

## Addressing Issues of Informal Trade in Agricultural Input Commodities along the India-Nepal Border

*India and Nepal are geographically close countries, with open border. Goods and people can move easily across this border, which results in large volume of informal trade between the two countries. As people in South Asia are culturally and traditionally well knitted with each other, occurrence of informal trade is common.*

*In case of India-Nepal border, people residing in the border areas usually prefer purchasing goods, including agricultural input products like seeds, fertilisers, agricultural machinery from the market on the other side of the border, as they are sceptical about the quality of the products that are available in their local markets. Subsidy provided on the Indian agricultural product also plays a vital role in influencing people to get involved in illegal trade practices.*

*This Policy Brief is an endeavour to present a set of recommendations based on primary and secondary research, to address and arrest informal cross-border trade in agricultural input products between India and Nepal.*

India shares a long and porous border with Nepal, also referred as Soft Border<sup>1</sup>, as both the countries allow free movement of people and resources across the border. People from both the sides can cross border from any point, although there are several check-posts. Mostly these check-posts are meant to carry out commercial activities; despite them, people perform economic activities from any point of the border. As this border is not a

guarded border, illegal movement of goods and people is a common occurrence.

Cross-border informal trade in agricultural input commodities along India-Nepal border is a common practice, as people share similar culture, preference, agricultural techniques and open border. For people residing in the rural areas near border, it is easy to visit local markets of the neighbouring country and get access to utilities and agricultural input commodities more conveniently. They too

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<sup>1</sup> Soft Border – Border that is open and non-militarised.

have psychological conception that products purchased from local markets are of low quality and expensive. In the case of Indian fertilisers and agriculture machinery, those are made available at subsidised rate to the Indian farmers by the Indian government, act as incentives for the Nepalese informal agents to earn profits.

This policy paper aims to highlight some of the ways that can address the issues of cross-border informal trade between India and Nepal, in agricultural input commodities. However, informal cross-border trade between India and Nepal acts as substance to livelihood for the people residing in the border areas of the two countries, and because of this, the governments of the two countries should not immediately opt for formalising informal trade, rather, try reducing it and arresting it through introduction of the following policies, which are discussed in detail in this policy paper.

### **Key Policy Messages**

- Domestic Policy Falsification at regional level - Subsidised rates of agricultural input commodities at domestic level leads to price distortions across markets and price differences provide incentives to the informal trade agents;
- Regional Factories – Lack of production and supply mechanism of quality seeds and fertilisers in the region leads to large amount of informal trade. This can be addressed by establishing regional factories for fertiliser production, for adequate distribution as per the requirement, in close association with country-level government.
- Mandatory Education and Awareness generation programme – Livelihood in the border areas of India and Nepal

largely depends on informal trade activities as people in these areas are least educated and suffer unemployment, leading to high dependence on illegal trading activities. It is essential to make them aware about the health and climate-related issues, erupting from the use of low quality agricultural inputs.

- Easing of regular trade procedures – Formal trade between India and Nepal is liberalised under SAFTA, but cumbersome trade procedures, lack of effective infrastructure and huge sensitive lists of restricted products, leads to high transaction costs, thus resulting in informal trade. In case of India and Nepal, formal cross-border seeds (wheat, rice, vegetable seeds) trade is restricted in their trade policy.

### **Addressing Domestic Policy induced Deception through Regional Policy Coherence and establishment of Regional Factories**

Domestic policies such as subsidies to agricultural inputs in India leads to price differences across markets and provide incentive for local traders, agents and people to sell it informally and get indulged in informal cross-border trade practice. This is particularly important in the case of subsidised items (fertilisers and agriculture machinery), in which governments are directly involved in distribution. Considering this, the Indian government should adopt proper distribution mechanism of improved varieties of agricultural inputs, which is essential for increasing the agricultural productivity and reducing informal trade.

