS A SINGLE WINDOW

A Single Window is by the name reveals a single submissions of electronic or paper documents from where the traders is expected to receives response within a predictable time frame related to export, import or transit. The standard definition of WCO states:

**" A SINGLE WINDOW ENVIRONMENT IS A CROSS BORDER, 'INTELLIGENT', FACILITY THAT ALLOWS PARTIES INVOLVED IN TRADE AND TRANSPORT TO LODGE STANDARDIZED INFORMATION, MAINLY ELECTRONIC, WITH A SINGLE ENTRY POINT TO FULFILL ALL IMPORT, EXPORT AND TRANSIT RELATED REGULATORY REQUIREMENTS."**

UN Recommendation no.33, developed by The United Nations Centre for Trade Facilitation and Electronic Business (UNCEFACT) in 2005 has recognized both electronic and paper submission however, the recent WCO definition emphasizes on electronic submission.

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Depending on unique situation of ICT and other infrastructural facilities, each member country can enjoy different modes of a Single Window. Although there are many possible approaches to establishing a Single Window, they can be broadly categorized into three types:

- i) **A single Authority** receives information, either electronic paper, disseminates this information to all relevant authorities preventing traders to interface many regulating agencies in the border. After a predictable time span the traders receives response from where it had lodged the declaration or like documents. Nepal Customs collects import VAT and import Excise duty at the border whereas VAT and Excise duty administration falls under the Department of Inland Revenue's jurisdiction. This can be regarded as an example of partial application of a Single Window. Sweden is operating one of such model.
- ii) **Single Automated System** for the collection and dissemination of information that integrates the electronic collection, use, and dissemination of data related to trade in the borders. USA has established such model which allows traders to submit standard trade data only once and the system processes and distributes the data to the agencies that have an interest in the transmission expediting the trade in particular
- iii) **An Automated Information Transaction System** through which a trader can submit electronic trade declarations to the various authorities for processing and approval in a single application. In this approach, approval or disapprovals or corrections are transmitted electronically from governmental authorities to the trader's computer directly. Singapore and Mauritius are using such models successfully.

#### **Benefits of Establishing a Single Window**

A single window can simplify and facilitate to considerable extent the process of providing and sharing the necessary information to fulfil trade-related regulatory requirements for both traders and government. The use of such a system can result in improved efficiency and effectiveness of official controls and can reduce costs and other resources substantially for both the governments and traders.

#### **Benefits for Government**

As traders submit all the required information and documents through a single entity, more effective systems can be established for quicker and more accurate validation and distribution of this information to all relevant governmental agencies. This lead to a better combination of existing governmental systems and processes, while at the same time promoting a more open and facilitative approach to the business community. Risk management techniques for control and enforcement purposes can also be enhanced through such facility that collects all data in a systematic way, resulting in more secure and efficient trade procedures. Moreover, if banking and insurance channels can be incorporated in a Single Window environment, it ensures rapid and accurate payments to government authorities for the required duties and other charges thereby protecting national revenue.

A Single Window that provides up-to-date information regarding tariff rates and other legal and procedural requirements will reduce any unintentional errors and increase trader compliances. In addition, it reduces the use of both human and financial resources, enabling governments to re-deploy resources previously used for administrative tasks to areas of greater concerns. Thus benefits for government can be figure out as:

- More effective and efficient deployment of resources
- Increased revenue yield
- Improved trader compliance
- Enhanced security
- Increased integrity and transparency
- Enhanced controls

#### **Benefits for trade**

The main benefit for the business community is that a Single Window can provide the trader a single place for only one-time submission of all required information and documentation to all governmental agencies involved in import, export or transit procedures.

As the Single Window enables governments to process submitted information, documents and applicable fees both faster and more accurately, traders benefit from faster clearance and release times, enabling them to speed up their supply chain. In addition, the improved transparency and predictability of release of goods can further reduce the potential for corrupt behaviour from both the public and private sectors and can ensure accelerate their marketing targets. Furthermore, it lowers the administrative costs of trade transactions and encourages greater trader compliance. Thus the trader's benefits can be summarized as:

- Faster clearance and release
- Predictable application and explanation of rules
- More effective and efficient deployment of resources
- Increased transparency
- Cutting costs through delay
- Better marketing strategy

#### **Key Factors in Establishing a Successful Single Window**

The successful establishment and implementation of Single Window concepts depends to a considerable extent on certain pre-conditions and success factors that vary from country to country. In the context of Nepal, the following burning-issues are keys for the successful introduction and stability of a Single Window.

- Political Will
- Strong Leading governmental agency
- Partnership between Government and Trade
- Establishment of core project team
- User Friendliness and Accessibility
- Appropriate legal reform

- International Standards
- Identification of possible risks
- Financial resources
- Promotion and Marketing

A representative flow of information/data is shown the diagram below.

### **Data Model and Benefits**

Since there were no uniform definitions and standardization of the trade related data or information, the G7 countries of the meetings concluded to arrive in a uniform structure of trade data. This became the first version of WCO Data Model. It prepared a comprehensive standardized set of trade data that is transmitted in import and export. Later the version 2.0 was approved and recommended in 2005. The new version, i.e. WCO Data Model Version 3.0, which has recently been launched in some of the few countries including in France, Germany and USA, is yet to arrive in many countries. However, the marketing and communication has forwarded the main features of this new version in front of us. Besides others, this new version has specific **features**:

- Based on standardized business processes described in the Revised Kyoto Convention
- Complies with international conventions on trade & transport
- Enables participation in Customs-to-Customs information exchange
- Provides electronic messaging solutions for use in a Single Window environment
- Based on coordinated border management approach

The Data Model contains sufficient legally required data elements by Customs and partner Cross-Border Regulatory Agencies for export, import, and transport of cargo, goods, means of transport and crew. The major **benefits** can be outlined here.

- Enables the various information systems to work together in the most effective way possible
- promoting safe and secure boarders
- offering authorized traders end to end premium procedures
- contributing to rapid release
- eliminating redundant and repetitive data
- reducing the amount of data
- reducing compliance costs
- aligned export and import data requirements
- created a single electronics structure
- more effective exchange of information between export and import
- includes data requirements of other Cross-Border regulatory Agencies

Besides, having tremendous strengths in this Data Model, it still does not cover for specific Customs requirement like re-importation in the same country. In addition, it also does not fit for processing of goods for home use as well as for postal traffic circulation.

### **Conclusion**

Nepal as a member country of the WCO, it should comply with the suggested guidance and recommendation. The new version of the Data Model is standard, internationally recognized with tremendous benefits. However, some of its features may not apply to country specific and particularly in Nepal because of our current Information and Communication technology resources constraints. The WCO Data Model 3.0 is an effective complementary tool for launching a Single Window environment. In the meantime, it is noteworthy to remember that DOC four -years action plan (2009-20013) has explicitly envisioned the introduction of Single Window in Nepal. DOC can of course be the leading agency to introduce a Single Window with close cooperation and coordination of the stakeholders. However, reengineering within the current customs procedure is essential before attempting to launch such Single Window environment. Therefore we should move forward to implement by scrutiny the steps ahead in a project modality. No doubt, there are challenges before us to such forward-looking interventions in Nepal. In the beginning phase, only major governmental regulatory agencies like agriculture, commerce and immigration can be incorporated in the Single Window project. A dedicated project team would be an ideal instrument to work in this new area of intervention and a pilot programme can be taken in the starting phase. Nevertheless, if we move step by step in planned way it is certainly achievable.

### Single Window Diagram