India and Nepal should develop good quality seeds, collectively with support from Indian

Council of Agricultural Research (ICAR) in India, and National Agricultural Research Council (NARC) in Nepal, under the ambit of regional bodies such as South Asian Regional Standards (SARSO). Such a step will solve the major problems of non-availability of these quality products, in the region. Governments of these countries should also work closely to promote greater coherence in institutional and regulatory framework and make sure that distribution of these products is properly channelised (specifically for India, which has several states) and beneficial for the end consumer. They can also encourage the involvement of private sector for ensuring appropriate supply mechanism and to track homogeneity (using the block-chain mechanism) across the country for it. Both, quality production and appropriate distribution mechanism, simultaneously, will result in reduction of informal trade of such products.

Establishment of regional factories, similar to that in South-East Asia, for producing and supplying fertilisers, in a channelised manner will also restrict cross-border informal trade of these products. India and Nepal can jointly pool financial resources for the establishment of regional factories, which will significantly lower informal trade in fertilisers thereby reducing loss of public revenues.

### **Awareness generation - Adopting policies for Job Creation and Mandatory Education Schemes**

It is very important to make the farmers in the border areas aware about the quality concerns, which they mostly ignore. Agriculture producers only focus on the quantity of produce, and therefore, miss on the quality aspect of the product, which ultimately hampers the health of end consumers and indirectly affects climate.

Further, farmers even sacrifice the quality of the inputs they use, which at times are harmful for the fertility and quality of land, ultimately impacting the environment. Therefore, such instances call for generating larger awareness campaigns in these areas, for taking care of land and environmental degradation issues.

Moreover, along the borders of these two countries, people are mostly uneducated and not aware about the current developments in the country and worldwide. Therefore, it is very important to generate awareness among them about formal and informal trade practices. It is important for the governments to understand the reasons why people of their country are involving themselves in informal trading activities? There is lack of employment opportunities, thus, rendering them to get involved in such informal trade practices. The governments of India and Nepal need to adopt appropriate policies to facilitate sustainable job creation and entrepreneurship opportunities in the villages near the border areas, which will result in reduction in informal trade activities.

The governments of the respective countries should allocate some funds from the Border Area Development Programme (objective of the BADP, an initiative of Department of Border Management, Ministry of Home Affairs, Government of India, is to meet the special developmental needs and well-being of the people living in remote and inaccessible areas situated near the international border and to saturate the border areas with the entire essential infrastructure through convergence of Central, State, BADP, Local schemes and participatory approach) towards mandating compulsory education. The BADP programme covers all the villages, which are located within the 0-10 km of the international border, coming under 17 states of India, including Bihar.

## Easing of Regular Trade Procedure between India and Nepal

Trade policies in eastern South Asia (including Indian and Nepal) for some products are restrictive (export-import restrictions), which in turn affect cross-border trade, resulting in informal trade of those products. Tariffs on most of the informally-traded agricultural inputs are relatively high in the region, which magnify the cost of export and import. Additionally, informal trade practices are relatively easy, less cumbersome and less time consuming, which encourages local traders and agents to work through this procedure.

Considering this, it is important for India and Nepal to give emphasis on greater degree of trade and tariff liberalisation in these products to facilitate cross-border trade. Reduction in tariffs and elimination of sensitive lists under the SAFTA or at bilateral level could play an important role to reduce and address cross-border informal trade.

Reduction in high transaction costs in formal cross-border trade, due to sub-optimal customs clearance procedures, cumbersome export and import formalities, absence of single window system and sub-optimal information and communications technology, will also play an important role in addressing cross-border informal trade. Therefore, governments of both the countries should pay more attention on developing adequate infrastructure, both physical and digital, and streamline customs clearance procedures, which will substantially reduce the cost of doing business between the neighbours.

Certainly, if both the governments of India and Nepal adopt these recommendations, huge amount of cross-border informal trade can be arrested and transformed into formal trade, benefitting both the economies. Development of infrastructure and other facilities will generate employment opportunities for the people residing in the border areas, in short run, while, awareness generation and education schemes will result positively, in long run.